

2009-2010 General Government Revenue Forecast

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General Subfund Revenues:

In \$1000s

Summary Name	2007 Actuals	2008 Forecast	2009 Forecast	2010 Forecast	2011 Forecast	2012 Forecast
General Property Tax	196,918	202,878	207,311	212,607	217,289	221,903
Property Tax - Medic One Levy	21,644	35,868	36,764	37,684	38,626	39,591
Retail Sales Tax	154,695	158,626	160,557	163,894	168,665	174,591
Retail Sales Tax - Criminal Justice Levy	14,409	14,776	14,955	15,266	15,711	16,263
B&O Tax (90%)	161,567	162,932	168,210	174,607	182,671	191,687
Utilities Business Tax - Telephone (90%)	28,924	28,881	28,164	28,068	28,000	27,900
Utilities Business Tax - City Light (90%)	31,845	32,000	32,640	33,130	33,600	34,130
Utilities Business Tax - SWU & priv.garb. (90%)	9,134	9,880	10,176	10,482	10,796	11,120
Utilities Business Tax - City Water (90%)	16,706	17,103	17,616	18,145	18,689	19,250
Utilities Business Tax - DWU (90%)	21,319	22,000	22,660	23,340	24,040	24,761
Utilities Business Tax - Natural Gas (90%)	14,892	13,634	14,659	15,013	14,864	14,682
Utilities Business Tax - Other Private (90%)	13,376	13,899	14,307	14,477	14,627	14,643
Admission Tax	7,798	7,050	7,327	7,546	7,773	8,006
Other Tax	5,274	5,590	5,540	5,613	5,613	5,687
Licenses and Permits	14,720	12,665	12,450	12,228	12,228	12,228
Parking Meters/Meter Hoods	18,706	19,666	20,223	20,797	21,388	21,996
Court Fines (90%)	18,643	21,881	23,253	22,917	22,861	22,804
Interest Income	9,671	4,742	3,988	4,935	7,203	8,809
Revenue from Other Public Entities	17,509	9,307	9,260	9,330	9,363	9,410
Service Charges & Reimbursements	48,828	46,775	47,880	48,981	50,170	51,399
All Else	3,195	952	952	951	951	951
Interfund Transfers	1,833	932	868	735	735	735
Key Arena Revenues	3,174	3,087	2,850	2,930	2,998	3,053
Total	834,781	845,124	862,611	883,675	908,860	935,598
REET	71,832	40,468	44,464	50,476	53,445	56,407
BTG - Employee Hours Tax	2,209	4,509	4,739	5,095	5,492	5,937
BTG - Commercial Parking Tax	4,684	11,336	15,112	18,047	18,860	19,708

GSF Year-over-Year Revenue Change	1.2%	2.1%	2.4%	2.9%	2.9%
GSF Year-over-Year Tax Change	3.8%	2.2%	2.6%	2.8%	3.0%

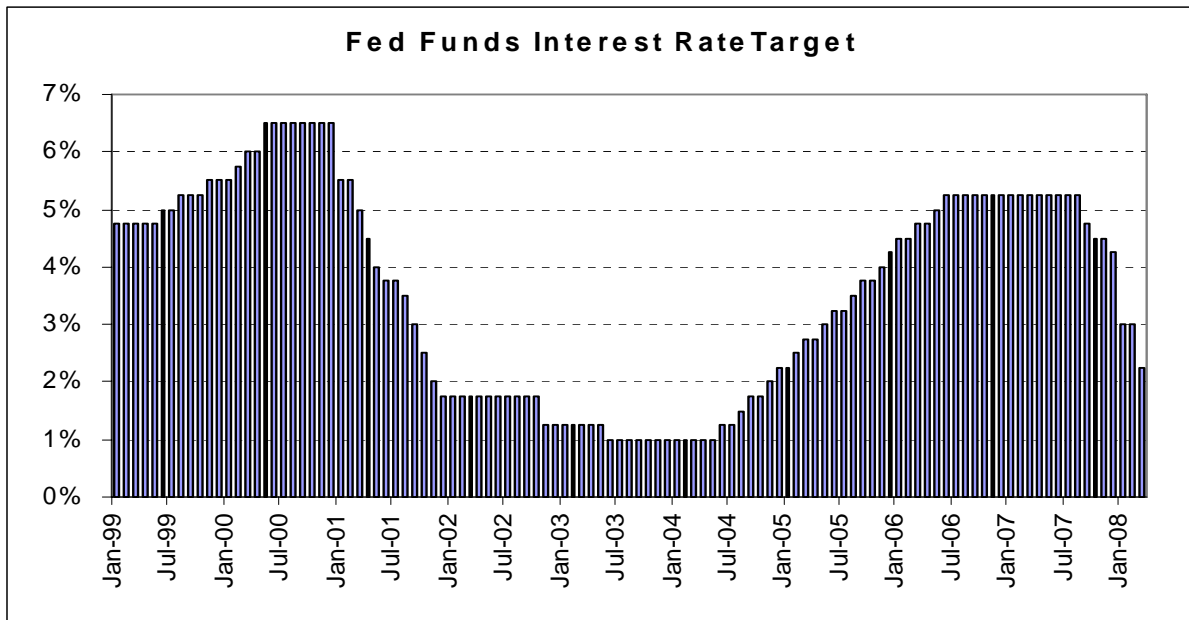
- B&O tax includes new square footage tax
- Parking meter figures do not include potential losses during Alaskan Way construction
- KeyArena revenues based on current lease – if Sonics leave, 2010-2012 figures would likely be lower

Economic Conditions and Forecast:

U.S. Economy: Recent History

2001 recession was followed by period of cheap credit

- Fed lowered interest rates aggressively
- Foreigners lent freely to U.S.

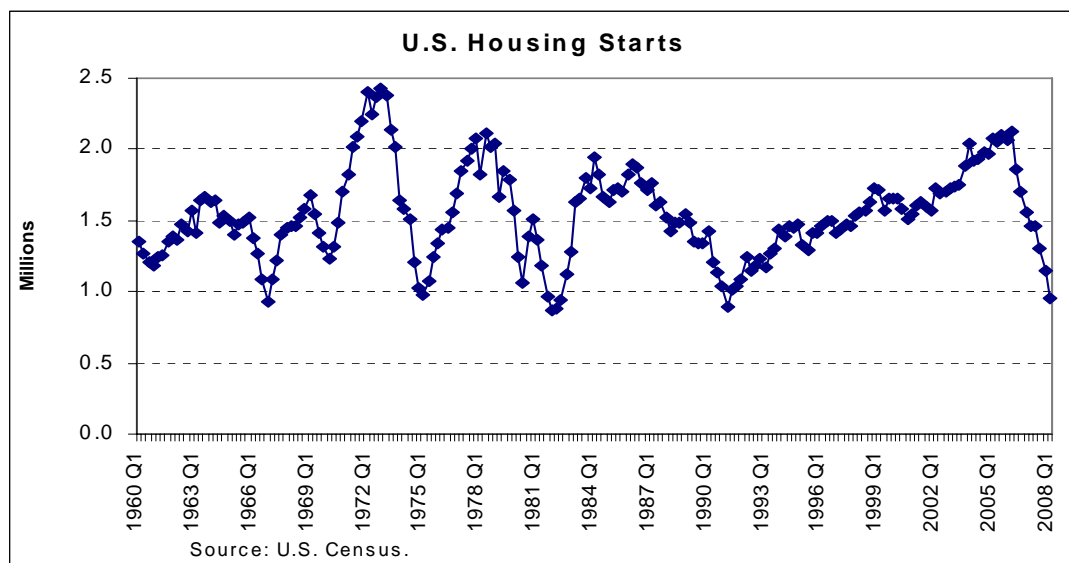
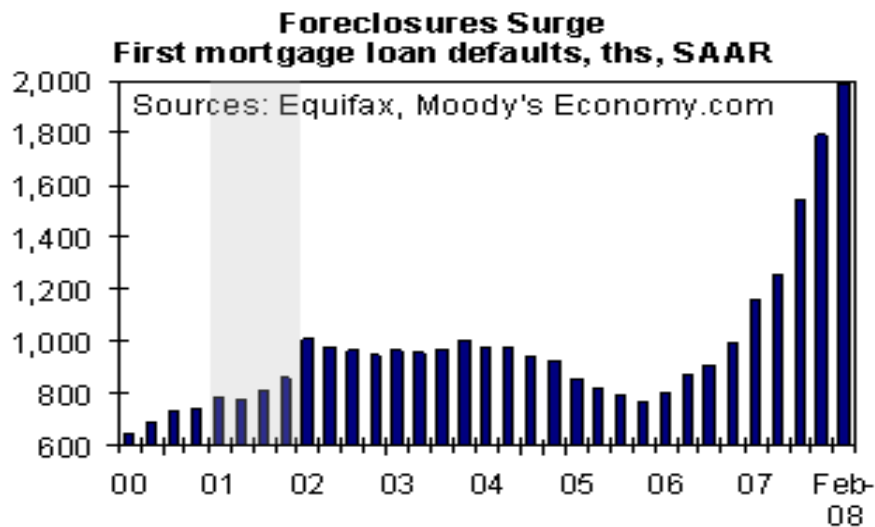


Cheap Credit fueled housing bubble

- Low interest rates made housing more affordable
- Creative mortgages further stimulated demand
 - Low payments in short-term, rising later, etc.
- Loans were securitized and sold all over the world
 - Approximately 80% of subprime loans were put into AAA securities
- Everything works as long as prices keep rising

Eventually housing bubble popped (peaked in late '05 – early '06)

- Prices had risen to unsustainable level
- Prices began falling, leading to rise in delinquencies, foreclosures, etc.
- Defaults hit annual rate of 2 million in February 2008
 - Approximately 9 million homeowners are underwater
- Sales have fallen, inventories have risen
- Housing starts have dropped by over 50%

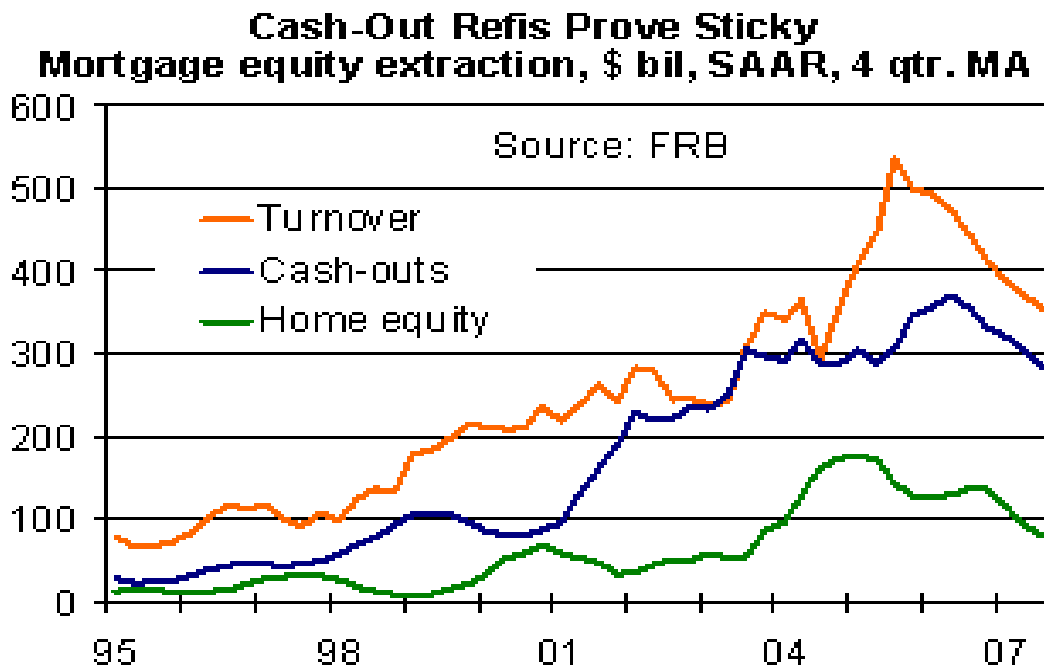


Housing collapse has caused financial crisis

- Mortgage losses undermined mortgage backed securities
 - Problems popped up all over the world
- Huge uncertainty over location and value of problem securities
- This has led to liquidity crunch
 - Banks reluctant to loan to one another
 - Rising credit spreads
 - No markets for some types of securities
- Fed has moved aggressively to restore liquidity
 - Fed funds rate lowered from 5.25% in September 2007 to 2.25%
 - New ways for banks and securities firms to borrow from Fed
 - Facilitated sale of Bear Stearns with \$30 billion loan
- Government actions to aid housing market
 - FHA, Fannie Mae, Freddie Mac roles expanded
 - ✓ Ceiling raised from \$417,000 in high cost markets
 - ✓ Capital requirements for Freddie and Fannie lowered
 - President, Congress, and presidential candidates have developed additional proposals

Impact of housing downturn and credit crunch on economy

- Housing related industries are contracting
 - Construction, housing finance, real estate
- Housing related consumption is down
 - Manufacturing and selling of furniture, appliances, etc.
- Consumer spending affected by declining home values and diminished ability to withdraw home equity
- Financial industry problems
- Non-residential construction has turned down



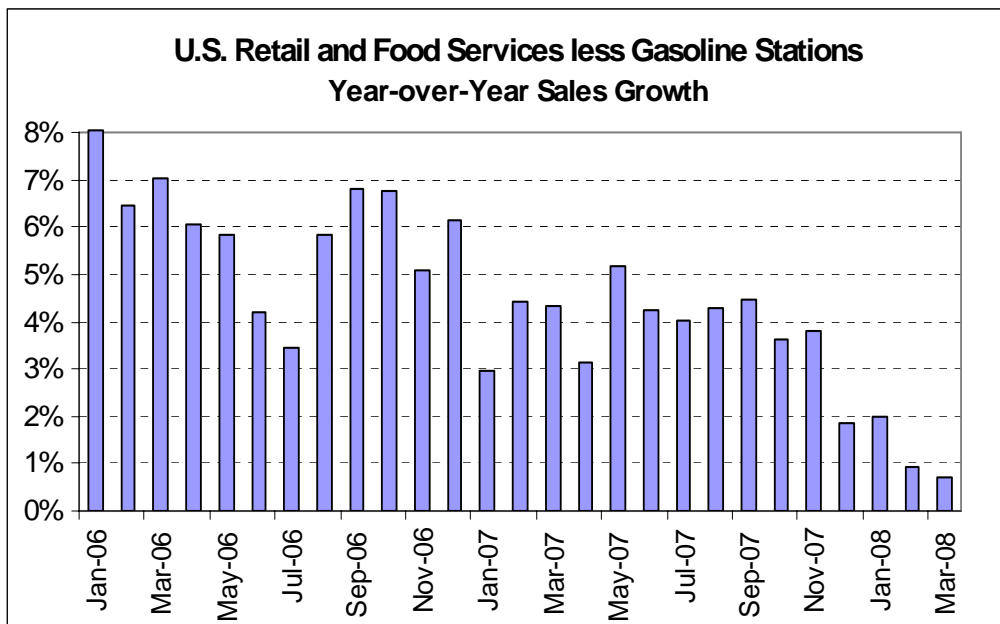
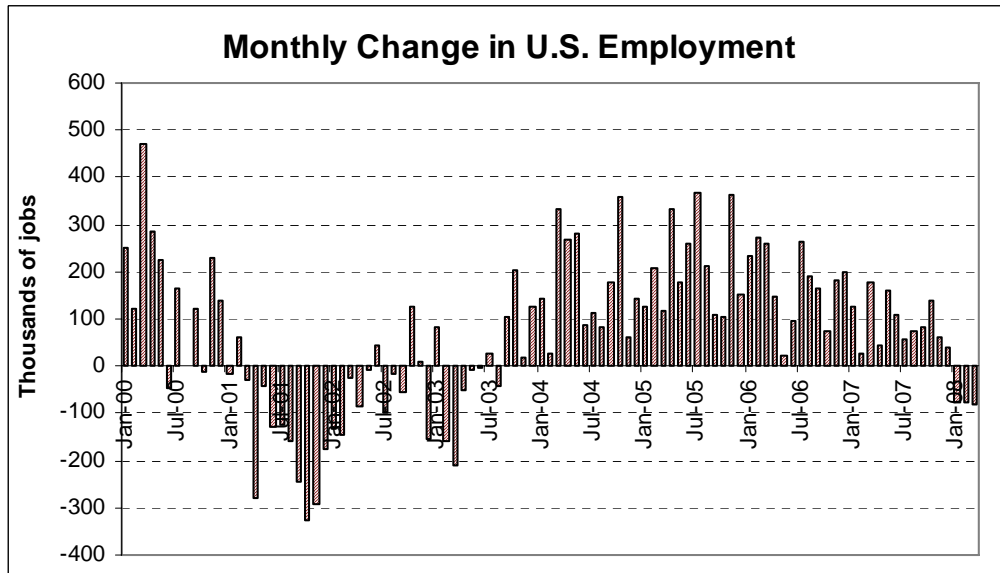
Source: Moody's Economy.com

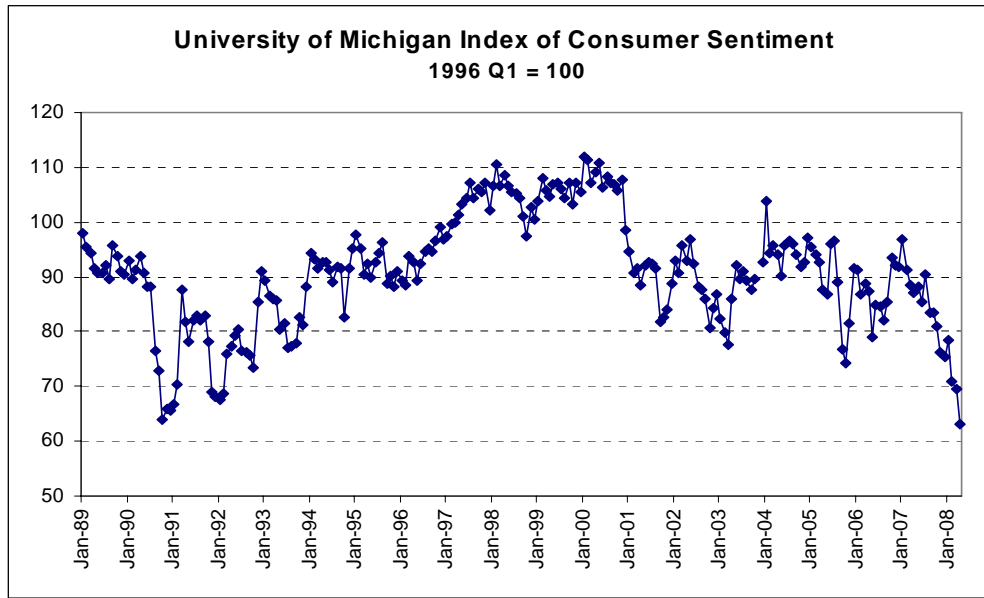
Consumer spending also affected by:

- Rise in energy and food prices
- Weakening job market

Is U.S. economy in recession today?

- Most economists believe recession started in 1st quarter
- Weakness most evident in:
 - Areas of U.S. with most severe housing problems
 - Parts of Midwest, particularly areas dependent on auto industry
 - Centers of financial services

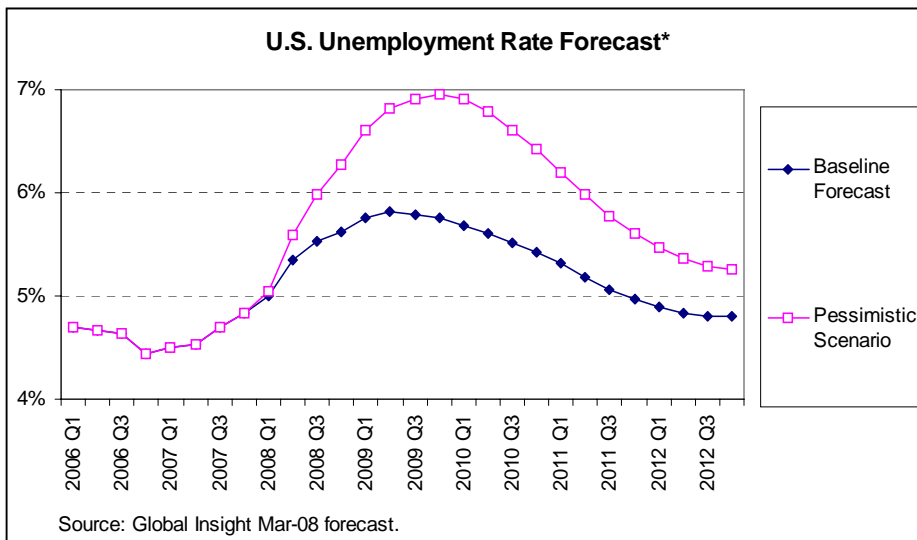
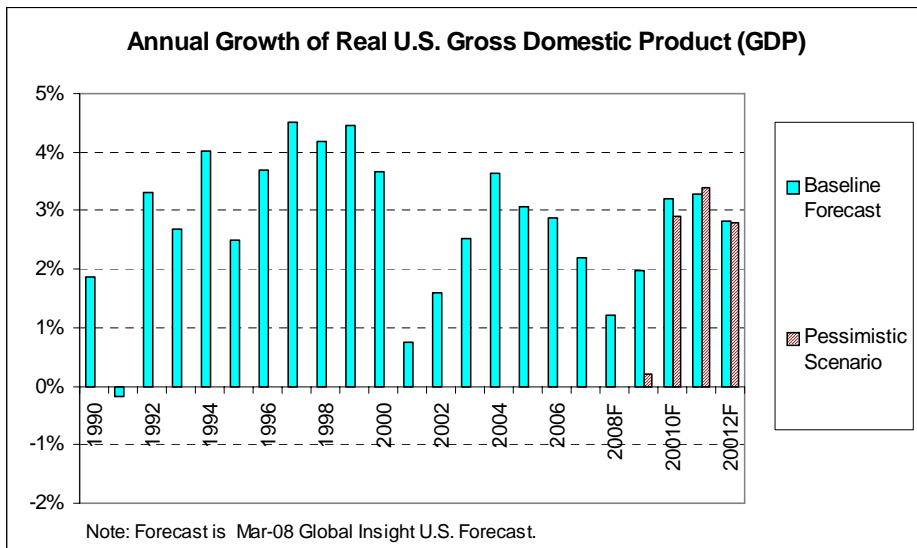
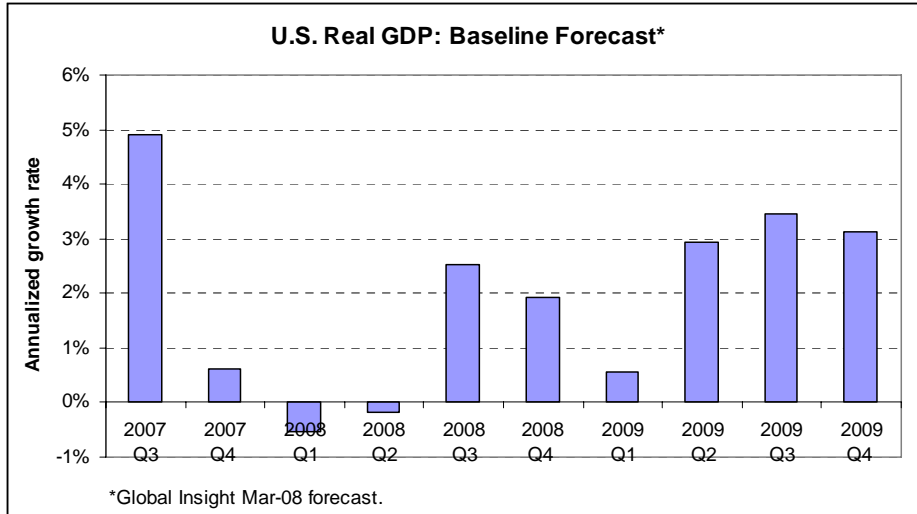




U.S. Economy: Forecast

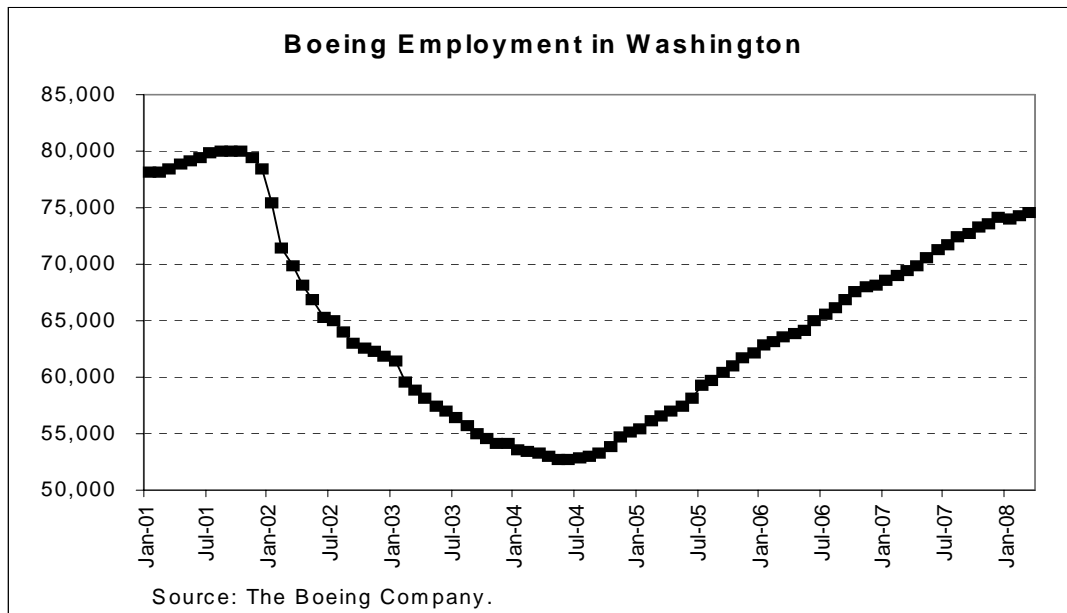
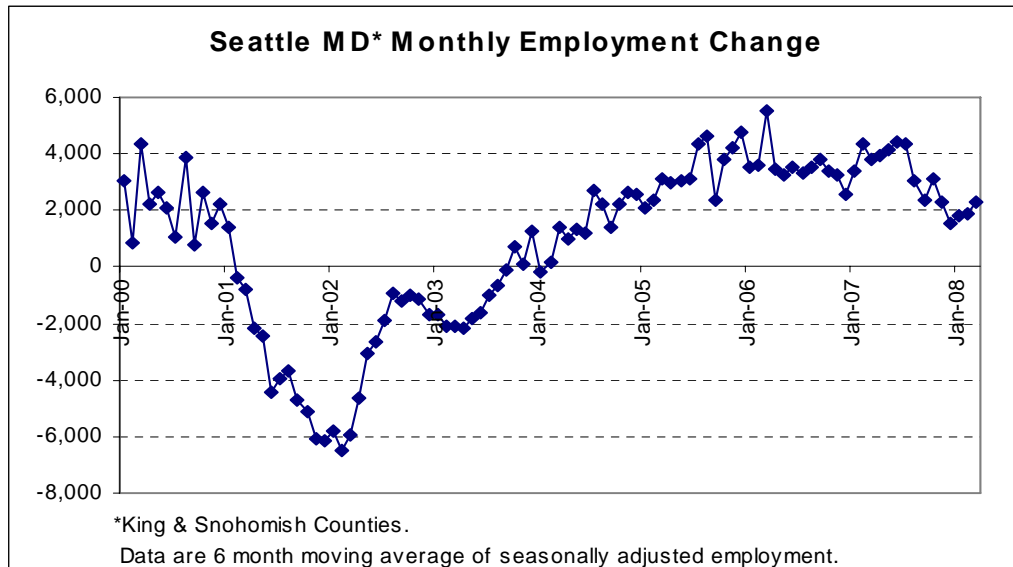
A short, shallow recession followed by subpar growth

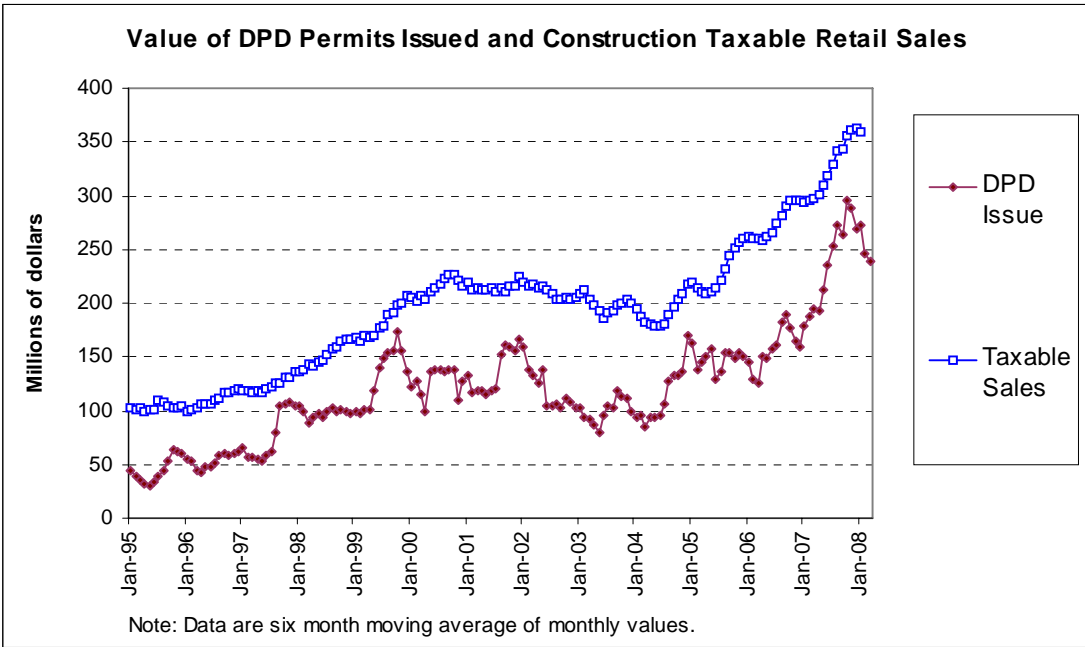
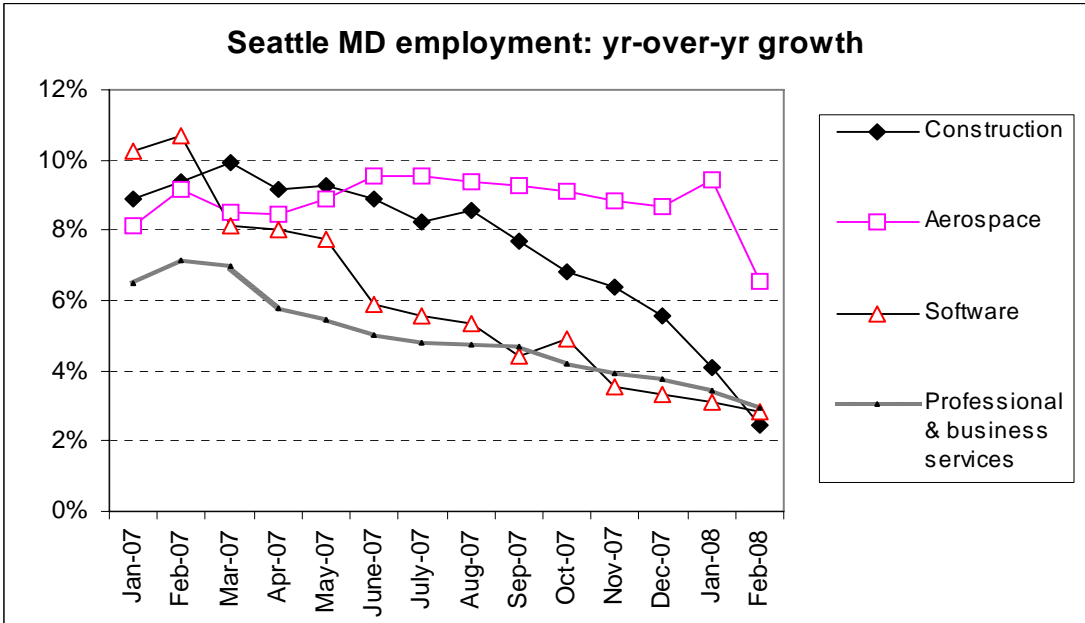
- Why a mild recession?
 - Fiscal stimulus – \$110 billion tax rebate
 - Additional Fed interest rate cuts
 - Healthy export growth
 - Expectation of additional federal homeowner assistance
- Uncertainty is high and risks are on downside
- What could cause a more serious recession?
 - A steeper housing downturn
 - Higher energy prices
 - Weaker than expected export growth
- Global Insight – 30% probability of a full-blown recession



Puget Sound Economy:

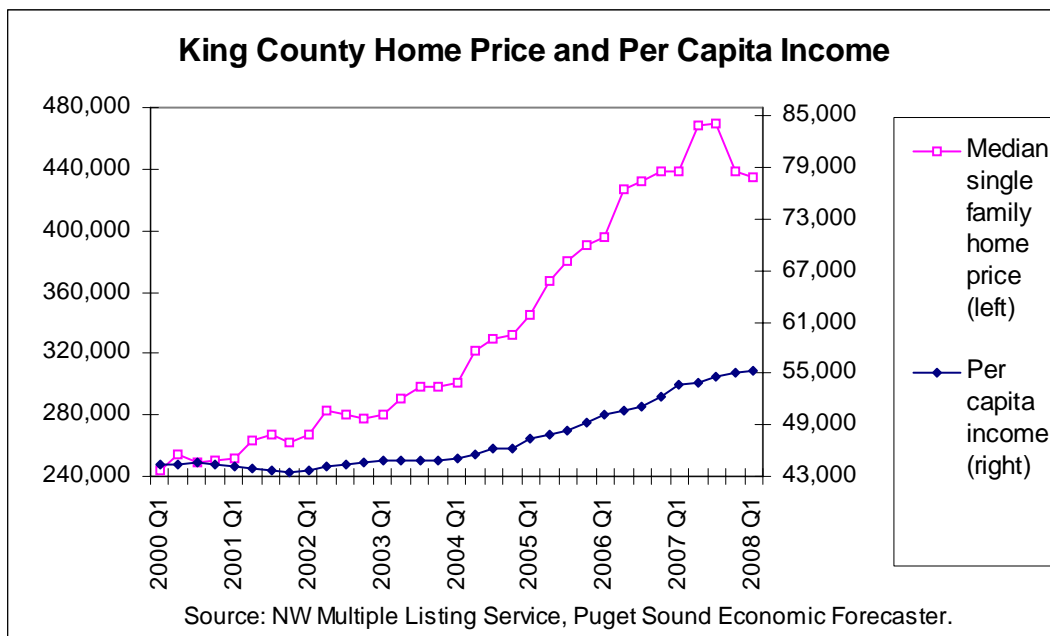
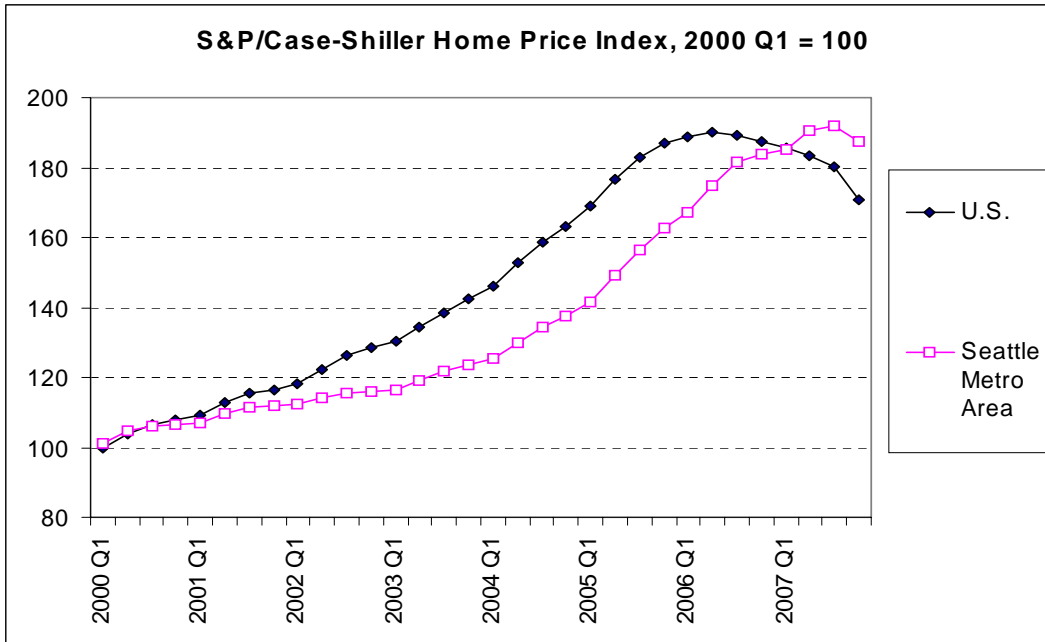
- 2001 recession was much worse here than nationally
- Upturn was delayed, but growth was healthy in 2004-2007
 - Construction boom
- Boeing hiring and record order backlog
- Began to see signs of slowing in mid-2007





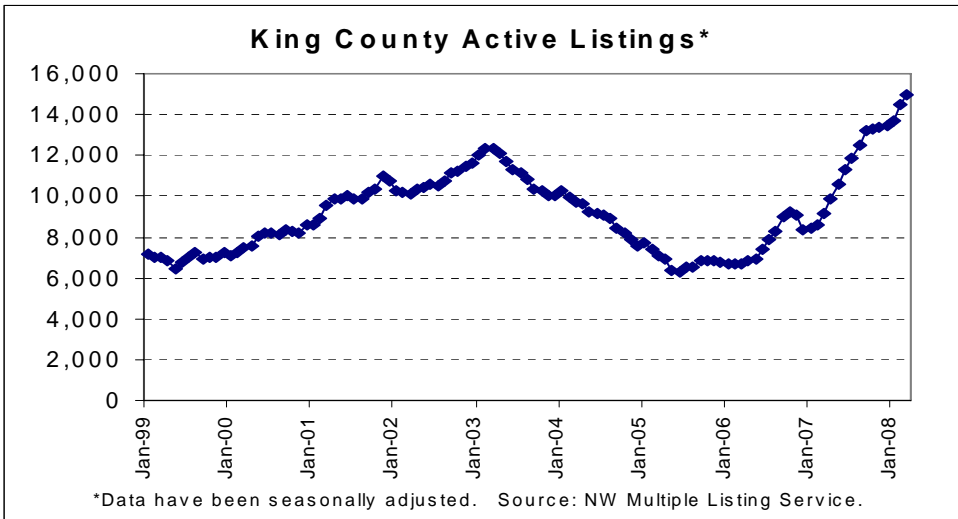
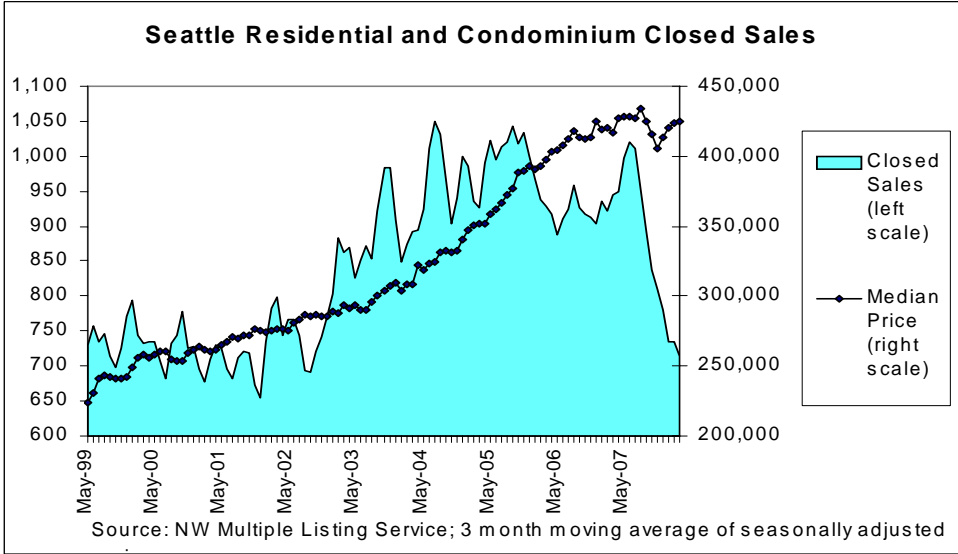
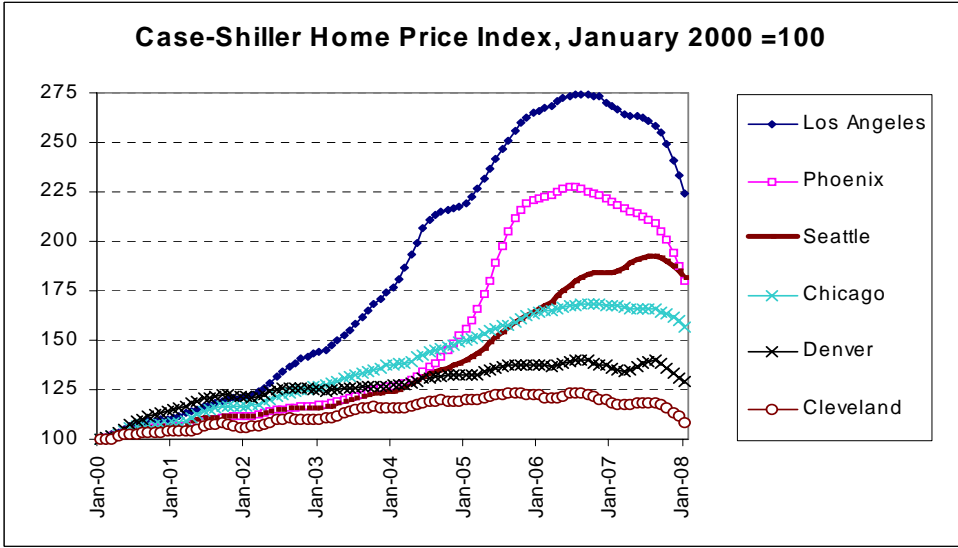
Housing

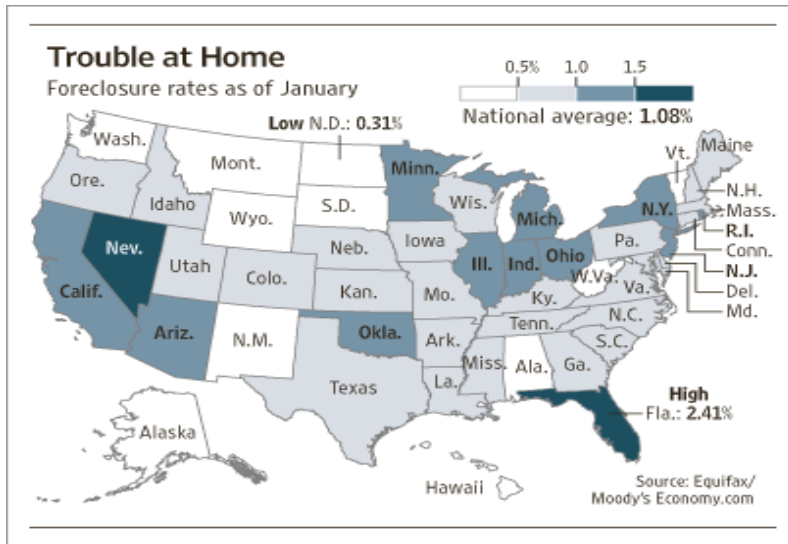
- Region’s housing market is lagging nation
- Local price increases are similar to U.S. average
- Market is healthier here than nationally
 - Relatively low default, foreclosure rates, etc.



Percent change: 2000 Q1 to 2007 Q3 (housing price peak):

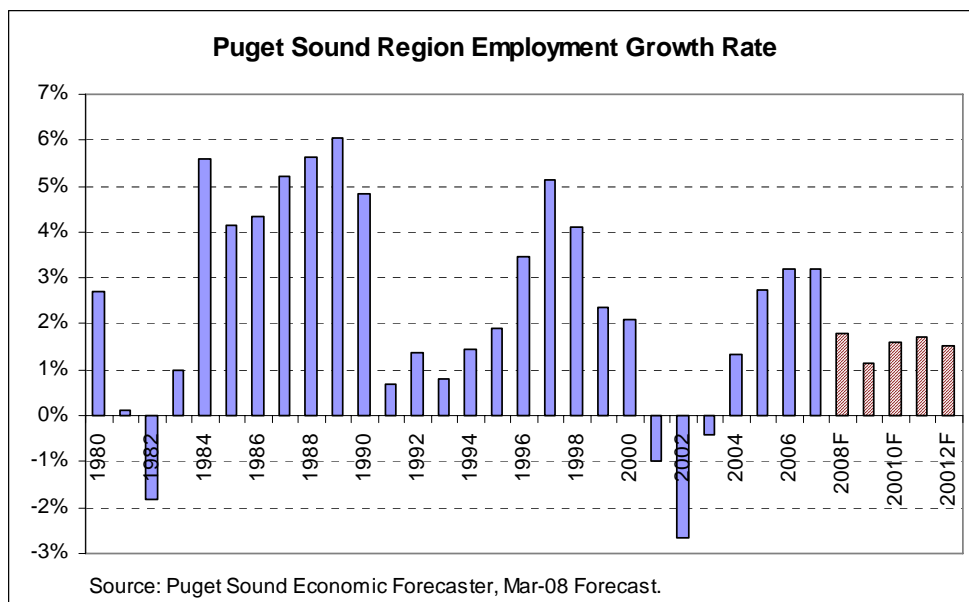
- 92.9% King County median single-family home price
- 23.1% King County per capita income





Puget Sound Forecast:

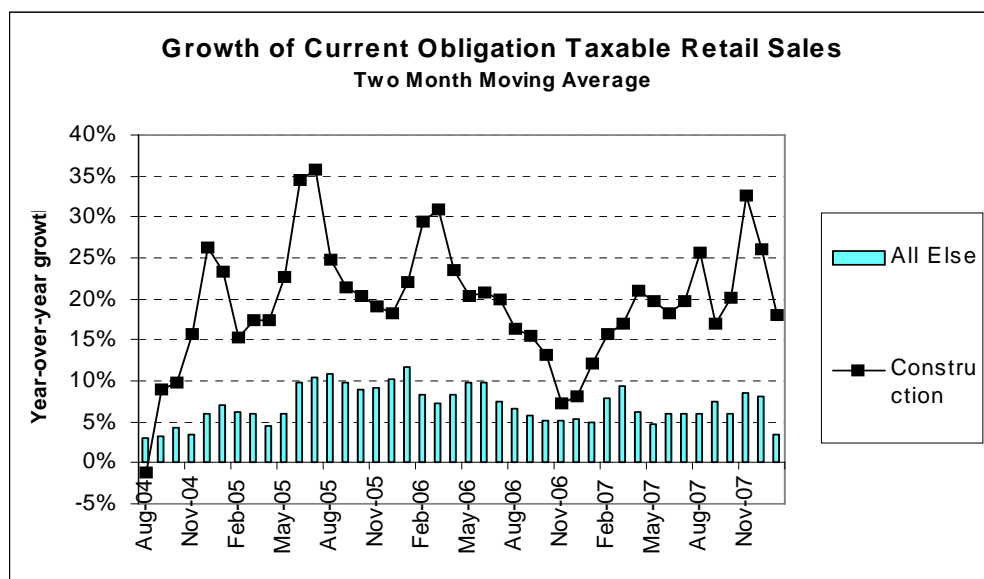
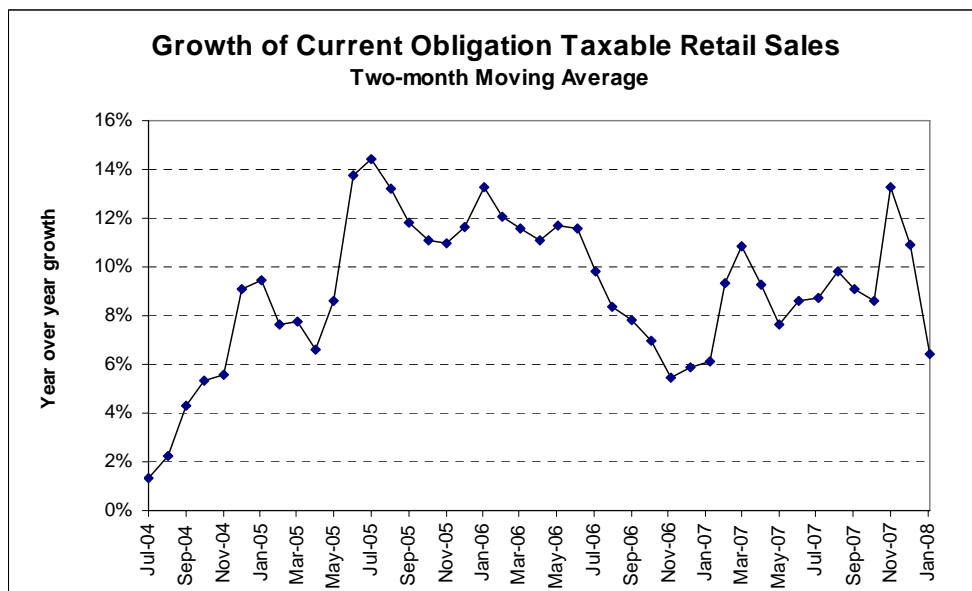
- Slowdown, but no recession. Why?
 - Only a mild U.S. recession is expected
 - Strong export growth
 - Boeing has record order backlog
 - Local housing market is healthier than most
- Risks
 - U.S. recession is worse than expected
 - Local housing conditions worsen significantly



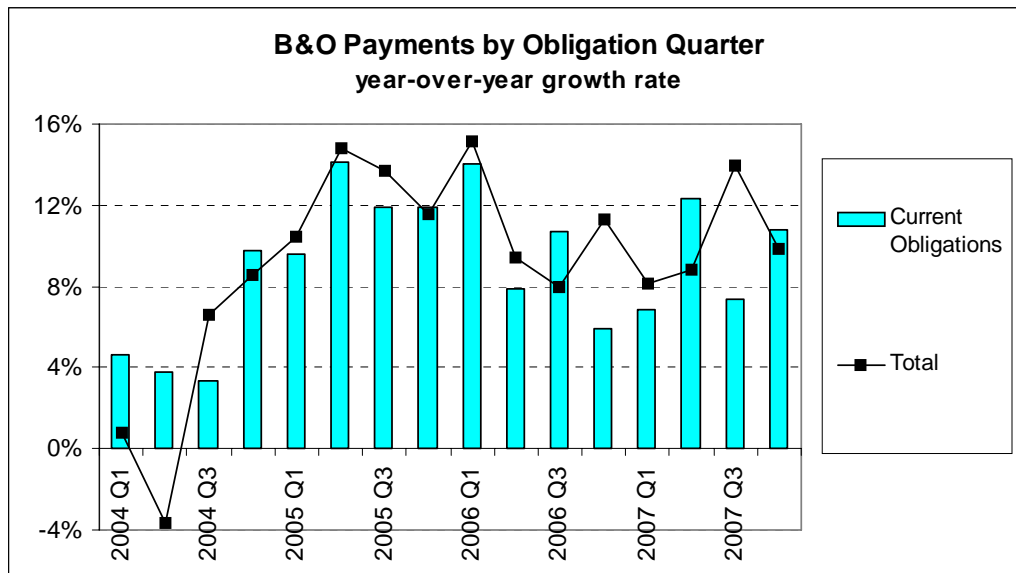
Retail Sales and B&O Tax

Recent Trends: Sales Tax

- Surge in construction activity in 2007 Q4
- Slowdown in latest two months, December and January
- January 2008 growth rate:
 - 12.6% Construction
 - 2.6% All Else



Recent Trends: B&O Tax

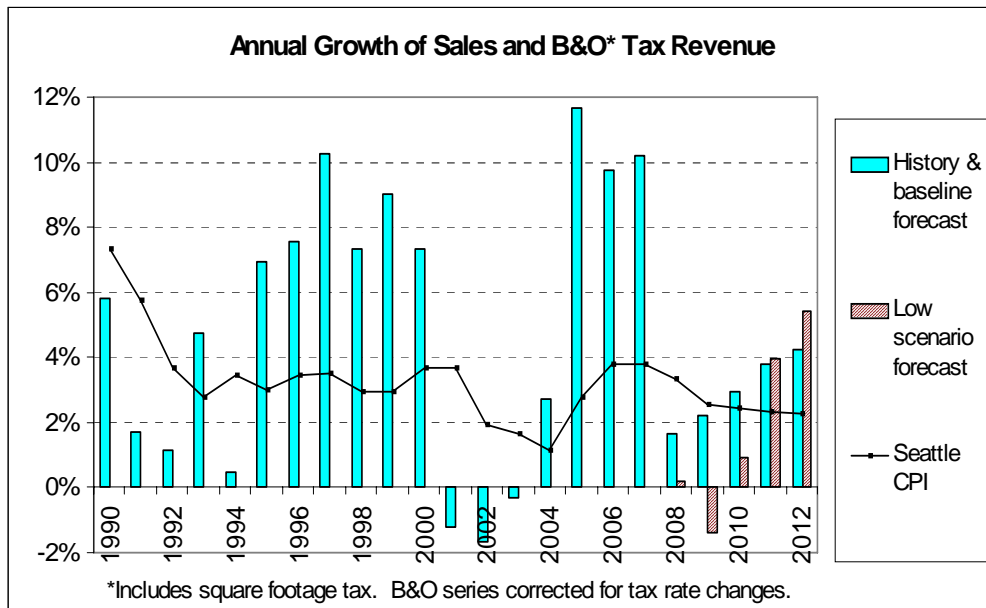
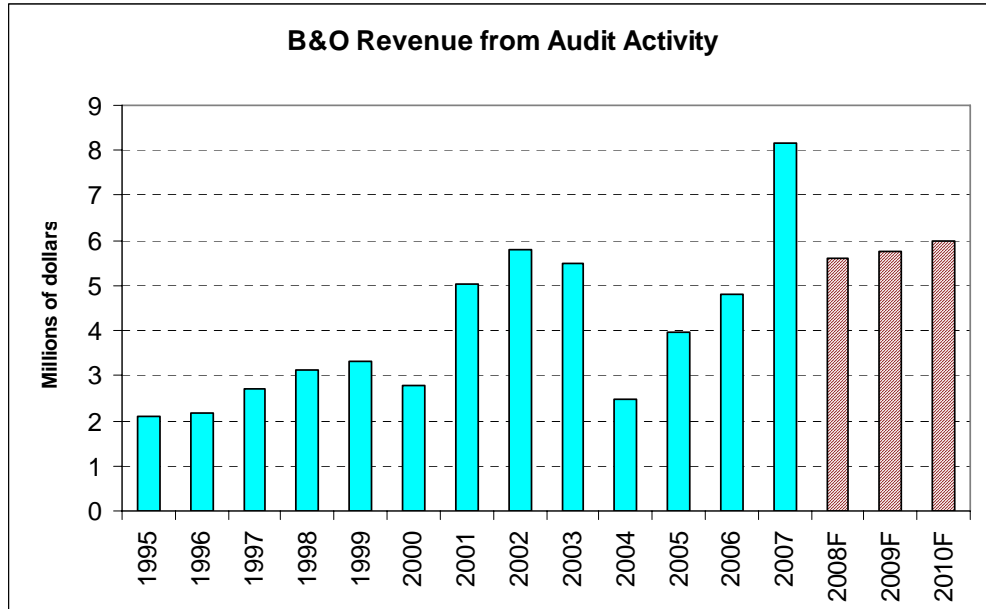


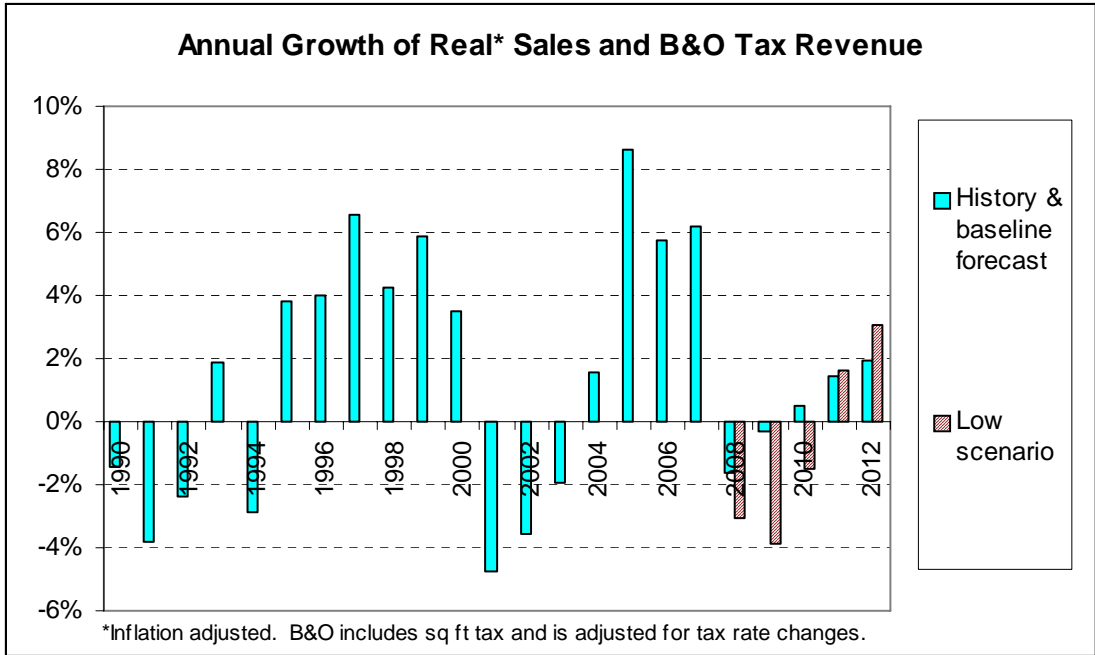
Changes to B&O tax law on January 1, 2008

- HB 2030 – new apportionment procedures
 - Estimated revenue loss = \$22.1 million
- Square Footage Business Tax takes effect
 - Purpose is to recoup HB 2030 loss
 - Anticipate 85% recovery
- Uncertainty is high
 - Accuracy of HB 2030 loss estimate (DOR)
 - Accuracy of square footage tax base and rate estimates
 - Business learning curve

Forecast

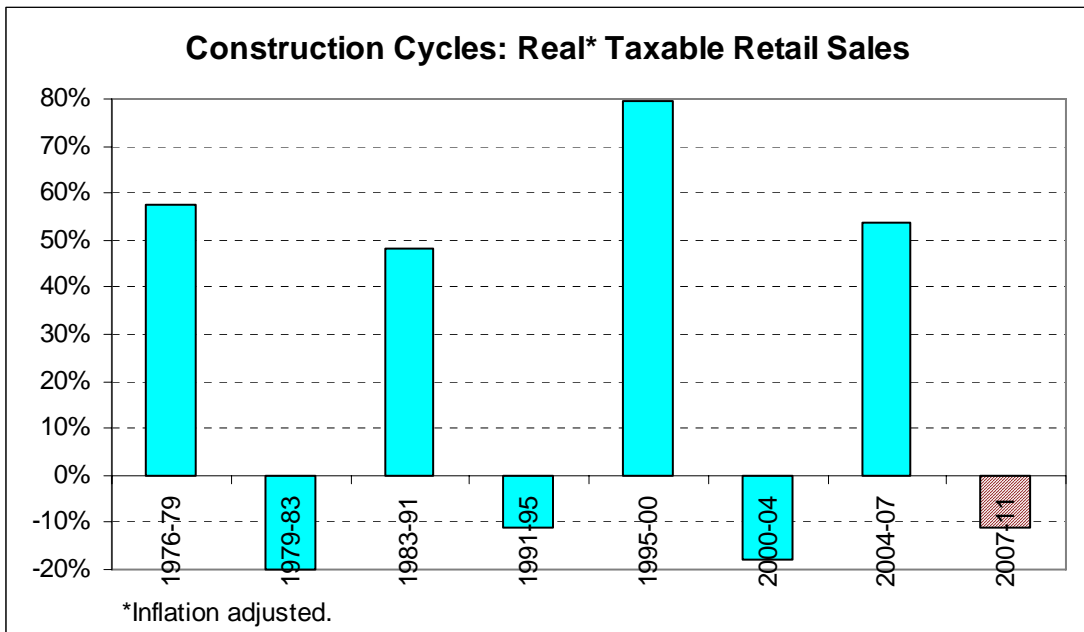
- B&O forecast adjustments
 - \$770,000 lost by raising B&O threshold to \$80,000
 - Un-recovered HB 2030 loss of \$3.3 million
 - Assume drop in audit revenue in 2008





Construction

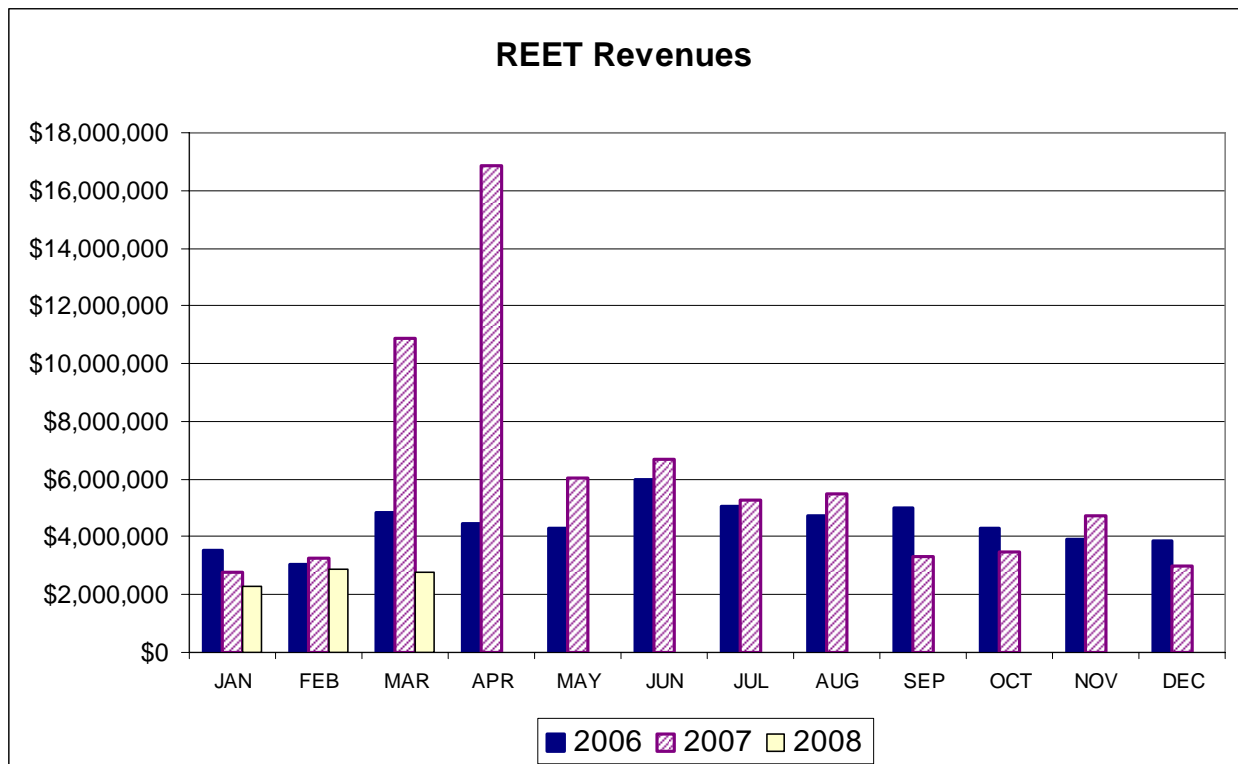
- 23% of sales tax revenue
- 8% to 9% of B&O revenue
- Property tax new construction
- REET
- Is subject to large swings



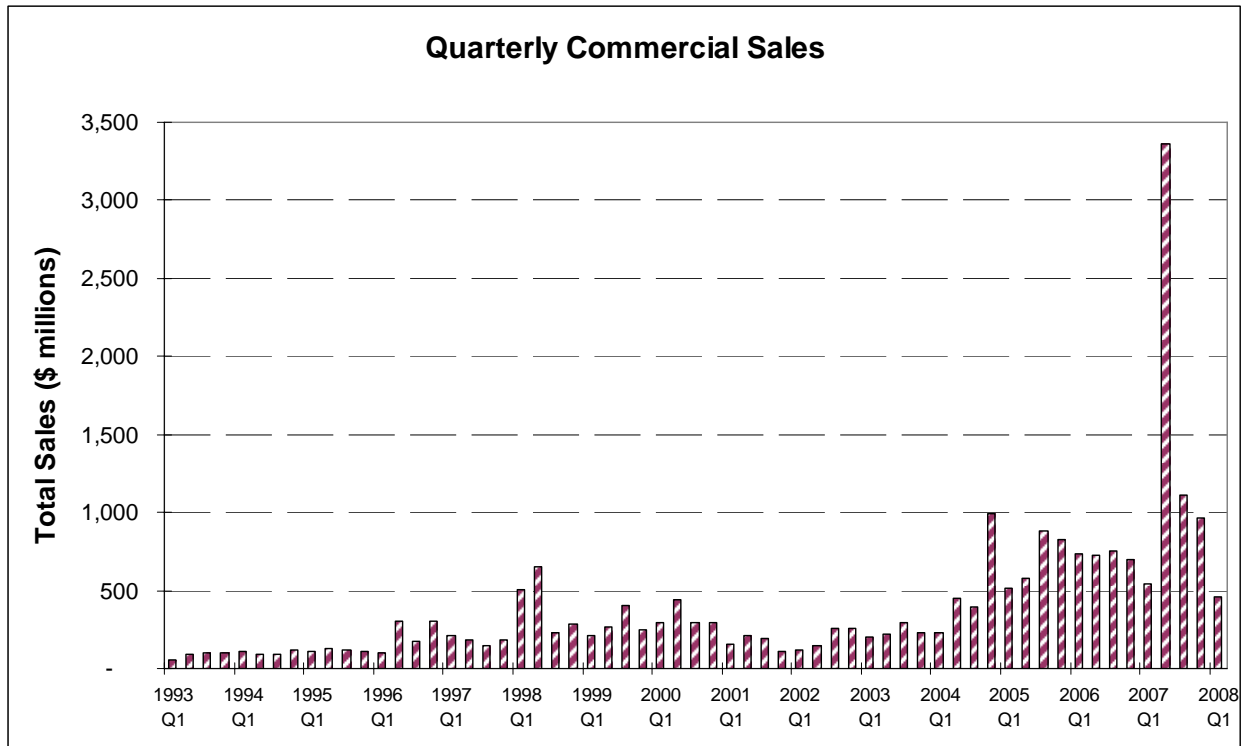
Cumulative Reserve Subfund:

REET

- REET revenues were \$71.8 million for 2007
- 35.7% increase over 2006
- 2007 had a very active commercial market
- Single-family and condominium sales experienced notable growth, as well
- The economic landscape has changed in the last eight months
- Credit availability has been reduced across the board
- Expect a substantial decrease in REET revenues for 2008



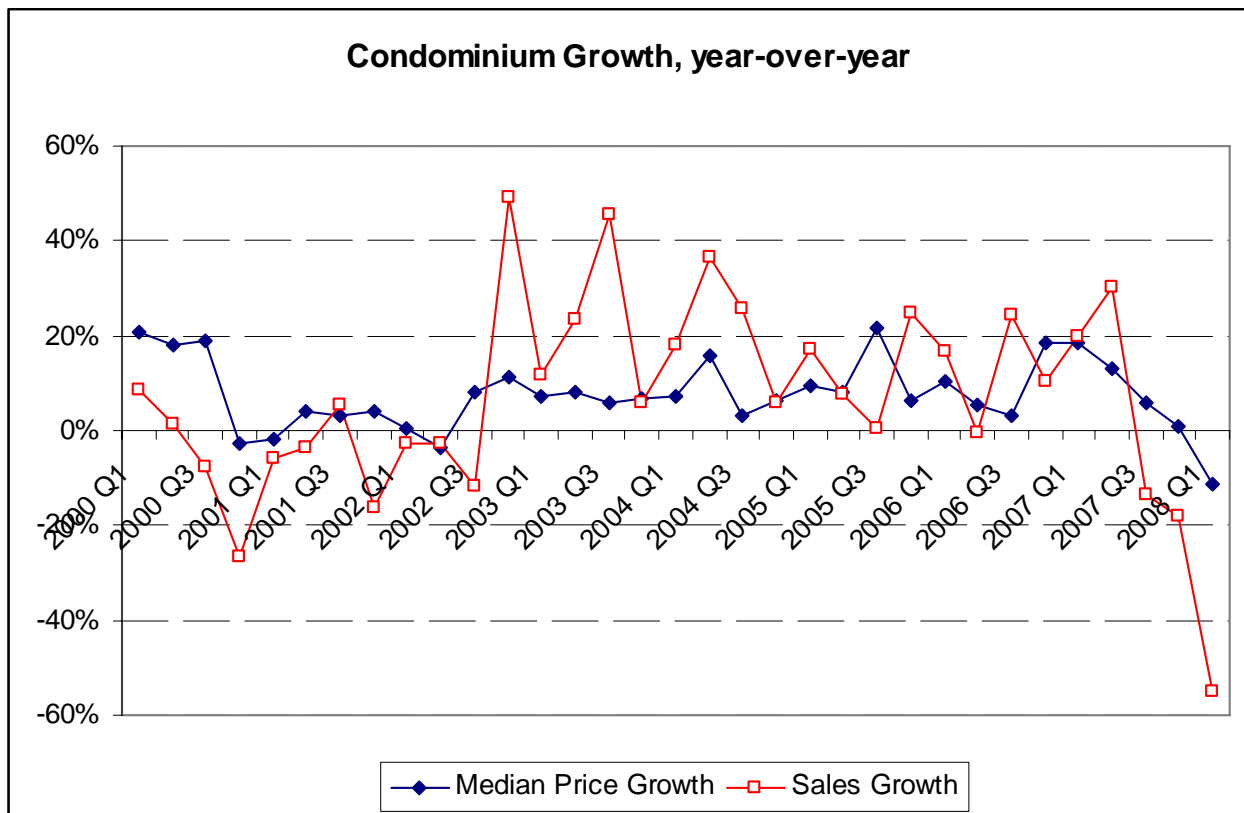
Commercial REET



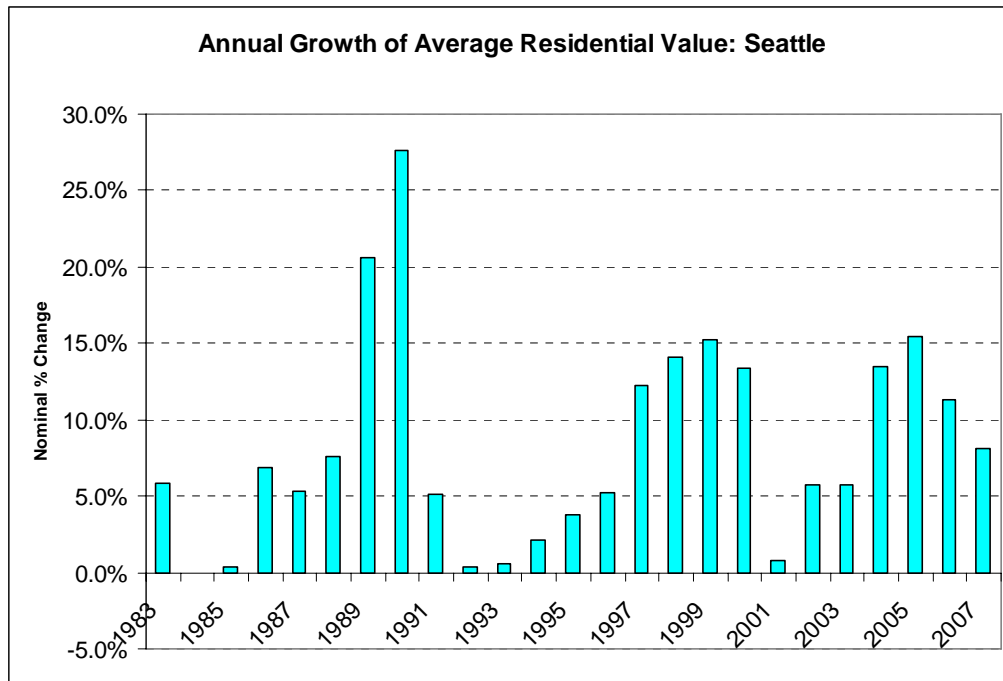
- Commercial activity in 2007 was almost \$6 billion worth of sales, which was \$34.8 million (48%) of REET revenues
- Commercial real estate tends to be volatile
- Year-over-year sales growth has turned negative
- Vacancy rates are low and office rents are high
- More office space to come on-line
- Credit crisis will affect appetite for large property deals
- Commercial activity will fall this year

Condominium Market

- Condo sales account for 15% of REET revenues
- Sales of condo units are down 55% as of Q1 2008
- Median prices are now at \$300,000
- Many new units to come on-line
- Condo sales will continue to fall through 2008
- Prices will follow later
- REET revenues from condo sales are forecast to be down in 2008 and 2009



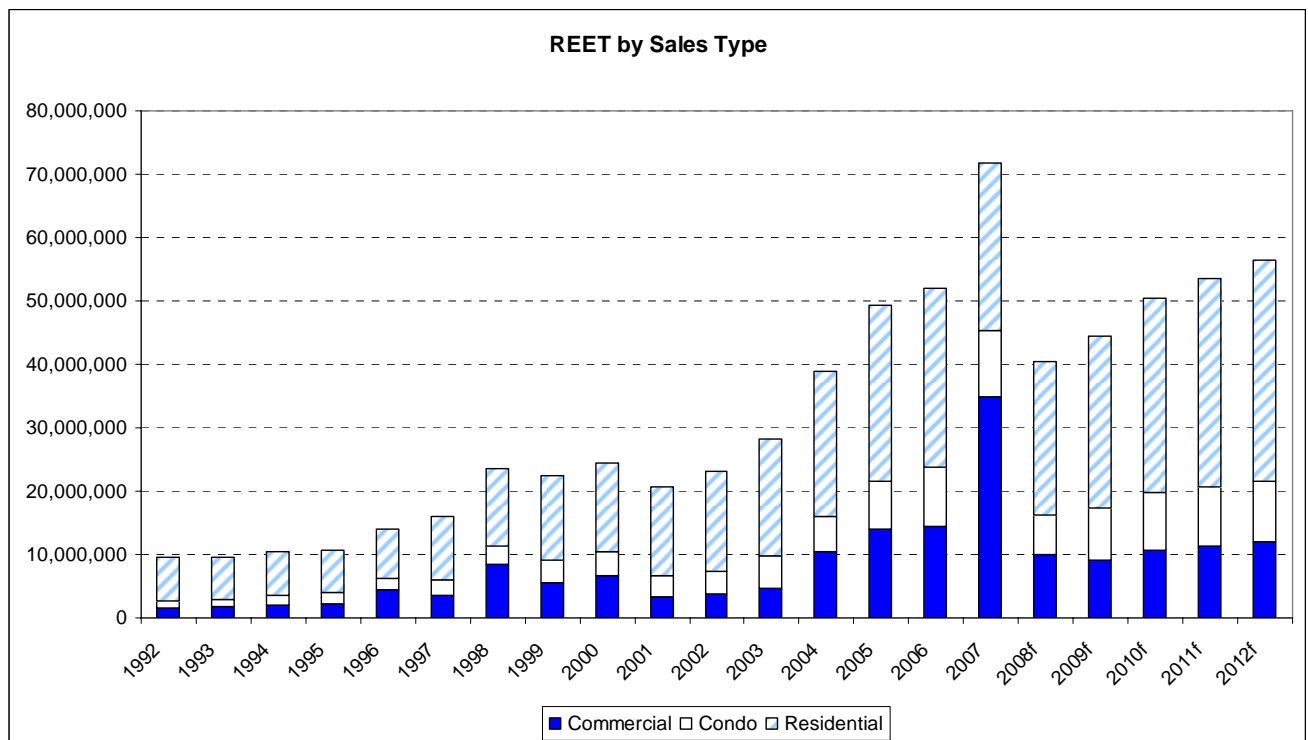
Single-family REET



- Single-family market has been strong
- Median prices locally peaked in June 2007 at \$500,000
- The credit crunch and concerns about the economy will remove potential buys from the market
- Homes are on the market longer and more are for sale
- REET from single-family will contract in 2008
- 36% of Seattle area homes that were for sale in February and March lowered their asking prices
- There was an 8.4% increase in the number of homes for sale
- Sale values should rebound to positive growth by 2009

REET Forecast

- Commercial activity will drop from 2007 highs
- Condo and single-family sales will contract slightly
- REET will generate \$40.5 million in 2008, down from the Adopted 2008 forecast of \$51.0 million
- Seattle may avoid many national housing problems
- Population growth will stay positive
- Job growth will stay positive
- Credit is unlikely to be as widely available
- Long term implications of credit crunch are unclear



Fiscal Issues:

- Higher inflation puts upward pressure on all salary costs.
 - Public safety salaries are the largest single cost category in the General Fund and have been growing by 1-2% more than inflation annually.
- Health care benefit costs have been growing far faster than revenues and are likely to increase by 10% or more per year.
- The Mayor and Council have made commitments for a series of new initiatives that will raise costs in 2009 and beyond. These include approximately 20 new police officers each year and added funding for housing and services through the 10-Year Plan to End Homelessness.
- Debt service costs for potential new public safety facilities will add significant costs in 2011 and beyond.
- The combination of slow revenue growth and these expenditure pressures likely will require cuts to balance the 2009-2010 General Fund budgets.
- The rapid slowdown in REET revenues in 2008 means some projects will need to be canceled or postponed.
 - There are several projects that likely would not have been started in 2008, so this should not be a major problem.
- The 2009 CIP included more potential projects than can be supported by the latest REET forecast. Thus, the 2009 CIP will need to be pared back.