

PRELIMINARY FORECASTS FOR THE 2012 KING COUNTY BUDGET

Briefing to the King County Forecast Council



Briefing outline

- Economic context
- Preliminary forecasts for the 2012 budget



Transition from Recovery to Expansion

Economic context

- The Good
 - A broad-based recovery transitioning into expansion is finally underway
- The Not-As-Good (but improving)
 Unemployment will come down slowly
- The Downright Ugly
 Residential and commercial real estate have not yet bottomed out



King County The Good

Economic context

- The Obama-Republican tax compromise will "...add 0.5 to 1.0 percent to real GDP growth in 2011" – Goldman-Sachs
- Stock market almost back to pre-recession highs
- Core inflation remains under control
- Personal and dividend income is growing steadily
- Manufacturing and corporate profits are on the rise
- Retail sales will continue the positive growth of 2010



The Not-As-Good (but improving)

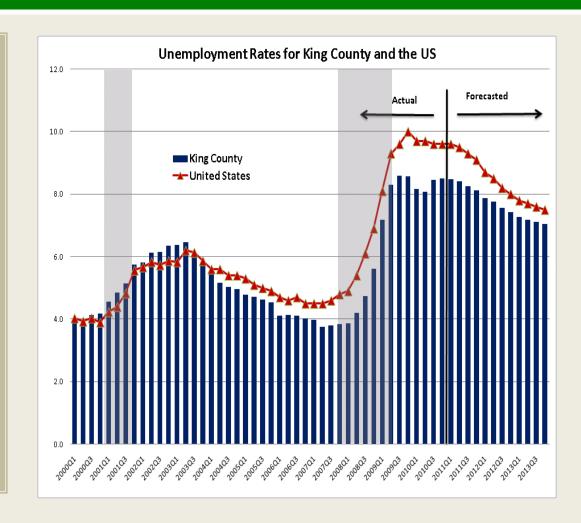
Economic context

Unemployment rate historically high - will come down slowly

Hiring in internet, health, retail, hospitality, and financial sectors

Across US: 80% of new layoffs are government jobs

In Washington: 1,000 people a week are exhausting their benefits because they are over 99 weeks unemployed





The Downright Ugly – Real Estate

Economic context

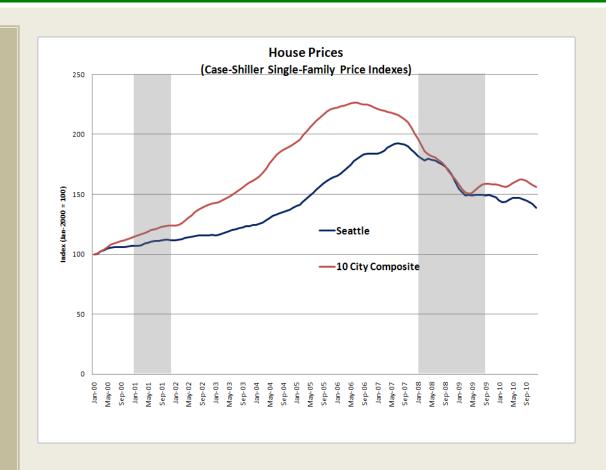
A double-dip recession in house values

1 in 3 Puget Sound homeowners are "underwater" Zillow.com

"Foreclosure crisis biggest threat to economic growth" Moody's Analytics

Office vacancies remain high, though improving

New construction won't recover until 2013 (tax year 2014)



Preliminary Forecasts for 2012

Assumptions

65% Confidence Level – only a 35% chance that actual revenues will fall short of forecasted

All potential annexation areas are assumed to occur on schedule

Mitigation payments for sales tax streamlining are assumed to continue

Results of November 2010 election incorporated Fairwood eliminated as an annexation area Candy exemption reinstated



Countywide Assessed Valuation

Tax year 2012 (this calendar year) will see values bottom out AV will get on a modest growth path beginning in tax year 2013

Tax Year	Value	Change
2007	298,755,199,059	10.42%
2008	340,995,439,577	14.14%
2009	386,889,727,909	13.46%
2010	341,971,517,465	-11.61%
2011	328,927,984,820	-3.81%
2012	326,944,612,842	-0.60%
2013	345,334,256,786	5.62%
2014	363,896,517,798	5.38%
2015	387,095,220,371	6.38%



Unincorporated Assessed Valuation ("Roads")

Planned annexations of developed areas will substantially offset growth in assessed valuation of unincorporated King County

Tax Year	Value	Change	Annexation Dates
2007	45,145,645,420	9.35%	
2008	50,369,419,770	11.57%	Auburn West Hill (1-1-07), Lea Hill (1-1-07), Benson Hill (3-1-07)
2009	52,536,624,390	4.30%	
2010	43,743,564,380	-16.74%	
2011	39,160,639,470	-10.48%	North Highline X (4-1-10), Pantherlake (7-1-10)
2012	34,662,259,457	-11.49%	Juanita-FinnHill-Kingsgate (7-1-11)
2013	36,425,030,079	5.09%	
2014	35,418,237,273	-2.76%	North Highline Y (1-1-13), Renton West Hill (1-1-13)
2015	37,805,047,539	6.74%	



Countywide New Construction

The two-year decline in new construction will continue for another two years before turning around.

We forecast a 75% decline from the peak year of 2009 to 2013

Tax Year	Value	Change
2007	5,950,400,000	19.86%
2008	6,663,100,000	11.98%
2009	8,005,200,000	20.14%
2010	5,205,200,000	-34.98%
2011	2,457,642,885	-52.78%
2012	2,167,134,462	-11.82%
2013	1,993,060,934	-8.03%
2014	2,469,577,054	23.91%
2015	3,308,014,943	33.95%



Unincorporated New Construction ("Roads")

The two-year decline in new construction will continue for another two years.

Positive growth will resume in tax year 2014 in spite of annexations

Tax Year	Value	Change	Annexation Dates
2007	1,051,911,167	17.10%	
2008	938,271,172	-10.80%	Auburn West Hill (1-1-07), Lea Hill (1-1-07), Benson Hill (3-1-07)
2009	821,583,000	-12.44%	
2010	304,665,097	-62.92%	
2011	267,511,475	-12.19%	North Highline X (4-1-10), Pantherlake (7-1-10)
2012	209,619,534	-21.64%	Juanita-FinnHill-Kingsgate (7-1-11)
2013	192,139,190	-8.34%	
2014	219,536,958	14.26%	North Highline Y (1-1-13), Renton West Hill (1-1-13)
2015	294,071,221	33.95%	



Sales and Use Tax Base

Retail sales are up sharply, driven by increases in personal income

But taxable sales from construction, manufacturing, and professional services have lagged behind

Year	Value	Change
2007	49,268,622,240	8.52%
2008	47,440,908,710	-3.71%
2009	40,783,082,660	-14.03%
2010	40,362,158,094	-1.03%
2011	42,211,884,304	4.58%
2012	44,513,888,829	5.45%
2013	46,542,813,629	4.56%
2014	48,984,206,707	5.25%
2015	51,527,587,612	5.19%



General Fund and Children and Family Services ("Local and Option")

1% of tax base in Unincorporated areas, 0.15% in incorporated areas. 95.4% of the total goes to the General Fund, 4.6% to CFS

Annexations result in reductions in County revenue from 1% to 0.15% of the tax base.

Accrual Year	Value	Change	Annexation Dates
2007	91,912,631	10.10%	Auburn West Hill (1-1-07), Lea Hill (1-1-07), Benson Hill (3-1-07)
2008	87,672,896	-4.61%	
2009	76,142,480	-13.15%	
2010	76,040,263	-0.13%	North Highline X (4-1-10), Pantherlake (7-1-10)
2011	77,097,637	1.39%	Juanita-FinnHill-Kingsgate (7-1-11)
2012	80,505,598	4.42%	
2013	82,493,774	2.47%	North Highline Y (1-1-13), Renton West Hill (1-1-13)
2014	86,820,967	5.25%	
2015	88,902,552	2.40%	East Federal Way (1-1-15), Eastgate (1-1-15), East Renton (1-1-15), Klahanie (1-1-15)



Metro Transit Sales Tax Revenue

0.9% of the countywide sales and use tax base with adjustments for late and delinquent payments, mitigation payments, and a 1% Department of Revenue fee.

Year	Value	Change
2007	442,042,300	20.36%
2008	432,934,213	-2.06%
2009	376,904,266	-12.94%
2010	375,302,215	-0.43%
2011	390,181,069	3.96%
2012	411,459,403	5.45%
2013	430,213,554	4.56%
2014	452,780,312	5.25%
2015	476,289,783	5.19%



Mental Illness and Drug Dependency (MIDD) Sales Tax Revenue

0.1% of the countywide sales and use tax base with adjustments for late and delinquent payments, mitigation payments, and a 1% Department of Revenue fee.

Year	Value	Change
2007	-	-
2008	35,564,904	-
2009	41,773,812	17.46%
2010	40,724,094	-2.51%
2011	43,365,417	6.49%
2012	45,730,329	5.45%
2013	47,814,699	4.56%
2014	50,322,808	5.25%
2015	52,935,693	5.19%



Criminal Justice Sales Tax Revenue

0.01% of the countywide sales and use tax base plus a portion of 0.09% based on the population of unincorporated King County. Annexations reduce that portion.

Year	Value	Change	Annexation Dates
2007	14,229,175	9.55%	Auburn West Hill (1-1-07), Lea Hill (1-1-07), Benson Hill (3-1-07)
2008	12,973,186	-8.83%	
2009	11,086,865	-14.54%	
2010	10,923,871	-1.47%	North Highline X (4-1-10), Pantherlake (7-1-10)
2011	10,851,356	-0.66%	Juanita-FinnHill-Kingsgate (7-1-11)
2012	10,672,677	-1.65%	
2013	10,402,249	-2.53%	North Highline Y (1-1-13), Renton West Hill (1-1-13)
2014	10,568,162	1.59%	
2015	11,116,887	5.19%	East Federal Way (1-1-15), Eastgate (1-1-15), East Renton (1-1-15), Klahanie (1-1-15)



Hotel-Motel Sales Tax Revenue

The leisure and accommodations sector rebounded strongly in 2010 and is projected to continue that trend.

Year	Value	Change
2007	20,493,338	12.40%
2008	20,701,685	1.02%
2009	16,892,478	-18.40%
2010	18,067,436	6.96%
2011	19,295,725	6.80%
2012	20,021,460	3.76%
2013	20,825,065	4.01%
2014	21,535,968	3.41%
2015	22,167,061	2.93%



Rental Car Sales Tax Revenue

The rental car market sector rebounded modestly in 2010 and is projected to continue that trend.

Year	Value	Change
2007	2,835,416	3.64%
2008	2,835,443	0.00%
2009	2,651,750	-6.48%
2010	2,737,771	3.24%
2011	2,816,399	2.87%
2012	2,846,535	1.07%
2013	2,913,628	2.36%
2014	2,970,666	1.96%
2015	3,011,797	1.38%



Real Estate Excise Tax (REET)

Below is the forecast for REET1. REET2 is an equal amount that also goes to the County.

The County only receives REET from unincorporated areas, so revenues are acutely affected by annexations.

Year	Value	Change	Annexation Dates
2007	9,202,858	-21.41%	Auburn West Hill (1-1-07), Lea Hill (1-1-07), Benson Hill (3-1-07)
2008	4,912,082	-46.62%	
2009	3,809,800	-22.44%	
2010	3,647,888	-4.25%	North Highline X (4-1-10), Pantherlake (7-1-10)
2011	3,363,472	-7.80%	Juanita-FinnHill-Kingsgate (7-1-11)
2012	3,238,043	-3.73%	
2013	3,362,912	3.86%	North Highline Y (1-1-13), Renton West Hill (1-1-13)
2014	3,698,390	9.98%	
2015	3,530,717	-4.53%	East Federal Way (1-1-15), Eastgate (1-1-15), East Renton (1-1-15), Klahanie (1-1-15)



Investment Pool Rate of Return

The Pool portfolio is primarily invested in short-term government issues. The Federal Reserve is expected to keep interest rates low through 2012. In 2013, the combination of higher rates and the Pool's gradual exposure to credit instruments should begin to raise returns.

Year	Value	Change	
2007	5.09%	0.40%	
2008	3.30%	-1.79%	
2009	1.76%	-1.54%	
2010	0.96%	-0.79%	
2011	0.34%	-0.62%	
2012	0.55%	0.21%	
2013	1.46%	0.91%	
2014	2.49%	1.03%	



Cost of Living Adjustments (COLA)

"New" COLA formula based on CPI-W Seattle: 0% in 2011; 90% of index in 2012; 95% of index in 2014-5; 0% floor, no ceiling

"Old" COLA formula based on CPI-W US: 90% of index with 2% floor, 6% ceiling

The COLA projections are based on forecasts of the two indexes.

Year	Old COLA	New COLA	Diff
2011	2.00%	0.00%	-2.00%
2012	2.00%	1.77%	-0.23%
2013	2.00%	1.88%	-0.12%
2014	2.00%	1.92%	-0.08%
2015	2.09%	2.06%	-0.03%

Questions?