

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, 2007. 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 2007 the assets of the City of Seattle exceeded its liabilities by \$3.747 billion. Net assets invested in capital assets (net of depreciation and related debt) account for 79.6 percent of this amount (\$2.982 billion). The remaining net assets of \$768.6 million may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$358.1 million (10.6 percent) during the fiscal year. The governmental net assets increased by \$251.5 million (11.0 percent) over the amount reported in 2006. Business-type net assets increased by \$106.5 million (9.6 percent). The business-type increase included net income of \$113.5 million for City Light, \$1.2 million for the Water Utility, \$7.5 million for nonmajor funds and a net loss of \$17.8 million for Drainage and Wastewater Utility. 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 2007 the City's governmental funds reported a combined ending fund balance of \$591.8 million, an increase of \$93.3 million (15.6 percent). Of the major funds, the fund balance of the General Fund increased \$85.7 million, the Transportation Fund increased \$12.9 million, and the Low-Income Housing Fund increased by \$11.1 million. The fund balances of the nonmajor governmental funds decreased by \$16.4 million. In addition, though there was a slowdown of the economy nationwide this was slightly felt in the region and hence the City's tax revenues still increased from 2006 by \$105.9 million. Approximately \$234.8 million (40.2 percent) of the combined ending fund balance is unreserved fund balance available to the City for discretionary spending.
- At the end of 2007 the unreserved fund balance for the General Fund was \$197.7 million or 31.2 percent of total General Fund expenditures of \$633.8 million. The General Fund's unreserved fund balance increased by approximately \$47.4 million from the prior year's amount of \$150.3 million, reflecting significant increases in taxes and program income and interest.
- The City's total outstanding bonded debt decreased by approximately \$75.7 million (2.2 percent) to \$3.387 billion during the current fiscal year. General obligation for limited tax (LTGO) and unlimited tax (UTGO) bonded debt decreased by \$30.7 million in 2007. During the year, revenue bonds and bond anticipation notes decreased by \$45.0 million. On the \$21.9 million special assessment bonds the City issued in 2006 for the design and construction of the new South Lake Union Streetcar and backed by the collection of assessments from a local improvement district (LID), it was reduced to \$20.5 million by a bond maturity and call payment of \$1.4 million (6.3 percent).

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.

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 \$3.747 billion.

Statement of Net Assets

Table A-1

CONDENSED STATEMENT OF NET ASSETS

(In Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Current and Other Assets	\$ 1,172,214	\$ 1,043,892	\$ 934,389	\$ 1,005,439	\$ 2,106,603	\$ 2,049,331
Capital Assets and Construction in Progress, Net of Accumulated Depreciation	2,748,984	2,589,925	3,297,786	3,166,254	6,046,770	5,756,179
Total Assets	3,921,198	3,633,817	4,232,175	4,171,693	8,153,373	7,805,510
Current Liabilities	226,541	213,815	300,773	314,341	527,314	528,156
Noncurrent Liabilities	1,160,895	1,137,765	2,718,021	2,750,516	3,878,916	3,888,281
Total Liabilities	1,387,436	1,351,580	3,018,794	3,064,857	4,406,230	4,416,437
Net Assets						
Invested in Capital Assets, Net of Related Debt	2,015,043	1,825,203	967,028	813,091	2,982,071	2,638,294
Restricted	194,618	183,340	51,360	59,161	245,978	242,501
Unrestricted (Deficit)	324,101	273,696	194,993	234,582	519,094	508,278
Total Net Assets	\$ 2,533,762	\$ 2,282,239	\$ 1,213,381	\$ 1,106,834	\$ 3,747,143	\$ 3,389,073

The largest portion of the City's net assets (79.6 percent) reflects an investment of \$2.982 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, \$245.9 million (6.6 percent), represents resources that are subject to restrictions on how they may be used. The remaining balance of unrestricted net assets, \$519.1 million (13.9 percent), may be used to meet the government's obligation to citizens and creditors.

Unrestricted net assets for governmental activities increased by 18.4 percent from \$273.7 million in 2006 to \$324.1 million in 2007. Robust activity in the commercial real estate market provided increased real estate excise tax revenues and was a contributing factor to the increase in unrestricted net assets. The increase was also partially due to the continued strength of the local economy and the increases in the corresponding business taxes.

The City of Seattle

The net assets for the business activities increased between 2006 and 2007 from \$1.107 billion to \$1.213 billion. The increase in net assets is attributed primarily to the performance of the City Light Utility in 2007. Though there was a slight increase (\$715.0 million and \$60.1 million, respectively) in both operating revenues and operating expenses, the Utility generated an operating income of \$130.0 million. Adding to this the \$42.0 million in capital contributions and grants and net nonoperating expense of \$59.0 million, the Utility registered a \$113.5 million change in net assets.

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

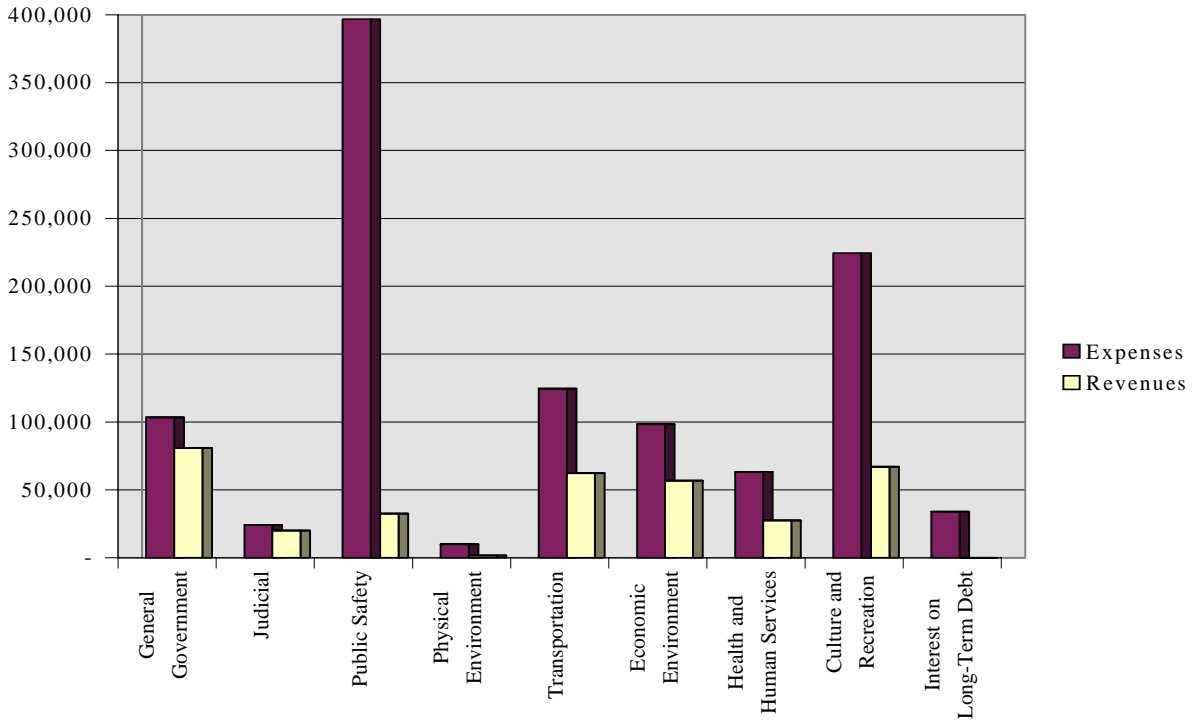
	Governmental Activities		Business-Type Activities		Total	
	2007	Restated 2006	2007	Restated 2006	2007	Restated 2006
Revenues						
Program Revenues						
Charges for Services	\$ 224,256	\$ 180,587	\$ 1,352,056	\$ 1,320,336	\$ 1,576,312	\$ 1,500,923
Operating Grants and Contributions	93,182	93,850	6,207	2,412	99,389	96,262
Capital Grants and Contributions	31,577	52,174	53,063	49,437	84,640	101,611
General Revenues						
Property Taxes	359,651	318,490	-	-	359,651	318,490
Sales Taxes	171,846	155,311	-	-	171,846	155,311
Business Taxes	332,238	311,015	-	-	332,238	311,015
Other Taxes	93,959	66,675	-	-	93,959	66,675
Other	34,047	57,374	19,382	18,064	53,429	75,438
Total Revenues	<u>1,340,756</u>	<u>1,235,476</u>	<u>1,430,708</u>	<u>1,390,249</u>	<u>2,771,464</u>	<u>2,625,725</u>
Expenses						
Governmental Activities						
General Government	103,324	128,718	-	-	103,324	128,718
Judicial	24,030	20,344	-	-	24,030	20,344
Public Safety	396,669	354,083	-	-	396,669	354,083
Physical Environment	9,991	7,331	-	-	9,991	7,331
Transportation	124,493	87,610	-	-	124,493	87,610
Economic Environment	98,337	78,957	-	-	98,337	78,957
Health and Human Services	63,275	56,904	-	-	63,275	56,904
Culture and Recreation	224,454	215,081	-	-	224,454	215,081
Interest on Long-Term Debt	34,048	35,399	-	-	34,048	35,399
Business-Type Activities						
Light	-	-	755,121	699,163	755,121	699,163
Water	-	-	169,631	161,943	169,631	161,943
Drainage and Wastewater	-	-	225,833	199,378	225,833	199,378
Solid Waste	-	-	119,714	114,527	119,714	114,527
Planning and Development	-	-	56,139	50,203	56,139	50,203
Downtown Parking Garage	-	-	8,336	8,076	8,336	8,076
Total Expenses	<u>1,078,621</u>	<u>984,427</u>	<u>1,334,774</u>	<u>1,233,290</u>	<u>2,413,395</u>	<u>2,217,717</u>
Excess (Deficiency) Before Transfers	262,135	251,049	95,934	156,959	358,069	408,008
Transfers	(10,612)	(9,260)	10,612	9,260	-	-
Increase in Net Assets	<u>251,523</u>	<u>241,789</u>	<u>106,546</u>	<u>166,219</u>	<u>358,069</u>	<u>408,008</u>
Net Assets - Beginning of Year	2,282,239	2,040,449	1,106,835	940,616	3,389,074	2,981,065
Net Assets - End of Year	<u>\$ 2,533,762</u>	<u>\$ 2,282,238</u>	<u>\$ 1,213,381</u>	<u>\$ 1,106,835</u>	<u>\$ 3,747,143</u>	<u>\$ 3,389,073</u>

Analysis of Changes in Net Assets

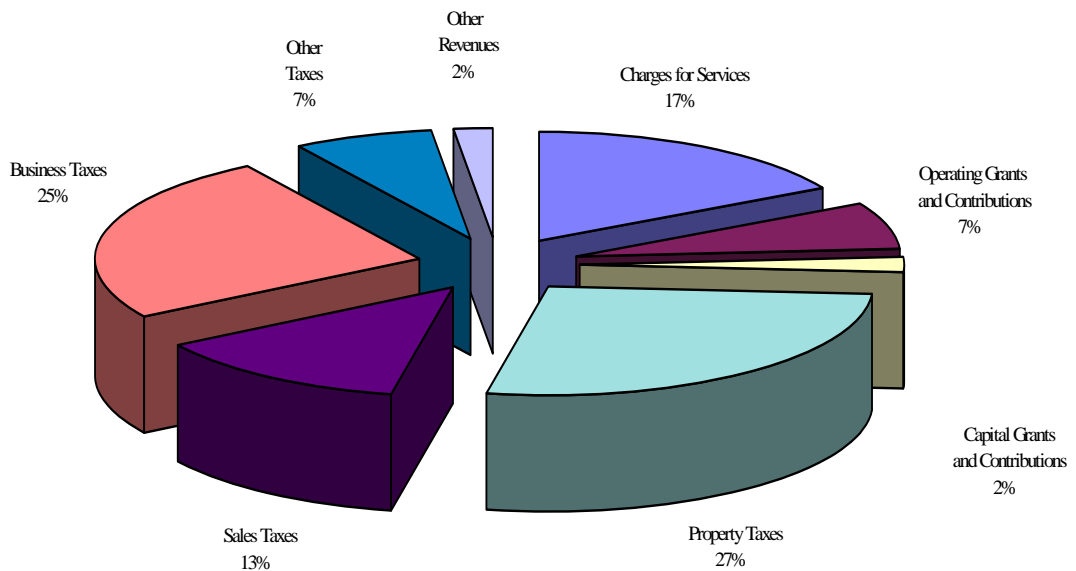
In 2007 the City's total net assets increased by \$358.1 million. The increase is explained in the following discussion of governmental and business-type activities.

Governmental Activities

EXPENSES AND PROGRAM REVENUES - GOVERNMENTAL ACTIVITIES



REVENUES BY SOURCE - GOVERNMENTAL ACTIVITIES



Total \$1,340.8 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, transportation, general government, 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 \$251.5 million in 2007 compared to an increase of \$243.1 million in 2006. Key factors in the change are as follows:

In 2007, total revenues for governmental activities were \$1.341 billion, \$104.4 million or 8.5 percent higher than 2006.

Program revenue related to services increased by \$21.5 million or 6.6 percent in 2007. 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.

Revenue generated by grants and contributions decreased by \$22.0 million in 2007. While 2007 operating grants decreased by only 1.6 percent, capital grants decreased by 39.0 percent or \$20.5 million compared to 2006.

Property taxes, the largest source of revenue supporting governmental activities, increased by \$41.1 million or 12.9 percent compared to 2006. 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. In November 2006 voters approved a transportation lid; this property tax measure generated approximately \$36.0 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 strength of the regional economy and the commercial construction activity within the downtown area in 2007, sales tax revenues increased by \$16.5 million or 10.6 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 2007, B&O tax revenues increased by \$21.2 million or 6.8 percent due to the full year of collecting the B&O tax rate increases that went into effect midyear 2006.

Other tax revenues increased by \$27.2 million or 40.0 percent. During 2007 Seattle experienced extraordinary activity in the commercial real estate market, and revenue from real estate excise taxes increased by \$18.5 million from \$58.3 million in 2006 to \$76.9 million in 2007.

Other revenues significantly declined in 2007, nearly 97.5 percent from \$35.3 million to \$891 thousand. Those revenues resulted from the one time sale of several properties in 2006.

Also contributing to the increase in revenues, investment earnings went up by \$11.1 million in 2007. The rate of return for investments continued to rise from an average of 4.0 percent in 2006 to an average of 5.1 percent in 2007.

In 2007 total expenses for governmental activities were \$1.077 billion compared to \$983.1 million in 2006, \$93.9 million or 9.6 percent higher than 2006.

General government expenses went down by \$26.8 million, a 21.0 percent decrease over 2006. Judgment and claims expenses were down \$14.4 million as a result of one time charges taken in 2006 for several large cases, including the Glaser Temporary Employees Class Action lawsuit and the legal fees associated with that case. Expenditures for general bond interest were down 7.3 million. The unrestricted cumulative reserve fund also decreased expenditures by \$3.8.

Public safety expenses increased by \$39.3 million, an 11.1 percent increase over 2006. The increase is attributed to several factors: staffing increases at both the Police and Fire Departments; a 3.3 percent cost-of-living salary adjustment, increased overtime and employee benefit expenses, and cost increases for technical and professional services.

Judicial expenses went up \$3.7 million or 18.1 percent. In addition to the cost-of-living salary adjustment and health care increases, staff was added to implement the Seattle Justice Information System's handheld ticketing devices data exchanges between the Court and Seattle Police Department. The Municipal Court also added probation staff to increase the supervision of probationers and in support of its expanded menu of alternatives to incarceration.

Management's Discussion and Analysis

Physical environment expenses went up \$2.6 million, a 36.3 percent increase compared to 2006. In addition to the Citywide adjustments to labor costs and changes in inflation assumptions for other costs, expenses went up due to additional programs and staffing within the Revenue and Consumer Affairs Division. Staff was added to improve customer wait times, alleviate backlogs in processing City tax payments, and attend to other customer service needs. The licensing Operations Unit's budget also increased to implement a commercial recycling licensing program.

Transportation expenses went up \$36.3 million, a 41.1 percent increase compared to 2006. The expenses increased compared to 2006 as major projects are in the initial planning and development phases, including the Alaskan Way Viaduct and Seawall Replacement projects. The increased expenditures supported the City's planning costs, costs of the SDOT staff working on project, outreach to waterfront businesses, and initial work to replace the north seawall.

Economic environment expenses went up by \$19.3 million or 24.5 percent. The Office of Housing increased expenditures \$2.12 million in the homeownership and sustainability program, \$2.0 million for the multifamily production and preservation program, and \$1.3 million for administrative costs. The Office of Economic Development added two positions and increased expenditures by \$1.06 million. Department of Neighborhoods increased expenditures by \$0.95 million to fund the purchase of additional P-Patch sites.

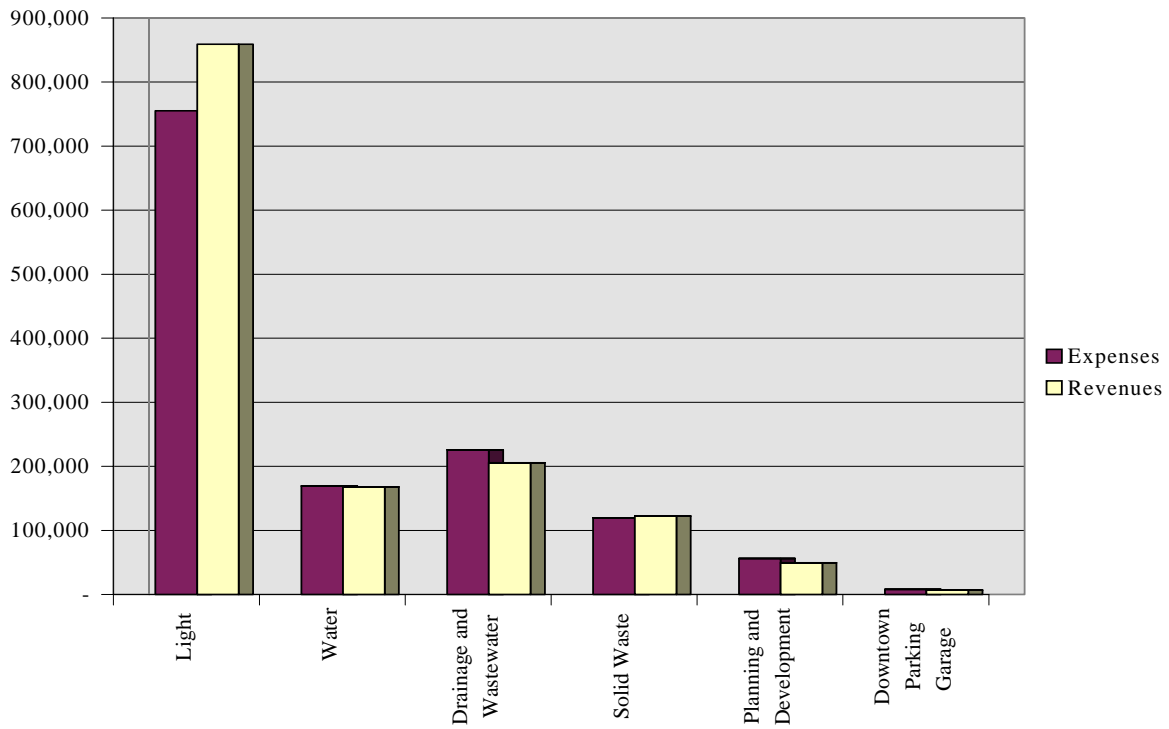
Health and human services expenses showed an increase of \$6.3 million or 11.2 percent. The largest change in expenditures was an increase of \$6.0 million and 9 positions to the home-based care program. The increase is primarily due to revenue adjustments in grant sources.

At \$224.3 million, culture and recreation expenses were up \$9.3 million in 2007 or 4.3 percent higher than 2006. Library's expenditures increased approximately \$4.0 million for operating the new or expanded libraries, increasing expenditures for library collections, an automated materials handling system, and replacement of the Library's horizon catalog system. The Department of Parks' expenditures have increased primarily due to the opening of new facilities. Nine positions were added to manage and staff the City's neighborhood community centers and Citywide recreation facilities and programs, increasing expenditures approximately \$4.0 million. In 2007 department contributions to the One Percent for Art program increased significantly largely because of the renewed participation of Seattle City Light (SCL) and Seattle Public Utilities (SPU) in the program. This resulted in increased expenditures of \$2.0 million.

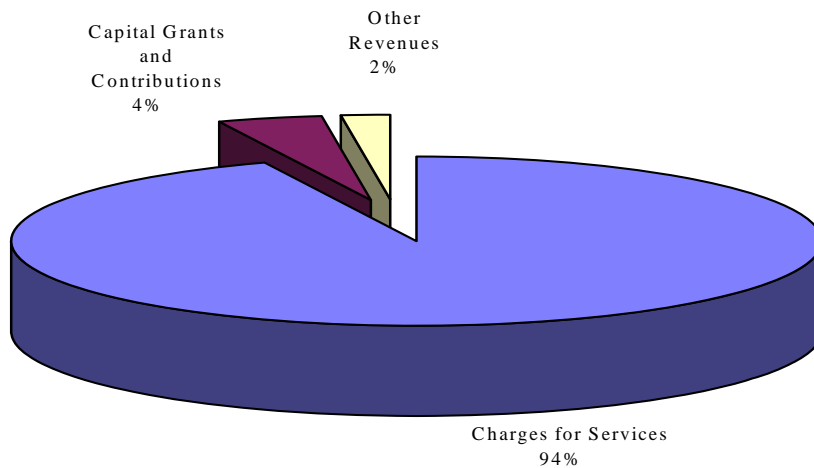
The City refunded and defeased certain bonds in 2007 in order to lower the interest costs. This included refunding \$60.81 million of the 1998 LTGO, Series F, Bonds, and refunding \$59.21 million of the 1999 UTGO, Series A, Bonds. Interest on long-term debt went down by \$1.35 million or 3.8 percent for 2007.

Business-Type Activities

EXPENSES AND PROGRAM REVENUES - BUSINESS-TYPE ACTIVITIES



REVENUES BY SOURCE - BUSINESS-TYPE ACTIVITIES



Total \$1,430.7 Million

Management's Discussion and Analysis

Business-Type Activities. Business-type activities increased the City's net assets by \$104.4 million to \$1.211 billion, an increase of 9.4 percent. Key factors for the change were as follows:

The City Light Utility realized a net increase of \$113.5 million in net assets in 2007; a decrease of \$48.3 million compared to net income of \$161.8 million in 2006 was due in large part to the overall 2007 system rate decrease implemented in January 2007. Also contributing to the lower net income were slightly higher operating revenues and higher in operating expenses, administrative and general costs, non-operating expenses and capital contributions.

The Water Utility experienced an increase of \$1.2 million in net assets in 2007. This increase was primarily due to an increase in tap fees and revenues received from sales of other fixed assets in 2007.

The Drainage and Wastewater Utility net assets declined \$17.8 million in 2007. Operating revenues increased by \$15.6 million due to rate increases for both wastewater and drainage. The increase was offset by a rise in operating expenses of \$26.9 million, including a significant increase of \$11.0 million for expensed capital projects and an increase of \$8.6 million in wastewater treatment costs charged by King County Metro. Taxes and claims expenses went up by \$3.7 million. Capital contributions and grants revenues decreased by \$8.7 million in 2007.

The Solid Waste Utility experienced a \$3.4 million increase in net assets in 2007. This compares to a decrease of \$1.2 million in 2006. Operating revenues increased by \$9.5 million mainly due to rate increases in 2007. The revenue increase was offset by an increase of \$5.0 million in operating expenses.

In 2007 the Planning and Development (DPD) Fund net assets increased by \$5.5 million. The increase was \$0.8 million higher than the increase of \$4.7 million in 2006. Operating revenues increased by \$4.6 million in 2007 due to continuing growth in building construction revenues. Transfer in from other City funds increased by \$1.3 million and investment income increased by \$0.6 million. The increases were offset by a rise in operating expenses of \$5.9 million.

The Downtown Parking Garage Fund experienced a decrease of \$1.4 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	
	2007	2006	2007	2006	2007	2006
Revenues						
Taxes	\$ 770,140	\$ 706,363	\$ 43,455	\$ -	\$ 11,849	\$ 11,816
Licenses and Permits	22,680	19,953	9,821	7,585	-	-
Grants, Shared Revenues, and Contributions	18,916	21,008	33,490	44,017	7,601	6,273
Charges for Services	64,750	52,924	30,638	24,396	18	22
Fines and Forfeits	19,497	18,320	10	26	-	-
Parking Fees and Space Rent	21,360	16,786	73	55	27	27
Program Income, Interest, and Miscellaneous Revenues	41,390	27,603	838	259	17,514	6,077
Total Revenues	<u>958,733</u>	<u>862,957</u>	<u>118,325</u>	<u>76,338</u>	<u>37,009</u>	<u>24,215</u>
Expenditures	633,766	592,859	191,859	157,366	25,913	18,217
Other Financing Sources and Uses						
Long-Term Debt	-	-	-	5,000	-	-
Sales of Capital Assets	3,868	3,992	-	-	-	-
Transfers In (Out)	(243,105)	(236,465)	86,392	75,446	-	3,257
Total Other Financing Sources and Uses	<u>(239,237)</u>	<u>(232,473)</u>	<u>86,392</u>	<u>80,446</u>	<u>-</u>	<u>3,257</u>
Fund Balances						
Reserves Legally Segregated for Future Use	123,935	82,344	23,361	10,503	53,108	37,134
Reserves Not Available for Appropriation	5,415	8,674	2	2	-	-
Unreserved	197,678	150,280	-	-	10,477	15,355
Total Fund Balances	<u>\$ 327,028</u>	<u>\$ 241,298</u>	<u>\$ 23,363</u>	<u>\$ 10,505</u>	<u>\$ 63,585</u>	<u>\$ 52,489</u>

Management's Discussion and Analysis

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

	Nonmajor Funds			
	Special Revenue Funds		Debt Service Funds	
	2007	2006	2007	2006
Revenues				
Taxes	\$ 56,081	\$ 53,377	\$ 26,206	\$ 26,105
Licenses and Permits	938	810	-	-
Grants, Shared Revenues, and Contributions	61,882	61,467	2	2
Charges for Services	53,448	47,834	-	-
Fines and Forfeits	3,194	2,884	-	-
Parking Fees and Space Rent	16,188	18,555	259	9,201
Program Income, Interest, and Miscellaneous Revenues	11,782	4,034	1,459	2,829
Total Revenues	<u>203,513</u>	<u>188,961</u>	<u>27,926</u>	<u>38,137</u>
Expenditures	335,293	311,116	97,708	106,998
Other Financing Sources and Uses				
Long-Term Debt	-	-	147	23
Sales of Capital Assets	479	15,158	-	-
Transfers In (Out)	141,418	121,197	69,170	70,190
Total Other Financing Sources and Uses	<u>141,897</u>	<u>136,355</u>	<u>69,317</u>	<u>70,213</u>
Fund Balances				
Reserves Legally Segregated for Future Use	24,584	20,448	15,996	16,461
Reserves Not Available for Appropriation	7,901	4,022	-	-
Unreserved	28,442	26,339	-	-
Total Fund Balances	<u>\$ 60,927</u>	<u>\$ 50,809</u>	<u>\$ 15,996</u>	<u>\$ 16,461</u>

	Nonmajor Funds				Total Governmental Funds	
	Capital Projects Funds		Permanent Funds		2007	Restated 2006
	2007	Restated 2006	2007	2006		
Revenues						
Taxes	\$ 49,510	\$ 53,705	\$ -	\$ -	\$ 957,241	\$ 851,366
Licenses and Permits	-	-	-	-	33,439	28,348
Grants, Shared Revenues, and Contributions	8,956	25,833	21	322	130,868	158,922
Charges for Services	198	69	-	-	149,052	125,245
Fines and Forfeits	-	-	-	-	22,701	21,230
Parking Fees and Space Rent	123	118	-	-	38,030	44,742
Program Income, Interest, and Miscellaneous Revenues	8,092	5,986	128	104	81,203	46,892
Total Revenues	<u>66,879</u>	<u>85,711</u>	<u>149</u>	<u>426</u>	<u>1,412,534</u>	<u>1,276,745</u>
Expenditures	96,724	92,942	55	416	1,381,318	1,279,914
Other Financing Sources and Uses						
Long-Term Debt	38,731	44,932	-	-	38,878	49,955
Sales of Capital Assets	-	16,606	-	-	4,347	35,756
Transfers In (Out)	(35,032)	(38,561)	(15)	(15)	18,828	(4,951)
Total Other Financing Sources and Uses	<u>3,699</u>	<u>22,977</u>	<u>(15)</u>	<u>(15)</u>	<u>62,053</u>	<u>80,760</u>
Fund Balances						
Reserves Legally Segregated for Future Use	100,491	127,920	2	2	341,477	294,812
Reserves Not Available for Appropriation	-	-	2,186	2,190	15,504	14,888
Unreserved	(1,846)	(3,125)	83	-	234,834	188,849
Total Fund Balances	<u>\$ 98,645</u>	<u>\$ 124,795</u>	<u>\$ 2,271</u>	<u>\$ 2,192</u>	<u>\$ 591,815</u>	<u>\$ 498,549</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 \$591.8 million, an increase of \$95.1 million in comparison to 2006. Approximately \$234.8 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; \$14.0 million; (2) funding of continuing projects and programs in future periods, \$269.1 million; (3) payment of debt service, \$34.8 million; and (4) a variety of other purposes, \$38.9 million.

Revenues for governmental funds overall totaled approximately \$1.413 billion in the fiscal year ended December 31, 2007, which represents an increase of approximately \$138.0 million or 10.8 percent from the prior fiscal year of \$1.275 billion. Expenditures in governmental funds amounted to \$1.381 billion, an increase of approximately \$101.0 million or 7.9 percent compared to \$1.280 billion spent in 2006. In the aggregate, revenues for governmental funds exceeded expenditures by approximately \$31.2 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 2007.

At the end of 2007 the total fund balance of the General Fund was \$327.0 million. Fund balance increased by \$85.7 million in 2007 compared to 2006.

Total revenues for the General Fund amounted to \$958.7 million, an increase of \$95.8 million or 11.1 percent higher than 2006. Tax revenues increased by \$63.8 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 2007.

Program Income, Interest, and Miscellaneous Revenues increased by \$13.8 million. Revenues derived from Charges for Services went up by \$11.8 million overall. Fines and Forfeits went up by \$1.2 million, and Parking Fees and Space Rent went up \$4.6 million.

General Fund expenditures increased by \$40.9 million or 6.9 percent in 2007, from \$592.9 million to \$633.8 million. The increases in Public Safety expenditures rose \$24.6 million. The Capital Outlay for Culture and Recreation increased \$9.9 million. Judicial expenditures went up \$3.6 million. Capital Outlay for the Physical Environment went up \$3.4 million.

The Other Financing Sources and Uses category decreased the General Fund's fund balance position by \$239.2 million in 2007 compared to \$232.5 million in 2006. The net transfers out increased by \$6.6 million in 2007.

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 increased by \$12.9 million compared to a \$0.6 million decrease in 2006. Revenues were up \$42.0 million, primarily due to the increase in revenues related to the Bridging the Gap funding package. These revenues consist of an excess property tax levy, an employee hours tax, and a commercial parking tax. Expenditures were up \$34.5 million, mainly due to capital projects being funded from the Bridging the GAP program and the addition of personnel to meet the related increase in work.

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 \$63.6 million the Low-Income Housing Fund ended the year with a fund balance increase of \$11.1 million. Revenue increased by \$9.5 million while expenditures increased by \$7.7 million. The increase in revenues is due to the sale of Transferable Development Rights for \$12.2 million. The increase in expenditures is attributed to the cyclical nature of the fund. Multifamily construction projects can span over several years from acquisition to final construction. Further driving the variations is the cyclical nature of downtown construction and their associated costs.

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In 2007 the other **special revenue funds** showed a \$10.1 million or 19.9 percent increase in fund balance as a result of operations. The most significant increases occurred in the Park and Recreation Fund (\$2.8 million), Human Services Fund (\$2.3 million), the Education and Development Services Fund (\$1.4 million), and the Municipal Arts Fund (\$2.8 million).

Total revenues for the special revenue funds were up \$14.6 million, a 7.7 percent increase from 2006. Increases in program income, interest, and miscellaneous revenues (up \$7.7 million), grants, shared revenues, and contributions (up \$0.4 million), charges for services (up \$5.6 million) and taxes, (up by \$2.7 million) were responsible for the increase. The decrease in parking revenues and space rentals was \$2.4 million and the decrease in fines and forfeits was \$0.3 million.

Expenditures increased by \$24.2 million, up 7.8 percent from 2006. The largest increases were in the Human Services Operating Fund (up \$8.2 million) due to a large increase in funding for various services and programs, including support for the Ten Year Plan to End Homelessness, and in the Park and Recreation Fund (up \$4.4 million) due to the opening of new facilities and adding new staff and covering operating costs for the Seattle Aquarium.

The Other Financing Sources and Uses category increased in 2007, up by \$5.5 million or 4.1 percent compared to 2006. This net increase resulted from a \$14.7 million decrease in sales of capital assets and increase in net transfers in from other funds of \$20.7 million.

The fund balance in the **capital projects funds** showed a \$26.2 million or 21.0 percent decrease in 2007. The most significant decreases came from the Libraries for All Fund, down \$4.5 million; Parks Department capital project funds, decreased by \$9.1 million; the Seattle Center Redevelopment Fund, decreased by \$2.6 million, and the Public Safety Information Technology Fund, decreased by \$23.9 million. The decreases in fund balance mentioned above were offset by an increase in the Fire Facilities fund balance increase of \$16.1 million.

Revenues for the capital projects funds went down \$18.8 million or 22.0 percent compared to 2006. Grants, Shared Revenues, and Contributions decreased by \$16.9 million or 65.3 percent. Tax revenues decreased by \$4.2 million or 7.8 percent

Expenditures for capital projects remained relatively constant, increasing \$3.8 million, a 4.1 percent increase compared to the 2006 expenditures of \$92.9 million.

The 2007 fund balances of the **debt service funds** decreased by \$0.5 million. The **permanent funds** remained at about the same levels as 2006.

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	\$ 698,309	\$ -	\$ -	\$ -	\$ 71,831
Licenses and Permits	12,670	-	-	10,011	-
Grants, Shared Revenues, and Contributions	17,927	(93)	-	-	1,603
Charges for Services	53,267	9,621	-	-	964
Fines and Forfeits	19,497	-	-	-	-
Parking Fees and Space Rent	21,160	-	-	-	200
Program Income, Interest, and Miscellaneous Revenues	13,621	3,665	46	369	5,009
Total Revenues	<u>836,451</u>	<u>13,193</u>	<u>46</u>	<u>10,380</u>	<u>79,607</u>
Expenditures	574,056	6,160	911	6,275	39,495
Other Financing Sources and Uses					
Sales of Capital Assets	10	-	-	-	3,858
Transfers In (Out)	(220,884)	-	-	-	(22,133)
Total Other Financing Sources and Uses	<u>(220,874)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(18,275)</u>
Fund Balances					
Reserves Legally Segregated for Future Use	20,079	18,598	451	-	55,973
Reserves Not Available for Appropriation	3,719	-	-	-	-
Unreserved	73,262	(1,026)	460	7,378	53,707
Total Fund Balances	<u>\$ 97,060</u>	<u>\$ 17,572</u>	<u>\$ 911</u>	<u>\$ 7,378</u>	<u>\$ 109,680</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	-	(520)	-	-	-
Charges for Services	-	-	-	238	661
Fines and Forfeits	-	-	-	-	-
Parking Fees and Space Rent	-	-	-	-	-
Program Income, Interest, and Miscellaneous Revenues	-	1,498	1	-	1,546
Total Revenues	<u>-</u>	<u>978</u>	<u>1</u>	<u>238</u>	<u>2,207</u>
Expenditures	3,164	-	3	250	-
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	-	-
Transfers In (Out)	(89)	-	3	-	-
Total Other Financing Sources and Uses	<u>(89)</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>-</u>
Fund Balances					
Reserves Legally Segregated for Future Use	5,338	-	20	-	-
Reserves Not Available for Appropriation	-	-	1,696	-	-
Unreserved	153	658	38,643	106	4,776
Total Fund Balances	<u>\$ 5,491</u>	<u>\$ 658</u>	<u>\$ 40,359</u>	<u>\$ 106</u>	<u>\$ 4,776</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	
				2007	2006
Revenues					
Taxes	\$ -	\$ -	\$ -	\$ 770,140	\$ 706,363
Licenses and Permits	-	-	-	22,681	19,953
Grants, Shared Revenues, and Contributions	-	-	-	18,917	21,008
Charges for Services	-	-	-	64,751	52,924
Fines and Forfeits	-	-	-	19,497	18,320
Parking Fees and Space Rent	-	-	-	21,360	16,786
Program Income, Interest, and Miscellaneous Revenues	(698)	16,280	52	41,389	27,603
Total Revenues	(698)	16,280	52	958,735	862,957
Expenditures	-	3,455	-	633,769	592,859
Other Financing Sources and Uses					
Sales of Capital Assets	-	-	-	3,868	3,992
Transfers In (Out)	-	-	-	(243,103)	(236,465)
Total Other Financing Sources and Uses	-	-	-	(239,235)	(232,473)
Fund Balances					
Reserves Legally Segregated for Future Use	-	23,476	-	123,935	82,344
Reserves Not Available for Appropriation	-	-	-	5,415	8,674
Unreserved	5,359	13,831	370	197,677	150,280
Total Fund Balances	\$ 5,359	\$ 37,307	\$ 370	\$ 327,027	\$ 241,298

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 \$113.5 million in 2007 compared to \$161.8 million in 2006, a decrease of \$48.3 million or 33 percent from last year's record net income. \$40.7 million of the decrease was due in large part to the overall 2007 system rate decrease implemented in January 2007. Within operating expenses, administrative and general costs were higher by \$17.7 million due in part to higher costs in the areas of pensions, benefits, rents, and environmental pertaining to clean-up of the Duwamish superfund sites. Other power costs were increased by nearly \$1.0 million. Offsetting the lower revenues and higher operating expenses was an increase in other deductions, net by \$11.1 million from 2006, attributable mainly to higher capital fees recorded for underground infrastructure improvements to suburban areas within the Utility's service area.

Net cash provided by operating activities decreased by \$25.6 million to \$218.1 million in 2007 compared to \$243.7 million in 2006. Restricted assets were \$31.1 million in 2007, down from \$31.5 million in 2006. The \$0.4 million reduction in restricted assets was due to retainage deposits, decreased in total by \$1.3 million for contractor-completed projects during the year. These deposits were offset by an increase in customer advance payments in the amount of \$0.8 million received for customer electrical construction projects that will be scheduled for completion. Other decreases in the amount of \$0.1 million during the normal course of operations accounted for the balance. The significant component of restricted assets remained at \$25.0 million in the Contingency Reserve Account established in 2005. Utility plant and other capital assets were \$1.591 billion and \$1.517 billion in 2007 and 2006, respectively, a net increase of \$74.3 million. The majority of the capital asset additions were in the distribution system, hydraulic production, and transmission.

Total net revenue bonds payable was \$1.342 billion in 2007 and \$1.409 billion in 2006, a net decrease of \$66.8 million. Interest expense was \$66.4 million in 2007 and \$69.4 million in 2006. Future debt service requirements on the subordinate lien bonds, based on 2007 end-of-year actual interest rates, range from 3.27 percent to 3.42 percent through year 2021. Including long-term debt, the total liabilities were \$1.509 billion in 2007 and \$1.584 billion in 2006.

Total net assets were \$661.1 million in 2007 and \$547.6 million in 2006.

Water Utility. The net operating income of the Water Utility decreased by \$3.8 million to \$21.7 million in 2007 from \$25.5 million in 2006. Operating revenues increased \$5.0 million due to the increases in tap fees and water rates, while operating expenses increased \$8.7 million. The increase in operating expenses is attributed to several factors: an increase in science, sustainability and watershed expenses, an increase in general and administrative expenses for expensing of the watershed master plan, Chinook restoration and project tracking system, increased expenses related to elimination of the Engineering Services Fund. Net income increased to \$1.2 million in 2007 compared to \$0.6 million in 2006, an increase of \$0.6 million.

Net cash provided by operating activities increased to \$58.3 million in 2007 from \$48.8 million in 2006, an increase of \$9.5 million. Total operating and restricted cash and investments were \$56.3 million in 2007 compared to \$121.9 million in 2006, a decrease of \$65.6 million. This decrease in cash and investments is primarily due to a decrease in construction fund cash and investments funded for capital improvement projects.

Utility plant and other capital assets were \$1.085 billion and \$1.042 billion in 2007 and 2006, respectively, an increase of \$43.0 million. Significant capital was spent on installation and replacement of service meters, security improvements for facilities, installation of new distribution water mains, computer systems upgrades, water system rehabilitation, and reservoir coverings costs.

The Water Utility had \$841.8 million outstanding Water System Revenue Bonds liabilities in 2007, as compared to \$861.7 million in 2006. The decrease of \$19.9 million was mainly due to principal payments on existing bonds.

Total net assets were \$303.8 million in 2007 and \$302.6 million in 2006.

Drainage and Wastewater Utility. The Utility realized an operating loss of \$10.9 million in 2007 as compared to an operating income of \$0.3 million in 2006. Operating revenue increased \$15.6 million and operating expense increased \$26.9 million between 2007 and 2006. The Utility realized a net loss of \$17.8 million in 2007 and a \$1.0 million net gain in 2006. The net loss was primarily due to an increase in expensed capital projects and wastewater treatment costs, while the revenues from capital contribution and grants decreased \$8.7 million in 2007.

Net cash provided by operating activities decreased to \$5.5 million in 2007 from \$21.5 million in 2006. Total operating and restricted cash and investments were \$26.8 million in 2007 compared to \$65.5 million in 2006, a decrease of \$38.7 million, primarily due to a decrease in construction fund cash and investments funded for capital improvement projects.

Utility plant, net of accumulated depreciation, and other capital assets increased to \$516.9 million in 2007 from \$499.7 million in 2006, an increase of \$17.2 million. Acquisition of new assets included \$7.1 million for Natural Drainage System improvements and \$8.6 million for additions to computer systems. Significant capital was spent on flood control and local drainage projects, general improvements to the sewer and drainage infrastructure, and the Protection of Beneficial Uses improvement project.

The Drainage and Wastewater Revenue and Refunding Bonds outstanding liabilities were \$325.5 in 2007 and \$334.6 million in 2006. There were no new bonds issued in 2007. Interest expense was \$14.9 million in 2007 and \$13.6 million in 2006. Total liabilities, including revenue bonds, were \$382.5 million in 2007 and \$385.4 million in 2006.

Total net assets were \$227.6 million in 2007 and \$245.5 million in 2006.

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 2007 were \$2.129 billion. SCERS represents 99.5 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, 2007, by \$2.119 billion. Net assets increased by \$108.2 million (5.4 percent) during 2007, primarily due to slight gains, compared to 2006, in the equity markets in the U.S. and abroad and in hedge funds and real estate. Investing in corporate bonds also increased at the end of 2007. Total revenues (additions to net assets) for 2007 were \$220.0 million, which includes member and employer contributions of \$80.8 million and total net investment income of \$139.2 million. Total expenses (deductions from net assets) in 2007 were \$111.7 million, an increase of \$11.7 million (11.8 percent) from 2006. The largest part of the 2007 increase in total expenses (deductions) was for retiree benefits which increased by \$10.8 million (12.3 percent).

At December 31, 2007, 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 \$9.0 million and \$0.8 million, respectively.

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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 2007 the General Fund's original budget was \$1.041 billion. That original budget was increased by \$37.0 million (3.6 percent) in supplemental appropriations.

The most significant budget revisions are described below:

- The Parks Department received a revision of \$9.3 million, increasing the budget in the Cumulative Reserve Unrestricted Subfund. Part of the budget revision was \$5.9 million for the acquisition of Discovery Park's Capehart Facility. Other revisions included the acceptance of \$2.7 million in grant funding that contributed to the following projects: Citywide and neighborhood projects, forest restoration, and playfields and facilities.
- The Fleets and Facilities Department received a revision of \$1.6 million, increasing the budget in the Cumulative Reserve Capital Project REET I Subfund. This revision supported the neighborhoods fire stations replacement program with \$1.1 million and the general government community-based facilities with \$0.5 million.
- The Police Department budget was revised, increasing it by \$12.5 million, including authorizing the acceptance of \$8.1 million for grants, \$0.7 million for the purchase of 10 new patrol cars, and \$1.2 million for the Police Department Information Technology Division to implement the handheld ticketing devices project.
- The Fire Department budget was increased by approximately \$4.0 million. This included authorizing the acceptance of \$2.8 million in grant funding and increasing appropriations \$0.57 million for retroactive pay increases and medical benefit adjustments for Local 2898 union members.
- At year-end 2007 actual expenditures were \$145.7 million less than budgeted. Of this amount, \$93.9 million of the budget was carried over into 2007 to cover outstanding encumbrances, grants, capital spending, and special carryovers.
- The City Council authorized 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 2007 over \$15.8 million in additional grant funds were appropriated. The majority of grant awards were to the Police, Fire, and the Cumulative Reserve Subfunds for the Parks Department.
- During the year budgetary revenue estimates exceeded actual revenues by \$50.8 million. Tax revenues exceeded the budget by \$47.9 million, Licenses and Permits exceeded the budget by \$4.7 million, Charges for Services exceeded the budget by \$6.3 million, and Fines and Forfeits exceeded estimates the budget by \$1.9 million. All other categories were less than budget.

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	
	2007	2006	2007	2006	2007	2006
Land	\$ 419,494	\$ 401,605	\$ 99,323	\$ 97,389	\$ 518,817	\$ 498,994
Plant in Service, Excluding Land	-	-	2,856,738	2,767,831	2,856,738	2,767,831
Buildings and Improvements	1,376,754	1,356,121	42,092	44,096	1,418,846	1,400,217
Machinery and Equipment	125,085	93,311	8,168	8,916	133,253	102,227
Infrastructure	587,456	479,914	-	-	587,456	479,914
Construction in Progress	229,233	248,063	273,533	230,226	502,766	478,289
Other Capital Assets	10,962	10,911	17,932	17,796	28,894	28,707
Total Capital Assets	\$ 2,748,984	\$ 2,589,925	\$ 3,297,786	\$ 3,166,254	\$ 6,046,770	\$ 5,756,179

Capital assets for governmental activities increased \$159.0 million in 2007. Major increases included the following:

The City of Seattle

- Seattle Center capitalized improvements to various facilities amounting to \$2.6 million and spent \$1.0 million for the purchase of machinery and equipment. Construction in progress amounted to \$3.8 million at the end of 2007, an increase of \$1.9 million over last year.
- The Library expended \$11.8 million for various library improvements/renovations, such as Broadview, \$5.3 million; Southwest, \$4.9 million; Queen Anne, \$0.7 million; University, \$0.8 million. Construction in progress at December 31, 2007, was \$25.2 million.
- The Parks Department completed construction of various community centers at a cost of \$4.4 million, such as Woodland Park Zoo Garage at \$1.8 million and various additions to existing buildings amounting to \$2.6 million. Additional costs of \$41.8 million were expended for park improvement projects; and several parcels of land were purchased at \$15.8 million, such as Discovery Park at \$4.0 million; Capitol Hill Park at \$3.1 million; Bellevue Substation at \$2.2 million; Hing Hay Park Addition at \$3.2 million; and others at \$4.9 million. Construction in progress at December 31, 2007, stood at \$4.0 million, a decrease of \$2.4 million over last year.
- The Department of Transportation capitalized \$136.3 million for various infrastructure assets (roads, bridges, sidewalks, land and land rights, signs, illuminations, and others). Streetcars, completed at a cost of \$7.6 million, were also capitalized. Construction in progress at December 31, 2007, was \$101.8 million.
- The Fleets and Facilities Department incurred \$1.0 million to complete additional construction of various City buildings. Land parcels were acquired for Asian counseling at \$0.6 million. Various city property improvements of \$3.6 million were made (Haller Lake, \$1.5 million; Seattle Municipal Tower, \$0.9 million; Charles Street, \$0.7 million; other facilities, \$0.5 million). Construction in progress at the end of December 31, 2007, was \$80.1 million.
- Machinery and equipment were purchased at a cost of \$14.0 million, \$13.3 million of which was for a large fireboat and a small fast attack boat built to accommodate equipment required by the Urban Areas Security Initiative to provide for chemical, biological, radiological, nuclear, and explosive events.

Capital assets for business-type activities increased \$131.5 million as follows:

- City Light capital assets increased by \$75.0 million in 2007. These increases were mainly for a) hydroelectric production plant, including the Ross circuit breaker, elevator and security systems governor control upgrade and installation of fall protection at Boundary Powerhouse, installation of irrigation system and backflow device at Newhalem, replacement of generator unit 24 transformer at Gorge Powerhouse, improvement of visitor house and road and other equipment purchased. b) Transmission Plant increased due to replacement of circuit breakers, relays, transmission lines, towers, construction of road and other transmission plant assets. c) Distribution Plant increased in substations equipment, poles, overhead conductors, and relocations, under grounding, conversion for network underground conduit for streetcar project, automated meter readers, transformers and streetlights. d) General Plant increased due to the purchased of vehicles and equipment, computer, communication equipment, structure improvement of visitor center at the Seattle Municipal Tower. Purchase Land /land easements for distribution plant.
- Drainage and Wastewater Utility capital assets increased by \$17.1 million. Major capital improvements included Pinehurst Natural Drainage System, rehabilitation of sewer/drainage pipes, upgrade of the Supervisory Control and Data Acquisition (SCADA) computer system for customer billing, and upgrade to the Operations Center Building. Construction work in progress amounted to \$47.3 million at December 31, 2007.
- Water Utility capital assets increased by \$43.0 million. Increases included new direct service meters and replacement meters at \$18.5 million, security improvements at a cost of \$10.6 million, new distribution watermain at \$5.8 million, several computer systems upgraded at a cost of \$4.9 million, upgrades to the SCADA system at \$2.5 million. Construction in progress at December 31, 2007, amounted to \$106.4 million.
- Nonmajor enterprise funds capital assets decreased by \$0.1 million due to transfer of construction in progress to expense and liability accounts. Capital assets increased by \$43.0 million in 2007. Major capital outlays included expansion and improvements at the North Recycling and Disposal Station, rehabilitation and purchase of new heavy equipment, improvements of Operation control Center, Main Warehouse and Security systems, technology enhancement and improvements, purchase of additional recycling containers. Construction in progress at December 31, 2007, amounted to \$14.7 million.

More detailed financial information about the City's capital asset activities is presented in Note 5 to the financial statements.

DEBT ADMINISTRATION

At the end of fiscal year 2007 the City had \$3.387 billion in outstanding bonded debt that included general obligation and revenue bonds, compared to \$3.463 billion in 2006. This represents a decrease of approximately \$75.7 million (2.2 percent). Additionally, the City issuance in 2006 of \$21.9 million special assessments bonds, without lending its full faith and credit but obligated in some manner, for the design and construction of the South Lake Union Streetcar, decreased to \$20.5 million. A maturity and bond call payment of \$1.4 million occurred in 2007 using the special assessment collections from property owners within the local improvement district.

In 2007 the City issued general obligation bonds to finance various capital improvement projects and ventures, including the Alaskan Way Tunnel/Sea Wall (\$3.8 million), Aquarium (\$4.9 million), Monorail Rehabilitation (\$4.3 million), Northgate Land Acquisition (\$3.0 million), Parking Pay Stations (\$3.3 million), and Zoo Garage (\$17.2 million). To take advantage of the prevailing low-interest rates in the year and to improve City cash flow, the same bond issuance included limited tax and unlimited tax refunding bonds of \$59.2 million and \$60.9 million respectively to refund \$60.8 million of the 1998 LTGO, Series F, and \$59.2 million of the 1999 UTGO, Series A, of the same order. The City also issued revenue bonds of \$82.2 million for the Solid Waste Utility capital improvement projects and refunding of \$3.4 million of the 1999 Solid Waste, Series B, revenue bonds, and for the full repayment of the 2003 line-of-credit revenue anticipation notes of \$23.6 million.

The City also partially defeased \$5.9 million of the 2003 LTGO bonds that provided financing for the McCaw Hall using its Seattle Center levy money of \$6.3 million.

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 tax general obligation debt is capped at 7.5 percent of assessed value by state law. The 2008 assessed value of taxable properties for the City is \$121.6 billion. At year-end 2007 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 \$924.0 million, well below the limit of \$9.1 billion rendering the City a legal debt margin of \$8.2 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 2007 the net outstanding limited tax general obligation was \$765.8 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 \$70.1 million at the end of the year. In addition, City utilities recorded \$24.7 million in estimated environmental liabilities. At the end of 2007 City Light had in its record \$4.7 million as obligation related to its purchased power commitments for the Lucky Peak project in Boise Idaho. 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

The City's 2008 budget reflects the strong economic environment in the Puget Sound region, which has now fully recovered from the recession early in the decade. This development allowed restoration of many valuable programs that were previously cut and to make investments in high-priority areas as mentioned in the transmittal letter.

General Subfund. Revenues are projected to grow at a rate of 3.5 percent in 2008. Tax revenues are expected to grow by 4.0 percent in 2008. The main drivers of this growth are the business and occupation (B&O) and sales taxes. The adopted 2008 forecast includes the effect of changes in state law that could reduce City B&O tax revenues by \$20 million, but includes the square footage tax designed to mitigate that loss. Those changes, along with an increase in the exemption threshold for small businesses, comprise a net 3.1 percent growth rate for 2008. Sales tax revenues, led by construction, hotel, and retail sales, are projected to grow by 3.8 percent in 2008. Sales by the Seattle Public Utilities are projected to increase utility taxes from these sources by 5.7 percent in 2008.

Utilities. City Light's 2008 budget includes funding to relocate and underground its infrastructure in conjunction with major transportation projects at the Mercer Corridor, Spokane Street Viaduct, and Aurora Avenue North. It also provides funding for mitigation, cyber security, and creation of a small group to manage compliance with the regulatory and system protection requirements of the newly created North American Electric Reliability Corporation (NERC).

The Seattle Public Utilities (SPU) continues to apply its asset management approach for selecting what capital projects to build and when, as well as for achieving efficiencies in its operating programs. The utility evaluates projects based on their economic, social, and environmental benefits, as well as the ability to meet customer service levels. This approach leads to the most economical balance between capital investments and operation and maintenance expenditures and minimizes life-cycle costs of utility assets.

The City added about 236 full-time-equivalent positions in 2007.

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).