

The City of Seattle **Washington**

Popular Annual **Financial Report** **December 31, 1998**

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1998 Popular Annual Financial Report

City of Seattle

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Executive Summary

This report provides an overview of the financial picture of the City. The information in it should be useful to anyone interested in a quick snapshot of the City's finances, such as Seattle citizens, the City's elected officials and other decision makers within the City system, and jurisdictions gathering comparative data.

Seattle has experienced strong economic growth over the past several years, which has translated into increasing tax revenues to the City. The City's general government revenues have risen on average over the past five years by 3.6 percent per year more than inflation (inflation averaged 3 percent per year), allowing for increased operating expenditures in public safety, transportation, parks, and other areas.

The increased revenues have also helped pay for additional general government capital expenditures for major maintenance, and for the principal and interest payments on \$424.7 million in general obligation debt issued over the past five years. Proceeds from the debt issuances have gone toward paying for needed infrastructure such as police facilities and general office space, for capital improvements to the City such as expansion of the Convention Center and construction of a downtown concert hall, and for increased basic services such as additional facilities for low income citizens and improvements to the transportation infrastructure.

One indication of the financial health of the City of Seattle is the upgrade the City received in 1998 from Moody's Investors Service to a Aaa debt rating on its voter-approved general obligation debt. Fewer than a dozen other large cities in the United States have this highest rating.

The City-owned utilities have also experienced some small growth in revenues and expenses above the general rate of inflation. Increased operating costs and expanding capital programs were, in general, the drivers of the increases to utility rates.

The City has begun a systematic, comprehensive process of gathering and reporting performance measures for each City department. By year-end 1999, the City will have information comparing actual performance to targeted performance in the City's most critical service areas. Highlights of these performance measure statistics will be included in next year's Popular Annual Financial Report.

The table on the next page provides an outline of the format and highlights of this report.

Table 1. Format and Highlights of Report

<u>Page</u>	<u>Topic</u>	<u>Highlights</u>
Page 3	Fund Structure of Seattle	Seattle uses three broad fund categories, with several fund-types and subfunds within each category, to manage and account for the City's finances. These three fund categories are Governmental, Proprietary, and Fiduciary Funds.
Pages 4-5	1998 General Government Revenue	General government revenue in 1998 totaled \$799.6 million. A rough measure of the annual per capita contribution (direct and indirect) to Seattle general government costs in 1998 is \$1,297.
Pages 6-7	1994-1998 General Government Revenue	General government revenue increased over the past five years by an annual average of 3.6% more than inflation. Most of this increase comes from sales taxes, B&O taxes, utility taxes, and property taxes.
Page 8	1998 General Government Expenditures	General government expenditures in 1998 totaled \$762.1 million, with about a third of this amount going toward public safety expenditures.
Page 9	1994-1998 General Government Expenditures	General government expenditures increased over the past five years by an annual average of 2.2% more than inflation. Most of this increase was in capital expenditures, debt service, and planning and development.
Page 10	1998 General Government Revenue, Expenditures, and Fund Balance	1998 revenues in the General Fund, the Special Revenue Funds, and the Debt Service Funds exceeded expenditures and net other financing uses by \$15.7 million, resulting in an increase to fund balances.
Page 11	1994-1998 City Utility Revenue	Utility revenues increased over the past five years by an annual average of 0.3% more than inflation. In 1998, the average residential monthly bill for all City utilities was \$99.22.
Page 12	1994-1998 City Utility Expenses	Utility expenses increased over the past five years by an annual average of 0.9% more than inflation.
Page 13	1998 Income Statement and Debt Service Coverage for City Utilities	City Light took a 6.2% loss in 1998, while the other City utilities generated positive net income. Each utility exceeded its legal requirement for debt service coverage.
Page 14	1994-1998 General Long-Term Debt Outstanding and Debt Capacity	General long-term debt outstanding increased from \$369.5 million in 1994 to \$664.6 million in 1998. Much of the debt issued in the recent past has come with its own new revenue sources, or has allowed the City to avoid future increases in operating costs.

Section 1. Fund Structure of the City of Seattle

The City maintains a variety of funds and subfunds to account for various revenues and expenditures. The use of multiple funds is necessary to ensure compliance with State budget and accounting rules and to promote accountability for specific projects or activities. Each of the City's funds and subfunds falls into one of three broad fund categories – Governmental Funds, Proprietary Funds, and Fiduciary Funds. Each of these categories of funds is discussed below.

The Governmental Funds category includes the four fund-types that provide the financing for all of the City's basic services. These four fund-types are the General Fund, the Special Revenue Funds, the Debt Service Funds, and the Capital Projects Funds.

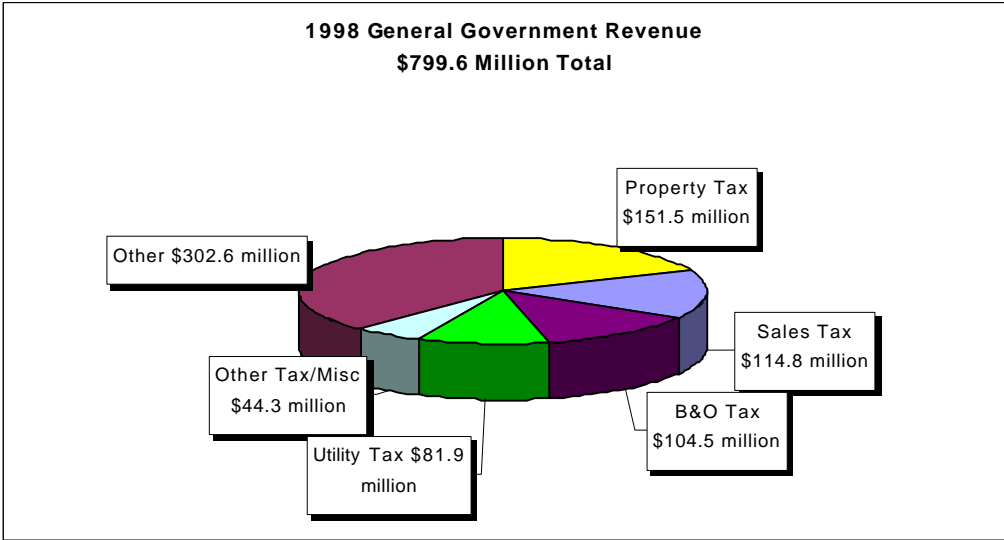
- The General Fund is the primary operating fund of the City. It accounts for all financial resources except those required to be accounted for in another fund. It derives the majority of its revenues from property, sales, business, and utility taxes.
- Special Revenue Funds account for certain revenues, such as specific taxes and grants, that are legally restricted to be spent for specified purposes. Financing of many of the City's basic services is accounted for in Special Revenue Funds. For example, parks operations, transportation maintenance and improvements, the City's libraries, and the Seattle Center all have their own Special Revenue Funds.
- Debt Service Funds account for the accumulation of resources to pay principal, interest, and related costs. Most of the activity in these funds occurs in the General Bond Interest and Redemption Fund, which receives money from excess property tax levies to pay debt service on voter-approved general obligation bonds, and receives money from the General Fund and other funds to pay debt service on councilmanic limited tax general obligation bonds.
- Capital Projects Funds account for financial resources which are designated for the acquisition or construction of general government capital improvements. Examples of Capital Project Funds include the Seattle Center Redevelopment/Parks Community Center Fund, the Transportation Bond Fund, and the Open Space and Trails Fund. For the funds whose projects are financed with City debt, the debt proceeds are deposited in and spent from these funds, and the debt service is paid from the Debt Service Funds.

The Proprietary Funds category includes two fund-types – the Enterprise Funds and the Internal Service Funds.

- Revenues and expenditures of each of the City's four rate-funded utilities (Light, Water, Drainage and Wastewater, and Solid Waste) flow through an Enterprise Fund. Each utility is financed and operated as a business-like enterprise, which requires periodic determination of revenues earned, expenses incurred, and net income. In addition, a fifth Enterprise Fund was established in 1998 to track revenues and expenses of the new City-owned Downtown Parking Garage.
- Internal Service Funds account for operations that provide goods or services to other City departments or other governments on a cost-reimbursement basis. The City has two Internal Service Funds. The Executive Services Fund accounts for finance, personnel, fleet, facilities, technology, contracting, and budget services to all City departments. The Engineering Services Fund accounts for the design, construction, and management services performed for various capital improvement projects.

Finally, the Fiduciary Funds category consists of trust and agency funds. Trust funds, including pension, expendable, and nonexpendable trusts, account for resources held by the City which must be spent as provided in legal trust agreements and related state laws (for example, retirement and pension funds). Agency funds account for assets held for other funds, governments, or private individuals.

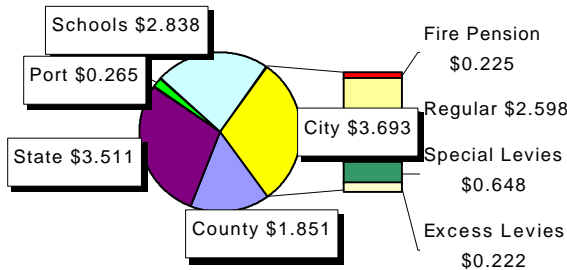
Section 2. 1998 General Government Revenue



The City's general government revenue in 1998 totaled \$799.6 million. This included revenue to the City's General Fund, Special Revenue Funds, and Debt Service Funds. Revenue was composed of the following elements:

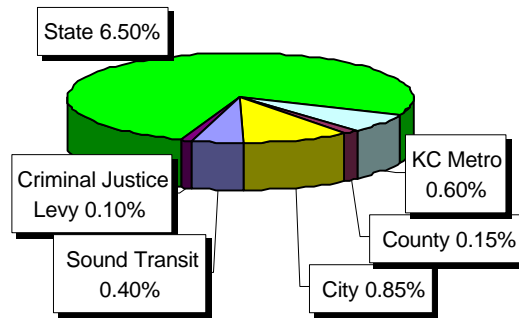
- Property tax accounted for \$151.5 million of 1998 general government revenue, or 19% of the total. This figure included revenue from (1) Seattle's 1998 regular levy rate for general purposes of \$2.598 per \$1,000 of assessed value (AV), (2) a 1998 rate for excess levies approved by Seattle voters in the 1960's and 1970's of \$0.222 (for debt service on long-term bonds for fire stations, neighborhood improvements, Seattle Center, police precincts, sewers, and other improvements), and (3) a 1998 rate for special levies approved in the 1990's by Seattle voters of \$0.511 (for the Families and Education Levy and the Low Income Housing Levies). In addition to the general government revenue, Seattle received property tax revenue in 1998 from a \$0.137 special levy rate for the Seattle Center Redevelopment/Parks Community Center Levy (deposited into a Capital Projects Fund), and from a \$0.225 fire pension rate for the Firemen's Pension Fund (deposited into a Fiduciary Fund).
- The City's 1998 property tax rate totaled \$3.693 per \$1,000 AV. For a \$188,700 home (the 1998 Seattle average residential AV), this translates into a \$696.87 tax burden in 1998. As shown in the figure below, Seattle's \$3.693 tax rate is about a third of the total \$12.158 combined property tax rate of all the tax districts that overlap the City. The revenue from the remaining rate goes to King County, the State (for distribution to school districts), the Port of Seattle, and the public schools.

1998 Overlapping Property Tax Rates
(Total = \$12.158 per \$1,000 AV)



- Sales tax generated \$114.8 million in 1998 Seattle general government revenue, or 14% of the total. The overall sales tax rate in Seattle is 8.6% (9.1% for restaurant and bar sales). As shown in the figure below, Seattle's share of this rate is 0.85%. Revenue from the remaining rate goes to the State (6.5%), King County Metro Transit (0.6%), King County (0.15%), Sound Transit (0.4%), and the King County Criminal Justice Levy (0.1%). Seattle gets its share of the revenues from the King County Criminal Justice Levy based on population.

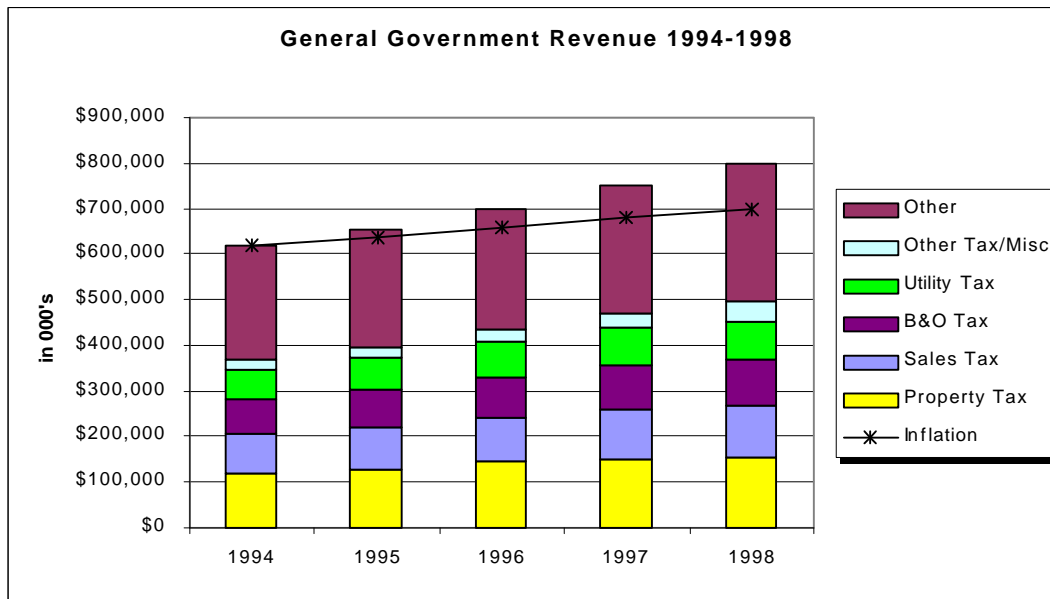
1998 Overlapping Sales Tax Rate (total = 8.6%)



- Seattle's Business and Occupation (B&O) tax generated \$104.5 million in 1998 general government revenue, or 13% of the total. The City levies the B&O tax on the gross receipts of most business activities occurring in Seattle. The B&O tax rate is 0.415% for services and 0.215% for most other economic activities except for grain wholesaling and flour manufacturing, which are taxed at 0.0215%.
- The utility B&O tax generated \$81.9 million in 1998 general government revenue, or 10% of the total. The City levies a 6% tax rate on City Light's gross receipts and a 10% rate on the receipts of the other rate-funded public utilities (Water, Solid Waste, and Drainage and Wastewater). The utility B&O tax rate on private utilities also ranges from 6% to 10%, with the 6% rate levied on telephone, natural gas, and steam gross receipts, and the 10% rate levied on cable communications and commercial refuse.
- Other taxes and miscellaneous charges generated \$44.3 million in 1998 general government revenue, or 6% of the total. Included in this category are the real estate excise tax, admission tax, leasehold excise tax, gambling tax, and boat excise tax.
- The remaining \$302.6 million, or 38% of total revenue, in the "Other" category included the following:
 - ◆ \$32.5 million from licenses and permits, e.g., occupational licenses and building permits.
 - ◆ \$99.6 million from government and private grants, and shared revenues.
 - ◆ \$68.6 million from charges for services, including billings between City funds, and external billings for recreational program fees, charges for inspection, utility cuts, etc.
 - ◆ \$17.7 million from fines and forfeitures, primarily court fines and costs, and bail forfeitures.
 - ◆ \$84.2 million from other miscellaneous sources, e.g., interest earnings, space rent, and parking fees.

If, as a simplifying assumption, we assume that tax costs assessed to Seattle businesses are eventually passed along to Seattle citizens, we can use the information above to develop a per capita statistic for the annual direct and indirect general government revenues received from Seattle residents. In 1998, Seattle's population was estimated to be 539,700. Dividing this figure into \$700 million (total general government revenue, minus \$99.6 million for government and private grants and shared revenue) results in an annual per capita contribution (direct and indirect) to Seattle general government costs of \$1,297, or 3.4 cents on each dollar of personal income (using the 1998 King County per capita income figure of \$38,479).

Section 3. 1994-1998 General Government Revenue



Over the five-year period from 1994-98, the increase in general government revenue exceeded inflation by an average of about 3.6% annually.

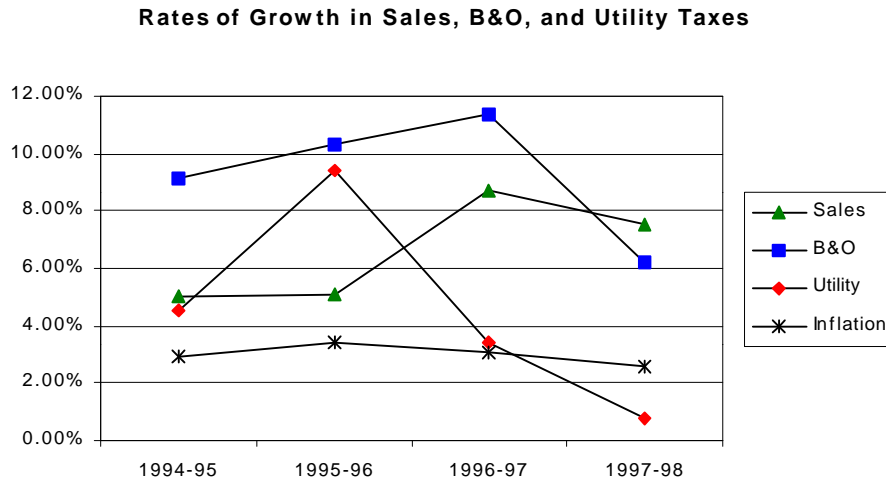
- 1998 Property tax revenue to the General Fund, Special Revenue Funds, and Debt Service Funds was \$19.0 million higher than inflation-adjusted 1994 property tax revenue, with the largest increase occurring in the regular property tax revenue. State law permits regular property tax revenue to increase by up to 6% per year (plus taxes attributable to the value of property improvements and new construction), if a majority plus one vote of the city legislative authority makes a finding of substantial need for the rate increase to exceed inflation (this additional clause was added to the law in 1997). The City Council made this finding in 1997 and 1998, and this increase along with increases from new construction resulted in regular property tax revenue growing faster than inflation.
- The table below shows the City property tax rate (per \$1,000 AV) from the past five years. The City’s share of the County’s Emergency Medical Services (EMS) levy is included in the City rate (the EMS levy failed in 1998, but was restored for 1999). The total City rate did not increase as much as the City property tax revenue because assessed values upon which these rates were levied were also rising.

Table 2. City Property Tax Rates (per \$1,000 Assessed Value)

Year	General	EMS	Special Levies	Excess Levies	Fire Pension	Total
1994	2.076	0.250	0.599	0.060	0.297	3.282
1995	2.203	0.250	0.396	0.290	0.315	3.454
1996	2.451	0.250	0.610	0.291	0.225	3.827
1997	2.574	0.250	0.607	0.285	0.225	3.941
1998	2.598	0.000	0.648	0.222	0.225	3.693

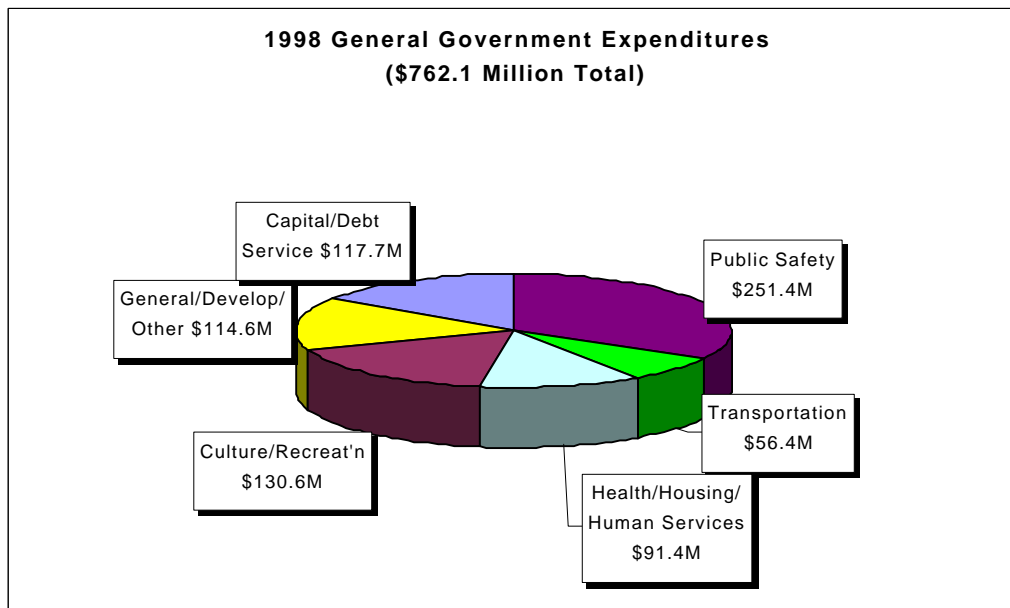
- Strong economic growth in the Seattle region has helped cause sales tax revenue, B&O tax revenue, and utility tax revenue to rise by \$41.1 million more than inflation over the past five years. B&O tax revenue has also increased as a result of improved enforcement of this tax. And, the growth in telecommunications services has been a factor in the growth of utility tax revenue.

- The chart below shows the annual rates of growth of sales tax revenue, B&O tax revenue, utility tax revenue, and the general inflation rate. Except for the utility tax revenue in 1998, the rates of growth of each of these tax revenues exceeded the general inflation rate in each year. B&O tax revenue growth was the strongest, averaging 9.3% per year. For each tax, the 1998 revenue growth rate was lower than that of the prior year, indicating a slowdown in economic growth.



- “Other Tax and Miscellaneous” revenue was \$19.5 million higher than inflation-adjusted 1994 revenue. Most of this increase came from the Real Estate Excise Tax. Increases in volume of real estate sales and the prices of real estate resulted in a significant rise in the revenue from this tax -- from \$10.4 million in 1994 to \$25.5 million in 1998.
- “Other” revenue in 1998 was \$23.4 million higher than inflation-adjusted 1994 revenue. This increase was a combination of real increases in revenue from licenses and permits, grants and shared revenue, and miscellaneous other revenues, partially offset by real decreases in charges for services, and fines and forfeitures.

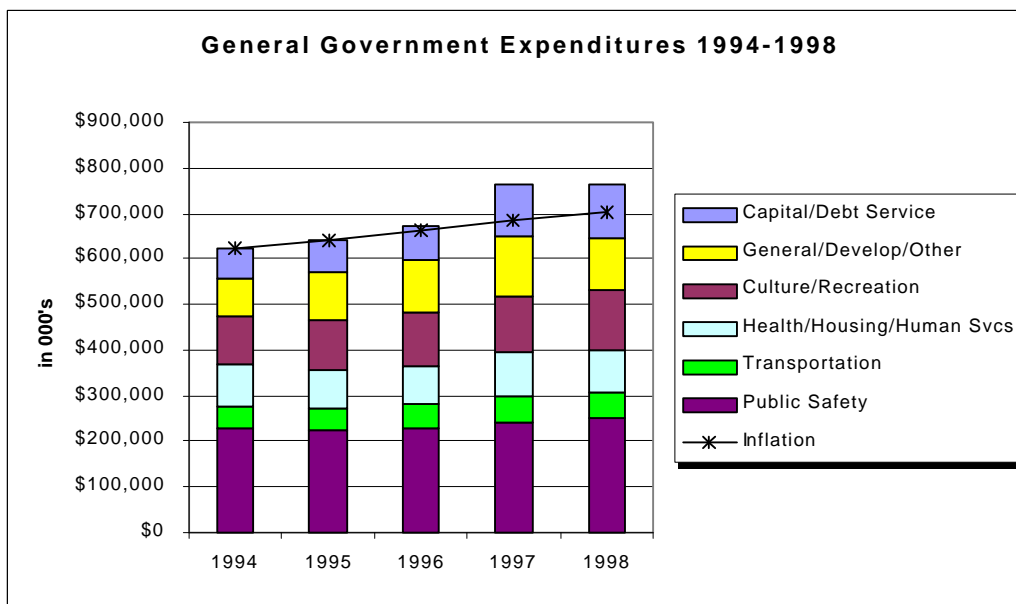
Section 4. 1998 General Government Expenditures



In 1998, government expenditures from the General Fund, Special Revenue Funds, and Debt Service Funds totaled \$762.1 million.

- 33%, or \$251.4 million, was spent on public safety. Expenditures in this category cover law enforcement, community policing and crime prevention, the municipal criminal justice system, fire protection and prevention, emergency medical services, hazardous materials control, and emergency management.
- 7%, or \$56.4 million, was spent on transportation, including the costs to maintain, repair, and upgrade the City's bridge and street systems; install and maintain traffic control signals, signs, and markings; and administer rideshare and related alternative transportation programs.
- 12%, or \$91.4 million, was spent on health, housing, and human services. This category includes the City's low income housing programs, and the City's support and resources to community agencies that provide youth development, child care, Head Start, elderly care, food banks, and shelters. It also includes expenditures to promote the general health of City residents with an increasing focus on health promotion and disease prevention.
- 17%, or \$130.6 million, was spent on culture and recreation, including the City's parks, libraries, Seattle Center, the Woodland Park Zoo, and the Seattle Aquarium.
- 15%, or \$114.6 million, was spent on general government, planning and development, and physical environment. This category includes a variety of administrative functions necessary to develop City policies, direct the work force, manage the City's financial resources, and deliver services to customers. This category also includes expenditures to protect and enhance Seattle's physical environment, such as (1) the costs of land use code development and enforcement, (2) review, permitting, and inspection of new construction, and (3) Department of Neighborhoods work to help preserve and enhance Seattle's diverse neighborhoods.
- 16%, or \$117.7 million, was spent directly on capital expenditures and indirectly on capital purchases via debt service payments in support of the functions above.

Section 5. 1994-1998 General Government Expenditures



Overall, the increase in general government expenditures exceeded inflation by an average of about 2.2% per year over the past five years.

- Public safety expenditures increased by \$3.4 million less than inflation over the five-year period. This drop was caused by a change in categorization of \$10.4 million in expenditures in 1995 away from public safety to general (\$8.2 million) and to transportation (\$2.2 million). After adjusting for this shift, public safety expenditures increased at roughly the rate of inflation from 1994 to 1996, then exceeded inflation growth in 1997-98. These recent increases were reflective of negotiated labor agreements, overtime, and the transfer of the Emergency Management Section from the Executive Services Department to the Police Department.
- 1998 transportation expenditures were \$2.1 million more than inflation-adjusted 1994 expenditures. Prior to 1997, transportation expenditures were declining in real terms due to declines in gas tax revenue and the loss of the street utility fee. In 1997, expenditures increased 14% when the City approved replacement funding to offset declines in other revenue sources.
- 1998 health, housing, and human services expenditures were lower than in 1994, even before adjusting for inflation. This decrease is partially caused by a change in categorization of \$1.3 million in costs from this category to general costs. In 1997, expenditures increased by \$9.0 million, mostly in the Low Income Housing Fund and Community Development Block Grant spending, but fell in 1998 to roughly 1994 levels.
- Culture and recreation 1998 expenditures were \$7.2 million more than inflation-adjusted 1994 expenditures. Over this time period, several new community centers were opened, and the Parks Department began to manage the Seattle Conservation Corps.
- General, planning and development, and physical environment expenditures in 1998 were \$21.9 million more than inflation-adjusted 1994 expenditures. Part of this increase is explained by the change in categorization of \$8.2 million in costs in 1995 from public safety to general government, and an additional transfer of \$1.3 million in costs in 1995 from the human services category to general. The remaining increase is a result of various changes, including developing a new financial management system that is year 2000 compliant, purchase of Key Tower and Park 90/5 property, increased costs at Sand Point, and implementing new neighborhood programs and projects.
- Capital outlay and debt service expenditures were \$44.9 million more than inflation-adjusted 1994 figures. See page 14 for a discussion of recent capital expenditures.

Section 6. 1998 General Government Revenue, Expenditures, and Fund Balance

The table below is a summary statement of 1998 revenue, expenditures, and fund balances for the General Fund, the Special Revenue Funds, and the Debt Service Funds. Revenue exceeded expenditures and net other financing uses by \$15.7 million, resulting in an increase to fund balances.

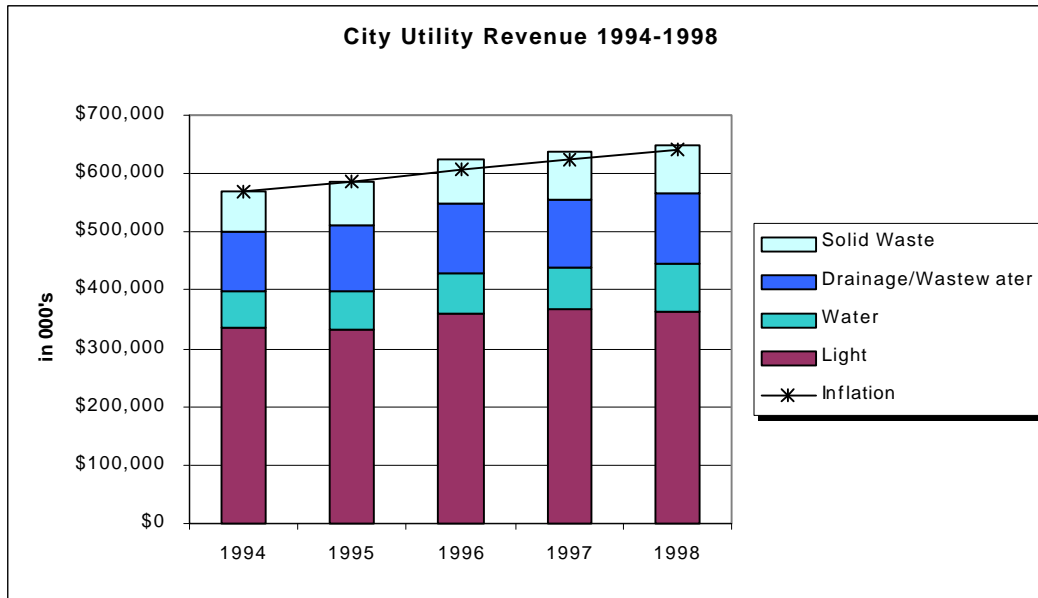
Table 3. 1998 General Government Revenue, Expenditures, and Fund Balances (in \$000's)

	General Fund	Special Revenue Funds	Debt Service Funds
Revenue			
Taxes	441,769	45,378	9,893
Other	113,358	184,402	4,797
Total Revenue	555,127	229,780	14,690
Expenditures			
Current	344,643	299,756	0
Capital outlay	27,829	30,692	0
Debt service	92	1,641	57,466
Total Expenditures	372,564	332,089	57,466
Other Financing Sources (Uses)			
Proceeds of long-term debt/refundings	0	9,920	191
Sales of fixed assets	1,925	315	0
Net Operating transfers in (out)	(185,508)	109,863	41,468
Total Other Financing Sources (Uses)	(183,583)	120,098	41,659
Change to Fund Balances	(1,020)	17,789	(1,117)
Beginning of Year Fund Balances	117,927	88,338	10,783
Adjustments	0	(12,931)	0
Fund Balances – Year End	116,907	93,196	9,666

Almost three-quarters of the total 1998 General Fund year-end fund balance was held in three of the 14 General Fund Subfunds:

- The General Fund Subfund of the General Fund handles most of the revenue and expenditures covering traditional general government activities. Its 1998 year-end fund balance was \$24.6 million, most of which was reserved for funding of prior year commitments.
- The Cumulative Reserve Subfund of the General Fund is a reserve fund authorized under State law and is used to accumulate money until it is spent, primarily for maintenance and development of City capital facilities. Fund balance in this subfund at year-end 1998 totaled \$44.2 million, most of which was committed to funding ongoing, multi-year capital projects.
- The Emergency Subfund of the General Fund is the City's principal emergency reserve fund. This fund is available to pay for unanticipated expenditures, such as those associated with natural disasters, mandatory expenditures required by recent changes in laws, and other unanticipated expenses. City policy calls for the Emergency Subfund to be funded to the legal maximum at the beginning of each year. At year-end 1998, the Emergency Subfund fund balance was \$15.8 million. The 1999 budget includes a \$1.3 million contribution to this reserve fund in order to bring it up to its legal maximum of \$17.2 million based on 1998 assessed valuations.

Section 7. 1994-1998 City Utility Revenue



Utility operating revenue from sales and service fees increased from \$569.6 million in 1994 to \$647.7 million in 1998. This represents an average annual increase of 0.3% more than inflation.

Stated in terms of the cost burden on Seattle residents, the 1998 average residential monthly bill from City Light was \$36.33, and the average single family residential monthly bills for water, solid waste, and drainage/wastewater were \$14.65, \$20.35, and \$27.89, respectively.

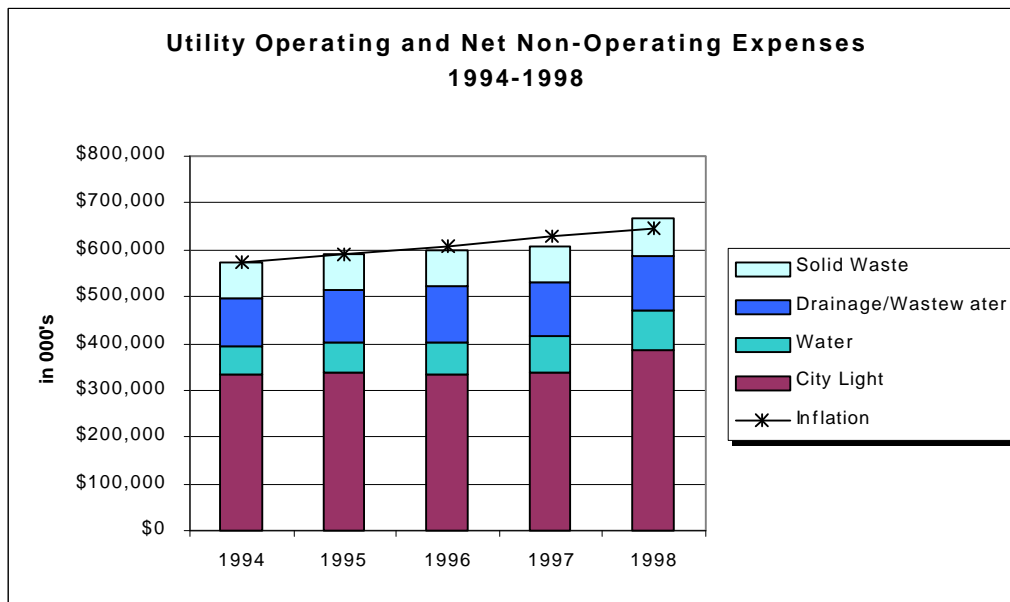
City Light revenue increased from \$335.1 million in 1994 to \$363.9 million in 1998. This rate of growth in revenue was an average of 0.9% per year less than the general inflation rate. City Light rates increased each year from 1994-1996, then decreased in 1997 and 1998.

Water revenue increased from \$62.6 million in 1994 to \$82.8 million in 1998. This rate of growth in revenue was an average of 4.3% per year greater than the general inflation rate. Water rates increased each year in the 1994-1998 period.

Drainage and Wastewater revenue increased from \$102.0 million in 1994 to \$120.7 million in 1998. This rate of growth in revenue was an average of 1.3% per year greater than the general inflation rate. Drainage and wastewater rates increased each year in the 1994-1998 period.

Solid Waste revenue increased from \$69.8 million in 1994 to \$80.2 million in 1998. This rate of growth in revenue was an average of 0.5% per year greater than the general inflation rate. Solid Waste rates have not increased since 1994, but increased commercial and transfer station tonnage has resulted in increased revenues.

Section 8. 1994-1998 City Utility Expenses



Utility operating and net non-operating expenses (where “net non-operating expenses” is defined as interest income and other non-operating income less interest expense and other non-operating expense) increased from \$572.8 million in 1994 to \$668.6 million in 1998. This represents an average annual increase of 0.9% more than inflation.

- City Light expenses increased from \$335.8 million in 1994 to \$386.5 million in 1998. This rate of growth in expenses was an average of 0.6% per year greater than the general inflation rate. Depreciation and interest expenses went up due to an expanded capital program, and general operating and maintenance costs also increased. These increases were partially offset by net power purchase costs that rose by less than inflation over the five-year period.
- Water expenses increased from \$59.8 million in 1994 to \$82.5 million in 1998. This rate of growth in expenses was an average of 5.4% per year greater than the general inflation rate. Expenses grew faster than inflation due to start up costs for consolidating the City utilities’ customer service functions, a change in financial policies that resulted in paying off certain capital costs more quickly than before, and an expanded capital program that resulted in higher interest expenses and depreciation.
- Drainage and Wastewater expenses increased from \$100.9 million in 1994 to \$118.7 million in 1998. This rate of growth in expenses was an average of 1.1% per year greater than the general inflation rate. This increase was due mostly to increases in sewage treatment costs associated with the upgrade of King County’s sewage treatment system to secondary-level treatment.
- Solid Waste expenses increased from \$76.4 million in 1994 to \$81.0 million in 1998. This rate of growth in expenses was an average of 1.5% per year less than the general inflation rate. Renegotiating the utility’s longhaul contracts achieved lower costs, and interest costs and amortization expenses fell during this period. Interest costs and amortization expenses in this utility are largely attributable to the landfill closure costs incurred in the late 1980s. As the landfill closure bonds are paid off, interest expenses fall. And, since the annual amortization cost of landfill closure is constant over time, it declines over time in inflation-adjusted dollars.

In addition to meeting operating and non-operating expenses (including interest on outstanding debt), each utility’s revenues must be sufficient to pay the principal on its outstanding debt and make a cash contribution to its capital improvement program. Some examples of capital projects underway include maintenance and improvements to existing infrastructure, new sources of water supply, additional water quality treatment of existing water supplies, and various conservation and recycling programs.

Section 9. 1998 Income Statement and Debt Service Coverage for City Utilities

One important indicator of the current financial health of the City's utilities is the difference between current revenues and current expenses, or net income. As can be seen from the table below, City Light took a loss in 1998, and the other City utilities generated positive net income.

Table 4. Income Statement for the City's Utilities (in \$000's)

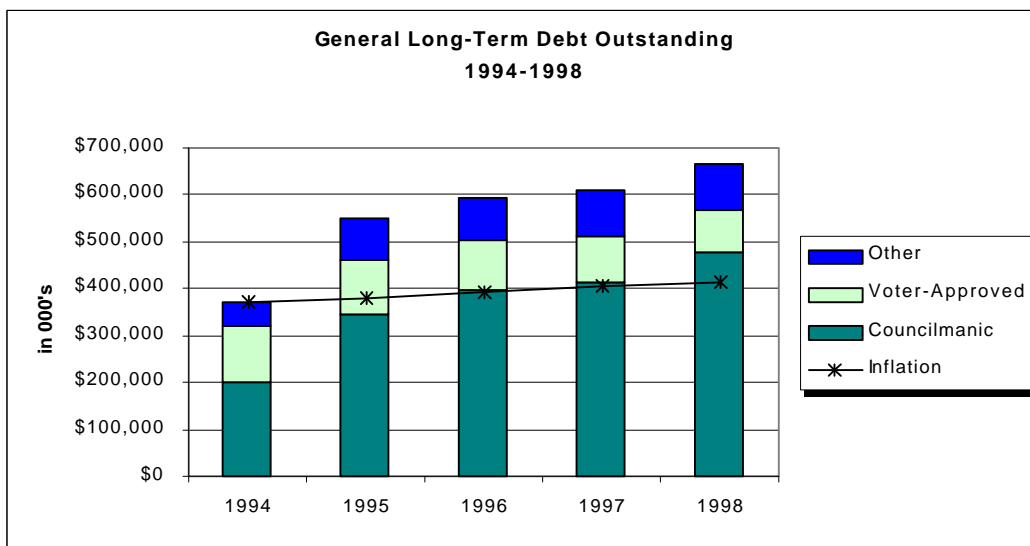
	Light	Water	Drainage and Wastewater	Solid Waste
Operating Revenue	363,913	82,847	120,706	80,244
Operating Expenses:				
Operations and Maintenance	99,348	23,828	90,656	52,703
Net Purchased/Interchanged Power	97,105	0	0	0
Administrative and General	37,832	15,080	4,065	5,853
Billing and Collecting	20,594	3,833	3,769	3,762
Taxes	38,162	8,489	13,227	11,758
Depreciation and Amortization	54,213	18,617	6,119	4,633
Total Operating Expenses	347,254	69,847	117,836	78,709
Nonoperating Revenues (Expenses)				
Investment Income	7,223	2,486	1,836	191
Interest Expense	(39,888)	(14,165)	(3,140)	(2,830)
Other	(6,570)	(931)	446	370
Total Nonoperating Revenues (Expenses)	(39,235)	(12,610)	(858)	(2,269)
Operating Transfers	0	0	0	1,450
Net Income (loss)	(22,576)	390	2,012	716
Net Income Percentage	(6.2%)	0.5%	1.7%	0.9%

Another important financial indicator for the utilities is the debt service coverage ratio. This ratio measures how many times available revenue covers annual debt service payments, with "available revenue" generally defined as gross revenue less operating expenses exclusive of City taxes and depreciation. So, for example, if the actual debt service coverage ratio for a City utility is 1.5, that means the utility generated sufficient revenue to pay its operating expenses (excluding depreciation and City taxes) and had enough left over to cover 150% of its debt service payment in that year. The table below shows the City utilities' legal debt service coverage requirements, policy targets as set by the City, and actual debt service coverage ratios in 1998. In all cases actual ratios are comfortably above legal minimums. With respect to policy targets, City Light came in somewhat below its target, while the other utilities exceeded their targets.

Table 5. Debt Service Coverage Ratios for the City's Utilities (First Lien Debt)

Debt Service Coverage	City Light	Water	Drainage and Wastewater	Solid Waste
Legal	1.0	1.25	1.25	1.25
Policy Target	1.8	1.7	1.5	1.5
1998 Actual	1.5	2.0	3.6	3.4

Section 10. General Long-Term Debt Outstanding and Debt Capacity



One of the general government expenditures noted on page 9 of this report is debt service (principal plus interest) on outstanding debt. General long-term debt outstanding increased from \$370 million in 1994 to \$664.6 million in 1998. Of the \$664.6 million in outstanding general long-term debt, \$476.9 million (including interest due) was Councilmanic bonds, or debt that can be issued by the City without voter approval. Voter-approved outstanding debt totaled \$90.7 million, and “other” debt (notes, contracts, and other liabilities such as compensated absences) totaled \$97.0 million.

Most of the increase in outstanding debt over the past five years is the result of increased Councilmanic bonds. From 1994-1998, the City issued \$424.7 million in Councilmanic bonds for various capital projects, including reconstructing the Seattle Center Coliseum (now the KeyArena), developing public safety facilities, acquiring Key Tower, constructing a downtown concert hall, developing low-income housing facilities, redeveloping land and infrastructure at Sand Point, supporting the State’s expansion of the Convention Center, improving the transportation infrastructure, and acquiring the Pacific Place Garage. Much of the debt issued in the past five years has come with its own revenues source (e.g., parking fees from the new Pacific Place Garage; revenue from KeyArena), or is expected to offset higher costs that would have been incurred without the purchase (e.g., purchase of Key Tower for City office space instead of rehabilitating existing City buildings).

The current outstanding voter-approved debt is the remaining principal on long-term debt issued in the 1960’s and 1970’s. In 1999, Seattle will issue approximately \$100 million of the \$196.4 million voter-approved bonds authorized in November 1998 for the “Libraries for All” capital program, to be repaid from excess property taxes.

The debt capacity table below shows the total legal debt capacity for City general purpose and special purpose debt, and remaining legal debt capacity. As can be seen from the table, the area where the City is most constrained from a legal perspective is in its ability to issue additional Councilmanic (non-voted) debt.

Table 6. Legal Debt Capacity as of Year-End 1998 (in \$000’s)

	General Capacity		Special Purpose Capacity (Voter Approved)		Total
	Councilmanic	Voter-Approved	Open Space/Parks	Utility Purposes	
Legal Limit	768,564	512,376	1,280,941	1,280,941	3,842,822
Less Debt Outstanding:					
Bonds	(476,928)	(47,654)	(6,022)	(37,009)	(567,613)
Other*	(98,449)	0	0	0	(98,449)
Plus Assets, Misc	14,083	219	0	0	14,302
Remaining Legal Capacity	207,270	464,941	1,274,919	1,243,931	3,191,062

* includes leases, guarantee on PDA bonds, and compensated absences

Attachment. Backup CAFR Numbers for Popular Financial Report

	1995	1996	1997	1998
Inflation - annual	2.90%	3.40%	3.10%	2.60%
(Seattle-Tacoma-Bremerton Consumer Price Index - Urban Wage Earners and Clerical Workers)				

Revenues (in \$000's)

	1994	1995	1996	1997	1998
Property Tax	117,717	127,353	142,911	151,289	151,532
Retail Sales Tax	88,977	93,458	98,196	106,739	114,805
B&O Tax	73,355	80,056	88,350	98,369	104,482
Utility B&O Tax	68,757	71,891	78,664	81,333	81,934
Other Taxes	22,049	23,804	27,835	34,030	44,287
Total Taxes	370,855	396,562	435,956	471,760	497,040
Licenses and Permits	19,768	23,717	24,242	29,436	32,465
Grants and Shared Revenues	76,483	81,521	72,178	76,024	99,615
Charges for Services	82,426	86,016	74,516	79,540	68,602
Fines and Forfeits	17,404	18,342	17,049	17,837	17,717
Miscellaneous	51,929	48,458	73,095	75,915	84,158
Total General Government	618,865	654,616	697,036	750,512	799,597
City Light	335,113	332,185	359,732	366,138	363,913
Water	62,605	65,401	68,941	71,956	82,847
Drainage/Wastewater	102,044	114,458	121,151	119,364	120,706
Solid Waste	69,846	75,221	76,311	79,221	80,244
Total Utility Operating Revenue	569,608	587,265	626,135	636,679	647,710

Expenditures (in \$000's)

	1994	1995	1996	1997	1998
General Gov't	50,083	66,403	77,617	85,747	59,814
Public Safety	226,429	224,217	229,871	242,431	251,429
Physical Environment	187	193	185	184	184
Transportation	48,264	48,831	48,929	55,760	56,432
Housing/Human Services	76,480	64,203	71,679	80,336	75,454
Planning/Development	32,142	38,481	35,273	41,929	54,618
Health	15,520	17,975	15,728	16,085	15,896
Culture/Recreation	109,645	111,787	116,631	125,361	130,572
Capital Outlay	38,163	39,807	39,751	60,124	58,521
Debt Service	25,446	29,048	38,342	54,884	59,199
Total General Government	622,359	640,945	674,006	762,841	762,119
City Light	335,760	336,699	335,390	339,709	386,489
Water	59,764	64,483	67,486	74,402	82,457
Draining/Wastewater	100,900	112,282	118,598	115,135	118,694
Solid Waste	76,370	78,249	78,914	80,260	80,978
Total Utility Expenses	572,794	591,713	600,388	609,506	668,618

NOTE: 1996 BAN repayment excluded from expenditures.

Outstanding General Debt (in \$000's)

	1994	1995	1996	1997	1998
Limited G.O. Bonds	202,650	347,575	398,170	413,680	476,928
Unlimited G.O. Bonds	118,435	112,575	106,355	99,750	90,685
Other Long-term debt*	48,388	89,515	90,575	95,369	97,022
Total	369,473	549,665	595,100	608,799	664,635

*notes and contracts, compensated absences, claims payable