



Economic and Financial Update

City Budget Office
April 27, 2015

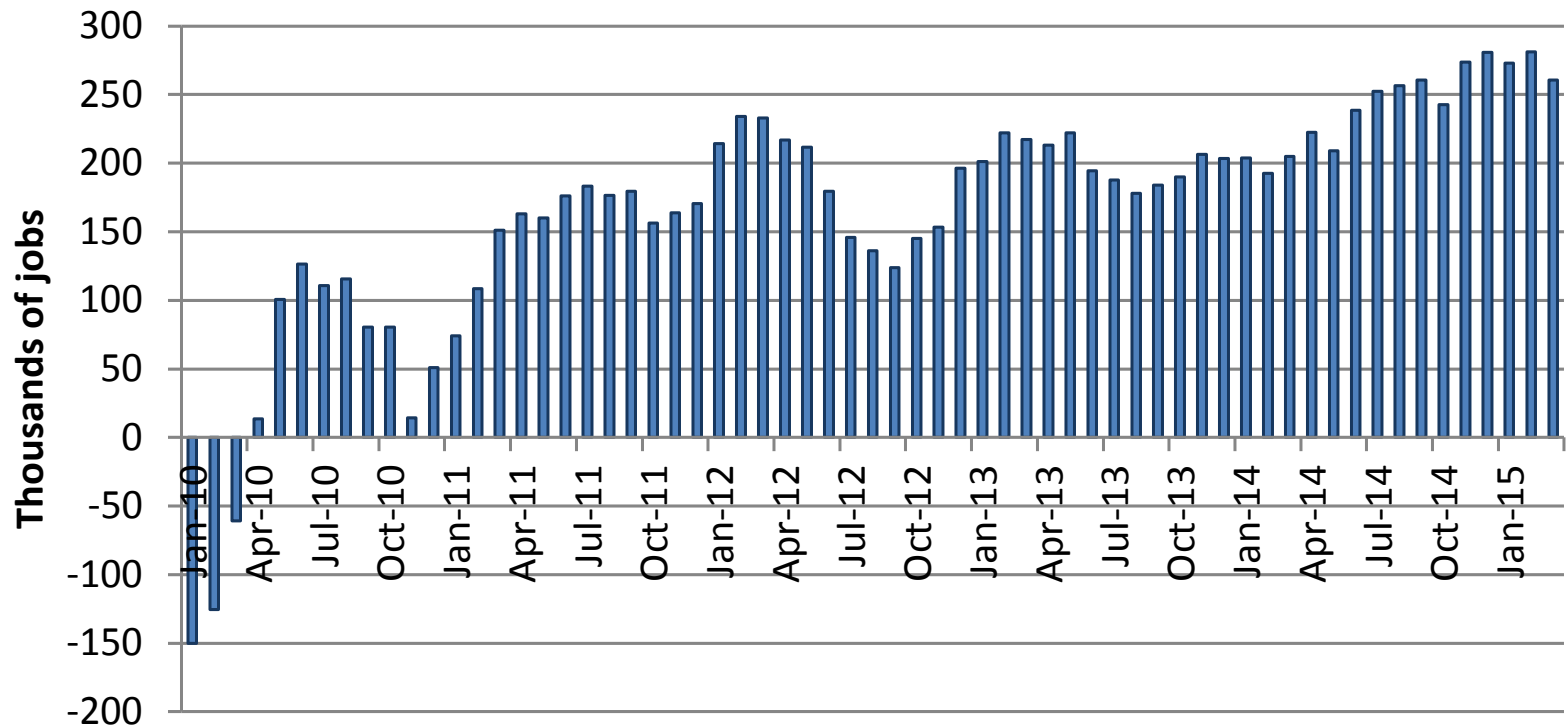
U.S. Economy

In June the U.S. recovery will be 6 years old

- Economy strengthened in 2014, after weak Q1
 - 2014 was best year for job creation since 1999
 - Consumer sentiment has reached pre-recession levels
- Growth slowed in 2015 Q1
 - Severe winter weather
 - Strong dollar
 - Low energy prices impact energy producers, consumers
- Forecast: stronger growth for rest of 2015
- No signs yet of economy overheating

U.S. Economy

Monthly Change in U.S. Employment 6-month Moving Average



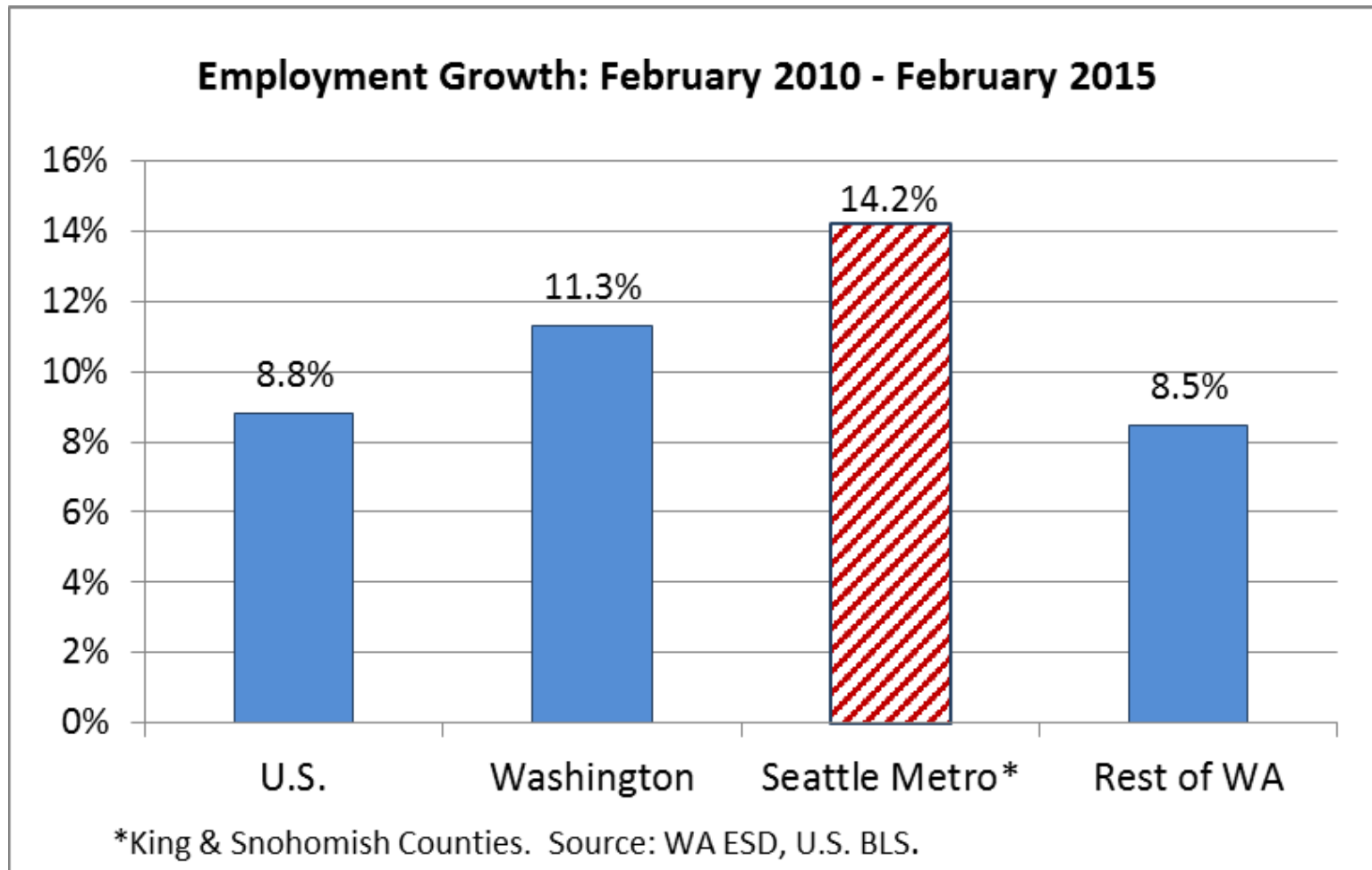
Source: U.S. Bureau of Labor Statistics.

Puget Sound Economy

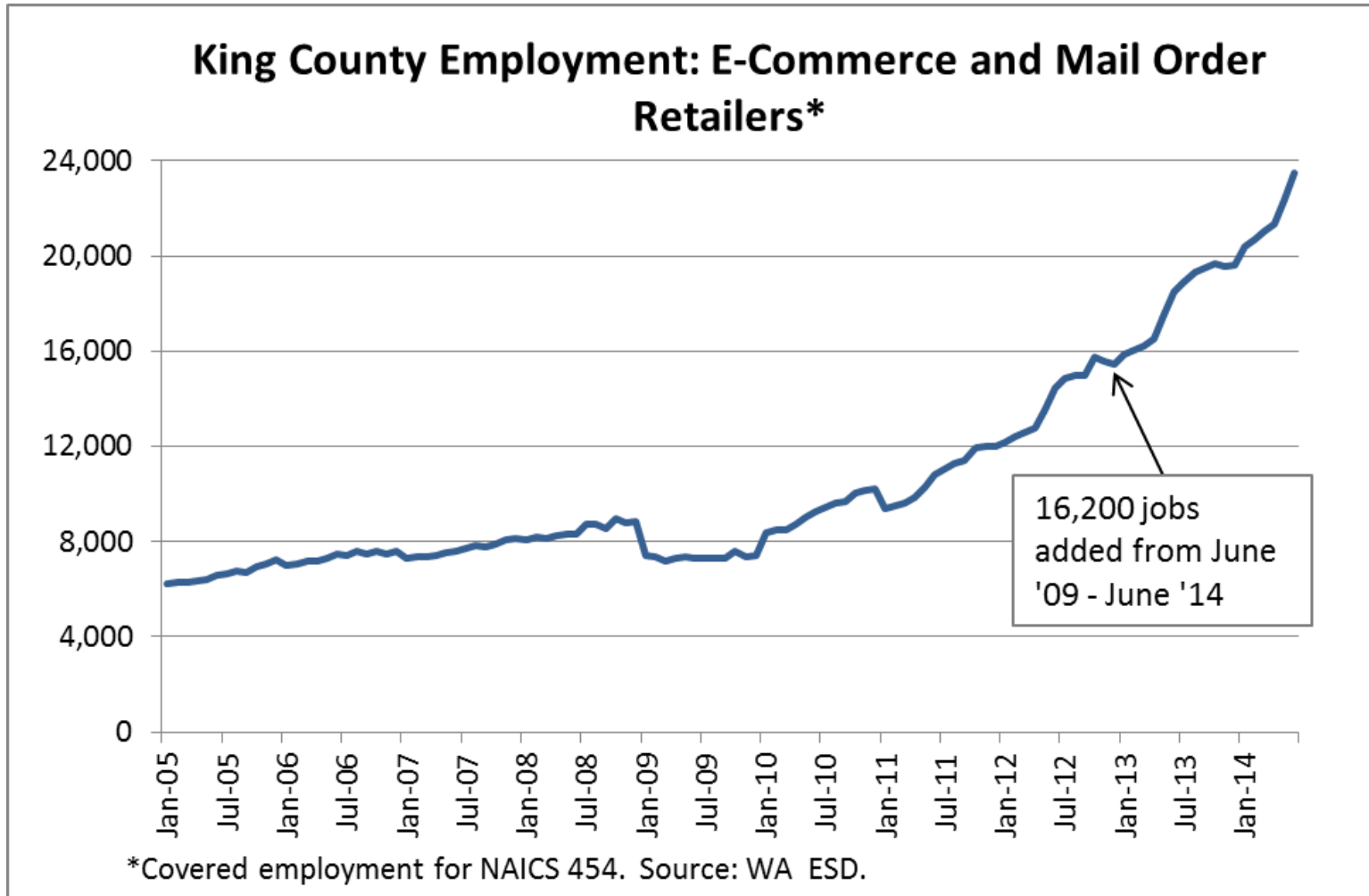
Puget Sound Region has had a strong recovery

- In general, regions with robust tech sectors have done well. Local recovery has been led by:
 - Boeing, Amazon, other tech firms
 - Business, professional, & technical services
- Within the region Seattle has led the recovery
 - Amazon and other tech
 - Business, professional & technical services
 - Construction

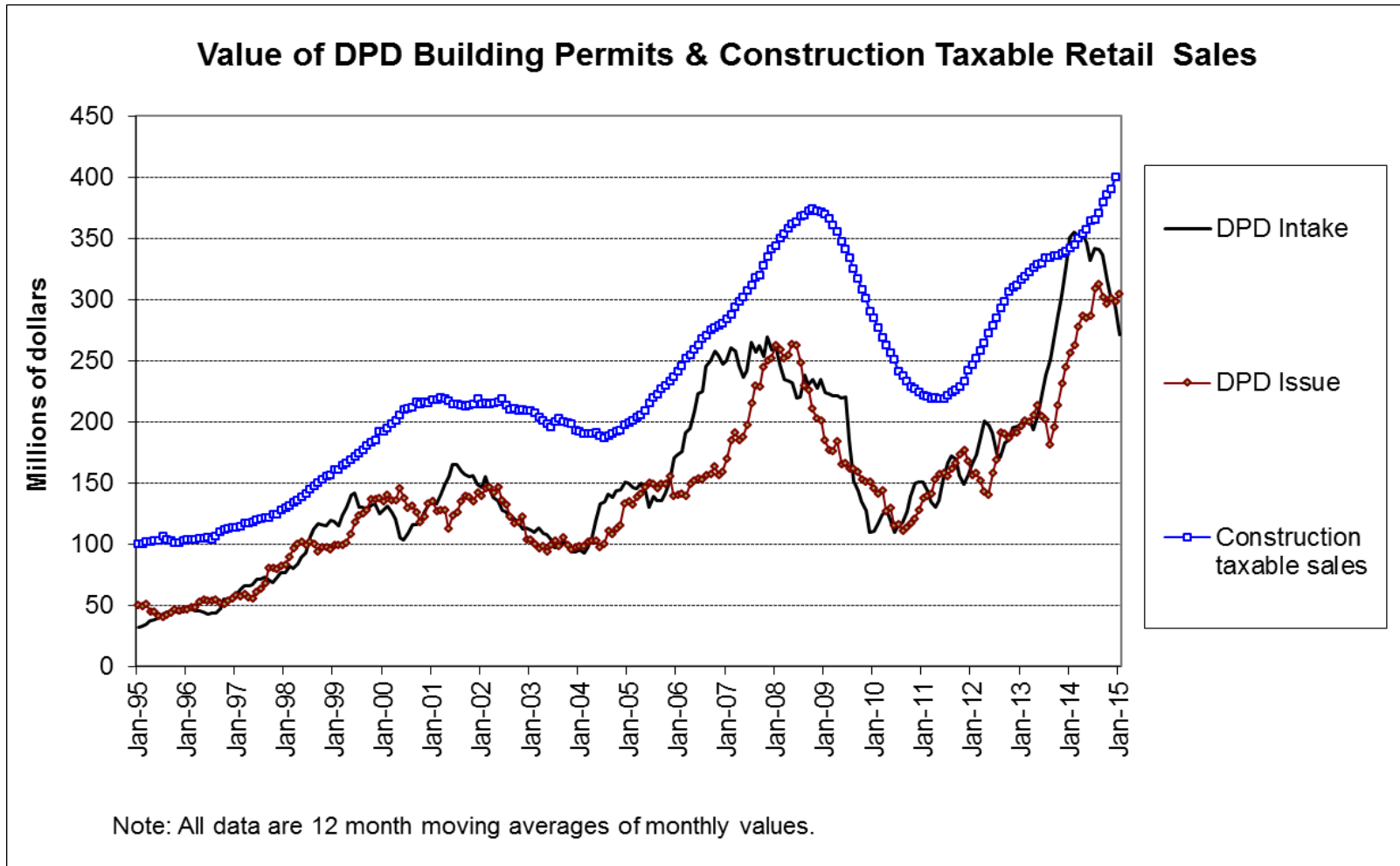
Puget Sound Economy



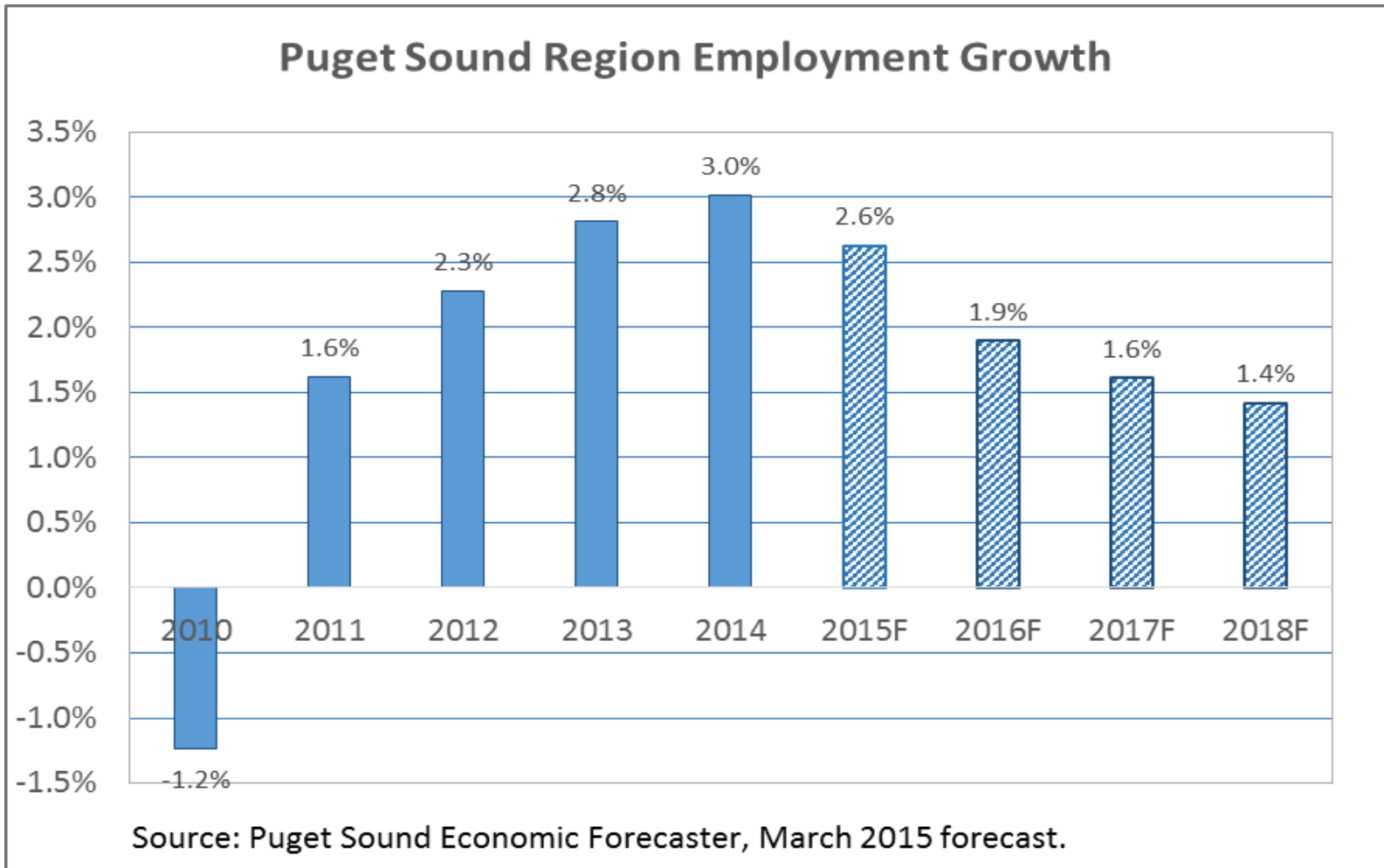
Puget Sound Economy



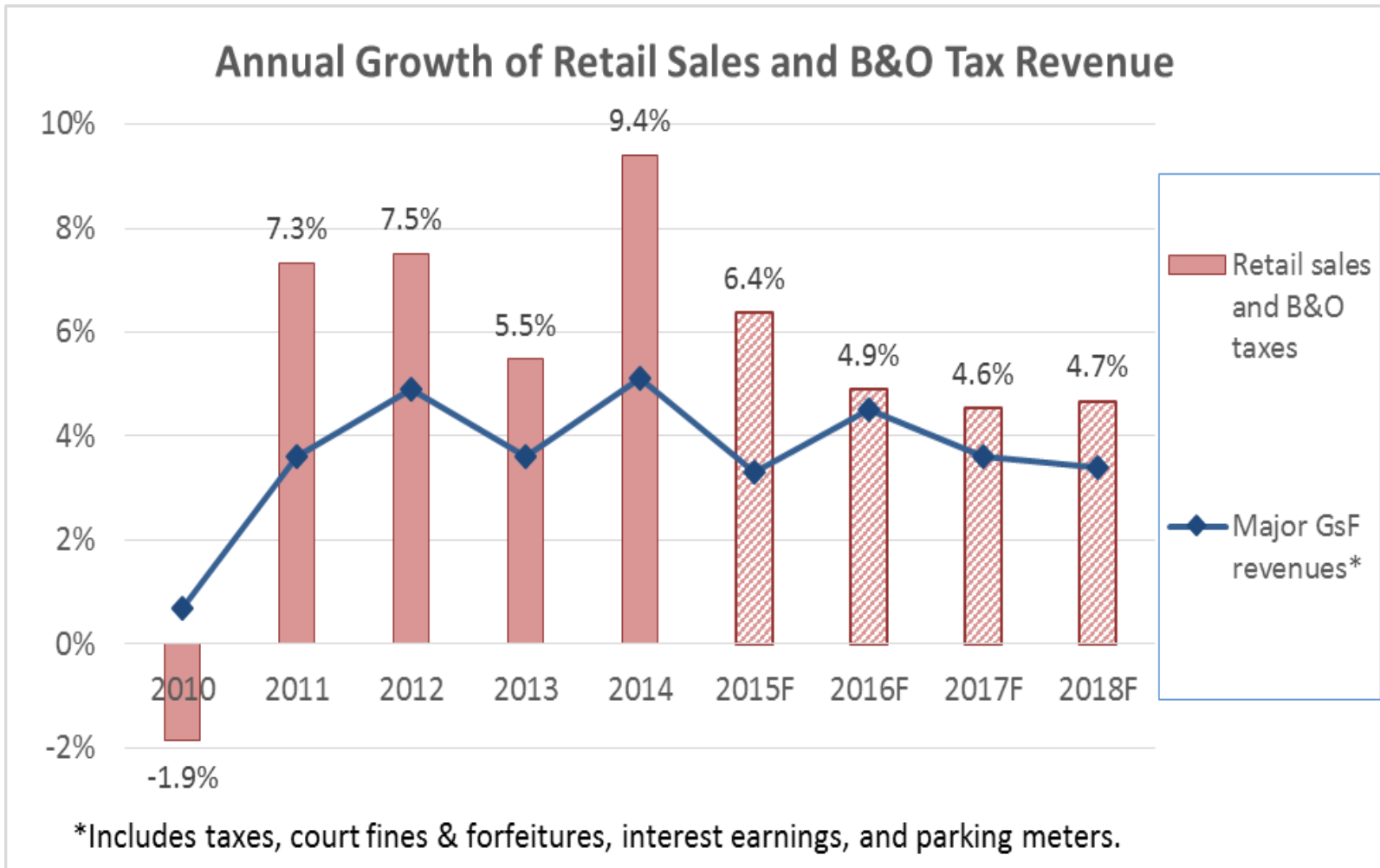
City of Seattle economy



Regional Economic Forecast



Retail sales and B&O tax revenue



Utility Tax Revenue

Energy

- Warm weather and low energy prices reduce natural gas related revenues
- Natural gas spot prices are expected to average \$3.34 per MMBTU 2015 through 2016

Telecommunications

- Wireless providers still declining in taxable services, down 6.2% in 2014
- Refund requests remain a significant risk

Real Estate Excise Tax

Residential & Condos

- Single-family home prices have not yet reached their inflation adjusted pre-recession peak
- Prices were up an average 9.5% in 2014, forecast is for 6.1% in 2015 and 3.9% in 2016.

Commercial

- Significant office tower sales expected in 2015
- Apartment construction still booming

General Subfund

In \$ Thousands

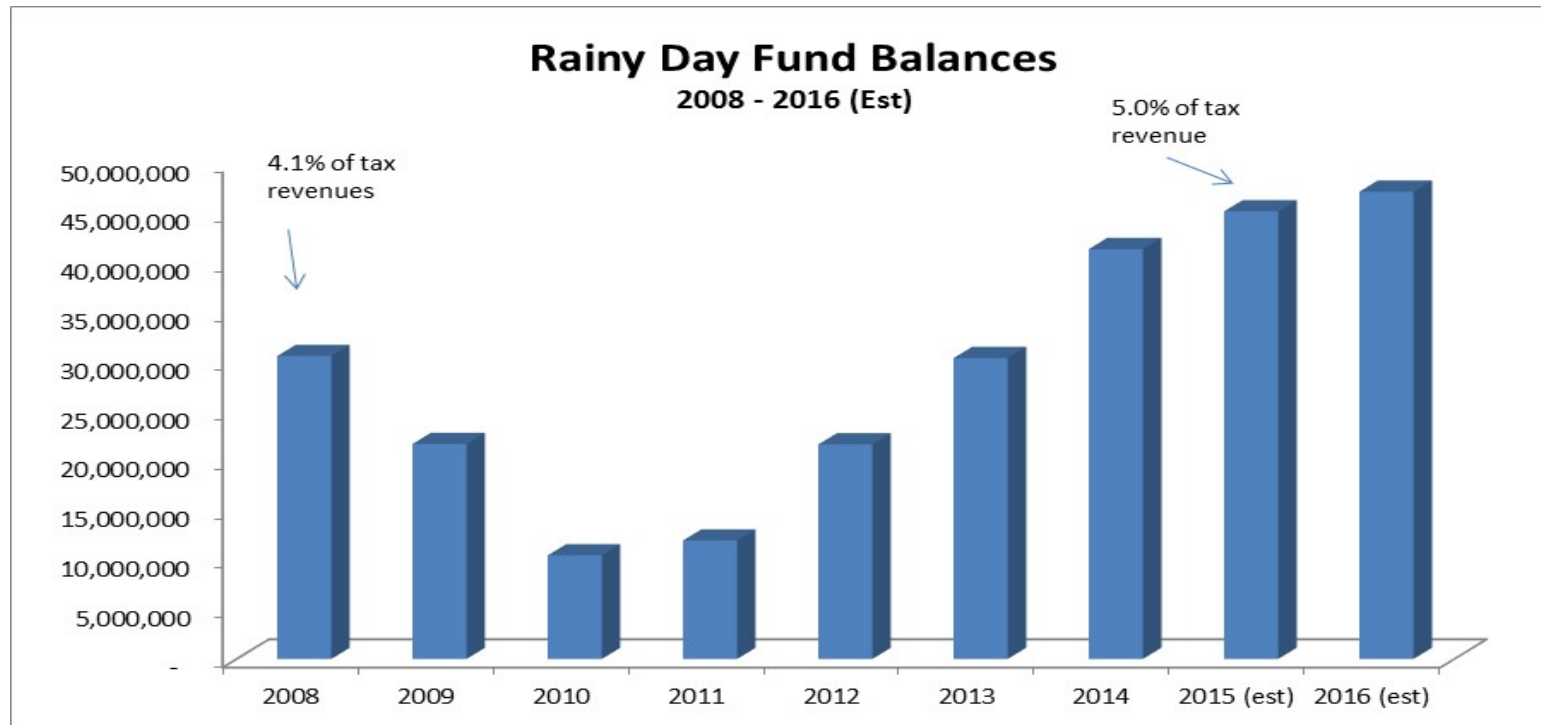
| GSF - Item | 2014 | | | 2015 | | | 2016 | | |
|--------------------------------------|------------------|------------------|---------------|------------------|------------------|--------------|------------------|------------------|---------------|
| | Nov | Act | Act-Nov | Nov | Mar | Mar-Nov | Nov | Mar | Mar-Nov |
| Property Taxes | 266,676 | 268,745 | 2,069 | 271,288 | 271,677 | 389 | 280,340 | 281,343 | 1,003 |
| Sales Taxes | 195,253 | 198,022 | 2,769 | 204,901 | 211,504 | 6,603 | 212,030 | 221,297 | 9,267 |
| B&O and Ad-Taxes | 214,435 | 214,429 | (6) | 225,109 | 226,940 | 1,831 | 237,538 | 238,499 | 961 |
| Public Utility Taxes | 128,812 | 129,909 | 1,097 | 133,542 | 132,606 | (936) | 140,195 | 140,313 | 118 |
| Private Utility Taxes | 58,808 | 57,281 | (1,527) | 59,095 | 56,694 | (2,401) | 59,703 | 57,939 | (1,764) |
| Other Notable GSF Revenues | 71,474 | 72,161 | 687 | 74,073 | 72,590 | (1,483) | 76,645 | 75,906 | (739) |
| Subtotal | 935,457 | 940,547 | 5,090 | 968,007 | 972,011 | 4,004 | 1,006,450 | 1,015,297 | 8,847 |
| Grants | 1,467 | 1,467 | - | 1,466 | 1,466 | - | 216 | 216 | - |
| Other General Subfund Revenues | 69,238 | 82,369 | 13,131 | 70,452 | 73,571 | 3,119 | 72,934 | 75,669 | 2,735 |
| Other Funds - Fund Balance Transfers | 4,683 | 3,374 | (1,309) | 3,061 | 3,061 | - | 2,223 | 2,223 | - |
| GSF - Grand Total | 1,010,845 | 1,027,757 | 16,912 | 1,042,986 | 1,050,109 | 7,123 | 1,081,823 | 1,093,405 | 11,582 |
| Real Estate Excise Tax | 49,650 | 53,394 | 3,744 | 51,462 | 53,547 | 2,085 | 55,270 | 53,579 | (1,691) |
| Commercial Parking Tax | 37,886 | 35,725 | (2,161) | 39,023 | 36,976 | (2,047) | 40,193 | 38,270 | (1,923) |
| School Zone Camera Fund | 6,006 | 5,078 | (928) | 8,342 | 8,682 | 340 | 8,486 | 9,761 | 1,275 |
| GSF - Subtotal Growth Rates (yr/yr) | | 5.1% | | | 3.3% | | | 4.5% | |

2014 Year-end Results

- General Fund ended with \$12.8 M more than had been projected in November. (A final balance of \$36.8 M vs. November projection of \$24.0 M.)
- Improved results were largely driven by increasing revenues.
- Per adopted policy, half the \$12.8 M in unanticipated fund balance would previously have been automatically directed to the Revenue Stabilization Account (AKA “the Rainy Day Fund). The Rainy Day Fund though is capped at 5% of General Fund Tax revenues (\$45.2 M) and that level is reached with only a \$3.8 M balance transfer.
- Remaining funds will be used to address existing obligations, rather than supporting new programmatic expenditures, per adopted policy. The increased payments to the City’s retirement system are one example of such obligations.

Reserves – Healthy and Growing

- The Rainy Day Fund was budgeted at \$44.7 M for 2015, but has now increased to \$45.2M after the automatic transfer of an additional \$3.8 M.
- The \$45.2 M represents the maximum balance for the Rainy Day Fund set at 5% of General Fund tax revenues, per ordinance 123743.



- The Emergency Subfund balance has increased to a new high of \$53.0 M for 2015, and will grow to \$58 M in 2016. (Maximum is set at \$0.375 per \$1,000 Assessed Value)¹⁴

Updated Budget Projections

Update Budget Projections 2015 - 2017 (In \$ Thousands)

| | 2014 Actual | 2015 Revised | 2016 Projected | 2017 Projected |
|-----------------------------------|-------------|--------------|----------------|----------------|
| Beginning Fund Balance | 57,843 | 36,786 | 20,603 | 1,806 |
| Revenues | 1,027,758 | 1,050,109 | 1,093,405 | 1,127,649 |
| Transfer to Rainy Day Fund | (11,192) | (3,810) | (1,998) | (1,703) |
| Expenditures | (1,037,623) | (1,062,481) | (1,110,204) | (1,144,366) |
| Net Revenues / Expenses | (21,057) | (16,183) | (18,798) | (18,419) |
| Ending Fund Balance | 36,786 | 20,603 | 1,806 | (16,613) |

- Forecasting a healthy General Fund balance of \$20.6 M at the close of 2015.
- However, note that current expenditures exceed current revenues by roughly \$16 million. This gap between revenues and expenditures has narrowed but not disappeared.
- Given that expenditure are projected to grow at a higher rate than revenues, this gap is projected to increase to approximately \$18 M in 2016 and 2017.
- In turn, this creates a potential budget shortfall in 2017 of \$16.6 M.

Budget Strategy Going Forward

General Fund Underspend for 2015

- Council imposed a 0.6% across-the-board reduction in 2015 General Fund appropriations.
 - Departments can manage to this without reductions in direct service, with limited potential exceptions. Any additional appropriation requests will come in future supplementals and draw upon the existing General Fund balance.
 - Supplementals may also include requests to transfer budget authority across BCLs to manage the impact of across-the-board reductions.
- Executive has given an additional 1% underspend target to all departments, except Police, Fire and Human Services. This will also be managed to avoid direct service impacts.

General Fund Reduction Targets for 2016

- Departments have been asked to submit reduction proposals as follows:
 - Police, Fire and Human Services -> 1%
 - Parks and Libraries -> proposals at 1% and 3%.
 - All other departments -> proposals at 2% and 4%.