

# City of Seattle

## 2021 Financial Condition Report

**October 21, 2022**

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**Seattle**  
**City Finance Division**

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### ACKNOWLEDGEMENTS

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### DISCLAIMER

This report is provided as of October 21, 2022, the date of publication. The financial data and other information provided herein are not warranted as to completeness or accuracy **for purposes of federal securities laws and regulations** and are subject to change without notice. Since the date of publication, there may have been events that occurred subsequent to such date that would have a material adverse effect on the financial information that is presented herein.

**The information herein has NOT been prepared in conjunction with any offering of bonds or other securities by the City and is NOT intended to inform any investment decision by any current or potential future bondholder.** Nothing in these materials constitutes an offering document or is intended to supplement or amend any offering document. In no event shall the City be liable for any use by any party of, for any decision made or action taken by any party in reliance upon, or for any inaccuracies or errors in, or omissions from, the information contained herein.

## Executive Summary

This report provides members of the public and public officials with information on the City of Seattle’s (City) financial condition. The report uses information from the City’s Annual Comprehensive Financial Reports (ACFRs), among other sources, and compiles the information for a broad audience. The report also provides ten years or more of data for several of the financial and economic indicators analyzed, allowing public officials and the public to see historical trends and identify areas that may need attention.

The development and publication of City financial condition reports was originally a responsibility of the City Auditor as required by Ordinance 125204, which was passed by the Seattle City Council on November 21, 2016. The City Auditor’s most recent report was published on May 13, 2019. This responsibility was transferred to the City Finance Director by Ordinance 126395, passed on July 19, 2021.

### WHAT IS FINANCIAL CONDITION?

A city in good financial condition can meet its financial obligations on a continuing basis. It can maintain existing service levels, withstand economic disruptions, and respond to economic growth, decline, and change. A financially healthy government collects enough revenues to pay short-term bills, finance capital expenses, and meet long-term obligations without transferring disproportionate costs to future periods.

### MONITORING FINANCIAL CONDITION

Most of the financial and economic indicators used in this report continue the analysis from prior reports published by the City Auditor. In this report, information is presented in four key areas:

1. Revenues and Expenses
2. Debt
3. Pension Liabilities
4. Financial and Operating Position

To account for inflation in this report, most financial data is expressed in constant 2021 dollars. When we adjusted data for inflation, we noted the adjustment.<sup>1</sup>

### SUMMARY OF INDICATORS

Notwithstanding the disruption caused by the economic impact of the COVID-19 pandemic, the City of Seattle’s financial and economic indicators presented in this report are positive.

Apart from 2020, revenues have exceeded expenses for the last ten years. The City’s revenues are diversified, and this has afforded the City some protection from the 2020 economic downturn, as has been the case for the City in weathering past economic downturns and recessions. While the recession significantly affected business activity in the region and decreased sales and business tax revenues available to the City by about 17.1 percent on an inflation-adjusted per capita basis, stable property tax revenues and federal support to state and local governments—particularly from the federal Coronavirus

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<sup>1</sup> See “Adjusting for Inflation” in the Appendix for more information.

Aid, Relief, and Economic Security Act (CARES Act)—held revenues steady during the height of the pandemic.

The City also incurred significant operating expenses as part of its active response to the COVID-19 pandemic to address emerging needs and provide for widespread access to vaccines. During this time, the City remained committed to completing significant construction projects such as the Central Waterfront and the emergency repairs to the West Seattle Bridge.

The City made extensive use of its emergency and revenue stabilization reserves during the COVID-19 pandemic consistent with the uses for which these were intended. The City drew down the combined balance of these funds from \$123 million at the end of 2019 to \$40 million at the end of 2021. The City's financial policies provide a pathway for the City to follow in 2022 regarding their replenishment.

Despite the fiscal challenges created by the pandemic, the City's general obligation bonds continue to have the highest credit rating possible from the three major rating agencies: Moody's Investors Service, Fitch Ratings, and Standard & Poor's (S&P), all of which were reaffirmed throughout the COVID-19 downturn and maintain this highest level at the time of this report.

The long-term trend of City revenues exceeding City expenditures resumed in 2021 following a brief lapse in this trend in 2020 as revenues affected by the economic downturn made a nominal recovery, federal support continued in the form of the American Rescue Plan Act (ARPA) funds, and the City enacted a payroll expense tax which generated \$248 million in 2021, following its implementation.

Additionally, as of January 1, 2022, the Seattle City Employees' Retirement System (SCERS), the City's defined benefit retirement plan that covers most City employees, has an unfunded liability of \$1.24 billion. The City contributes to the plan annually with a commitment to fully fund its actuarial accrued liability (AAL) by December 31, 2042. One way of placing a pension's plan's unfunded liability in context is to calculate its funding ratio. The plan's ratio of assets to liabilities, commonly referred to as a "funding ratio," has been increasing since 2013 and was 75.0 percent as of January 1, 2022.

The City's net position and governmental fund balances have increased resulting in high liquidity ratios, meaning that the City has enough funds available to pay short-term bills. As of the end of 2021, at least 70 percent of governmental fund balances were designated for specific purposes.

City economists in the Office of Economic and Revenue Forecasts (OERF) anticipate that the local economic recovery will continue, although with annual economic growth resuming at a more modest pace than was experienced before the pandemic. At the same time, the global slowdown, supply chain disruptions, and higher inflation have led to an increasing risk of a national slowdown. The regional economy would likely be negatively affected if the national economy were to fall into a recession.

The City is continually working to address complex social problems, such as homelessness and housing affordability while maintaining current service levels within a balanced budget. As part of the budget process, the City engages in deliberations on the best use of its limited resources. The City Council is legally required to adopt a balanced operating budget and capital improvement program by no later than December 2<sup>nd</sup> of each year.

## Revenues and Expenses

Revenues determine the City’s capacity to provide services, and diverse revenues can help the City withstand changes in the local or regional economy. Expenses are the City’s costs for providing services. Common expenses include wages and salaries, health and pension obligations, and non-personnel costs related to delivering City services and capital infrastructure.<sup>2</sup>

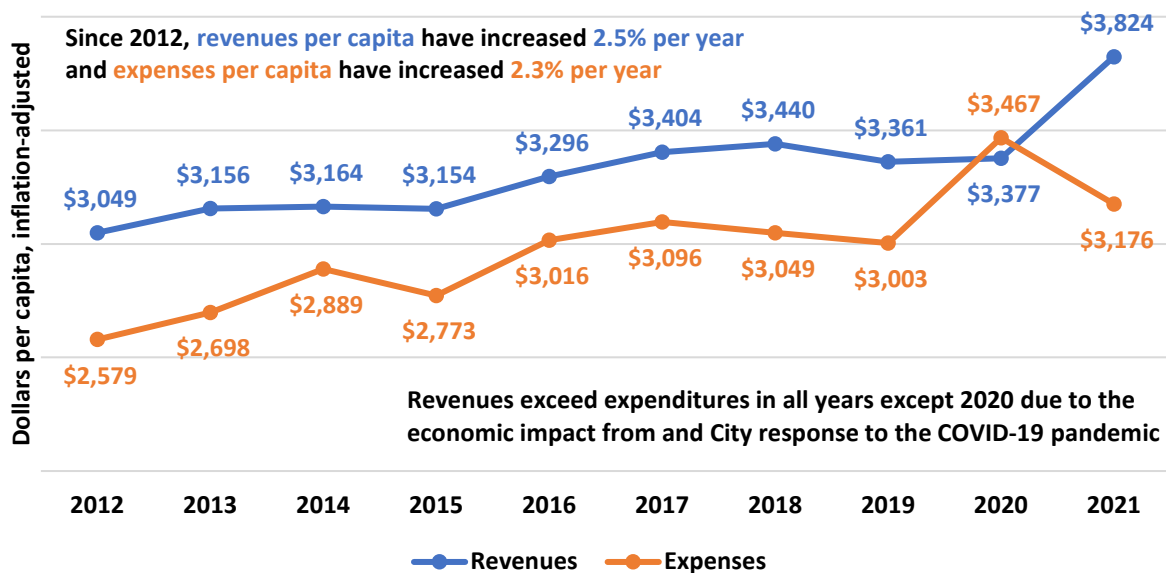
Seattle’s revenues and expenses fall into two major areas, as defined by government accounting standards: 1) governmental activities and 2) business activities. Examples of City governmental activities include public safety, human services, parks, and transportation services. Examples of business activities include electrical, water, wastewater, and solid waste utility services, and land use permitting and enforcement.

### GOVERNMENTAL REVENUE AND EXPENSE TRENDS

Revenues related to governmental activities exceeded expenses annually prior to the onset of the COVID-19 pandemic. Exhibit 1 shows changes in governmental revenues and expenses over a 10-year period on an inflation-adjusted per capita basis.

From 2012 to 2021, adjusted per capita governmental revenues increased 2.5 percent per year on average while adjusted per capita governmental expenses increased 2.3 percent per year on average. With the notable exception of 2020 during the COVID-19 pandemic, revenues exceeded expenses in each year of the 10-year period. During this time, Seattle’s estimated population increased 21.5 percent, from 611,249 in 2012 to 742,400 in 2021.<sup>3</sup>

Exhibit 1: Governmental Activity Revenues and Expenses per capita (inflation-adjusted)



<sup>2</sup> The Revenues and Expenses section of this report is based on the City’s government-wide financial statements in accordance with the accrual basis of accounting. See “Accounting Methods” in the Appendix.

<sup>3</sup> See “Population Estimates” in the Appendix for information regarding the population estimates used.

Overall, the trend in revenues exceeding expenses except for 2020 due to the economic impact of the COVID-19 pandemic is due in part to a local economy that has maintained strong property, sales, and business tax growth for much of the last decade. Revenues may also exceed expenses in some years because revenues collected by the City may not be fully spent in the year they were collected.

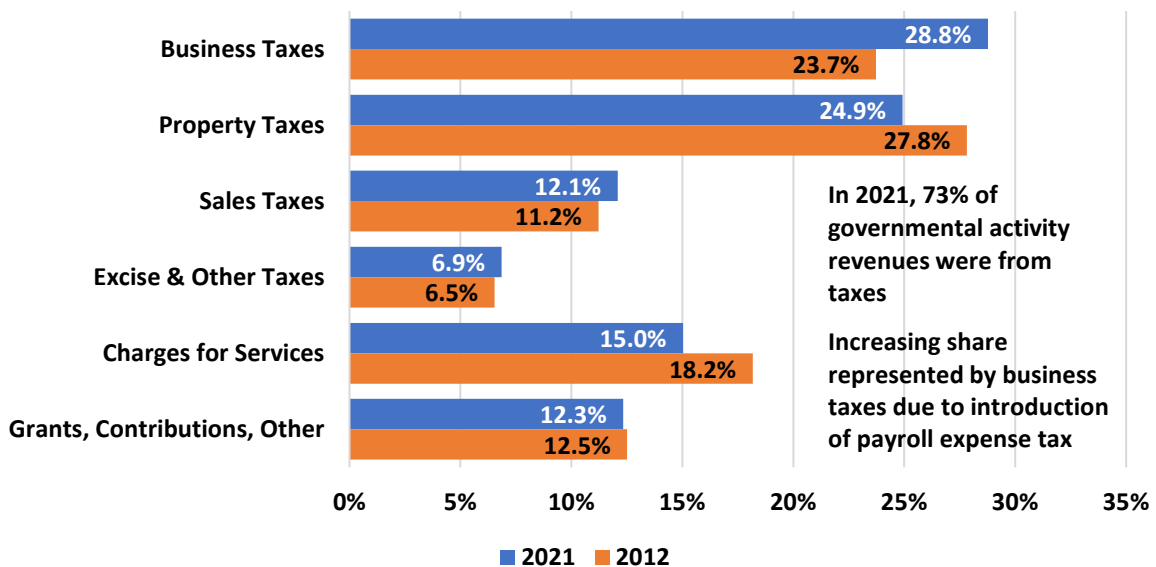
Sales and business revenues experienced significant declines in 2020, but total adjusted per capita revenues held steady due to stable property tax revenues and significant federal and state support, most notably from the federal Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Adjusted per capita revenues increased sharply the following year in 2021 due to nominal recoveries in business and sales taxes, the introduction of a new payroll expense tax, and continued federal support, most significantly from the American Rescue Plan Act (ARPA).

Adjusted per capita expenses increased significantly in 2020 before returning to the general trend of prior years. This increase in expenses was related to the City’s active response to the COVID-19 pandemic as well as capital investments in the Alaskan Way and Central Waterfront projects and various bridge projects throughout the City, including the emergency repairs to the West Seattle Bridge.

**GOVERNMENTAL ACTIVITIES - REVENUES**

Seattle’s governmental revenue sources are diversified, although heavily reliant on property taxes and business taxes. Between 2012 and 2021, combined revenues from property and business taxes consistently provided about half of the revenues used to support governmental activities. Exhibit 2 shows revenues for governmental activities by source.

Exhibit 2: Share of Governmental Activity Revenues by Source, 2012 vs. 2021



Of the various forms of tax revenues, sales taxes are the most sensitive to changes in economic conditions. Among business taxes, business and occupation taxes are more stable as they are not as reliant on the relatively volatile construction and retail trade sectors. The increasing share of business taxes from 2012 to 2021 is due to the introduction of the payroll expense tax in 2021.

The payroll expense tax is an excise tax assessed against a portion of salaries that qualifying companies pay to Seattle-based employees. The tax applies to businesses with annual payroll expenses exceeding \$7 million and is applied only on the portion of employee salaries at or above \$150,000 per year. Under current law, proceeds from the initial two years of the payroll expense tax were directed to continue existing services supported by the General Fund or expand services supporting low-income neighborhoods and communities. In subsequent years, revenues are intended to be allocated to affordable housing, local business and workforce support, community development, and projects supporting a transition to clean energy consistent with policies adopted by the City Council.

Unlike business and sales taxes, property taxes respond to changes in economic conditions through new residential and commercial construction value added to the tax roll. In addition to the introduction of the payroll expense tax, property taxes’ declining share from 2012 to 2021 is due to state statutes limiting cities, including Seattle, to annual levy growth to one percent plus taxes on new construction.

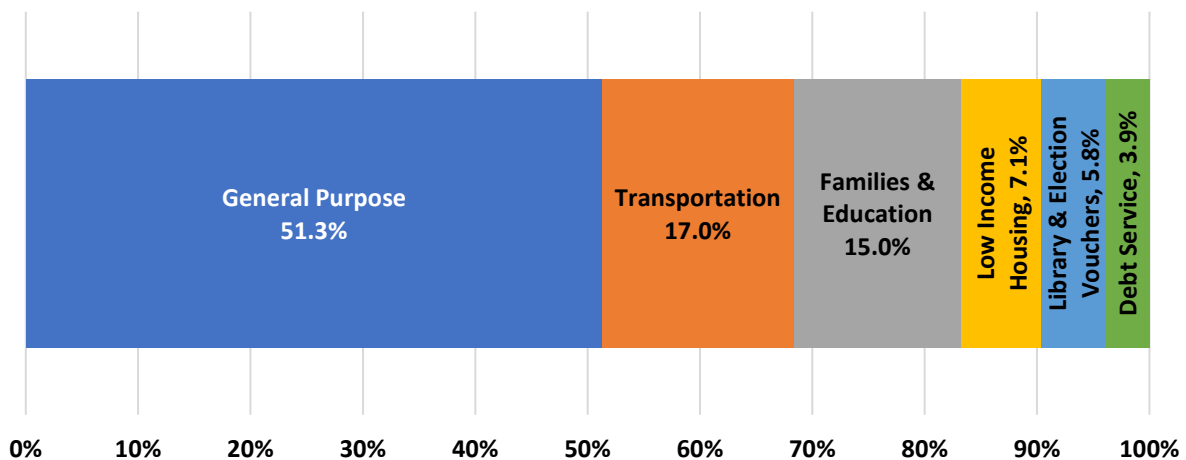
Real estate excise taxes (REET) comprise most tax revenues outside of those discussed above. The City’s asset preservation programs are funded in large part by REET revenues, meaning that declines in local real estate sales would reduce resources available to fund the City’s Capital Improvement Program.

**ALLOCATION OF PROPERTY TAX REVENUES**

The property tax rate in the City of Seattle in 2021 was \$9.31 per \$1,000 in assessed value. Property taxes are divided among several government entities, including the State of Washington, King County, Seattle Public Schools, the Seattle Park District, and the Port of Seattle. In 2021, the City of Seattle received about 24 cents of every dollar of property tax paid in the city.

The City pays for a variety of services with revenues generated from its share of property taxes which amount to \$2.25 per \$1,000 of assessed value. In 2021, just over half of each City property tax dollar of revenues paid for general purpose services such as police, parks, and fire protection. Exhibit 3 below shows how City property tax revenues were allocated by the City in 2021.

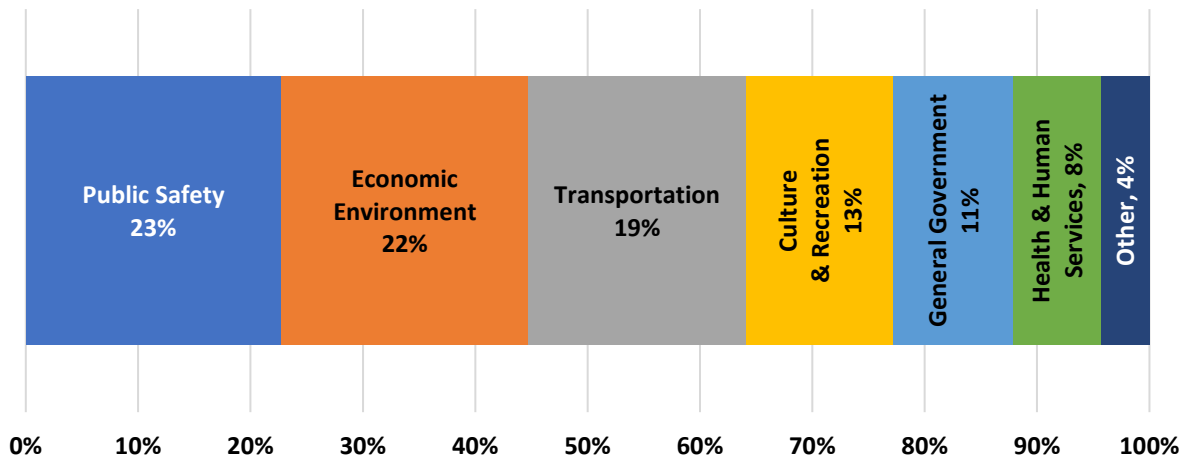
Exhibit 3: 2021 Allocation of City Property Taxes



**GOVERNMENTAL ACTIVITIES - EXPENSES**

Governmental activities include services such as public safety, transportation, parks, and human services. Governmental activities capture all City services, except for those provided by Seattle City Light (SCL) and Seattle Public Utilities (SPU), and some services provided by the Seattle Department of Construction and Inspections (SDCI). Net program expenses for Seattle’s governmental activities totaled \$2.36 billion in 2021. Exhibit 4 shows the breakdown of 2021 City of Seattle government expenses by expenditure category with information below the table describing the type of activities funded in each category.

Exhibit 4: 2021 Governmental Activity Expenses by Category (with descriptions)<sup>4</sup>



Public Safety	Includes law enforcement; fire and emergency medical services; dispatch services; emergency management
Economic Environment	Includes low-income housing; homelessness services; community services; planning and community development; economic development
Transportation	Includes roads/streets; traffic and pedestrian services; transit and other transportation systems
Culture and Recreation	Includes parks; recreation; libraries; arts and culture; and civic facilities such as the Seattle Center
General Government	Includes City legislative and executive functions; financial, legal, human resources, and information technology services; and City employee benefits
Health & Human Services	Includes a range of human services including public health; services for older adults; and services for children including early learning
Other	Includes conservation and environmental services; the Seattle Municipal Court; and debt service payments on general obligation debt

<sup>4</sup> These descriptions are based on the classification provided in Budgeting, Accounting, and Reporting System (BARS) Manual published by the State Auditor’s Office. They are intended to be illustrative and are not an exhaustive list of all activities performed and services provided by the City.



**BUSINESS REVENUE AND EXPENSE TRENDS**

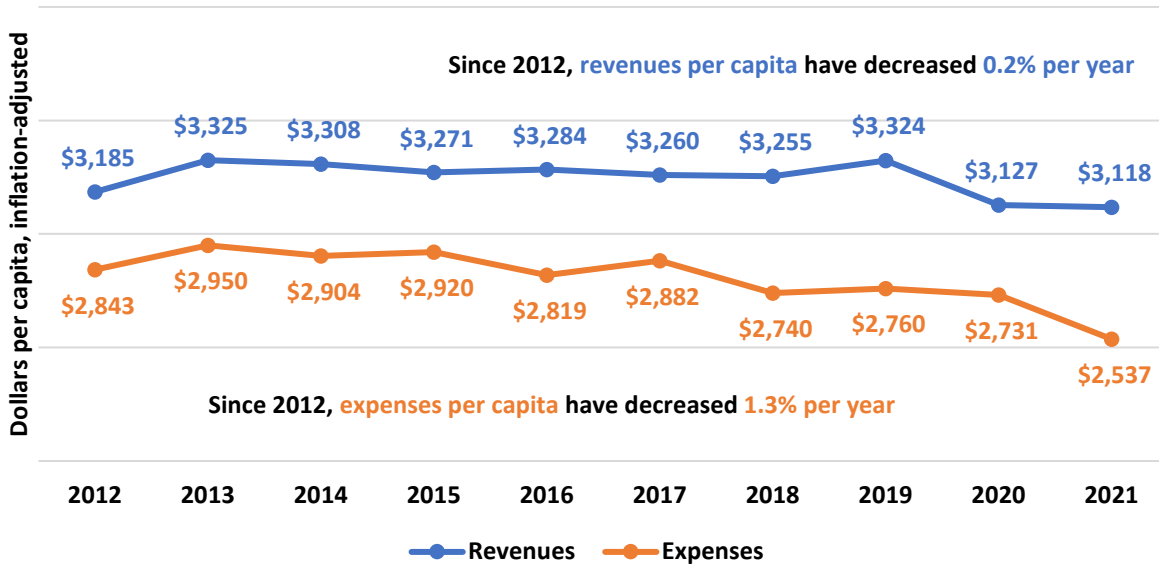
Seattle’s business services are provided primarily by the City’s two utilities, SCL and SPU, and SDCI. Examples of business activities include electrical, water, wastewater, and solid waste utilities, and land use permitting and enforcement.

Business activities recover all or a significant portion of expenses through user fees and charges. In 2021, charges for services accounted for 96.3 percent of business activity revenues, with remaining revenues attributable to grants and contributions.

In 2021, the City’s two utilities accounted for 96.0 percent of business expenses. SCL accounted for 51.5 percent of expenses and SPU (including water, drainage and wastewater, and solid waste utilities) accounted for 44.5 percent. The remaining 4.0 percent of expenses were related to the regulatory permitting work conducted by SDCI.

Business activity revenues have exceeded expenses for the last 10 years. During this same period, business revenues decreased by an average of 0.2 percent per year while business expenses decreased by an average of 1.3 percent per year on an inflation-adjusted per capita basis.

Exhibit 5: Business Activity Revenues and Expenses per capita (inflation-adjusted)



## Long-Term Debt

*The financial data and other information provided herein are not warranted as to completeness or accuracy for purposes of federal securities laws and regulations and are subject to change without notice.*

The City borrows money to pay for capital improvements. Borrowing allows the City to spread the cost of capital projects across multiple years to allocate the cost of the project over time to those who will benefit from the asset. The City issues three types of bonds: general obligation bonds, revenue bonds, and special assessment bonds.

The City issues general obligation bonds to finance general government capital improvements such as bridge renovations, fire stations, and libraries. Two types of general obligation bonds are unlimited tax general obligation bonds (UTGO) and limited tax general obligation bonds (LTGO). The City may issue UTGO bonds if a proposition authorizing their issuance is approved by 60 percent of the voters in an election in which the number of voters exceeds 40 percent of the voters in the most recent general election. Annual debt service on UTGO bonds is paid from dedicated property taxes approved by voters.

The City Council may authorize the issuance of limited tax general obligation (LTGO) bonds, also known as Councilmanic bonds, in an amount up to 1.5 percent of assessed valuation, without a vote of the people. Washington State law limits the combined value of UTGO and LTGO bonds to 2.5 percent of the assessed value of taxable property. In 2021, the City had outstanding UTGO debt of \$239 million and LTGO debt of \$702 million for a total of \$941 million. These totals are well within the City's debt limits of \$4.14 billion for LTGO debt and \$6.91 billion for LTGO and UTGO debt when combined.

The City issues revenue bonds to provide financing for Seattle City Light's and Seattle Public Utilities' capital programs. SPU capital programs consist of Water, Drainage and Wastewater, and Solid Waste. Debt service on revenue bonds is funded from the revenues generated by the issuing utility. No general tax revenues are used to pay debt service. Although revenue bonds are not subject to a statutory limit, the Utilities' ability to repay debt with interest is a practical constraint. As of December 31, 2021, \$4.19 billion in revenue bonds were outstanding, comprising nearly 80 percent of the City's total outstanding bonds.

Special assessment bonds provide financing for public improvements whose benefits are received by properties within a defined area. Debt service on the bonds is paid through an assessment against those properties. Examples of special assessment bonds are local improvement district (LID) bonds issued for the Central Waterfront in 2021, and LID bonds issued for the South Lake Union Streetcar in 2006.

### GENERAL OBLIGATION DEBT TRENDS

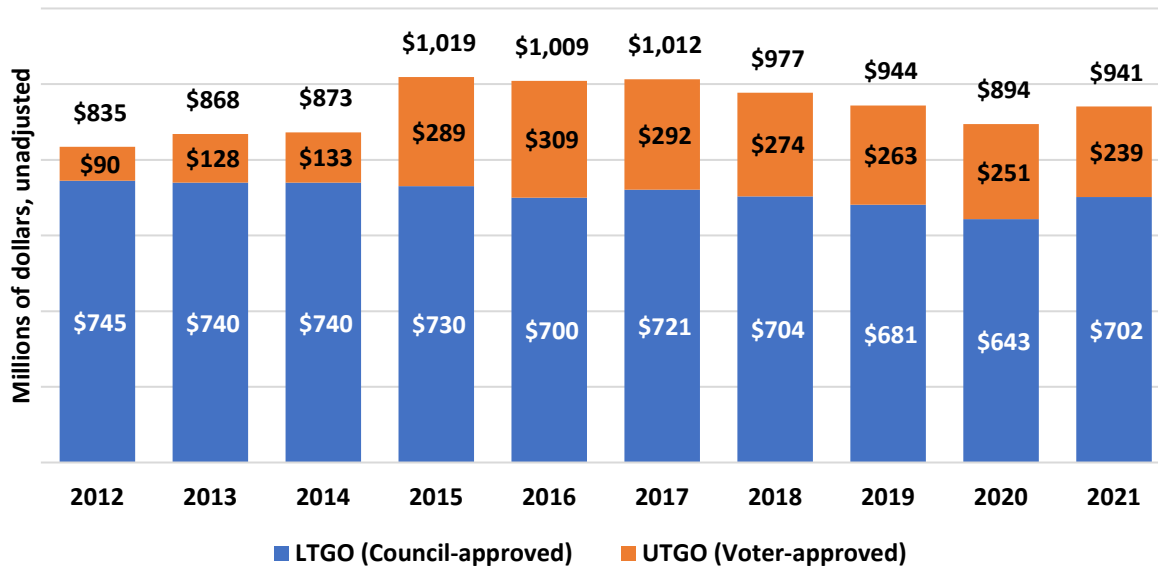
The City's total outstanding general obligation debt increased from \$835 million in 2012 to \$941 million in 2021. The City's outstanding UTGO debt increased from \$90 million in 2012 to \$239 million in 2021. This increase of 166 percent was due to approximately \$272 million in voter approved UTGO bonds issued from 2013 through 2016<sup>5</sup> which partially funded Phase 1 construction of the Elliott Bay Seawall

<sup>5</sup> Proposition 1, approved in November 2012, authorized the issuance of up to \$290 million in UTGO bonds. Of that amount, the City borrowed about \$272 million in four separate issuances, the largest being a \$169 million issuance in 2015.

project. LTGO total outstanding debt decreased 5.8 percent during this same period, from \$745 million to \$702 million. Exhibit 6 below shows changes in the City of Seattle’s total outstanding general obligation debt by type during these years.

Another way to view the City’s long-term general obligation debt is to calculate the outstanding debt per resident. From 2012 to 2021, the City of Seattle’s general obligation debt per resident, unadjusted for inflation, decreased 6.7 percent, from \$1,359 in 2012 to \$1,267 in 2021. When adjusted for inflation, this would represent a decrease of 24.7 percent.

Exhibit 6: City of Seattle Debt by Type, 2012-2021 (nominal)

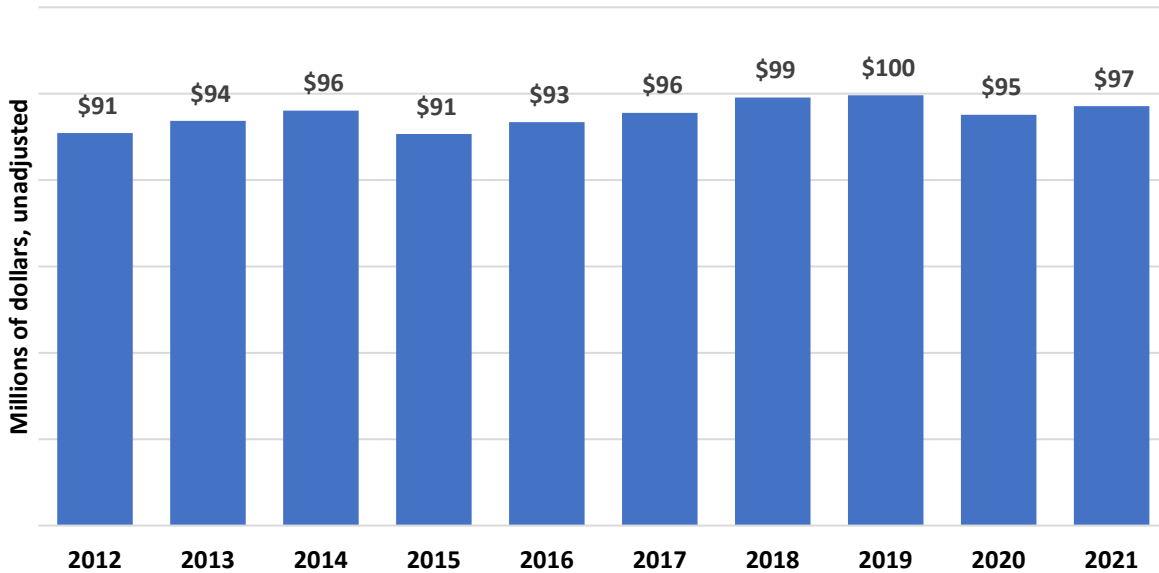


**DEBT SERVICE ON LIMITED TAX GENERAL OBLIGATION BONDS**

The issuance of LTGO bonds commits general government resources, referred to as the City’s full faith and credit, to pay the outstanding debt service on the bonds including both principal and interest until the bonds fully mature. The City’s annual operating budget allocates various revenue sources to fund LTGO debt service including 1) General Fund property, sales, business, and REET revenues<sup>6</sup>; 2) transportation-specific revenues from commercial parking tax receipts and property tax revenues from a voter-approved levy; and 3) from internally charged rates to City departments for centralized facility, fleet, information technology, and other administrative services. The City identifies and budgets the funding source allocated for the payment of debt service consistent with purposes allowed by law, and where flexibility exists, to meet other budgetary needs. The funding sources allocated to debt service are described in the City’s budget.

<sup>6</sup> The use of “General Fund” in this report refers to the definition of “General Fund” employed in the 2021 ACFR.

Exhibit 7: LTGO Debt Service by Year (nominal)



**CITY BOND RATINGS**

Together with a strong local economy, prudent debt policies and practices translate into high bond ratings and a relatively low cost of borrowing. In 2021 and at the time of this report, the City maintains the highest possible credit ratings on its general obligation bonds from the three major credit rating agencies<sup>7</sup>, including both LTGO and UTGO bonds. These ratings were maintained and reaffirmed by the credit rating agencies through the COVID-19 recession. The City’s revenue bonds maintain high credit ratings as well, with SPU’s Water utility being rated the highest by Moody’s Investors Service.

<sup>7</sup> These agencies are Moody’s Investors Service, Fitch IBCA, and Standard & Poor’s (S&P).

## Pension Liabilities

This section describes the City's pension liabilities for the Seattle City Employees' Retirement System (SCERS), which is the defined benefit retirement plan that covers most City employees. Defined benefit retirement plans are those in which participating employees and their employers contribute a certain amount into a pension fund over time, and those employees are guaranteed retirement income based on an established benefit formula that is not subject to changing investment markets. Pursuant to an agreement with various labor unions, the City of Seattle passed legislation in August 2016 that created a new defined benefit retirement plan, SCERS 2, open to non-uniformed employees first hired on or after January 1, 2017.<sup>8</sup>

Information about the liabilities associated with the City's other two defined benefit plans, the Firefighter's Pension Fund and the Police Relief and Pension Fund, as well as the state administered Law Enforcement Officers' and Firefighters' Retirement System, which covers some City employees, can be found in the City's ACFR.<sup>9</sup>

### CONTRIBUTIONS TO SCERS

City of Seattle employees who choose to participate in SCERS make regular payroll contributions to SCERS. These contributions are matched by contributions by the City, as the employer. SCERS' annual contribution rates for both the employee and the employer are based on the system's annual actuarial valuation and recommendations from the SCERS Board of Administration. The contribution rates are approved by the Seattle City Council through the City's budget process.

In August 2013, the Seattle City Council adopted Resolution 31474, which closed the period over which the SCERS unfunded liability would be amortized and committed to fully funding the total SCERS liability by the end of 2042. To this end, since 2014, SCERS' actuary has calculated the annual contribution rates needed to achieve this goal. SCERS' actuary uses several economic and demographic assumptions to determine these rates, such as returns on investment, consumer price inflation, real wage inflation, wage growth, active membership growth, payroll growth, and mortality rates. Since 2014, the City has made annual contributions consistent with and sufficient to meet that target.

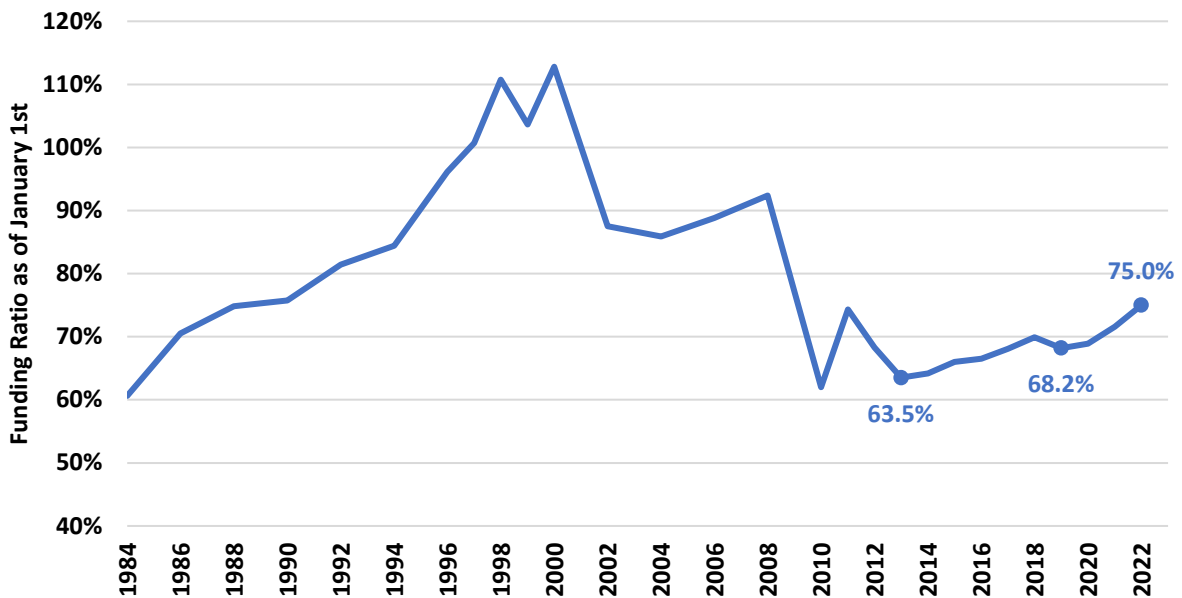
<sup>8</sup> Members already enrolled in SCERS 1 do not have an option to switch to SCERS 2. SCERS 2 has a slight decrease in benefit levels, raises the minimum retirement age, and increases the period over which average salary is calculated to 60 months. Actuarial information used in this report combines both SCERS 1 and SCERS 2 liabilities and assets and refers to them as SCERS.

<sup>9</sup> See [City of Seattle Annual Comprehensive Financial Reports](https://www.seattle.gov/city-finance/financial-and-audit-reports/annual-financial-reports/annual-comprehensive-financial-report) at <https://www.seattle.gov/city-finance/financial-and-audit-reports/annual-financial-reports/annual-comprehensive-financial-report>.

**SCERS UNFUNDED LIABILITY AND FUNDING RATIO**

A defined benefit retirement plan’s unfunded liability is the portion of the total pension liability for which assets (such as investments) are not already set aside. In other words, an unfunded liability represents the extent to which the employer and employee contributions to the plan, combined with investment earnings, do not cover all the anticipated future payments to members. As of January 1, 2022, SCERS’ unfunded liability was about \$1.24 billion.<sup>10</sup> One way of placing a pension’s plan’s unfunded liability in context is to calculate its funding ratio. A pension plan’s funding ratio is the value of the plan’s assets divided by the plan’s liabilities. Exhibit 8 below shows SCERS funding ratios from 1984 through 2022. SCERS was fully funded between 1997 and 2000, but the funding ratio decreased following two major recessions in 2001 and 2007. Since 2013, SCERS’ funding ratio has slowly increased. SCERS’ funding ratio was 75.0 percent on January 1, 2022, up from 71.6 percent on January 1, 2021.

Exhibit 8: SCERS January 1<sup>st</sup> Funding Ratios, 1984-2022



<sup>10</sup> Accrued liabilities for pensions are referred to as actuarial accrued liabilities (AAL). AAL projections incorporate multiple factors, such as the number of employees currently enrolled, their expected benefits, and mortality rates. Based on these data, actuaries estimate the current value of future payment obligations. The portion of AAL for which reserves have not been set aside are considered an entity’s “unfunded liability,” often referred to as the Unfunded Actuarial Accrued Liability (UAAL).

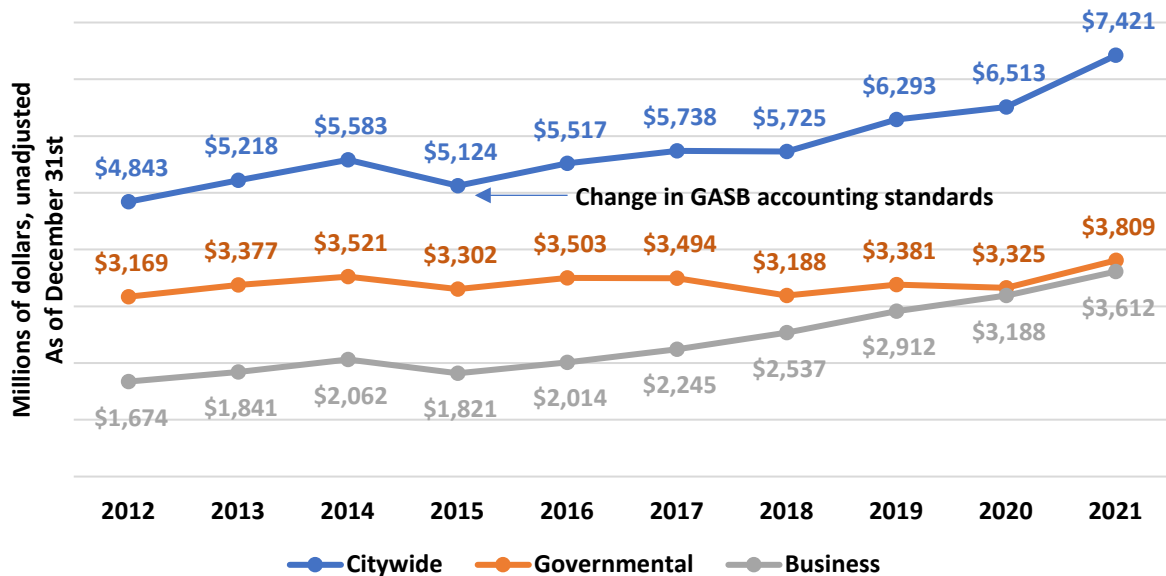
## Financial and Operating Position

Net position is an indicator that measures a government’s financial standing at a point in time. Operating position indicators, such as liquidity and operating fund balances, measure a government’s ability to manage its resources, maintain reserves for emergencies, and fulfill its financial obligations in a timely manner.<sup>11</sup>

### NET POSITION

Net position measures the difference between the City’s assets (what it owns) and its liabilities (what it owes) at a specific point in time. The City’s net position in 2021 is positive and has generally been on an upward trend since 2008, with a slight decrease in 2015. The dip in 2015 seen in Exhibit 9 resulted from a change in accounting standards for public pension plans, approved by the Governmental Accounting Standards Board (GASB). When the City implemented GASB Statement No. 68 in 2015, the City began recognizing its net pension liability in its government-wide financial statements.<sup>12</sup> This change in reporting increased the City’s total recorded liabilities and decreased its net position, as was the case for other large jurisdictions.

Exhibit 9: Net Position, 2012-2021 (nominal)



<sup>11</sup> Discussions below regarding net position and liquidity are based on the City’s government-wide financial statements in accordance with the accrual basis of accounting. However, the sections on governmental fund balances and reserves are based on the City’s fund financial statements in accordance with the modified accrual basis of accounting. See “Accounting Methods” in the Appendix for more information on this distinction.

<sup>12</sup> The Governmental Accounting Standards Board (GASB) modified the accounting and financial reporting of pensions by pension plans (GASB 67, effective 2014) and by state and local government employers (GASB 68, effective 2015). Because GASB 68 required many entities to increase what they report as their pension liability, the result of these changes for many entities with a retirement system was to reduce the entity’s net position.

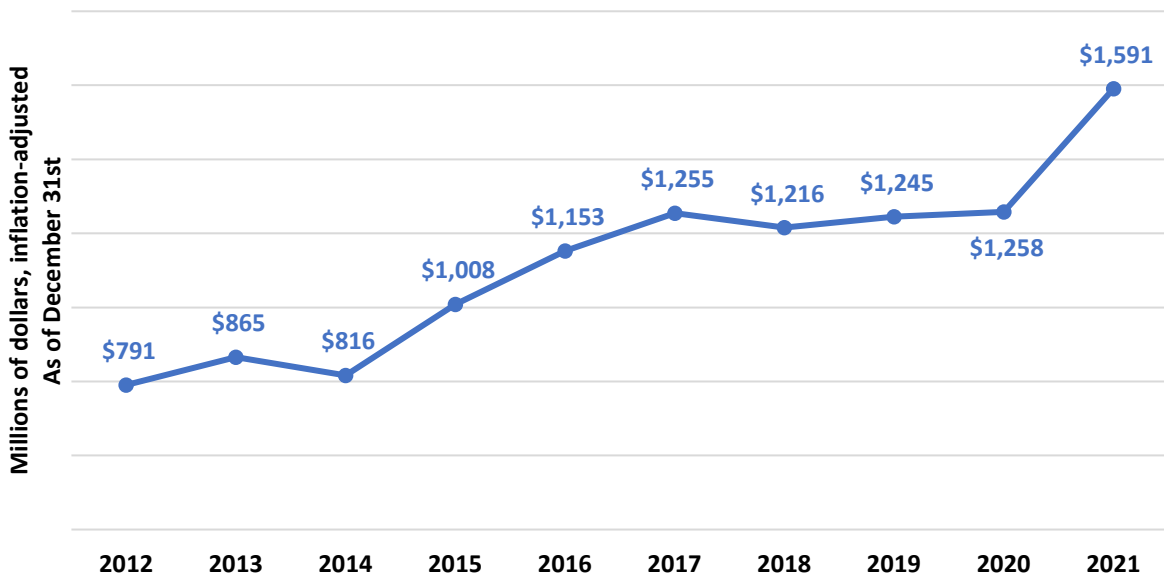
**GOVERNMENTAL FUND BALANCES**

The City accounts for all revenues and expenditures within a system of accounting entities called “funds”. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules and promotes accountability for specific projects or activities. For financial reporting purposes, most of the City’s basic services are reported in its various governmental funds.

End-of-year fund balances are carried over from one fiscal year to the next. Seattle’s governmental fund balances represent the difference between current governmental resources (e.g., revenues from taxes and other funding sources, such as long-term debt) and expenditures.

As shown in Exhibit 10, the total end-of-year balance for Seattle’s multiple governmental funds experienced periods of significant growth between 2014 and 2017 as well as from 2020 to 2021. Overall, the governmental funds balance grew by 101 percent from about \$791 million in 2012 to \$1,591 million in 2021. The significant year over year increase in 2021 over 2020 is in part due to payroll expense tax receipts collected in its initial year; and proceeds from the issuance of Central Waterfront LID bonds and collection of prepaid assessments in the second half of 2021 which will be used to fund the Central Waterfront LID projects in the coming years.

Exhibit 10: Governmental Funds End-of-Year Balances, 2012-2021 (inflation-adjusted)



Although this increase may suggest increasing flexibility to meet community needs, it should be noted that a significant portion of these fund balances are restricted to certain purposes. The use of at least 70 percent of end-of-year governmental fund balances above are limited to a) purposes described in voter-approved ballot measures; b) projects identified in ordinances authorizing bond issuances; c) specific purposes prescribed in state law; d) City employee and retiree benefit programs supported by employer and employee contributions; and e) programs with funding committed through contractual agreement.

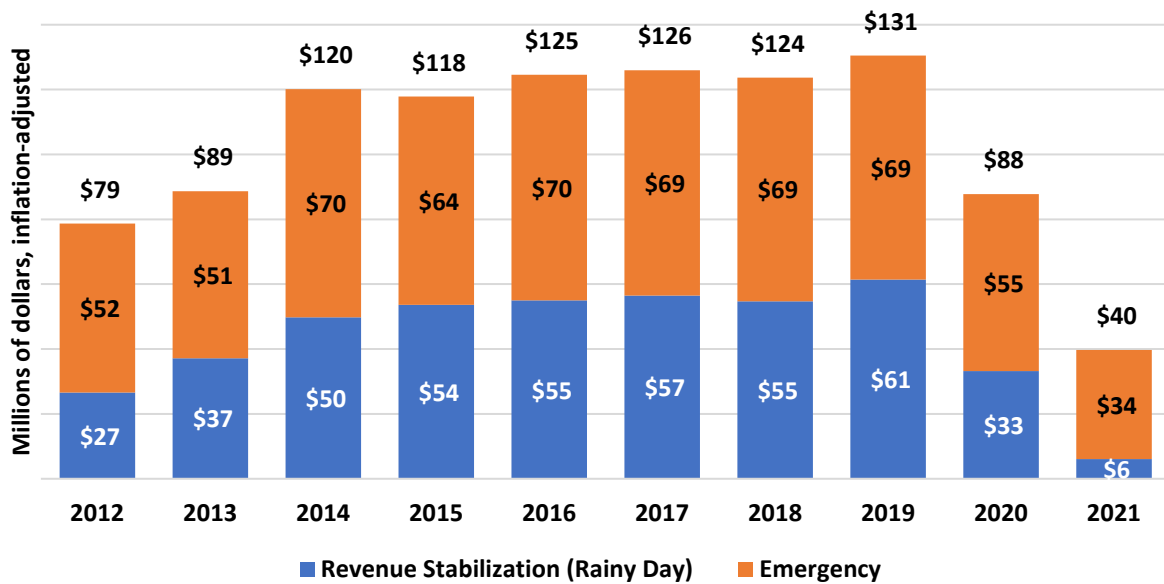


The use of remaining fund balances is generally at the City’s discretion. However, provisions in the City Charter, Seattle Municipal Code, and the City’s financial policies further limit the extent to which these funds may be allocated.

**GOVERNMENTAL RESERVE FUNDS**

The Revenue Stabilization Fund, or “Rainy Day Fund,” was created to provide funding for governmental activities in the event of unanticipated revenue shortfalls. In addition, the City’s Emergency Fund was created to set aside funds for unplanned expenses. These funds were utilized extensively in 2020 to address financial challenges related to the COVID-19 pandemic, thereby reducing the combined total of both reserves to approximately \$40 million in 2021, consistent with their intended uses. At the time of this report, the City is taking steps to replenish both reserves in accordance with City financial policies.

Exhibit 11: Reserve Fund Balances, 2012-2021

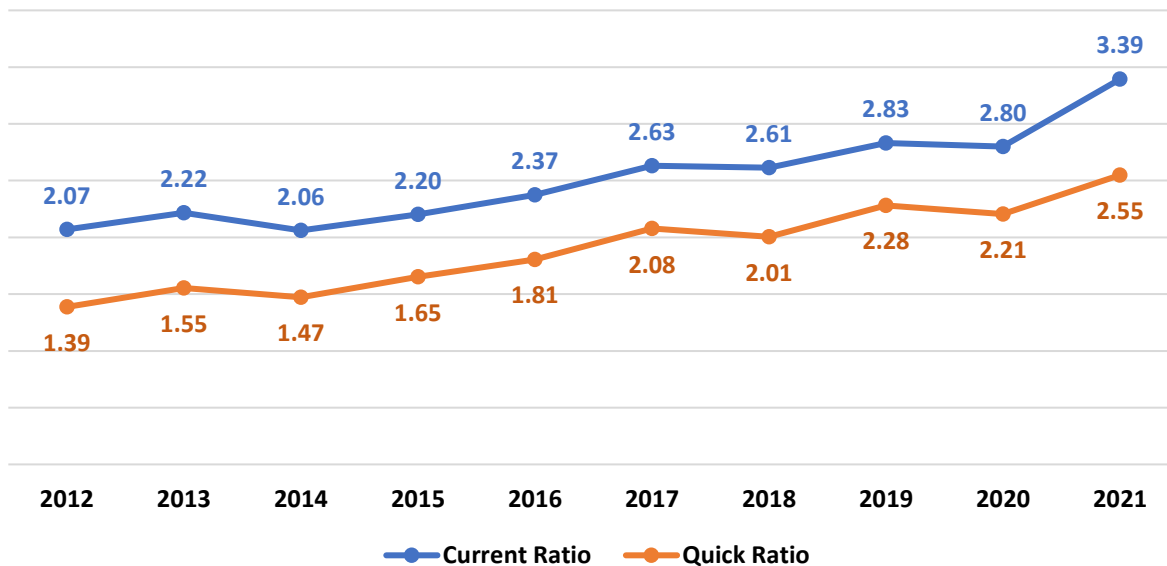


LIQUIDITY

Liquidity ratios assess the City’s ability to pay its obligations in the near-term. A common metric used to measure liquidity is the ratio of current assets to current liabilities, known as the current ratio. Current assets include cash and other assets that can be converted into cash or used within 12 months (e.g., receivables). Current liabilities are the bills the City must pay within 12 months. A more stringent measure, known as the quick ratio, compares cash and investments—the most liquid form of asset—to current liabilities, excluding unearned revenues.<sup>13</sup>

Current ratios below \$2 of assets for every \$1 of liabilities, or quick ratios below \$1 of cash and investments for every \$1 of liabilities (not including unearned revenues), can indicate a cash flow issue in either the short- or immediate-term, respectively. As shown in Exhibit 12, the City maintained healthy and improving liquidity ratios from 2012 to 2021.

Exhibit 12: Liquidity Ratios



<sup>13</sup> Unlike most liabilities, unearned revenues represent resources received in advance of when they are due and do not represent an obligation that has already been incurred that is awaiting payment. The bulk of federal COVID-19 response and recovery funds, particularly the Coronavirus Relief Fund (CRF) of the CARES Act and the Coronavirus Local Fiscal Recovery (CLFR) funds within ARPA, are the most significant examples of unearned revenues received during the period covered in this report. Unlike many federal grant programs which release funds to recipients as they are spent, these federal relief programs released allocations to their recipients up front. When received, CRF and CLFR funds appeared in the City’s financial statements as cash, but only became recognized as revenues when they are spent.

## Appendix: Scope, Methodology, and Data Sources

This biennial financial condition report was required by Ordinance 125204, passed by the Seattle City Council on November 28, 2016, as a responsibility of the City Auditor’s Office. The responsibility for the report was transferred to the City Finance Director by Ordinance 126395, passed by the Seattle City Council on July 19, 2021. The report’s objective is to provide residents and public officials with information on the City of Seattle’s financial condition. This is the third report to be published and the first to be prepared by the City Finance Division.

The methodology of this report is largely a continuation of the work performed by the City Auditor’s Office in previous iterations which was primarily based on *Evaluating Financial Condition: A Handbook for Local Government* by the International City/County Management Association.

### DATA SOURCES

The report focuses on the finances of the City of Seattle, including both its governmental activities and business activities. Information for the report came primarily from the City’s audited Annual Comprehensive Financial Reports (ACFR) from fiscal years 2012 to 2021, in addition to other sources also used. The primary sources for each of the indicators are listed in the following table.

INDICATOR	SOURCE
Revenues and Expenses <ul style="list-style-type: none"> <li>• Revenues and Expenses Per Capita</li> <li>• Sources of Governmental Revenues</li> <li>• Allocation of Property Taxes</li> <li>• Governmental Expenses by Category</li> <li>• Business Expenses by Type</li> </ul>	City of Seattle ACFRs 2012-2021: <ul style="list-style-type: none"> <li>• Table A-2: Condensed Statement of Activities</li> <li>• Table B-2: Statement of Activities</li> </ul> King County Department of Assessments State of Washington, Office of Financial Management (OFM) <ul style="list-style-type: none"> <li>• 2010-2020 Intercensal Population Estimates</li> <li>• 2021 Postcensal Population Estimates</li> </ul> State of Washington, State Auditor’s Office <ul style="list-style-type: none"> <li>• Budgeting, Accounting, and Reporting System (BARS) Manual</li> </ul> US Department of Labor, Bureau of Labor Statistics <ul style="list-style-type: none"> <li>• Consumer Price Index, Seattle-Tacoma-Bellevue, 2012-2021</li> </ul>
Long-Term Debt <ul style="list-style-type: none"> <li>• General Obligation Debt</li> <li>• LTGO Debt Service</li> <li>• City Bond Ratings</li> </ul>	City of Seattle ACFRs 2012-2021: <ul style="list-style-type: none"> <li>• Note 9: Long-Term Debt</li> </ul> City of Seattle Finance Division
Pension Liabilities <ul style="list-style-type: none"> <li>• SCERS Funding Ratio</li> </ul>	City of Seattle ACFRs 2012-2021: <ul style="list-style-type: none"> <li>• Note 11: Pensions, Deferred Compensation, and Other Postemployment Benefits</li> </ul> SCERS January 1 Actuarial Valuation Reports, Milliman
Financial and Operating Position <ul style="list-style-type: none"> <li>• Net Position</li> <li>• Governmental Fund Balances</li> <li>• Governmental Reserve Funds</li> <li>• Liquidity Ratios</li> </ul>	City of Seattle ACFRs 2012-2021: <ul style="list-style-type: none"> <li>• Table B-1: Statement of Net Position</li> <li>• Table B-3: Balance Sheet, Governmental Funds</li> <li>• Table D-1: Combining Balance Sheet, Nonmajor Governmental Funds</li> <li>• Table 1-1: Governmental Fund Balances</li> </ul>

## ACCOUNTING METHODS

The governmental and business-activity revenues and expenses as well as the net position and liquidity metrics presented in this report are reported in the City’s government-wide financial statements in accordance with the accrual basis of accounting—revenues and expenses are reported in the period in which the underlying event occurs. Under the accrual basis, revenues are recorded when earned and expenses are recorded when the liability is incurred, rather than when cash is received or disbursed.

In contrast, the portions of this report in the section, “Financial and Operating Position” discussing fund balances are reported using a modified accrual basis of accounting, which means that revenues are recorded when measurable and available, and expenditures are recorded when the liability is incurred—with the exceptions of interest on long-term debt, judgments and claims, workers’ compensation, and compensated absences, which are recorded when paid.

## ADJUSTING FOR INFLATION

To account for inflation, most financial data is expressed in 2021 dollars. Adjustments were noted in cases where they were applied. Adjustments are based on the Seattle-Tacoma-Bellevue Consumer Price Index (CPI) for All Urban Consumers, 2012-2021, as reported by the Bureau of Labor Statistics, U.S. Department of Labor. Because our inflation adjustments are based on 2021 purchasing power, some figures in this report differ from those in previous financial condition reports.

## POPULATION ESTIMATES

The population figures used in this report differ slightly from those used in the ACFR. The ACFR uses postcensal estimates which are based on the most recent decennial census, changes in housing stock, and counts of persons in group home facilities. Following each census, OFM supersedes these with intercensal population estimates for years which are now bracketed by the two most decennial censuses and are provided to yield a more consistent series than the original postcensal estimates.

## FURTHER INFORMATION

For additional information on the City of Seattle’s finances, please visit the following websites:

- [City of Seattle Annual Comprehensive Financial Reports](#)
  - <https://www.seattle.gov/city-finance/financial-and-audit-reports/annual-financial-reports/annual-comprehensive-financial-report>
- [City of Seattle Adopted Budgets and Capital Improvement Programs](#)
  - <https://www.seattle.gov/city-budget-office/budget-archives>
- [City of Seattle Investor Relations \(Long-Term Debt\)](#)
  - <https://www.seattle.gov/investor-relations>
- [Seattle City Employees’ Retirement System Annual Reports](#)
  - <http://www.seattle.gov/retirement/about-us/financials-and-governance>
- [King County Property Tax Assessments](#)
  - <http://www.kingcounty.gov/depts/assessor.asp>