FINAL FORECASTS FOR THE 2012 KING COUNTY BUDGET

Briefing to the King County Forecast Council
Briefing outline

- Economic context
- Revenue review
- Major forecasts
The US recovery has hit a speed bump

- June shocker: only 18,000 new jobs added
  - 57,000 private sector jobs added
  - But 39,000 government jobs lost
- Unemployment rate rose to 9.2%
- Underemployment rate (includes discouraged workers and part-timers who want full-time) rose to 16.2%
Gas price spike has impacted growth and inflation in the near term. Preliminary 2011 Forecasts 10 March 2010. Consensus is that this will not have a long lasting effect on growth IF gas prices continue to come down.
The experts continue to revise their views of 2011 - for the worse

**Economic context**

**GDP Forecasts for 2011**

<table>
<thead>
<tr>
<th>Date of Forecast</th>
<th>Jan-11</th>
<th>Feb-11</th>
<th>Mar-11</th>
<th>Apr-11</th>
<th>May-11</th>
<th>Jun-11</th>
<th>Jul-11</th>
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<tbody>
<tr>
<td>GDP Forecast</td>
<td>3.5</td>
<td>3.0</td>
<td>2.5</td>
<td>2.0</td>
<td>1.5</td>
<td>1.0</td>
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</table>

**CPI Forecasts for 2011**

<table>
<thead>
<tr>
<th>Date of Forecast</th>
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<th>Jun-11</th>
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<tbody>
<tr>
<td>CPI Forecast</td>
<td>2.5</td>
<td>2.0</td>
<td>1.5</td>
<td>1.0</td>
<td>0.5</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

Source: Blue Chip survey of professional forecasters
The credit markets say: What, me worry?

TED spread measures how much US banks trust each other to pay back loans.

The European and debt ceiling dramas have not affected credit here – so far.
Bucking the trend: King County unemployment rate fell to 7.9%

Employment gains in aerospace, software, retail, hotels.

Local govt. workforce has stabilized

Not a good thing: few discouraged workers returning to labor force
Long term unemployment coming down – but still high

Growing number of “99-ers” who have exhausted all benefits

Some benefit programs may come to an end by year-end.
Nostalgia anyone? We’re back to 2004 house prices

This is a drag on consumer confidence.

We expect prices to stabilize this year.

Overhang of distressed properties will keep prices flat for years.
2012 assessments: another down year

- **Residential AV**
  - Seattle: -5% to +0.5%
  - North: -6% to 0%
  - South: -17% to -6%

- **Commercial & condominium AV** will also be down compared to 2011

- **New construction**
  - South Lake Union
  - Swedish Hospital in Issaquah
  - Multi-family units up
  - Single-family, office, small commercial are all at depressed levels

Economic context
Spending in King County is turning the corner

Economic context

- Retail, Restaurants & Hotels leading the way
- Construction still lagging
- Wholesale holding steady

Current Month Taxable Sales
Net of Annual, Quarterly and Delinquent Payments in billions $
The sales tax amnesty was a roaring success

$57 million in “windfall” money to local governments throughout the state

For King County we estimate:

- $10 million for Metro Transit
- $2 million for General Fund & CFS
- $1.1 million for MIDD
- $300 thousand for Criminal Justice

Caution: one time only
One-time boost to the general fund

Revenue review

General Fund and C&FS Sales Tax Revenue
(Local Basic & Option)

TAX AMNESTY

12 Month Average
Revenues

Million $
At a glance: Where we are compared to last year at this time

Jan-Apr 2011 compared to Jan-Apr 2010

- General Fund
- Metro Transit
- Mental Health
- Criminal Justice
- Hotels
- Restaurants
- Rental Cars
- REET
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. 17,553
- Renton West Hill (1-1-13) Pop. 15,645
- East Federal Way (1-1-15) Pop. 20,925
- Eastgate (1-1-15) Pop. 4,958
- East Renton (1-1-15) Pop. 6,308
- Klahanie (1-1-15) Pop. 10,674
Sales Tax Base Recovering

Forecasts

2012 Final Sales and Use Taxbase Forecast
Office of Economic and Financial Analysis
July 20, 2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Value</th>
<th>Change</th>
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<tbody>
<tr>
<td>2000</td>
<td>39,017,612,480</td>
<td>-</td>
</tr>
<tr>
<td>2001</td>
<td>37,414,873,470</td>
<td>-4.11%</td>
</tr>
<tr>
<td>2002</td>
<td>36,137,962,860</td>
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<tr>
<td>2003</td>
<td>36,379,622,690</td>
<td>0.67%</td>
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<tr>
<td>2004</td>
<td>38,521,409,960</td>
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<tr>
<td>2005</td>
<td>41,807,662,630</td>
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<tr>
<td>2006</td>
<td>45,401,665,730</td>
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<tr>
<td>2007</td>
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<td>2008</td>
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<tr>
<td>2009</td>
<td>40,783,082,660</td>
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<tr>
<td>2010</td>
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<tr>
<td>2011</td>
<td>42,089,379,447</td>
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<tr>
<td>2012</td>
<td>44,887,245,032</td>
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<tr>
<td>2013</td>
<td>47,111,962,345</td>
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<tr>
<td>2014</td>
<td>49,812,925,561</td>
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<tr>
<td>2015</td>
<td>52,888,953,803</td>
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<tr>
<td>2016</td>
<td>55,913,746,603</td>
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<tr>
<td>2017</td>
<td>58,811,258,935</td>
<td>5.18%</td>
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<tr>
<td>2018</td>
<td>61,450,652,974</td>
<td>4.49%</td>
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<tr>
<td>2019</td>
<td>64,124,463,268</td>
<td>4.35%</td>
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<tr>
<td>2020</td>
<td>66,816,472,346</td>
<td>4.20%</td>
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King County Sales Tax Base

- Actual
- Forecast
One more down year in AV

Forecasts:

Countywide Assessed Value

Unincorporated Assessed Value

Annexations will keep AV from growing
New construction will remain at depressed levels for some time.
REET outlook is grim

Lack of real estate activity combined with annexations make a perfect storm to keep REET revenues down.
Travel to the County is quickly recovering

Forecasts

Hotel-Motel Tax

Rental Car Tax
New COLA formula will save a substantial amount in 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Old COLA</th>
<th>New COLA</th>
<th>Diff</th>
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<tbody>
<tr>
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<td>2.00%</td>
<td>0.00%</td>
<td>-2.00%</td>
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<tr>
<td>2012</td>
<td>2.93%</td>
<td>1.63%</td>
<td>-1.30%</td>
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<tr>
<td>2013</td>
<td>1.74%</td>
<td>2.37%</td>
<td>0.63%</td>
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<tr>
<td>2014</td>
<td>1.86%</td>
<td>1.97%</td>
<td>0.11%</td>
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<tr>
<td>2015</td>
<td>2.08%</td>
<td>2.09%</td>
<td>0.01%</td>
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