

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Seattle (City) presents this Management's Discussion and Analysis (MD&A) of its financial activities for the fiscal year ended December 31, 2006. This discussion and analysis focuses on significant financial issues, provides an overview of the City's financial activity, highlights significant changes in the City's financial position, and identifies material variances between the approved budget and actual spending.

The City encourages readers to consider the information presented here in conjunction with additional information provided in its letter of transmittal.

FINANCIAL HIGHLIGHTS

- At the end of fiscal year 2006 the assets of the City of Seattle exceeded its liabilities by \$3.380 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 78.1 percent of this amount (\$2.638 billion). The remaining net assets of \$741.5 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$408.9 million (13.8 percent) during the fiscal year. The governmental net assets increased by \$243.1 million (12.0 percent) over the amount reported in 2005. Business-type net assets increased by \$165.8 million (17.7 percent). The business-type increase included net income of \$161.8 million for City Light, \$1.0 million for the Drainage and Wastewater Utility, \$0.6 million for the Water Utility, and \$1.6 million for the nonmajor funds. The balance of the offset is the result of the consolidation of the Internal Service Funds' activities related to the Enterprise Funds.
- At the close of 2006 the City's governmental funds reported a combined ending fund balance of \$496.7 million, an increase of \$75.8 million (18.0 percent). Of the major funds, the fund balance of the General Fund increased \$37.6 million and the Low-Income Housing Fund increased by \$9.3 million. The fund balance increases were offset by a decrease of \$0.6 million in the Transportation Fund. The fund balances of the nonmajor governmental funds increased by \$29.5 million. The gain from the sale of capital assets contributed a significant portion to the revenues. In addition, the ongoing improvement of the regional economy contributed to the increase in the City's tax revenues. Approximately \$188.9 million (38.0 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2006 the unreserved fund balance for the General Fund was \$150.3 million or 25.4 percent of total General Fund expenditures of \$592.9 million. The General Fund's unreserved fund balance increased by approximately \$42.5 million from the prior year's amount of \$107.8 million, reflecting gains from sale of capital assets and the continuing economic improvement in 2006.
- The City's total outstanding bonded debt increased by approximately \$20.0 million (0.6 percent) to \$3.463 billion during the current fiscal year. General obligation (GO) bonded debt decreased by \$48.8 million in 2006. During the year, revenue bonds and bond anticipation notes increased by \$68.6 million. In addition, the City issued \$21.9 million of special assessment bonds for the design and construction of the new South Lake Union Streetcar, backed by the collection of assessments from a local improvement district (LID).
- Several capital assets were sold in 2006 with sales proceeds amounting to \$35.8 million. The majority of these properties were acquired in the mid-1900s at a cost of less than \$0.5 million which resulted in the gain on sale of \$35.3 million. Revenues from local tax sources, including property, sales, business excise, miscellaneous other taxes, penalties and interest on taxes, increased by \$51.4 million to \$851.5 million, a 6.4 percent increase over 2005.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is an introduction to the City of Seattle's basic financial statements which consist of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The government-wide financial statements provide a broad overview of the City's finances in a manner similar to that of private-sector business.

The **Statement of Net Assets** presents information on all City assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of the City's financial health.

The **Statement of Activities** presents changes in net assets during the current reporting period. All changes to net assets are reported as of the date of the underlying event, rather than when cash is received or disbursed. Thus, some reported revenues and expenses result in cash flows in future periods. The Statement of Activities focuses on both the gross and the net cost of the various activities of the City. The report summarizes and simplifies analysis of the revenues and expenses of the various City activities and the degree to which activities are subsidized by general revenues.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government activities, judicial activities, public safety, physical environment, transportation, economic environment, health and human services, and culture and recreation. The business-type activities of the City include an electric utility, a water utility, a waste disposal utility, a sewer and drainage utility, construction and land use operations, and parking facilities.

Fund Financial Statements

A fund is a group of related accounts used to maintain control over resources that are segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. There are three categories of City funds: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

Governmental funds account for essentially the same functions reported as governmental activities in the government-wide financial statements. Most of the City's basic services are reported in the governmental funds. These statements, however, focus on cash and other assets that can readily be converted to available resources, as well as any balances remaining at year-end. Such information is useful in determining what financial resources are available in the near future to finance the City's programs.

Readers may better understand the long-term impact of the government's near-term financing decisions by comparing the information presented for the governmental funds with similar information presented for governmental activities in the government-wide financial statements. Both the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances provide a reconciliation to facilitate the comparison.

The City maintains numerous governmental funds that are organized according to type (general, special revenue, debt service, capital projects, and permanent funds). Information for the three major governmental funds is presented separately in the governmental funds Balance Sheet and the governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances; information for the nonmajor funds is presented in the aggregate. The City's major governmental funds are the General Fund, Transportation Fund, and Low-Income Housing Fund. Information for each of the nonmajor governmental funds is provided in the combining statements in this report.

Proprietary funds account for services for which the City charges outside customers and internal City departments. Proprietary funds provide the same information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** report the same functions presented as business-type activities in the government-wide financial statements. The proprietary funds financial statements provide separate information for the Seattle City Light Fund, Water Fund, and the Drainage and Wastewater Fund, which are considered to be major enterprise funds. Information for nonmajor enterprise funds is presented in the aggregate. Information for each of the nonmajor enterprise funds is provided in the combining statements in this report.
- **Internal service funds** report activities that provide supplies and services for various City programs and activities. The City uses internal service funds to account for its fleets and facilities services, information technology services, and engineering services. Because these services largely benefit governmental rather than business-type functions, they have been included within the governmental activities in the government-wide financial statements. The internal service funds are combined into a single aggregated presentation in the proprietary funds financial statements. Information for each of the internal service funds is provided in the combining statements in this report.

Proprietary funds statements follow the governmental funds statements in this report.

Fiduciary funds account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support City programs. The accounting used for fiduciary funds is similar to that used for proprietary funds. The City's fiduciary funds include the Employees' Retirement Fund, the Firemen's Pension Fund, the Police Relief and Pension Fund, the S. L. Denny Private-Purpose Trust Fund, and various agency funds.

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Notes to the Financial Statements

The notes to the financial statements are an integral part of the financial statements. They provide additional disclosures that are essential to a full understanding of the information provided in the government-wide and fund financial statements. The notes to the financial statements immediately follow the basic financial statements in this report.

Required Supplementary Information

This report also contains other required supplementary information (RSI) on budgetary comparisons for major governmental funds and pension plan funding.

Combining Statements

The combining statements referred to earlier in connection with the nonmajor funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve as a useful indicator of a government's financial position. Table A-1 is a condensed version of the statement of net assets for the City of Seattle. At the close of the current fiscal year the City's total assets exceeded liabilities by \$3.380 billion.

Statement of Net Assets

Table A-1 **CONDENSED STATEMENT OF NET ASSETS**
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Current and Other Assets	\$ 1,042,069	\$ 929,891	\$ 1,005,439	\$ 929,920	\$ 2,047,508	\$ 1,859,811
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,587,436	2,452,610	3,162,817	3,011,820	5,750,253	5,464,430
Total Assets	3,629,505	3,382,501	4,168,256	3,941,740	7,797,761	7,324,241
Current Liabilities	220,102	232,912	314,340	316,817	534,442	549,729
Noncurrent Liabilities	1,133,002	1,116,315	2,750,516	2,687,311	3,883,518	3,803,626
Total Liabilities	1,353,104	1,349,227	3,064,856	3,004,128	4,417,960	4,353,355
Net Assets						
Invested in Capital Assets, Net of Related Debt	1,825,203	1,679,338	813,091	664,469	2,638,294	2,343,807
Restricted	183,338	142,509	59,161	147,980	242,499	290,489
Unrestricted (Deficit)	267,862	211,426	231,148	125,160	499,010	336,586
Total Net Assets	\$ 2,276,403	\$ 2,033,273	\$ 1,103,400	\$ 937,610	\$ 3,379,803	\$ 2,970,883

The largest portion of the City's net assets (78.1 percent) reflects an investment of \$2.638 billion in capital assets, such as land, buildings, and equipment, less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, the resources needed to repay the debt must be provided from other sources, as capital assets cannot be used to liquidate these liabilities.

An additional portion of the City's net assets, \$242.5 million (7.2 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$499.0 million (14.8 percent), may be used to meet the government's obligation to citizens and creditors.

Unrestricted net assets for governmental activities increased by 26.7 percent from \$211.4 million in 2005 to \$267.9 million in 2006. The City continues to see improvement in the local economy, and a corresponding increase in tax revenues coupled with the sale of capital assets in 2006 boosted the total unrestricted net assets.

The net assets for the business activities increased between 2005 and 2006 from \$937.6 million to \$1.103 billion. The increase in net assets is primarily due to the improved performance of the City Light Utility. The Utility was able to sell

more short-term wholesale power because of the significant rainfall in the Northwest region in 2006. They also realized higher operating revenues, higher non-operating revenues, higher capital contributions and fees, and slightly lower non-operating expenses.

Table A-2 **CHANGES IN NET ASSETS RESULTING FROM**
CHANGES IN REVENUES AND EXPENSES
(In Thousands)

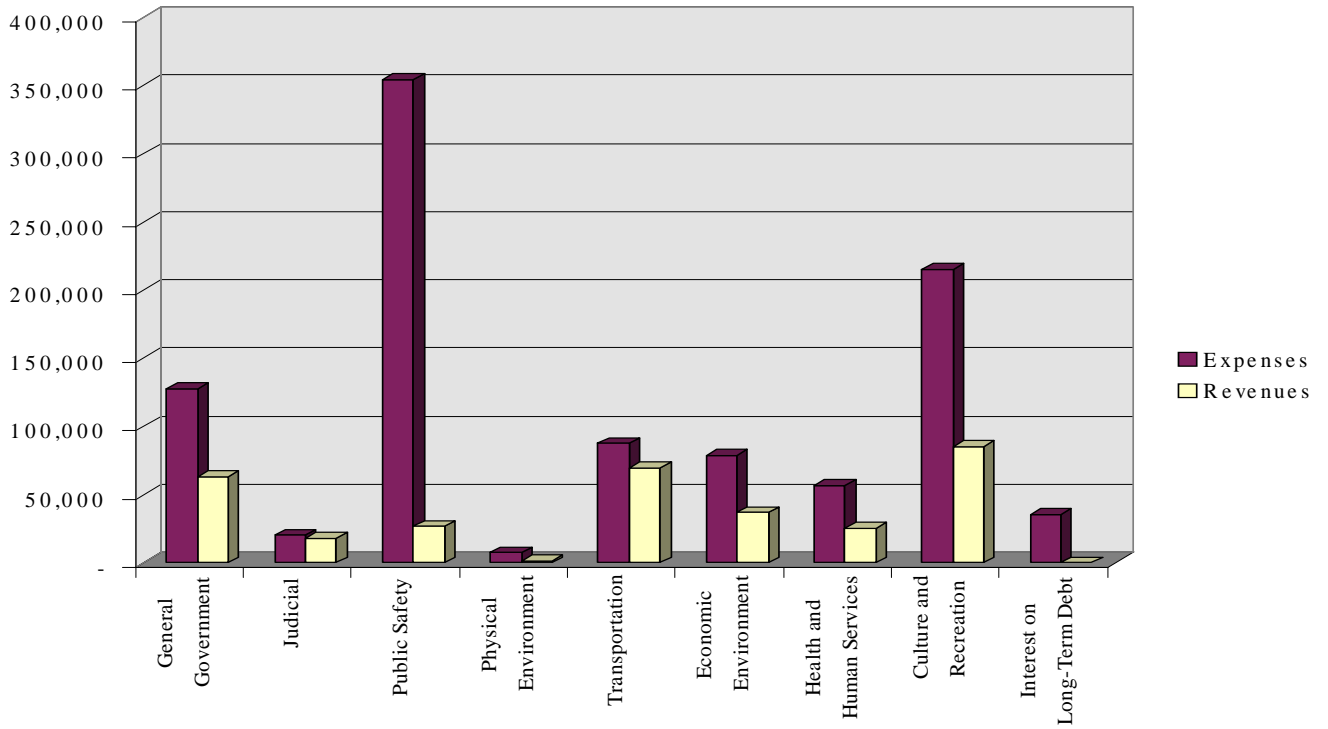
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Revenues						
Program Revenues						
Charges for Services	\$ 180,587	\$ 169,754	\$ 1,320,336	\$ 1,210,615	\$ 1,500,923	\$ 1,380,369
Operating Grants and Contributions	93,851	93,656	2,412	2,973	96,263	96,629
Capital Grants and Contributions	52,173	66,991	49,436	30,750	101,609	97,741
General Revenues						
Property Taxes	318,490	311,613	-	-	318,490	311,613
Sales Taxes	155,311	146,060	-	-	155,311	146,060
Business Taxes	311,015	280,139	-	-	311,015	280,139
Other Taxes	66,675	62,268	-	-	66,675	62,268
Other	57,373	13,209	18,065	11,249	75,438	24,458
Total Revenues	<u>1,235,475</u>	<u>1,143,690</u>	<u>1,390,249</u>	<u>1,255,587</u>	<u>2,625,724</u>	<u>2,399,277</u>
Expenses						
Governmental Activities						
General Government	127,377	102,362	-	-	127,377	102,362
Judicial	20,344	18,429	-	-	20,344	18,429
Public Safety	354,083	325,416	-	-	354,083	325,416
Physical Environment	7,331	6,614	-	-	7,331	6,614
Transportation	87,610	87,542	-	-	87,610	87,542
Economic Environment	78,957	91,060	-	-	78,957	91,060
Health and Human Services	56,904	56,572	-	-	56,904	56,572
Culture and Recreation	215,081	199,169	-	-	215,081	199,169
Interest on Long-Term Debt	35,399	39,539	-	-	35,399	39,539
Business-Type Activities						
Light	-	-	699,163	683,475	699,163	683,475
Water	-	-	161,943	148,992	161,943	148,992
Drainage and Wastewater	-	-	199,378	178,447	199,378	178,447
Solid Waste	-	-	114,527	110,044	114,527	110,044
Planning and Development	-	-	50,203	43,487	50,203	43,487
Downtown Parking Garage	-	-	8,505	8,414	8,505	8,414
Total Expenses	<u>983,086</u>	<u>926,703</u>	<u>1,233,719</u>	<u>1,172,859</u>	<u>2,216,805</u>	<u>2,099,562</u>
Excess (Deficiency) Before Transfers	252,389	216,987	156,530	82,728	408,919	299,715
Transfers	(9,260)	(8,456)	9,260	8,456	-	-
Increase in Net Assets	<u>243,129</u>	<u>208,531</u>	<u>165,790</u>	<u>91,184</u>	<u>408,919</u>	<u>299,715</u>
Net Assets - Beginning of Year	<u>2,033,274</u>	<u>1,824,743</u>	<u>937,610</u>	<u>846,426</u>	<u>2,970,884</u>	<u>2,671,169</u>
Net Assets - End of Year	<u>\$ 2,276,403</u>	<u>\$ 2,033,274</u>	<u>\$ 1,103,400</u>	<u>\$ 937,610</u>	<u>\$ 3,379,803</u>	<u>\$ 2,970,884</u>

Analysis of Changes in Net Assets

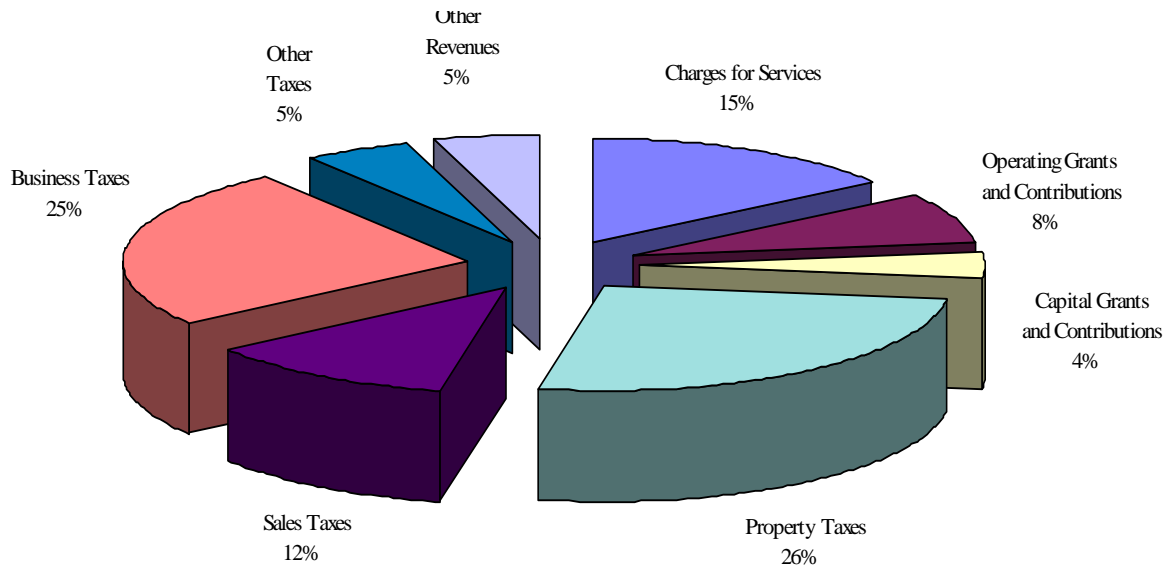
In 2006 the City's total net assets increased by \$408.9 million. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total \$1,235.5 Million

Governmental Activities. The charts on the previous page present the City's governmental expenses and revenues by function and its revenue by source. Public safety is the largest governmental expense of the City, followed by culture and recreation, general government, transportation, economic environment, health and human services, interest on long-term debt, judicial, and physical environment. General revenues such as the property, business, and sales taxes are not shown by function because they are used to support citywide program activities. Governmental activities increased the City's net assets by \$243.1 million in 2006 compared to an increase of \$208.5 million in 2005. Key factors in the change are as follows:

In 2006, total revenues for governmental activities were \$1.235 billion, \$91.8 million or 8.0 percent higher than 2005.

Program revenue related to services increased by \$10.8 million or 6.4 percent in 2006. Revenue from licenses and permits was up overall with a significant increase in cable franchise fees and street use permit fees. Revenues for various recreational activities and concessions increased as did parking and building and space rental revenues. While the City realized an overall increase, revenue related to the transportation and economic environment programs declined. Revenue related to the Sound Transit project decreased significantly in 2006. Float loan revenue was also down.

Revenue from grants and contributions decreased by \$14.6 million in 2006. While 2006 operating grants remained at the same level as the prior year, capital grants decreased by 14.8 million compared to 2005.

Property taxes, the largest source of revenue supporting governmental activities, increased by \$6.9 million or 2.2 percent compared to 2005. Property tax is levied primarily on real estate owned by individuals and businesses. State law limits growth in the amount of tax that a jurisdiction can collect but does allow for additional voter approved lid lifts. There were no proposed property tax measures for Seattle in 2005 that added to the 2006 property tax. In November 2006 voters did approve a transportation lid lift that will generate approximately \$36.2 million in 2007.

The retail sales and use (sales) tax is imposed on the sale of most goods and certain services in Seattle. The tax is collected and remitted to the state. The state provides the City with its share on a monthly basis. With the continued improvement of the economy and the rapid pace of construction activity in 2006, sales tax revenues increased by \$9.3 million or 6.3 percent.

Business taxes are the second largest contributor to governmental revenues. The business and occupation (B&O) tax, the major business tax, is levied by the City on the gross receipts of most business activity occurring in Seattle. The City also levies a B&O tax on the gross income derived from sales of utility services within Seattle. In 2006 B&O tax revenues increased by \$30.9 million or 11.0 percent due to a healthy economy and mid-year 2005 B&O tax rate increases for the Water Utility and the Solid Waste Utility.

Other tax revenues increased by \$4.4 million or 7.1 percent. With the booming housing market, revenue from real estate excise taxes increased by \$2.9 million, from \$50.6 million in 2005 to \$53.6 million in 2006. The remaining increase of \$1.5 million is primarily due to an unusually large increase in penalty and interest payments during the first half of the year.

Other revenues more than quadrupled in 2006 to \$57.4 million. Revenue from the sale of several properties in 2006 amounted to \$35.4 million compared to \$2.9 million in 2005, an increase of \$32.4 million. The majority of these properties were acquired in the mid-1900s at a combined cost of less than \$0.5 million. Also contributing to the increase, investment earnings went up by \$11.7 million in 2006. The rate of return for investments continued to rise from an average of 2.85 percent in 2005 to an average of 4.0 percent in 2006.

In 2006 total expenses for governmental activities were \$983.1 million compared to \$926.7 million in 2005, \$56.4 million or 6.1 percent higher than 2005.

General government expenses went up by \$25.0 million, a 24.4 percent increase over 2005. Judgment and claims expenses were up significantly as a result of several large cases including the Glaser Temporary Employees Class Action lawsuit and the legal fees associated with that case. Staffing levels in many departments, such as the Department of Executive Administration, the Legislative Department, and the Personnel Department increased in 2006. Health care and dental costs increased for all general government departments. In addition, a 2.3 percent cost-of-living salary adjustment was paid out in 2006. Various Finance General Department projects saw increases in 2006. Some of the larger projects included: street light and fire hydrants costs up \$2.0 million; \$1.2 million associated with the 1 Percent for Art program; an LID assessment of \$1.0 million on City owned property in the South Lake Union area; and, election and voter registration costs up \$0.9 million. Depreciation expense on general government property was also up in 2006.

Public safety expenses increased by \$28.7 million, an 8.8 percent increase over 2005. The increase is attributed to several factors: staffing increases at both the Police and Fire departments; a 4.6 percent cost-of-living salary adjustment and retroactive payments totaling \$8.7 million at the Fire Department; increased overtime and employee benefit expenses; cost increases for technical and professional services; and, jail service contract costs up \$2.0 million in 2006. Depreciation expense also increased by \$1.4 million in 2006.

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Judicial expenses went up \$1.9 million or 10.4 percent. In addition to the cost-of-living salary adjustment and health care increases, staff was added to implement the Community Court pilot program that targets chronic criminal justice and human service system users in an attempt to more effectively rehabilitate them. The Municipal Court also added staff to screen defendants for indigent public defense services. This service was previously provided by King County.

Physical environment expenses went up \$0.7 million, a 10.8 percent increase compared to 2005. In addition to the cost-of-living increases, expenses went up due to staffing increase to address animal welfare.

At \$87.6 million, Transportation expenses remained relatively constant compared to 2005.

Economic environment expenses went down by \$12.1 million or 13.3 percent. The decrease in expenses is attributed to the following: a 2005 payment of the La Salle Pike Place Market Float Loan payment (\$7.2 million); a decrease in the number of housing projects funded by the 2002 Housing Levy (\$9.0 million); a \$4.1 million increase for non-profit assistance for transitional housing and senior service centers.

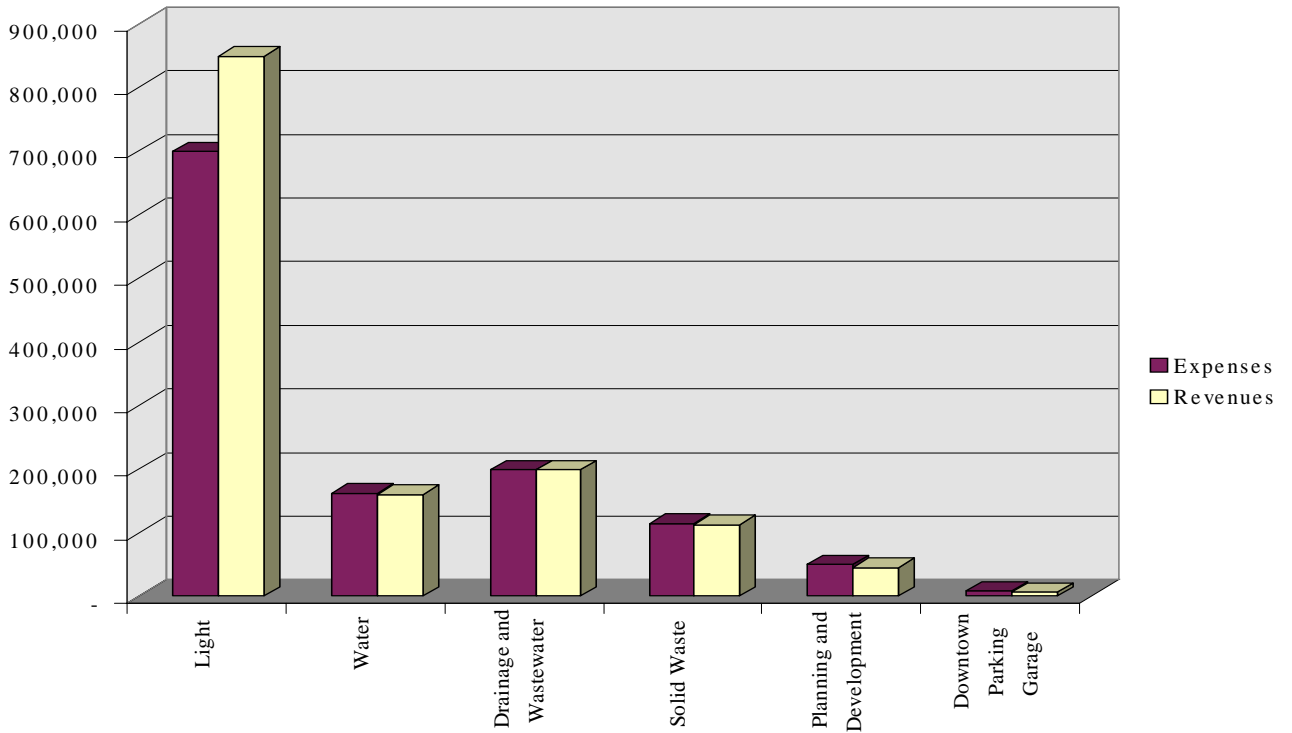
Health and human services expenses showed a minimal increase of \$0.3 million, mainly due to cost-of-living increases paid in 2006.

At \$215.1 million, culture and recreation expenses were up \$15.9 million in 2006 or 8.0 percent higher than 2005. The increase was attributed to several factors. Staffing levels were increased at the Parks Department, Seattle Center, and the Office of Arts and Cultural Affairs. Health care costs rose by approximately \$2.0 million. Employees received a cost-of-living salary rate increase. The Library expanded its hours and received increased funding for its collection. There was also an increase in expenses related to the Arts Account program, and depreciation expense went up by \$2.2 million in 2006.

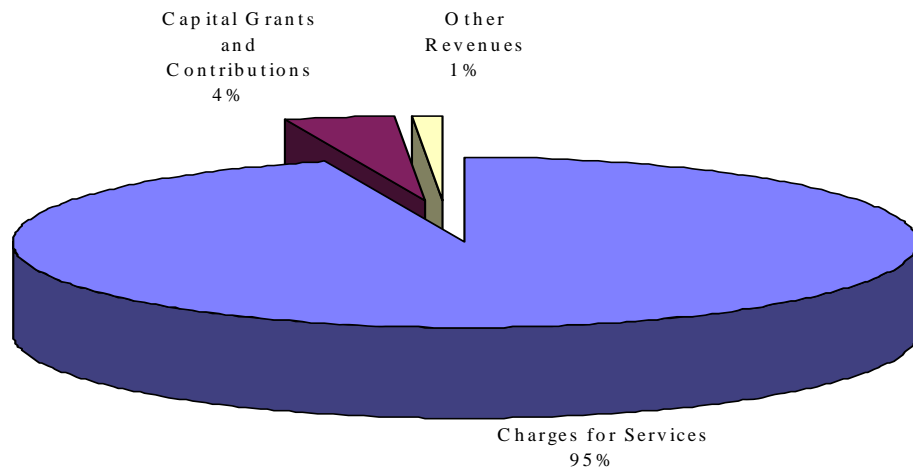
Interest on long-term debt went down by \$4.1 million or 10.5 percent as a result of a net decrease in general obligation debt of \$ 20.0 million.

Business-Type Activities

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total \$1,390.2 Million

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Business-Type Activities. Business-type activities increased the City's net assets by \$164.9 million to \$1,102.9 million, an increase of 17.6 percent. Key factors for the change were as follows:

The City Light Utility realized a net increase of \$161.8 million in net assets in 2006, an improvement of \$79.9 million compared to net income of \$81.9 million in 2005. Due to improved rainfall in the Northwest region, the Utility was able to sell more short-term wholesale power in 2006, realizing \$128.9 million as compared to \$87.4 million in 2005. Also contributing to the higher net income were higher operating revenues, higher non-operating revenues, higher capital contributions and fees, and slightly lower non-operating expenses.

The Water Utility experienced an increase of \$0.6 million in net assets in 2006. This increase was primarily due to capital fees and contributions received in 2006 and an increase in water rates and consumption.

The Drainage and Wastewater Utility experienced a \$1.0 million increase in net assets in 2006. Operating revenues increased \$10.3 million due to rate increases for both wastewater and drainage. The increase was offset by a rise in operating expenses of \$21.2 million, including a significant increase of \$11.7 million in plan and study costs and an increase of \$2.9 million in claims expenses. Capital contributions and grants went up \$10.8 due mostly to the infrastructure donated by the Seattle Housing Authority.

The Solid Waste Utility net assets declined \$1.2 million in 2006. This compares to an increase of \$1.9 million in 2005. Operating revenues increased by \$1.2 million in 2006. The revenue increase was offset by an increase of \$4.1 million in operating expenses mainly due to garbage collection costs.

In 2006 the Planning and Development (DPD) Fund net assets increased by \$4.7 million over 2005. This reflects the continuing economic growth in Seattle – there is massive growth in building construction in terms of volume and size of projects. The Department's operating revenue increased \$7.4 million in 2006 while operating expenses increased \$4.1 million.

The Downtown Parking Garage Fund experienced a decrease of \$1.8 million in net assets.

FINANCIAL ANALYSIS OF CITY FUNDS

As noted earlier, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Table A-3 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**
GOVERNMENTAL FUNDS
(In Thousands)

	Major Funds					
	General Fund		Transportation Fund		Low-Income Housing Fund	
	2006	2005	2006	2005	2006	2005
Revenues						
Taxes	\$ 706,363	\$ 659,686	\$ -	\$ -	\$ 11,816	\$ 11,859
Licenses and Permits	19,953	18,686	7,585	6,012	-	-
Grants, Shared Revenues, and Contributions	21,008	22,910	44,017	43,507	6,273	6,409
Charges for Services	52,924	54,387	24,396	30,970	22	10
Fines and Forfeits	18,320	17,023	26	5	-	-
Parking Fees and Space Rent	16,786	15,069	55	109	27	25
Program Income, Interest, and Miscellaneous Revenues	<u>27,603</u>	<u>21,523</u>	<u>259</u>	<u>604</u>	<u>6,077</u>	<u>5,201</u>
Total Revenues	<u>862,957</u>	<u>809,284</u>	<u>76,338</u>	<u>81,207</u>	<u>24,215</u>	<u>23,504</u>
Expenditures	592,859	546,333	157,366	133,103	18,217	27,201
Other Financing Sources and Uses						
Long-Term Debt	-		5,000	2,750	-	-
Sales of Capital Assets	3,992	14,301	-		-	298
Transfers In (Out)	<u>(236,465)</u>	<u>(205,756)</u>	<u>75,446</u>	<u>50,754</u>	<u>3,257</u>	<u>-</u>
Total Other Financing Sources and Uses	<u>(232,473)</u>	<u>(191,455)</u>	<u>80,446</u>	<u>53,504</u>	<u>3,257</u>	<u>298</u>
Fund Balances						
Reserves Legally Segregated for Future Use	82,344	82,152	10,503	11,084	37,134	26,285
Reserves Not Available for Appropriation	8,674	13,703	2	3	-	-
Unreserved	150,280	107,817	-	-	15,355	16,948
Total Fund Balances	<u>\$ 241,298</u>	<u>\$ 203,672</u>	<u>\$ 10,505</u>	<u>\$ 11,087</u>	<u>\$ 52,489</u>	<u>\$ 43,233</u>

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Table A-3 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GOVERNMENTAL FUNDS (continued)
(In Thousands)

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2006	2005	2006	2005
Revenues				
Taxes	\$ 53,377	\$ 49,765	\$ 26,105	\$ 25,940
Licenses and Permits	810	914	-	-
Grants, Shared Revenues, and Contributions	61,467	66,652	2	2
Charges for Services	47,834	41,974	-	-
Fines and Forfeits	2,884	2,731	-	-
Parking Fees and Space Rent	18,555	18,233	9,201	8,837
Program Income, Interest, and Miscellaneous Revenues	4,034	30,568	2,829	1,050
Total Revenues	<u>188,961</u>	<u>210,837</u>	<u>38,137</u>	<u>35,829</u>
Expenditures	311,116	306,559	106,998	136,299
Other Financing Sources and Uses				
Long-Term Debt	-	-	23	583
Sales of Capital Assets	15,158	12,619	-	-
Transfers In (Out)	121,197	90,725	70,190	100,062
Total Other Financing Sources and Uses	<u>136,355</u>	<u>103,344</u>	<u>70,213</u>	<u>100,645</u>
Fund Balances				
Reserves Legally Segregated for Future Use	20,448	19,318	16,461	15,109
Reserves Not Available for Appropriation	4,022	2,871	-	-
Unreserved	26,339	14,420	-	-
Total Fund Balances	<u>\$ 50,809</u>	<u>\$ 36,609</u>	<u>\$ 16,461</u>	<u>\$ 15,109</u>

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds		2006	2005
	2006	2005	2006	2005		
Revenues						
Taxes	\$ 53,705	\$ 52,678	\$ -	\$ -	\$ 851,366	\$ 799,928
Licenses and Permits	-	-	-	-	28,348	25,612
Grants, Shared Revenues, and Contributions	24,012	15,650	322	-	157,101	155,130
Charges for Services	69	95	-	-	125,245	127,436
Fines and Forfeits	-	-	-	-	21,230	19,759
Parking Fees and Space Rent	118	430	-	-	44,742	42,703
Program Income, Interest, and Miscellaneous Revenues	5,986	9,959	104	63	46,892	68,968
Total Revenues	<u>83,890</u>	<u>78,812</u>	<u>426</u>	<u>63</u>	<u>1,274,924</u>	<u>1,239,536</u>
Expenditures	92,942	93,745	416	107	1,279,914	1,243,347
Other Financing Sources and Uses						
Long-Term Debt	44,932	61,382	-	-	49,955	64,715
Sales of Capital Assets	16,606	-	-	-	35,756	27,218
Transfers In (Out)	(38,561)	(35,558)	(15)	(15)	(4,951)	212
Total Other Financing Sources and Uses	<u>22,977</u>	<u>25,824</u>	<u>(15)</u>	<u>(15)</u>	<u>80,760</u>	<u>92,145</u>
Fund Balances						
Reserves Legally Segregated for Future Use	126,099	109,050	2	1	292,991	262,999
Reserves Not Available for Appropriation	-	-	2,190	2,196	14,888	18,773
Unreserved	(3,125)	-	-	-	188,849	139,185
Total Fund Balances	<u>\$ 122,974</u>	<u>\$ -</u>	<u>\$ 2,192</u>	<u>\$ 2,197</u>	<u>\$ 496,728</u>	<u>\$ 420,957</u>

Governmental Funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of resources available for spending. This information is useful in assessing the City's financing requirements. In particular, unreserved fund balance measures the City's net resources available for spending at the end of the fiscal year. Governmental funds reported by the City include the General Fund, special revenue funds, debt service funds, capital project funds, and permanent funds.

As of the end of the current fiscal year the City's governmental funds reported combined ending fund balances of \$496.7 million, an increase of \$75.8 million in comparison to 2005. Approximately \$188.9 million of this amount constitutes unreserved fund balance which is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed for other purposes, such as (1) payment on existing contracts and purchase orders; \$13.6 million; (2) funding of continuing projects and programs in future periods, \$250.5 million; (3) payment of debt service, \$25.6 million; and (4) a variety of other purposes, \$18.1 million.

Revenues for governmental funds overall totaled approximately \$1.275 billion in the fiscal year ended December 31, 2006, which represents an increase of approximately \$35.4 million or 2.9 percent from the prior fiscal year of \$1.240 billion. Expenditures in governmental funds amounted to \$1.280 billion, an increase of approximately \$36.6 million or 2.9 percent compared to \$1.243 billion spent in 2005. In the aggregate, expenditures for governmental funds exceeded revenues by approximately \$5.0 million.

The **General Fund** is the chief operating fund of the City. It is comprised of thirteen subfunds: General, Judgment/Claims, Arts Account, Cable Television Franchise, Cumulative Reserve, Neighborhood Matching, Development Rights, Emergency, Special Employment Program, Industrial Insurance, Unemployment Compensation, Health Care, and Group Term Life Insurance. Table A-4 provides a summary of the status of the various subfunds at year-end 2006.

At the end of 2006 the total fund balance of the General Fund was \$241.3 million. Fund balance increased by \$37.6 million in 2006 compared to 2005.

Total revenues for the General Fund amounted to \$863.0 million, an increase of \$53.7 million or 6.6 percent higher than 2005. Tax revenues increased by \$46.7 million due to the continuing economic growth in the region, new construction, the escalating value of existing real estate properties, and a utility B&O tax rate hike. Collections from property tax, sales tax, B&O tax, and the real estate excise tax were up in 2006.

Program income, interest, and miscellaneous revenues increased by \$6.1 million. This was mainly due to investment earnings which were higher because of rising interest rates. In addition, licenses and permits revenue increased by \$1.3 million in 2006. The City received \$3.0 million from Comcast to support the new Arts Programming project in 2006. These revenues were offset by a decrease in police alarm monitoring license fees.

Revenues derived from charges for services went down by \$1.5 million overall as a result of the financial system upgrade. The 2005 costs incurred in the upgrade were allocated across the City, including the utility funds.

Fines and forfeits went up by \$1.3 million. In 2006 the City contracted with a new collection agency to enforce collection of fines related to parking infractions.

Parking fees and space rent went up \$1.7 million due to the installation of 123 new pay stations in 2006 and an increase in meter hood rental fees.

General Fund expenditures increased by \$46.5 million or 8.5 percent in 2006, from \$546.3 million to \$592.9 million. Several factors contributed to this increase: payment for the Glaser Temporary Employees Class Action settlement and several other large claims, an increase in capital spending related to Cumulative Reserve Subfund projects, staffing level increases in numerous departments, increased health care costs, cost of living salary increases, retroactive pay to Local 27 firefighters and a 3-percent increase in longevity pay for members with at least 15 years tenure, increased overtime at the Police and Fire departments, an increase in jail service contract costs, an LID assessment on City-owned property, and payment to the utility funds related to the 1% for Art program.

The other financing sources and uses category decreased the General Fund's fund balance position by \$232.5 million in 2006 compared to \$191.5 million in 2005. Revenue from the sale of capital assets decreased by \$10.3 million due to sale of the Arctic and Alaska Buildings in 2005 while net operating transfers out increased by \$30.7 million in 2006.

The **Transportation Fund** develops, maintains, and operates the transportation system inclusive of streets, bridges, ramps, retaining walls, sea walls, bike trails, street lights, and other road infrastructure. At the end of the fiscal year the fund balance decreased by \$0.6 million compared to a \$1.6 million increase in 2005. Revenues were down \$4.9 million primarily

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due to the decrease in revenues related to the Sound Transit and Monorail projects. Expenditures were up \$24.2 million, mainly due to capital projects and the cost of living salary increase. Large capital projects underway in 2006 included the South Lake Union Streetcar and the Fremont Bridge. These expenses were funded by an increase in other financing sources \$26.9 million, mainly from increase in support received from the General Fund and the issuance of bonds.

The **Low-Income Housing Fund**, a special revenue fund and one of the major governmental funds of the City, manages activities undertaken by the City to preserve, rehabilitate, or replace low-income housing. It also accounts for the seven-year housing levy approved by voters in 1995 and an additional seven-year levy that was approved by the voters in November 2002. At \$52.5 million, the Low-Income Housing Fund ended the year with a fund balance increase of \$9.3 million. Revenue increased by \$0.7 million while expenditures decreased by \$9.0 million. The increase in revenues is mainly due an increase in investment earnings as a result of higher interest earnings. The decrease in expenditures is attributed to the cyclical nature of the fund. Multi-family construction projects can span over several years from acquisition to final construction.

In 2006 the other **special revenue funds** showed a \$14.2 million or 38.8 percent increase in fund balance as a result of operations. The most significant increases occurred in the Seattle Center Fund (\$4.4 million), Library Fund (\$3.5 million), Education and Development Services Fund (\$2.9 million), and Human Services Fund (\$1.7 million). The Housing and Community Development Revenue Sharing Fund declined by \$1.2 million.

Total revenues for the special revenue funds were down \$21.9 million, a 10.4 percent decrease from 2005. Program income, interest, and miscellaneous revenues (down \$26.5 million) and grants, shared revenues, and contributions (down \$5.2 million) accounted for the decrease while charges for services (up \$5.9 million) and taxes, (up by \$3.6 million) offset these decreases. The decrease in miscellaneous revenues was mainly credited to the receipt of \$20.3 million from the Seattle Monorail Project and \$5.7 million in float loans received by the Housing and Community Development Revenue Sharing Fund in 2005. The decline in grants and contributions revenue is related to the completion of the various library reconstructions in 2005.

Expenditures increased by \$4.5 million, up 1.5 percent from 2005. The increase was mainly due to the cost-of-living salary adjustment and health care cost increases. In addition, several human services projects received additional funding for senior services, youth services, emergency and transitional housing.

The Other Financing Sources and Uses category increased in 2006, up by \$33.0 million or 31.9 percent compared to 2005. This net increase resulted from a \$2.5 million increase in sales of capital assets and increase in net transfers in from other funds of \$30.5 million.

The fund balance in the **capital projects funds** showed a \$13.9 million or 13.8 percent increase in 2006. The most significant increases came from the Local Improvement Fund for the South Lake Union Streetcar project (up \$17.2 million), Seattle Center Redevelopment and Parks Community Center Fund (up \$11.7 million), 2006 Multipurpose Long-Term General Obligation Bond Fund (\$7.6 million), Shoreline Park Improvement Fund (\$6.0 million), Seattle Center and Parks Multipurpose Levy (\$5.6 million), the Public Safety Information Technology Fund (\$2.0 million). These were offset by a fund balance decrease in 2005 Multipurpose Long-Term General Obligation Bond Fund (\$18.0 million), Libraries for All Fund (\$6.9 million), 2002 Multipurpose Long-Term General Obligation Bond Fund (\$3.9 million), and 2007 Multipurpose Long-Term General Obligation Bond Fund (\$3.1 million).

Revenues for the capital projects funds went up \$5.1 million or 6.4 percent compared to 2005. Grants, shared revenues, and contributions increased by \$8.4 million, mainly due to capital grants received for the Discovery Park and Magnuson Park projects. Tax revenues increased by \$1.0 million while miscellaneous revenues declined by \$4.0 million.

Expenditures for capital projects remained relatively constant, down \$0.8 million, less than a 1.0 percent decrease compared to the 2005 expenditures of \$93.7 million.

The 2006 fund balances of the **debt service funds** went up by \$1.4 million. The **permanent funds** remained at about the same levels as 2005.

Table A-4 REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY
GENERAL FUND SUBFUNDS
(In Thousands)

	<u>General</u>	<u>Judgment/ Claims</u>	<u>Arts Account</u>	<u>Cable Television Franchise</u>	<u>Cumulative Reserve</u>
Revenues					
Taxes	\$ 652,727	\$ -	\$ -	\$ -	\$ 53,636
Licenses and Permits	12,457	-	-	7,495	-
Grants, Shared Revenues, and Contributions	19,606	93	-	-	1,309
Charges for Services	41,669	10,067	-	-	467
Fines and Forfeits	18,320	-	-	-	-
Parking Fees and Space Rent	16,598	-	-	-	188
Program Income, Interest, and Miscellaneous Revenues	8,671	11	26	183	3,352
Total Revenues	<u>770,048</u>	<u>10,171</u>	<u>26</u>	<u>7,678</u>	<u>58,952</u>
Expenditures	524,455	19,756	1,118	4,657	31,087
Other Financing Sources and Uses					
Sales of Capital Assets	1	-	-	-	3,990
Transfers In (Out)	(229,181)	485	1,119	(853)	(14,785)
Total Other Financing Sources and Uses	<u>(229,180)</u>	<u>485</u>	<u>1,119</u>	<u>(853)</u>	<u>(10,795)</u>
Fund Balances					
Reserves Legally Segregated for Future Use	16,121	9,159	273	-	47,537
Reserves Not Available for Appropriation	1,933	-	-	-	-
Unreserved	53,790	-	231	3,273	34,398
Total Fund Balances	<u>\$ 71,844</u>	<u>\$ 9,159</u>	<u>\$ 504</u>	<u>\$ 3,273</u>	<u>\$ 81,935</u>

	<u>Neighborhood Matching</u>	<u>Development Rights</u>	<u>Emergency</u>	<u>Special Employment Program</u>	<u>Industrial Insurance</u>
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and Permits	-	-	-	-	-
Grants, Shared Revenues, and Contributions	-	-	-	-	-
Charges for Services	-	-	-	232	490
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	(2)	1	-	150
Total Revenues	<u>-</u>	<u>(2)</u>	<u>1</u>	<u>232</u>	<u>640</u>
Expenditures	3,073	-	(350)	271	2,447
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	-	-
Transfers In (Out)	3,185	-	2,837	-	-
Total Other Financing Sources and Uses	<u>3,185</u>	<u>-</u>	<u>2,837</u>	<u>-</u>	<u>-</u>
Fund Balances					
Reserves Legally Segregated for Future Use	4,996	-	22	-	735
Reserves Not Available for Appropriation	-	-	6,741	-	-
Unreserved	568	(319)	29,808	118	1,833
Total Fund Balances	<u>\$ 5,564</u>	<u>\$ (319)</u>	<u>\$ 36,571</u>	<u>\$ 118</u>	<u>\$ 2,568</u>

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Table A-4 **REVENUE, EXPENDITURE, AND FUND BALANCE SUMMARY**
GENERAL FUND SUBFUNDS (continued)
(In Thousands)

	Unemployment Compensation	Health Care	Group Term Life Insurance	Total General Fund	
				2006	2005
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 706,363	\$ 659,686
Licenses and Permits	-	-	-	19,952	18,686
Grants, Shared Revenues, and Contributions	-	-	-	21,008	22,910
Charges for Services	-	-	-	52,925	54,387
Fines and Forfeits	-	-	-	18,320	17,023
Parking Fees and Space Rent	-	-	-	16,786	15,069
Program Income, Interest, and Miscellaneous Revenues	2,102	13,034	74	27,602	21,523
Total Revenues	2,102	13,034	74	862,956	809,284
Expenditures	-	6,343	-	592,857	546,333
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	3,991	14,301
Transfers In (Out)	-	729	-	(236,464)	(205,756)
Total Other Financing Sources and Uses	-	729	-	(232,473)	(191,455)
Fund Balances					
Reserves Legally Segregated for Future Use	-	3,501	-	82,344	82,152
Reserves Not Available for Appropriation	-	-	-	8,674	13,703
Unreserved	6,057	20,205	317	150,279	107,817
Total Fund Balances	\$ 6,057	\$ 23,706	\$ 317	\$ 241,297	\$ 203,672

Proprietary Funds

The City's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail.

City Light Utility. The Utility realized net income of \$161.8 million in 2006 compared to \$81.9 million in 2005. As a result of improved precipitation in the Northwest region, net revenue from short-term wholesale power sales was \$128.9 million compared to \$87.4 million in 2005, an increase of \$41.5 million. Operating revenues, outside of short-term wholesale power sales, increased \$56.7 million. The increase in operating revenues was offset by a \$32.3 million increase in operating expenses other than the cost of wholesale purchases. Also contributing to the higher net income in 2006 were higher non-operating revenues of \$6.6 million, higher capital contributions and fees of \$5.6 million, and slightly lower non-operating expenses of \$1.8 million.

Net cash provided by operating activities decreased to \$243.7 million in 2006 compared to \$253.0 million in 2005, a decrease of \$94.5 million. Restricted assets were \$31.5 million in 2006, down from \$35.8 million in 2005. The decrease was largely due to the elimination of \$3.8 million in restricted cash that was available to pay streetlight refunding claims at the end of 2005. All remaining claims were paid in 2006, and the \$3.5 million residual balance was transferred to operating cash. The significant component of restricted assets continues to be the \$25.0 million Contingency Reserve Account established in 2005. Utility plant and other capital assets were \$1.517 billion and \$1.459 billion in 2006 and 2005, respectively, a net increase of \$58.2 million. The majority of the capital asset additions were in the distribution system, hydraulic production, and transmission.

Total net revenue bonds payable were \$1.409 billion in 2006 and \$1.473 billion in 2005, a net decrease of \$64.0 million. Interest expense was \$69.4 million in 2006 and \$71.3 million in 2005. Future debt service requirements on the subordinate lien bonds, based on 2006 end-of-year actual interest rates, range from 3.4 percent to 3.86 percent through year 2021. Including long-term debt, the total liabilities were \$1.584 billion in 2006 and \$1.671 billion in 2005.

Total net assets were \$547.561 million in 2006 and \$385.8 million in 2005.

Water Utility. The net operating income of the Water Utility decreased by \$5.3 million to \$25.5 million in 2006 from \$30.8 million in 2005. Operating revenues increased \$9.0 million due to an increase in water rates and consumption, while operating expenses increased \$14.4 million. The increase in operating expenses is attributed to several factors: an increase in depreciation expense for assets acquired in prior years but depreciated starting in 2006, an increase in taxes due to increased taxable revenues, an increase in general and administrative expenses for program development, and Chinook research and monitoring. Net income decreased to \$0.6 million in 2006 compared to \$3.7 million in 2005, a decrease of \$3.1 million.

Net cash provided by operating activities decreased to \$48.8 million in 2006 from \$65.9 million in 2005, a decrease of \$17.1 million. Total operating and restricted cash and investments were \$121.9 million in 2006 compared to \$76.0 million in 2005, an increase of \$45.9 million. This increase in cash and investments is primarily due to an increase in construction fund cash and investments from the issuance of bonds.

Utility plant and other capital assets were \$1.042 billion and \$985.2 million in 2006 and 2005, respectively, an increase of \$57.0 million. Significant capital was spent on installation and replacement of service meters, completion of the control and data acquisition system for operating and monitoring all water utility infrastructure, and restoration and improvements to water pipelines.

The Water Utility issued \$190.0 million of Water System Revenue and Refunding Bonds in October 2006. A portion of the proceeds from the issuance were used to refund the 1999 Water System Bonds. As a consequence of the refunding, the Fund reduced total debt service requirements by \$10.1 million, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$6.4 million. Total revenue bonds payable was \$861.7 million and \$776.8 million in 2006 and 2005, respectively. Interest expense was \$35.0 million in 2006 and \$34.8 million in 2005. Including revenue bonds payable, total liabilities were \$934.0 million and \$840.1 million in 2006 and 2005, respectively.

Total net assets were \$302.6 million in 2006 and \$302.1 million in 2005.

Drainage and Wastewater Utility. Operating income of the Utility decreased to \$0.3 million in 2006 from \$11.1 million in 2005, a net decrease of \$10.8 million. Operating revenue increased \$10.3 million and operating expense increased \$21.2 million between 2006 and 2005. The Utility realized net gains of \$1.0 million in 2006 and \$1.3 million in 2005. The increase in net income was primarily due to contributions of infrastructure assets from private developers and the Seattle Housing Authority.

Net cash provided by operating activities decreased to \$21.5 million in 2006 from \$28.3 million in 2005. Total operating and restricted cash and investments were \$65.5 million in 2006 compared to \$37.8 million in 2005, an increase of \$27.7 million, primarily due to an increase in construction fund cash and investments from the issuance of bonds.

Utility plant, net of accumulated depreciation, and other capital assets increased to \$499.7 million in 2006 from \$471.8 million in 2005, an increase of \$27.9 million. Acquisition of new assets included \$7.4 million in donated infrastructure from the Seattle Housing Authority and \$5.2 million for rehabilitation of sewer pipes. Significant capital was spent on flood control and local drainage projects, combined sewer overflow, and general improvements to the sewer and drainage infrastructure.

The Utility issued \$121.8 million of Drainage and Wastewater Revenue and Refunding Bonds in November 2006. A portion of the proceeds from the issuance was used to refund the 1995 and 1999 Bonds. As a consequence of the refunding, the Utility reduced total debt service requirements by \$12.8 million, resulting in an economic gain (difference between the present value of the debt service payments on the old and new debts) of \$6.4 million. The total outstanding bond liabilities were \$334.6 million in 2006 and \$294.9 million in 2005. Interest expense was \$13.6 million in 2006 and \$13.7 million in 2005. Total liabilities, including revenue bonds, were \$385.4 million in 2006 and \$338.4 million in 2005.

Total net assets were \$245.5 million in 2006 and \$244.5 million in 2005.

Fiduciary Funds

The City maintains fiduciary funds for the assets of the City of Seattle Employees' Retirement System (SCERS), the Firemen's Pension Fund, the Police Relief and Pension Fund, the S.L. Denny Private Purpose Trust Fund, and various agency funds. Total net assets of the combined fiduciary funds at the end of 2006 were \$2.023 billion. SCERS represents 99.4 percent of that amount.

SCERS assets that are held in trust for the payment of future benefits exceeded current amounts owed as of December 31, 2006, by \$2.014 billion. Net assets increased by \$219.4 million (12.2 percent) during 2006, primarily due to gains in the equity markets in the U.S. and abroad and in hedge funds and real estate. Total revenues (additions to net assets) for 2006 were \$319.4 million, which includes member and employer contributions of \$76.3 million and total net investment income

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of \$243.1 million. Total expenses (deductions from net assets) in 2006 were \$100.0 million, an increase of \$5.3 million (5.6 percent) from 2005. The largest part of the 2006 increase in total expenses (deductions) was for retiree benefits which increased by \$5.3 million (6.4 percent).

At December 31, 2006, the net assets held in trust in the Firemen's Pension Fund and the Police Relief and Pension Fund for the payment of future benefits were \$10.0 million and \$1.3 million, respectively.

GENERAL FUND BUDGETARY HIGHLIGHTS

The City's final expenditure budget for the General Fund differed from the original budget due to supplemental legislation/appropriations approved during the year. In fiscal year 2006 the General Fund's original budget was \$765.6 million. That original budget was increased by \$48.1 million (6.3 percent) in supplemental appropriations after a reduction for reimbursements received for Personnel's services (a \$109.0 million reduction).

The most significant budget revisions are described below:

- A \$6.5 million increase to the Cumulative Reserve Subfunds, REET I, REET II, and Unrestricted including \$2.6 million for the South Lake Union Park Development Project
- The City Council authorizes the acceptance of all grant funds. If a grant is not included as a part of the adopted budget, a separate ordinance is required. In 2006 over \$4.3 million in additional grant funds were appropriated. Most of the grant funds were for public safety purposes, including over \$3.3 million in UASI/Homeland Security grants to increase the capacity of the Seattle urban area to prevent, respond to, and recover from threats or acts of terrorism.
- The Police Department budget was increased by \$4.4 million, including \$3.3 million for grants, \$1.5 million in quarterly supplemental appropriations, and \$0.8 million for additional officers.
- The Fire Department budget was increased by \$4.6 million, including \$2.9 million from ordinance 122226, the second quarter supplemental, and \$0.8 million in Homeland Security and other grants.
- An \$18.0 million increase for the Judgment and Claims Subfund covered unexpectedly high claims costs.
- Personnel received a \$7.3 million increase for over-runs of health care costs, a \$2.7 million increase for higher than expected workers compensation payments both for workers' claims and medical costs.
- At year-end 2006 actual expenditures were \$111.9 million less than budgeted. Of this amount, \$82.0 million of the budget was carried over into 2007 to cover outstanding encumbrances, grants, capital spending, and special carryovers. The balance of the expenditure budget, \$29.9 million, was lapsed. The Judgment/Claims Subfunds lapsed \$5.3 million due to liability claim payments being lower than anticipated. The Health Care Fund lapsed \$3.9 million, the Industrial Insurance Fund lapsed \$1.5 million, and the Unemployment Compensation Fund lapsed \$2.1 million, all also due to lower than anticipated claim payments. Indigent Defense Services lapsed \$2.2 million due to lower than expected billings. In mid-2005 the City switched from using King County to administer the assignment and payment of public defenders to contracting with firms providing these services directly. The Fire Department lapsed \$1.6 million due to salary savings in their Operations Division.
- During the year budgetary revenue estimates exceeded actual revenues by \$72.0 million. Tax revenues exceeded the budget by \$47.9 million, Charges for Services and Fines and Forfeits both exceeded estimates by over \$2.0 million, Parking Fees and Space Rental barely exceeded estimates, all other categories were less than budget. An additional \$6.8 million is related to incomplete grant projects and is expected to be collected in the future.

CAPITAL ASSETS

The following schedule shows the City's investment in capital assets.

Table A-5 CAPITAL ASSETS AT YEAR END, NET OF DEPRECIATION
(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
Land	\$ 401,605	\$ 372,008	\$ 84,508	\$ 67,684	\$ 486,113	\$ 439,692
Plant in Service, Excluding Land	-	-	2,768,892	2,647,666	2,768,892	2,647,666
Buildings and Improvements	1,356,121	1,285,961	53,542	55,976	1,409,663	1,341,937
Machinery and Equipment	94,284	91,479	8,916	9,108	103,200	100,587
Infrastructure	479,914	480,293	-	-	479,914	480,293
Construction in Progress	245,488	213,378	230,226	198,491	475,714	411,869
Other Capital Assets	10,023	9,489	16,733	32,896	26,756	42,385
Total Capital Assets	\$ 2,587,435	\$ 2,452,608	\$ 3,162,817	\$ 3,011,821	\$ 5,750,252	\$ 5,464,429

Capital assets for governmental activities increased \$134.8 million in 2006. Major increases include the following:

- Seattle Center capitalized improvements to various facilities, amounting to \$4.4 million, and spent \$0.2 million to complete construction of the Performance Hall. Construction in progress amounted to \$1.9 million at the end of 2006.
- The Library completed construction of several branch libraries, such as Douglass-Truth, Montlake, Northgate, and South Park Libraries. It spent \$7.8 million for buildings, \$3.4 million for land acquisition, and \$5.5 million for building improvements. Construction in progress at December 31, 2006, was \$29.7 million.
- The Parks Department completed construction of various community centers at a cost of \$12.1 million. Additional costs of \$46.2 million were expended for park improvement projects, and several parcels of land were purchased at \$7.0 million. Construction in progress at December 31, 2006, stood at \$6.5 million, a decrease of \$13.1 million over last year.
- The Department of Transportation capitalized \$27.0 million for various infrastructure assets (roads, bridges, sidewalks, signs, illuminations, and others). Construction in progress at December 31, 2006, was \$140.8 million, including a streetcar at a cost of \$4.0 million, expected to be in service in 2007.
- The Fleets and Facilities Department incurred approximately \$20.5 million to complete construction of the City Hall. Land parcels were acquired for museums (\$2.0 million), training facilities (\$2.5 million), and fire stations (\$8.1 million). The Public Safety Building was demolished to prepare the site for future use, and the \$6.6 million cost was added to the land value. Construction in progress at the end of December 31, 2006, was \$53.6 million.
- Machinery and equipment were purchased at a cost of \$24.7 million, \$15.6 million of which was for fleet additions and upgrades.

Capital assets for business-type activities increased \$151.0 million as follows:

- City Light capital assets increased by \$58.2 million in 2006. These increases were mainly for the hydroelectric production plant, including the North Cascades Environmental Learning Center, turbine overhaul, transformer replacement, electrical system upgrade, and generator air circuit breaker at Gorge and Ross Dam; transmission plant, including equipment replacement and transmission towers and lines; distribution plant, including poles, overhead conductors for capacity additions and relocations, underground conduit and conductors, transformers, overhead and underground services, and ductbanks and vaults installed for the undergrounding distribution system along Martin Luther King Way South related to the Sound Transit light rail project; and general plant, including customer billing system enhancements and computer and communication equipment purchases.
- Water Utility capital assets increased by \$56.9 million in 2006. Major capital outlays included upgrades to the Supervisory Control and Data Acquisition system (SCADA) at a cost of \$18.8 million, new direct and replacement meters costing \$15.6 million, security improvements at \$9.6 million, and improvements to distribution water mains at \$6.1 million. Other additions include costs of restoring the Tolt pipeline No. 1 to service, the upgrade of computer

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systems, facility improvements, and the purchase of fire fighting heavy equipment for the Cedar River Watershed. Construction Work in Progress at year end December 31, 2006, amounted to \$72.2 million.

- Drainage and Wastewater Utility capital assets increased by \$27.9 million. Major capital improvements included Seattle Housing Authority donations of infrastructure, rehabilitation of sewer pipes, configuring the new Joint Training Facility, and additions to computer applications including the Real Property Records System, the Enterprise Asset Management/Work Management System, and upgrade to the financial system. Construction work in progress amounted to \$55.3 million at December 31, 2006.
- Nonmajor enterprise funds capital assets increased by \$7.9 million. Increases in the Solid Waste Utility included significant progress in implementing the Facilities Master Plan. Heavy equipment purchases included a loader used at the South Recycling and Disposal Station, rail haul containers, forklifts, and two tractors used to transport compacted garbage to the rail yard. Various equipment purchases were also made by the Department of Planning and Development.

DEBT ADMINISTRATION

At the end of fiscal year 2006 the City had \$3.463 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to \$3.443 billion in 2005. This represents an increase of approximately \$20.0 million (0.6 percent). Additionally in 2006 the City issued, without lending its full faith and credit but obligated in some manner, special assessment bonds in the amount of \$21.9 million for the design and construction of the South Lake Union Streetcar. The City will start paying the bonds in 2007 with collections from property owners within the local improvement district.

In 2006 the City issued general obligation bonds to finance various capital improvement projects and ventures, including the Alaskan Way Tunnel/Sea Wall (\$5.2 million), Mercer Corridor (\$2.5 million), South Lake Union Street Car (\$1.5 million), and Pier 59 (\$1.8 million), and to refinance a portion of the 2003 limited tax general obligation bonds that relate to the Park 90/5 Earthquake Repair (\$11.7 million). The City also issued revenue bonds for the Water and Drainage and Wastewater Utilities' capital improvement projects and the Water Utility's conservation programs (\$111.4 million for Water and \$48.0 million for Drainage and Wastewater). The City also extended the maturity date of the Solid Waste revenue bond anticipation notes to December 31, 2007, and expanded the line of credit to \$31.8 million. The City drew another \$11.6 million against the line of credit to finance ongoing Solid Waste Utility capital projects. The City again took advantage of the prevailing low-interest rates in the year to improve cash flow by refunding a series of general obligation bond issue, a series of Water and two series of Drainage and Wastewater revenue bonds for a total new issue of \$154.6 million. By refinancing the debt the City will save \$22.8 million in principal and interest over the next eight years for the LTGO and 19 years for the revenue bonds.

The City's bond ratings remained the same as in the previous year. The City's unlimited tax general obligation bonds are rated Aaa by Moody's Investors Service, AAA by FitchRatings, and AAA by Standard & Poors. The City's limited tax general obligation bonds are rated Aa1 by Moody's Investors Services, AA+ by FitchRatings, and AAA by Standard and Poors. The City maintained its high bond ratings on its Light, Water, Drainage and Wastewater, and Solid Waste revenue bonds.

The City's limited and unlimited general obligation debt is capped at 7.5 percent of assessed value by state law. The 2007 assessed value of taxable properties for the City is \$106.2 billion. At year-end 2006 the net outstanding general obligation debt of the City that includes bonds, leases, compensated absences net of sick leave, and guarantees of indebtedness amounted to \$943.9 million, well below the limit of \$7.0 billion. Within the 7.5 percent limitation, state law restricts outstanding limited tax general obligation bonds to 1.5 percent of assessed value. At year-end 2006 the net outstanding limited tax general obligation was \$767.4 million.

The City is self-insured for workers compensation and for most health care costs. The City carries general liability insurance with a self-insured retention. For these claims, including those incurred but not reported, the City recognized a total liability of \$79.9 million at the end of the year. In addition, City utilities recorded \$18.3 million in estimated environmental liabilities. At the end of 2006 City Light had \$15.4 million in liabilities related to its purchased power commitments. Other obligations were accrued compensated absences and other notes and contracts. The other notes and contracts included draws from the State's Public Works Trust Loan (PWTL) Program which are serviced with revenues from three participating City departments, one with a governmental-type fund and one whose PWTL activities are reported in two of its business-type funds.

More detailed information about the City's long-term liabilities is presented in Note 8 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Seattle's 2007 budget reflects strong economic growth. The strong recent economic performance is expected to continue but the rate of growth is expected to slow over time as the real estate market cools and the pace of national economic growth slows. The 2007 adopted budget therefore focuses resources on a combination of one-time investments and priority programs as discussed in the transmittal letter.

General Subfund. Revenues are projected to grow at a rate of 4.6 percent in 2007 with a portion of the growth resulting from reclassifying revenues to the General Fund that previously were deposited in other funds. Tax revenues are expected to grow by 3.4 percent in 2007. The main drivers of these growth rates are the business and occupation (B&O) and sales taxes. Revenues from the B&O tax is expected to grow by 4.7 percent in 2007. Sales tax revenues, led by construction, hotels and retail sales, are projected to grow by 5.5 percent in 2007. Sizable rate increases in the drainage/wastewater rates charged by Seattle Public Utilities to its customers back up a projected 7.8 percent increase over 2006 in revenues from the Drainage and Wastewater Fund.

About 125 general government full-time-equivalent positions were added in the 2007 budget.

Utilities. Seattle City Light rates effective January 1, 2007, reflect an 8.4 percent reduction in the average retail customer rates, including reductions of 6.2 percent for residential customers and 17 percent for medium-sized commercial customers. The rates generate revenue to operate the utility, maintain physical plant and infrastructure, and pay down long-term debt incurred as a result of the energy crisis. The 2007 adopted budget includes funding for utility relocation necessitated by the Alaskan Way Viaduct and Seawall Replacement Project, and continued work to relicense the Boundary facility.

The Seattle Public Utilities (SPU) is continuing its asset management approach for selecting what capital projects to build and when, and is broadening the focus to include operational practices. This approach provides an analytical and modeling framework to find the most economical balance between capital investments and operation and maintenance expenditure to minimize life-cycle costs.

Financial Contact

The City's financial statements are designed to provide users with a general overview of the City's finances as well as to demonstrate the City's accountability to its citizens, investors, creditors, and other customers. If you have a question about the report, please contact the City of Seattle, Department of Executive Administration, Accounting Services Division, P.O. Box 94669, Seattle, WA 98124-4669 (Telephone 206-386-9124).