

Budget History by Major Category

-reflects General Subfund amounts with adjustments for comparability

Department	<u>Rate of Growth</u>		Total 2001-2008	2008 Proposed % of Total GsF
	Downturn 2001-2005	Rebound 2005-2008		
Debt Service	61.5%	7.6%	73.8%	2.0%
Seattle Center	-8.6%	69.5%	54.9%	1.6%
Human Services (1)	-0.2%	55.1%	54.9%	5.4%
Fire	20.4%	25.9%	51.6%	16.1%
Police	17.0%	22.3%	43.1%	23.5%
Total General Fund	7.5%	29.2%	38.9%	100.0%
Parks (2)	2.6%	34.2%	37.7%	9.2%
Library	8.4%	26.8%	37.5%	5.0%
Law	-0.3%	37.1%	36.7%	1.9%
DPD	4.6%	30.7%	36.7%	1.2%
Municipal Court	-3.5%	40.4%	35.4%	2.8%
Arts	-19.9%	65.6%	32.7%	0.3%
SDOT	-13.9%	48.0%	27.4%	5.2%
Jails/Indigent Defense	-4.6%	28.4%	22.5%	2.4%
DON	-13.0%	24.2%	8.0%	0.9%
OED	-16.3%	28.4%	7.5%	0.8%

NOTES:

(1) Does not include public health.

(2) Includes Charter revenues.

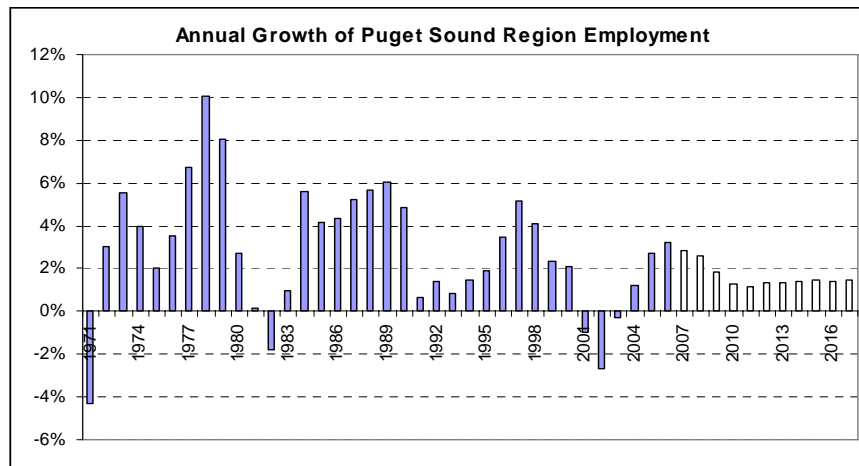
2009-2012 GSF Expenditure Forecasts

Assumptions

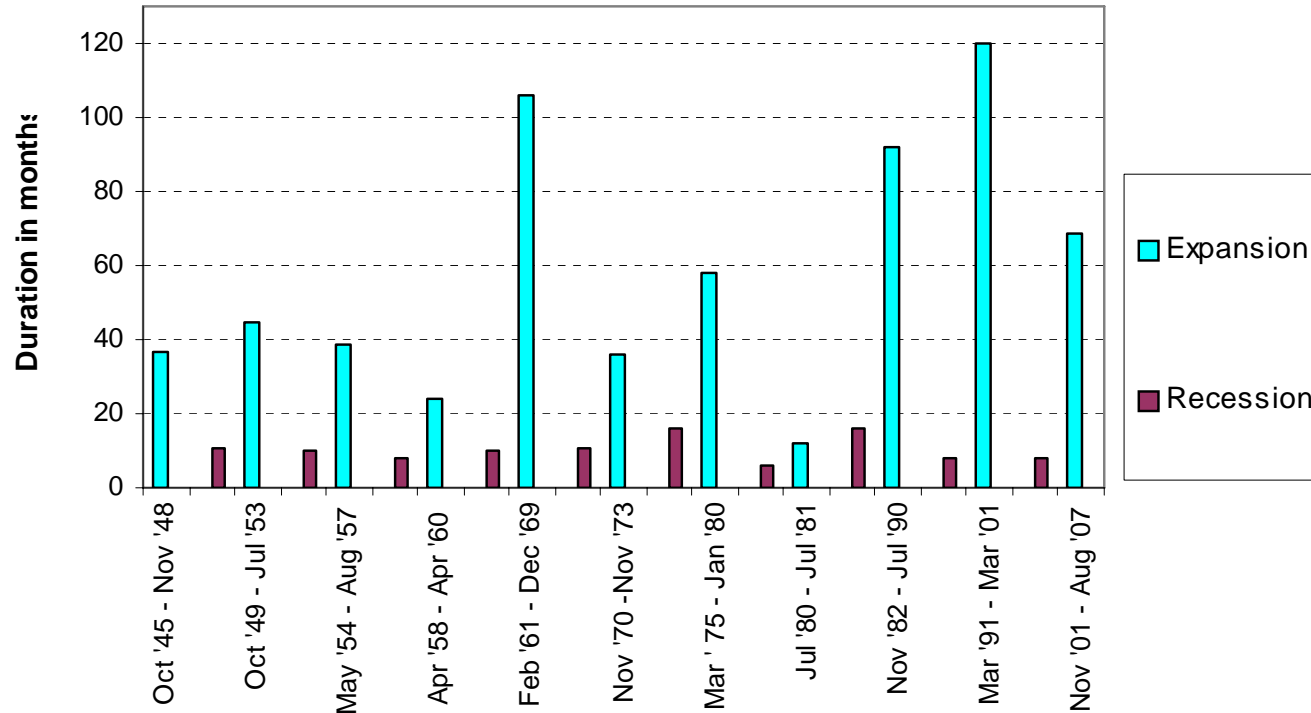
- Wage cost increases for non-uniformed employees reflect rate of inflation
- City costs for medical expenses grow at 10-11% annually
- Wage cost increases for most public safety employees reflect current estimate of wage growth across west coast's major cities
- 20 officers added per year to augment Neighborhood Policing
- Backfill of Parks Levy operational and maintenance costs
- On average, the 2009-2012 expenditures grow at **3.75%** annually

Alternative Revenue Forecasts

- The baseline forecast is based on economists' best guess of future economic conditions
- Forecasts tend to move smoothly and then level off at trend growth rates
- Reality tends to be much more bumpy
 - It is difficult to forecast the timing of recessions
- For planning purposes it can be helpful to consider several alternative forecast scenarios



Business Cycles since WW II



Source: National Bureau of Economic Research

1. Baseline forecast

- Assumes growth slows through 2010, then moderate growth

2. Higher growth forecast

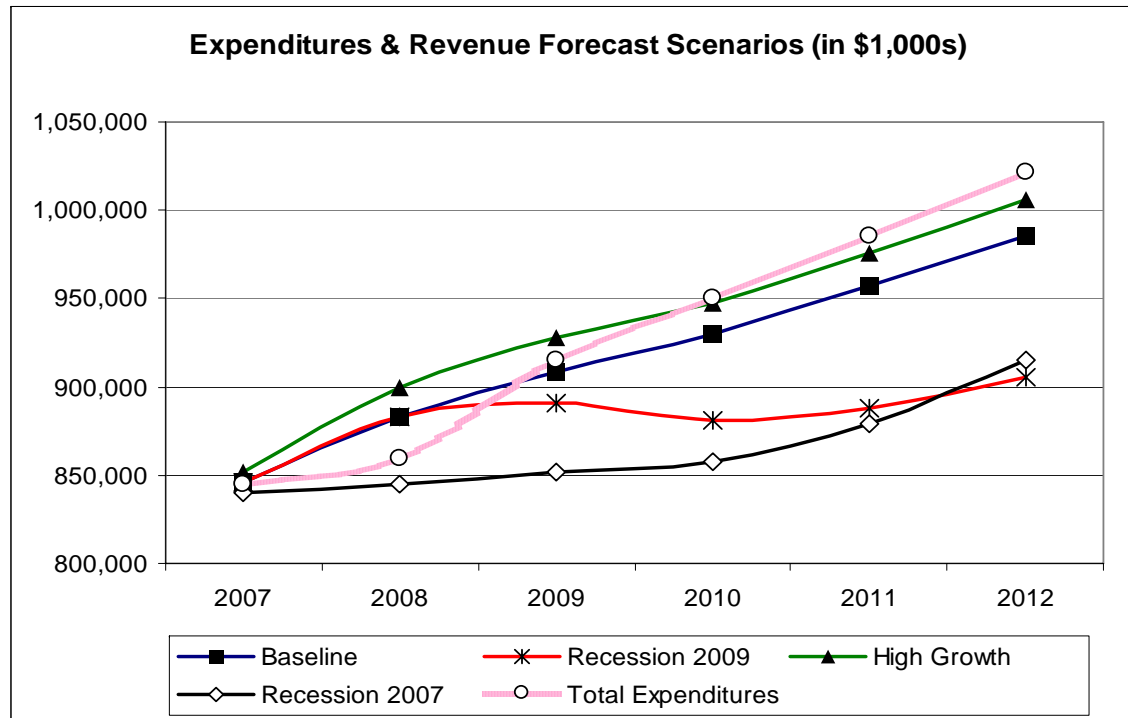
- Assumes higher growth in 2007-08; then reverts to trend
 - Expected slowing keeps getting delayed
 - Construction is strong
 - Boeing continues to hire

3. Recession beginning in mid-2009

- Current expansion is almost 6 years old (69 months)
- Assume it lasts as long as 1980's expansion (92 months)
- Modeled after 1990-91 and 2001 recessions

4. Recession beginning in 2007 Q4

- Assume current financial turmoil and housing downturn causes a recession
- Modeled after 1990-91 and 2001 recessions

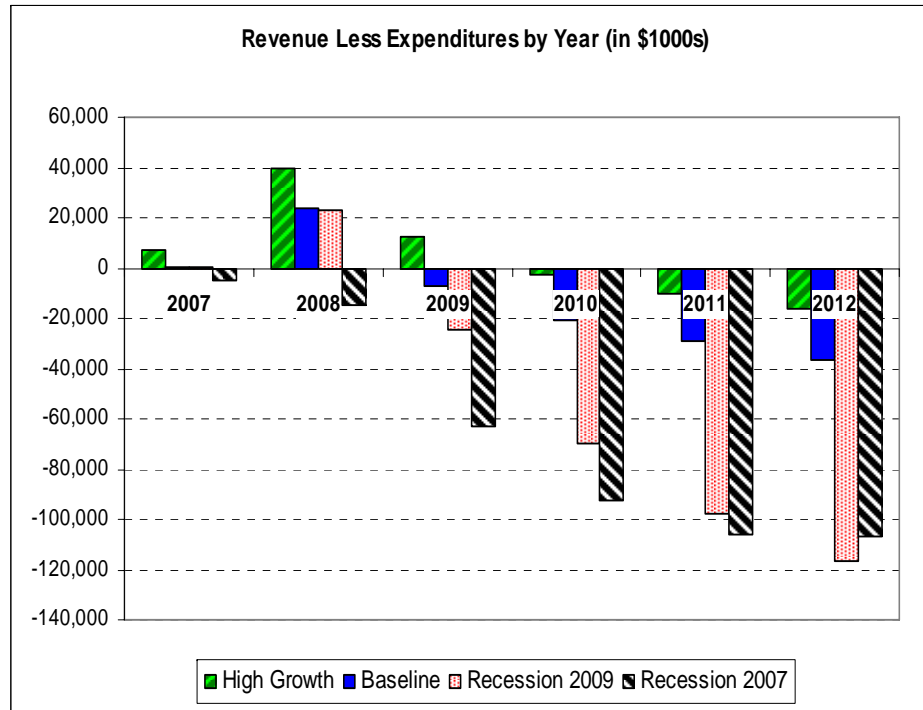


Four revenue scenarios* through 2012

- Baseline forecast (Blue)
- Higher growth forecast (Green)
- Recession beginning in mid-2009 (Red)
- Recession beginning in 2007 Q4 (Black)
- Expenditure forecast (Pink)

The 2007 recession would begin in the 4th Quarter. It is offset initially by the \$12m increase from the Medic One Levy. This explains the difference in shape from the 3rd Quarter 2009 recession curve.

*All revenue scenarios assume the B&O revenue fix



Revenue scenarios less expenditure estimate

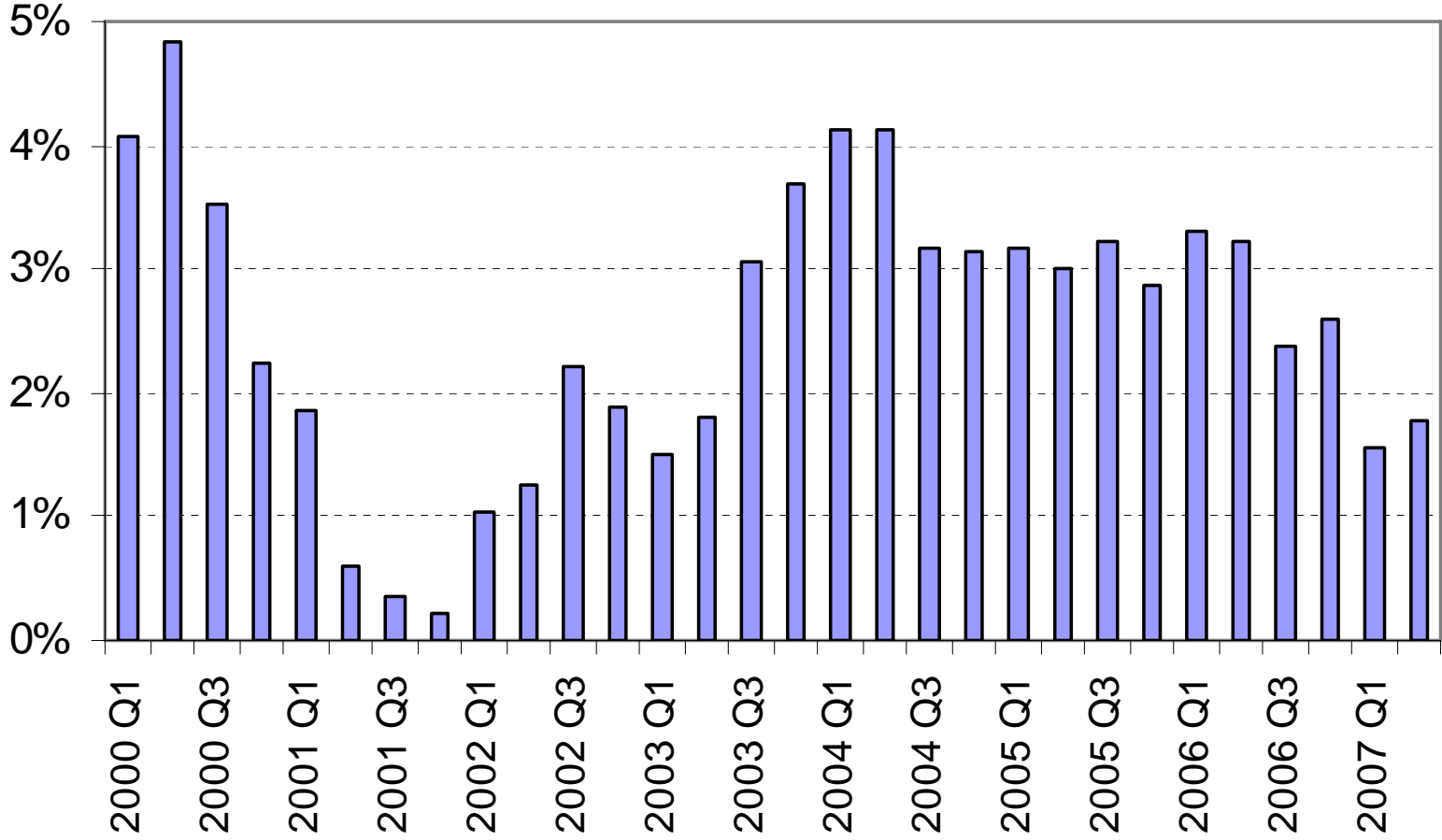
- Baseline forecast (Blue)
- Higher growth forecast (Green)
- Recession beginning in mid-2009 (Red)
- Recession beginning in 2007 Q4 (Black)

Economic Conditions & Forecast

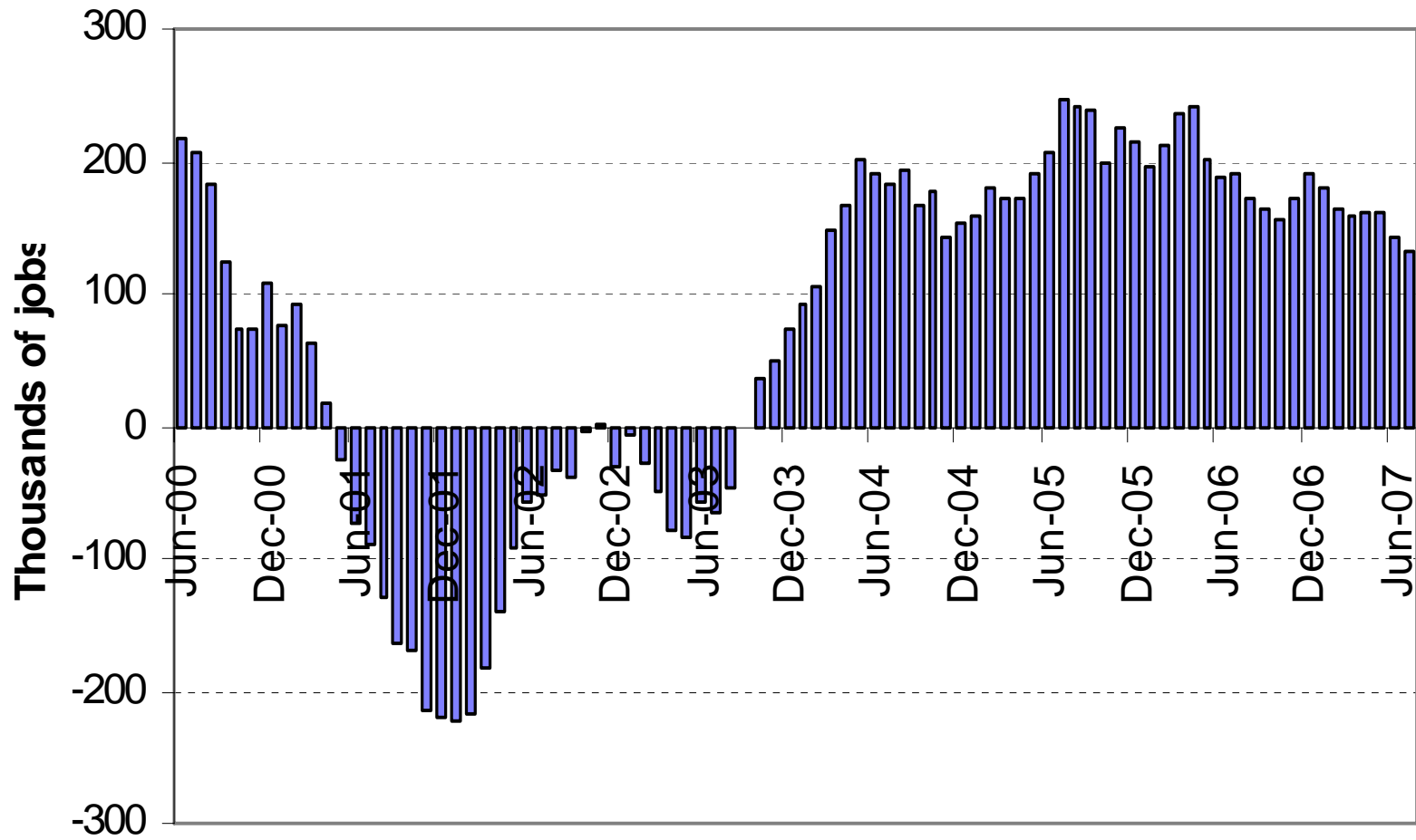
U.S. Economy: Growth Has Slowed

- The pace of growth has slowed over the past year
 - Housing downturn, with impact on:
 - Construction
 - Finance, real estate, furniture & appliance purchases
 - Consumer spending
 - Energy prices
- More recently: financial turmoil, credit crunch
 - Has further slowed economy
 - Increased risks

Real U.S. GDP: Year-over-year growth



Monthly Change* in U.S. Employment

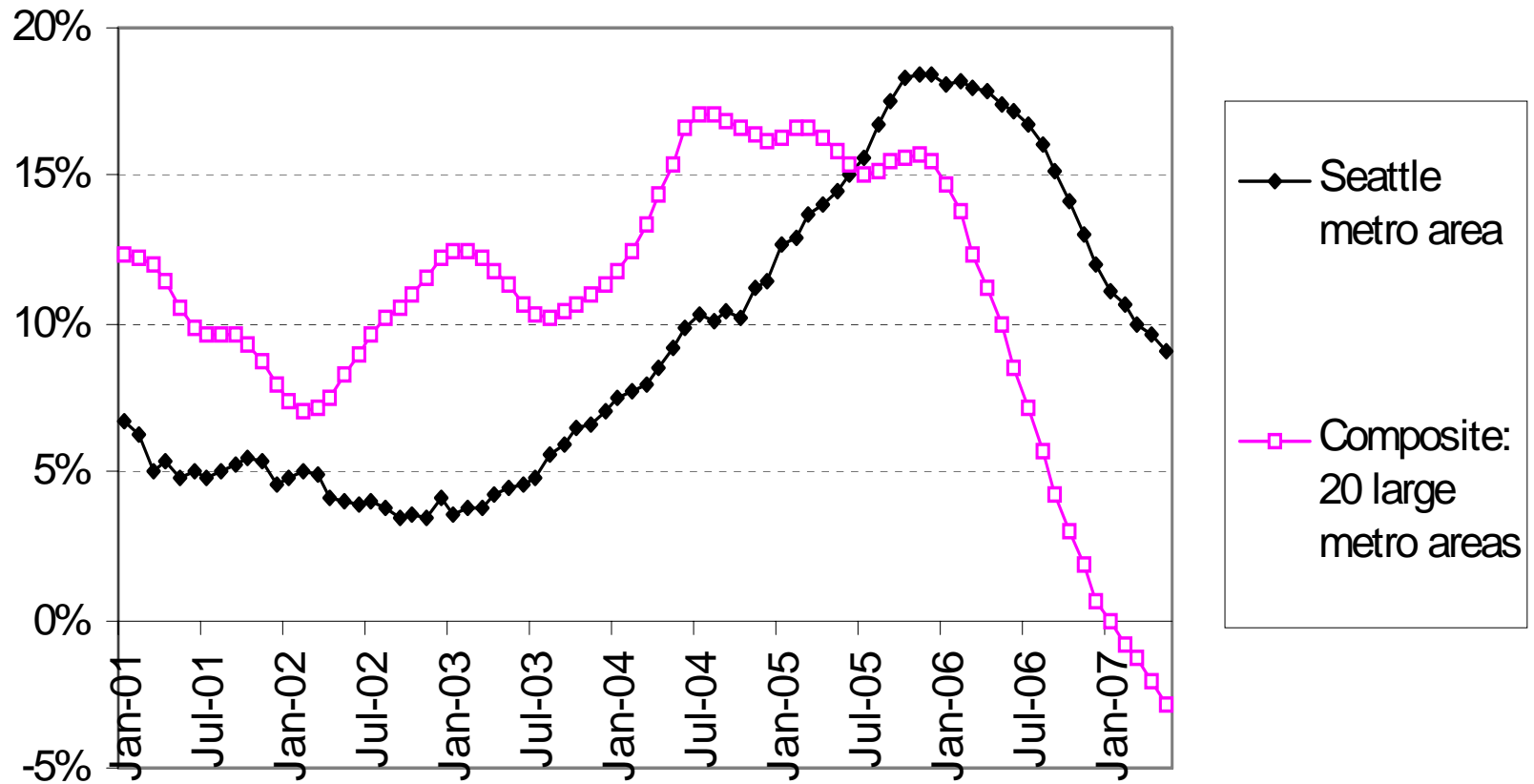


*6 month moving average. Source: U.S. Bureau of Labor Statistics.

The Housing Market

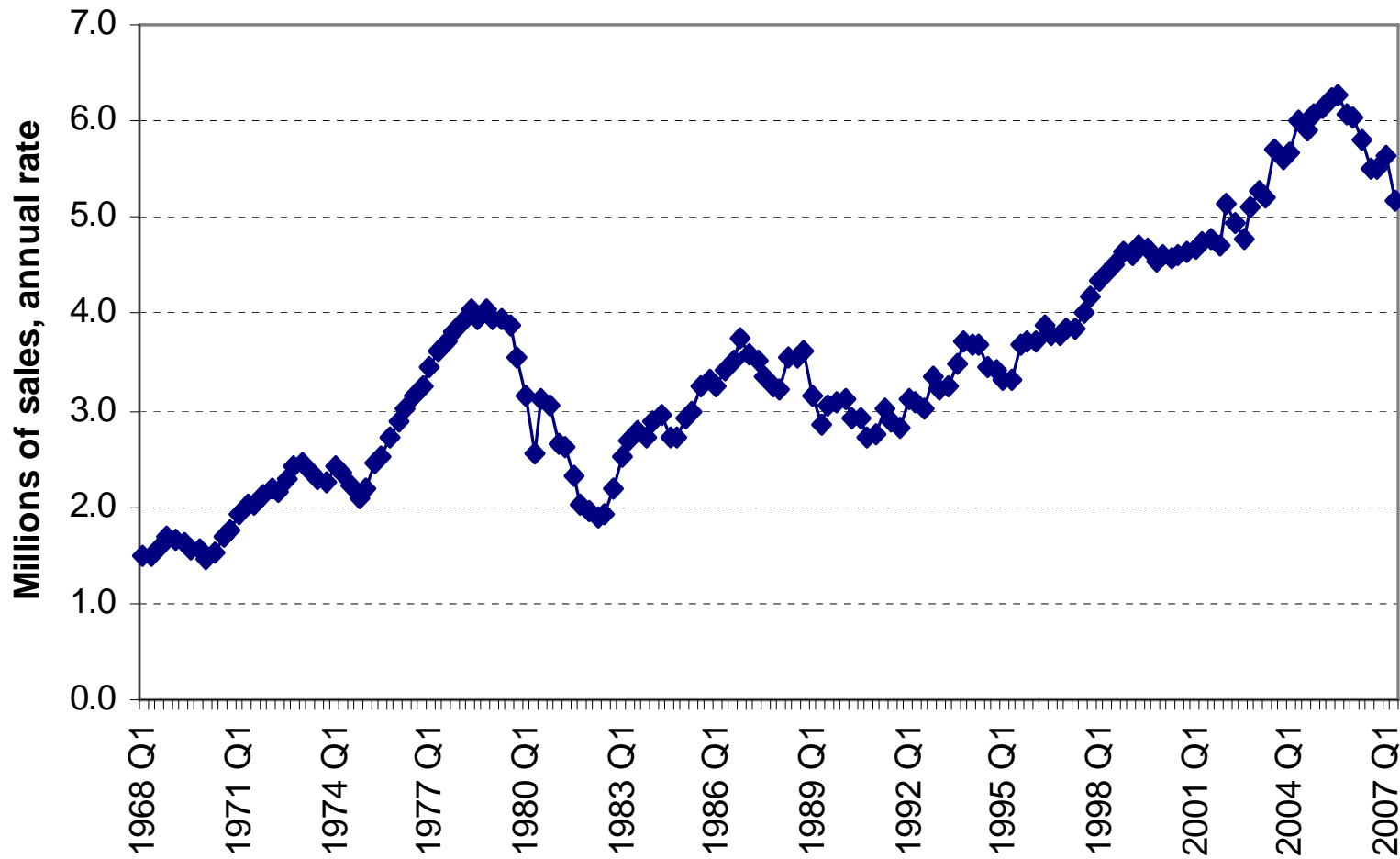
- Easy credit and speculation fueled price increases
 - Low interest rates
 - Interest only loans, ARMs with low teaser rates, etc.
- Eventually affordability deteriorated, reducing demand
 - Market peaked in 2005
- Current situation:
 - Sales are down; inventories rising; prices falling in many areas
 - Fewer new homes are being built
 - ARMs with low teaser rates are resetting
 - Delinquencies & defaults are rising
 - Lenders have tightened credit standards
 - Home equity withdrawal is declining

Year-over-Year Housing Price Change: Case-Schiller Index

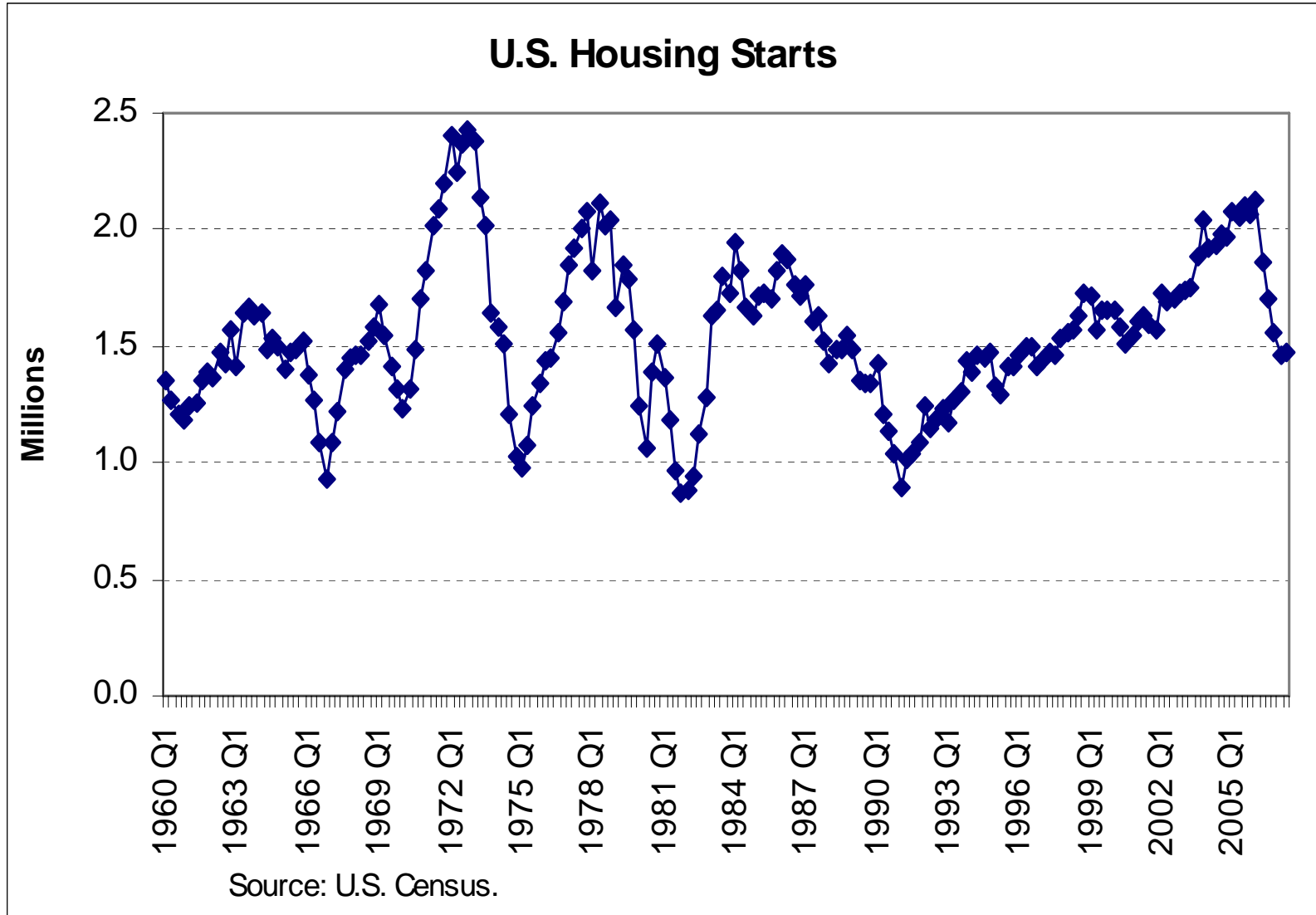


Source: Standard & Poors.

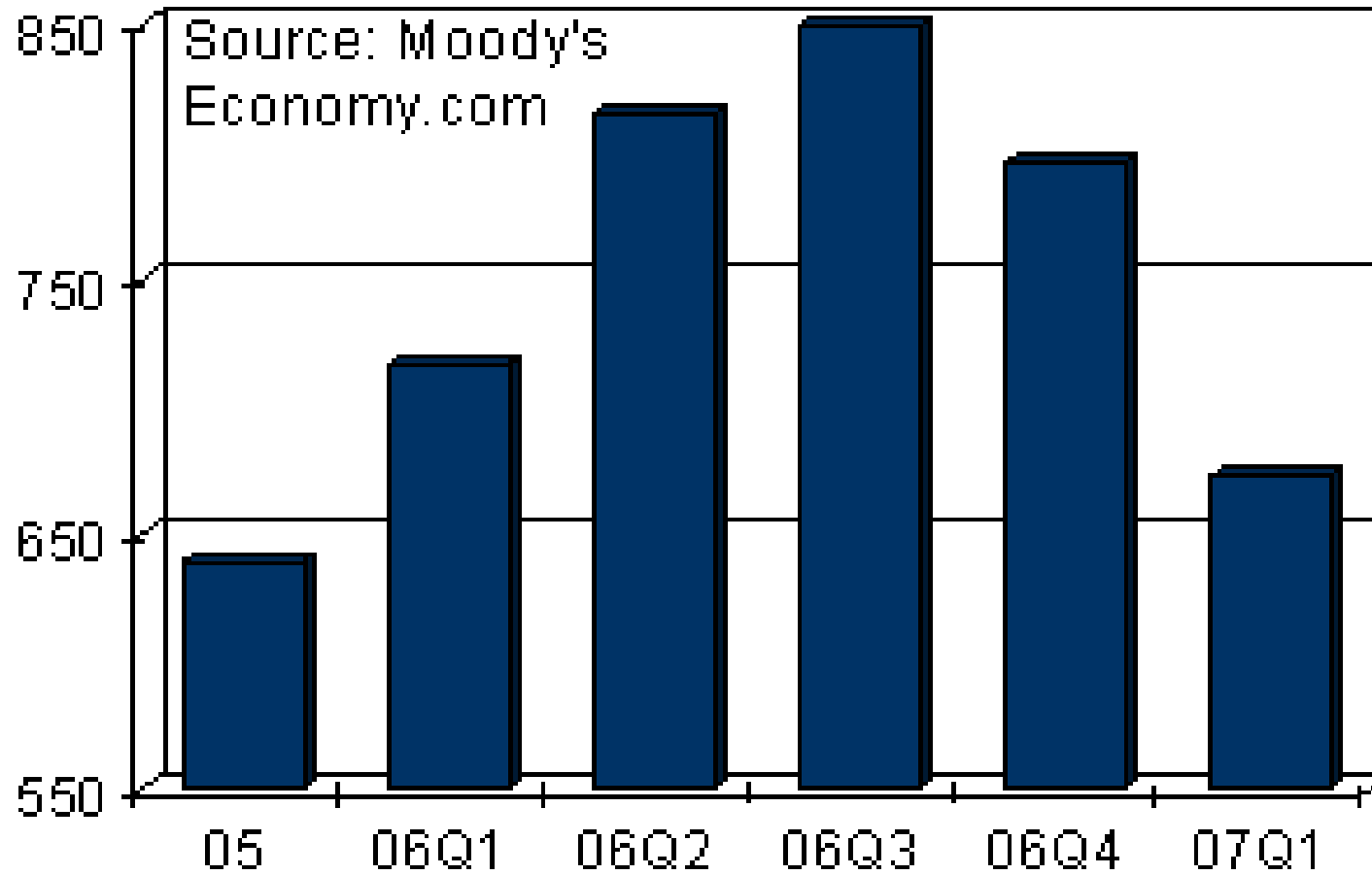
Sales of Existing Single-Family Homes, U.S.



Source: U.S. Census.

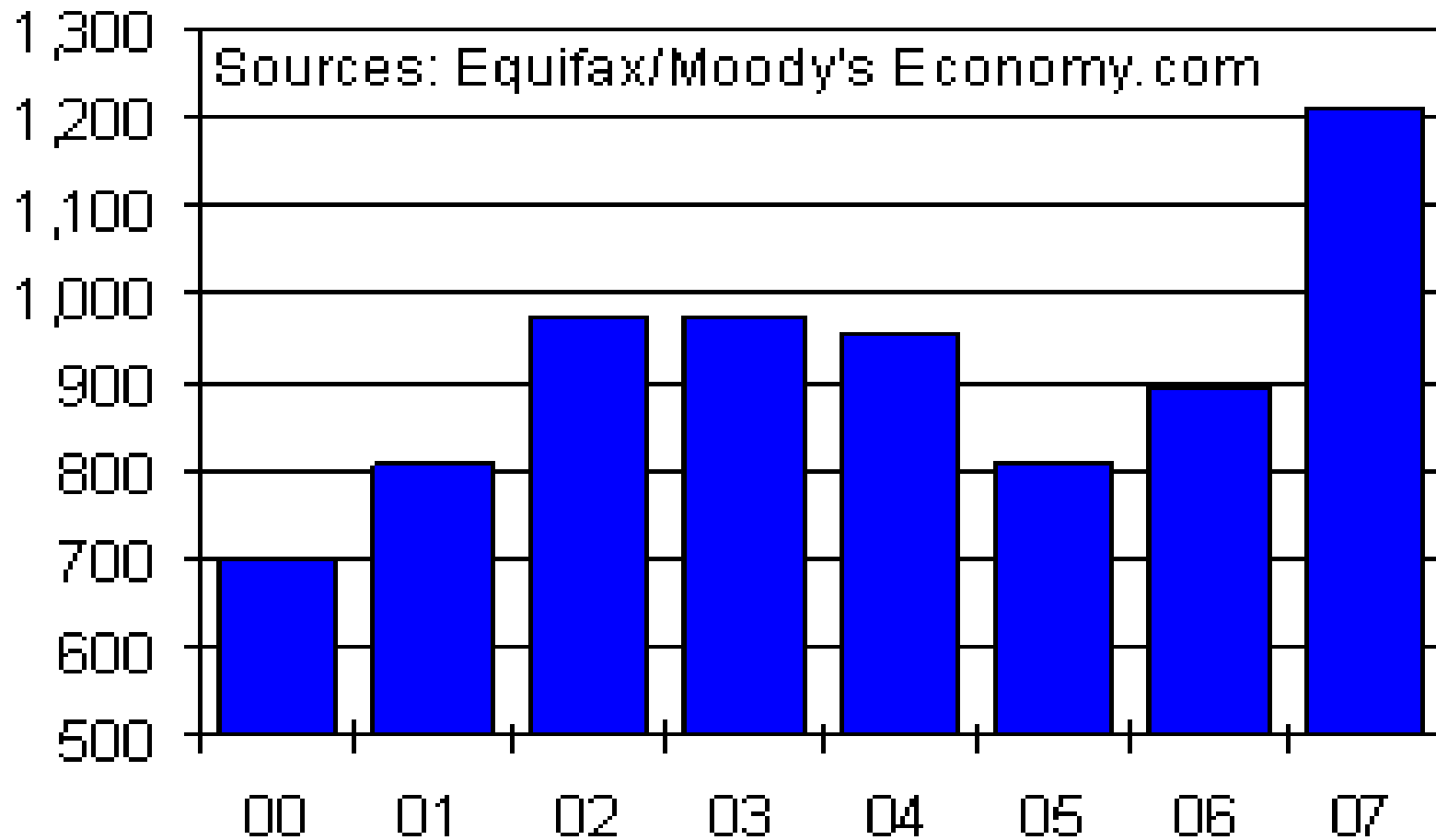


...As Equity Withdrawal Fades
Gross equity extraction, US\$ bil



Mortgage Credit Problems Surge

First mortgage loan defaults, ths

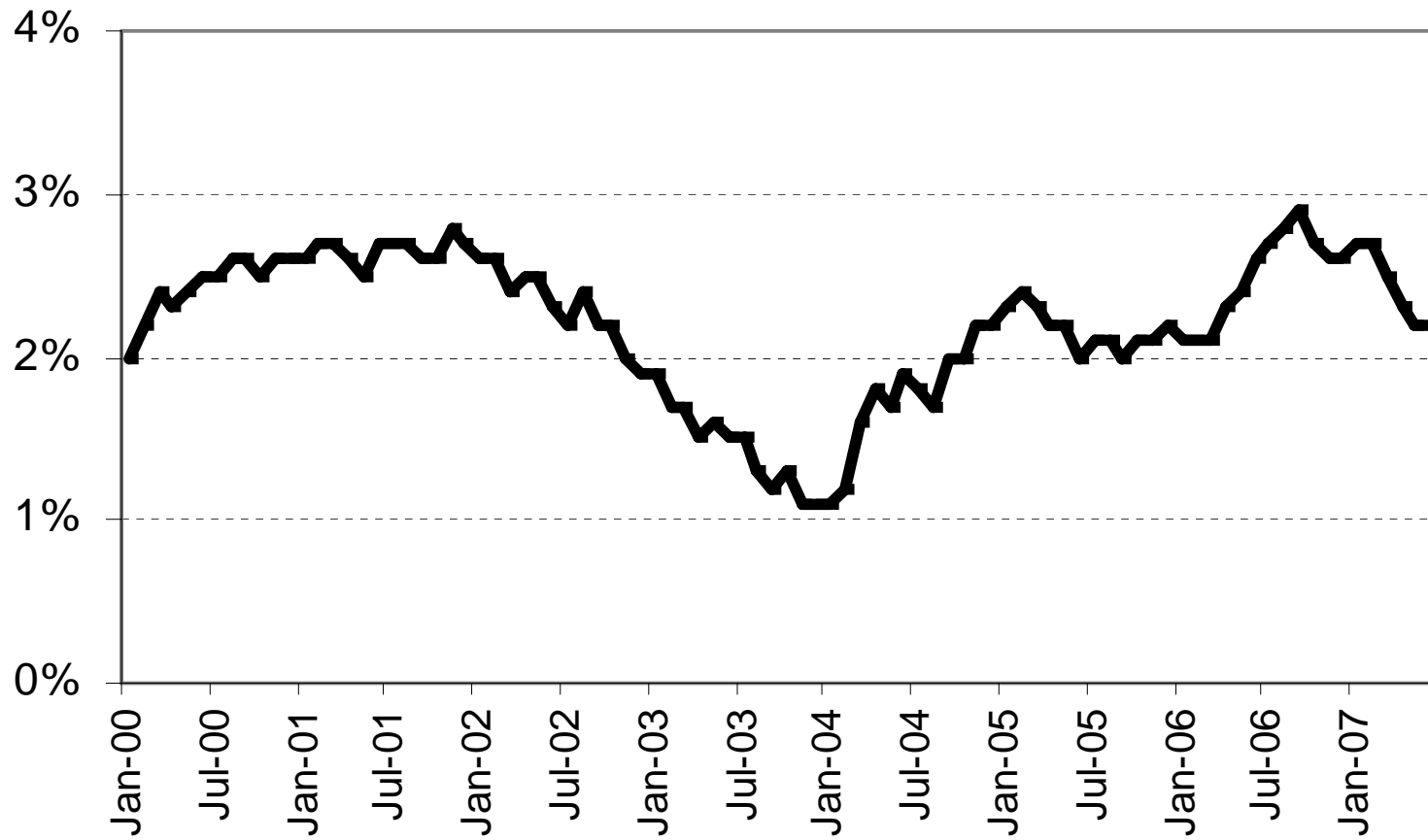


U.S. Economy at Mid-Year: A Mixed Picture

Positives:

- Employment & income growth
- Strong world economy, boosting exports
- Rate of inflation has declined
- Gasoline prices have fallen from May '07 peak

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

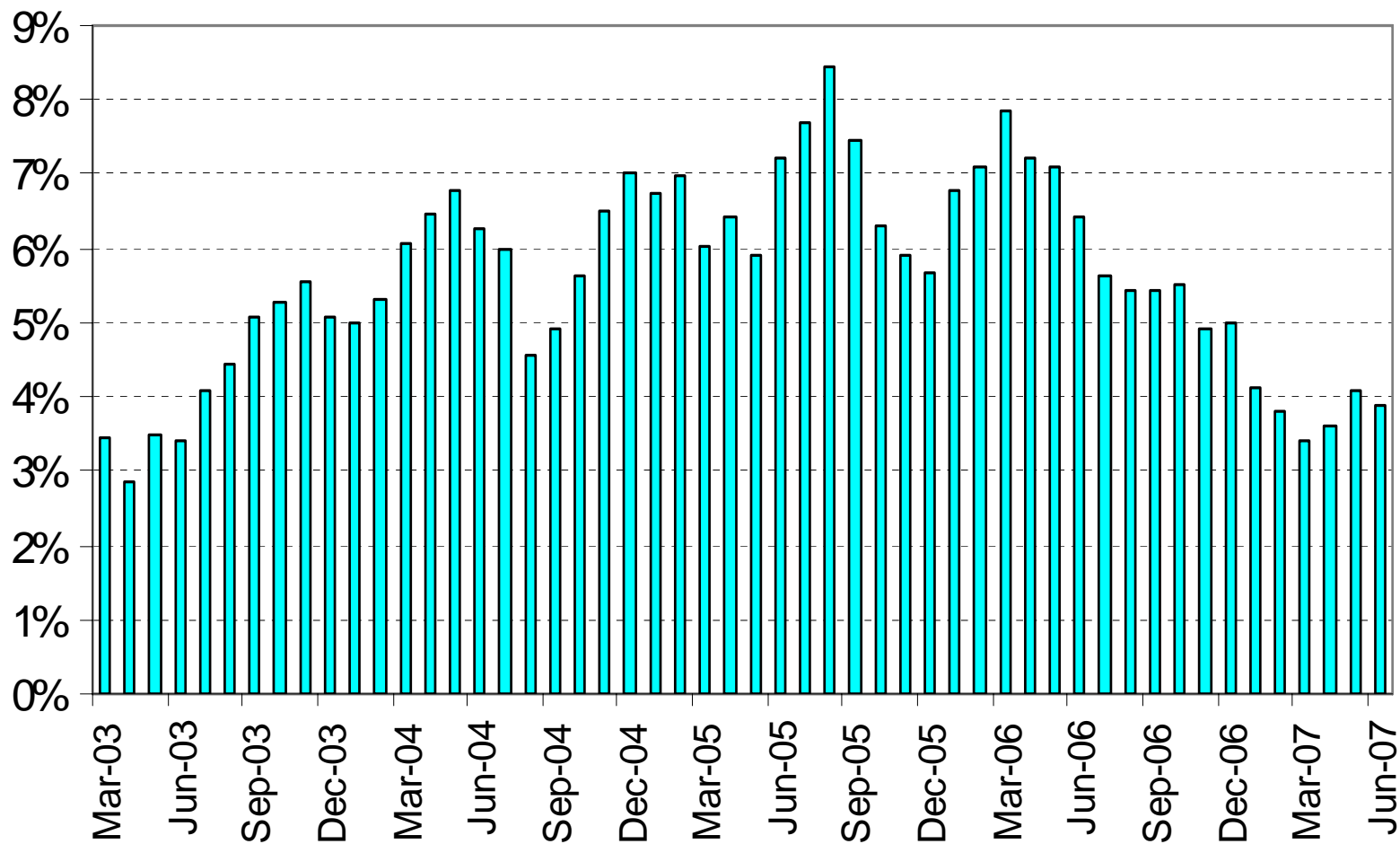


* All items less food and energy.

Negatives:

- Housing not expected to turn around until 2008
- Subprime problems are spreading
 - To prime mortgages (Countrywide Financial)
 - To rest of credit market
 - Credit spreads widening
 - Corporate debt offerings delayed or canceled
- Consumer spending is slowing
 - Housing downturn
 - Energy prices
- Oil prices are rising again

Retail and Food Services Sales , Year-Over-Year Growth*



*3 month moving average of year-over-year growth rate. Source: U.S. Census Bureau.

U.S. Economy: Forecast (August)

- Slow growth through mid-2008, improving thereafter
- Financial market problems will result in correction, not a crash (Mark Zandi, Moody's Economy.com (7/30/07))
- Risks include:
 - Housing market, including impacts on:
 - Consumer spending
 - Investor losses
 - Financial markets broadly
 - Inflation
 - Energy prices

Recent changes to U.S. forecasts

- Forecasts have been lowered; e.g.,
 - Global Insight forecast of GDP growth:

	<u>2007 Q4</u>	<u>2008</u>
July forecast	2.6%	2.8%
Sept forecast	1.7%	2.0%

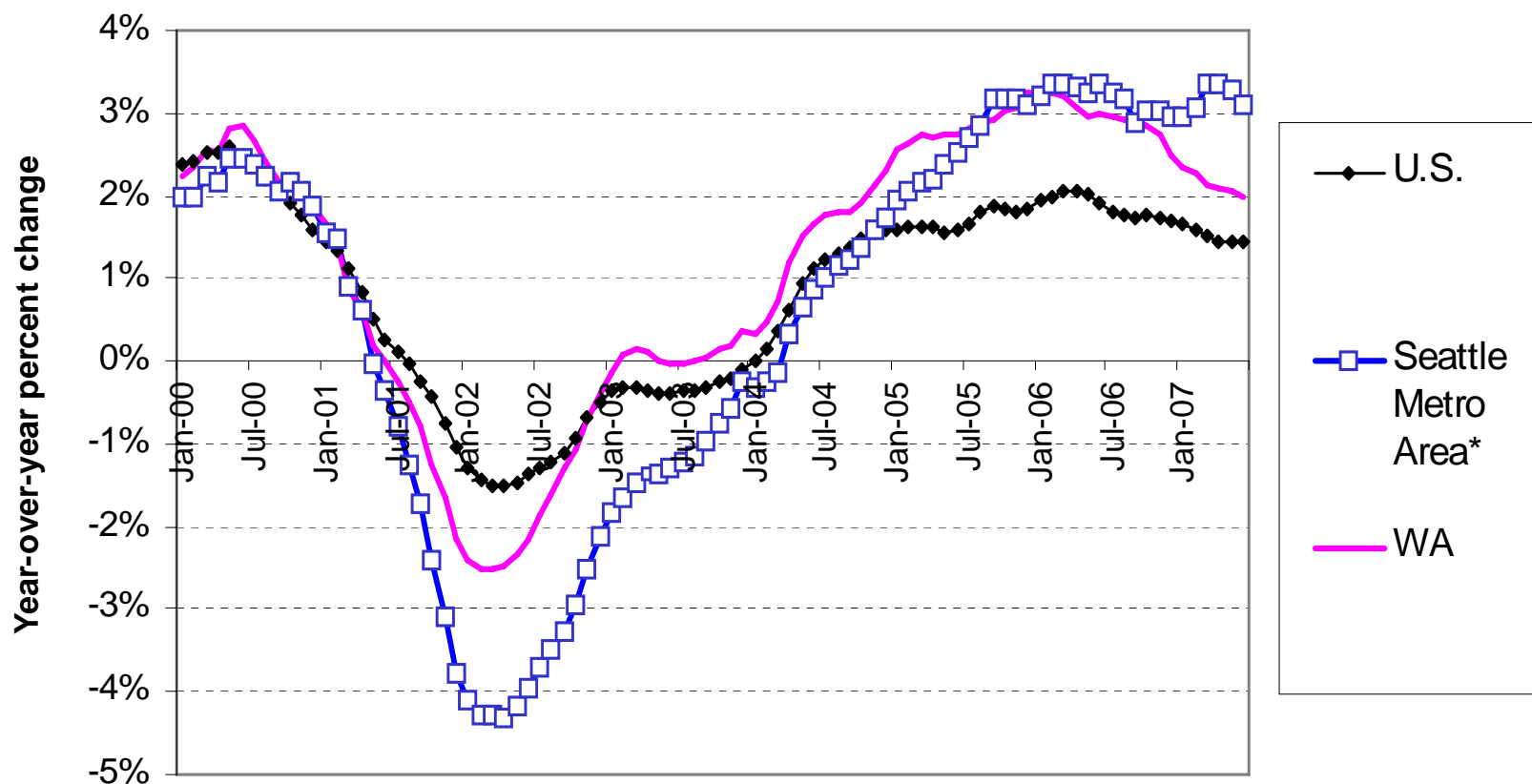
- Wall St. Journal Economic Forecasting Survey. Recession probability in next 12 months:

June forecast	23%
August forecast	28%
Sept forecast	36%

Puget Sound Economy

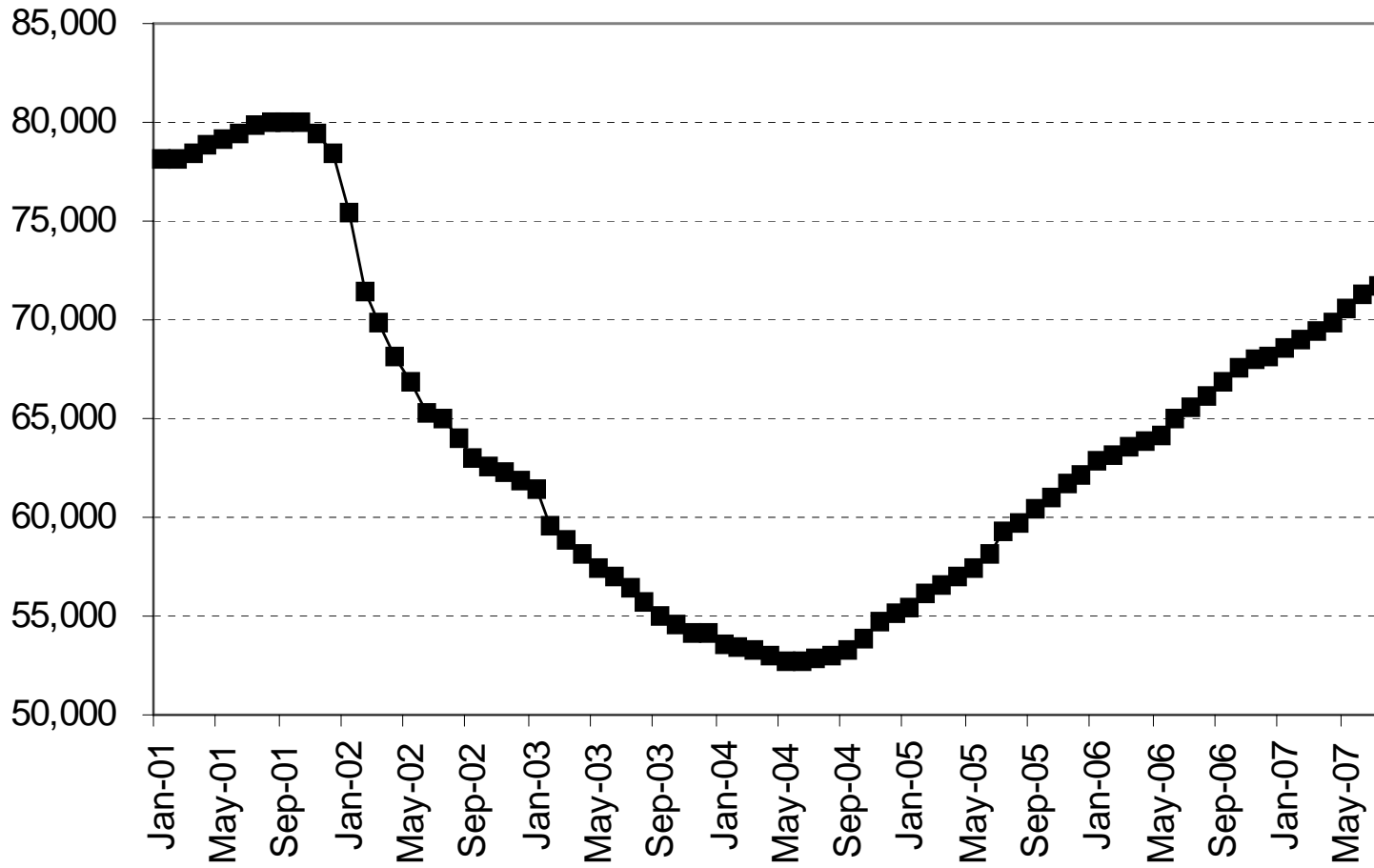
- Employment is growing at double U.S. pace
- Boeing continues to hire
 - Has averaged 500 per month since June 2004
- Microsoft added 2,000 employees per year over past 5 yrs.
- Housing market is slowing, but prices are still rising
- Office market has strengthened

Employment Growth Rate



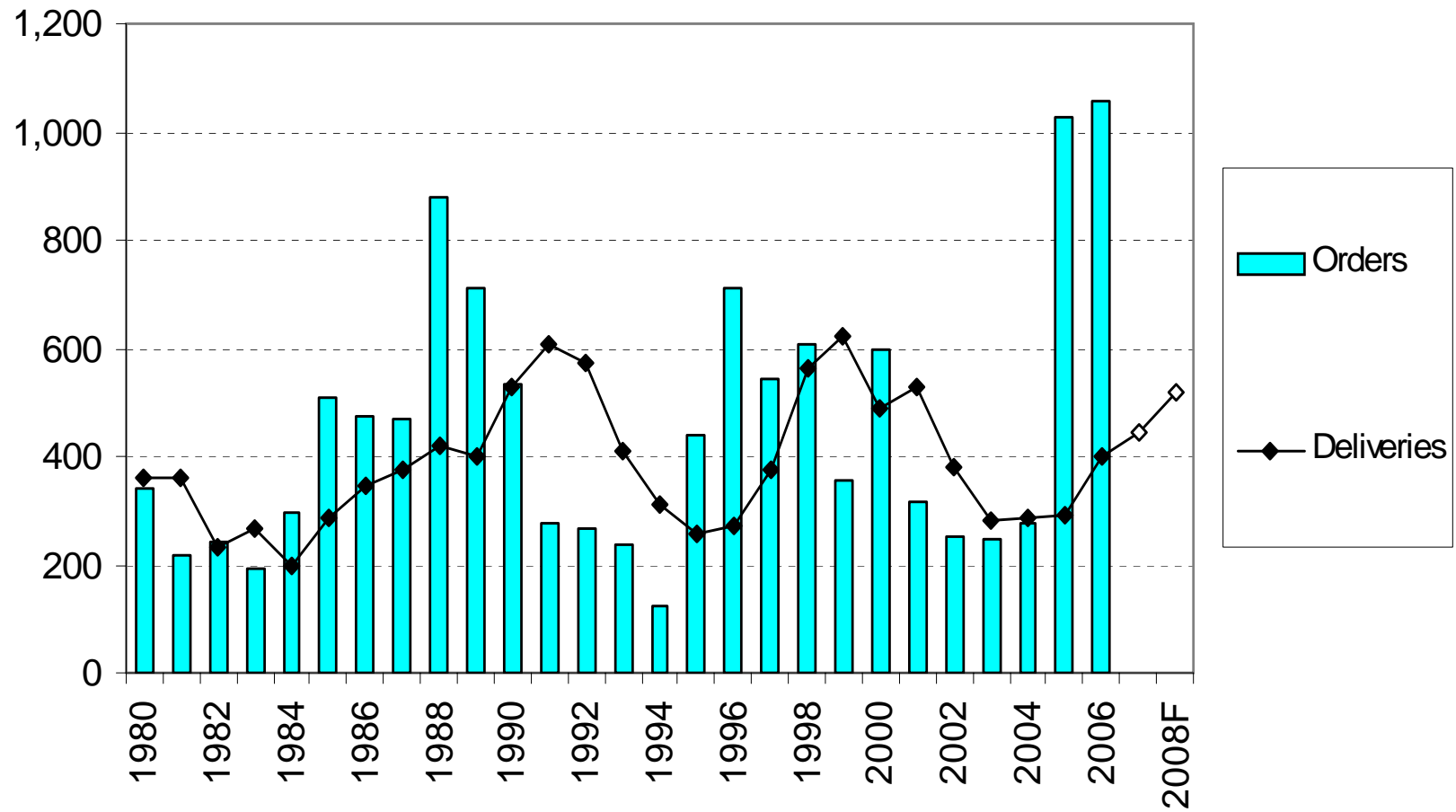
*King & Snohomish Co. Data are 3 month moving average of seasonally adjusted non-agricultural wage & salary employment. Data adjusted for Sep-05 Boeing strike.

Boeing Employment in Washington



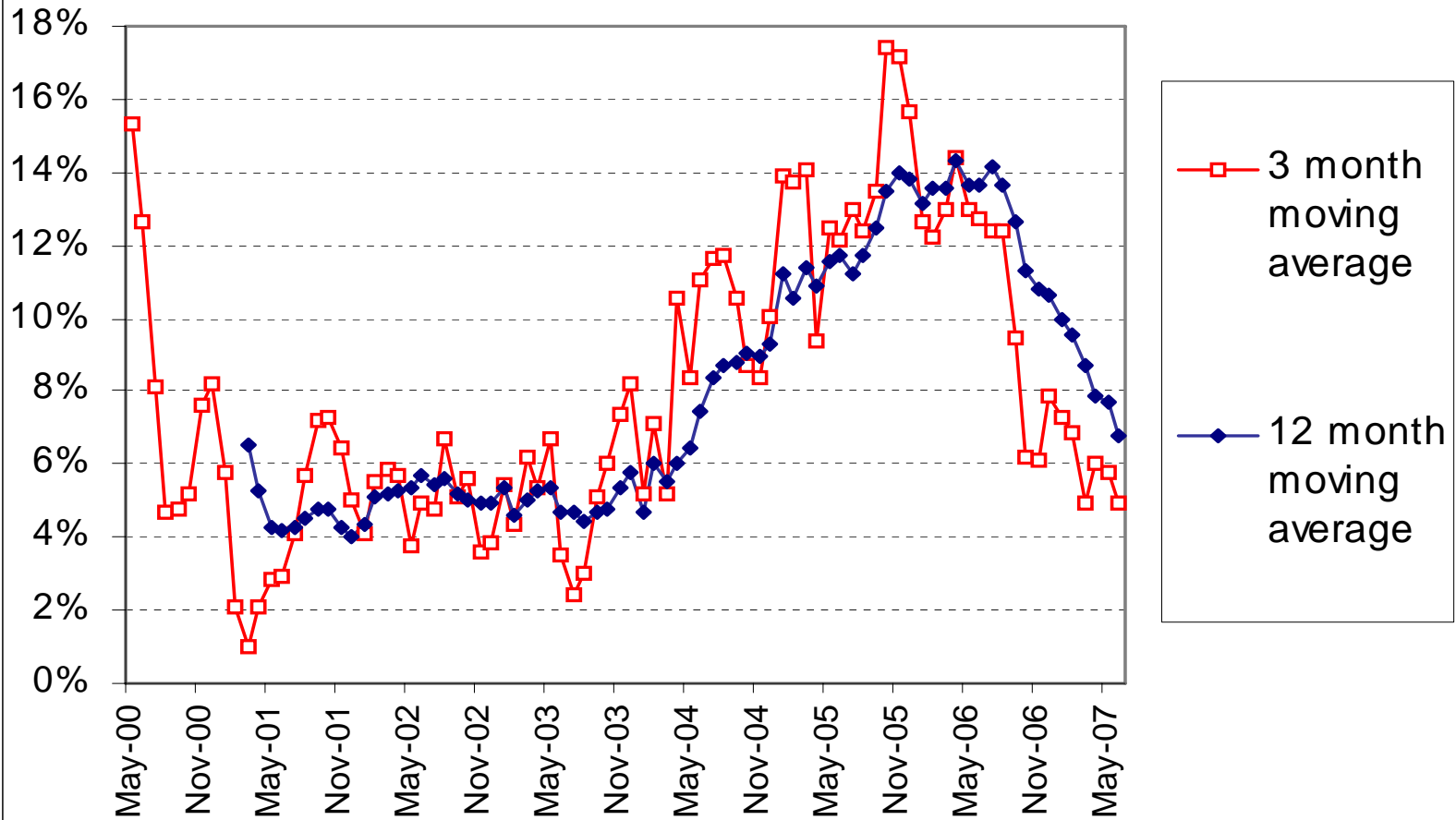
Source: The Boeing Company.

Boeing: Orders and Deliveries of Commercial Airliners



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

Year-over-Year Growth of Seattle Residential and Condominium Median Sales Price



* Source: Northwest Multiple Listing Service. Data are for closed sales.

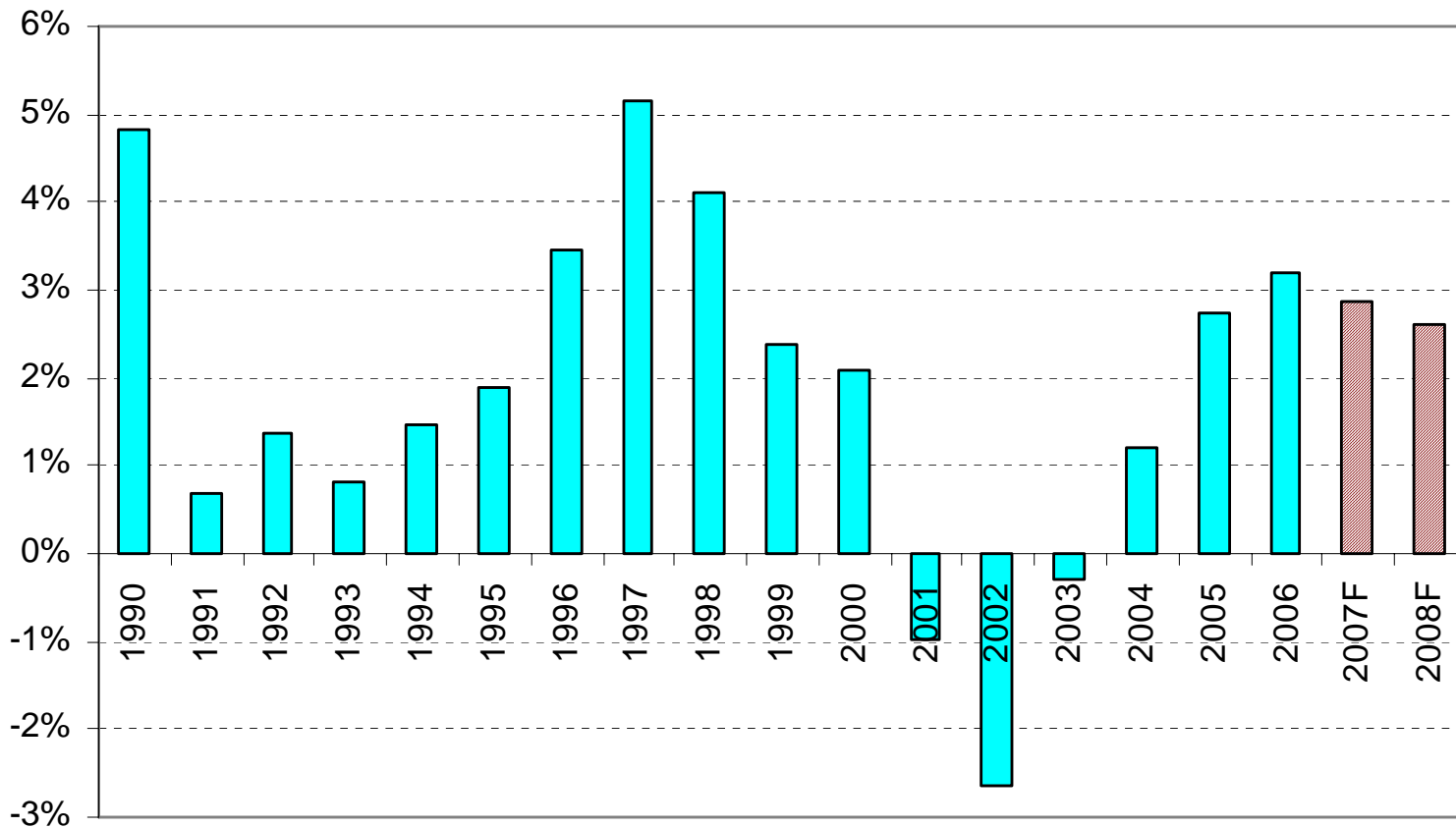
Puget Sound Economy: Forecast (August)

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

Recent changes to regional forecast

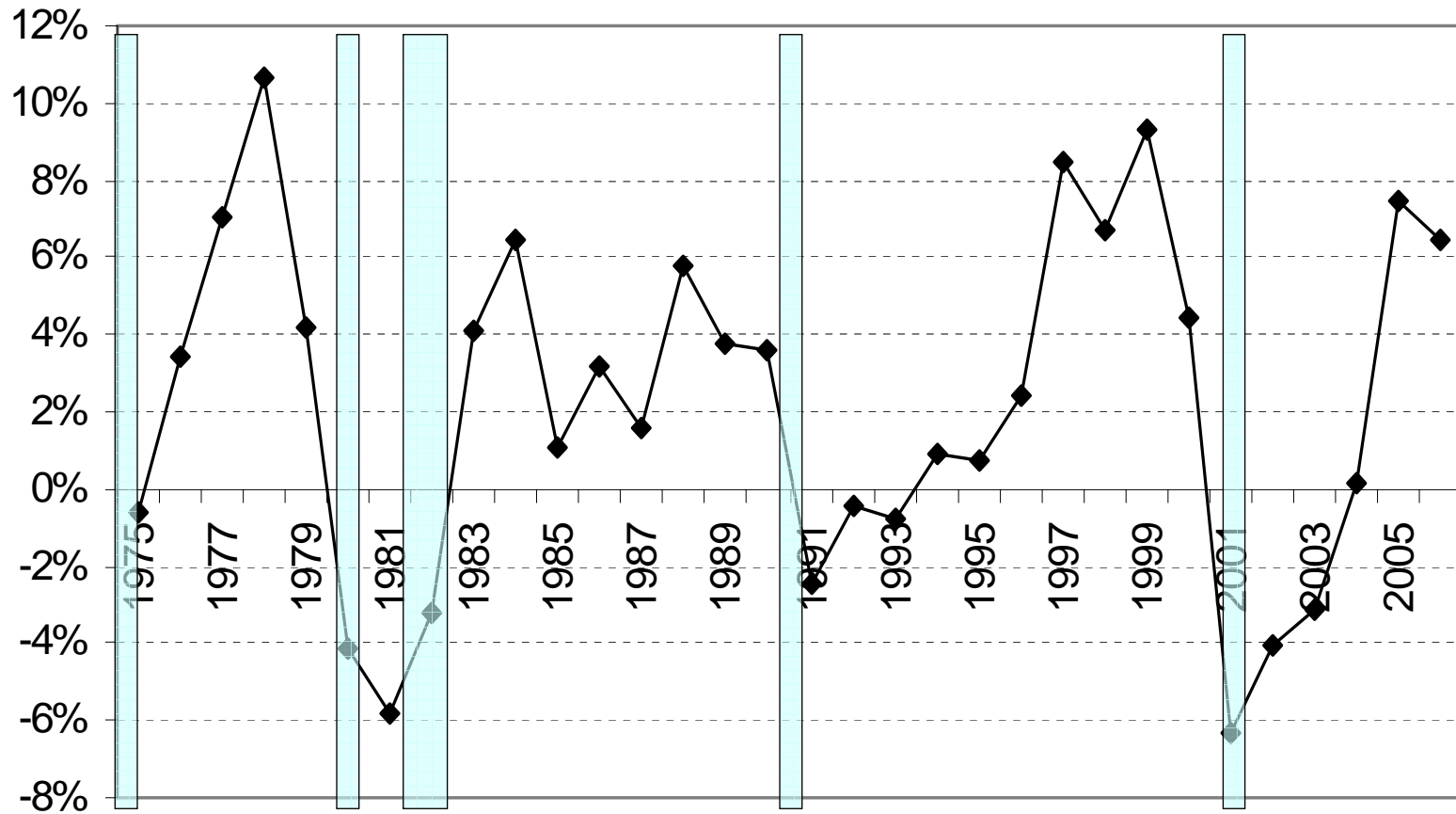
- Very modest downward revision to growth
- Range of possible outcomes has widened considerably
- Increased risk of recession
- Region's economy should continue to outperform the nation

Puget Sound Region Employment Growth



Source: Puget Sound Economic Forecaster.

Annual Growth of Real Seattle Taxable Retail Sales



Shaded areas indicate national recessions.

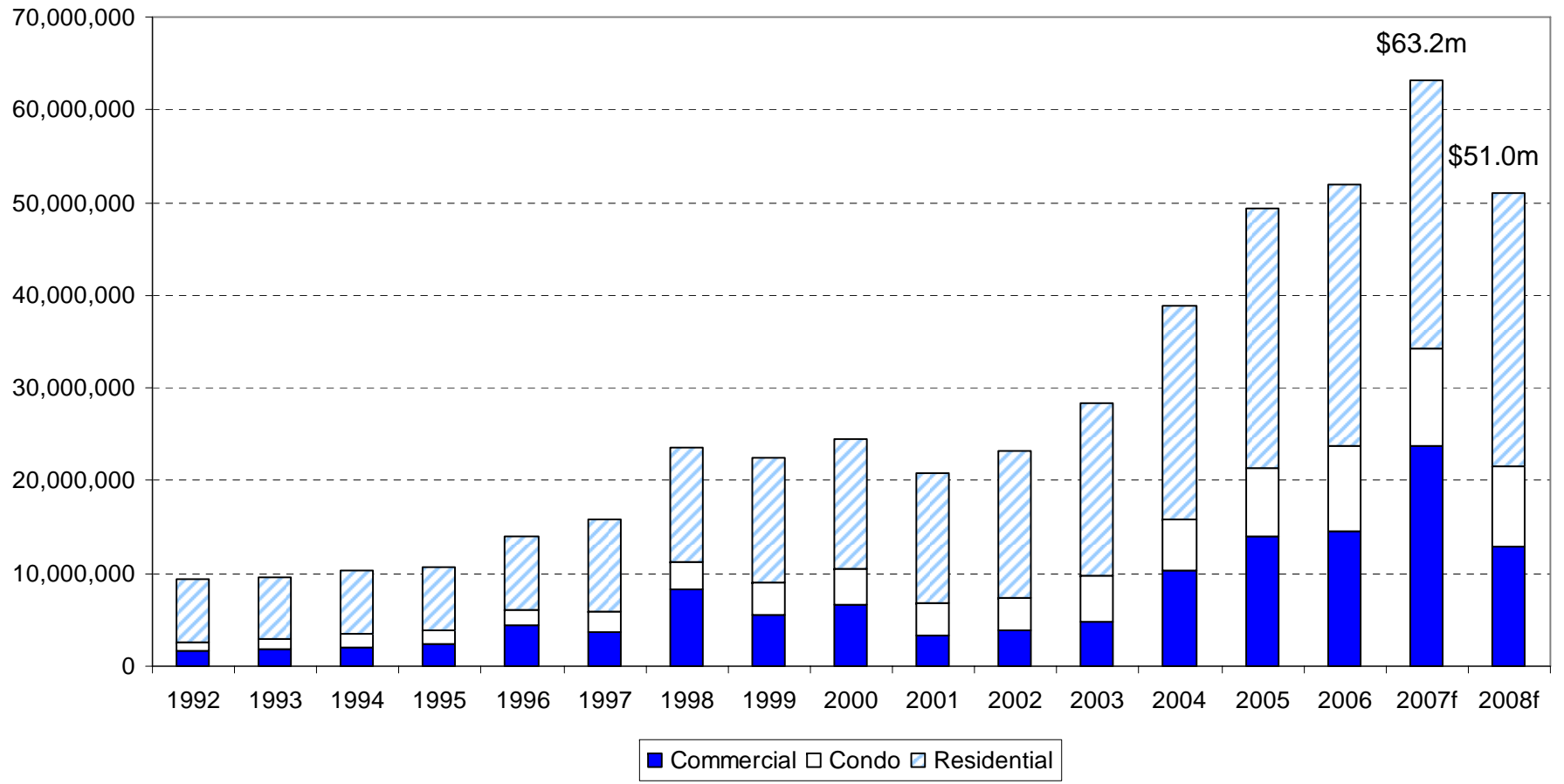
General Subfund and REET Revenue Forecasts in \$1000s

Budget Account	Budget Name	2006			2007			2008		
		Forecast	Actuals	Change	Adopted	Revised	Change	Endorsed	Proposed	Change
411100	Property Tax	187,883	188,884	1,001	194,918	196,035	1,117	199,452	200,685	1,233
	Property Tax-Medic One Levy	20,669	20,814	145	21,185	21,508	323	21,856	33,793	11,937
413100	Retail Sales Tax	140,143	139,391	(752)	147,805	150,105	2,299	154,558	157,951	3,393
413600	Use Tax - Brokered Natural Gas	3,200	2,799	(401)	2,944	2,787	(157)	2,818	2,818	(0)
413700	Retail Sales Tax - Criminal Justice	13,138	13,121	(17)	13,856	14,130	273	14,490	14,868	379
416100	Business & Occupation Tax (90%)	143,886	147,593	3,707	150,582	155,868	5,286	158,932	144,732	(14,200)
416101	B&O Square Footage Tax (90%)	-	-	-	-	-	-	-	16,738	16,738
416200	Admission Tax	7,214	7,003	(211)	7,201	7,183	(18)	7,399	7,097	(302)
416430	Utilities Business Tax - Natural Gas (90%)	11,096	11,054	(42)	12,036	11,961	(75)	11,521	11,250	(271)
416450	Utilities Business Tax - Solid Waste (90%)	1,199	1,162	(38)	1,229	900	(329)	1,260	900	(360)
416460	Utilities Business Tax - Cable Television (90%)	11,622	11,700	78	10,920	11,940	1,020	11,220	11,990	770
416470	Utilities Business Tax - Telephone (90%)	26,856	28,746	1,890	26,035	29,010	2,975	25,733	27,590	1,857
416480	Utilities Business Tax - Steam (90%)	1,122	1,134	12	1,032	1,326	294	1,011	1,194	183
418200	Leasehold Excise Tax	3,900	4,086	186	3,900	3,900	-	3,900	3,900	-
455900	Court Fines & Forfeitures (90%)	17,001	16,750	(251)	16,981	16,765	(216)	16,261	19,238	2,977
461110	Interest on Investments	5,339	6,004	665	4,598	9,673	5,075	4,051	10,764	6,713
462300	Parking Meters	15,586	15,826	240	17,288	17,288	-	18,566	18,566	-
516410	Utilities Business Tax - City Light(90%)	31,373	31,404	31	29,617	31,203	1,586	30,188	30,231	43
516420	Utilities Business Tax - City Water (90%)	15,473	16,117	644	15,514	17,124	1,610	16,346	17,103	757
516440	Utilities Business Tax - DWU (90%)	19,757	19,727	(30)	21,291	21,349	58	22,031	23,352	1,321
516450	Utilities Business Tax - City SWU (90%)	7,591	7,535	(57)	8,264	8,254	(10)	8,813	8,980	167
Total Selected		684,047	690,847	6,800	707,196	728,308	21,111	730,407	763,741	33,333
Other GSF Revenues		66,856	66,871	15	78,072	81,463	3,390	76,027	77,841	1,814
Total		750,903	757,718	6,815	785,269	809,771	24,502	806,434	841,582	35,148
Real Estate Excise Tax		51,386	51,897	511	48,567	63,211	14,644	49,604	51,006	1,402

Real Estate Excise Tax

- REET exceeded the forecast in the first half of 2007
- The large EOPT deal comprised a \$13.4m share of the \$53m received so far this year
- A number of other large properties were sold in the 2nd Quarter as well, resulting in \$25m in receipts for the period
- Single family home prices continue to appreciate year over year, but at a slower rate; number of home sales has been declining
- A large number of condominium projects will be finished and occupied within the next few years
- Commercial market remains robust, with office rents high
- Forecast 2007: \$63.2m
- Forecast 2008: \$51.0m

REET by Sales Type

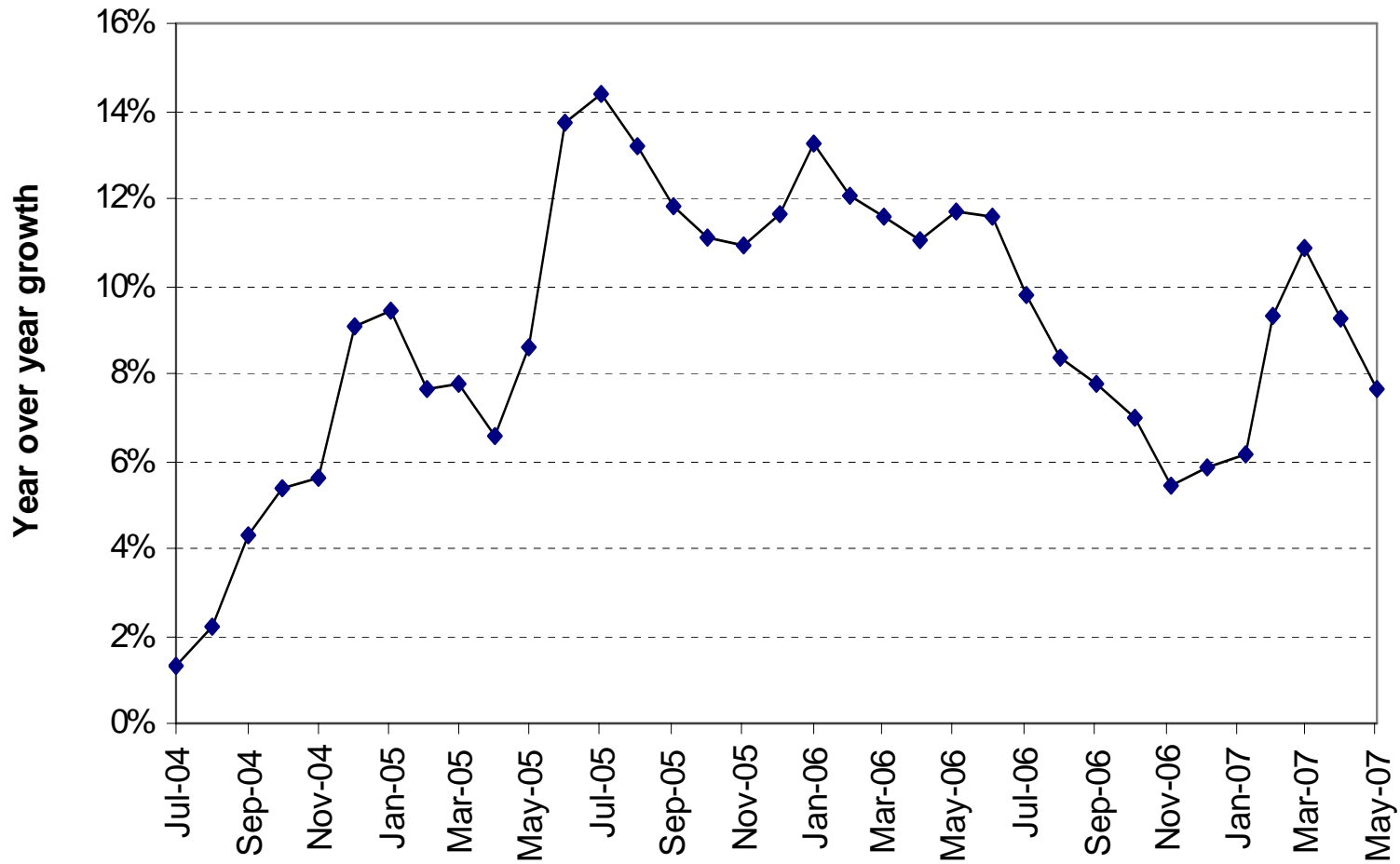


Retail Sales Tax

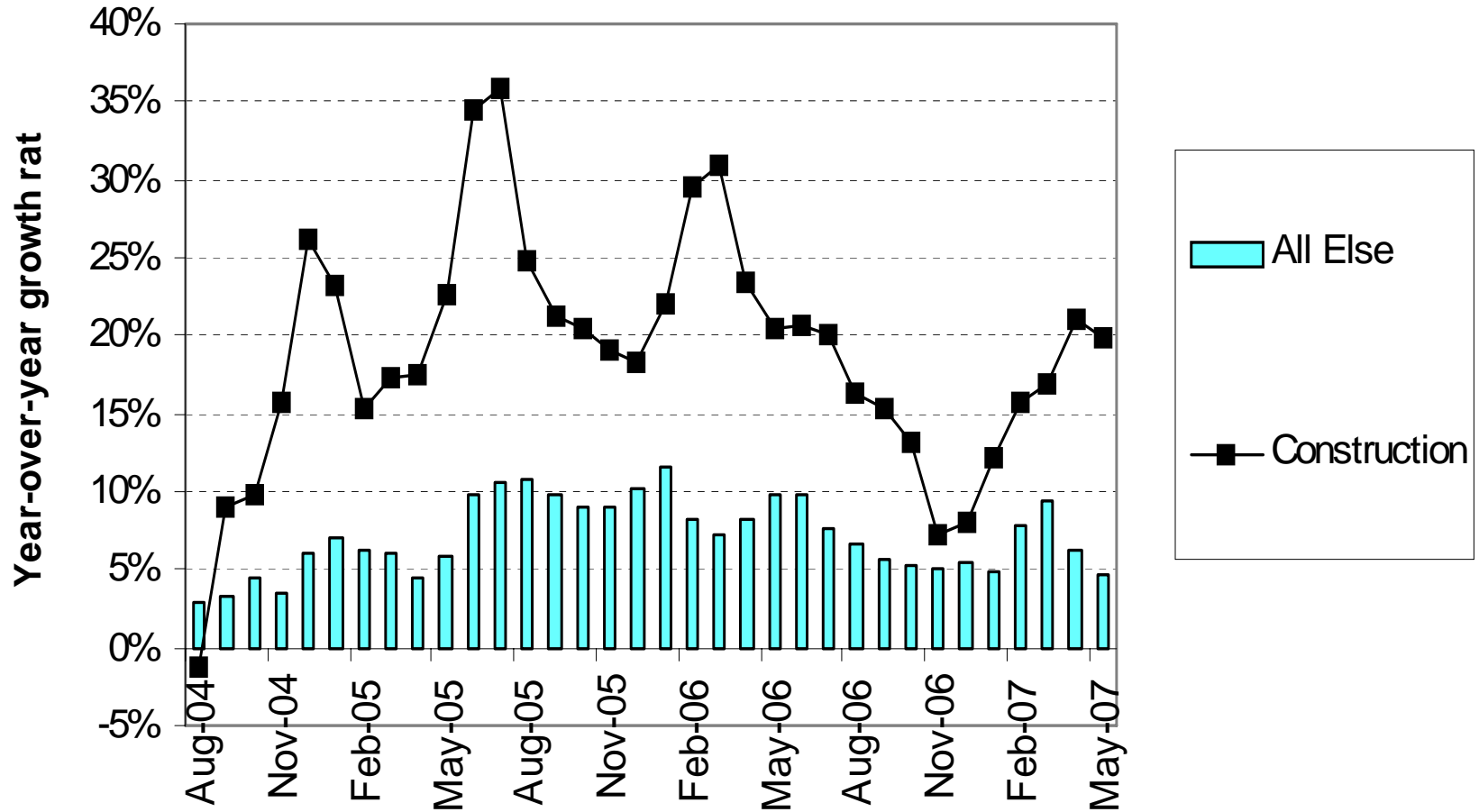
Recent Trends

- After slowing in 2nd half of '06, growth picked up in '07 Q1
 - Economy accelerated (employment, income, etc.)
 - Retail sales accelerated
 - Construction upturn
 - Construction share of tax base is 21%, up from 10% in 1974

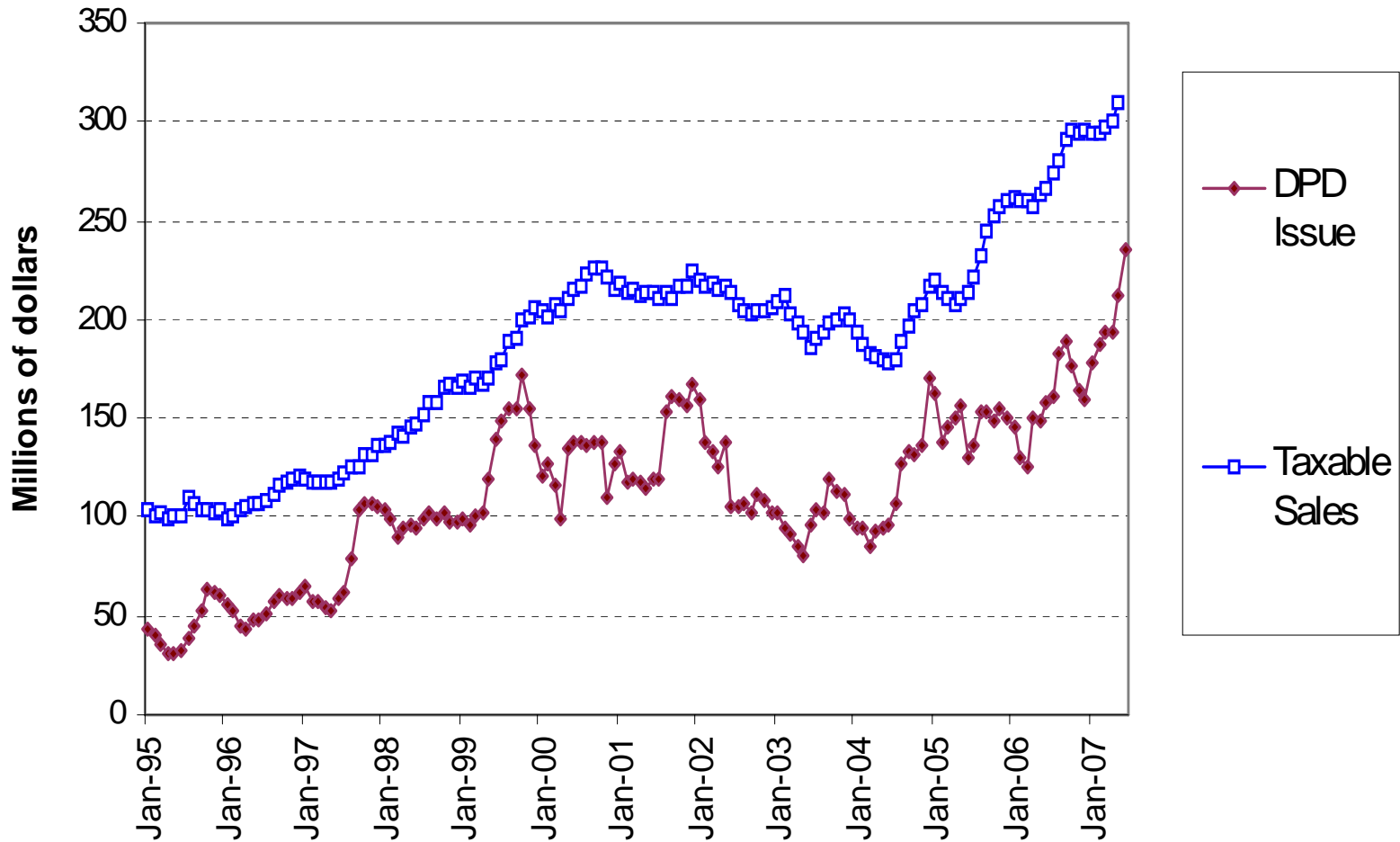
Growth of Current Obligation Taxable Retail Sales Two-month Moving Average



Growth of Current Obligation Taxable Retail Sales Two Month Moving Average



Value of DPD Permits Issued and Construction Taxable Retail Sales

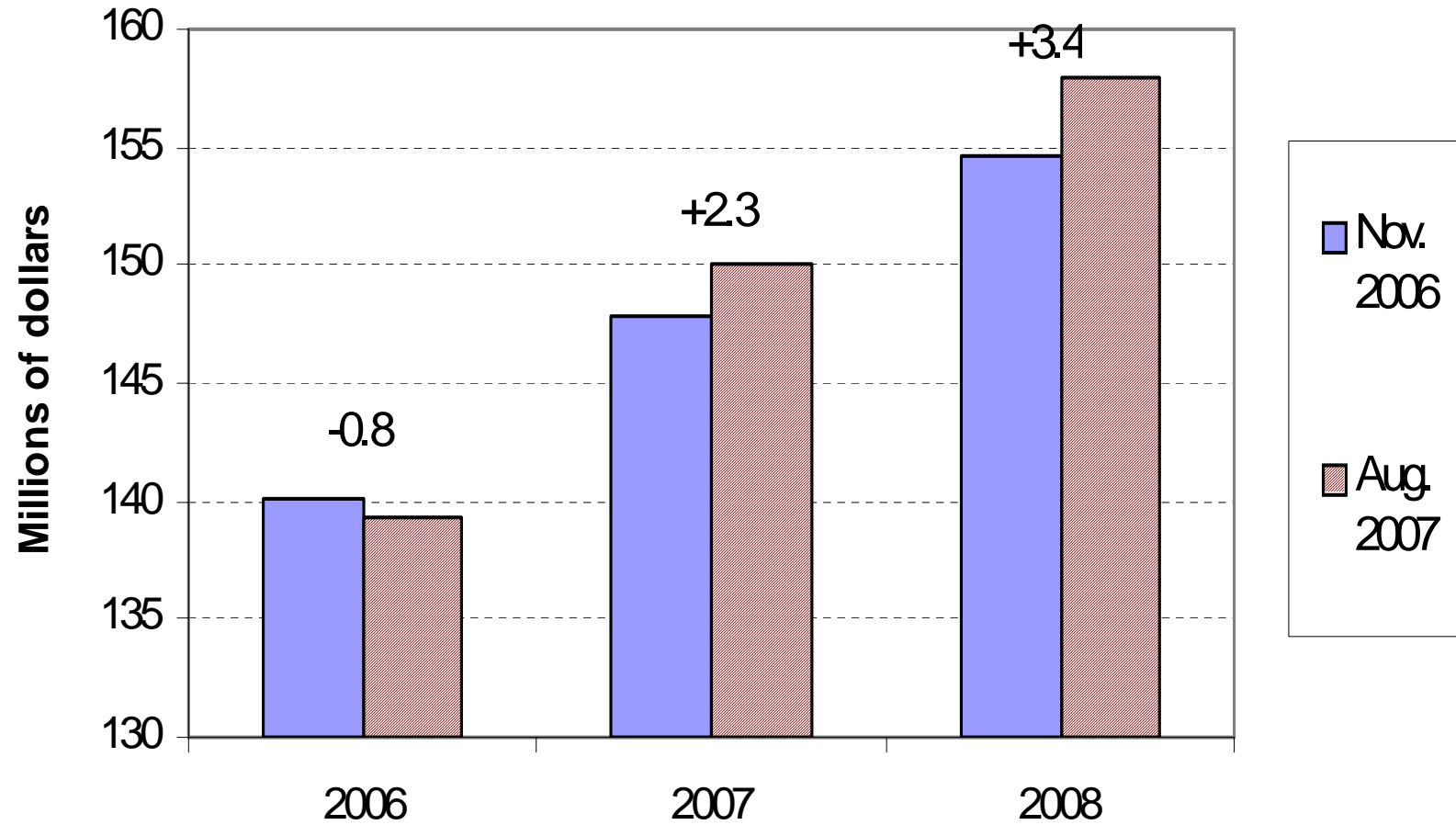


Note: Data are six month moving average of monthly values.

Sales Tax Forecast

- Forecast reflects:
 - Slowing U.S. and regional economy
 - Upturn in revenue growth in 2007 Q1
 - 52% of forecast increase from Nov. '06 is in construction
- Risks include:
 - Construction growth could exceed forecast
 - U.S. economy may weaken more than anticipated

Sales Tax Forecast: November 2006 & August 2007

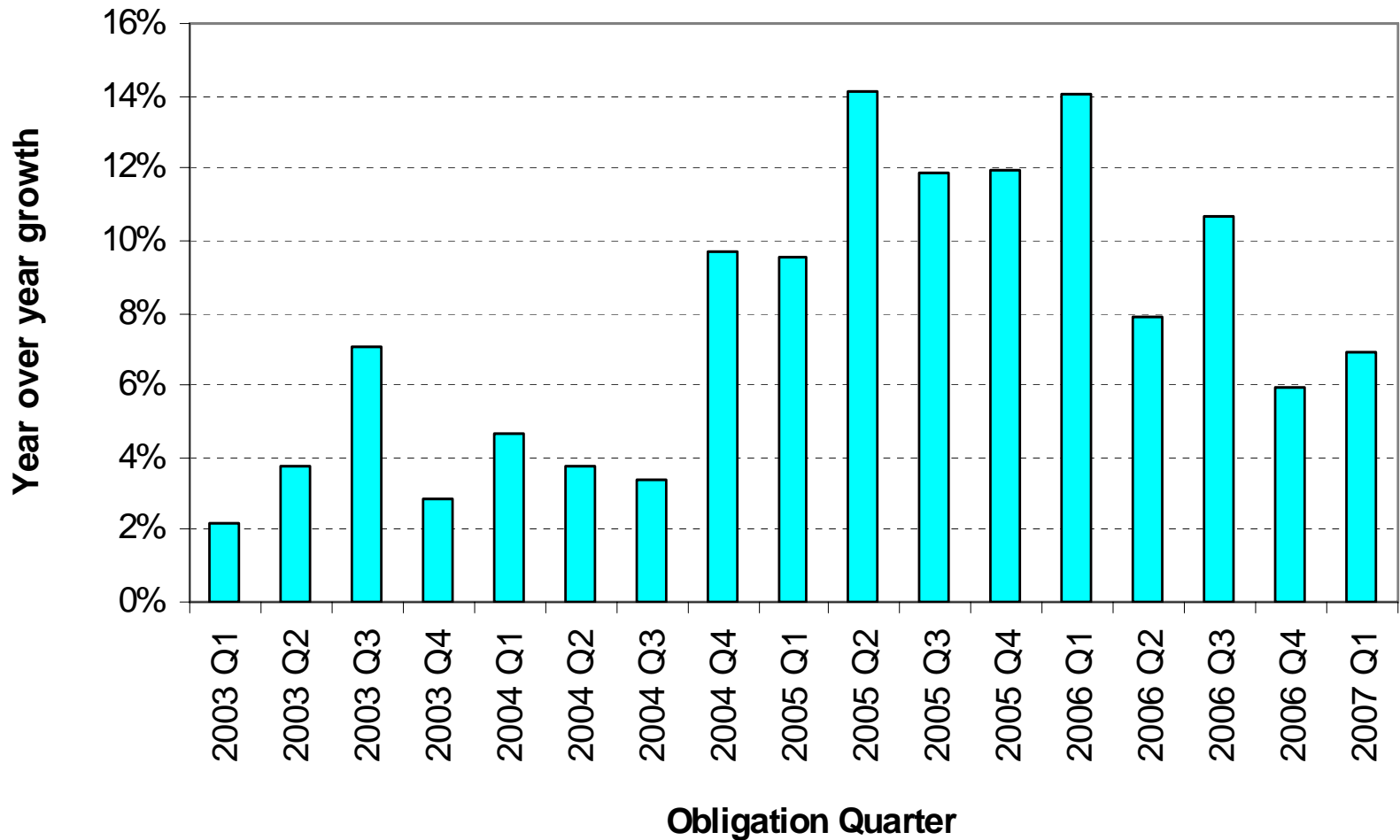


B&O Tax

Recent Trends

- Growth of tax base has slowed from 2005 peak to 6% - 7% range
- Non-current revenue is up \$3.3 million in 1st half of 2007 (on cash basis)
 - \$1.0 mil. of gain is due to a decline in refunds

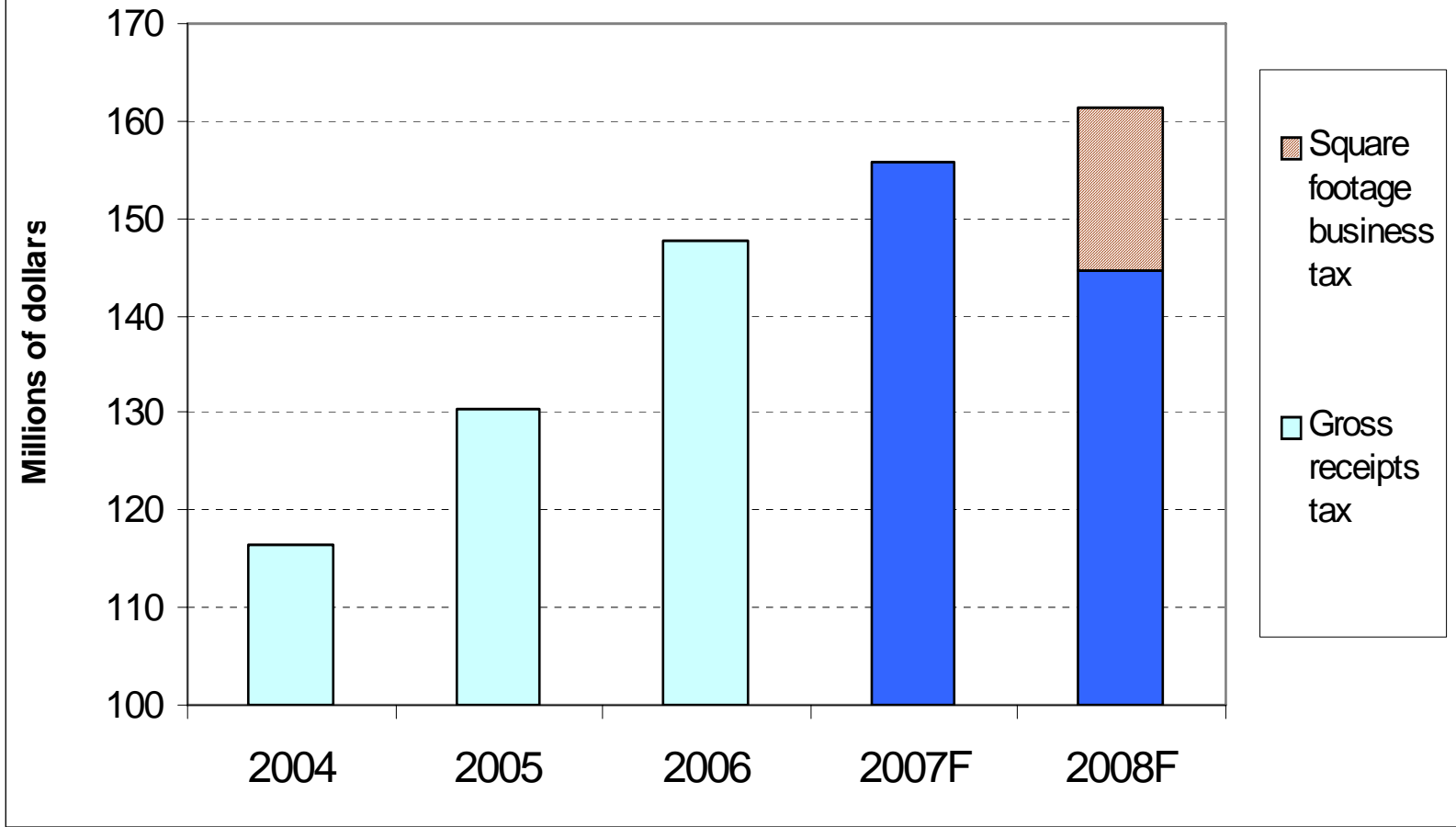
Growth of B&O Tax Base (Current Obligations)



B&O Forecast

- Reflects slowing economy
- 2007 forecast of non-current revenue was raised by \$3.0 mil. (relative to Nov. 2006 forecast)
- HB 2030 loss estimated at \$21.9 million in 2008
- Mayor proposes a square footage business tax
 - Expected to yield \$ 18.6 million in 2008
 - \$3.3 million of loss not recovered
- Forecast includes proposed increase in small business threshold from \$50,000 to \$80,000
 - Revenue loss estimate is \$770,000
 - An estimated 3,700 businesses will be affected

B&O Revenue Forecast



2008 B&O forecast uncertainty:

- Gross receipts tax
 - Accuracy of Dept. of Revenue HB 2030 loss estimate
 - Ability of businesses to deal with HB 2030 complexity
- Square footage business tax
 - Accuracy of Dept. of Revenue HB 2030 loss estimate
 - Accuracy of DOF tax base and rate estimates
 - Impact of maximum square footage business tax cap
 - Business learning curve

Selected General Subfund Budget Changes

- **One-Time** (In Millions of \$s)
 - \$0.9 Center City Park Security Improvements
 - \$1.5 Neighborhood Street Improvements
 - \$5.2 Surplus Schools
 - \$0.5 Arts Capital and AYPE
 - \$3.5 Ten-Year Plan to End Homelessness
 - \$1.4 Community Capital Projects
 - \$5.0 Building Efficiency Program
 - \$8.9 311 Development
 - \$0.6 Engineering Services
 - \$1.0 Employee Retirement Buy-Back Match
 - \$1.0 KeyArena Legal Defense
 - \$4.7 Contribution to “Rainy Day” Reserve

Selected General Subfund Budget Changes (cont'd)

- **Ongoing** (In Millions of \$s)
 - \$1.7 Red Light Cameras
 - \$0.5 Park Rangers
 - \$0.3 Nightlife Staffing
 - \$1.3 Neighborhood Planning
 - \$6.0 Replacement of Park Levy Fund for Park & Rec. O&M
 - \$0.3 Rainier Beach Youth Strategy
 - \$0.2 Support for Arts Organizations
 - \$0.3 Grassroots Climate Action Campaign
 - \$0.2 Expand Methadone Treatment Program