



King County

March 2013 King County Economic and Revenue Forecast

Briefing to the King County Forecast Council

March 13th, 2013

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Summary

- **The U.S. economy continues slow recovery**
 - 2012 turned out “O.K.”
 - No EU meltdown
 - Some fiscal resolution
 - Housing market turnaround
 - No Mayan apocalypse
- **Forecast is consistent**
 - Slow growth in early 2013 that accelerates in 2014
- **Risks remain globally and nationally**
 - Recession in Europe, uncertain public finances
- **King County’s economy is improving significantly**
 - Employment, commerce, commercial construction, housing
- **King County’s revenues are generally improving**



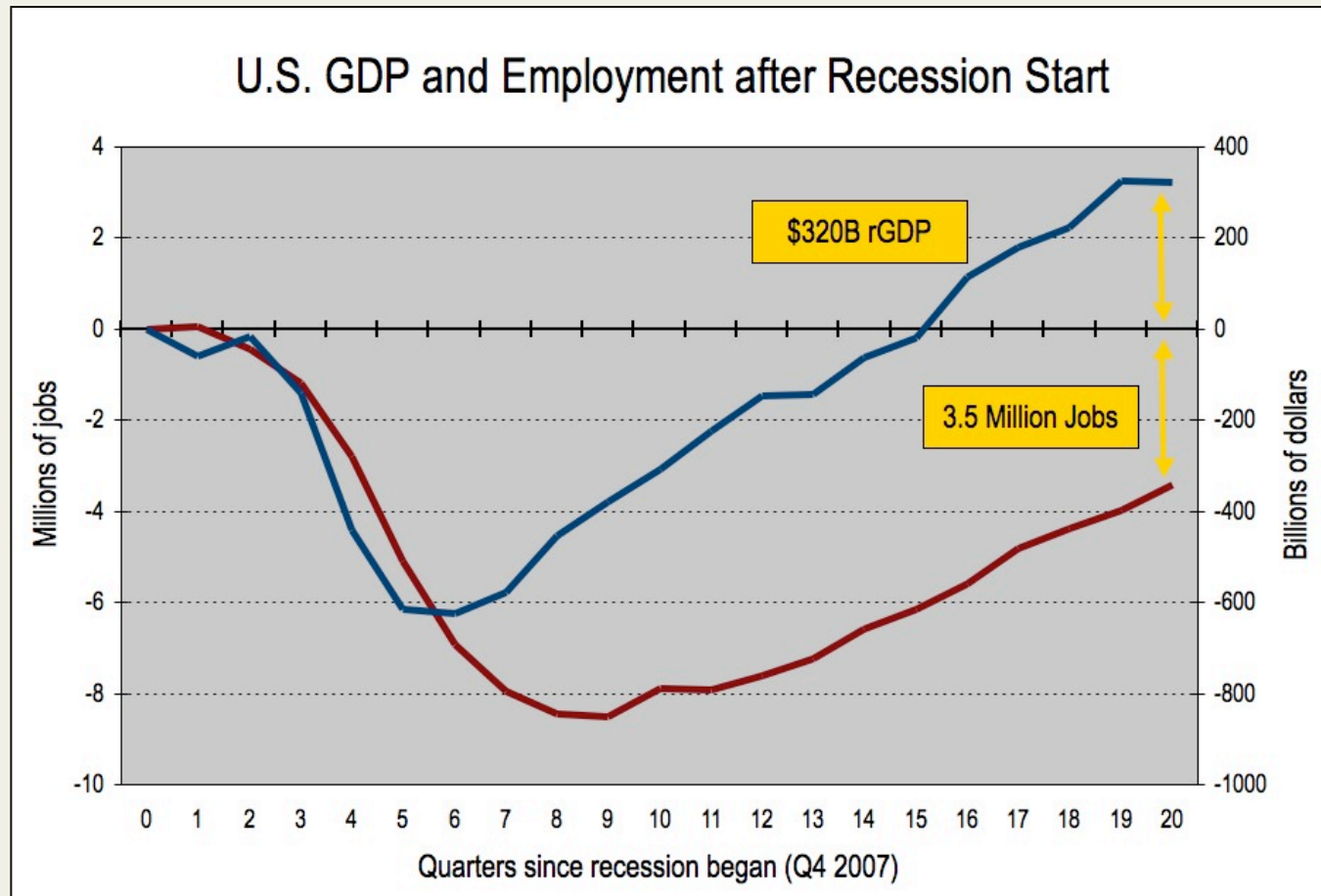
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Economic growth but weak job growth

Economic context: Jobs

Output is well above pre-recession levels, but with significantly fewer people employed.

Employers are doing more with fewer employees, so employment is growing...but growing slowly.



Blue = US Real GDP (in billions \$) Red = US Jobs (in millions)



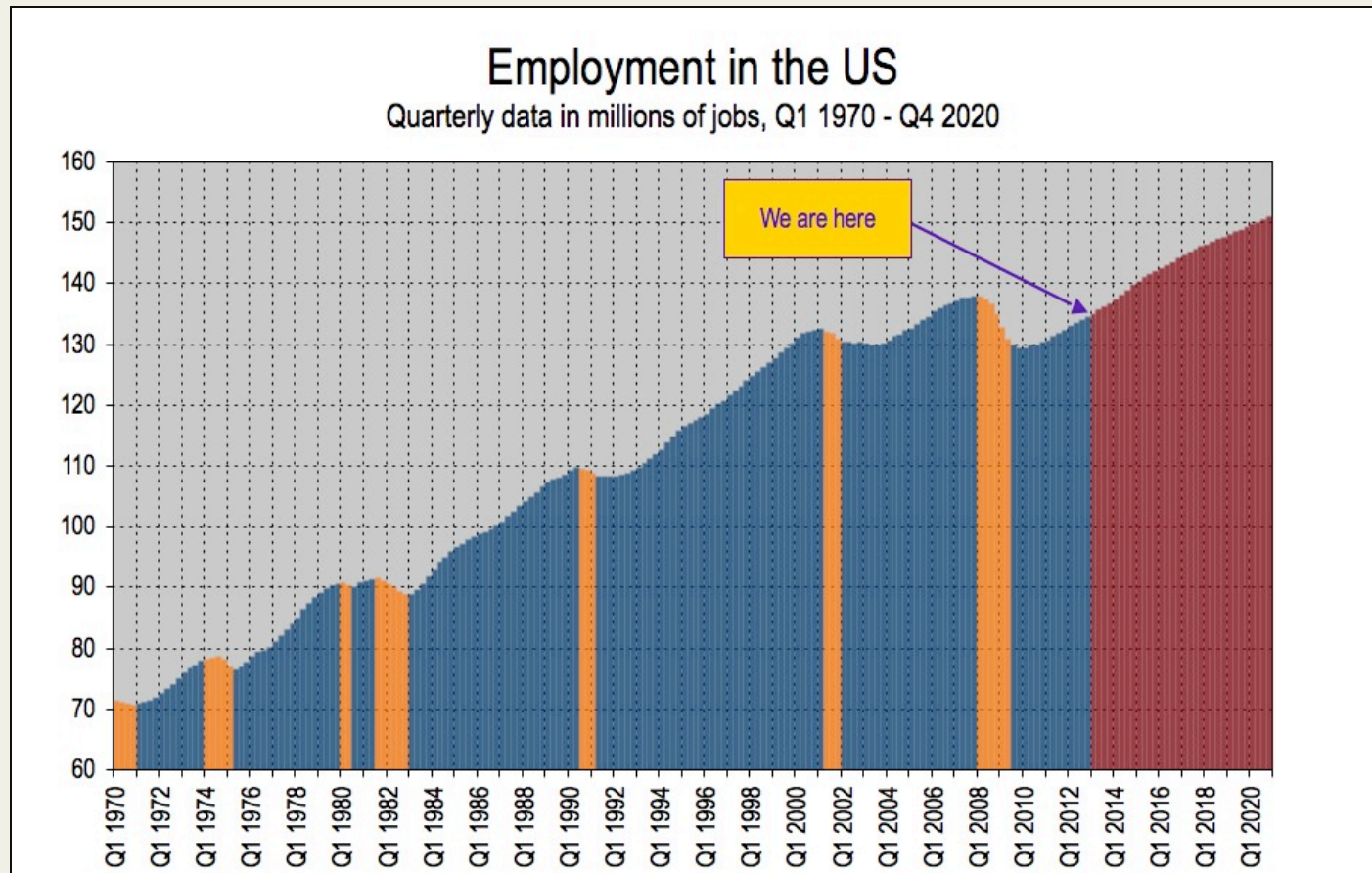
US Job Growth: weak, yet positive and following recent trends

Economic context: Jobs

Notice a pattern?

Job growth has lagged recent recessions.

The Great Recession's unique nature has made employment recovery more difficult.



Blue = Actual Orange = Recession Red = Forecast



Postcards from the edge: fiscal policy continues to make headlines

- **The second half of 2012 was affected by the “fiscal cliff”**
 - Tax cut expirations and expenditure increases
 - Came down to the wire (actually past the wire)
 - No grand bargain (i.e. a long-term, sustainable plan for dealing with the nation’s debt)
 - Result included eliminating some of the Bush era tax cuts and the payroll tax cut
- **Fiscal issues in 2013 continue to make headlines**
 - Debt ceiling discussions in January (postponed until summer)
 - Sequester (went into effect in March)
 - Possible government shutdown (March 27)
- **Difficulty on these issues all symptoms of ideological divide on size/role of Federal government**
 - Increasing debt and entitlement programs



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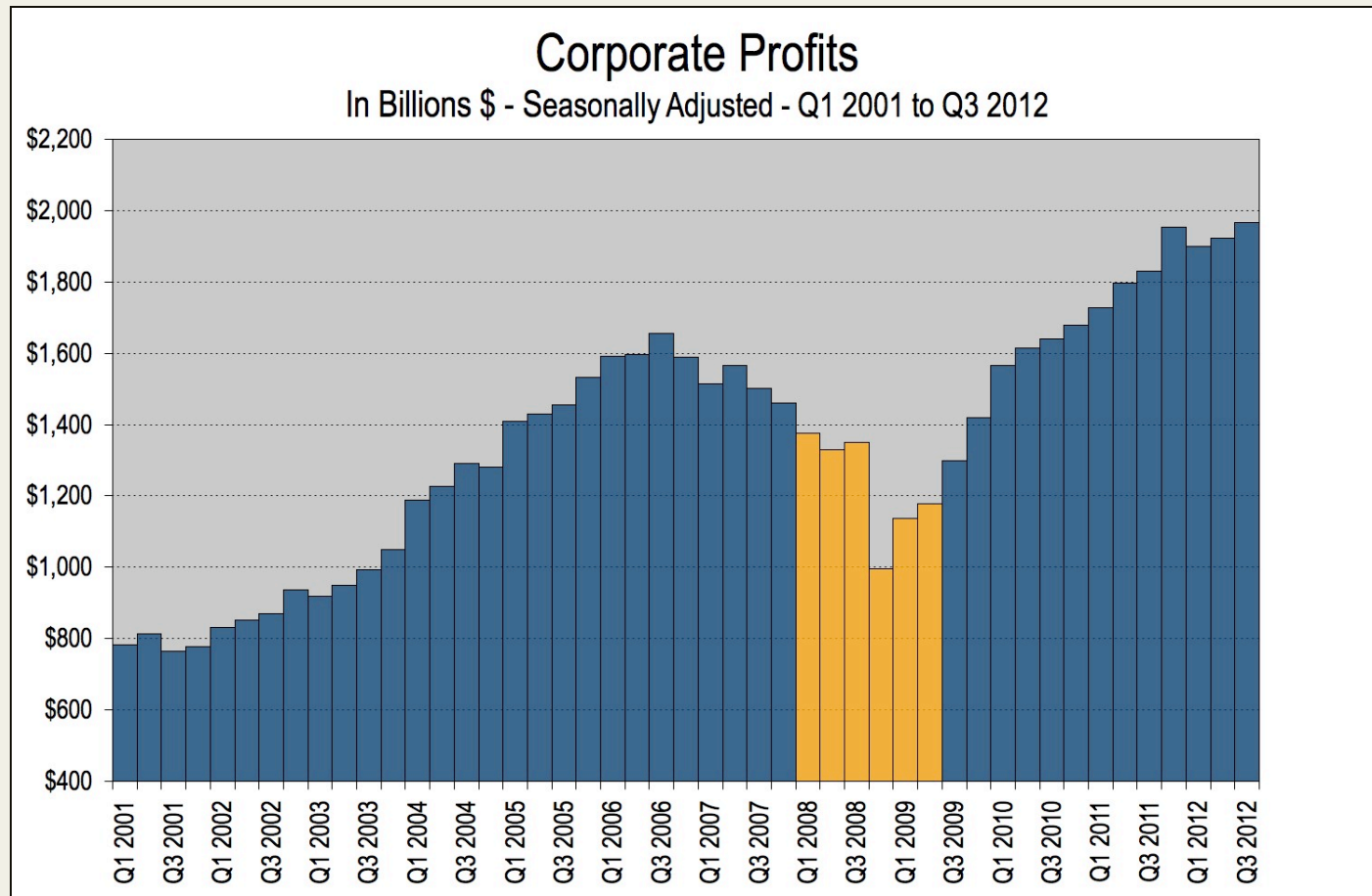
Corporate profits at an all time high

Economic context: Business recovery update

Corporate profits have doubled since the depths of the Great Recession.

Productivity improvements and focus on profit margins is driving this growth...

..and stock prices are reflecting it



Blue = Actual Orange = Recession



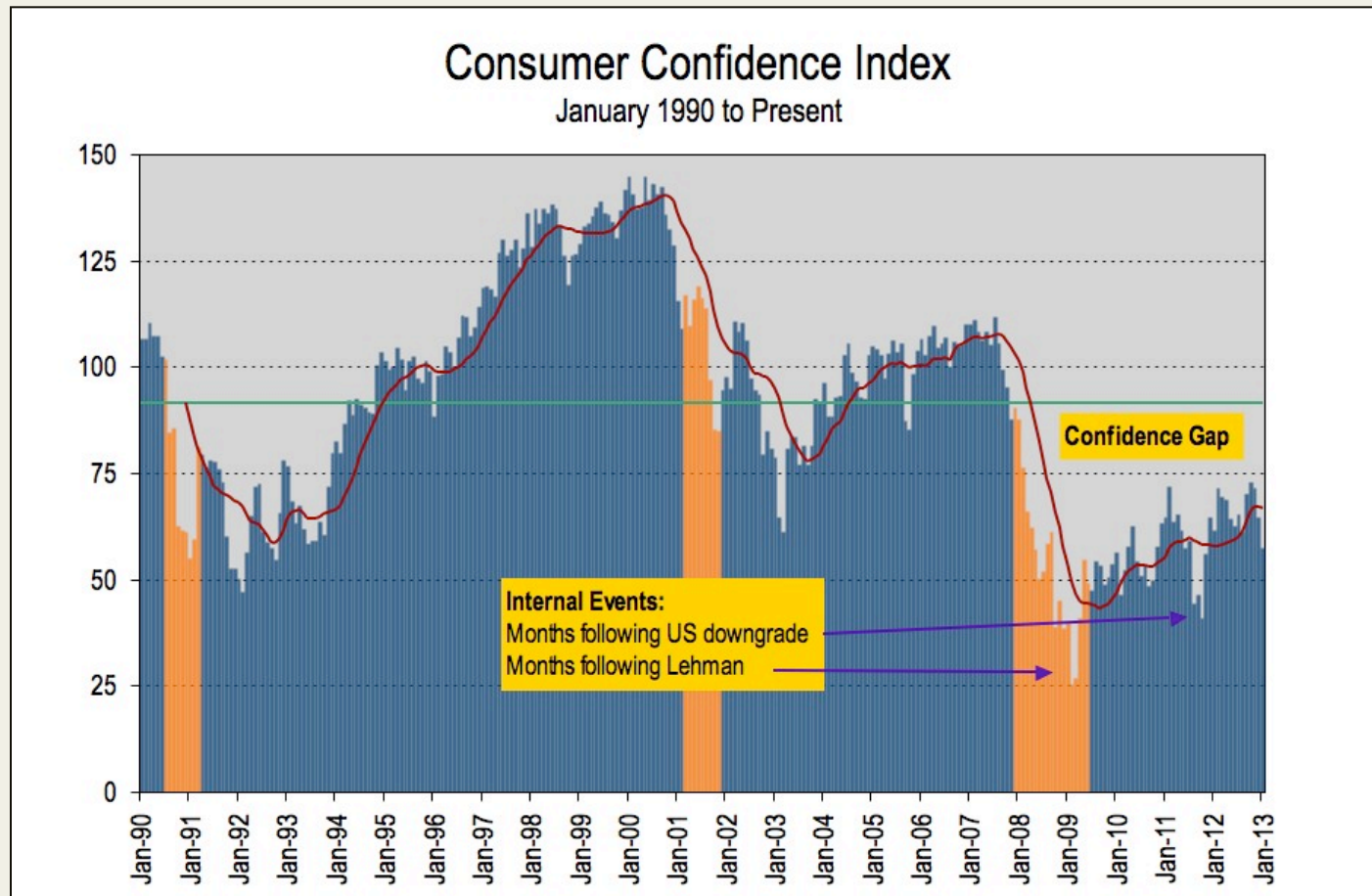
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Consumer confidence is on the rise, but still depressed, historically

Economic context: Recovery update

Confidence is rising again after being significantly reduced during the recession.

Fiscal concerns have impacted recent readings.



Blue = Actual Orange = Recession Red = 12 month rolling average Green = 34 year average



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2013's GDP Forecast: not much has changed

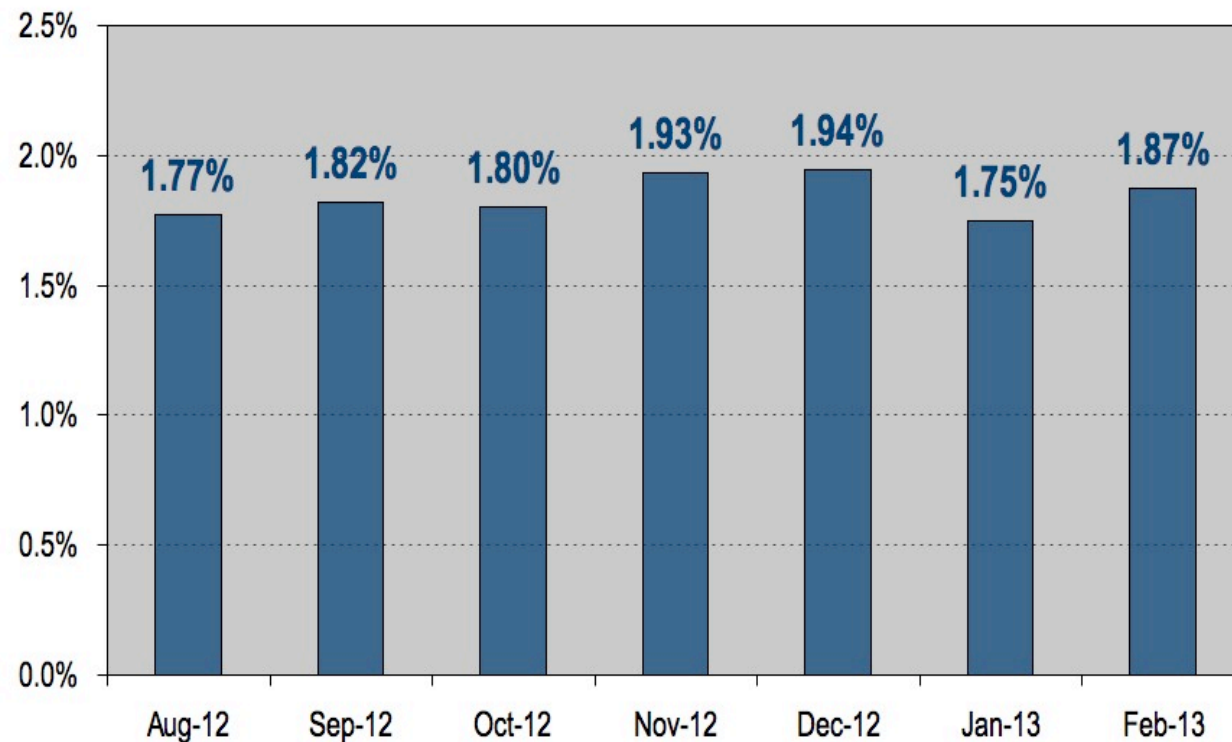
Economic context: Recovery update

Despite the fiscal uncertainty, little has changed in the forecast

We expect GDP to grow modestly in 2013.

Risks remain
-EU/Fiscal policy
-Other

2013 Global Insight Real GDP Forecast





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Locally, things look good

- **Job growth**
 - Growing significantly faster than the nation
- **Local firms doing well**
 - Boeing's local employment impact
 - Amazon's remarkable growth continues
 - Others doing well too
- **Real estate improving**
 - Residential prices have turned up significantly
 - Low sales inventory
 - Commercial (especially apartments) also improving
- **Commerce improving**
 - Retail sales continue to grow



King County Job Growth Accelerated in 2012

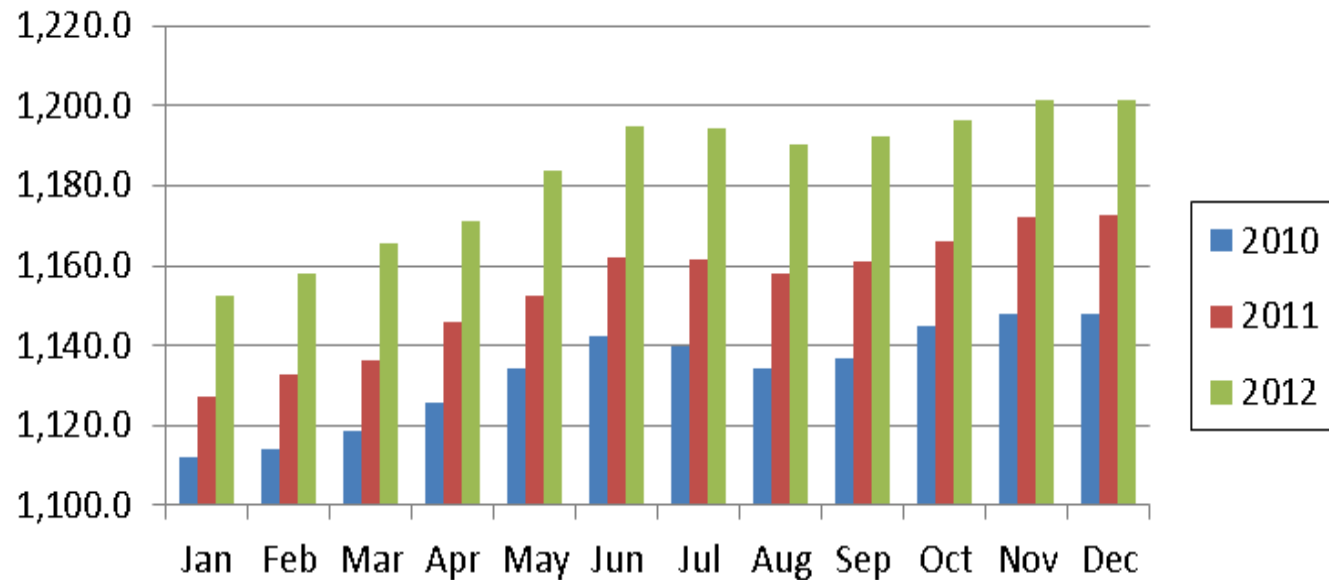
Economic context: Jobs

Employment was up 2.6% in 2012

Job growth in most categories

Construction jobs up almost 15% from 12:2011 to 12:2012

Nonfarm Industry Employment, King County (2010-2012)



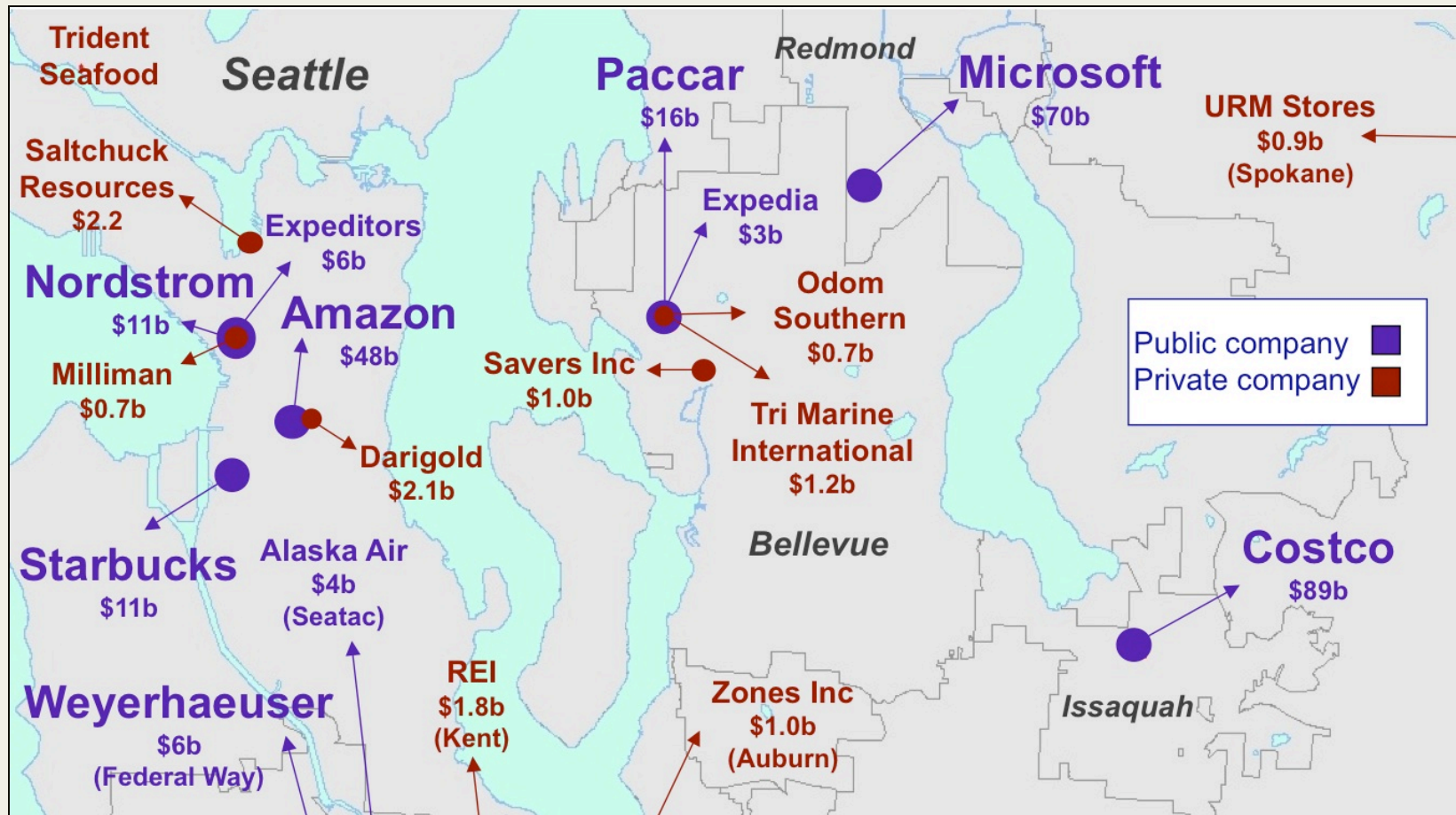
Data Source: WA ESD, not seasonally adjusted



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King County is Home to World Class Companies that are Doing Well

Economic context: Business climate



Top ten private and public companies headquartered in King County



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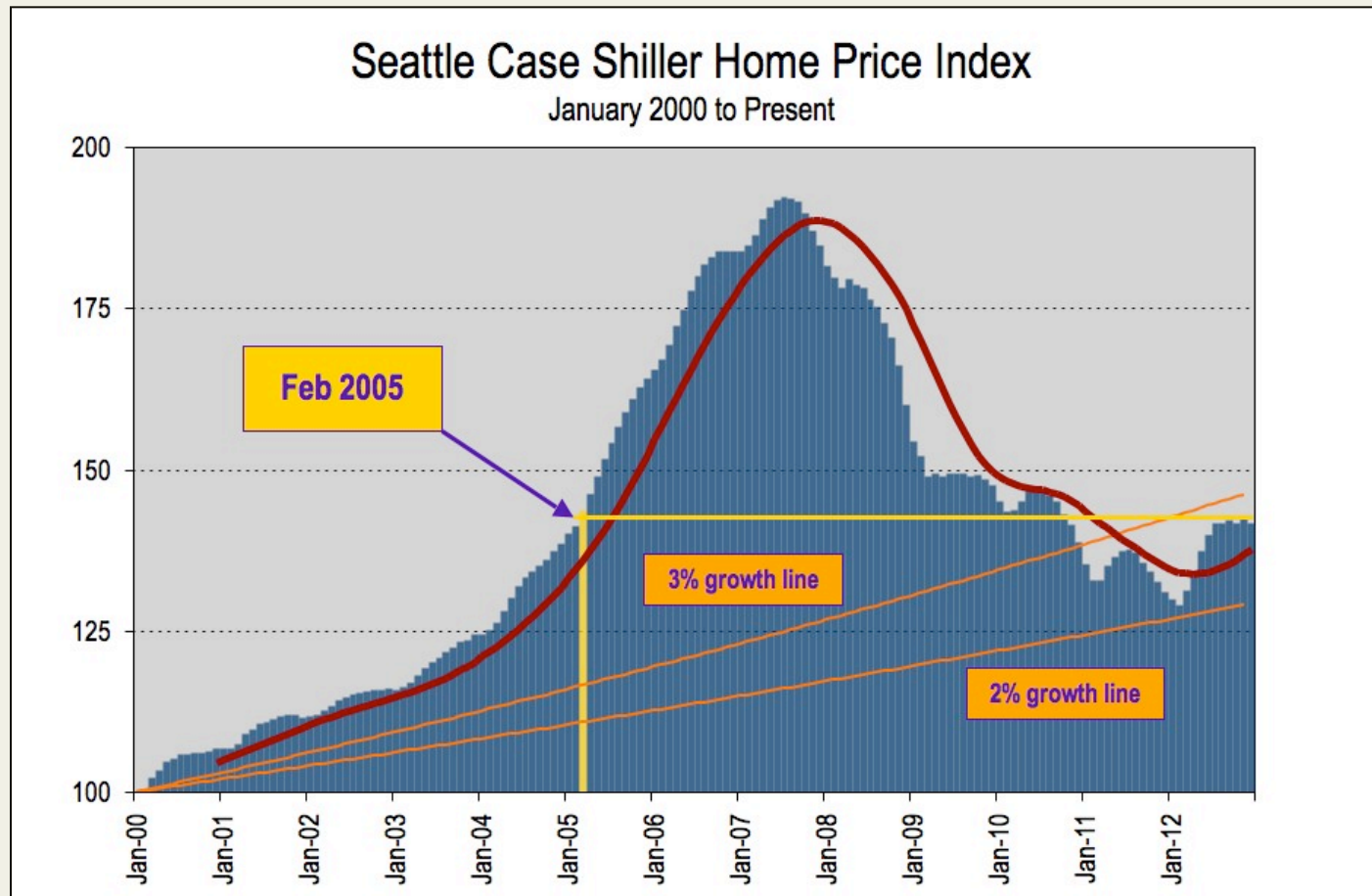
Local house prices have stabilized and started to grow

Economic context: Real estate recovery

Housing values fell precipitously for years.

2012 prices increased over 8%.

Case-Shiller covers King, Pierce and Snohomish Counties.



Blue = Actual Red = 12 month rolling average



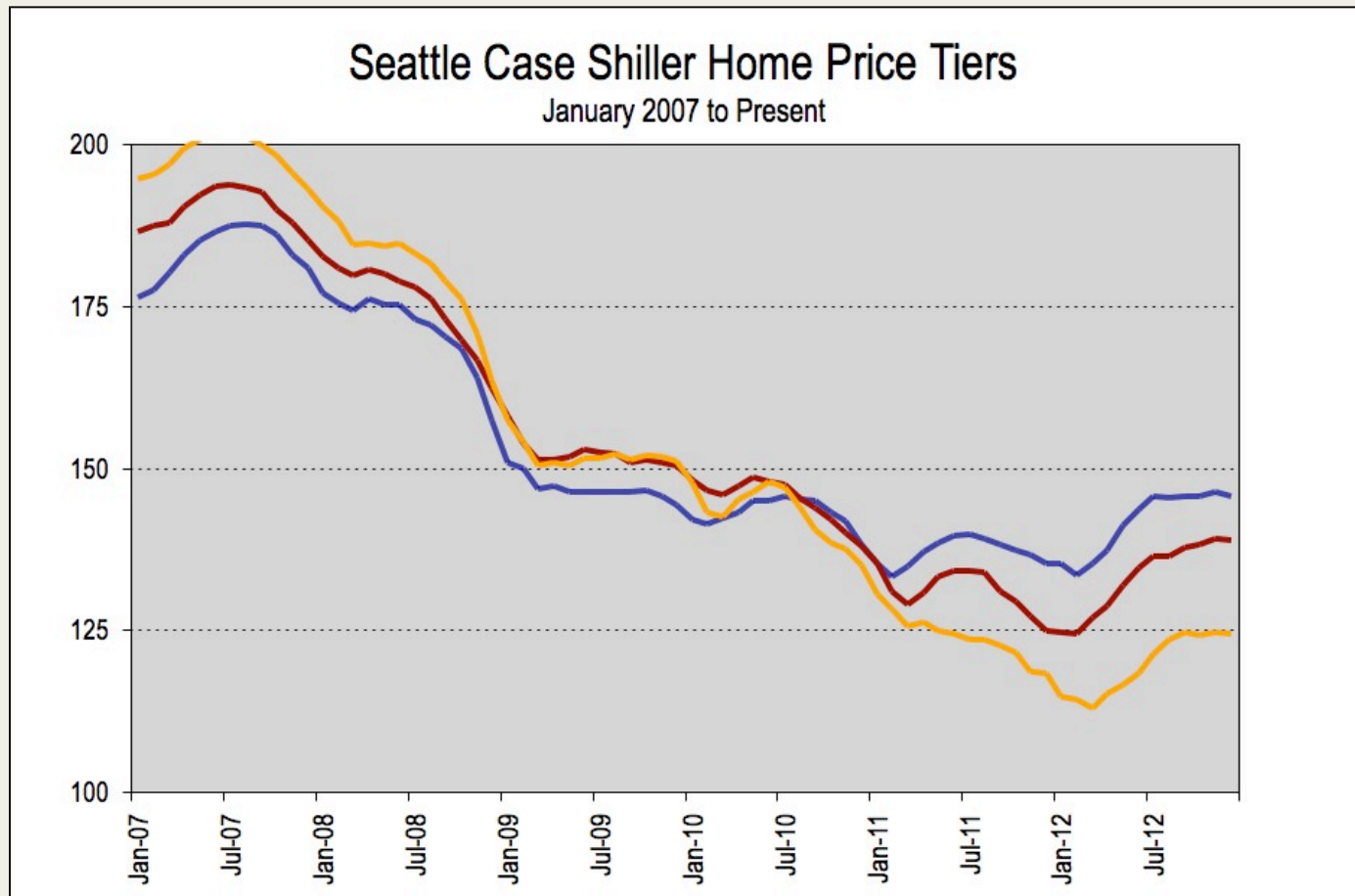
King County's Recovery has been variable: Local house prices by tiers

Economic context: Real estate recovery

All home prices were affected by the bubble.

The lowest tier of homes fell the most, losing nearly half their value.

The low tier is also slowest to recover thus far.



Blue = High (over \$412k) Red = 12 Mid (\$258-\$421k) Orange = Low (under \$258k)



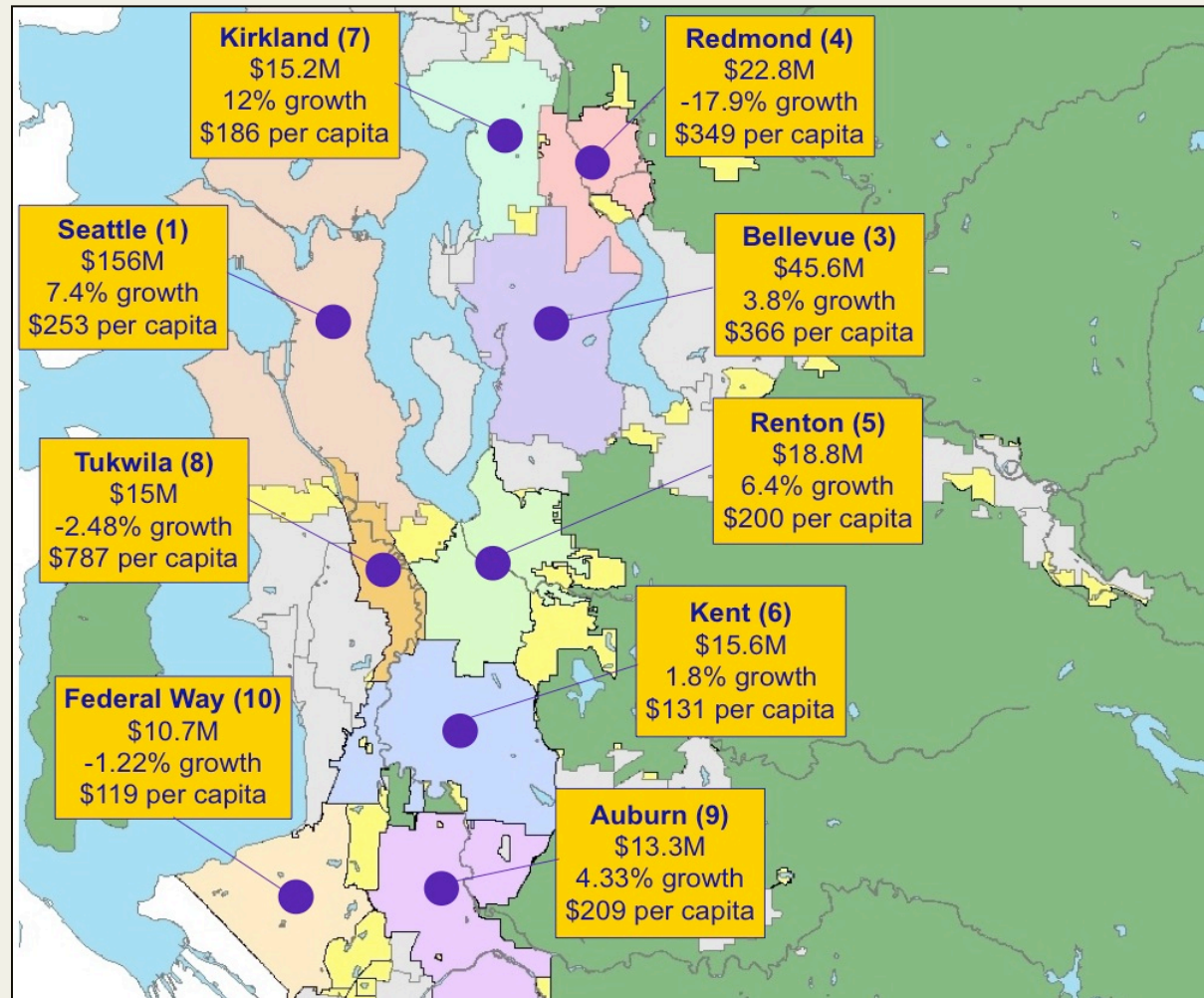
Sales tax receipts around King County also have been variable (local option tax)

Economic context: Retail disparity

This map shows the nine highest local sales taxes collecting cities in 2012.

Growth in 2012 receipts varied.

Tax receipts per capita vary significantly within King County.





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King County Economic Forecast

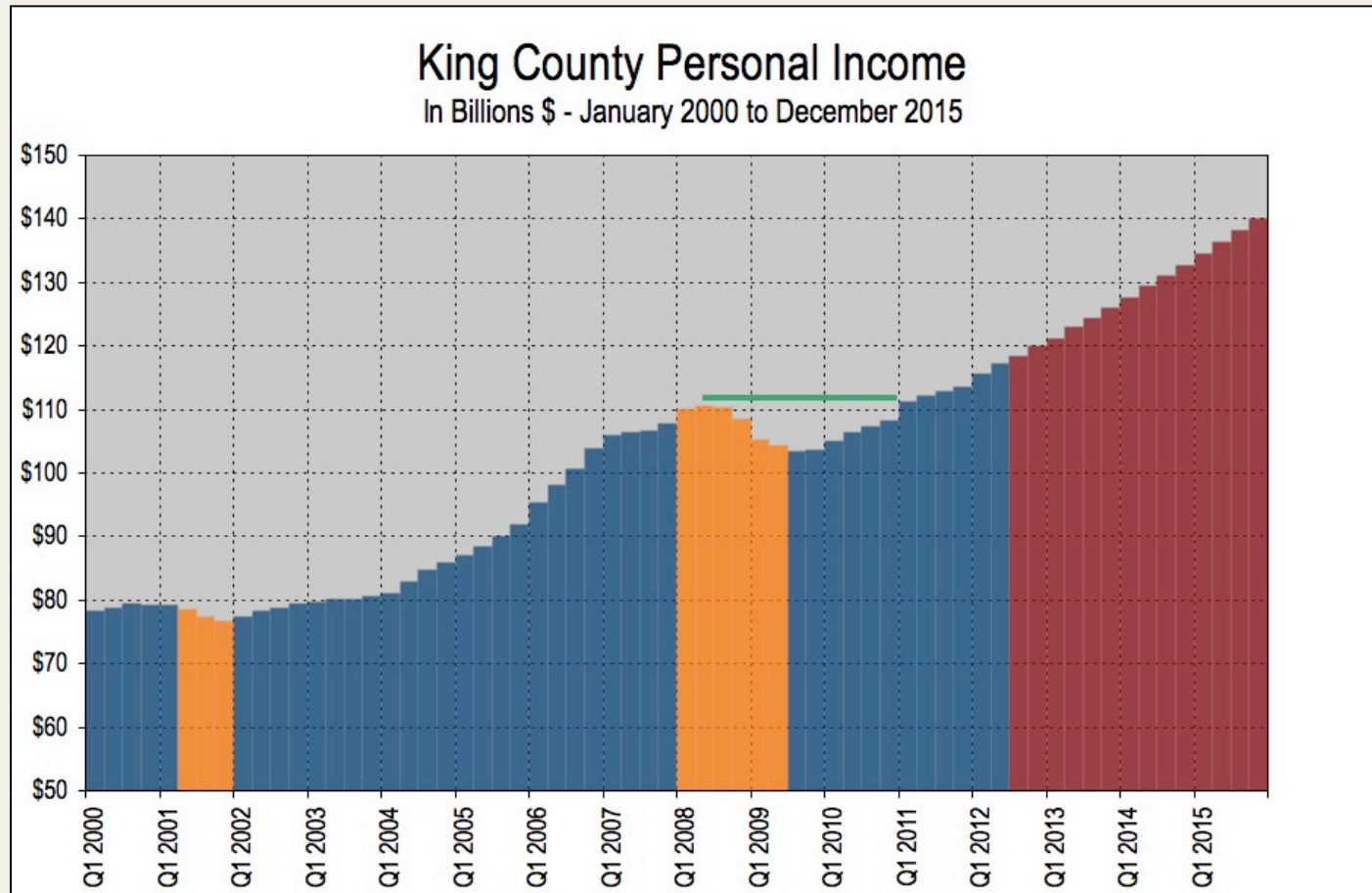
Economic context: Nominal personal income

Forecast for King County is good

Employment forecast to grow by 2.6% in 2013

Personal income is growing.

Incomes are key indicator.



Blue = Actual Orange = Recession Red = Forecast



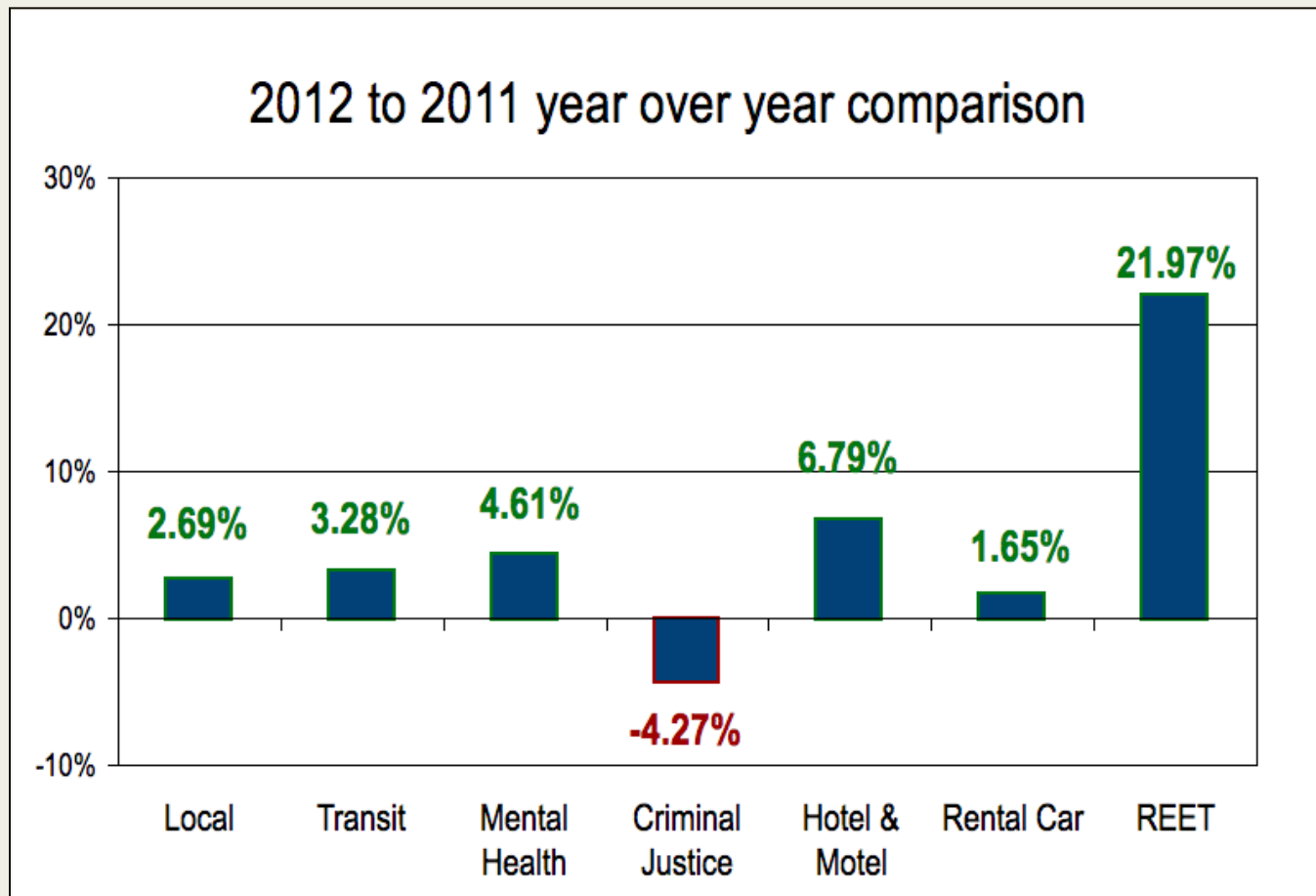
At a glance: how did we close out 2012 compared to 2011?

Revenue Review

CJ down due to population decline.

REET up due to outlier sales and better than expected sales.

Overall, a good year for these revenues.



Proposed March Revenue Forecasts

Assumptions

65% Confidence Level – 65% chance revenues will come in higher than forecasted (lower for inflation/price forecasts)

All potential annexation areas are assumed to occur on schedule:

West Bothell	(7-1-13)
Klahanie: (pop. 11,124)	(1-1-14)
North Highline Area Q and Sliver	(1-1-15)



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Countywide Assessed Value Forecast

Forecasts: Assessed value

Assessments for 2013 based on Jan. 1, 2012 value.

Residential sales prices in 2012 imply AV increases for 2013.

Commercial AV forecast up.

Growth in 2014 and beyond.

March 2013 Countywide Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	330,414,998,630	-3.38%	0.00%
2012	319,460,937,270	-3.32%	0.00%
2013	314,746,206,667	-1.48%	1.47%
2014	326,700,530,100	3.80%	1.49%
2015	342,197,768,393	4.74%	3.09%
2016	353,437,389,163	3.28%	2.80%
2017	364,704,801,660	3.19%	1.53%
2018	380,143,821,378	4.23%	1.86%
2019	394,998,819,848	3.91%	1.27%
2020	412,481,495,837	4.43%	0.96%
2021	431,310,352,688	4.56%	new
2022	451,268,581,856	4.63%	new



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Unincorporated Area Assessed Value Forecast

Forecasts: Assessed value

Sales prices in 2012 indicate little change

Annexations also affect unincorporated AV.

Slow growth in next few years but annexations will bring total down.

March 2013 Unincorporated Assessed Value Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	39,449,376,050	-9.82%	0.00%
2012	32,758,485,327	-16.96%	0.00%
2013	30,016,733,778	-8.37%	1.21%
2014	29,986,943,946	-0.10%	0.98%
2015	29,986,260,433	0.00%	6.81%
2016	30,906,870,056	3.07%	6.50%
2017	31,734,802,437	2.68%	4.92%
2018	32,918,700,627	3.73%	5.40%
2019	33,960,838,091	3.17%	4.71%
2020	35,233,814,765	3.75%	4.19%
2021	36,642,135,683	4.00%	new
2022	38,191,080,510	4.23%	new

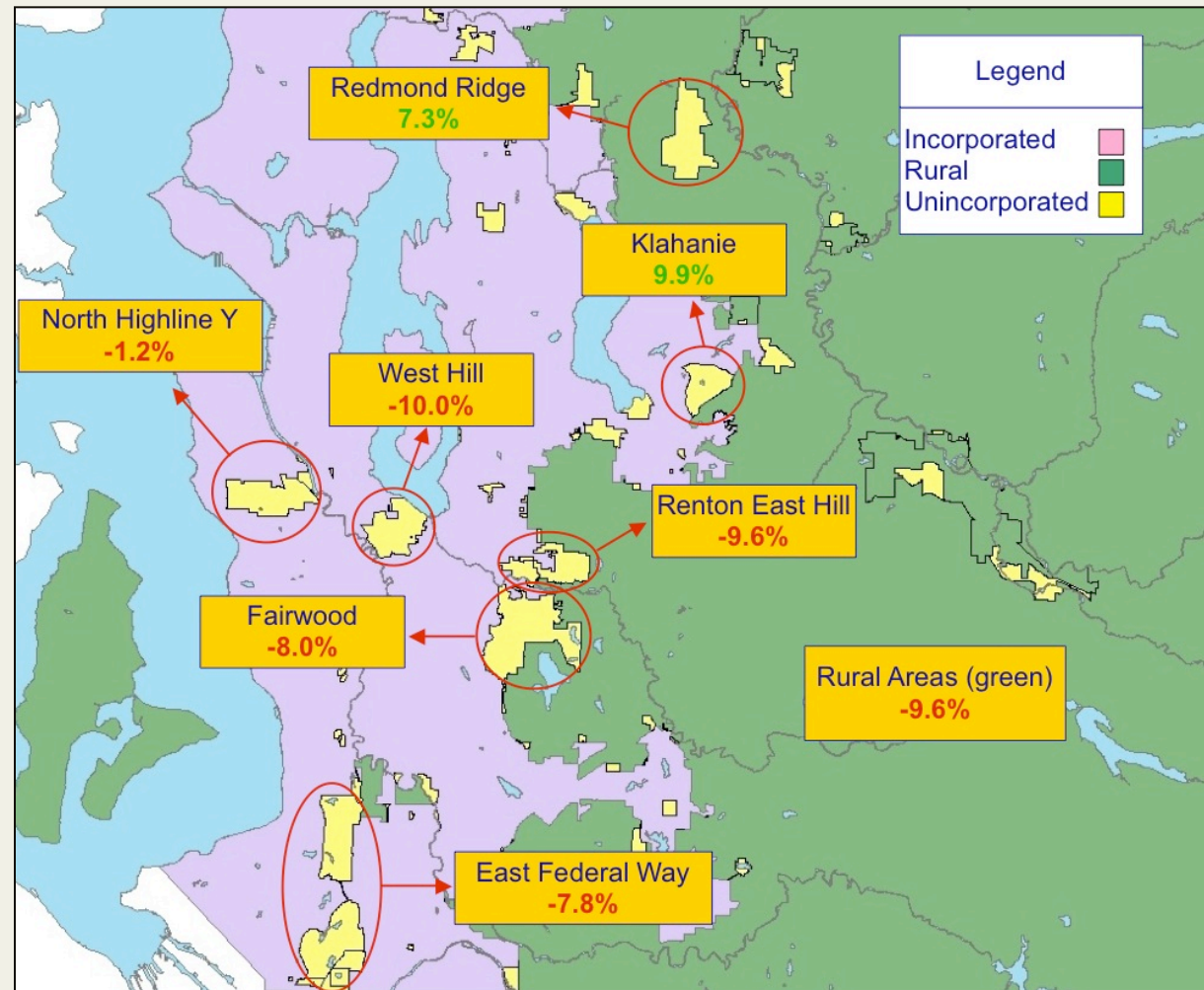


Rough going for south King County PAAs in 2013.

Forecasts: PAA Assessed value changes

The value of most of unincorporated King County was down again for 2013.

Impacts varied a lot based on location.





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New Construction Forecast

Forecasts: New construction

New construction has decreased significantly.

Positive signs for 2013: construction employment, sales and permits.

Stabilized going forward.

March 2013 Countywide New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	2,457,642,885	-52.78%	-4.79%
2012	1,925,434,669	-21.66%	-21.03%
2013	1,983,503,613	3.02%	-21.90%
2014	2,220,037,402	11.93%	-10.54%
2015	2,384,785,408	7.42%	-2.68%
2016	2,725,220,626	14.28%	7.44%
2017	2,851,579,021	4.64%	5.45%
2018	2,983,244,016	4.62%	1.69%
2019	3,122,908,750	4.68%	-0.42%
2020	3,308,286,429	5.94%	0.52%
2021	3,462,242,006	4.65%	new
2022	3,623,992,822	4.67%	new



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Unincorporated Area New Construction Forecast

Forecasts: New construction

Unincorporated KC is mostly residential properties.

Residential builders have started building again in some areas.

Annexations also affect unincorporated NC.

March 2013 Unincorporated New Construction Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	267,511,475	-12.19%	0.00%
2012	180,324,673	-32.59%	0.00%
2013	198,251,903	9.94%	16.49%
2014	219,674,605	10.81%	27.22%
2015	225,355,627	2.59%	43.42%
2016	257,525,813	14.28%	58.34%
2017	269,466,332	4.64%	55.42%
2018	281,908,310	4.62%	49.86%
2019	295,106,241	4.68%	46.77%
2020	312,623,919	5.94%	48.14%
2021	327,172,295	4.65%	new
2022	342,457,300	4.67%	new



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Property Tax Forecasts

Forecasts: Property taxes

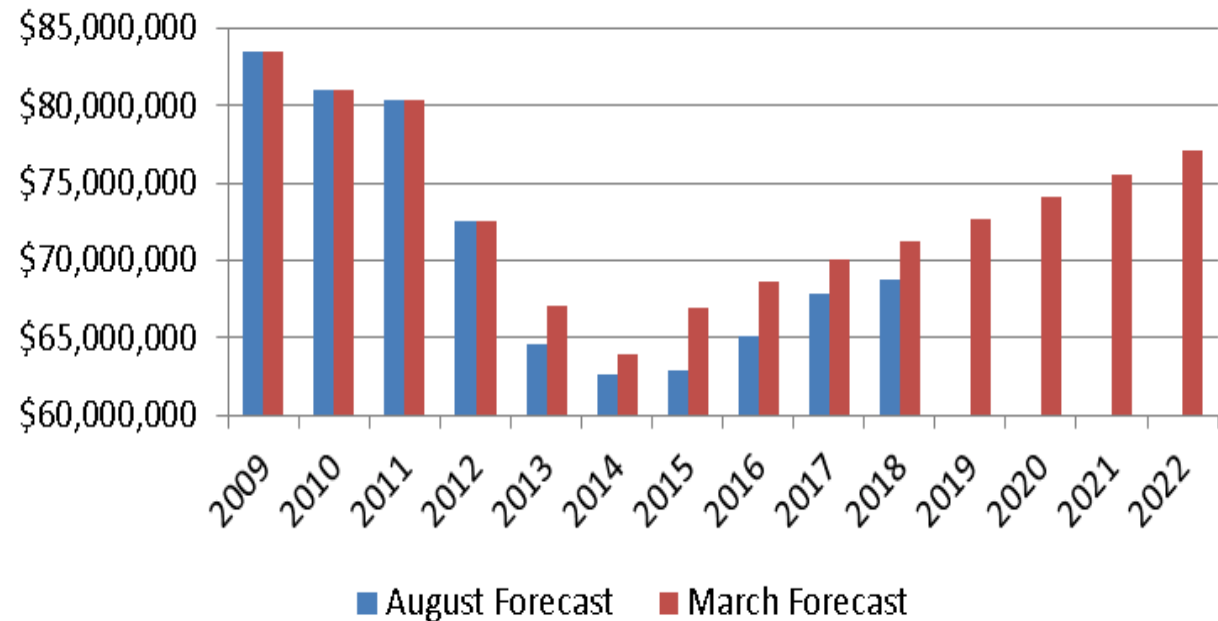
Small impact for most levies.

AFIS renewed.

Justice Center is new.

Roads levy forecast improved from August due to revised annexations and improved AV.

UAL/Roads Property Tax Revenue Forecast





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The recovery of taxable sales will continue in 2013 and 2014

Forecasts: Taxable sales

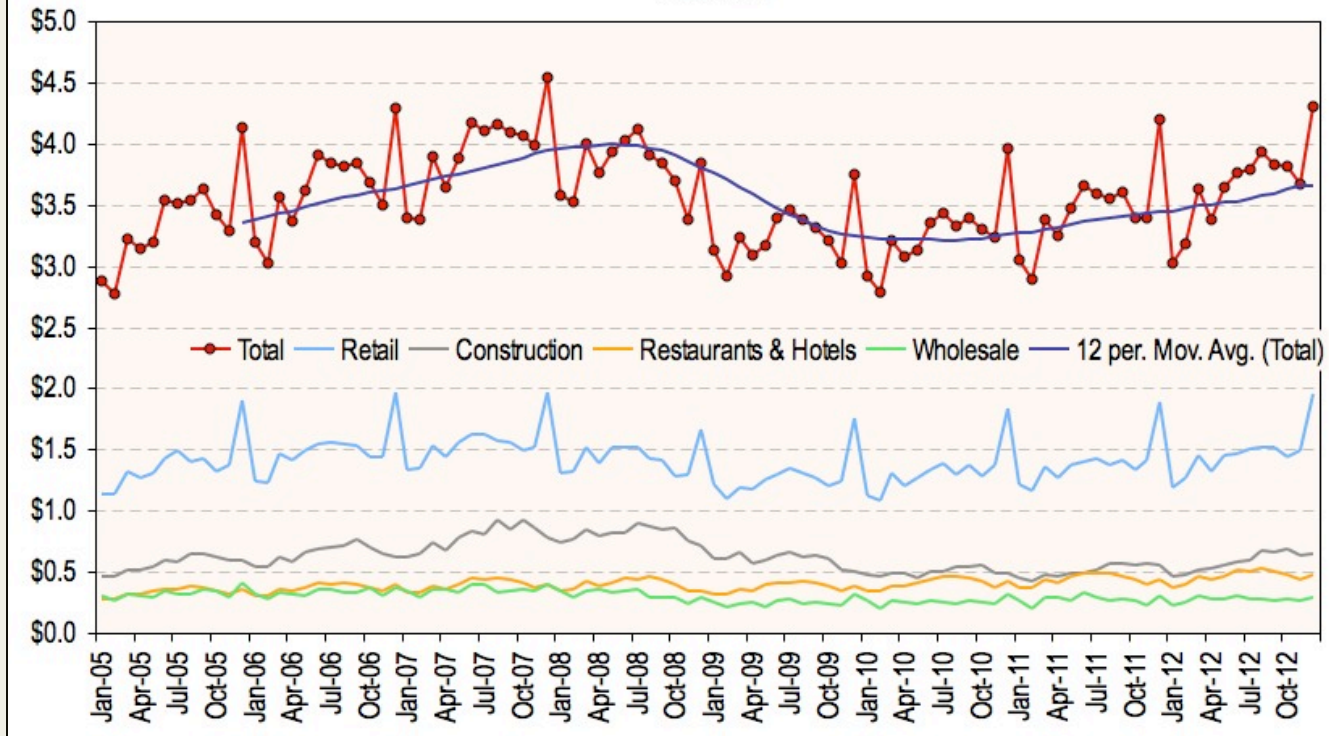
Retail and construction lead the way.

Retail makes up ~40% of taxable sales, construction ~15%.

Construction sales were up double digits year-over-year in 2012.

Current Month Taxable Sales

Net of Annual, Quarterly and Delinquent Payments
in billions \$





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Construction sales now in recovery mode after lagging retail

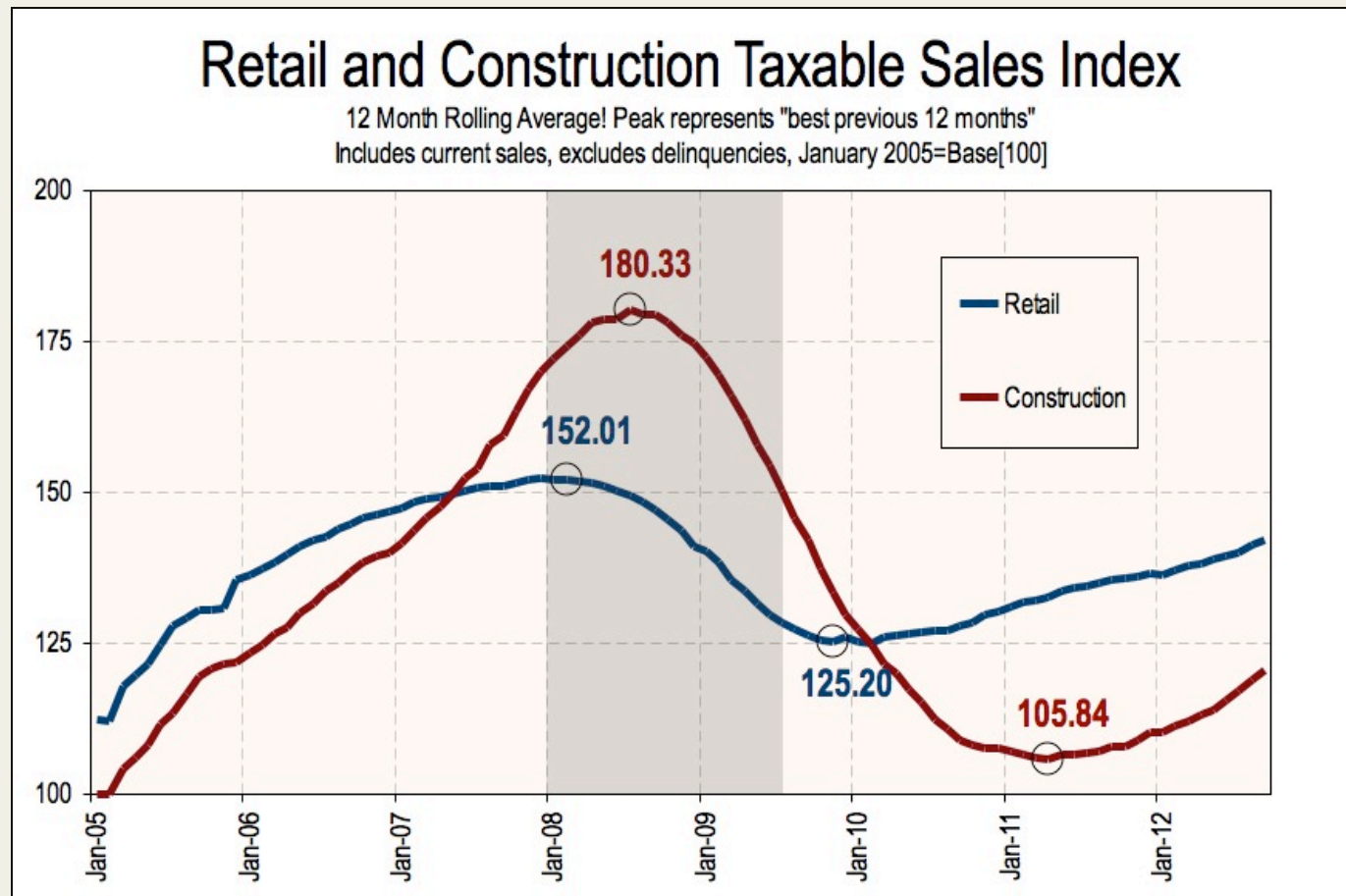
Forecasts: Retail and construction sales

Retail peaked in Feb 2008.

Construction peaked in June 2008.

Retail began recovery November 2009.

Construction recovery began April 2011.



Blue = Retail Index 12m rolling AVG Red = Construction Index 12m rolling AVG



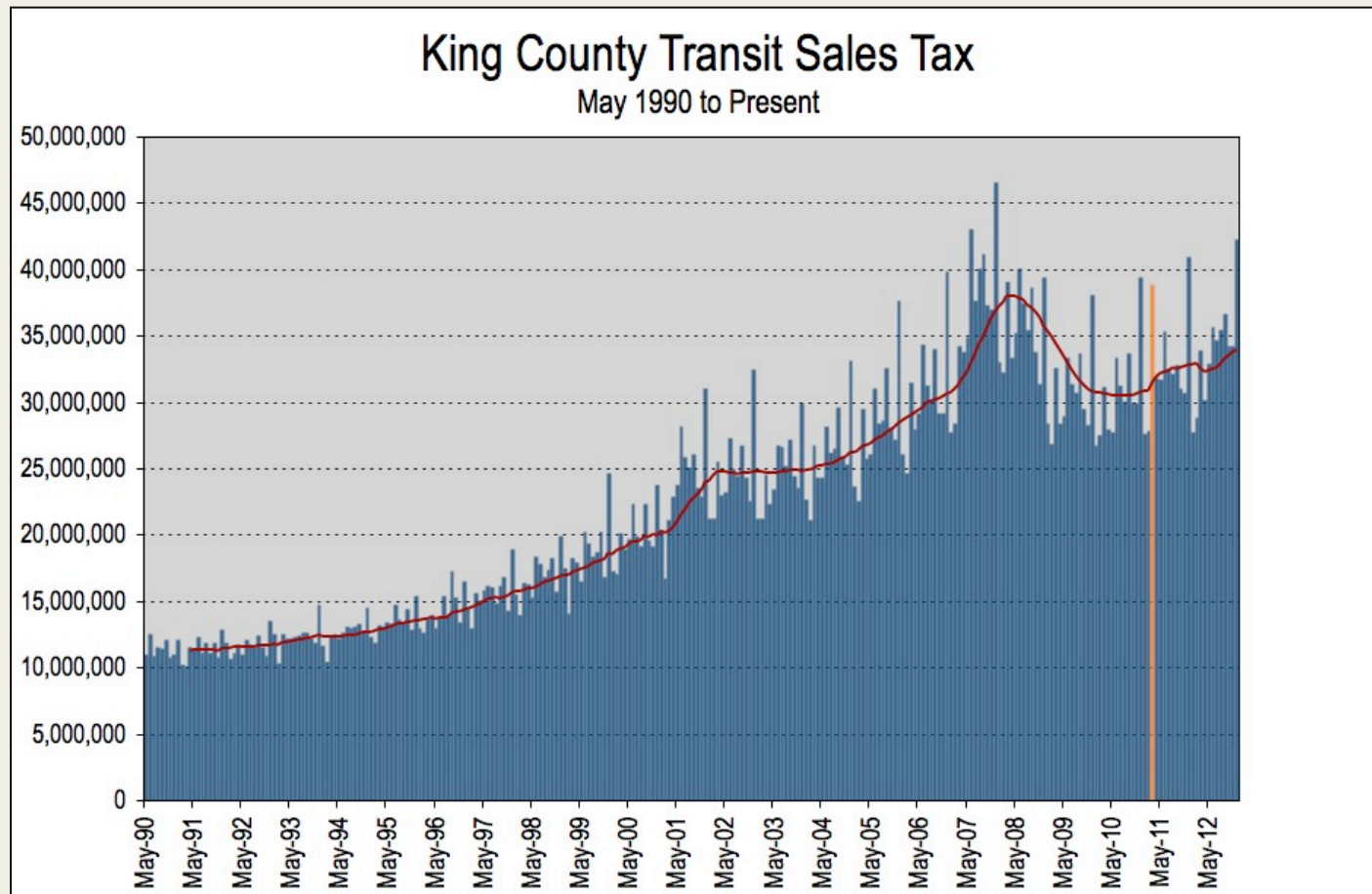
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Metro sales tax revenues saw good growth in 2012

Forecasts: Transit sales tax

2012:2H yielded good tax sales growth.

In spite of the 2011 amnesty inflating our transit sales taxes, we still had 3.3% growth for 2012.



Blue = Actual Red = 12 month rolling average Orange = Amnesty



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Local Sales Tax Forecast

Forecasts: Local sales tax

2013 and beyond are looking up due to a recovering economy.

Forecasts account for mitigation, annexations and the amnesty received in 2011.

March 2013 Local and Option Sales Tax Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	81,032,753	6.57%	0.00%
2012	83,212,808	2.69%	2.63%
2013	86,131,837	3.51%	2.84%
2014	89,292,907	3.67%	4.36%
2015	94,281,023	5.59%	4.46%
2016	99,404,626	5.43%	4.01%
2017	104,574,474	5.20%	3.80%
2018	109,076,421	4.31%	3.41%
2019	113,770,429	4.30%	3.13%
2020	118,640,221	4.28%	2.85%
2021	123,698,177	4.26%	new
2022	129,019,659	4.30%	new



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Transit Sales Tax Forecast

Forecasts: Transit sales tax

2013 and beyond are looking up due to a recovering economy.

Forecasts account for mitigation, annexations and the amnesty received in 2011.

March 2013 Metro Transit Sales Tax Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	399,483,215	6.47%	0.00%
2012	412,585,076	3.28%	1.79%
2013	430,030,630	4.23%	1.61%
2014	448,938,454	4.40%	2.16%
2015	473,772,147	5.53%	1.76%
2016	499,285,270	5.39%	1.27%
2017	525,031,914	5.16%	1.02%
2018	547,444,315	4.27%	0.61%
2019	570,818,543	4.27%	0.31%
2020	595,073,221	4.25%	0.01%
2021	620,270,125	4.23%	new
2022	646,572,702	4.24%	new



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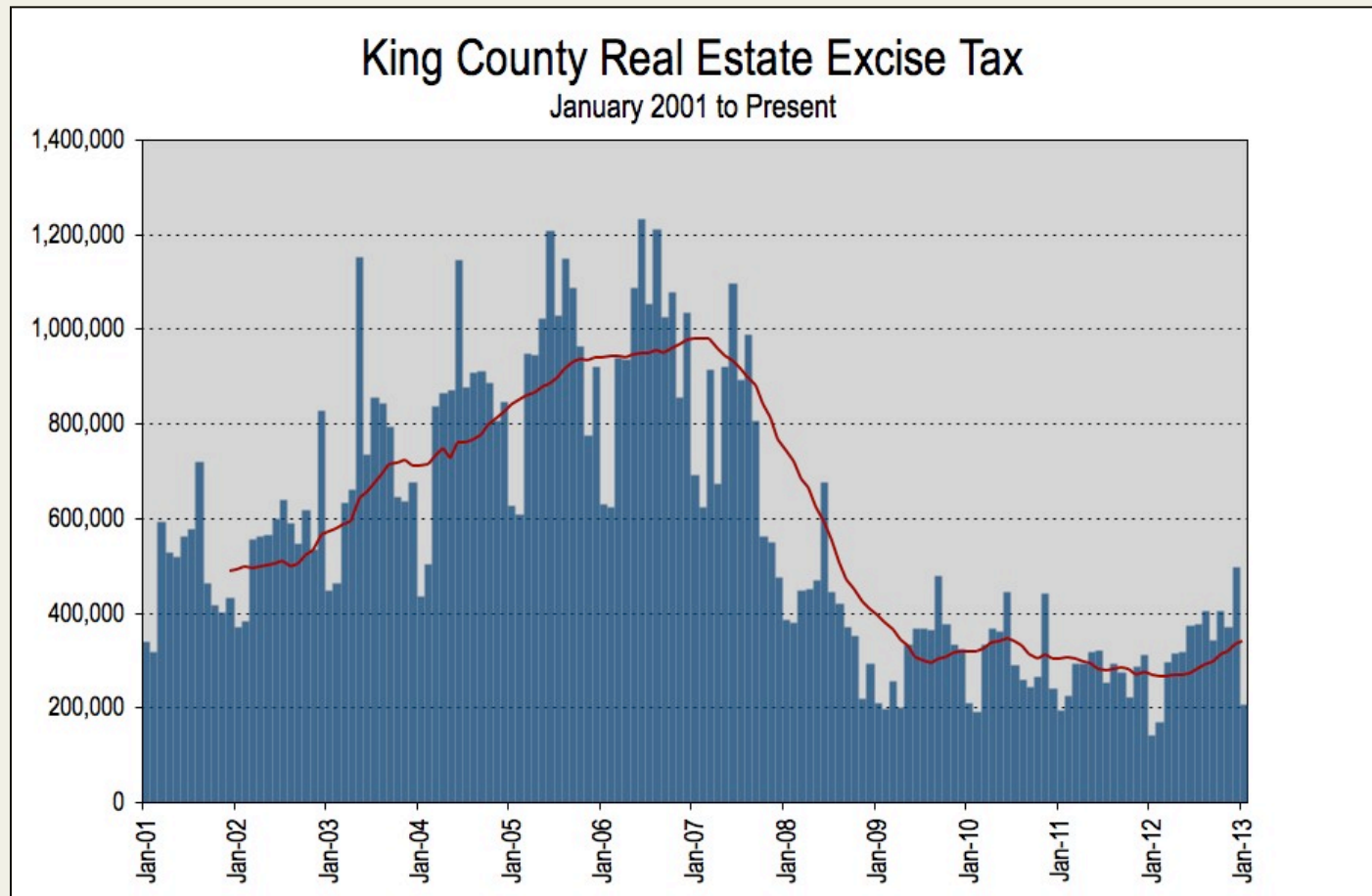
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Economic context: Real estate taxes

2012 had a strong finish due to some large sales.

REET will rise as prices and sales volume pickup.

Annexations will exert downward pressure on this revenue.



Blue = Actual Red = 12 month rolling average



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The inflation rate in the Seattle area has accelerated between 2010 and 2012

Forecasts: Inflation

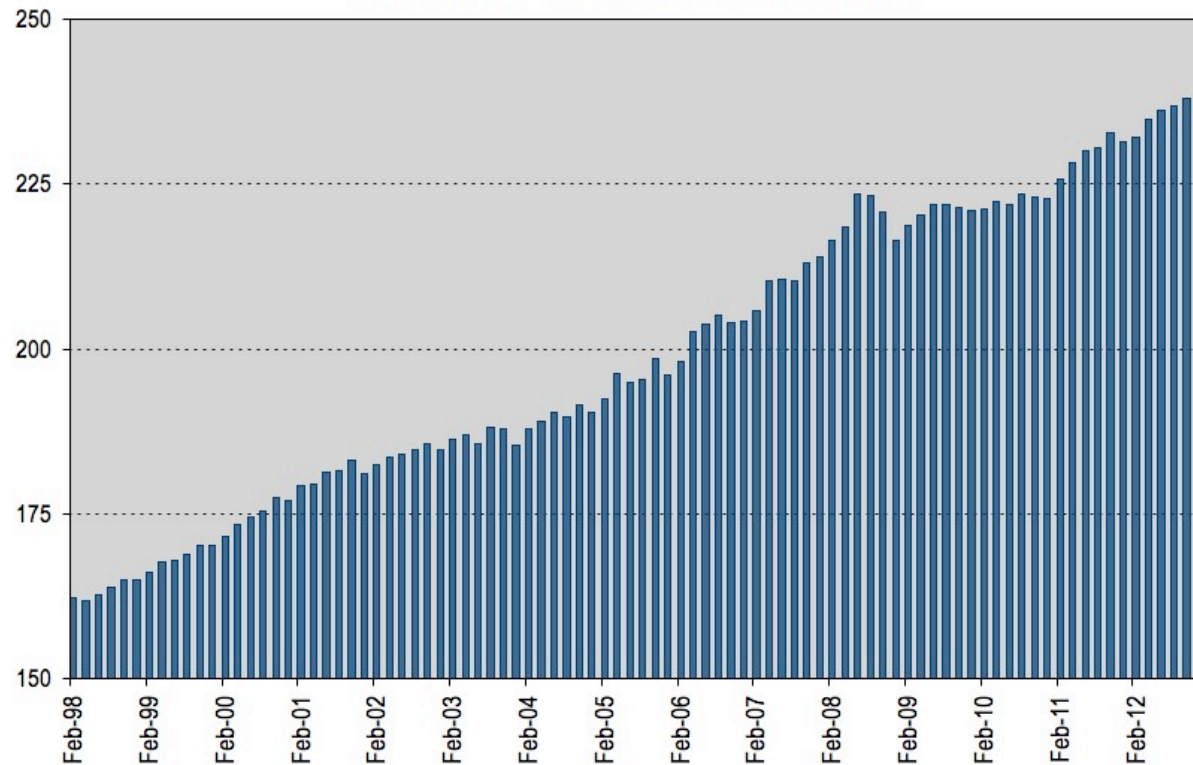
Inflation measures are weighted

Housing makes up about 40%

Housing costs (rents) have been a factor.

High gas prices were also a driver.

Seattle Baseline Inflation
Seattle CPI-W February 1998 to December 2012





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June-June Seattle CPI-W Forecast

Forecasts: Inflation

Inflation in the Seattle area is forecast to be modest.

The preliminary 2014 COLA is forecast to be 2.00%.

March 2013 June-June Average Seattle CPI-W Forecast
Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	Change from August 2012 Forecast
2011	1.81%	1.19%	0.00%
2012	3.26%	1.44%	0.00%
2013	2.10%	-1.16%	0.00%
2014	2.23%	0.13%	-0.15%
2015	2.32%	0.09%	-0.03%
2016	2.33%	0.01%	-0.06%
2017	2.33%	0.00%	-0.12%
2018	2.45%	0.12%	-0.04%
2019	2.53%	0.08%	-0.04%
2020	2.53%	0.00%	-0.03%
2021	2.54%	0.01%	new
2022	2.56%	0.02%	new

Questions?