



King County

PRELIMINARY ECONOMIC AND REVENUE FORECASTS FOR THE KING COUNTY BUDGET: 2011 AND BEYOND

Briefing to the King County
Forecast Council

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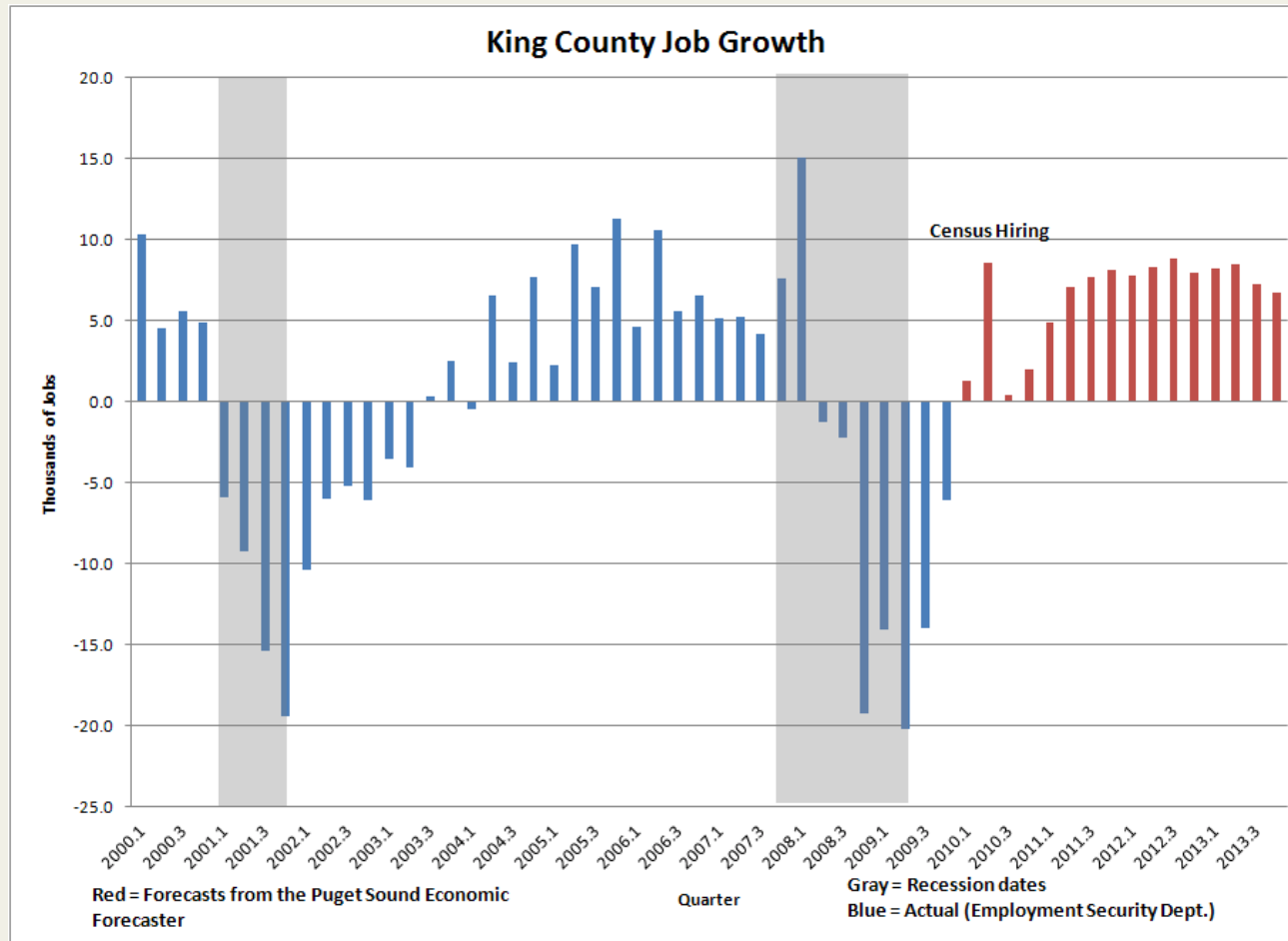


Briefing outline

- Economic outlook
- Forecast methodology
- Assessed valuation and new construction
- Inflation and COLAs
- Sales tax revenues
- Hotel/motel and rental car tax revenues
- Real estate excise tax revenues
- Investment pool returns

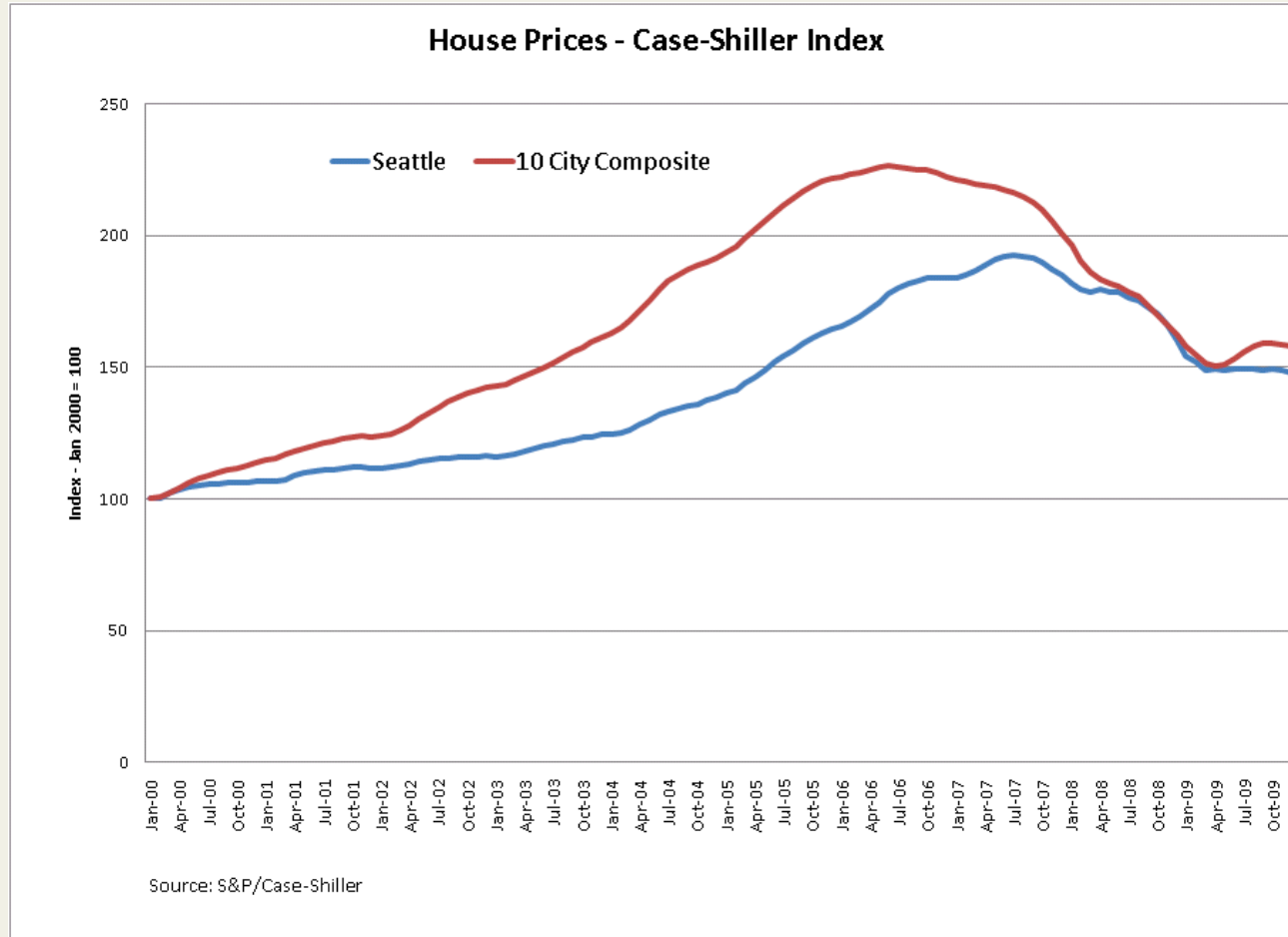


Positive job growth expected this quarter





House prices have bottomed out



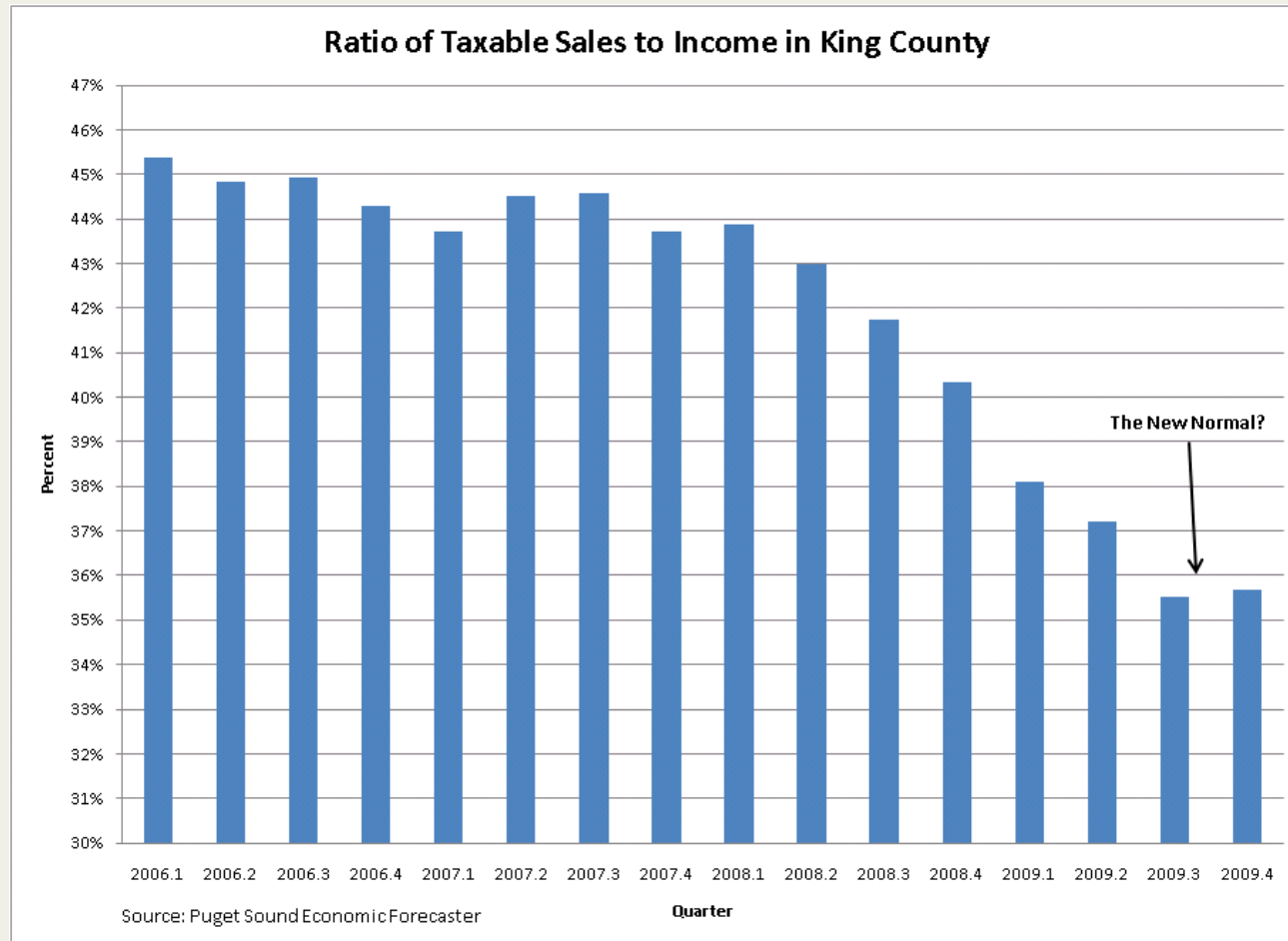


But challenges remain

- The 75,000 jobs lost in King County will require 2-3 years of good job growth just to get even
- Long-term unemployment will rise in the near term
- Consumers are still very cautious



Households are repairing their balance sheets





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Forecasting methodology

King County revenues and inflators are linked to a blend of projections from these forecasting services.

Professional Forecast Services

IHS Global Insight US Macro Model

Blue Chip Consensus Forecasts

Washington Economic & Revenue Forecast Council

Puget Sound Economic Forecaster



Median/high/low forecasts to facilitate budget scenario analysis

Forecast	Definition
Median Forecast (Baseline)	“Most Likely”: Actual value has 50% chance of being higher or lower
Low Forecast (Pessimistic)	10% chance actual will be less
High Forecast (Optimistic)	10% chance actual will be higher
High – Low Forecasts	80% confidence interval

Preliminary Forecasts for 2011



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Assessed valuation and new construction

- ❑ Single-family housing is poised to rebound
- ❑ Condominium sales are still struggling
- ❑ There is a glut in the office market
- ❑ Small businesses are still finding it difficult to get financing for any new construction



Further reductions in new construction and valuations are likely

Tax Year	New Construction (bil. \$)			Assessed Valuation (bil. \$)		
	Actual	Median Forecast	% Δ	Actual	Median Forecast	% Δ
2010	5.21			342.0		
2011		3.32	-36%		322.2	-6%
2012		3.10	-7%		309.8	-4%
2013		3.58	+15%		322.7	+4%



Inflation and cost-of-living-allowances (COLAs)

- The CPI fell in 2009, in spite of “loose” monetary policy
- A modest snap back of inflation is expected in 2010



COLA for 2011 will likely be above the 2% floor

The COLA is 90% of September-to-September CPI-W applied to the following calendar year. There is a floor of 2% and a ceiling of 6%.

	CPI-W		COLA	
	Actual	Median Forecast	Actual	Median Forecast
2009	-1.68%			
2010		3.15%	2.00%	
2011		2.46%		2.87%
2012		2.23%		2.22%
2013		2.09%		2.02%

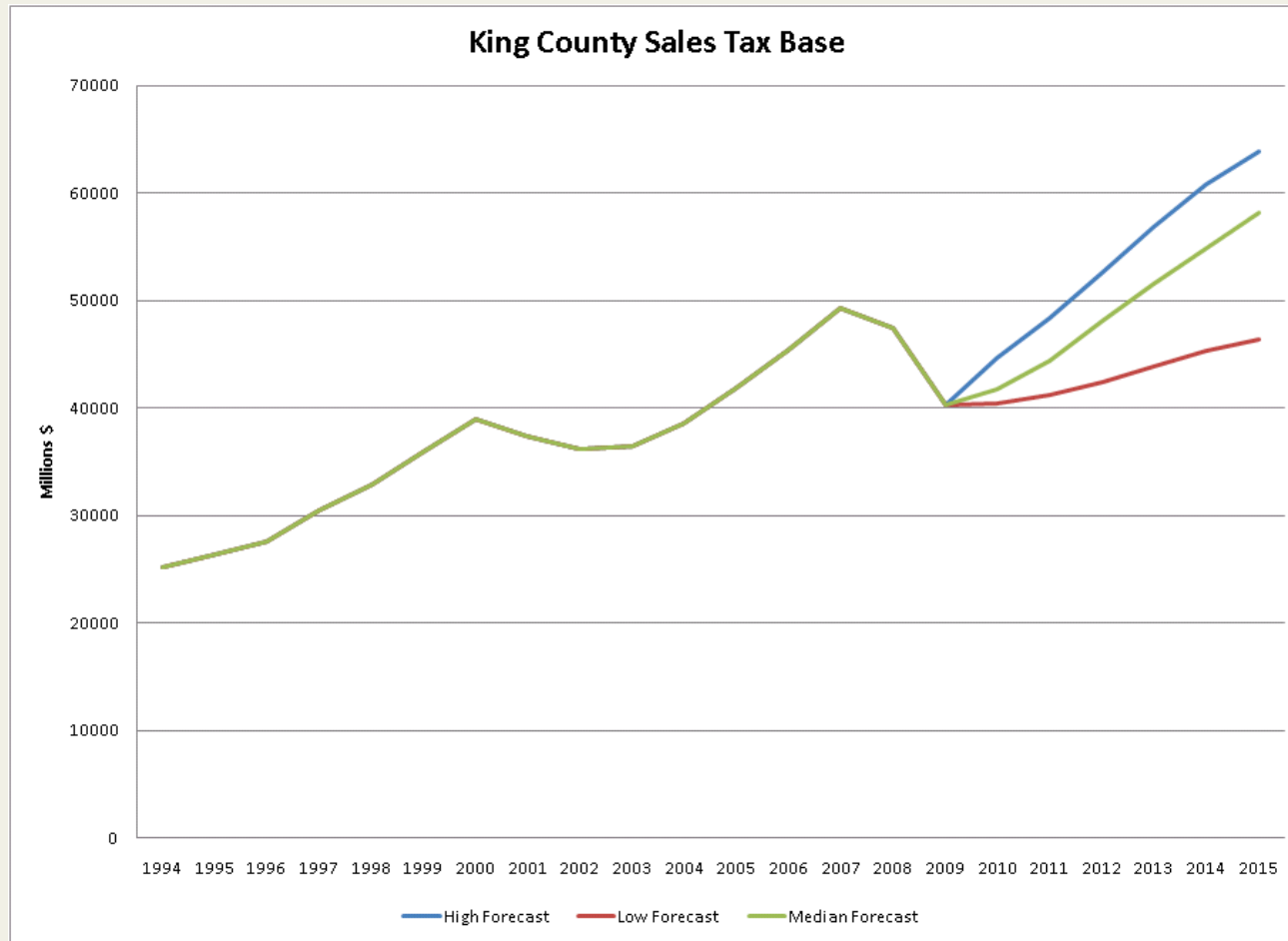


Median forecasts of additional inflators for 2011

- **CPI-U - US = 2.0%**
- **CPI-W – Seattle = 1.8%**
- **PPI – Pharmaceuticals = 8.7%**
- **CPI-U – Transportation = 1.6%**
- **Price of diesel fuel = \$2.43/gallon**



Sales tax base set to grow modestly in 2011





Sales tax revenues will see an increase in 2011 (except criminal justice)

Year	General Fund	Children & Family Services	Transit	Criminal Justice	Mental Illness & Drug Dep.
2009 (Actual)	-13.3%	-13.3%	-13.3%	-14.9%	+17.0%
2010 (Median)	3.0%	3.0%	2.1%	-2.7%	2.3%
2011 (Median)	4.4%	4.4%	6.3%	-0.9%	6.3%
2012 (Median)	7.3%	7.3%	8.3%	4.9%	8.3%

Annexations: North Highline X (March 2010); Panther Lake (July 2010);
Juanita/Finn Hill/Kingsgate (July 2011)
Delinquent payments of 3% assumed
Mitigation payments are NOT assumed going forward



Hotel/motel and rental car revenues

Year	Rental Car		Hotel/Motel	
	Actual	Median Forecast	Actual	Median Forecast
2009	-8.2%		-17.3%	
2010		+4.7%		+7.4%
2011		+3.7%		+5.7%
2012		+5.1%		+7.4%



Real estate excise taxes

- Recovery in transactions will be led by the single-family housing market
- Transactions in multi-family and commercial properties will be below trend for the next two years at least



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Real estate excise taxes

Year	Actual	Median Forecast
2009	-22.4%	
2010		+6.1%
2011		-0.1%
2012		+9.6%
2013		+12.1%

Annexations: North Highline X (March 2010); Panther Lake (July 2010);
Juanita/Finn Hill/Kingsgate (July 2011)



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Investment pool returns

- Forecasts developed in consultation with the investment pool portfolio manager
- Factors affecting pool returns/yields
 - Fed Funds rate
 - Timing of cash inflows and outflows
 - Callable features of some instruments
 - Average maturity/duration



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Investment pool returns

Year	Actual	Median Forecast
2009	1.75%	
2010		0.80%
2011		1.10%
2012		2.75%
2013		3.70%



Summary for 2011

- New construction and assessed valuation will see further declines in 2011
- Sales tax revenues will increase modestly, except for criminal justice
- The COLA will likely be around 3%
- REET will increase in 2010 and level off in 2011
- Hotel/motel and rental car revenues will bounce back with the recovery
- Investment pool returns will increase if the Fed raises rates

Questions?