CITY OF ISSAQUAH WASHINGTON

2013 Year-End Financial Status Report

AT A GLANCE:

- **Building permit revenue continued to perform strongly due to the expansion of a large construction project in the Issaquah Highlands and single family development.**
- **Sales tax increased significantly as a result of a stronger economy and the opening of a new shopping complex area.**

INSIDE:

General Fund Performance	2
General Fund Revenue	4
General Fund Expenditures	7
Utility Funds Performance	8
Utility Funds Expenditures	9
Utility Funds Revenues	10
Economic Update	16

Introduction

The Year-End Financial Status Report provides a summary budget-to-actual comparison of revenue and expenditures for the General Fund and Utility Funds for the year ended December 31, 2013.

Revenue and expenditure comparisons are also made to the same period in prior years. Relevant statistical summaries are provided if deemed pertinent.

In addition, an update on the current national and local economic outlook is provided.

River Run Sculpture

Performance at a Glance

	Year-to-Date Performance	Compared to Budget
General Fund Expenditure vs. Budget	Positive	-3.5%
General Fund Revenue vs. Budget	Warning	-2.2%
Tax Revenue Performance	Neutral	0.3%
Utility Funds Expenditures vs. Budget	Positive	-5.6%
Utility Funds Revenues vs. Budget	Positive	3.5%

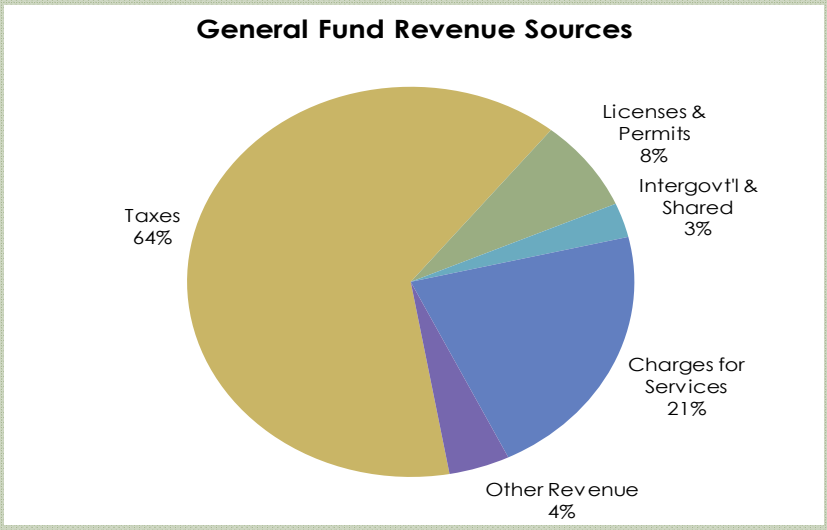
Key to ExpenditureTrend Indicators	
Neutral	= variance of -1.0% to 1.0%
Positive	= variance > -1.0%
Warning	= variance > 1.0%

Key to Revenue Trend Indicators	
Neutral	= variance of -1.0% to 1.0%
Positive	= variance > 1.0%
Warning	= variance > -1.0%

Prepared March 14, 2014

General Fund: Year-End Highlights

Revenue



The primary revenue sources for the General Fund include sales tax, property tax, business and occupation (B&O) tax and utility taxes. Together, these taxes comprise about 64% of the total General Fund revenue. Sales and B&O tax revenue sources are highly dependent on the local economy.

Year-end revenue was $34,294,198 – 98% of the 2013 budgeted amount, and 9% higher than the same period in 2012. The 2% differential between 2013 and 2012 revenue and expenditures was as a result of General Fund departments underspending their budgets.

Building permit, sales tax and B&O tax revenue showed an increase in 2013 over 2012; coming in at 17%, 13%, and 11% greater respectively.

The continued increase in building permit revenue is related to the expansion of the Regency development project in the Issaquah Highlands. This increase in development activity affects sales tax and B&O tax positively as well.

Court Fines/Fees revenue continued to decline from its all time high water mark in

General Fund Major Revenue Sources - Actual Revenue Received

For the Year Ended December 31, 2013

Revenue Source	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change From 2012
Property Tax	$ 6,942,152	$ 6,723,762	$ 6,865,806	$ 7,050,374	3%
Sales Tax	$ 7,299,463	$ 8,044,060	$ 7,264,225	$ 8,180,874	13%
B&O Tax	$ 2,351,454	$ 2,569,836	$ 2,281,628	$ 2,526,199	11%
Utility Taxes	$ 4,032,051	$ 4,218,572	$ 4,493,787	$ 4,445,759	-1%
Building Permits	$ 2,482,083	$ 1,370,044	$ 1,797,869	$ 2,112,169	17%
Jail Services	$ 1,113,339	$ 1,667,197	$ 1,498,083	$ 1,499,729	0%
Court Fines/Fees	$ 1,180,929	$ 1,175,097	$ 1,101,674	$ 949,178	-14%
Recreation Fees	$ 1,872,841	$ 1,910,857	$ 2,006,425	$ 2,164,188	8%

General Fund - Actual Expenditures & Revenue

For the Year Ended December 31, 2013

General Fund	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change From 2012
Revenue	$ 30,552,535	$ 31,359,666	$ 31,606,256	$ 34,294,198	9%
Expenditures	$ 29,095,442	$ 29,877,899	$ 32,111,777	$ 34,504,441	7%
Difference	**$ 1,457,093**	**$ 1,481,767**	**$ (505,521)**	**$ (210,243)**	

2010 - gradually declining each year to end 20% less in 2013. The decline is attributed fewer traffic infraction penalties.

Expenditures

Expenditures ended the year at $34,504,441 - 96% of the 2013 budgeted amount.

On a four-year average, actual expenditures for the fiscal year have finished under budget by 2%.

Expenditures vs. Revenues

The variance between revenue and expenditures in 2013 is a decrease from the planned budget.

Included in the 2013 expenditures was a labor contract payment related to 2012 activity.

2013 ended with a negative differential of $210,243, and a fund balance of $8,059,758, 8% higher than budgeted.

The ending fund balance for 2013 is 24% of expenses. This amount is significantly higher than the City financial policy target of 15%

Also of Note

The City's Mitigation Fund - which is funded from revenue received from developers and used to fund specific capital projects — ended the year with a fund balance of $11,505,504.

This represents an increase of over $9,000,000 received from Lakeside Industries as part of a development agreement.

Actual Year-End Fund Balance Performance

	2009	2010	2011	2012	2013
Beginning Fund Balance	$ 7,086,238	$ 5,836,682	$ 7,293,775	$ 8,775,522	$ 8,270,001
Revenues	$28,620,717	$30,552,535	$31,359,666	$31,606,256	$34,294,198
Expenditures	29,870,273	29,095,442	29,877,899	32,111,777	34,504,441
Difference	$ (1,249,556)	$ 1,457,093	$ 1,481,767	$ (505,521)	$ (210,243)
Ending Fund Balance	$ 5,836,682	$ 7,293,775	$ 8,775,542	$ 8,270,001	$ 8,059,758

General Fund: Revenue from All Sources

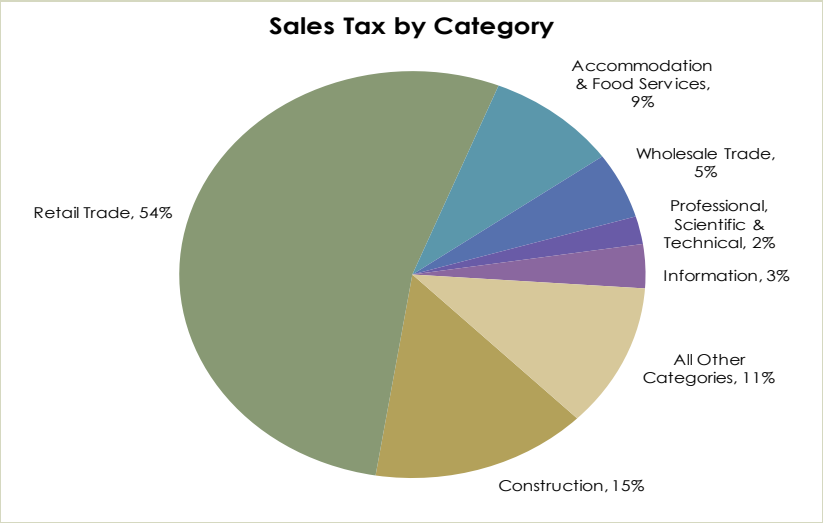
Revenue Source	Actual for the Quarter	Year-to-Date Actual	Budget	Year-to-Date % of Budget
Property Tax	$ 3,169,057	$ 7,050,374	$ 7,129,954	99%
Sales Tax	2,204,383	8,180,874	8,039,000	102%
Business & Occupation Tax	645,348	2,526,199	2,450,000	103%
Utility Taxes	946,453	4,445,759	4,520,000	98%
Other Taxes	80,142	197,917	190,000	104%
Total Taxes	*7,045,383*	*22,401,123*	*22,328,954*	*100%*
Building Permits	$ 512,383	$ 2,112,169	$ 1,965,238	107%
Business Licenses	68,887	260,801	275,000	95%
Other Licenses/Permits	8,591	65,107	62,000	105%
Total Licenses & Permits	*589,861*	*2,438,077*	*2,302,238*	*106%*
Federal Grants	$ 1,371	$ 12,845	$ 15,000	86%
State & Local Grants	873	1,742	10,000	17%
Sales Tax Mitigation	140,269	563,238	500,000	113%
Criminal Justice (State)	10,675	41,036	40,000	103%
Liquor	90,868	300,874	290,000	104%
Misc Intergov'tl/Shared	-	12,500	25,000	50%
Total Intergovt'l/Shared	*244,055*	*932,236*	*880,000*	*106%*
Jail Services/Fees	419,777	1,499,729	1,595,000	94%
Municipal Court Fees	333,960	949,178	1,322,500	72%
Recreation/Pool Fees	499,858	2,164,188	2,245,000	96%
Engineering/Inspection Fees	170,942	900,639	1,150,500	78%
Plan Check Fees	321,354	811,657	415,000	196%
Dispatch Services	94,457	384,145	334,000	115%
Other Fees & Charges	134,925	460,682	416,800	111%
Total Charges for Services	*1,975,273*	*7,170,218*	*7,478,800*	*96%*
Investment Interest	$ 38,863	$ 162,797	$ 256,100	64%
Rents & Leases	173,896	842,406	701,600	120%
Other Miscellaneous Revenue	893	48,310	70,822	68%
Total Miscellaneous Revenue	*213,652*	*1,053,513*	*1,028,522*	*102%*
Operating Transfers-In	$ 73,450	$ 293,800	$ 1,057,800	28%
Misc Other Sources	(500)	5,230	-	
Total from Other Sources	*72,950*	*299,030*	*1,057,800*	*28%*
Total General Fund Revenue	**$ 10,141,174**	**$ 34,294,198**	**$ 35,076,314**	**98%**

General Fund Revenue: Sales Tax Analysis

Retail sales tax is the largest source of revenue for the City's General Fund. Total actual collection for 2013 is $8,180,874; or 102% of the total amount budgeted retail sales tax.

In comparison to 2012, the City received $916,649 or collected 13% more in retail sales tax in 2013.

The City of Issaquah receives the majority, 69%, of its retail sales tax from two categories: Retail Trade – 54% and Construction – 15%.



Retail trade sales tax revenue for the year is 4% higher than the same period last year.

Construction-related sales tax for the year is 44% higher than the same period last year. Typically this revenue source represents one-time money

This large change is due to the volatility of construction-related projects.

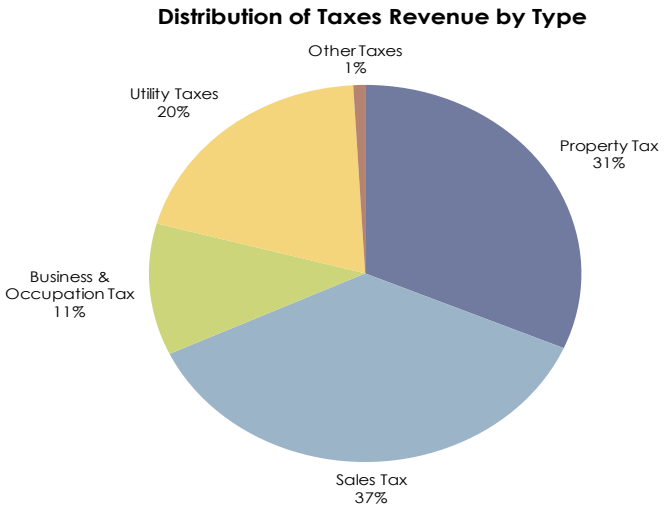
In 2011 the City received $2,361,661 in construction-related sales tax due in large part to the construction of Swedish Hospital and an increase in residential development that took place in the Issaquah Highlands.

Construction-related sales tax in 2012 decreased by 54% compared to 2011. There is an increase in activity for 2013 which reflects the improvement of the local economy and additional new construction activity in the City.

General Fund: Other Major Taxes

Property Tax

Property tax is the second largest source of revenue in the General Fund and primarily funds general governmental services. Taxes are due in two equal installments on April 30th and October 31st. Collections are remitted the month following collection to the appropriate taxing district by the County Treasurer.



Utility Taxes

Utility taxes are the third largest source of General Fund revenue, comprising 20% of all tax revenue received. Utility taxes are levied on the gross income derived from sales of utility services provided in the city. Such services include electricity, natural gas, water, garbage, telephone and cable television. Utility taxes are collected monthly.

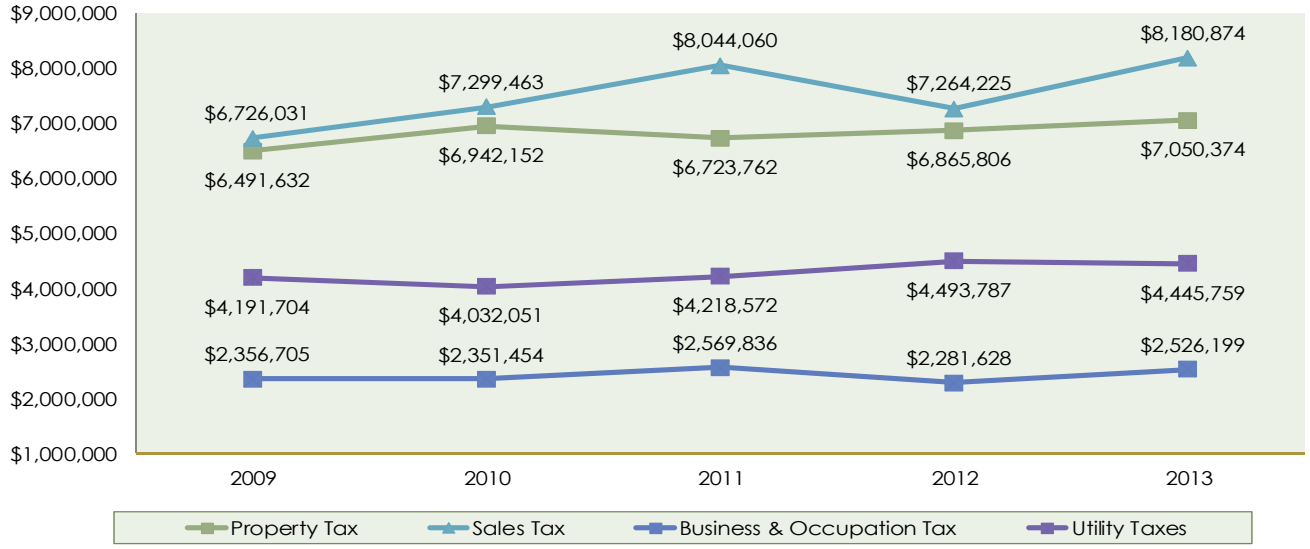
Business & Occupation Tax

Business and occupation (B&O) taxes are imposed and collected directly by the City upon all business activity within the City of Issaquah. B&O taxes are collected quarterly from businesses grossing more than $5,000 in a quarter. B&O tax categories are listed at right as well as the related percentage of total revenue.

B&O Tax Categories

Retailing	47%
All Other Businesses	27%
Manufacturing	12%
Wholesaling	11%
Retail Services	2%
Printing, Publishing, Extracting, Processing Hire	1%

Five-Year History of Actual Major Tax Revenue Received by Tax Type



General Fund: Expenditures

General Fund Departments - Actual Expenditures

Year-to-Date Through Fourth Quarter 2013

Department Name	Actual for the Quarter	Year-to-Date Actual	Budget	Year-to-Date % of 2013 Budget
City Council	$ 17,811	$ 73,419	$ 76,039	97%
Municipal Court	$ 209,331	$ 793,446	$ 809,010	98%
Executive	$ 189,934	$ 1,020,937	$ 1,051,542	97%
Finance	$ 241,449	$ 1,051,033	$ 980,907	107% (d)
Legal	$ 193,835	$ 568,163	$ 465,000	122% (c)
Human Resources	$ 111,081	$ 354,547	$ 520,306	68% (a)
Information Technology	$ 149,564	$ 651,291	$ 766,536	85% (b)
City Clerk	$ 95,579	$ 347,316	$ 356,656	97%
Police	$ 2,074,589	$ 8,429,513	$ 8,440,846	100%
Fire	$ 1,264,115	$ 5,056,459	$ 5,063,217	100%
Communications	$ 70,441	$ 233,877	$ 259,101	90%
Human Services	$ 194,936	$ 478,634	$ 472,270	101%
Development Services	$ 1,583,671	$ 5,201,690	$ 5,329,880	98%
Economic Development	$ 158,174	$ 537,684	$ 623,672	86%
Parks & Recreation	$ 1,884,052	$ 7,073,155	$ 7,388,609	96%
Other General Govt'l	$ 245,394	$ 2,633,280	$ 3,162,735	83%
Total GF Departments	**$ 8,683,954**	**$ 34,504,441**	**$ 35,766,326**	96%

Department Expenditures: Explanation of Significant Expenditure Variance

(a) **Human Resources -32%** - Health Reimbursement Account (HRA) expenses were historically budgeted and expended in the Human Resources budget. Beginning in 2013, those expenses were distributed to the individual department budgets. A mid-year budget adjustment reflected this change.

(b) **Information Technology -15%** - Decrease represents the reduction of one staff member and the reassignment of another to the Public Works Engineering department which is not funded by the General Fund.

(c) **Legal Fees +22%** - The increase in legal fees was as a result of changes in contracts for criminal prosecution and public defense fees. Some of the increase in these expenditures were offset by revenue from another city.

(d) **Finance +7%** - Increase in total expenditures are as a result of the retirement of a senior employee.

General Fund Expenditures - Four-Year Comparison

For the Year Ended December 31, 2013

Revenue Source	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change From 2012
City Council	$ 71,677	$ 69,933	$ 75,550	$ 73,419	-3%
Municipal Court	$ 535,607	$ 567,456	$ 683,840	$ 793,446	16%
Executive	$ 924,234	$ 878,086	$ 988,423	$ 1,020,937	3%
Finance	$ 828,334	$ 861,443	$ 914,988	$ 1,051,033	15%
Legal	$ 426,026	$ 443,138	$ 509,628	$ 568,163	11%
Human Resources	$ 566,881	$ 584,229	$ 453,053	$ 354,547	-22% (a)
Information Technology	$ 873,469	$ 904,276	$ 949,042	$ 651,291	-31% (b)
City Clerk	$ 285,434	$ 288,007	$ 305,460	$ 347,316	14%
Police	$ 7,030,092	$ 7,401,864	$ 7,806,150	$ 8,429,513	8%
Fire	$ 4,568,272	$ 4,609,986	$ 4,707,133	$ 5,056,459	7%
Communications	$ -	$ -	$ -	$ 233,877	n/a
Human Services	$ 433,164	$ 437,109	$ 443,842	$ 478,634	8%
Development Services	$ 3,009,792	$ 3,071,196	$ 3,627,627	$ 5,201,690	43% (c)
Economic Development	$ -	$ -	$ 209,827	$ 537,684	156% (d)
Parks & Recreation	$ 6,289,990	$ 6,490,289	$ 6,855,737	$ 7,073,155	3%
Other General Govt'l	$ 3,252,473	$ 3,270,889	$ 3,581,477	$ 2,633,280	-26% (e)
Total GF Departments	**$ 29,095,442**	**$ 29,877,899**	**$ 32,111,777**	**$ 34,504,441**	**7%**

Department Expenditures: Explanation of Significant Expenditure Variance

(a) **Human Resources -22%** - Health Reimbursement Account (HRA) expenses were historically budgeted and expended in the Human Resources budget. Beginning in 2013, those expenses were distributed to the individual department budgets. A mid-year budget adjustment reflected this change.

(b) **Information Technology -31%** - Decrease represents the reduction of one staff member and the reassignment of another to the Public Works Engineering department which is not funded by the General Fund.

(c) **Development Services +43%** - Increase in the Development Services Department is offset by corresponding revenue as a result of increased permit activity.

(d) **Economic Development +156%** - 2013 is the first full year for this department. The department was created mid-year 2012 making their 2012 YTD total to only include one year of existence, while 2013 YTD includes three full quarters of actual expenditures.

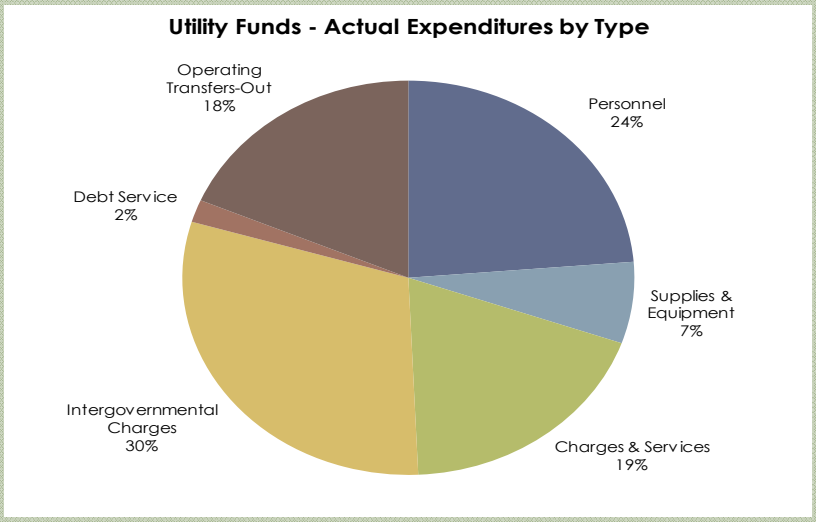
(e) **Other General Govt'l - 26%** - Decrease is mainly comprised in a reduction in operating transfers.

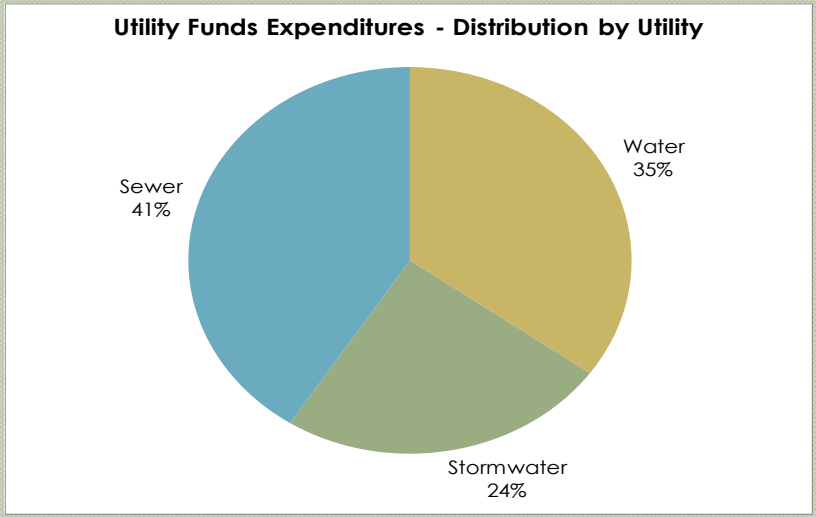
Utility Funds Performance

Expenditures

Expenditures in the utility funds are comprised of six major components: Personnel, Supplies & Equipment, Charges & Services, Intergovernmental Charges, Debt Service and Operating Transfers-out. The distribution of these costs over the three utilities are displayed at left.

At fiscal year end, utility fund expenditures finished at 6% less than budgeted.



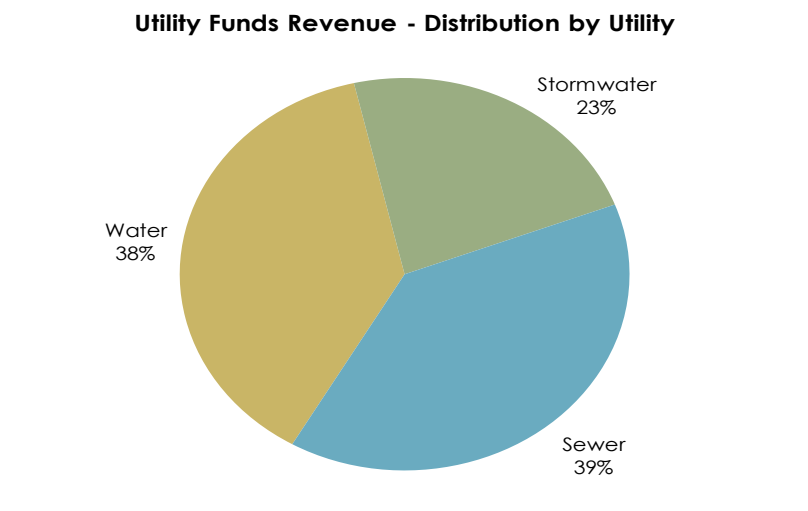


Revenue

96% of utility fund revenue is earned through charges for services with the other 4% comprised primarily of miscellaneous revenue which includes rent, investment interest, contributions and donations as well as transfers-in.

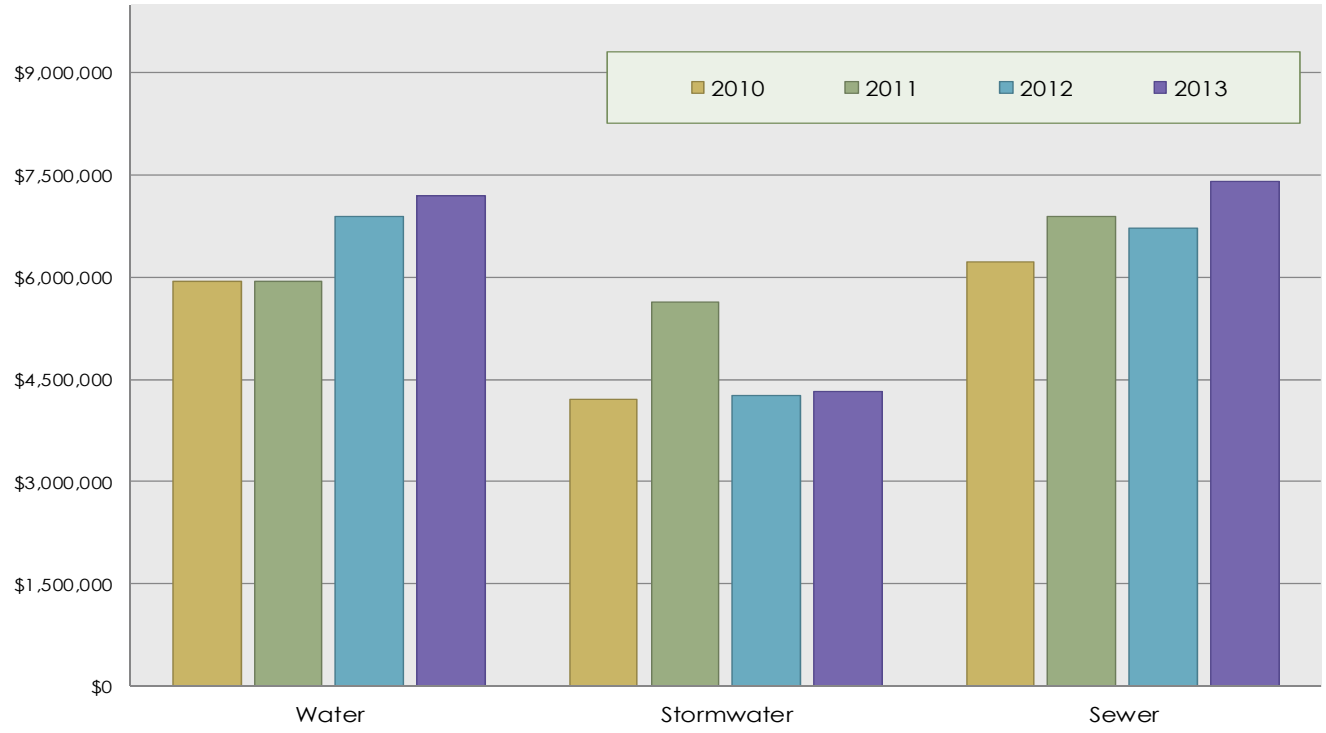
Utility fund revenue finished the fiscal year at 4% above the original budgeted amounts. Some of the increase in water revenue is associated with the 2013 weather conditions. The sewer revenue increase is primarily associated with an increase in King County Metro fees.

More detailed information on the performance of each specific utility operating fund can be found in the pages that follow.



Utility Funds: Expenditures

Four-Year Comparison of Actual Expenditures Through Fiscal Year End



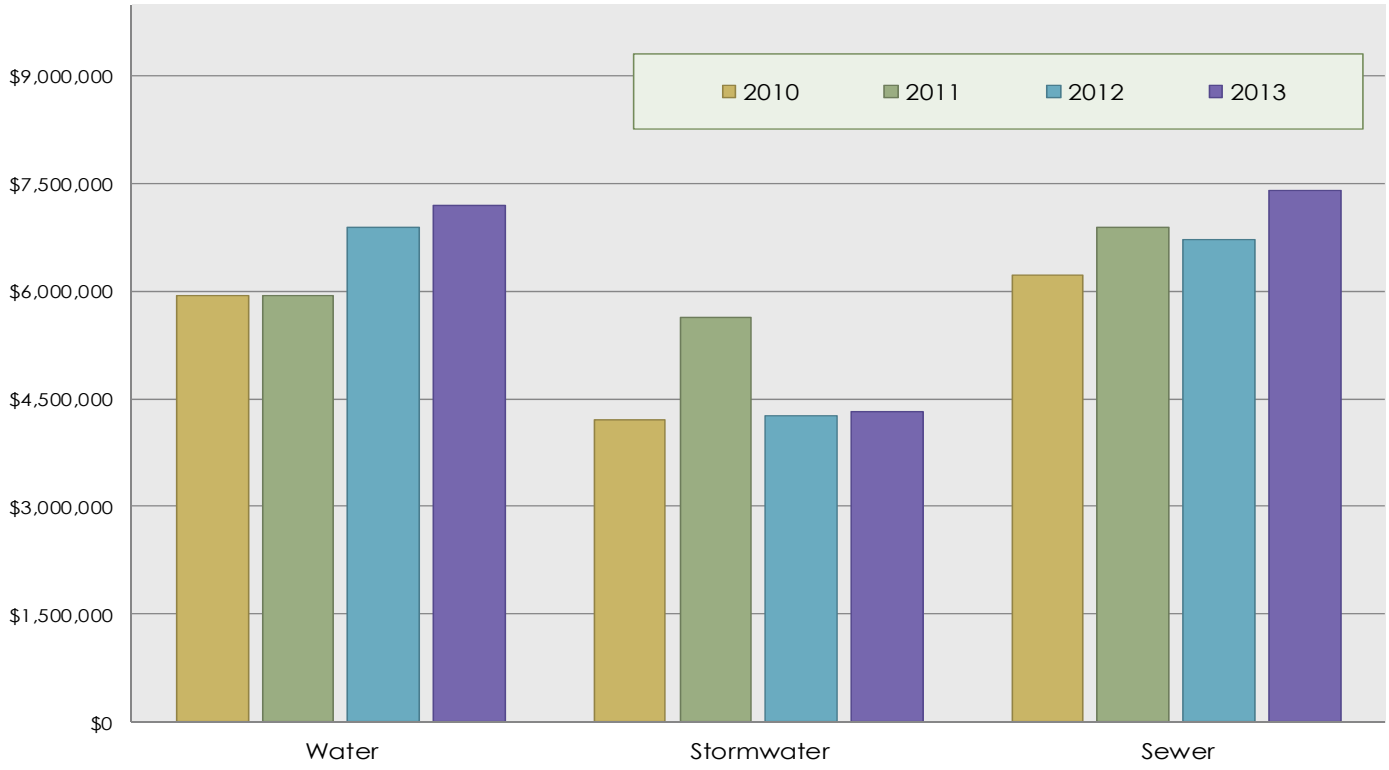
Utility Fund Name	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
Water	$ 6,282,118	$ 5,754,051	$ 6,263,076	$ 6,257,250	0%
Stormwater	$ 3,963,141	$ 5,619,550	$ 3,988,285	$ 4,330,159	9%
Sewer	$ 6,097,558	$ 6,711,604	$ 6,720,418	$ 7,331,188	9%

- **2011 Sewer includes a METRO pass-through increase of 13.2%**
- **2013 Sewer includes a METRO pass-through increase of 10.4%**

Utility Funds: Revenue

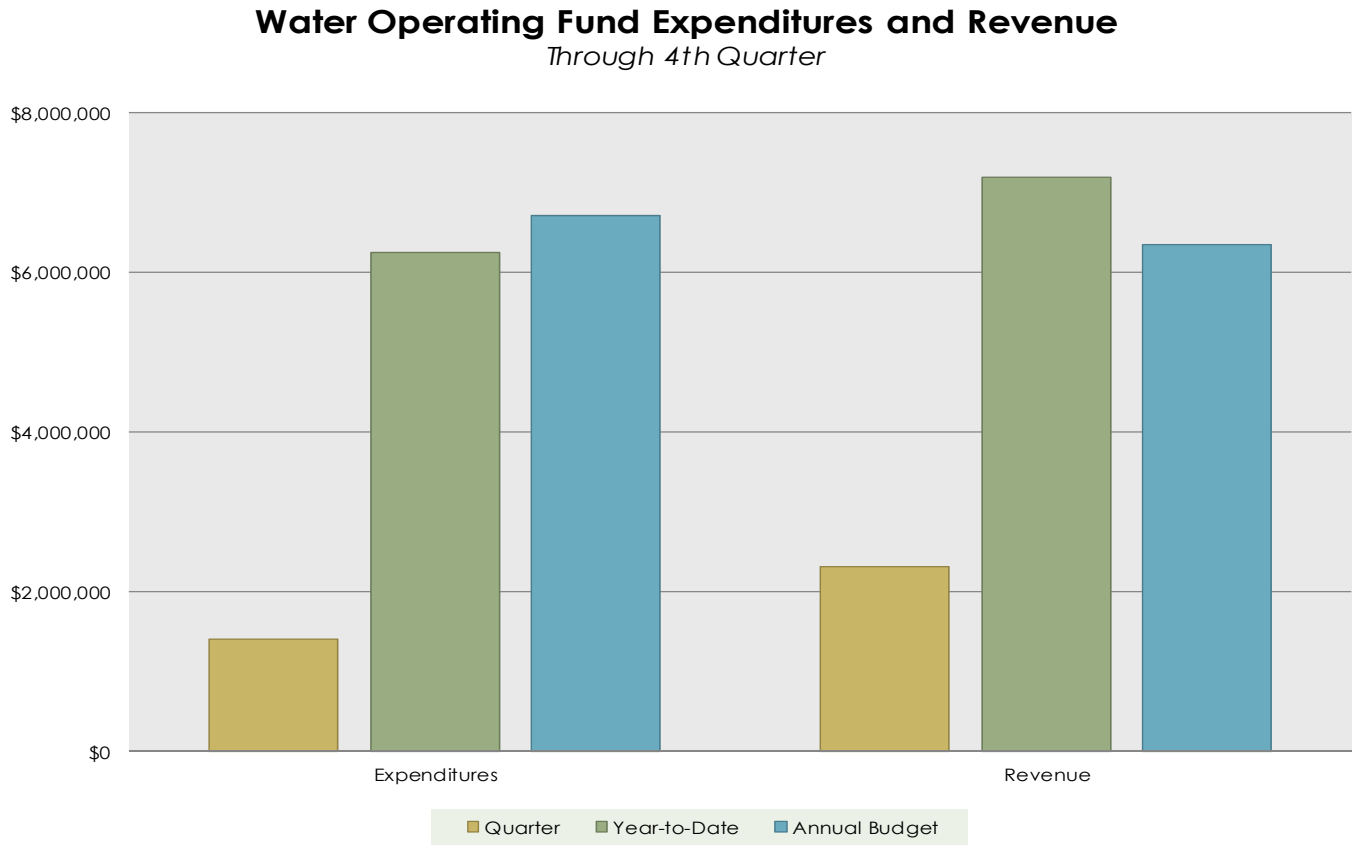
Four-Year Comparison of Actual Revenue Through Fiscal Year End Quarter

Utility Fund Name	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
Water	$ 5,931,692	$ 5,943,580	$ 6,898,521	$ 7,202,220	*4%*
Stormwater	$ 4,206,204	$ 5,627,564	$ 4,257,351	$ 4,324,066	*2%*
Sewer	$ 6,224,542	$ 6,893,402	$ 6,713,426	$ 7,405,955	*10%*



- **Water revenue reflects a 9% rate increase which began with the February 2012 bill**
- **Sewer revenue includes a METRO pass-through increase of 13.2% in 2011 and 10.4% in 2013**

Individual Utility Funds Performance

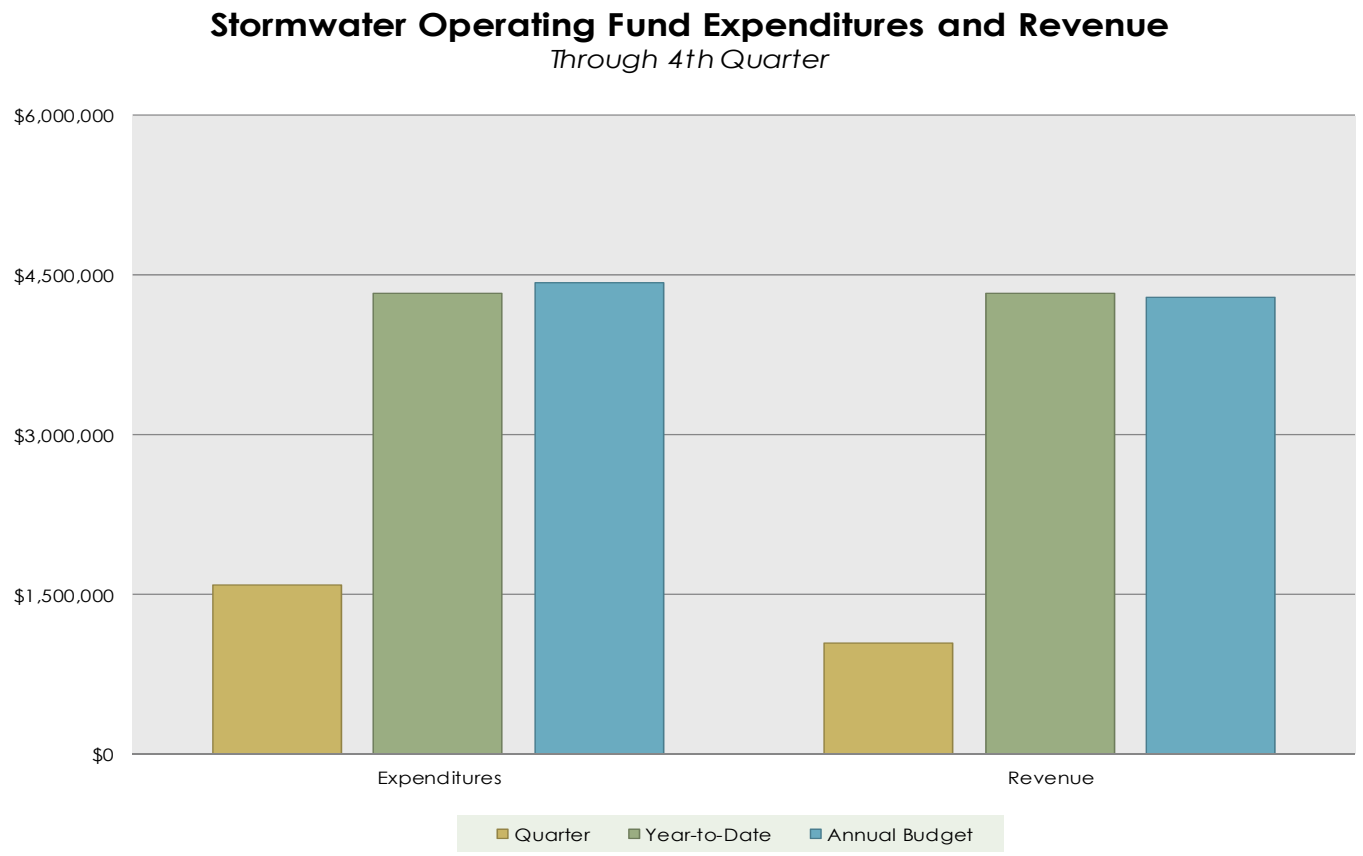


Water Operating Fund	4th Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	$ 2,318,749	$ 7,202,220	$ 6,358,424	*113%*
Expenditures	$ 1,409,978	$ 6,257,250	$ 6,712,495	93%
Net Difference	**$ 908,772**	**$ 944,970**	**$ (354,071)**	

Net Difference is the use of operating funds for budgeted capital projects.

Individual Utility Funds Performance

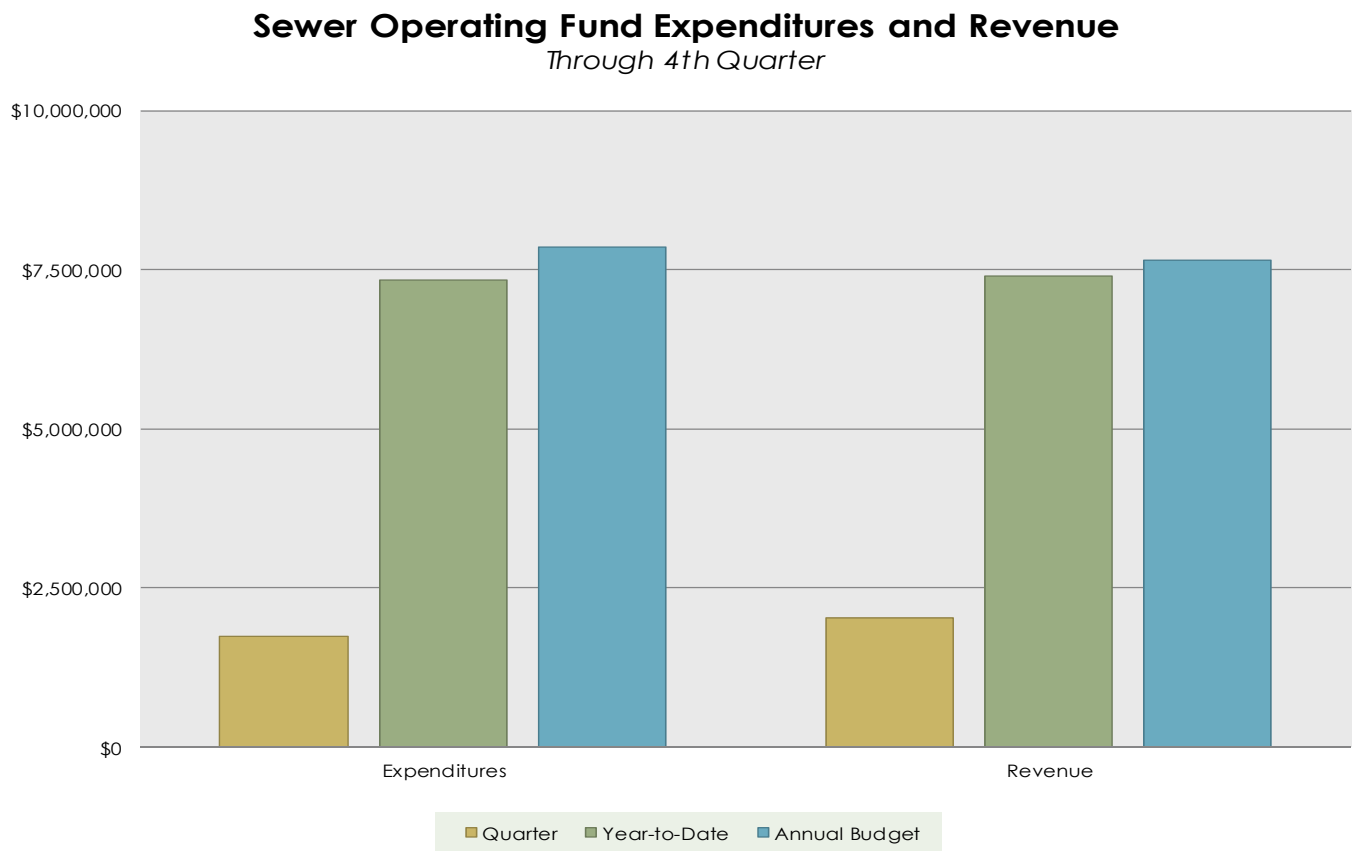
There have been no stormwater rate increases since 2008



Stormwater Operating Fund	4th Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	$ 1,034,874	$ 4,324,066	$ 4,284,812	101%
Expenditures	$ 1,587,439	$ 4,330,159	$ 4,426,792	98%
Net Difference	**$ (552,565)**	**$ (6,093)**	**$ (141,980)**	

Net Difference is the use of operating funds for budgeted capital projects.

Individual Utility Funds Performance



Sewer Operating Fund	4th Quarter Actual	Total Year-to-Date Actual	Total Budget	% of Total Budget Used
Revenue	$ 2,035,694	$ 7,405,955	$ 7,647,774	97%
Expenditures	$ 1,730,109	$ 7,331,188	$ 7,850,675	93%
Net Difference	**$ 305,585**	**$ 74,766**	**$ (202,901)**	

Net Difference is the use of operating funds for budgeted capital projects.

The majority of the Sewer Operating Fund revenue and expenses are directly related to King County METRO Sewer pass-through charges. King County METRO provides sewer treatment services to the City of Issaquah's Sewer Utility customers.

In 2011 METRO pass-through charges increased 13.2%, and in 2013 increased an additional 10.4%.

KC Metro Sewer	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
Expenses	$ 4,303,555	$ 4,869,814	$ 4,718,053	$ 5,189,994	*10%*
% of Total Expenses	71%	73%	70%	71%	
Revenue	$ 4,330,911	$ 4,934,646	$ 4,781,111	$ 5,365,790	*12%*
% of Total Revenue	70%	72%	71%	72%	

Sewer Fund Revenue	2010 Actual	2011 Actual	2012 Actual	2013 Actual	% Change from 2012
METRO	$ 4,330,911	$ 4,934,646	$ 4,781,111	$ 5,365,790	12%
City Sewer	$ 1,886,462	$ 1,900,505	$ 1,910,337	$ 2,000,697	5%

Issaquah at a Glance...

Population[a] 32,130
34th Largest Washington City
Land Area ..... 10.85 Square Miles
Miles of Paved Streets (2010) 90
Elevation ..... 130 feet
Annual Precipitation[b] ..... 57 inches
Warmest Month on Average[b] ..... July
Coolest Month on Average[b] ..... December
# of Water Utility Customers 6,798
# of Sewer Utility Customers 6,231
# of Stormwater Utility Customers 7,979
School Enrollment (2013-2014)[c] 18,832

Total Jobs (2012)[d] 20,761
# of Active Business Licenses (2013) 4,894
Largest Employers ..... Costco, Microsoft, City of Issaquah, King Co. Library System

Demographics (2010 Census):
19 and under 25%
20 - 64 ..... 62%
65 and over 13%
Median Household Income $66,147
Median House Value $468,300
Average Household Size 2.34

a *Washington State Office of Financial Management*
b *The Weather Channel, weather.com*
c *Washington State Office of the Superintendent of Public Instruction, Pre-Kindergarten - 12th Grade*
d *Puget Sound Regional Council*

Economic Environment Update

Economy in Brief

* GDP growth for all of 2013 was 1.9%.
* Consumer confidence rebounded in December and is now close to pre-government shutdown levels.
* Average gasoline prices ended the quarter $0.22/gallon less than it began ($3.30 in December compared to $3.52 in October).
* U.S. manufacturing growth strengthened in the fourth quarter.
* Washington employment and income continue to grow moderately.
* Washington housing construction rebounded after a slump in the middle of the year.
* Regional home prices continue to rise.

Washington and Region

Estimates (not seasonally adjusted) for the period December 2012 to December 2013 indicate an increase in employment of 47,000 for the state. Over the year the private sector added 44,400 jobs while the public sector gained an estimated 2,600 jobs.

	Dec 2012	Dec 2013
United States		
Unemployment Rate	7.9%	6.7%
Washington		
Unemployment Rate	7.5%	6.6%
Resident Labor Force	3,469,300	3,455,700
Unemployed	259,900	227,900
Seattle/Bellevue/Everett		
Unemployment Rate	6.4%	5.3%
Resident Labor Force	1,506,300	1,529,100
Unemployed	96,300	81,600

Washington housing construction rebounded in the fourth quarter of 2013 after a slump in the middle of the year. The number of housing units rose to 34,600 (SAAR) in the fourth quarter from 27,900 in the third quarter and 27,800 in the second quarter. The November state forecast had assumed 30,100 units in the fourth quarter.

Number of Active Issaquah Business Licenses

2010	4,646
2011	4,331
2012	4,715
2013**	4,894

***1,028 active licensees have applied for and qualified to file B&O Tax returns annually*

Single family permits were a little disappointing, coming in at 18,300 units compared to the forecast of 19,400 units but multi-family units exceeded the forecast coming in at 16,300 compared to a forecast of 10,800.

Locally, single family permitting followed a similar trend. While 134% higher than the 2009 low water mark, 2013 activity for new

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(Continued from page 16)

single family permits fell 36% from 2012 levels.

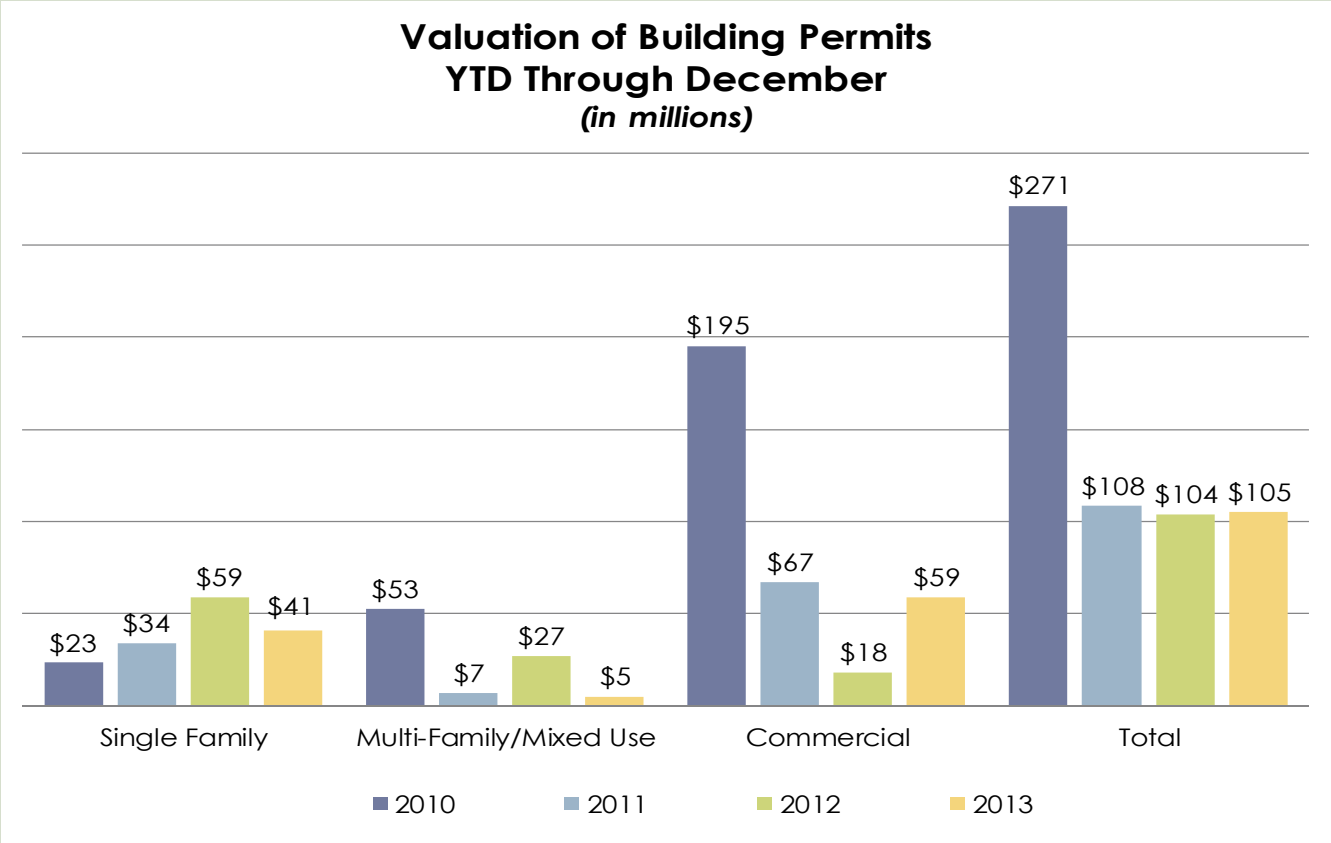
Regional home prices continue to rise. According to the S&P/Case-Shiller Home Price Indices, seasonally adjusted Seattle area home prices have risen in each of the last 21 months and, as of November, are now 12.4% higher than in the previous November. Though prices and mortgage rates have risen, homes are still relatively affordable. Even with the recent gains, Seattle area home prices are 16.2% lower than their 2007 peak.

Risks to the local economy are generally from factors outside the state, including a weaker Chinese economy, uncertain federal fiscal policy and possible disruptions to the housing recovery.

(Source: State of Washington Economic & Revenue Forecast Council, February 6, 2014 Report)

Year-to-Date Building Permit Activity in Issaquah

Permit Type	2009	2010	2011	2012	2013
Single Family:					
New	59	83	125	215	138
Alterations	89	82	86	60	60
Multi-family:					
New	3	26	5	5	4
Alterations	31	78	33	29	6
Commercial:					
New	16	11	8	9	17
Alterations	89	114	119	103	150



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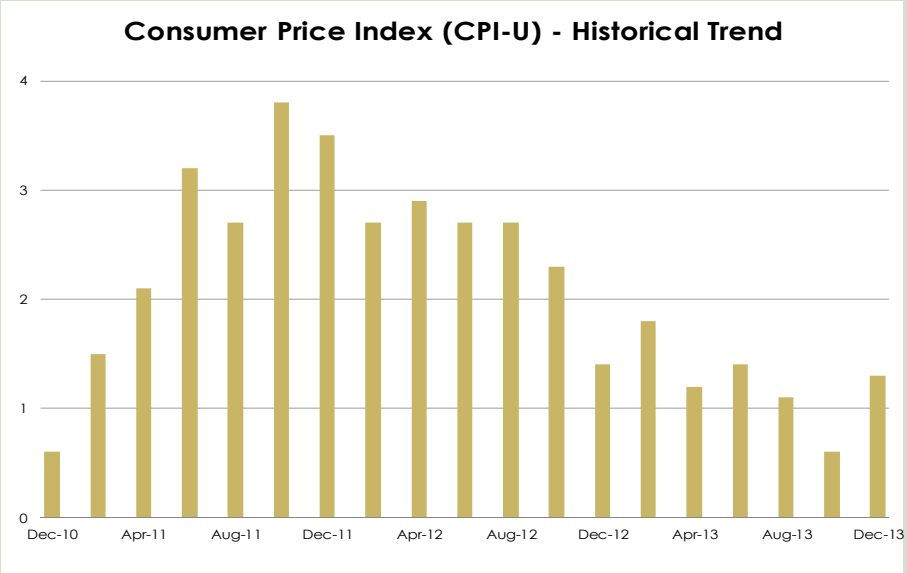


Inflation

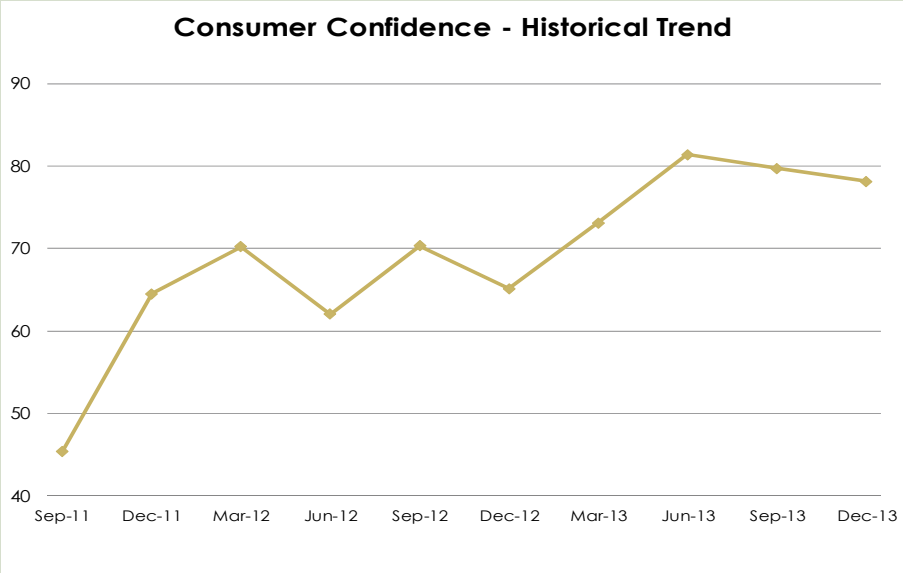
Inflation in the Seattle area remains low and slightly weaker than in the nation. In December 2013, the Seattle all items CPI-U (Consumer Price Index for all Urban Consumers) was 1.3% higher than in the previous December compared to the 1.5% increase for the U.S. city average. Core inflation in Seattle was 1.3% compared to 1.7% for the nation.

(Source: U.S. Bureau of Labor Statistics)

Consumer Confidence

Consumer confidence rebounded in December and is now close to pre-government shutdown levels (September 2013, 80.2). Sentiment regarding current conditions increased to a 5 1/2 year high (April 2008, 81.9), with consumers attributing the improvement to more favorable economic and labor market conditions.

Looking ahead, consumers expressed a greater degree of confidence in future economic and job prospects, but were moderately more pessimistic about their earning prospects. Despite the many challenges throughout 2013, consumers are in better spirits today than when the year began.

An index of 90 indicates a stable economy and one at or above 100 indicates growth.

(Source: The Conference Board Research Center, December 31, 2013)