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RECENT FISCAL TRENDS FOR THE CITY OF SEATTLE

In September, Seattle Mayor Greg Nickels released his proposed budget for 2008. If the City Council adopts the Mayor's \$921 million plan, 2008 spending would be 9.6 percent greater than 2007 and 19.8 percent greater than 2006.

To help fund this increase, the Mayor proposes to create a new tax on the square footage of space that businesses occupy in the city. At least initially, this tax would target only businesses whose activities outside the city, under state law, cannot be reached by the city's business and occupation tax. In the future, however, the tax could easily be extended to other firms that are failing to pay what city officials deem to be their "fair share."

Historically, Seattle's finances have followed a boom and bust cycle. The most recent downturn, from 2001 to 2005, was made more painful by the unsustainable expansion in city spending over the proceeding four years. Right now the city is enjoying a boom. If the past is any guide, a bust will surely follow. Restraint today, will reduce the need for more painful cuts when the economy turns.

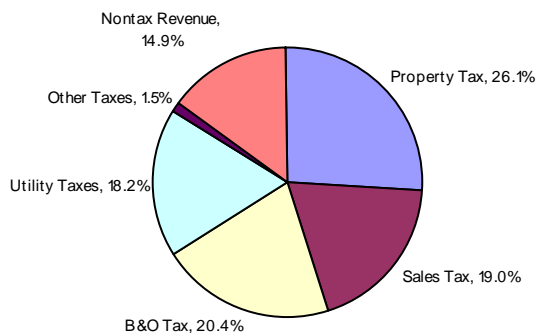
WHERE THE MONEY COMES FROM

Most of the money for general government services passes through the General Subfund of the city's General Fund. Additional money for parks and recreation is

provided through the Parks and Recreation Fund, to which the city charter dedicates "ten percent of the gross receipts of the City from all fines, penalties and licenses" (Article XI, Section 3). Collectively these dedicated funds are known as Charter revenues. For 2006, General Subfund (GSF) revenues were about \$769.5 million and Charter revenues were about \$34.4 million.

Chart 1 provides a high-level view of the sources of combined GSF and Charter (GSF/C) revenue for 2006. Taxes provided 85 percent of this revenue. The remainder came from license and permit fees; federal, state and interlocal grants; fines and forfeitures; interest; parking meters; service charges; interfund charges and operating transfers; and other miscellaneous sources.

Chart 1: General Subfund and Charter Revenues
\$804 Million in 2006

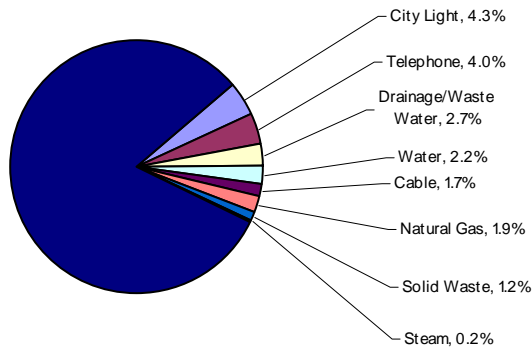


The city's tax revenues come mainly from four taxes, the property, sales, business and occupation, and utility taxes.

Property taxes provided 26.1 percent of GSF/C revenue in 2006. The GSF receives two slices of property taxes: The city's regular tax (\$2.01 per \$1,000 assessed value in 2006) yielded \$188.9 million. The city's share of the countywide Medic One levy (22 cents per \$1,000 assessed value) was \$20.8 million.

Sales tax provided 19.0 percent of GSF/C revenue. The sales tax comes in two slices: the regular sales tax (at the rate of 85 cents per \$100 taxable sales) yielded \$139.4 million, while the city’s share of the countywide criminal justice sales tax (at the rate of 10 cents per \$100) was \$13.1 million.

Chart 2: Shares of Specific Utility Taxes in 2006



The business and occupation (B&O) tax provided 20.4 percent of GSF/C revenue (one-tenth as Charter revenue). The B&O tax rate is 22.5 cents per \$100 of gross receipts in the retail, wholesale, manufacturing, extracting, printing and publishing sectors, and 41.5 cents per \$100 of gross receipts in the service and other sectors. The B&O tax yielded \$164.0 million in 2006.

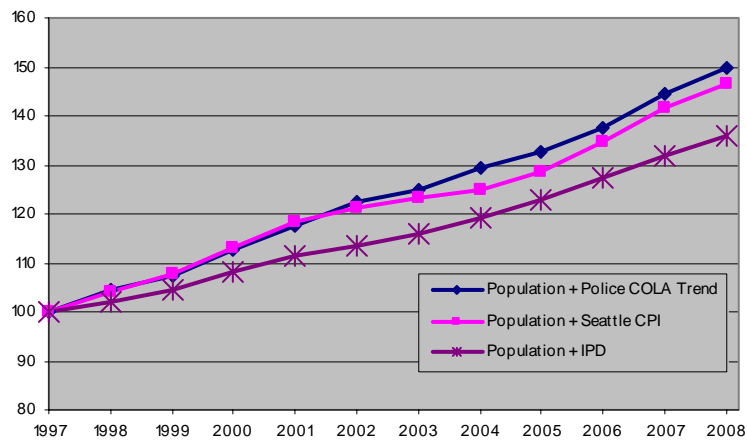
Utility taxes on a wide range of services provide 18.2 percent of GSF/C revenue (one-tenth as Charter revenue). The utility tax is a gross receipts tax imposed on municipally-owned and private utilities at varying rates: \$15.54 per \$100 of revenue

for water; \$12 per \$100 for wastewater; \$11.50 per \$100 for drainage and solid waste; \$10 per \$100 for cable; and \$6 per \$100 for City Light, telephone, natural gas and steam. In total, utility taxes provided \$146.0 million in 2006. Chart 2 shows the distribution of revenue across the various utility services.

BENCHMARKS

Chart 3 shows three possible benchmarks against which one might gage the growth in city revenues. Each benchmark is expressed as an index number, with the 1997 value equal to 100.

Chart 3: Three Benchmarks



The lowest benchmark shown on the chart grows at a rate equal to the sum of the growth in Seattle’s population and the rate of inflation as measured by the implicit price deflator for personal consumption expenditures (IPD). In constructing this benchmark, we use the estimates of Seattle’s April 1 population for the years 1997 to 2007 published by the state Office of Financial Management and assume that the 2008 growth rate will be equal to the 2007 rate. For the IPD we use historical values published by the U.S. Department of Commerce’s Bureau of Economic Analysis and forecasts from the state Office of the Forecast Council.

The population-plus-IPD benchmark grew by 27.4 percent from 1997 to 2006. Initiative 601, approved by voters in 1993, imposed a population-plus-IPD limit on state spending growth .

The second benchmark grows at a rate equal to the rate of population

growth and the rate of growth of the Seattle Consumer Price Index (CPI) published by the U.S. Department of Labor’s Bureau of Labor Statistics. This benchmark grows a bit more than the population-plus-IPD benchmark, as inflation measured by the Seattle CPI on average exceeds that measured by the IPD, particularly in periods when the Seattle economy is expanding at a faster rate than the national economy. (Some argue that the CPI methodology systematically overstates inflation and believe that the IPD is a more accurate gauge of inflation.)

The population-plus-Seattle-CPI benchmark grew by 34.8 percent from 1997 to 2006. The forecast value for 2008 is 46.7 percent greater than 1997.

Seattle Department of Finance staff note that pay increases for uniformed services, which often exceed the rate of inflation, are major cost drivers for the city. The third benchmark’s rate of growth is equal to the sum of the rate of population growth and the percentage cost-of-living adjustments (COLAs) given to Seattle Police. For 1998 to 2006, we use the contractual COLAs. The police officers guild contract expired at the end of 2006, and, as yet, contractual COLAs for 2007 and 2008 have not been determined.

For these years, the benchmark uses a “trend” COLA equal to the forecast of Seattle CPI inflation plus the average by which police COLAs exceeded inflation over the 1997–2006 period.

The population-plus-police-COLA benchmark grew by 37.5 percent from 1997 to 2006. The trend value for 2008 is 50.0 percent greater than 1997.

TAX REVENUE TRENDS

Charts 4, 5, 6 and 7 show trends in revenues from the property, sales, B&O and utility taxes respectively. The numbers for 1997 to 2006 are actual revenue, while those for 2007 and 2008 are September 2007 forecasts by the city’s finance department.

Property Tax. The drop in property tax revenues from 1997 to 1998 reflects the failure of the Medic One levy in the November, 1997 election. Correspondingly, the strong \$24 million growth in revenues from 1998 to 1999 reflects the reauthorization of the levy in November 1998. In November 2001 voters passed Initiative 747, which tightened the limit on regular property tax revenue growth to 1 percent per year plus the rate of growth in assessed value due to new construction. For 2002, with the economy slipping into recession and revenues from other taxes constrained, Seattle used all of its “banked” capacity,

which allowed regular property tax revenue to grow by 5.3 percent, \$8.5 million, from 2001 to 2002. In addition, renewal of the EMS levy provided

Chart 4: Property Tax Revenue

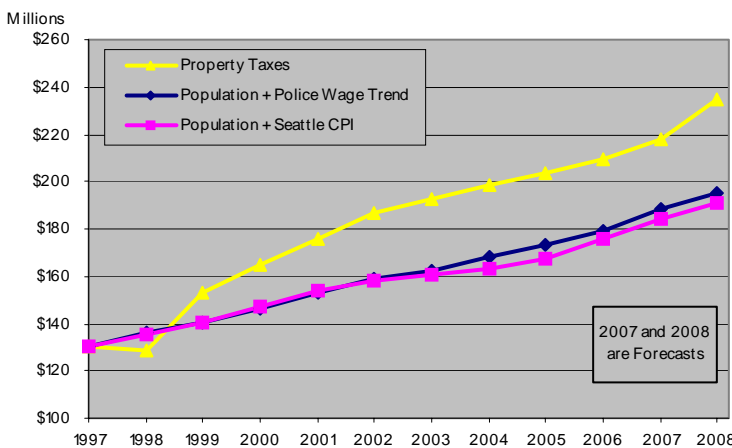
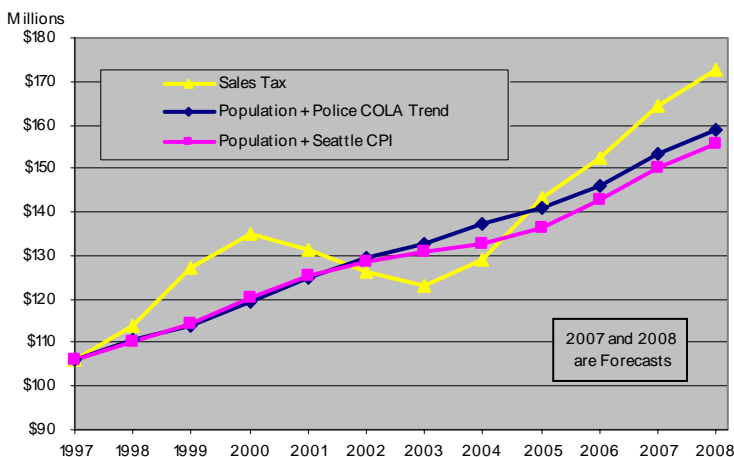


Chart 5: Sales Tax Revenue

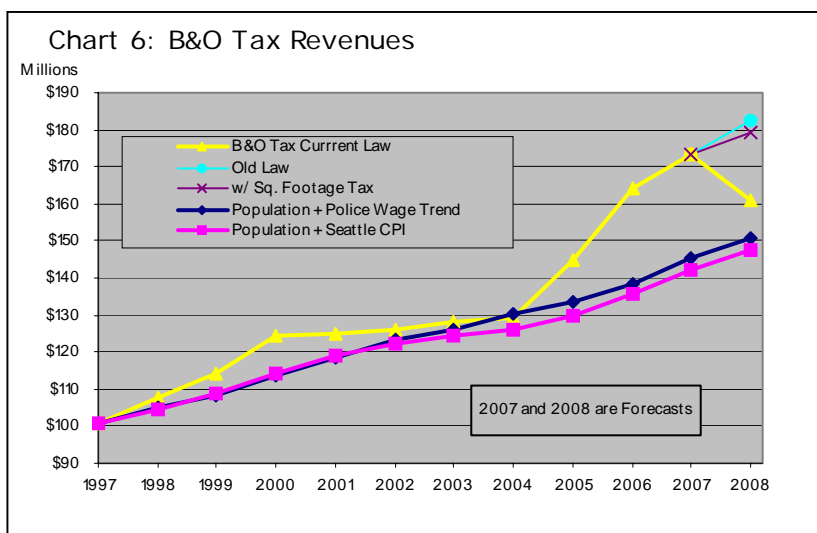


a \$2.6 million bump in that slice of property tax. From 2002 to 2007, with the I-747 limit binding, the annual increase in revenues has averaged 3.1 percent.

The forecast for 2008 shows property tax revenue growth of 7.8 percent, on the assumption that voters will approve a \$12.3 million bump up in the EMS levy in November. Property tax revenue for 2008 would then be 80 percent greater than the 1997 revenue.

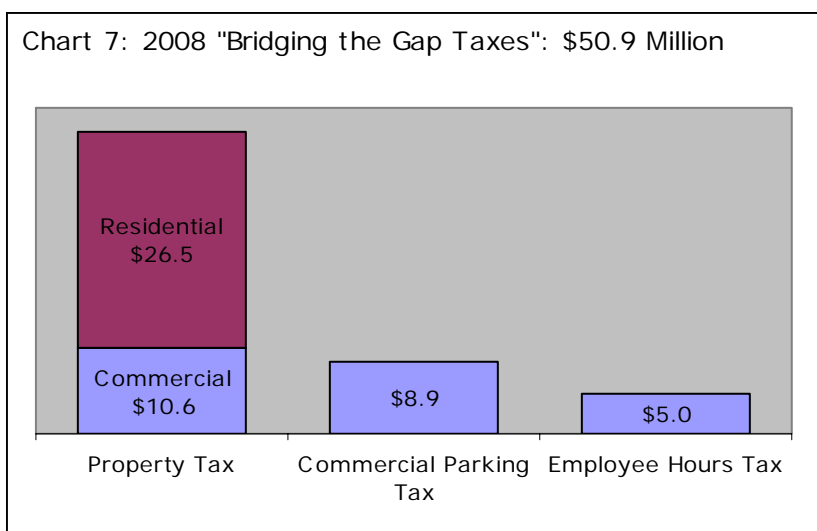
Sales Tax. The dot-com boom, particularly income from stock options, drove sales tax revenue growth in 1998, 1999 and 2000. Also significant was the resurgence of the downtown retail core, which benefited from the opening of Nordstrom’s flagship store and Pacific Place. Three years of absolute decline in sales tax revenues followed the 2000 peak. Revenues finally turned upwards in 2004, with the rate of growth accelerating to 11.3 percent in 2005. In that year, revenues finally surpassed the 2000 level peak. The rate of growth decelerated somewhat, to 7.0 percent, in 2006, but is forecast to remain strong through 2008. Sales tax revenues have recently benefited from a high level of construction activity.

Forecast sales tax revenue for 2008 is 63 percent greater than 1997 revenue.



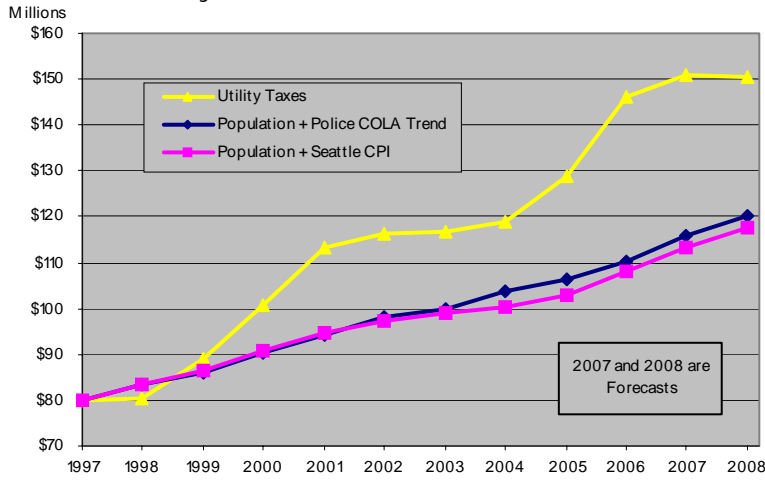
B&O Tax. B&O tax revenue grew by 23.6 percent during the boom years from 1997 to 2000. The subsequent recession greatly slowed the growth in B&O revenue (from 2000 to 2004 it grew by only 4.0 percent). But unlike the sales tax, B&O revenues did not decline during the recession. The years 2005 and 2006 were stunning, with B&O revenue up by \$34.6 million (26.7 percent). Construction and manufacturing were particularly strong. Figures for 2006 were boosted by an increase in penalties and interest collections and a reduction in refunds. Moderately strong growth (\$8.9 million, 5.4 percent) is forecast for 2007.

In 2008, under current law, B&O revenue is forecast to fall by \$12.4 million. This revenue decline is the result of state legislation (HB 2030, enacted in 2003), which limits the ability of the City to collect B&O tax on out-of-city activities of Seattle-based businesses. The Washington State Department of Revenue has estimated that the impact of HB 2030 on the City of Seattle will be \$21.9 million, and city revenue forecasters adjust revenue down by this amount. Without this adjustment, the revenues would be forecast to grow \$9.5 million (5.5 percent).



Businesses gain from HB 2030 has been more than offset by the taxes imposed under the “Bridging the Gap” program, enacted in 2006 to reverse years of neglect of Seattle’s transportation infrastructure. “Bridging the Gap”

Chart 8: Utility Tax Revenue



increased property taxes and instituted a commercial parking tax and an employee hours tax. These taxes are expected to raise \$50.9 million in 2008. Businesses will pay \$10.9 million in property tax and \$5.0 million in employee hours tax. Business employees and customers pay the bulk of the \$8.9 million in commercial parking tax.

Mayor Greg Nickels has proposed a square footage tax that would recoup the lost revenue from those businesses whose taxes were reduced by HB 2030. The rates for the new square footage would be \$1.56 per square foot annually for office, retail or production space and 52 cents per square foot annually for space with other usages (such as warehousing and storage). The fraction of a firm's space subject to the tax would equal to the fraction

of its Seattle-based revenue that escapes the B&O tax because of HB 2030. In addition, the amount of square footage tax any firm would owe would be capped at the amount of B&O tax savings it receives from HB 2030. Finance department staff expect this tax would recoup \$18.6 million, 85 percent, of the city's expected loss due to HB 2030.

Under current law, forecast B&O revenue is 59.8 percent greater than 1997 revenue; with the square-footage tax, the forecast for 2008 would be 78.3 percent greater than 1997.

Utility Tax. As noted above, the city collects utility tax on a number of different activities. Between 1998 and 2001, utility tax revenues grew by \$33.0 million (41.1 percent). Much of this growth was due to taxes on telephones (which grew from \$21.4 million to \$35.8 million), City Light (from \$21.5 million to \$29.4 million) and natural gas (from \$4.9 million to \$9.7 million). The growth in telephone tax revenue stems largely from the spread in cell phone usage. The year 2001 was the peak year for telephone tax revenues; competition among carriers has subsequently driven rates down. The growth in City Light tax revenues stems from the electricity rate increases that accompanied the western electricity crisis. Similarly, the growth in natural gas tax revenues stems from the spike in natural gas prices that accompanied the electricity crisis.

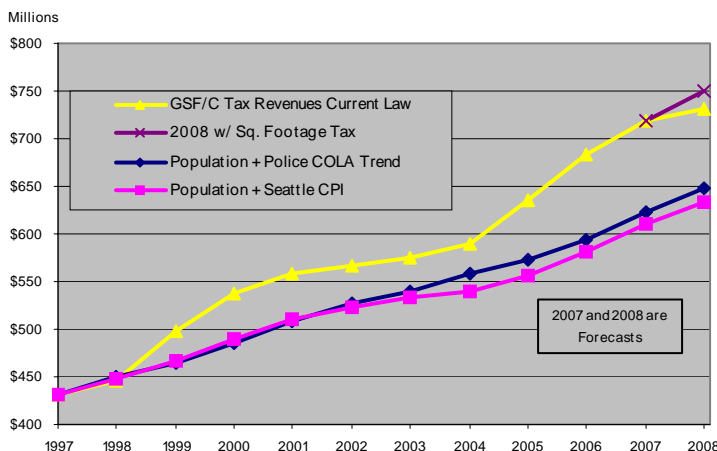
Between 2004 and 2006 utility tax revenues grew by \$24.2 million (20.3 percent). In this period water, drainage and waste water account for over half of the rise. In 2005 the city raised the tax rates that apply to these services.

Forecast utility tax revenue for 2008 is 87.9 percent greater than 1997 revenue. (see Chart 8.)

Total. Chart 9 shows the trend for all taxes combined. Over the 1997 to 2006 period, 2003 experienced the lowest annual growth in tax revenue, 1.4 percent. The year with the highest rate of growth was 1999. The rate of growth that year was boosted by the reinstatement of the Medic One levy after a one-year hiatus. The year with the second highest rate of growth, 7.8 percent, was 2005.

The forecast for total current law 2008 GSF/C tax revenue is 69.2 percent greater than 1997 revenue.

Chart 9: Total GSF/C Tax Revenue



With the addition of the square-footage tax, the growth from 1997 to 2008 would be 73.5 percent. Recall that the population-plus-Seattle-CPI benchmark is forecast to grow by 46.7 percent over the period, while the population-plus-police-COLA-trend benchmark grows by 50.0 percent over the period.

WHERE THE MONEY GOES

Next, we turn to trends in spending.

Reorganizations of city departments and the transfer of activities between the GSF and other city accounts complicate tracking spending trends. The city's Department of Finance has provided figures on budgeted GSF/C spending for 1997, 2001, 2005 and 2008, adjusted for such factors to allow an "apples to apples" comparison. These four years were chosen to bracket periods of boom, retrenchment and rebound in city spending. Because of the adjustments, these spending figures do not precisely agree with published budgets. The figures provided for 2008 were based on the 2008 budget endorsed in November 2006. We

have adjusted these numbers to reflect the Mayor's recently proposed 2008 budget.

Chart 10 shows the trend in total spending compared to the population plus Seattle CPI and population-plus-police-COLA benchmarks. The revenue boom of the dot-com years allowed spending to grow by \$155.5 million (31.5 percent) in the four years from 1997 to 2001. With the subsequent bust, spending grew by only \$48.8 million (7.5 percent) from 2001 to 2005. With the rebound in revenue, budgeted spending grew by \$203.9 million (29.2 percent) in the three years from 2005 to Mayor Nickels's proposal for 2008. Over the full interval, spending grew by 82.6 percent.

The proposed 2008 budget will spend \$921.1 million. Chart 11 shows the distribution of this spending across seven broad categories.

The largest category by far is *Public Safety*, \$468.5 million, 52 percent of GSF/C spending. Included within this broad category are the police department, \$216.5 million plus \$16.7 million for pensions, 25.5 percent of the total budget; the fire department, \$148.0 million plus \$19.3 million for pensions; the municipal court, \$25.8 million, 18.2 percent of the total; contracted jail and public defense services, \$22.4 million; the law department (headed by the City Attorney), \$17.8 million; and the Public Safety Civil Service Commission, \$142,000.

The next largest category is *Arts, Culture and Recreation*, \$148.7 million, 16 percent of spending.

Included here are parks, \$84.5 million; the Seattle Public Library, \$46.1 million; the Seattle Center, \$15.0 million; and arts programs, \$3.1 million.

Health and Human Services are budgeted \$49.6 million, 5 percent of spending.

Utilities and Transportation are budgeted \$46.1 million, 5 percent of spending.

Chart 10: General Subfund and Charter Spending

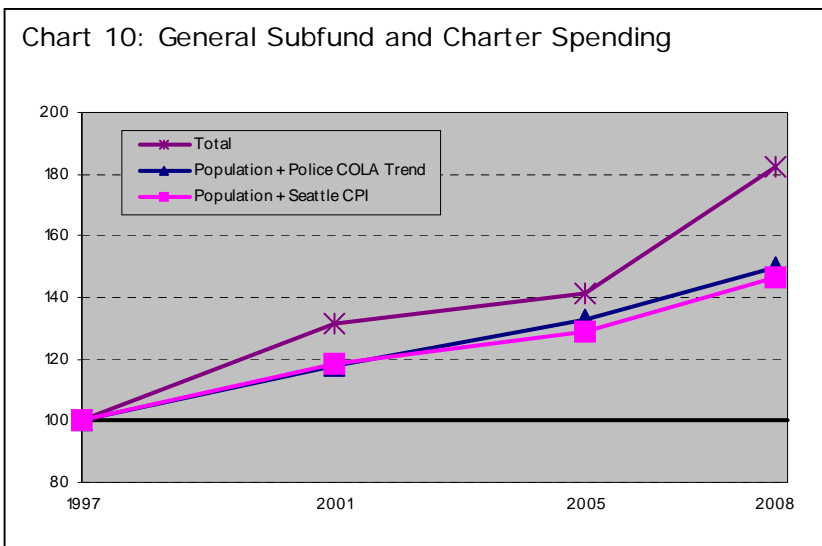
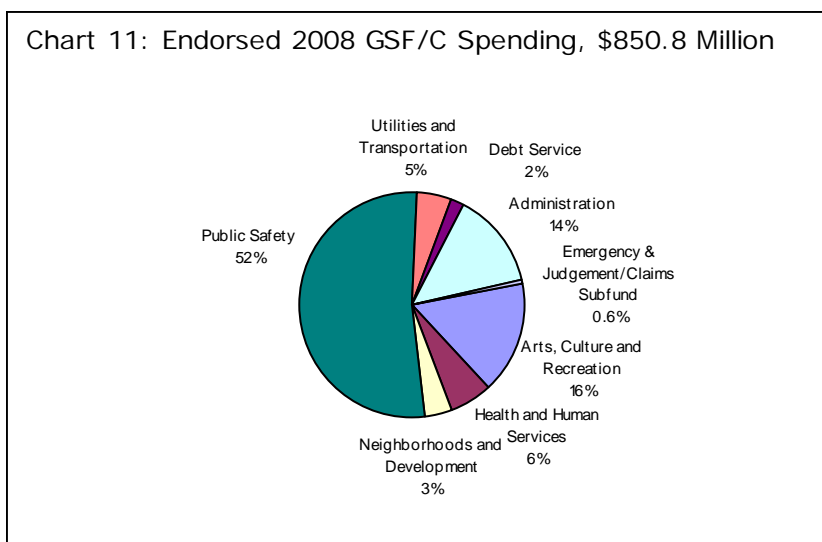


Chart 11: Endorsed 2008 GSF/C Spending, \$850.8 Million



Neighborhoods and Development are budgeted \$35.2 million, 3 percent. Of this, the Department of Economic Development gets \$7.3 million; the Office of Housing gets \$5.1 million; the Department of Neighborhoods gets \$8.5 million;

the Neighborhood Matching Fund, \$3.7 million; and the Department of Planning and Development, \$10.6 million.

Transportation and Utilities are budgeted \$48.6 million, 5 percent of the total. Most of this, \$47.4 million, goes to the city's Department of Transportation. The remaining \$1.1 million goes to Seattle Public Utilities (SPU). (Most of SPU's activities are funded by customer charges, which are outside the General Subfund.)

Rounding out GSF/C spending are *Administration*, \$147.5 million, 16 percent; *Debt Service*, \$18.5 million; and deposits to the Emergency Subfund and the Judgment/Claims Subfund, \$4.6 million.

Chart 12: Spending Trends by Area

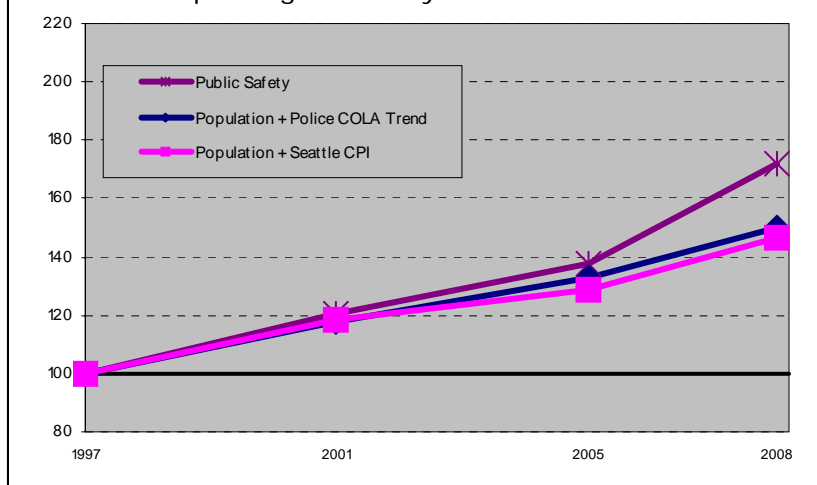


Chart 13: Spending Trends by Area

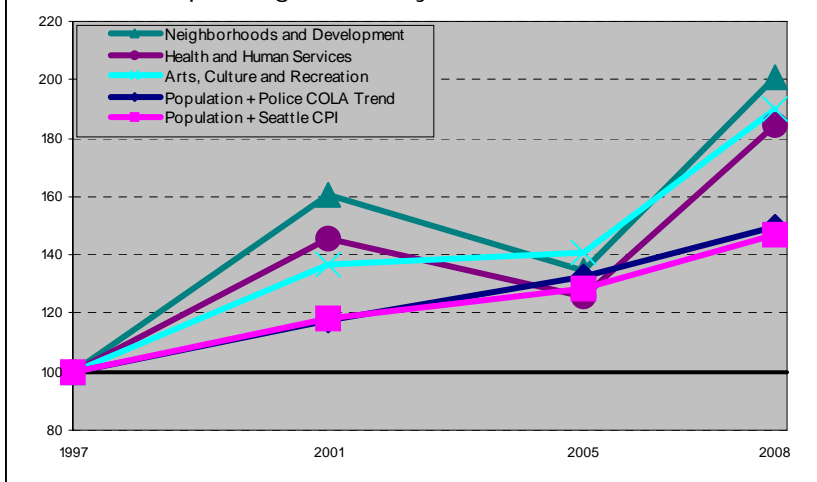
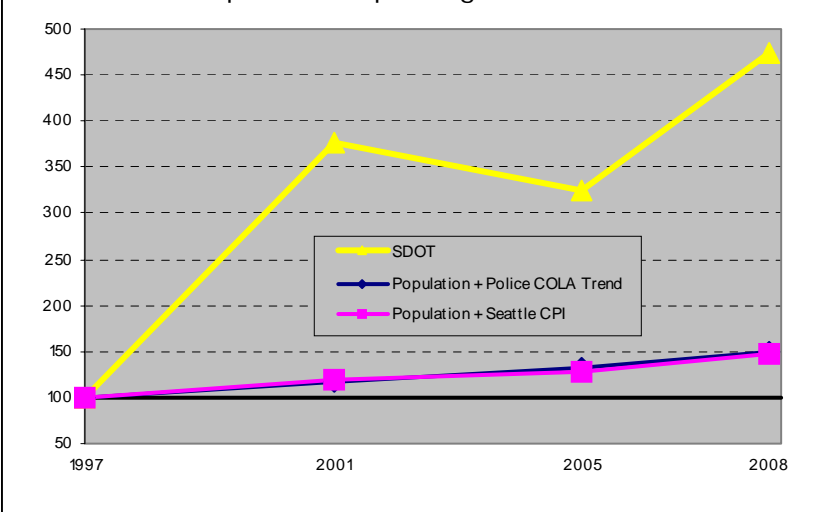


Chart 14: Transportation Spending Trends



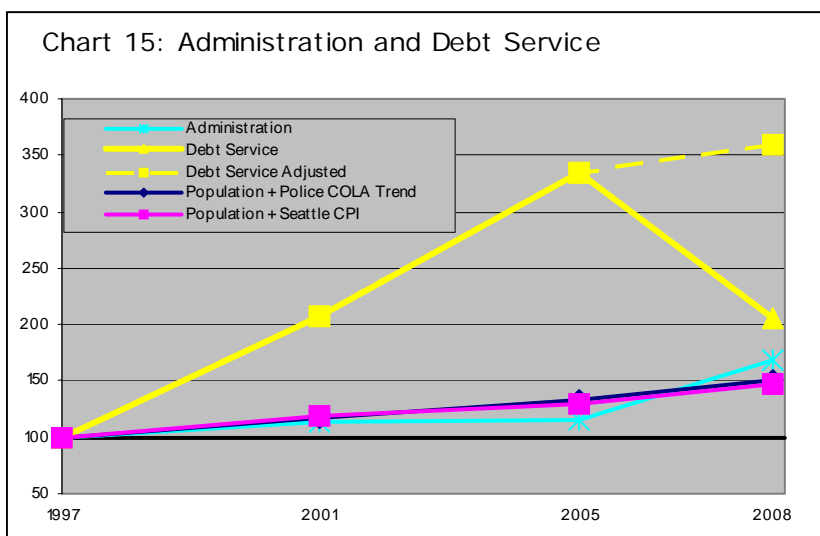
Charts 12, 13, 14 and 15 compare the growth trends of spending categories to the population-plus-police-COLA and population-plus-Seattle-CPI benchmarks. Growth trends differ significantly across activities.

Chart 12 shows Public Safety, which grew by 72.0 percent from 1997 to 2008. Chart 13 shows Arts, Culture and Recreation, which grew by 90.2 percent over the period; Health and Human Services, which grew by 84.6 percent; and Neighborhoods and Development, which grew by 101.2 percent. The population-plus-police-COLA benchmark grew by 50 percent over the period, while the population-plus-Seattle-CPI benchmark grew by 46.7 percent.

Perhaps the most interesting contrast between Chart 12 and Chart 13 is the difference between the pattern of growth of public safety on the one hand and arts, culture and recreation, health and human services, and neighborhoods and development on the other hand. Growth in Public Safety spending was remarkably steady; up 20.3 percent from 1997 to 2001; up 14.5 percent from 2001 to 2005; and up 24.9 percent from 2005 to the 2008 proposal. Spending in the other categories is much more of a roller coaster ride, swinging up and down as tax revenues to the city accelerate or decelerate. For Arts, Culture and

Recreation, spending rose by \$29.1 million, 36.8 percent, from 1997 to 2001; by \$3.0 million, 2.8 percent, from 2001 to 2005; and would rise by \$39.1 million, 35.3 percent, from 2005 to 2008. For Health and Human Services, spending rose by \$12.5 million, 45.5 percent, from 1997 to 2001; fell by 5.4 million, 13.4 percent, from 2001 to 2005; and would rise by \$16.1 million, 46.5 percent, from 2005 to 2008. For Neighborhoods and Development, spending rose by \$10.2 million, 60.4 percent, from 1997 to 2001; fell by \$4.3 million, 15.9 percent, from 2001 to 2005; and would rise by \$11.2 million, 49.1 percent from 2005 to 2008.

Chart 14 shows the spending trend for the Seattle Department of Transportation (SDOT). Transportation spending grew by 374.4 percent from 1997 to 2008. The bulk of this growth occurred from 1997 to 2001, as the city reversed a long-run decline in General Subfund support for transportation and increased funding for SDOT from \$10.0 million in 1997 to \$37.7 million in 2001. General subfund transportation spending then fell by \$5.2 million, 13.9 percent, from 2001 to 2005. Under the Mayor’s proposal the increase from 2005 to 2008 would be \$15.0 million, 46.3 percent.



Finally, Chart 15 shows the trends for Administration and Debt Service. Administration grew by 15.7 percent from 1997 to 2005. From 2005 to the proposed level for 2008, it is up 45.6 percent. The largest contributor to this increase is the proposal to create a “311” non-emergency call center. Debt service increased greatly over the 1997 to 2008 period. This largely is the product of the development of the city government’s downtown campus—the purchase of the Seattle Municipal Tower (formerly Key Tower) and the construction of the new Justice Center and City Hall. Debt service grew by 107.0 percent from 1997 to 2001 and 61.5 percent from 2001 to 2005. City budgets show debt service falling by 38.4 percent from 2005 to 2008. This, however, is an artifact of a change in accounting

treatment of the civic center debt, which is now serviced from the fleets and facilities fund, which recovers this cost through space rent. Without this change, debt service would have grown by 7.6 percent from 2005 to 2008.

2007–2008 BALANCE SHEET

The city of Seattle follows a form of biennial budgeting. The fiscal year of the city of Seattle is the calendar year. In the fall of every even numbered year, the Seattle city council lays out a spending plan for the upcoming two years. This biennial budget takes the form of a pair of annual budgets. The council formally adopts the budget for the first year of the biennium and endorses the budget for the second year. Then, in the fall of the first year, the city council formally adopts the second-year budget, usually with some modifications based on changes in circumstances.

The first and third columns of Table 1 summarize the adopted budget for 2007 and the endorsed budget for 2008. The second column show revisions to the 2007 budget due to changes to the revenue forecast, subsequent appropriations and expected savings. The fourth column incorporates the revised revenue forecast for 2008 and Mayor Nickels’s budget proposal.

The adopted budget (first column) assumed that the GSF would begin 2007 with

an unrestricted balance of \$37.9 million. Forecast GSF/C revenues were \$819.7 million, while appropriated spending was somewhat higher, \$840.1 million. Finance department staff anticipate there will be additional spending obligations for which funds have yet to be appropriated. A \$1.9 million reserve against such unappropriated obligations is shown on the line denoted “reserve against fund balance,” leaving a projected unreserved fund balance of \$14.8 million at the end of 2007.

2007-2008 GSF Balance Sheet

Dollars in Millions

	2007		2008	
	Adopted (Nov. '06)	Revised (Sept. '07)	Endorsed (Nov. 06)	Proposed (Sept. '07)
Beginning Unreserved Fund Balance	37.89	47.92	14.77	51.61
Revenue Forecast				
GSF Revenue Forecast	785.27	809.77	806.43	841.58
DPR Charter Revenue Forecast	34.46	35.89	35.52	37.17
Total	819.73	845.66	841.95	878.75
Expenses				
GSF Appropriations	806.53	806.53	815.24	883.97
DPR Charter Revenues Appropriations	34.46	34.46	35.52	37.17
Subtotal-Expenses	840.99	840.99	850.76	921.14
<u>Expenditure Adjustments</u>				
2007 Supplemental Ordinances		4.08		
2007 Other Ordinances		2.16		
2007 Expected Savings		(6.55)		
Total	840.99	840.28	850.76	921.14
Ending Fund Balance	16.63	53.30	5.96	9.23
Reserve against fund balance	(1.86)	(1.69)	(5.96)	(9.19)
Ending Unreserved Fund Balance	14.77	51.61	-	0.04

The \$841 million budgeted spending for 2007 is a 9.4 percent increase over the \$768.8 million budgeted for 2006.

The November 2006 forecast for 2008 GSF/C revenues was \$842.0 million. This forecast assumed that city lobbyists would succeed in convincing the 2007 legislature to reverse the provisions of HB 2030 limiting the ability of the city to collect B&O tax on activities outside of the city limits. The endorsed level of spending, \$850.8 million, exceeded forecast revenue by \$8.2 million. With a \$6.0 million reserve against unappropriated obligations, the projected fund balance at the end of the year was \$0.

As shown in the second column, a strong economy resulted in a \$10 million higher beginning balance for 2007 than anticipated by the adopted budget. The Department of Finance has revised upward the 2007 revenue forecast by \$24.5 million. The supplemental ordinances for the first, second and third quarters increased

appropriations for the year by \$4.1 million. Other appropriations total \$2.2 million. Almost exactly offsetting these appropriations are \$6.6 million in expected savings. The unappropriated obligations drop by \$170,000. The net of all of these changes raises the projected 2007 ending unreserved fund balance to \$51.6 million.

The revised revenue forecast for 2008 now recognizes that the legislature will not repeal HB 2030. This in itself reduces the forecast of 2008 revenues by \$21.9 million. The 2008 forecast also assumes enactment of the proposed square footage tax; this adds \$18.6 million. Other upward revisions to the revenue forecast add \$38.5 million, so that revenue is up a net \$35.2 million in the proposed budget for 2008 compared to the endorsed budget.

The proposed level of spending for 2008 is up \$70.4 million from the endorsed budget. The estimated cost of unappropriated 2008 obligations has increased by \$3.2 million.

The proposed budget projects that the 2008 ending balance will be just under \$40,000.

THE UPCOMING CRUNCH

On September 27th, finance department staff presented to City Council a sustainability analysis for General Subfund through 2012.

On the expenditure side, the key assumptions were that services funded in the Mayor's proposed budget would be continued; the police force would add 20 officers per year; the operational and maintenance costs paid out of the expiring Parks Levy would be backfilled from the General Subfund; non-uniformed employees would get cost-of-living increases at the rate of inflation; uniformed employees would get pay increases at rates matching rates of increase across the west coast's major cities; and city medical expenses grow at 10–11 percent per year. Under these assumptions spending would increase by 3.75 percent per year, on average.

The analysis employed four revenue scenarios, all of which assumed the enactment of the Mayor's proposed square footage tax: (1) The baseline scenario assumes that growth slows through 2010 and then reverts to trend. This is the scenario deemed to be most likely. (2) Under the higher growth scenario, the local construction boom continues through 2008 and Boeing continues to hire; growth reverts to trend after 2008. (3) The 2009 recession scenario assumes that the length of the current expansion matches that of the 1980s expansion, 92 months. Recession begins in mid-2009, and is modeled after the 1990–91 and 2001 recessions. (4) The 2007 recession scenario assumes that the current housing related turmoil pushes the local economy into recession in the fourth quarter of this year. Again, the recession is modeled after the 1990–91 and 2001 recessions. This scenario is considered least likely.

In all four cases, expenditures exceed revenues in 2010 and subsequent years. In the higher growth scenario, the 2012 gap between revenues and expenditures is a bit less than \$20 million. In the 2007 recession scenario the 2012 gap exceeds \$100 million; In the 2009 recession scenario this gap is nearly \$120 million. Under the most likely scenario, baseline spending exceeds revenue by a bit less than \$40 million in 2012.

The commitments that would be made in the Mayor's proposed 2008 budget do not appear to be sustainable.

DISCUSSION

Under current law, the city of Seattle is forecast to receive \$730 million in General Subfund and charter tax revenues in 2008. This is 69 percent greater than the tax revenue the city got in 1997. City population growth over that time period is about 10 percent, and inflation as measured by the Seattle CPI is about 38.5 percent.

Last fall, the city council laid out a spending plan for the 2007–08 biennium. For 2007, the council adopted an \$840.1 million budget that increased spending by 9.3 percent over \$768.8 budgeted for 2006. For 2008, the council endorsed an \$850.8 million budget that was only 1.2 percent higher than 2007.

Now the mayor has proposed a budget for 2008 that would spend \$921.1 million, which would result in a two-year increase of 19.8 percent. Of the \$70.3 million increase that the mayor proposes, about \$41 million is for one time expenses; the remainder is for programs that would carry forward creating demands for funds in future budget years.

To fund this budget, the Mayor proposed a new business tax on square footage. If this tax is enacted, the city will have a three-legged stool of business taxes: the

long-standing gross receipts tax, the head tax recently imposed to fund transportation and the square footage tax. The square footage tax will likely be subject to legal challenge. The tax is crafted to fall only on those activities that the city is prevented from taxing by HB 2030. A court may well throw scheme out for violating HB 2030.

This risks a situation like the city faced when the state supreme court threw out the street utility tax in the mid 1990s and required refunds be paid to those from whom the illegal tax had been collected. Such a situation would be particularly painful if it hit in the midst of the next revenue downturn.

Budgets express priorities. Times of fiscal stress, such as the city of Seattle faced between 2001 and 2005, reveal what the deepest priorities are, as council members fight to preserve the services that their constituents value most highly. Recent history shows that it is public safety spending that is protected when budgets must be cut. Spending in other areas is more discretionary. As the council looks to bridge the structural deficit, it is these areas that will get the greatest attention.

Between the adopted 2006 budget and the Mayor's proposed budget for 2008, spending in three broad areas (Arts, Culture and Recreation; Health and Human Services; and Neighborhoods and Development) grew by 39.5 percent, \$66 million, while public safety spending grew by only 24.9 percent. Had spending in these three areas grown at the rate of the rest of spending, the proposed budget would have been \$24 million lower.
