

City of Seattle
Department of Finance

Economic & Revenue Forecast

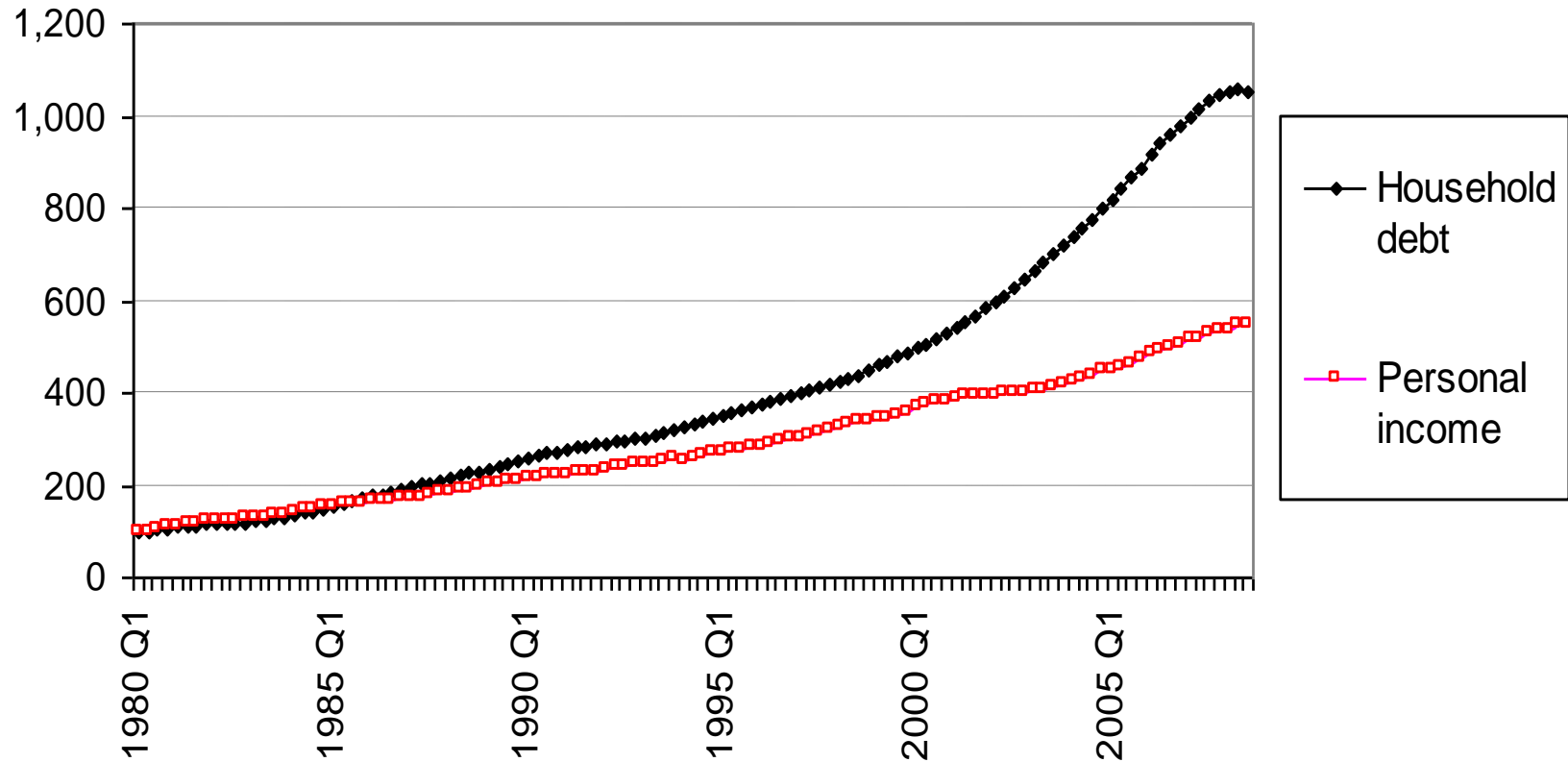
April 6, 2009

U.S. Economy: The path to the current recession

- Past 20 years has been era of asset bubbles
 - Stock market in the 1990s
 - Housing in the current decade, also commodities
- Bubble formation has been facilitated by
 - Cheap money
 - Federal Reserve policies
 - Asian savings glut
 - Loose lending standards
 - Deregulation & lax regulation of financial sector

- Bubbles have led to:
 - Excessive borrowing and debt buildup
 - Excessive risk taking
- Housing bubble popped in 2006. With prices falling:
 - Loans have gone bad, reducing value of securities
 - Leading to financial crisis
 - Household wealth has declined
 - Leading to drop in consumer spending
- Housing downturn and financial crisis caused recession
 - U.S. recession began in December 2007

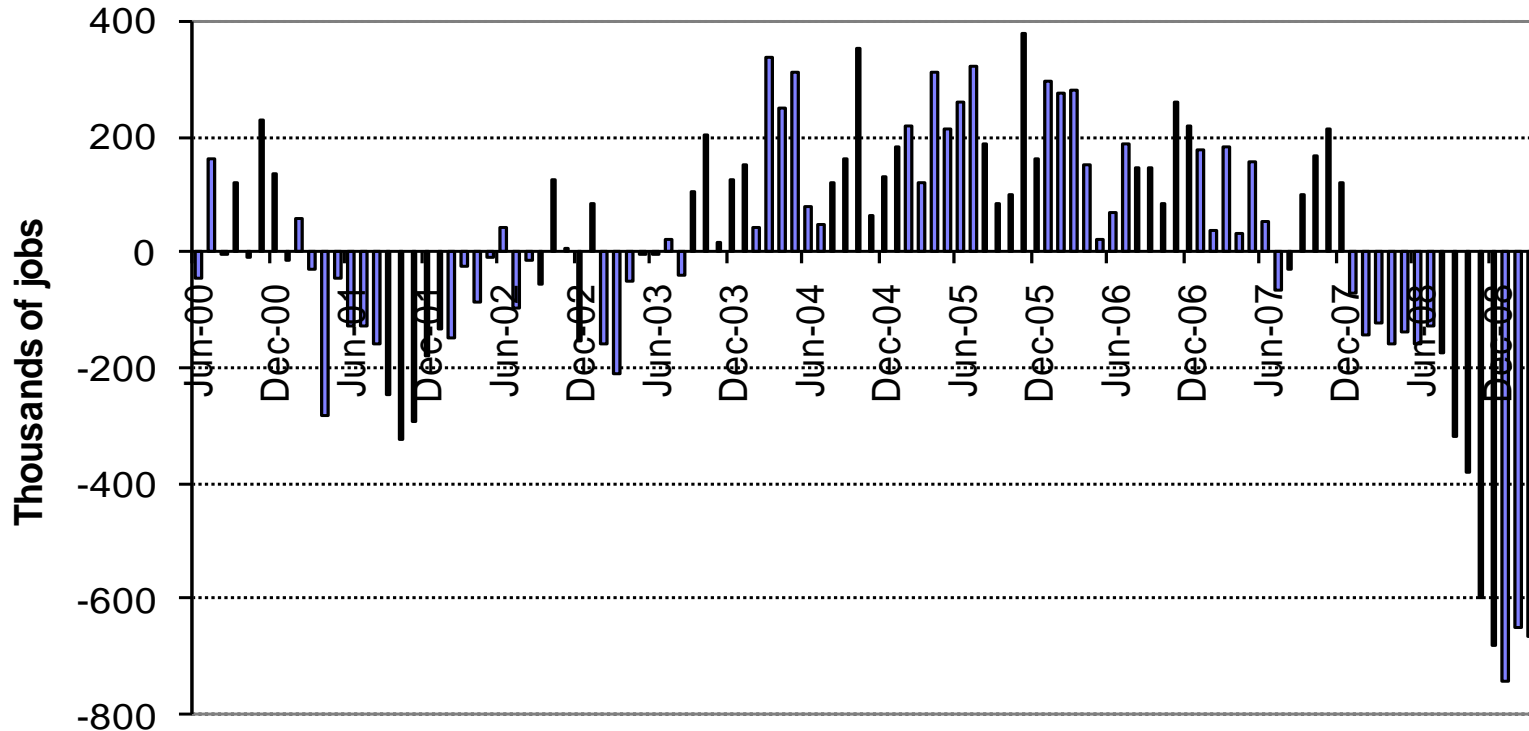
U.S. Personal Income and Household Debt: 1980 Q1 = 100



Source: Federal Reserve Board.

- Household debt increased 97% from 2000 to 2008.

Monthly Change in U.S. Employment



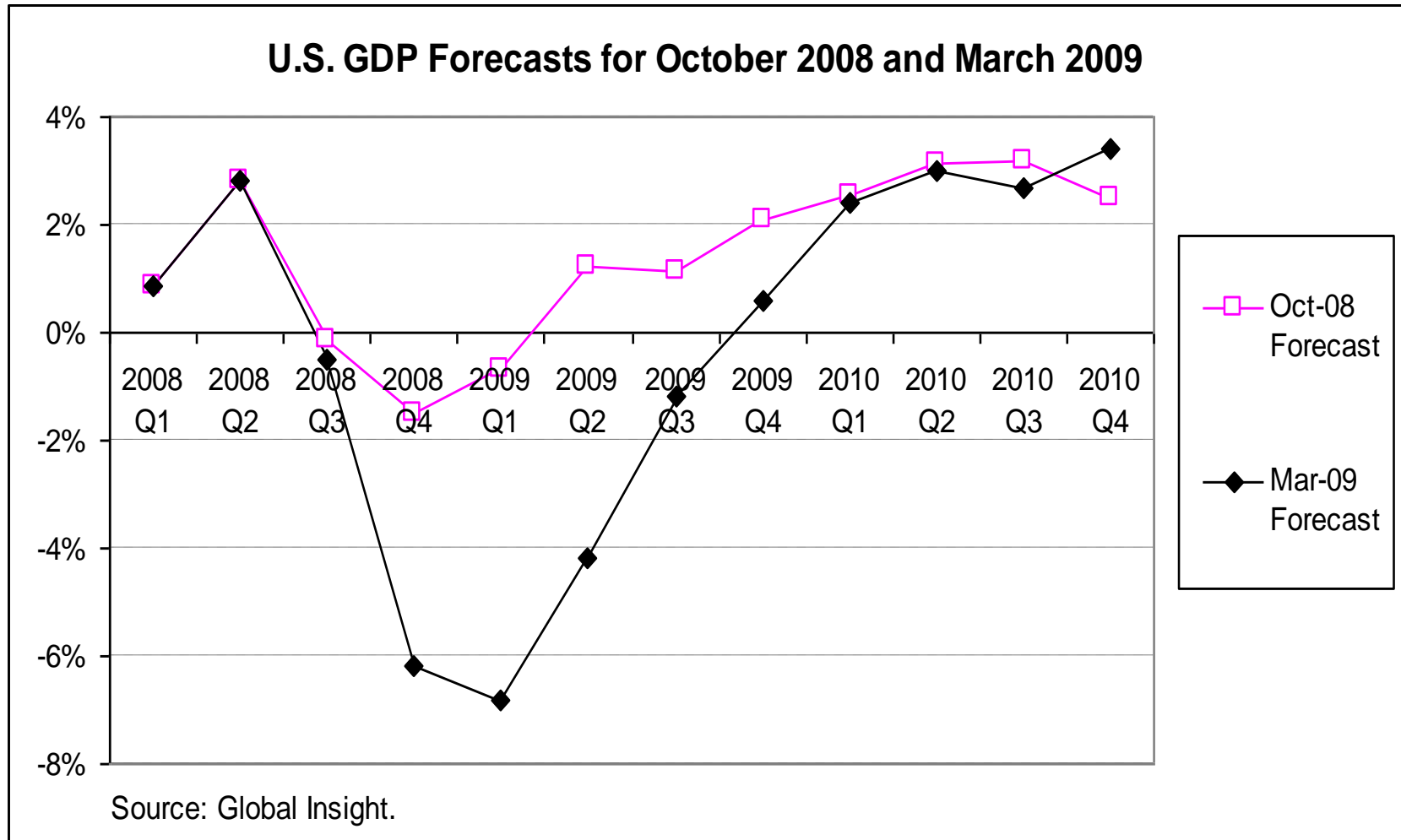
Source: U.S. Bureau of Labor Statistics. Data are seasonally adjusted.

- 5.1 million jobs lost since Dec-07; 3.3 million in past 5 months.
- Unemployment rate hit 8.5% in March; highest since 1983.

Recent weeks have seen a few positive signs

- Stock market is up over 20% from early March low
- Home sales rose in February: new 4.7%, existing 5.1%
- Single family permits rose 11.0% in February
- U.S. retail sales rose in January and February measured on month-to-month basis
- Orders for manufactured goods rose 1.8% in February
- Shipping volumes are showing signs of stabilizing
 - Rail, truck, container, air freight

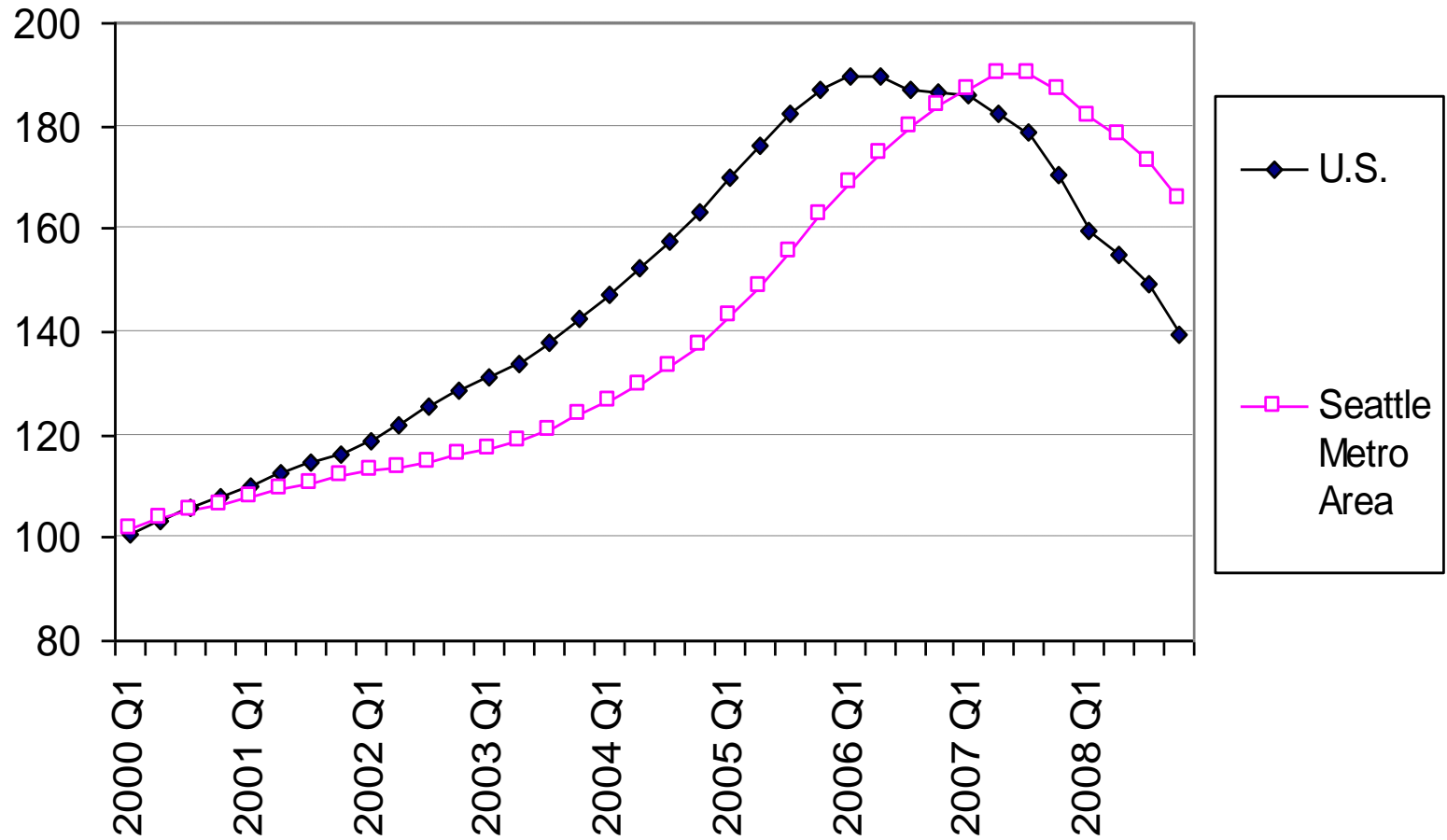
U.S. Economic Forecast



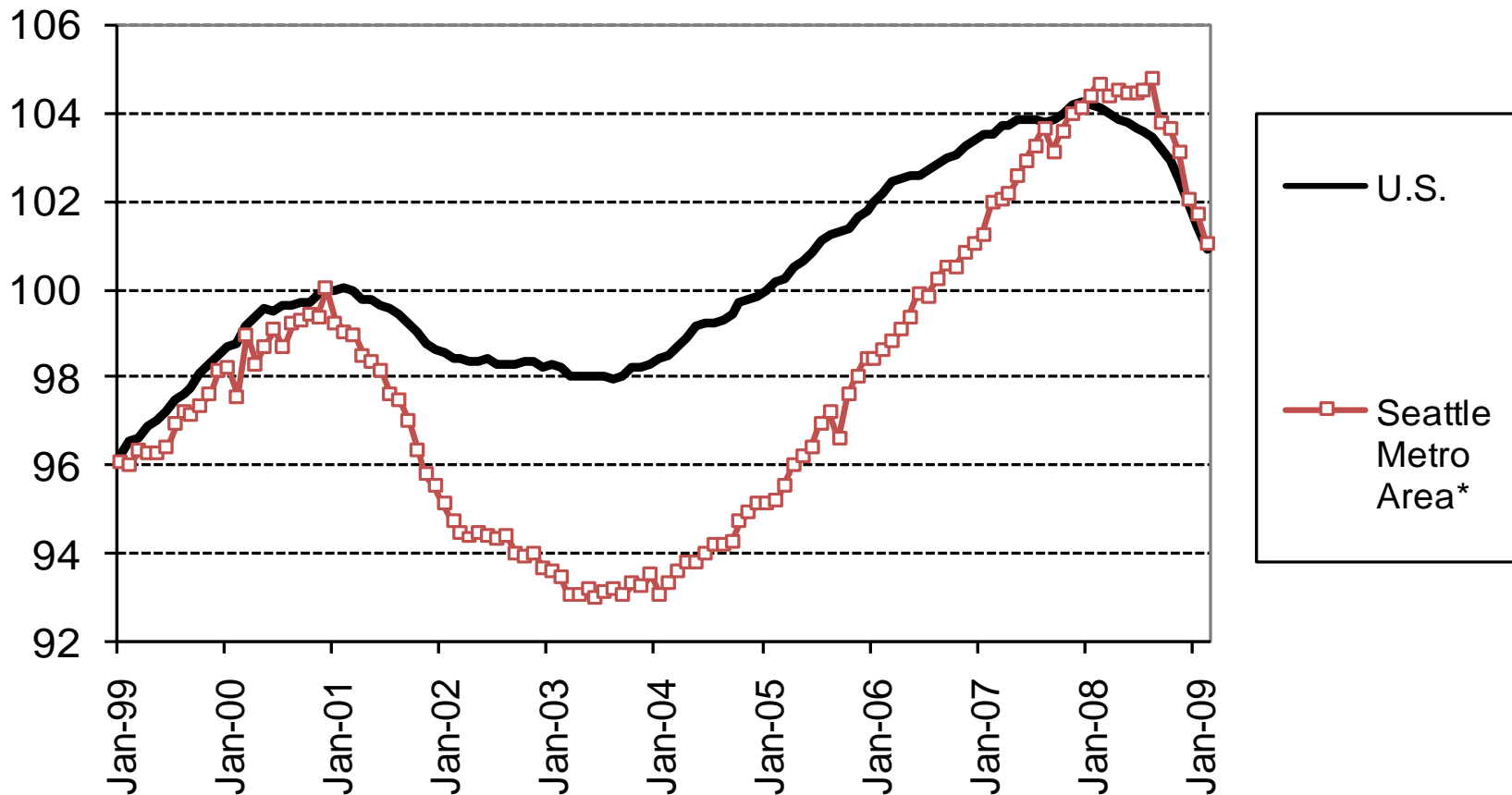
Puget Sound Economy: Recent trends

- 2001-03 recession was very severe locally
 - Recovery started later here
 - Housing bubble cycle was delayed
- Current downturn arrived later here
 - Construction peaked in Nov-07 locally
 - Compared to Jan-07 for U.S.
 - Aerospace employment increased through 2008 Q3
 - Software employment increased through 2008 Q4
- Falloff beginning in 2008 Q4 has been very steep
 - 53,400 jobs lost from Aug-08 to– Feb-09 in King & Snohomish Co., a 3.6% decline

S&P/Case-Shiller Home Price Index, 2000 Q1 = 100



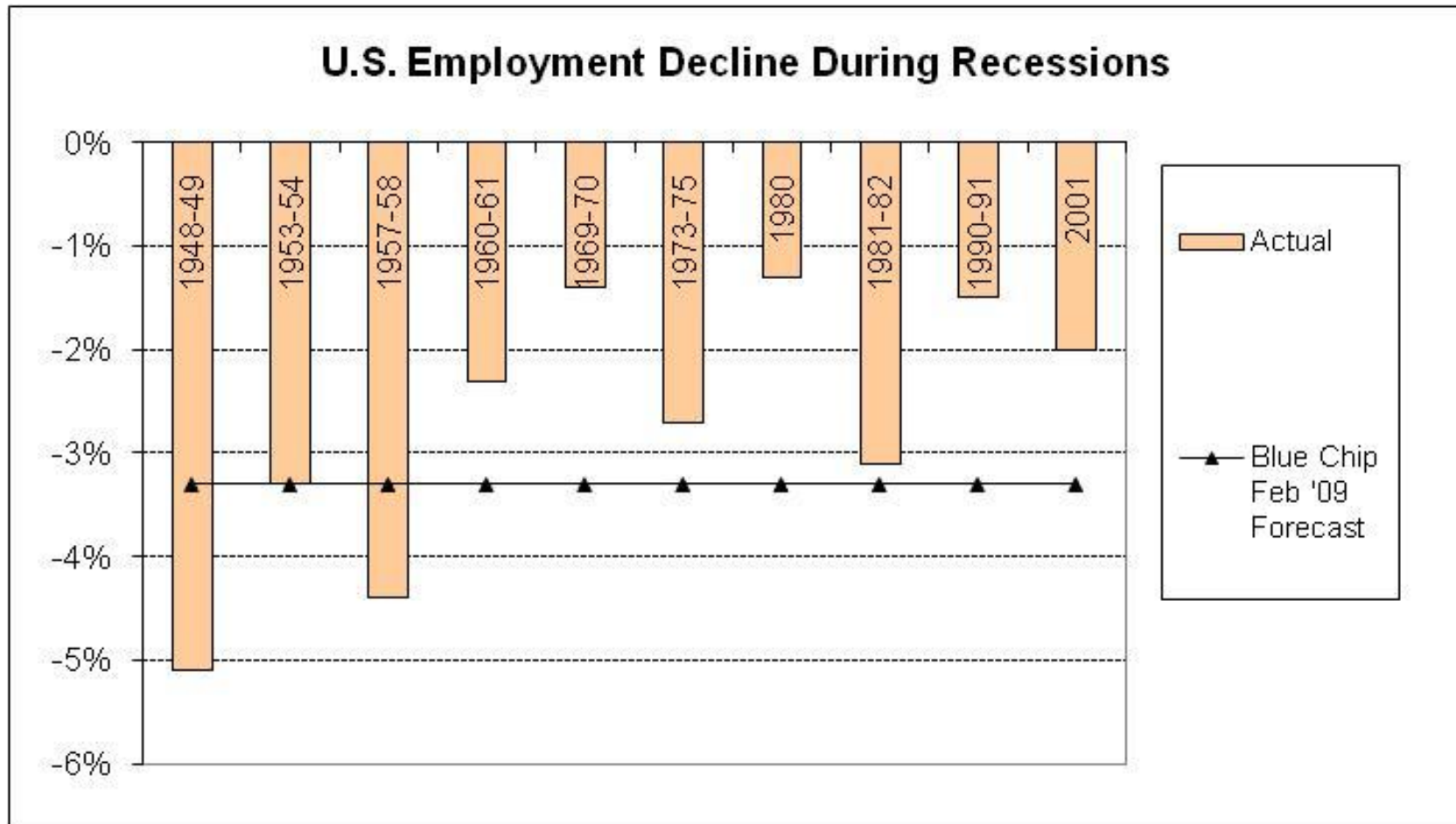
Employment: December 2000 =100



*King & Snohomish Counties. Data adjusted to remove effects of Boeing strikes. Data are seasonally adjusted non-agricultural wage & salary employment.

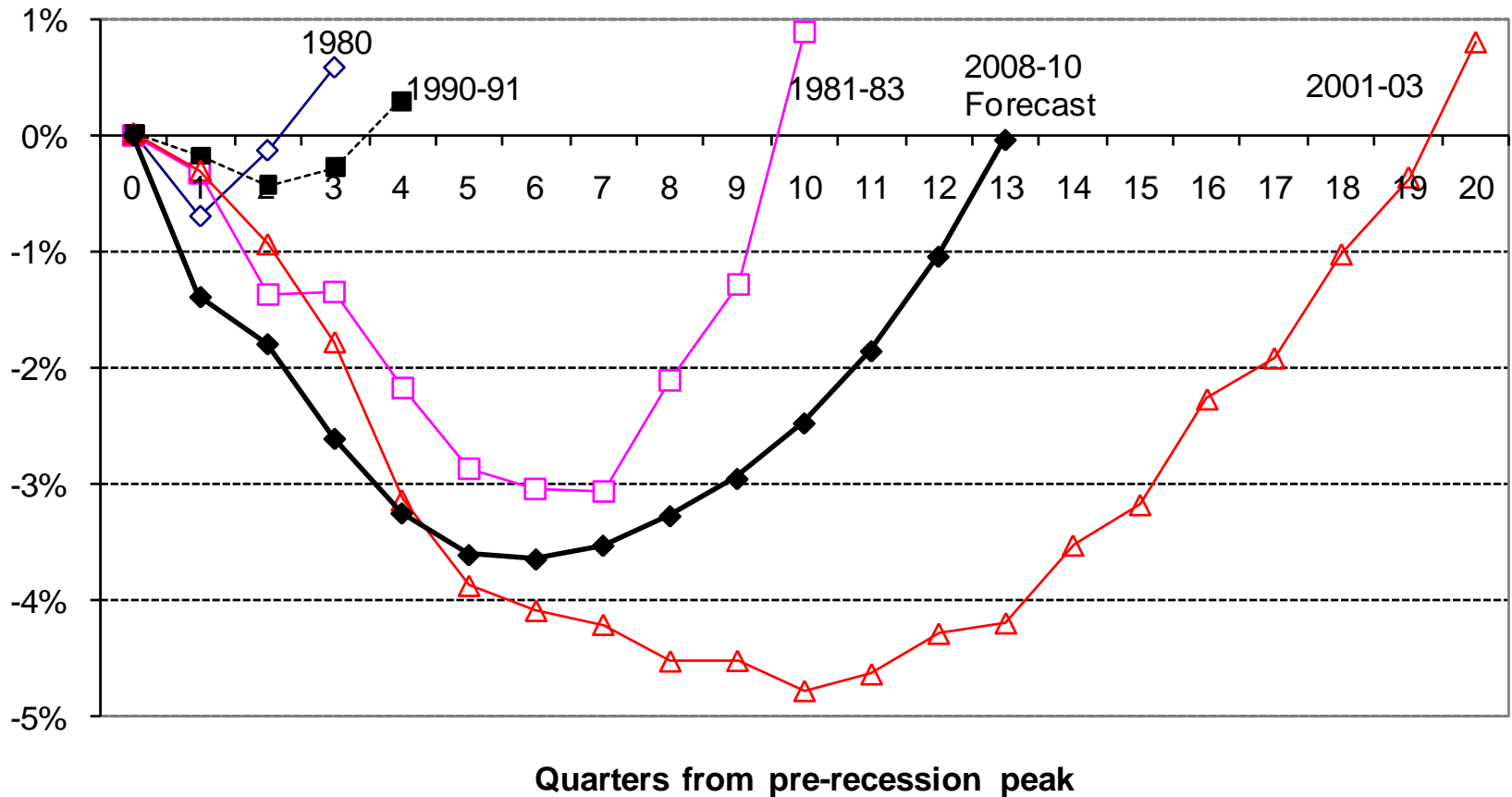
Puget Sound Region Economic Forecast

- Regional forecast is based on Feb-09 U.S. forecast



Job Losses in the Five Most Recent Puget Sound* Recessions

Percent Decline from pre-Recession Peak



*King, Kitsap, Pierce, and Snohomish Counties.

Why is 2008-10 forecast not as bad as 2001-03?

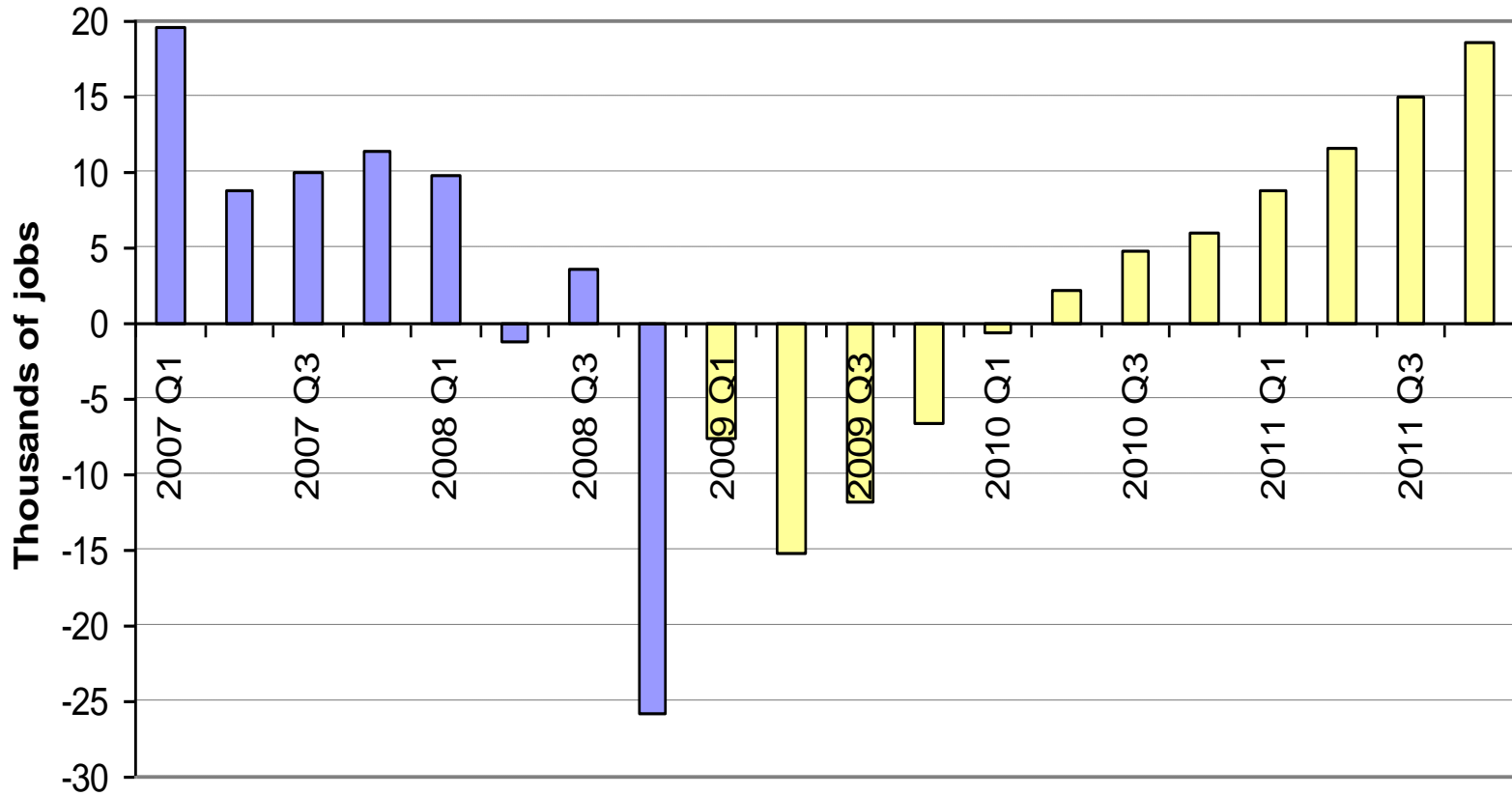
- 2001-03 was very bad locally. Employment decline:
 - 2.0% U.S.
 - 4.8% Puget Sound Region (4 counties)
 - 6.6% Seattle Metro Area (King & Snohomish Counties)
- Modest cuts announced by Boeing, Microsoft thus far
 - In 2001-03, Boeing cut 27,200 jobs in less than 3 yrs
- Areas of U.S. hardest hit in this recession include:
 - Areas with big housing bubbles
 - Manufacturing centers, especially auto related
 - Financial centers
 - Areas dependent on travel, tourism, in-migration

What has changed since the last revenue forecast?

(which was prepared in Oct. 2008)

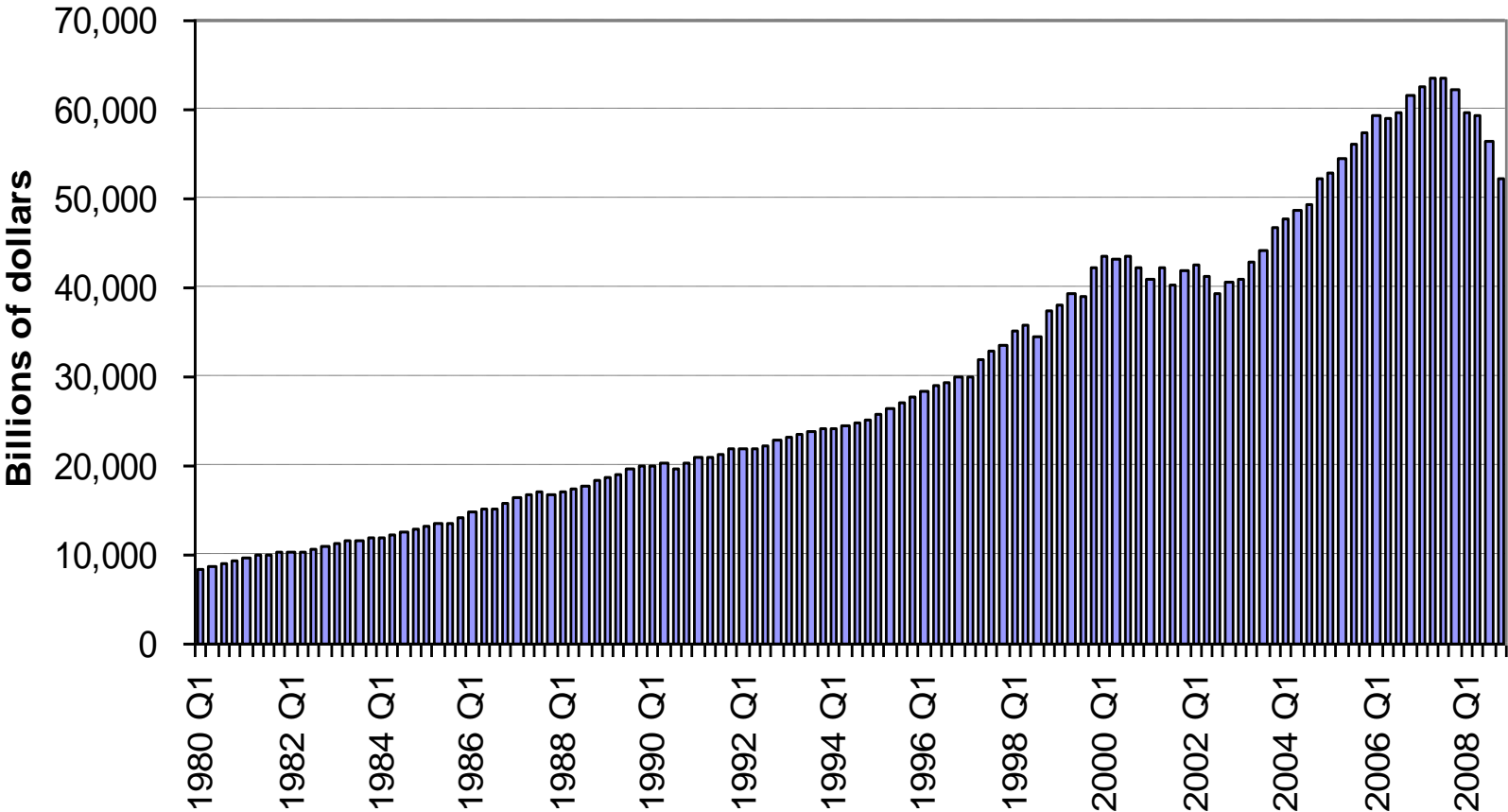
- U.S. and local economies have declined steeply
 - as has City sales and B&O tax revenue
- Economic forecasts have been revised
 - Major recession is now forecast
 - Deflation or very low inflation is expected in 2009
 - Savings rate forecast has been raised
 - Falling wealth = higher savings & weaker spending
 - Weaker spending = lower tax revenue

Forecast of Employment Change: Puget Sound Region* Quarter-to-Quarter Change

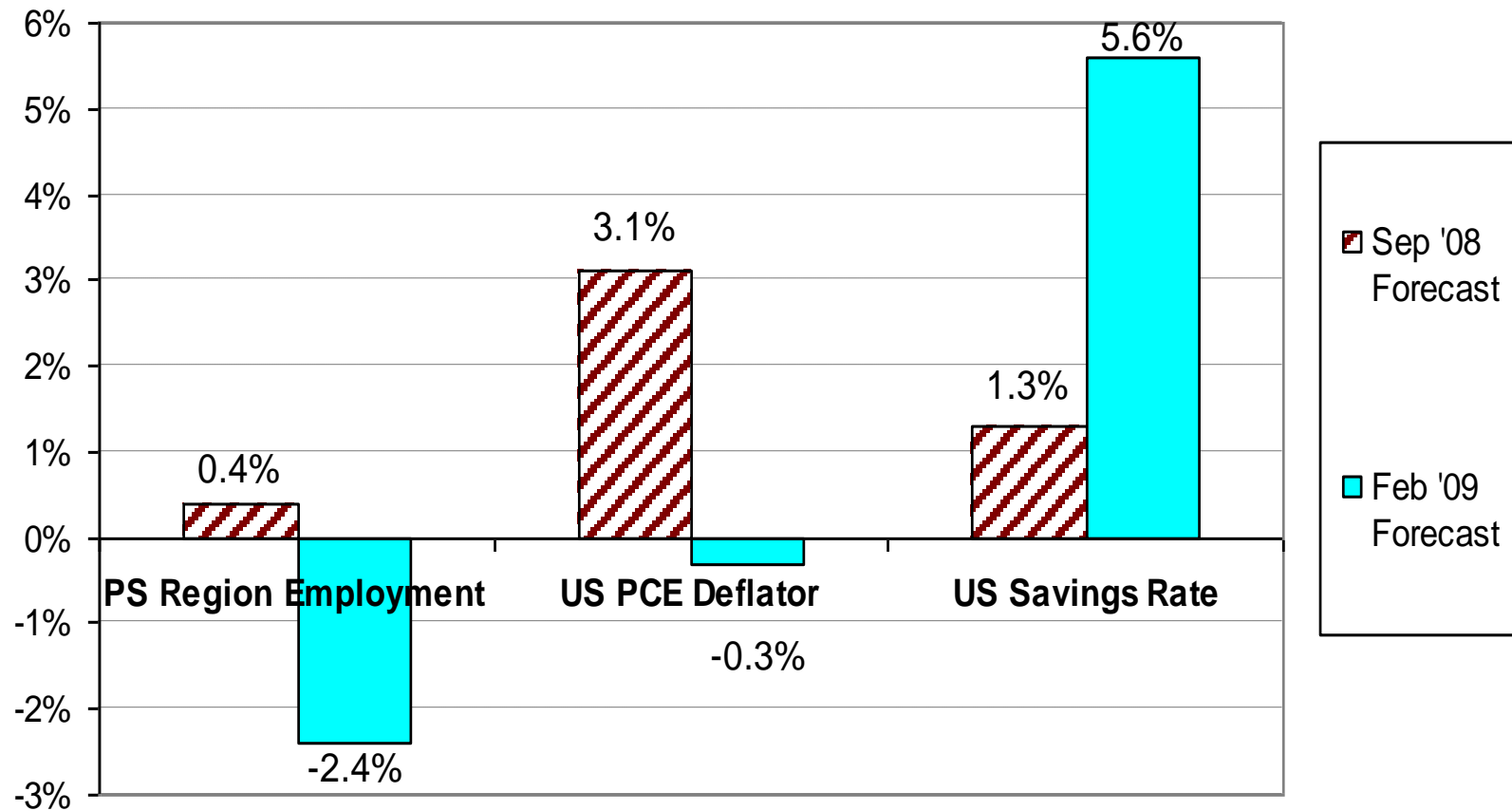


*King, Kitsap, Pierce, and Snohomish Counties. Source: Puget Sound Economic Forecaster.

U.S. Household Net Worth



Change in 2009 Forecast from Sept. 2008 to Feb. 2009

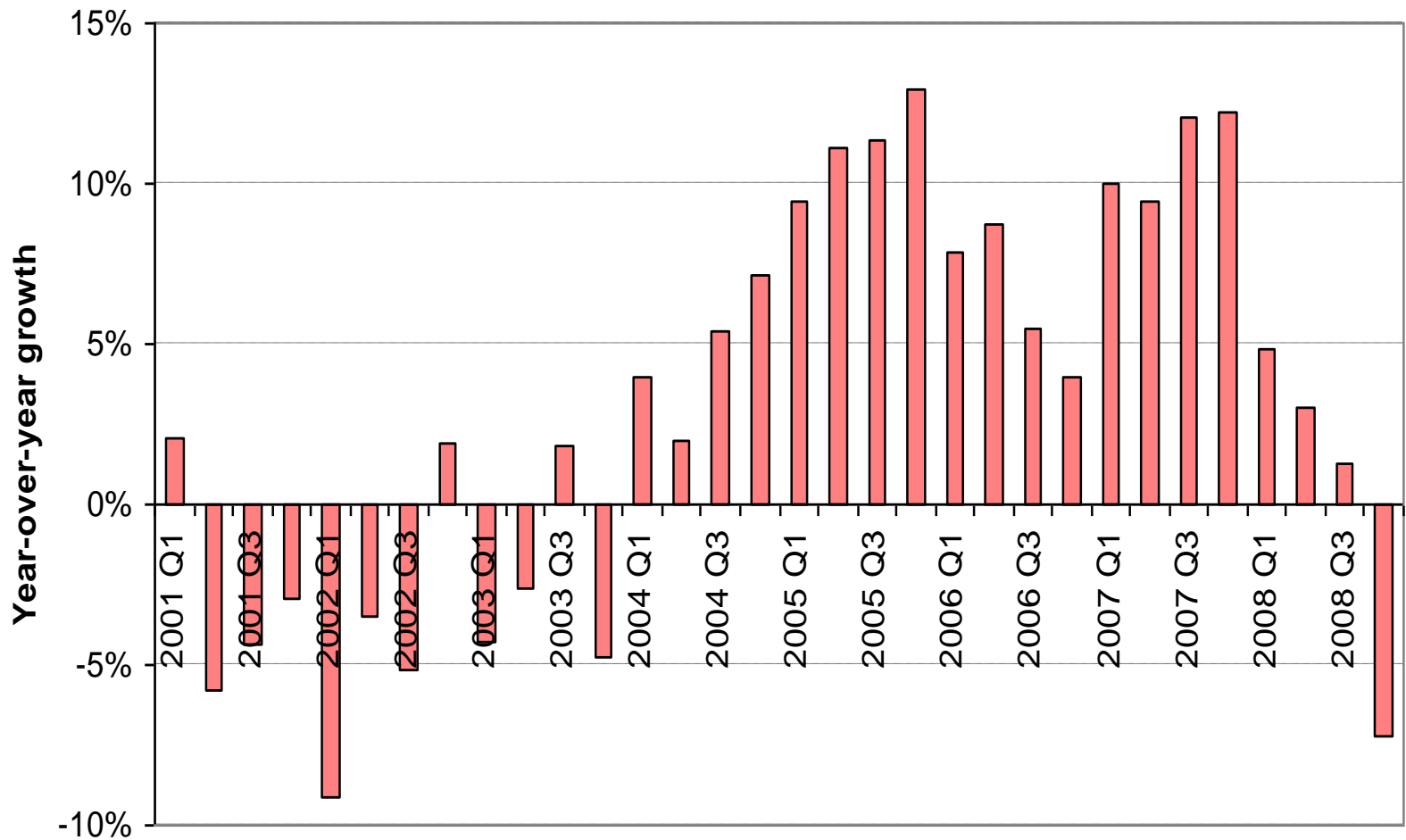


Source: Puget Sound Economic Forecaster; Global Insight (savings rate).

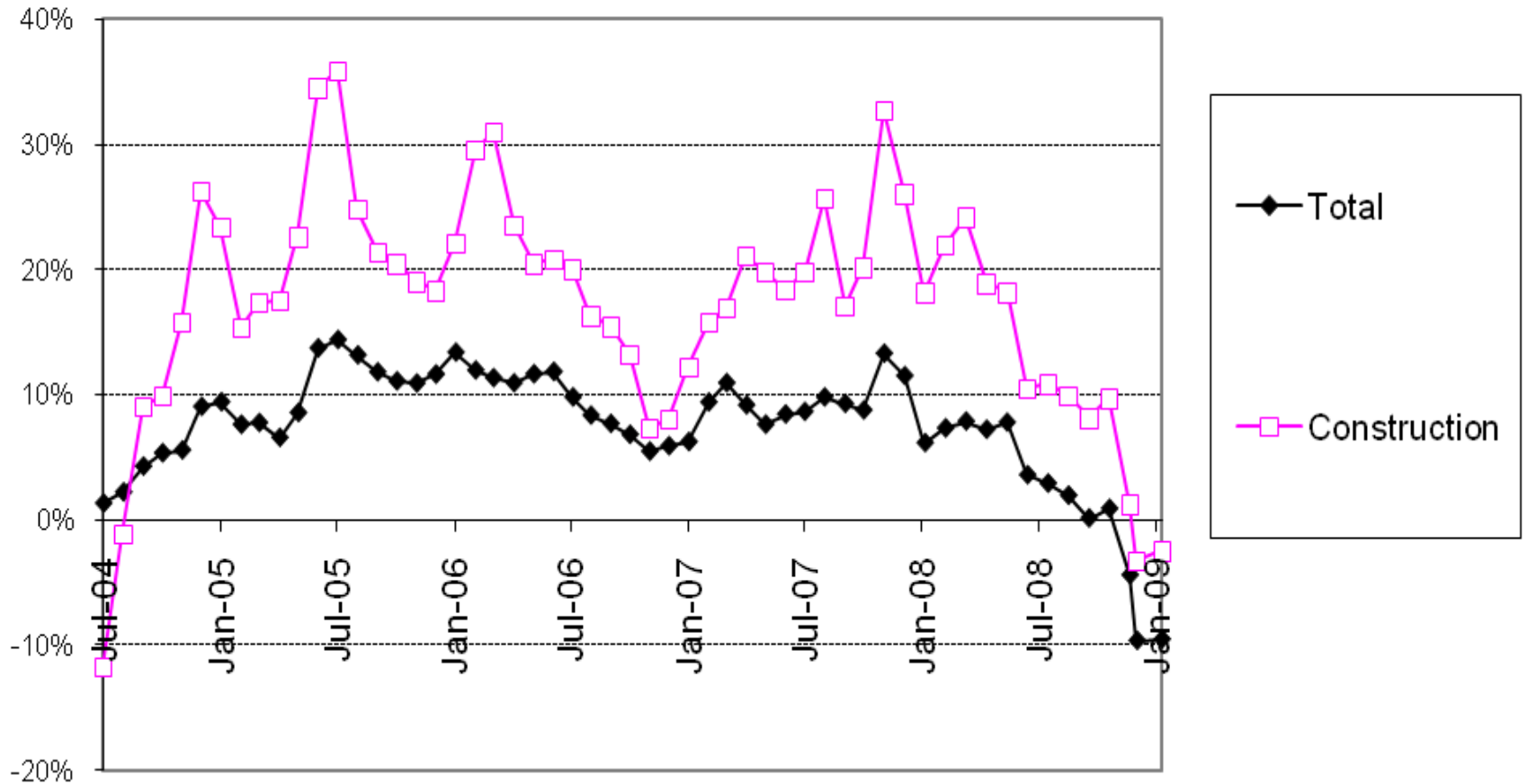
Retail Sales Tax

- Revenue was flat in 2008 (up 0.2% from 2007)
 - Sharp deceleration over course of year
 - Snowstorm hurt December revenue (-11.4% yr-over-yr)
 - Non-current revenue declined \$1.4 mil. from 2007
- Performance by industry in 2008:
 - Construction was up 10.4%; flat in the 4th quarter
 - Retail trade was down 3.1%; flat without auto sales
 - Motor vehicles & parts fell 20.6%
 - Finance, insurance, real estate declined 5.0%
 - Service industries had modest growth of 1.5%

Growth of Seattle Retail Sales Tax Revenue



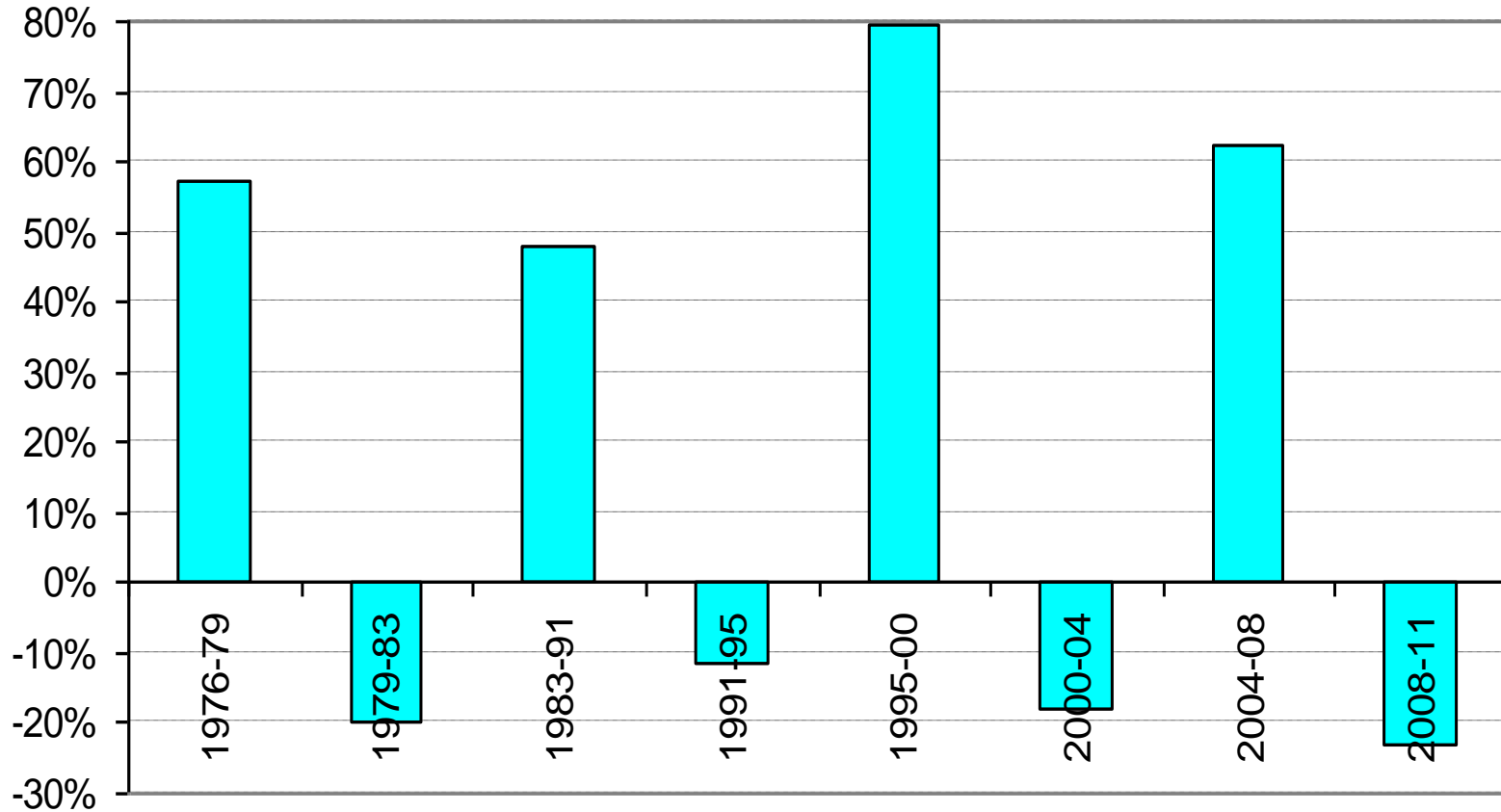
Growth of Current Obligation Taxable Retail Sales 2-month moving average



Sales Tax Forecast

- Reflects forecast of major regional recession
- Over two-thirds of tax base is in cyclical industries
 - Construction, trade, manufacturing, etc.
 - Construction's share of base = 24.4% in 2008
- Forecast of peak-to-trough revenue decline is 10.6%
 - Compared to 11.4% drop in 2001-03
 - Expect 6.7% decline in 2009; 1.9% drop in 2010
- Construction forecast: real decline of 23.1% over 3 years
 - Largest real decline since at least 1975
 - Assumes continued public construction
- Motor vehicle sales weakness will continue in 2009

Construction Cycles: Real* Taxable Retail Sales

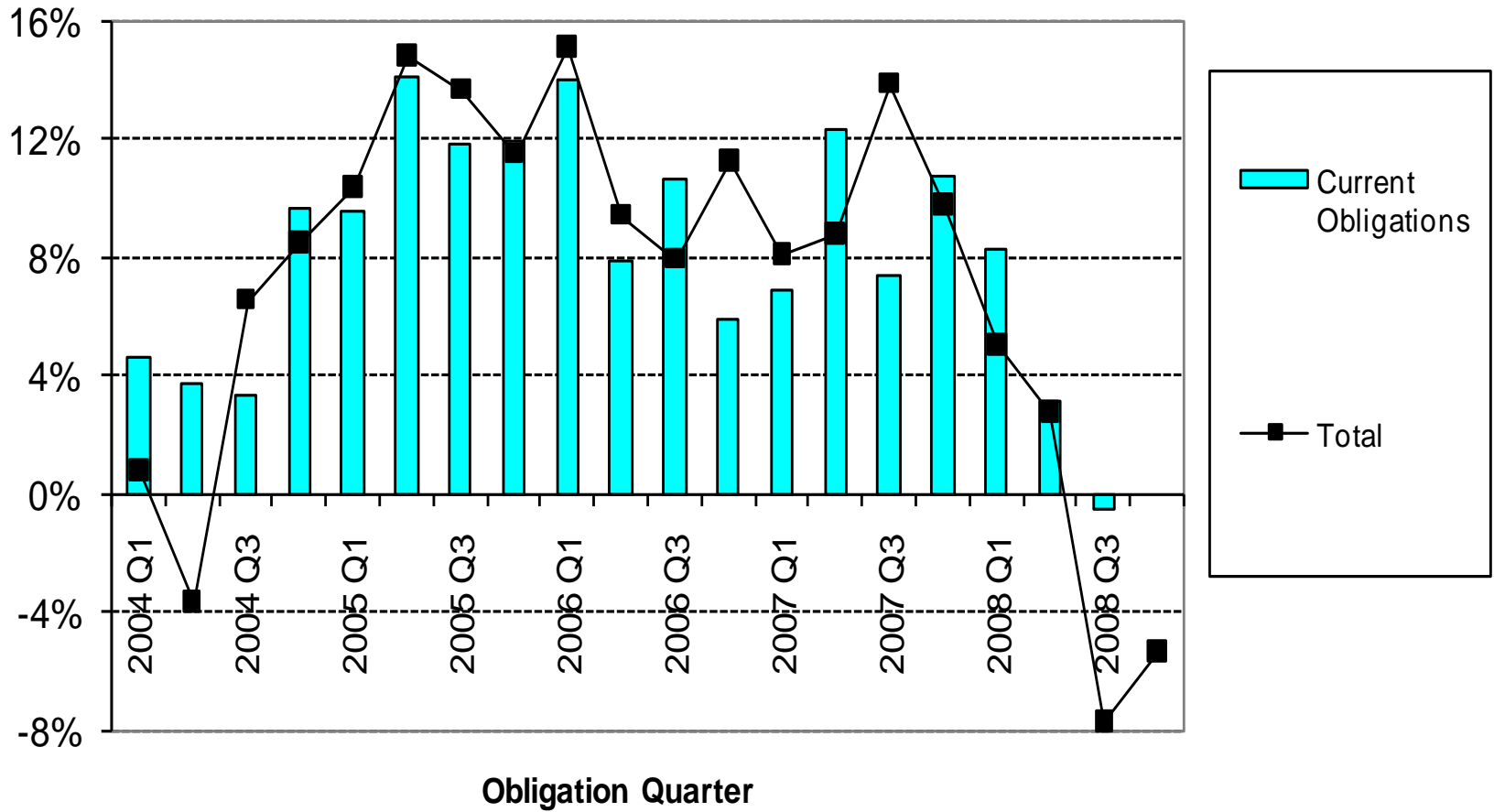


*Inflation adjusted by Seattle CPI.

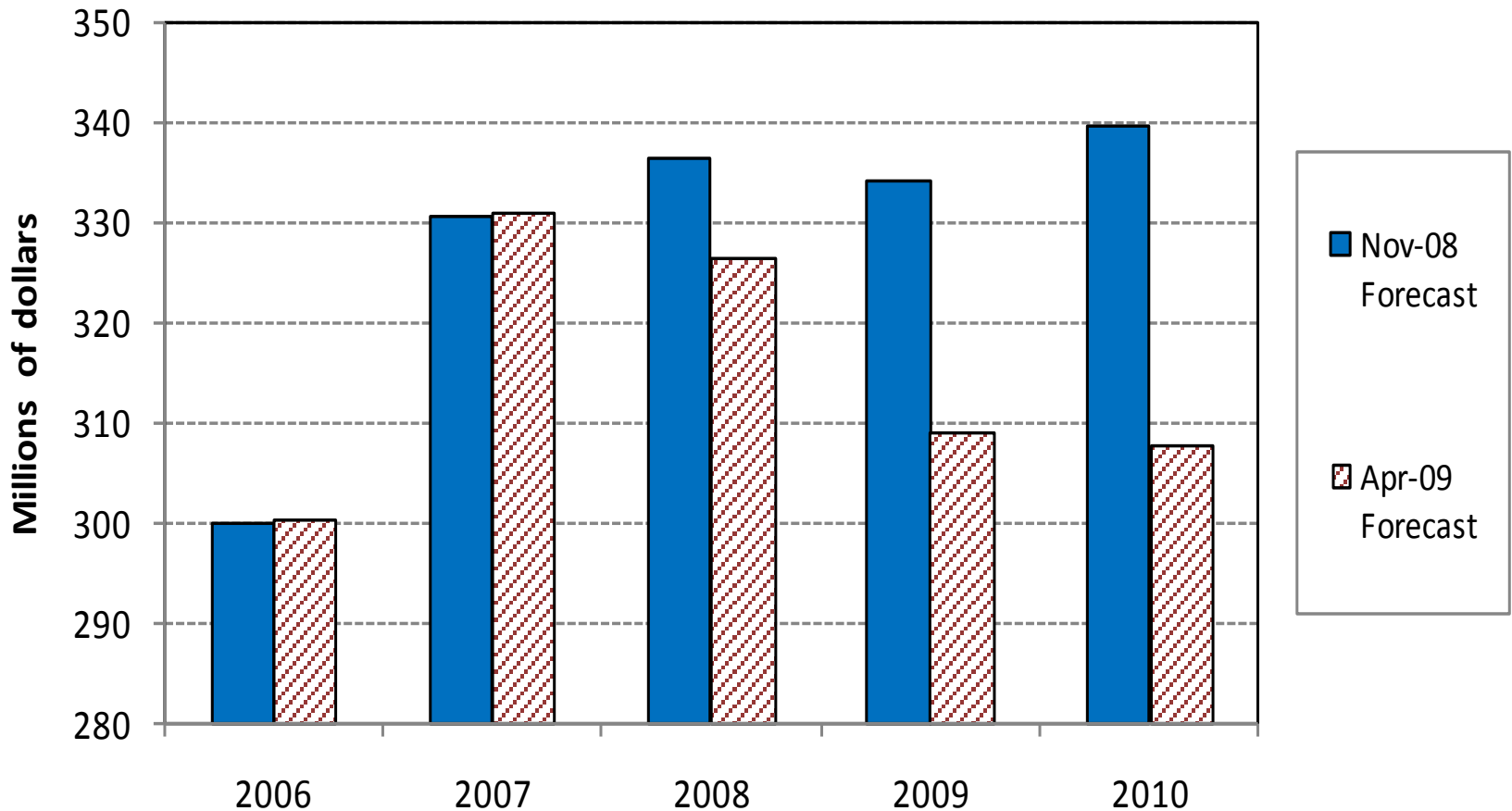
B&O Tax

- B&O revenue started 2008 with healthy growth and ended the year in decline
- From 2007 to 2008 B&O revenue declined by \$3.8 mil. (2.3%)
 - Non-current revenue declined by \$5.3 mil.
 - Excluding non-current yields \$1.5 mil. gain
- Forecast reflects:
 - Severity of downturn
 - 50% of B&O base is relatively stable service industries
 - Lower expectations for non-current revenue
- Forecast of peak-to-trough revenue decline is 8.1%
 - Compared to 8.6% in 2001-03

B&O Payments by Obligation Quarter year-over-year growth rate



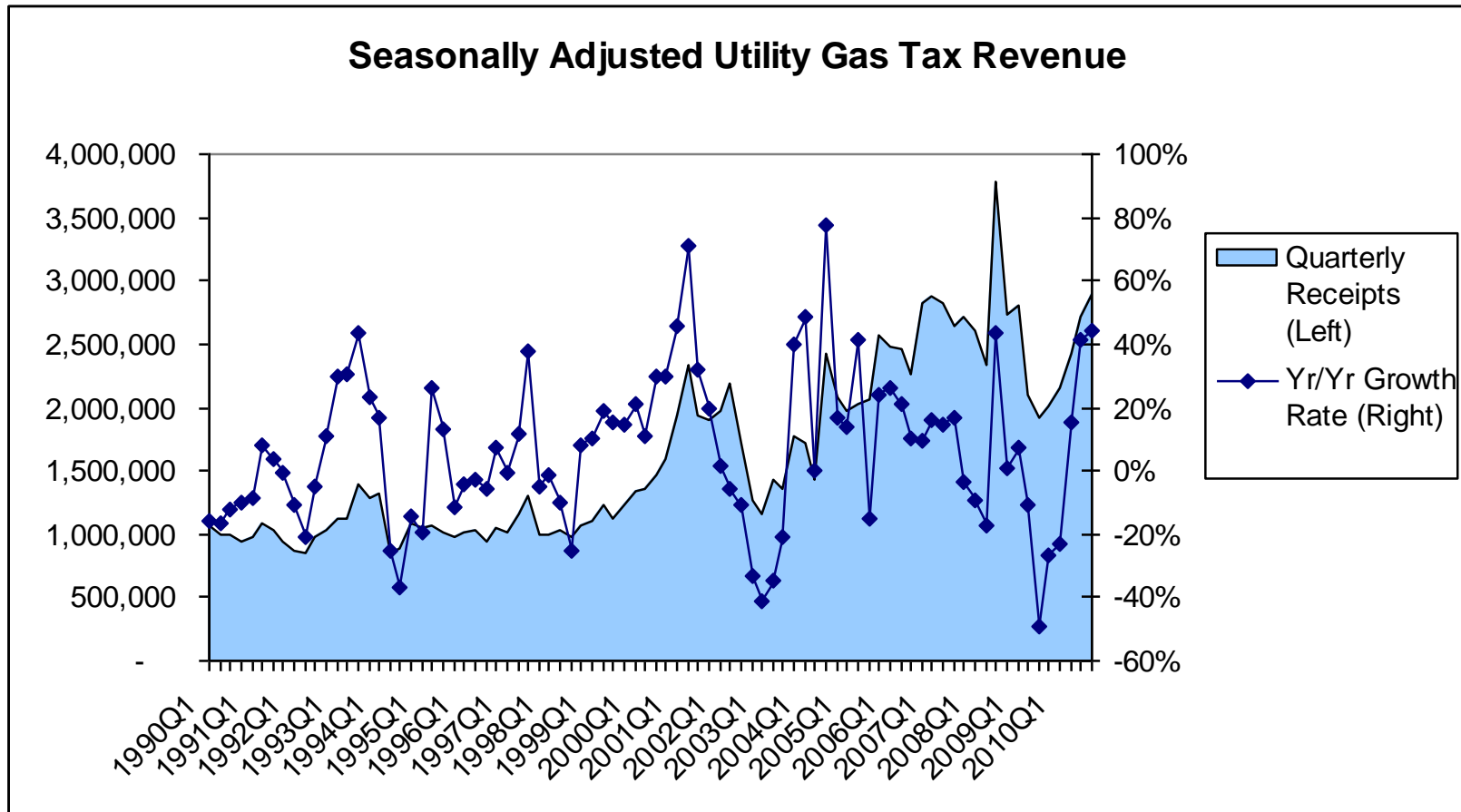
Combined Sales and B&O Tax Revenue Forecast



Utility Business Tax – Natural Gas

- Natural Gas tax revenue is dependent on both weather and prices
- Natural gas prices rose 27% in 2008 over 2007
- Year-over-year Henry Hub prices were up 49% in the 3rd quarter
- Utility Tax revenue on natural gas was also up 44% in the 3rd quarter
- Natural gas spot prices have plummeted since the summer, along with other energy commodities
- As a result, receipts are expected to be down 15% for 2009 over 2008, a 24% decrease from the Adopted 2009 Budget

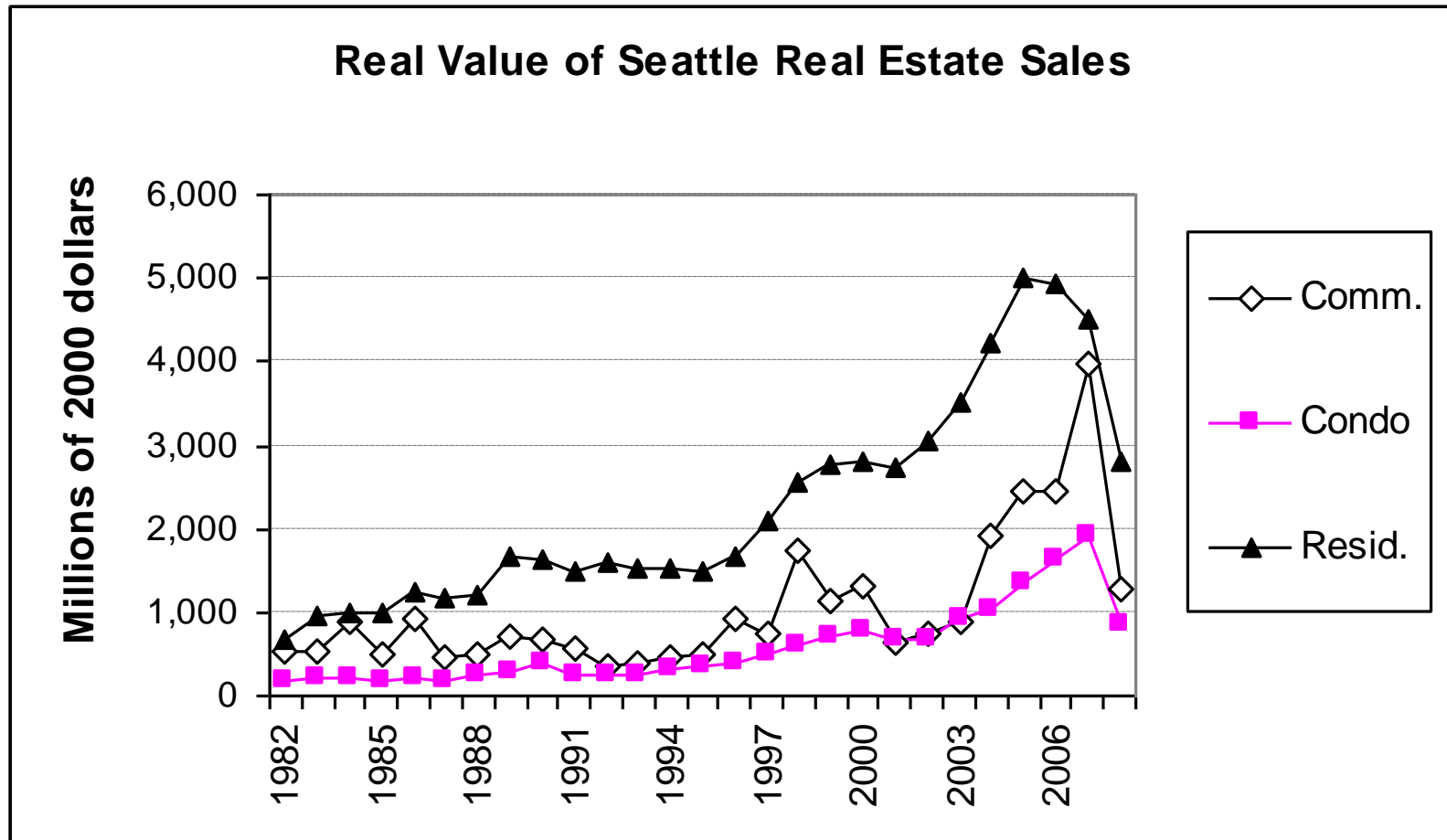
Utility Business Tax – Natural Gas



Real Estate and REET

- 2008 saw the national housing and property bust come to Seattle
- Seattle single-family and condo sales plunged throughout the year
 - Single-family sales were down 33% year-over-year in Q408, 28% down for the year
 - Condo sales were down 63% for the same period, 42% down for the year
- Commercial activity also slowed considerably as financing for large developments has evaporated
- Home sales are expected to pick up at the end of 2009, as home prices continue to fall during 2010

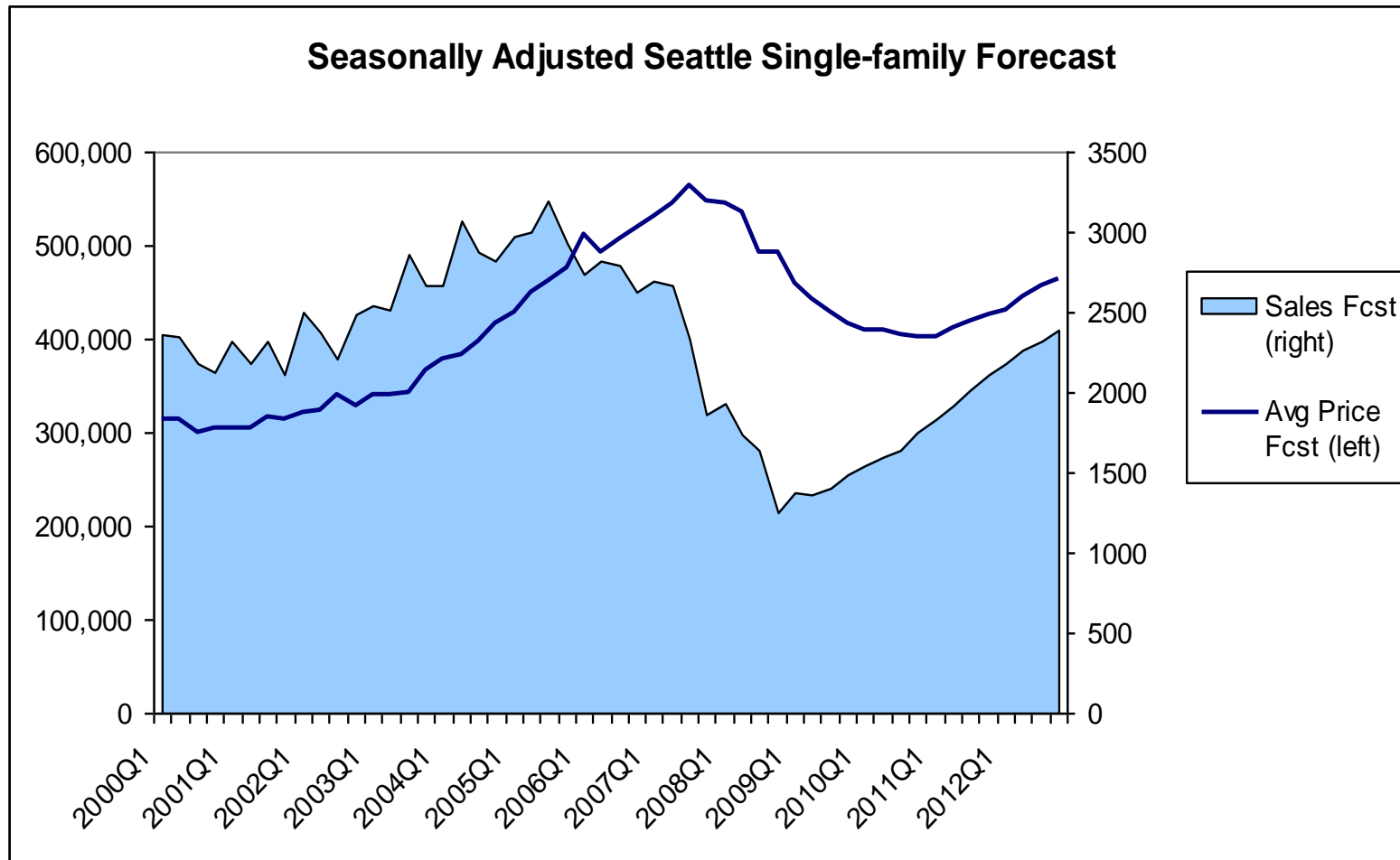
Real Estate and REET



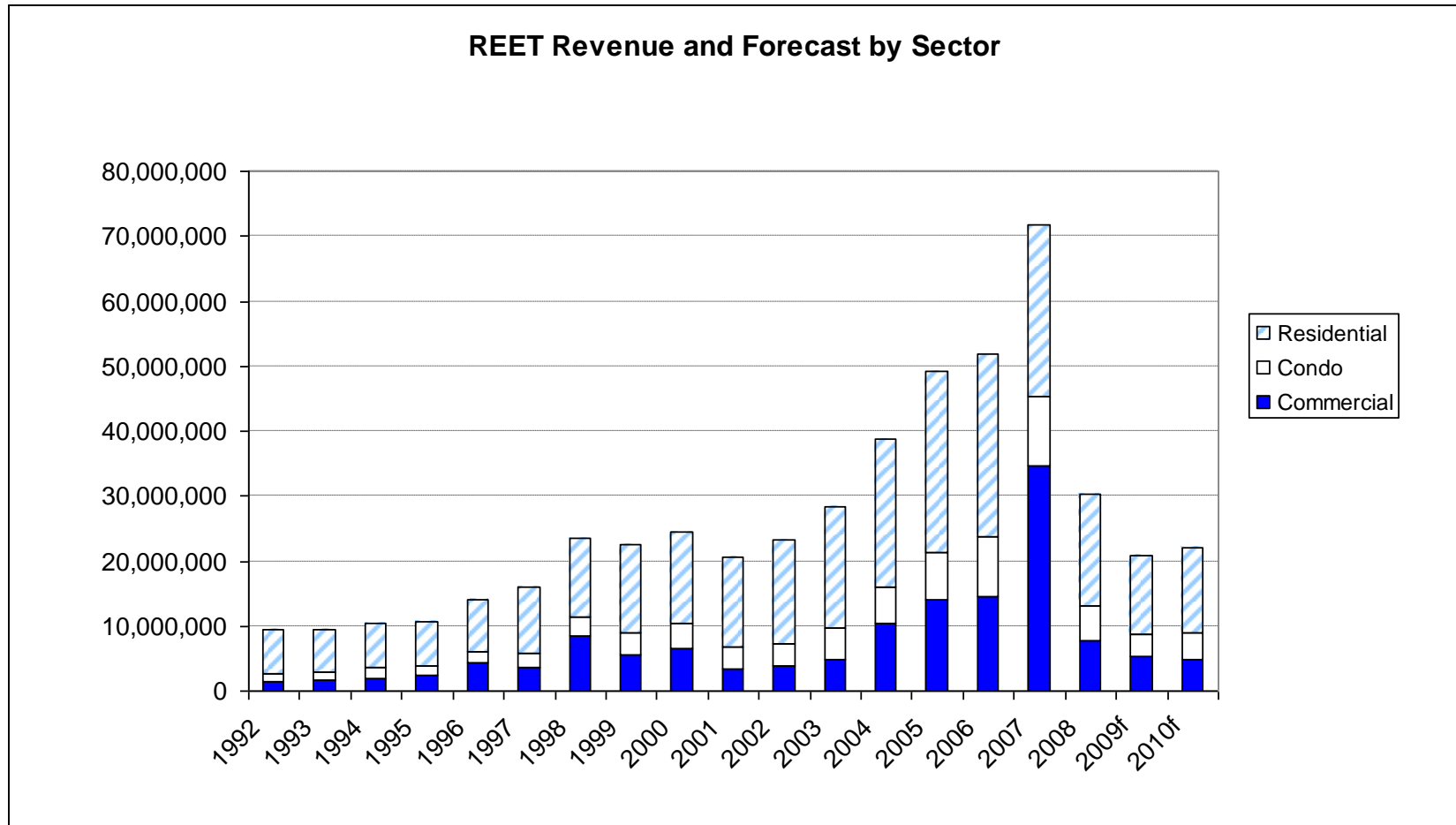
Real Estate and REET

- The REET forecast expects a 28% decline in average home prices from peak (3Q07) to trough (4Q10)
- This forecast expects the Seattle market to mimic the national one
- Foreclosures are expected to rise in the area as the Seattle market was one of the last to see subprime and alternative mortgage originations
- Office vacancy rates remain under 10%, a good sign compared to the national 14.2% rate
- There is limited scope for large property deals and only downside risk to vacancy rates

Real Estate and REET



Real Estate and REIT



General Government Revenue

GSF - Item	2008			2009			2010		
	Nov	Actuals	Act-Nov	Nov	Mar	Mar-Nov	Nov	Mar	Mar-Nov
Property Taxes	238,746,000	238,257,418	(488,582)	246,218,000	245,736,000	(482,000)	251,331,000	249,941,000	(1,390,000)
Business & Sales Taxes	343,592,942	332,699,802	(10,893,140)	340,250,145	313,994,265	(26,255,880)	345,804,743	312,789,344	(33,015,399)
Public Utility Taxes	80,780,000	79,686,308	(1,093,692)	87,349,474	90,984,903	3,635,429	91,808,777	94,375,700	2,566,923
Private Utility Taxes	57,341,000	55,615,966	(1,725,034)	57,981,000	54,852,267	(3,128,733)	58,176,000	55,228,681	(2,947,319)
Other Notable GSF Revenues	55,623,000	56,500,384	877,384	61,420,000	58,095,274	(3,324,726)	67,426,000	61,148,796	(6,277,204)
Subtotal	776,082,942	762,759,879	(13,323,064)	793,218,619	763,662,709	(29,555,910)	814,546,520	773,483,521	(41,062,999)
All Else	76,736,360	86,355,721	9,619,361	79,035,588	78,778,988	(256,600)	80,544,256	80,001,256	(543,000)
GSF - Grand Total	852,819,302	849,115,599	(3,703,703)	872,254,207	842,441,697	(29,812,510)	895,090,776	853,484,777	(41,605,999)
DPR Charter Revenue	38,141,246	37,191,812	(949,434)	39,184,313	37,827,110	(1,357,203)	40,007,170	38,144,348	(1,862,822)
Real Estate Excise Tax	30,889,914	30,313,740	(576,174)	31,814,326	20,762,068	(11,052,258)	35,565,629	22,010,411	(13,555,219)
BTG - Employee Hours Tax	4,781,252	4,448,764	(332,488)	5,261,136	5,261,136	-	5,647,751	5,647,751	-
BTG - Commercial Parking Tax	12,844,000	13,302,260	458,260	17,874,000	17,874,000	-	21,347,000	21,347,000	-

General Subfund Status

Annual Operating Position (Revenues minus Expenses)

	<u>2009 Adopted Budget (Nov. 2008)</u>	<u>April Forecast Revision (Apr. 2009)</u>	<u>Difference</u>
2008	21,400,000	15,200,000	(6,200,000)
2009	(6,510,000)	(40,530,000)	(34,020,000)
2010	(14,875,000)	(58,851,000)	(43,976,000)

Cumulative Reserve Subfund (REET) Status

	<u>2009 Adopted Budget (Nov. 2008)</u>	<u>April Forecast Revision (Apr. 2009)</u>
Resources		
2008 Yearend Balance (includes anticipated abandonments)	8,481,000	10,836,000
2009 Estimated Revenue	31,814,000	20,762,000
2010 Estimated Revenue	35,566,000	22,010,000
Total Resources Available in the Biennium	75,861,000	53,608,000
 Biennial Planned Expenditures		
2009-10 Debt Service Expenditures	28,013,000	28,013,000
2009-10 Discretionary Expenditures	47,021,000	47,021,000
Total Planned Expenditures in the Biennium	75,034,000	75,034,000
Balance	827,000	(21,426,000)

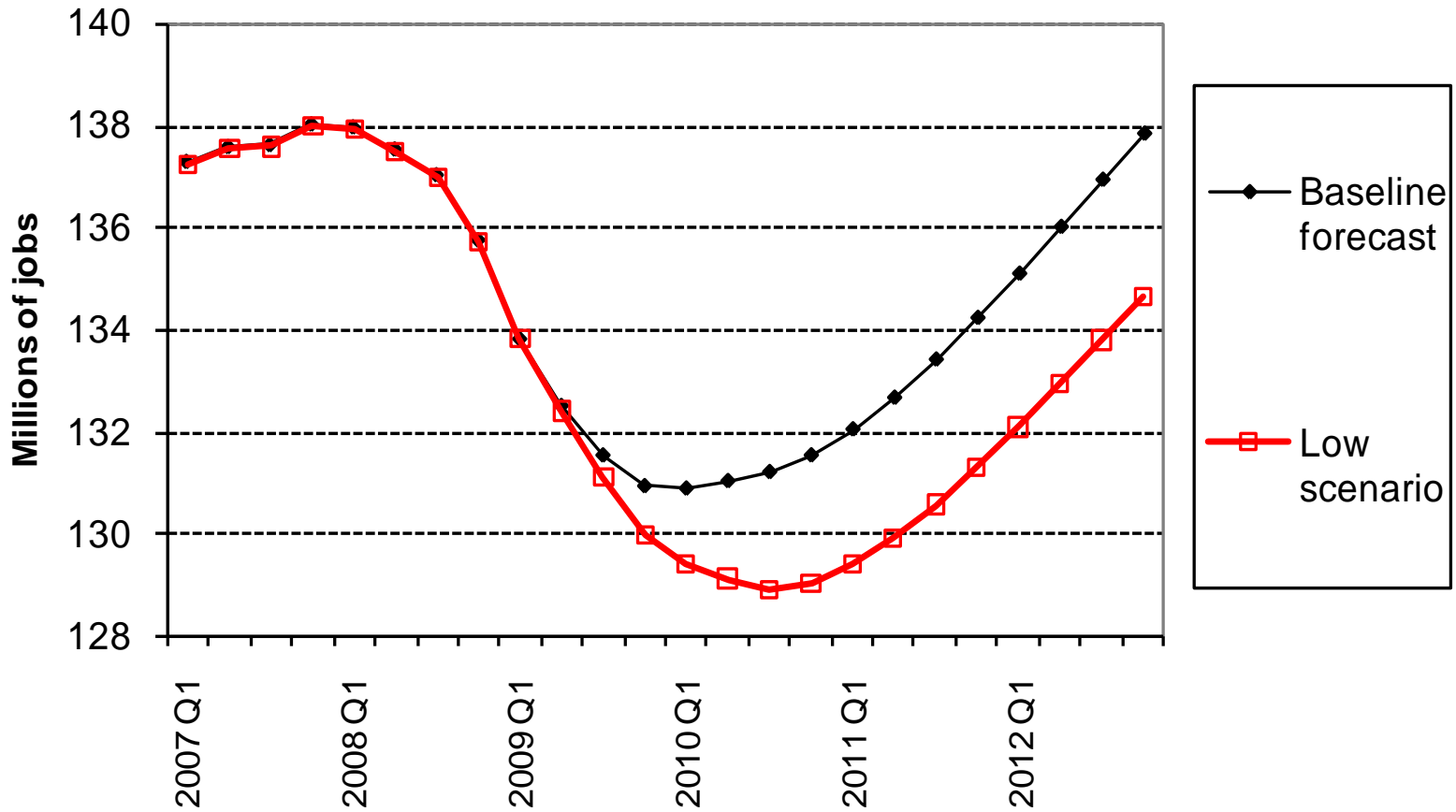
Risks to the forecast

- Risks are large and mostly on the downside
 - This recession is different, thus harder to forecast
 - Housing market uncertainty is great
 - Forecasts assume success of stimulus, bank bailout
 - Savings rate shift makes it hard to forecast consumption
 - Construction outlook is very uncertain
 - Potential for more cuts at region's large employers
- Upside potential
 - Federal policies may be more effective than expected
 - B&O non-current revenue may bounce back

Pessimistic Revenue Scenario

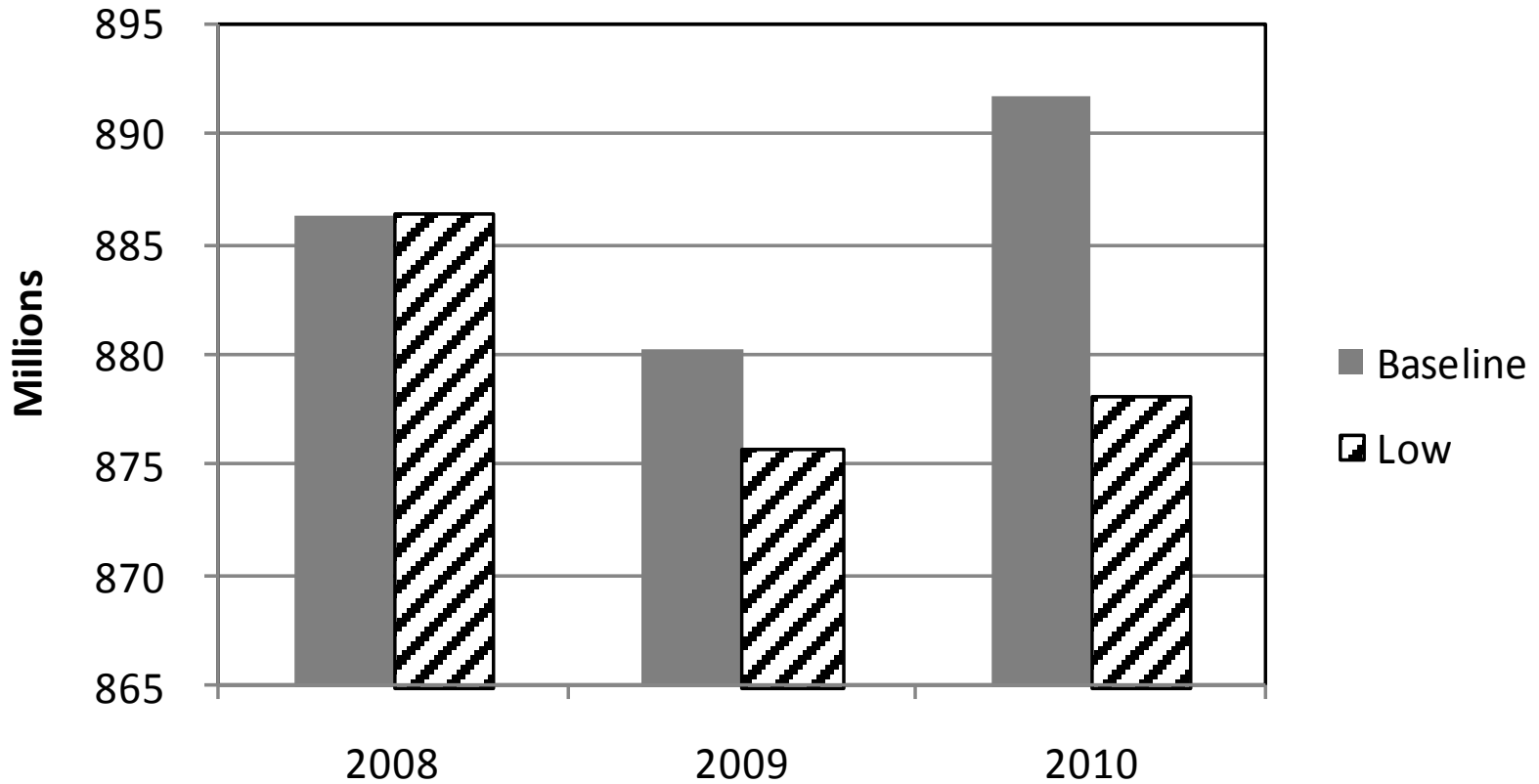
- Based on pessimistic U.S. forecast. Assumptions:
 - Financial conditions worsen, restricting access to credit
 - This leads to reduced spending and investment, and further weakens the housing market
 - The weak housing market further reduces wealth and damages consumer confidence
 - Causing a steeper drop in consumer spending
- Employment falls for 11 consecutive quarters
 - Employment growth resumes in 2010 Q4
- Recovery is weak as consumers rebuild savings

U.S. Employment Forecast Scenarios



Source: Global Insight 's March 2009 U.S. forecast.

General Subfund Revenue Scenarios



Real Estate Excise Tax Scenarios

