

# 2007-2008 GSF Balance Sheet

	2007		2008		2009
	Adopted	Revised (April '07)	Endorsed	Revised (April '07)	Estimate
<b>Beginning Unreserved Fund Balance</b>	\$37,890,000	\$45,888,161	14,771,000	33,404,000	6,899,000
<b>Revenue Forecast</b>					
GSF Revenue Forecast	785,270,000	797,326,000	806,430,000	798,336,000	815,340,000
DPR Charter Revenue Forecast	34,460,000	35,371,000	35,520,000	34,310,000	34,900,000
<b>Total</b>	<b>819,730,000</b>	<b>832,697,000</b>	<b>841,950,000</b>	<b>832,646,000</b>	<b>850,240,000</b>
<b>Expenses</b>					
GSF Appropriations	(806,532,224)	(806,532,224)	(815,243,595)	(815,243,595)	(844,850,000)
DPR Charter Revenues Appropriations	(34,458,977)	(34,458,977)	(35,517,650)	(35,517,650)	(34,900,000)
Subtotal-Expenses	(840,991,201)	(840,991,201)	(850,761,245)	(850,761,245)	(879,750,000)
<u>Expenditure Adjustments</u>					
2007 1st Quarter Supplemental Ordinance	-	(1,730,000)			
2000 Parks Levy backfill					(5,000,000)
<b>Total</b>	<b>(840,991,201)</b>	<b>(842,721,201)</b>	<b>(850,761,245)</b>	<b>(850,761,245)</b>	<b>(884,750,000)</b>
<b>Ending Fund Balance</b>	<b>16,629,000</b>	<b>35,864,000</b>	<b>5,960,000</b>	<b>15,289,000</b>	<b>(27,610,000)</b>
Reserves against fund balance	(1,858,000)	(2,460,000)	(5,960,000)	(8,390,000)	(8,580,000)
<b>Ending Unreserved Fund Balance</b>	<b>14,771,000</b>	<b>33,404,000</b>	<b>-</b>	<b>6,899,000</b>	<b>(36,190,000)</b>

## Selected GSF Revenues (in \$1,000s)

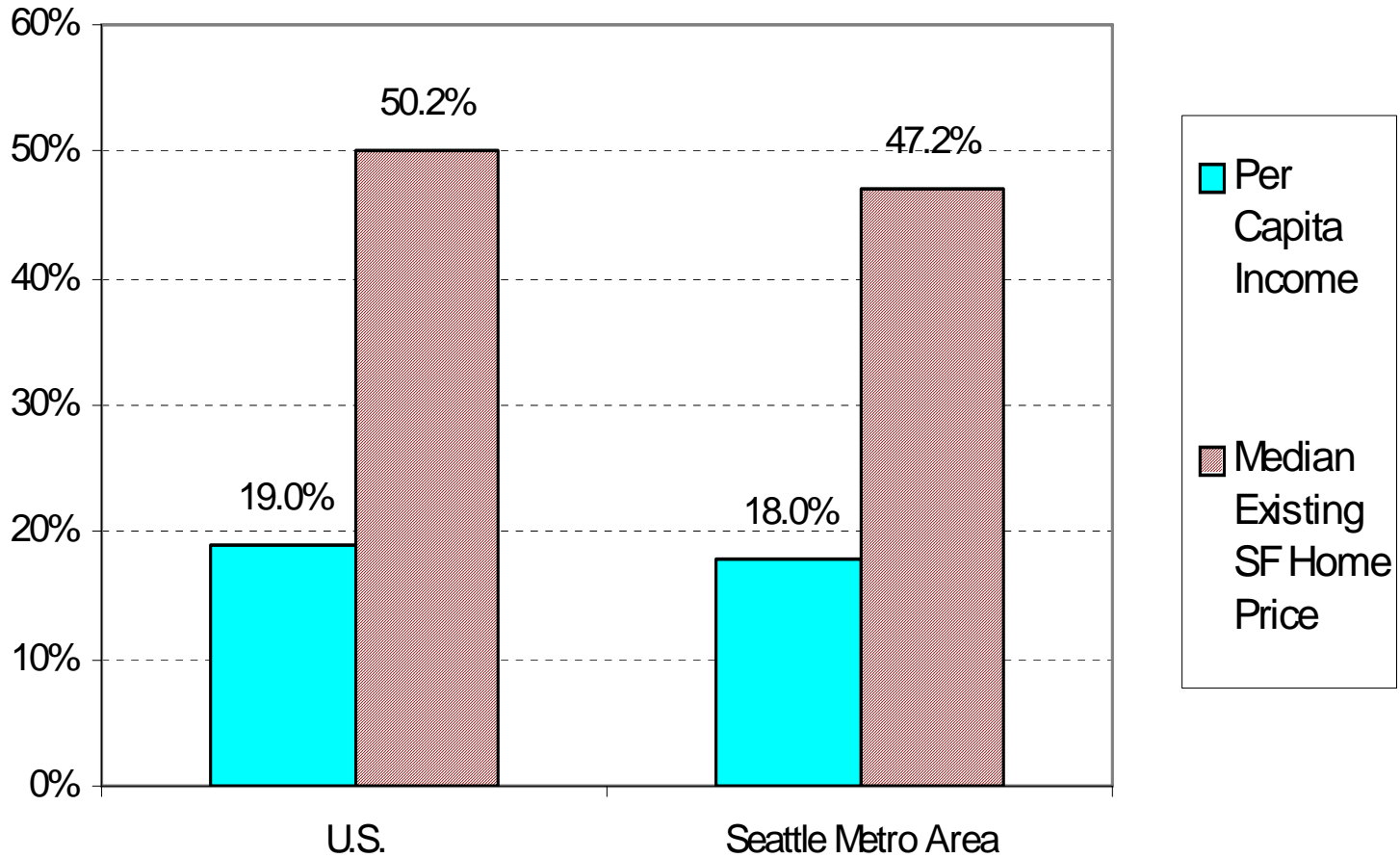
Budget Name	2006			2007			2008		
	Forecast	Actuals	Change	Nov	Apr	Change	Nov	Apr	Change
Property Tax	187,883	188,884	1,001	194,918	196,234	1,316	199,452	201,084	1,632
Property Tax-Medic One Levy	20,669	20,814	145	21,185	21,185	-	21,715	21,856	141
Retail Sales Tax	140,143	139,391	(752)	147,805	147,154	(651)	154,558	153,714	(844)
Use Tax - Brokered Natural Gas	3,200	2,799	(401)	2,944	2,855	(89)	2,818	2,912	94
Retail Sales Tax - Criminal Justice	13,138	13,121	(17)	13,856	13,852	(4)	14,490	14,469	(20)
Business & Occupation Tax (90%)	143,886	147,593	3,707	150,006	155,613	5,608	158,337	144,648	(13,688)
Admission Tax	7,214	7,003	(211)	7,201	7,200	(1)	7,399	7,144	(255)
Utilities Business Tax - Natural Gas (90%)	11,096	11,054	(42)	12,036	12,532	496	11,521	12,661	1,140
Utilities Business Tax - Solid Waste (90%)	1,199	1,162	(38)	1,229	1,178	(51)	1,260	1,202	(58)
Utilities Business Tax - Cable Television (90%)	11,622	11,700	78	10,920	11,598	678	11,220	11,700	480
Utilities Business Tax - Telephone (90%)	26,856	28,746	1,890	26,035	28,136	2,101	25,733	27,555	1,822
Utilities Business Tax - Steam (90%)	1,122	1,134	12	1,032	1,274	242	1,011	1,147	136
Leasehold Excise Tax	3,900	4,086	186	3,700	3,900	200	3,700	3,900	200
Court Fines & Forfeitures (90%)	17,001	16,750	(251)	16,981	16,026	(955)	16,261	16,458	197
Interest on Investments	5,339	6,004	665	4,284	7,120	2,836	3,577	6,220	2,643
Parking Meters	15,586	15,826	240	17,288	17,288	-	18,566	18,566	-
Utilities Business Tax - City Light(90%)	31,373	31,404	31	30,642	29,617	(1,025)	31,315	30,188	(1,127)
Utilities Business Tax - City Water (90%)	15,473	16,117	644	15,514	15,747	233	16,346	16,346	(0)
Utilities Business Tax - DWU (90%)	19,757	19,727	(30)	21,291	21,291	(0)	22,031	22,031	(0)
Utilities Business Tax - City SWU (90%)	7,591	7,535	(57)	8,264	8,264	0	8,813	8,813	(0)
<b>Total Selected</b>	<b>684,047</b>	<b>690,847</b>	<b>6,800</b>	<b>707,132</b>	<b>718,065</b>	<b>10,933</b>	<b>730,124</b>	<b>722,614</b>	<b>(7,509)</b>
<b>Other GSF Revenues</b>	<b>66,856</b>	<b>66,871</b>	<b>15</b>	<b>76,368</b>	<b>79,261</b>	<b>2,894</b>	<b>75,042</b>	<b>75,722</b>	<b>680</b>
<b>Total</b>	<b>750,903</b>	<b>757,718</b>	<b>6,815</b>	<b>783,500</b>	<b>797,326</b>	<b>13,826</b>	<b>805,165</b>	<b>798,336</b>	<b>(6,829)</b>
Rainy-Day Fund	Deposit	5,921	Balance	14,928	Limit	16,328			

# Economic Conditions & Forecast

## U.S. Economy: The Current Expansion

- Government response to 2001 recession was massive stimulus
  - Tax cuts
  - Interest rate cuts
- Low interest rates stimulated housing market, a key source of growth until recently, via:
  - Construction
  - Finance, real estate
  - Purchase of home furnishings
  - Wealth effect

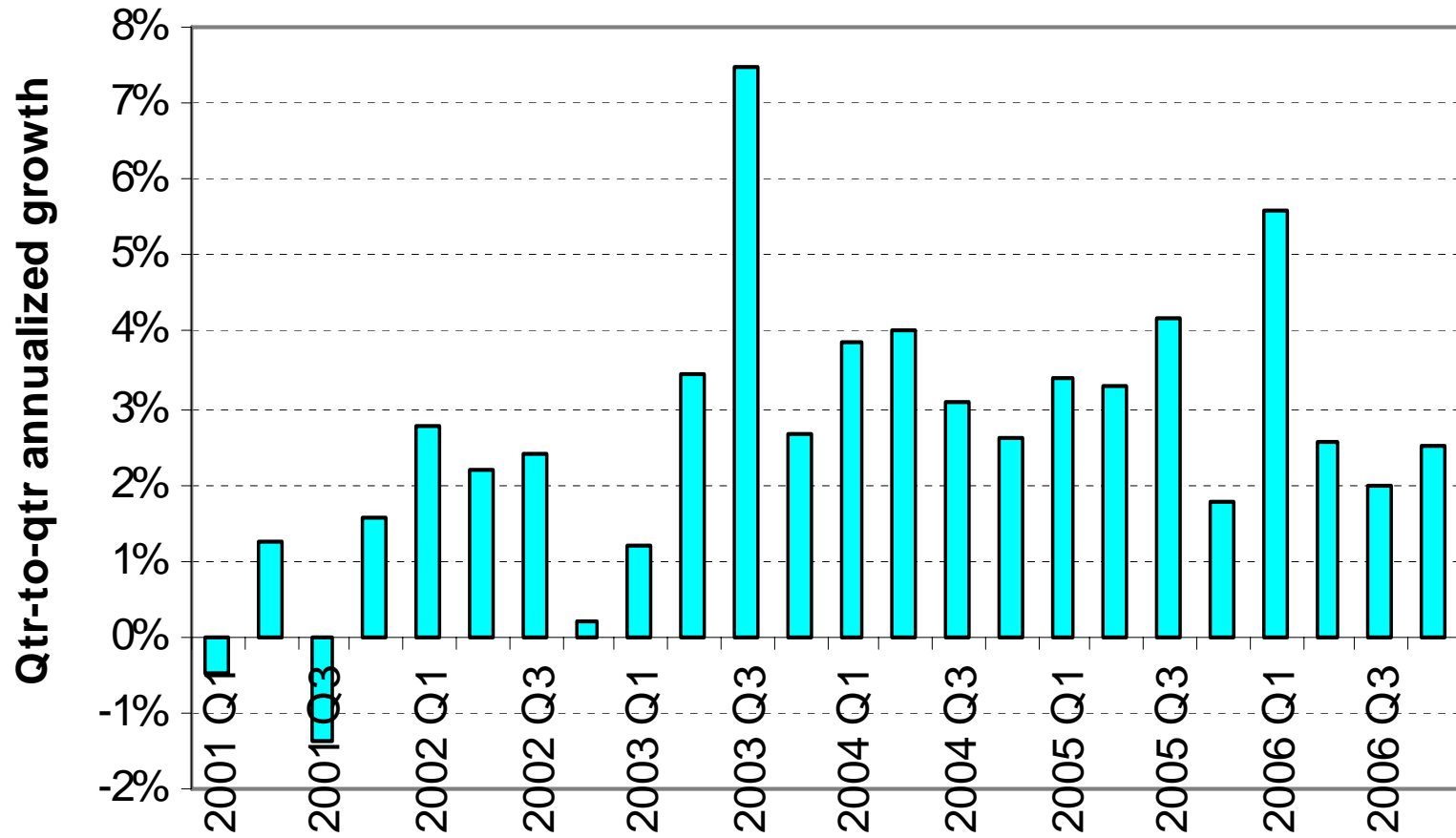
### Income and Home Price Growth, 2001-06



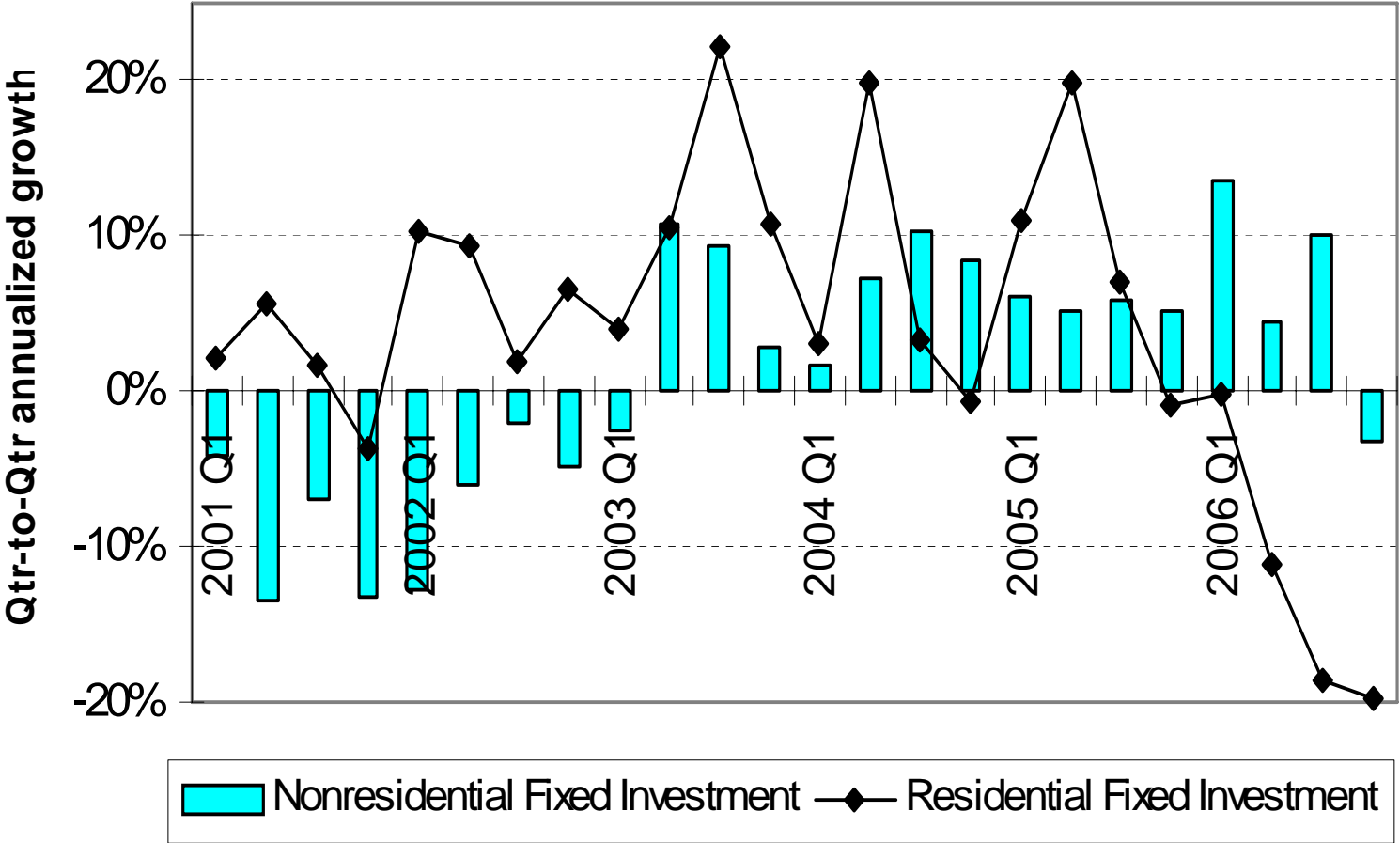
## The expansion has slowed

- Expansion is over 5 years old
- Expansions have a rhythm
- Economy now exhibiting features of later stages of expansion
  - Slowing productivity growth
  - Weakening investment
  - Slowing profit growth
  - Tightening labor market, putting pressure on labor costs
    - Inflation is above Fed's comfort level of 1% -2%

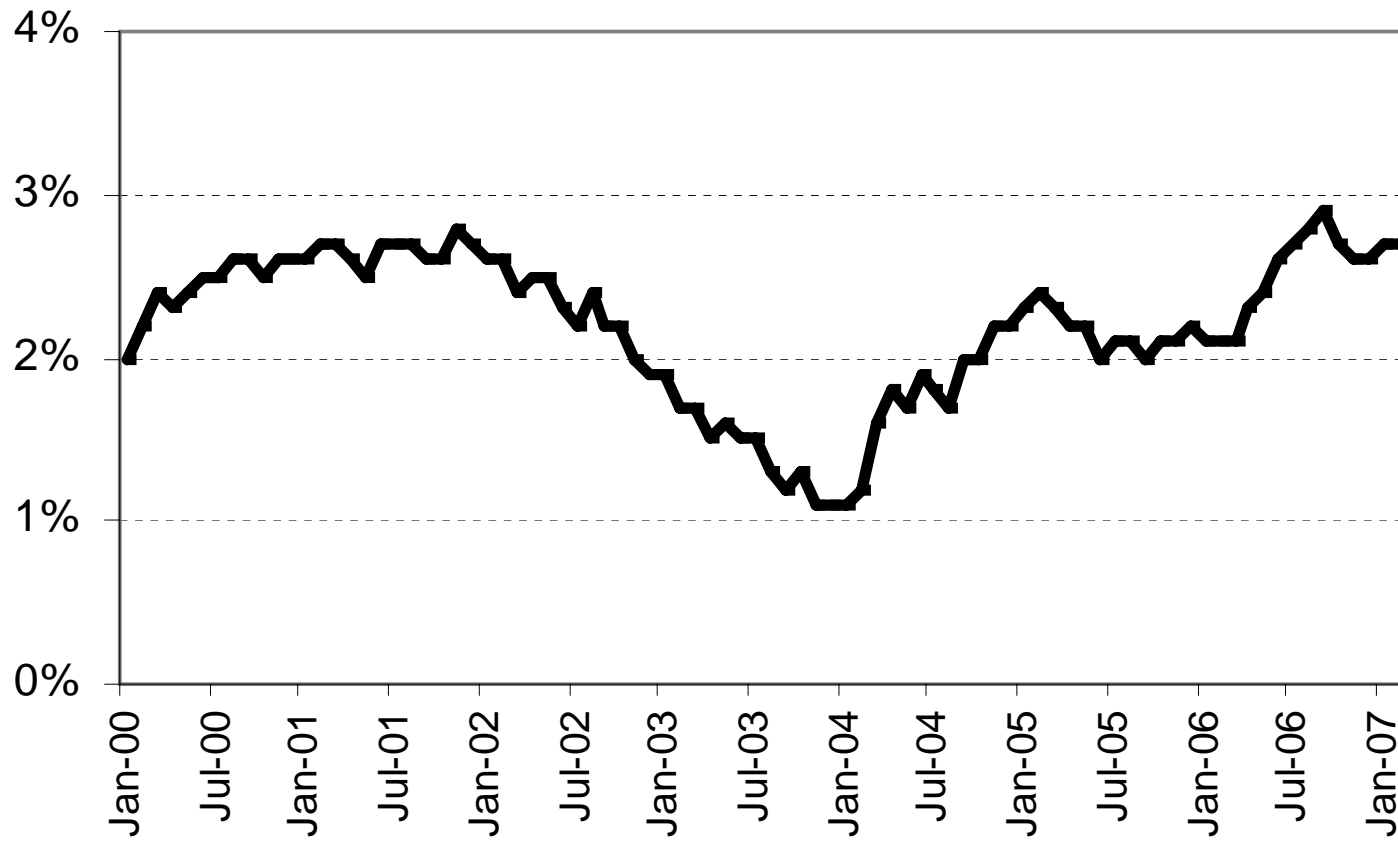
## Real Growth of Gross Domestic Product (GDP)



# Real GDP: Investment



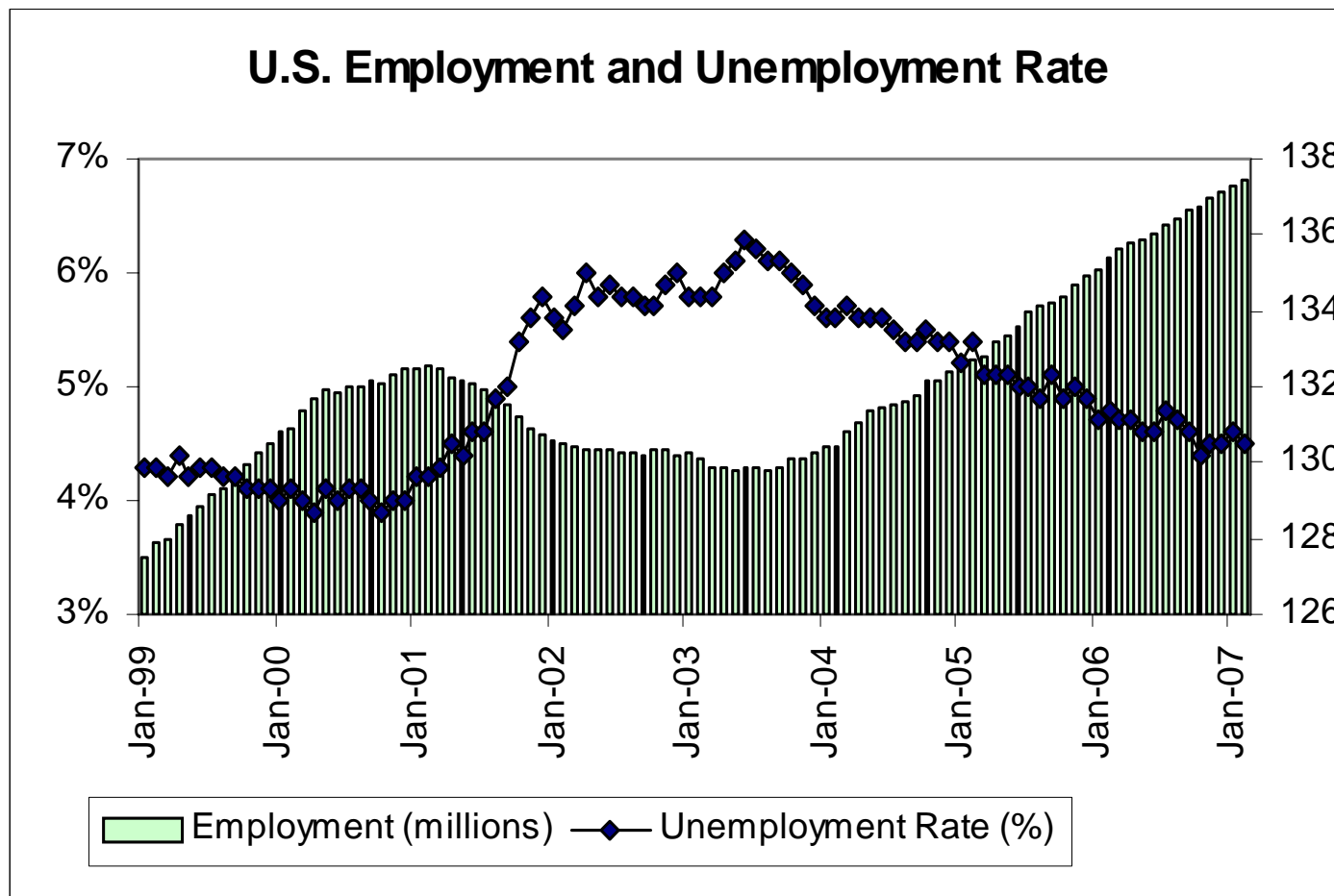
## U.S. Core\* CPI-U: Year-over Year Growth



\* All items less food and energy.



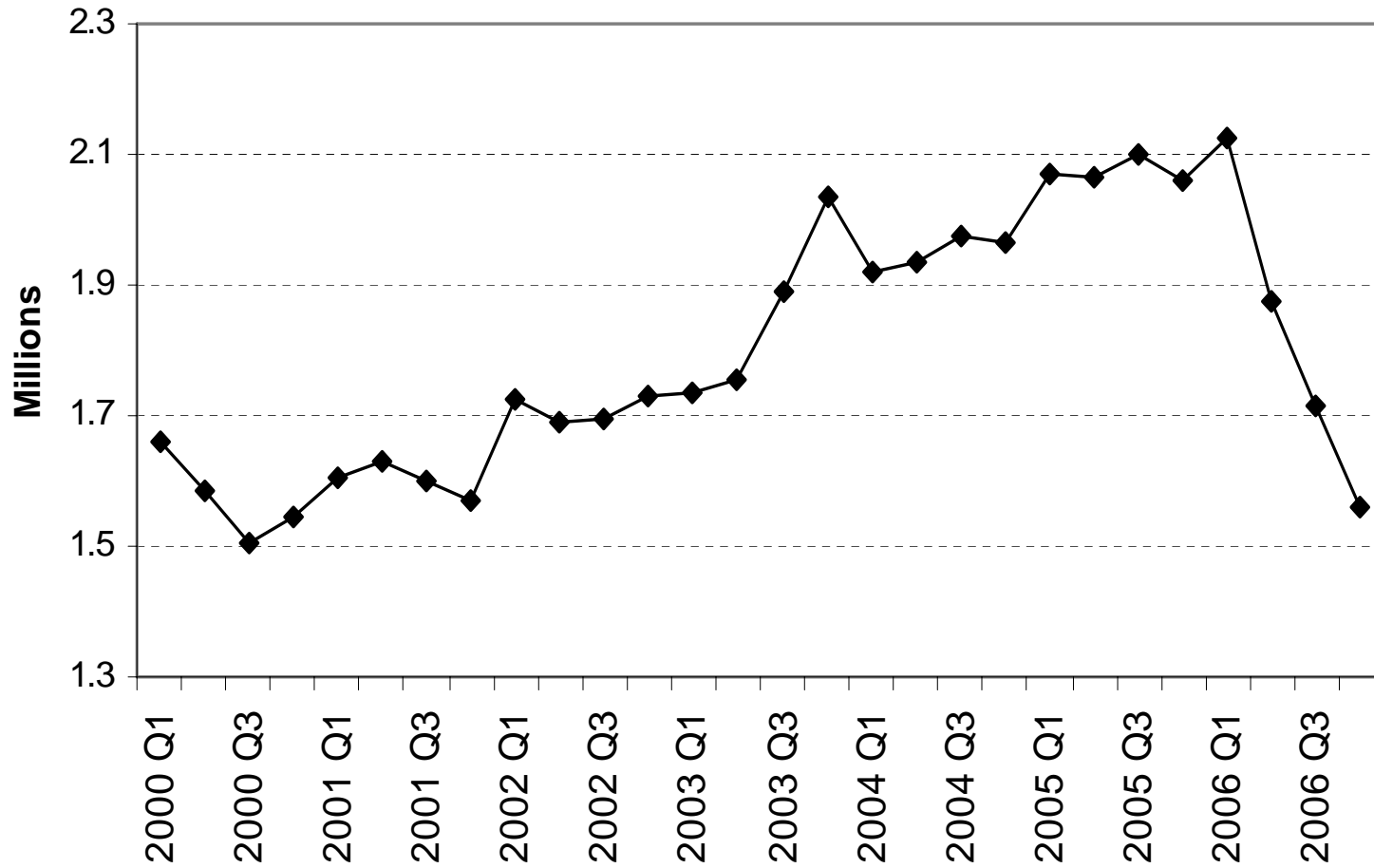
- **On positive side**
  - Employment continues to increase
  - Consumption remains healthy
  - Exports have picked up



# The Housing Market: A Source of Concern

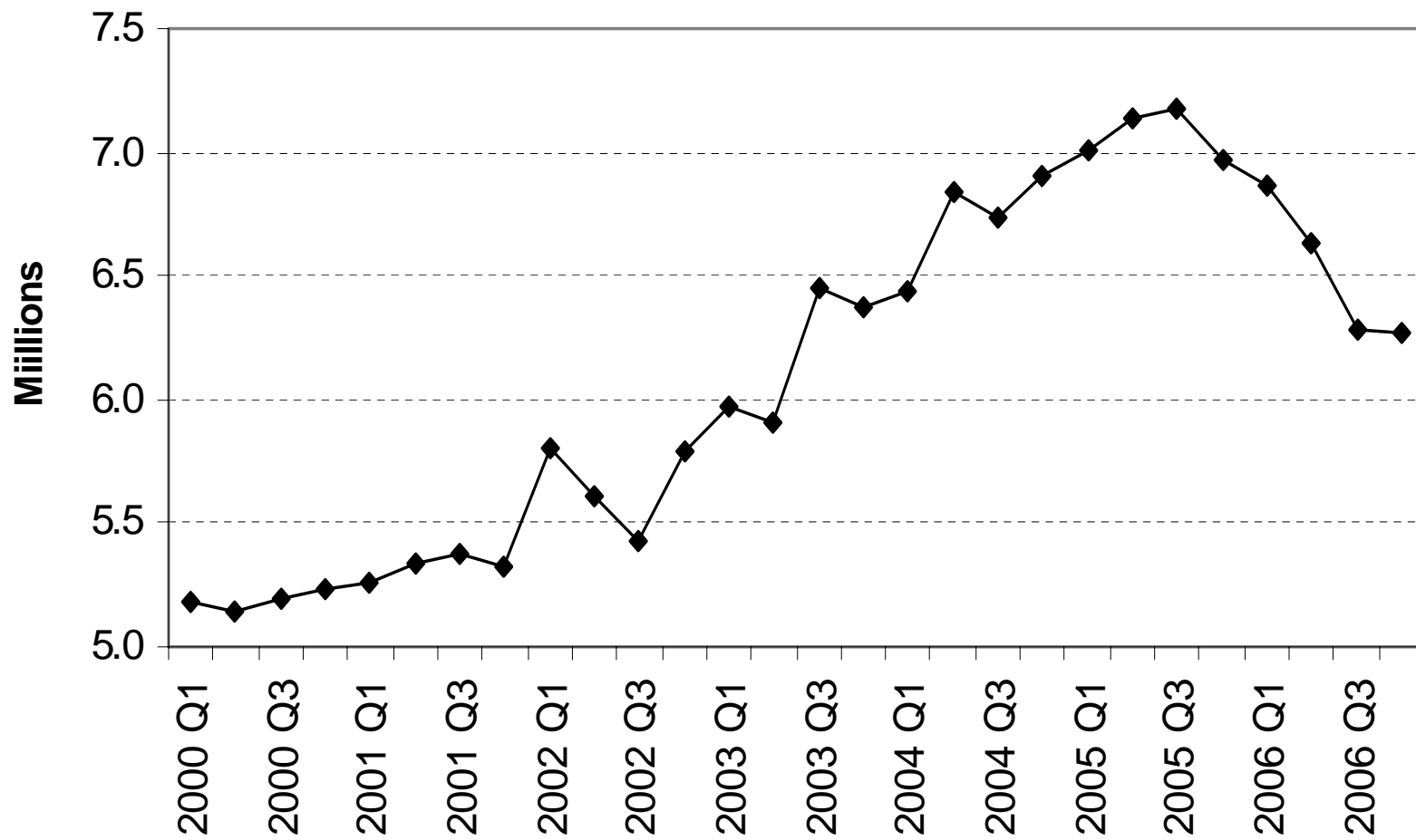
- **As housing market began to slow lenders loosened credit standards**
  - Low or no down payment
  - Little or no documentation of income
  - Loans made to borrowers with poor credit history (sub-prime)
  - ARMs with low teaser rates, reset later to higher rates
  - Interest only and negative amortization loans
- **Market peaked in 2005 due to high prices and rising interest rates**

## U.S. Housing Starts



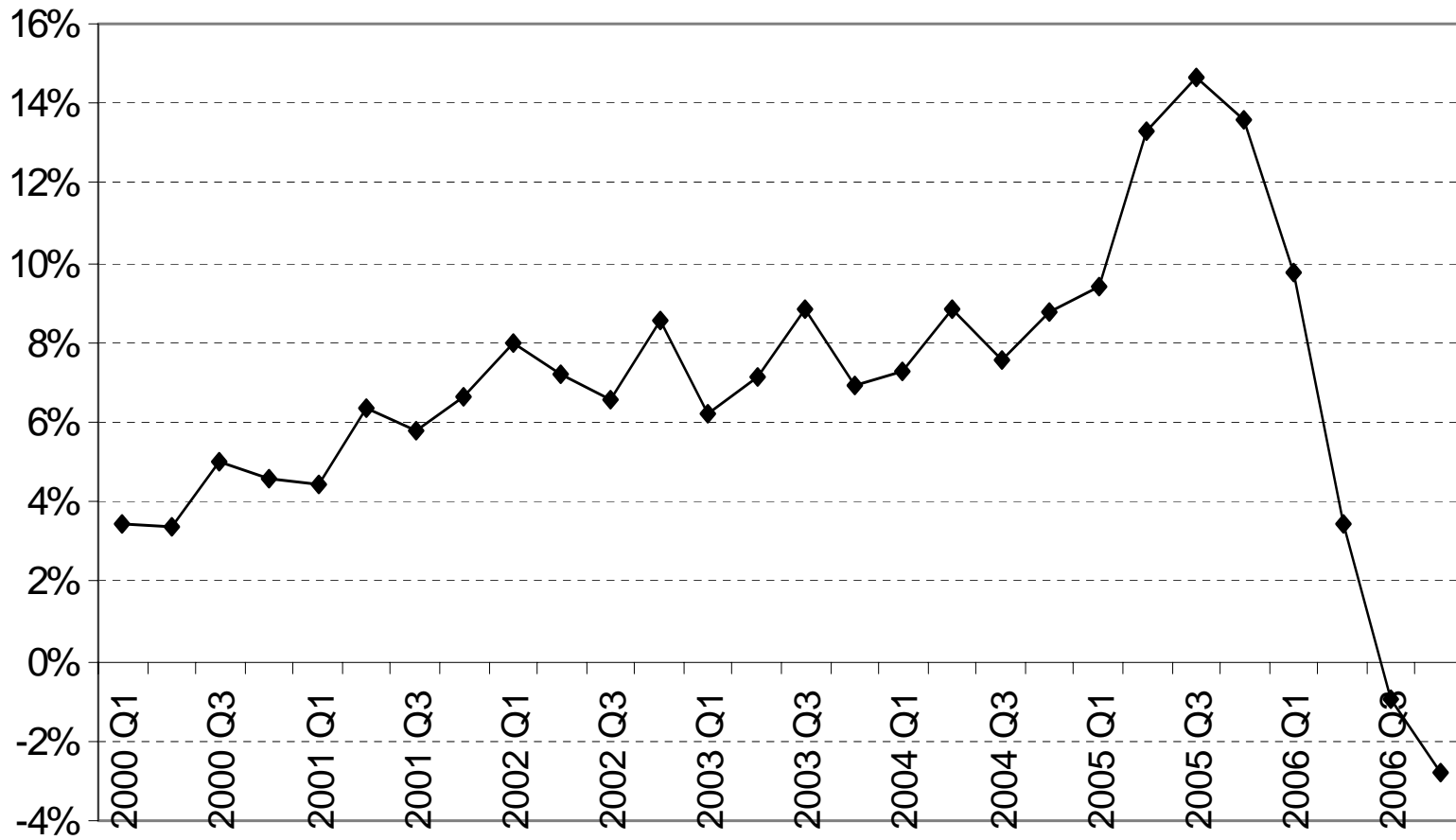
Source: Global Insight; data is from Census Bureau.

### U.S. Sales of Existing Homes



Source: Global Insight; data is from National Assoc. of Realtors.

## Year-over-Year Change in Median Price of Existing Single-Family Homes



Source: Global Insight; data is from National Assoc. of Realtors.

## **Sub-prime market is deteriorating**

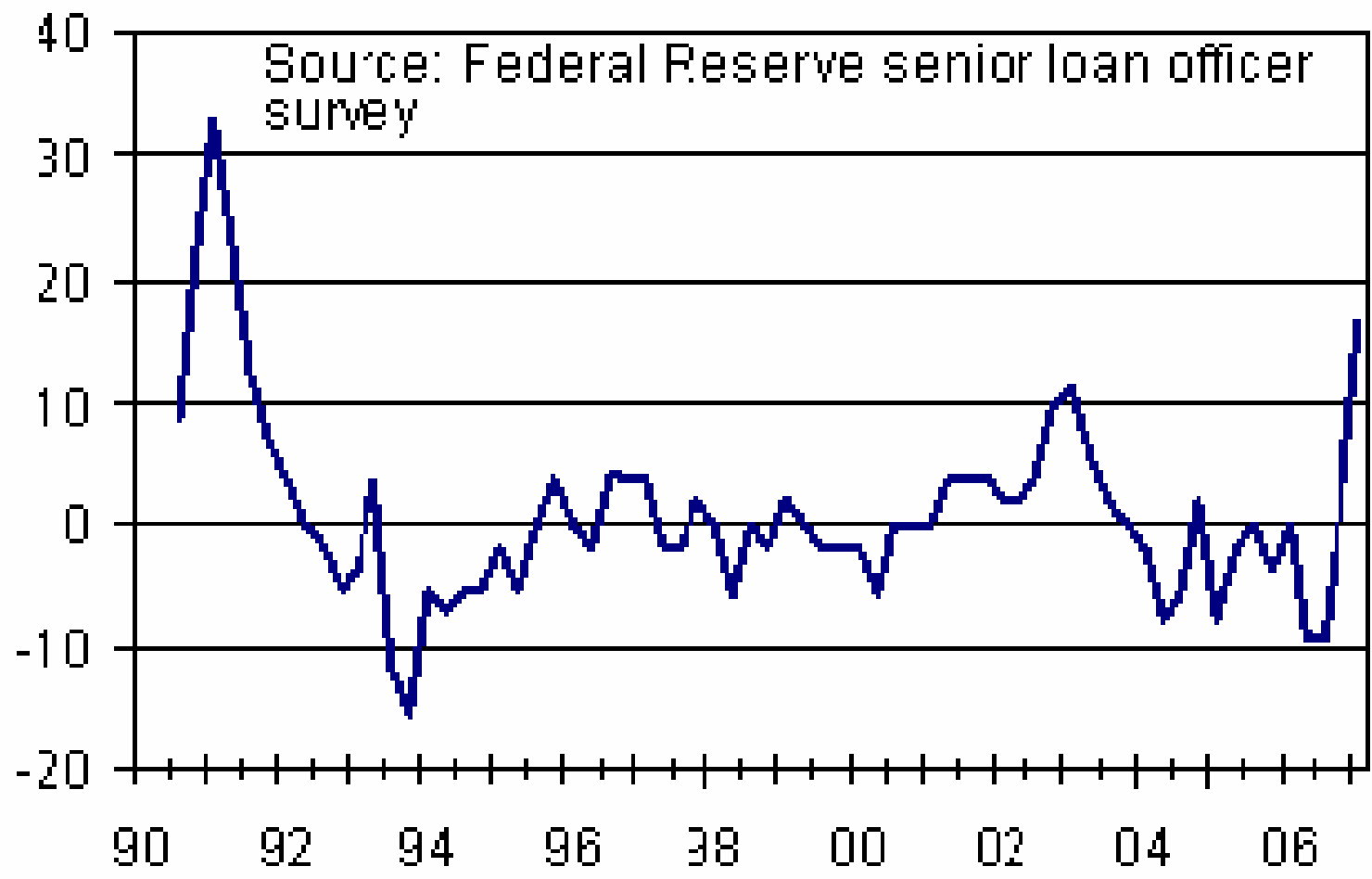
- As ARMs reset to higher rates, many buyers can't make payments
  - With prices falling, many can't refinance or sell at profit
  - Delinquencies and foreclosures are rising
- About 30 sub-prime lenders have closed their doors
- Credit standards are tightening

## **Fallout will affect:**

- Housing prices
- Construction of new homes
- Consumption via wealth effect
  - Home equity withdrawal is declining

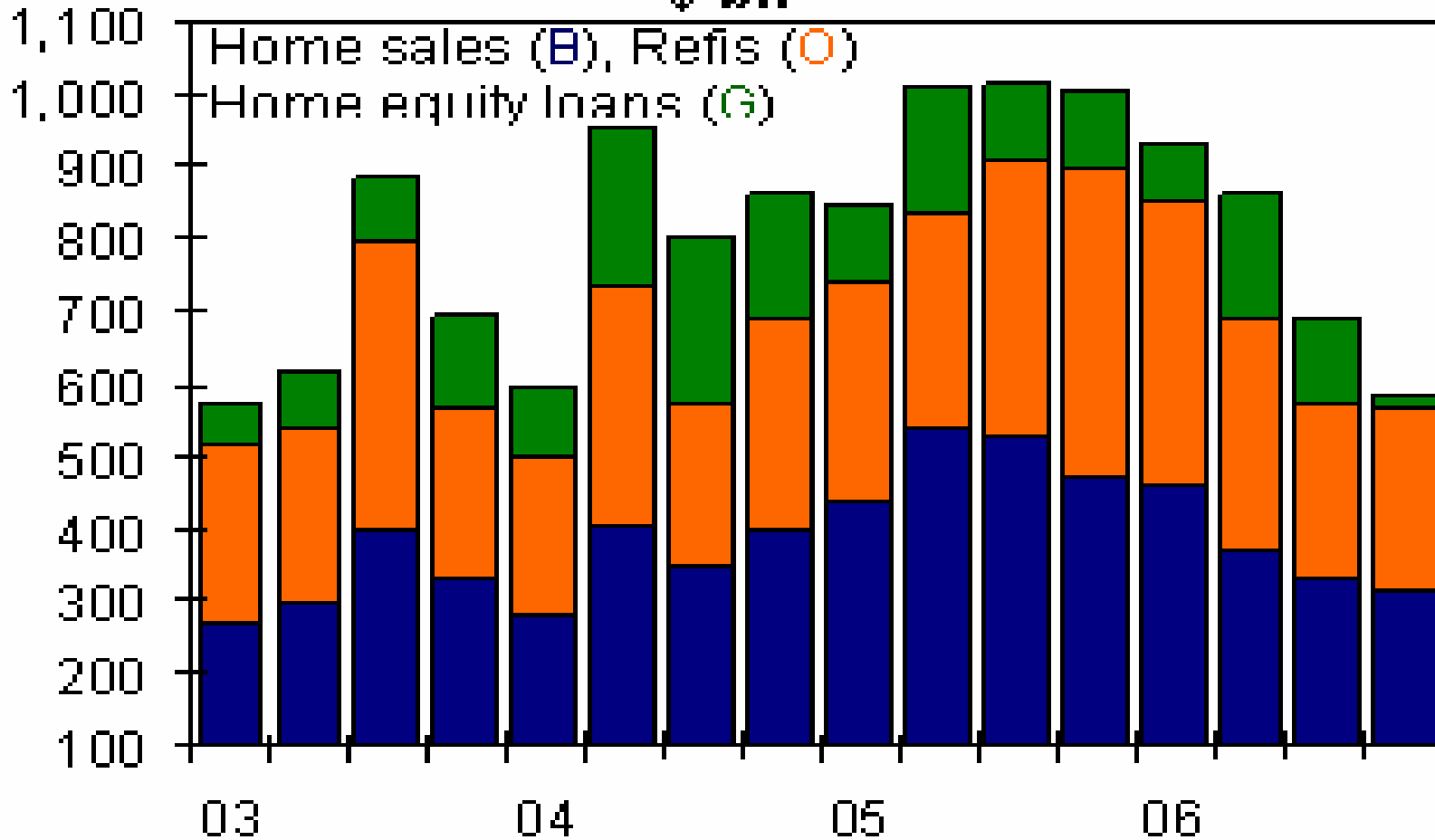
# Mortgage Lenders Tighten

## Net % of banks tightening mortgage loan standards



Source: Moody's Economy.com.

# Cash Raised from Mortgage Borrowing Shrinking \$ bil



Source: Moody's Economy.com.



- Cash raised from mortgage borrowing fell from 11.3% of disposable income in 2005 Q3 to 6.0% in 2006 Q4

## **Conventional wisdom: sub-prime problems will not derail economy**

- Sub-prime is only about 10% of mortgage debt
- Sub-prime problems will not spread to rest of housing market
- Rest of economy is reasonably healthy

# U.S. Economy: Forecast

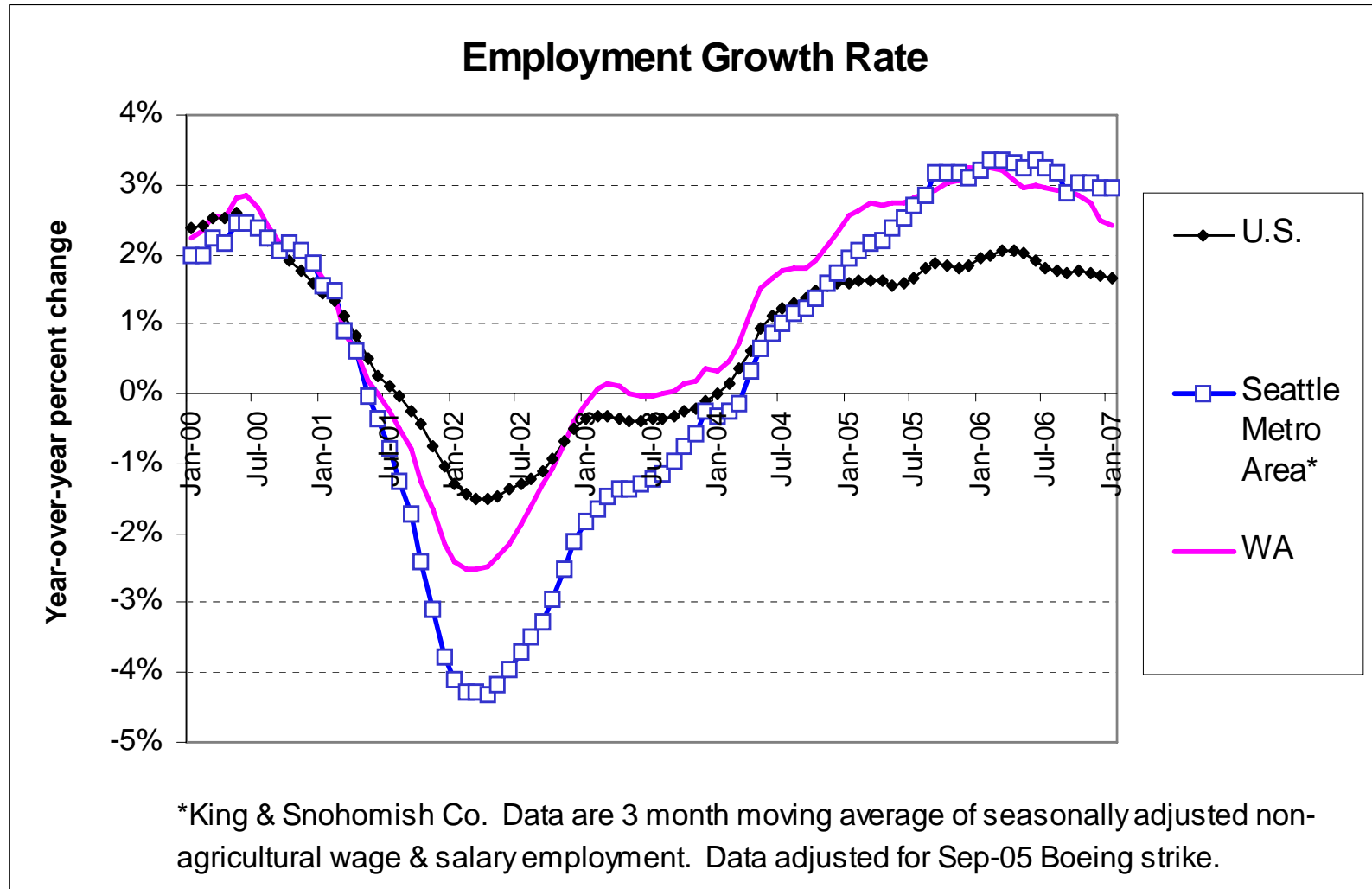
## Slow growth in 2007, picking up later in year and in 2008

- Risk factors include:
  - Housing market
    - Including spillover to consumption and financial markets
  - Inflation
  - Energy prices
  - Weak business investment
  - Trade and budget deficits

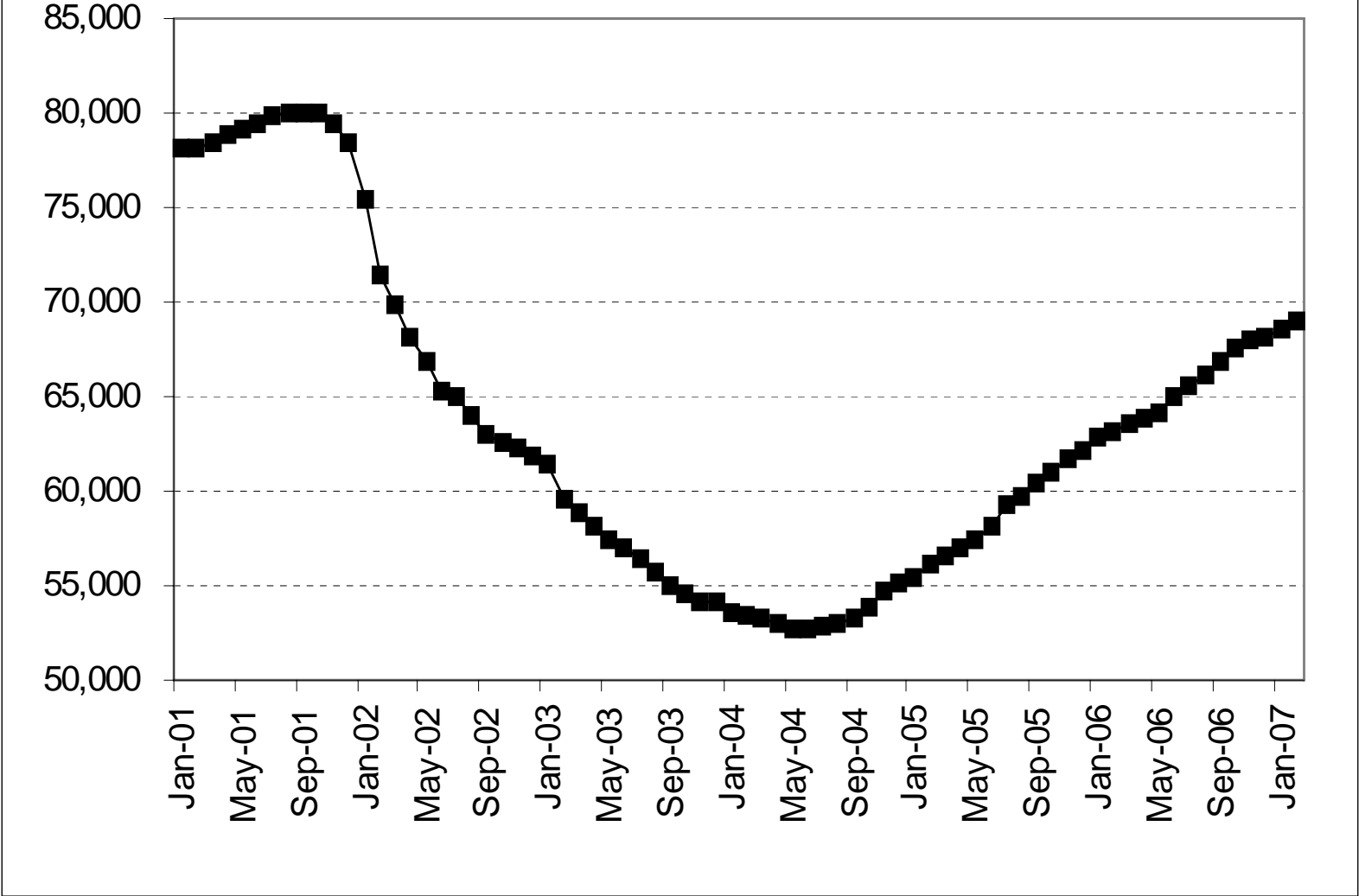
## **Risk of recession is rising. Probability over next 6-12 months:**

- 20% Global Insight
- 22% Moody's Economy.com
- 25% Dick Conway (up from 20% in December)
- 1 in 3 Alan Greenspan
- 40% Stephen Roach (Morgan Stanley)
- **Unless trends reverse, August forecast is likely to be weaker**
  - March 30 WSJ article: "Economists lower forecasts for 2007"

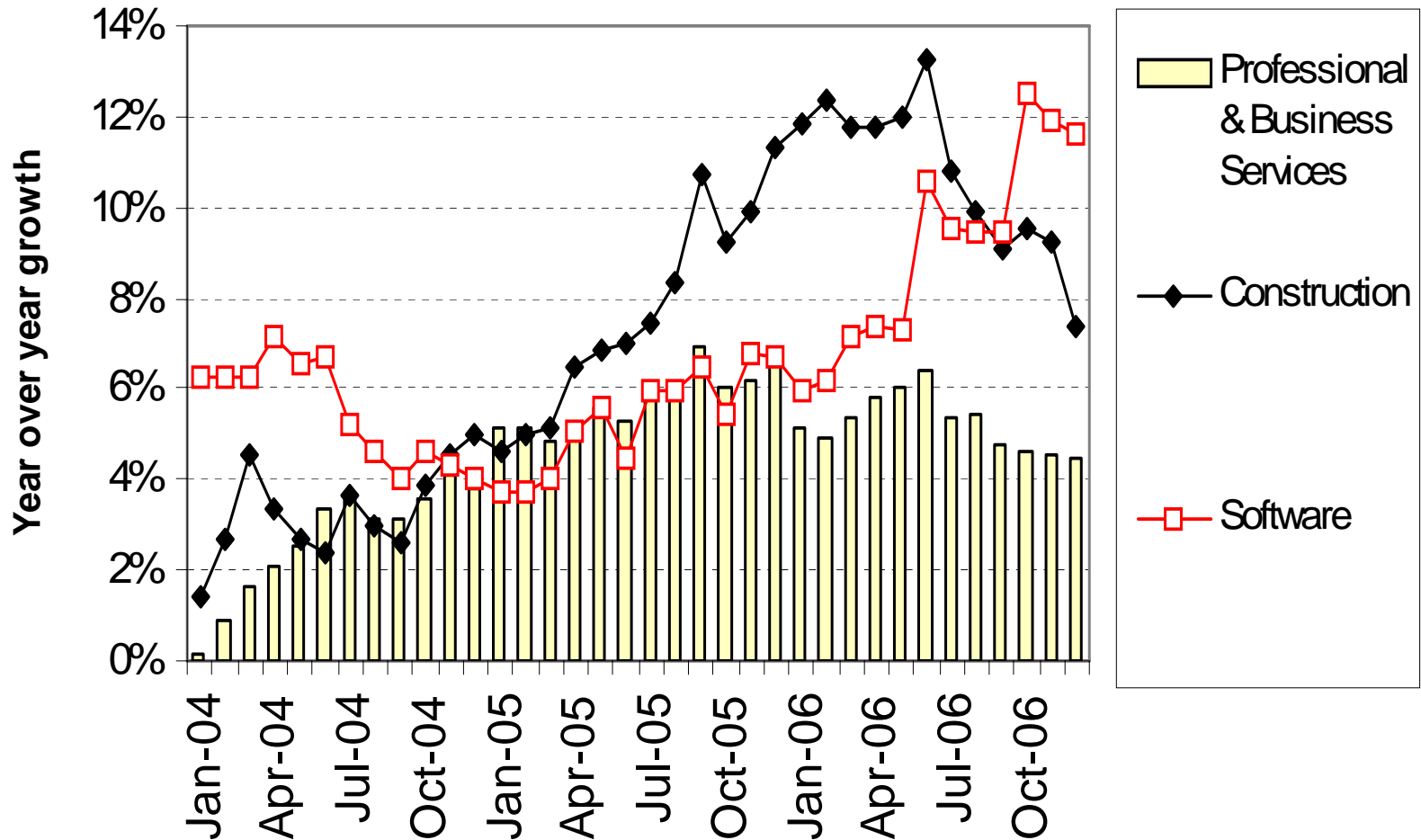
# Puget Sound Economy: Recent Trends



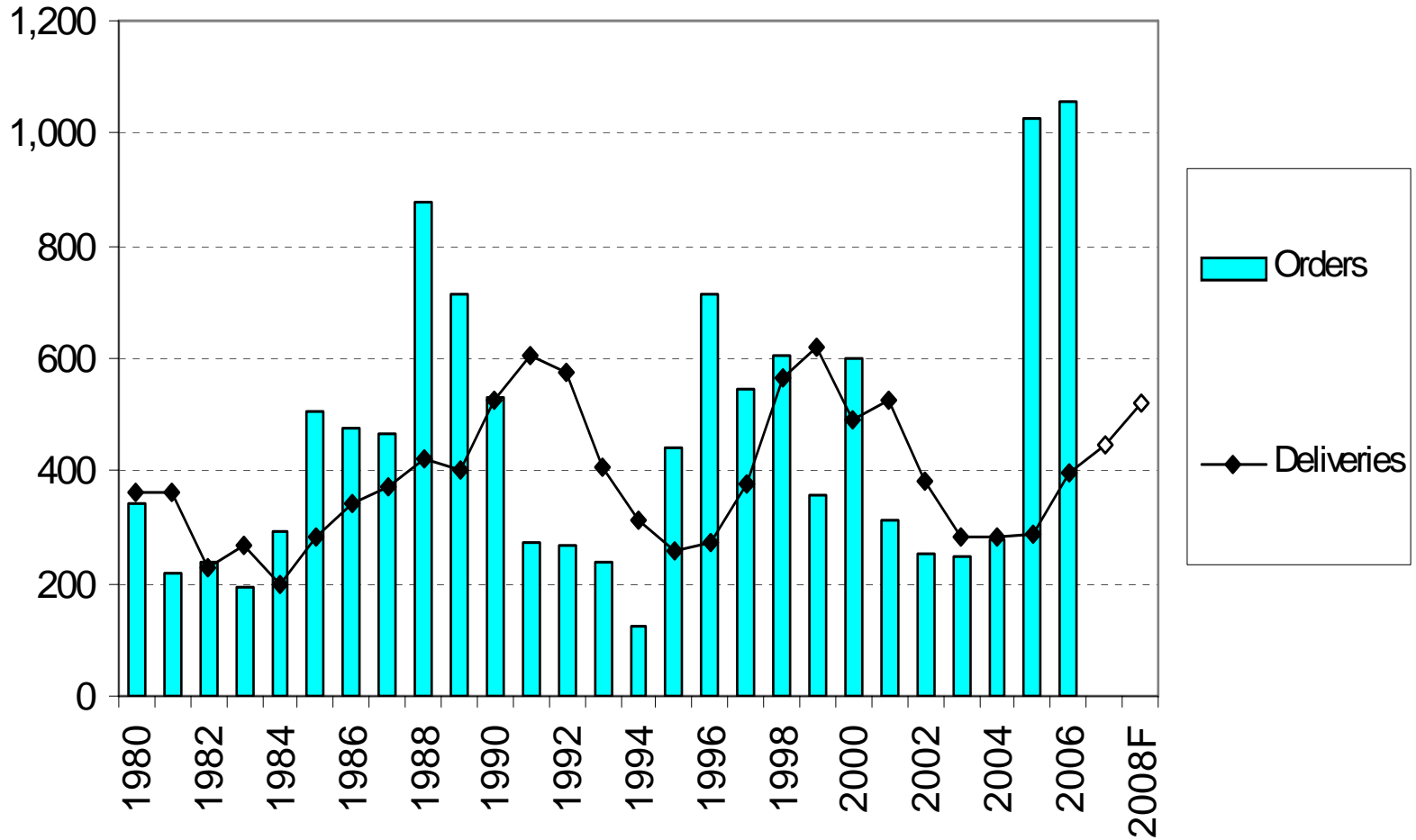
# Boeing Employment in Washington



# Puget Sound Region Employment Growth

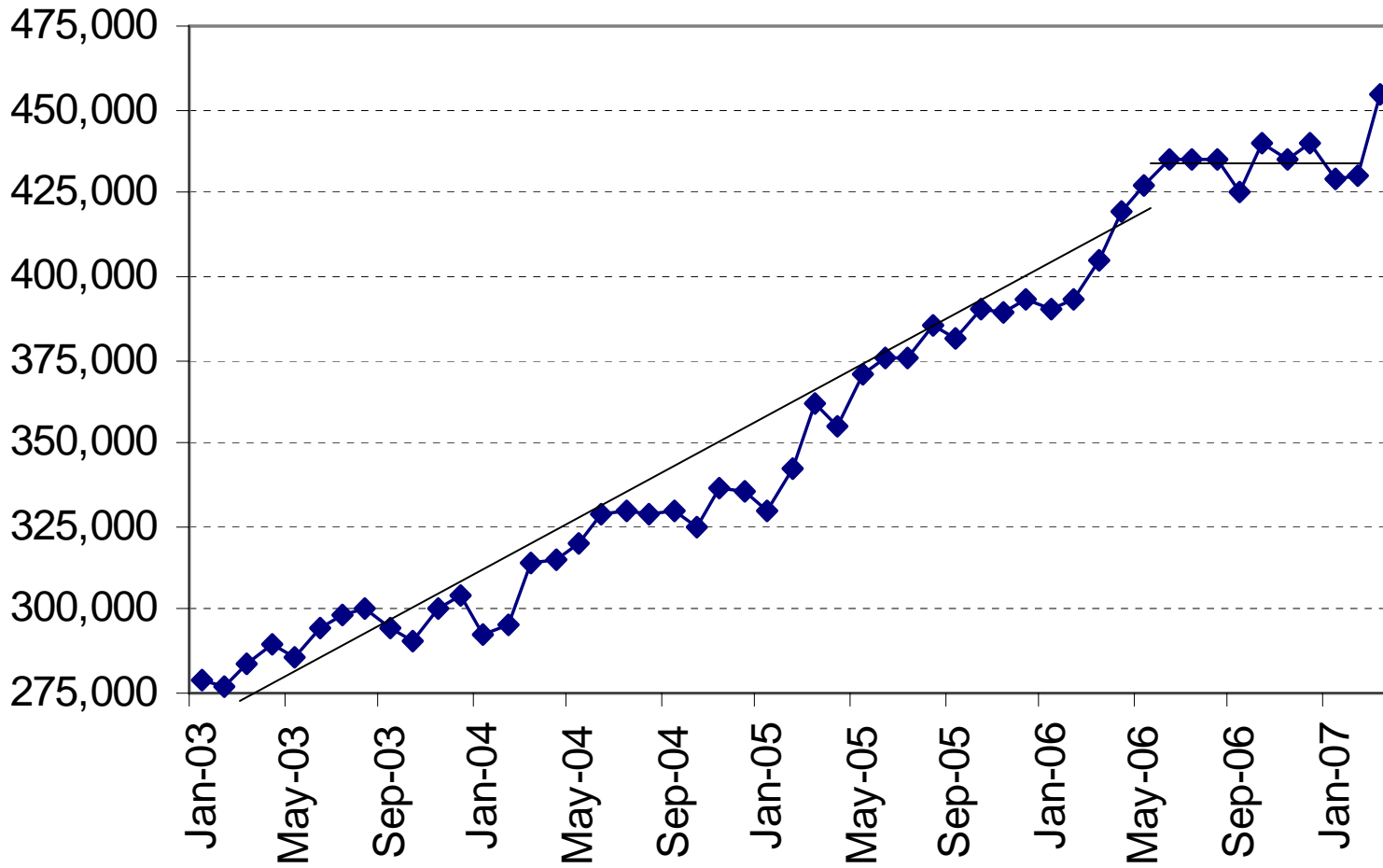


## Boeing: Orders and Deliveries of Commercial Airliners



Note: Forecast is from Wall Street Journal (3-26-07).

## King County Median Single Family Home Price

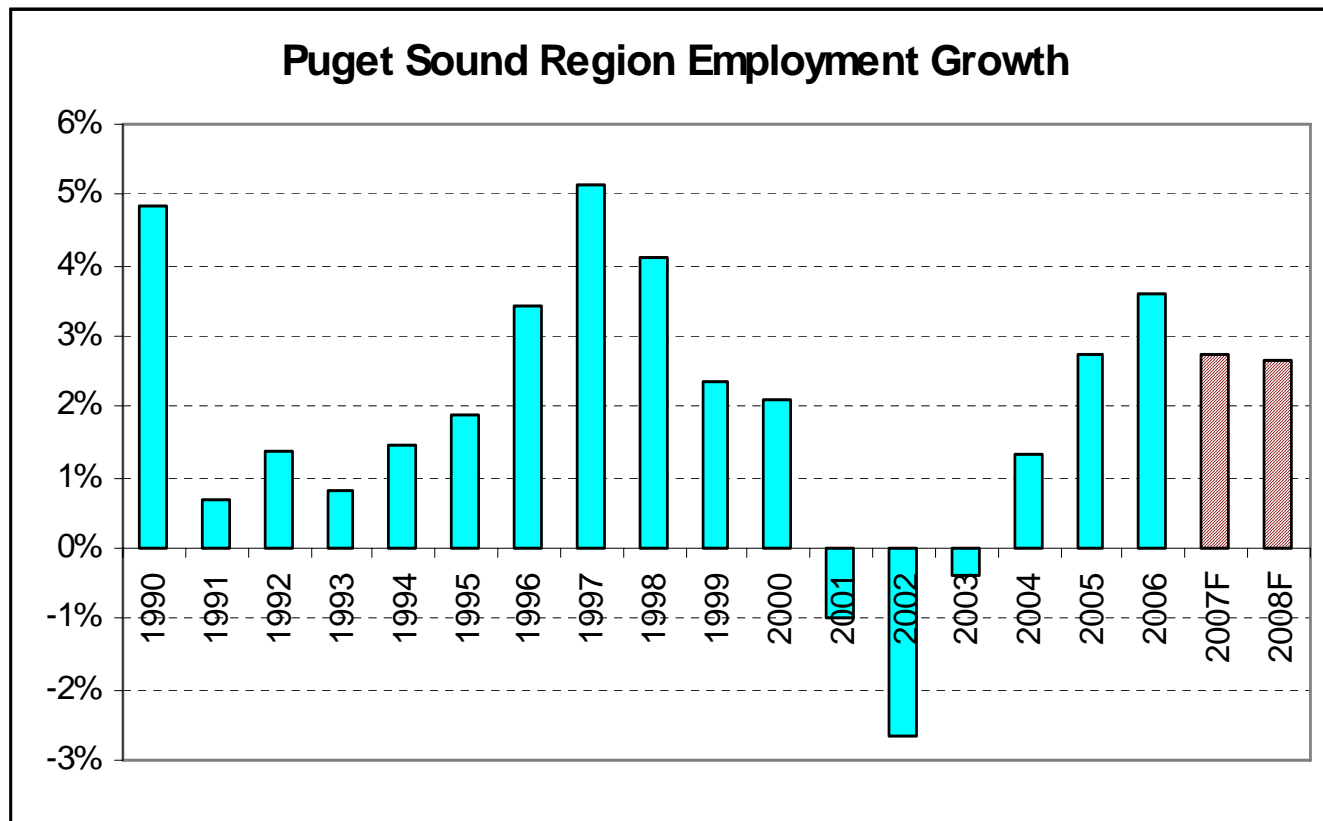


Source: Northwest Multiple Listing Service.



# Puget Sound Economy: Forecast

- Growth to continue but slow over time. Reasons include:
  - Cooling real estate market
  - Slower national economy
- Boeing to continue hiring through 2008

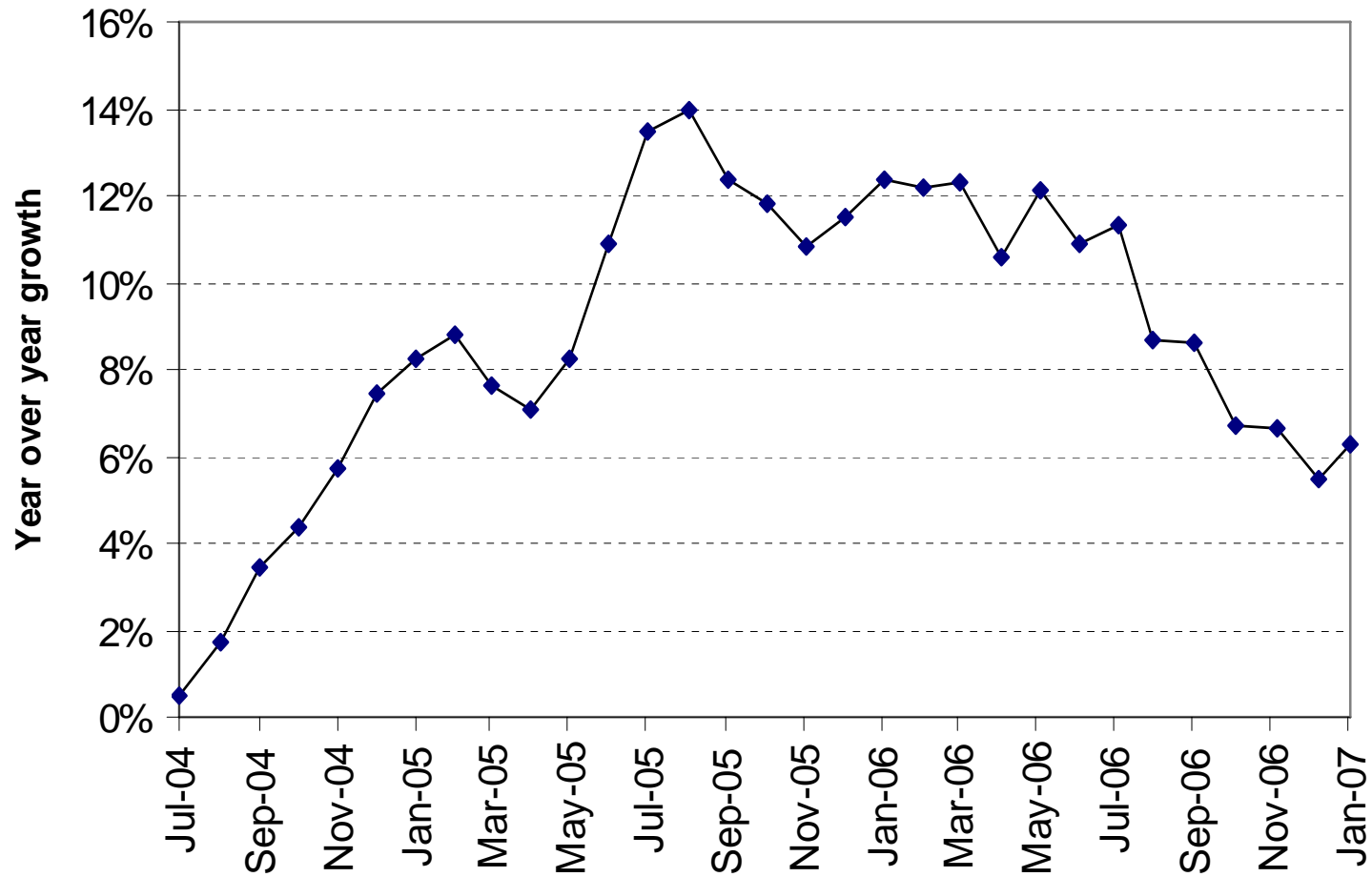


# Retail Sales Tax

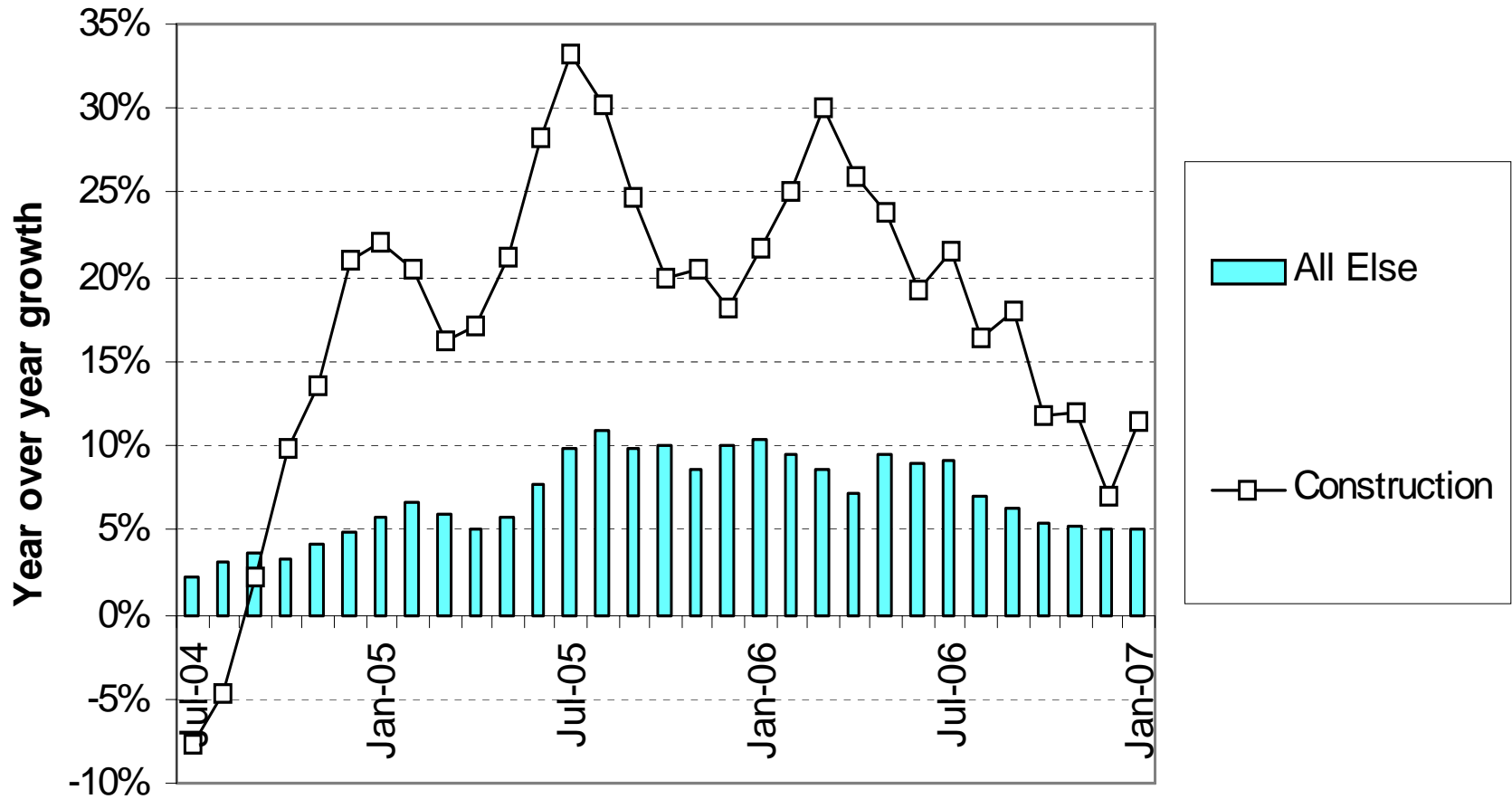
## Recent Trends

- **Growth slowed in second half of 2006**
  - Construction has slowed sharply since March 2006 peak
  - Current obligation growth rate was 5.5% in 2006 Q4
- **Non-current revenue declined by \$3.2 million in 2006**
  - 2005 was unusually high; 2006 unusually low

## Growth of Current Obligation Taxable Retail Sales Three-month Moving Average



## Growth of Taxable Current Obligation Taxable Sales

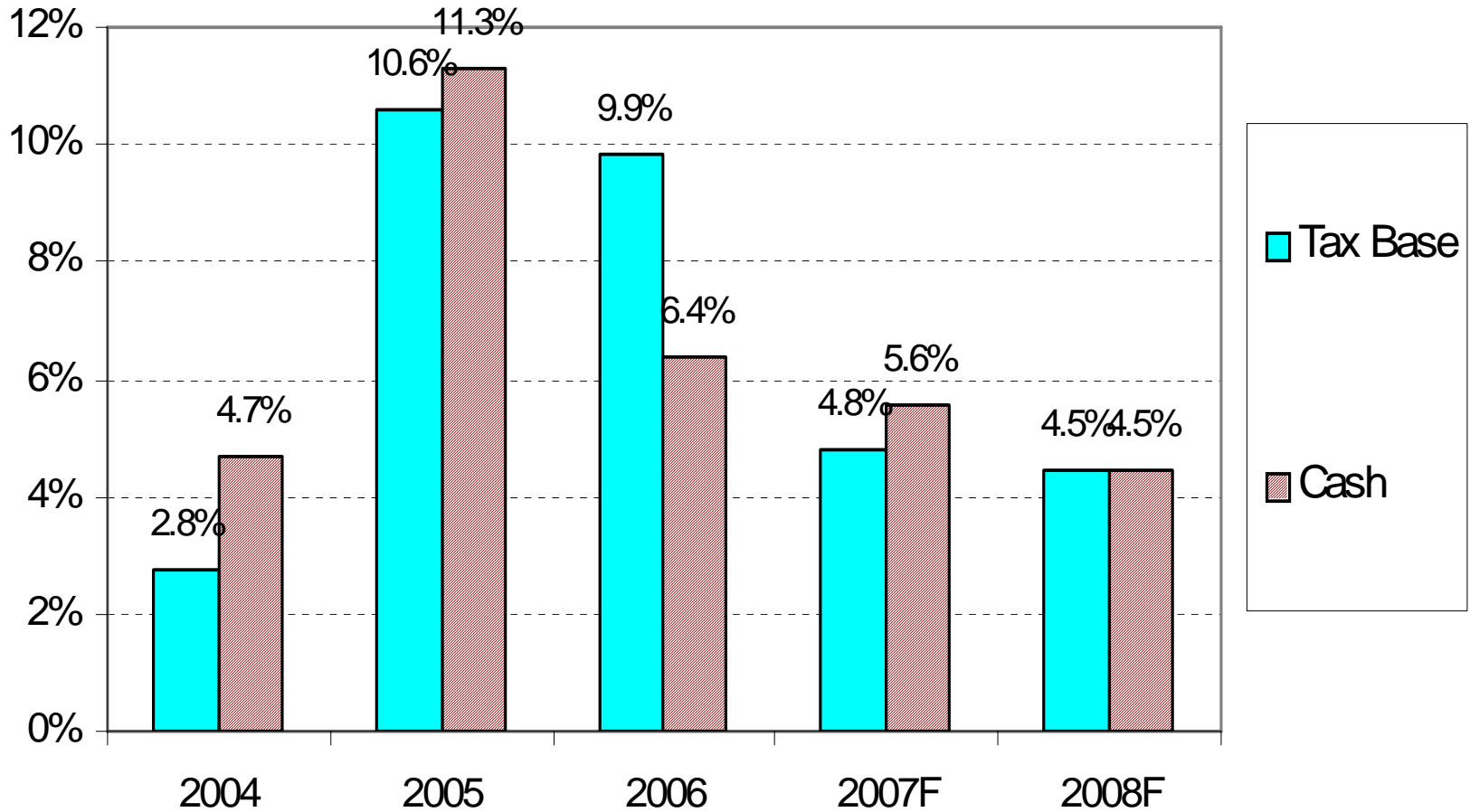


Note: Data are computed as 3-month moving average of monthly growth rates.

# Sales tax forecast

- **Forecast reflects:**
  - Recent slowing of revenue growth
  - Slowing U.S. and regional economies
  - Expected rebound in non-current revenue
- **Upside risk:**
  - Construction growth exceeds forecast

## Retail Sales Tax: Tax Base and Cash Growth Rates

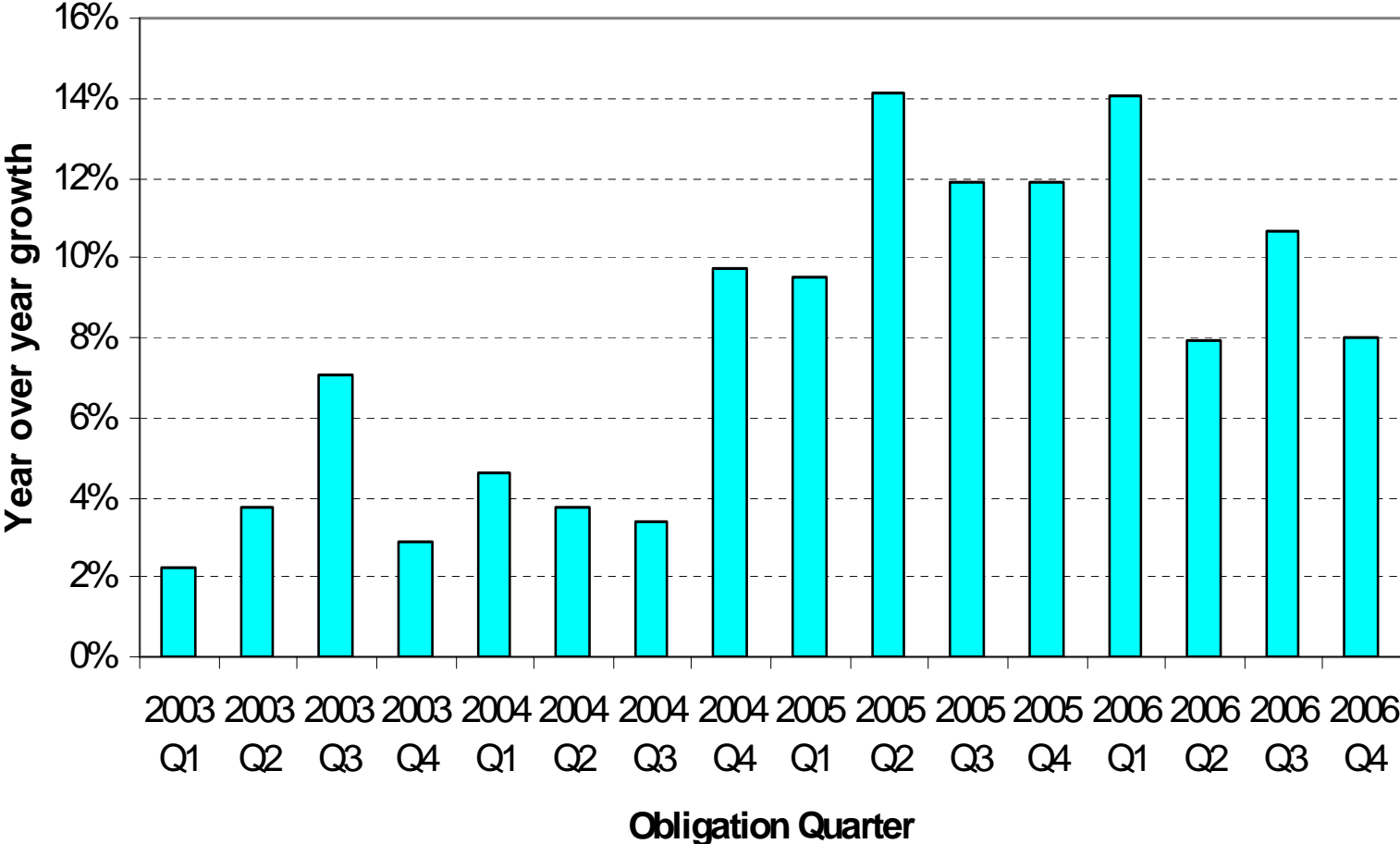


# B&O Tax

## Recent Trends

- Growth remains strong, but has slowed from peak in 2005
  - Construction and manufacturing led in 2006
- Non-current revenue increased by \$3.5 mil. to \$12.3 mil. in 2006
  - Refunds declined by \$1.9 million
  - Penalty and interest payments were up \$1.4 million

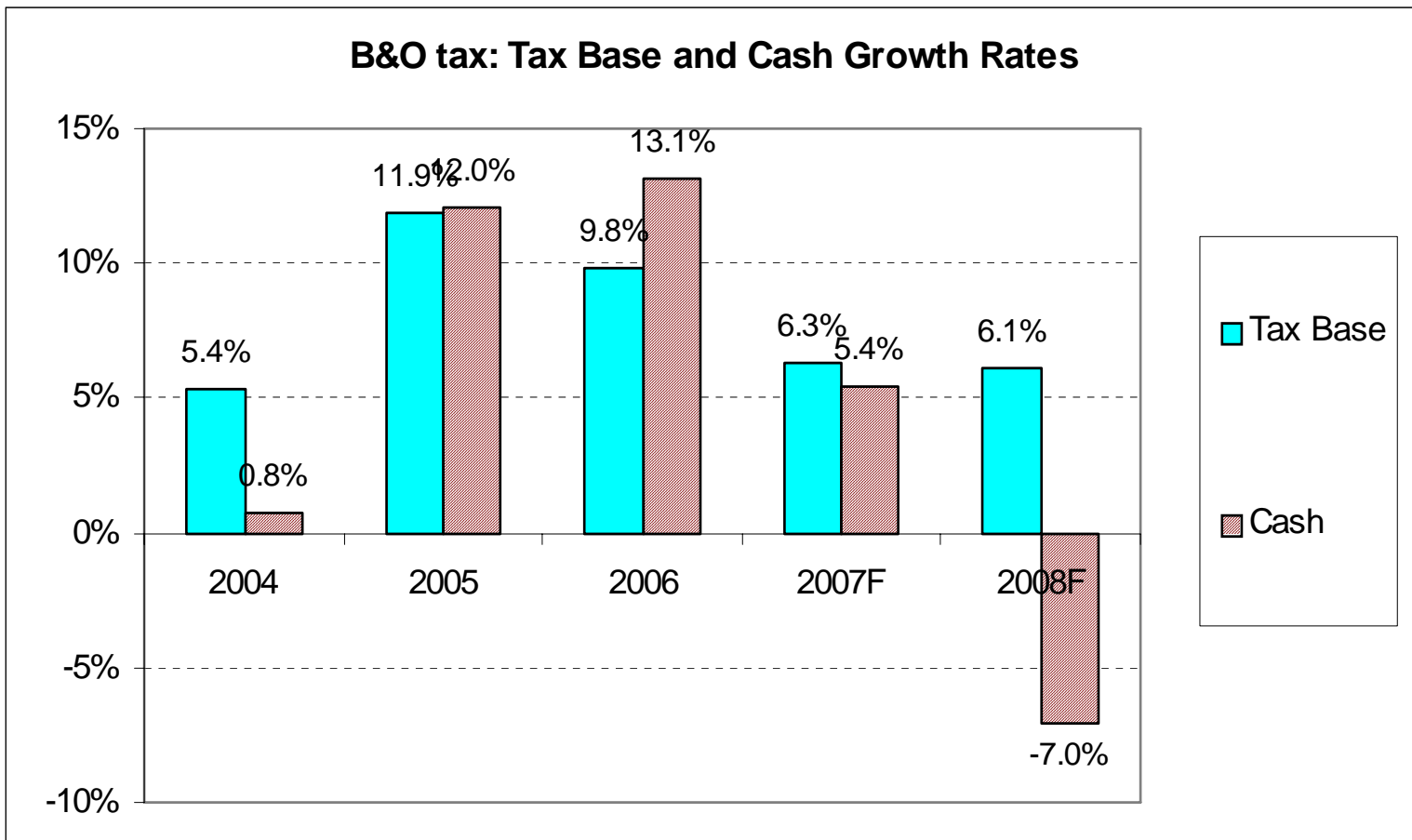
### Growth of B&O Tax Base (Current Obligations)





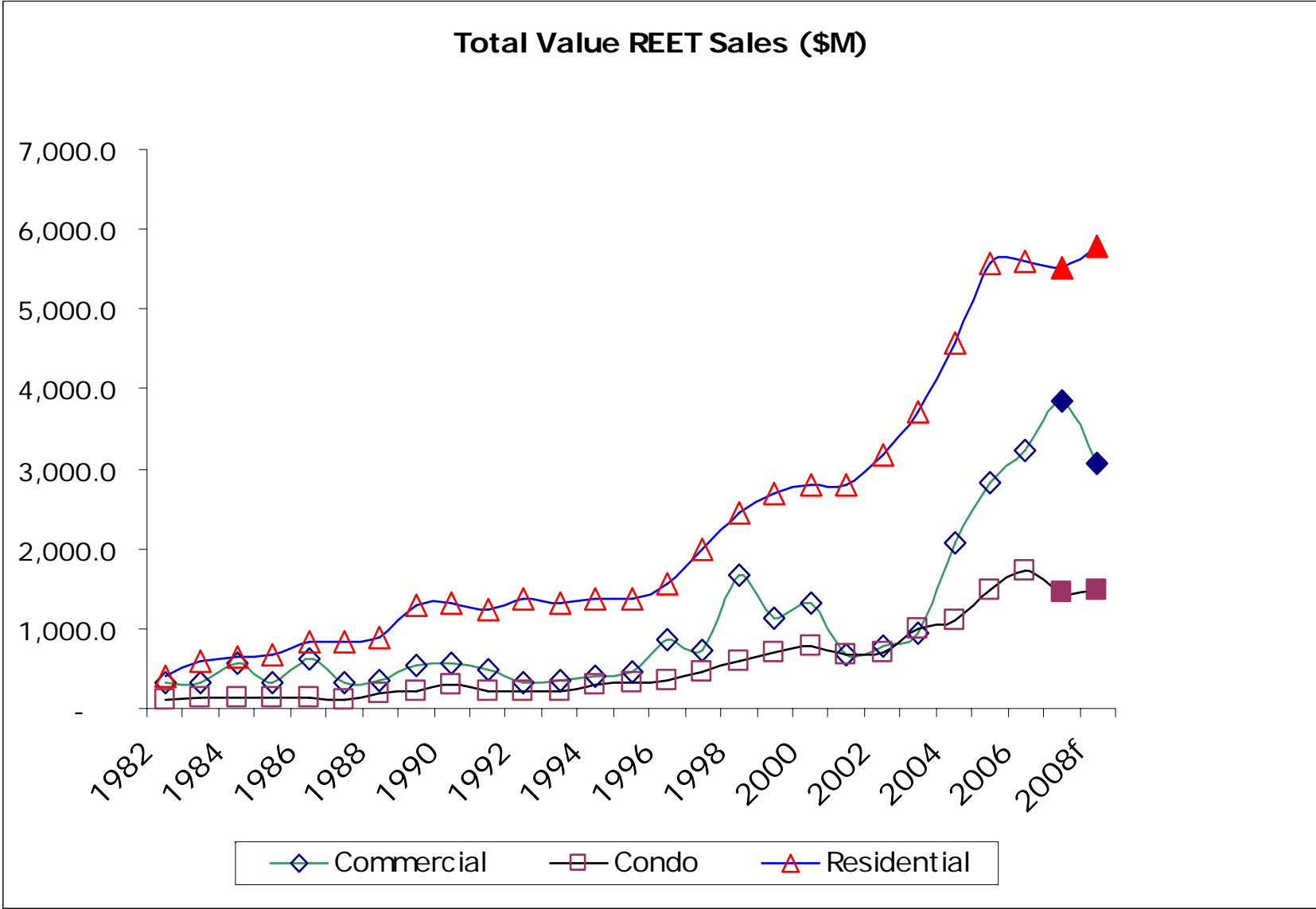
# B&O forecast

- Reflects slowing economy
- HB 2030 loss is estimated at \$21.8 million in 2008

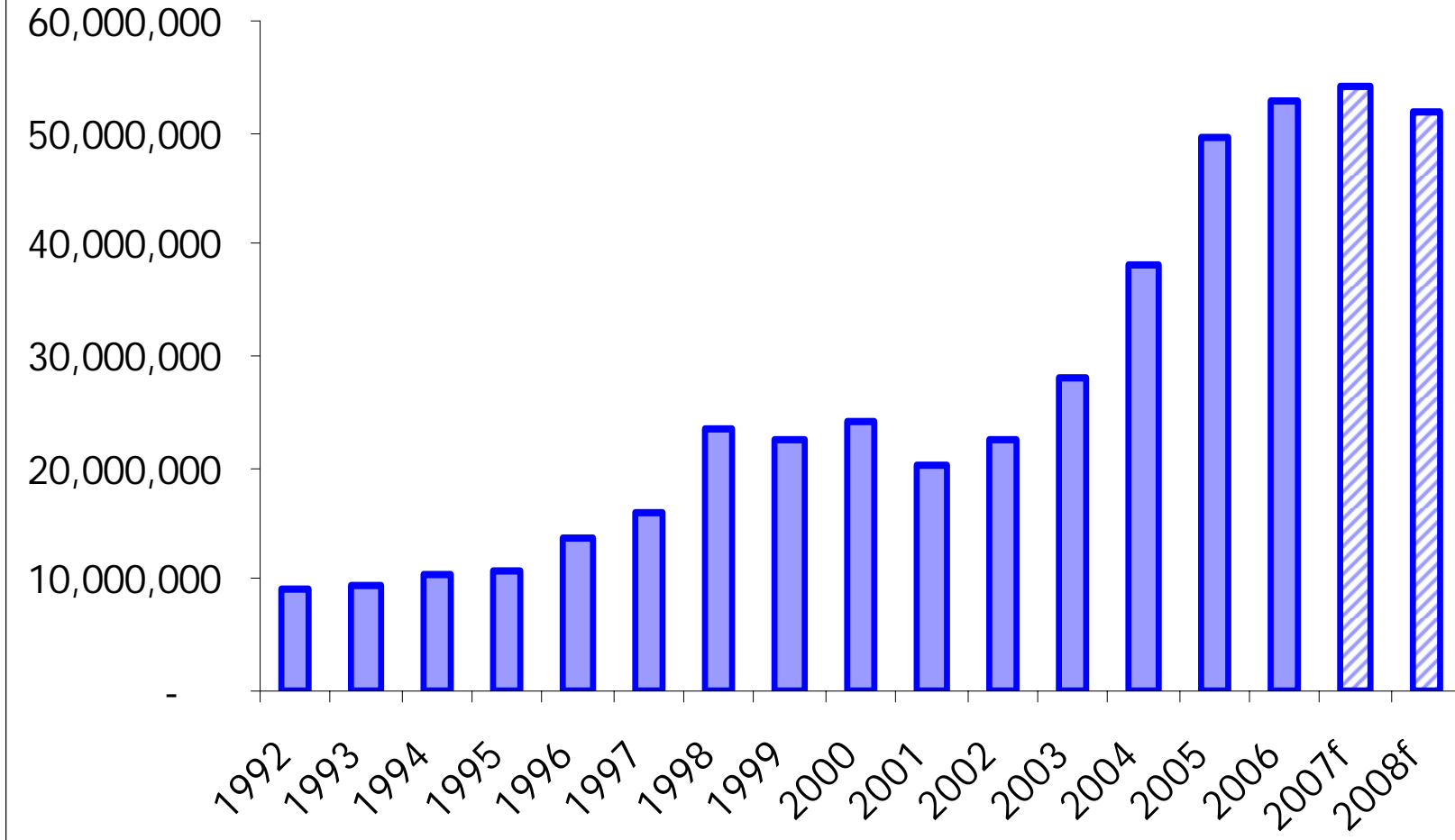


# REET Forecast

- REET revenues are forecast to grow for 2007, drop for 2008
- 2007 growth in commercial sales due to Equity Office Property Trust portfolio sale to Blackstone, subsequent decline in 2008
- REET estimate for EOPT sale: \$5.8m
- Residential sales are projected to cool for 2007, pick up again for 2008
- Condo sales are expected to drop somewhat and then level off



## REET REVENUES



REIT revenues will top out at \$54.1M in 2007 and fall down to \$51.8M in 2008

## **Risks to Forecast**

- Blackstone's Seattle portfolio may be sold again, possibly resulting in another REIT spike
- Subprime woes may worsen and eat into the broader mortgage environment, removing more borrowers than expected from the market and perhaps presaging defaults and foreclosures