

2009-10
General Government
Fiscal Forecast

City of Seattle
Department of Finance

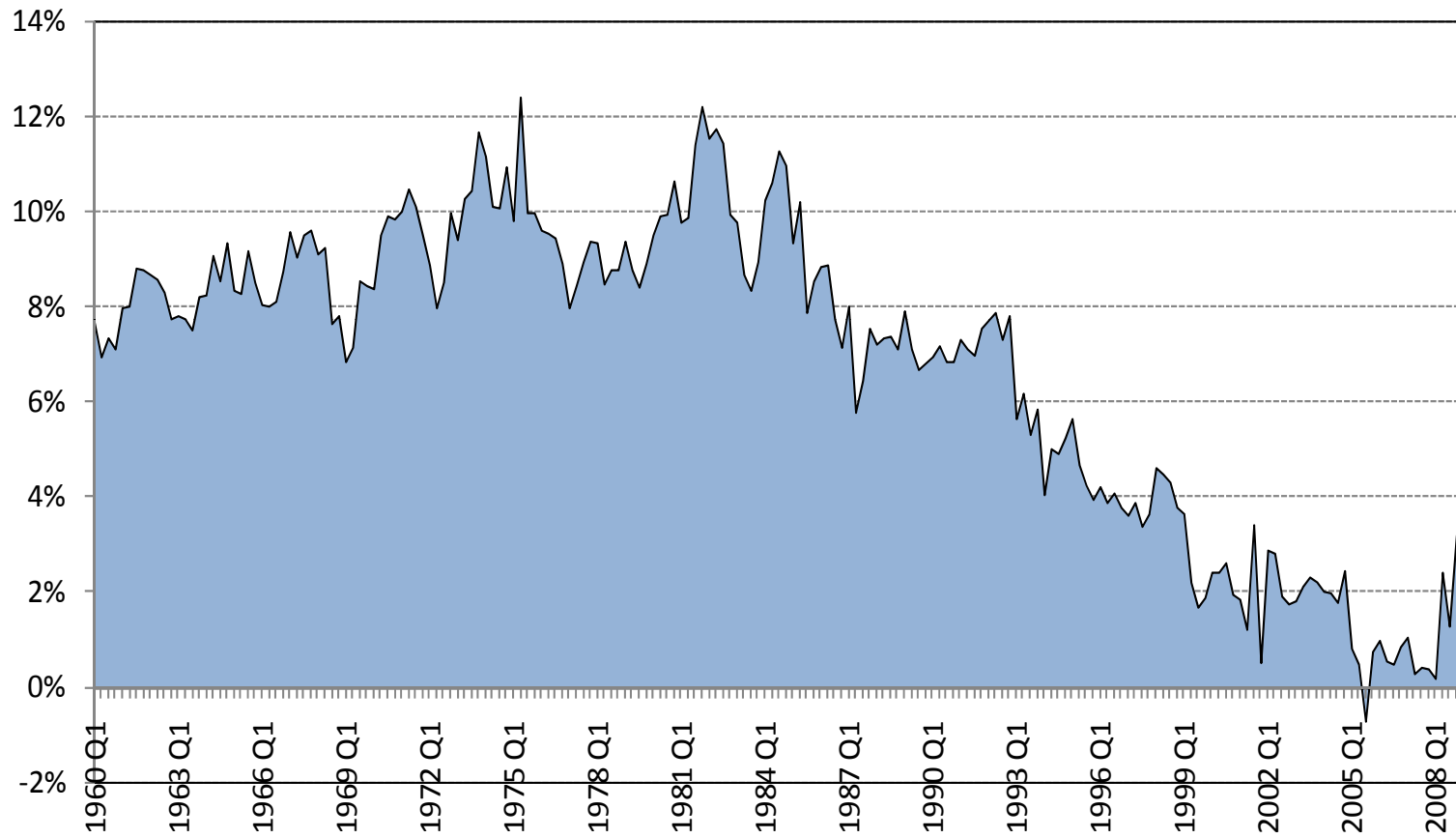
August 20, 2009

A Look Back: How Did We Get Here?

- Can trace roots of recession to early 1980s
 - Investor preference for assets
 - Beginning of persistent federal budget deficits
 - Federal government debt is \$11.67 trillion today vs. \$0.83 trillion 30 years ago
 - First steps in financial deregulation
- The “great moderation” (early 1980s – 2006)
 - Period with stable economy, low inflation and cheap money fueled borrowing and risk taking

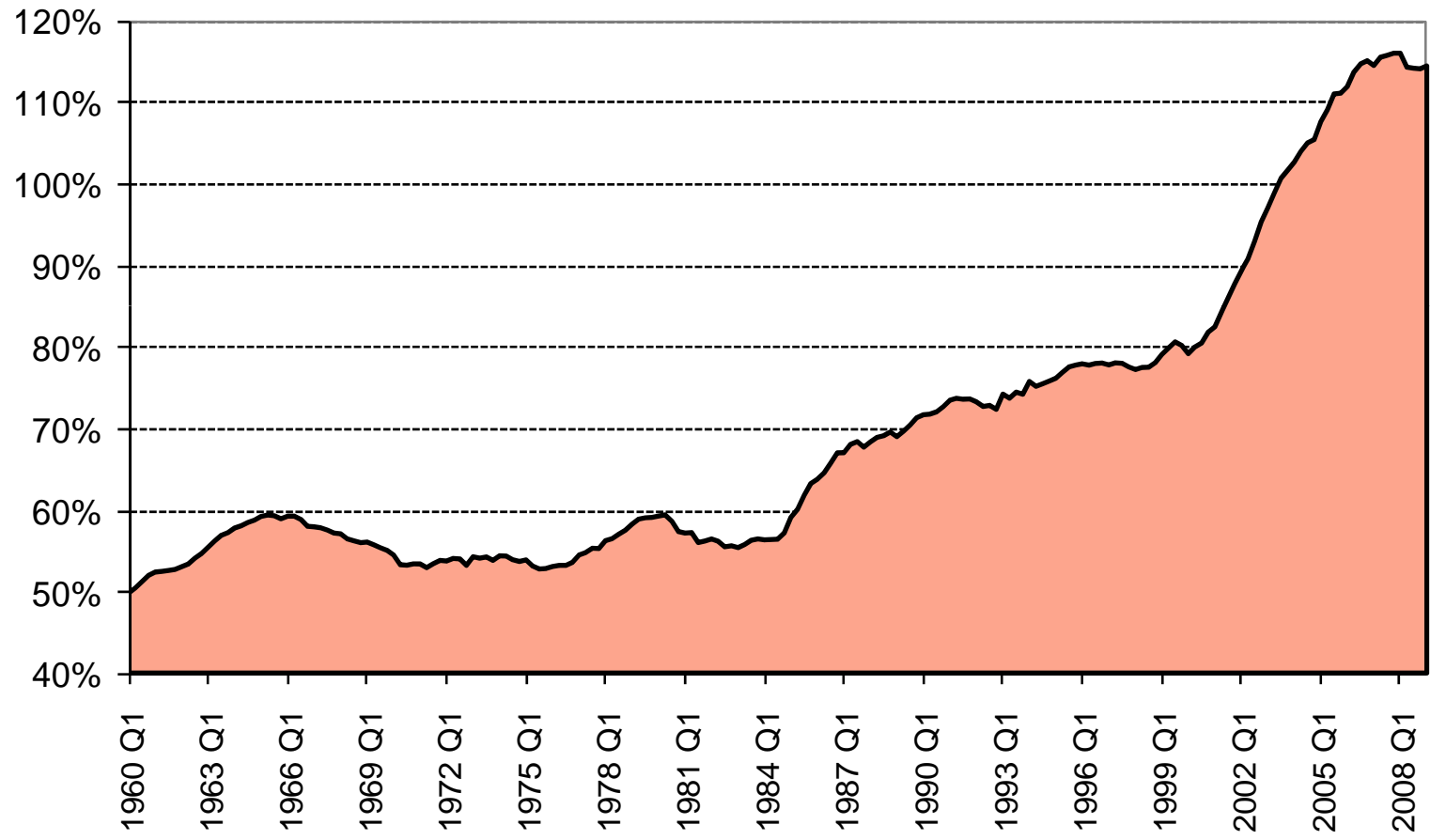
- This led to build up of asset bubbles
 - Stock market bubble of late 1990s
 - Housing bubble of 1998-2006
 - Commodities bubble, etc.
- With asset prices rising American spent more and saved less
 - Driving the expansion of the world economy
- Collapse of housing bubble triggered financial crisis
 - Which led to worldwide recession
 - Many believe root cause of the financial crisis was large imbalances in saving and borrowing among nations

Personal Saving as a Percent of Disposable Income



Source: Federal Reserve Board.

U.S. Household Debt as a Share of Personal Income



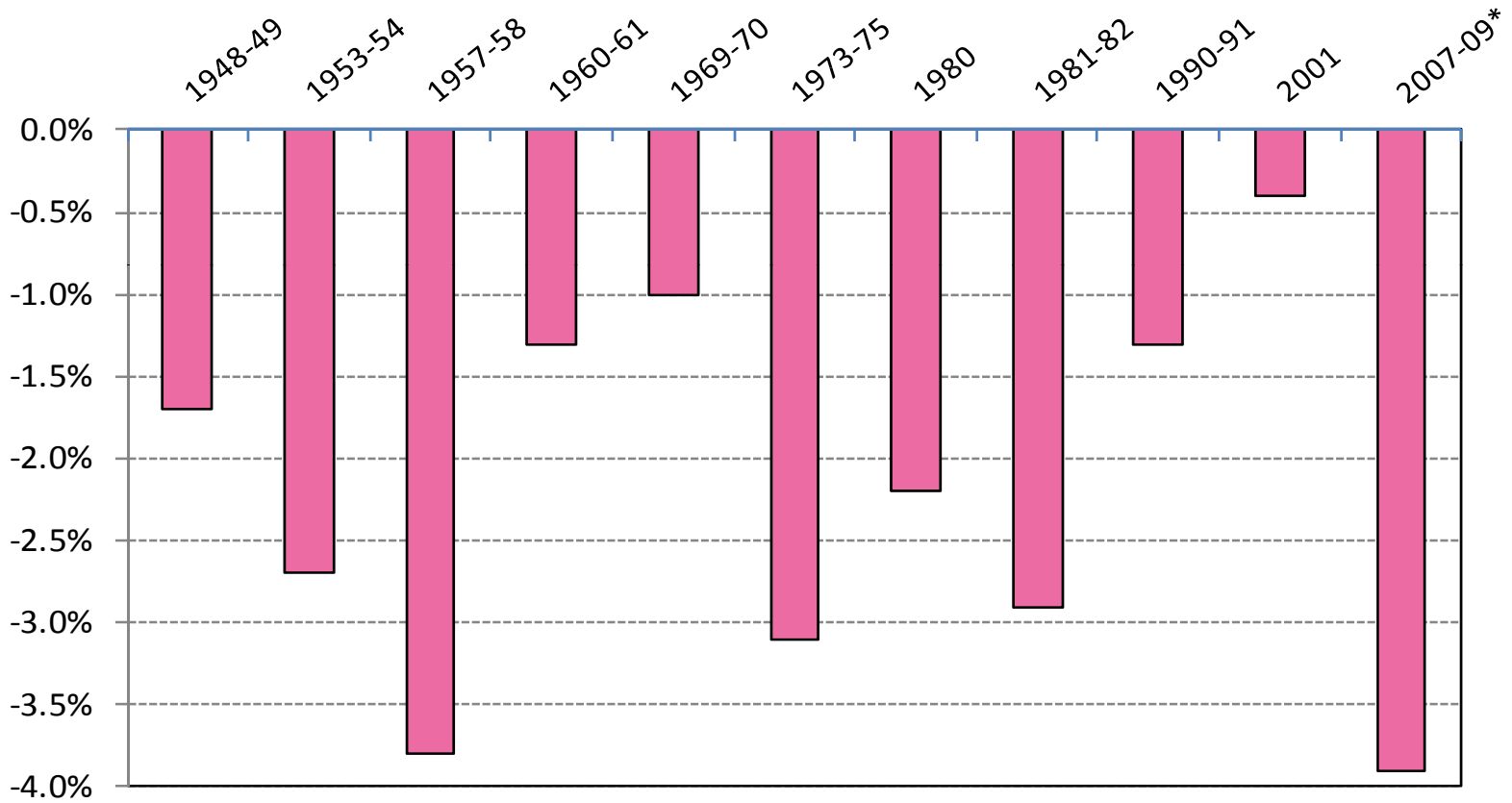
Source: Federal Reserve Board.

- Some implications
 - Problems developed over 25 years; correction will take time
 - The roots of the problem are global in nature
 - This is unlike other post-WW II recessions, so we don't have a roadmap for recovery
 - Government must unwind its intervention in the economy
 - This has potential to disrupt recovery or ignite inflation
 - Federal government will need to get deficit under control
 - Consumer spending will be restrained by need to reduce debt and increase savings
- History tells us recovery from recessions caused by financial crises is painfully slow

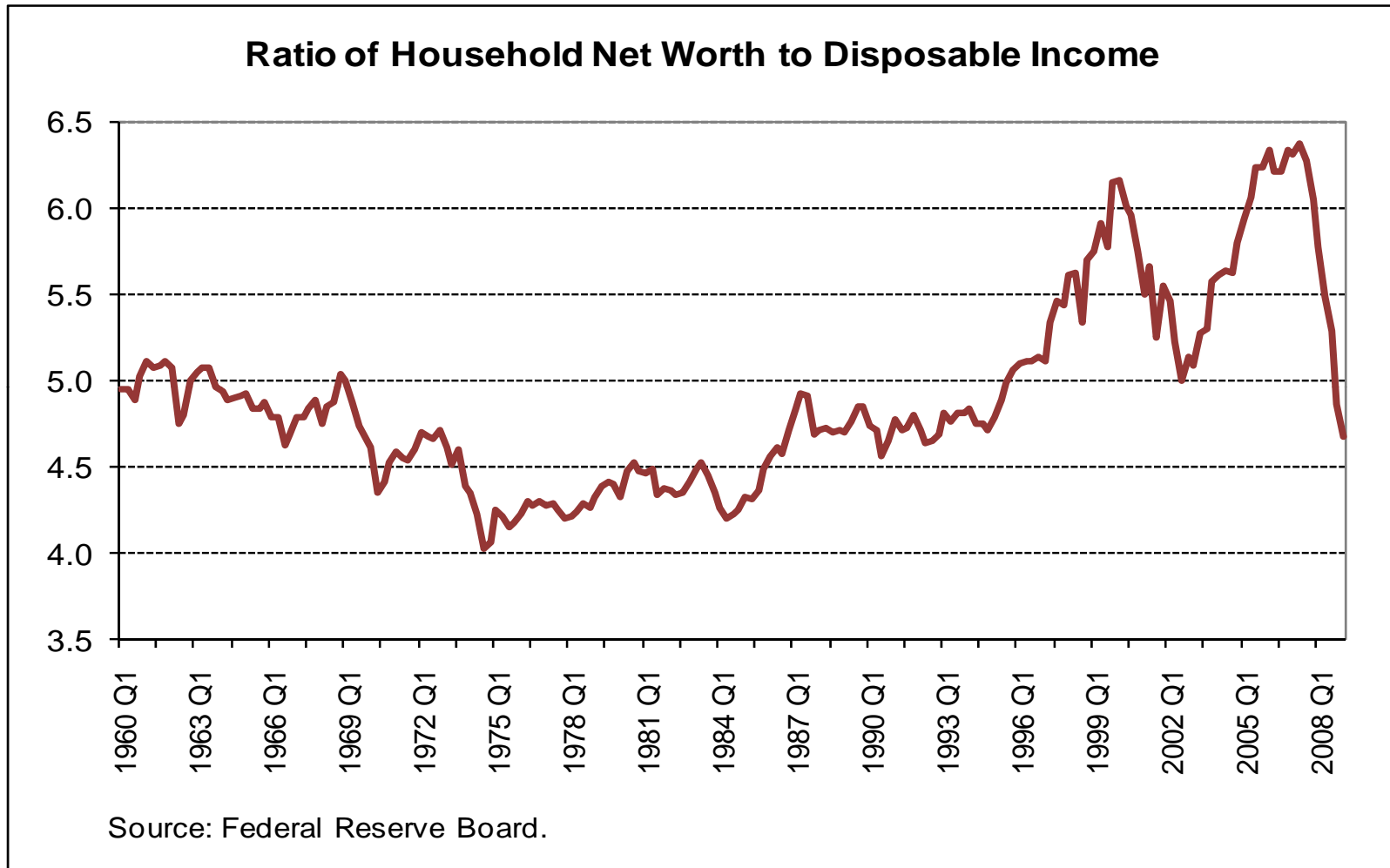
Current U.S. Economic Conditions

- The worst recession since the 1930s is nearing its end
 - Recession is in 20th month, making it longest since WW II
 - Drop in GDP (3.9%) is largest
 - Drop in employment (4.8%) is second biggest
 - Will likely surpass 5.1% job loss of 1948-49 recession before employment turns around
 - Household wealth has fallen by over \$13 trillion

Post-WWII Recessions: Peak-to-Trough Decline in GDP



*Through 2009 Q2. Source: U.S. Bureau of Economic Analysis, Moody's Economy.com.

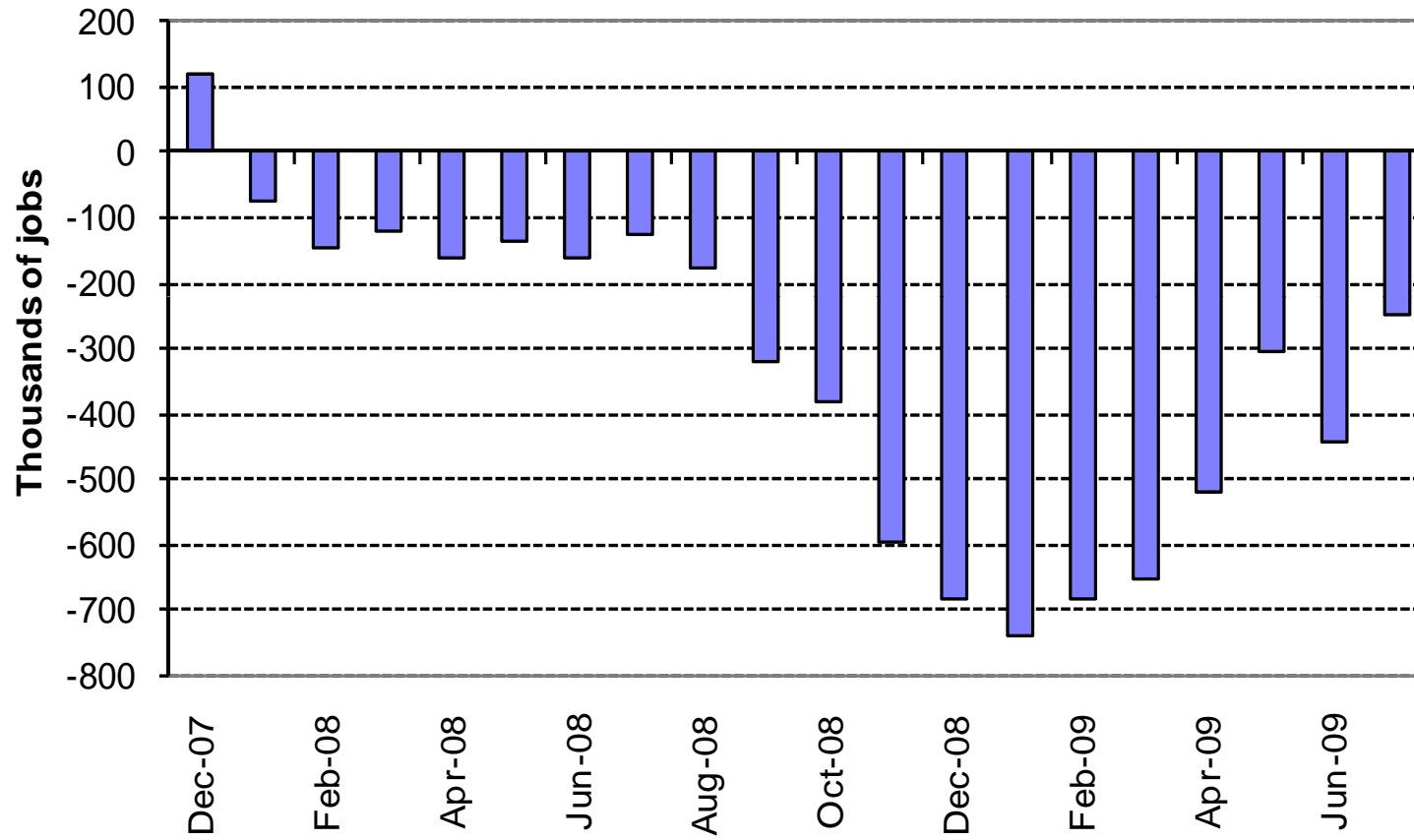


- Decline from 2007 Q2 peak to 2009 Q1 is 26.6%.

- Economy has moved from freefall to slower pace of decline
 - Annualized qtr-to-qtr change in GDP:

2008 Q4	-5.4%
2009 Q1	-6.4%
2009 Q2	-1.0%
 - 6.7 million jobs lost since Dec. 2007, a 4.8% decline
 - July drop of 247,000 was smallest since August 2008
 - Total hours worked was unchanged in July
 - Housing is showing signs of stabilization
 - Sales and starts have risen slightly, price decline has slowed
 - Financial conditions have improved
 - Consumer confidence is up from Feb – Mar lows

Monthly Change in U.S. Employment



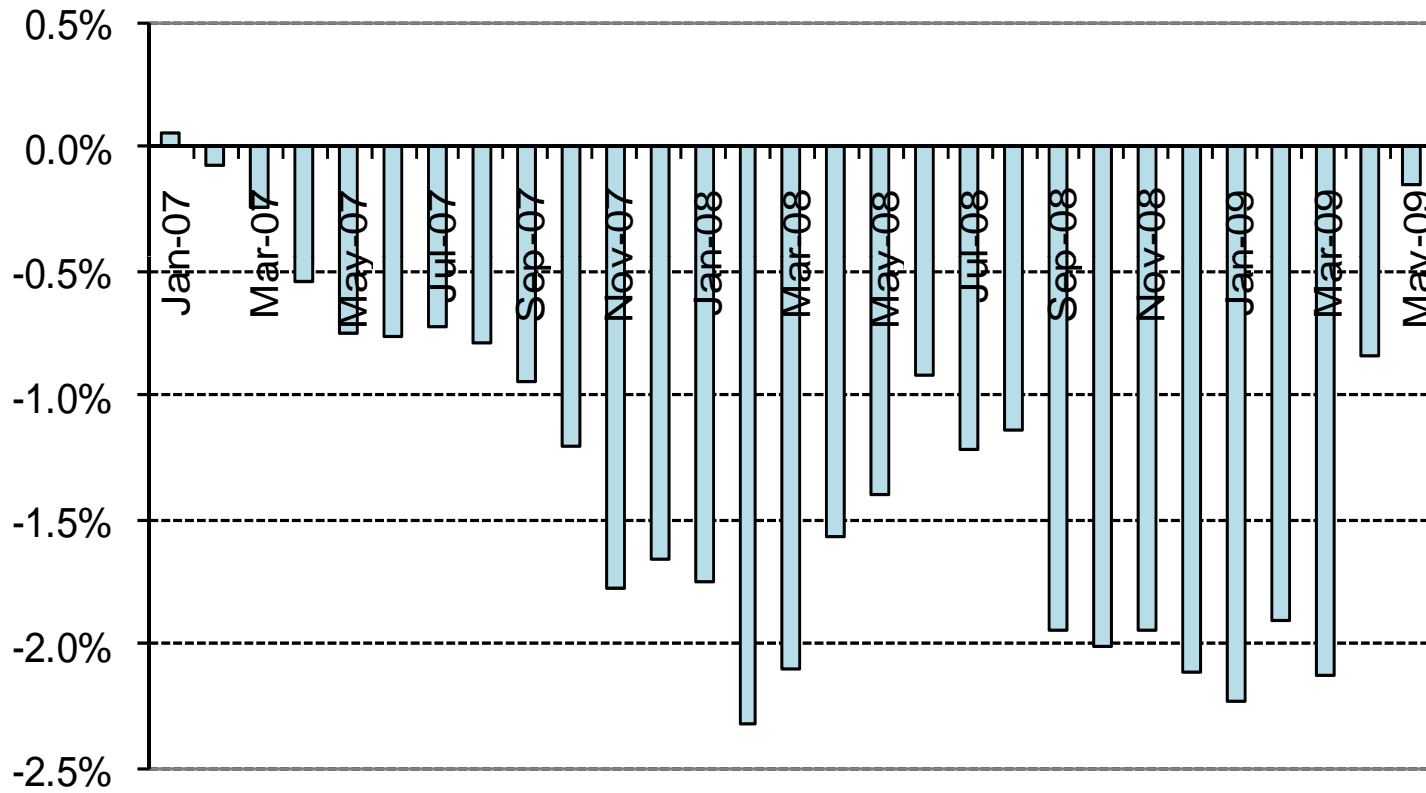
Data are seasonally adjusted. Source: U.S. Bureau of Labor Statistics.

U.S. Single-Family Housing Permits



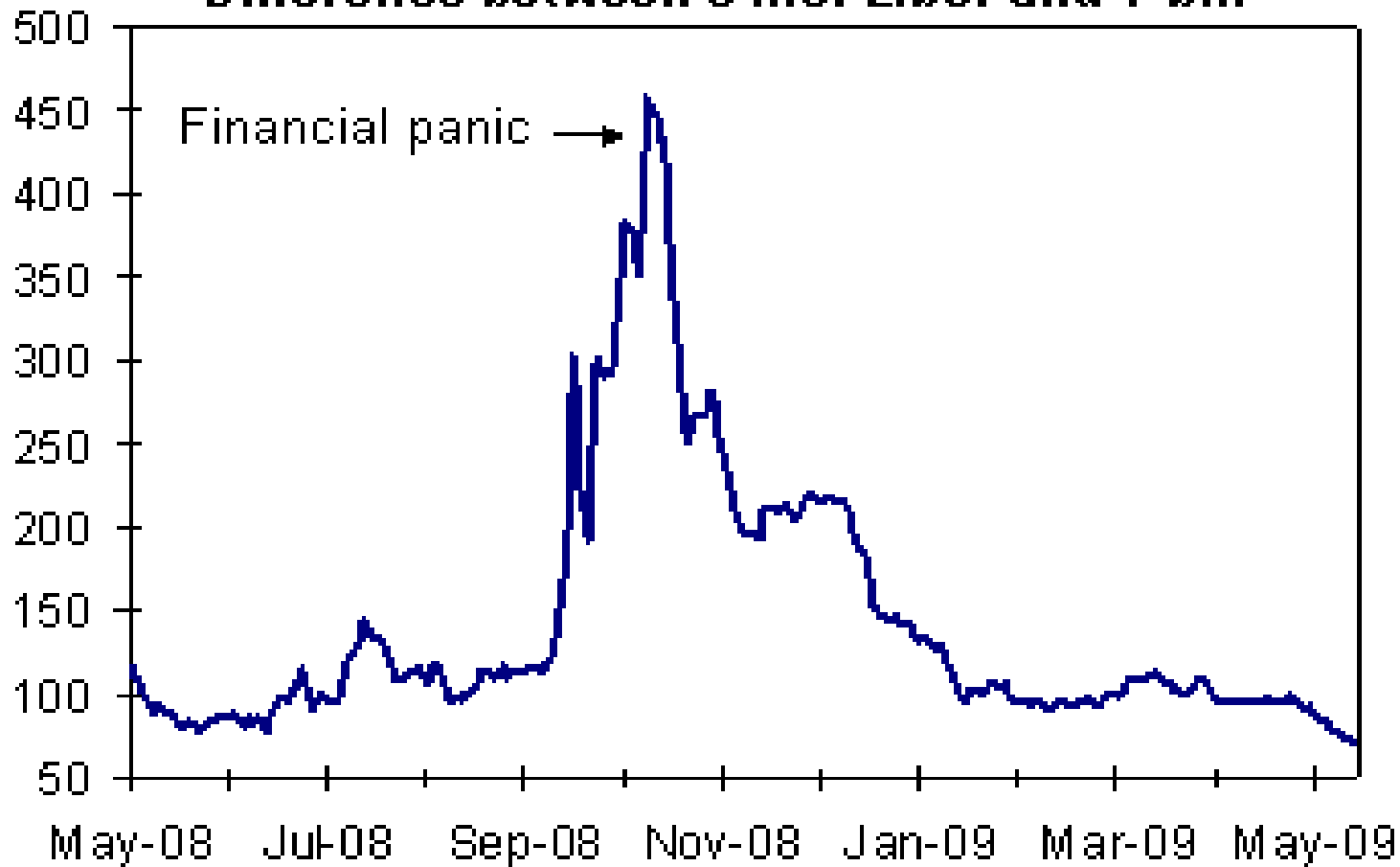
*Source: U.S. Census Bureau.

Case-Shiller Housing Price Index, Month-to Month Change: Composite 20 Cities



Note: data have been seasonally adjusted. Source: Standard & Poor's.

TED Spread Returns to Earth Difference between 3 mo. Libor and T-bill



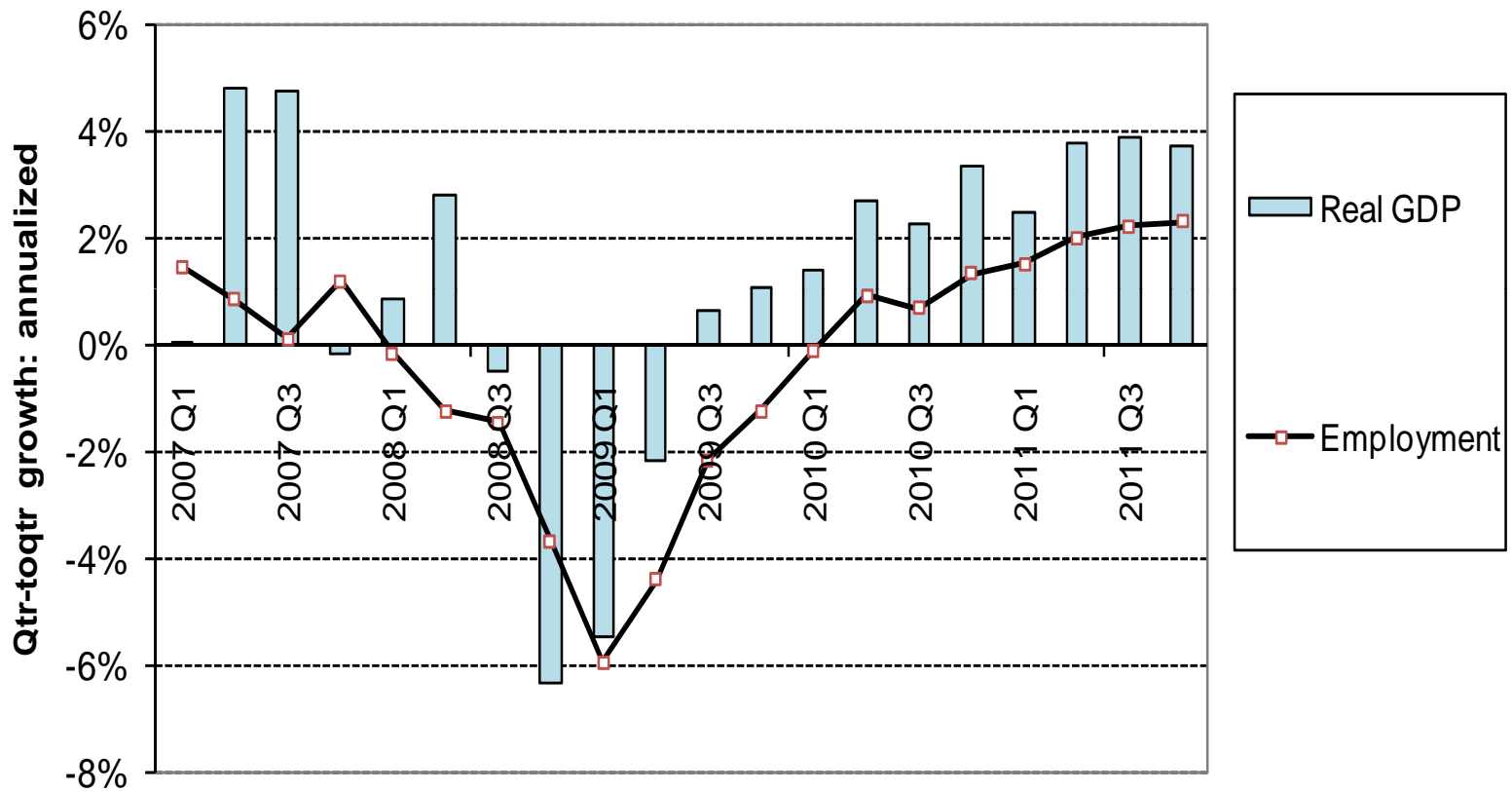
Data are in basis points; i.e., hundredths of a percent.

Source: Moody's Economy.com.

U.S. Economic Forecast

- Recovery expected to begin in current quarter
 - Stimulus impact will peak this quarter (Economy.com)
 - Employment upturn will lag
 - Growth to begin in 2010 Q2
 - Unemployment rate will peak at 10.3%
- Recovery will be weak by historical standards
 - Credit will be tight
 - Consumers are under stress
 - Wealth decline
 - Job losses
 - Personal income has fallen 3.0% from Sept. 2008

Forecast of U.S. GDP and Employment Growth

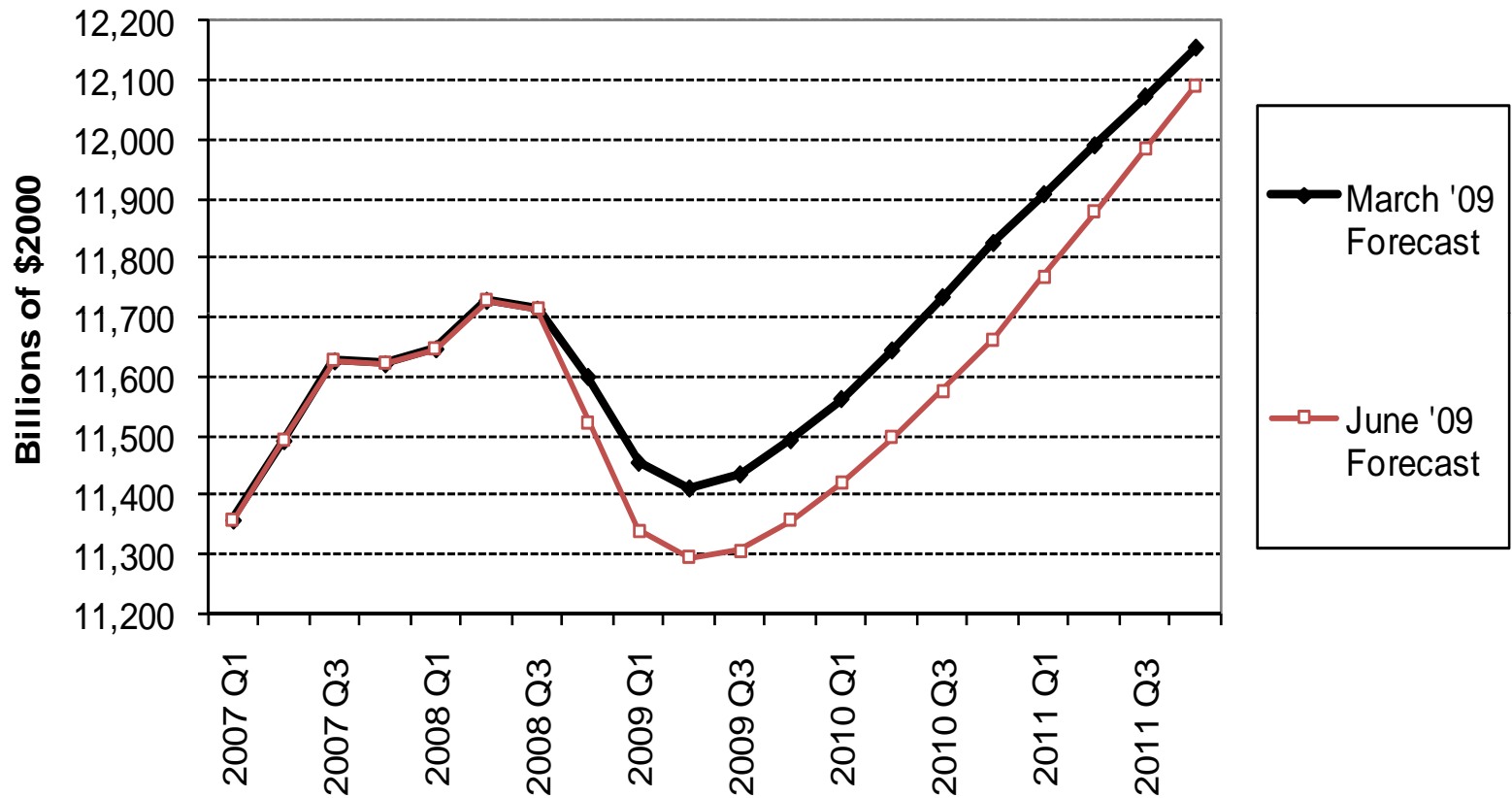


Source: Global Insight July 2009 forecast.

- U.S. economic forecasts have been revised downward since the March revenue forecast was developed
 - However, in recent months forecasts have stabilized

- Risks to forecast are high
 - Financial markets remain vulnerable
 - Labor market is weak
 - Housing market plagued by foreclosures
 - Nearly 1 million loans in default at end of June
 - About 15 million homeowners are under water

Forecasts of Real U.S. GDP



*Source: Puget Sound Economic Forecaster.

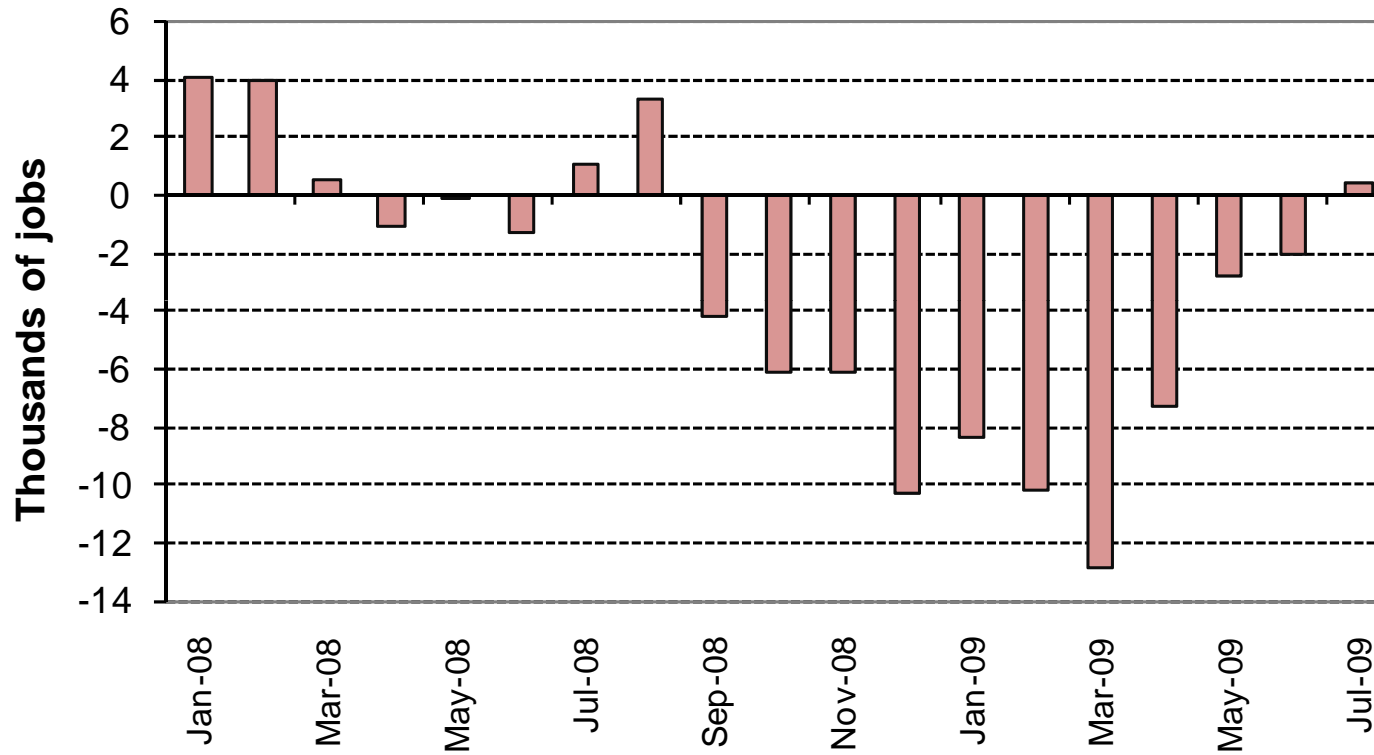
Puget Sound Economy

- This is not worst downturn since the 1930s
 - Region lost nearly 12.4% of jobs in 1969-71
- Downturn locally has been comparable to U.S.
 - Through June, 66,300 jobs (4.5%) lost in 4-county region
 - Compared to 4.6% nationally
 - Job loss steepest in blue collar industries
 - Boeing & Microsoft have fared better than most large U.S. firms

Employment Change for selected Metro Areas: Dec '07 – Jun '09

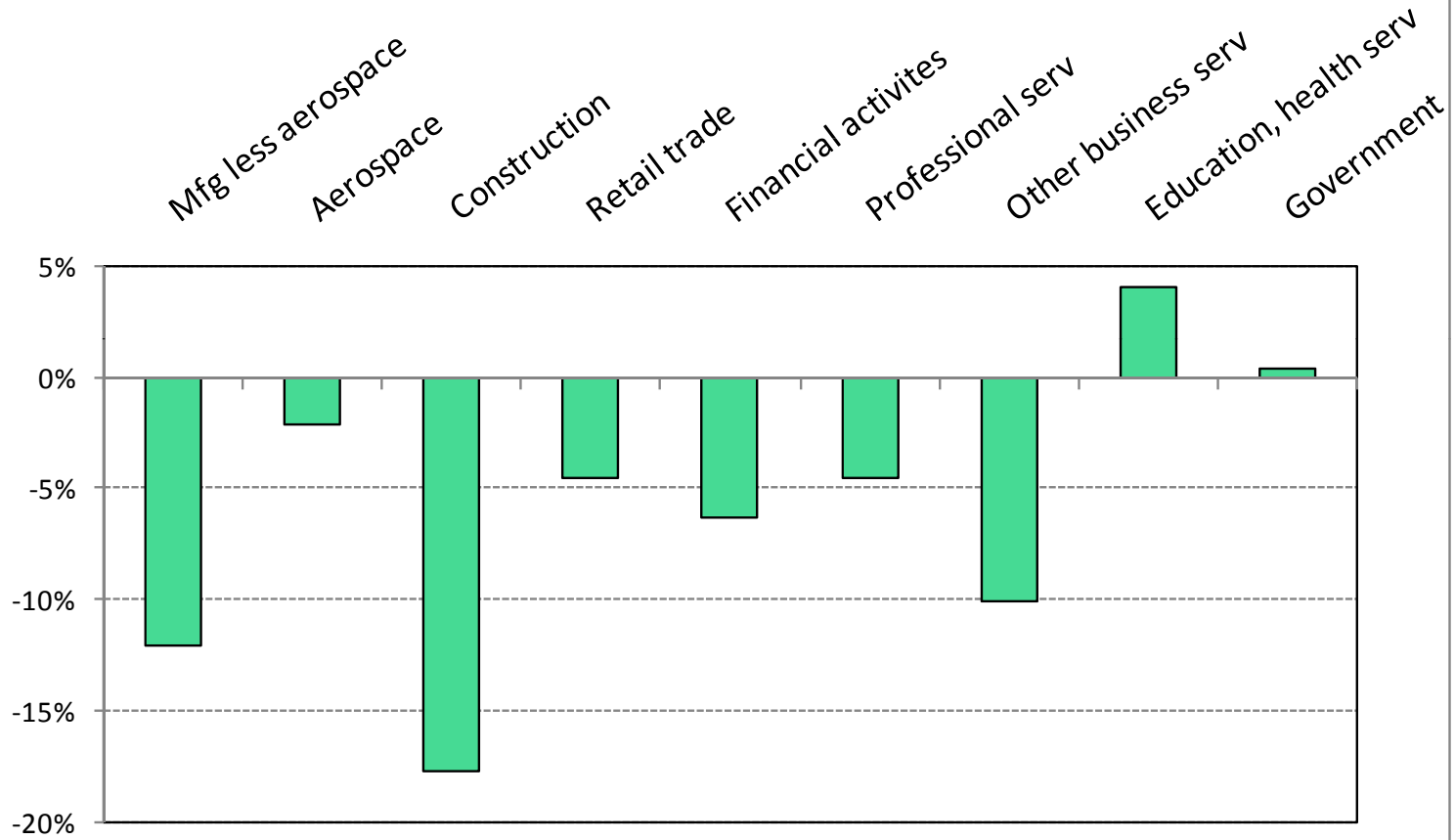
-11.6%	Flint, MI
-10.7%	Detroit, MI
-9.7%	Phoenix, AZ
-9.1%	Riverside-San Bernardino, CA
-7.2%	Charlotte, NC
-5.6%	Los Angeles, CA
-5.6%	Portland, OR
-5.4%	San Francisco, CA
-4.1%	Denver, CO
-4.0%	Spokane, WA
-3.7%	Seattle, WA (King, Snohomish)
-3.5%	Honolulu
-0.7%	Oklahoma City, OK
-0.7%	Olympia, WA
-0.4%	Sioux Falls, SD
0.7%	Washington, DC
3.8%	Richland-Kennewick-Pasco, WA

Monthly Change in Seattle Metro Area* Employment



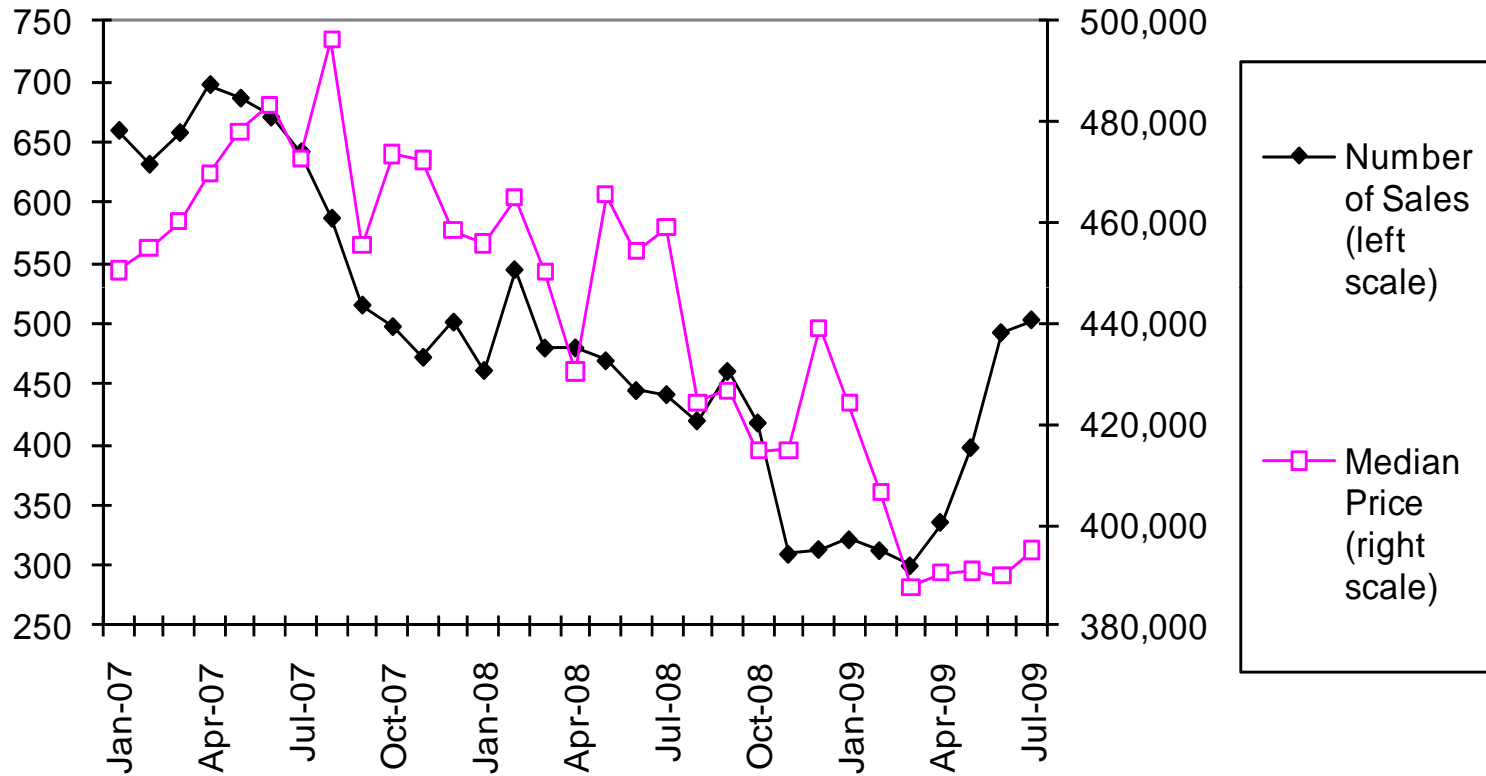
*King & Snohomish Counties. Data are 2 month moving average of seasonally adjusted employment with effect of Boeing strike removed. Source: WA ESD.

Seattle Metro Area* Employment Change: Feb'08 - Jun '09



* King & Snohomish Counties. Source: WA Employment Security Dept.

Seattle Single Family Home Sales, Seasonally Adjusted



Source: NW Multiple Listing Service.

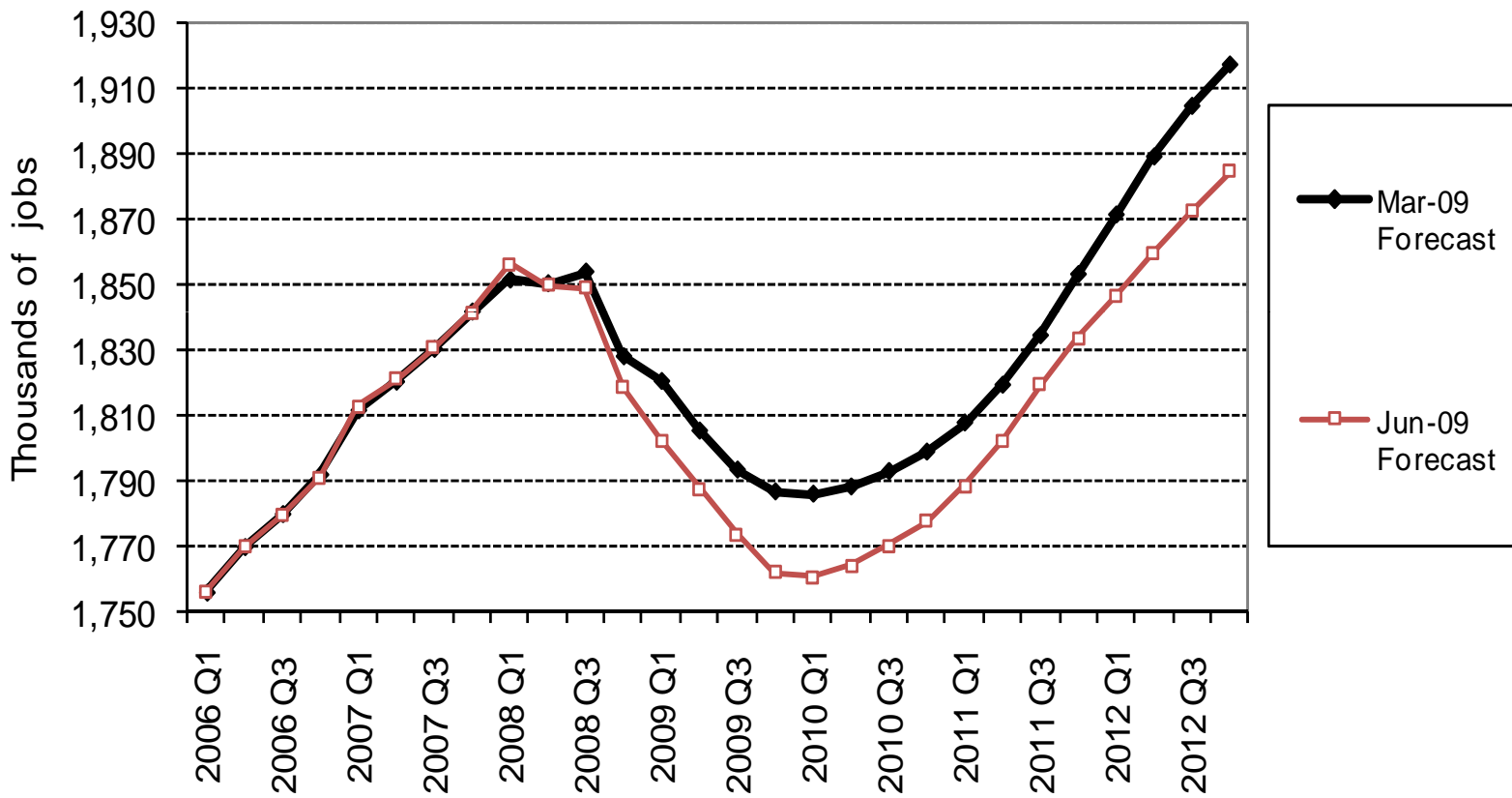
Puget Sound Economic Forecast

- Region expected to recover at same time as U.S.
 - Employment growth to resume in 2010 Q2
 - State Economist sees stronger rebound in WA than US
- June forecast is weaker than March forecast

Peak-to-trough employment change

-67,700	March '09 Forecast
-95,700	June '09 Forecast
-28,000	Difference

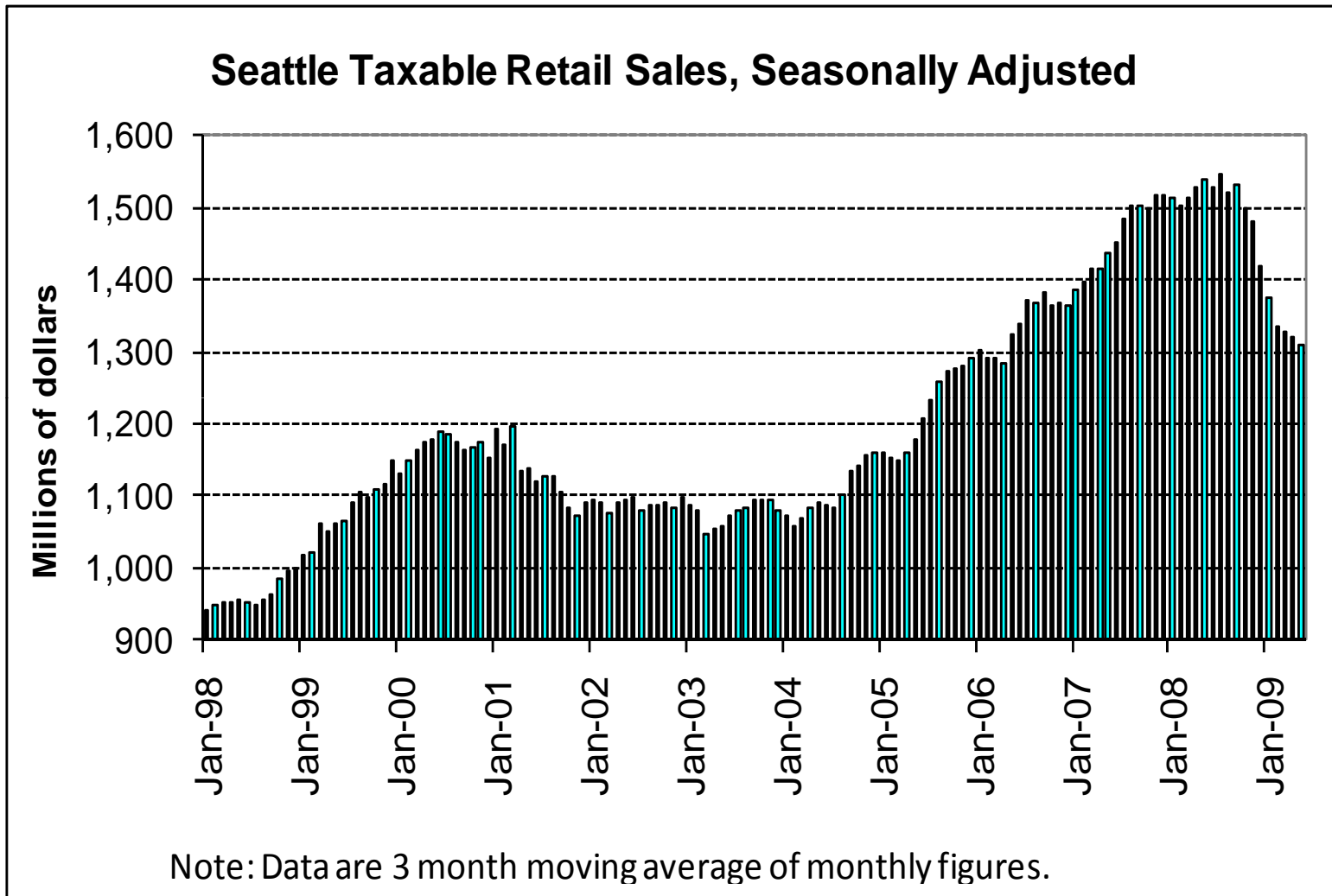
Puget Sound Region* Employment Forecasts



*King, Snohomish, Pierce, and Kitsap Counties. Source: Puget Sound Economic Forecaster.

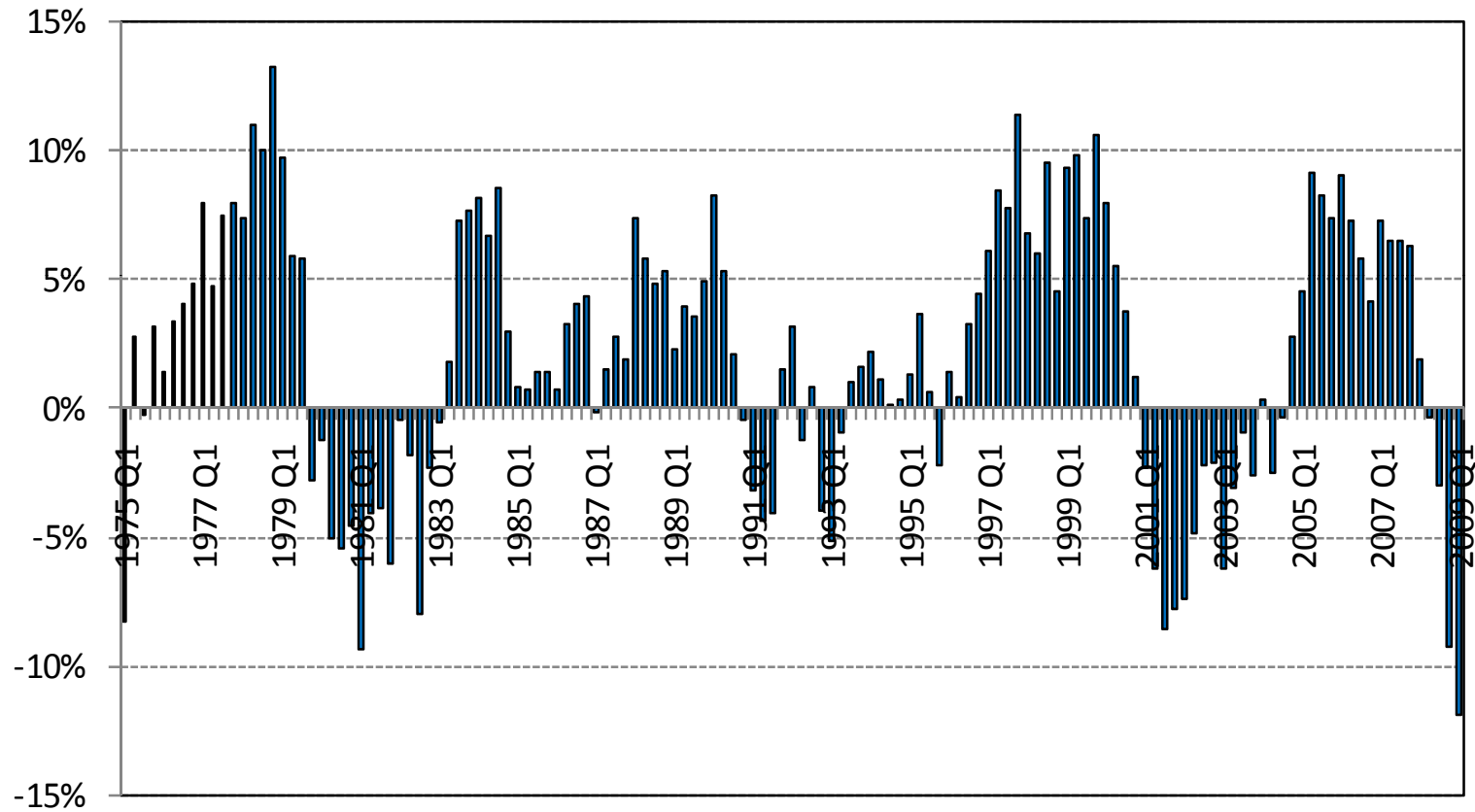
Retail Sales Tax

- Taxable sales collapsed in 2008 Q4
 - 8.8% real decline from 2008 Q3 to 2008 Q4
 - 2009 Q1 saw an additional 2.0% drop
 - Result is a 10.8% real decline in 2 quarters
- Revenue has fallen short of March forecast
- All industries are down; hardest hit include:
 - Motor vehicles and parts
 - Apparel
 - Furniture
 - Building materials
 - Specialty retailers

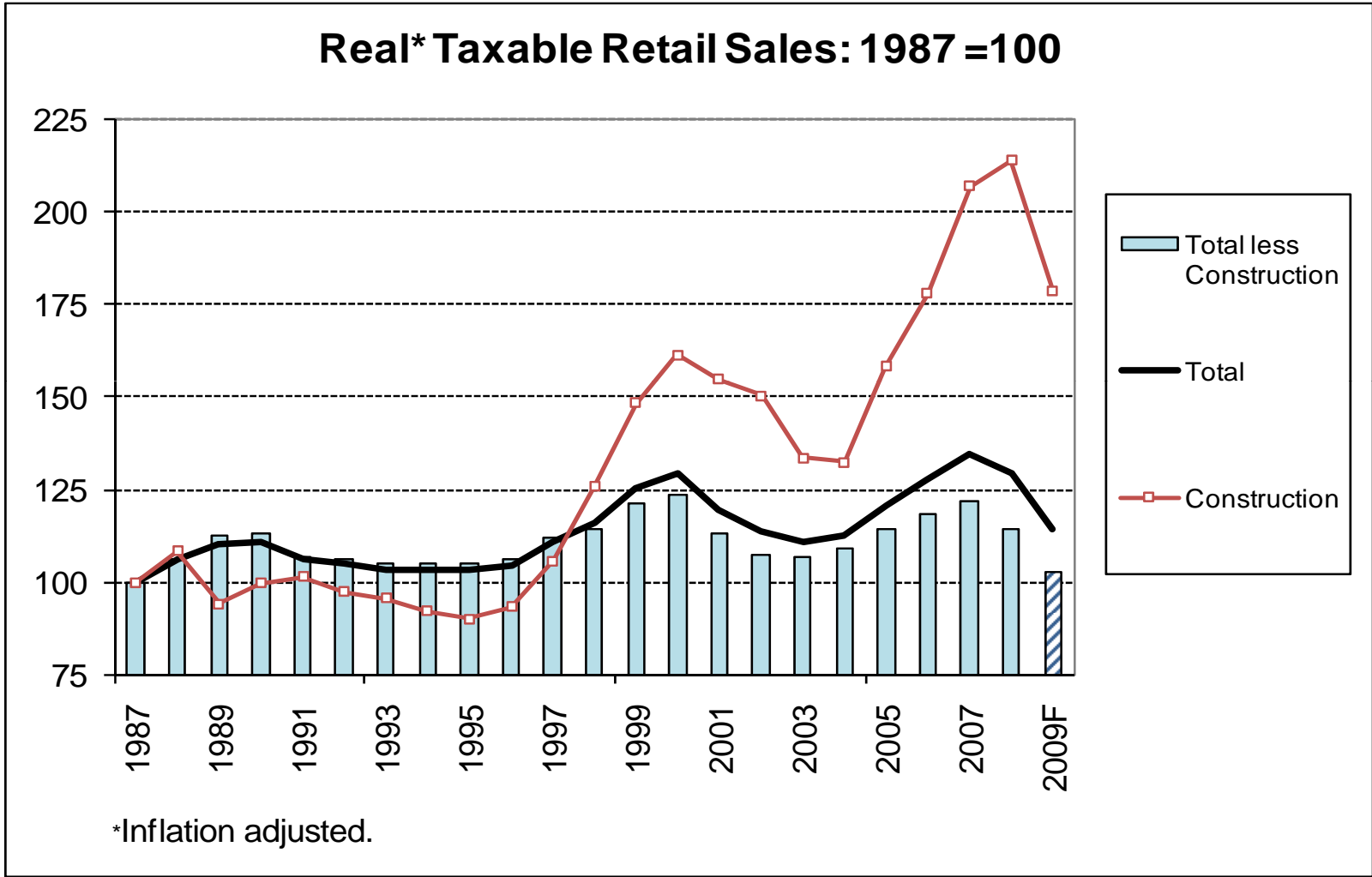


Drop from \$1.5 billion to \$1.3 billion is 13.3%.

Real* Taxable Retail Sales: Year-over-Year Growth Rate

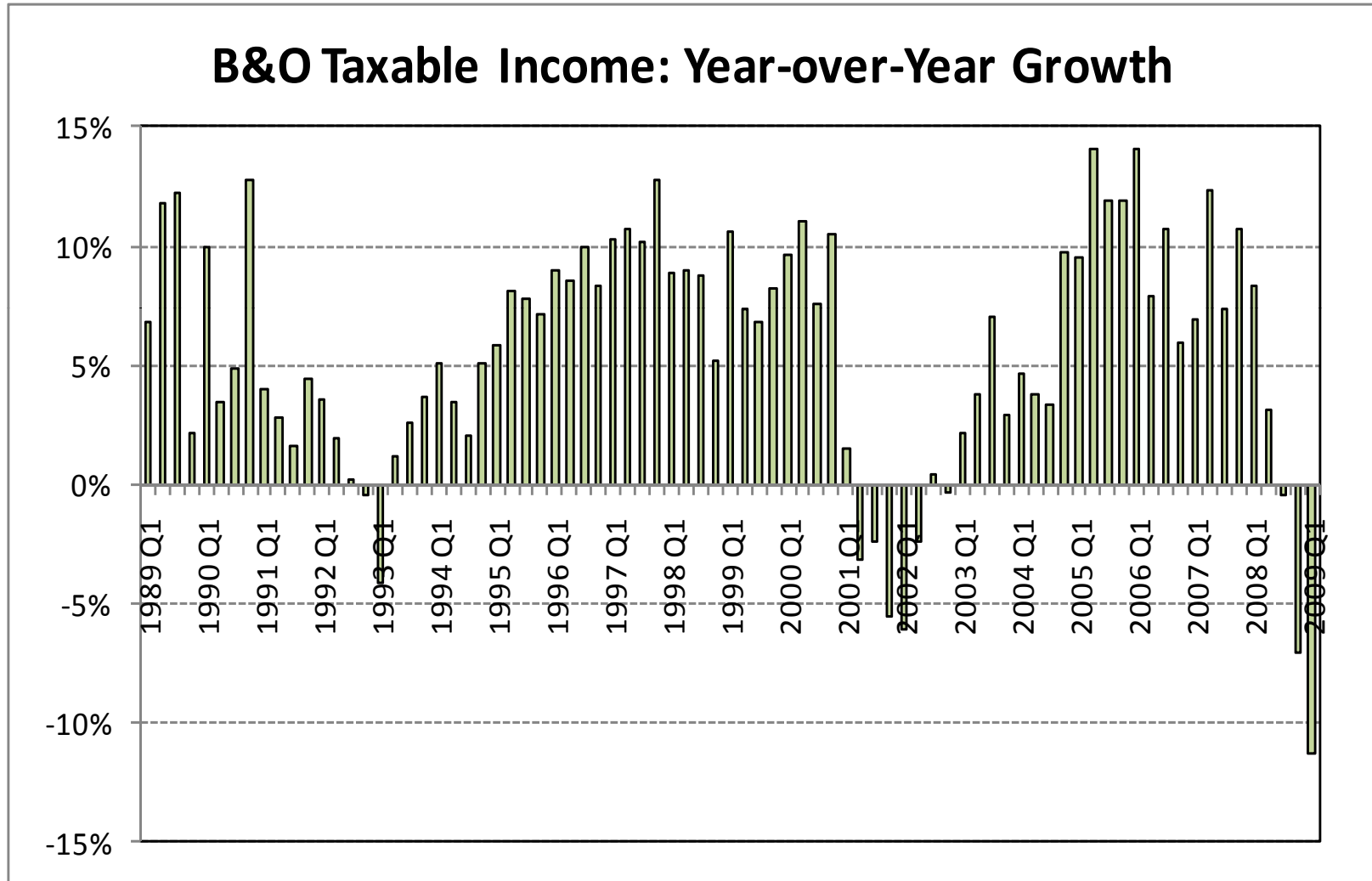


* Inflation adjusted.



1987 – 2009 change: Total = 14%; Total less Construction = 3%; Construction = 79%.

B&O Tax



Retail Sales and B&O Tax Forecasts

- What has changed since the March forecast?
 - Revenue for 2009 thus far has been short of forecast
 - Economic forecast has been lowered substantially
 - Construction activity has slowed
- Construction
 - Accounted for 24.6% of 2008 sales tax base
 - Increased by 86.5% from 2004-08 (taxable sales)
 - Apartment market is overbuilt
 - And demand is weak due to bad economy
 - Downtown office vacancy rate is 14.9% (2009 Q2 CBRE)
 - DPD permit activity has fallen sharply

- Sales and B&O forecasts have been lowered substantially
 - Construction is predicted to decline by about 30% from 2008 peak
 - B&O forecast was reduced by \$500,000 in 2010 to account for increase in small business threshold to \$100,000

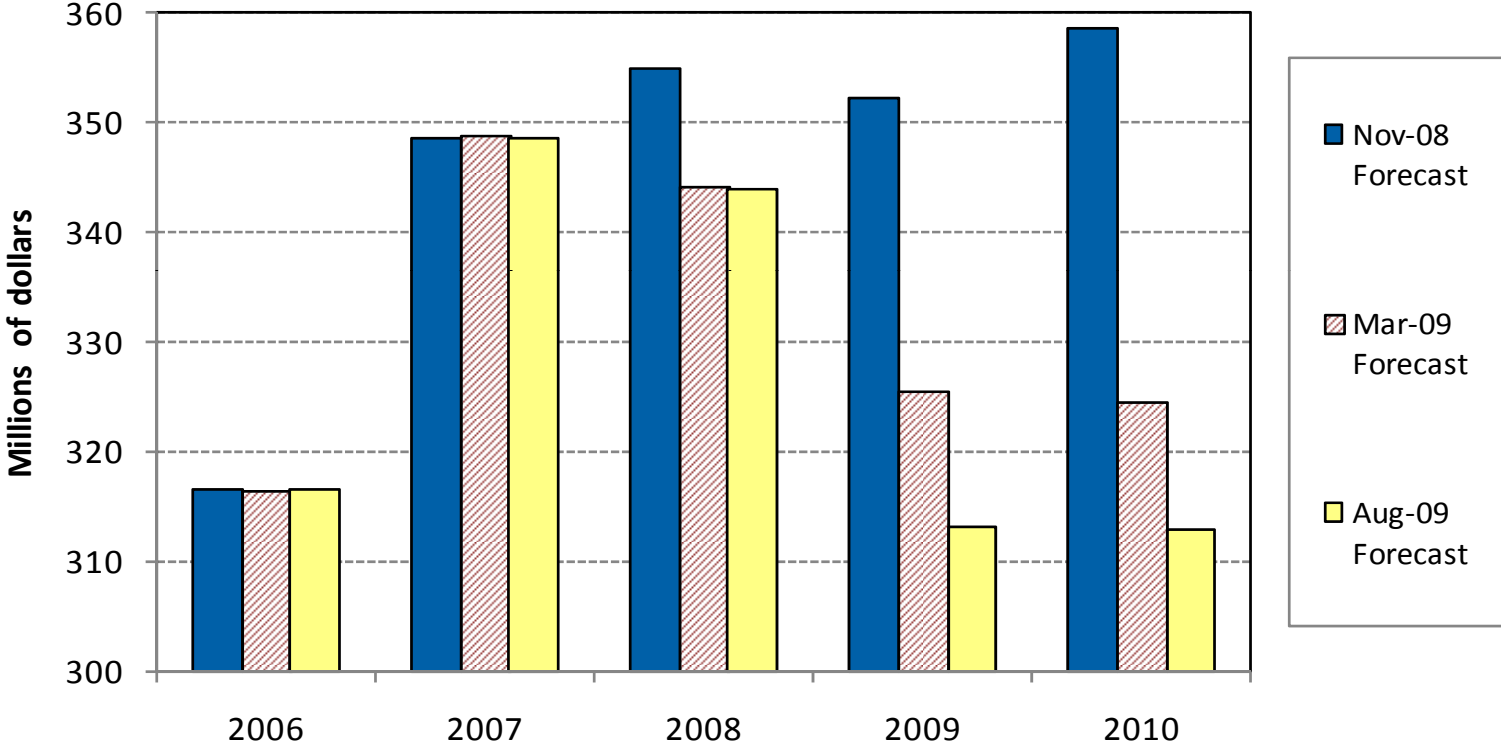
Change from previous forecasts:

	<u>2009</u>	<u>2010</u>
March Forecast	-12.4	-11.7
November Forecast	-39.2	-45.6

Data are in millions of dollars.

Includes retail sales, B&O, and criminal justice sales tax

Combined* Sales and B&O Tax Revenue Forecast



*Includes Criminal justice sales tax.

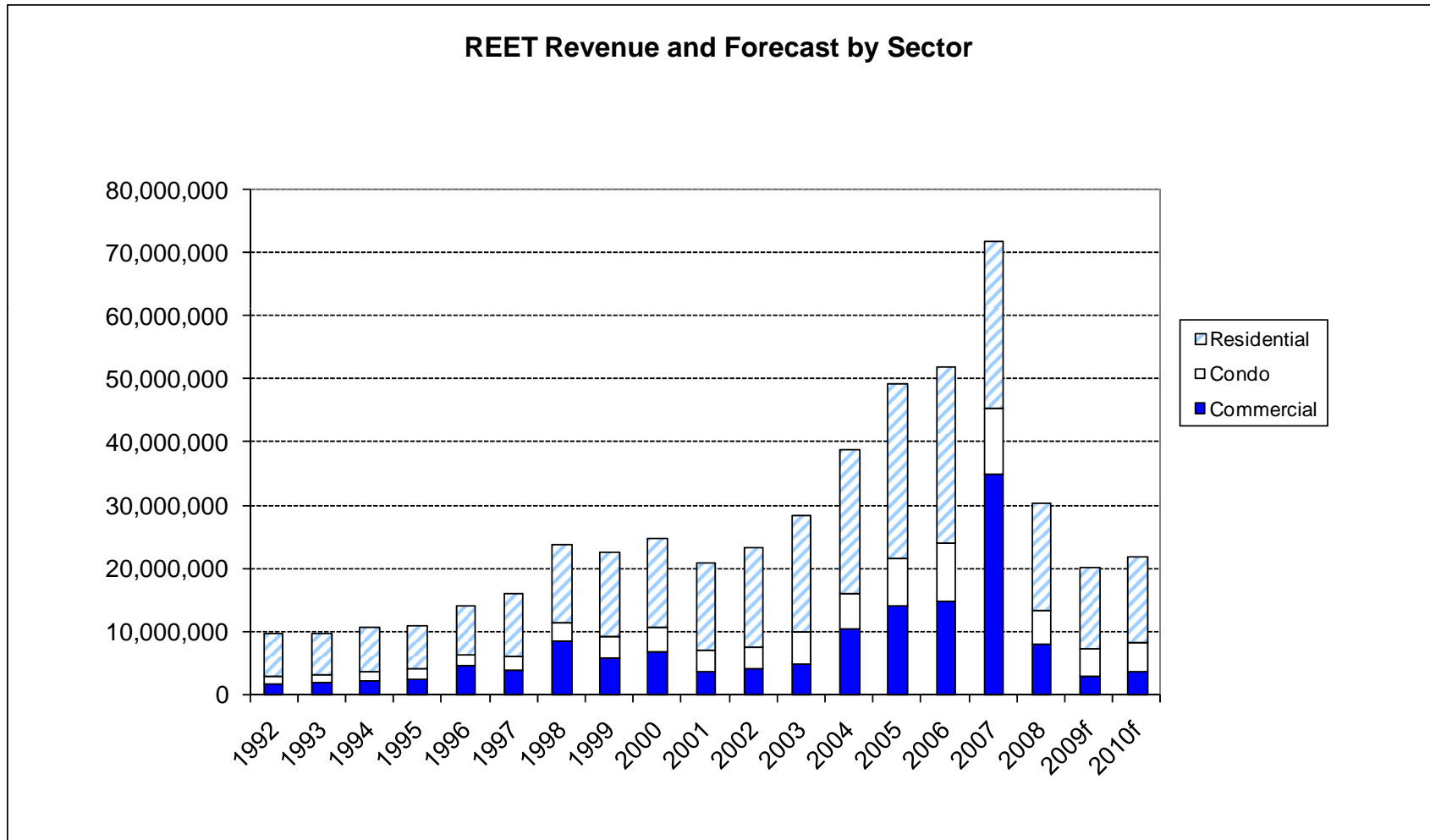
Risks to Forecast

- Downside risks include
 - This recession is different so path of recovery is hard to forecast
 - Government unwinding its interventions could disrupt or alter course of recovery
 - Household spending is hard to forecast given high debt levels and low savings
 - Housing market has not yet stabilized
- On the other hand, we are reaching point in the business cycle when upside risks increase

REET and Real Estate

- REET appears to be stabilizing
- REET had underperformed the March forecast until July
- There was a large commercial transaction in Ballard (\$53.25m) that brought year-to-date REET on forecast
- Residential transactions have been below the March forecast
- Some external data shows prices may have reached bottom
- Seattle home prices are down 21.6% from the peak

REIT and Real Estate



Preliminary GSF Forecast

GSF - Item	2008	2009			2010		
	Actuals	Mar	Aug	Aug-Mar	Mar	Aug	Aug-Mar
Property Taxes	238,257,418	245,736,000	245,736,000	-	249,941,000	249,547,000	(394,000)
Business & Sales Taxes	350,229,065	330,793,900	318,680,129	(12,113,771)	329,775,203	318,382,599	(11,392,605)
Public Utility Taxes	88,540,342	101,094,337	101,773,214	678,878	104,861,889	106,317,778	1,455,888
Private Utility Taxes	61,795,518	60,946,963	63,542,337	2,595,373	61,365,201	63,112,841	1,747,640
Other Notable GSF Revenues	58,808,722	60,578,830	62,116,556	1,537,726	63,732,463	63,295,627	(436,835)
Total	797,631,066	799,150,030	791,848,236	(7,301,793)	809,675,757	800,655,845	(9,019,912)
Real Estate Excise Tax	30,313,740	20,762,068	20,089,735	(672,333)	22,010,411	21,579,033	(431,378)
BTG - Employee Hours Tax	4,448,764	5,261,136	4,659,000	(602,136)	5,647,751	-	(5,647,751)
BTG - Commercial Parking Tax	13,302,260	17,874,000	18,827,000	953,000	21,347,000	21,840,000	493,000

Notes:

- 1) Includes Charter revenues
- 2) Does not include interfund transfers and use of fund balances

Fiscal Assessment

- Budget gap for the General Subfund in the current Biennium is roughly \$72.5 million, after counting the 2009 mid-year budget reductions
 - Gap represents approximately **8%** of the 2010 Endorsed Budget
- Proposed Furlough for 2010 saves approximately \$8 million in General Subfund costs, and \$12 million in costs for the utility departments
- There is \$30 million in the City's "rainy day" fund (the Revenue Stabilization Account)
- Using fund balances like the "rainy day" fund and one-time savings to balance the budget in 2010 creates a significant deficit for 2011