Reader's Guide

This reader's guide describes the structure of the 2009 Adopted and 2010 Endorsed Budget and outlines its contents. It is designed to help citizens, media, and City officials more easily understand and participate in budget deliberations. In an effort to focus on what is achieved through spending, the 2009 Adopted and 2010 Endorsed Budget includes funding levels and expected program outcomes, taking into consideration the current economic situation.

A companion document, the 2009-2014 Adopted Capital Improvement Program (CIP), identifies expenditures and fund sources associated with the development and rehabilitation of major City facilities, such as streets, parks, utilities, and buildings, over the next six years. The CIP also shows the City's financial contribution to projects owned and operated by other jurisdictions or institutions. The CIP fulfills the budgeting and financing requirements of the Capital Facilities Element of Seattle's Comprehensive Plan by providing detailed information on the capacity impact of new and improved capital facilities.

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

The 2009 Adopted and 2010 Endorsed Budget

This document is a detailed record of the spending plan for 2009-2010. It contains the following elements:

- Budget Overview – 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 2009-2010;
- General Subfund Revenue Overview – a narrative describing the City's General Subfund revenues, or those revenues available to support general government purposes, and the factors affecting the level of resources available to support City spending;
- Selected Financial Policies – a description of the policies that govern the City's approach to revenue estimation, debt management, expenditure projections, maintenance of fund balances, and other financial responsibilities;
- Budget Process – a description of the processes by which the 2009 Adopted and 2010 Endorsed Budget and 2009-2014 Adopted CIP were developed;
- Departmental Budgets – City department-level descriptions of significant policy and program changes from the 2008 Adopted Budget, the services provided, and the spending levels adopted to attain these results;
- Appendix – an array of supporting documents including Cost Allocation, a summary of cost allocation factors for internal City services; a Position Modifications report, listing all position modifications contained in the 2009 Adopted Budget; a glossary; and Citywide statistics.

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

As indicated, the Adopted 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, 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.

Budget Presentations

Most department-level budget presentations begin with information on how to contact the department, as well as a description of the department's basic functions and areas of responsibility. There follows a narrative summary of the major policy and program changes describing how the department plans to conduct its business in light of the adopted budget. When appropriate, subsequent sections present budget control level and program level purpose statements, and program summaries detailing significant program changes from the 2008 Adopted Budget to the 2009 Adopted Budget.

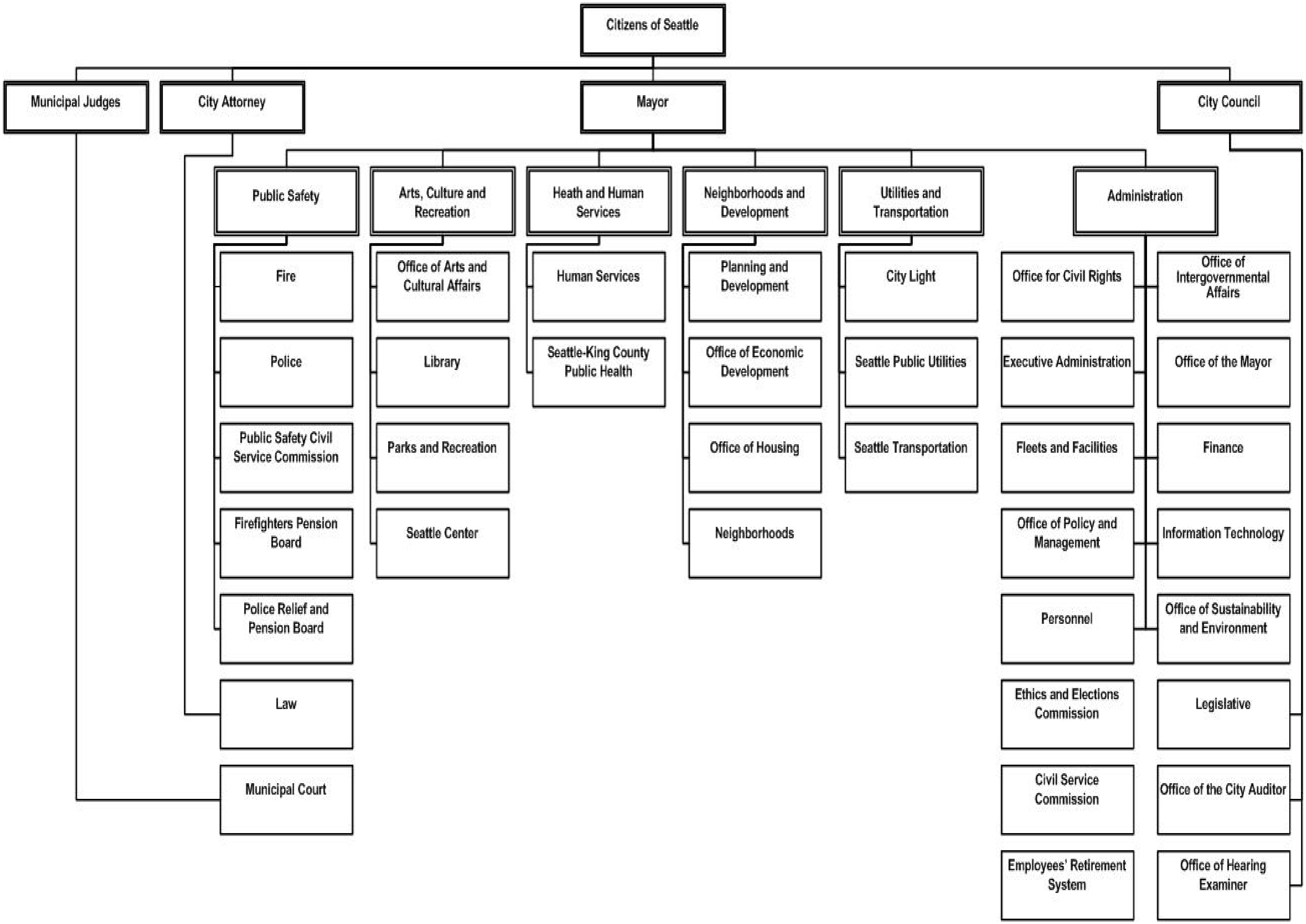
All department, budget control, and program level budget presentations include a table summarizing historical and adopted expenditures, as well as adopted appropriations for 2009. The actual historical expenditures are displayed for informational purposes only.

A list of all position changes adopted in the budget have been compiled in a separate report entitled, "Position Modifications in the 2009 Adopted Budget." Position modifications include abrogations, 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 Adopted 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 2009-2010.

Where relevant, departmental sections close with additional pieces of information: a statement of actual or projected revenues for the years 2007 through 2010; a statement of fund balance; and a statement of 2009-2010 appropriations to support capital projects appearing in the 2009-2014 CIP. Explicit discussions of the operating and maintenance costs associated with new capital expenditures appear in the 2009-2014 Adopted Capital Improvement Program document.

City Organizational Chart



The City Of Seattle's 2009 Adopted and 2010 Endorsed Budget has been prepared during a period of considerable economic uncertainty. The national economy continues to suffer from a dramatic slowdown in the housing market, turmoil among financial institutions, and increasing job losses. The economy in the Puget Sound area is considerably stronger than the nation as a whole, with analyses showing the region's recent job growth ranking between third- and fifth-highest nationwide, depending on the methodology used. The Seattle area is benefiting from continued strength in the software, biotechnology, aerospace, and construction industries. However, the national and international economies affect the regional economy, so the Puget Sound region will be adversely affected in the coming months. In fact, the aggregate General Fund revenue estimate for the years 2008 through 2010 declined by about $19 million from the time Mayor Nickels submitted his Proposed Budget in September to the time the City Council passed the Adopted Budget in November. This lower revenue estimate required additional budget cuts during the Council review process.

Some of this local economic strength reflects decisions made by City government earlier in the decade. Mayor Nickels placed significant emphasis on economic development and job creation when he took office in 2002 and, with subsequent Council approval, the City relaxed development restrictions at Northgate and the University District, encouraged biotechnology and other developments in South Lake Union, revised zoning in the downtown area to encourage housing and commercial development, and is now focusing on transit-oriented development along the Sound Transit light rail line that is scheduled to open in southeast Seattle in 2009. These changes have encouraged construction and have attracted new companies, jobs, and housing to Seattle.

The 2009 Adopted Budget totals $3.6 billion, with the General Fund portion being about $913 million. The City's budget is stressed by growing costs for salaries and health care, and by slower revenue growth due to a sluggish economy. As a result, the budgets for many departments are being cut in 2009, with most of the reductions focused on administration or lower-priority programs. Despite the economic situation, the 2009 Budget includes significant additional money for programs addressing the City's priorities, especially public safety, human services, and youth violence prevention.

The City's 2008 budget anticipated more difficult economic conditions in 2009 and 2010, and included a wide range of one-time spending that provided flexibility in following years. As it became clear in the spring of 2008 that the City faced a General Fund budget gap for 2009, Mayor Nickels directed that approximately $5 million in 2008 spending be stopped. Much of this savings came from eliminating one-time budget items. The funds saved as a result will be carried over to help balance the 2009 and 2010 budgets.

The 2009 Budget does not include any general tax increases. It reflects some changes in user fees, notably increases in water rates and solid waste rates to reflect higher capital expenses, general inflation, and new solid waste collections contracts and programs. No changes are made in City Light rates. Small adjustments are included for some permits administered by the Department of Planning and Development and user fees charged by the Parks Department. Charges for on-street parking are also increased as part of a strategy to manage such parking more efficiently.

As noted previously, many of the expenditure reductions in General Fund departments are focused on administrative agencies and management or support positions in line departments. For example, positions are being eliminated in the Mayor's Office, Personnel Department, Department of Executive Administration, Department of Information Technology, Fleets and Facilities Department, Department of Finance, Office of Economic Development, and Office of the City Auditor. The Fire Department is eliminating a Deputy Chief and a Lieutenant, while the Police Department is eliminating an Assistant Chief and several non-uniformed positions.

Despite significant budget challenges, the City is maintaining its commitment to adequate reserves and strong financial policies. The Emergency Subfund will have a balance of $50.8 million in 2009, the maximum allowed under state law. The Revenue Stabilization Account has a balance of $30.6 million and will be available in the event the local economy slips into a recession. The City continues to fund reserves for building maintenance, vehicle replacement, and technology systems. The City has maintained its very high bond ratings, including the highest possible ratings on voter-approved debt.

The City of Seattle uses a modified form of a biennial budget. Every other year, the City prepares two one-year budgets. The City Council adopts the first year's budget, in this case for 2009, and endorses the second year's budget. The second year's budget is reviewed in mid-biennium and is adjusted as needed to reflect revenue forecasts, economic conditions, and new priorities. For this biennium, there are few changes assumed between the 2009 and 2010 budgets, other than to reflect expected cost increases.

Public Safety

Mayor Nickels has established public safety as the City's highest priority. To this end, the Mayor and City Council have agreed to add about 21 patrol officers per year through 2012. The 2009 and 2010 Budgets follow through on this commitment, which means the Police Department will have 112 more officers in 2010 than it had in 2005. By adding officers, the City will be able to implement the Neighborhood Policing Plan during the upcoming biennium. This plan has already realigned staffing in geographic sectors to reflect current population and calls for police response. The final step in the plan involves changing officers' shifts to provide more staffing on critical days and times.

A variety of capital projects are under way to support the City's public safety programs. Most notable is the voter-approved Fire Facilities and Emergency Response Levy, which provides partial funding to replace or remodel almost all of the City's fire stations and related facilities. Other City funds, notably the Real Estate Excise Tax (REET), cover the remainder of the costs. The Levy program has already produced a new Fire Station 10, which is co-located with the new Fire Alarm Center and the new Emergency Operations Center. The program has also funded two new fireboats and the refit of the "Chief Seattle" fireboat will begin in 2009. Twenty-one neighborhood fire station projects will be completed or under development in 2009-2010, although some had to be delayed for a few months due to declining REET revenues.

Site analysis is underway for a new North Precinct Police Station, and continued work is funded in this budget. The existing building is too small even for current staffing levels and the expansion of the patrol force will require additional facilities. As an interim measure, the 2009 Budget includes money to lease space adjacent to the station and remodel parts of the facilities to improve efficiency.

Seattle and several other cities are in the early stages of the process to site a jail for people charged with and convicted of misdemeanors. For more than two decades, King County has housed prisoners for cities. However, the County believes it will run out of jail space early in the next decade, and has informed cities it will no longer accept their misdemeanants at that point. A group of cities in northern and eastern King County are working together to site and build a municipal jail for misdemeanor offenders. Money is included in the 2009 budget to continue these efforts.

Human Services

The demand for human services, such as food assistance and emergency shelter, grows during difficult economic times. The City of Seattle devotes a far higher share of its General Fund budget to such programs than any other city in the state. The 2009 and 2010 Budgets include three significant expansions of current services:

- <u>Housing First</u>. The City is a signatory to the 10-Year Plan to End Homelessness in King County. In support of this plan, the City has been providing funds to the Housing First initiative, which provides housing and supporting services to chronically homeless individuals. Approximately 265 units have already been put into service and have proven to dramatically reduce costs for emergency room visits, jail stays, and other public services. The biennial budget provides an additional $800,000 as the City's share of the cost to build additional units. The Human Services Department's budget includes an additional $150,000 in 2009 and $150,000 in 2010 for services to support Housing First units.
- <u>Shelter</u>. Although the 10-Year Plan envisions the reduction of shelter beds as permanent and transitional housing is created, demand for shelter has increased in the last year. The Adopted Budget adds slightly more than $1.1 million in 2009 for shelter and day-services programs. This money pays for additional shelter facilities and programs, including a site in the South Lake Union area opened in 2008 and a new

emergency program for family shelter. It also covers higher costs for some programs that the City has supported in the past but that cannot stay open without additional City funding.

- Food. The 2008 Budget included a one-time add of $400,000 to support food programs. This is removed in the 2009 Budget, but an additional $829,000 is added in 2009 to assist food programs. This brings total General Fund support for food assistance to $3.61 million in 2009, compared with $2.79 million in 2008. The additional money will be targeted to "bulk buy" programs, which purchase food at low prices and distribute it to food banks, and to delivery of meals to seniors and other people who find it difficult to leave their homes.

Some of these additions are covered by reductions in programs that have a lower priority in the Human Services Department's Strategic Investment Plan. Three pilot programs started in 2007 to link public safety and human services efforts are funded in 2009 and will be evaluated that year. The 2010 Adopted Budget does not include funding for these programs and thus may need to be modified depending on the results of the evaluation.

Youth Violence Prevention

Mayor Nickels announced the Seattle Youth Violence Prevention Initiative in early September 2008. This initiative recognizes that while crime in Seattle is at a 40-year low, criminal activity by teenage youth has not declined in recent years, and the ready availability of guns has led to several deaths. The initiative will focus new and existing resources in three geographic areas: central, southeast, and southwest Seattle. The program is still in the design phase, but it is expected to include a network in each area that will deliver a wide array of services, including counseling, referrals to job training, and individual and group programming. Staff will perform active outreach to teens in these neighborhoods at greatest risk of perpetrating or being victims of violence. Total funding for the biennium is about $7.8 million, with $3.5 million of this total being redirected from existing programs.

Transportation

The City of Seattle has vastly increased funding for transportation projects and maintenance over the last eight years. Much of this is due to "Bridging the Gap," a program started in 2007 that includes funds from a voter-approved property tax levy, a new commercial parking tax, and a tax on employers for those employees who do not use alternatives to single-occupancy vehicles. The Bridging the Gap program funds a wide range of initiatives, including major capital projects, rehabilitation of bridges, additional transit hours purchased from King County Metro, replacement of traffic signals and signs, street resurfacing, and construction of new bike lanes, trails, and sidewalks. The program is on track to achieve all of its performance goals in 2008.

Completion of the Burke-Gilman Trail has been a longstanding goal for Mayor Nickels. The 2009 and 2010 Budgets include money to build the "missing link" in the trail. This money is generated by using City-issued bonds to fund design and construction in the next two years, with the bonds to be repaid by money already committed from the Parks Levy approved by the voters in November, Bridging the Gap, and King County's Proposition 2 levy. The same sources of funding will also support further development of the Cheshiahud Lake Union Loop and the Chief Sealth Trail in southeast Seattle.

The 2009 and 2010 Budgets include additional money for two major transportation projects, the Alaskan Way Viaduct Replacement and the expansion and rehabilitation of the Spokane Street Viaduct. A decision on the best option for replacing the Alaskan Way Viaduct is expected in late 2008 or early 2009. The Adopted Budget includes a mix of General Fund, City General Obligation debt, utility funds, and grants to continue the City's work on project design and utility relocation. The City will implement a parking management strategy and electronic signage to improve access to parking and thus improve traffic flow during construction. The Alaskan Way project also includes continued work to replace the Seawall, including construction of sections to test various options.

Construction on Spokane Street is expected to begin in late 2008. The first phase will build a ramp from eastbound Spokane Street to Fourth Avenue South, which will provide a new option for traffic from West Seattle to downtown during replacement of the Alaskan Way Viaduct. Later phases will widen and strengthen the overhead structure and repave the surface street. This project also is funded with a mix of debt supported by Bridging the Gap revenues, utility funds, and grants.

The commercial parking tax is generating considerably more revenue than was originally expected. This revenue is directed to a variety of programs, but most notably to additional street paving, sidewalk construction, and completion of design for improvements to Linden Avenue North. In total, the Seattle Department of Transportation (SDOT) expects to build about 26 blocks of new sidewalks in 2009 and repave about 20 lane-miles of streets.

Customer Service

Mayor Nickels launched his customer service initiative in 2007 to improve the way the City interacts with its residents and businesses. The Mayor issued the "Customer Bill of Rights" in September 2008, which lays out expectations for how the City will respond to calls, follow up on requests, and track performance. Several customer service initiatives are under way or have been completed, including improving processes to respond to abandoned vehicles, graffiti, and requests for various types of permits.

This budget reflects the use of the Seattle Public Utilities call center to begin to handle a wider range of calls, and includes support for the call center from the General Fund to cover the appropriate share of costs. The budget also includes a technology project to convert City email and related software to a more effective system and add customer relations improvements.

Utilities

Seattle operates four utilities organized in two departments. Seattle City Light (SCL) provides electrical service to Seattle and surrounding areas. Seattle Public Utilities (SPU) houses three utilities that provide water, solid waste, and drainage and wastewater services. Together, the two departments account for 53% of the City's overall 2009 budget.

City Light has dramatically improved its financial situation since the West Coast power crisis in 2000 and 2001. The utility's debt-to-capitalization ratio has been lowered from 85% in 2001 to an estimated 65% in 2008. No rate increase is proposed for 2009 and rates are approximately 12% lower than they were in 2004.

The utility is proposing a significant expansion of its conservation program as part of its 2009 budget. This is a major factor in achieving Mayor Nickels' goal to reduce the production of greenhouse gases and achieve the goals set out in the Kyoto Protocol. The expanded conservation program is expected to double energy savings over previous plans.

City Light will continue to invest in improved capital facilities and maintenance. The utility started its asset management program in 2008 and will undertake a pole condition inventory starting in 2009. SCL will continue to work with the Department of Information Technology to study the potential of an automated meter network, possibly combined with a citywide broadband system or other communications infrastructure.

SPU will implement new solid waste collection contracts in the spring of 2009. Residents will have three separate services: recycling, organics, and garbage. The major change is to provide weekly collection of organics, which include yard waste and all types of food waste. This program is a key step in reaching the City's goal to recycle more than 60% of the waste stream.

SPU has several major capital projects underway that continue in the 2009-2010 biennium. The water utility will continue its program to bury reservoirs. The Parks Department has its own funding to plan parks on top of the buried reservoirs in conjunction with SPU's projects. Covering the reservoirs will add 76 acres of open space. The drainage and wastewater utility will continue design and construction of a detention facility to solve the longstanding flooding problems in the Madison Valley neighborhood. The solid waste utility will continue its program to replace the north and south transfer stations.

General Government Capital Programs
The City has longstanding policies to provide adequate funding to maintain the existing facilities and systems of general government departments, including Parks, Seattle Center, the Library, and Fleets and Facilities. These asset preservation programs are funded mostly from revenues from the Real Estate Excise Tax (REET) that are deposited in the Cumulative Reserve Subfund (CRS). REET is a 0.5% tax on any sale of property within the city. REET revenues grew steadily throughout the decade as the commercial and residential real estate markets soared. REET reached an unprecedented level of $73 million in 2007, with much of this peak being due to a major commercial real estate portfolio being sold twice during the year.

The 2008 Adopted Budget expected about $51 million in REET revenue. However, there have been very few commercial real estate transactions this year and the residential market has slowed significantly, even though the Seattle market has performed far better than in most other metropolitan areas. As a result, the current forecast for 2008 REET is only $31 million, so the Mayor made mid-year cuts to rebalance the 2008 CRS budget. The forecast used for this budget predicts only modest growth to $32 million in 2009 and $36 million in 2010.

These lower revenue figures limit the number and scope of general government capital projects that can be pursued. Mayor Nickels made it a priority to continue spending on regular asset preservation projects, such as roof repairs, safety programs, and projects to reduce utility consumption. The Adopted Budget includes the Mayor's commitment to add one artificial turf field each year to the parks system. Fields with artificial turf can be used far more than grass or sand fields in Seattle's climate, and are also less costly to maintain. The exact schedule for field replacement may be revised in early 2009 to reflect voter approval of the new Parks Levy. In addition, the Adopted Budget continues the Mayor's commitment to gradually expand funding for the Green Seattle Partnership, which is improving the health of the city's greenbelts by removing invasive species and improving the health of trees.

Two significant new facilities are supported by debt that is included in the 2009 budget. A total of $10.6 million is proposed to complete acquisition and development of the new Northgate Park. This park will be built on the site of a King County Metro Park and Ride facility that is moving to a new location in the spring of 2009. This project also includes improvements to sidewalks and medians on the adjoining Fifth Avenue Northeast. The 2009 budget includes $4.5 million to fund design of a new Rainier Beach Community Center as well. Additional funding for this facility will be available from the Parks Levy.

Two major voter-approved capital programs neared completion in 2008. The Libraries for All bond measure replaced or remodeled all the City's libraries and added four new ones. The last facility project, the remodeling of the Magnolia Library, was finished in 2008. The ProParks Levy expires in 2008 and has funded the purchase, development, and rehabilitation of parks and open space throughout the city. Some funds remain to be spent in 2009. The new Parks Levy approved by voters in November will continue many of these efforts.

SDOT also receives money from REET. As with other departments, SDOT's 2009 and 2010 REET funding is focused on basic maintenance programs, such as bridge repainting, street resurfacing, and safety programs.

Environmental Protection
The City of Seattle has been a leader in environmental protection for more than three decades. The 2009-2010 Budget continues this commitment. As noted previously, City Light will expand its energy conservation program and the City's other efforts to reduce greenhouse gases will continue. The Department of Planning and Development and the Office of Sustainability and Environment will continue to lead the "green building" effort, which helps public and private building owners build and remodel facilities in ways that reduce carbon footprints. The City's vehicle fleet is continuing to shift away from oil-based fuels to include hybrid and electric vehicles. City departments are exceeding the 2-for-1 tree replacement policy that is designed to help restore tree cover in the city.

KeyArena Settlement

The National Basketball Association's Seattle Sonics were the prime tenant of KeyArena (formerly the Seattle Center Coliseum) since the team was formed. In October 2006, the team was sold to a group of investors based in Oklahoma City. The new ownership took steps to break its lease at KeyArena so the team could relocate to Oklahoma City. In August 2008, the City and the ownership group settled the resulting litigation. The settlement provided a $45 million payment to the City in exchange for the team being able to void the last two years of its lease. The City will receive an additional $30 million in five years if the state government has provided a revenue source for the proposed remodeling of KeyArena and if no NBA team has started play in Seattle by that time.

The City Council approved legislation in conjunction with the budget that directed the use of the settlement funds:

- $34.2 million to defease the existing City debt related to KeyArena. These funds will be placed in escrow to make the remaining principal and interest payments on the bonds. This would eliminate the debt used to pay for the remodel of KeyArena in 1994.
- $2.8 million to pay legal fees incurred during the City's litigation with the team.
- $1.4 million to cover General Fund revenue losses in 2008. This reflects the amount of money the General Fund was projected to receive in the fourth quarter of 2008 from Sonics-related revenues.
- $250,000 to offset revenue losses at Seattle Center in 2009. The late departure of the Sonics meant that the Center did not have the opportunity to book replacement events on many dates. No funds are provided for 2010 because the Center should have time to book events into the building.
- $2.3 million for capital improvements to KeyArena. The basic structure of KeyArena was built for the Seattle World's Fair in 1962, and the building was extensively remodeled in 1994. As the facility ages, investment in asset preservation projects and new technologies is needed. This money will be spread over the 2008-2010 period.
- $1.1 million for site improvements at the former Fun Forest location. The Fun Forest amusement park will close at the end of 2009. The Seattle Center Century 21 Master Plan has an ambitious design to reuse this space, but funding will not be available until mid-2011 at the earliest. The money from the Sonics settlement will support site clearing and interim facilities for this space. To the extent possible, the interim improvements will be designed to fit into the Century 21 plan.
- $1.5 million for the Theater Commons development. The Theater Commons is a long-envisioned project to improve open spaces in the northwest portion of the Seattle Center campus. It is included in the Century 21 plan. The City needs to proceed with the project in the next biennium or it will lose a substantial grant for the project.
- $1.5 million to offset General Fund support for Seattle Center's operating budget, including two staff positions to continue to develop the Century 21 plan.

Many of these transactions will occur in 2008 and thus are not shown in this budget. The funds related to Seattle Center's operations and capital projects are appropriated in the 2009 and 2010 budgets.

Race and Social Justice

Mayor Nickels continues to emphasize his Race and Social Justice Initiative, which is intended to assure that all Seattle residents have access to services. The 2009-2010 Adopted Budget includes several new programs focused on immigrants and communities of color. For example, the budget for the Department of Neighborhoods includes $40,000 to help pay for translations of important City documents into languages commonly spoken by immigrants, plus $50,000 to support a Hispanic Information Center/Centro de Informaćion Hispano in the South Park neighborhood.

In addition to these specific initiatives, the overall approach to developing the 2009-2010 Budget used a race and social justice "filter," which helped staff and decision makers consider potential race and social justice implications of proposals. Final budget decisions were heavily influenced by these considerations to make sure all communities were treated fairly in the budget process.

Looking to the Future

The United States economy has entered a period of considerable uncertainty and a severe recession is expected in 2009. Current forecasts suggest that recovery will be slow. So far, the regional economy continues to grow, albeit at a rate far lower than seen over the four previous years, and it is unlikely that a local recession can be avoided. The 2009-2010 Budget has absorbed significant cost increases for salaries, benefits, fuel, and construction materials. It is sustainable only if economic growth returns to moderate levels by 2010. In addition to the economy, the greatest challenges for the 2011-2012 biennium are likely to be the effects of potential cuts in the State budget and the cost of the new public safety capital facilities. If the debt service on these facilities needs to be absorbed by the General Fund, cuts in other spending will be needed.

RESOURCES SUMMARY BY SOURCE
(in thousands of dollars)*

TOTAL CITY RESOURCES

Revenue Source	2007 Actual	2008 Adopted	2008 Revised	2009 Adopted	2010 Endorsed
Taxes, Levies & Bonds	1,261,799	1,147,521	1,220,031	1,404,321	1,329,004
Licenses, Permits, Fines & Fees	151,265	157,723	159,025	158,925	163,680
Interest Earnings	159,501	153,885	145,992	164,968	189,432
Revenue from Other Public Entities	120,965	138,019	132,728	181,203	169,705
Service Charges & Reimbursements	932,218	954,566	959,801	1,013,600	1,110,747
All Else	778,806	813,718	846,893	834,121	844,887
Total: Revenue & Other Financing Sources	**$3,404,555**	**$3,365,433**	**$3,464,471**	**$3,757,137**	**$3,807,456**
Interfund Transfers	259,381	257,142	265,874	291,738	284,974
Use of (Contribution To) Fund Balance	52,354	160,315	264,800	238,510	200,207
Total, City Resources	**$3,716,290**	**$3,782,891**	**$3,995,145**	**$4,287,384**	**$4,292,636**

*Totals may not add due to rounding.

EXPENDITURE SUMMARY

(in thousands of dollars)

Department	2008 Adopted General Subfund	2008 Adopted Total Funds	2009 Adopted General Subfund	2009 Adopted Total Funds	2010 Endorsed General Subfund	2010 Endorsed Total Funds
Arts, Culture & Recreation						
Office of Arts and Cultural Affairs	3,256	7,910	2,942	6,936	2,674	6,835
The Seattle Public Library	48,085	50,307	49,138	50,819	51,001	52,743
Department of Parks and Recreation [(1)(2)]	77,967	131,976	86,406	147,508	90,020	137,253
2000 Parks Levy Fund	4,985	14,561	0	0	0	0
Seattle Center	14,995	35,978	15,250	40,405	14,471	38,801
SubTotal	**149,288**	**240,732**	**153,736**	**245,669**	**158,165**	**235,632**
Health & Human Services						
Community Development Block Grant	0	14,489	0	13,836	0	14,015
Educational and Developmental Services Levy	0	17,941	0	17,563	0	17,972
Human Services Department	52,056	116,483	54,723	133,951	54,436	144,489
SubTotal	**52,056**	**148,913**	**54,723**	**165,350**	**54,436**	**176,476**
Neighborhoods & Development						
Office of Economic Development	7,629	7,629	6,232	6,232	5,977	5,977
Office of Housing	6,620	43,803	2,894	45,563	1,456	41,432
Neighborhood Matching Subfund	3,666	3,796	3,314	3,830	3,612	3,950
Department of Neighborhoods	8,690	8,690	8,991	8,991	9,297	9,297
Department of Planning and Development	10,880	67,432	10,180	67,414	10,741	69,773
SubTotal	**37,485**	**131,350**	**31,612**	**132,031**	**31,082**	**130,429**
Public Safety						
Criminal Justice Contracted Services	22,380	22,380	22,697	22,697	23,902	23,902
Seattle Fire Department	147,217	147,217	150,938	150,938	156,788	156,788
Fire Facilities Fund	0	2,377	0	18,148	0	-2,832
Firemen's Pension	19,309	20,190	20,317	21,197	21,253	22,155
Law Department	17,766	17,766	18,227	18,227	18,920	18,920
Seattle Municipal Court	25,833	25,833	27,046	27,046	28,066	28,066
Seattle Police Department	216,681	216,681	232,768	232,768	246,947	246,947
Police Relief and Pension	18,500	19,036	20,231	20,406	21,187	21,362
Public Safety Civil Service Commission	142	142	143	143	149	149
SubTotal	**467,826**	**471,621**	**492,367**	**511,571**	**517,212**	**515,457**
Utilities & Transportation						
Seattle City Light	0	1,014,131	0	1,055,530	0	1,089,884
Seattle Transportation	48,946	205,667	41,760	340,787	43,715	336,663
Seattle Public Utilities	1,124	676,396	1,317	812,817	1,351	869,788
SubTotal	**50,070**	**1,896,194**	**43,077**	**2,209,134**	**45,066**	**2,296,335**

Department	2008 Adopted General Subfund	2008 Adopted Total Funds	2009 Adopted General Subfund	2009 Adopted Total Funds	2010 Endorsed General Subfund	2010 Endorsed Total Funds
Administration						
Office of City Auditor	1,114	1,114	1,129	1,129	1,173	1,173
Seattle Office for Civil Rights	2,224	2,224	2,336	2,336	2,424	2,424
Civil Service Commission	210	210	223	223	232	232
Employees' Retirement System	0	9,476	0	10,735	0	11,937
Ethics and Elections Commission	625	625	668	668	693	693
Department of Executive Administration	33,280	33,280	33,916	33,916	35,438	35,438
Department of Finance	5,079	5,079	5,275	5,275	5,498	5,498
Finance General	52,226	52,226	33,143	33,143	32,323	32,323
Fleets and Facilities Department(2)	5,596	144,702	473	134,121	3,933	145,333
Office of Hearing Examiner	543	543	581	581	605	605
Department of Information Technology	5,083	55,954	3,357	58,977	3,389	59,199
Office of Intergovernmental Relations	2,116	2,116	2,335	2,335	2,398	2,398
Legislative Department	11,863	11,863	12,297	12,297	12,799	12,799
Office of the Mayor	2,994	2,994	3,049	3,049	3,167	3,167
Personnel Department	12,673	12,673	12,534	12,534	12,999	12,999
Personnel Compensation Trust Subfunds	0	148,715	0	155,499	0	172,284
Office of Policy and Management	2,601	2,601	2,688	2,688	2,507	2,507
Office of Sustainability and Environment	1,441	1,441	1,473	1,473	1,524	1,524
SubTotal	**139,668**	**487,836**	**115,478**	**470,980**	**121,101**	**502,531**
Funds, Subfunds and Other						
Emergency Subfund	3,197	3,197	7,636	7,636	3,049	3,049
Judgment/Claims Subfund	1,379	19,000	1,319	25,319	1,319	18,819
Parking Garage Fund	0	7,420	0	7,161	0	7,475
Cumulative Reserve Subfund(4)	6,166	54,948	0	33,483	0	36,187
Bonds Debt Service(3)	18,551	39,864	12,566	38,021	15,520	33,972
SubTotal	**29,293**	**124,429**	**21,520**	**111,619**	**19,888**	**99,501**
Grand Total*	**925,687**	**3,501,076**	**912,514**	**3,846,353**	**946,950**	**3,956,361**

*Totals may not add due to rounding.

Notes:
(1) General Subfund figures for the Department of Parks and Recreation reflect both the direct subsidy from the General Subfund and Charter revenues.
(2) Includes General Subfund subsidy to Capital Improvement Projects.
(3) The amounts in the “Total Funds” column reflect the combination of the General Subfund Limited Tax General Obligation (LTGO) bond debt obligation and the Unlimited Tax General Obligation (UTGO) bond debt obligation. Resources to pay LTGO debt payments from non-General Subfund sources are appropriated directly in operating funds.
(4) This amount does not include the Cumulative Reserve Subfund-supported appropriations for Seattle Department of Transportation (SDOT) because they are included in the SDOT appropriations.

City Revenue Sources

City Revenue Sources and Fund Accounting System

The City of Seattle spends approximately $4 billion annually on services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in whole or in part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

The City accounts for all revenues and expenditures within a system of accounting entities called "funds" or "subfunds." The City maintains dozens of funds and subfunds. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules, and is desirable to promote accountability for specific projects or activities. For example, the City of Seattle has a legal obligation to ensure revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own operating 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 operating fund is the General Fund. The majority of resources for services typically associated with city government, such as police, fire, 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 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 56.0% of General Subfund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region, change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Subfund, Cumulative Reserve Subfund, and the Transportation Fund.

The National and Local Economy – November 2008

National Economic Conditions and Outlook

The housing bubble has dominated the economic landscape since the 2001 recession. The collapse of the high-tech and stock market booms of the late 1990s pushed the country into recession in early 2001. To soften the downturn and spur a recovery, the Federal Reserve cut interest rates sharply during 2001 and continued cutting until 2003, when rates hit bottom at 1.0%. These extremely low interest rates stimulated the housing market by enabling buyers to afford larger mortgages. As housing became more affordable, home sales increased, home ownership rose to record levels, and prices moved upward due to increased demand. Lenders further stimulated demand by introducing a variety of creative mortgage instruments that made it possible for many people to obtain home financing who previously would not have qualified for a loan due to poor credit histories or low incomes.

Finally, the housing market received a further boost as many Americans decided that real estate was a more attractive investment than the stock market.

Between 2000 and 2006, U.S. home prices increased by 80.6% according to the Case-Shiller national home price index. During this same period, median household income grew by 14.8%. Low interest rates alone were not sufficient to enable home prices to grow so much faster than incomes. More important were mortgage practices and instruments that enabled people to purchase homes that they really couldn't afford. These included loans with zero down payments, loans with low initial monthly payments that reset to higher payments 2-5 years in the future, interest only and negative amortization loans, and loans made without verifying a buyer's income.

Aggressive lending and borrowing practices created conditions that were sustainable only if home prices kept rising. Rising prices allow owners of homes they cannot afford to sell or re-finance their mortgages if they reach a point where they can no longer meet their mortgage payments, such as when low initial monthly payments reset to a higher level. Rising prices protect lenders and investors because if a borrower defaults the house is worth more than the loan outstanding.

As the housing market boomed, it stimulated growth in industries involved in residential construction, the financing and sale of residential properties, and the sale of home furnishings, appliances, and building materials. In addition, rising home values supported an expansion of consumer spending via the wealth effect. When home values rise household wealth increases, and when people feel wealthier they tend to save less and spend more of their current income. Rising home values also create an opportunity for home owners to extract some of the equity in their homes through home equity borrowing or cash-out refinancing. Home equity extraction rose sharply following the 2001 recession, reaching an estimated 8% of disposable income in 2005 before peaking in the third quarter of 2006.

In June 2004, the Federal Reserve began increasing interest rates. The Fed raised the federal funds target rate by 0.25% at each of its meetings until it reached 5.25% in June 2006. Rising interest rates pushed up mortgage rates which, along with rapidly escalating house prices, caused housing affordability to decline. With affordability declining, the national housing market reached its peak in late 2005 through early 2006, and has been on the decline since then.

The deflation of the housing bubble precipitated the credit crisis. Mortgage brokers would not have been able to issue high risk loans without a market for those loans. Securitization provided that market. Mortgages were sliced into different segments depending on their level of risk and then bundled into securities and sold to investors all over the world. Investors were willing to buy securities containing high risk mortgages because most of the securities were given high ratings by the bond rating agencies. Many of the investors purchasing the securities were highly leveraged, which means they paid for the securities largely with borrowed money.

When housing prices stopped rising, many homeowners were no longer able to sell their homes for a profit or tap rising home values to refinance mortgages they couldn't afford. Consequently, many of them were forced into default, and eventually foreclosure. This led to a decline in the value of the securities that contained the problem loans. However, because of the complexity of the securitization process, it was difficult to determine the location of the bad loans and, consequently, to accurately determine the value of the mortgage backed securities. Because of this uncertainty, banks became wary of lending to one another and began hoarding cash instead of lending it.

Fearing that the financial system would freeze up, the Federal Reserve moved aggressively to restore liquidity. The Fed lowered interest rates, allowed securities firms to borrow from the Fed on the same terms as banks, and engineered a bail-out of Bear Stearns. In July 2008, Congress passed a broad housing bill that provided incentives for new home buyers, expanded federal support for Fannie Mae and Freddie Mac, the federally chartered enterprises that own or guarantee half of the nation's mortgages, and provided up to $300 billion for FHA-insured mortgages to help cashed strapped borrowers refinance into more affordable loans.

Despite these efforts, the federal government was forced to take control of Fannie Mae and Freddie Mac in early September, and shortly thereafter took control of AIG, the world's largest insurer, by taking an 80% equity stake in the firm.

The failure of Lehman Brothers on September 15, 2008 elevated the financial crisis to a new level and extended its reach worldwide. With Wall Street investment bank Lehman Brothers sliding towards bankruptcy, the federal government decided not to intervene and allowed Lehman to fail. This led to a collapse of the global short-term money market, in which Lehman was a major player. The money market is critical to the functioning of the economy because businesses use it to raise money to meet payroll, make purchases, and finance capital investments. Lehman was also a party in a large number of credit derivative contracts, including credit default swaps. Within days of Lehman's failure, the nation's two remaining large investment banks, Goldman Sachs and Morgan Stanley, applied to become commercial banks.

To try to control the fallout from Lehman's bankruptcy, the Fed extended federal insurance to money market funds and created a facility to purchase unsecured and asset backed commercial paper directly from issuers. By mid-November the commercial paper market was showing signs of recovery, with loan volumes rising and interest rates dropping.

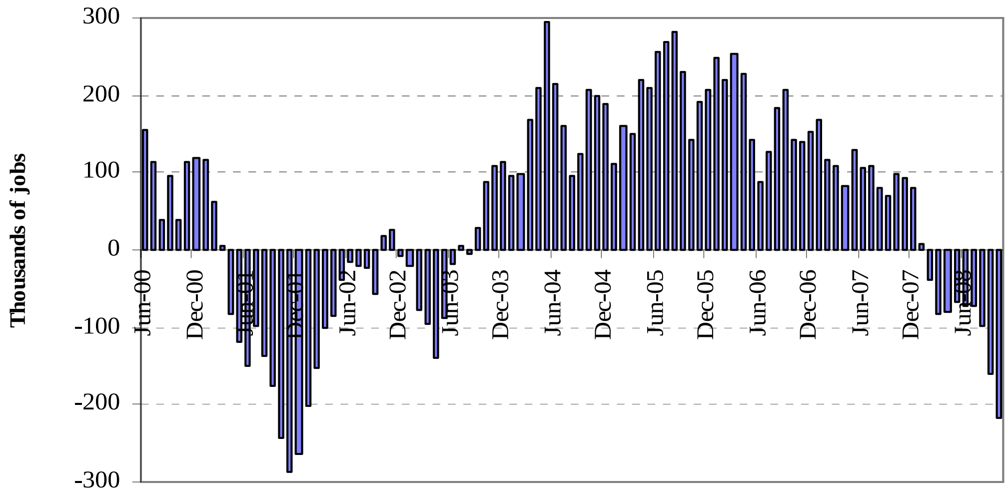
Shortly after Lehman's failure, the Treasury Department proposed a $700 billion program, called the Troubled Asset Relief Program (TARP), to purchase distressed mortgage related securities from the nation's financial institutions. The goal of TARP was to reveal where the bad debts were located and to establish prices for the distressed securities so that banks would begin lending again. However, the strategy for using TARP funds evolved, and in mid-October the Treasury announced a plan to use $250 billion of TARP funds to buy stakes in the nation's largest banks, with the intent of improve the banks' balance sheets so they would be able to increase their lending. As of mid-November, plans to purchase distressed securities had been shelved, and the Treasury was being pressured to use some of the TARP funds to help distressed homeowners avoid foreclosure.

The housing downturn and financial crisis have pushed the economy into recession. After the housing market peaked, prices began to fall and sales volumes started to drop. This led to a slowdown in housing construction, a reduction in housing related real estate and financial activity, and a drop in the sale of items that new home buyers often purchase, such as furniture and appliances. Falling prices also caused a sharp drop in home equity withdrawal and home equity borrowing, which reduced consumers' cash flow and restrained their ability to spend. The economy was also hit by a sharp rise in food and energy prices, which helped to push inflation to its highest level in 17 years (in July) and consumer sentiment to its lowest level in 28 years (in June).

The financial crisis has reduced the availability and increased the cost of credit for businesses and households, constraining business investment and consumer spending. The stock market reacted to the nation's financial and economic problems by dropping steeply in October. As of mid-November, U.S. stock indexes were down by more than 40% from the beginning of 2008. The stock market decline along with the drop in housing prices has reduced household net worth by nearly $11 trillion over the past 12 months, adding another constraint on consumers' ability to spend.

The economy's slowdown and transition to recession is reflected in recent labor market statistics. Following nearly 4½ years of growth, U.S. employment peaked in December 2007 and has since declined for 10 months in a row, resulting in a loss of nearly 1.2 million jobs by October 2008 (see Figure 1). With employment declining, the unemployment rate has risen from a low of 4.4% in March 2007 to 6.5% in October, its highest level in 14 years.

Figure 1. Monthly Change in U.S. Employment*



*3 month moving average. Source: U.S. Bureau of Labor Statistics.

With consumers' ability to spend constrained, retail sales activity has suffered. Following a gradual slowing over the first eight months of 2008, retail sales contracted in both September and October, when compared to sales volumes for the same months of 2007. Durable goods were hardest hit, led by motor vehicle dealers, furniture and home furnishing stores, and electronics and appliance stores.

The current recession is expected to last through the second quarter of 2009. National economic forecasters predict the current recession will be the most severe downturn since the early 1980s. Recovery is not expected to begin until the third quarter of 2009, in part because the easing of the nation's credit problems will occur slowly.

Housing, which precipitated the current problems, will also recover slowly. Although a sharp cutback in housing construction has helped to reduce the number of homes for sale, this has been offset by the large number of distressed and foreclosed properties coming on to the market. The market needs to work off its excess inventory of unsold homes before prices will stop falling and conditions return to relative normalcy. Global Insight expects housing starts to hit bottom in the second quarter of 2009, and housing prices to continue falling until sometime in early 2010.

Real consumer spending fell by 3.1% in the third quarter, its first decline since 1991, and a similar drop is expected in the fourth quarter. Although consumers are getting some relief from falling energy prices, this cannot offset the burden of rising layoffs, the fall in household wealth, high debt loads, and tight credit conditions. Business capital spending is expected to fall in response to consumer spending declines and tight credit conditions. Exports, which were a source of growth during the first half of the year, will weaken because of the global nature of the recession and the rising value of the dollar.

On the positive side, declining prices for energy and other commodities are easing pressures on households and business, and governments throughout the world have slashed interest rates and will continue to lower them. In the U.S. a second fiscal stimulus package is expected shortly after the Obama administration takes office.

Global Insight is forecasting that real gross domestic product will decline for four consecutive quarters beginning in the third quarter of 2008. The upturn that begins in third quarter 2009 will be led by a rise in consumption and an incipient recovery in residential construction. The unemployment rate is expected to peak at 8.3% in early 2010.

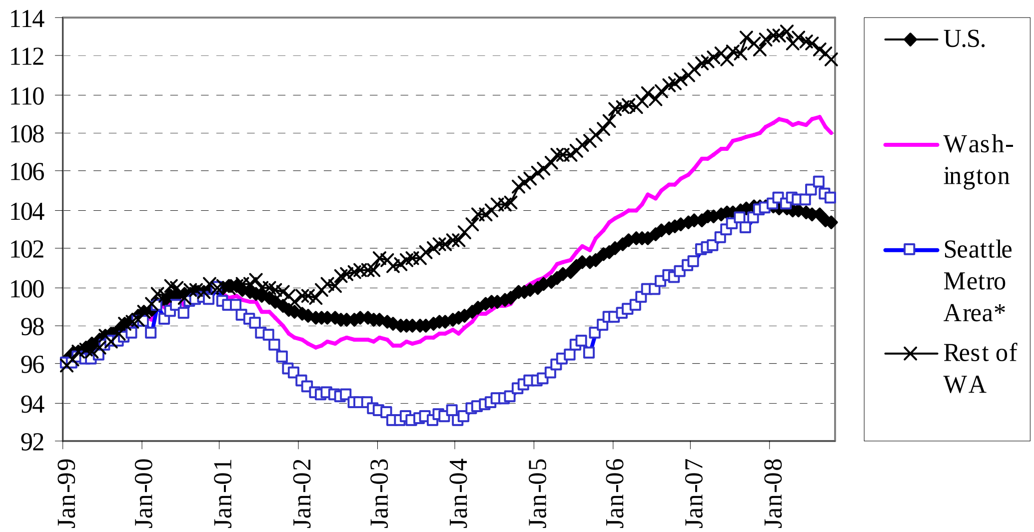
As is typical during downturns, risks to the forecast lie mostly on the downside. If the housing downturn is deeper than expected, which is possible given the unprecedented scale of the housing boom, the current economic downturn will be deeper and/or more prolonged than forecasters anticipate. Other threats to the forecast include a severe slowdown in economic growth in the rest of the world and continued turmoil in the financial markets.

Puget Sound Region Economic Conditions and Outlook

The region is healthier than the state and the nation, but the local economy has weakened. The Puget Sound region suffered more from the 2001 recession than almost any region in the nation because of its concentration of high-tech firms, which were hammered by the deflation of the stock market bubble, and the impact on Boeing of the September 11 terrorist attacks. The sharp drop in air travel that followed September 11 forced Boeing to sharply reduce its production levels, which led to the elimination of 27,200 of its Washington state jobs over the next 2¾ years.

During the recession, the region lost 99,500 jobs, a 7.0% decline, between December 2000 and June 2003. The economy improved steadily in 2004 and 2005 and then settled into a three year period of consistently strong growth, with employment gains averaging 3.1% between 2005 Q2 and 2008 Q1. However, employment growth slowed in the second quarter of 2008, then accelerated in July and August, after which it declined in September and October. Despite the drop, employment in October was up a modest 0.4% from December 2007. This compares to a 0.2% decline for the state as a whole, and a 0.9% decline for the rest of the state (i.e., outside of the Puget Sound region).

Figure 2. Employment: December 2000 = 100



*King & Snohomish Counties.

Data are seasonally adjusted non-agricultural wage & salary employment.

Contributing to the region's economic health over the past four years has been steady growth at both Boeing and Microsoft. Other major sources of growth in the local economy include professional & business services and health services, both of which have a strong presence in Seattle, and construction.

Boeing is sitting on a record order backlog after booking over 1,000 orders for new planes in each of the past three years. Boeing has added 24,100 jobs since June 2004 to support increased production rates for existing models and to conduct research and development activity for and begin production of its popular new 787 model. However, the outlook for Boeing has become more uncertain as economies around the world have weakened. On November 20 Boeing announced that it will reduce its labor force in 2009, though the company did not indicate which business units will see cuts. There have been some recent job reductions in Wichita, where work on some of the company's military programs takes place.

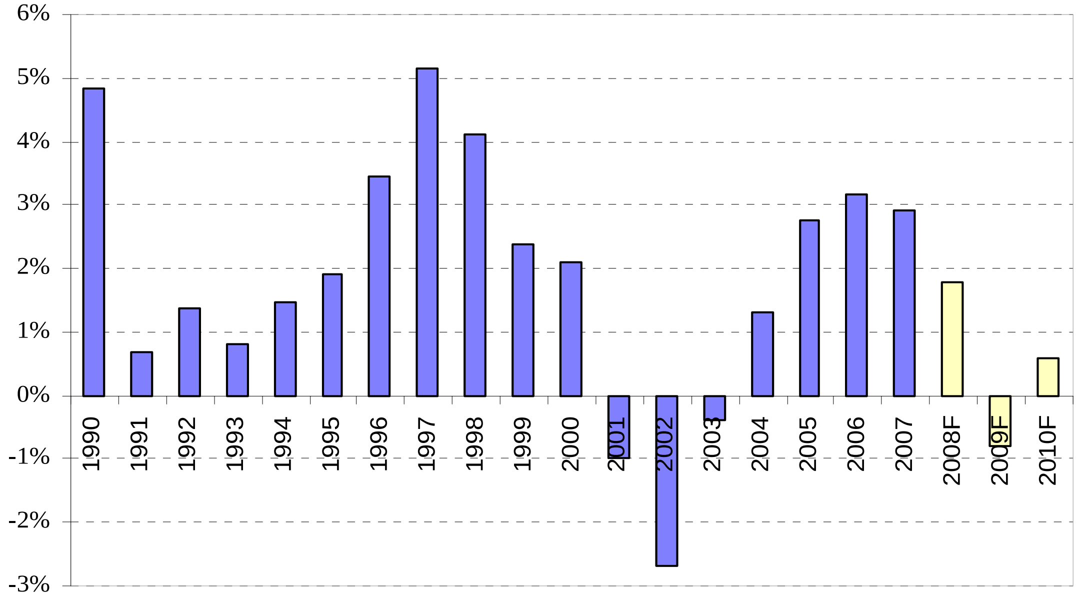
Microsoft has added an average of more than 2,000 employees per year in the region since the beginning of the decade. To house its growing workforce, Microsoft has been expanding its Redmond campus, has leased enough space in Bellevue to house more than 7,500 workers, and has been looking at space in downtown Seattle. However, on November 19 Microsoft's Chief Executive Steve Balmer said that the company would see much slower growth in the size of its workforce during the next two fiscal years.

The Puget Sound Region has not been immune from the effects of the housing downturn, but its impact has been less severe here than in many parts of the nation. In part this is because a long and deep local recession in the early part of the decade helped to keep housing prices somewhat under control, though local housing prices still increased at a faster pace than incomes. Home prices in the region peaked in July 2007, and have fallen by 8.9% since then according to the Case-Shiller housing price index. This compares to a 20.3% drop for the Case-Shiller 20 city index. Relatively modest local housing price declines along with a relatively strong economy have kept local default and foreclosure rates below national levels.

The region will almost certainly follow the rest of the nation into recession. With the national economy headed into what could be a severe recession, it is almost certain that the Puget Sound region will follow the nation. A slump in homebuilding is causing a loss of construction jobs, and the region's large firms are facing a variety of challenges. Boeing has announced job reductions for 2009 (though the losses may not occur in Washington) and Microsoft has scaled back its forecast for employment growth. Nordstrom is seeing declines in sales, Starbucks has been cutting jobs and closing stores as the company tries to rejuvenate itself, and Washington Mutual has been taken over by JP Morgan Chase in the nation's biggest bank failure. Washington Mutual job cuts will be announced in December. On the positive side, Amazon.com is moving into new office space in South Lake Union, and with its competitive prices Costco should fare better during a recession than most retailers.

The Puget Sound Economic Forecaster is predicting that the region's employment will decline for five successive quarters beginning in fourth quarter 2008. A loss of about 34,000 jobs, 1.8% of the total, is anticipated. The recovery will start slowly, with an employment gain of 0.6% forecast for 2010 (see Figure 3).

Figure 3. Puget Sound Region Employment Growth



Note: 2008-10 forecasts are from Puget Sound Economic Forecaster.
Puget Sound Region is King, Kitsap, Pierce, and Snohomish Counties.

Consumer Price Inflation

After reaching a 17 year high in mid-2008, inflation is on the decline. The 2001 national recession and the subsequent weak recovery helped to bring U.S. inflation down to its lowest level since the early 1960s. However, after falling to a 1.6% rate during 2002, inflation rose at a relatively steady pace until July 2008, when the U.S. CPI-U reached 5.6% measured on a year-over-year basis, its highest level in 17 years. Since July the rate of inflation has fallen steeply, with the U.S. CPI-U dropping to 3.7% in October.

The main factor driving inflation during the current decade has been energy prices. From a low of just above $20 per barrel in early 2002, oil prices rose relentlessly to reach a high of $147 per barrel in July of 2008. A sharp rise in food prices also helped to push up inflation during 2007 and the first half of 2008. Since peaking in July oil prices have fallen sharply as the world economic growth has slowed, dropping below $60 per barrel by early November. Prices for most food commodities, such as corn and wheat, have been falling steeply as well.

Due to the severity of the local 2001-03 recession, Seattle area inflation, which was higher than national inflation in every year but one between 1990 and 2002, dropped below U.S. inflation beginning in late 2002 and remained lower until mid-2006. Inflation then picked up as the regional economy improved, and since June 2006 local inflation has been running higher than national inflation. The upturn in local inflation has been driven by increases in energy and food prices as well as by rising rents. In June 2008, the Seattle CPI-U posted a 5.8% year-over-year gain, its biggest increase since 1991. The Seattle CPI-W, which is more heavily influenced by energy prices than the CPI-U, was up 6.2% in June. Mirroring U.S. trends, Seattle's inflation rate has fallen steeply since June, with the CPI-W dropping to 3.6% in October.

With commodity prices now falling and world economic conditions deteriorating rapidly, the inflation outlook has changed dramatically. Fear of inflation has been replaced by fear of deflation, and economists have been revising their forecasts of future inflation downward. Most economists predict that in 2009 inflation will be on the order of one percent, and a few economists are predicting that consumer prices will actually decline in 2009. Inflation is expected to move higher in 2010 as the economy gradually recovers from the current recession.

Figure 4 presents historical data and forecasts of inflation for the U.S. and Seattle metropolitan area through 2010. The forecasts are for the CPI-W, which measures price changes for urban wage and clerical workers (the CPI-U measures price changes for all urban consumers). The specific growth rate measures shown in Figure 4 are used as the bases of cost-of-living adjustments in City of Seattle wage agreements.

Figure 4. Consumer Price Index Forecast

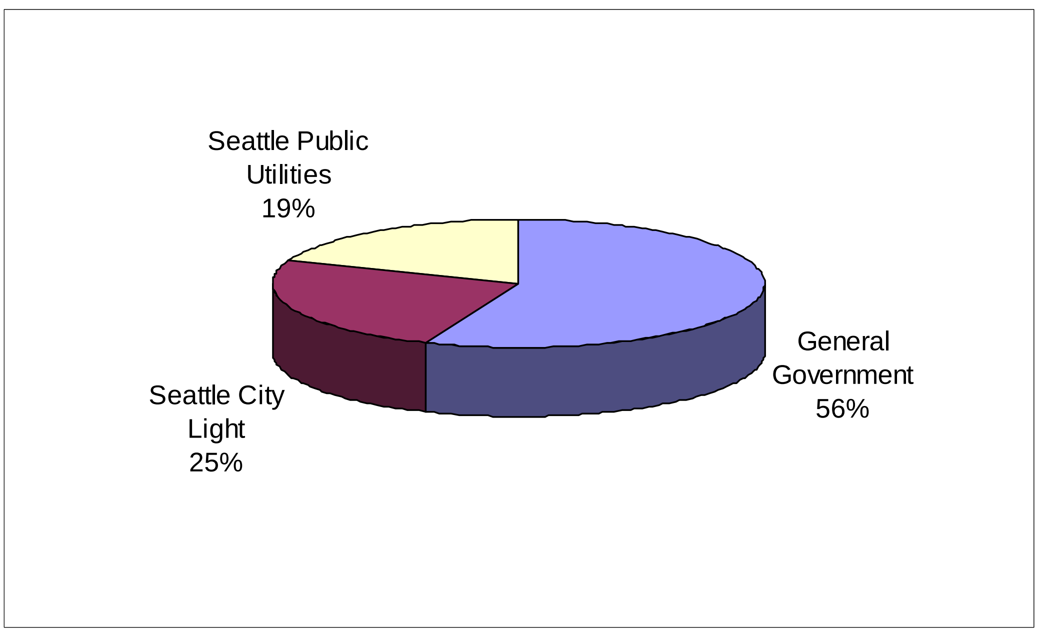
	U.S. CPI-W (June-June growth rate)	**Seattle CPI-W** (June-June growth rate)	**Seattle CPI-W** (growth rate for 12 months ending in June)
2007 (actual)	2.7%	3.3%	3.8%
2008 (actual)	5.6%	6.2%	4.5%
2009	0.9%	0.8%	2.6%
2010	2.3%	2.5%	2.0%

The first two forecasts in Figure 4 measure the change in consumer prices from June of one year to June of the following year. These changes are for the U.S. and the Seattle metropolitan area, respectively. The third forecast measures the growth rate of the Seattle CPI-W over a one year period ending in June (i.e., July – June). Because the Seattle CPI is published on a bimonthly basis, this growth rate reflects the average rate of inflation for August, October and December of one year and February, April and June of the following year.

City Revenues

The City of Seattle projects total revenues of approximately $4.3 billion in 2009. As Figure 5 shows, approximately 44 percent 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 56 percent are associated with general government services, such as police, fire, parks, and libraries, and proceeds from bond sales. The following sections describe forecasts for revenue supporting the City's primary operating subfund, the General Subfund, its primary capital subfund, the Cumulative Reserve Subfund, as well as specific revenues supporting the City's Bridging the Gap Transportation program in the Transportation Fund.

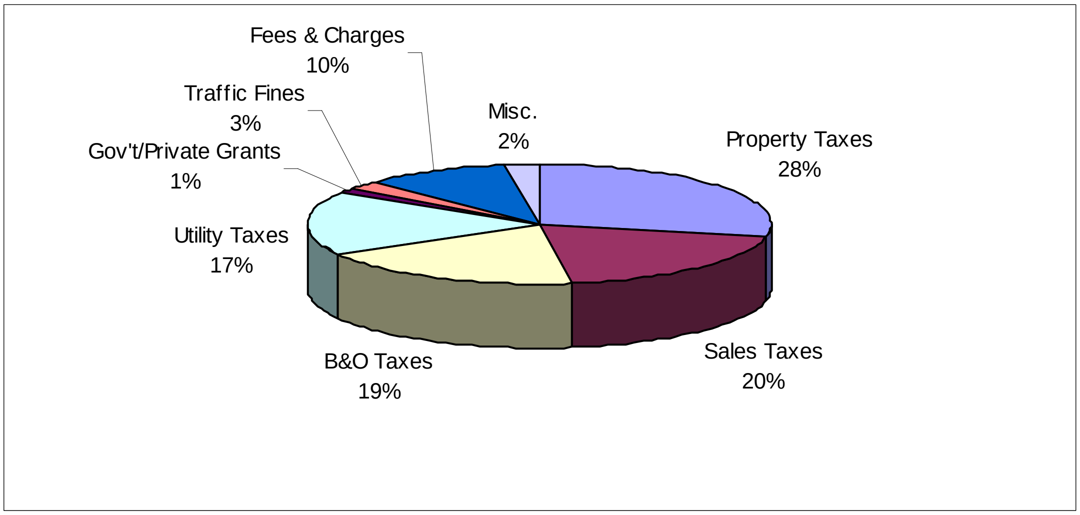
Figure 5. Total City Revenue by Use – 2009 Adopted – $4.29 Billion



General Subfund Revenue Forecasts

Expenses assigned to the General Subfund are supported primarily by taxes. As Figure 6 illustrates, the most significant revenue source is the property tax, which accounts for 28%, followed by sales taxes and the Business and Occupation (B&O) tax.

Figure 6. 2009 Adopted General Subfund Revenue Forecast by Source - $872.3M



Revenue Overview

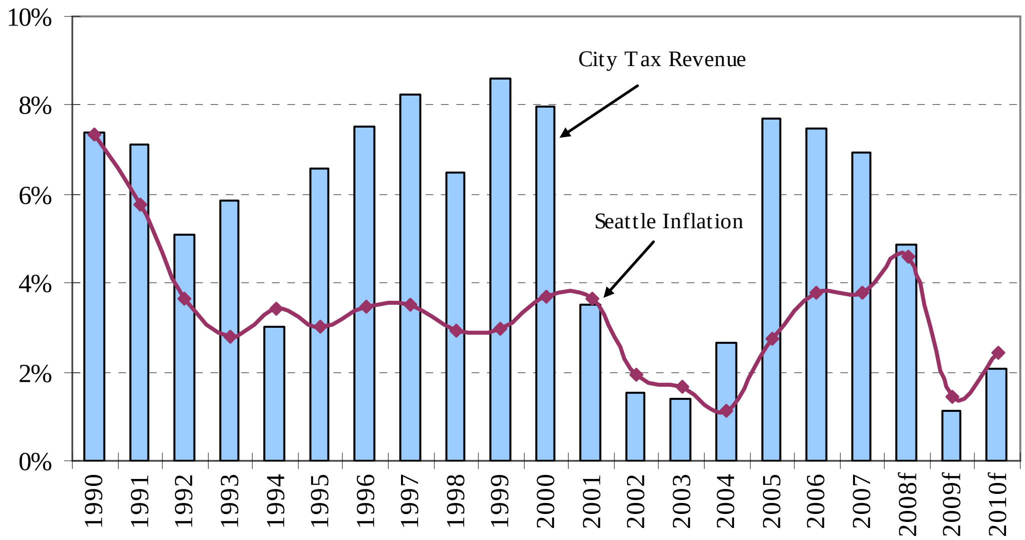
General Subfund revenue is projected to total $852.8 million in 2008 and grow by 2.3% annually to $872.3 million in 2009 and 2.6% to $895.1 million in 2010.

As illustrated in Figure 7, tax revenues grew by a robust 7.4% in 2007 and are forecasted to grow by 4.9% in 2008 then slow to 1.1% and 2.1% in 2009 and 2010, respectively. The Figure shows that 2009 will be the first year since the 2001 recession and fifth time since 1990 where tax revenue growth will be less than inflation as measured by the Seattle Consumer Price Index (Seattle CPI).

Relatively low growth in tax revenue results primarily from the impact of flagging construction and consumer activity on the B&O and sales taxes. Taxable sales from construction activity are forecast to fall 20% during the biennium; a slightly greater contraction than the city experienced during the recession earlier this decade. As a result, sales tax receipts will have negative growth in 2009, and rebound only slightly in 2010.

Offsetting low sales and B&O tax growth are sizable increases in utility tax revenues, especially on utilities operated by the Seattle Public Utilities (SPU). Revenues from utility taxes for these services grow because the 2009 Adopted and 2010 Endorsed Budgets include increases to rates charged for drainage, wastewater, water and solid waste services. Because of these rate increases, 2009 tax revenues from drainage and wastewater taxes are forecast to grow by 11.5%. Water tax revenues are expected to grow by 18.4% for 2009 and 5.6% in 2010. Solid Waste tax revenues are forecast to grow by 20.2% and 12.5% for 2009 and 2010, respectively.

Figure 7. City of Seattle Tax Revenue Growth, 1990-2010



Prices for natural gas remain volatile, and reached an all-time high in early summer 2008. While prices have declined since then, the revenue forecast for the natural gas utility tax is substantially higher for 2008 than was published in the 2008 Adopted Budget. The telecommunications sector is doing well with stable growth in the cable utility tax and strong growth in tax receipts from wireless telephone services. It remains to be seen what impacts a prolonged recession will have on these revenue streams.

Revenue from on-street parking is projected to increase as the City embarks on a program to set the price of parking more flexibly across different parts of the city to help achieve parking management goals. Also, in an effort to improve safety at intersections, the City installed six red light cameras in 2006 and 24 more throughout the city in 2008. Forecasts for revenues from new red light camera ticketing technology at 24 intersections has been reduced from $3.6 million to $1.37 million, due to delays in installation of the new cameras and data indicating decreased citation volumes where they have been installed. The 2009 and 2010 forecasts for this revenue stream are $4.5 million and $3.8 million, respectively.

While tax and fee revenue in 2008 has shown modest growth from many sectors of the economy, the risks to the City's general government revenue forecasts are clearly on the downside. The most important risk is the potential impact on the region's employers and households from instability in the nation's financial markets. Not only might these problems lead to further reductions in employment at local financial services firms, Washington Mutual's new owner JP Morgan Chase has already announced significant layoffs. Financial market problems could severely impact other sectors of the economy as well as local consumers' ability to purchase goods and services.

A second significant risk is from the decline in real estate markets. Real estate activity, both construction and transactions, is an important part of many of the City's tax revenues. Declining sales of real estate properties have had a significant impact on real estate excise taxes. While construction activity has held up better than might be expected, sales of commercial property are radically below last years' levels, perhaps a signal for substantially less construction activity in the immediate future. Lower construction activity affects sales, B&O, and property taxes, as well as several City-levied fees.

Figure 8 shows General Subfund actual revenues for 2007, adopted and revised revenues for 2008, as well as estimates for 2009 and 2010. A more detailed account of the City's revenue forecast is found in the General Subfund section of this document.

Figure 8. General Subfund Revenue, 2007 – 2010[1]
(in thousands of dollars)

Revenue Source	2007 Actual	2008 Adopted	2008 Revised	2009 Adopted	2010 Endorsed
General Property Tax [2]	196,918	200,685	202,878	209,212	213,752
Property Tax - Medic One Levy	21,644	33,793	35,868	37,006	37,579
Retail Sales Tax	154,695	157,951	160,373	156,106	156,626
Retail Sales Tax - Criminal Justice Levy	14,409	14,868	14,626	13,990	14,036
B&O Tax (90%) [3]	161,567	161,471	164,196	163,978	169,009
Utilities Business Tax - Telephone (90%)	28,924	27,590	29,665	29,214	29,116
Utilities Business Tax - City Light (90%)	31,845	30,231	32,000	30,882	31,219
Utilities Business Tax - SWU & priv.garb. (90%)	9,134	9,880	9,775	11,571	12,910
Utilities Business Tax - City Water (90%)	16,706	17,103	17,355	19,657	20,762
Utilities Business Tax - DWU (90%)	21,319	23,352	23,139	26,140	27,818
Utilities Business Tax - Natural Gas (90%)	14,892	14,068	15,463	16,098	15,931
Utilities Business Tax - Other Private (90%)	13,376	13,184	14,296	14,802	15,175
Other Tax	7,798	7,097	7,005	6,176	6,133
Admission Tax	5,274	7,878	5,880	5,830	5,830
Total Taxes	**698,501**	**719,151**	**732,518**	**740,662**	**755,897**
Licenses and Permits	14,720	12,455	12,800	12,928	13,050
Parking Meters/Meter Hoods	18,706	19,666	20,300	26,291	30,394
Court Fines (90%)	18,643	20,480	20,163	22,352	23,253
Interest Income	9,671	10,764	5,914	5,639	6,756
Revenue from Other Public Entities [4]	17,509	7,199	9,502	9,775	9,890
Service Charges & Reimbursements	48,828	47,169	47,078	51,115	53,118
Total: Revenue and Other Financing Sources	**826,579**	**836,884**	**848,275**	**868,762**	**892,357**
All Else	3,195	1,321	1,116	1,374	1,874
Interfund Transfers	1,833	1,119	2,362	2,118	860
Key Arena Revenues [5]	3,174	3,617	2,057	0	0
Total, General Subfund	**834,781**	**842,942**	**853,810**	**872,254**	**895,091**

NOTES:

(1) The City Charter requires that 10% of certain City revenues are deposited into the Park and Recreation Fund. These revenues are noted by the 90% figures above. This requirement also applies to certain license revenues.
(2) Includes property tax levied for the Firefighters Pension Fund per RCW 41.16.060.
(3) The 2008 Adopted figure for B&O tax includes the implementation of the Square Footage Business Tax.
(4) Included in 2007 Actual figures are the pass-through revenues that are not appropriated in adopted budgets.
(5) Certain revenues associated with KeyArena to pay for debt service will no longer accrue to the General Subfund as result of the Sonics' relocation.

Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on business machinery and equipment. In accordance with the Washington State Constitution and state law, property taxes paid by a property owner are determined by a taxing district's rate applied to the value of a given property. Figure 9 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners. The King County Assessor determines the value of properties, which is intended to generally reflect 100% of the property's market value.

In 2008, the total property tax rate from all jurisdictions paid by Seattle property owners was $8.69 per thousand dollars of Assessed Value (AV). For an owner of a home with an AV of $475,000 (approximately the average AV for residences in Seattle), the 2008 tax obligation was approximately $4,128. The City of Seattle's total 2008 tax rate was roughly one-third of the total rate at $2.77 -- an annual tax obligation of approximately $1,316 for the average valued home.

Figure 9 also illustrates the components of the City's 2008 property tax: the non-voted General Purpose levy (61%); the six voter-approved levies for specific purposes (33%) – 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 (6%). The City's Pro Parks lid lift expires in 2008 after raising $198.2 million over 8 years (2001-2008). The City's 9 year transportation lid lift will generate approximately $37.1 million in 2008, $38.3 million in 2009 and $39.1 million in 2010. These revenues are accounted for in the Transportation Fund and are discussed later in this section. Two property tax measures (lid lifts), approved by voters in November 2008, will increase the City's regular levy for collection in 2009 by $12,500,000 for infrastructure improvements at the Pike Place Market and by $24,250,000 for parks purposes.

Statutory growth limits and new construction. The annual growth in property tax revenue is restricted by state statute in two ways. First, state law limits growth in the *amount* of tax revenue a jurisdiction can collect, currently the lesser of 1% or the national measure of the Implicit Price Deflator. Previously, beginning in 1973, state law limited the annual growth of the City's regular levy (i.e., General Purpose plus voted lid lifts) to 6%. In November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year. On November 8, 2007, Initiative 747 was found unconstitutional by the state Supreme Court. However, the governor and state legislature in a special session on November 29, 2007, reenacted Initiative 747. Second, state law caps the maximum tax *rate* a jurisdiction can impose. For the City of Seattle, this cap is $3.60 per $1,000 of assessed value and covers the City's general purpose levy and lid lifts. The City tax rate has been well below this cap for many years.

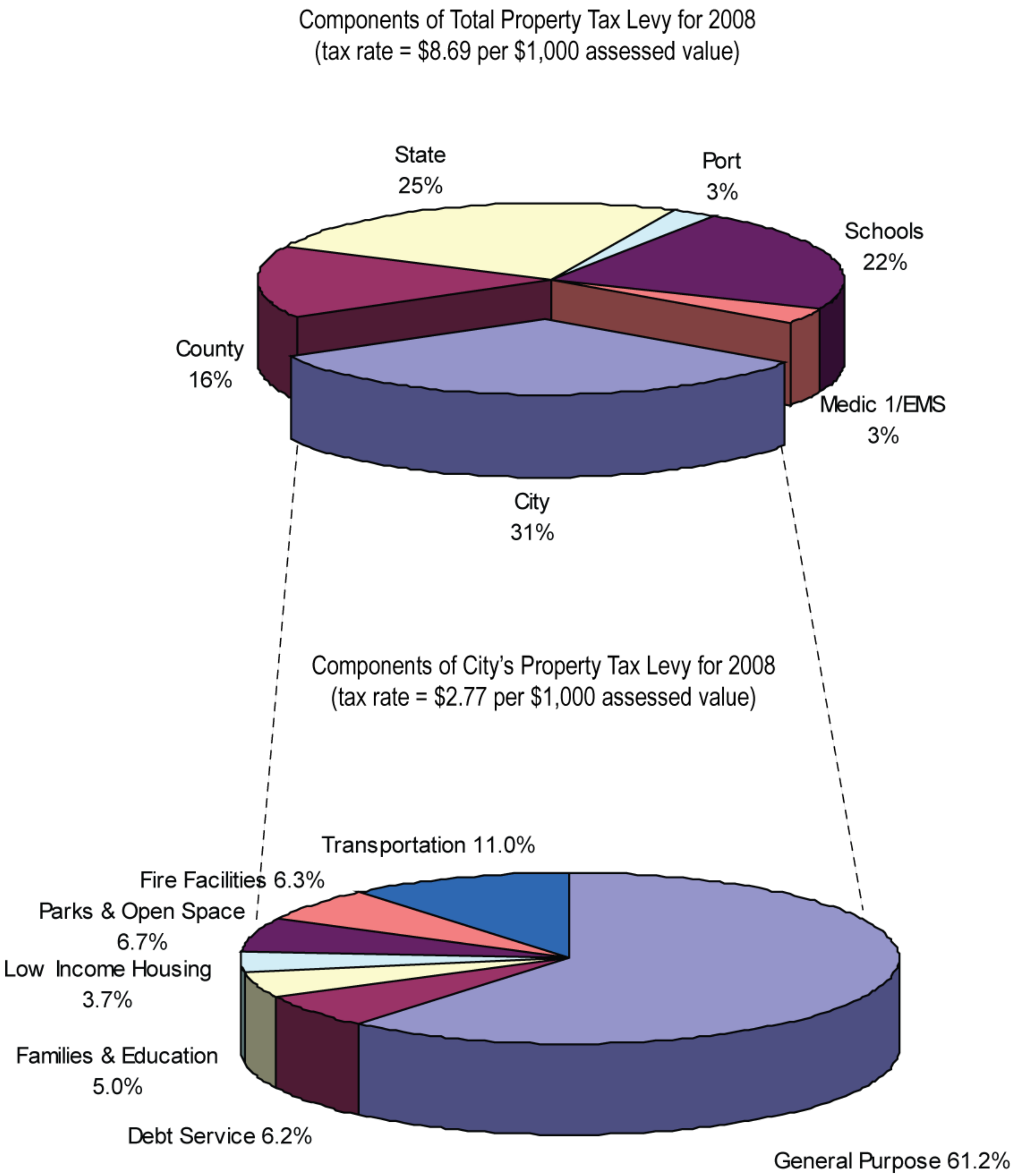
New Construction - In addition to the allowed maximum 1% revenue growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year.

The 2009 Adopted and 2010 Endorsed Budgets assume 1% growth plus new construction. New construction revenues have exceeded $2 million since 1999, with rapid increases between 2005 ($2.9 million) and 2008 ($6.64 million). The forecast for 2009 reflects the continuation of strong 2008 construction activity with approximately $6.3 million added to the property tax base for 2009. To be followed, however, in 2010 by a pronounced decrease to $1.8 million, due to the broad deterioration in economic and market conditions affecting residential and commercial construction projects.

The forecast for the General Subfund (General Purpose) portion of the City's property tax is $202.8 million in 2008, $209.2 million in 2009 and $213.7 million in 2010.

Medic 1/Emergency Medical Services. In November 2007, the people of King County approved a 6-year renewal (2008-2013) of the Medic 1/EMS levy. At the approved starting rate of $0.30 per thousand dollars of assessed value, the levy is projected to generate approximately $35.8 million for Seattle Medic 1/EMS services in 2008. This is an increase of approximately $2 million over the 2008 Adopted Budget forecast of $33.8 million due to stronger than anticipated property value growth in 2007. The projections for 2009 and 2010 are $37.0 million and $37.6 million respectively.

Figure 9


Components of Total Property Tax Levy for 2008
(tax rate = $8.69 per $1,000 assessed value)
State 25%
Port 3%
Schools 22%
County 16%
Medic 1/EMS 3%
City 31%
Components of City's Property Tax Levy for 2008
(tax rate = $2.77 per $1,000 assessed value)
Transportation 11.0%
Fire Facilities 6.3%
Parks & Open Space 6.7%
Low Income Housing 3.7%
Families & Education 5.0%
Debt Service 6.2%
General Purpose 61.2%

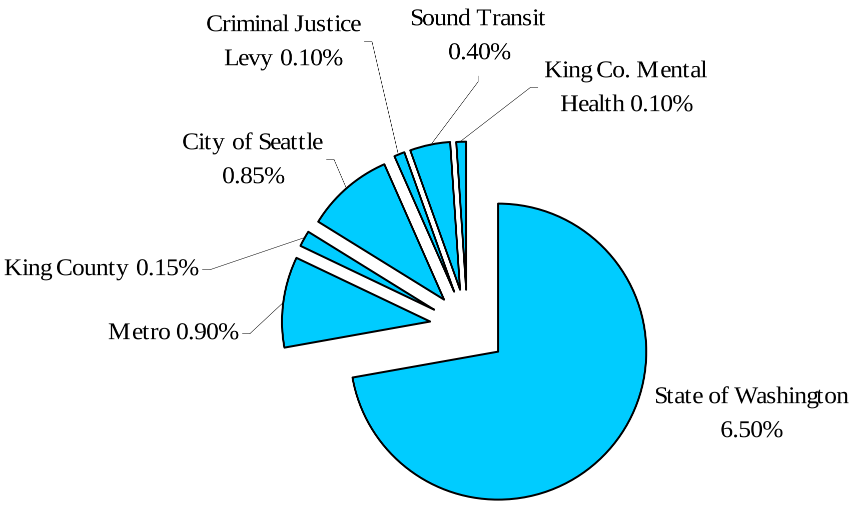
Retail Sales and Use Tax

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

The sales tax rate in Seattle is 9.0% for most taxable transactions. The rate was increased from 8.9% on April 1, 2008, following the approval by the King County Council in November 2007 of a 0.1% rate increase for chemical dependency and mental health treatment services. The exception to the 9.0% rate is a 9.5% rate that is applied to food and beverages sold in restaurants, taverns, and bars throughout King County. The extra 0.5% was imposed in January 1996 to help pay for the construction of a new professional baseball stadium in Seattle.

The basic sales tax rate of 9.0% is a composite of separate rates for several jurisdictions as shown in Figure 10. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the King County Criminal Justice Levy.

Figure 10. Sales and Use Tax Rates in Seattle, April 1 – December 31, 2008



Total Rate = 9.0%

NOTE: Rate is 9.5% for food and beverages sold in restaurants and bars.

Washington State implemented destination-based sales taxation on July 1, 2008. When a customer both purchases and takes possession of a product at a retail establishment, it is clear that the local sales tax should be paid to the jurisdiction in which the retailer is located. However, when the retailer delivers a product to the customer, the local tax may be paid to the jurisdiction from which the delivery is made – which is called origin-based sourcing, or to the jurisdiction in which the delivery is made to the customer – which is called destination-based sourcing. Some states allocate local sales tax revenue using origin-based sourcing, while others use destination-based sourcing.

Prior to July 1, 2008, Washington State used origin-based sourcing to allocate the local sales tax. For example, if a couch was delivered from a retailer in Seattle to a customer in Shoreline, the local sales tax was paid to Seattle. However, on July 1, 2008, Washington changed to destination-based sourcing, shifting the local tax to the point of delivery to the customer. For the example of the couch, this shifts the local sales tax revenue from Seattle to Shoreline.

The state has changed its sales tax sourcing rules in order to bring Washington's sales tax procedures into conformance with procedures established by the Streamlined Sales and Use Tax Agreement (SSUTA). The SSUTA is 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. The intent is to make it easier and less costly for retailers that operate in multiple states to comply with the sales tax laws, and thus encourage businesses that sell over the internet or via mail order to collect the sales tax. Currently, internet and mail order businesses are not required to collect the sales tax on sales made to customers located in states in which the businesses do not have a physical presence. This puts local "bricks-and-mortar" businesses at a competitive disadvantage to remote sellers who do not collect the sales tax.

Washington is the 22nd state to pass legislation bringing it into conformance with SSUTA. Over 1,000 remote sellers have registered to begin collecting and remitting sales tax on sales made to customers in those states

The adoption of destination-based sourcing will have two major revenue impacts. First, Washington and its local jurisdictions will experience a revenue increase because of the sales tax payments made by the over 1,000 remote sellers that began collecting Washington sales tax on July 1, 2008. Second, there will be a redistribution of revenue among local jurisdictions. Jurisdictions that have a concentration of warehouses or retail establishments that make deliveries will probably see a decline in revenue. Jurisdictions that have few warehouses or retail establishments that make deliveries will likely see an increase in revenue.

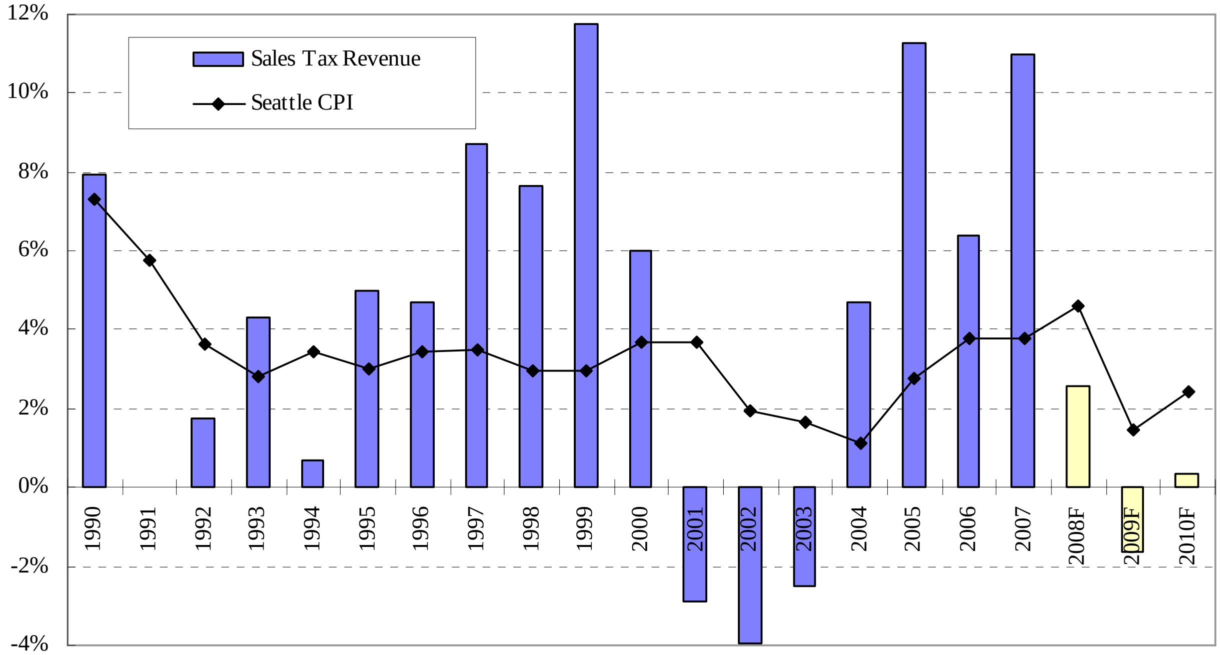
The state has developed a mitigation program to ease the hardship for jurisdictions that will experience a loss of sales tax revenue due to the shift to destination-based sourcing. To be eligible for mitigation a jurisdiction must experience a net loss in sales tax revenue. Net loss is defined as a jurisdiction's loss in sales tax revenue due to the change to destination-based sourcing reduced by the additional revenue that the jurisdiction receives from the remote sellers who began collecting sales tax on July 1, 2008. The Washington Department of Revenue will determine the net loss for all of the state's cities by making a comparison - at the level of the individual business - of the distribution of local sales tax payments before and after the change to destination-based sourcing. The first mitigation payments will be made on December 31, 2008, to cover the net losses for July – September of 2008. Future payments will be made on a quarterly basis three months after the quarter's end.

The impact of destination-based sourcing on Seattle's sales tax revenue is expected to be neutral, with losses from deliveries going out of the city offset by gains from deliveries coming into the city and from the taxes collected by the 1,000 remote sellers that have been added to the tax base.

Sales tax revenue has grown and contracted with the region's economy. The robust economy of the late 1990s ushered in a period of very strong growth in Seattle's sales tax base. Taxable sales growth accelerated rapidly in 1996-1997, driven by a strong economy led by aggressive expansion at Boeing, and surged again in 1999 when the stock market and technology booms reached their peaks. 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, with growth rates turning sharply negative beginning in early 2001. Year-over-year growth rates were negative for ten consecutive quarters beginning in first quarter 2001, and did not rise above 2.4% for another five quarters.

However, beginning in fourth quarter 2004, taxable sales growth accelerated rapidly and averaged a robust 9.8% per year for the three year period 2005-07, led by construction which grew at an average annual rate of 21.0%. Growth began to slow in 2008 Q1 and has continued slowing as the year has progressed. In first quarter 2008, year-over-year growth declined to 5.5% for total taxable sales and 17.7% for construction. Growth slowed further in the second quarter to 3.3% and 10.6%, respectively. Monthly data for July and August indicate that third quarter growth will be weaker still. The slowdown has been particularly evident in the retail trade sector, where there has been a steep falloff in sales for motor vehicle and parts dealers.

Figure 11. Annual Growth of Retail Sales Tax Revenue



Note: All revenue figures reflect current accrual methods. 2008-10 are forecasts.

Retail sales tax revenue is forecast to increase by 2.6% in 2008 and then decline by 1.6% in 2009. With sales tax collections slowing and the local economy falling into recession, sales tax revenue is forecast to increase by 2.6% in 2008, and then decline by 1.6% in 2009, before returning to positive territory at 0.3% in 2010. The forecast for 2009 and 2010 anticipates a major downturn in construction activity. Taxable sales from construction are forecast to drop by 20.0% over the two year period, which would exceed the 18% decline experienced in the 2001-03 recession. For a variety or reasons, construction activity is difficult to forecast, especially in the context of severe instability in the nation's financial markets, making it a major source of uncertainty in the sales tax forecast.

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 are expected to reduce Seattle's B&O tax revenue by $22.3 million in 2008. On January 1, 2008, the City implemented a square footage business tax to recoup the $22.3 million by taxing a portion of the floor area of businesses that received a tax reduction as a result of the new allocation and apportionment procedures. The new tax is structured so that no business pays more under the new combined gross receipts and square footage business tax than they did under the pre-2008 gross receipts B&O tax.

The City levies the gross receipts portion of the B&O tax at different rates on different types of business activity, as indicated in Figure 13 at the end of this section. Most business activity, including manufacturing, retailing, wholesaling, and printing and publishing, is subject to a tax of 0.215% on gross receipts. Activities taxed at the 0.415% rate include services and transporting freight for hire. The square footage business tax has two tax rates. A rate of 39 cents per square foot per quarter applies to business floor space, which includes office, retail, and production space. Other floor space, which includes warehouse, dining, and exercise space, is taxed at a rate of 13 cents per square foot per quarter.

Other things being equal, the B&O tax base is more stable than the retail sales tax base. The B&O base is broader than the sales tax base, is less reliant on the construction and retail trade sectors, and is more dependent upon the service sector (most services are not subject to the sales tax).

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

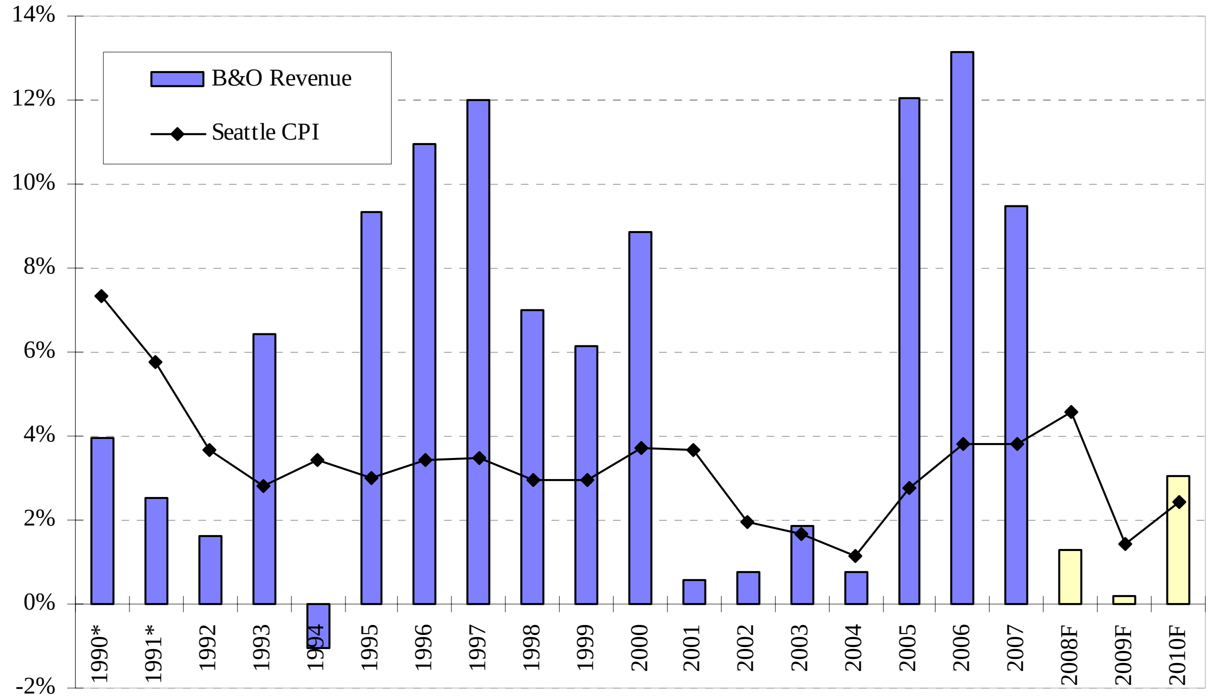
B&O revenue was flat from 2001 to 2004, but has grown at a healthy pace since 2005. Beginning in 1995, the City made a concerted effort to administer the B&O tax more efficiently, educate taxpayers, and enforce tax regulations. As a result of these efforts, unlicensed businesses were added to the tax rolls, businesses began reporting their taxable income more accurately, and audit and delinquency collections increased significantly – all of which helped to increase B&O revenue beginning in 1996. In 2000, B&O revenue was boosted by changes the state of Washington made in the way it taxes financial institutions. These changes affected the local tax liabilities of financial institutions.

When the region's economy slipped into recession in early 2001, B&O revenue growth slowed abruptly (see Figure 12). Revenue from current year tax obligations declined by 2.5% in 2001 and 2.1% in 2002. However, in both years the declines were more than offset by large gains in non-current revenue, which includes revenue from audits and other enforcement activity, refunds, and penalty and interest payments. As a result, both 2001 and 2002 saw very small increases in B&O receipts. The strong growth in non-current revenue reversed in 2003 and 2004, but overall revenue growth remained positive because revenue from current tax year obligations increased by 4.0% in 2003 and 5.4% in 2004.

Following four years during which revenue growth did not exceed 2%, growth accelerated sharply in 2005 and averaged 11.5% over the three year period 2005-07. The upswing was led by strong growth in construction, services, finance, insurance, and real estate. Revenue growth then slowed to a 4.8% rate (measured on a year-over-year basis) in the first quarter of 2008, in large part because audit revenue fell off steeply from an unusually high level in 2007 Q1. Current obligation activity in 2008 Q1 grew at a healthy 8.3% pace, 0.5% higher than the forecast growth rate of 7.8%, which suggests that the transition to HB 2030 and the square footage business tax did not significantly alter the revenue stream from the City's business tax. With the economy weakening, the growth rate for current obligation activity slowed to 3.2% in second quarter 2008.

Small business threshold was increased to $80,000 in 2008. The City provides an exemption from the B&O tax for small businesses whose annual taxable gross revenue (gross receipts less allowable deductions) is less than a specified threshold. Prior to January 1, 2008, that threshold had been $50,000, an amount which had remained unchanged since 1994. In 2008, the threshold was raised to $80,000 to take account of inflation that had occurred since 1994. Raising the small business threshold from $50,000 to $80,000 resulted in an estimated revenue loss of $770,000 in 2008.

Figure 12. Annual Growth of B&O Tax Revenue



*1990 and 1991 figures have been adjusted to remove the effects of tax rate increases.
Note: Revenue figures reflect current accrual methods; 2008-10 are forecasts.
2008-10 figures include both gross receipts and square footage tax revenue.

The pace of B&O revenue growth is expected to fall steeply to 1.3% in 2008 and 0.2% in 2009. The 2008 forecast for B&O revenue combines revenue from the gross receipts tax with revenue from the new square footage business tax. The new HB 2030 allocation and apportionment procedures are expected to cause a $22.3 million drop in revenue from the gross receipts tax in 2008. The square footage business tax was designed to recoup that loss by taxing the floor area of businesses that receive a tax reduction due to HB 2030. The tax rate was set to recover 100% of the expected loss. However, the mechanism that insures that no business pays more under the combined gross receipts and square footage business tax than it would have paid under pre-2008 law reduces the floor area tax revenue somewhat. The forecast assumes that $19.0 million of the $22.3 million loss will be recovered, yielding a $3.3 million reduction in collections.

The starting point for the B&O revenue forecast for 2008 was a forecast of 4.5% growth for the B&O tax base (current obligations). The forecast was then reduced to account for a decline in non-current revenue (-$1.9 mil.), three-quarters of the expected $3.3 million square footage tax revenue shortfall (one-quarter was allocated to 2009), and $770,000 for raising the B&O threshold to $80,000. After these reductions and a cash timing adjustment were made, the growth rate for 2008 dropped to 1.3%. Growth is forecast to fall to 0.2% in 2009 as the recession intensifies, and then rebound to 3.1% in 2010. Because construction accounts for a much smaller share of the B&O tax base than the sales tax base, the expected downturn in construction will have only a moderate impact on B&O revenue.

Utility Business Tax - Private Utilities

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

Natural gas prices have been higher. 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.

The first half of 2008 saw unprecedented spikes in the prices of energy. Natural gas prices were no exception. They reached a 2008 high of $13 per million British Thermal Units (BTUs) in July and then fell quickly down to around $8/mBTU in August. PSE was granted a wholesale gas rate hike of 10%; it became effective October 1st. Since the summer peak, gas prices have fallen precipitously. If this decline is sustained, we expect to see changes in rates and therefore tax revenues.

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

Certain sectors of the telecom industry are experiencing solid growth, while others are steadily declining. Wireless revenues have been on an upward trajectory and are forecast to remain robust for the next few years. Tax revenues from wireless were up 10% in 2007 and are expected to be up 5% in 2008. Traditional telecom providers however are showing negligible growth and even contraction, and this trend is expected to continue. As it stands now, wireless revenue growth is more than making up for any decline in other parts of this revenue stream.

Cable tax revenue shows steady growth. The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.2% franchise fee makes funds available for technology and public access purposes. This franchise fee, which does not go to the General Subfund, increased from 3.5% in June 2006.

Cable revenues have been growing and are expected to continue to do so through 2010. Revenues for 2008 are expected to be $12.8 million, a 7% increase over 2007. The forecasts for 2009 and 2010 are $13.3 and $13.7 million, respectively. Amid growing competition from satellite TV, the cable industry has increased its services in order to remain competitive, including additional channels, pay-per-view options, and digital reception. The increased tax revenues suggest this strategy is working.

Utility Business Tax - Public Utilities

The City levies a tax on most revenue collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). In 2004, tax rates were 6.0% for electricity and 10.0% for the other public utility services (see Figure 13). Tax rate increases on various public utilities were passed by the City Council in November 2004. These rate increases led to increases in revenues to the General Subfund. The 2009 Adopted and 2010 Endorsed Budgets do not anticipate tax rate changes, but they do incorporate the effects of utility rate increases for Seattle Public Utilities (SPU) services.

Little change in tax revenue from City Light. The forecast anticipates little change in total electricity use by City Light's retail customers from 2007 levels and electricity rates will remain the same. As a result, revenue from the utility tax on electricity should change little over the biennium.

Higher water rates increase tax revenues. The 2009 Adopted and 2010 Endorsed Budgets include increases in rates charged by the Water Utility of SPU. These rate increases result in a commensurate increase in City utility tax revenues for the General Subfund. Utility tax revenue increases by 18.4% to $19.7 million in 2009, and increases by another 5.6% in 2010 to $20.8 million.

Drainage and Wastewater rate increases mean higher tax revenue growth. Rate increases for Drainage and Wastewater were approved for both 2008 and 2009. In addition, King County Metro is assessing a higher rate on

SPU to access the County's sewerage processing system. Together, these changes result in more revenue for the City's drainage and wastewater utility taxes. The utility is also anticipating a rate increase for 2010 to pay for new costs to implement changes to environmental standards. As a result of these actual and anticipated rate changes, the 2009 Adopted and 2010 Endorsed Budgets anticipate a 10.0% increase in utility taxes in 2008 for a total of $23.5 million. 2009 and 2010 tax revenue is forecast to be up 11.5% and 6.4%, respectively.

Higher Solid Waste rates mean higher tax revenue growth. The 2009 Adopted and 2010 Endorsed Budget includes increases in rates charged by SPU's Solid Waste Utility. As a result, Solid Waste tax will be $10.7 million in 2009 and $12.0 million in 2010, up from $8.9 million in 2008.

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 unanticipated swings in attendance at athletic events. It is also dependent on economic conditions, as people's ability and desire to spend money on entertainment is influenced by the general prosperity in the region.

By City ordinance, 20% of admission tax revenues, excluding men's professional basketball, are dedicated to programs supported by the Office of Arts and Cultural Affairs. The forecasts in Figure 8 for the admission tax reflect the full amount of tax revenue. The Office of Arts and Cultural Affairs budget provides detail on the Office's use of Arts Account revenue from the admission tax.

As part of the Mayor's "City of Music" initiative, certain live music venues will not be subject to the admission tax. This will reduce yearly tax collections by roughly $300,000. The City Council has delayed review of this proposal until early 2009, but the Council assumed the exemption would go into effect in July 2009. As a result only $150,000 of admission tax revenue has been deducted from the 2009 forecast. The termination of the Seattle Sonics' lease at KeyArena will remove a large portion of the admission tax base, resulting in about $1.5 million less in revenue each year.

Licenses and Permits

The City requires individuals and companies conducting business in Seattle to obtain a City business license. In addition, some business activities, such as taxi cabs and security systems, require additional licenses referred to as professional and occupational licenses. The City also assesses fees for public-safety purposes (e.g., pet ownership and fire hazard inspection) and charges a variety of fees for the use of public facilities and rights-of-way.

The City instituted a two-tier business license fee structure beginning with licenses for 2005. The cost of a license, which had been $80 per year for all businesses, was raised to $90 for businesses with worldwide revenues of more than $20,000 per year and lowered to $45 for businesses with worldwide revenues less than $20,000 per year. The shift to the two-tier structure has resulted in a small decline in revenue of approximately $90,000 per year.

As part of the City's Bridging the Gap transportation funding initiative, effective July 1, 2007 the Commercial Parking License fee paid by commercial parking operators was reduced from $90 per 1,000 square feet of floor space to $6 per 1,000 square feet. As a result of this change, license revenue is expected to decline by $1.025 million in 2008.

Parking Meters/Traffic Permits

The 2009 Adopted and 2010 Endorsed Budgets include an increase of $1.00 per hour to the maximum on-street parking fee. As a result, the Budget anticipates revenue from these fees to increase in 2009 by roughly $6.1 million (or 31%) to $25.3 million and an additional $3.8 million in 2010. The actual rate increase will vary depending on location and time of day, consistent with the City's parking management program's fee pricing strategy.

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 and debit cards, for hourly on-street parking. At the same time, the City increased parking rates from $1 to $1.50 per hour. These changes were part of a parking management program that continues to work throughout the City. As part of numerous changes to improve traffic flow, space turnover and other management objectives, the Seattle Department of Transportation (SDOT) has also increased the total number of parking spaces in the street right-of-way which are subject to fees.

One element of the parking management program is greater use of the price signal to achieve management objectives. In 2007, SDOT extended pay station control over 2,160 previously non-paid spaces in the South Lake Union area. Under an experimental approach, the rates for these spaces will be adjusted periodically to consistently achieve a desired occupancy rate in the area. In 2009 and 2010, the City will gradually extend this strategy across other areas of Seattle and increase the maximum allowable hourly rate from $1.50 per hour to $2.50 per hour to allow for rate setting flexibility. More information about the pay station technology program is provided in the SDOT section of this document.

The Adopted Budget also assumes a 20% increase to traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits. Total revenues for this category are consequently anticipated to increase from approximately $1.8 million in 2008 to $2.3 million in 2009 and 2010.

Court Fines

Historically, between 70% and 85% of fine and forfeiture revenues collected by the Seattle Municipal Court are from parking citations and fines resulting from enforcement efforts by Seattle Police Department parking enforcement and traffic officers. An additional 8% to 10% comes from traffic tickets. Recent trends indicated decreases in parking citation volume through 2006. This was in part due to enforcement and compliance changes stemming from the parking pay station technology. However, beginning in 2007 citation volume has increased, in part due to changes in enforcement technology and strategies, but also 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). The Adopted Budget includes the addition of 8 new PEOs in 2009.

In 2008, the City forecasts receiving $20.6 million in court fines and forfeitures. The 2008 revenue projection includes an estimated $1.37 million in revenue resulting from the expanded red light camera enforcement program, which is growing from the original 6 camera locations to a total of 30 locations. Additionally, in 2008 the City re-aligned its fine for red light moving violations to the State's fine amount, which was increased from $101 to $124 over the last two legislative sessions. Total fines and forfeitures revenues are estimated to reach $22.3 million in 2009 and $23.2 million in 2010. The growth assumed from adding the PEOs throughout 2009 is offset to some degree by the decrease due to the anticipated decline in citations and revenues from the red light cameras, which falls from $4.5 million in 2009 to $3.8 million in 2010. Experience with the original 6 cameras indicates drivers behave differently over time at these intersections, resulting in fewer citations.

Interest Income

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

Positive growth in earnings rates and cash balances beginning in 2005 resulted in increased interest and investment earnings over this period: $1.9 million in 2004, $3.2 million in 2005, $6.0 million in 2006 and $9.6 million in 2007. Current estimates for General Subfund interest and investment earnings for 2008 to 2010 reflect significantly lower earning rates with fairly stable cash balances, producing forecasted earnings of $7.6 million in 2008, $5.6 million in 2009, and $6.7 million in 2010.

Revenue from Other Public Entities

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 City receives funding from the state for criminal justice programs. The state provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. 2008 criminal justice revenues will be $2.3 million. 2009 and 2010 are forecast to increase by about 2% each year.

Liquor Board profits and excise tax revenues are little changed. The City's share of Liquor Board profits increased dramatically from $3.1 million in 2002 to $4.1 million in 2004. There were $4.1 million in revenues for 2005 as well. 2006 liquor board profits were $3.7 million. This drop is the result of new initiatives and programs the Liquor Board has undertaken in the aim of increasing revenues, decreasing costs and therefore increasing profits. The benefit from these changes became evident in 2007. For 2009 and 2010 there is expected to be little growth, with $4.1 million forecasted in both years. Liquor excise taxes, which are levied on the sale of liquor, have been growing consistently, but the rate of growth is expected to slow. The 2009 and 2010 forecasts for the liquor excise taxes are $2.9 million in each year.

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 of this allocation is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Subfund from these independently supported departments. More details about these cost allocations and methods are illustrated later in the document.

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 this document. In ordaining the 2009 Adopted Budget, the Mayor and City Council authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the General Subfund revenue table to the General Subfund.

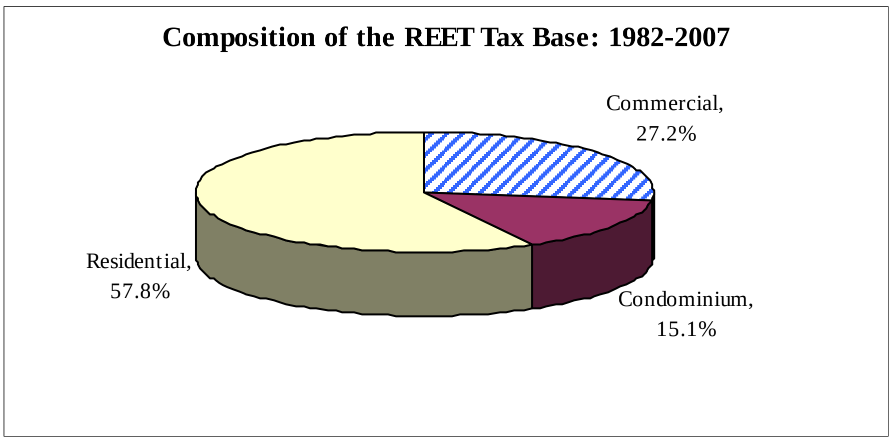
Cumulative Reserve Subfund – Real Estate Excise Tax

Cumulative Reserve Subfund resources are used primarily for the maintenance and development of City non-utility capital facilities. The Subfund is 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, a portion of street vacation revenues, General Subfund transfers, and interest earnings on cash 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.

On average, 57.8% 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 27.2% of the tax base, and condominiums constitute the remaining 15.1% (see Figure 14).

Figure 14. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2007



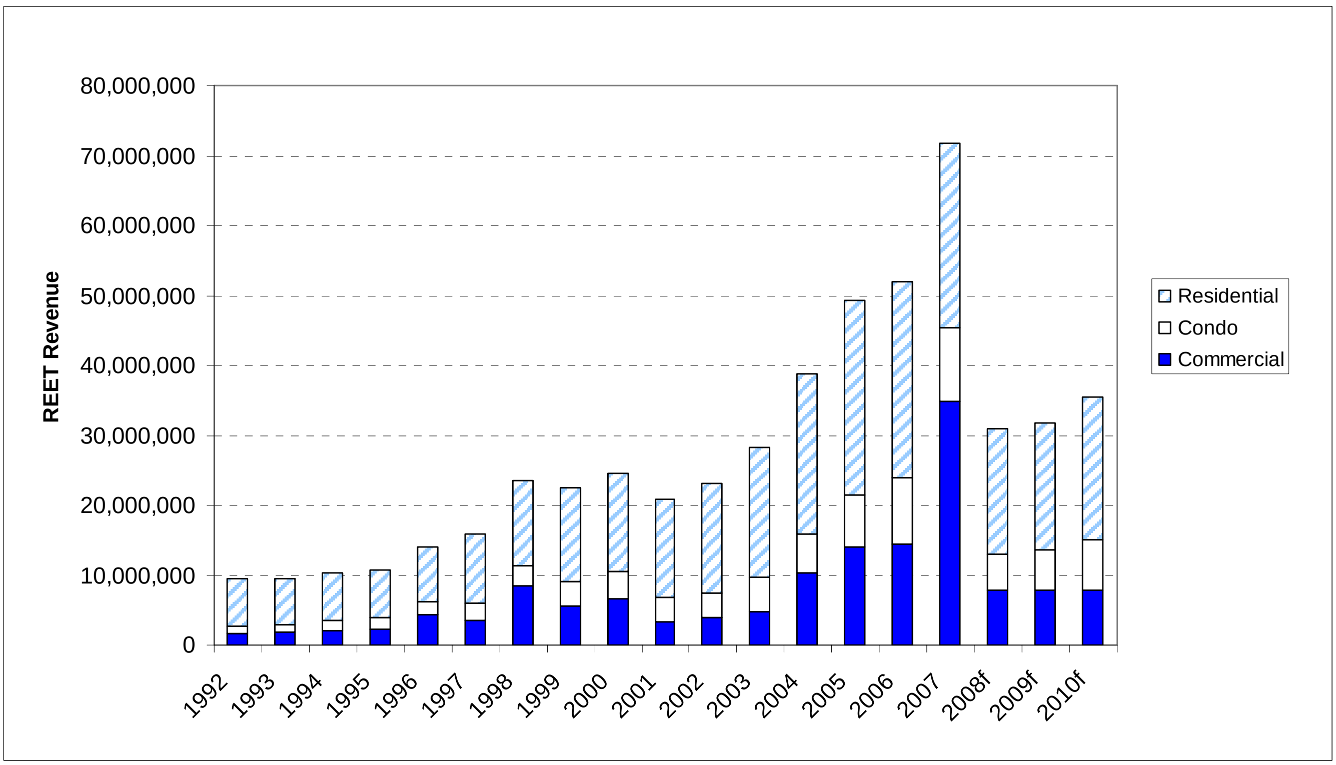
Historically REET revenue growth has been both strong and volatile. The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth has been particularly strong during the past five years, as the housing market has boomed in response to very low interest rates and strong growth in the region's economy. In addition, 2004 through 2006 were exceptional years for commercial real estate activity, only to be surpassed in 2007.

The volatility of REET is reflected by the fact that despite an annual growth rate of 13.1%, the REET tax base declined in six years out of 24 between 1982 and 2007 (see Figure 15). The most recent nominal decline was a drop of 15.6% in 2001. Volatility results largely from changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. Commercial activity is more volatile than residential, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next.

REET revenue rose to new high in 2007, but negative growth is here. The national real estate market has continued to dim, with the states that saw the biggest growth over the boom years experiencing the worst of the fallout since the market peaked in the 2nd quarter of 2006. The subprime loan market, along with its accompanying default and foreclosure rates, has sent credit markets into turmoil. Housing starts are down significantly as are home sales. The Seattle housing market was and is somewhat exposed to subprime borrowers, but with a heretofore solid job market and positive net migration the real estate market was expected to perform well, or at least maintain position. But the risk of a worsening credit market has been realized and the availability of credit has been severely compromised. The Seattle market in 2008 is beginning to see patterns similar to the national market. Residential single-family and condominium units listed for sale have been growing, while the number of those units selling has plummeted. Prices have been steadily declining; home prices have fallen almost 10% from their peak. The threat of a prolonged recession and falling employment may cause households that need to sell to drop prices even more significantly, in order to entice buyers back into an increasingly fitful and unsteady market. The fall months were particularly bad for 2008. REET revenues dropped 72% year-over-year in November alone and will be down in by roughly 56% for the year as a whole.

2007 set a new high for REET receipts, especially in the commercial sector. A large group of Class A office space buildings were sold twice in the 2nd quarter, leading to REET revenues of some $25 million in that quarter alone. As expected, the commercial sector has cooled significantly in 2008 and is not expected to recover for some time. 2007 REET finished at $71.8 million. 2008 is now forecast to be the only negative growth year, with receipts of $30.9 million. 2009 will be fairly flat, with a less-than 3% gain. By 2010, the economy and real estate markets are forecast to be on the mend; Seattle is projected to see positive REET growth of more than 11% for 2010, to $35.6 million.

Figure 15. Real Estate Excise Tax: Yearly Revenues by Type



Transportation Fund -- Bridging the Gap revenue sources

The Transportation Fund is the primary operating fund whose resources support the management, maintenance, and the 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, use fees, bond proceeds, and several other sources more fully presented in the Transportation Department section of this budget document. The Transportation Fund received approximately $159.2 million in operating revenues in 2006. This figure increased to $206.8 million in 2007, and is projected to increase to approximately $222.1 million in 2008, $335.4 million in 2009, and $337.2 million in 2010. The large increases are due to the addition of three new revenue sources beginning in 2007 and projected increases in federal, state and interlocal grants. These grant opportunities are made possible because of the types and scale of projects planned in this period and the additional revenues available to provide matching support for the grants.

City began levying new taxes in 2007. In September 2006, the City established three additional revenue sources dedicated to these purposes: a levy lid lift (Ordinance 122232), a commercial parking tax (Ordinance 122192), and an employee hours tax (Ordinance 122191). Revenues from these new taxes will support the 9-year Phase One of the 20-year “Bridging the Gap” program of transportation maintenance and improvements.

The transportation lid lift is a 9-year levy authorized under RCW 84.55.050 to be collected from 2007 through 2015. The lid lift is forecasted to raise $37.1 million in 2008, $38.3 million in 2009, and $39.1 million in 2010.

The commercial parking tax is a tax on the act or privilege of parking a motor vehicle in a commercial parking lot within the City that is operated by a commercial parking business. Effective July 1, 2007 the tax rate was established at 5 percent. The rate will increase annually on July 1 to 7.5 percent in 2008 and 10 percent in 2009. The current forecast anticipates $12.8 million in 2008, which is up significantly from the 2008 Adopted Budget amount of $8.8 million due to increases in parking rates and demand, but also to underestimation of the size of institutional commercial parking activity in the City. Institutional parking refers to commercial parking activity that occurs within organizations whose principal line of business and therefore whose tax reporting is not under parking operation categories. The forecast is $17.8 million for 2009 and $21.3 million for 2010.

The business transportation tax or employee hours tax is a tax levied and collected from every firm for the act or privilege of engaging in business activities within the City of Seattle. The amount of the tax is based on the number of hours worked in Seattle or, alternatively, on a full time equivalent employee basis. The tax rate per hour is $0.01302, which is equivalent to $25 per full time employee working at least 1,920 hours annually. Several exemptions and deductions were provided in the authorizing ordinance. Most notably a deduction is offered for those employees who regularly commute to work by means other than driving a motor vehicle alone. Based on actual payments for 2007 liabilities, 2008 revenues were adjusted downward to $4.8 million from the 2008 Adopted Budget figure of $5.5 million. Projections are $5.2 million for 2009 and $5.6 million for 2010.

Figure 13. Seattle City Tax Rates

	2005	2006	2007	2008	2009†
Property Taxes (Dollars per $1,000 of Assessed Value)					
General Property Tax	$2.12	$2.01	$1.88	$1.70	$1.55
Families & Education	0.19	0.18	0.16	0.14	0.12
Seattle Center/Parks Comm. Ctr.	0.02	0.02	0.01	0.00	0.00
Parks and Open Space	0.30	0.28	0.26	0.18	0.00
Parks for All Levy	0.00	0.00	0.00	0.00	0.18
Low Income Housing	0.04	0.04	0.04	0.03	0.03
Fire Facilities	0.28	0.26	0.20	0.17	0.14
Emergency Medical Services	0.23	0.22	0.21	0.30	0.27
Low Income Housing (Special Levy)	0.10	0.09	0.08	0.07	0.06
City Excess GO Bond	0.31	0.28	0.25	0.17	0.16
Bridging the Gap Levy	0.00	0.00	0.35	0.31	0.27
Bridging the Gap Transportation					
Employee Hours Tax (Hourly rate)	$0.00	$0.00	$0.01302	$0.01302	$0.01302
Commercial Parking Tax	0.0$	0.0%	5.0%	7.5%	10.0%
Retail Sales and Use Tax	0.85%	0.85%	0.85%	0.85%	0.85%
Business and Occupation Tax					
Retail/Wholesale	0.2150%	0.2150%	0.2150%	0.2150%	0.2150%
Manufacturing/Extracting	0.2150%	0.2150%	0.2150%	0.2150%	0.2150%
Printing/Publishing	0.2150%	0.2150%	0.2150%	0.2150%	0.2150%
Service, other	0.4150%	0.4150%	0.4150%	0.4150%	0.2150%
Square footage business tax, office/retail ($/sq. ft.)	$0.00	$0.00	$0.00	$0.39	$0.40
Square footage business tax, all other	$0.00	$0.00	$0.00	$0.13	$0.14
City of Seattle Utility Business Taxes					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water (*15.54% eff. 5/15/2005)	14.04-15.54%*	15.54%	15.54%	15.54%	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste (**11.5% eff. 4/1/2005)	10-11.50%**	11.50%	11.50%	11.50%	11.50%
Cable Communications (not franchise fee)	10.0%	10.0%	10.0%	10.0%	10.0%
Telephone	6.0%	6.0%	6.0%	6.0%	6.0%
Natural Gas	6.0%	6.0%	6.0%	6.0%	6.0%
Steam	6.0%	6.0%	6.0%	6.0%	6.0%
Commercial Solid Waste (**11.5% eff. 4/1/2005)	10-11.5%**	11.5%	11.5%	11.5%	11.5%
Franchise Fees					
Cable Franchise Fee (***4.2% eff. 6/3/2006)	2.5%	3.5-4.2%***	4.2%	4.2%	4.2%
Admission and Gambling Taxes					
Admissions tax	5.0%	5.0%	5.0%	5.0%	5.0%
Amusement Games (less prizes)	2.0%	2.0%	2.0%	2.0%	2.0%
Bingo (less prizes)	10.0%	10.0%	10.0%	10.0%	10.0%
Punchcards/Pulltabs	5.0%	5.0%	5.0%	5.0%	5.0%

† 2009 Property tax rates and B&O square footage rates are estimates.

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.

- Tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for the closed fiscal year shall automatically be deposited to the Revenue Stabilization Account of the Cumulative Reserve Subfund. At no time shall the balance of the Revenue Stabilization Account exceed 5% of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year.

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.

- 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's Director of Finance.

Budget Process

Washington state law requires cities with populations greater than 300,000, such as Seattle, to adopt balanced budgets by December 2 of each year for the fiscal year beginning January 1. The adopted budget appropriates funds and establishes legal expenditure limits for the upcoming fiscal year.

Washington state law also allows cities to adopt biennial budgets. In 1993, the City ran a pilot test on the concept of biennial budgeting for six selected departments. In 1995, the City moved from an annual to a modified biennial budget. Under this approach, the City Council formally adopts the budget for the first year of the biennium and endorses, but does not appropriate, the budget for the second year. The second year budget is based on the City Council endorsement and is formally adopted by the City Council after a midbiennial review.

Budgetary Basis

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

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

Budget Preparation

Executive preparation of the budget generally begins in February and concludes no later than October 2 with the Mayor's submittal to the City Council of proposed operating and capital improvement program (CIP) budgets. Operating budget preparation is based on the establishment of a Current Services or "baseline" budget. Current Services is defined as continuing programs and services the City provided in the previous year, in addition to previous commitments that will affect costs in the next year or two (when developing the two-year biennial budgets), such as voter-approved levy and bond issues for new library and park facilities, as well as labor agreements and changes in health care, insurance, and cost-of-living-adjustments for City employees. At the outset of a new biennium, Current Services budgets are established for both the first and second years. For the midbiennium budget process, the Executive may define the Current Services budget as the second year budget endorsed by the City Council the previous November, or re-determine current service levels. For example, the 2008 Endorsed Budget was used as the basis for the 2008 Proposed Budget.

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

In May, departments prepare and submit Budget Issue Papers (BIPs) to DOF for mayoral consideration. The Mayor's Office reviews and provides direction to departments on the BIPs to be included in the department's budget submittal in early June. In early July, DOF receives departmental operating budget and CIP submittals, including all position changes. Mayoral review and evaluation of department submittals takes place during the month of August. DOF, in conjunction with individual departments, then finalizes the operation and CIP budgets.

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

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

Budget Adoption

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

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 provide the Council's expectations in making budget decisions and generally require affected departments to report back to the City Council on results. A chart summarizing the typical budget process schedule is provided at the end of this section.

Legal Budget Control

The adopted budget generally makes appropriations for operating expenses at the budget control level within departments. Capital projects programmed in the CIP are appropriated in the budget at the program or project level. Grant-funded activities are controlled as prescribed by law and federal or state regulations.

Budget Execution

Within the legally adopted budget authorizations, more detailed allocations, as approved by DOF, 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, DOF monitors revenue and spending performance against the budget to protect the financial stability of the City.

Budget Amendment

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

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

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

BUDGET PROCESS DIAGRAM – 2009 ADOPTED AND 2010 ENDORSED BUDGET

PHASE I – Budget Submittal Preparation	**FEBRUARY-MARCH** DOF provides departments with the general structure, conventions and schedule for the 2009-2010 Budget Departments participate in the Functional Priorities exercise	**MARCH - APRIL** DOF prepares revenue projections for 2009-2010	**APRIL** DOF issues budget and CIP development instructions to departments
	MAY Departments submit Budget Issue Papers (BIPs) to describe how they will arrive at their budget targets	**MAY-JUNE** Mayor's Office and DOF review the BIPs and provide feedback to departments	**JULY** Departments submit budget and CIP proposals to DOF based on Mayoral direction DOF reviews departmental proposals for organizational changes
PHASE II – Proposed Budget Preparation	**JULY-AUGUST** The Mayor's Office and DOF review department budget and CIP proposals	**AUGUST-SEPTEMBER** Mayor's Office makes final decisions on the Proposed Budget and CIP Proposed Budget and CIP documents are produced	**SEPTEMBER** Mayor presents the Proposed Budget and CIP to City Council
PHASE III – Adopted Budget Preparation	**SEPTEMBER-OCTOBER** Council develops a list of issues for review during October and November DOF and departments prepare revenue and expenditure presentations for Council	**OCTOBER-NOVEMBER** Council reviews Proposed Budget and CIP in detail Budget and CIP revisions developed, as are Statements of Legislative Intent and Budget Provisos	**NOVEMBER-DECEMBER** Council adopts operating budget and CIP Note: Budget and CIP must be adopted no later than December 2