



City of Seattle General Fund: 2011 Yearend Results & 2012 Outlook

Presentation to the Seattle City Council Budget Committee
City Budget Office and Department of Finance & Administrative Services – March 12, 2012

Overview



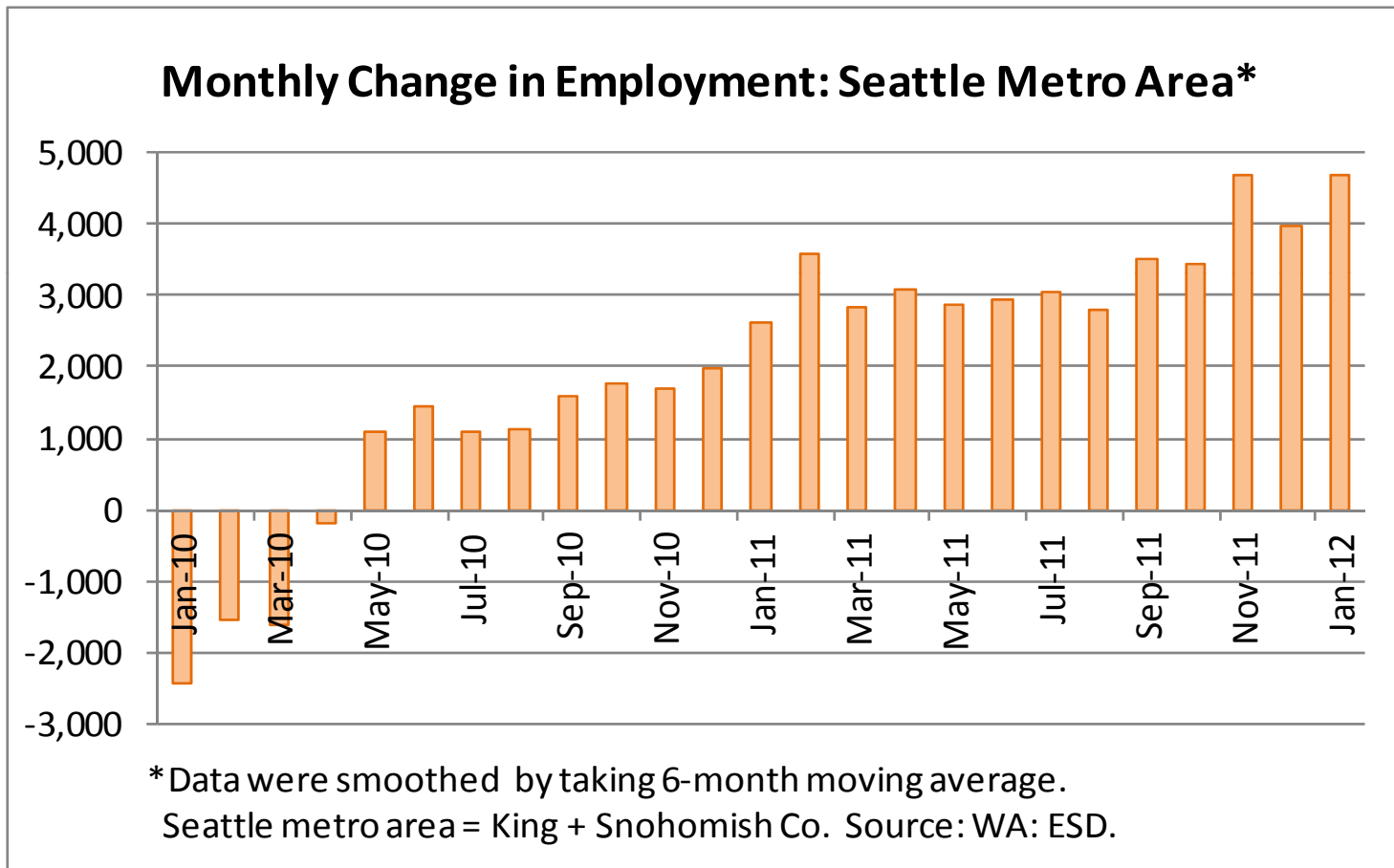
- ▶ Purpose of Today's Briefing
 - ▶ Update on the Economy
 - ▶ Preliminary 2011 Yearend Results
 - ▶ Preliminary 2012 Budget Outlook

Economic & Revenue Update



- ▶ Last revenue forecast update was in November
 - ▶ U.S. economy was looking shaky in October
 - ▶ Growth was slow
 - ▶ Fear of recession was high (Global Insight, 40%)
 - ▶ Debt ceiling debacle had nearly pushed economy into recession
 - ▶ Since October economy has performed better than expected
 - ▶ Causing City revenue to exceed November forecast
 - ▶ Note 2011 revenue is not final until year-end process completed

Economic & Revenue Update



Economic & Revenue Update



2011 Revenue: Preliminary Actual vs. Forecast

General Fund	Forecast	Preliminary Actual*	Difference	Percent
Property taxes	256,086,000	257,816,000	1,730,000	0.7%
Retail sales taxes	155,077,000	157,055,000	1,978,000	1.3%
B&O tax	167,583,000	168,701,000	1,118,000	0.7%
Utility tax	170,628,000	169,445,000	-1,183,000	-0.7%
Other	75,438,000	76,346,000	908,000	1.2%
TOTAL	824,812,000	829,363,000	4,551,000	0.6%
Other Funds				
Real estate excise tax	29,101,000	30,109,000	1,008,000	3.5%
Commercial parking tax	29,435,000	28,212,000	-1,223,000	-4.2%

*2011 revenue figures are not final.

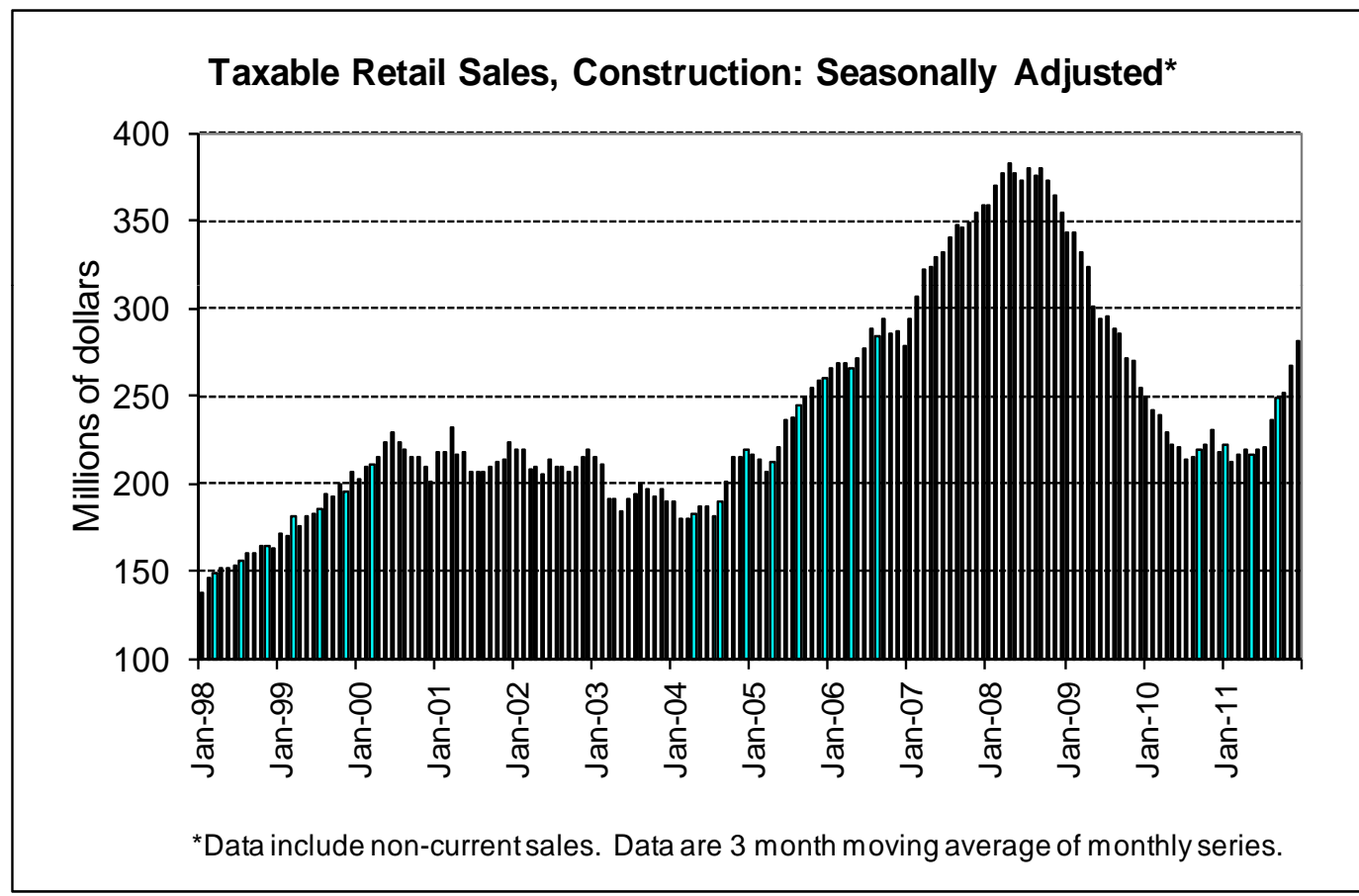
Economic & Revenue Update



▶ 2011 Revenue Highlights

- ▶ Economically sensitive sales and B&O receipts ended 2011 \$3.1 million (1.0%) above forecast
- ▶ REET finished 2011 with a strong 4th quarter; fairly large commercial transactions were the cause
- ▶ The commercial parking tax shortfall is due at least in part to accounting issues
 - ▶ FAS will continue to monitor this revenue carefully; with possible adjustments before year-end during the accrual process
- ▶ Revenue from construction activity is rebounding

Economic & Revenue Update



Economic & Revenue Update



2010 - 2011 Revenue Comparison

General Fund	2011		Difference	Percent
	2010	Preliminary*		
Property taxes	254,959,000	257,816,000	2,857,000	1.1%
Retail sales taxes**	145,341,000	157,055,000	11,714,000	8.1%
B&O tax	158,213,000	168,701,000	10,488,000	6.6%
Utility tax	171,669,000	169,445,000	-2,224,000	-1.3%
Other	72,903,000	76,346,000	3,443,000	4.7%
TOTAL	803,085,000	829,363,000	26,278,000	3.3%
Other Funds				
Real estate excise tax	23,632,000	30,109,000	6,477,000	27.4%
Commercial parking tax	24,117,000	28,212,000	4,095,000	17.0%

*2011 revenue figures are not final.
 **Revenue boosted by state amnesty. Without amnesty growth would be approx. 6.3%.

Economic & Revenue Update



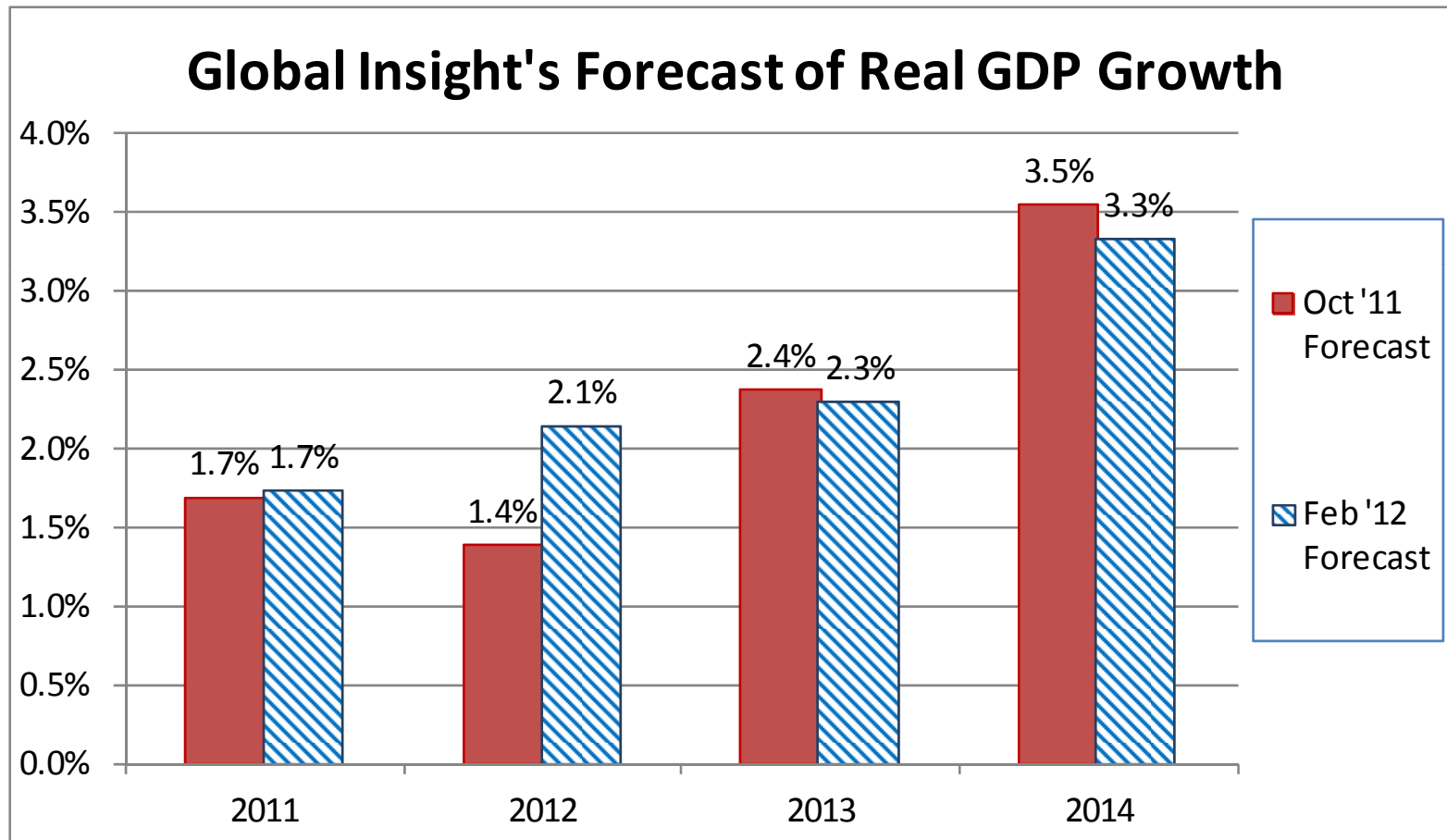
- ▶ How have economic forecasts changed since October?
 - ▶ Global Insight's U.S. forecast: change from Oct '11 to Feb. '12
 - ▶ Forecast for 2012 has been revised upward
 - ▶ Probability of a recession has been reduced to 25%
 - ▶ Washington Economic & Revenue Forecast Council
 - ▶ February state forecast little changed from November
 - WA job growth for 2012 raised from 1.2% to 1.7%
 - Personal Income forecast virtually unchanged

Economic & Revenue Update

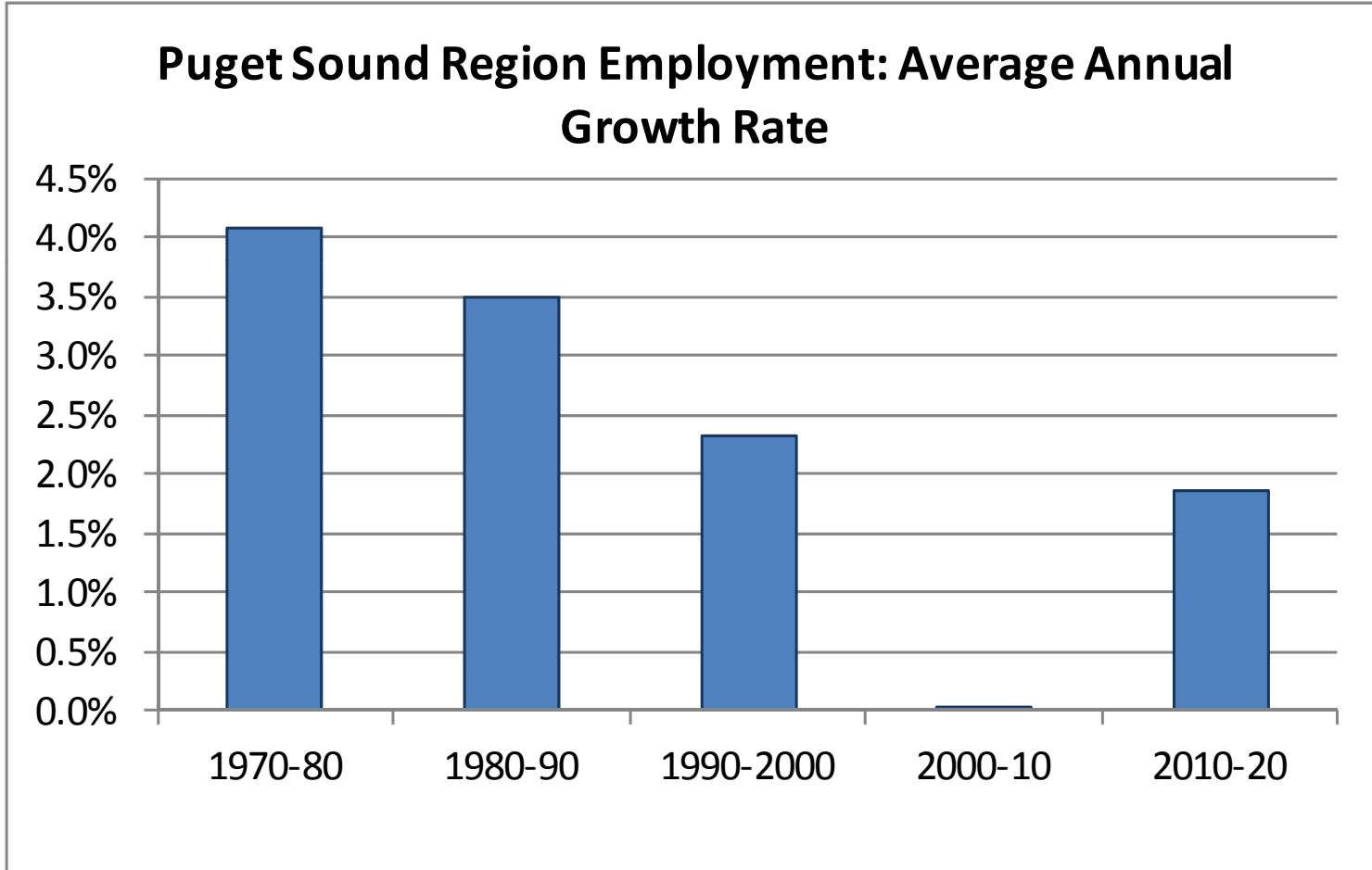


- ▶ “Outlook remains extremely uncertain”
- ▶ “We continue to believe WA will outperform U.S.”
- ▶ Puget Sound Economic forecast
 - ▶ March forecast is a bit stronger than September and December forecasts
 - Expects 2012 growth of 2.5% for employment, 5.4% for personal income

Economic & Revenue Update



Economic & Revenue Update



Economic & Revenue Update



▶ Risks

▶ From Olympia:

- ▶ The proposed budget from the House puts some state-shared revenues in jeopardy
 - Criminal Justice revenues: \$2.5 million annual loss
 - Beer taxes (Part of Liquor Board Profits): \$0.6 million annual loss
 - Liquor Excise Tax: \$3.0 million annual loss
- ▶ The budget as passed by the Senate takes only liquor excise taxes
- ▶ May be some potential for additional revenue authority

Economic & Revenue Update

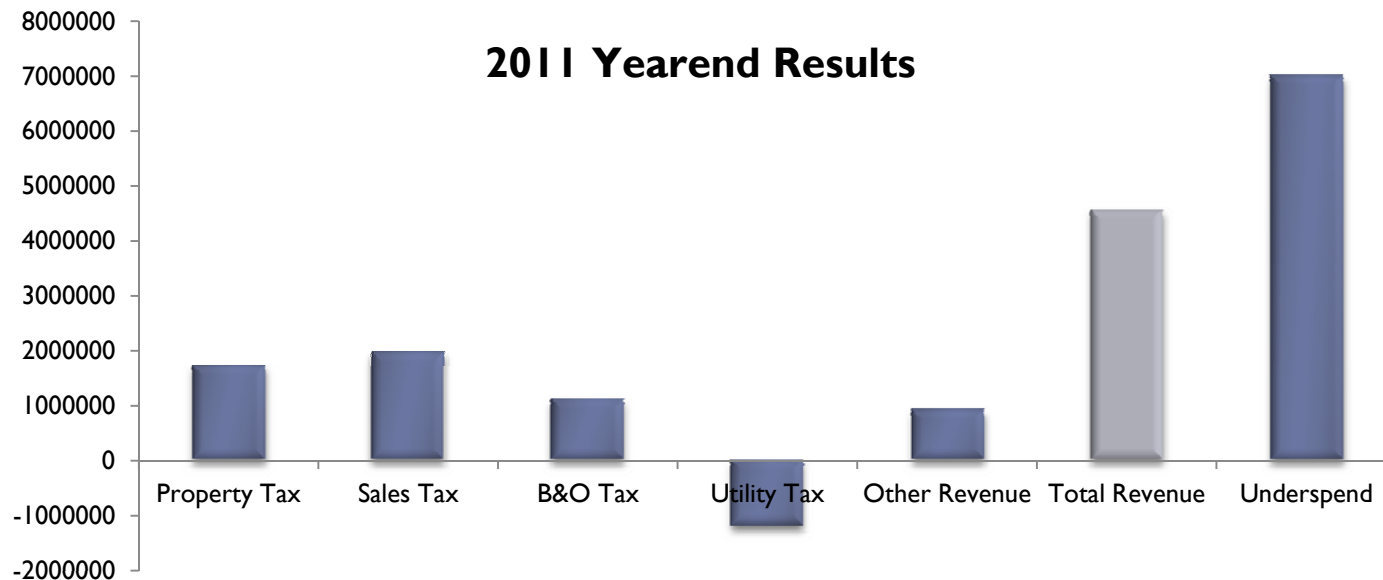


- ▶ From elsewhere:
 - ▶ Eurozone crisis
 - ▶ Middle east / oil prices
 - Anxiety about a potential supply disruption has pushed up world oil prices, as tensions have mounted over Iran's nuclear ambitions
 - Rule of thumb: each 10 cent rise in gasoline prices subtracts 0.1% from disposable income
- ▶ Upside risks
 - ▶ Construction

What Do These Results Mean for the Budget?



- ▶ 2011 will end with an undesignated balance of about \$17 million, about \$12 million better than expected*
 - ▶ \$5 million as a result of revenue
 - ▶ \$7 million as a result of underspend



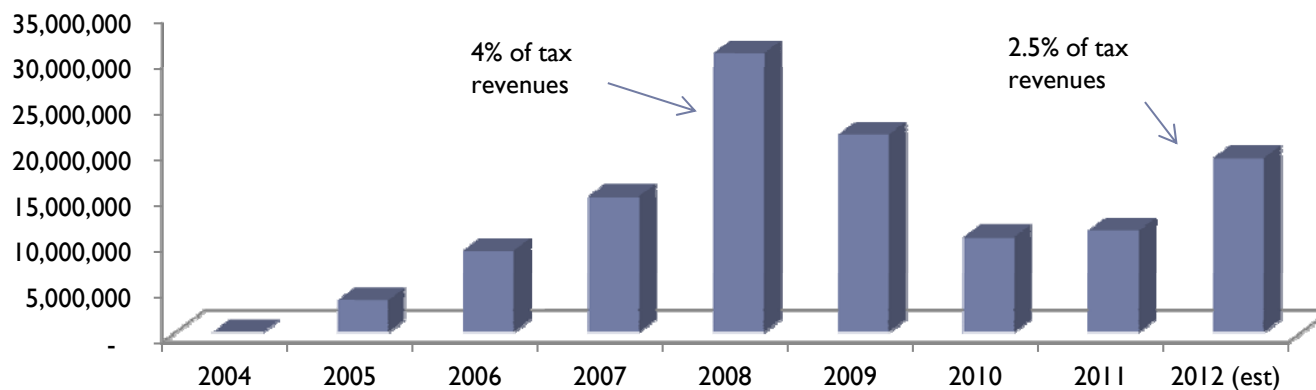
- Final 2011 results will not be available until the end of March, so these figures are subject to revision

What Do These Results Mean for the Budget?



- ▶ **Rainy Day Fund***
 - ▶ Half (less carry forwards) of the \$12 million balance transferred to the Rainy Day Fund
 - ▶ Rainy Day Fund will total approximately \$19 million
 - ▶ \$4 million greater than what would have achieved under the old Rainy Day Fund policies

Rainy Day Fund Balances
2004 - 2012 (Est)



- ▶ **Remaining 2011 balance (\$6 million) serves as a cushion for 2012***
 - Final 2011 results will not be available until the end of March, so these figures are subject to revision

2012 Outlook



- ▶ State budget will likely weaken the City's 2012 budget picture
 - ▶ Could result in \$3.6 million in hits for 2012 and \$7.5 million for 2013

- ▶ Combination of 2011 results and the potential for a modest upward revision to 2012 revenues in April should buffer the City in 2012 from these impacts

- ▶ No mid-year reduction process for 2012

- ▶ But, challenges for 2013 remain
 - ▶ To prepare for 2013, setting a 1% underspend target for most General Fund-dependent departments; 0.5% for Police, Fire and Human Services

Looking Ahead – Next Steps



- ▶ April Forecast will provide more information about the 2012 and 2013 outlook

- ▶ Budget Challenges for 2013 Likely to Remain
 - ▶ Even if revenue outlook improves, still potential risks, including
 - ▶ State budget
 - ▶ Implementation costs resulting from the DOJ review

Questions?

