

# Seattle

## United States of America

*Work on a highway tunnel has been underway in Seattle for the past 10 years*

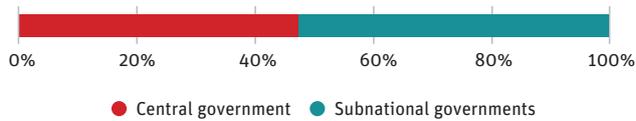
● **CITY:**  
0.7 mil. inhabitants

● **METROPOLITAN AREA**  
3.7 mil.  
(+7.5% pop. change/5 years)

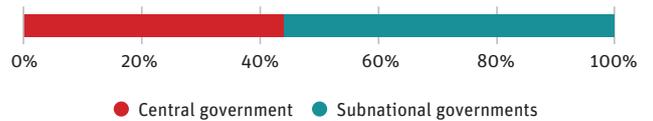
GDP: 225 % of the average EU28 GDP  
(+2.0% average annual change in GDP/5 years)

## How local public finance systems work in the USA

**PUBLIC REVENUE**



**CAPITAL EXPENDITURE**



**The federal structure of the United States has three subnational government (SNG) levels;** consists of 50 state governments, 3,031 counties and 35,879 municipalities (2012). **States determine their own systems of local government, including number, territorial organization and legal powers. In practice, there are 50 different systems of local government in the US, one for each state.**

The fiscal power of the federal government is defined by the US Constitution. The American Constitution, however, does not clearly define the fiscal roles and relations between the federal and state governments. Instead, the definition and control of local government fiscal policy is transferred to the states.

**States and local governments (differing from state to state) have a great degree of fiscal autonomy and broad fiscal policy powers, including determining types of taxes, manner of collection, rates, base and budget priorities** (with several restrictions set by the federal constitution). In certain states, local governments are under strict fiscal limitations, while in others, local government may have considerable freedom. This high degree of decentralization causes **great fiscal differences between state and local governments that are not fully compensated by weak inter-government transfer programs** either at the state or federal level.

The financial means of subnational governments were severely affected by the economic crisis from 2008–2009, partially because of the strict budget rules applying to local governments and partially because of their heavy reliance on specific revenue sources (such

as property taxes in many municipalities). Since that time, the fiscal situation of states and municipalities in the United States has gradually improved, because the inter-governmental fiscal policy is beginning to address long-term structural imbalances.

**Subnational governments play a key role in investment and represent a significant portion of public investment, similar to the OECD average of 57%.** However, they are below the OECD average for federal countries (63% in 2016). State governments were responsible for 22% of public investment in 2016.

**In reaction to the economic crisis, in 2009 the federal government launched a recovery package of contracts, grants and loans, partially aimed at supporting public investment** (the American Recovery and Reinvestment Act – ARRA). This supplemented the state funding of local government investment, especially in public transportation and education, and supported coordination across all levels of government. SNGs managed one-third of the ARRA.

Other federal investment programs are intended to promote state and local investment in transportation and water infrastructure like the Water Infrastructure Finance and Innovation Act Program (2014). Expenditures on transportation and water infrastructure account for 59% of state and local investment since 2017.

**The revenue of SNGs in the USA in 2016 accounted for 53% of the total public revenue, which is comparable to the OECD average for federal countries. The primary source of revenue is tax revenue (48% in 2016). The same applies for duties and fees,**

which in the United States represent 23% of SNG revenue (17% in OECD fed. countries). In contrast, grants account for a much lower share than the OECD average (31%).

SNG tax revenue amounts to 17% of GDP and 53% of tax revenue (OECD 7% of GDP and 32% of tax revenue).

**Tax revenue accounts for approximately 48% of the state revenue and 54% of the SNG revenue (2016).**

**There are no agreements to share taxes** between the federal, state and local governments; most SNG taxes are therefore own-source taxes.

**A primary source of tax revenue at the SNG level is property tax (28%),** which is collected in all 50 states on residential and commercial property, and is derived from the property's market value. **The property tax collected by counties, municipalities and city districts represents 68% of the local revenue and 2.5% of the GDP** (OECD 1.1% of the GDP in 2016). Property tax rates vary considerably from state to state and even within states, and local governments use various methods to calculate the base of the property tax. This is followed by personal income tax and sales tax (a total of 24% of tax revenue and 12% of all revenue), excise tax (6%) and corporate income tax (4%).

**At the state level, the largest source of tax revenue comes from corporate income tax** (37% of the state tax revenue, i.e. 18% of the state revenue). Seven states do not have any income tax, while eight states have the top marginal tax rates up to 11%. **The second most important tax is sales tax** (32% of the state tax revenue and 15% of the total state revenue). Five states do not have a sales tax. Other major taxes include excise taxes, license taxes, the corporate income tax, motor fuel tax, and severance taxes on natural resource extraction.

In addition, 37 states have introduced tax-sharing systems with local authorities under their jurisdiction, enabling them to levy a local sales tax in addition to the state sales tax. Local rates range from 0.5% to 8.3%. The sales tax accounts for 13% of local tax revenue (2016). Other shared taxes may include personal income tax (4.8% of local tax in 2016) and corporate income tax.

**Unlike most other federations, there are no federal unconditional general transfers or a equalisation grant system in the US. However, certain inter-governmental transfers may contain equalising elements.** Over the years, the federal inter-governmental system in the US has become increasingly centralized, while the federal government uses federal grants to expand its influence in many areas of policy. **From 2008 to 2010, transfers quickly increased to help states and local government recover from the economic crisis.** Since 2014, transfers have again increased due to the expansion of Medicaid (Patient Protection and Affordable Care Act – ACA), which positioned **healthcare as the leading category of federal assistance to SNGs.**

Three general types of federal grants to state and local government are categorical transfers (only for relatively narrowly defined purposes), block grants (for specific assistance programs) and general shared revenue. **85% of the transfers to local level (counties and municipalities) come from state governments, while 15% comes from the federal government.**

In addition to tax revenues, state and local governments levy fees for provided services. These fees represent a greater share of revenue than the OECD average for federal countries (17% in 2016). Fees for various services (sewage, parking) **represent 18% of the local revenue.** On the other hand, states collect highway fees, fees for education services and services associated with hospitals and interest earnings, and they increasingly rely on lottery income. **In general, it can be said that duties and fees provide a significant amount of revenue for SNGs, especially for states.**

Source: <http://www.oecd.org/cfe/regional-policy/Observatory-on-Subnational-Government-Finance-and-Investment.htm>

# Finances of the City of Seattle

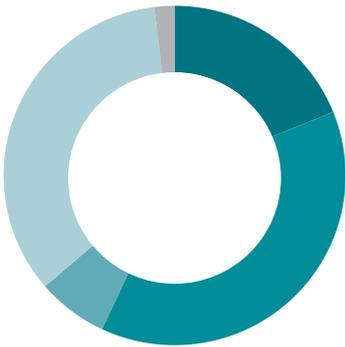
## REVENUE SOURCES

### Economic classification of revenue



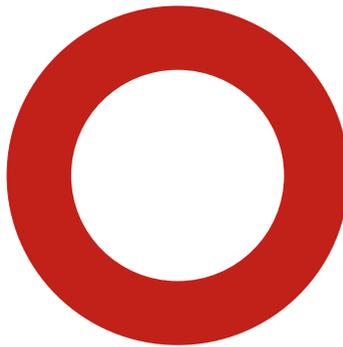
● Taxes – own 
 ● Taxes – shared 
 ● Transfers – current 
 ● Transfers – capital 
 ● User charges and fees 
 ● Capital and assets 
 ● Other

### Tax base



● Production 
 ● Income and wealth 
 ● Capital 
 ● Assets 
 ● Other

### Transfers conditionality



● Earmarked

### Transfers origin



● Other SNGs 
 ● Central 
 ● Private

### Balance sheet and debt

-7%

BUDGET BALANCE

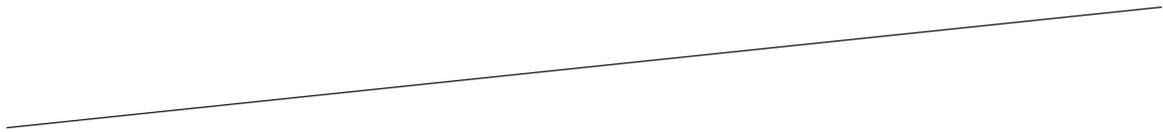
22%

DEBT AS A PERCENTAGE OF ANNUAL REVENUE

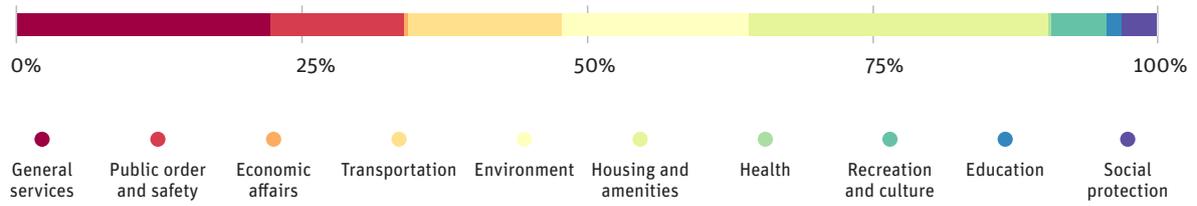
# Finances of the City of Seattle

## EXPENDITURE COMPOSTITION

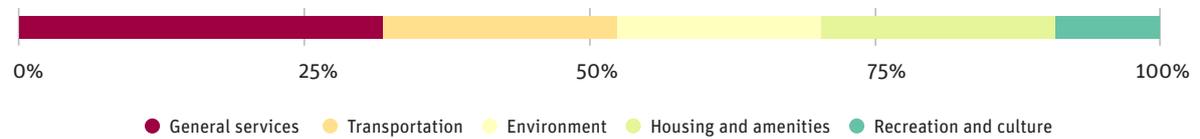
Economic classification of expenditure  
(data unavailable)



Functional classification of expenditure



Functional classification of capital expenditure



Source: Own questionnaire survey (2019)

# Alaskan Way Replacement Tunnel

The tunnel replaces the original viaduct running through the center of Seattle for a length of 3 km

The north-south viaduct running through the center of Seattle built in the 1950s was replaced with a tunnel.

The idea to demolish the viaduct and replace it with another road arose after an earthquake hit the city in 2001 and caused part of the viaduct to collapse.

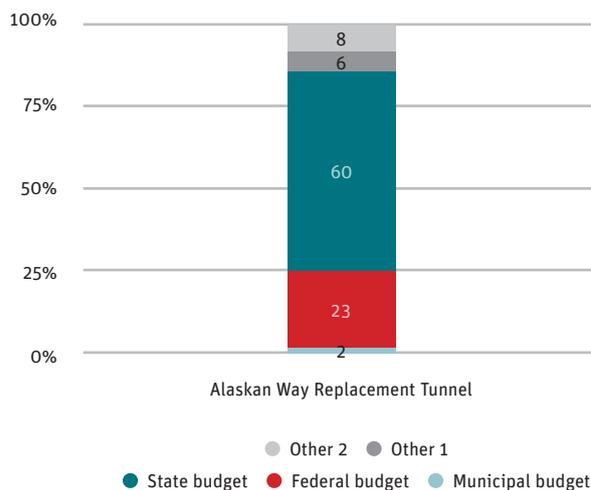
In 2009, the city decided to excavate a tunnel. Preparation for the construction site began in the fall of 2011; the tunnel excavation began in 2013. The tunnel was opened to traffic in February 2019. The demolition of the viaduct began at the same time and is scheduled to end in the fall of 2019. This is tied to the planned revitalization of the Seattle waterfront.

Total investment costs to replace the viaduct with the tunnel are USD 3.3 billion.

60% of costs are covered from the budget of the State of Washington, specifically through the tax on fuel for motor vehicles. Another 8% of the costs are covered by the Port of Seattle. Tolls (collected from the fall of 2019) will repay the loans that covered 6% of the construction cost.



## Alaskan Way Replacement Tunnel



Source: Washington State Department of Transportation