

Economic Update

Update on economic issues affecting Seattle's tax revenue performance

The newsletter of the City of Seattle's Economics Team/June 2004

ECONOMY

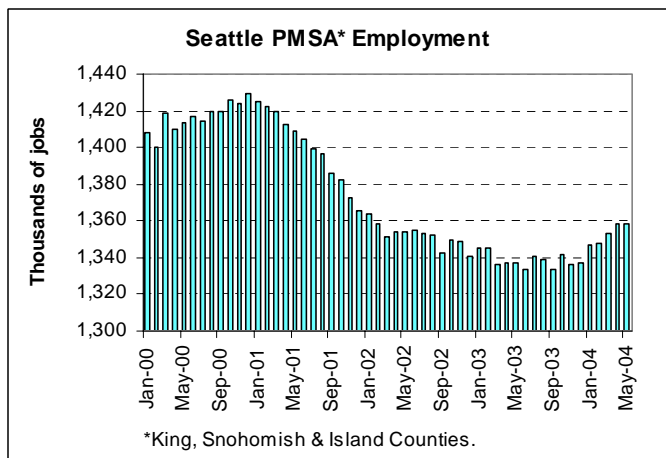
U.S. Economy: Following three months of strong employment growth, economists are increasingly confident that the current economic expansion has finally become self-sustaining. The recovery should remain on course even though the stimulus provided by low interest rates, tax cuts, and rising government spending will soon disappear. Most forecasters expect the national economy to grow strongly in 2004, with GDP rising by 4.5% - 5.0%, and then slow to a more moderate pace in 2005 and 2006.

As a result of the recent upswing in job creation, U.S. employment has increased by 1.4 million jobs since hitting a low point last August. However, despite this gain the economy is still 1.3 million jobs short of the employment peak reached prior to the beginning of the 2001 recession.

With gasoline prices having risen to over \$2 per gallon, there is growing concern that rising energy costs could derail the current economic expansion. If energy prices remain at current levels, they will slow the economy but are unlikely to end the recovery. Of greater concern than \$2 per gallon gas is the potential for a disruption in the supply of oil precipitated by a terrorist attack, particularly one in Saudi Arabia. A significant supply disruption would have major consequences for the world economy.

Puget Sound Regional Economy: The Puget Sound region is finally beginning to recover from its severe recession. The Seattle PMSA lost 6.7% of its employment, or 96,000 jobs, between December 2000 and September 2003. Since then, the region has added 25,000 jobs, one-quarter of the number lost during the downturn. In comparison, the nation lost roughly 2% of its employment during the recent downturn, and has recovered a bit more than half of that loss.

The main reason the recent recession in the Puget Sound region was so severe is that Boeing reduced employment sharply after the September 11 attacks curtailed air travel and destroyed the profitability of the airline industry. Since September 11, 2001, Boeing has reduced its Washington employment by over 27,000 jobs. Most of the layoffs occurred during the



months immediately following the attacks, but reductions have continued into 2003 and 2004, though at a much slower pace. During the first 5 months of 2004, Boeing employment has declined by about 800 jobs.

Boeing employment will receive a boost from the \$4 billion U.S. Navy contract to build the Multi-mission Maritime Aircraft (MMA) that was recently awarded to a Boeing-led team. During the initial phase of the contract, about 1,200 jobs will be created in the Puget Sound region. The MMA is 737 jet modified for hunting submarines.

The Puget Sound Economic Forecaster predicts that aerospace employment in the region will remain essentially flat between now and 2006, and then begin to increase in 2007. It will take several years before conditions are likely to be conducive to a significant upturn in orders for jetliners. Although air travel is beginning to pick up, most airlines are still losing money and there are a lot of unused planes currently parked in the desert.

With the national economic recovery expected to continue and the region's economy finally producing jobs, local economists expect to see moderate growth in the Puget Sound region during the next several years. The Puget Sound Economic Forecaster anticipates employment growth will be near 2% per year, and that personal income will grow 3% - 4% above the rate of inflation.

Monthly Cash Update

Comparing year-to-date revenues for general fund taxes and other major revenues with latest forecast

June 2004

CITY REVENUE

Year-to-date through May: The following describes how actual 2004 collections for the most important general subfund revenues, through May, compare to the forecast prepared in March. Overall, the actual collections exceed the forecast by \$1.8 million, due in large part to better-than-expected revenues from court fines and forfeitures and City Light utility taxes. The following describes the notable differences in fuller detail.

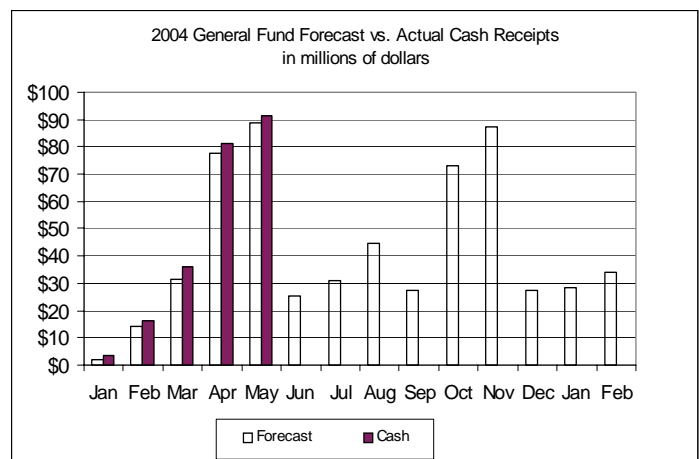
Courts fines and forfeitures: Program and policy changes aimed at improving collections of past due fines have resulted in strong returns. The ticket amnesty program, which ended in March, resulted in windfall revenues for that month.

Utilities-City Light: Utility tax revenue for City Light is \$910,000 (8.0%) over forecast because of a one-time payment from Nucor Steel for deferred obligations from 2000-02 when electricity prices were rising steeply.

Sales tax: With 3 months of 2004 revenue received thus far, sales tax revenue is closely tracking the forecast. Revenue is up 4.0% relative to the first 3 months of 2003, in part because some December 2003 revenue spilled into January due to end-of-year processing issues. The retail trade sector saw strong growth in March, particularly in building materials and apparel

stores, and specialty retailers. Both eating & drinking places and hotels registered double-digit growth, indicating that tourism is coming back. Construction continues its decline, as do some business service industries.

B&O tax: B&O revenue for 2004, which largely reflects economic activity that occurred in the first quarter, is closely tracking the forecast. Year-to-date revenue is down \$944,000 (3.4%) from 2003; however, 2003 revenue was boosted by two very large audit payments worth \$1.3 million received in May.



2004 Major General Fund Revenues through May, including REET, compared to most-recent forecast

	YEAR TO DATE				COMPARISON TO 2003		
	Cumulative Forecast	Actual	Difference	Percent	Cumulative 2003	Yr/Yr Difference	Yr/Yr Cumulative
PROPERTY TAXES							
General + EMS	103,086,000	103,086,000	0	0.0%	90,290,000	12,796,000	14.2%
Leasehold Excise Tax	853,000	819,000	-34,000	-4.0%	389,000	430,000	110.5%
RETAIL SALES TAX							
General	27,006,000	26,856,000	-150,000	-0.6%	25,825,000	1,031,000	4.0%
Criminal Justice	2,577,000	2,572,000	-5,000	-0.2%	2,442,000	130,000	5.3%
BUSINESS TAXES AND OTHER							
Business and Occupation	27,166,000	26,992,000	-174,000	-0.6%	27,936,000	-944,000	-3.4%
Utilities - City Light	11,388,000	12,299,000	911,000	8.0%	11,198,000	1,101,000	9.8%
Utilities - City Water	2,148,000	2,252,000	104,000	4.8%	2,051,000	201,000	9.8%
Utilities - City Drainage/Waste Water	4,527,000	4,677,000	150,000	3.3%	4,387,000	290,000	6.6%
Utilities - City Solid Waste & Garbage	2,500,000	2,663,000	163,000	6.5%	2,536,000	127,000	5.0%
Utilities - Cable Television	2,701,000	3,050,000	349,000	12.9%	2,523,000	527,000	20.9%
Utilities - Telephone	9,124,000	9,028,000	-96,000	-1.1%	9,321,000	-293,000	-3.1%
Utilities - Private Energy	5,719,000	5,043,000	-676,000	-11.8%	3,752,000	1,291,000	34.4%
Admission Tax	2,521,000	2,412,000	-109,000	-4.3%	2,335,000	77,000	3.3%
Court Fines and Forfeitures	6,132,000	7,778,000	1,646,000	26.8%	6,651,000	1,127,000	16.9%
Interest Income	439,000	437,000	-2,000	-0.5%	564,000	-127,000	-22.5%
Parking Meters	4,350,000	4,120,000	-230,000	-5.3%	3,941,000	179,000	4.5%
Misc. Revenues	2,002,000	1,910,000	-92,000	-4.6%	2,141,000	-231,000	-10.8%
TOTAL	214,239,000	215,994,000	1,755,000	0.8%	198,282,000	17,712,000	8.9%
Real estate excise tax	7,124,000	12,679,000	5,555,000	78.0%	10,151,000	2,528,000	24.9%