

CITY OF
Seattle, Washington
2014 Proposed Budget



PRINTED ON RECYCLED PAPER

In response to the Americans with Disabilities Act (ADA), material from the budget is available in alternative formats and languages. To make a request, or for more information, please call the City Budget Office at (206) 615-1962.

City of Seattle 2014 Proposed Budget

Mayor Mike McGinn

City Budget Office

Beth Goldberg, Director
Hall Walker, Deputy Director

Budget Leads:

Jeanette Blankenship	Catherine Cornwall	Tom Mikesell	Saroja Reddy
Anthony Colello	Candice Livingston	Christie Parker	Linda Taylor- Manning
Jennifer Devore	Forrest Longman	Adam Schaefer	Julie Tobin
Andrew Dziedzic	Linnet Madeja	Greg Shiring	Jessica Wang
JoEllen Kuwamoto	Lisa Mueller	Craig Stampher	
Melissa Lawrie	Jeff Muhm	Tom Taylor	

Finance and Administrative Services Revenue Team

Dave Hennes, Team Lead

George Emerson

Tom Kirn

City of Seattle 2014 Proposed Budget

TABLE OF CONTENTS

Introduction

Introduction and Budget Process.....	7
City Organizational Chart	10
Reader’s Guide	11
2014 Proposed Executive Summary	15
Summary Charts and Tables	37
General Subfund Revenue Overview	41
Selected Financial Policies	73

Arts, Culture & Recreation

2008 Parks Levy.....	77
Arts and Culture, Office of	81
Parks and Recreation, Department of	91
Seattle Center	115
The Seattle Public Library	129

Health & Human Services

Education – Support Services Levy	145
Human Services Department	157

Neighborhoods & Development

Economic Development, Office of	189
Housing, Office of.....	197
Neighborhood Matching Subfund	211
Neighborhoods, Department of.....	219
Pike Place Market Levy	229
Planning and Development, Department of.....	235

Public Safety

Criminal Justice Contracted Services	257
Seattle Fire Department	261
Fire Facilities Levy Fund	275
Firefighters Pension	279
Law Department	287
Seattle Municipal Court	293
Municipal Jail	301
Seattle Police Department.....	305
Police Relief and Pension	325

Utilities & Transportation

Seattle City Light 333
Seattle Public Utilities 347
Seattle Streetcar 383
Transportation, Seattle Department of 387

Administration

Cable Television Franchise Subfund..... 425
City Auditor, Office of the 431
City Budget Office 435
Civil Rights, Seattle Office for..... 441
Civil Service Commissions 447
Community Police Commission 451
Employees’ Retirement System 455
Ethics and Elections Commission..... 461
Finance and Administrative Services, Department of 465
Finance General 495
Hearing Examiner, Office of 507
Immigrant and Refugee Affairs, Office of 511
Information Technology, Department of..... 515
Intergovernmental Relations, Office of 535
Legislative Department 539
Mayor, Office of the..... 545
Personnel Compensation Trust Funds 549
Personnel Department..... 563
Sustainability and Environment, Office of 569

Funds, Subfunds & Other

General Subfund 575
Central Waterfront Improvement Fund 581
Cumulative Reserve Subfund 587
Debt Service 609
Fiber Leasing Fund 633
Fiscal Reserves 639
Judgment/Claims Subfund 645
Parking Garage Operations Fund 651
School Zone Fixed Automated Camera Fund..... 657

Appendix

Summary of Position and Full-Time Equivalent (FTE) Changes by Department 663
Fund Financial Plans..... 667
Cost Allocation 713
Glossary..... 723

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. In late 2012, the City Council and Mayor adopted a budget for 2013 and endorsed a budget for 2014. Budgeting biennially allows the City to assess and plan for the future-year impacts of budget decisions. The information provided in this 2014 Proposed Budget book reflects incremental changes from the 2014 Endorsed Budget, which the Council approved in November 2012, reflecting how the Mayor and City Council make budget decisions. It is not a comprehensive overview of departmental base budgets.

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

Introduction & Budget Process

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.

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.

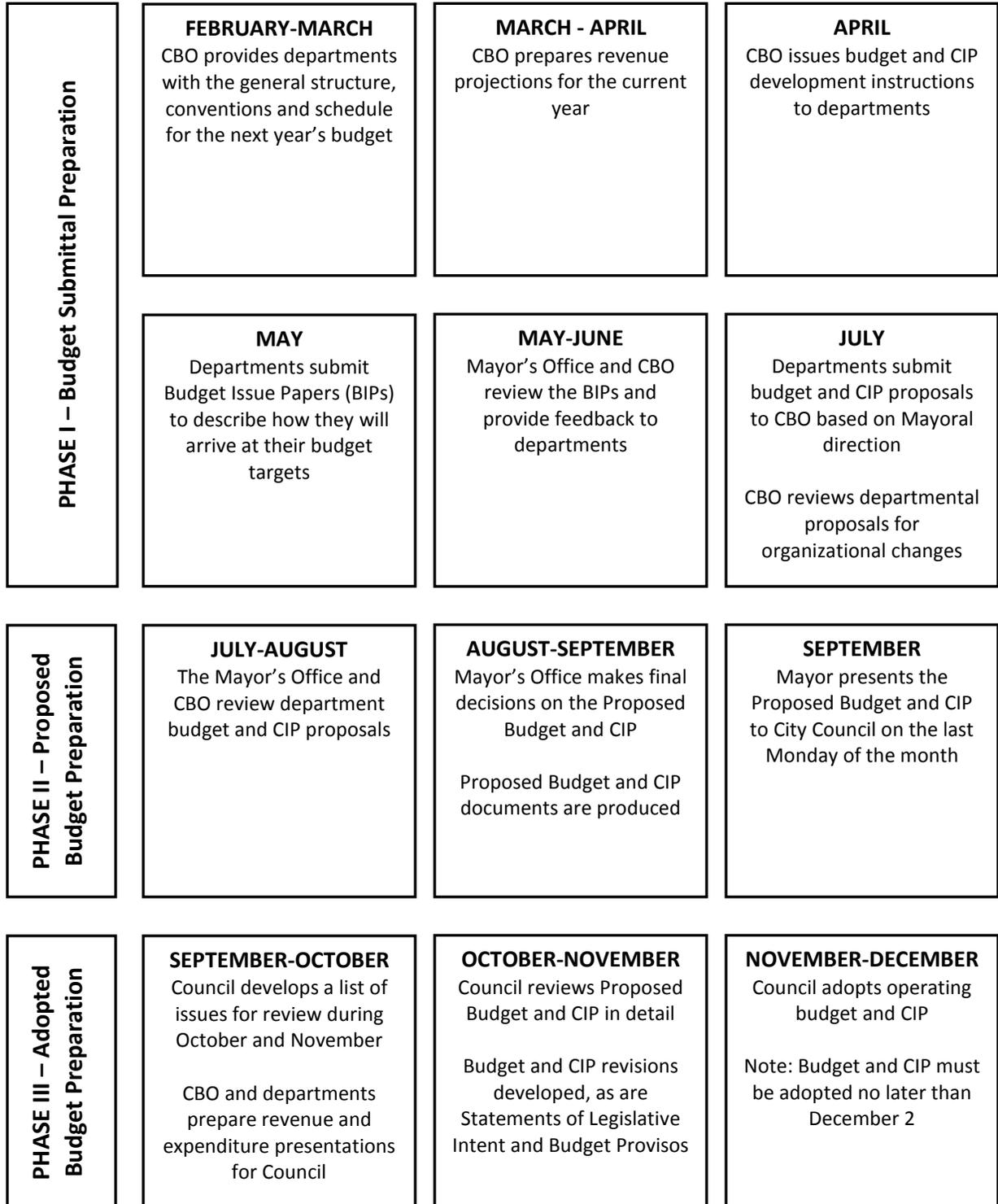
After the Mayor submits the proposed budget and CIP, the City Council conducts public hearings. The City Council also holds committee meetings in open session to discuss budget requests with department representatives and CBO staff. Councilmembers then recommend specific budget actions for consideration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

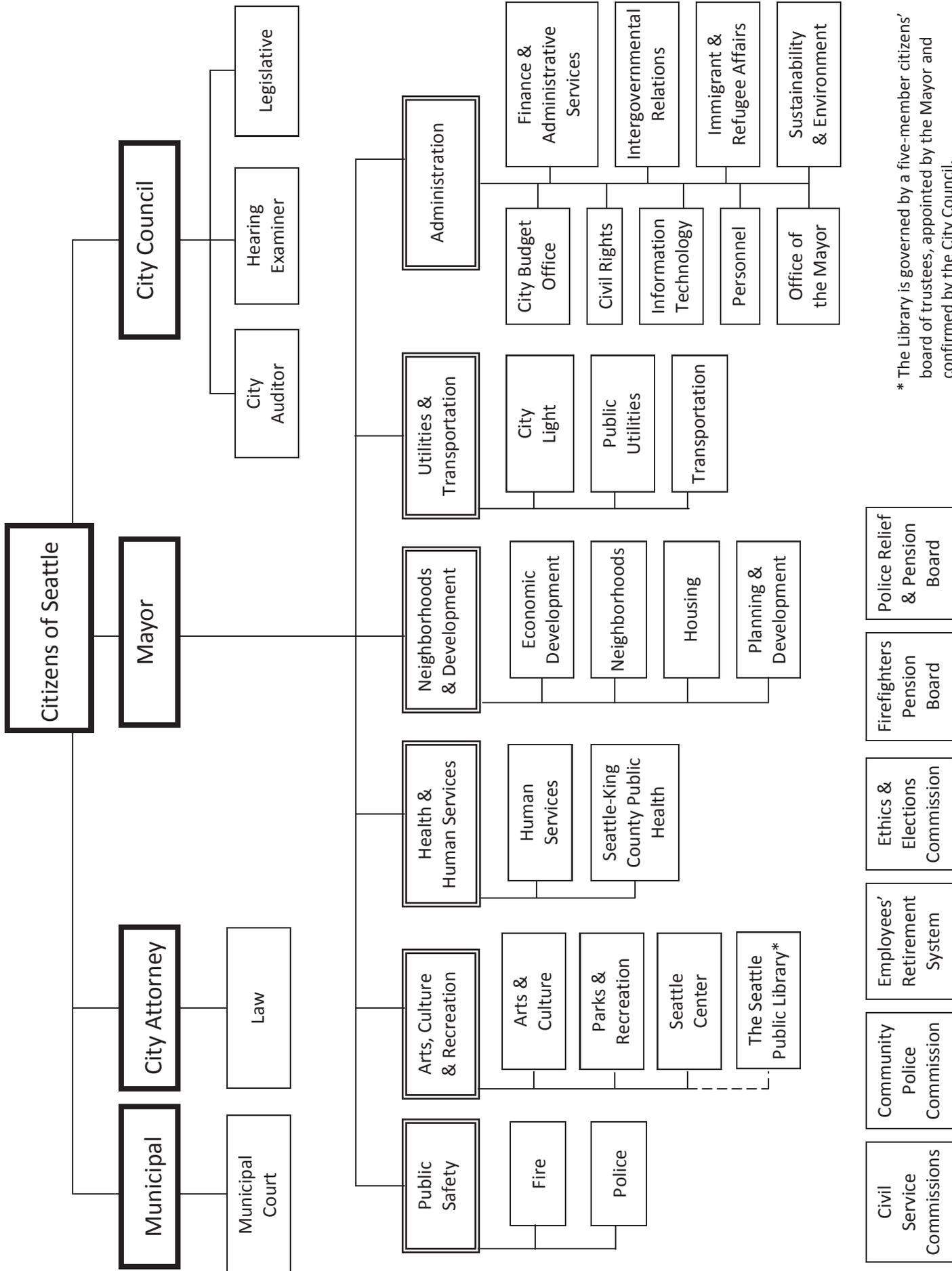
During the budget review process, the City Council may choose to explain its budget actions further by developing statements of legislative intent and budget guidance statements for future budget action. Intent statements describe the Council's expectations in making budget decisions and generally require 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 its 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 2014 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 2014-2019 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 2014 Proposed Budget and 2014-2019 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, revenues, and changes from the 2014 Endorsed Budget.

The 2014 Proposed Budget

This document is a description of the proposed spending plan for 2014. It contains the following elements:

- **Proposed Budget Executive Summary** – A narrative describing the current economy, highlighting key factors relevant in developing the budget document, and how the document addresses the Mayor's priorities;
- **Summary Tables** – a set of tables that inventory and summarize expected revenues and spending for 2014;
- **General Subfund Revenue Overview** – a narrative describing the City's General Subfund revenues, or those revenues available to support general government purposes, and the factors affecting the level of resources available to support City spending;
- **Selected Financial Policies** – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- **Departmental Budgets** – City department-level descriptions of significant policy and program changes from the 2014 Endorsed 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 2014 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 2014 proposed budget then follows. The next section of the department-level budget presentation provides a numerical and descriptive summary of all of the incremental budget changes included in the 2014 proposed budget, along with a discussion of the anticipated operational and service-level changes that will result. The department-level budget presentation concludes with summary level tables that describe the department's overall expenditures and revenues by type as well as by budget control level and program. All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as proposed appropriations for 2014. 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 2014 Proposed Budget appears in the departmental sections of the document at each of the three levels of detail: department, budget control, and program. These figures refer to regular, permanent staff positions (as opposed to temporary or intermittent positions) and are expressed in terms of full-time equivalent employees (FTEs). In addition to changes that occur as part of the budget document, changes may be authorized by the City Council or the Personnel Director throughout the year, and these changes may not be reflected in the estimate of staff positions presented for 2014. These changes are summarized in the appendix.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2012 through 2014; a statement of fund balance; and a statement of 2014 appropriations to support capital projects appearing in the 2014-2019 Proposed Capital Improvement Program. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2014-2019 Proposed Capital Improvement Program document.

2014 Proposed Budget Executive Summary

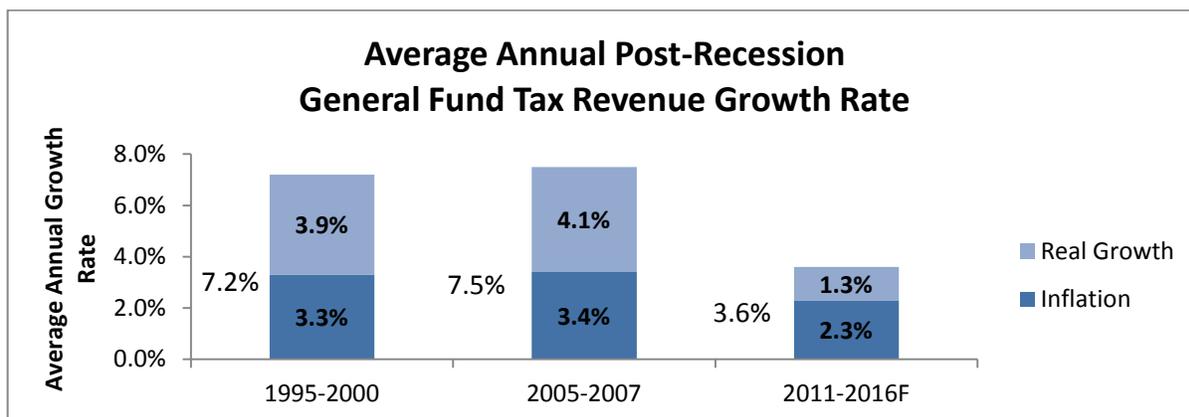
The 2014 Proposed Budget totals \$4.4 billion, including the \$1 billion General Fund, representing increases of 1.9 percent and 3.4 percent respectively relative to the 2014 Endorsed Budget. As the gradual recovery from the Great Recession continues, the 2014 Proposed Budget marks the first budget since 2009 that does not include major programmatic reductions in the City's General Fund. Rather, the 2014 Proposed Budget makes a series of modest investments to address the many needs that have emerged since 2009.

General Fund Budget Outlook

The General Fund outlook for 2014 is markedly improved compared to recent years. While there are signs that economic growth moderated slightly in the second quarter of 2013, the economy continues to slowly recover from the economic downturn. Current forecasts suggest ongoing improvement in 2014 and 2015. Locally, the Puget Sound regional economy continues to outperform the United States and the rest of Washington state. The Seattle Metropolitan area, which includes King and Snohomish counties, has seen a 9.3 percent increase in employment post-recession through July 2013, led by the strength of Boeing. This compares favorably to the U.S. growth rate of 5.2 percent and the rest of Washington at 3.1 percent.

Another bright spot locally is the significant construction activity, which bolsters the General Fund's sales tax revenues. The Department of Planning and Development (DPD), which issues construction permits, projects a 117 percent increase in construction permit revenues by yearend 2013 relative to 2009 – the year construction permit revenues bottomed out. Based on these projections, DPD anticipates 2013 revenues will almost return to the peak level of 2007. Thanks to all of the construction activity, sales tax revenues are forecast to increase by 4.7 percent from 2013 to 2014.

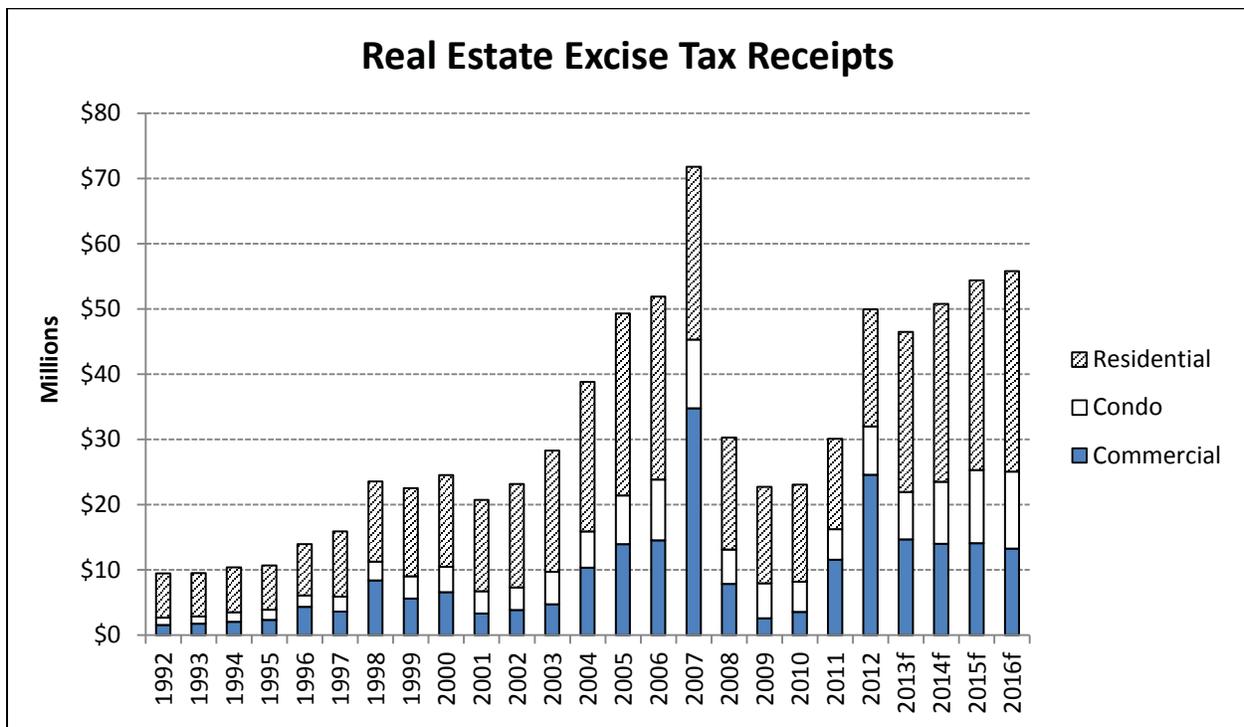
In total, the City forecasts a 5.3 percent increase in General Fund revenues relative to 2013 Adopted assumptions. While the revenue outlook for 2014 is relatively positive, long-term revenue trends remain subdued as compared to other post-recessionary periods. In previous post-recessionary periods, the City saw General Fund tax revenues grow at a rate in excess of 7 percent per year. For the period 2011-2016, the City forecasts General Fund tax revenues to increase an average 3.6 percent annually.



Proposed Executive Summary

Out-year forecasts project total General Fund revenue growth from 2014 to 2015 to slow slightly to 2.6 percent. One-time boosts to 2014 property tax revenues as a result of a change in state law, expected renewal of the Medic 1/Emergency Medical Services levy, and strong growth in the assessed value of property in the city of Seattle help improve the property tax picture for 2014. Beyond 2014, Initiative 747 and related state laws will continue contributing to muted property tax growth as a result of the cap on property tax growth of 1 percent plus new construction. Nonetheless, the 2014 increase presents an opportunity for the City to invest in much needed services in the 2014 Proposed Budget.

Another source of optimism in the budget – also tied to the relative strength of the local economy – is Real Estate Excise Tax (REET) revenues. REET, which is a tax on real estate transactions, supports many of the City’s general government capital investments. The local real estate market is gaining strength, fueled by a very strong commercial sector, boosting anticipated REET revenues to \$50.8 million in 2014.



Saving Before Spending – Rainy Day Fund is Funded at the Pre-Recession Level for 2014

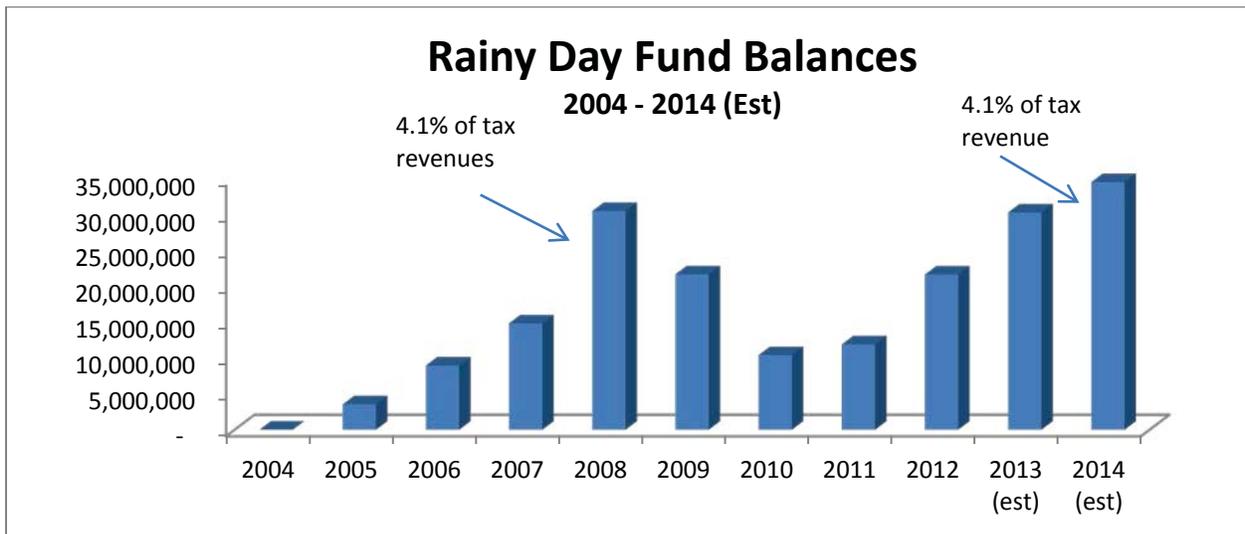
In addition to an improved revenue outlook, the City’s financial picture is considerably better as a result of concerted efforts by Seattle Mayor Mike McGinn to restore the health of the City’s General Fund financial reserves. The City relies on its reserves, including the Rainy Day Fund, to protect it from unexpected revenue or expenditure challenges. When Mayor McGinn took office in 2010, the Rainy Day Fund, which had reached a peak funding level of \$30.6 million in 2008, or 4.1 percent of General Fund tax revenues, totaled only \$10.5 million following a significant draw down of the fund to address the City’s budget challenges. Despite persistent financial challenges, the Mayor, adopting a philosophy of

Proposed Executive Summary

“saving before spending,” contributed to the Rainy Day Fund in each of the last three years.

- 2011 - \$1.5 million
- 2012 - \$9.7 million
- 2013 - \$8.7 million

The 2014 Proposed Budget makes a \$4.3 million contribution to the Rainy Day Fund – equivalent to 0.5 percent of projected General Fund tax revenues for 2014, in keeping with the policy changes the Mayor proposed and the City Council adopted in 2011. This contribution will bring the Rainy Day Fund balance to \$34.7 million – its largest dollar value ever.



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 is an important variable in maintaining the City’s high bond rating, which helps keep the City’s borrowing costs low.

The City also maintains the Emergency Subfund (ESF). While money in the Rainy Day fund is available when the General Fund experiences an unexpected contraction in revenues, the City draws upon the ESF in the event of expenditures in response to an unexpected emergency, most commonly costs to respond to significant storms. By state law, the City can maintain the equivalent of 37.5 cents per \$1,000 of assessed property values in the City in the ESF. Because the city experienced contractions in assessed property values since the onset of the Great Recession, the City of Seattle has not contributed to the ESF since 2009. In fact, the reduction in assessed values resulted in the City actually reducing the amount of money in the ESF to stay within the state-mandated funding level. Another sign that Seattle’s economy is gaining strength, the City forecasts an increase in 2014 in assessed property values, meaning the City can once again contribute to the ESF. As such, the 2014 Proposed Budget contributes an additional \$3.7 million, on top of the \$900,000 contribution assumed in the 2014 Endorsed Budget, to the ESF, bringing the total value of the fund to \$48 million, the largest dollar value ever.

Proposed Executive Summary

The 2014 Proposed Budget allocates 56.4% of the General Fund to public safety, up from 56.2% in 2010.

Strategic Investments to Respond to Emerging Needs

In preparing the 2014 Proposed Budget, Mayor McGinn prioritizes investments to:

- Enhance **Public Safety**
- Protect and expand the **Human Services** safety net
- **Empower** Seattle residents
- Strengthen the vitality of Seattle's diverse **Neighborhoods**
- Maintain and grow the City's **Transportation** infrastructure
- Improve the efficiency and effectiveness of City **Government**

Collectively, the 2014 Proposed Budget investments will expand the City's work force by 167.17 full-time equivalents (FTEs), bringing the City's total work force to 11,195.53 FTEs.

Investments to Enhance Public Safety

Protecting the public safety of Seattle's residents and visitors remains a paramount responsibility of City government. The 2014 Proposed Budget allocates 56.4 percent of the City's General Fund to public safety functions, up from 56.2 percent in 2010. Mayor McGinn allocates additional resources in 2014 to improve public safety, as follows:

- Increase the size of the police force to improve 911 response times
- Strengthen the City's commitment to the Center City Initiative to foster public safety in downtown Seattle
- Expand the Park Ranger program to enhance public safety in Seattle's parks
- Promote pedestrian safety throughout Seattle by expanding the school zone camera program
- Improve Seattle Municipal Court's oversight of Driving Under the Influence offenders

Increasing the Size of the Police Force: The 2007 Neighborhood Policing Plan is the City's primary policy document governing the deployment of police resources. It sets three performance goals for the Seattle Police Department (SPD):

- Respond to high-priority emergency calls in an average of seven minutes or less. This is a commonly accepted response time for police forces in larger cities.

Proposed Executive Summary

The 2014 Proposed Budget adds 15 police officers, bringing the total number to 1,342.

- Allow patrol officers to do more proactive policing – a target of 30 percent of officer time – to help resolve the underlying conditions that create violations of law and/or public order.
- Deploy 10 additional "back-up" police vehicles citywide. These cars – two in each precinct – provide better area coverage and improve back-up capability to enhance officer safety.

Since 2010, SPD has met or exceeded these performance objectives. Crime in the city is down. Through July 2013, violent crimes in Seattle have decreased 9 percent compared to 2009. Property crimes have decreased 12 percent over the same time period. That said, public safety concerns in several Seattle neighborhoods, including downtown, suggest the City could benefit from additional police officers. In the 2014 Proposed Budget, Mayor McGinn provides funding for 15 additional police officers and continues funding for four police officer positions added in 2013, increasing the total sworn officer ranks to 1,342 by the end of 2014, up 19 officers from the 1,323 positions in the 2014 Endorsed Budget. By yearend 2014, SPD will have 42 more police officer positions funded than in 2012. SPD will deploy the 15 new officers provided in the 2014 Proposed Budget as follows:

- Eight officers will enhance SPD's 911 response capabilities in Seattle neighborhoods, including downtown.
- Three officers will work alongside Seattle's park rangers patrolling downtown parks, in support of the Center City Initiative.
- Two officers will staff SPD's Crisis Intervention Team, which is composed of specially trained staff who work to divert individuals in mental health crisis from the justice system by directing them to services elsewhere in the community.
- Two officers will process school zone camera citations.

Strengthening the City's Commitment to the Center City Initiative (CCI): By many measures, downtown Seattle is thriving. According to a recent study released by the Downtown Seattle Association, the number of people calling downtown Seattle home since 2000 is up 24 percent– more than double the rate of growth citywide. Downtown Seattle now supports 200,000 employees, up from a low of 183,521 in 2010. This represents 40 percent of all employees in Seattle – nearly the same number of jobs in Redmond and Bellevue combined.

Despite these positive economic trends, a significant homeless population in downtown struggles with the need for mental health and/or substance abuse treatment, stable housing and sufficient food. The Center City Initiative, which Mayor McGinn initiated in 2012, collaborates with residents, businesses, service providers, and government agencies on specific actions to help make

Proposed Executive Summary

The 2014 Proposed Budget doubles the City's investment in the Center City Initiative.

downtown streets safe and inviting. The 2014 Proposed Budget doubles the 2014 Endorsed Budget's investment in CCI by adding an additional \$3.5 million, including \$1.75 million for the Human Services Department (HSD) to increase funding for case management and services in the downtown core through the Law Enforcement Diversion Program (LEAD). The new CCI funding for 2014 also includes expanded funding for homeless services, additional police officers and park rangers, all of which are described elsewhere in this overview. The Seattle Police Department and multiple nonprofits in the Belltown neighborhood administer LEAD. LEAD allows the Seattle Police Department to refer individuals who engage in low-level crimes to services instead of arresting them. LEAD helps to identify and implement long-term solutions to the underlying problems that contribute to the individual engaging in low-level street disorder and crime. More than investments 230 individuals will receive intensive case management and services as a result of expanding LEAD to the entire downtown core. By accessing needed services, homeless individuals will achieve greater stability, and, as a result, create safer and more inviting downtown streets for residents, businesses and visitors.

Expanding the Park Ranger Program: To promote public safety in Seattle's parks, the 2014 Proposed Budget expands the City's commitment to the Park Ranger program by continuing to fund the two park rangers Mayor McGinn added in mid-2013 to patrol downtown and Cal Anderson parks. These additional park rangers bring the total number of park rangers to 10. Park rangers provide a wide variety of services including enforcing the Parks Code of Conduct and providing interpretive and historical information about the parks they patrol. In addition, park rangers cooperate with local outreach services to connect vulnerable park users with appropriate services, ranging from mental health counseling to housing. Park rangers also work closely with the SPD, including the officers previously mentioned, and the Metropolitan Improvement District Ambassadors to enforce park use policies and other laws. The park rangers will create safer and more inviting places for residents and visitors to congregate, supporting the objectives of CCI.

Promoting Pedestrian Safety by Expanding Seattle's School Zone Camera Program: The 2014 Proposed Budget extends the City's commitment to promoting pedestrian safety by expanding the automated school zone speed enforcement camera program and reinvesting the revenues it generates into school safety improvements. With the additional 2014 investment, six more schools will have automated speed enforcement cameras in place by the end of 2014, bringing the total number of schools to 15.

Proposed Executive Summary

The 2014 Proposed Budget invests \$7.1 million in school zone camera revenues in school-safety projects for 12 schools.

Speed is a persistent traffic safety issue that contributes to one out of every three collisions in Seattle. Speeding increases the severity of collisions and is especially lethal for pedestrians and cyclists. A pedestrian hit by a vehicle going 30 miles per hour has a 45 percent chance of dying, while 95 percent of pedestrians hit at 20 miles per hour are likely to survive. In 2007, the National Highway Traffic Safety Administration (NHTSA) reviewed 13 studies of automated speed enforcement and reported that all of the studies showed decreases in injury rates and crashes with the use of automated speed enforcement cameras.

Seattle expects to generate \$8.6 million in revenues in 2014 from school zone camera citations. The 2014 Proposed Budget reinvests all of these proceeds back into the school zone camera program, including \$7.1 million into pedestrian safety infrastructure improvements – such as curb bulbs, street crossing improvements, and installation and repair of sidewalks – near schools throughout Seattle, as well as maintains school zone warning beacons. The following schools will benefit from infrastructure improvements in 2014:

- Arbor Heights Elementary School (ES)
- Bailey Gatzert ES
- Broadview Thomson K-8 School
- Bryant ES
- Eckstein Middle School
- John Rogers ES
- McDonald International School
- Nathan Hale High School
- Olympic View ES
- Sacajawea ES
- Thornton Creek ES
- Wedgwood ES

The remaining citation revenues support program operating costs, including leasing the cameras.

Improving Oversight of Driving Under the Influence (DUI) Offenders: In 2013, the Washington State Legislature passed a new set of laws designed to strengthen the penalties against DUI defendants, resulting in expanded oversight responsibilities for Seattle Municipal Court (SMC) and other jurisdictions throughout the state. The new laws require DUI defendants who have previous DUI convictions to install an ignition interlock device (IID) within five business days after their first appearance. Judges will monitor this requirement as a condition of release from jail and can revoke release or increase bail if defendants fail to comply with the installation. Judges also frequently order pretrial breath testing and urine analyses for alcohol and drugs. Probation counselors in SMC's Day Reporting Center monitor defendants for compliance. The 2014 Proposed Budget funds an additional probation counselor to perform this monitoring and testing. The Budget also provides SMC with additional resources for expanded drug and alcohol testing

Proposed Executive Summary

of DUI defendants. The number of defendants under probation supervision will continue to increase as new DUI cases are filed and judges impose up to five years of probation oversight in more serious DUI cases in accord with changes in state law.

Investments to Protect and Expand the Human Services Safety Net

Recognizing that many families and individuals continue to suffer the effects of the Great Recession and from reductions in funding from other public-sector entities, the 2014 Proposed Budget demonstrates Mayor McGinn's strong commitment to protecting and expanding the human services safety net.

General Fund support for human services increases by \$5.6 million, or 9 percent, in the 2014 Proposed Budget relative to 2014 Endorsed Budget. The Budget preserves services and increases support in key program areas, such as:

- Homelessness
- Domestic violence
- Senior services

The 2014 Proposed Budget also provides resources to backfill for lost federal and state funding.

Expanding Services for the Homeless: The 2014 Proposed Budget provides an additional \$850,000 to support the needs of the homeless, allowing the Human Services Department (HSD) to:

- Keep the City Hall winter shelter and the women's shelter open year-round.
- Backfill lost federal Community Development Block Grant funds that previously supported shelter services – primarily through the Downtown Emergency Services Center.
- Increase hygiene center hours by 12 hours on Sundays, allowing these centers to remain open seven days per week, supporting the goals of the Center City Initiative (CCI).
- Support the operating costs of a new day center and shelter location south of downtown that will allow the services previously provided at the Roy Street shelter and Belltown hygiene center to co-locate, also supporting the goals of CCI.
- Serve more vehicular residents by tripling the number of safe parking spaces, for a total of 90, and enhancing connections to services for individuals and families sleeping in vehicles.

General Fund support for human services increases by \$5.6 million, or 9%, in the 2014 Proposed Budget.

Proposed Executive Summary

General Fund investments for domestic violence response have nearly doubled since 2010.

Investments in homeless services are also a critical component of the Center City Initiative as described previously.

Enhancing Domestic Violence Response Services: The City maintains its commitment to providing domestic violence (DV) response services in the 2014 Proposed Budget, expanding funding by \$450,000 for a total allocation of \$5.4 million. General Fund investments in DV services have nearly doubled since 2010. Although crime is down across the city, domestic violence assaults increased during the recession.

Working in partnership with the Seattle Police Department, the King County Prosecuting Attorney's Office, domestic violence service providers, and the Seattle Police Foundation, the Human Services Department (HSD) will launch a new domestic violence response center in mid-2014. By co-locating police officers, prosecuting attorneys, civil legal service providers, and community-based advocacy and social service providers, the response center will provide a one-stop shop for victims of domestic violence. The City will support half of the center's operating costs, with the balance of funding coming from King County and the Police Foundation. The Police Foundation and other private donors will provide the capital funding for the center.

As a result of increased demand and decreased federal funding, the 2014 Proposed Budget also adds funding to establish and maintain long-term housing for domestic violence survivors and their children. The expanded funding will allow the City to serve approximately 50 more families, increasing the number served by more than 40 percent. Finally, the 2014 Proposed Budget funds a domestic violence manager position in HSD that will oversee all aspects of the City's domestic violence response.

Supporting Seattle's Senior Service Centers: With the number of older people expected to nearly double in the next decade, Seattle's network of senior centers serve as an essential resource in providing easy-access to low-cost social and health services for elders and the people who care for them. The 2014 Proposed Budget provides \$210,000 in additional funding to nine senior centers:

- Ballard Senior Center
- Central Area Senior Center
- Greenwood Senior Center
- International Drop In Center
- Pike Market Senior Center
- South Park Senior Center
- Southeast Seattle Senior Center
- Wallingford Community Senior Center
- Senior Center of West Seattle

Proposed Executive Summary

The 2014
Proposed
Budget backfills
\$2.6 million in
lost state,
federal and
external grant
funding.

In 2012, these nine senior centers served more than 14,000 Seattle residents, of which 60 percent live alone and 65 percent are low-income. Additional funding will allow the centers to increase targeted programming and case management unique to neighborhood needs.

The City's investment in service for seniors comes at a critical time. HSD's Aging and Disability Services (ADS) division will lose \$483,000 in funding due to federal sequestration and other \$148,000 in funding from the state Department of Social and Health Services, which would reduce services to nearly investments 1,600 seniors in Seattle. The 2014 Proposed Budget provides ADS with General Fund dollars to backfill this lost revenue, allowing ADS to continue to provide meal services, volunteer transportation, adult day services, case management, family caregiver support services, and healthy aging programs to 13,500 low-income seniors.

In total, the 2014 Proposed Budget allocates \$4.3 million in General Fund dollars for senior services, up 25 percent from the 2014 Endorsed Budget.

Backfilling for Federal and State Budget Cuts: As other governments continue to struggle to recover from the Great Recession, Seattle's relative budget strength allows the City in the 2014 Proposed Budget to backfill \$2.6 million in services, including \$1.6 million in services provided by HSD, including the senior services described previously. Absent City funds, these services would be eliminated. Over the past four years, HSD has seen a significant reduction in funding from the federal and state governments and other outside entities. Since 2010, revenues from these sources are down 34 percent. Meanwhile the City's General Fund commitments to HSD are up 28 percent, partially offsetting reductions from external sources and allowing the City to serve those in need of a strong human services safety net.

Investments to Empower Seattle Residents

Creating an environment that promotes shared prosperity among all Seattle residents remains an important priority for Mayor McGinn. The 2014 Proposed Budget supports this priority by making a number of investments to help Seattle residents seek economic advancement, including:

- Creating a Civic Leadership Institute for Refugee Women
- Increasing Construction Employment Opportunities for Seattle Residents
- Improving Early Learning and Quality Child Care Opportunities

Creating a Civic Leadership Institute for Refugee Women: The 2014 Proposed Budget provides one-time pilot project funding to develop a Civic

Proposed Executive Summary

The 2014 Proposed Budget provides an additional \$500,000 to support high-quality early learning and child care.

Leadership Institute for refugee women. The goal of the institute is to better integrate Seattle's refugee communities into the City's civic, economic and cultural life by empowering women and encouraging them to share their knowledge with others in their communities. The Mayor's Safe Communities Initiative, a broad community outreach project that gave residents the opportunity to give their input on how the City could improve safety, identified the need for increased engagement with immigrant and refugee communities. The institute will train 10 to 20 refugee women in civic engagement and will also include officers from the Seattle Police Department (SPD) in an effort to increase cultural understanding and trust between SPD and refugee communities.

Increasing Construction Employment Opportunities for Seattle Residents:

The 2014 Proposed Budget invests \$715,000 in providing opportunities for Seattle residents, including young adults, to gain the training and skills needed to enter the construction industry and obtain a family-wage job. Thanks to Seattle's relative economic strength, the construction industry is experiencing rapid post-recession growth locally and offers living wage opportunities for trained workers.

The 2014 Proposed Budget includes \$465,000 to develop a Target Hire program to provide worker training and support to increase employment opportunities in construction work for individuals that historically face barriers to jobs in the construction industry. The Budget also provides \$250,000 to preserve YouthBuild, a non-profit program providing construction education and apprenticeships for homeless youth and young adults at risk of violence, jeopardized by the loss of federal grant dollars. These investments build upon the \$300,000 increase in the 2014 Endorsed Budget for the Seattle Conservation Corps, which will increase the number of Parks improvement projects from 15 to 25 parks in low- to moderate-income neighborhoods to provide additional training opportunities for formerly homeless adults.

Improving Early Learning and Quality Child Care Opportunities: Access to high-quality early learning opportunities is essential in ensuring that all Seattle children enter kindergarten ready to learn. Mayor McGinn underscores his commitment to improving the early learning and child care for all Seattle children by allocating \$500,000 in additional resources in the 2014 Proposed Budget. Through high-quality professional development for early education providers, outcomes for children will improve across the city. The City's new Early Learning Academy, launched in 2013, enhances training opportunities for early education teachers and family caregivers to improve their effectiveness in preparing children for kindergarten. The

Proposed Executive Summary

The 2014 Proposed Budget funds the Neighborhood Matching Fund at pre-recession levels.

Budget includes an additional \$150,000 to recruit and encourage existing child care providers serving low-income children to participate in the Early Learning Academy network. This expansion builds on existing outreach efforts to Somali providers and nearly double the size of the Comprehensive Child Care Program to 250 providers. The Budget also increases early learning provider training opportunities, incentives for participation, and City staff capacity to train and support additional child care providers, focusing on those who serve immigrant and refugee children.

Given the large gaps in the quality of early education across the city for all children, the 2014 Proposed Budget also includes funding for a plan to achieve universal prekindergarten education in Seattle. This analysis will identify costs and the most effective best practices for investing in universal prekindergarten education. In addition, the Budget also funds the Read and Rise program to engage some of Seattle's most at-risk families and communities to support literacy development and narrow the achievement gap in children pre-kindergarten through third grade. Improvements to early education participation and outcomes will empower children to succeed in school and in life.

Investments to Strengthen the Vitality of Seattle's Diverse Neighborhoods

Thriving neighborhoods are important to Seattle's success. The 2014 Proposed Budget demonstrates Mayor McGinn's commitment to shared prosperity among Seattle neighborhoods by making a number of key investments, including:

- Increasing funding for the Neighborhood Matching Fund
- Enhancing downtown traffic flow
- Supporting neighborhoods surrounding the Duwamish River
- Investing in Seattle's historic entertainment facilities
- Promoting coordination with neighborhoods during major construction projects

Increasing Funding for the Neighborhood Matching Fund: The Neighborhoods Matching Fund (NMF) program empowers residents to make positive contributions to their communities. The NMF is an important resource providing grants to neighborhood organizations wishing to initiate planning, organizing, and/or physical improvement projects. The 2014 Proposed Budget adds \$500,000 to the Neighborhood Matching Fund (NMF), bringing total available grant resources to pre-recession levels.

Proposed Executive Summary

The 2014
Proposed
Budget invests
\$4.1 million in
Intelligent
Transportation
Systems to
improve traffic
flow downtown.

Enhancing Downtown Traffic Flow: Downtown serves as Seattle’s commercial, retail, and employment hub. It is also the site of a number of major construction projects, including the Elliott Bay seawall replacement project, the State Route 99 tunnel construction, and the waterfront redevelopment project. To improve traffic flows through downtown during these construction projects, the 2014 Proposed Budget invests more than \$4.1 million in Intelligent Transportation Systems, which utilize electronic communications technologies, such as sensors, cameras and electronic signs, to increase the efficiency of traffic flows. For example, the Seattle Department of Transportation will install new sensors and cameras on north/south streets in the Central Business District, including Alaskan Way and First, Second, Fourth, and Fifth Avenues, and on key east-west streets, including James, Spring, University, Howell, and Marion streets. Information from these sensors will allow the City’s signal control system to adapt to real-time traffic. In addition, four dynamic message signs will allow travelers to make informed decisions about their travel routes, based on travel time before they enter the area.

Supporting Neighborhoods Surrounding the Duwamish River: As Seattle and other jurisdictions embark on the clean-up of the Duwamish River, the City of Seattle intends to help ensure the vitality and economic health of surrounding neighborhoods. The 2014 Proposed Budget creates a \$250,000 reserve to create a Duwamish River Opportunity Fund. The opportunity fund will enhance existing programs and/or support new programs focused on addressing challenges faced by communities in the Duwamish River area. Supported programs may be run by the City or through partnership with other jurisdictions and community organizations. The community recently identified the need for assistance for a broad set of challenges including environmental, economic and health issues. This opportunity fund is one component of a broader City, King County, and Port of Seattle effort to improve the quality of life and restore the health of Duwamish River communities. The City will work with the community to establish the specific process and criteria for the disbursement of these funds in early 2014.

Investing in Seattle’s Historic Entertainment Facilities: Entertainment facilities are often the heart of a neighborhood, providing local residents, as well as neighbors from other parts of the City, a place to recreate. Mayor

Proposed Executive Summary

The 2014
Proposed
Budget
increases SDOT
funding by 27%
relative to the
2013 Adopted
Budget.

McGinn allocates more than \$455,000 to three historic entertainment facilities:

- The Moore Theater
- The Egyptian Theater
- Washington Hall

The City funds will help these facilities address their significant maintenance and repair issues, preserving their place in the community.

Promoting Coordination with Neighborhoods during Major Construction

Projects: The City has a number of major construction projects underway throughout the city, including the Mercer corridor, the First Hill streetcar, the Alaskan Way Viaduct/Elliott Bay Seawall project, and the 23rd Avenue corridor. The 2014 Proposed Budget adds funding to the Department of Neighborhoods to hire a capital projects coordinator to assist departments in performing effective outreach for large City capital projects. Too often, community outreach is not sufficiently effective, resulting in a negative community response to a capital project. The new capital coordinator position will improve the City's outreach by identifying projects with significant community impacts and developing neighborhood-specific outreach plans before the project starts. In addition, the capital coordinator will ensure that residents get timely, accurate responses to their comments, concerns and questions. Residents can have difficulty getting responses from City employees whose primary focus is running the capital project rather than its effects on the community. The coordinator will act as the main point of contact for residents who reach out to the City about capital projects in their neighborhoods.

Investments to Maintain and Grow the City's Transportation Infrastructure

To continue fostering Seattle's success as a thriving and growing metropolitan area, the City must invest in its transportation infrastructure – to both maintain existing systems and expand transportation options to meet evolving needs. The 2014 Proposed Budget demonstrates Mayor McGinn's commitment to the City's transportation system, providing \$407.2 million, including \$40.4 million from the General Fund, for transportation purposes – a 4 percent increase relative to the 2014 Endorsed Budget and a 27 percent increase relative to the 2013 Adopted Budget. The Budget allocates funds to neighborhoods throughout Seattle, supporting multiple modes of transport, including

Proposed Executive Summary

walking, biking, driving, freight, and transit. Some of the programmatic areas benefiting from increased funding in 2014 include:

- Road, bridge and signal maintenance
- Pedestrian and bicycle improvements
- Transit
- Multi-modal improvements to the 23rd Avenue corridor

The investments described below are over and above the \$7.1 million school zone and the \$4.1 million Intelligent Transportation Systems investments previously mentioned.

Prioritizing Investments in Road, Bridge and Signal Maintenance: For decades, Seattle deferred maintenance of its aging transportation infrastructure due to funding constraints. Spending on road maintenance has increased 37 percent since Mayor McGinn took office in 2010. The 2014 Proposed Budget allocates \$37.1 million to road maintenance – a \$2.2 million increase from the 2014 Endorsed Budget. The additional funding supports the following activities:

The 2014 Proposed Budget dedicates \$37.1 million to road maintenance, up 37% from 2010.

- **Investing \$1 million to repair approximately two lane miles of the City's arterial roadways.** The Seattle Department of Transportation (SDOT) will select projects based on pavement condition; cost; transit, bicycle, pedestrian and freight use; traffic volume; coordination opportunities; and geographic balance across the city. The 2014 Proposed Budget increase builds on a \$1 million increase for arterial road maintenance already included in the 2014 Endorsed Budget, together representing a 34 percent increase from the amount in the 2013 Adopted Budget.
- **Designing and installing traffic calming devices on approximately 10 blocks of neighborhood streets.** These improvements, costing \$100,000, will help to achieve 20 miles-per-hour speed limits on residential streets near parks, schools, libraries, senior housing, neighborhood business centers, and walking routes to transit. This represents a 25 percent increase in funding from both the 2013 Adopted and 2014 Endorsed budgets.
- **Restoring approximately one mile of the city's non-arterial streets.** Seattle has 2,412 lane-miles of non-arterial streets. This \$1 million investment in the 2014 Proposed Budget builds on a \$1.1 million increase already included in the 2014 Endorsed Budget, together representing a 121 percent increase in funding from the 2013 Adopted Budget.
- **Developing small-scale capital improvements at four or five street ends annually during 2014 and 2015.** Improvements may include stairs,

Proposed Executive Summary

The 2014 Proposed Budget provides an additional \$921,000 to more proactively maintain traffic signals.

benches, seating, viewing platforms, plantings or landscaping, and habitat enhancements.

The City fully maintains and operates 122 bridges throughout Seattle. The 2014 Proposed Budget provides more than \$13 million to maintain these bridges, a \$500,000 increase from the 2014 Endorsed budget. The additional funds for 2014 allows SDOT to begin conceptual design work necessary to rehabilitate or replace up to four of the City's most structurally deficient bridges. Doing this work now will better position SDOT to obtain grants to complete the work and potentially include some costs in the next Bridging the Gap Levy.

The 2014 Proposed Budget also allocates an additional \$921,000 to more proactively maintain and improve the City's traffic signal system. The signal system, especially in the downtown core, was last upgraded in 1985 and has many technological limitations, some of which were highlighted in a 2013 efficiency analysis commissioned jointly by the City Council, the City Budget Office and SDOT. The efficiency analysis noted that SDOT should be retiming its signals more frequently, but that long-standing resource deficiencies limited its ability to do so, resulting in increased congestion and longer travel times. The new 2014 investments, which augment \$7.1 million already in SDOT's signal maintenance budget, will allow SDOT to:

- Reduce the preventative maintenance cycle from once a year to once every six months for traffic signals, Intelligent Transportation Systems (ITS) devices, and the communication system supporting the ITS network.
- Replace the oldest and most vulnerable traffic signals and install pedestrian countdown signals at new locations.
- Re-time approximately 40 additional traffic signals annually, with priority given to arterials with the oldest timing and highest traffic congestion.
- Install railroad crossing improvements at the intersection of Clay Street and Alaskan Way to maintain the quiet zone along the waterfront. This funding augments \$786,000 already included in the 2014 Endorsed Capital Improvement Program for this project.

Investing in Infrastructure that Supports Walking and Biking: Walking and bicycling are increasingly popular modes of transportation in Seattle. The 2010 census showed a 105 percent increase in the number of people biking to work as compared to 2000. There was a 25 percent increase in the number of people walking and an 11 percent increase in transit use over the same time period,

Proposed Executive Summary

The 2014 Proposed Budget increases support for multi-modal improvements to the 23rd Avenue corridor.

while the number of people driving to work decreased by 2 percent. Recognizing the increasing importance of alternative modes of transportation, the Proposed Budget prioritizes the following investments for 2014:

- \$2.5 million for new sidewalks on Aurora Avenue North and other locations throughout the city,
- \$1 million for sidewalk repair and curb ramp installations.
- \$2.4 million for a new bicycle greenway parallel to the 23rd Avenue corridor.
- \$500,000 for improved pedestrian and bicycle facilities near the Northgate light rail station.
- \$350,000 for stairway rehabilitation and a new pedestrian crossing near the Montlake light rail station.

Promoting Additional Transit Alternatives: Recognizing that more people rely on transit to travel through the city, Mayor McGinn allocates an additional \$3.2 million to improve the city's transit network in the 2014 Proposed Budget, including:

- Preliminary engineering and environmental analysis for bus rapid transit on Madison Street.
- Station area planning and study of various pedestrian, bicycle, and transit connections across the Lake Washington Ship Canal near Ballard.
- Final design for the Center City Connector project, linking the First Hill and South Lake Union streetcars through downtown.

Supporting Multi-Modal Improvements to the 23rd Avenue Corridor: The 2014 Proposed Budget allocates \$2.9 million of Real Estate Excise Tax and state grant funding to support improvements to the 23rd Avenue Corridor. This investment supplements an additional \$13.8 million in other funding sources supporting the project. A vital multi-modal corridor, 23rd Avenue connects much of southeast and central Seattle with Capitol Hill, the University District, and other northeast Seattle neighborhoods. In response to community feedback, SDOT will change the street from four lanes to three lanes between East John Street and Rainier Avenue South and develop a parallel greenway route for bicyclists.

The three-lane design allows for substantial pedestrian improvements by reconstructing sidewalks and reducing the curb-to-curb width by eight feet in most places. It also allows SDOT to adjust the traffic lanes to conform to lane-width standards, as opposed to the narrow lanes existing today. SDOT will reconstruct pavement and upgrade signals to meet transit signal priority needs and accommodate ITS features, such as travel time information. SDOT

Proposed Executive Summary

will also install poles for future trolley wires to close two gap segments of the trolley network, thereby advancing Route 48 transit electrification development in the corridor. Trolley buses reduce greenhouse gas emissions and provide a quieter, more neighborhood-friendly service. Work on the project began in April 2013, with completion slated for the end of 2016.

Investments to Improve the Efficiency and Effectiveness of City Government

Mayor McGinn has made investments to improve the efficiency and effectiveness of City government a priority in his three previous budget proposals. The 2014 Proposed Budget is no exception, allocating resources to:

- Enhance the City's customer service functions
- Further "Green" the City's fleet
- Promote gender equity in the City's workforce
- Evaluate programs to assess effectiveness
- Invest in the City's critical business technology infrastructure

The 2014
Proposed
Budget adds
staff to improve
customer
service.

Enhancing the City's Customer Service Functions: The 2014 Proposed Budget enhances the City's in-person and telephone customer service capabilities. In mid-2013, the Department of Finance and Administrative Services (FAS) converted newly vacant space in the lobby of the Seattle Municipal Tower in downtown Seattle into a drop-in customer service center where people doing business with the City can pay their taxes, purchase a license, and obtain information about City services. In its first months of operation, the customer service center processed 1,400 transactions. FAS received positive feedback from customers noting how easy it is to visit and use the center. Currently, FAS staffs the customer service center with existing staff resources. The 2014 Proposed Budget provides FAS with additional staff to further support the new customer service center. The 2014 Proposed Budget also provides FAS with additional staff resources to handle calls it receives on the City's Information and Complaint telephone line. The volume of calls has increased by 69 percent since 2010, generating a need for additional staff to ensure that 80 percent of the calls are answered within 60 seconds.

Further "Greening" of the City's Fleet: For more than two decades, the City of Seattle has been at the forefront of green fleet management practices. The 2014 Proposed Budget continues this tradition by investing resources to help the City of Seattle cut its annual use of petroleum-based fuels by 1 million gallons by 2020. Specifically, the Budget allocates resources to allow FAS to:

Proposed Executive Summary

- Update the Green Fleet Action Plan;
- Purchase alternative fuel vehicles;
- Design an alternative fueling infrastructure plan for electric vehicle charging stations;
- Prepare existing storage tanks for the transition to biodiesel; and
- Install and use in-vehicle technologies to track vehicle usage data and identify potential efficiencies.

In addition, in 2014 the Seattle Police Department will replace 18 gas-powered parking enforcement vehicles with all-electric vehicles.

Promoting Gender Equity in the City’s Work Force: The City of Seattle is committed to gender equity in the workplace. A recent report from the National Partnership for Women and Families (NPWF) ranked Seattle as having the widest gender wage gap among the nation’s 50 largest metropolitan areas, highlighting the fact that much work remains. In response to this report, Mayor McGinn directed a review of the City’s salary structure to determine if the salaries of City employees contributed to gender-based pay difference in the local metropolitan area. Key findings from this initial review include:

- Two-thirds of the City work force is male.
- Men are employed more often in higher paid job classifications.
- Men and women in the same job titles earn approximately the same; however, the City’s female employees are paid 9.5 percent less, on average, than men because women are employed more often in lower-paid job classifications.

Mayor McGinn also convened the Gender Equity Task Force to develop recommendations for how the City can eliminate the gender pay gap. The task force will issue its short-term recommendations in September 2013 and long-term recommendations by the end of 2013. By January 2014, the City will identify an implementation plan, including next steps for a Gender Justice Initiative. To cover implementation costs, including correcting salary inequities, the 2014 Proposed Budget establishes a \$1.5 million reserve.

Evaluating Programs to Assess Effectiveness: Mayor McGinn is committed to strong performance management practices. Since 2011, the Mayor has posted on the Internet for public view his [performance expectation agreements](#) with individual City departments. As the City continues to place a greater emphasis on strong program design and evaluation as it attempts to meet the growing need for services with its limited resources, the 2014 Proposed Budget provides resources for the City Budget Office (CBO) to

The 2014 Proposed Budget establishes a \$1.5 million reserve to address gender salary inequities.

Proposed Executive Summary

The 2014
Proposed
Budget invests
in the City's
business
technology
infrastructure.

hire staff with in-depth experience in program design and evaluation to serve as a Citywide resource for program evaluation and outcomes measurement. Under the leadership of this new position, CBO will develop a training program to help develop this expertise among staff in departments who develop new programs and manage existing ones. These new resources will allow the City to develop standard approaches and policies on program design and evaluation, leading to more consistent, robust and thoughtful program evaluations with the ultimate goal of integrating this into all aspects of the budget development process.

Investing in the City's Critical Business Technology Infrastructure: The 2014 Proposed Budget allocates funding to support on-going work to upgrade the City's aging technology infrastructure, including:

- the accounting system
- the budget system
- the data center

The Department of Finance and Administrative Services (FAS) continues its work to improve financial reporting and access to information for decision-makers with the Citywide Financial Management and Accountability Program (FinMAP). FinMAP is a multi-year effort that is seeking to establish Citywide standards for the use of the City's main financial system (Summit) by departments and provide better financial management and accountability for the City. In conjunction with FinMAP, in 2013, FAS started the process to upgrade Summit. In 2014, project staff will work with departments on creating standards for use in the new financial system. A mixture of FAS fund balance and general obligation bonds funds the project in the 2014 Proposed Capital Improvement Program.

In 2013, the City Budget Office (CBO) and the Legislative Department began an effort to redesign the budget development process. The goal is to streamline processes, replace outdated software systems with a consolidated system, and ultimately improve the accuracy and transparency of information available to decision-makers and the public. The 2014 Proposed Budget includes funding to allow CBO, in collaboration with Council central staff, to purchase software and work with a consultant to redefine City business processes, and configure and implement software to best meet the City's business needs. CBO plans to phase in the new software over the development of the 2016 and 2017 budgets, including integration with the City finance system.

Finally, the Budget includes resources for the City to continue its efforts to develop the next generation data center. This effort began in 2012 following

Proposed Executive Summary

an electrical system problem with the City's primary data center in the Seattle Municipal Tower. The electrical problem highlighted the need to identify a different data center approach with an emphasis on integration, redundancy, and reliability. The new approach for the data center will:

- Use two locations to maximize data recovery capabilities in the event of an emergency.
- Locate the new data centers in existing facilities rather than building a new facility, reducing up-front costs and allowing for a faster move-in.
- Adopt guiding principles for how departments will share network services, storage, management services, and space in the new facilities.

In 2014, the City will begin detailed design work; start purchasing equipment, test and pilot systems; and choose the final locations. The City's three-year timeline calls for completing the project in 2015.

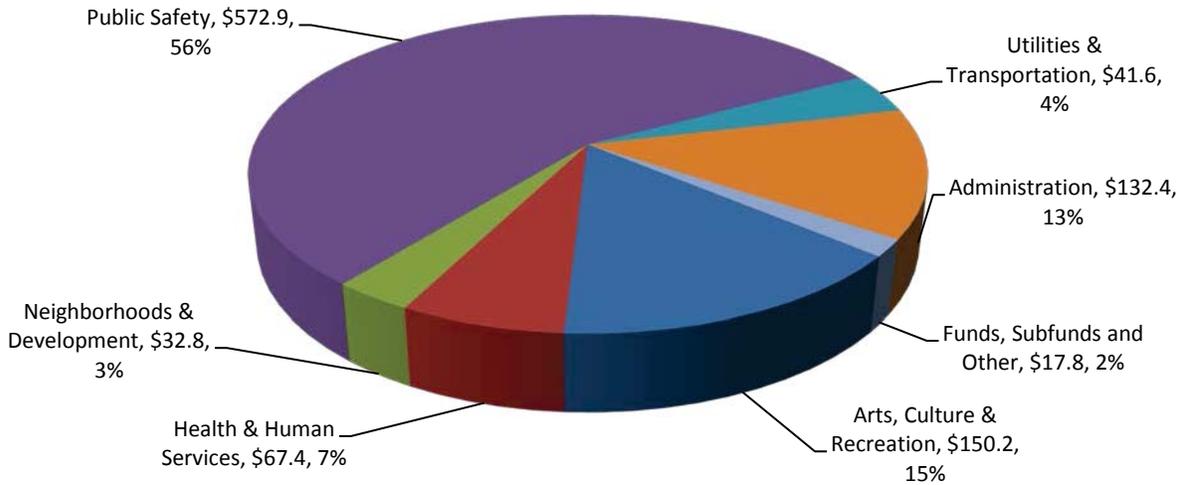
The outlook for the 2014 budget is the most positive in five years.

Looking Ahead

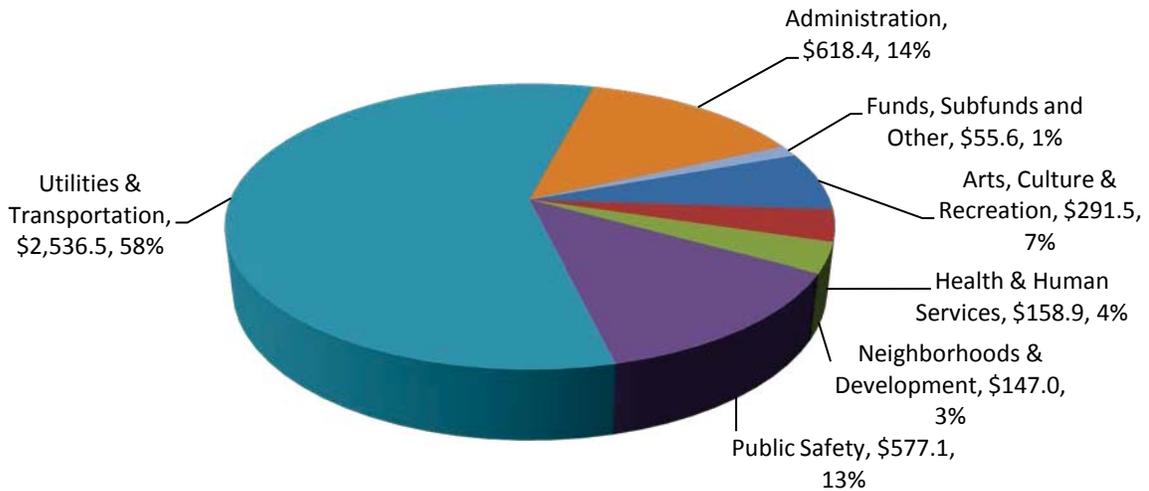
While the budget outlook for 2014 is positive as compared to the last five years, the City's long-term revenue trends remain subdued as compared to other post-recessionary periods. The 2014 revenue growth rates are supported by one-time boosts in the growth rate of property taxes that will temper to the more normal 1 percent plus new construction growth rate for 2015 and beyond. Thus, the General Fund's annual revenue growth will moderate to 2.6 percent and 3.6 percent respectively in 2015 and 2016. As a result, the City is not expected to enjoy the same level of budget expansion in the next biennium as is the case for the 2014 Proposed Budget. While the current forecasts suggest that the 2015 and 2016 budgets are in balance within a percent or so, swings in the economic outlook – good or bad – could adjust this outlook, creating opportunities for further expansion if good or necessitating reductions if bad. The most immediate economic concern centers on the federal budget and debt ceiling debates that will unfold in Washington, D.C., this fall. The overall outlook suggests the need for continued diligence as the City meets existing and emerging needs with its limited resources. The City weathered the fiscal turmoil of the Great Recession relatively well, putting in place a number of budget and financial management practices that should better position it in the years to come. However, it is clear that the revenue growth trends of the past are not likely to return in the near future, meaning that the City still needs to carefully manage how it allocates its limited resources to meet needs of Seattle residents, being sure to invest for rainy days.

Summary Charts and Tables

2014 Proposed General Fund Expenditures - \$1.0 Billion
(in millions of dollars)



2014 Proposed Expenditures - All Funds, \$4.4 Billion*
(in millions of dollars)



*Approximately \$334 million of the \$4.4 billion expenditures are double-appropriated

Summary Charts and Tables

RESOURCES SUMMARY BY SOURCE (in thousands of dollars)*

TOTAL CITY RESOURCES

Revenue Source	2013 Actual	2013 Adopted	2013 Revised	2014 Endorsed	2014 Proposed
Taxes, Levies & Bonds	1,243,445	1,239,922	1,349,131	1,281,676	1,449,210
Licenses, Permits, Fines & Fees	170,136	165,527	179,072	179,963	181,782
Interest Earnings	12,270	19,756	15,716	22,014	17,531
Revenue from Other Public Entities	183,370	143,106	143,649	156,120	153,792
Service Charges & Reimbursements	1,152,962	1,445,875	1,222,962	1,514,409	1,305,126
All Else	496,395	601,130	529,546	663,076	668,000
Total: Revenues and Other Financing Sources	3,258,578	3,615,316	3,440,076	3,817,258	3,775,441
Interfund Transfers	654,530	657,814	683,030	708,012	777,043
Balance	302,011	198,373	296,584	202,275	212,194
Total City Resources	4,215,119	4,471,503	4,419,690	4,727,545	4,764,678

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

Summary Charts and Tables

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2013 Adopted		2014 Endorsed		2014 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Arts, Culture & Recreation						
Office of Arts and Culture ⁽¹⁾	0	7,145	0	7,244	0	8,354
The Seattle Public Library ⁽²⁾	48,044	66,998	50,131	68,825	48,003	67,341
Department of Parks and Recreation	85,230	166,852	90,655	160,699	89,014	172,399
Seattle Center	12,966	44,911	13,464	42,025	13,178	43,416
SubTotal	146,240	285,906	154,250	278,792	150,194	291,510
Health & Human Services						
Educational and Developmental Services Levy	0	24,581	0	28,941	0	28,941
Human Services Department	59,176	123,568	61,834	126,974	67,439	129,939
SubTotal	59,176	148,149	61,834	155,914	67,439	158,880
Neighborhoods & Development						
Office of Economic Development	6,250	9,384	6,230	7,439	7,139	8,668
Office of Housing	0	49,736	0	49,953	0	49,686
Department of Neighborhoods	10,217	10,217	11,002	11,002	11,722	11,722
Neighborhood Matching Subfund	2,891	3,211	2,966	3,293	3,530	3,951
Pike Place Market Levy	0	8,955	0	8,952	0	8,952
Department of Planning and Development	9,651	56,019	9,831	56,847	10,410	64,019
SubTotal	29,009	137,522	30,029	137,485	32,801	146,998
Public Safety						
Criminal Justice Contracted Services	22,492	22,492	23,236	23,236	23,236	23,236
Fire Facilities Fund	0	1,248	0	0	0	1,780
Firemen's Pension	18,273	20,017	18,060	19,829	18,048	19,320
Law Department	20,421	20,421	21,026	21,026	21,179	21,179
Municipal Jail	0	1,000	0	1,000	0	1,000
Police Relief and Pension	18,987	19,787	18,558	19,359	20,716	20,833
Seattle Fire Department	166,267	166,267	173,463	173,463	174,739	174,739
Seattle Municipal Court	27,507	27,507	28,289	28,289	28,662	28,662
Seattle Police Department	263,086	263,086	267,587	267,587	286,333	286,333
SubTotal	537,033	541,825	550,218	553,788	572,913	577,082
Utilities & Transportation						
Seattle City Light	0	1,142,280	0	1,199,983	0	1,172,784
Seattle Public Utilities	1,139	851,869	1,167	908,388	1,213	925,690
Seattle Transportation	36,701	320,993	38,976	391,981	40,425	407,228
Seattle Streetcar	0	731	0	5,737	0	5,737
Central Waterfront Improvement	0	9,890	0	595	0	16,480
School Zone Camera Fund					0	8,619
SubTotal	37,840	2,325,763	40,143	2,506,683	41,638	2,536,537

Summary Charts and Tables

Department	2013 Adopted		2014 Endorsed		2014 Proposed	
	General Subfund	Total Funds	General Subfund	Total Funds	General Subfund	Total Funds
Administration						
Civil Service Commissions	373	373	386	386	380	380
City Budget Office	4,086	4,086	4,206	4,206	4,615	4,615
Office of the Community Police Commission					813	813
Department of Information Technology	4,609	56,120	4,977	87,268	3,975	79,590
Fiber Leasing Fund					0	428
Employees' Retirement System	0	13,941	0	14,134	0	13,425
Ethics and Elections Commission	898	898	783	783	771	771
Finance General	52,242	52,242	51,942	51,942	58,658	58,658
Finance and Administrative Services ⁽³⁾	22,003	208,544	22,803	201,787	24,151	213,563
Legislative Department	12,614	12,614	12,558	12,558	12,427	12,427
Office of City Auditor	1,913	1,913	1,461	1,461	1,403	1,403
Office of Hearing Examiner	635	635	656	656	648	648
Office of Immigrant and Refugee Affairs	356	356	368	368	459	459
Office of Intergovernmental Relations	2,026	2,026	2,089	2,089	2,067	2,067
Office of Sustainability and Environment	1,996	1,996	2,092	2,092	2,518	2,518
Office of the Mayor	3,641	3,641	3,758	3,758	3,759	3,759
Personnel Compensation Trust Subfunds	0	192,569	0	207,217	0	207,104
Personnel Department	11,815	11,815	12,171	12,171	12,774	12,774
Seattle Office for Civil Rights	2,723	2,723	2,886	2,886	2,969	2,969
SubTotal	121,931	566,492	123,137	605,762	132,386	618,371
Funds, Subfunds and Other						
Bonds Debt Service ⁽⁴⁾	13,947	19,475	18,101	18,724	16,999	25,226
Cumulative Reserve Subfund ⁽⁵⁾	0	16,735	0	5,178	0	3,046
Fiscal Reserve Subfunds	0	565	0	0	0	0
Judgment/Claims Subfund	633	15,034	756	16,859	756	18,614
Parking Garage Fund	2,813	9,359	2,032	8,688	0	8,688
SubTotal	17,392	61,167	20,888	49,449	17,755	55,573
Grand Total*	948,622	4,066,826	980,498	4,287,874	1,015,126	4,384,952

*Totals may not add due to rounding

Notes:

- (1) Includes a dedicated amount based on receipts from Admission Tax.
- (2) The 2014 Proposed includes a \$1.6 million reduction to account for technical errors in the 2014 Endorsed Budget.
- (3) 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.
- (4) 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.
- (5) 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 \$4.3 billion (Proposed 2014) annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in-whole or in-part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state, or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

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

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

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 57.8% 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 2013

National Economic Conditions and Outlook

To understand the recovery we need to understand the causes of the great recession. The recovery from the great recession is proving to be very different from most recoveries. Growth has been unusually weak and whenever the economy has shifted into a higher gear it has been unable to sustain its momentum. With economists continuing to puzzle over the economy’s direction, we can gain some insight by looking back in time and reviewing the events that brought about the worst downturn since the Great Depression.

We can trace the roots of the current recession back to the early 1980s when, in reaction to the high inflation of the 1970s, investors developed a preference for stocks and real estate because they were less vulnerable to

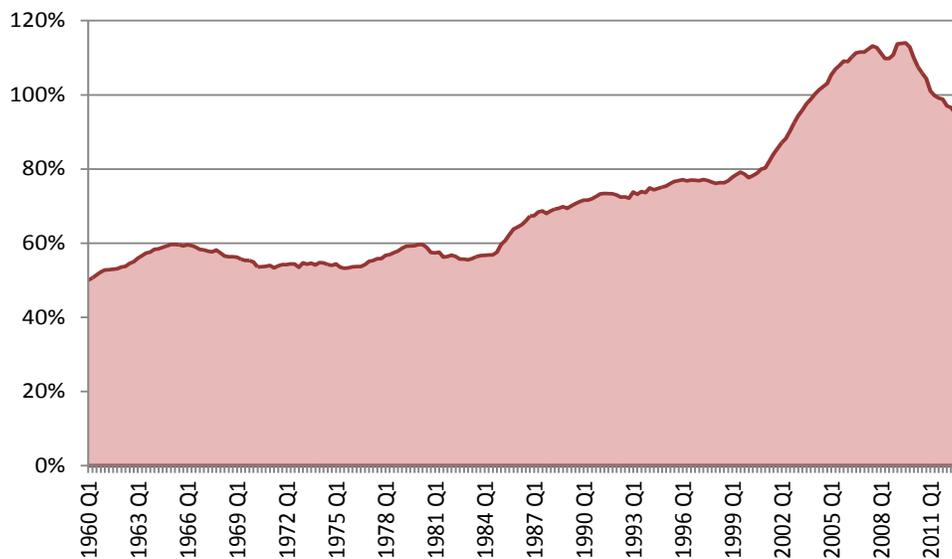
Revenue Overview

erosion by inflation than other types of investments. The early 1980s was also when the federal government began running large budget deficits on an ongoing basis, which has resulted in a buildup of federal government debt. Lastly, the movement to deregulate financial markets got its start in the early 1980s.

The early 1980s ushered in a 25 year period characterized by stable economic conditions and low inflation that is sometimes called the “great moderation.” Inflation was low in part because the integration of China and other developing countries into the world economy helped to hold down the price of goods and, to a lesser extent, services. With inflation under control, the Federal Reserve was able to keep interest rates at relatively low levels. In addition, a surplus of savings in many developing countries provided a large pool of money available for investment.

A stable economy made investors feel confident and optimistic, which, combined with an abundance of cheap money, led to excessive borrowing and risk taking and a huge buildup in U.S. household debt (see Figure 1). A lot of the borrowed money was used to purchase assets, which pushed up the price of those assets and eventually led to the buildup of asset bubbles. These included the housing bubble of the late 1980s, the stock market bubble of the late 1990s, and, biggest of all, the housing bubble of 1998-2006. During the 2000-10 decade, there were also bubbles in energy, food, and other commodities, as well as housing bubbles in numerous countries across the globe.

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



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

With asset prices rising, Americans cut back on saving and increased their spending, driving the expansion of the world economy. Eventually housing prices rose to a level that could not be sustained, even with exotic 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 preceding review of the roots of the recession has a number of implications for the recovery:

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

Revenue Overview

- The 2007-09 recession was unlike other postwar recessions, so we can expect the recovery to be different as well.
- The recession was caused by a financial crisis. History tells us that recoveries from recessions caused by financial crises are weak and protracted.
- Consumer spending will be restrained by the need to reduce debt and rebuild savings.

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

The U.S. economy has slowed in 2013. The economy slowed in the fourth quarter of 2012 as it approached the “fiscal cliff,” a combination of tax increases and spending cuts that were scheduled to take effect on January 1, 2013. Major elements of the fiscal cliff included:

- The Bush tax cuts, by far the largest element, were set to expire on January 1, 2013.
- The two percent payroll tax cut, the second largest element, was also to expire on January 1, 2013.
- The sequester, which would impose \$1.2 trillion in automatic spending cuts spread over 10 years, was to take effect on January 1, 2013. The cuts were to be distributed equally between defense and all other spending.
- Emergency unemployment benefits were set to expire at year end 2012.
- Special depreciation allowances were set to expire.

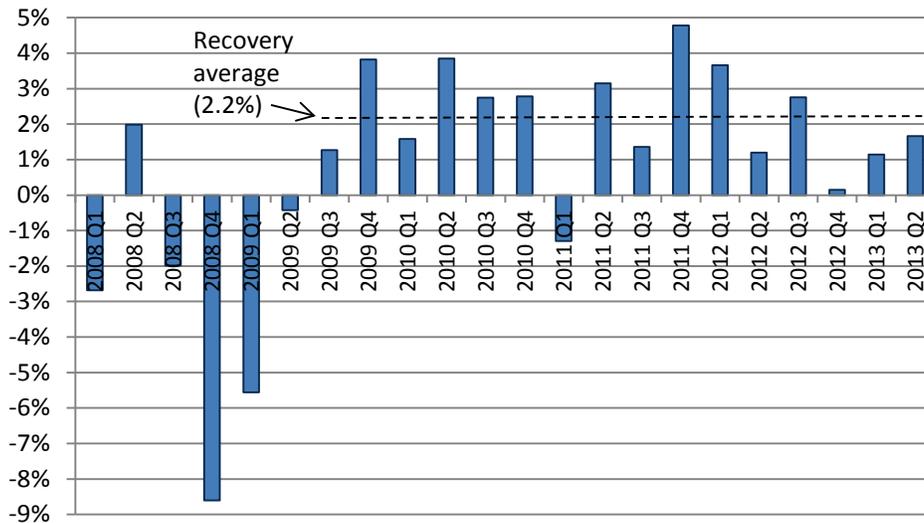
Economists estimated that implementation of the fiscal cliff would reduce 2013 GDP by between three and four percent. Many economists considered this sufficient to push the economy into recession. In a last minute compromise, Congress replaced the fiscal cliff with a package that would reduce 2013 GDP by 1% - 1½%. Features of the package included:

- The two percent payroll tax cut was allowed to expire. This has reduced the purchasing power of workers by approximately \$115 billion in 2013, or about \$1,000 per working household.
- The Bush tax cuts were made permanent for individuals earning less than \$400,000 and couples earning less than \$450,000. For households above those income thresholds, the top income tax rate was raised to 39.6%, the rate in effect before the Bush tax cuts were enacted.
- Emergency unemployment insurance benefits were extended for one year.
- Implementation of the sequester was delayed until March 1.

As a result of the fiscal cliff settlement’s tax increases and the sequester’s spending cuts, which took effect on March 1, GDP remained weak in the first half of 2013. There have now been three successive quarters with GDP growth below the recovery’s average growth rate of 2.2% (see Figure 2).

Revenue Overview

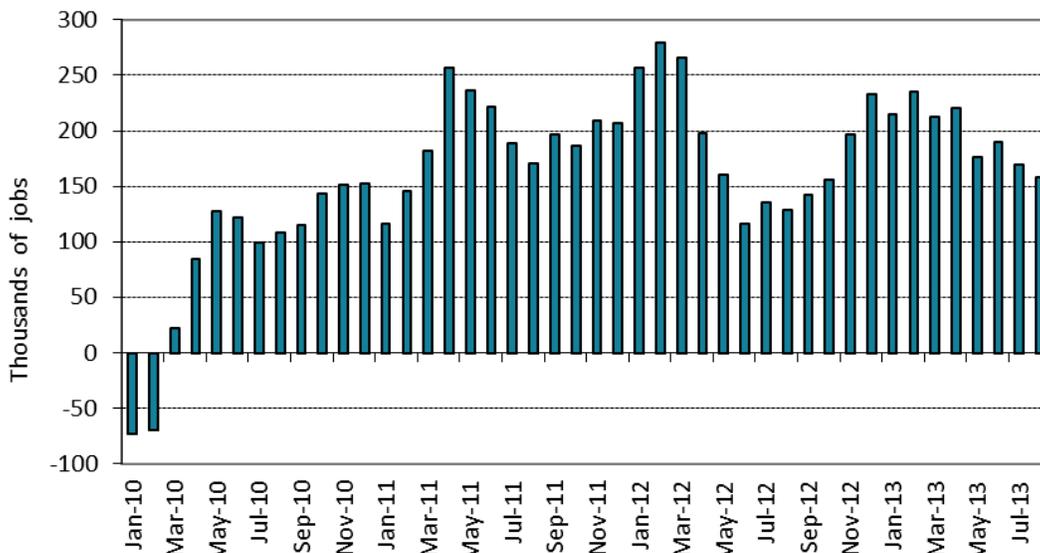
Figure 2. Growth Rate of Real U.S. Gross Domestic Product (GDP)*



*Seasonally adjusted at annual rates. Source U.S. Bureau of Economic Analysis.

The slowdown in GDP growth has led to a gradual slowing of employment growth in 2013 (see Figure 3). The August U.S. employment release, which reported a gain of 169,000 jobs for the month and a downward revision of 90,000 jobs for June and July, was a disappointment. Private sector employment is shown in Figure 3 because total employment figures are distorted by 2010 Census-related hiring and layoffs.

Figure 3. Monthly Change in U.S. Private Sector Employment*



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

Source: U.S. Bureau of Labor Statistics.

One positive development in 2013 has been the continued improvement of the housing market. Housing construction is on the upswing, home sales have been increasing steadily, and home prices have risen in most parts of the country. By some measures home prices have posted double digit growth rates over the past year. The increase in prices is particularly beneficial because any price gain reduces the number of homeowners with “underwater” mortgages. With both home prices and stock valuations rising, households have experienced a

Revenue Overview

significant increase in wealth, which leads to an increase in consumer spending via the wealth effect, all else being equal. Reflecting improvements in the housing market and rising household wealth, consumer sentiment is at its highest level in six years.

The economy's weaknesses include federal fiscal policy, the slowing of growth in emerging market economies, and labor market conditions. While the unemployment rate has been falling, dropping from a peak of 10.0% to 7.4% in July of this year, 7.4% is a rate typically associated with recessions. In addition, underemployment remains high, a large number of discouraged workers have dropped out of the labor market (i.e., they are no longer looking for work), and wages have been growing only at the rate of inflation.

National forecasters anticipate the recovery will strengthen in 2014 and 2015. National forecasters expect growth to pick up next year as the housing market continues to strengthen and fiscal headwinds are reduced from 2013 levels. Global Insight expects real GDP growth to ramp up from 1.6% in 2013 to 2.7% in 2014 and 3.5% in 2015. They forecast a significant increase in personal income growth, from 2.8% in 2013 to 4.9% in both 2014 and 2015. Personal income growth is 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 increased.

Risks to the forecast are centered on federal fiscal and monetary policy, and economic growth in the rest of the world. Fiscal policy dampened the recovery in 2013, and another round of fiscal tightening in 2014 would reduce growth below expectations next year. At this point in time the direction of federal fiscal policy over the next six months is uncertain. Also of concern is that the federal borrowing limit will be reached this fall, requiring action by Congress to raise it. This presents an opportunity for a standoff between the political parties over borrowing and debt policies, akin to what happened in mid-2011. The standoff in 2011 resulted in a 12% - 15% drop in stock market valuations and damaged both consumer and business confidence.

A major near-term uncertainty for financial markets is when the winding-down of the Fed's \$85 billion per month asset purchasing program (QE3) will begin. The importance of Fed policy changes was highlighted by the reaction to Fed Chairman Bernanke's May 22 statement indicating the Fed might step down the pace of its bond purchases sometime over its next few meetings. Stock and bond markets both inside and outside of the U.S. reacted strongly, with the yield on the 10-year Treasury bond spiking from 1.63% to more than 2.50% by late June.

Economic growth in the rest of the world has slowed in 2013, led by a softening of growth in emerging economies. The Eurozone posted weak growth in the second quarter of 2013, following six quarters of contraction. A further slowing of growth in the emerging economies or a deterioration of financial conditions in the Eurozone could dampen the U.S. recovery.

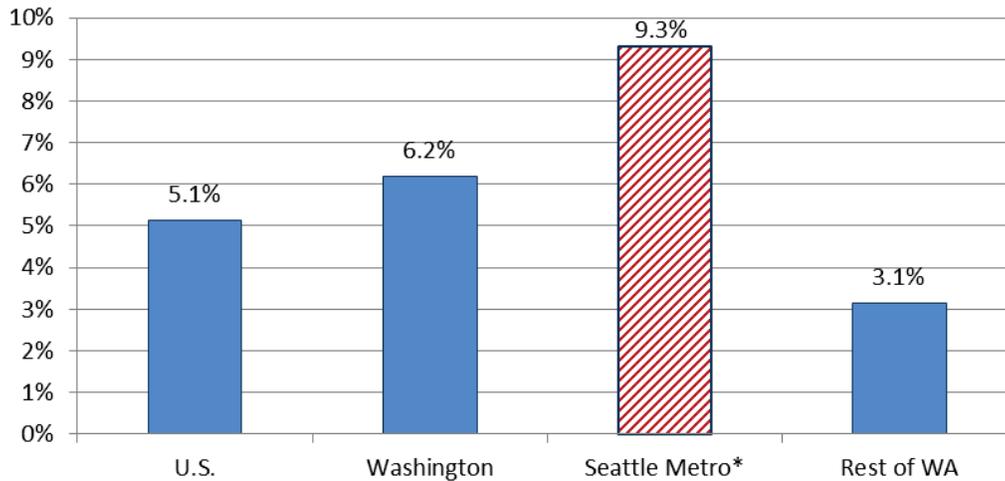
Puget Sound Region Economic Conditions and Outlook

The Puget Sound region's recovery has been stronger than the nation's. When the nation suffers a recession the region almost inevitably follows suit. However, depending on the characteristics of the national recession the region's recession may be more or less severe than the nation's. The 2007-09 recession impacted the nation and region with roughly the same intensity. Although the percentage of jobs lost was modestly higher regionally, the region's unemployment rate did not rise as high as the national rate, peaking at 9.7% compared to a national peak of 10.0%. Also, the housing downturn was somewhat less severe here than nationally.

Since the recession ended, 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 9.3% from its post-recession low in February 2010 through July 2013 (see Figure 4). This compares to a 5.1% gain for the U.S. and a 6.2% gain for Washington State over the same period. The July 2013 unemployment rate for the metro area was 4.8% compared to 6.9% for the state and 7.4% for the U.S. Areas of strength in the local economy include aerospace, other manufacturing, professional, scientific, and technical services, health services, and mail order and internet retail.

Revenue Overview

Figure 4. Employment Change: Post-Recession Trough to July 2013



*King & Snohomish Counties.

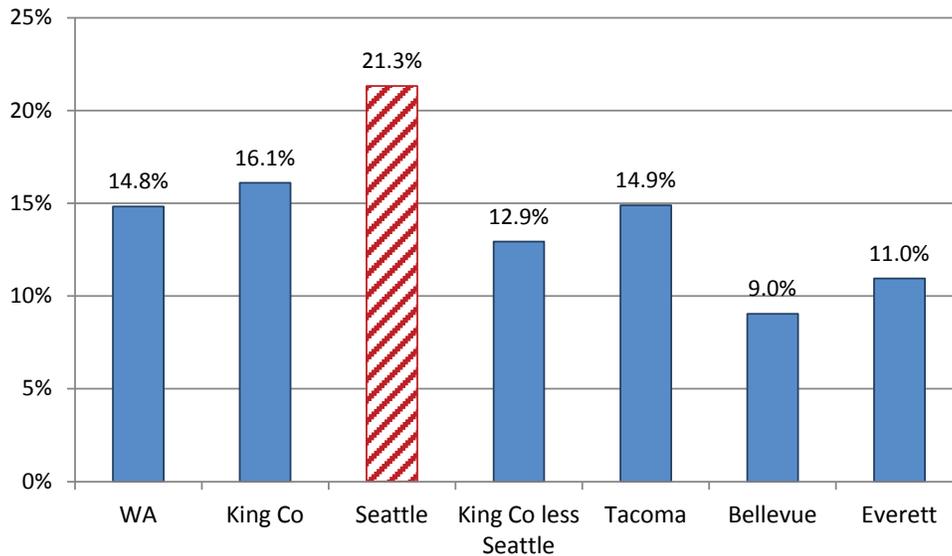
Source: WA Employment Security Dept., U.S. Bureau of Labor Statistics.

The biggest contributor to the region's strong performance has been the aerospace sector, which added 16,100 jobs between mid-2010 and November 2012. Without the boost from aerospace, the region's recovery would look much like the national recovery. Boeing, which has an order backlog of over 4,000 planes, is increasing production rates for its 737 and 787 models this year. After significant delays the 787 is flying, work on the Air Force tanker is progressing, and Boeing is moving forward with the 737 MAX, a re-engineered 737 that will have new fuel efficient engines. Despite its production increases, Boeing began reducing its Washington employment in December 2012, and through June of this year had cut 1,700 jobs. Reasons for the job reductions include the movement of some functions and employees to other states, the completion of development work on some airplane models, and a reduction in the workforce that had ballooned to deal with the 787 production problems.

Seattle bounced back from the recession sooner 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 rest of the region. This is reflected in data for taxable retail sales (the tax base for the retail sales tax), one of the few sources of relatively current economic data available at both the county and city levels. From the beginning of the recovery in first quarter 2010 through the first quarter of 2013, taxable retail sales increased 21.3% in Seattle, compared to gains of 14.8% and 12.9% in the state and the rest of King County, respectively (see Figure 5). Much of Seattle's relative strength is due to an early bounce-back in construction activity. However, even if construction is removed from the data, Seattle still stands out. For example, the growth rate of taxable sales excluding construction is 17.7% for Seattle and 13.5% for the rest of King County.

Revenue Overview

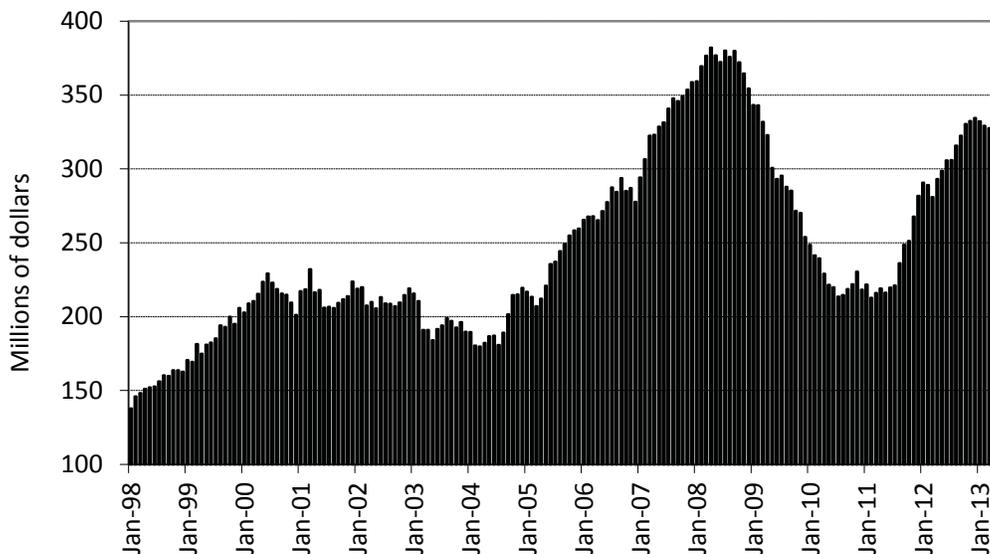
Figure 5. Taxable Retail Sales Growth, 2010 Q1 – 2013 Q1



Source: WA Department of Revenue.

A key reason that Seattle rebounded so quickly from the recession is that construction activity, which had declined sharply during the recession, began rising steeply in mid-2011 (see Figure 6). Through the first quarter of 2013 taxable retail sales from construction had increased by 55.1% from their low point in the second quarter of 2011. Initially the rebound was focused in new apartments and public construction, but over time activity has broadened to include more office projects and the city’s first new condominium project in several years, a 41-story tower at 5th and Bell, which broke ground last summer.

Figure 6. Seasonally Adjusted* Taxable Retail Sales, Construction



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

Source: WA Dept. of Revenue.

Revenue Overview

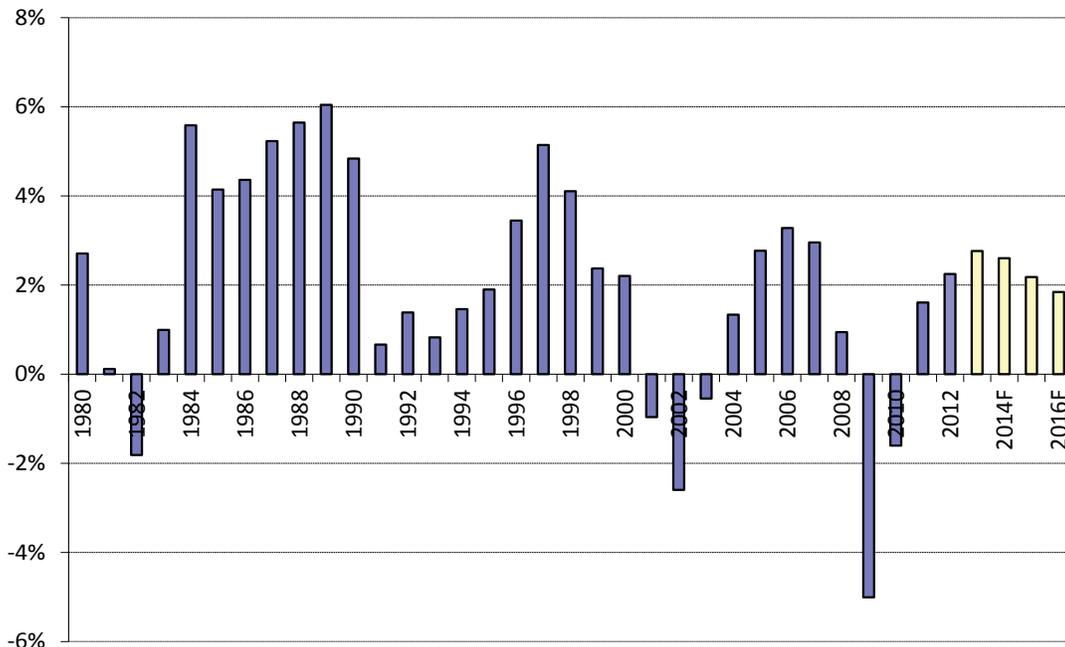
Drivers of the construction rebound have included the growth of Amazon, a rise in the demand for apartments in Seattle’s central neighborhoods, and the rise in employment in professional, scientific, and technical services. Amazon, which currently occupies 2.8 million square feet of office space in South Lake Union, has plans to build three 1.1 million square foot office towers in the Denny Triangle. Despite a downtown office vacancy rate in the 10% - 15% range, developers are planning to build three new major office towers in the central business district.

Despite a relatively strong start the region’s recovery is expected to be modest by historical standards. The Puget Sound Economic Forecaster predicts the recovery will slow going forward, in part because of the weakness of the national recovery and in part because Boeing has begun reducing its employment. 2013 is expected to be the recovery’s peak year for employment growth, with a 2.8% gain anticipated, after which growth is expected to slow as the recovery progresses (see Figure 7). The forecast assumes the region continues to grow faster than the nation, but that the gap between regional and national growth narrows as the recovery moves forward.

Although Boeing employment is now declining, both the Puget Sound Economic Forecaster and the Washington State Economic and Revenue Forecast Council expect the aerospace downturn to be mild. Their forecasts anticipate a loss of six to eight thousand aerospace jobs between 2013 and 2017, which would put the reduction in the 7% - 9% range. The main reason they expect a gentle downturn is that Boeing currently has an order backlog amounting to over four years of production. Also the firm is expected to begin development work soon on a new 777 and another version of the 787.

Although employment growth is expected to slow in 2014, personal income growth is expected to move in the other direction, rising from 4.1% in 2013 to 5.9% in 2014. Personal income growth is 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 increased.

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



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

2013-16 forecasts are from the Puget Sound Economic Forecaster's June 2013 forecast.

Probably the greatest source of risk to 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. Locally, Boeing and Amazon are potential sources of forecast risk.

Revenue Overview

Boeing has recently relocated 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, thus rendering the aerospace forecast for the region too optimistic. The risk related to Amazon is mostly on the upside, namely that the regional forecast is underestimating Amazon’s future growth.

Consumer Price Inflation

Inflation has made a modest come back after disappearing during the 2007-09 recession. During the mid-2000s, consumer prices rose steadily, driven in large part by a relentless rise in oil prices from a low of just above \$20 per barrel in early 2002 to a peak of \$147 per barrel in July of 2008. As oil prices peaked, so did the consumer price index (CPI), with the U.S. CPI-U rising to 5.6% in July 2008 measured on a year-over-year basis – its highest level in 17 years. Then the worst economic downturn in 80 years pushed inflation rates down to levels not seen since the 1950s. The annual growth rate of the U.S. CPI-U fell to -0.4% in 2009, the first time in 54 years that consumer prices have declined on an annual basis. Prices rebounded in 2010, with the annual CPI-U posting a 1.6% gain, and then rose further in 2011 to 3.2%, driven by a 15.4% rise in energy prices. With energy prices moderating, inflation eased to 2.1% in 2012 and 1.5% in the first half of 2013.

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 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. The first half of 2013 saw a modest decline in energy prices, which helped push Inflation down to 1.4%.

Inflation is expected to remain subdued. In the short- to medium-term, inflationary pressures are expected to remain subdued, as the weakness of the global economy restrains price pressures for commodities, goods, and services. With unemployment likely to remain elevated for several more years, wage pressures will also remain subdued. Over the next several years the CPI is expected to average between 2% and 2½%, though there will likely be some movement outside of this range if energy or food prices rise or fall steeply.

Figure 8 presents historical data and forecasts of inflation for the U.S. and the Seattle metropolitan area through 2016. 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 growth rate 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)
2012 (actual)	2.7%	3.3%
2013 (actual)	1.2%	1.8%
2014	2.2%	2.1%
2015	2.5%	2.4%
2016	2.5%	2.5%

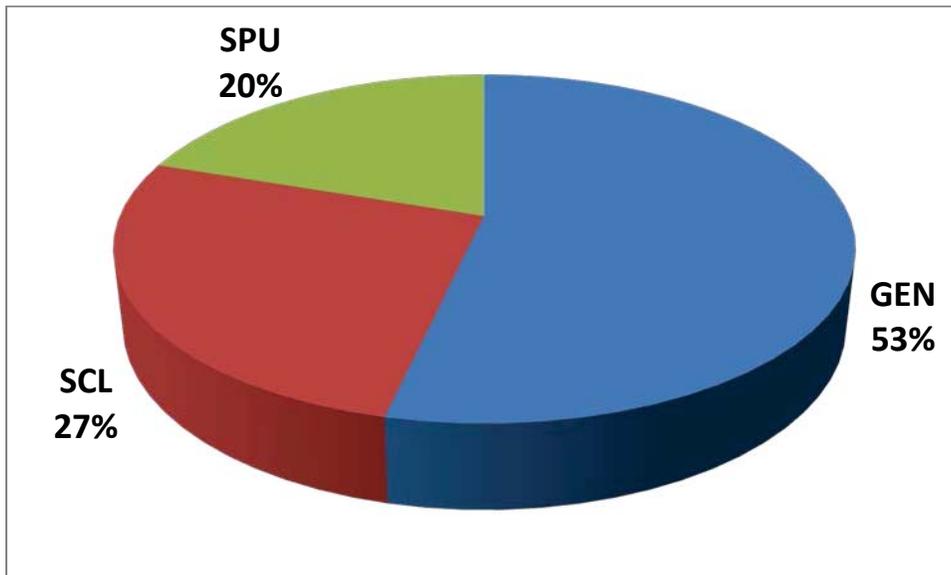
Source: U.S. Bureau of Labor Statistics, City of Seattle.

Revenue Overview

City Revenues

The City of Seattle projects total revenues of approximately \$4.3 billion in 2014. As Figure 9 shows, approximately 47% of these revenues are associated with the City’s utility services, Seattle City Light and Seattle Public Utilities’ Water, Drainage and Wastewater, and Solid Waste divisions. The remaining 53% are associated with general government services, such as police, fire, parks, and libraries. Money obtained from debt issuance is included in the total numbers as are interdepartmental transfers. The following sections describe forecasts for revenue supporting the City’s primary operating fund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City’s Bridging the Gap Transportation program in the Transportation Fund.

Figure 9. Total City Revenue by Use – Proposed 2014 \$4.3 Billion

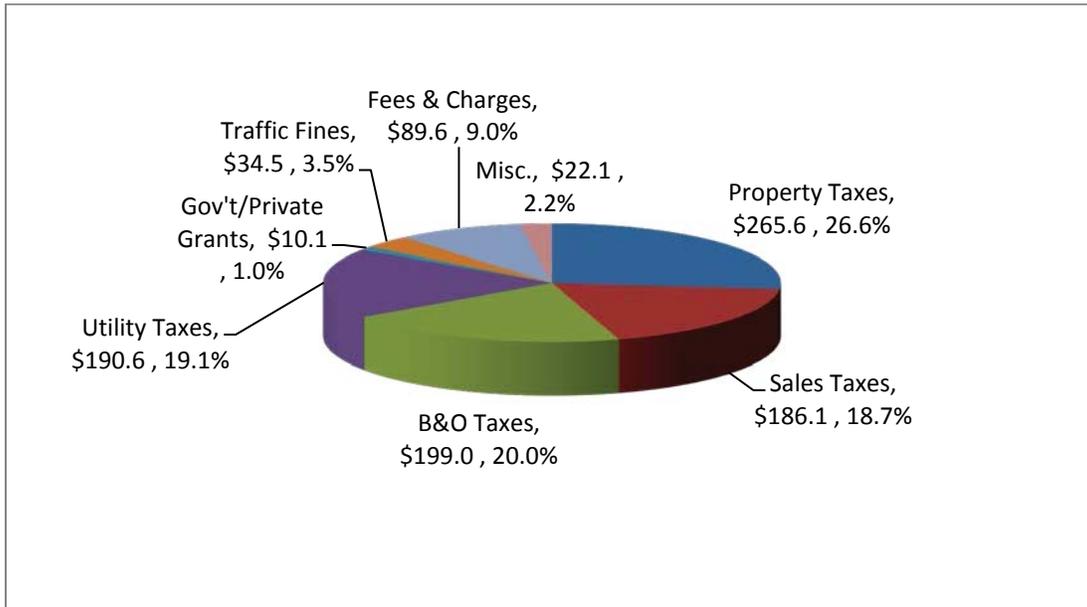


General Subfund Revenue Forecast

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 26.5%, followed by utility taxes, the Business and Occupation (B&O) tax, and sales taxes.

Revenue Overview

Figure 10. 2014 Proposed General Subfund Revenue Forecast by Source - \$997.5M



General Subfund revenues were \$964.0 million in 2012. Revenues in 2013 and 2014 are expected to be \$953.2 million and \$997.5 million, respectively. 2012 revenues were relatively high due to proceeds from the sale of property associated with the Alaskan Way Tunnel project in the amount of \$8.1 million as well as around \$24.0 million in pass-through revenues that are not appropriated in adopted budgets.

Figure 11 shows General Subfund actual revenues for 2012, adopted and revised revenues for 2013, as well as the endorsed and proposed revenues for 2013 and 2014. Revenue growth has returned to the City's finances. B&O and sales tax revenues are expanding, but not at the rate normally seen during expansionary periods. B&O growth is expected to average 4.6% over the 2013-2014 period and sales taxes will average 5.1% over the same, both outpacing expected inflation. 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 phones services are being used for internet access and other data services which are not part of the local tax structure. Similarly the competition between cable and satellite service providers along with an increased presence of television online has muted growth in cable tax revenues.

On-street parking and parking enforcement continue to be a source of revenue changes in 2013 and the Proposed 2014 Budget. The Pay-By-Phone parking payment program began operation in July 2013 and an additional 8 Parking Enforcement Officers (PEO) will further add to the variability in these revenues. Scheduled losses of paid parking spaces due to construction activity related to the Seawall and Alaskan Way Viaduct replacement projects, reconfiguration of the Mercer St. corridor and several other road construction projects are also negatively affecting both on-street parking and enforcement revenues throughout 2013 and 2014.

Revenue Overview

The 2012 Adopted Budget also increased the City's red light camera program by authorizing 6 new approaches, for a total of 36 locations and added fixed, speed detection cameras in 4 school zones in an effort to reduce speeds and the likely severity of vehicle-pedestrian accidents. The 2014 Proposed Budget assumes an additional 11 school zone camera locations become operational in 2014. Overall revenue effects from this wide array of changes are for significant increases in camera enforcement revenues relative to the 2013 Adopted and 2014 Endorsed Budget and a very small increase to all other Fine revenues. Revenues from the scofflaw booting program in the 2014 Proposed Budget are expected to perform roughly as anticipated in the 2013 Adopted Budget and to remain fairly stable in 2013-14 at roughly \$1.5 million annually. With the steady growth in the economy, on-street parking revenues have increased faster than expected in the 2013 Adopted Budget.

Property taxes are another area of significant change. The 2013 Adopted and 2014 Proposed Budgets assume renewal of the Medic One/EMS levy at the November ballot. The 2014 Adopted Budget assumes 9.5% growth in the City's assessed value in 2014. As the first year of the Medic One/EMS renewal, this will generate levy proceeds of \$42.3 million in 2014 at the proposed renewal rate of \$0.335 per \$1,000 of assessed value. City voters will also be asked in November whether to impose a levy lid lift to support public financing of City Council election campaigns. This measure would impose a levy of \$2.0 million in the first year of a proposed 6-year lid lift.

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 deposited 100% of the revenue from these taxes and fees directly into the General Subfund or other funds as appropriate. This has greatly simplified City accounting. The General Subfund support to the PRF is increased by an amount equal to PRF revenue from these taxes. For 2013 and 2014, General Subfund support to the Parks and Recreation department will be \$85.2 million and \$90.2 million. These contributions are well above the \$44.0 and \$46.5 million 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	2012 Actuals	2013 Adopted	2013 Revised	2014 Endorsed	2014 Proposed
General Property Tax ⁽¹⁾	225,158	226,440	216,718	230,540	223,255
Property Tax - Medic One Levy	34,796	34,560	34,647	39,187	42,306
Retail Sales Tax	155,656	157,257	164,041	163,046	171,579
Retail Sales Tax - Criminal Justice Levy	12,840	13,330	13,745	13,956	14,515
B&O Tax (100%)	181,822	188,827	187,264	199,462	199,042
Utilities Business Tax - Telephone (100%)	27,334	26,926	26,845	27,680	27,341
Utilities Business Tax - City Light (100%)	41,567	43,933	43,406	46,531	46,575
Utilities Business Tax - SWU & priv.garb. (100%)	13,194	14,343	14,284	14,870	14,676
Utilities Business Tax - City Water (100%)	25,938	26,981	28,156	29,148	29,967
Utilities Business Tax - DWU (100%)	35,375	36,624	38,188	37,237	39,256
Utilities Business Tax - Natural Gas (100%)	13,298	12,944	12,877	14,349	14,551
Utilities Business Tax - Other Private (100%)	17,355	17,710	17,804	18,271	18,241
Admission Tax	7,068	6,111	6,889	6,301	7,062
Other Tax	4,857	5,090	5,545	5,110	4,845
Total Taxes	796,256	811,075	810,409	845,689	853,210
Licenses and Permits	13,403	12,804	13,432	12,867	13,493
Parking Meters/Meter Hoods	36,621	35,606	37,254	35,949	37,408
Court Fines (100%)	32,031	32,873	39,033	35,003	34,471
Interest Income	1,545	1,864	1,523	2,381	1,837
Revenue from Other Public Entities ⁽²⁾	34,691	10,113	9,553	11,183	10,070
Service Charges & Reimbursements	36,747	38,106	37,127	39,036	38,714
Total: Revenue and Other Financing Sources	951,294	942,441	948,331	982,108	989,204
All Else	3,111	1,894	2,232	4,420	5,357
Interfund Transfers ⁽³⁾	9,603	2,457	2,594	712	2,993
Total, General Subfund	964,007	946,792	953,156	987,240	997,553

NOTES:

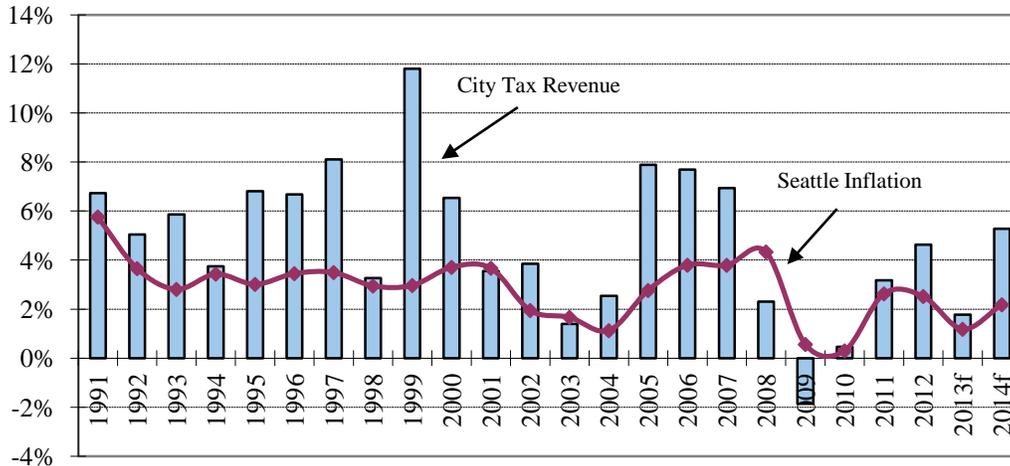
- (1) Includes property tax levied for the Firemen's Pension Fund per RCW 41.16.060.
- (2) Included in 2012 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.
- (3) The 2012 amount includes \$8.1 million from the sale of the rubble yard for Alaskan Way Viaduct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

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

Revenue Overview

Figure 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 3.5% for 2013 through 2014. Inflation for the same period will average 1.7%.

Figure 12. City of Seattle Tax Revenue Growth, 1991-2014



Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. 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 2013 property tax: the non-voted General Purpose levy (58%); the six voter-approved levies for specific purposes (38%), 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%). 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 2013 tax rate at \$3.28 per \$1,000 AV was roughly one-third of the total \$10.50 rate paid by Seattle property owners for all taxing jurisdictions. The 2013 total and City of Seattle tax obligations for the median valued home in Seattle was \$3,657 and \$1,143 respectively. The obligation amounts in 2012 were approximately \$3,649 and \$1,176.

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 2.23 percent respectively. The last significant decrease was in 1984 when AV dropped by 3.6 percent. In addition to the effect on rates of levy amount changes, 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 is forecasted to increase 9.5% for 2014 and 5.5% for 2015

New Construction -- In addition to the allowed maximum 1% revenue growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor. 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. This increased revenues by \$2.39 million in 2013. The 2014 Proposed Budget projects significant growth in new construction value, increasing at nearly 45% to \$1.12 billion and to generate \$3.5million additional tax revenues in 2014.

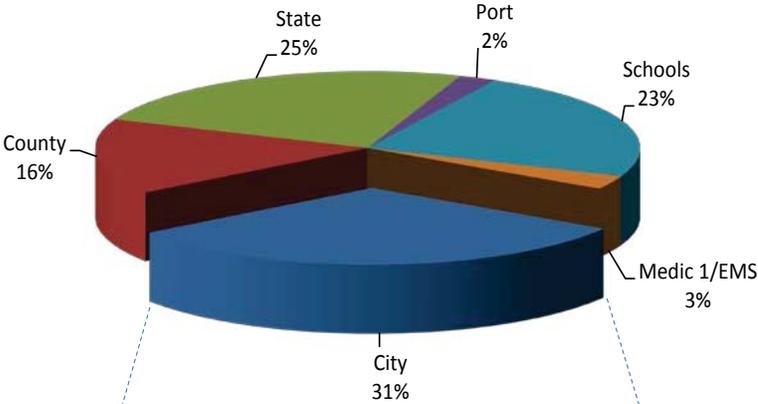
The 2014 Proposed Budget assumes 1% growth plus new construction. The forecast for the 2014 Proposed Budget's General Subfund (General Purpose) portion of the City's property tax is \$216.7 million in 2013 and \$223.2 million in 2014. Additionally the City will levy approximately \$147.2 million for voter-approved lid lifts accounted for in other funds than the City's General Fund and \$17.7 million to pay debt service on voter-approved bond measures. The City's nine-year transportation lid lift will generate approximately \$41.8 million in 2013 and \$42.6 million in 2014. These revenues are accounted for in the Transportation Fund and are discussed later in this section. In November 2013, voters will have the opportunity to approve a new property tax measure (lid lift) in support of public financing of City Council election campaigns. The 6-year measure calls for a first year levy amount of \$2,000,000.

Medic 1/Emergency Medical Services. 2013 marks the final year of the current 6-year Medic 1/EMS levy (2008-2013). In November 2007, King County voters approved the current renewal at a maximum rate of \$0.30 per thousand dollars of assessed value (AV). The current levy was projected to generate approximately \$222 million in the City of Seattle between 2008 and 2013, but due to declining AV the rate remained at its authorized limit in 5 of the 6 years, thus not allowing the levy amount to grow at the allowed 1%, and is now projected to generate approximately \$214 million over the full 6 years. 2013 revenues are projected at \$34.65 million, down from the \$34.79 million received in 2012, but up slightly from the \$34.56 million in the 2013 Adopted Budget. The 2014 Proposed Budget assumes passage in November 2013 of the proposed renewal of the Medic 1/EMS levy at \$0.335 per \$1,000 of AV. At the proposed rate King County projects 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 Proposed Budget projects levy revenues of \$42.3 million in 2014, an increase of \$3.1 million over the 2014 Endorsed Budget projection of 39.2 million. This increase is due to greater than previously forecast AV growth for 2014 tax collections.

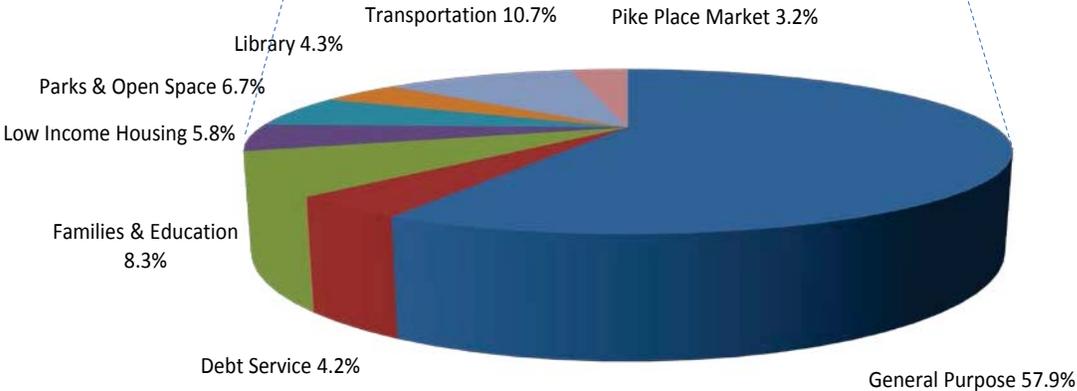
Revenue Overview

Figure 13.

Components of Total Property Tax Levy for 2013
 (tax rate = \$10.51 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2013
 (tax rate = \$3.28 per \$1,000 assessed value)



Revenue Overview

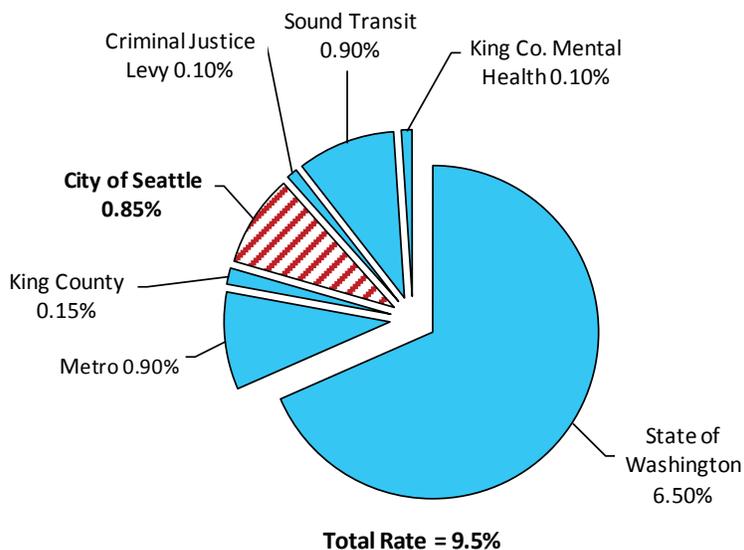
Retail Sales and Use Tax

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

The sales tax rate in Seattle is 9.5% for all taxable transactions. Prior to October 1, 2011, the sales tax rate in Seattle had included an additional 0.5% tax on the sale of food and beverages in restaurants, taverns, and bars. This tax, 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, 2013



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

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

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. Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-97, and the stock market and technology booms. Growth began to slow in 2000, when the stock market bubble burst and technology firms began to falter. The slowdown continued into 2001 and 2002, and the year-over-year change in revenue was negative for ten consecutive quarters beginning with first quarter 2001. The economy began to recover in 2004, which was followed by three very strong years (2005-07), during which taxable sales grew at an average annual rate of 9.8%, led by construction's 21.0% growth rate.

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

Construction, which led the pre-recession build-up in the sales tax base, also led the decline. During the four year period 2004 Q1 – 2008 Q1, taxable sales for construction more than doubled (112.2% increase). The following three years erased 79% of that increase. Other industries posting steep declines in taxable sales during the recession were manufacturing, finance and insurance, and building materials & garden supplies.

After hitting bottom in the fourth quarter of 2009, Seattle's sales tax base has grown by 21.5% through 2013 Q1, leaving it just 0.6% short of its 2008 Q3 peak. If the data are adjusted for inflation, the sales tax base in first quarter 2013 is still 9.4% below its peak. Industries leading the upturn include construction, motor vehicle & parts retailing, e-commerce retailing, manufacturing, management, education, and health services, and accommodations. Construction taxable sales have increased by 55.1% since hitting bottom in the second quarter of 2011.

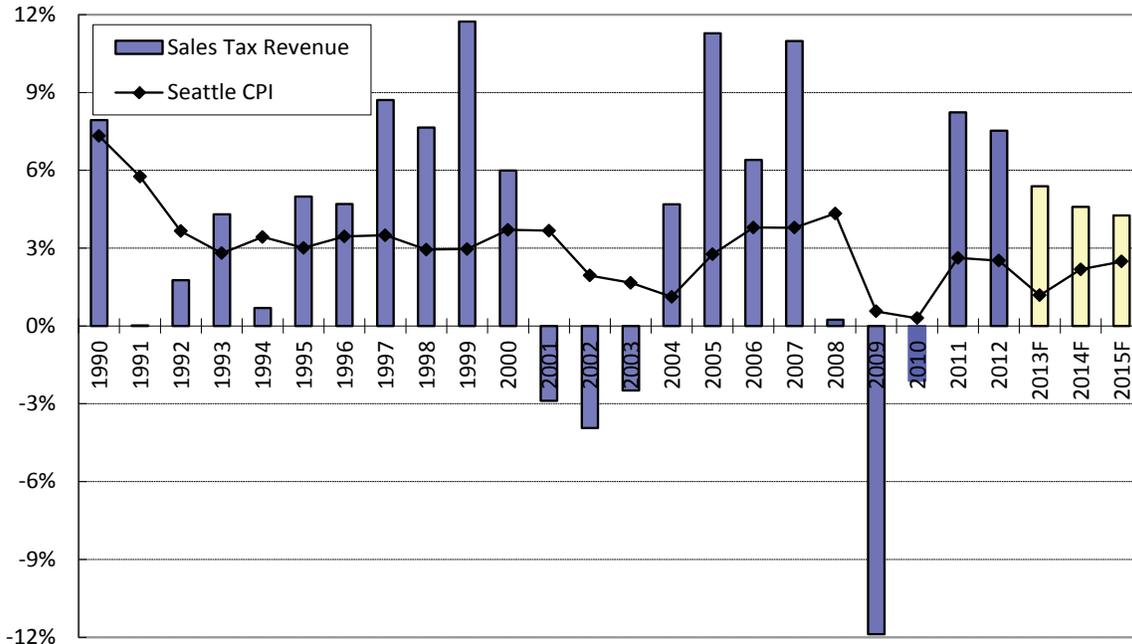
In 2011 sales tax revenue was boosted by the state's amnesty program, which was in effect between February 1 and April 30. The program offered taxpayers a temporary tax amnesty that waived penalty and interest payments on certain unpaid business taxes, including the sales tax. The amnesty program generated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

Sales tax revenue growth is expected to slow. Following a 6.6% gain in 2011, the City's sales tax base expanded by 9.0% in 2012, when construction increased by 28.7% while the rest of the tax base expanded by 4.7%. With construction growth having slowed to the 15% range over the past two quarters and expected to continue slowing, taxable sales growth is forecast to drop to 4.9% in 2013 and 4.2% in both 2014 and 2015 (see Figure 15).

Sales tax revenue in 2013 and later years received a boost from HB 1971, passed by Washington State Legislature in 2013, which made a number of changes to the way in which telecommunications services are taxed. The change with the greatest fiscal impact is the repeal of the sales and use tax exemption for local residential land line service. To reflect the impact of this change, which takes effect on approximately October 1, 2013, \$200,000 was added to sales tax forecast for 2013, and \$1.0 and \$1.1 million were added to the forecasts for 2014 and 2015, respectively.

Revenue Overview

Figure 15. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2013-15 are forecasts.

Business and Occupation Tax

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

On January 1, 2008, new state mandated procedures for the allocation and apportionment of B&O income took effect. These procedures were expected to reduce Seattle’s B&O tax revenue by \$22.3 million in 2008 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 2013, the rate for business floor space, which includes office, retail, and production space, is 43 cents per square foot per quarter. Other floor space, which includes warehouse, dining, and exercise space, is taxed at a rate of 14 cents per square foot per quarter. The floor area tax rates are adjusted annually for inflation. The B&O tax has a small business threshold of \$100,000, 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. 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.

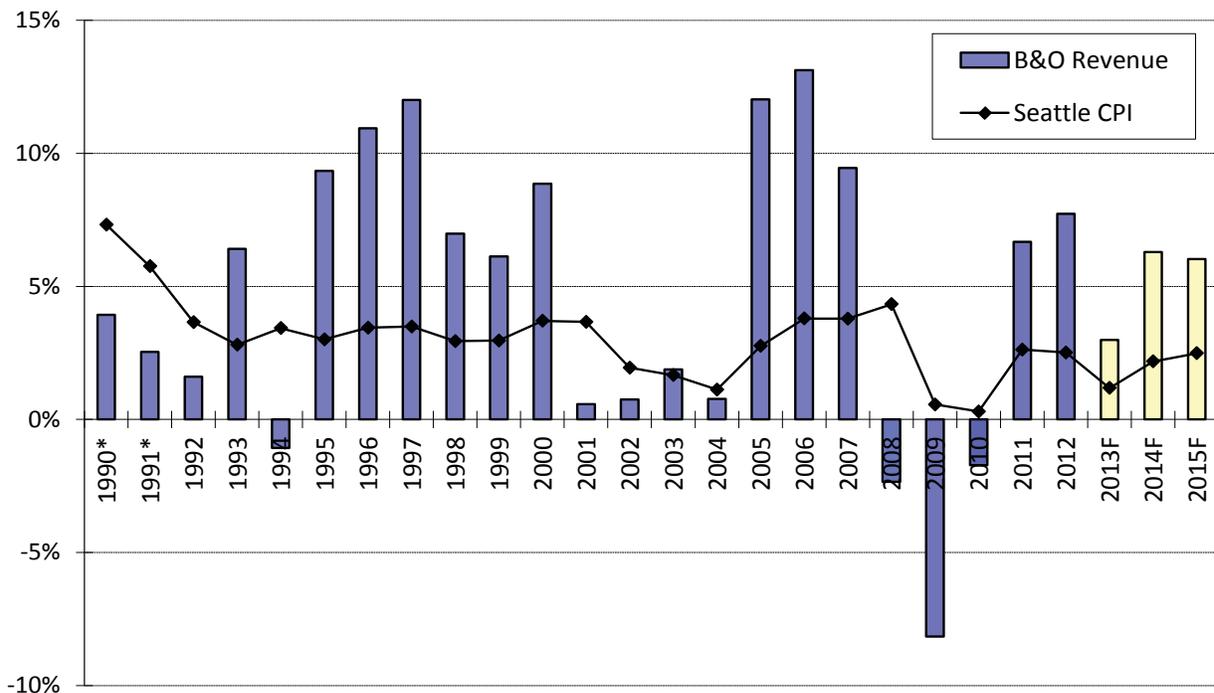
Revenue Overview

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

B&O revenue surpassed its pre-recession high in 2012. 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 bubbles and the housing bubble of the mid-2000s, but falling sharply during the two major recessions of the last decade. When the region’s economy slipped into recession in early 2001, B&O revenue growth slowed abruptly, and remained below 2% for four successive years (see Figure 16). Revenue growth then accelerated sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction, professional, scientific & technical services, health services, and finance & insurance. The upturn ended abruptly in 2008, which started with a healthy 8.3% year-over-year increase in revenue from current economic activity in the first quarter, and ended with a 7.0% year-over-year decline in the fourth quarter. For the year, revenue was down 2.3% from 2007 levels, but 2009 saw the full force of the recession with 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.

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; 2013-15 are forecasts.

Figures include both gross receipts and square footage tax revenue.

The B&O tax base stopped contracting in the second quarter of 2012, having lost 16.8% of its value. Since then the tax base has experienced a healthy rebound, increasing by 22.0% over the 11 quarters to first quarter 2013 to surpass its pre-recession peak by 1.5%. Leading the rebound have been construction, wholesale trade, finance & insurance, and business & professional services. The bounce-back in health services has been modest, with growth during the past three years running well below historic levels.

Revenue Overview

B&O tax revenue, which had declined for three years in a row, returned to growth in 2011, posting a 6.7% gain. Growth in 2011 fell short of the 7.7% increase in the tax base because of a drop in revenue from non-current activity, which includes audit payments, refunds, and penalty & interest payments. 2011 was a record year for refunds. This pattern was reversed in 2012, when 7.7% revenue growth exceeded the 5.7% growth rate of the tax base by 2.0%. 2012 was a record year for revenue from audit payments and for non-current revenue overall.

The B&O forecast anticipates moderate revenue growth will continue. The B&O revenue forecast reflects the expectation that the U.S. economy will slowly improve, but that the recovery will remain relatively weak at both the national and regional levels. The B&O tax base is forecast to grow at an annual rate in the 5½% - 6% range over the next several years. Tax revenue is expected to increase at roughly the same rate as the tax base except in 2013, when 3.0% revenue growth is forecast. Revenue growth will be weak in 2013 because non-current revenue is expected to drop by \$3.1 million from 2012, reflecting an expected return to more normal levels from 2012's record high.

The forecast for 2013 incorporates an expected revenue gain from the addition of two license and standards inspectors to the Regulatory and Enforcement Unit of the Department of Finance and Administrative Services. A second revenue gain in 2013 results from the freeing-up of some audit and licensing staff time that is currently involved in taxi regulation. Some of this staff time will now be available for B&O tax enforcement, which will increase B&O revenue in 2013.

The forecast of non-current revenue for 2014 and later years has been reduced to reflect the expectation that the high level of refunds the City has experienced since 2011 will continue. The increase in refunds is due in part to increased taxpayer compliance with the state mandated apportionment and allocation procedures that took effect in 2008.

Utility Business Tax - Private Utilities

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

Natural gas prices 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. Prices averaged \$2.6/mBTU for 2012 and are expected to average around \$4.5/mBTU from 2013 through 2014. Temperatures play a key role and are inversely related to natural gas usage and subsequent tax receipts.

Telecommunications industry continues to change. The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. After extraordinary growth over several consecutive years in the late 1990s, telecommunication tax revenue growth halted completely in 2002, and began declining in the fourth quarter of that year. A variety of forces – the lackluster economy, industry restructuring, and heightened competition – all served to force prices downward and reduce gross revenues. Technological changes, particularly Voice-over Internet Protocol (VoIP), which enables local and long-distance calling through broadband Internet connections, contribute to the uncertainties in this revenue stream.

All sectors of the industry have been affected to varying degrees by the recession as well as changes in consumer habits. Wireless revenues have been a source of growth as more and more consumers shift to cellular phones as their primary voice option. This growth has come at the expense of traditional telecom providers, from whom the City has seen steady declines in tax receipts. The recent proliferation of smartphones has been a double-edged sword for the City's tax base. While new smartphone users have added to the wireless tax revenue base, the increased use of data and Internet services which are not taxable have caused unexpected declines in the revenue

Revenue Overview

streams. As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City will continue to see tax revenue declines. 2011 revenue growth was negative over 2010 (-10.7%) because of artificially high receipts from audit payments and as a result of some wireless companies changing their revenue accounting practices to reflect the increased use of non-taxable data services. These accounting practices continue to evolve, leading to another year of negative growth in 2012 of -3.7%. Non-current revenues, those that are for prior periods stemming from re-filing or audit/refund payments, are expected to average \$825,000 over the current biennium. Because of this positive addition to revenues, 2013 and 2014 growth is expected to be flat.

Cable tax revenues show positive growth. The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.2% franchise fee makes funds available for cable-related public access purposes. This franchise fee is deposited into the City's Cable TV Franchise Fee Subfund.

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 2013 – 2014 period is expected to be 2.3%, just above inflation.

Utility Business Tax - Public Utilities

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

New pass-through rates from the Bonneville Power Administration are expected 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 may be triggered during the second half of 2014, but is not assumed in the forecast. Average retail rates for 2013 and 2014 are up by 4.4% and 7.3% respectively over the prior year and assume a new BPA rates charged to City Light which passes on those rates to end users. Tax revenues that accrue to the General Subfund will have annual increases of 4.5% in 2013 and 7.3% in 2014.

Water retail rate increases for 2013 and 2014. Rate increases have already been adopted by Council for the water utility in SPU through 2014. This will lead to tax revenue growth rates of 8.6% in 2013 and 6.4% in 2014.

Drainage and Wastewater rate increases mean higher tax revenue growth. Rates adopted by City Council through 2014 will yield tax receipts from these two utilities that will grow by 7.9% and 2.8% in 2013 and 2014, respectively.

Higher Solid Waste rates mean higher tax revenue growth. The utility tax rate on both City of Seattle and commercial solid waste service is currently 11.5%. 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 8.7% and 2.9% in 2013 and 2014, 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

Revenue Overview

by the general prosperity in the region. Recently, entertainment venues have opened around the City increasing the size of the tax base.

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. Pay stations are parking payment devices offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking. Pay station technology also allows the City to adopt different pricing, time limit and other management parameters on different blocks throughout the city. In the same period, the City has increased the total number of parking spaces in the street right-of-way that are subject to fees and collected more data to measure occupancy, turn over and other characteristics of on-street parking. Now with around 2,200 pay stations controlling approximately 12,500 parking spaces, the overall objective of the program is to provide a more data-driven, outcome based management and price setting approach in pursuit of the expressed policy goals of 1 to 2 open spaces per block-face, reduced congestion, support of business districts and, as a by-product, reduced vehicle emissions and improved air quality.

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

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

The Department of Transportation's budget section provides further information about the parking management program. Each of the prescribed rate changes implemented in 2011 and 2012, as well as extending evening paid parking hours from 6 p.m. to 8 p.m. or increasing time limits from 2 to 4 hours have affected on-street parking revenues. Simultaneously, beginning in October 2011, construction activity related to the Alaskan Way Viaduct replacement project and subsequently the Seawall replacement project began eliminating several blocks of on-street parking in the Pioneer Square and downtown waterfront area. Reconfiguration of the Mercer St. corridor and other road construction projects similarly will continue to reduce or alter, if only temporarily, available on-street parking in effected neighborhoods. Altogether, these changes and effects, including general improvement

Revenue Overview

in demand experienced throughout 2012 and 2013, increase 2013 revenues in the 2014 Proposed Budget 3.6% over the 2013 Adopted Budget to \$35.4 million. 2014 revenues are projected to remain flat at \$35.4 million due to the loss of spaces along the waterfront.

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. This increase is in response to increased economic activity in the service trades for example, but primarily increased construction activity, requiring increased numbers of meter hoods and vehicle overload permits. The 2014 Proposed Budget assumes meter hood and vehicle overload permit volumes stabilizing or declining slightly for 2013 and 2014. 2013 revenues are projected to fall to \$3.36 million and to \$3.17 million in 2014.

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. Absent an issued pay sticker, PBP will require PEOs to verify payment compliance for all vehicles without a pay sticker or with an expired sticker. The 2013 Adopted and 2014 Endorsed Budgets assumed the PEOs would accomplish this with their handheld ticketing devices (HHTs) via a wireless connection to a database on a central server. Due to connectivity issues related to the aging HHTs, this additional enforcement step could add up to 30 seconds on average per checked vehicle to current enforcement practice. SPD will replace the current class of HHTs in 2014, which will improve connectivity and reduce the time to enforce.

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 will continue through October 2013, which is several months delayed from original forecast expectations. Altogether, the delay in implementation and using smartphones for enforcement are assumed to lessen the negative effect on enforcement efficiency, assumed in the 2013 Adopted and 2014 Endorsed Budgets.

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

Revenue Overview

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 Proposed Budget projects 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 are attributable to school zone speed cameras. The 2014 Proposed Budget assumes 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. 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 2013 are estimated at \$39.0 million, an increase from \$32.9 million in the 2013 Adopted Budget due largely to the greater than anticipated performance of the school zone cameras, but also to the diminished effects of the PBP program. For 2014, Fine and Forfeiture revenues are projected at \$34.4 million in the 2014 Proposed Budget. The large decrease across years is due to the removal of school zone camera revenues in 2014.

Interest Income

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

As a result of the financial crisis in 2008, borrowing rates have fallen precipitously across the board. These rates remained low in 2009-2012 and the Federal Reserve has committed to keeping interest rates low through 2014. The annual yield for 2013 and 2014 is expected to be 0.71% and 0.85% respectively. Current estimates for General Subfund interest and investment earnings are \$1.5 million in 2013 and \$1.8 million in 2014.

Revenue from Other Public Entities

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

The State's budget leads to small declines in Criminal Justice revenues. The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. For the 2012 and 2013 state budgets, these distributions were cut by 3.4% in each year, leading to small declines in the revenue stream for Seattle.

State budget reduces liquor related revenues to cities. Cities in the state of Washington typically receive two liquor related revenues from the state. One is related to the liquor excise tax on sales of spirits and the other is a share in the State Liquor Board's profits accrued from the operation from their monopoly on spirits sales. The state no longer holds the monopoly in liquor sales in the state due to the passing of Initiative 1183 in November of 2011. The initiative guaranteed the cities would continue to receive distributions in an amount equal to or greater than what they received from liquor board profits prior to the implementation of the initiative as well as an additional \$10 million to be shared annually. There was no guarantee concerning liquor excise taxes. In recent budgets the state has eliminated, on a temporary basis, the sharing of liquor excise taxes. Partial distributions will resume in the 3rd quarter of 2013. The sale of state liquor stores led to a one-time distribution of \$1.3 million to Seattle in 2012 for an expected total of \$7.6 million. Liquor related revenues for 2013 will be \$5.9 million and \$6.4 million in 2014. The revenues should have stabilized by 2015, barring any additional changes from the state.

Revenue Overview

Service Charges and Reimbursements

Internal service charges reflect current administrative structure. In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Subfund to City utilities and certain other departments not supported by the General Subfund. The intent is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Subfund from these independently supported departments. The former Department of Executive Administration (DEA) has merged with the former Fleets & Facilities Department (FFD) into the Department of Finance and Administrative Services (FAS). This means that central service charges that accrued to the General subfund to support the former DEA's work now go directly to FAS's operating fund. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

Interfund Transfers

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

In ratifying the 2014 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

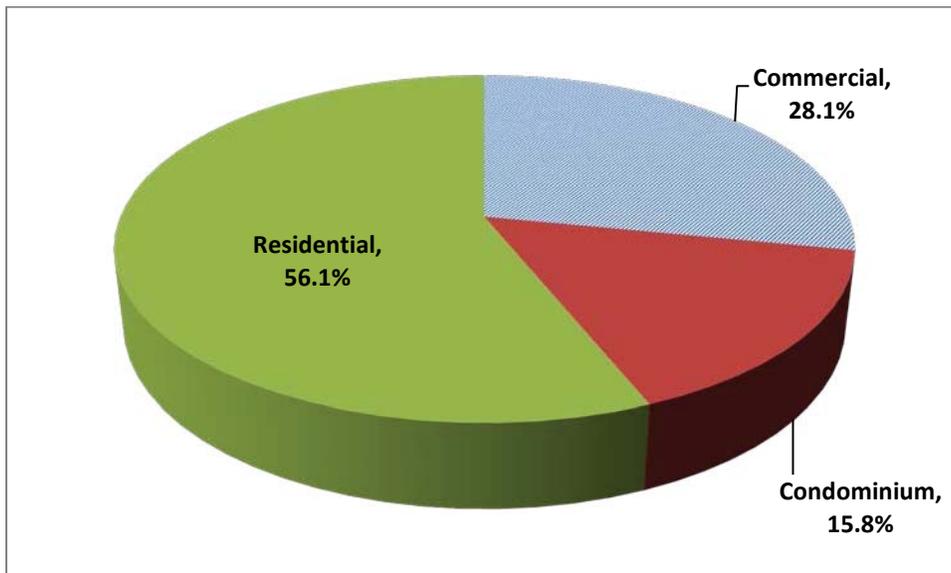
Cumulative Reserve Subfund – Real Estate Excise Tax

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, 56.1% 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 28.1% of the tax base, and condominiums constitute the remaining 15.8% (see Figure 17).

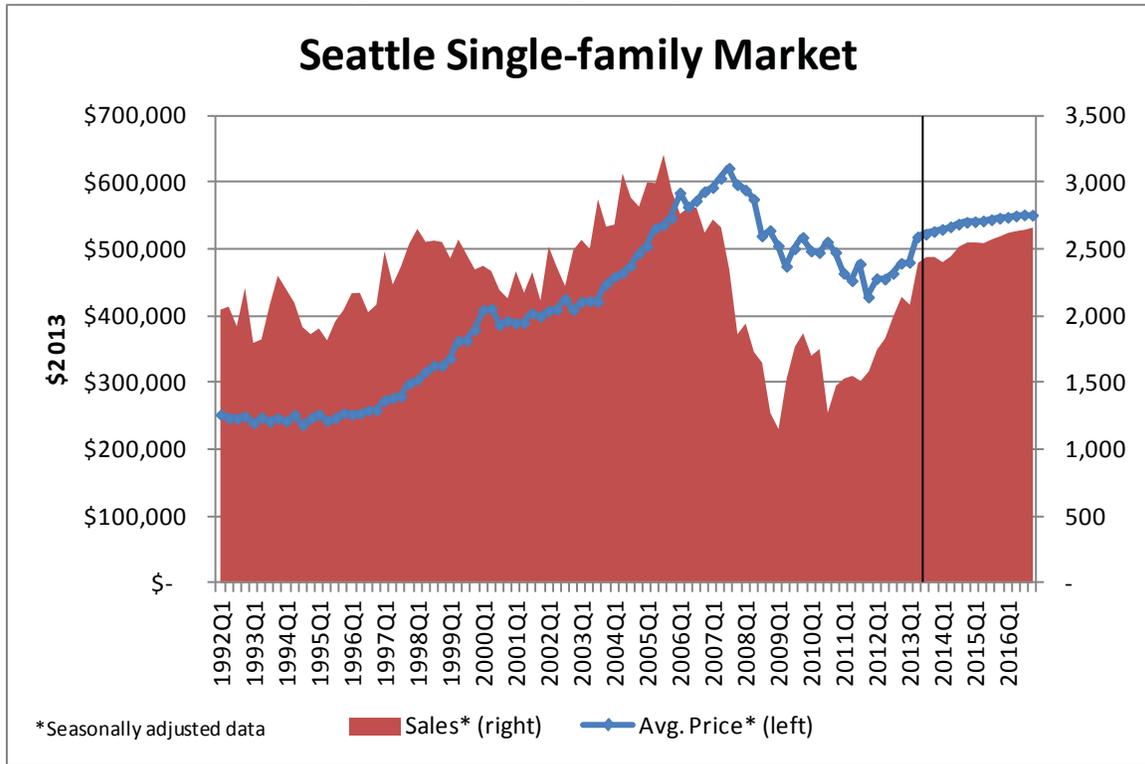
Figure 17. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2012



The residential market has picked up. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fuelled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008, and continued to decline by 23.4% into 2009. The decline was felt across all three real estate categories. 2010 saw small growth of 3.7% over 2009. 2011 had improved numbers especially in the commercial market with a number of large downtown office buildings changing hands. This provided 27.4% growth in REET over 2010. The commercial market continued to expand in 2012 with another significant year of transactions similar to 2007 with sector growth of 142.7% over 2011 with total REET growing by 65.9%. 2013 has so far seen a sharp increase in both the number of single-family homes changing hands and their average prices (see Figure 18). Transaction volumes are at levels not seen since 2007 prior to the downturn. Because commercial activity was so pronounced in 2012, total REET receipts are expected to fall from 2012 by -6.9%. 2014 should see positive growth again of 9.2%.

Revenue Overview

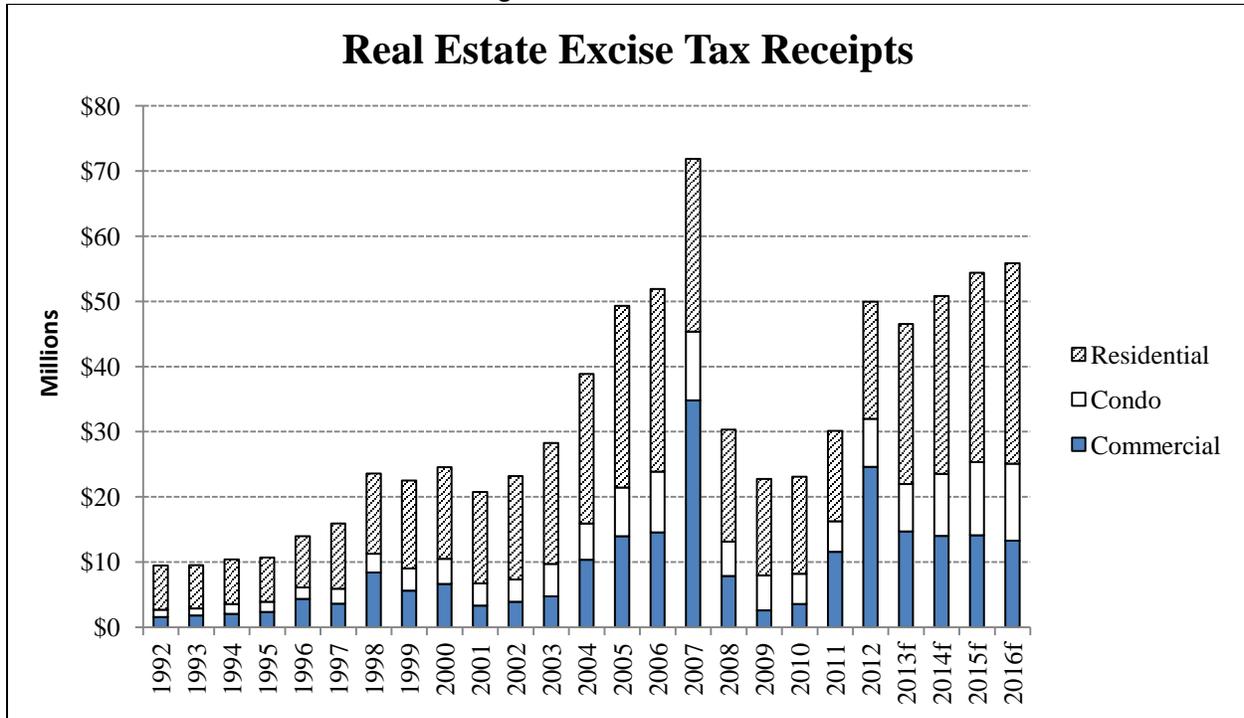
Figure 18. Seattle Single-family Home Sales



The volatility of REET is reflected by the fact that despite a 9.6% average annual growth rate, the REET tax base declined in nine years during the period 1982 – 2012. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. That price stability was severely compromised in the downturn as Seattle area prices for residential properties fell 31.0% from their peak, according to the Case/Shiller Home Price Index. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next, as was seen in 2007 and more recently in 2011 and 2012.

Revenue Overview

Figure 19. REET Revenues



Transportation Fund – Bridging the Gap Revenue Sources

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

The transportation lid lift is a nine-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift provides a stable revenue stream that raised \$40.3 million in 2011 and \$41.0 million in 2012. For 2013 and 2014, the 2014 Proposed Budget includes lid lift revenues of \$41.8 million and \$42.6 million respectively.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. The tax rate was initially established at 5% effective July 1, 2007. As approved in the authorizing legislation, the rate increased on July 1, 2008 to 7.5%, and then to 10% on July 1, 2009. The tax yielded \$24.1 million in 2010. The commercial parking tax rate increased to 12.5 percent January 1, 2011 and generated \$28.2 million. The tax raised \$31.2 million in 2012. Commercial Parking Tax revenue is forecast to increase to \$31.9 million in 2013 and \$32.8 million in 2014. As noted, the original 10% commercial parking tax was established as part of the Bridging the Gap transportation program. These additional revenues from the 2.5% increase are authorized to fund a variety of transportation purposes, which are described in the Department of Transportation’s section of this budget.

Revenue Overview

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

Revenue Overview

Figure 20. Seattle City Tax Rates

	2009	2010	2011	2012	2013
Property Taxes (Dollars per \$1,000 of Assessed Value)					
General Property Tax	\$1.55	\$1.78	\$1.87	\$1.97	\$1.90
Families & Education	0.12	0.14	0.14	0.27	0.27
Parks and Open Space	0.18	0.20	0.20	0.21	0.20
Low Income Housing	0.03	0.17	0.17	0.18	0.17
Fire Facilities	0.15	0.09	0.10	0.06	
Transportation	0.27	0.31	0.32	0.33	0.35
Pike Place Market	0.09	0.10	0.10	0.11	0.10
Library					0.14
Emergency Medical Services	0.27	0.30	0.30	0.30	0.30
Low Income Housing (Special Levy)	0.06				
City Excess GO Bond	0.13	.014	0.15	0.15	0.14
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax					
Retail/Wholesale	0.215%	0.215%	0.215%	0.215%	0.215%
Manufacturing/Extracting	0.215%	0.215%	0.215%	0.215%	0.215%
Printing/Publishing	0.215%	0.215%	0.215%	0.215%	0.215%
Service, other	0.415%	0.415%	0.415%	0.415%	0.415%
International Finance	0.415%	0.150%	0.150%	0.150%	0.150%
City of Seattle Public Utility Business Taxes					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water	19.87%	19.87%*	15.54%	15.54%	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
City of Seattle Private Utility B&O Tax Rates					
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste	11.50%	11.50%	11.50%	11.50%	11.50%
Franchise Fees					
Cable Franchise Fee	4.20%	4.20%	4.20%	4.20%	4.20%
Admission and Gambling Taxes					
Admissions tax	5.00%	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%	5.00%

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

Selected Financial Policies

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

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

Other Citywide Policies

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

¹ The 0.50% contribution is lowered to 0.25% of forecasted tax revenues for 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.

