

Department of Finance



April 2006 Revenue
Forecasts
2006-2010

2005 Actuals versus Forecast

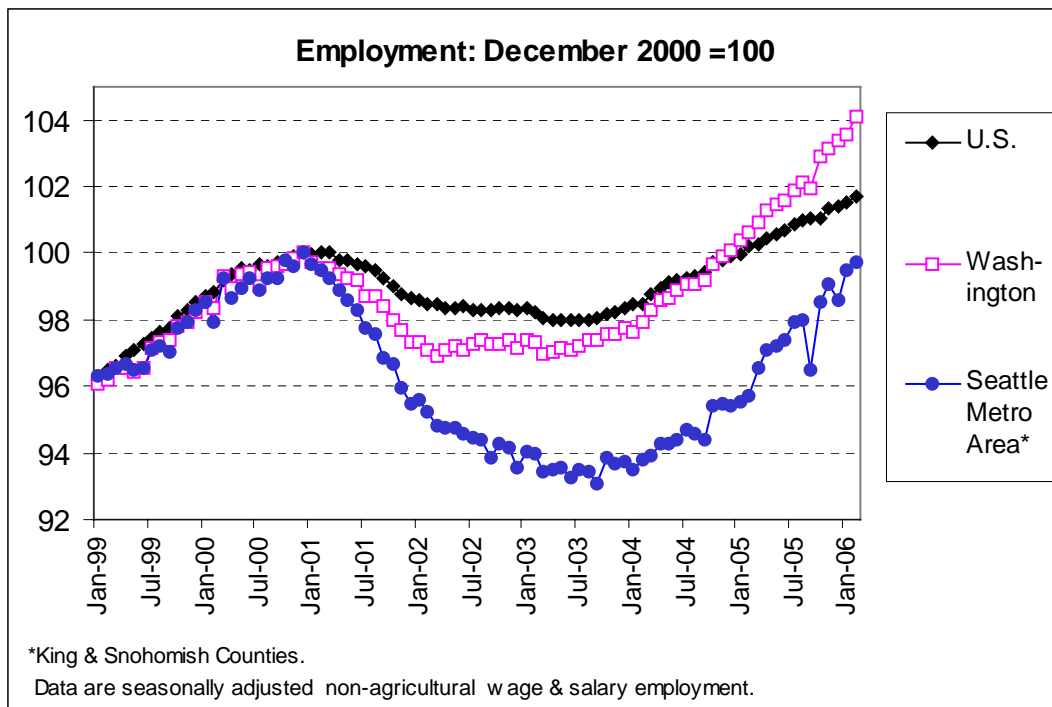
Summary Name	2005 Actuals	2005 Forecast	Difference
General Property Tax	183,497,445	183,817,000	(319,555)
Property Tax - EMS Levy	20,109,153	20,122,000	(12,847)
Retail Sales Tax	131,010,719	127,802,078	3,208,641
Retail Sales Tax - Criminal Justice Levy	12,282,040	12,076,460	205,580
B&O Tax (90%)	130,471,017	126,423,304	4,047,713
Utilities Business Tax - Telephone (90%)	26,590,581	27,850,000	(1,259,419)
Utilities Business Tax - City Light (90%)	30,340,350	31,072,877	(732,527)
Utilities Business Tax - SWU & priv.garb. (90%)	8,216,758	8,141,901	74,857
Utilities Business Tax - City Water (90%)	12,782,973	12,772,651	10,322
Utilities Business Tax - DWU (90%)	18,071,213	18,520,308	(449,095)
Utilities Business Tax - Natural Gas (90%)	12,119,698	11,483,000	636,698
Utilities Business Tax - Other Private (90%)	10,638,573	11,481,106	(842,533)
Admission Tax	6,663,784	6,556,580	107,204
Other Tax	4,851,358	5,095,000	(243,642)
Licenses and Permits	15,303,238	13,987,690	1,315,548
Parking Meters/Meter Hoods	15,333,251	15,202,000	131,251
Court Fines	16,255,055	15,975,000	280,055
Interest Income	3,199,966	1,795,000	1,404,966
Revenue from Other Public Entities	22,312,028	11,238,302	11,073,726
Service Charges & Reimbursements	41,981,470	40,131,929	1,849,541
All Else	1,207,830	1,298,448	(90,618)
Interfund Transfers	4,455,116	4,337,600	117,516
Total	727,693,615	707,180,234	20,513,381

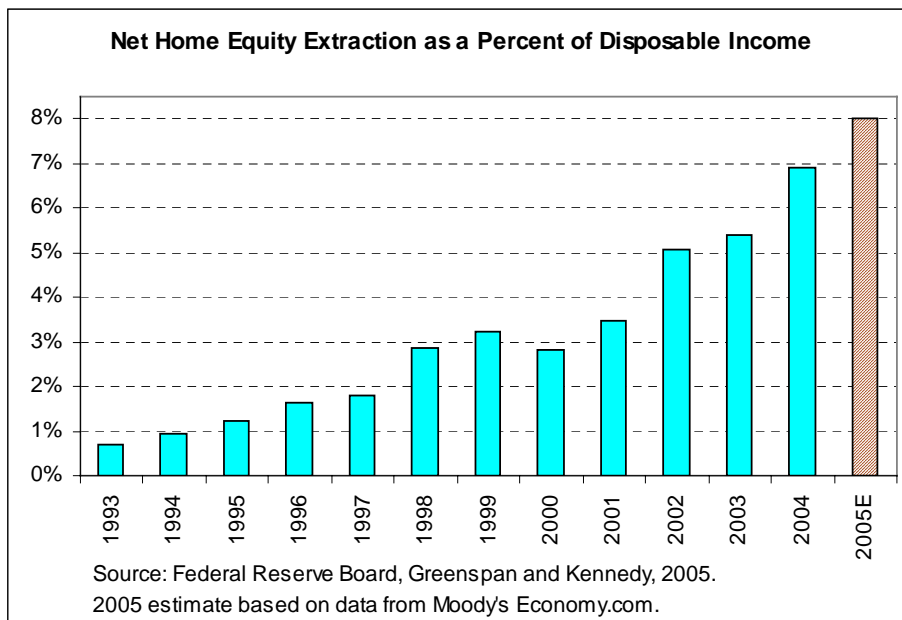
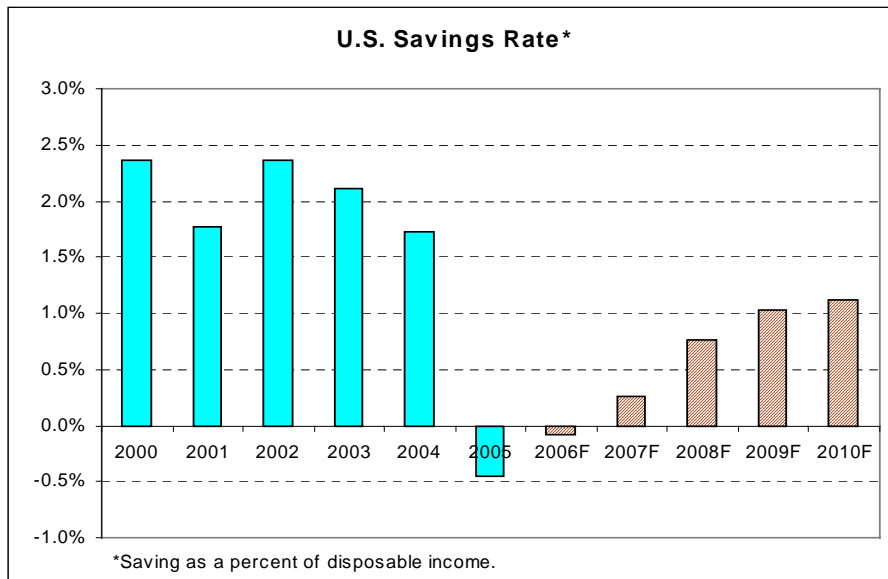
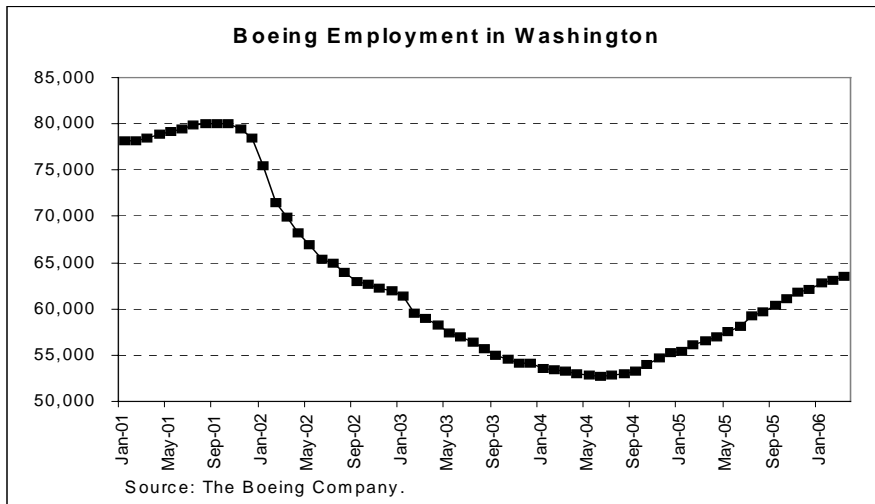
* Shaded area includes pass through revenues of \$11,916,927 not in the forecast

Economic Conditions & Forecast

Recent Trends

- Puget Sound economy is now growing faster than U.S. or WA
- Boeing has added 10,800 jobs since June 2004
- 2005 was unusually strong:
 - Construction boom
 - Strong growth in professional & business services
 - Double digit housing price increase
 - Savings rate declined in 2005





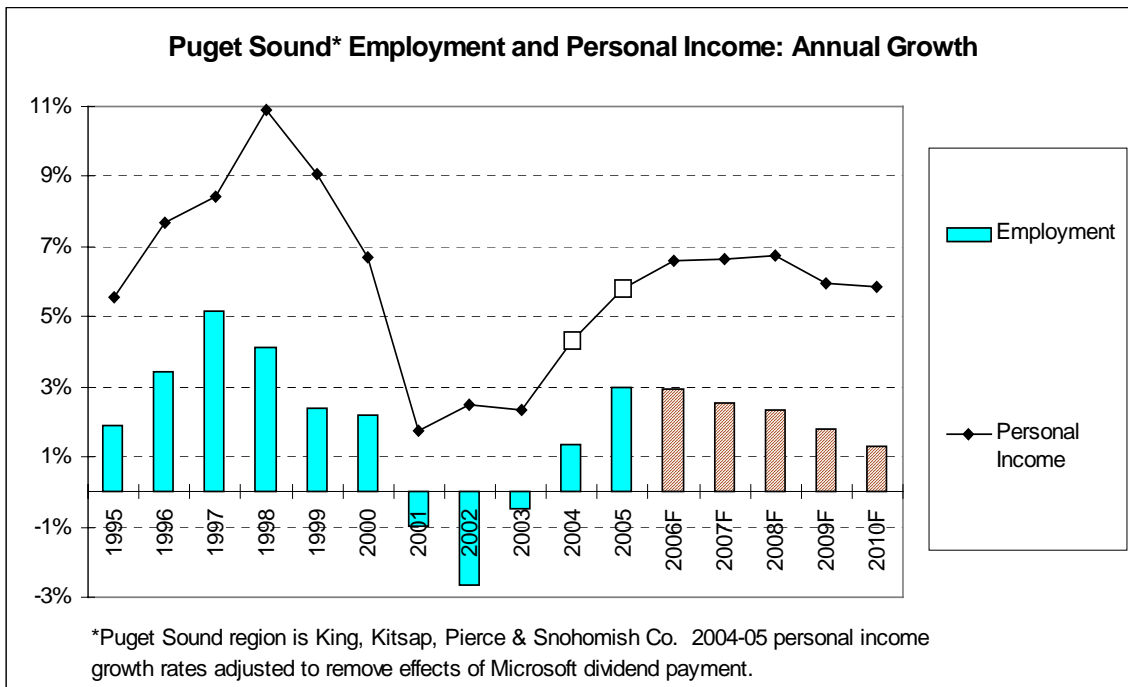
Economic Forecast Assumptions

U.S.

- No recession through 2010
- No major international crises
- Oil prices fall slowly over time
- Savings rate gradually increases
- Housing market slows, but no collapse

Puget Sound Region

- Puget Sound growth continues to outpace U.S.
 - Boeing employment peaks in 2008
 - 18,600 jobs added in next 3 years
 - Microsoft continues its steady expansion
- Pace of growth slows over time

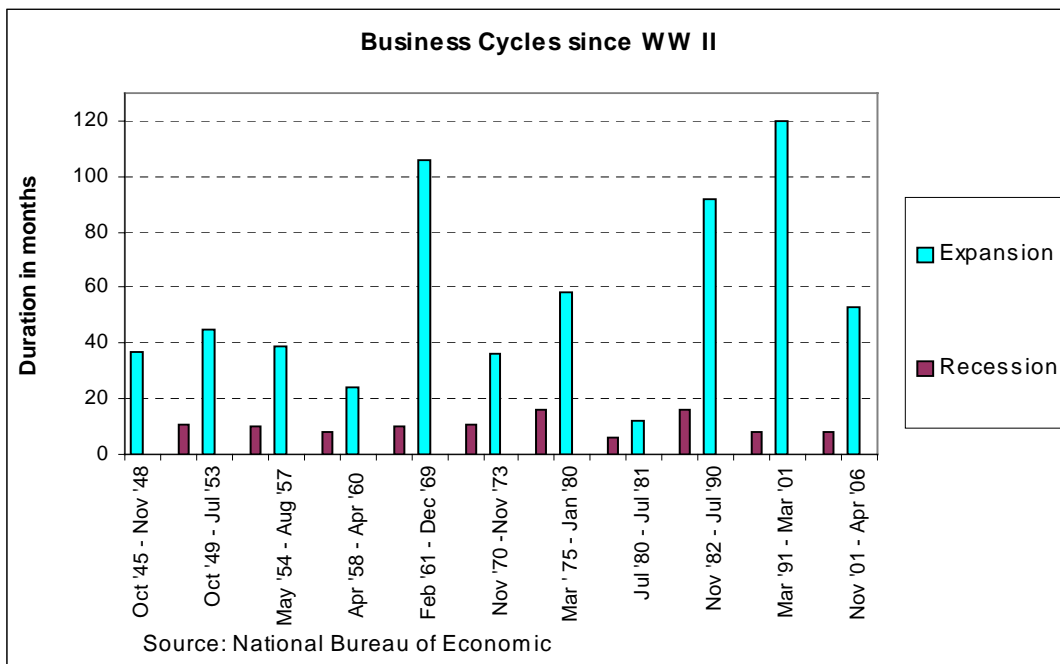


Risks

- Upside risk: Economy grows faster than anticipated
 - Housing market slowdown is delayed
 - Savings rate does not rise
 - Boeing grows faster than anticipated
 - Construction is stronger than forecast
- Downside risk: Economy suffers major slowdown or recession

Possible causes include:

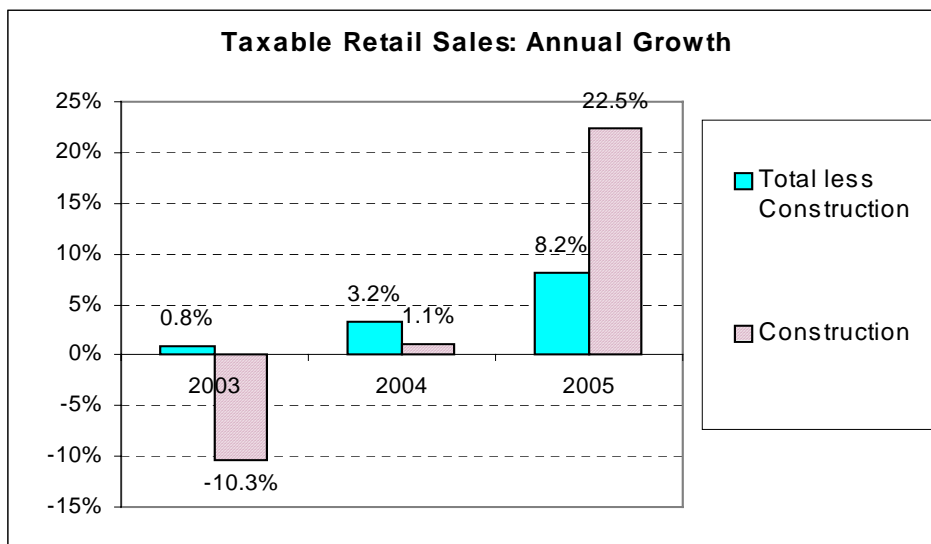
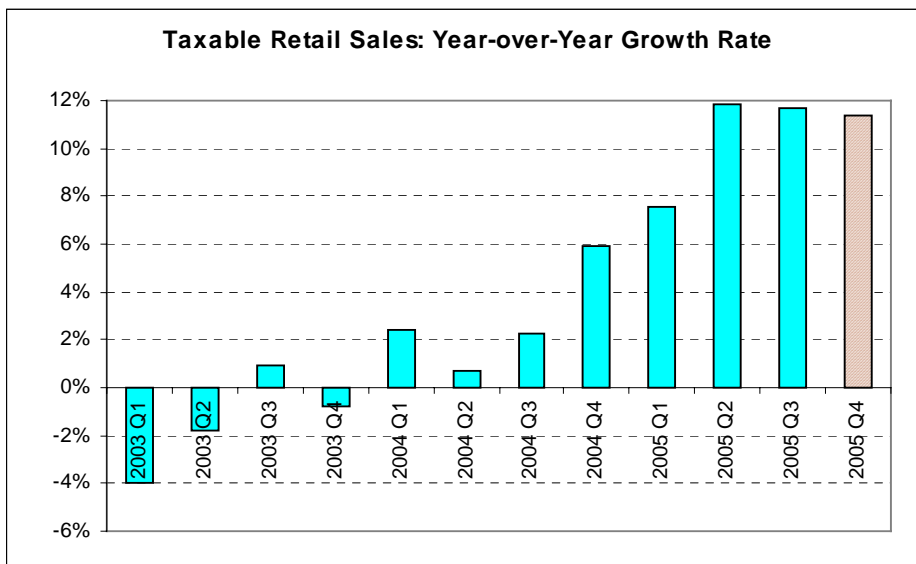
- Oil price spike or major supply disruption
- International crisis disrupts world economy
- Housing market slows sharply
- Inflation accelerates and interest rates rise
- Disorderly adjustment of global financial imbalances
 - U.S. current account (trade) deficit

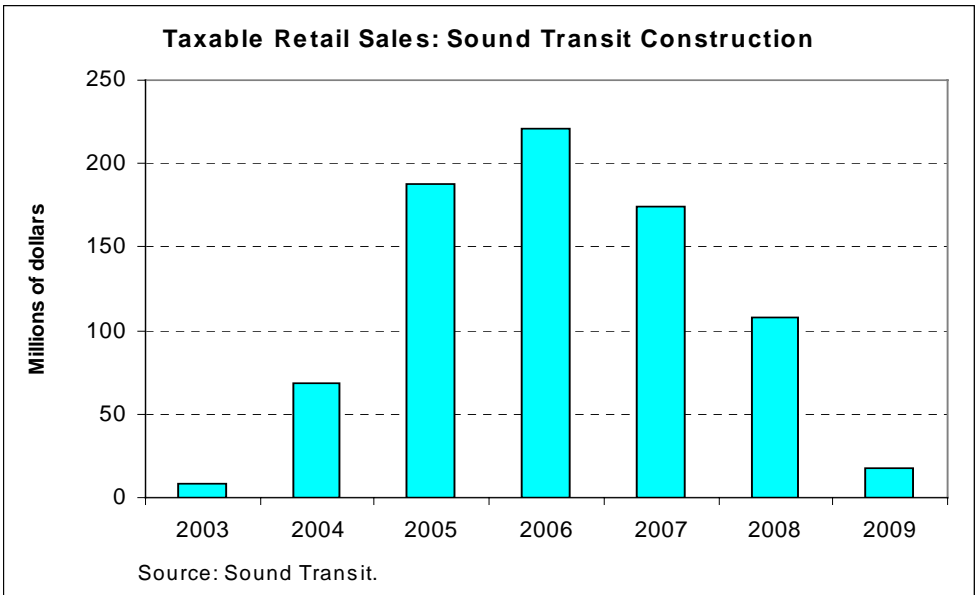


Retail Sales Tax

Recent Trends

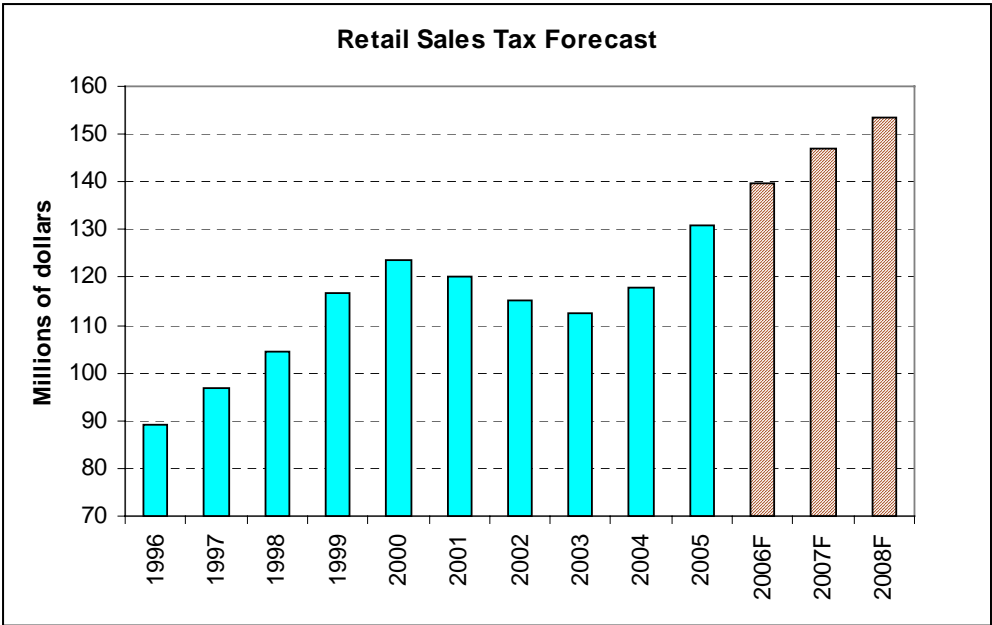
- Very strong growth in 2005 led by
 - Retail trade (8.3%)
 - Construction (22.5%)
 - Manufacturing (13.0%)
 - Hotels, motels (15.2%)

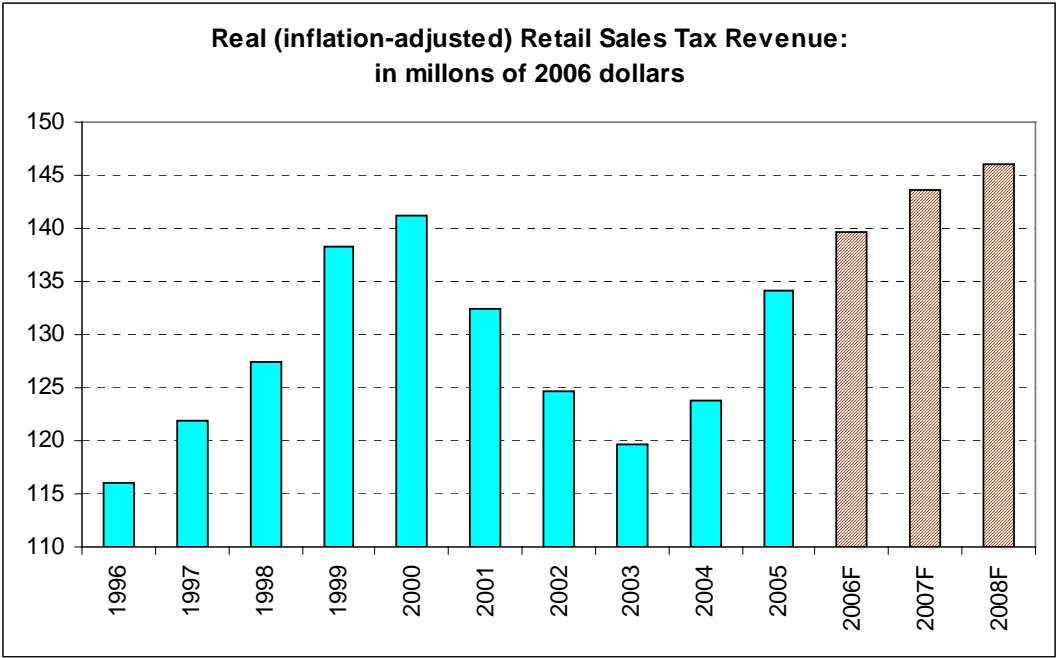




Forecast anticipates slowing revenue growth

- Rate of construction growth to slow
- Economy to slow gradually over time
- Consumption to slow as housing market slows, savings rate rises





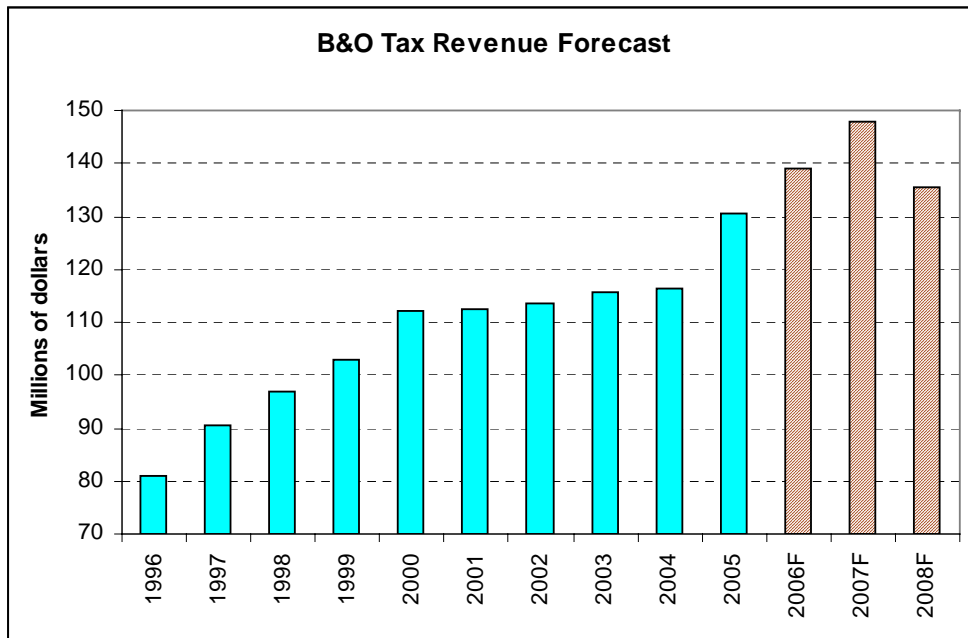
B&O Tax

Recent Trends

- Taxable income for all industries grew rapidly in 2005, led by:
 - Construction
 - Services
 - Finance, insurance & real estate
- Non-current revenue increased by \$2.1 mil. in 2005

Forecast Assumptions

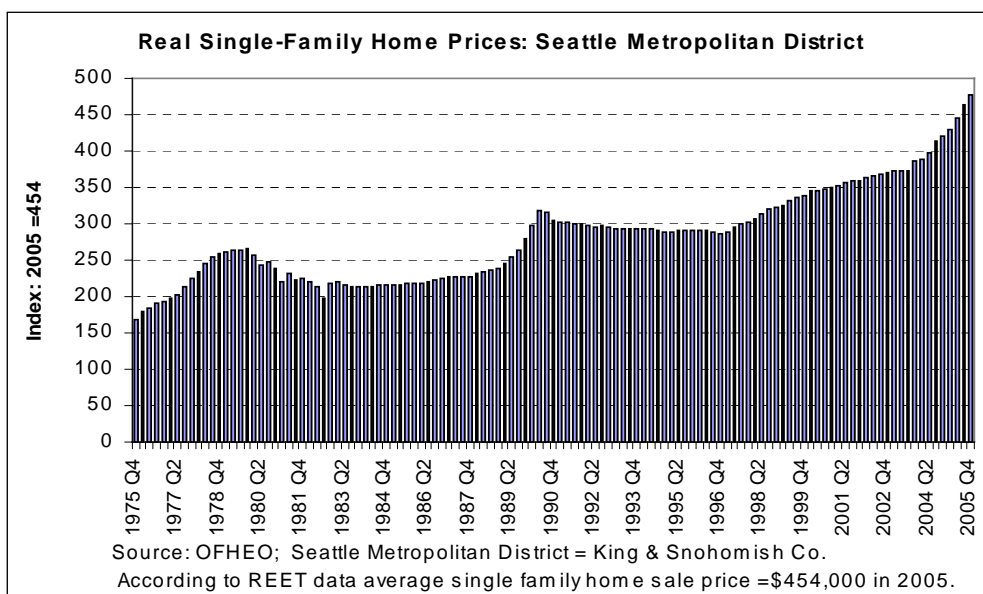
- B&O loss due to HB 2030 is \$20.9 mil. in 2008
 - Inflated DOR estimate of \$15.6 mil. from 2004 to 2008
- Added enforcement staff will increase non-current revenue



Real Estate Excise Tax (REET)

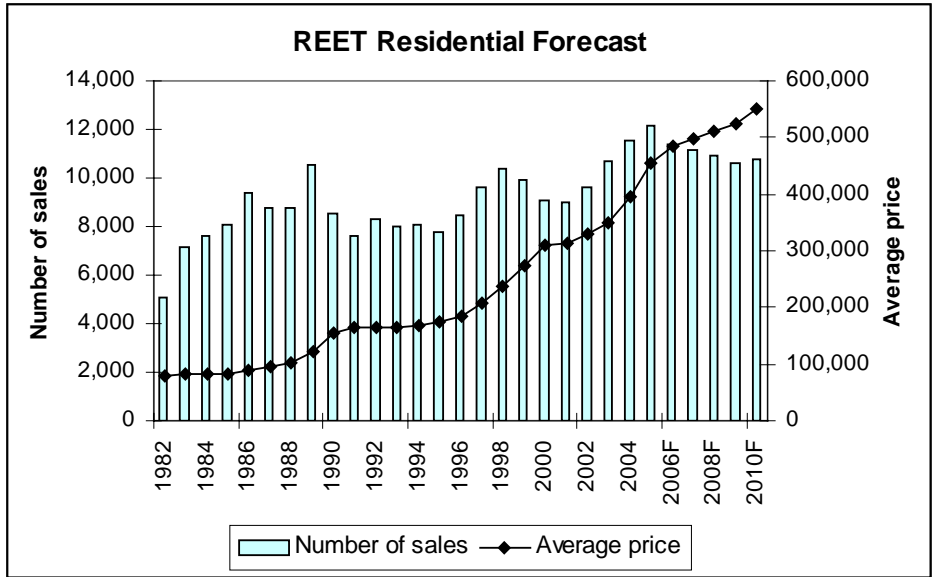
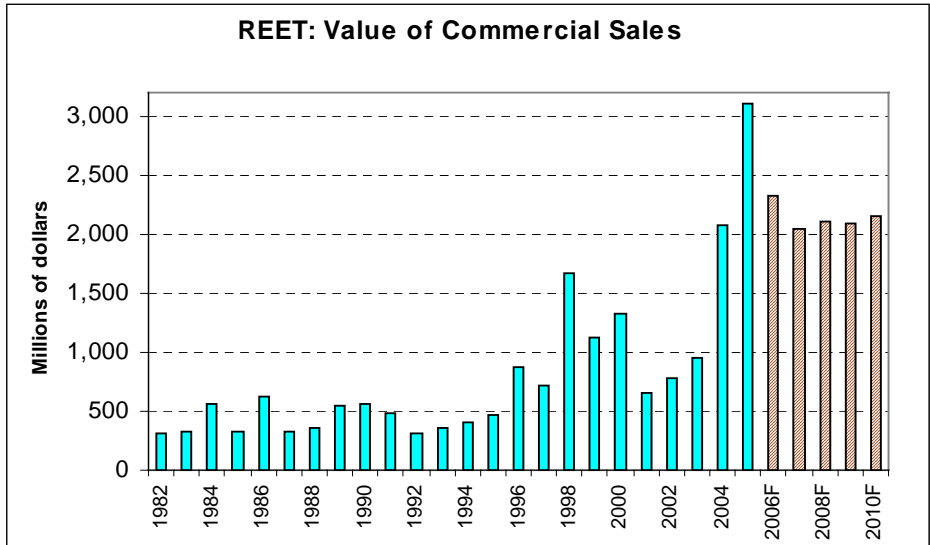
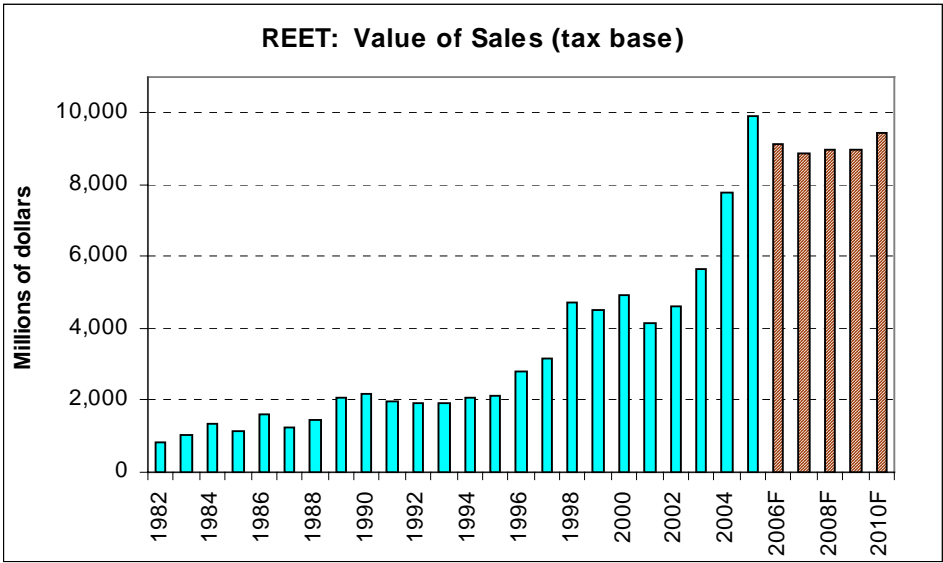
Historical Trends

- REET revenue has more than doubled in the past 3 years
 - From \$22.6 mil. in 2002 to \$49.4 mil. in 2005
- Housing market:
 - Since 1996 Q4 real housing prices have increased by 66.5% in Seattle
 - National housing market is slowing
 - Local housing market is lagging the nation
 - Prices are still rising strongly
 - Seattle condo sales have fallen in last 3 quarters of 2005
 - Single-family sales flat in 2006 Q1 (NWMLS)



Forecast assumptions:

- Healthy economic growth, slowing over time
- No recession through 2010
- Gradually rising interest rates



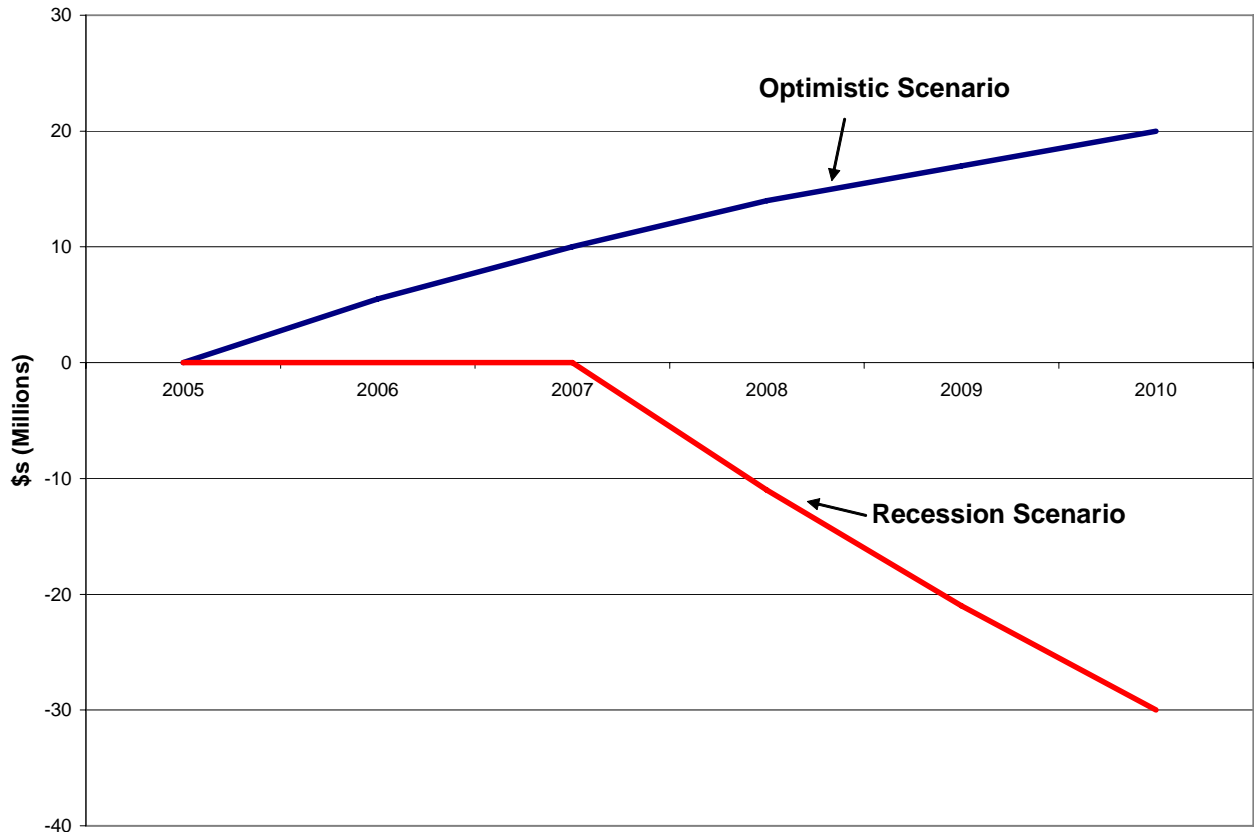
2006 – 2010 Revenue Forecast

(In \$Millions)

Revenue	2006 Adptd	2006	2007	2008	2009	2010
General Property Tax	187.9	187.9	194.9	199.5	205.2	210.8
Property Tax - Medic One Levy	20.5	20.7	21.2	21.7	22.3	22.8
Retail Sales Tax	131.5	139.6	147.1	153.6	160.2	166.7
Retail Sales Tax - Criminal Justice Levy	12.7	13.1	13.8	14.4	15.0	15.6
B&O Tax (90%)	133.6	139.1	147.8	135.3	142.5	150.1
Utilities Business Tax - Telephone (90%)	26.0	26.0	25.5	25.0	24.0	23.0
Utilities Business Tax - City Light (90%)	32.2	31.4	32.6	32.7	34.4	36.1
Utilities Business Tax - SWU & priv.garb. (90%)	8.5	9.1	9.1	9.3	9.7	10.2
Utilities Business Tax - City Water (90%)	13.4	15.2	15.8	16.6	17.4	18.3
Utilities Business Tax - DWU (90%)	19.5	19.6	21.2	23.3	24.4	25.6
Utilities Business Tax - Natural Gas (90%)	11.3	13.5	13.8	13.2	13.9	14.6
Utilities Business Tax - Other Private (90%)	11.5	12.4	12.1	12.5	13.1	13.7
Admission Tax	6.4	7.8	7.6	7.7	7.9	8.1
Other Tax	5.2	4.8	4.8	4.8	4.9	5.0
Licenses and Permits	12.7	12.7	12.6	12.6	12.9	13.2
Parking Meters/Meter Hoods	17.0	16.6	17.6	18.1	18.5	18.9
Court Fines	15.2	15.4	15.0	14.6	14.2	13.8
Interest Income	1.5	3.3	3.0	2.5	2.5	2.6
Revenue from Other Public Entities	11.0	8.6	9.0	9.2	9.4	9.7
Service Charges & Reimbursements	38.1	38.9	42.0	42.8	43.8	44.8
All Else	1.3	1.2	0.5	0.5	0.5	0.5
Interfund Transfers	0.9	0.9	0.9	0.9	0.9	0.9
Total Revenue & Other Financing Sources	717.7	737.8	767.7	770.6	797.5	825.0
Parks' Department "Charter" Revenues	31.7	32.7	33.1	32.8	34.2	35.6
Total	749.4	770.5	800.7	803.4	831.6	860.6
% Change from previous year			3.93%	0.33%	3.51%	3.48%
Real Estate Excise Tax (REET)		45.6	44.2	44.7	44.8	47.1

- B&O loss due to HB 2030 is \$20.9m in 2008, partly made up by growth in the base.
- Natural Gas revenues will increase due to higher PSE rates to cover increased spot prices from Fall 2005. Also rate increase has been requested for higher infrastructure and delivery costs to take effect in Jan 2007.
- Telephone revenues are forecasted to continue a downward trend, realizing a consumer switch to non-taxable Voice Over Internet Protocol (VOIP) systems.

Opportunities & Risks to the Revenue Baseline in Nominal \$



Optimistic Scenario

- Boeing growth is stronger than forecast
- Construction activity exceeds expectations
- Consumer spending remains strong as saving rate remains depressed
- Housing market slowdown is weaker than forecast

Recession Scenario

- Oil prices trend upward
- Inflation accelerates
- The Federal Reserve raises short-term interest rates to fight inflation
- Long term interest rates rise due to:
 - Rising inflationary expectations
 - Weakening demand for U.S. debt issues from foreign investors
- Higher interest rates increase severity of housing slowdown
- Consumer spending slowdown is steeper than forecast

2007-2008 Budget Challenges

- Political factors may lead to significant reductions in City General Fund revenues. The State has changed how cities can impose B&O taxes, which will cost Seattle \$15-20 million annually starting in 2008. Potential federal changes to telecommunications taxes could cut \$5-20 million annually in the same time period. We are exploring ways to mitigate some of these losses.
- Community Development Block Grant (CDBG) funds have been used by the City to support economic development, housing, and human services programs. The federal government has already cut CDBG and future cuts of at least 10% per year seem likely. In addition, the City's use of CDBG to support the Rainier Valley Community Development Fund will increase in 2007. This combination means that other uses of CDBG will have to be cut by at least \$3 million in 2007 and an additional amount in 2008.
- Several operating funds face significant financial challenges in the next biennium:
 - Seattle Center has covered operating losses by property sales in 2005 and 2006. For 2007 and beyond, the Seattle Center Fund will need a new means to cover those losses. The business planning process will produce opportunities to identify revenue increases and/or spending efficiencies. Additional General Fund support for the Center may be needed. Beyond the near-term issues, the Key Arena debt is a concern after 2010.
 - The Parks Levy expires at the end of 2008. This will leave about \$9 million of annual maintenance and programming costs unfunded, necessitating cuts and/or other funding.
 - The City Light and Drainage and Wastewater funds will have significant capital needs for the Alaskan Way project.
 - Existing transportation funding sources are inadequate to even keep up on maintenance and capital replacement needs, let alone begin to reduce significant backlogs. The Mayor has directed staff to develop proposals for new transportation revenues that will be presented to the City Council in May. Some may require voter approval. Several processes are currently underway to solicit public input on spending priorities and revenue options.
- A variety of other cost increases are largely uncontrollable. Health care costs are projected to grow another 10-12% in 2007. Costs for jail beds are likely to increase significantly due to capacity shortages. Space rents in City-owned buildings will rise substantially because subsidies provided by previous private tenant revenues and FFD fund balances have been exhausted.
- Overall, economic growth is likely to help cover higher costs for the 2007 budget, but State and federal mandated tax cuts could create major problems in 2008 and beyond.