

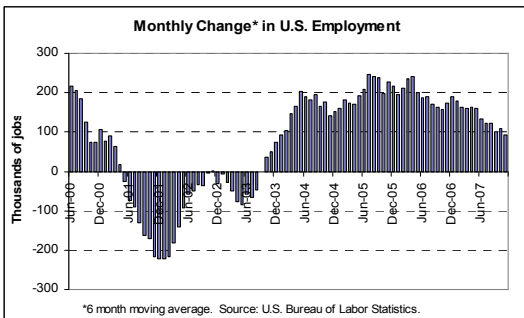
Economic Update

Update on economic issues affecting Seattle's tax revenue performance

U.S. Economy

The newsletter of the City of Seattle's Economics Team/December 2007

Following three years of healthy growth the U.S. economy slowed in 2007, largely due to the effects of the housing market downturn. Since the housing market peaked in late 2005, housing construction and home sales have fallen steadily, and delinquencies and foreclosures have surged. Home prices have fallen about 5% since reaching their peak in late 2006 according to the S&P/Case-Shiller home price index. Also weighing on the economy has been a continued rise in energy prices, with oil reaching \$98 per barrel in late November.



The downturn in the housing market has precipitated a credit crunch, which has been with us since August of this year. Financial institutions and investors have suffered mounting losses due to the decline in value of complex financial instruments backed by subprime mortgage loans. These losses and uncertainty about the location and magnitude of further subprime losses have made banks reluctant to lend and induced them to tighten lending standards.

Given the impacts of the housing downturn, the credit crunch, and high energy prices, economists have begun to worry that a recession may be on the way. They fear that consumer spending could slow sharply as declining home prices remove the fuel that allowed spending to grow faster than income in recent years. Slowing job growth will also weigh on spending, and businesses may cut back on investment spending if consumers pull back. On the positive side, the weakening dollar should continue to boost export activity and lead to a further narrowing of the trade deficit.

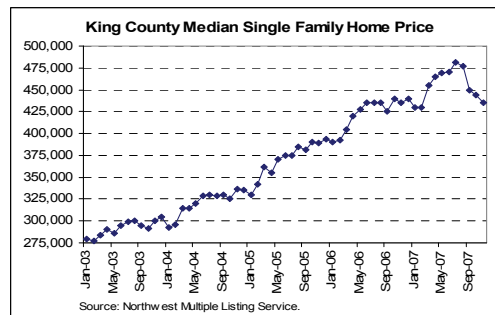
While most economists are forecasting a period of weak growth extending until at least mid-2008, predic-

tions of recession are becoming more commonplace. The economics firm Global Insight puts the risk of recession at 40%, and a recent Wall Street Journal survey of 52 economists found that their average forecast for recession risk was 38%. Five of the 52 economists surveyed are forecasting a recession, and another five put the odds at 50-50.

Puget Sound Region Economy

2007 has been a good year for the Puget Sound region's economy, which has grown twice as fast as the nation. October 2007 employment in the Seattle Metropolitan Division (King and Snohomish Counties) was up 50,700 from October 2006, a 3.5% gain. Contributing to growth has been steady hiring at Boeing and Microsoft, and an upturn in U.S. export activity.

Although the region's housing market is in better shape than its national counterpart, it has begun to show signs of significant stress. The number of homes sold has fallen by 28.5% since peaking in the 3rd quarter of 2005, the inventory of homes for sale has risen sharply over the past year, and prices have begun to decline in recent months.



Looking to the future, the region's economy is expected to slow as the national economy slows. According to Dick Conway and Doug Pedersen of the *Puget Sound Economic Forecaster*, regional employment growth will slow to 1.9% in 2008, which is double the expected U.S. pace. However, concerns about the deteriorating housing market and high energy prices have led them to raise their odds of a regional recession occurring sometime in the next two years to 30 percent. Helping to shield the region is Boeing's huge backlog of airplane orders.

Cash Update

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

CITY REVENUE

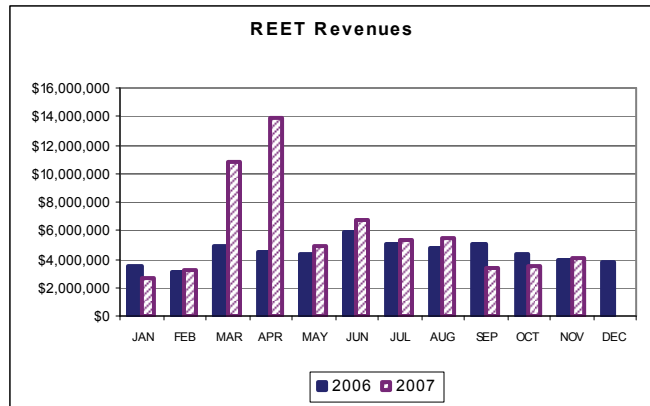
Year-to-date through November: The following describes how actual 2007 collections for general subfund revenues compare to the revised 2007 revenue forecast. Overall the collections exceed the forecast by \$5.3 million, a 0.8% difference. The bulk of this is due to better than expected B&O tax returns. Revenues are some 7.6% over 2006 receipts.

B&O tax: Receipts for the B&O are \$3.9 million over forecast, or 3.4%. The primary reason for this difference is unusually strong revenue from audit activity in Q4. Specifically, there were several very large payments from taxpayers as a result of audits. These payments were not anticipated until 2008 or later. Also the upturn in the growth of the B&O tax base observed in 2007 Q2 has apparently continued into Q3 (which shows up in Q4 receipts).

Private Energy taxes: Private Energy receipts are up 11.9% over 2006. Much of this is due to higher natural gas rates charged by Puget Sound Energy. In October, PSE reduced rates in response to declining market prices. A small rate increase is expected in 2008 for infrastructure maintenance.

Admission tax: Admission taxes are showing an 8.8% increase over last year. The University of Washington

has been a primary driver of this performance with both NCAA basketball and football games selling well.



REET: Real Estate Excise tax receipts have achieved new heights this year. Current revenues through November are some 30% over 2006. This is entirely the result of increased commercial sales activity. Seattle saw a large portfolio of office buildings sell twice in 2007. This resulted in a \$13.4 million contribution to REET.

2007 Year to date through November

	YEAR TO DATE				COMPARISON TO 2006		
	Cumulative Forecast	Actual	Difference	Percent	Cumulative 2006	Yr/Yr Difference	Yr/Yr Cumulative
PROPERTY TAXES							
General + EMS	215,267,000	215,481,000	214,000	0.1%	206,756,000	8,725,000	4.2%
Leasehold Excise Tax	3,389,000	3,411,000	22,000	0.6%	3,206,000	205,000	6.4%
RETAIL SALES TAX							
General	112,633,000	112,865,000	232,000	0.2%	102,106,000	10,759,000	10.5%
Criminal Justice	10,598,000	10,570,000	-28,000	-0.3%	9,624,000	946,000	9.8%
BUSINESS TAXES AND OTHER							
Business and Occupation	115,654,000	119,549,000	3,895,000	3.4%	108,199,000	11,350,000	10.5%
Utilities - City Light	25,432,000	25,669,000	237,000	0.9%	26,110,000	-441,000	-1.7%
Utilities - City Water	14,793,000	14,269,000	-524,000	-3.5%	13,796,000	473,000	3.4%
Utilities - City Drainage/Waste Water	17,569,000	17,821,000	252,000	1.4%	16,370,000	1,451,000	8.9%
Utilities - City Solid Waste & Garbage	7,696,000	7,653,000	-43,000	-0.6%	7,227,000	426,000	5.9%
Utilities - Cable Television	9,947,000	9,962,000	15,000	0.2%	9,053,000	909,000	10.0%
Utilities - Telephone	24,336,000	23,893,000	-443,000	-1.8%	23,461,000	432,000	1.8%
Utilities - Private Energy	13,604,000	13,562,000	-42,000	-0.3%	12,118,000	1,444,000	11.9%
Admission Tax	5,630,000	6,181,000	551,000	9.8%	5,679,000	502,000	8.8%
Court Fines and Forfeitures	16,819,000	17,183,000	364,000	2.2%	15,782,000	1,401,000	8.9%
Interest Income	8,803,000	9,068,000	265,000	3.0%	5,284,000	3,784,000	71.6%
Parking Meters	15,688,000	15,859,000	171,000	1.1%	14,357,000	1,502,000	10.5%
Misc. Revenues	5,706,000	5,848,000	142,000	2.5%	5,274,000	574,000	10.9%
TOTAL	623,564,000	628,844,000	5,280,000	0.8%	584,402,000	44,442,000	7.6%
Real estate excise tax	62,209,000	63,917,000	1,708,000	2.7%	49,096,000	14,821,000	30.2%