

The Economic Barometer

A Quarterly Economic Report

Produced: October 1, 2010

2nd Quarter 2010

IN THIS ISSUE

PAGE

Summary	1
Employment	2
Real Estate	3 - 4
Retail Sales and Tourism	4 - 5
Inflation and the Cost of Living	6
<i>Focus On.... Taxes</i>	7 - 8

SUMMARY

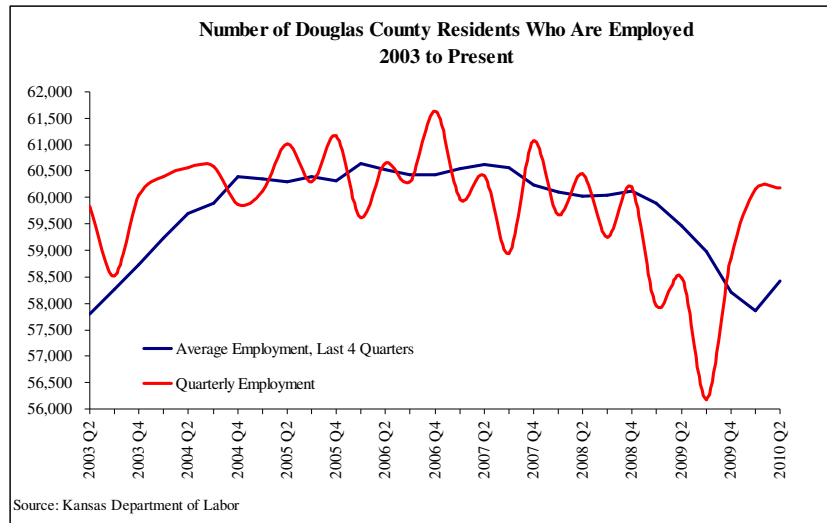
Key Changes		
Improve (+), Worsen (-), No Change (o)		
Indicator	Previous Quarter	Previous Year
<i>Employment</i>	+	-
<i>Building Permits</i>	+	+
<i>Home Values</i>	+	-
<i>Taxable Retail Sales</i>	-	+
<i>Inflation</i>	+	+

- The unemployment rate was 5.6 percent in Douglas County. The number of residents working increased while more people returned to the labor force;
- The number of building permits increased from the previous quarter and from a year before. The value of building permits also rose from the previous quarter and year;
- The median sales price for homes was down from the previous year, but home sales continued to rise; and
- Taxable retail sales were down from the previous quarter but up from the same time last year.

EMPLOYMENT IN LAWRENCE AND DOUGLAS COUNTY

The number of residents employed in Douglas County remained virtually unchanged from the previous quarter. The number of employed residents is about 60,500. This is roughly the same as the annual average from late 2004 to early 2009.

It also marks the third consecutive quarter where the number of residents employed is either up or flat. Over these three quarters, more than 4,000 County residents have become employed. The County has not gained this many employed residents in this short of a time period this decade.



Second Quarter 2010 Unemployment Data

	Civilian Employment	Unemployment Rate	Change in Unemp Rate vs. 1 Year Ago	Change in Civilian Emp vs. 1 Yr Ago
U.S. (thousands)	139,561	9.5%	4.2%	-0.7%
Kansas	1,408,369	6.5%	-3.0%	-1.1%
Kansas City, KS MSA	405,744	6.6%	-7.5%	-3.7%
Lawrence MSA	60,185	5.6%	1.2%	2.9%
Manhattan MSA	62,400	5.1%	-3.8%	5.4%
Topeka MSA	115,118	6.3%	-0.5%	-1.2%
Wichita MSA	288,466	8.0%	0.0%	-5.7%

Source: US Bureau of Labor Statistics

The unemployment rate remains significantly below both the state and national average. The unemployment rate is also lower than most other metro regions in the state. Only Manhattan has a lower unemployment rate at 5.1%.

The reason that the unemployment rate increased slightly from last year despite an increasing number of residents who are employed is because the size of the workforce is increasing. Lawrence has seen a larger increase in its workforce than any other MSA in the state except Manhattan. In fact, only Lawrence and Manhattan have

seen an increase in their work force over the last year. Lawrence has also outpaced labor market growth in the state and the nation as a whole. The unemployment rate rose slightly in Lawrence because job creation did not occur quite as quickly as people reentered the job market.

Second Quarter 2010 Labor Force Data

	Civilian Labor Force	Change vs. 1 Year Ago	Change vs. 1 Qtr Ago
U.S. (thousands)	154,182	-0.3%	0.3%
Kansas	1,506,760	-1.3%	-0.1%
Kansas City, KS MSA	434,288	-4.2%	-0.7%
Lawrence MSA	63,748	3.0%	-0.1%
Manhattan MSA	65,778	5.2%	-0.1%
Topeka MSA	122,881	-1.3%	-0.3%
Wichita MSA	313,427	-5.7%	-0.5%

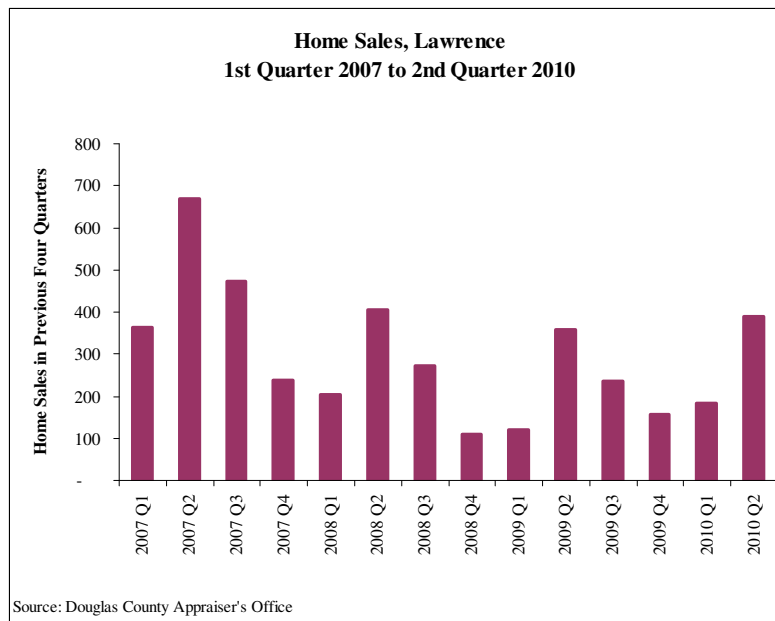
Source: US Bureau of Labor Statistics

REAL ESTATE

The number and value of building permits in Lawrence increased from last year. Residential permits increased but the value of the permits fell slightly. However, non-residential permitting and value more than doubled from a year ago. This appears to have been driven by two causes. First, there were three new commercial permits issued in the 2nd Quarter, compared to only one at the same time in the previous year. Second, there were more than twice as many commercial remodelings from this time last year. Remodeling accounted

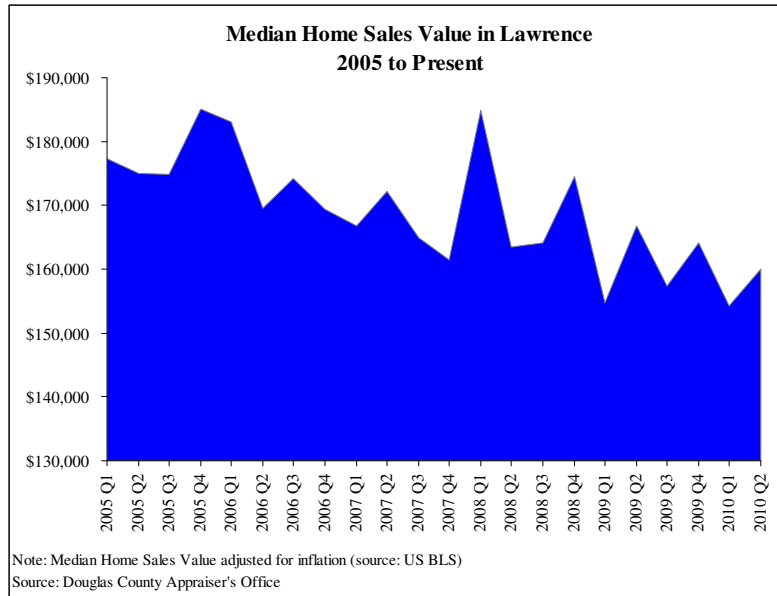
Second Quarter Building Permits in Lawrence			
	2nd Quarter 2009	2nd Quarter 2010	% Change 2009-2010
TOTAL			
Number	494	579	17%
Valuation	\$16,937,454	\$19,976,629	18%
RESIDENTIAL			
Number	25	27	8%
Valuation	\$6,004,384	\$5,376,219	-10%
NON-RESIDENTIAL			
Number	18	44	144%
Valuation	\$3,473,544	\$12,300,658	254%
Source: City of Lawrence, Neighborhood Resources Department Valuation of Building Permits			

for almost \$7 million of the \$12.3 million in non-residential investment. Of note, public-sponsored construction is also up substantially from last year. As of June 30th last year, there had been about \$5.2 million of public investments, whereas this year there is over \$12 million of public investments. Excluding public investments, the total value of building permits is down slightly from a year ago so far in 2010.



Home sales were up substantially in Lawrence both from the 1st Quarter as well as the same time last year. This is the third consecutive quarter of year-over-year increases in home sales. It is also the largest number of home sales since the 2nd Quarter of 2008. Nationally, there was a spike in home sales in the 2nd Quarter as a result of the \$8,000 tax credit for first time homebuyers. There was also a decline nationally in home sales after June of 2010 as a result of the expiration of

the credit. We will see next quarter whether Lawrence was affected by this national slowdown.



Home prices rose from the previous quarter, but fell from the 2nd Quarter of 2009. The median home sale price in the 2nd Quarter of 2010 was about \$160,000, compared to \$167,000 a year ago. This is a 4 percent decrease year-over-year. This continues a trend of year-over-year declines in home prices. However, the declines appear to be softening. This suggests that the Lawrence home market may be reaching a “bottom” in terms of sales prices.

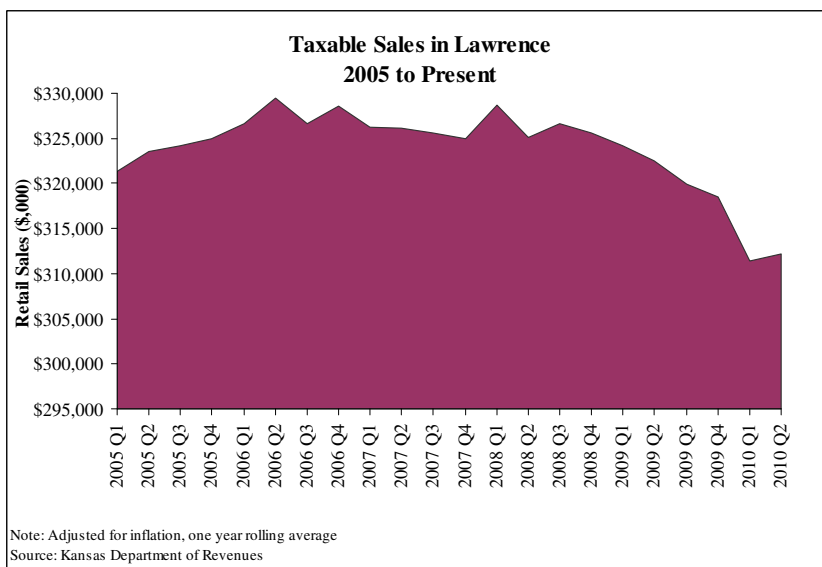
RETAIL SALES AND TOURISM

Retail sales taxes generally increased locally and throughout the state in the 2nd Quarter. Lawrence and Douglas County saw about a 4.2 percent growth in retail sales year-over-year. State-

County Tax Receipts				
County	Tax Rate	2nd Quarter 2009	2nd Quarter 2010	Change (%)
Douglas	1.0%	\$3,160,628	\$3,294,534	4.2%
Johnson	1.1%	\$24,497,443	\$21,791,981	-11.0%
Riley (Manhattan)	1.0%	\$1,744,083	\$1,941,931	11.3%
Wyandotte (Kansas City, KS)	1.0%	\$4,757,533	\$4,942,575	3.9%
Shawnee (Topeka)	1.15%	\$7,009,468	\$7,258,638	3.6%
Sedgwick (Wichita)	1.0%	\$17,652,879	\$18,145,196	2.8%
Total, State of Kansas		\$157,270,007	\$160,699,701	2.2%

wide, retail sales taxes increased just over 2 percent. Lawrence and Douglas County's growth in tax receipts was almost twice that of the state as a whole. Riley County and Manhattan saw the largest year-over-year growth, while Johnson County saw the steepest decline. Riley County's

taxable receipts grew by over 11 percent, while Johnson County decreased by a similar amount.

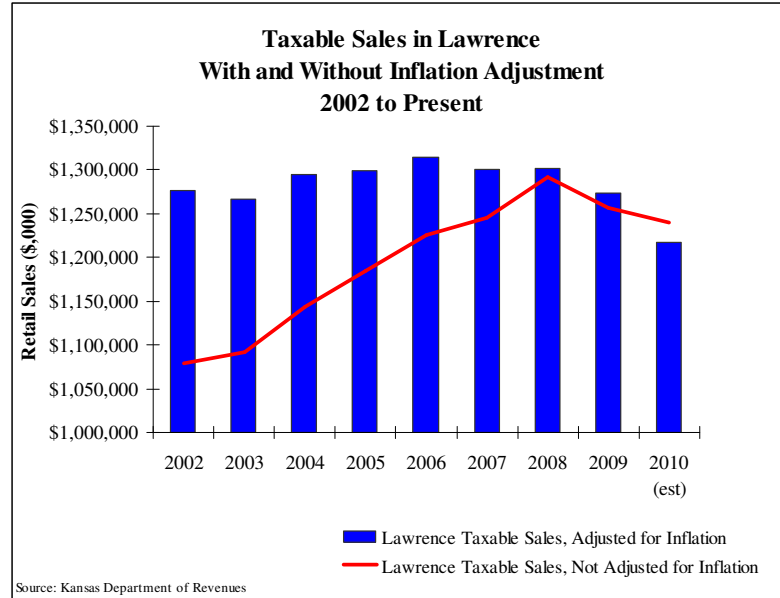


Taxable sales have increased slightly over the last four quarters. The chart on the left looks at the average quarterly taxable retail sales over the last four quarters. There has been a general trend down since late 2008. However that trend may be reversing due to

an improved retail environment late in 2009. Nonetheless, the first two quarters of this year had significantly lower sales than the first two quarters of the previous year. On an inflation-adjusted basis, taxable sales for the first half of 2010 were lower than any other first six month period in the last 10 years.

If taxable sales continue at current trends, retail sales will suffer a second straight year of decline. This decline will occur regardless of whether sales are adjusted for inflation (real dollars) or not adjusted for inflation (nominal dollars). This is unusual. Prior to last year, nominal retail sales had been increasing continuously since 2002. Real retail sales, however, had been stagnant since about 2004. Both real and nominal sales fell in 2009, and may do so again this year. If current

trends continue, Lawrence is likely to have about \$1.23 billion in taxable retail sales this year. From 2002 to 2008, inflation-adjusted taxable sales averaged about \$1.29 billion per year in Lawrence. Thus taxable retail sales are lagging historic norms by 4 to 5 percent.

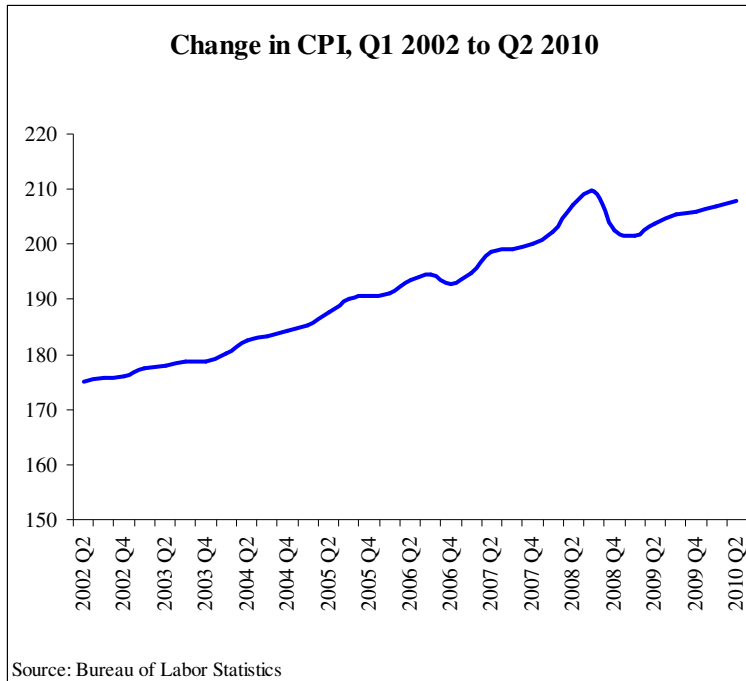


Guest Tax Receipts, Second Quarter 2010			
	Transient Guest Taxes	Change in Guest Taxes vs. 1 Qtr Ago	Change in Guest Taxes vs. 1 Yr Ago
Kansas	\$7,654,720	26.2%	5.4%
Lawrence	\$285,712	39.5%	2.1%
Kansas City	\$573,026	25.7%	-4.0%
Manhattan	\$286,537	45.0%	22.9%
Overland Park	\$1,692,564	22.5%	4.3%
Topeka	\$465,424	28.8%	-3.3%
Wichita	\$1,510,701	22.6%	5.9%

increased by almost 40 percent from the 1st Quarter. Part of this is a seasonal change, and part of this may also have been lower-than-average hotel demand in the 1st Quarter due to the unusually cold winter. Compared to a year ago, guest taxes are also up. Guest taxes are up over 5 percent statewide. Only Topeka and Kansas City saw a decline from the 2nd Quarter of 2009. Lawrence's saw just over a 2 percent increase in guest taxes. While positive, it was below the state average.

Guest taxes generally increased throughout the State. This is true both in terms of changes from the previous quarter as well as the previous year. Guest taxes were up over 25 percent throughout the state compared to the 1st Quarter of 2010. In Lawrence, guest taxes

INFLATION AND THE COST OF LIVING



Inflation continues to be mild. After a spike in inflation in 2008 due to increases in commodity prices, inflation largely leveled off in 2009. Inflation in the 2nd Quarter is anemic. In fact, in June prices fell slightly instead of rising. The inflation rate is currently on pace to average about 2.1 percent this year in the Midwest. In contrast, inflation has averaged about 2.5 percent per year since 1990. This suggests that if current trends continue, inflation may be lower than the long-run average this year.

In general, Midwestern cities saw a decrease in their average cost of living relative to the United States as a whole. However, Lawrence's cost of living rose slightly relative to the nation.

Lawrence does, however, remain one of the more affordable communities of those surveyed. Of the seven cities surveyed, only Columbia, Missouri and Topeka, Kansas had lower comparative costs of living than Lawrence did. In addition to Lawrence, one other city saw an increase in its relative cost of living. This was Norman, Oklahoma. The remaining five cities saw a decrease in their relative cost of living from this time last year.

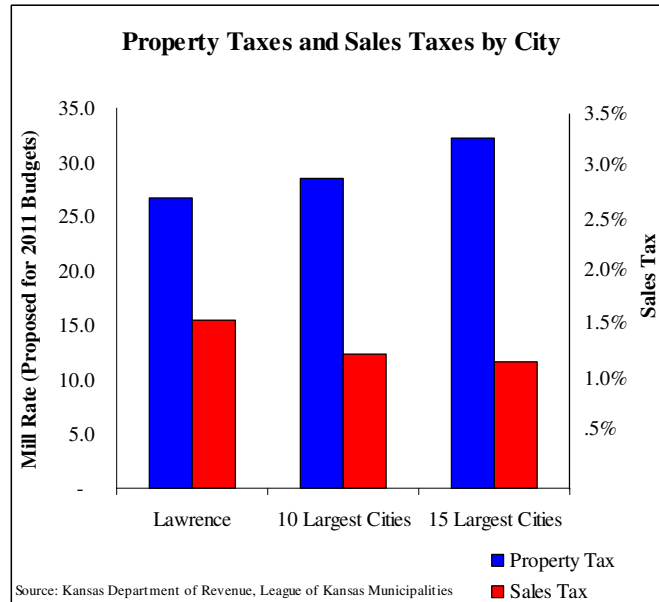
Annual Average Comparative Cost of Living Index			
	Q2 2009	Q2 2010	Change (%)
US Average	100.0	100.0	
Lawrence, KS	92.2	93.5	1.4%
Manhattan, KS	96.8	94.6	-2.3%
Topeka, KS	92.6	92.5	-0.1%
Ames, IA	97.1	95.1	-2.1%
Champaign, IL	97.8	95.9	-1.9%
Columbia, MO	91.7	90.9	-0.9%
Norman, OK	94.2	95.1	1.0%
Source: ACCRA			
Note: Fort Collins, CO had no data for the Second Quarter 2010			

FOCUS ON... Taxes

This quarter's Focus On takes a look at tax rates and trends for property and sales taxes among the 15 largest cities in Kansas. These cities are ranked in order of population. In order, they are: Wichita, Overland Park, the Unified Government of Kansas City and Wyandotte County, Topeka, Olathe, Lawrence, Shawnee, Manhattan, Lenexa, Salina, Hutchinson, Leavenworth, Garden City, Leawood, and Emporia.

Compared to the 15 largest cities in Kansas, Lawrence's property tax rate is lower than average and its sales tax rate is higher than average. Lawrence's proposed 2011 property tax mill levy was 26.68 mills (one mill is equal to a dollar of property tax on every \$1,000 of assessed value). Among the 10 largest cities, the average property tax rate is about 28.5 mills, while among all of the cities the average property tax rate is over 32 mills. This implies that cities with smaller populations tend to have higher property tax rates. While Lawrence's property tax rate is lower than average, Lawrence has a higher sales tax rate than either the 10 or 15 largest cities in Kansas on average.

At 1.55%, the sales tax rate in Lawrence is comparable to Leawood (1.53%), the Unified Government (1.63%), and Lenexa (1.5%).



An ongoing concern in many communities is the share of property tax paid by residential and non-residential properties. In Lawrence, about 68% of the assessed value is derived from

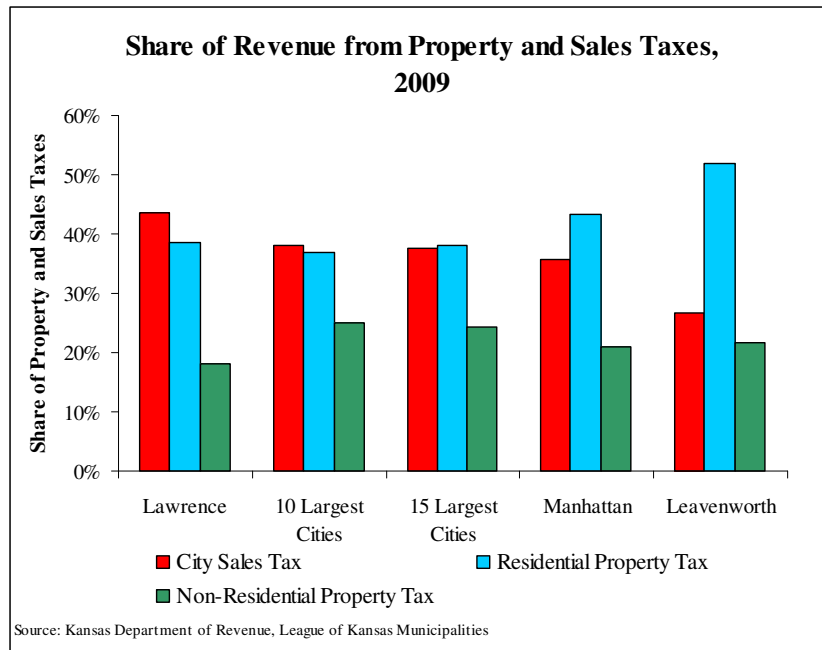
Residential Share of Assessed Values			
City	Assessed Valuation, 2009	Share of Assessed Value that is Residential	Rank, Residential Share of Assessed Value
Leawood	\$761,494,540	76.1%	1
Shawnee	\$667,582,353	74.8%	2
Leavenworth	\$186,199,806	70.6%	3
Olathe	\$1,255,928,829	69.3%	4
Lawrence	\$807,639,795	68.1%	5
Manhattan	\$411,736,670	67.5%	6
Hutchinson	\$230,717,672	63.0%	7
Salina	\$358,979,211	62.7%	8
Garden City	\$138,860,573	61.5%	9
Overland Park	\$2,608,062,079	60.5%	10
Wichita	\$2,903,010,267	59.5%	11
Emporia	\$145,708,604	56.1%	12
Unified Govt	\$1,005,106,697	53.9%	13
Lenexa	\$829,743,192	48.1%	14
Topeka	\$1,015,663,325	47.9%	15
10 Largest Cities	\$12,686,338,957	60.3%	
All 15 Cities	\$13,326,433,613	61.4%	

Note: Assessed Valuation only includes residential and non-residential properties
Source: League of Kansas Municipalities, phone calls

residential properties. This is the 5th highest among the 15 largest cities in Kansas, and higher than the overall average. The share of residential assessed value is driven by unique factors to each city. For example, some communities have a high (Leawood) or low (Unified Government, Topeka) share of residential because of median home values. Another factor is exempt employers. Of the top 6 cities on this list, three of them- Lawrence, Manhattan, and Leavenworth- have large employers that pay no local property taxes. While large, exempt employers make it difficult to lower the residential share of assessed value, they also benefit their respective communities by

providing a long term and stable job base for the region. All three cities have a reputation for being among the more stable employment communities in Kansas.

Lawrence's revenue source is more heavily weighted toward sales tax than property tax. Almost 45 percent of the property and sales tax revenue collected in Lawrence in 2009 came from sales taxes. In contrast, the 15 communities overall averaged about 38 percent of their property and sales tax revenues from sales taxes. While Lawrence derived an average share of revenues from residential properties (37 percent), Lawrence had a much lower share of non-residential property taxes (18 percent, against an average of about 25 percent). As can be seen, Manhattan and Leavenworth also had a below-average share of non-residential property taxes. This suggests that the large, tax-exempt employers may lower the share of taxes derived from non-residential properties. Both Manhattan and Leavenworth, however, stand in contrast to Lawrence in that they have a higher-than-average share of revenues coming from residential property taxes, rather than from sales taxes.



Since 2007, six of the 10 largest cities in Kansas have either raised their property taxes by more than one mill or increased their sales tax. Over the last three years, three of the 10 largest cities

Change in Tax Rates, 2007 to 2010				
City	Mill Levy, 2010	Sales Tax Rate, 2010	Change from 2007, Mill Levy (mills)	Change from 2007, Sales Tax (cents)
Manhattan	41.84	1.000%	8.75	-
Salina	25.86	0.900%	1.86	0.15
Topeka	32.59	1.000%	1.85	-
Lawrence	26.68	1.550%	0.32	0.55
Wichita	32.14		0.24	
Lenexa	26.57	1.500%	0.11	0.38
Shawnee	24.70	1.250%	0.08	-
Overland Park	8.89	1.125%	0.00	-
Olathe	24.84	1.125%	(0.01)	-
Unified Govt	40.81	1.630%	(0.93)	0.38
Top 10 Cities	28.49	1.231%	1.23	0.16

Source: Kansas Department of Revenue, League of Kansas Municipalities

raised their property tax rates by more than one mill (Increases or decreases of less than one mill are considered to be minor, because most cities typically make small adjustments to their mill rates each year). Four cities raised their sales taxes. One city- Salina- did both. While Lawrence's property tax increase over the last three years was lower than average and well under one mill, their sales tax increase was the highest of the top 10 cities. This suggests that Lawrence has recently sought to finance governing activities through retail sales rather than through taxes on residential and non-residential property owners.

Questions? Please contact Roger Zalneraitis at rzalneraitis@ci.lawrence.ks.us or 785-832-3400