



King County

Preliminary Forecasts for the 2013 King County Budget

Briefing to the King County Forecast Council

March 7th, 2012

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Briefing outline

- Introduction
- Economic context
- Revenue review
- Major forecasts



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What you need to know about Tony

Economic context

- ❑ UW grad
- ❑ Six year county veteran
- ❑ Lives in lovely Kent
- ❑ Hopes you like charts
- ❑ Compared to Dr. Goodwin, has the charisma of a damp rag



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Gas prices back in the headlines

Economic context

- Rising gas prices have taken center stage in recent weeks, but what will the impact be to the economy?
 - IHS Global Insight model of the US economy assumes \$115/barrel (Brent crude) for 2012
 - Current price is **\$125/barrel** -- \$10 extra per barrel for all of 2012 would:
 - Reduce 2012 real GDP growth from 2.1% to 1.9%.
 - Reduce 2012 job growth from 1.5% to 1.4%
 - Increase inflation for 2012 (it would fade in 2013)
- Major factors that could impact US gas prices this year:
 - Tensions in Iran constraining global supply
 - Surging global demand
 - A declining Euro could bolster the Dollar (lowering the price per barrel)



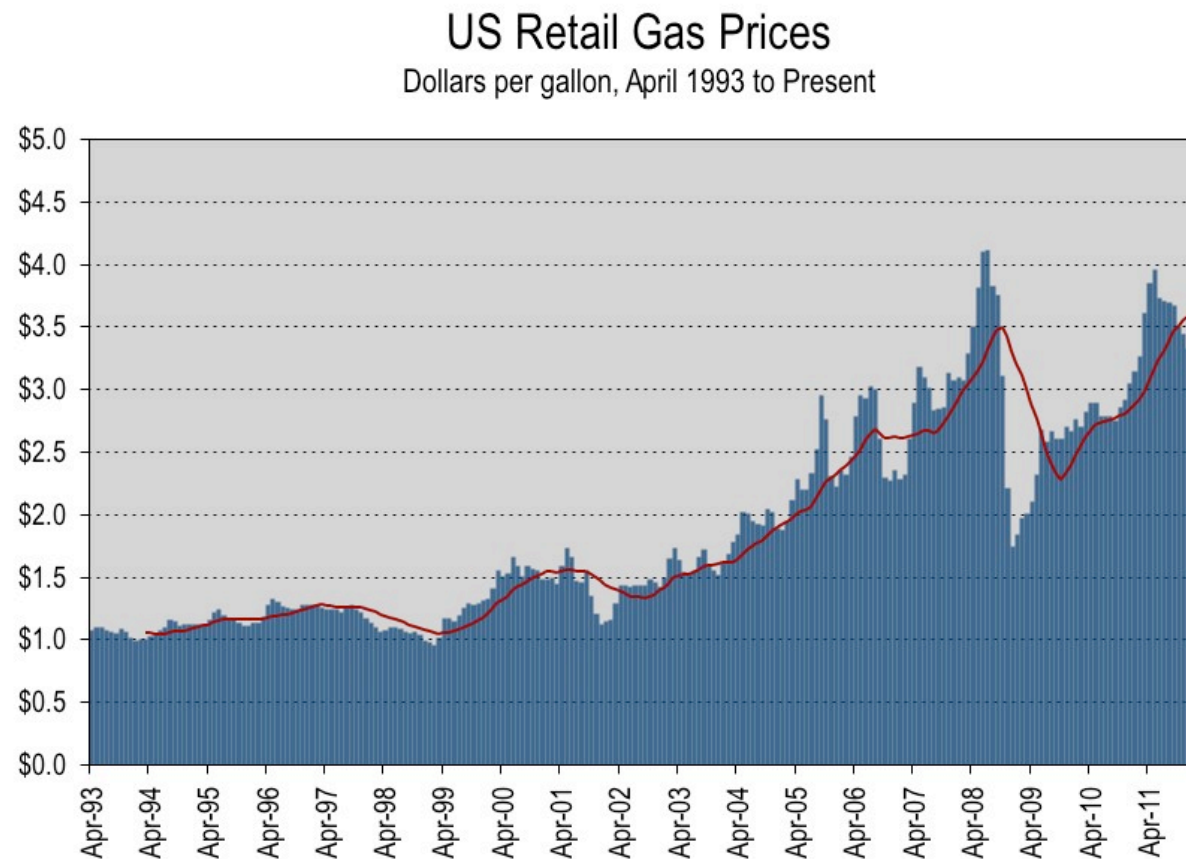
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Gas prices back in the headlines

Economic context

U.S. retail gas prices declined sharply in 2008 but the latest 12-month rolling average has surpassed peak levels.

Elevated levels for an extended period will be inflationary.



Blue = Actual Red = 12 month rolling average



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Gas prices back in the headlines

Economic context

The U.S. is far and away the largest consumer of oil in the world.

Demand in the developing "BRIC" nations has surged in the last decade.

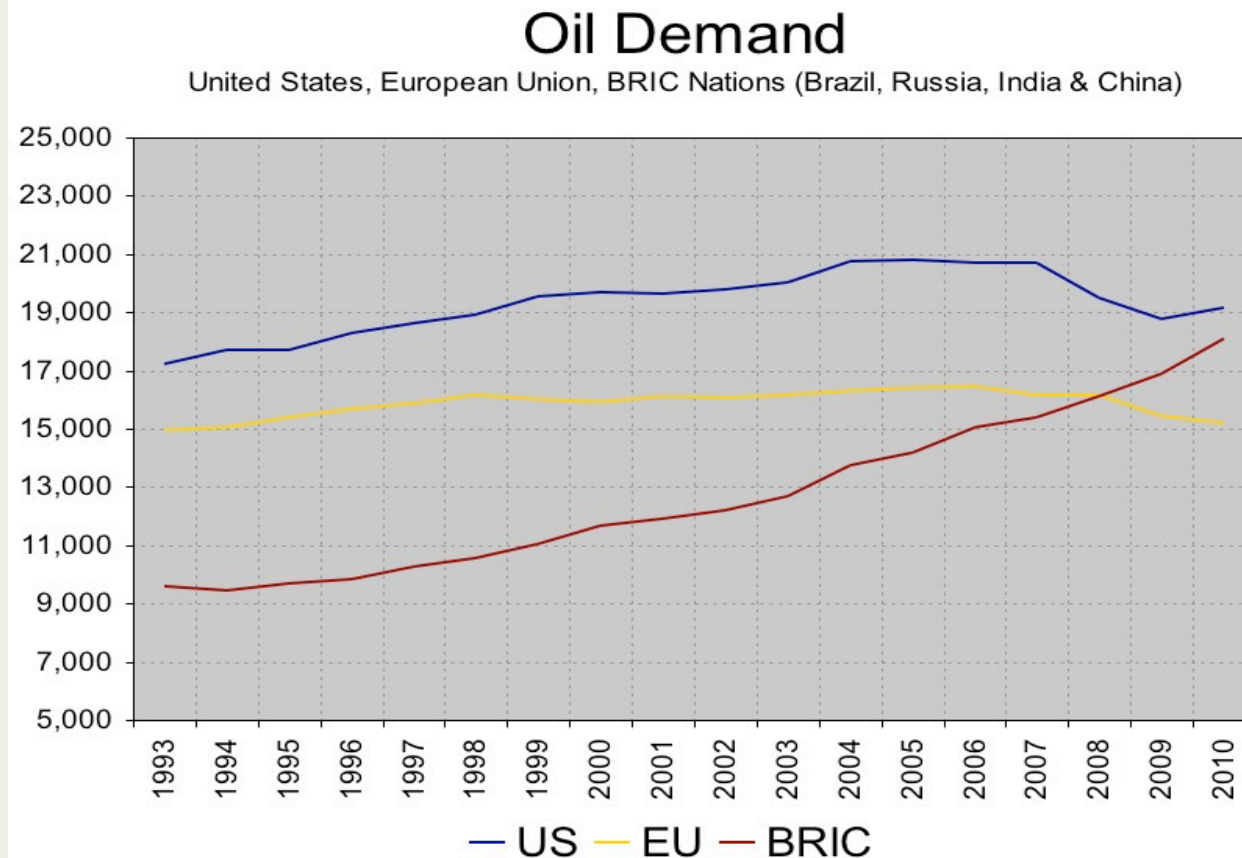


Table scale = thousand of barrels per day



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Is this suburb in the Midwest?

Economic context

Actually, it's the Northeast. A suburb of the city of Shenyang, China.

Vehicle registrations in China increased 27% in 2010.

China now has the second most vehicles worldwide.



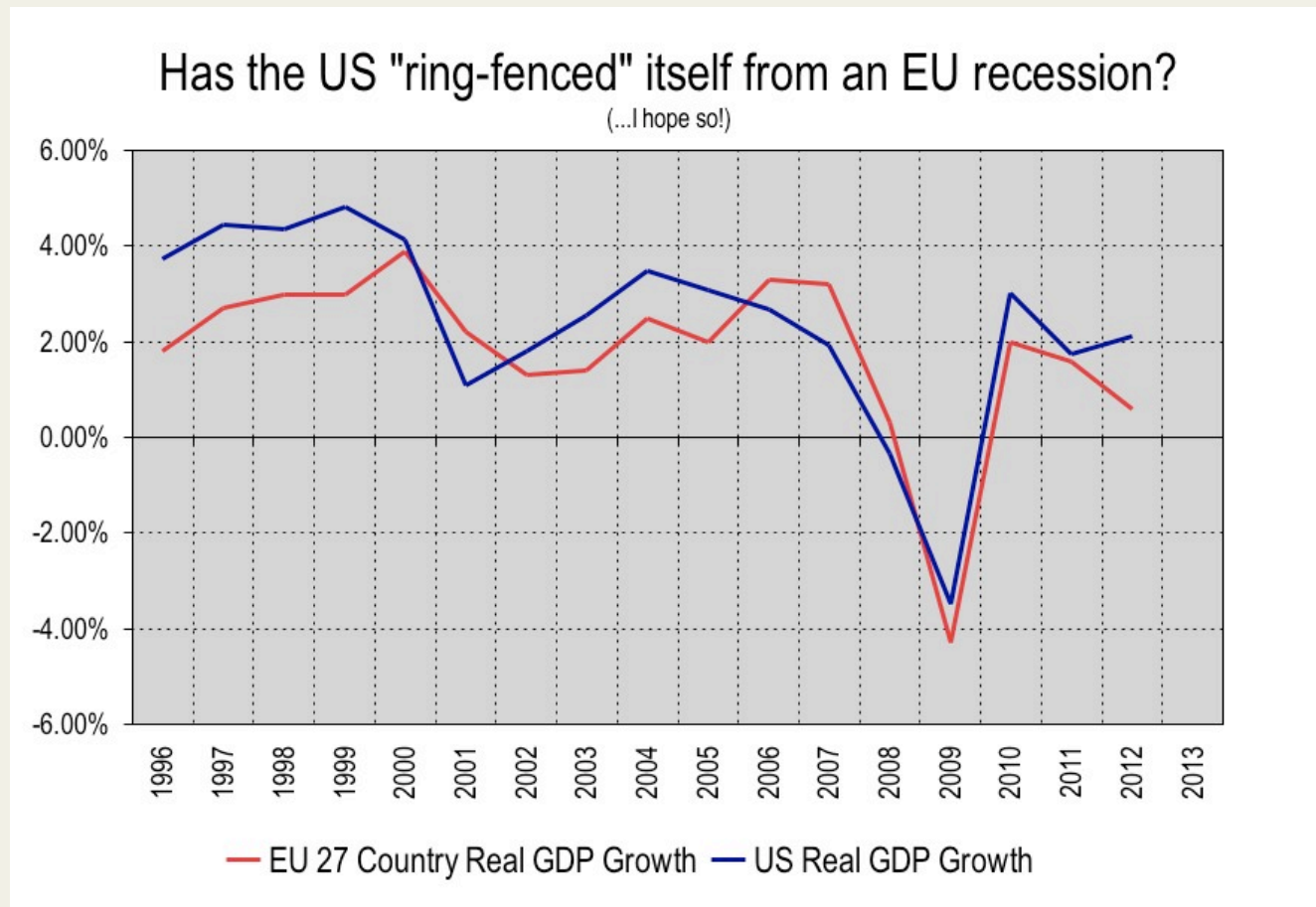
Source: National Geographic

So goes Europe, so goes the US? Maybe not, but this is something to watch.

Economic context

The financial woes of the cobbled together states of Europe are a continuing saga.

Europe seems to be headed for recession... can US growth decouple from the EU this time?



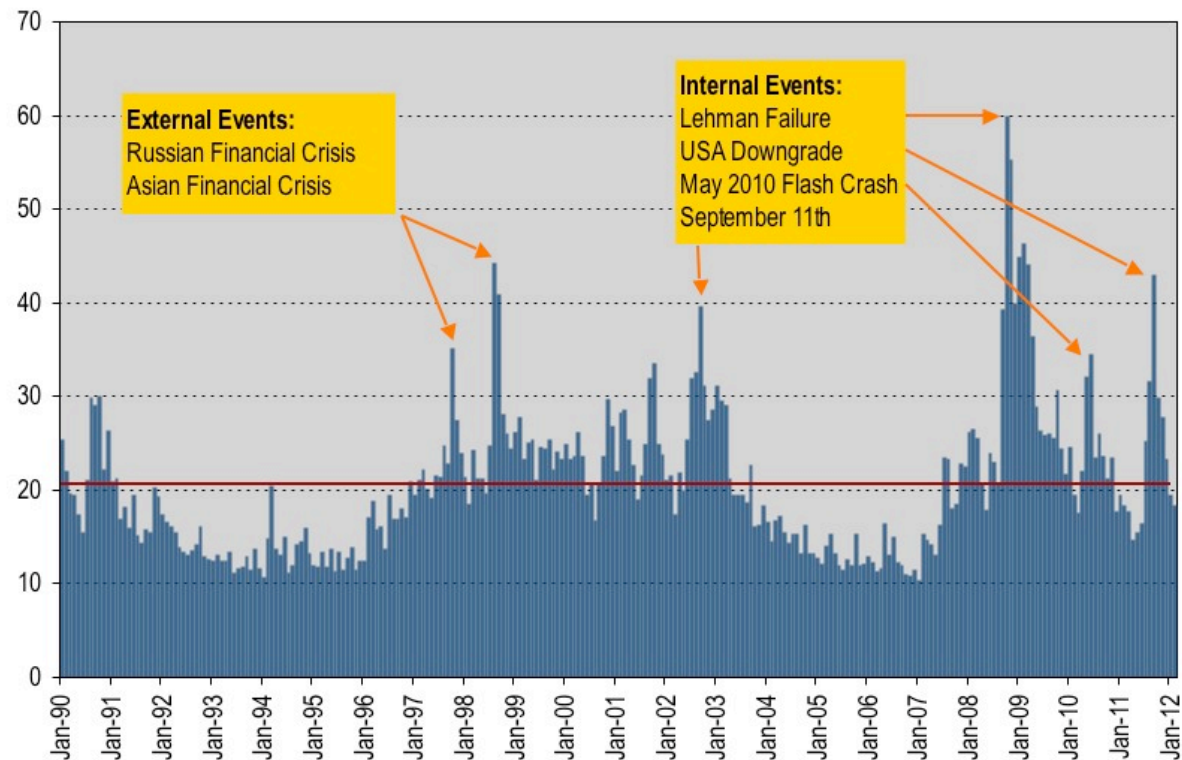
Scared New World: Market fear has subsided for now

Economic context

In the wake of the global financial crisis, the S&P 500 options “Fear Index” has surged frequently.

Recent scares have been self-inflicted by Wall street or political bickering.

Implied Volatility of Options on the S&P 500
“Fear Index” Monthly Adjusted Close, January 1990 to Present



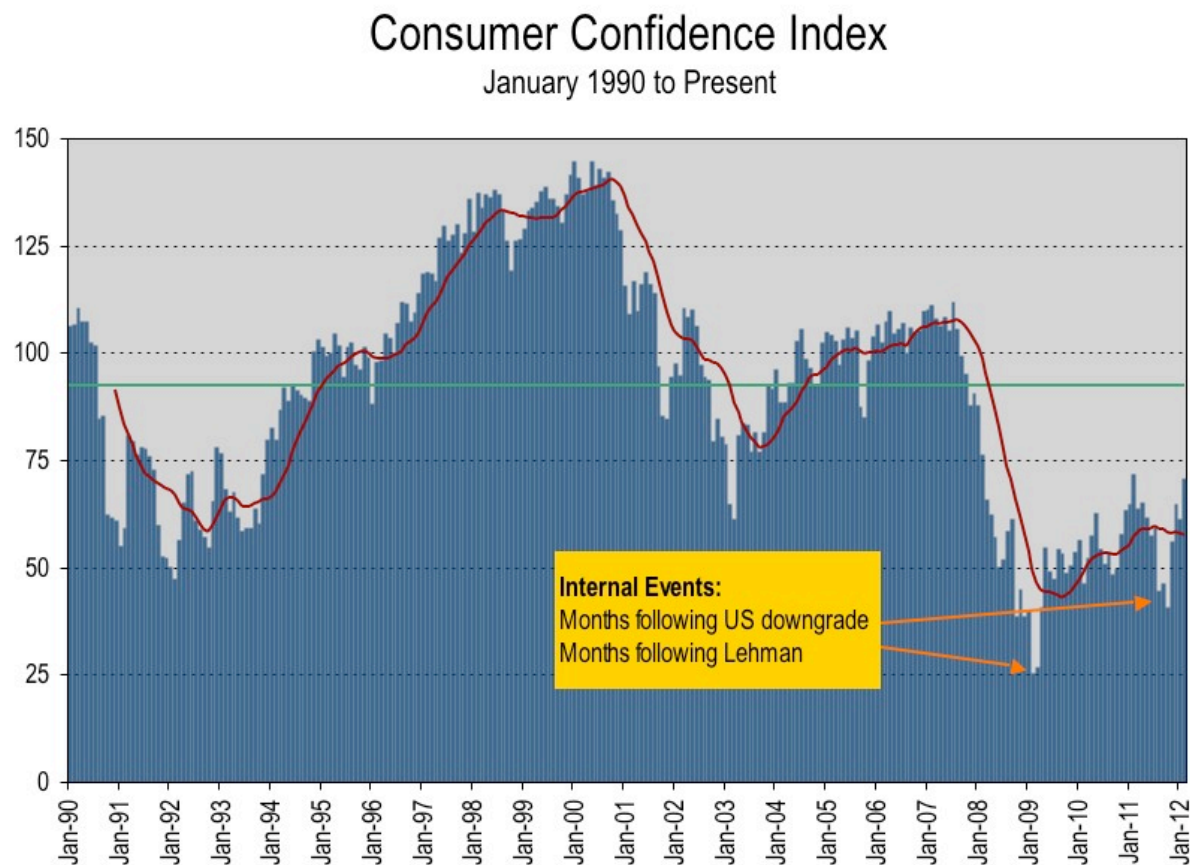
Blue = Actual Red = 22 year average

Scared New World: Consumers are still not confident

Economic context

Consumers were skittish following the downgrade, but confidence has picked up since then.

The current reading is still **far** below the 22 year average.





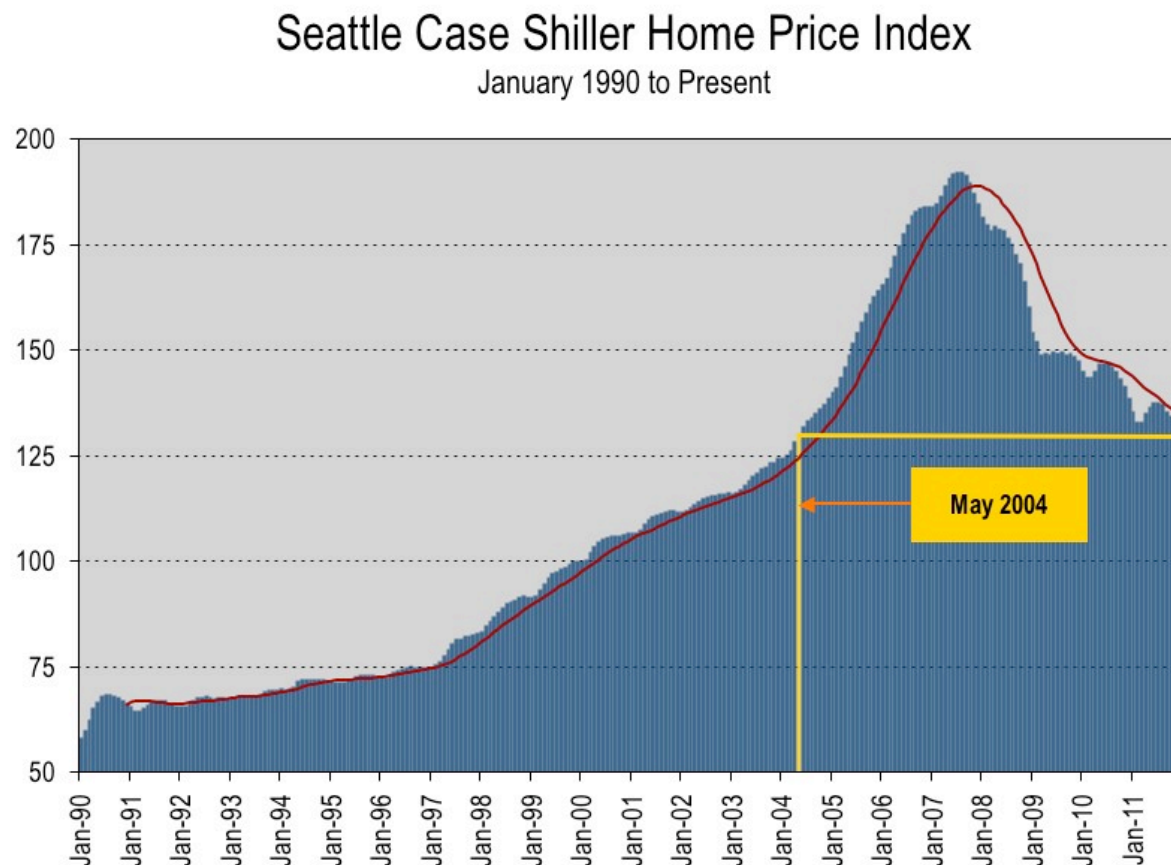
Seattle house prices no longer “falling like a stone”; now “just falling”

Economic context

The Dec Case-Shiller for Seattle was just posted.

Seattle home values are back to May 2004 levels.

Prices are still falling, but not with the reckless abandon of 2008.



Blue = Actual Red = 12 month rolling average

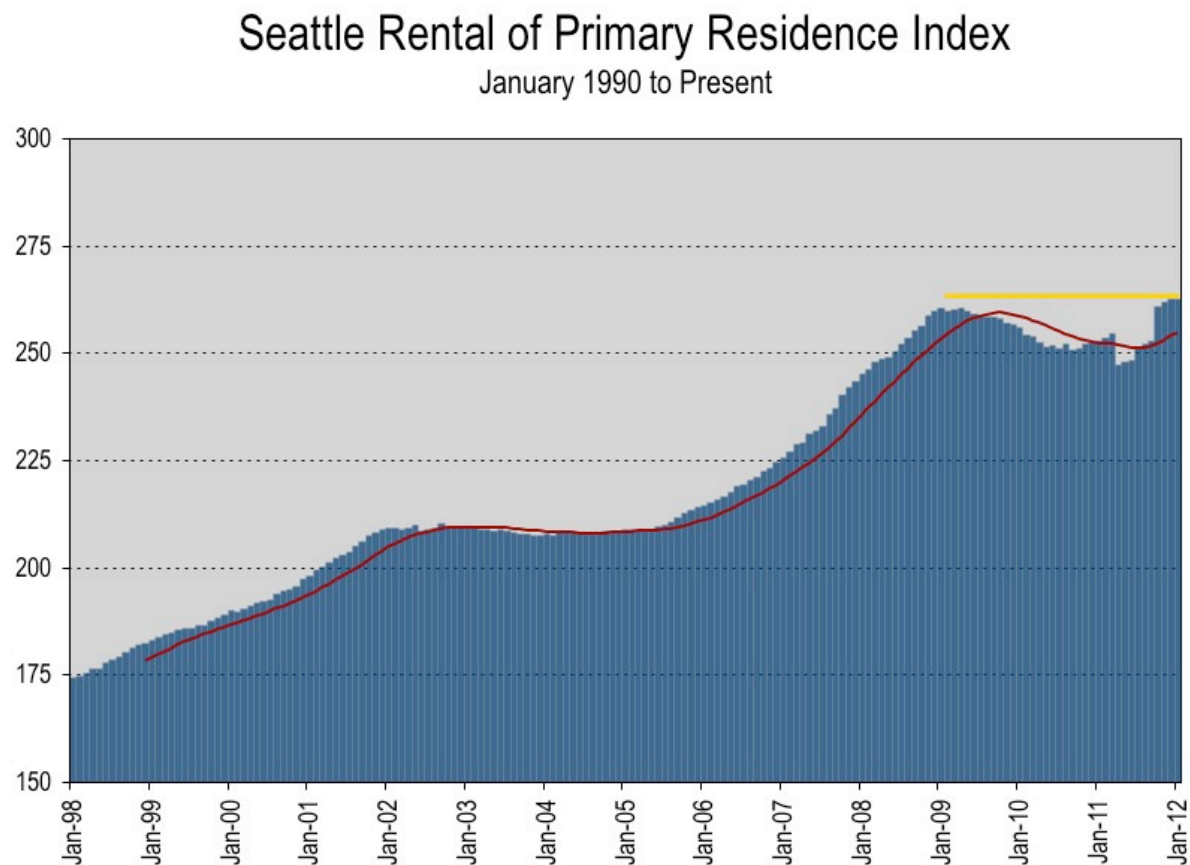


Seattle rent for a primary residence now exceeds previous peak

Economic context

Rents fell when kids moved home or picked up a roommate or two.

Now, with vacancies drying up and rent on the rise, we may be approaching a situation where it is better to buy than rent.



Blue = Actual Red = 12 month rolling average

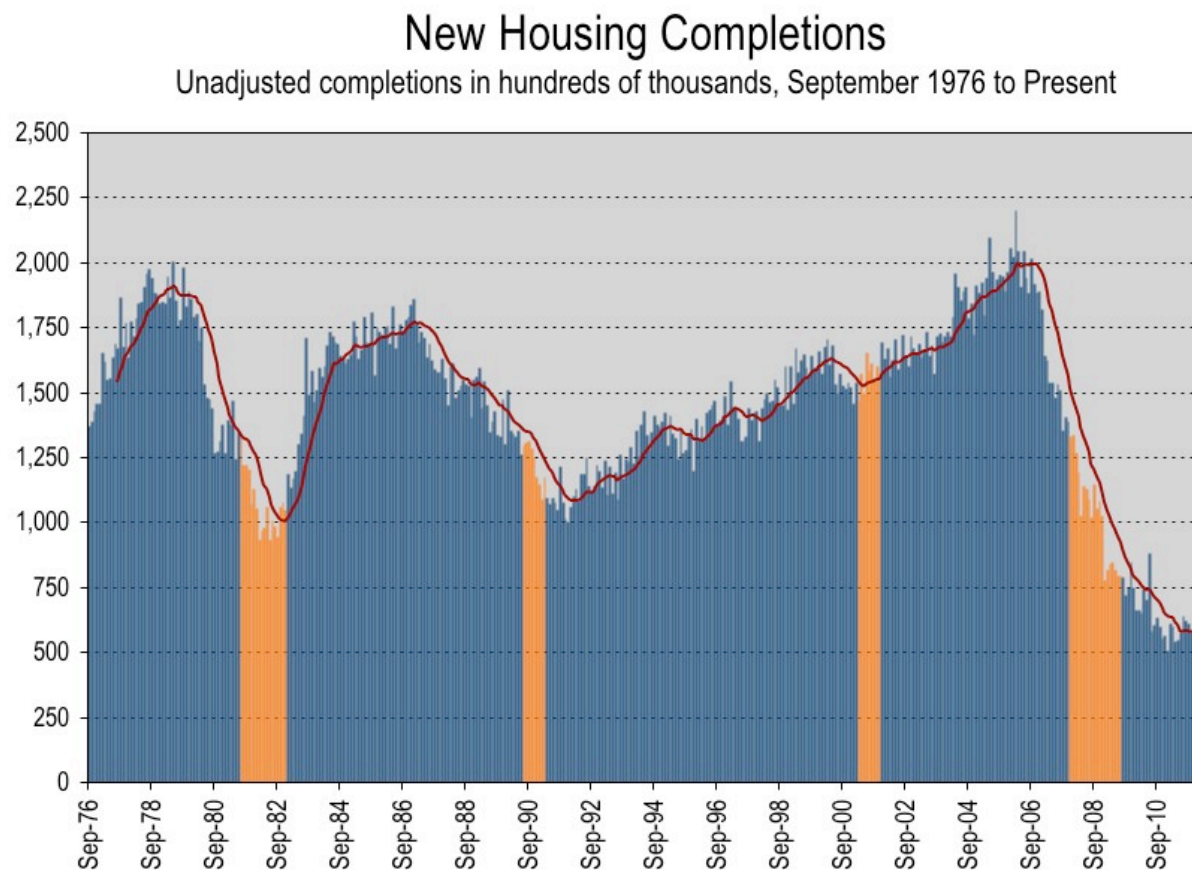


New housing completions are 75% off from peak levels

Economic context

There will be a dearth of late 20-aught and early 20-teen era housing in the years ahead.

Building booms have lead us out of previous recessions, but our current situation is chasmic.



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

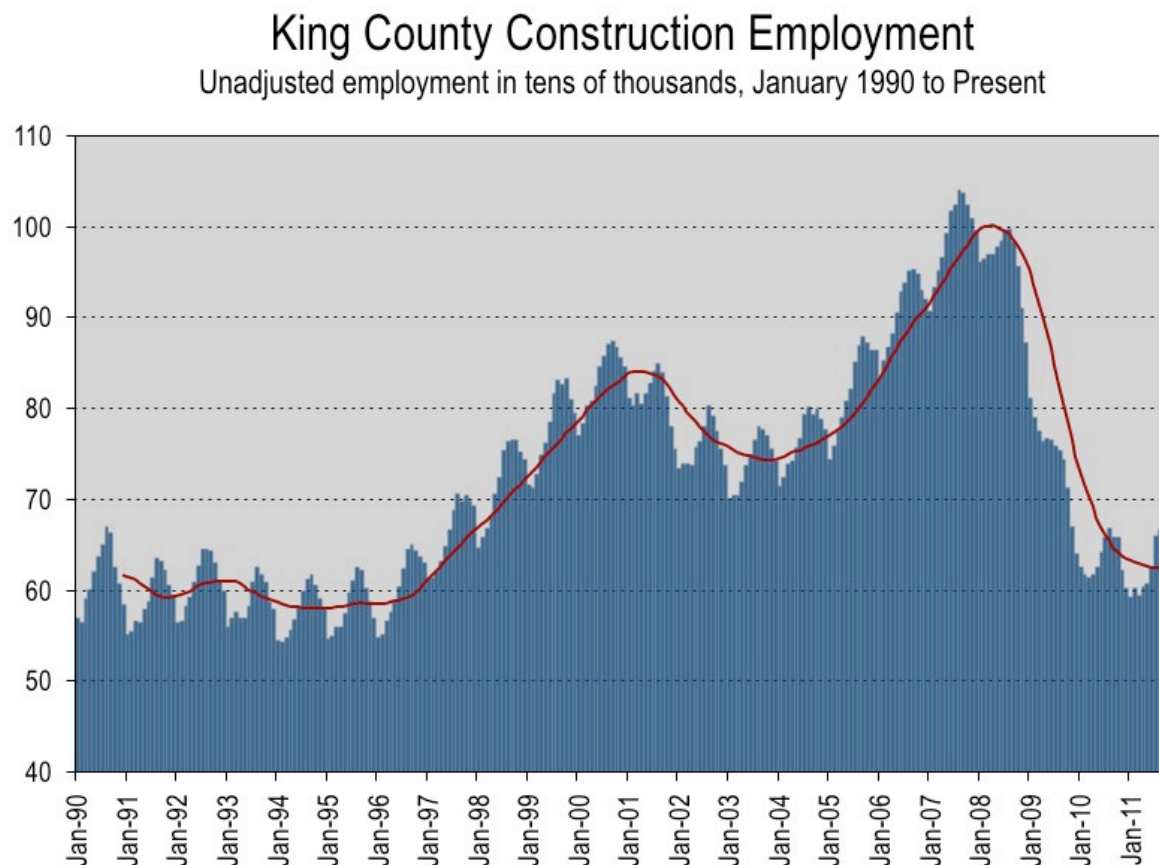


The construction sector has shed 40,000 jobs since its 2007 peak

Economic context

1 in 10 KC jobs was construction related at peak. Now it's closer to 1 in 20.

Close to half of those unemployed in King County worked in a construction related field.

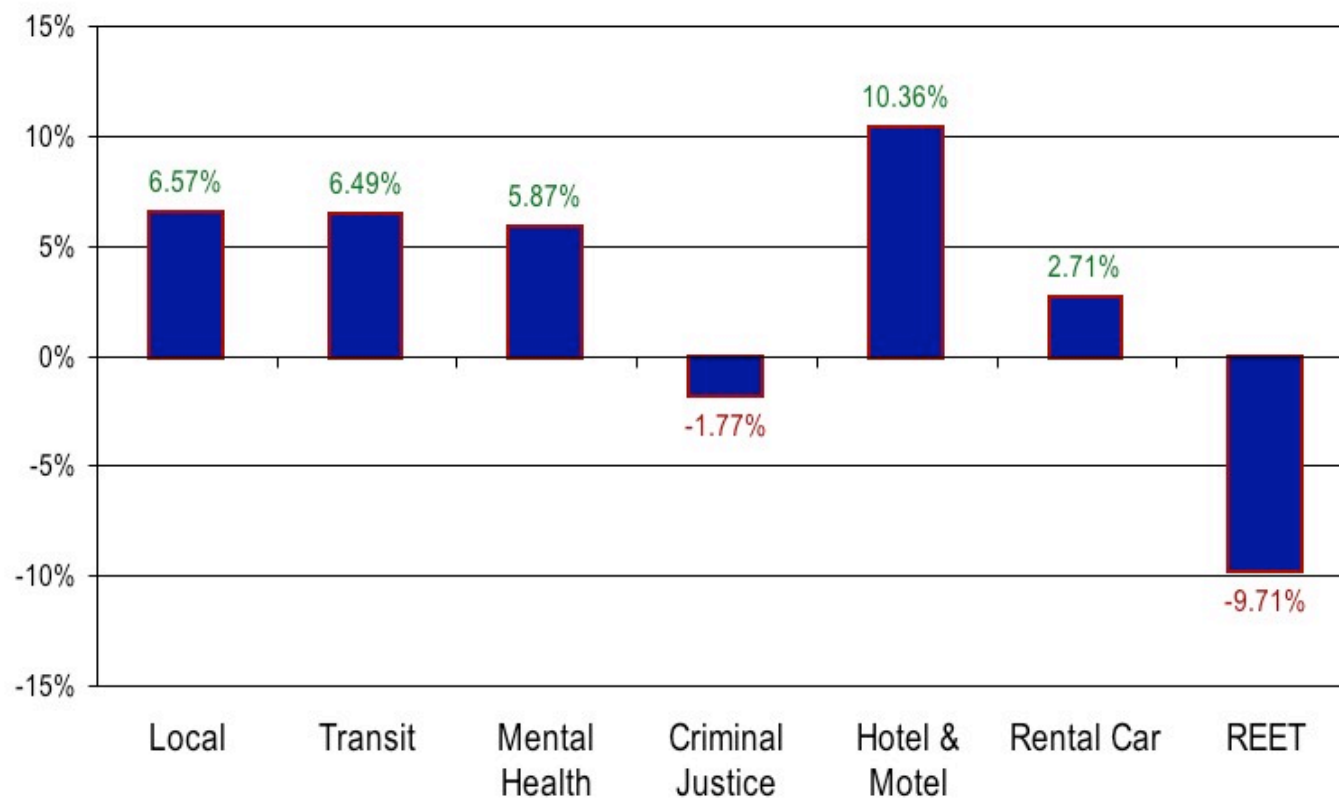


Blue = Actual Red = 12 month rolling average

At a glance: how did we close out 2011 compared to 2010?

Revenue review

2011 to 2010 year over year comparison



Proposed Prelim Forecasts

Assumptions

65% Confidence Level – 65% chance revenues will come in higher than forecasted

All potential annexation areas are assumed to occur on schedule:

North Highline Y (1-1-13)	Pop. 19,320
Renton West Hill (1-1-13)	Pop. 15,200
East Federal Way (1-1-15)	Pop. 21,600
Eastgate (1-1-15)	Pop. 4,700
East Renton (1-1-15)	Pop. 7,700
Klahanie (1-1-15)	Pop. 11,000



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Transit Sales Tax Forecast

Forecasts

OEFA estimates the amnesty added \$10M to transit in 2011.

2012 and beyond are down slightly because of the economic outlook.

Forecasts include mitigation payments from the state.

2013 Preliminary Metro Transit Sales Tax Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	442,042,300	20.36%	0.00%
2008	432,934,213	-2.06%	0.00%
2009	376,904,266	-12.94%	0.00%
2010	375,199,114	-0.45%	0.00%
2011	399,535,863	6.49%	-0.66%
2012	409,138,846	2.40%	-0.98%
2013	423,532,070	3.52%	-1.94%
2014	445,337,874	5.15%	-2.26%
2015	471,995,814	5.99%	-2.49%
2016	500,822,504	6.11%	-2.20%
2017	528,571,597	5.54%	-1.84%

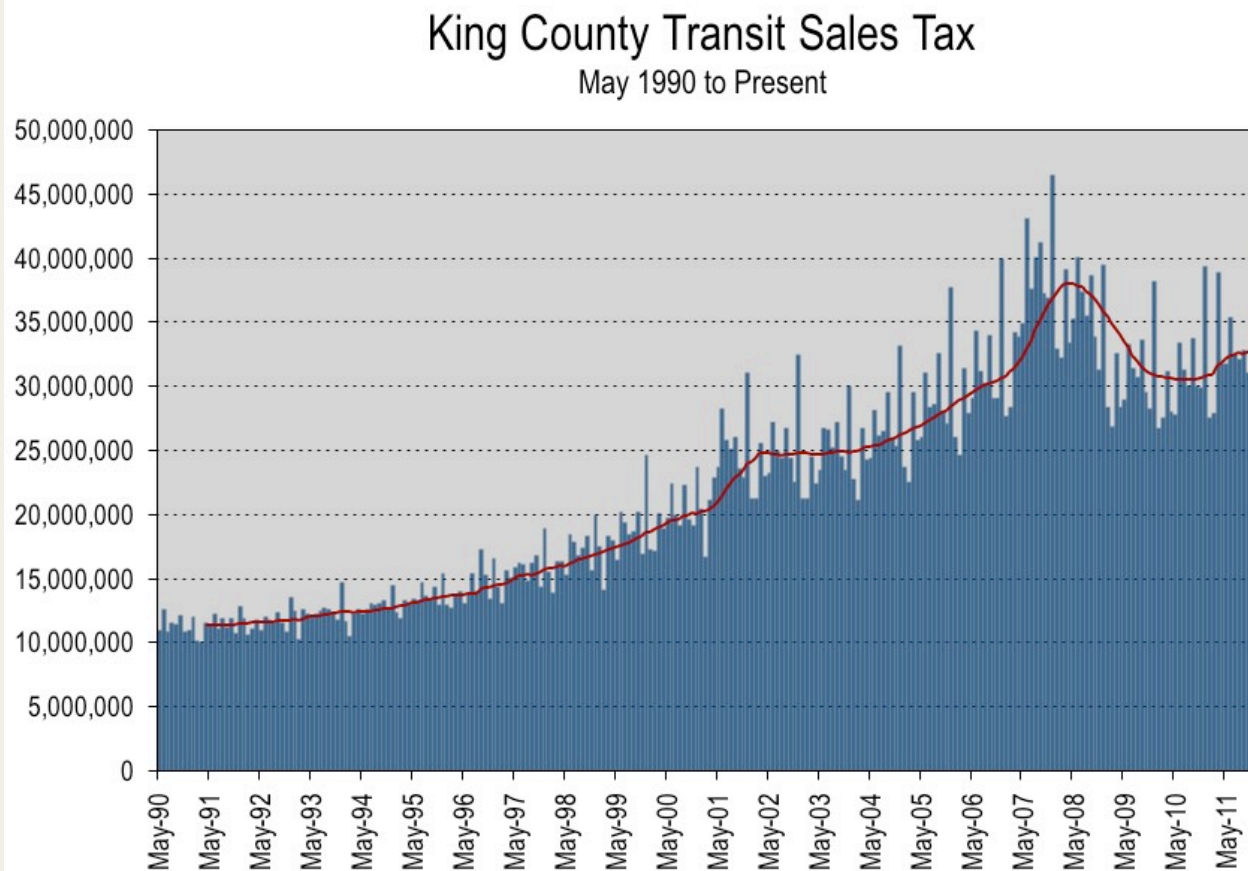


Metro sales tax has resumed growth after falling for two years

Forecasts

KC Metro has had two tax rate increases in the last 22 years. One in 2001 and another in 2007.

15 of the last 16 months have been positive year over year for Metro distributions.



Blue = Actual Red = 12 month rolling average



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Local Sales Tax Forecast

Forecasts

We estimate the amnesty added \$2M to local in 2011.

2013 and beyond are down slightly because of the economic outlook.

Forecasts include mitigation payments from the state and annexation

2013 Preliminary Local and Option Sales Tax Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	91,912,631	10.10%	0.00%
2008	87,672,896	-4.61%	0.00%
2009	76,142,480	-13.15%	0.00%
2010	76,040,263	-0.13%	0.00%
2011	81,032,753	6.57%	2.08%
2012	81,628,813	0.74%	0.95%
2013	82,638,349	1.24%	-0.24%
2014	86,893,034	5.15%	-0.57%
2015	89,389,258	2.87%	-1.10%
2016	94,848,621	6.11%	-0.81%
2017	100,103,902	5.54%	-0.45%



Taxable sales will continue their lackadaisical turnaround in 2012 and 2013

Forecasts

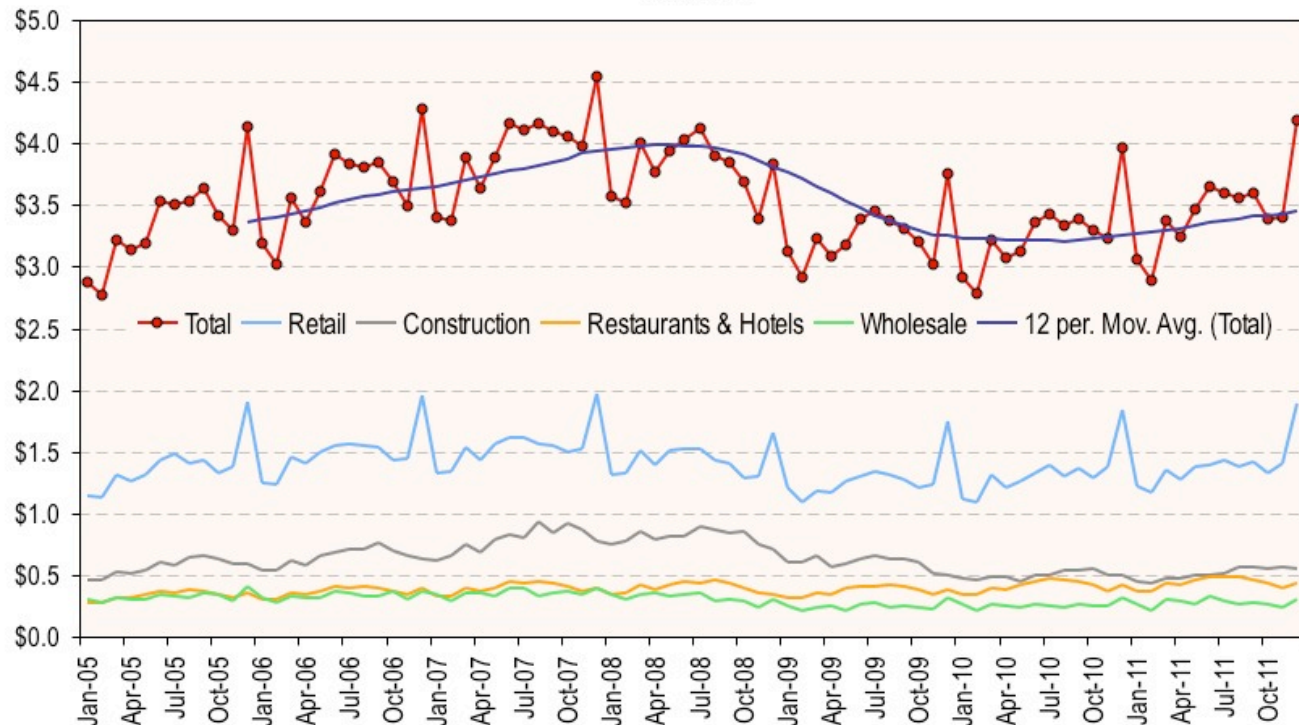
Retail and Food service lead the way. Retail has remained ~40% of the economy.

Construction is still lagging but may have hit bottom.

Previously 23% of the economy, now 15%

Current Month Taxable Sales

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





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Assessed Value Forecast

Forecasts

Condos and residential properties further from urban centers have continued to be a drag on AV.

Permits and new housing completions are also dire.

2013 Preliminary Countywide Assessed Value Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	298,755,199,059	10.42%	0.00%
2008	340,995,439,577	14.14%	0.00%
2009	386,889,727,909	13.46%	0.00%
2010	341,971,517,465	-11.61%	0.00%
2011	330,414,998,630	-3.38%	0.00%
2012	319,460,937,270	-3.32%	1.17%
2013	315,480,086,921	-1.25%	-3.47%
2014	329,450,612,529	4.43%	-3.99%
2015	342,548,503,297	3.98%	-4.94%
2016	354,891,725,871	3.60%	-7.49%
2017	367,292,297,762	3.49%	-10.09%



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New Construction Forecast

Forecasts

2012's new construction number came in much higher than we expected.

With little permit activity and housing prices still falling, peak levels for new construction are a distant memory.

2013 Preliminary Countywide New Construction Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	5,950,400,000	19.86%	0.00%
2008	6,663,100,000	11.98%	0.00%
2009	8,005,200,000	20.14%	0.00%
2010	5,205,200,000	-34.98%	0.00%
2011	2,581,310,544	-50.41%	0.00%
2012	2,438,206,813	-5.54%	36.60%
2013	2,342,342,157	-3.93%	15.65%
2014	2,326,948,263	-0.66%	4.12%
2015	2,335,861,983	0.38%	-10.35%
2016	2,353,837,493	0.77%	-26.20%
2017	2,553,097,937	8.47%	-33.45%



Unincorporated Area Assessed Value Forecast

Forecasts

Juanita, Finn Hill, and Kingsgate annexations to Kirkland took a big chunk from the Roads levy in 2012.

Potential annexations occurring in tax year 2014 and 2016 may continue to exert downward pressure on assessed

2013 Preliminary Unincorporated Assessed Value Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	45,145,645,420	9.35%	0.00%
2008	50,369,419,770	11.57%	0.00%
2009	52,536,624,390	4.30%	0.00%
2010	43,743,564,380	-16.74%	0.00%
2011	39,449,376,050	-9.82%	0.00%
2012	32,758,485,327	-16.96%	-0.98%
2013	32,052,707,274	-2.15%	-5.32%
2014	31,223,673,196	-2.59%	-4.28%
2015	32,443,877,876	3.91%	-5.37%
2016	29,076,079,617	-10.38%	-7.70%
2017	29,956,394,892	3.03%	-10.96%

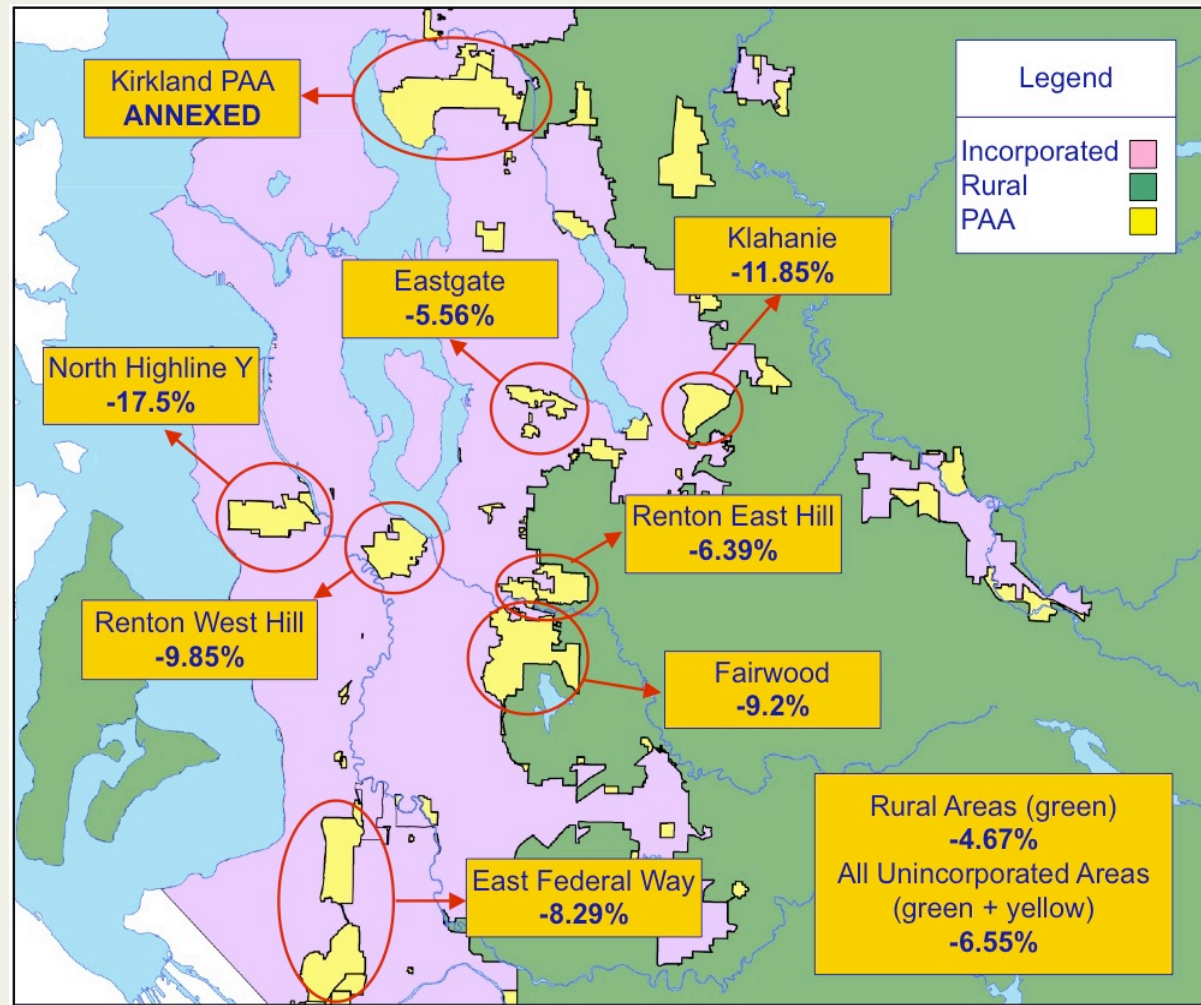


Assessed valuation of unincorporated areas down year-on-year for 2012

Forecasts

The value of the PAAs declined more than the rural areas.

Since the unincorporated area levy is at its \$2.25 cap, additional drops in AV will cause property taxes for roads to fall correlatively.





Unincorporated Area New Construction Forecast

Forecasts

The Kirkland PAA annexation took a big chunk from the Roads NC in 2012.

Potential annexations occurring in tax year 2014 and 2016 continue to lower new construction.

Uninc KC is predominantly residential (85%).

2013 Preliminary Unincorporated New Construction Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	1,051,911,167	17.10%	0.00%
2008	938,271,172	-10.80%	0.00%
2009	821,583,000	-12.44%	0.00%
2010	304,665,097	-62.92%	0.00%
2011	267,511,475	-12.19%	0.00%
2012	180,324,673	-32.59%	9.70%
2013	173,234,724	-3.93%	-7.12%
2014	159,263,376	-8.06%	-15.80%
2015	159,873,458	0.38%	-27.50%
2016	139,473,481	-12.76%	-40.04%
2017	151,280,391	8.47%	-45.93%



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July-June Seattle CPI-W Forecast

Forecasts

Inflation in the Seattle area will increase for the third straight year.

The 2013 COLA based on this forecast would be 2.75%.

If gas prices remain high through the summer, this will have an impact on inflation.

2013 Preliminary July-June Average Seattle CPI-W Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	3.83%	0.41%	0.00%
2008	4.50%	0.67%	0.00%
2009	1.98%	-2.52%	0.00%
2010	0.62%	-1.36%	0.00%
2011	1.81%	1.19%	0.00%
2012	2.89%	1.08%	0.74%
2013	2.14%	-0.75%	0.19%
2014	2.27%	0.13%	0.07%
2015	2.40%	0.12%	0.13%
2016	2.41%	0.01%	0.13%
2017	2.40%	-0.01%	0.07%



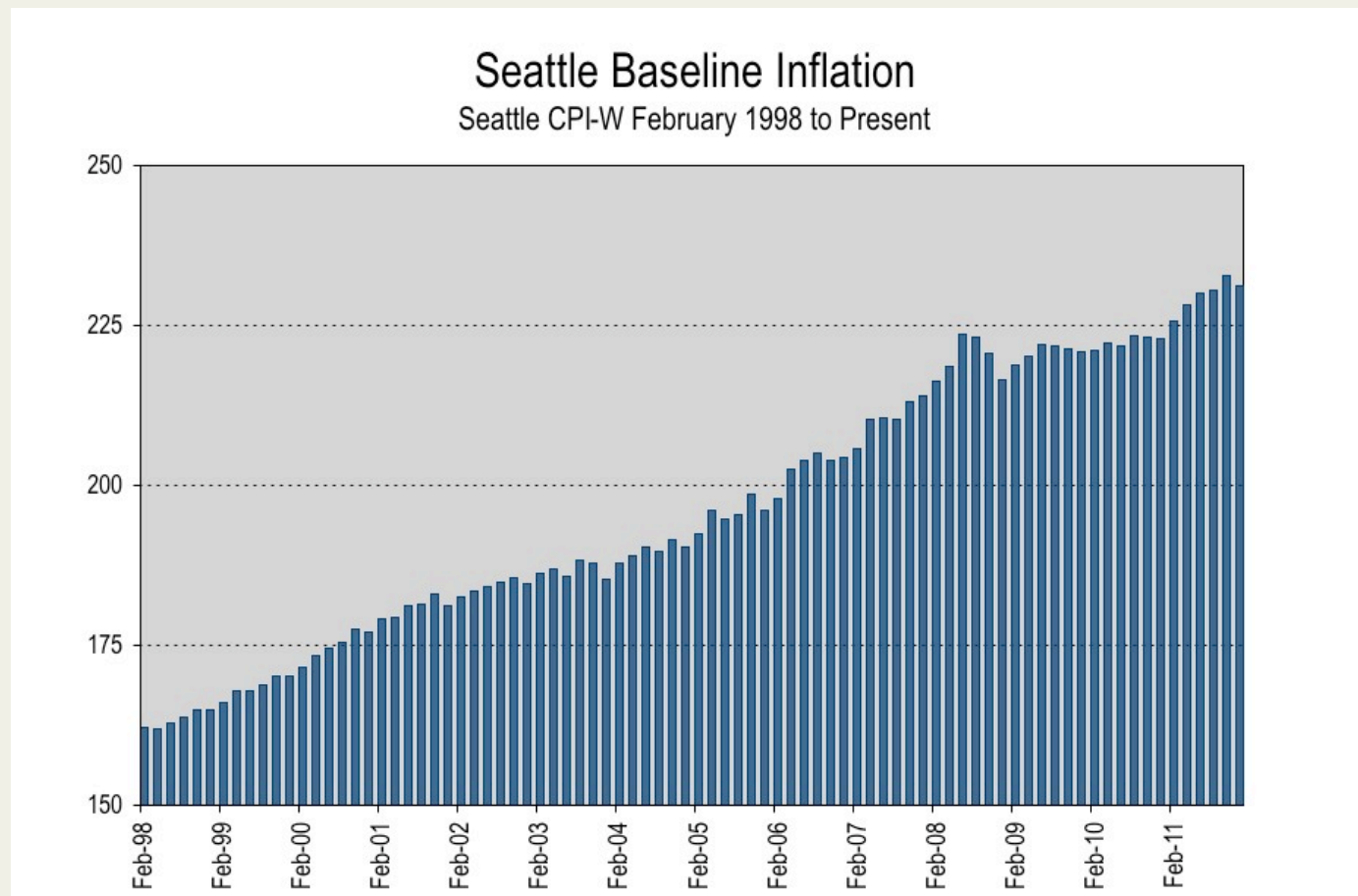
Inflation in the Seattle area has been on the rise

Forecasts

The Seattle CPI-W is released semi-monthly.

We actually had deflation, and period of flat prices during and after the recession.

Prices are on the rise again.





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Investment Pool Nominal Rate Forecast

Forecasts

The FED has indicated interest rates will remain low for years.

As such, the county can expect minimal return on the assets we typically invest in (Short term, high grade instruments from the treasury).

2013 Preliminary Investment Pool Nominal Rate of Return Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	5.09%	0.40%	0.00%
2008	3.30%	-1.79%	0.00%
2009	1.76%	-1.54%	0.00%
2010	0.96%	-0.79%	0.00%
2011	0.62%	-0.34%	0.02%
2012	0.30%	-0.32%	-0.10%
2013	0.30%	0.00%	0.00%
2014	0.30%	0.00%	0.00%
2015	0.30%	0.00%	-0.92%
2016	1.32%	1.02%	-0.73%
2017	2.17%	0.85%	-0.57%



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Investment Pool Real Rate Forecast

Forecasts

The investment pool real forecast deflates our nominal forecast by the Seattle CPI-U forecast.

The result of maintaining low interest rates while pursuing modest inflation is financial repression in the form of negative real interest rates.

2013 Preliminary Investment Pool Real Rate of Return Forecast Office of Economic and Financial Analysis March 7, 2012

Tax Year	Value	Growth	Variance
2007	1.16%	0.21%	0.00%
2008	-0.87%	-2.03%	0.00%
2009	1.17%	2.04%	0.00%
2010	0.66%	-0.50%	0.00%
2011	-2.00%	-2.67%	-0.30%
2012	-2.31%	-0.30%	-0.95%
2013	-1.83%	0.48%	-0.21%
2014	-2.03%	-0.21%	-0.25%
2015	-2.08%	-0.04%	-1.17%
2016	-1.11%	0.96%	-0.98%
2017	-0.32%	0.79%	-0.83%



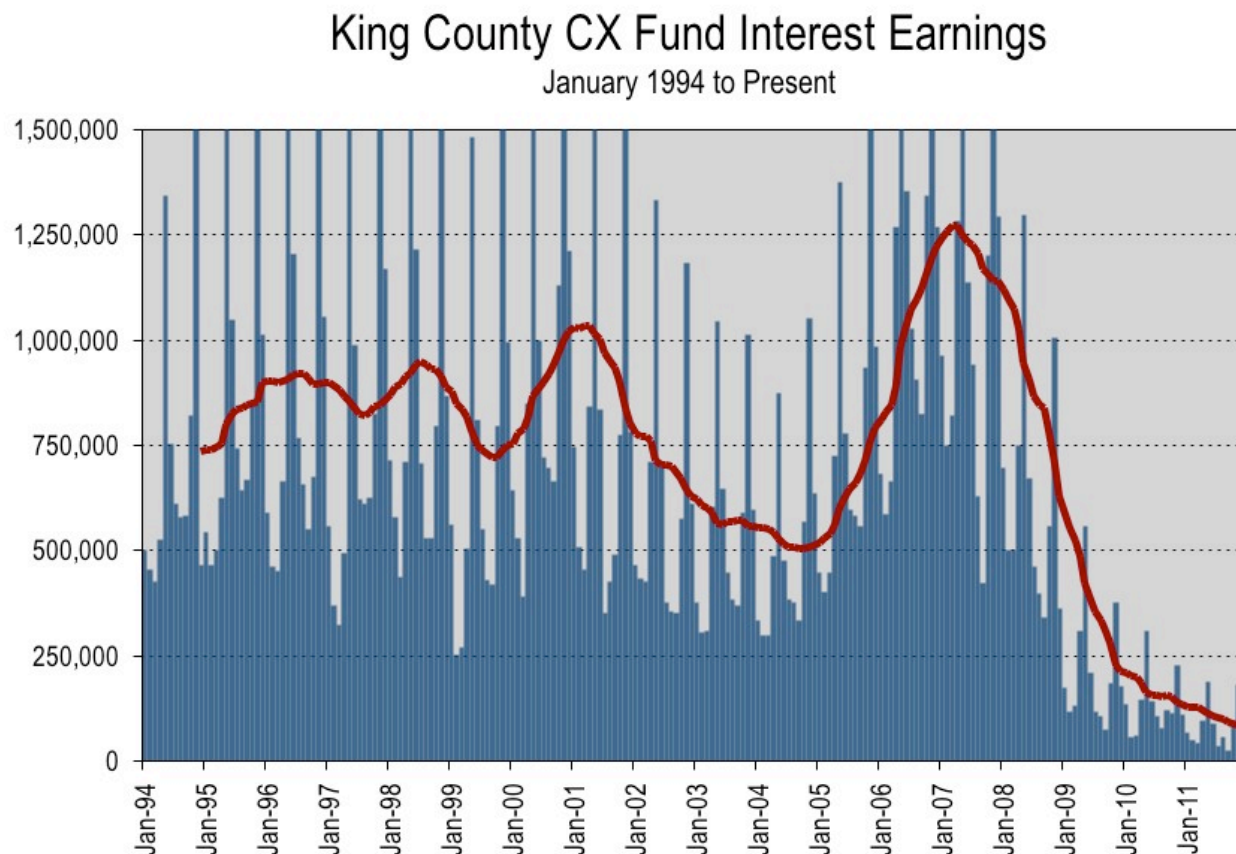
Less cash and record-low yields have hamstrung our investment pool earnings

Forecasts

In the 2006 the CX fund earned \$14.6M. In 2011 it earned just over \$1M.

That's going from 2% of the CX fund to rounding error.

Treasuries aren't coming back anytime soon. Are there other options?



Blue = Actual Red = 12 month rolling average

Questions? Insults?