City of Seattle General Fund
Revenue & Budget Update

Presentation to the Seattle City Council Budget Committee
April 30, 2012
Overview

- Seeing glimmers of good news as the economic slowly recovers from the Great Recession
  - Revenue forecast is improving slightly
  - 2011 ended stronger than expected
  - State budget impacts not as bad as anticipated

- Nonetheless, revenue growth remains subdued
  - While the size of the deficit for 2013 is smaller than what was anticipated in November, we are still projecting a $32 million shortfall for 2013 and 2014
    - Down from a forecasted $42 million in November
Recoveries from financial crises tend to be lengthy, subdued, and uneven.

- Crises follow periods of huge debt build-up.
- In recovery that follows, households must reduce debt.

Recovery is also restrained by:

- Loss of wealth - both housing and stock market.
  - Households need to rebuild savings / wealth.
  - Wealth effect.
- Lack of a housing rebound.
Ratio of Household Net Worth to Disposable Income

U.S. Economy
Economy has been relatively stable & generally improving over past 6 months.

Monthly Change in U.S. Private Sector Employment

Data are seasonally adjusted, 3-month moving average. Source: U.S. BLS.
U.S. Economy

- Expect modest growth for remainder of 2012, restrained by:
  - Rise in gasoline prices
  - Euro-zone weakness
  - Uncertainty about federal fiscal policy
    - Current fiscal policy would reduce GDP in 2013 by 3% - 3½ %
    - Forecasts expect 1% - 1½ impact
- Global insight sees faster growth in 2014
  - As housing recovers
U.S. Economy: Fiscal Policy

U.S. Fiscal Policy Contribution to Real GDP Growth

Source: Moody's Analytics.
Region growing faster than U.S., state

- Boeing has added 11,000 jobs since June 2010
- Professional, scientific, technical services employment up 12,200 (12.2%) from Nov. 2009

Regional economic forecast was revised upward in March

- In part due to upward revision of 2011 employment data
Employment Growth: Post Recession Trough through March 2012

*King & Snohomish Counties. Source: WA ESD, U.S. BLS.
Local Economy: Construction

- Apartment construction has taken off
  - Value of permits issued by DPD rose 31.5% from 2010 to 2011
  - More than 80% of King – Snohomish apartment construction is in Seattle

Note: Data are 6-month trailing moving average of value of permits issued.
Factors affecting the forecast update

- Economic forecast has strengthened
- 2011 ended $3.15 million over forecast
  - $1.95 mil. from retail sales tax
  - $1.20 mil. from B&O tax
- Revenue from construction is increasing
Retail Sales and B&O Taxes

- **Forecast increase:** sales and B&O taxes
  - 2012 $10.2M
  - 2013 $12.3M
  - 2014 $9.2M

**Components of Change: Retail Sales and B&O Revenue Forecasts, Nov '11 - Apr '12**

- **2012**
  - Stronger economic forecast: 3.2
  - Stronger construction forecast: 3.8
  - 2011 actuals: 3.2

- **2013**
  - Stronger economic forecast: 5.0
  - Stronger construction forecast: 3.9
  - 2011 actuals: 3.4

- **2014**
  - Stronger economic forecast: 3.4
  - Stronger construction forecast: 2.3
  - 2011 actuals: 3.6

April 30, 2012
Utility Taxes: Public Utilities

- Utility tax revenues and utility rate assumptions
  - Pending Mayor and Council rate decisions, forecast assumes rates and revenues largely consistent with utility proposals currently under consideration
- Forecast revisions were modest
  - Small upward revisions to City Light forecasts for 2012-14
  - Water revised downward to reflect a weaker forecast of water demand
Utility Taxes: Private Utilities

Forecast revisions are significant

- Telephone forecast lowered by $2 - $3 mil. per year
  - Continued slackness in mobile tax revenues resulted in a yr/yr growth rate of -14.5%
  - Risk: two refund requests total over $6 million

- Natural Gas & Steam
  - Natural gas prices are now below $2.00/million BTU, more than 55% below a year ago
  - These prices put downward pressure on tax revenues
  - Risk: tax revenues are still highly weather dependent
Utility Taxes: Private Utilities

Wireless Quarterly Tax Receipts

Nominal $ Millions

|------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
State Impacts

- Admissions Tax
  - Legislature has restored UW Football ad-tax for the City; a $900,000 impact.
  - 2012 forecast is increased a net $617,000 due to less robust growth elsewhere.

- Liquor Related Revenues
  - The recently passed state budget rededicates liquor excise taxes from cities and counties to the state for the state’s FY 2013 and portions in FY2014 going forward offset by increases in liquor profits per I-1183.
    - A net -$0.8 million impact for both 2012 and 2013.
Parking and Parking Enforcement

- Significant decrease in forecasted parking enforcement revenues:
  - Delays in red-light & school zone camera placements and relocations
  - Parking enforcement productivity factors
  - Reduction in scofflaw booting revenues

- Commercial Parking Tax
  - 2011 cash below forecast, but base may be in place
  - 2012-2014 forecast assumes somewhat lower growth rate
Real Estate Excise Tax

- 2011 revenue was 27.4% above 2010, led by an improved commercial market

- Forecast is revised upward for 2012 – 2015

- 2012 assumes $2.5 million controlling interest transfer of Harbor Development – set to close this year

- Commercial market is forecast to be flat

- Single-family market is improving, driving much of the forecast growth in the out years
Real Estate Excise Tax

[Bar chart showing the Real Estate Excise Tax revenue from 1992 to 2015, with categories for Residential, Condo, and Commercial.]

April 30, 2012
## General Subfund Revenues

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</thead>
<tbody>
<tr>
<td>Property Taxes</td>
<td>258,883,763</td>
<td>263,145,000</td>
<td>1,321,000</td>
<td>265,005,000</td>
<td>867,000</td>
<td>269,789,000</td>
<td>727,000</td>
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<tr>
<td>Retail Sales, B&amp;O, Admission Taxes</td>
<td>331,694,714</td>
<td>349,098,481</td>
<td>11,071,010</td>
<td>365,157,893</td>
<td>12,532,287</td>
<td>384,555,776</td>
<td>9,295,043</td>
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<tr>
<td>Public Utility Taxes</td>
<td>108,524,266</td>
<td>114,354,471</td>
<td>(493,623)</td>
<td>120,185,191</td>
<td>1,223,209</td>
<td>125,795,299</td>
<td>4,995,259</td>
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<tr>
<td>Other Notable GSF Revenues</td>
<td>62,861,746</td>
<td>66,348,850</td>
<td>(3,193,150)</td>
<td>69,443,920</td>
<td>(2,931,080)</td>
<td>70,300,483</td>
<td>(3,677,517)</td>
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<tr>
<td>Subtotal</td>
<td>823,355,466</td>
<td>850,658,037</td>
<td>4,191,074</td>
<td>879,389,318</td>
<td>5,873,028</td>
<td>912,736,593</td>
<td>6,471,036</td>
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<td>Grants</td>
<td>27,632,720</td>
<td>1,194,015</td>
<td>-</td>
<td>343,000</td>
<td>-</td>
<td>343,000</td>
<td>-</td>
</tr>
<tr>
<td>Other General Subfund Revenues</td>
<td>66,322,444</td>
<td>61,440,615</td>
<td>(829,579)</td>
<td>60,630,859</td>
<td>(829,579)</td>
<td>62,617,686</td>
<td>366,699</td>
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<td>Subtotal</td>
<td>917,310,630</td>
<td>913,292,667</td>
<td>3,361,495</td>
<td>940,363,177</td>
<td>5,043,449</td>
<td>975,697,279</td>
<td>6,837,735</td>
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<tr>
<td>Other Funds - Fund Balance Transfers</td>
<td>9,062,971</td>
<td>9,806,818</td>
<td>10,000</td>
<td>1,073,150</td>
<td>175,000</td>
<td>725,000</td>
<td>-</td>
</tr>
<tr>
<td>GSF - Grand Total</td>
<td>926,373,601</td>
<td>923,099,485</td>
<td>3,371,495</td>
<td>941,436,327</td>
<td>5,218,449</td>
<td>976,422,279</td>
<td>6,837,735</td>
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### Special Revenues

<table>
<thead>
<tr>
<th>Revenue Source</th>
<th>2011 Actuals</th>
<th>2012 Actuals</th>
<th>2013 Actuals</th>
<th>2014 Actuals</th>
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<tbody>
<tr>
<td>Real Estate Excise Tax</td>
<td>30,109,189</td>
<td>31,501,207</td>
<td>2,576,816</td>
<td>36,860,812</td>
</tr>
<tr>
<td>Commercial Parking Tax</td>
<td>28,300,237</td>
<td>30,379,255</td>
<td>(380,274)</td>
<td>31,290,633</td>
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**General Fund Revenue & Budget Update**  
April 30, 2012
Budget Outlook

- Revenue outlook only part of what goes into determining the magnitude of the budget challenges

- The ‘baseline’ budget process, completed every April helps determine the budget outlook for the subsequent fiscal year(s)

- The ‘baseline’ budget process incorporates the following variables:
  - Yearend position for the previous budget year
  - Revenue and expenditure estimates for the current and subsequent fiscal years
  - An assessment of emerging budget needs
2011 Yearend Results

- City’s General Fund ended with $17 million more than was anticipated last November
  - Driven by better-than-expected revenue performance
  - Proactive financial management by City departments

Important for three reasons:

- Provides a buffer to address budget hits that will result from the State budget
  - For the 1ˢᵗ time in three years the City can avoid a formal mid-year reduction process
- Helps offset projected budget shortfalls for 2013 and 2014
- Allows us to build up the Rainy Day Fund
  - Critical to the City retaining its AAA bond rating
Under the new Rainy Day Fund policies, adopted by the City last year, the City will make a $10 million contribution to the Rainy Day Fund in 2012, bringing the Rainy Day Fund to $22 million.

- $9 million shy of the peak Rainy Day Fund level
- Poised to make $4 million contributions in 2013 & 2014
$32 million shortfall projected for 2013 and 2014

What has changed since November?

Positive Developments:
- Revenue picture has improved
- State budget impacts for 2013 in line with November projections
- 2011 yearend balance and 2012 underspend projections will provide a buffer for 2013 and 2014

New Budget Challenges:
- State budget impacts for 2012 worse than what we anticipated
- Costs to implement the recommendations related to the DOJ review of the Seattle Police Department

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<th>Revenue Change from Nov Forecast (in millions)</th>
<th>% of Total Revenues</th>
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<tr>
<td>2012</td>
<td>$4.2</td>
</tr>
<tr>
<td>2013</td>
<td>$5.9</td>
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<td>2014</td>
<td>$6.6</td>
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Why is the City of Seattle continuing to see budget deficits?

- With the economy beginning to recover and the City’s revenues improving, why is the City continuing to see budget shortfalls?

**Average Annual Tax Revenue Growth Rate in Post-Recessionary Periods**

- **1995 - 2000**: 3.3% (Inflation 3.9%, Real Growth 0.4%)
- **2005-07**: 3.4% (Inflation 4.1%, Real Growth 0.7%)
- **2011-15F**: 2.3% (Inflation 1.0%, Real Growth 1.3%)
Why is the City of Seattle continuing to see budget deficits?

- Revenues not growing at a rate sufficient to maintain existing services and respond to emerging needs

**Going from 2012 Adopted to 2013 projections:**

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<tr>
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<th>2013</th>
<th>2014</th>
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<tr>
<td></td>
<td>-$6.7</td>
<td>-$0.4</td>
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</table>
|       | -$14.9     | -$13.6     | Difference Between Revenue and Expenditure Growth
|       | -$6.0      | -$9.8      | Impact of one time adjustments, including reliance on fund balance in 2012
|       | -$14.7     | -$17.0     | Policy Choices Made - Annualize ongoing programs, prudent fiscal management
|       | -$42.3     | -$40.8     | Risks and Anticipated Requests
|       | $10.6      | $9.1       | Anticipated Fund Balance Available for 2013/2014 Biennium Balancing
|       | -$31.7     | -$31.7     | Gap Remaining
The 2013/2014 shortfalls will require another round of reductions.

Following several years of cutting back, departments are left with difficult choices.

Some elements of the General Fund budget are fixed in nature and cannot be reduced.

Recognition of the importance of public safety and human services in development of target allocations.

These departments represent half of the General Fund.

General Fund Breakdown:
- Human Services / Police / Fire: 50%
- Other: 36%
- Excluded (Debt Service, Insurance, etc): 14%
Next Steps - Plan for Closing the Gap

- Target allocations reflect prioritization of Public Safety and Human Services, but are not reflective of final budget decisions.

- Departments are developing options to reduce their General Fund dependence for the Mayor to consider
  - Police, Fire and Human Services – 1 – 3%
  - Most other General Fund-dependent departments – 4 – 8%

- Next revenue forecast will come in August
  - Informs the final development of the Mayor’s Proposed Budget, which will be transmitted to the Council on September 24
Questions?