

## Introduction

The City of Seattle and its over 10,000 employees build and maintain infrastructure, provide utility service, support the needs of the city's residents, and create recreational, cultural, and other enriching opportunities. In providing excellent service, these employees use and maintain dozens of city-owned properties, a fleet of vehicles ranging from fire trucks to golf carts, and equipment and facilities necessary to complete the City's mission.

Budgeting for a large organization with many functions is a crucial and complex process. A proposed budget requires solid forecasts on commodities (such as the price of fuel), economic strength (as it impacts tax revenues, among other budgetary components), and demand for services (from parking meters to libraries to police officers to disc golf courses).

This book is designed to provide clear and accurate information on the budgetary process, estimated revenue streams, and a basic description of departmental needs and spending. The State of Washington allows cities to adopt biennial budgets. The City Council and Mayor will adopt a budget for 2015 in late 2014, as well as endorse a budget for 2016. During the 2016 Proposed Budget process, the Mayor and Council will use the 2016 Endorsed Budget as a starting point.

## City of Seattle Budget Process

In its simplest terms, the City budget is proposed by the Mayor (Executive), checked for compliance with the law (City Attorney), and amended and passed by the City Council (Legislative) before returning to the Mayor for his or her approval and signature. The budget itself is composed of two main documents: an operating budget and a capital improvement program (CIP) budget. The CIP budget consists of large expenditures on infrastructure and other capital projects. The operating budget is primarily composed of expenditures required by the City to deliver the day-to-day array of City services.

Charts summarizing the City's budget process and organization can be found at the end of this section.

### Budget Preparation

The budgeting process begins early each year as departments assess needs and budget forecasters work to estimate revenues and costs. Operating budget preparation is based on the establishment of a current services or "baseline" budget. Current services is what it sounds like – continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year, such as a 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.

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. If revenues are not sufficient to cover the cost of current services, the City must identify changes to close the gap – either through reductions or increased revenues or a combination of both. If the revenue forecast shows that additional resources are available, then the budget process identifies new or expanded programs to meet the evolving demands for City services. Regardless, the City is required by state law to prepare a balanced budget.

# Introduction & Budget Process

In May, departments prepare and submit Budget Issue Papers (BIPs) to CBO for analysis and mayoral consideration. In early June, the Mayor's Office reviews and provides direction to departments on the BIPs they should include in their formal budget submittal. In early July, CBO receives departmental operating budget and CIP submittals, including all position (employee) changes. Mayoral review and evaluation of department submittals takes place through the end of August. CBO, in conjunction with individual departments, then finalizes the operating and CIP budgets.

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.

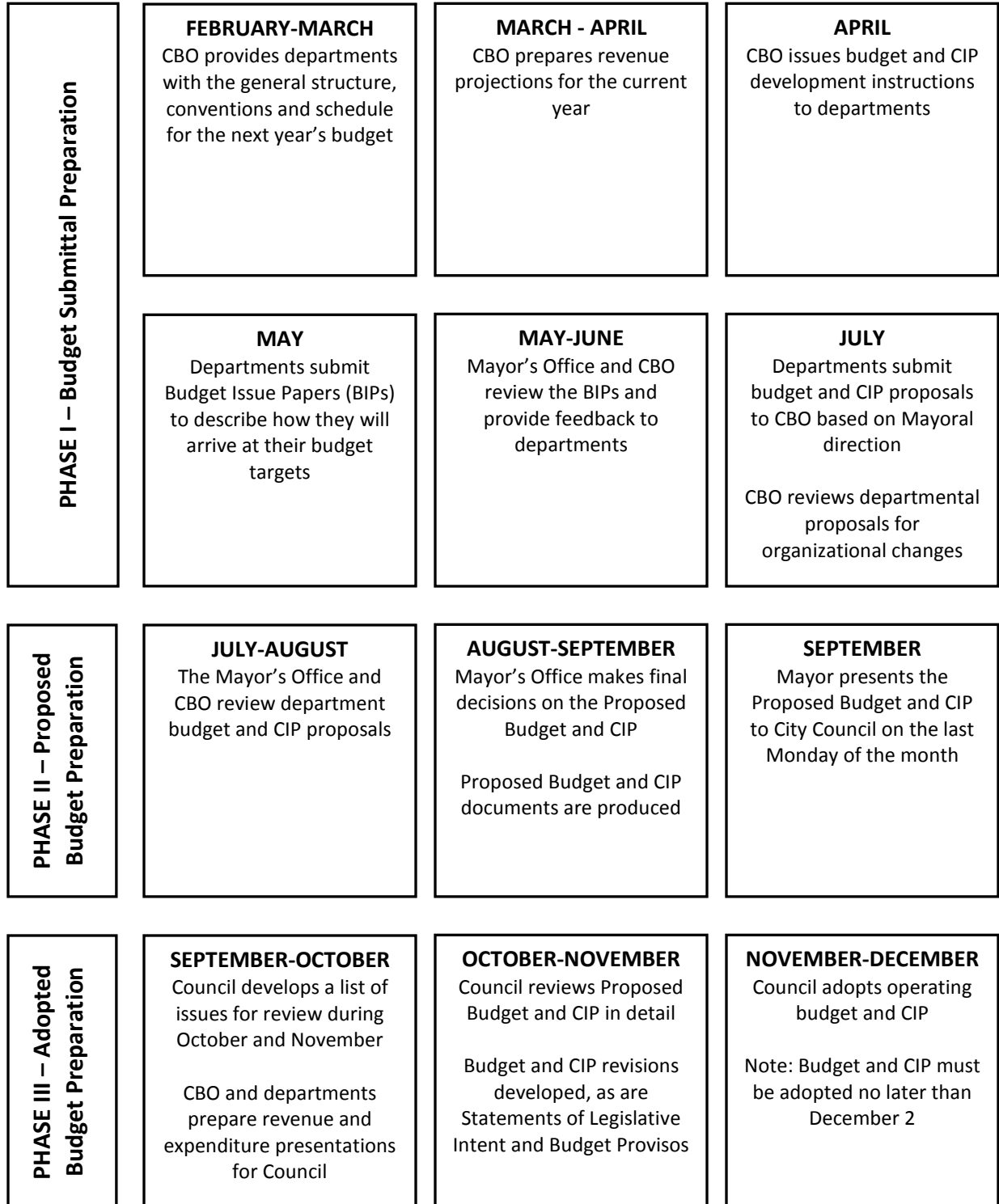
After the Mayor submits the proposed budget and CIP, the City Council conducts public hearings. The City Council also holds committee meetings in open session to discuss budget requests with department representatives and CBO staff. Councilmembers then recommend specific budget actions for consideration by their colleagues.

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 describe the Council's expectations in making budget decisions and generally require affected departments to report back to the City Council on results.

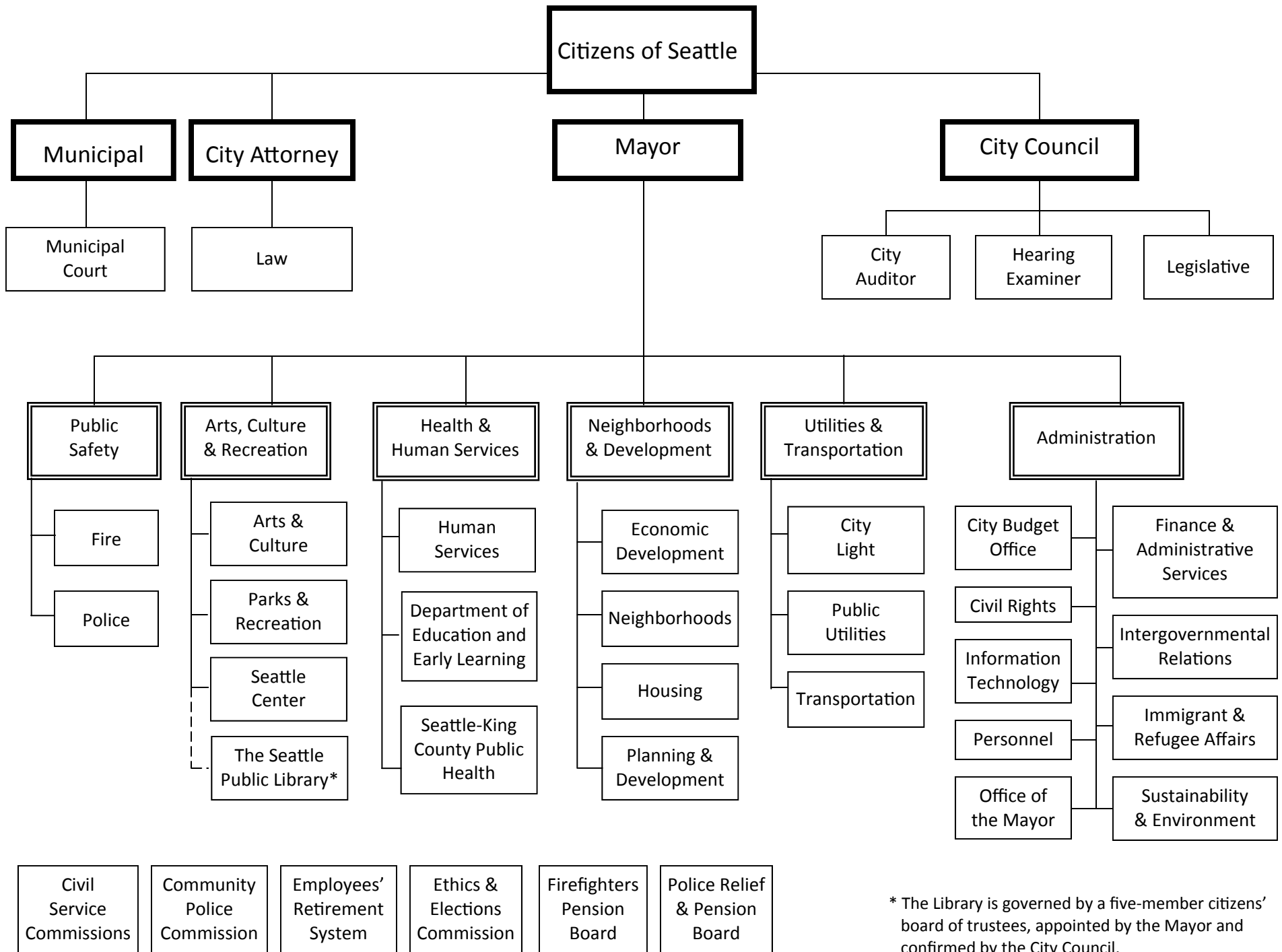
After completing the public hearing and deliberative processes the City Council votes to adopt the budget, incorporating its desired budget changes, in late November. The Mayor can choose to approve the Council's budget, veto it, or let it become law without mayoral signature. The Mayor must veto the entire budget or none of it, as 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 year, the City may have a need to change the adopted budget to respond to evolving needs. The City makes such changes through supplemental budget appropriation ordinances. A majority of the City Council may, by ordinance, eliminate, decrease, or re-appropriate any unspent 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. Absent such changes, departments are legally required to stay within is annual budget appropriation.

# Budget Process Diagram







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



## Reader's Guide

This reader's guide describes the structure of the 2015-2016 Proposed Budget Book and outlines its content. The Budget Book is designed to present budget information in an accessible and transparent manner – the way decision-makers consider the various proposals. It is designed to help residents, media, and City officials more easily understand and participate in the budget deliberations.

A companion document, the 2015-2020 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 financial 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.

The 2015-2016 Proposed Budget and 2015-2020 Proposed CIP can also be found online at the City Budget Office's webpage. In addition to PDF files containing the Proposed Budget and Proposed CIP, the site contains department-customized expenditures, and revenues.

### The 2015-2016 Proposed Budget

This document is a description of the proposed spending plan for 2015-2016. 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's priorities;
- **Summary Tables** – a set of tables that inventory and summarize expected revenues and spending for 2015;
- **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;
- **Departmental Budgets** – City department-level descriptions of significant policy and program changes from the 2014 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 2015-2016 Proposed Budget; and a glossary.

## 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 other administrative funds. 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. 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 2015-2016 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 2015-2016 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 2015-2016. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes proposed in the budget has been compiled in the appendix. 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 2015-2016 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 Human Resources Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2015-2016. These changes are summarized in the appendix.

Where relevant, departmental sections include additional pieces of information: a statement of actual or projected revenues for the years 2013 through 2016; a statement of fund balance; and/or a statement of appropriations to support capital projects appearing in the 2015-2020 Proposed Capital Improvement Program. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2015-2020 Proposed Capital Improvement Program document.



## 2015-2016 Proposed Budget Executive Summary

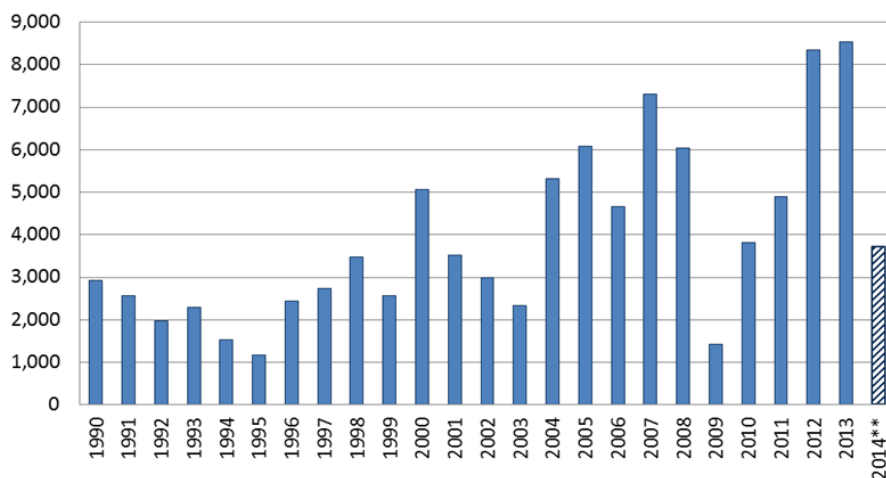
The 2015-2016 Proposed Budget for the City of Seattle totals \$4.8 billion per year, including \$1 billion of annual General Fund spending. These totals reflect an annual growth of more than 9 percent in 2015 for the overall proposed budget, which includes the City’s utilities and Citywide capital spending. This relatively large increase is driven by spending on several significant capital projects, including the seawall, SPU’s North Transfer Station and major one-time investments at Settle City Light. General Fund spending for 2015 will increase by just 3.5 percent, relative to the 2014 Adopted Budget. Most of this proposed spending increase can be attributed to the escalating costs of existing City services, but Mayor Murray is proposing limited investments in some targeted services and programs. The City’s modest revenue growth the past year, and projected for the near-term future, will allow for these limited investments, while also addressing a portion of the structural shortfall underlying the City’s current budget.

### General Fund Budget Outlook

Steady growth in the local economy supports a generally positive outlook for General Fund revenues. The forecast anticipates annual revenue growth of 3.5 percent and 3.9 percent for 2015 and 2016, respectively, relative to the 2014 Adopted Budget. This would match the modest, but steady revenue growth the City has experienced in recent years. And as we now move into the sixth year of post-recession recovery, there is evidence that the pace of the U.S. economic expansion is increasing. At the national level, consumer confidence has reached its highest level since 2007, and employment growth over the past six months has been strong.

The local economy continues to outperform the nation and the rest of Washington state. Growth in the technology and aerospace sectors has been a key driver, as has been a significant “boom” in construction activity in Seattle. The commercial sector has been an important component of this rapid expansion in construction, but residential investment has been notable. Currently there are over 14,000 housing units permitted but not yet completed, the highest level in recent decades.

**Figure 1. New Residential Units\* by Year Permit Issued, Seattle**



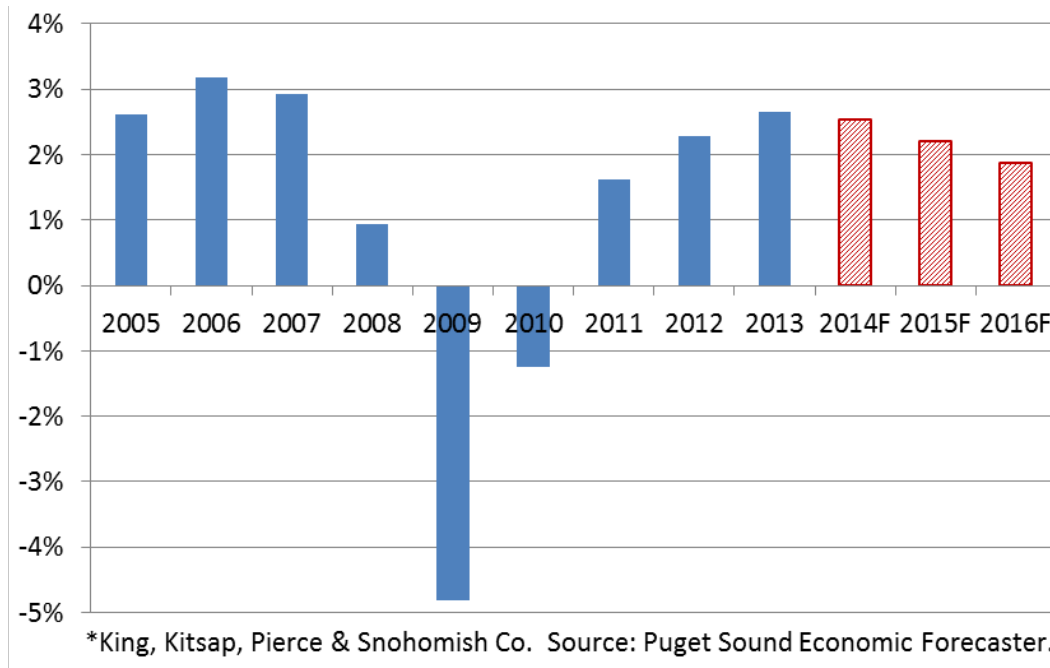
\*Data include units that have been completed or currently have an open permit.

\*\*2014 data are for January - June. Source: Seattle Dept. of Planning & Development.

## Proposed Executive Summary

Employment growth provides the strongest evidence of the strength in the local economy. As shown below, the Puget Sound region has seen a steady increase in the rate of job growth during the recovery.

**Figure 2. Puget Sound Region\* Employment: Annual Growth Rate**



Looking forward, the local forecast anticipates this rate of growth will slow, but still projects an overall increase in employment. We will see a continued growth in jobs, but the local economy probably cannot sustain the current pace of technology sector hiring and construction sector expansion. Employment projections drive the forecasts of local economic activity, which in turn underlies estimates of future City revenues. Thus, our revenue projections anticipate steady growth, but do not anticipate a rapid expansion of General Fund revenues.

With revenue growth anticipated to continue, the challenges for the General Fund remain on the expenditure side. One challenge is the current balance between revenues and expenditures; the expenditure level authorized in the 2014 Adopted Budget exceeds projected revenues by approximately \$25 million, and closing this gap relies on the use of one-time fund balances. While existing fund balances can help sustain current spending for a time, it is not viable in the long term.

A second challenge is that baseline expenditure growth continues to outpace inflation. In recent years, the wages of most City employees have not grown faster than inflation, but the cost of health care and retirement has driven total labor costs closer to the overall growth rate of City revenues. Thus, while the projected growth in City revenues outpaces inflation, it is not sufficient to support more than the very modest increase in services and programs in the 2015-2016 Proposed Budget.

## Proposed Executive Summary

### Prudent Financial Management - Continued Growth in Reserves

While some modest spending additions are included, the proposed budget takes a prudent planning approach for unforeseen circumstances by fully funding the City's established reserves. The City maintains two large reserves to help address potential financial stresses on the General Fund: the Revenue Stabilization Account, and the Emergency Subfund.

The Revenue Stabilization Account, better known as the Rainy Day Fund, buffers the General Fund from unanticipated shortfalls in revenue. By adopted policy, 0.5 percent of General Fund tax revenues are directed into the fund each year, until it reaches a maximum amount established as 5 percent of this same revenue stream (approximately \$45 million). By the close of 2014, the fund will likely reach that maximum amount for the first time since its creation.

A healthy Rainy Day Fund is an essential tool in creating financial stability for the City. It allows the City to preserve services in times of an unexpected revenue contraction, and helps protect the City's high bond rating, which helps keep the City's borrowing costs low.

The City's other large reserve, the Emergency Subfund (ESF), protects the General Fund from the risks of significant and unanticipated expenditures, such as recovery from a major natural disaster. By state law, the City can maintain the equivalent of up to 37.5 cents per \$1,000 of assessed property values in the ESF. The City's adopted financial policies require the fund's balance be maintained at the maximum allowed level. As the local economy has recovered, real estate values have increased rather rapidly, and as a result, so has the limit on the ESF balance. The proposed budget will increase the ESF to \$53.0 million in 2015, and a projected \$56.6 million in 2016, the highest levels ever.

### Shaping the Budget Process

As Mayor Murray worked with the City Budget Office (CBO) to develop his 2015-2016 Proposed Budget, he had an opportunity to better understand the City's established budget process, experiencing both its strengths and weaknesses. Steps were taken to address immediate areas of concern, but a policy agenda was developed to drive the budget process to become a mechanism for tracking tangible outcomes and providing more transparent accountability to the residents of Seattle. Some of this agenda can be undertaken quickly, while other elements will require longer-term investments in new tools.

**Establish Economic and Revenue Forecast Advisory Committee.** The proposed budget includes a new process for developing the revenue forecasts supporting the City's proposed spending. The staff developing the forecasts will be transferred from the Department of Finance and Administrative Services (FAS) to the City Budget Office (CBO) to better integrate the forecasting work with overall budget development. At the same, the City will form an Economic and Revenue Forecast Advisory Committee to help guide and oversee development of the City's formal revenue forecasts. With representation from leadership in the Executive and Legislative branches, and technical staff from key departments, the committee will enhance transparency in the revenue forecasting process and improve coordination across the City's various forecasting functions. Including representatives from the

## Proposed Executive Summary

Executive and Legislative branches will ensure elected officials involved in budget decisions have full access to forecast development. From a technical perspective, the inclusion of representatives from CBO, Seattle City Light and Seattle Public Utilities will ensure the City's best-trained economists and forecasters will work together to develop a consistent set of forecasts regarding local economic conditions.

**Update and Enhance the City's Accounting Systems.** The City's existing central accounting system, Summit, has reached the end of its useful life. The vendor no longer supports the software and the tool no longer serves the City's budgetary or accounting needs. As home to the City's central accounting functions, FAS has taken the lead in the process to develop and deploy a new system. The 2015-2016 Proposed Budget includes funding needed to move this project, known as FINMAP, to the next planning steps. Implementation will not occur until the Mayor and Council have the opportunity to provide further direction about the new system and its functions. The project provides an exciting and challenging opportunity to build a centralized system that not only tracks revenues and expenditures, but also links spending and budgetary decisions to outcomes and performance measures. These opportunities are being explored now and options to develop a system that provide the backbone for a true performance-based budgeting system will be brought forward for review by the Mayor and Council in 2015.

**Track Outcomes and Establish Performance Metrics.** Mayor Murray believes that the public should be able to easily track the City's performance around key indicators of basic public services. To that end, staff have been assigned the task of reviewing the City's existing reporting mechanisms and developing a transparent, unified set of easily accessed metrics updated regularly for public review.

**Provide Online Interactive Budget Information.** Working with the City Budget Office, the Department of Information Technology (DoIT) has expanded a current contract with a local data and information firm to help make the City's budget more accessible to the public. The 2015-2016 Proposed Budget will be partially displayed through an online interactive tool, showing budget information down to a program level for all departments. In future budgets, DoIT intends to explore implementing additional functionality, including things like Citywide expense reporting and dashboarding of performance data.

**Review Base Budgets.** The City's existing budget process puts a great deal of scrutiny on proposed changes to each department's budget, but does not apply the same level of rigor to reviewing baseline expenditures. Realistically, a detailed review of every department's baseline expenditures cannot be conducted each year. However, a targeted model that systematically reviews a share of the overall baseline City spending each year should be possible. Such an approach would provide an opportunity both to increase transparency about spending, and to review staffing and programming decisions inherited from the past. Looking forward to 2015, CBO will work in partnership with at least two departments to conduct a review of baseline spending.

# Proposed Executive Summary

## Targeted Investments to Support a Clear Vision of Seattle's Future

When Mayor Murray took office he articulated a vision for Seattle that included five key elements:

- A Safe City
- An Affordable City
- A Vibrant City
- An Interconnected City
- A City that Fosters Innovation

As detailed below, the Mayor's 2015-2016 Proposed Budget supports this vision. New and existing resources will be directed toward programs and services that support each of these essential elements.

### A Safe City

Public safety is the foremost responsibility of City government. All Seattle residents deserve to be secure in their homes, safe in their neighborhoods and able to explore our city without threat or intimidation. To help achieve goals the proposed budget includes investments in both the Seattle Police Department (SPD) and the Seattle Fire Department (SFD).

**Implement Reform at SPD.** Newly-appointed Police Chief Kathleen O'Toole is providing the leadership needed to guide significant change at SPD, including implementing requirements of the 2012 Settlement Agreement with the United States Department of Justice. In terms of internal management and reorganization, the proposed budget includes funding for a number of high-level civilian positions – a chief operating officer, chief information officer, and counsel to the chief. The proposed budget also reflects a number of budget-neutral transfers among the department's various divisions. These new appointments and reorganizational steps will help improve the effectiveness and efficiency of SPD. In addition, the proposed budget establishes a reserve in Finance General to address needs identified by the chief after her ongoing review of SPD operations is complete. For example, the chief has recently established a process to develop micro-community policing plans and is reviewing SPD's overall approach to community policing. Once this work is complete, additional funding may be needed to implement these new plans and approaches.

With regard to the Department of Justice Settlement Agreement, the proposed budget provides the resources needed to address compliance issues, including upgrades to SPD's information technology infrastructure, reduction in the span of control for officers, and permanent staffing for oversight of the Use of Force Review Board. Consistent with the overall goal of enhanced accountability, the proposed budget also includes increased funding for the Office of Professional Accountability, to both improve intake and enhance investigations.

**Hire and Train New Police Officers.** Greater visibility of police officers in Seattle neighborhoods and downtown is a priority for the Mayor and the chief of police. Deployment decisions, controlled internally by department leadership, are the highest priority for immediate enhancements to patrol staffing because they can achieve the quickest results. In addition to quickly addressing visibility issues, this

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administration is focused on creating a more efficient and effective recruitment process, and will work with the Public Safety Civil Service Commission, Department of Human Resources, and the Seattle Police Department to improve backgrounding, hiring and training practices.

With regard to staffing, in 2015 SPD will focus on filling police officer positions funded as the City recovered from the economic downturn, but unfilled to date due to constraints in the recruitment and training process. The department expects to fill every available academy class in 2015 in order to catch up for prior additions, and hire up to nine new officers. By the end of 2015, the department expects to have 1,313 fully-trained officers in service, bringing SPD closer to the pre-recession level high of 1,323 fully-trained officers. In 2016, the proposed budget adds new resources for up to 25 new police officers above attrition. With this add, SPD will exceed pre-recession levels, reaching an all-time department high of 1,336 fully-trained officers by the end of 2016.

**Improve EMS Response.** In recent years the Seattle Fire Department has seen a steep increase in the number of calls for non-fire emergency services, particularly in the downtown area. The two aid cars now operating in the center city averaged 6,205 calls each in 2012 and 2013. This compares to an average of 3,765 calls each by SFD's other two aid cars. The proposed budget addresses this issue by providing approximately \$1 million in ongoing, annual funding for a new aid car and associated staffing. The aid car will be located at Fire Station 10, near Pioneer Square, and will help relieve the pressure on the two aid cars now serving the downtown area.

**Increase Recruitment Classes for SFD.** The department currently operates with a total of 1,046 firefighters, down from a high of 1,117 in 2010. Given that the Department has a daily minimum staffing requirement, this has increased the amount of overtime needed to support daily operations. The department cannot sustain the current level of overtime from either a financial or personnel perspective. Additional funding is therefore provided in 2015 to fill twenty five vacant positions. Although this will come at a one-time cost of just over \$1 million, the resulting reduction in overtime will save nearly the same amount over the next two years and provide additional savings going forward.

**Assess Public Safety Facility Needs.** Over the past few years the City has been moving towards the development of a new North Police Precinct facility. The existing facility is undersized and is well past its useful life, so the need for a new facility is clear. However, before moving forward with final design and project implementation, the Mayor believes the City should conduct a more comprehensive evaluation of the SPD's facility needs, as well as those of SFD. Although work on the fire station projects first identified in the 20003 Fire Facilities Levy is still ongoing, significant SFD facility needs, including the department's aging headquarters building, were not addressed in the levy. In addition, SPD may face potential space challenges at the existing South Precinct and the department's Harbor Patrol facility is failing. In this context, developing a thorough understanding of overall public safety facility needs will provide the information needed to prioritize and develop funding strategies for these important public safety needs.



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## An Affordable City

Seattle is undergoing a period of record growth and development. The city's burgeoning high-tech and life-sciences sectors are creating thousands of well-paying jobs. But for many families, artists, students and immigrants new to the country, the city is becoming increasingly unaffordable. Seattle is at risk of pricing out the very diversity it thrives upon. As detailed below, the 2015-2016 Proposed Budget addresses this challenge in a number of significant ways, taking steps to increase affordability, embrace diversity and support the city's most vulnerable residents.

**Establish the Office of Labor Standards.** This new office, to be located within the existing Office for Civil Rights (OCR), will take the lead in education and enforcement of the City's labor-related legislation, including the City's Sick and Safe Leave ordinance and the recently adopted Minimum Wage ordinance. With respect to the latter, for 2015 the office's work will focus primarily on education and outreach for both employers and employees. Initially, the office will hire 3.5 new full-time equivalents to conduct this work. In 2016, an additional two investigators will be added as the nature of the work shifts toward compliance and enforcement.

**Launch the "Ready for Work" Program.** This new program, which will be implemented by the Office of Immigrant and Refugee Affairs (OIRA), will assist Seattle residents with limited English proficiency that are currently unemployed or underemployed, by helping them obtain the skills necessary for living-wage careers. Funded with \$450,000 from the Federal Community Development Block Grant, the English as a second language program will partner with the Seattle Colleges (formerly Community Colleges) and community-based organizations to lower the employment barriers faced by many of Seattle's foreign-born residents. The proposed budget also includes funding to conduct a full assessment of this new program's effectiveness.

**Strengthen Immigrant Integration.** Immigrant integration, a key component of OIRA's recently developed action plan, is an intentional effort to build vibrant and cohesive communities. To facilitate this integration process, the 2015-2016 Proposed Budget adds a language access coordinator and an ethnic media and communications coordinator to OIRA. These two new positions will work to increase the City's capacity and competence in engaging and serving immigrant and refugee residents who have limited English skills.

**Develop an Affordable Housing Agenda.** Mayor Murray is committed to developing a coordinated set of strategies that address critical affordable housing needs in Seattle. Development of a Housing Affordability Agenda and planning for the 2016 Housing Levy renewal are closely linked. The proposed budget provides the Office of Housing with the funding needed to research new and expanded strategies to ensure Seattle has housing affordable to diverse household types across a range of income levels. In 2015 and 2016, \$125,000 in funding will support the development of the Housing Affordability Agenda. In addition, in 2015 \$185,000 will support planning for renewal of the 2016 Housing Levy.

**Establish a Priority Hire Program.** The City's own spending on major capital investments can help drive employment within the local economy. Construction jobs and related positions offer living-wage jobs

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that can support individuals and families. In the 2015-2016 Proposed Budget, the Mayor funds a new program to increase the number of Seattle residents able to secure jobs on City-funded capital projects. As the City invests in local infrastructure, it can also be investing its own residents. This program, led by the Department of Finance and Administrative Services, will involve engagement with construction firms, labor unions and community stakeholders. The City will adapt its contracting approach to promote an emphasis on local hiring and look for ways to help develop a pipeline of qualified local workers.

**Protect the most vulnerable.** At the same time that the proposed budget takes steps to improve employment opportunities and expand the availability of affordable housing, the Mayor's funding priorities recognize that unemployment, homelessness and food insecurity are realities faced by too many of Seattle's residents. Therefore, additional resources are provided to protect the City's most vulnerable residents. Funding is provided to help sustain existing programs facing cuts from other funding partners to expand existing programs with track records of success, and to support new best practices and innovative strategies:

- Funding of \$410,000 for a new and innovative program targeting individuals who have been housed in shelters for an extended period, without having moved on to more stable housing. This program will benefit the individuals involved, but will also increase overall shelter capacity by reducing the demand for long-term services.
- Further investments of \$600,000 per year will expand the successful Rapid Rehousing program, which is an accepted best practice for addressing the needs of the homeless. This investment will specifically target the needs of homeless veterans.
- Funding in the amount of \$200,000 is provided to both the Low-Income Housing Institute's Urban Rest Stop and the Downtown Emergency Service Center's Homeless Outreach Stabilization and Treatment (HOST) program to partially offset losses from other sources.
- An additional \$100,000 per year will support the purchase of bulk food for the city's food banks, which continue to see a growth in demand for their services.
- Annual support of \$100,000 is added for the "Project 360" youth services program. This program, which also receives state, federal and private funding, supports homeless youth by providing case management, legal advocacy, and trauma-specific therapy focused on untreated sexual assault.
- An additional \$70,000 per year is provided to support services at Seattle-area senior centers.

The proposed budget also takes steps to help address the significant financial crisis emerging at King County Public Health. Significant funding shortfalls have forced the agency to restructure service delivery and eliminate some programs. The proposed budget provides \$400,000 in 2015 to help pay for an array of public health services that would have otherwise been reduced from the Seattle-King County Department of Public Health's portfolio. These include resources to pay for maternity support services at the Greenbridge Public Health Center in White Center, access and outreach services for Seattle residents seeking health services, gun violence research and program planning, health education program planning, and HIV/STD education and outreach. The same level of funding is set aside for 2016,

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but the Mayor looks forward to further financial analysis and policy development work with the City's partners at King County Public Health before these dollars are appropriated.

### A Vibrant City

The city's vibrancy depends on the complementary roles of the business community providing employment opportunities for a workforce of diverse skills, and the residential neighborhoods offering attractive places for individuals and families to build their lives. Investments that support both these elements are essential for the city's long-run health. For example, livable, walkable, mixed-use neighborhoods and nearby parks are the strategies needed to support growth in Seattle's neighborhoods. And at the same time, affirmative actions by the City can also help support growth among the city's businesses, both large and small. The Mayor's proposed budget includes several investments designed to protect and enhance Seattle's vibrancy:

**Implement the Metropolitan Parks District.** In August 2014, the voters of Seattle approved a measure to create the Seattle Park District. Once fully implemented in 2016, the district will have resources of approximately \$48 million per year, which will be used in partnership with the Seattle Department of Parks and Recreation (Parks) to fund recreational services, major maintenance of existing Parks assets and investments in new park facilities. This district will provide critical resources for maintaining existing facilities, enhancing services within the existing park network, and developing previously acquired properties. During 2015, the City will loan an initial \$10 million to the district, helping provide a smooth "ramp up" of district-supported activities ahead of full implementation in 2016. The district will repay this amount over eight years, once tax collections start in 2016.

**Equitable Development:** With baseline funding continuing in 2015 and 2016, the Department of Planning and Development (DPD) and the Office of Civil Rights are co-leading the City's Equitable Development Framework (EDF), a multifaceted, multi-department strategy to help implement the Mayor's Race and Social Justice Executive Order and Council Resolution 31492 related to equitable development. The EDF provides the framework to:

- develop and recommend policies for adoption, including new policies in the City's Comprehensive Plan;
- create a Strategic Investment (funding) Strategy for how departments can leverage their collective investments and partner with non-City entities;
- build capacity in communities, including work on a multicultural center in southeast Seattle; and
- prioritize the type of investments to be made in target areas in order to achieve equitable outcomes.

This is an important way for DPD to help ensure current and future work focuses on achieving racial equity and ensuring all community members in Seattle benefit from development.

## Proposed Executive Summary

**Enhance Small Business Outreach, Engagement and Support.** Micro and small businesses provide job creation, innovation and wealth creation opportunities that are an important aspect of the economic vibrancy of Seattle. Supporting entrepreneurs in accessing the appropriate information, resources and training is critical to ensuring the success and growth of their enterprises. The proposed budget provides \$210,000 of additional resources to increase the level of technical assistance, outreach and engagement, and financial services provided to small businesses.

The proposed budget also increases support for the existing Only in Seattle (OIS) program in 2015 and 2016 to support neighborhood business district economic development efforts, with targeted focus on better serving ethnic, minority, and immigrant and refugee-owned small businesses. OIS promotes a safe and healthy business environment for business organizations and neighborhood business districts. Significant one-time and ongoing resources are added to OIS to expand the reach of the program and increase the number of grants made available.

**Expand Investments in the Central Area.** In conjunction with the proposed budget, the Mayor has proposed legislation to broaden the uses of the Central Area Equity Fund. The Central Area Equity Fund was created in 1995 to provide support to community development organizations to assist with the acquisition and development of real estate in the Central Area. Maintaining a commitment to the community and economic development purpose of the fund, the Mayor proposes to expand potential uses of the fund to include supporting several community-based projects and initiatives, all with the goal of celebrating the Central Area's identity, culture and history, and enhancing the economic opportunities for its residents.

**Further Invest in the Creative Advantage Initiative.** The arts are a critical part of Seattle's vibrancy and arts education is essential for the future arts in the city. The Creative Arts Initiative, led by the Office of Art and Culture, addresses inequality in arts education by partnering with the Seattle School District to provide arts educational programming to a targeted group of schools, serving over 6,500 students. The program also supports professional development for the artists themselves, building their educational and classroom management skills. The 2015-2016 Proposed Budget increases funding to expand this program.

**Foster Environmental Equity.** Seattle's Equity & Environment Initiative is a City-community partnership to ensure everyone benefits from Seattle's environmental progress, and to engage communities most impacted by environmental injustices in setting environmental priorities and designing strategies. An additional \$80,000 investment will support community engagement and partnership development to advance the initiative, resulting in an Equity & Environment Action Agenda by the end of 2015.

### An Interconnected City

Mayor Murray is committed to developing a comprehensive, multi-modal transportation strategy for Seattle. His goal is to integrate and prioritize the City's pedestrian, bicycle, transit and freight plans, staying true to the goals of each while recognizing they must work together as a system. The investments included in the 2015-2016 Proposed Budget move toward such an integrated system, while

## Proposed Executive Summary

at the same time “taking care of basics,” including funding for repair and maintenance, and greater emphasis on the needs of individual neighborhoods.

**Invest in Neighborhoods.** The proposed budget doubles annual funding for the Neighborhood Street fund, from \$1 million to \$2 million. These resources, which are allocated through a process that is driven by neighborhood priorities, will support investments that improve safety and mobility in neighborhoods across the city.

**Build Sidewalks.** Installing new sidewalks is a key priority for Mayor Murray. Therefore, the proposed budget redirects funds within the Pedestrian Master Plan and the Pedestrian Master Plan - School Safety CIP projects to establish a "Pedestrian Master Plan - New Sidewalks" CIP project. An additional \$2,000,000 from Real Estate Excise Tax (REET) funds have been directed to the new sidewalk project in 2016.

**Provide transportation options.** To address increased demand for multi-modal transportation options, the 2015-2016 Proposed Budget makes important mobility investments, including funding to implement the Transit, Pedestrian and Bicycle Master Plans and to make multi-modal improvements in the busy 23rd Avenue corridor. The 2015-2016 Proposed Budget includes funds to:

- Expand investments that make biking, riding transit, and walking easier alternatives to get around in Seattle, by including increased funding for sidewalks (see above), \$800,000 for development of a Downtown Cycle Track Network, and \$2.4 million for new bicycle greenways parallel to the 23rd Avenue Corridor.
- Launch a bike sharing program in the Central District neighborhood in 2015.
- Improve the 23rd Avenue corridor, which is a major north-south thoroughfare connecting the Rainier Valley and Central Area to the University of Washington.
- Activate streets and right-of-way areas so people can walk, bike, shop, and explore their community in a new way by increasing funding for the Summer Streets program and supporting new concepts for plazas and parklets.

**Enhance Road and Bridge Maintenance.** The Seattle Department of Transportation maintains a total pavement network of more than 3,900 lane miles. Of these, approximately 1,500 lane miles are arterial streets and 2,400 are non-arterial streets. The proposed budget provides an additional \$3,000,000 in 2015 and an anticipated \$5,000,000 in 2016 to re-surface and repair the city's streets. SDOT manages approximately 137 bridges with a replacement value of more than \$2.5 billion. This year SDOT is submitting \$10,440,000 in federal grant applications for four bridge projects (Post Alley, Cowen Park, Schmitz Park and the 45<sup>th</sup> Street Viaduct). In total, these projects will require \$5,143,000 in total local matching and related funds during 2015-2017, if the grant applications are successful.

**Mitigate Construction Impacts.** The 2015-2016 Proposed Budget builds upon the Access Seattle program's successes in 2014. The Access Seattle program aims to keep businesses thriving, travelers moving safely, and construction coordinated during the significant growth and development boom in many parts of Seattle. The program actively plans, coordinates, and monitors construction activity in downtown as well as in neighborhoods, and will become even more important as major downtown construction activity is expected to continue in 2015. Current construction hubs include: Central

## Proposed Executive Summary

Waterfront, Pioneer Square, South Lake Union, North Downtown/Denny Triangle, Ballard, Capitol Hill, and West Seattle. The proposed budget also includes funding to upgrade the City's Transportation Operations Center, which helps coordinate real-time traffic data and improve traffic flow as congestion develops in particular parts of the overall transportation network.

**Improve Freight Mobility.** The 2015-2016 Proposed Budget makes significant investments in freight mobility; large-scale projects are now underway near the freight corridor south of downtown, including State Route (SR) 99 tunnel construction, seawall replacement and other improvements along the waterfront. To help mitigate potential traffic congestion spots, SDOT will install traffic cameras, upgraded signals, vehicle detection devices and fiber communication as part of an Intelligent Transportation System (ITS) in the freight corridor. The projects will improve signal timing and allow SDOT to measure travel times along South Michigan Street and First Avenue South. In addition, ITS will provide real-time information to improve traffic flow for freight operators and the general public travelling between Georgetown, the stadium district, SR-99, SR-509 and I-5. Additional investments will also be made in the proposed Heavy Haul Corridor, which is being jointly planned by the City of Seattle and the Port of Seattle.

### A City that Fosters Innovation

For Seattle to achieve the Mayor's vision, it will be necessary to harness the kind of innovation and creativity that has long defined this community. The City can help promote creativity within the private sector and support the region's innovation-driven economy. At the same time, within its own operations the City must embrace the innovation and change needed to deliver services in a more effective and efficient manner. This will mean replicating what has been successful elsewhere, discontinuing what is not producing the desired results, and having the energy, encouragement and initiative to generate new solutions to experiment with and see what's truly possible. Accordingly, the 2015-2016 Proposed Budget makes investments to advance innovation across the broader community of Seattle and within City government itself.

**Create the Department of Education and Early Learning.** Access to a well-educated workforce is a key to maintaining the city's strength as a hub of innovation. At the same time, ensuring every Seattle child has access to a quality education provides a path for each of them to fulfill their greatest potential. Consistent with these board goals, the Mayor's proposed budget would create the Seattle Department of Education and Early Learning. The creation of the new department demonstrates the City's strong commitment to education and particularly to early learning. The new department will:

- align the various education and early learning programs and initiatives to provide the best learning outcomes for children;
- prepare for implementation of a voluntary, high-quality, universal preschool program for the city's three- and four-year-olds;
- collaborate closer with Seattle Public Schools to boost the academic achievement of students;

## Proposed Executive Summary

- work with the school district to better address issues of shared interest including school safety, transportation and planning for growth;
- embed the goals and principles of the City's Race and Social Justice Initiative into the department's day-to-day approach to advancing its mission related to education;
- develop a plan to address disparities in academic outcomes;
- facilitate an education summit to support an ongoing citywide discussion of the state of education in our city;
- develop and execute strategies for Seattle to become a 21<sup>st</sup> century model for excellence in public education;
- enhance strategic partnerships with colleges and universities; and
- improve the process for data-driven decision-making and program development.

**Develop an International Profile for the City of Seattle.** To help further promote development in Seattle's innovative industries and to better attract foreign investment in Seattle's business community, the Mayor believes the City needs staff that can better represent Seattle to foreign investors. To address this need, the proposed budget provides funding for a new position in the Office of Intergovernmental Relations. Working closely with the Mayor's Office of Policy and Innovation, the Office of Economic Development, and local partnering entities, this position will develop, facilitate and track international business, innovation hubs, foreign direct investment and international funding for capital projects within the city.

**Centralize the City's Internal Information Technology Services.** To ensure City government helps keep pace with the innovation drive within the private sector, the Mayor intends to develop the Department of Information Technology (DoIT) into an agency that provides leadership across City government. DoIT's central role in implementing the City's Next Generation Data Center, which is fully funded in the proposed budget, is an example of the centralized leadership that DoIT will take going forward.

**Improve Customer Service within the City.** To serve its residents better, the City itself must be ready to innovate and change. Customer service is a critical element of the City's role in providing basic services like water and electricity, and in issuing the permits and licenses associated with an array of regulatory activities. For many residents, these are the most frequent reasons they interact with local government. To help improve these interactions, the proposed budget funds a customer service kiosk in City Hall, enhanced staffing at the Seattle Municipal Tower's customer service center, a new position to support public disclosure activities across the City, and an updated feasibility assessment for a 311 customer service function.

**Launch FileLocal.** In 2015 FileLocal will launch, a multijurisdictional tax-filing website to significantly simplify tax compliance for business throughout the region. Seattle has partnered with several local jurisdictions, including Bellevue, Tacoma and Bellingham, to develop the site.

## **Proposed Executive Summary**

### **Looking Ahead**

While the budget outlook for the 2015-2016 biennium is generally positive, the City still faces some basic financial challenges. Growth in City costs continue to run ahead of inflation and essentially match the growth in revenues projected for the next few years. In this context, departments will be asked to underspend by an average of roughly 1.5% in order for the City to balance to its revenues and expenditures. This target is consistent with historic patterns of underspend, but will still require financial discipline. Looking forward, additional revenue growth beyond forecasted levels may help relieve the pressure for underspending. On the other hand, any shortfall in revenues relative to forecast will require immediate service reductions, or draw in resources from the "Rainy Day Fund," as there will not be margin within department budgets to absorb additional underspending.

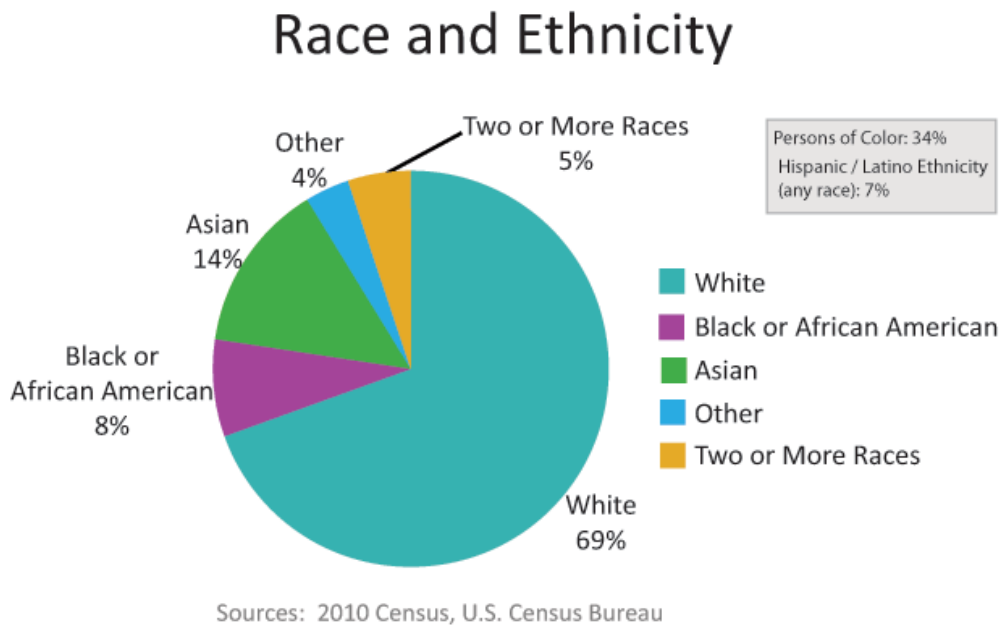


# Race and Social Justice Initiative (RSJI) in the Budget

## Introduction

This chapter provides background and context for [Race and Social Justice Initiative \(RSJI\)](#) related budget additions throughout the 2015-2016 Proposed Budget. This is an important reflection of ongoing efforts to address issues of racial and social disparities in the City of Seattle. A key component of the RSJI is the examination of City policies, projects, initiatives and budget decisions to determine how each of these items impacts different demographic groups in the City. Seattle is the first city in the United States to undertake an initiative focusing explicitly on institutional racism and has become a national leader in efforts to achieve racial equity.

Racial and social disparities persist across key indicators of success in Seattle, including education, equitable development, health, housing, jobs, criminal justice, environment, service equity, and arts and culture. The 2010 Census indicates more than 34 percent of Seattle residents are persons of color. Recent estimates from sources including the American Community Survey show continued, deep disparities in the social and economic well-being of Seattle residents. In general, the largest disparities in Seattle, as well as in the nation as a whole, are for the black and Hispanic/Latino populations compared with white, non-Hispanic population. Asians and multi-race persons are also doing poorer than non-Hispanic whites on many of these indicators.



Since its launch in 2004, Seattle’s Race and Social Justice Initiative has worked to eliminate these kinds of socioeconomic disparities. RSJI is a Citywide effort to end institutionalized racism and race-based disparities in City government. RSJI builds on the work of the civil rights movement and the ongoing efforts of individuals and groups in Seattle to confront racism. The initiative's long-term goal is to change the underlying system that creates race-based disparities in our community and to achieve racial equity. Specifically, RSJI was created to address issues such as:

# Race and Social Justice Initiative

- twice as many people of color as whites in Seattle rate our public schools as poor;
- four of five African-Americans believe our police force treats people differently based on race; and
- since the recession, the racial wealth gap has widened: across the U.S. white families now have about six times the wealth of families of color.

The City's Race and Social Justice Initiative goals include the following:

- end racial disparities within City government, so there is fairness in hiring and promotions, greater opportunities in contracting, and equitable services to all residents;
- strengthen outreach and public engagement, change existing services using Race and Social Justice best practices, and improve immigrants' and refugees' access to City services; and
- lead a collaborative, community-wide effort to eliminate racial inequity in education, criminal justice, environmental justice, health and economic success.

## **Mayoral Direction**

During the first week of his term, Mayor Edward B. Murray convened his cabinet of department directors at the Seattle Pacific Science Center to discuss RSJI, its history, its successes and the opportunities the City has to further that work. This was combined with a tour of the "RACE" exhibit displayed at the Center, which included racial and cultural education information about Seattle and King County. Afterward, the Mayor's cabinet debriefed on the exhibit and discussed how RSJI could become part of departmental awareness and operations in Seattle.

A few months later, on April 3, 2014, Mayor Murray signed an [executive order](#) affirming the City's commitment to the Race and Social Justice Initiative. The executive order expanded the program's work to include measurable outcomes, greater accountability, and community-wide efforts to achieve racial equity throughout Seattle.

During Mayor Murray's first term, the City is prioritizing its racial equity work in the areas of education, equitable development, and criminal justice, identified as the top three priorities by the community. The City is partnering with educational institutions, including two- and four-year colleges, to create Cradle to Career Pathways for all Seattle residents, and work with community organizations to create a Community Equity Institute.

## **Race and Social Justice in the City of Seattle's 2015-2016 Budget Process**

The City Budget Office (CBO) incorporated the following specific efforts to integrate RSJI into this year's budget process:

- review of RSJI impacts in the budget requests submitted by City departments;
- training classes and related discussions of RSJI emphasis with budget analysts and department finance directors;
- collaboration across departments and across department functions to hold RSJI conversations throughout the budget process, which often included program staff and members of the RSJI change teams as well as finance staff; and
- all budget briefings with Mayor Murray included information about RSJI impacts, as well as preparation to answer equity-related questions raised by the Mayor or his staff.

# Race and Social Justice Initiative

Outside of the budget development process, many CBO and Office of Policy and Innovation (OPI) staff members participate in regular discussions on race and racism. The discussions use a facilitated format and are led by analysts. They offer an opportunity to discuss equity concerns generally, outside of regular work assignments, and to engage all levels of CBO and OPI in how to more consistently and effectively use an equity lens in policy and budget decision making. CBO hopes these discussions will increase individual and group understanding of how racism and other marginalizing factors can and often do affect equity and service provision.

In summary, CBO is working differently this year in order to develop a broader understanding of issues of race and social justice in the City of Seattle.

## **Race and Social Justice Impacts in the 2015-2016 Proposed Budget**

The following section highlights specific examples of RSJI considerations in the 2015-2016 Proposed Budget and decision-making processes.

### **Utility Discount Program**

The 2015-2016 Proposed Budget includes funding to achieve the Mayor's goal of making Seattle more affordable by doubling participation in the Utility Discount Program (UDP) by 2018. Currently, only 14,000 households out of an estimated 75,000 eligible are enrolled in the UDP. An interdepartmental team began work in 2014 and has already made progress toward the goal of 28,000 participants as they focus on reforms and improvements to the program in the areas of customer retention, recruitment/enrollment, and marketing.

### **Gender Equity**

The Gender Equity in Pay Task Force recently released a report on disparities in pay for City of Seattle employees and submitted it to the Mayor and City Council. The report made a series of recommendations to begin addressing the disparity in pay at the City. To begin implementing the task force's recommendations, the City added two positions in the Department of Human Resources and one position in the Office for Civil Rights. These positions will work to advance the recommendations of the Gender Equity in Pay Task Force. The Mayor has now also proposed funding for the Department of Human Resources to conduct a Citywide internal Gender and Race Equity Study and to develop a women's leadership program.

### **Fifteen Dollar Minimum Wage**

In early 2014, the Mayor formed an Income Inequality Advisory Committee to address income inequality in Seattle and to deliver a recommendation on how best to increase the minimum wage in Seattle. In June 2014, the City of Seattle passed an ordinance based on the Committee's recommendation to raise the minimum wage to \$15 per hour in the City of Seattle over three to seven years, depending on the size of the employer and if health care coverage is provided. Increasing the minimum wage will help increase income stability for over 100,000 Seattle workers earning wages insufficient to support themselves and their families, and narrow the income inequality falling disproportionately on people of color and women. The phase-in implementation of increasing minimum wage starting in 2015 will help ensure Seattle's economy is vibrant enough and fair enough to embrace all who live and work here.

# Race and Social Justice Initiative

## **OIRA Expansion**

The Mayor has made expanding the Office of Immigrant and Refugee Affairs (OIRA) a priority of his administration, and within the first few months of taking office, the Mayor and City Council doubled OIRA's budget to build greater capacity to engage with immigrant and refugee communities. The 2015-2016 Proposed Budget includes many significant new programs and services aiming to build OIRA's capacity, and decrease barriers to immigrant participation in City programs and services. This includes a new English as a second language and job readiness program, as well as the launch of a Citywide Language Access Initiative. This initiative will be focused on ensuring adequate resources, development and training are available for City departments to increase the use of translation and interpretation services, with the goal of providing equitable language access to all of Seattle's residents.

## **People's Academy for Community Engagement (PACE)**

Launched in 2012 as a two-year pilot, the People's Academy for Community Engagement (PACE) is a civic leadership training initiative that engages up-and-coming community leaders from nearly all of Seattle's 13 neighborhood districts to develop leadership, neighborhood planning, community-building and outreach skills specific to underrepresented communities. As a successful model of empowering members to increase their community and individual capacity to organize, sustain and support their neighborhoods, the 2015-2016 Proposed Budget provides funding to continue the program beyond its pilot phase.

## **Homelessness Investments**

The 2015-2016 Proposed Budget includes \$1.4 million to enhance services for homeless individuals and families. The 2014 One Night Count, which occurs annually during the month of January, counted 2,392 individuals living unsheltered in the City of Seattle. This proposed budget includes funding that assists long-term shelter stayers, and supports efforts to rapidly re-house single adults. Moving long-term shelter stayers into permanent housing not only benefits these individuals, it also creates additional shelter capacity by freeing up shelter bed space. Rapid Rehousing as a program model is a nationally recognized best practice. In addition to these investments, the proposed budget also includes funding for day and hygiene services, and outreach support for homeless individuals.

## **Environmental Equity Initiative**

Seattle's Environmental Equity Initiative is a City-community partnership to examine Seattle's environmental progress and implement practices and processes to ensure equitable distribution of assets, benefits and broad participation in the decision-making process. This proposed budget proposes funding consultants from communities typically under-represented to facilitate outreach to those communities through community roundtables and environment forums. This work will shape the Mayor's Environmental Agenda, which is a set of near- and long-term actions to advance equity and environmental justice.

## **Equitable Development Initiative**

The Department of Planning and Development and the Office for Civil Rights are co-leading the City's Equitable Development Initiative (EDI), a multi-faceted, multi-department strategy to help implement the Mayor's RSJI Executive Order 2014-02 and Council Resolution 31492 related to equitable development. The EDI will provide the framework to develop and recommend policies for adoption, create a Strategic Investment Strategy, and prioritize the type of investments to be made in target areas in order to achieve equitable outcomes. This is an important way for DPD to ensure current and future work focuses on achieving racial equity and ensuring all community members in Seattle benefit from

# Race and Social Justice Initiative

development. This proposed budget funds continued work on this important program.

## **Labor Standards**

Issues surrounding labor overwhelmingly affect low-wage workers, people of color and foreign-born workers. In 2013, the City Council identified a need for comprehensive review of the City's labor standards laws and a determination of how the City can more effectively implement and enforce these laws. In recent years, the City enacted laws related to wage theft, paid sick and safe leave, minimum wage, and the use of background checks in employment decisions.

In addition, Mayor Murray convened a multi-stakeholder group to explore and recommend how the City could engage in more effective enforcement and compliance with labor and workforce policies. As a result of this group's recommendations, the Mayor proposes funding the creation of an Office of Labor Standards to focus on worker education, business partnerships, and enforcement strategies to protect vulnerable workers from wage theft and exploitation in the workplace.

## **Priority Workers**

Studies show that women, people of color, and those living in economically distressed areas are not employed on City projects in proportion to their availability in the community. These areas with the highest poverty rate in Seattle also have high concentrations of people of color and unemployed residents.

These residents are particularly under-represented in construction trades and training programs leading to family-wage careers in construction. Underrepresented populations face barriers to completing pre-apprenticeship and apprenticeship training programs. In the last several years, the reduction of clients from such programs was higher for women and people of color. From 2008 through 2010, 61 percent of people of color did not complete apprenticeship training programs as compared to 46 percent of white participants, and 65 percent of women failed to complete the programs as compared to 55 percent of men. The City devotes considerable resources to public works projects and Mayor Murray is using that investment to prioritize training and employment opportunities for residents living in poverty.

The Mayor adopted the recommendations from an advisory group of community worker advocates, labor unions, minority contractors, and others to fund the creation of a prioritized worker program as a strategy to lower the rates of employment in distressed Seattle communities. The policy would make the training and employment of individuals in these groups a priority hire on City-financed construction projects.

## **Public Health Base Funding**

Public Health – Seattle & King County (PHSKC) is a joint public health department funded by the City of Seattle and King County, created through a merger of the two governments' existing public health departments in 1939. The vast majority of PHSKC clients are low-income people who cannot afford full-cost medical care, and are often from groups that have been underserved by mainstream service programs, including cultural and racial minorities, immigrants and refugees and people for whom English is a second language.

Currently PHSKC is projecting a \$15 million per year deficit, which translates to an estimated \$30 million shortfall for the 2015-2016 King County biennial budget. As part of the collaborative partnership between the City of Seattle and King County, Seattle has decided to help fund some of the base funding for PHSKC services initially proposed to be cut by the department as part of its balancing package it

## **Race and Social Justice Initiative**

submitted to the King County Executive. This is a new approach from Seattle to help fund the base budget for PHSKC.

Specifically, the Mayor has proposed to fund \$400,000 in 2015, and possibly the same amount in 2016. This reserve will help pay for an array of public health services that would otherwise be reduced from the Seattle-King County Department of Public Health's budget for 2015 and 2016. These include resources to pay for maternity support services at the Greenbridge Public Health Center in White Center, access and outreach services for Seattle residents seeking health services, gun violence research and program planning, health education program planning, and HIV and STD education and outreach.

### **Moving Forward**

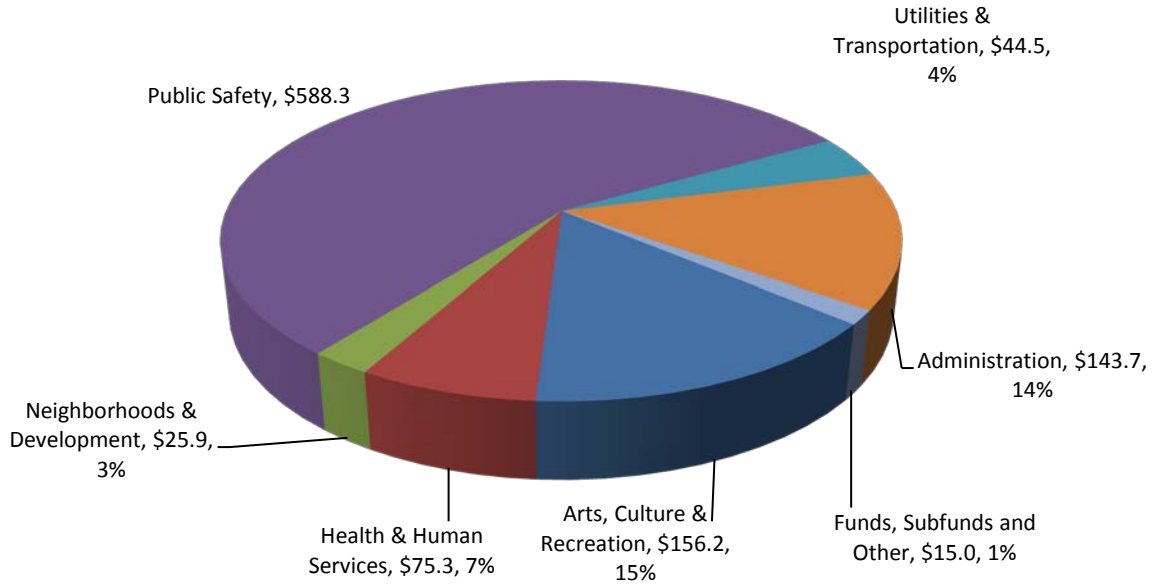
While there has been increasing attention and work to address equity and social justice issues, there is still a great deal of work needed to address the root causes of inequities and determine culturally appropriate and effective measures to improve access and opportunity.

The City Budget Office (CBO) and the Office of Policy and Innovation will improve their approach to using an equity lens during budget and program analysis each year. Future goals include providing Race and Social Justice Toolkit training for department finance managers, and working with departments to examine the RSJI impacts of their programs holistically – as part of their entire budgets, rather than just the incremental changes.

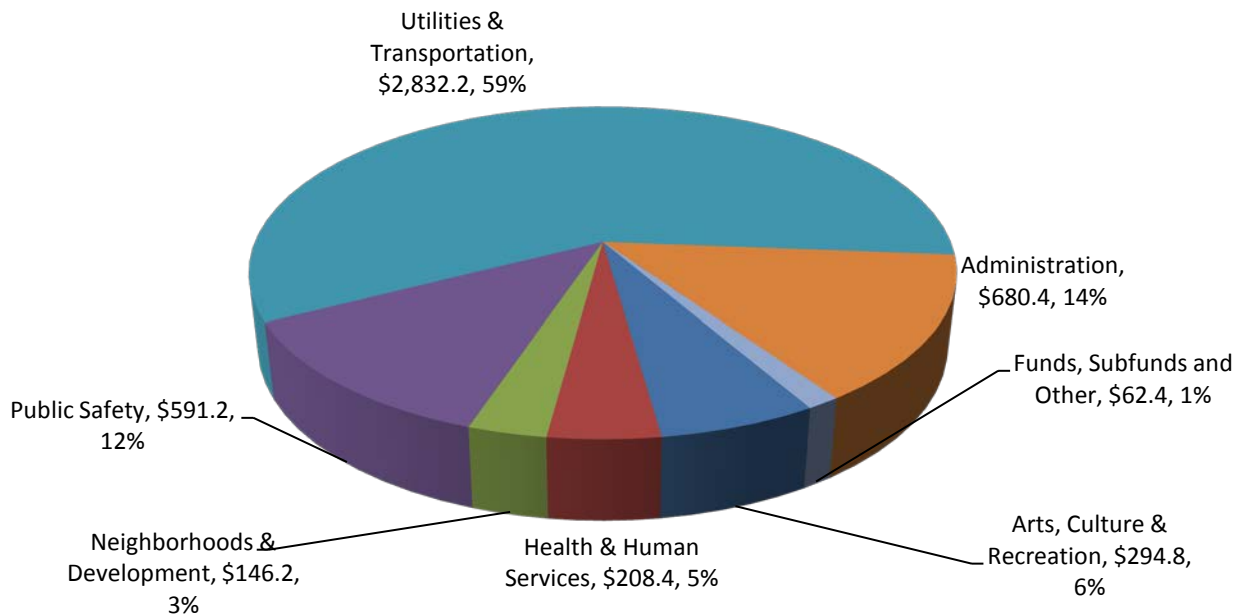
CBO is considering how to more directly communicate the RSJI impacts and considerations for future budget decisions with departments, the City Council, and city residents. These efforts will contribute to Seattle's vision to achieve equitable opportunities for all people and communities.

# Summary Charts and Tables

**2015 Proposed General Fund Appropriations - \$1.0 Billion**  
(in millions of dollars)



**2015 Proposed Appropriations - All Funds, \$4.8 Billion\***  
(in millions of dollars)



\* Includes double appropriations





# Summary Charts and Tables

## EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2014 Adopted		2015 Proposed		2016 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Arts, Culture &amp; Recreation</b>						
Office of Arts and Cultural Affairs <sup>(1)</sup>	0	8,504	0	8,970	0	8,932
The Seattle Public Library	47,999	67,338	50,037	69,199	50,631	70,489
Department of Parks and Recreation	88,977	172,358	93,321	173,536	96,470	206,266
Seattle Center	13,225	43,443	12,879	43,080	13,050	43,973
<b>SubTotal</b>	<b>150,202</b>	<b>291,642</b>	<b>156,237</b>	<b>294,785</b>	<b>160,152</b>	<b>329,660</b>
<b>Health &amp; Human Services</b>						
Educational and Developmental Services Levy	0	28,941	0	31,926	0	35,069
Human Services Department	66,562	128,663	62,551	127,790	62,862	125,842
Department of Education			12,732	48,710	12,711	51,832
<b>SubTotal</b>	<b>66,562</b>	<b>157,603</b>	<b>75,284</b>	<b>208,425</b>	<b>75,574</b>	<b>212,743</b>
<b>Neighborhoods &amp; Development</b>						
Office of Economic Development	6,974	8,503	7,509	9,044	7,569	9,039
Office of Housing	295	49,981	314	51,229	272	51,791
Department of Neighborhoods	12,374	12,374	5,534	5,534	5,588	5,588
Neighborhood Matching Subfund	3,530	3,891	2,149	4,010	3,726	4,087
Pike Place Market Levy	0	8,952	0	0	0	0
Department of Planning and Development	10,626	64,233	10,421	76,374	10,516	74,762
<b>SubTotal</b>	<b>33,799</b>	<b>147,934</b>	<b>25,926</b>	<b>146,192</b>	<b>27,671</b>	<b>145,267</b>
<b>Public Safety</b>						
Criminal Justice Contracted Services	23,236	23,236	24,421	24,421	24,421	24,421
Fire Facilities Fund	0	1,780	0	0	0	0
Firemen's Pension	18,048	19,320	17,412	18,687	17,476	18,769
Law Department	22,384	22,384	23,533	23,533	23,606	23,606
Municipal Jail	0	1,500	0	1,500	0	1,500
Police Relief and Pension	20,716	20,833	20,397	20,514	20,287	20,404
Seattle Fire Department	174,586	174,586	179,397	179,397	179,505	179,505
Seattle Municipal Court	28,666	28,666	29,496	29,496	29,839	29,839
Seattle Police Department	288,668	288,668	293,610	293,610	300,983	300,983
<b>SubTotal</b>	<b>576,303</b>	<b>580,973</b>	<b>588,264</b>	<b>591,156</b>	<b>596,117</b>	<b>599,027</b>
<b>Utilities &amp; Transportation</b>						
Seattle City Light	0	1,177,688	0	1,312,831	0	1,387,033
Seattle Public Utilities	1,396	924,828	1,912	1,016,524	1,665	1,011,069
Seattle Transportation	41,253	408,629	42,546	468,759	45,243	505,551
Seattle Streetcar	0	5,737	0	9,025	0	9,311
Central Waterfront Improvement	0	16,480	0	16,480	0	16,480
School Zone Camera Fund	0	8,619	0	8,619	0	8,619
<b>SubTotal</b>	<b>42,649</b>	<b>2,541,981</b>	<b>44,458</b>	<b>2,832,237</b>	<b>46,908</b>	<b>2,938,064</b>

## Summary Charts and Tables

Department	2014 Adopted		2015 Proposed		2016 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
<b>Administration</b>						
Civil Service Commissions	380	380	518	518	520	520
City Budget Office	4,615	4,615	5,576	5,576	5,620	5,620
Office of the Community Police Commission	813	813	819	819	830	830
Department of Information Technology	3,975	79,589	4,464	82,410	6,499	66,878
Fiber Leasing Fund	0	428	0	171	0	155
Employees' Retirement System	0	13,425	0	22,023	0	19,508
Ethics and Elections Commission	771	771	677	677	681	681
Finance General	59,678	59,678	56,582	58,582	52,706	52,706
Finance and Administrative Services <sup>(2)</sup>	25,123	214,912	26,874	234,671	27,077	251,477
Legislative Department	12,926	12,926	14,069	14,069	14,182	14,182
Office of City Auditor	1,703	1,703	1,586	1,586	1,598	1,598
Office of Hearing Examiner	648	648	666	666	670	670
Office of Immigrant and Refugee Affairs	359	359	1,070	1,470	1,843	2,243
Office of Intergovernmental Relations	2,067	2,067	2,594	2,594	2,624	2,624
Office of Sustainability and Environment	2,901	2,901	3,147	3,147	3,109	3,109
Office of the Mayor	4,509	4,509	5,393	5,393	5,443	5,443
Personnel Compensation Trust Subfunds	0	216,167	0	228,449	0	239,616
Department of Human Resources	13,205	13,205	15,509	15,509	15,687	15,687
Seattle Office for Civil Rights	2,957	2,957	4,116	4,116	4,121	4,121
<b>SubTotal</b>	<b>136,630</b>	<b>632,054</b>	<b>143,660</b>	<b>680,446</b>	<b>143,271</b>	<b>687,669</b>
<b>Funds, Subfunds and Other</b>						
Bonds Debt Service <sup>(3)</sup>	16,999	27,929	14,625	32,034	17,581	37,318
Cumulative Reserve Subfund <sup>(4)</sup>	0	3,046	0	3,430	0	3,502
Fiscal Reserve Subfunds	0	0	0	0	0	0
Judgment/Claims Subfund	756	18,614	338	17,749	621	17,749
Parking Garage Fund	0	8,688	0	9,208	0	9,475
<b>SubTotal</b>	<b>17,755</b>	<b>58,277</b>	<b>14,963</b>	<b>62,422</b>	<b>18,202</b>	<b>68,044</b>
<b>Grand Total*</b>	<b>1,023,901</b>	<b>4,410,464</b>	<b>1,048,792</b>	<b>4,815,663</b>	<b>1,067,834</b>	<b>4,980,472</b>

\*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. The total funds amount does not include the appropriation for Fire Facilities Levy Fund – see separate line for this in Public Safety section.
- (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 (CRS)-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. The General Subfund contribution to CRS is included in the Finance General appropriations.

## General Subfund Revenue Overview

### City Revenue Sources and Fund Accounting System

The City of Seattle expends \$4.8 billion (Proposed 2015) annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in-whole or in-part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state, or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

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

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

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 58.8% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

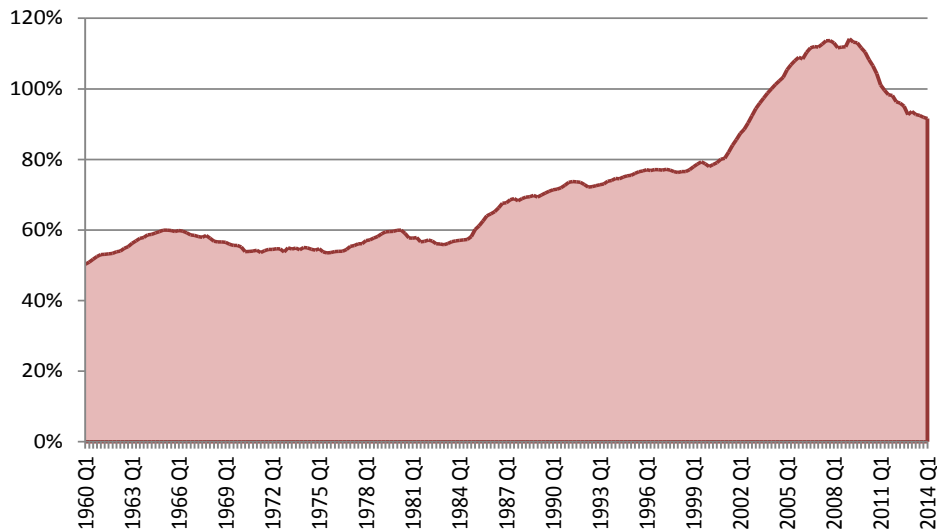
## The National and Local Economies, September 2014

### National Economic Conditions and Outlook

***We are now in the sixth year of the recovery from the great recession.*** The great recession was preceded by a 25 year period characterized by a relatively stable economy, low inflation, and low interest rates. A stable economy made investors feel confident and optimistic, which, combined with an abundance of cheap money, led to excessive borrowing and risk taking and a huge buildup in U.S. household debt (see Figure 1). A lot of the borrowed money was used to purchase assets, which pushed up the price of those assets and eventually led to the buildup of asset bubbles, the largest of which was the housing bubble of 1998-2006

# Revenue Overview

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



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

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

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

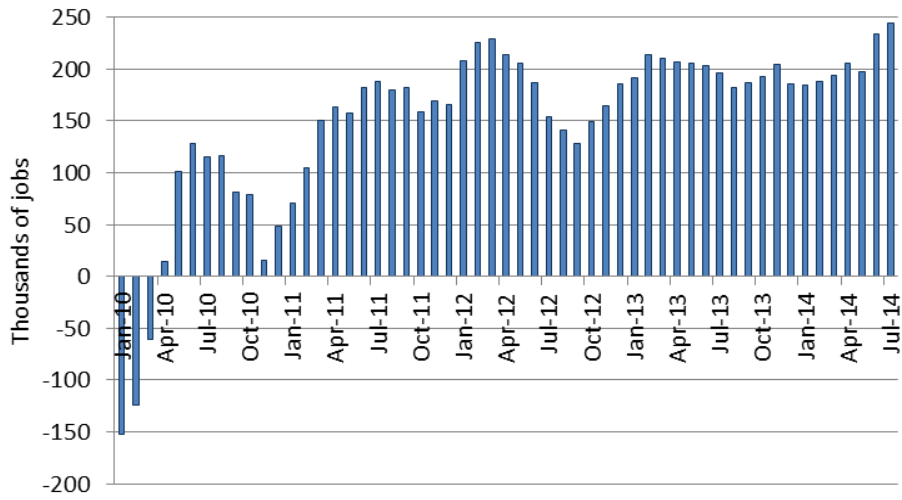
Thus far the recovery from the Great Recession has been sluggish, which is typical of recoveries from recessions caused by financial crises. Reasons for the sluggishness include the need for households to reduce their debt burdens, which constrains their ability to spend, and the large stock of nonperforming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

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

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

# Revenue Overview

**Figure 2. Monthly Change in U.S. Employment**  
Six month Moving Average



Source: U.S. Bureau of Labor Statistics.

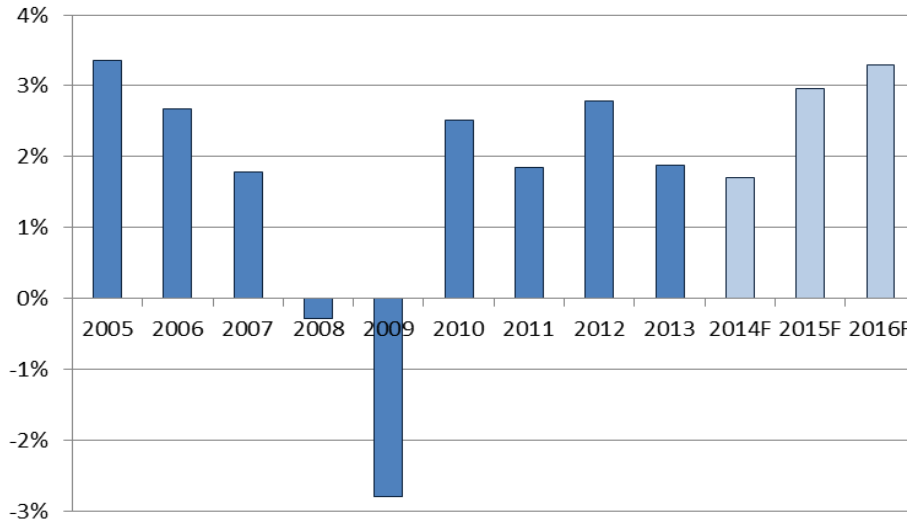
The economy still has areas of weakness, including wage growth, which is just keeping up with inflation, and housing. Housing prices have been rising, which has lifted many homeowners above water, but construction and sales continue to recover slowly. Sales were supported by investors in 2012 and early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

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

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

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

## Revenue Overview



Source: U.S. Bureau of Economic Analysis, Global Insight.

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

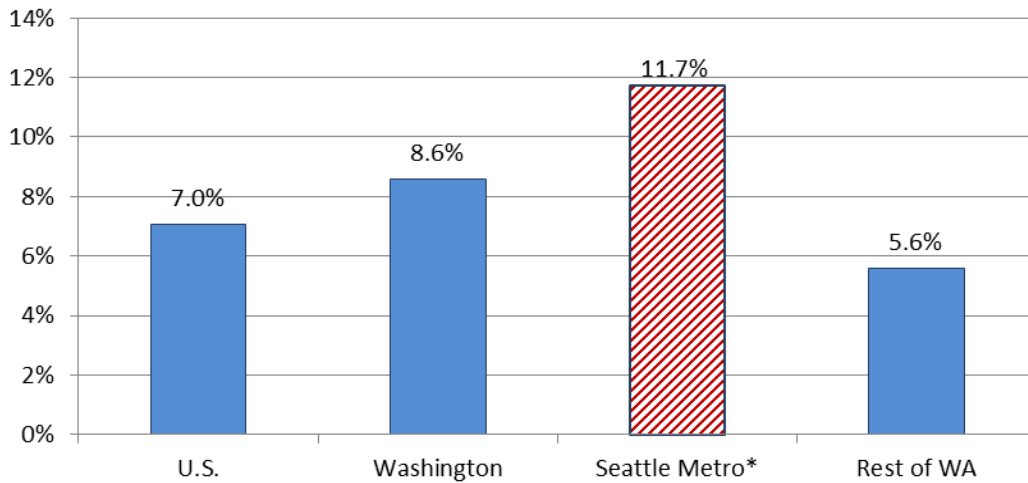
There is probably more risk to the U.S. recovery from forces outside of the U.S. than from domestic factors. The ongoing turmoil in the Middle East has the potential to disrupt energy markets or disrupt the world economy in other ways. Growth in Europe has stalled, in part due to fallout from the Ukraine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

## Puget Sound Region Economic Conditions and Outlook

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

# Revenue Overview

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



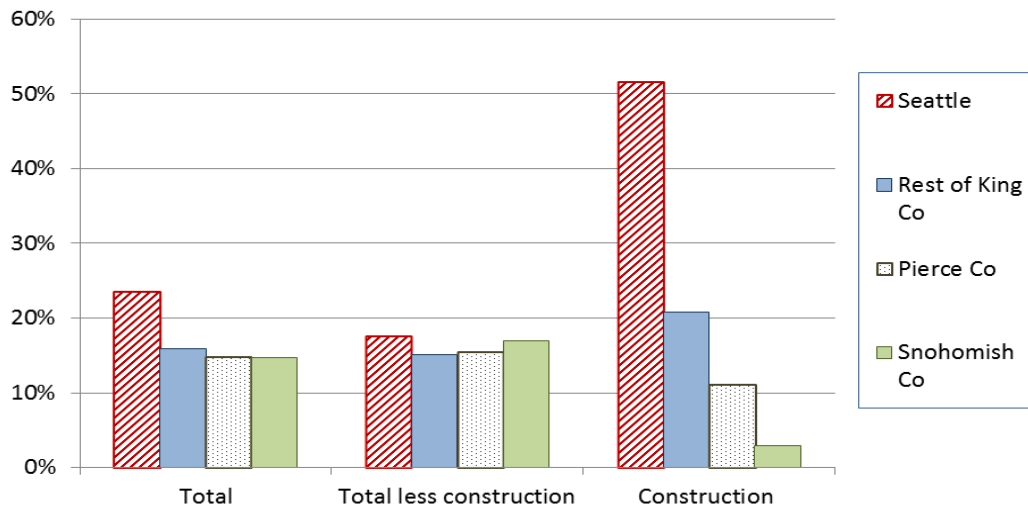
\*King & Snohomish Counties.

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

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

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

Figure 5. Taxable Retail Sales Growth, 2010 – 2013

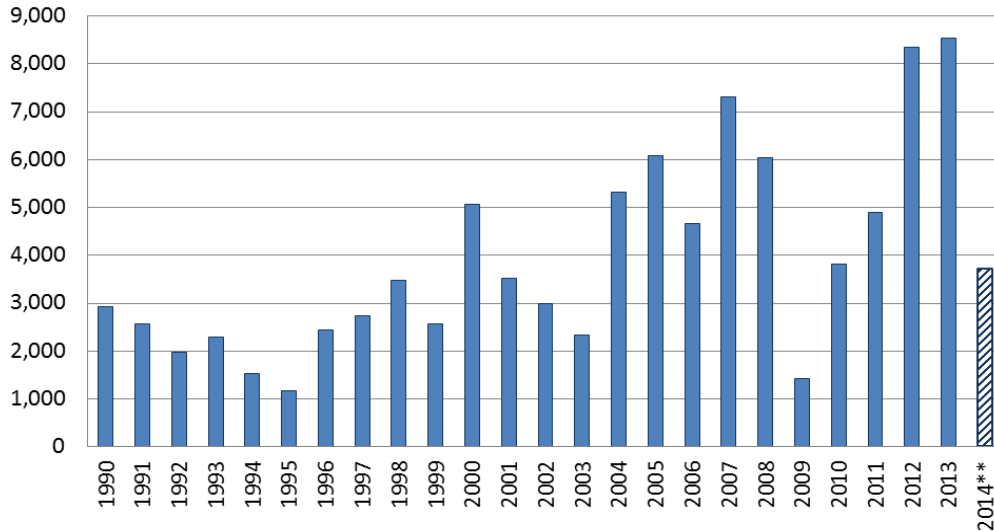


Source: WA Dept. of Revenue.

# Revenue Overview

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

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



\*Data include units that have been completed or currently have an open permit.

\*\*2014 data are for January - June. Source: Seattle Dept. of Planning & Development.

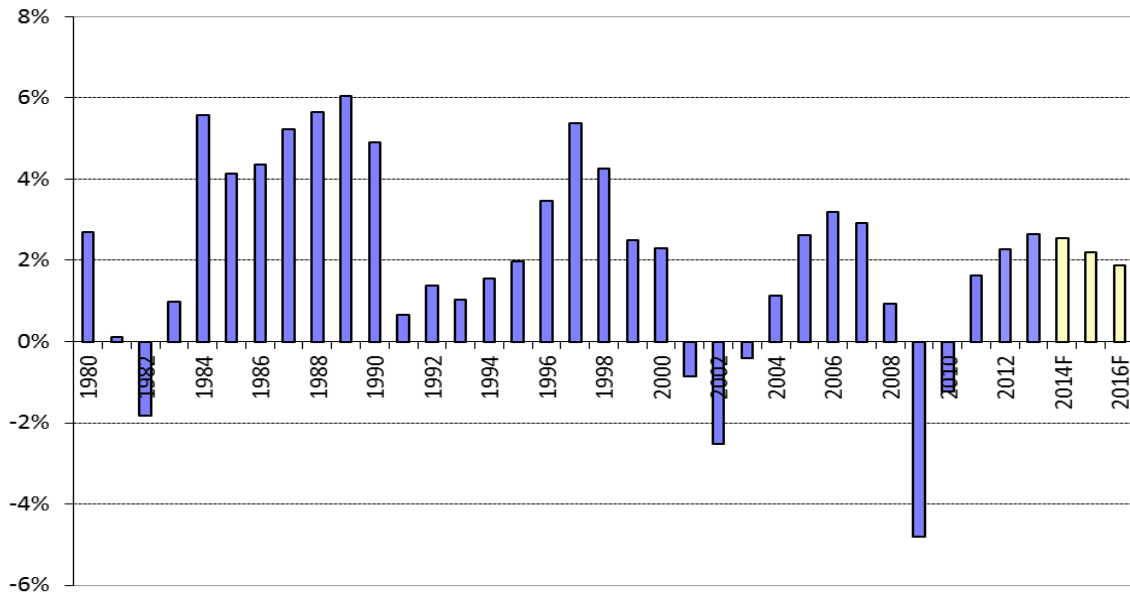
**The regional economy is expected to slow.** The region’s economy is expected to slow modestly in the coming years, in part because aerospace employment, which expanded rapidly during the early stages of the recovery, is expected to decline at a gentle pace going forward. The Puget Sound Economic Forecaster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

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



# Revenue Overview

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



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

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

## Consumer Price Inflation

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

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

# Revenue Overview

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

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

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

**Figure 8. Consumer Price Index Forecast**

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

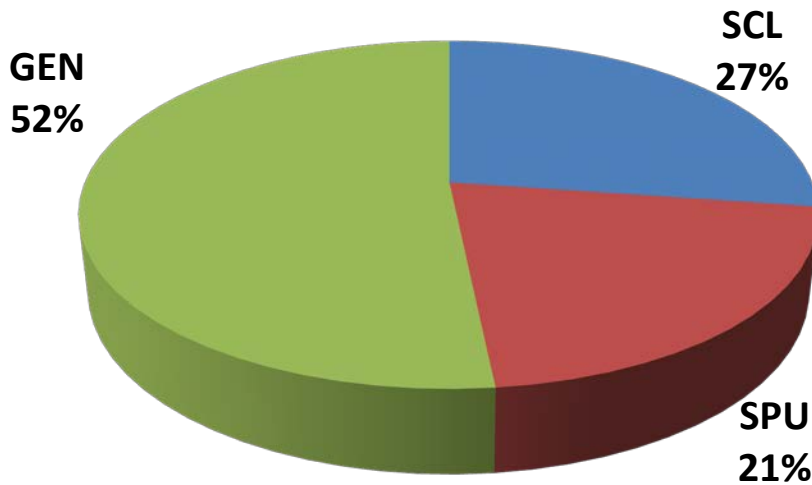
Source: U.S. Bureau of Labor Statistics, City of Seattle.

## City Revenues

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

# Revenue Overview

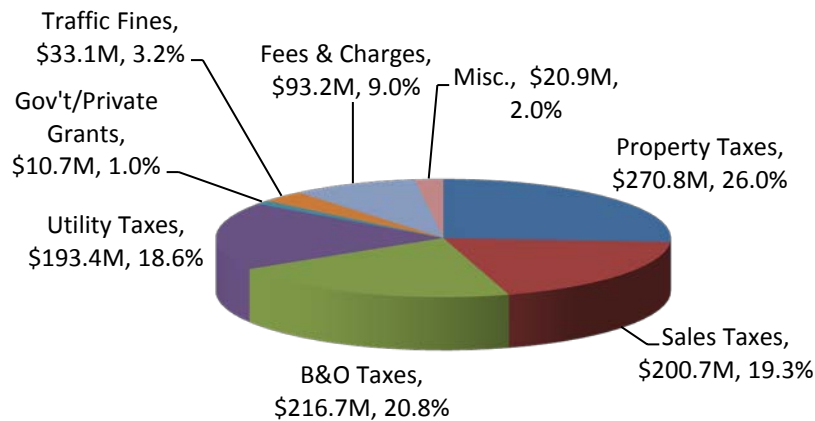
Figure 9. Total City Revenue by Use – Proposed 2015 \$4.8 Billion



## General Subfund Revenue Forecast

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

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



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

Figure 11 shows General Subfund actual revenues for 2013, adopted and revised revenues for 2014, as well as the proposed revenues for 2015 and 2016. Revenues, led by B&O and sales taxes, continue to grow outpacing

## Revenue Overview

inflation. Construction has been on the rise in Seattle, particularly apartment buildings in dense neighborhoods and office space in South Lake Union playing a key role in tax revenue growth. It appears that the revenues most closely associated with economic activity are starting to return to more robust levels, although still muted compared to the pre-recession years.

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

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

Beginning in 2009, City staff began depositing 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2015 and 2016, General Subfund support to the Parks and Recreation department will be \$93.3 million and \$96.5 million. These contributions are well above the \$44.8 and \$45.5 million that the Charter requires and that would accrue respectively to Parks under the previous 10% accounting approach.

# Revenue Overview

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

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

**NOTES:**

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

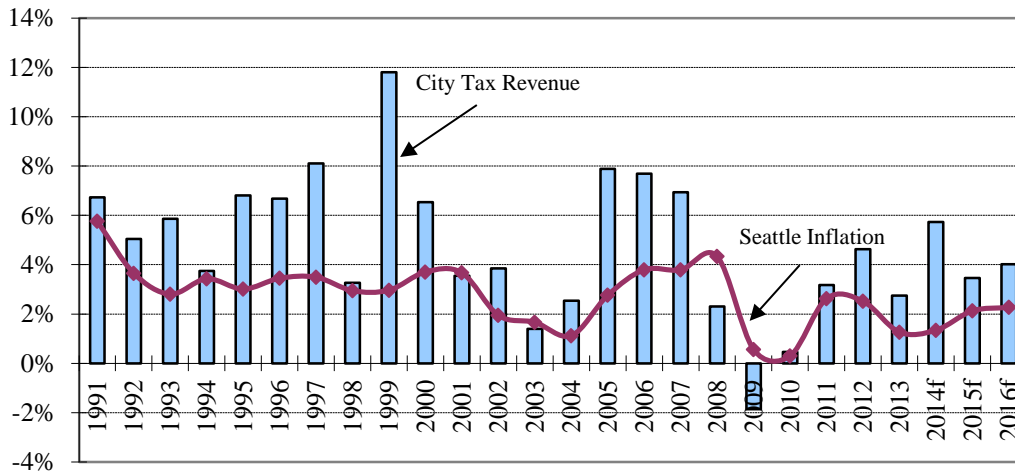
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\* In the past, 10% of certain tax and fee revenues were shown as revenue to the Parks and Recreation Fund and 90% as General Subfund. As of 2009, 100% of these revenues (depicted as “100%” in the table) are deposited into the General Subfund. General 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 12 illustrates tax revenue growth outpacing inflation for most of the 1990s and 2000, before the 2001-2003 local recession took hold. Slow growth posted in 2001 is also attributable to Initiative 747, which reduced the statutory annual growth limit for property tax revenues from 6.0% to 1.0%, beginning in 2002. Economic growth starting in 2004 led to very strong revenue growth in 2005 through 2007, staying well above inflation. The tax revenue growth was outmatched by inflation in 2008 and 2009. The Seattle rate of inflation fell to near zero in 2009 and 2010, but tax revenue growth was negative by almost 2% in 2009. Inflation is forecast to be stable and low over the coming biennium. Tax revenue growth is forecast to be positive and above inflation, with an average annual growth rate of 4.0% 2014 through 2016. Inflation for the same period will average 1.9%.

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



## Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. Under Washington State law, property taxes are levied by governmental jurisdictions in accordance with annual growth and total rate limitations. Figure 13 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners, as well as the components of the City’s 2014 property tax: the non-voted General Purpose levy (59.1%); the six voter-approved levies for specific purposes (36.3%), known as lid lifts because the voters authorize taxation above the statutory lid or limit; and the levy to pay debt service on voter-approved bonds (4.6%). The total amount of property taxes imposed by a taxing jurisdiction is approved by ordinance. The County Assessor then divides this approved levy amount by the assessed value (AV) of all property in the jurisdiction to determine the tax rate. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district’s single uniform rate, which is calculated as the rate per \$1,000 of assessed value, applied to the value of a given property. The County Assessor determines the value of properties, which is intended to generally reflect 100% of the property’s market value.

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

# Revenue Overview

impose. For the City of Seattle, this cap is \$3.60 per \$1,000 of assessed value and covers the City's general purpose levy, including Fire Pension, and lid lifts.

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

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

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

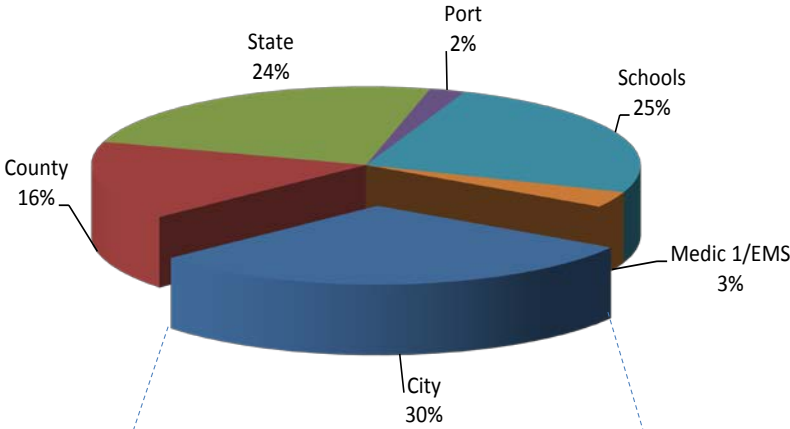
***The 2015 Proposed Budget assumes 1% growth plus new construction.*** The forecast for the 2015 Proposed Budget's General Subfund (General Purpose) portion of the City's property tax is \$227.3 million in 2015 and \$234.2 million in 2016. Additionally the City will levy approximately \$114.9 million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

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

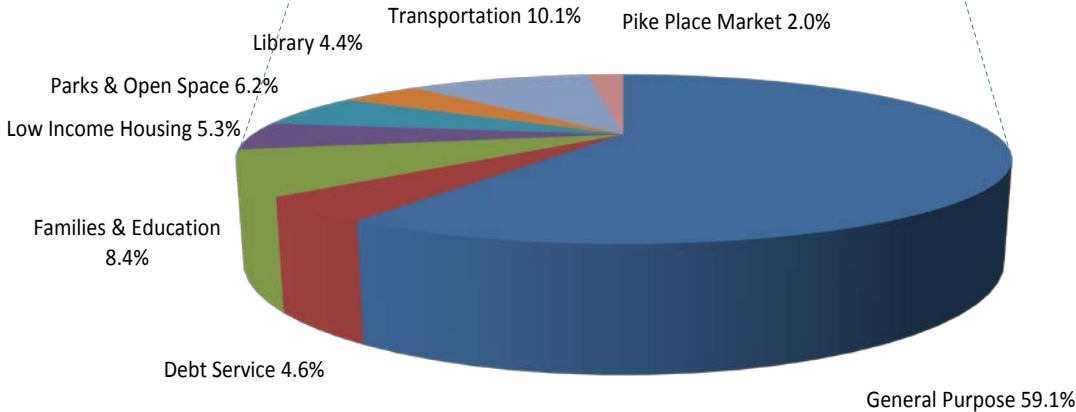
# Revenue Overview

Figure 13.

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



**Components of City's Property Tax Levy for 2014**  
 (tax rate = \$3.05 per \$1,000 assessed value)





# Revenue Overview

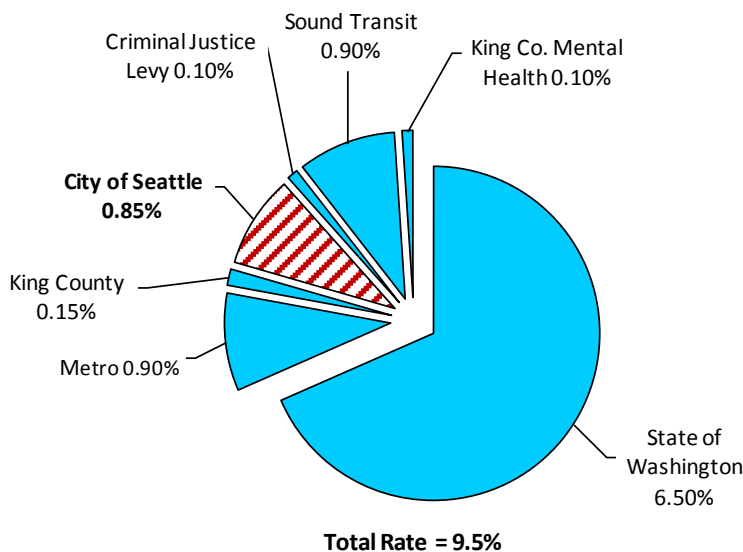
## Retail Sales and Use Tax

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

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

The basic sales tax rate of 9.5% is a composite of separate rates for several jurisdictions as shown in Figure 14. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the King County Criminal Justice Levy.

**Figure 14. Sales and Use Tax Rates in Seattle, 2014**



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

- Over 1,000 remote sellers agreed to begin collecting taxes on remote sales made to customers in Washington once the state was in conformance with SSUTA. This has increased both state and local sales tax revenue.
- When a retail sale involves a delivery to a customer, SSUTA requires that the sales tax be paid to the jurisdiction in which the delivery is made. This is called destination based sourcing. Prior to 2008, Washington used origin based sourcing, i.e., allocating the sales tax to the jurisdiction from which the delivery was made. The change from origin based sourcing to destination based sourcing has resulted in a reallocation of sales tax revenue among local jurisdictions

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

# Revenue Overview

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

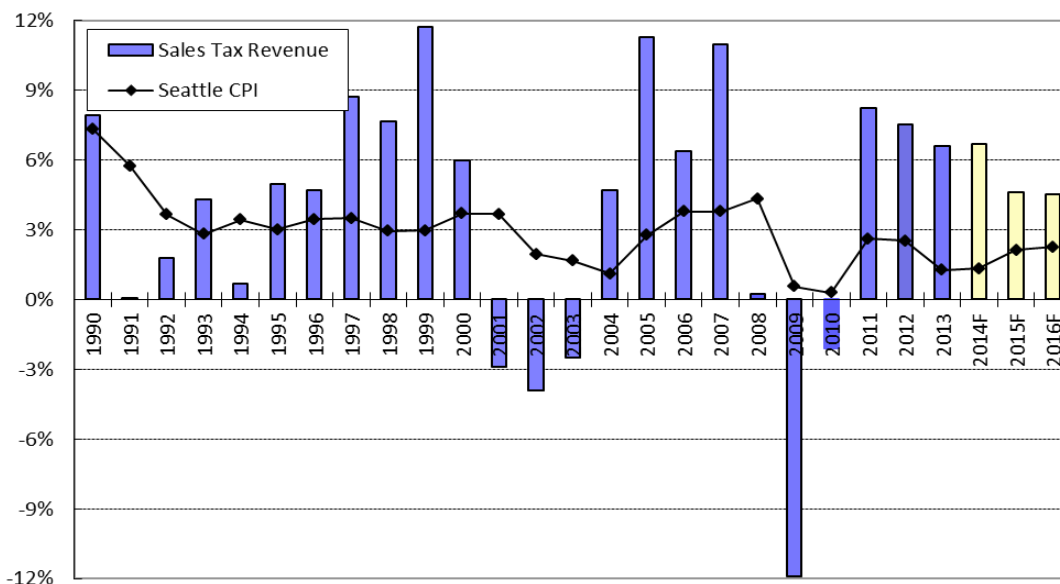
Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-97, and the stock market and technology booms. The recession that followed the bursting of the stock market bubble and the September 11, 2001 terrorist attacks ushered in three successive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

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

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

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

**Figure 15. Annual Growth of Retail Sales Tax Revenue**



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

# Revenue Overview

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

## Business and Occupation Tax

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

On January 1, 2008, new state mandated procedures for the allocation and apportionment of B&O income took effect. These procedures were expected to reduce Seattle's B&O tax revenue by \$22.3 million in 2008 according to an analysis prepared by the Washington Department of Revenue. On January 1, 2008, the City imposed a square footage business tax to recoup the \$22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax was structured so that no business would pay more under the new combined gross receipts and square footage business tax than it did under the pre-2008 gross receipts B&O tax.

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 20 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Services and transporting freight for hire are taxed at a rate of 0.415%. The square footage business tax also has two tax rates. In 2014, the rate for business floor space, which includes office, retail, and production space, is 44 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, is taxed at a rate of 15 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation. The B&O tax has a small business threshold of \$100,000, which means businesses with taxable gross receipts below \$100,000 are exempt from the tax.

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

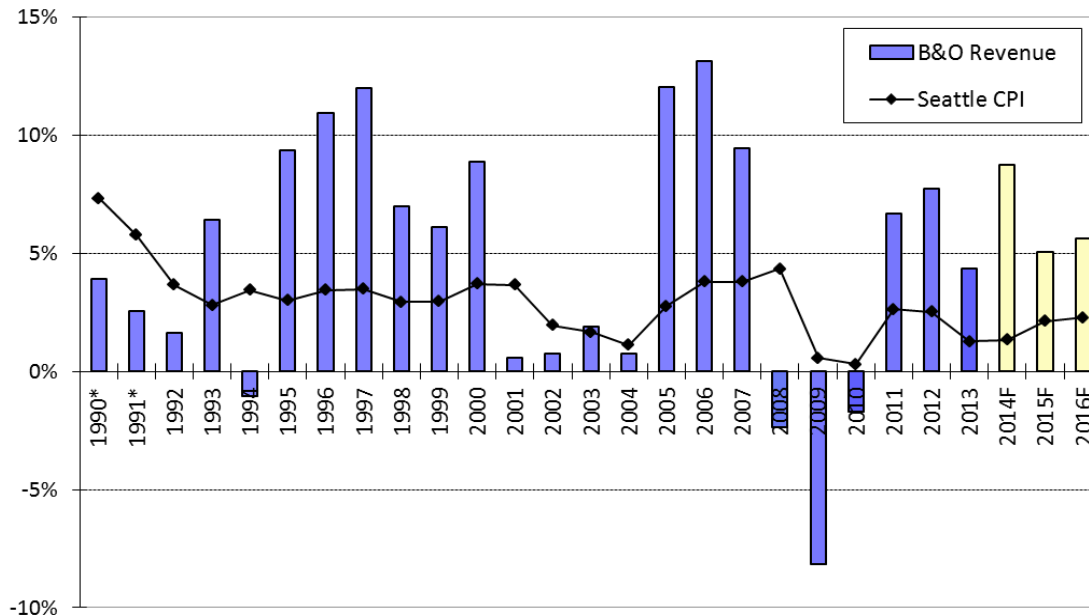
Included in the forecast of B&O tax revenue are projections of tax refund and audit payments, and estimates of penalty and interest payments for past-due tax obligations.

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

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

# Revenue Overview

Figure 16. Annual Growth of B&O Tax Revenue



\*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.  
 Note: Revenue figures reflect current accrual methods; 2014-16 are forecasts.  
 Figures include both gross receipts and square footage tax revenue.

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

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

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

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

## Utility Business Tax - Private Utilities

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

# Revenue Overview

**Natural gas prices are expected to increase, but remain historically low.** The City levies a 6% utility business tax on gross sales of natural gas. The bulk of revenue from this tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales.

Natural gas prices have been relatively stable of late after reaching a high of \$13 per million British Thermal Units (BTUs) in July 2008. Spot prices, those paid for delivery in the following month, averaged \$3.7/mBTU for 2013 and are expected to average around \$4.7/mBTU in 2015 and 2016. Temperatures play a key role and are inversely related to natural gas usage and subsequent tax receipts.

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

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

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

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

## Utility Business Tax - Public Utilities

The City levies a tax on most revenue from retail sales collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). Tax rates range from a State-capped 6% on City Light up to a current 15.54% on the City Water Utility. There are no planned tax rate changes; therefore the revenues from the utilities are projected to remain fairly stable, with the exception of those utilities with changes in rate structure.

**New pass-through rates from the Bonneville Power Administration for the current biennium.** City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. For the 2010 fiscal year, the City Council authorized the creation of a rate stabilization fund for the utility funded with an as needed surcharge. The rate stabilization surcharge is not expected to be triggered in 2014, but may be utilized in 2015 and 2016. City Light projects selling an additional 1.2% of energy to retail customers in 2014. For the upcoming biennium energy sales are expected to

# Revenue Overview

be relatively flat. Average retail rates for 2015 and 2016 are expected to increase up by 4.2% and 4.9% respectively over the prior year. Tax revenues that accrue to the General Subfund will have annual increases of 6.2% in 2015 and 5.3% in 2016.

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

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

**Higher Solid Waste rates mean higher tax revenue growth.** The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. Solid Waste rates have been adopted by the City Council through 2016 and along with increased economic activity, will lead to tax revenue growth rates of 6.0% and 3.8% in 2015 and 2016, respectively.

## Admission Tax

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

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

## Parking Meters/Traffic Permits

In spring 2004, the City of Seattle began replacing traditional parking meters with pay stations in various areas throughout the City. In addition to offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking, pay station technology has allowed the City to more actively manage the street right-of-way by adopting different pricing, time limit and other management parameters on different blocks throughout the city and at different times of day. The City currently has around 2,200 pay stations controlling approximately 12,500 parking spaces. The overall objective of the parking management program is to provide a more data-driven, outcome based management and price setting approach in pursuit of the adopted policy goals of 1 to 2 open spaces per block-face, reduced congestion, support of business districts and, as a by-product, reduced vehicle emissions and improved air quality.

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

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

# Revenue Overview

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

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

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

## Court Fines

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

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

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

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

# Revenue Overview

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

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

## Interest Income

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

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

## Revenue from Other Public Entities

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

**Criminal Justice revenues should be fully restored in the coming biennium.** The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. These revenues have been affected by State budget changes in the recent past and while not expected, could be affected in future budgets out of Olympia

**State budget reduces liquor related revenues to cities.** Cities in the state of Washington typically receive two liquor related revenues from the state. One is related to the liquor excise tax on sales of spirits and the other is a



# Revenue Overview

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

## Service Charges and Reimbursements

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

## Interfund Transfers

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

In ratifying the 2015 and 2016 Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

# Revenue Overview

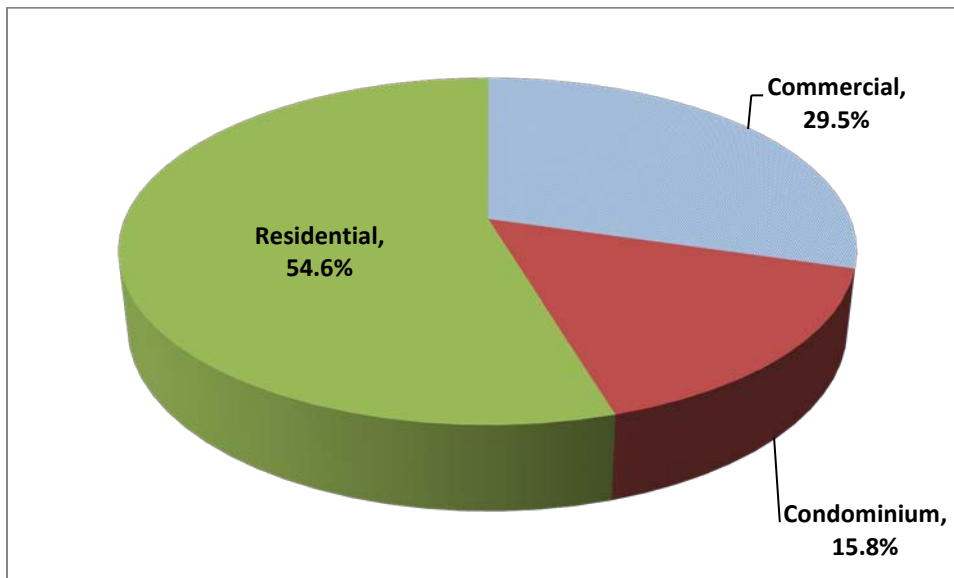
## Cumulative Reserve Subfund – Real Estate Excise Tax

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

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

Over time, 54.6% of the City’s REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 29.5% of the tax base, and condominiums constitute the remaining 15.8% (see Figure 17).

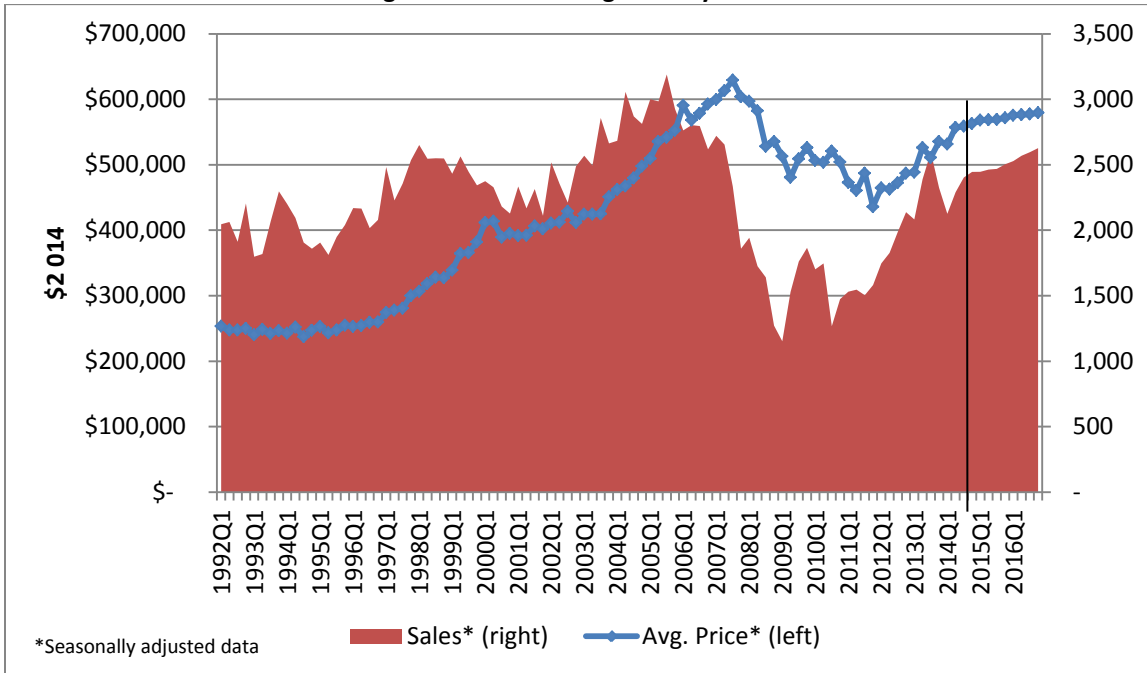
**Figure 17. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2013**



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

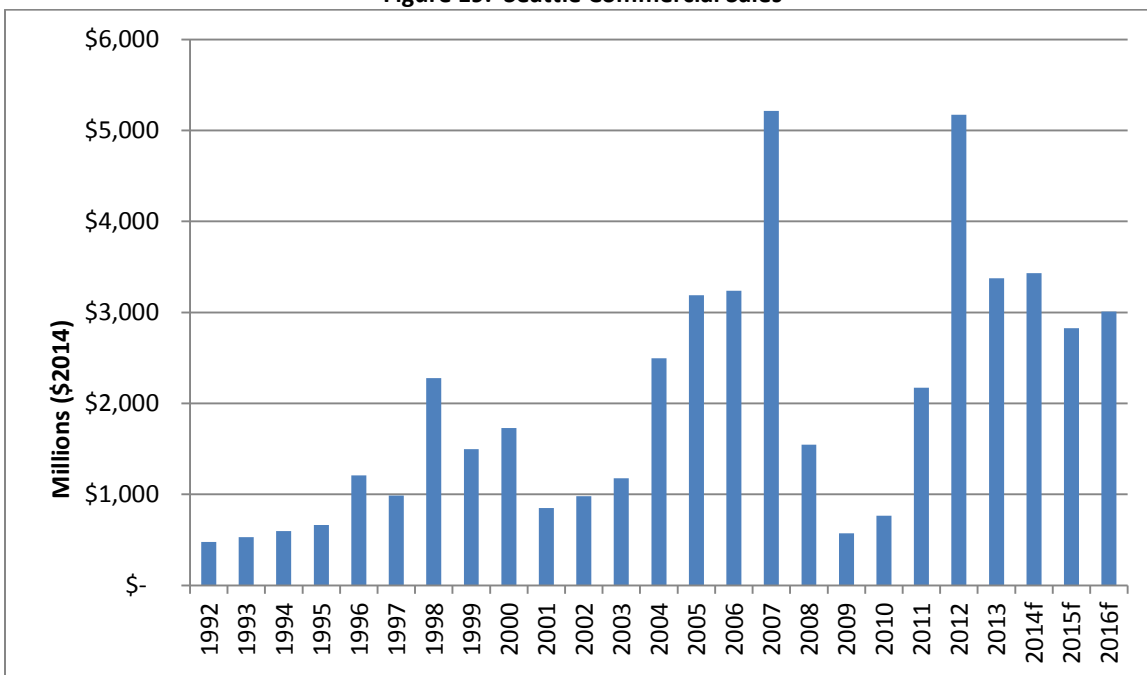
# Revenue Overview

Figure 18. Seattle Single-family Market



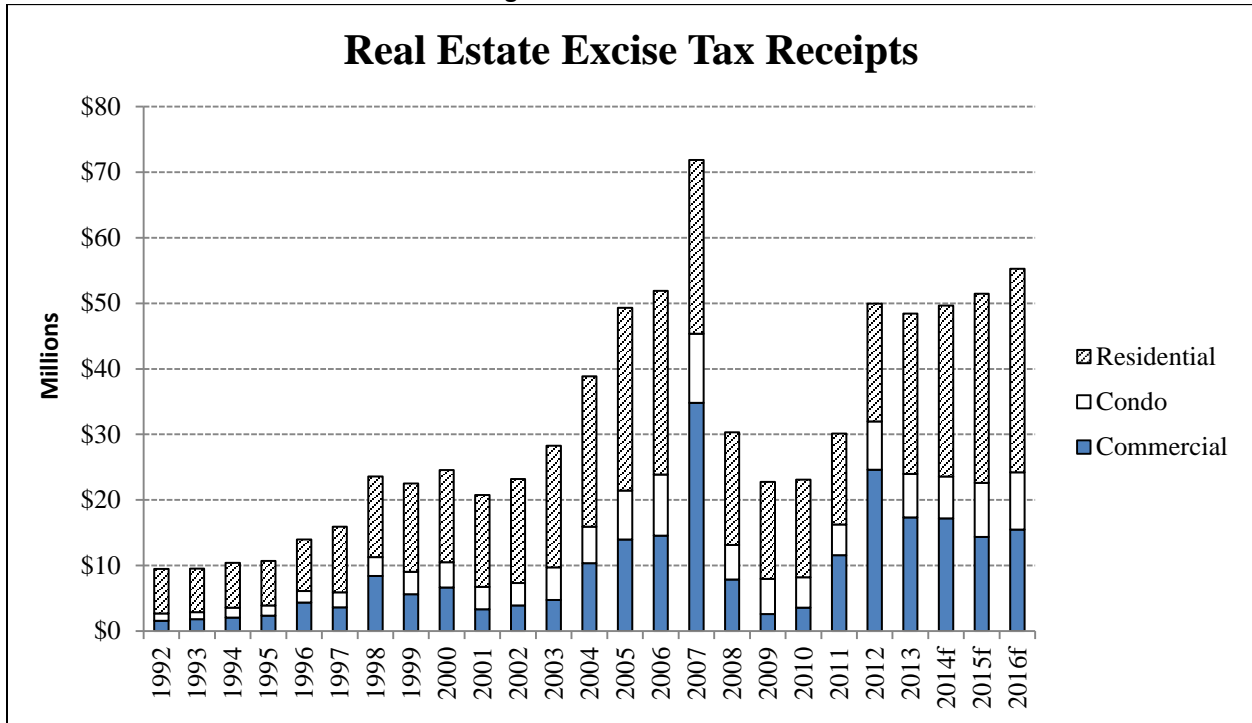
The volatility of REET is reflected by the fact that despite a 8.3% average annual growth rate, the REET tax base declined in ten years during the period 1982 – 2013. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability was severely compromised in the downturn as Seattle area prices for residential properties fell 31.0% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next, as was seen in 2007 and 2012 (see Figure 19).

Figure 19. Seattle Commercial Sales



# Revenue Overview

Figure 20. REET Revenues



## Transportation Fund – Bridging the Gap Revenue Sources

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

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

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. The tax rate was initially established at 5% effective July 1, 2007. As approved in the authorizing legislation, the rate increased on July 1, 2008 to 7.5%, and then to 10% on July 1, 2009. The tax yielded \$24.1 million in 2010. The commercial parking tax rate increased to 12.5 percent January 1, 2011 and generated \$28.2 million. The tax raised \$31.2 million in 2012 and \$32.8 million in 2013. The 2015 Proposed Budget forecasts revenues to increase to \$37.8 million in 2014, \$39.0 million in 2015 and \$40.2 million in 2016 due to a variety of factors increasing parking usage and price increases. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. The additional revenues from the 2.5% increase in 2011 are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation’s section of this budget.

## Revenue Overview

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

# Revenue Overview

Figure 20. Seattle City Tax Rates

	2010	2011	2012	2013	2014
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>					
General Property Tax	\$1.78	\$1.87	\$1.97	\$1.90	\$1.80
Families & Education	0.14	0.14	0.27	0.27	0.25
Parks and Open Space	0.20	0.20	0.21	0.20	0.19
Low Income Housing	0.17	0.17	0.18	0.17	0.16
Fire Facilities	0.09	0.10	0.06		
Transportation	0.31	0.32	0.33	0.35	0.31
Pike Place Market	0.10	0.10	0.11	0.10	0.06
Library				0.14	0.13
Emergency Medical Services	0.30	0.30	0.30	0.30	0.33
City Excess GO Bond	.014	0.15	0.15	0.14	0.14
<b>Retail Sales and Use Tax</b>	0.85%	0.85%	0.85%	0.85%	0.85%
<b>Business and Occupation Tax</b>					
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%	0.415%
International Finance	0.150%	0.150%	0.150%	0.150%	0.150%
<b>City of Seattle Public Utility Business Taxes</b>					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water	19.87%*	15.54%	15.54%	15.54%	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
<b>City of Seattle Private Utility B&amp;O Tax Rates</b>					
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%	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%
<b>Franchise Fees</b>					
Cable Franchise Fee	4.20%	4.40%	4.40%	4.40%	4.40%
<b>Admission and Gambling Taxes</b>					
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](http://www.seattle.gov/financedepartment/financial_policies.htm).

### 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.

### Appropriations and Execution

- 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.
- 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.
- 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.

## Selected Financial Policies

### Budget Transfers

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%.

### 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”).<sup>1</sup> 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.

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<sup>1</sup> The 0.50% contribution is lowered to 0.25% of forecasted tax revenues for any year immediately following the suspension of contributions as a result of negative nominal tax revenue growth.



## Selected 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.

**Selected Financial Policies**