



Revenue and Budget Update

Dept. of Finance & Administrative Services
City Budget Office
April 28 2014

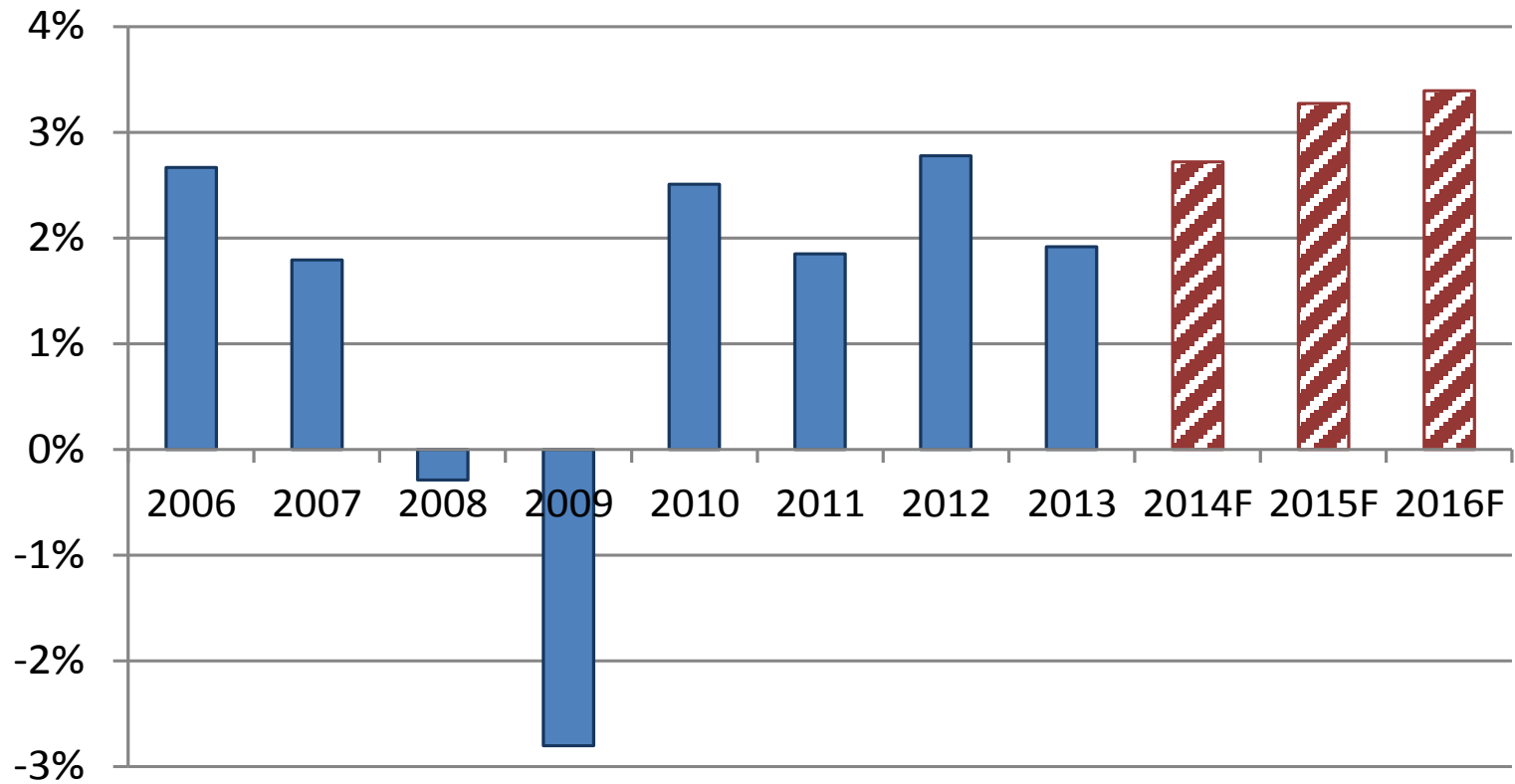
U.S. Economy

The recovery from the great recession

- This recovery has been weaker than most
 - Employment growth has been particularly disappointing
 - However, when compared to typical recoveries from financial crises, the U.S. is doing reasonably well (Reinhart and Rogoff)
- In 2013 growth was restrained by
 - Tax increases
 - Federal spending cuts
 - Federal government shutdown

U.S. Economy

Annual Growth of Real U.S. GDP



Source: Global Insight.

U.S. Forecast

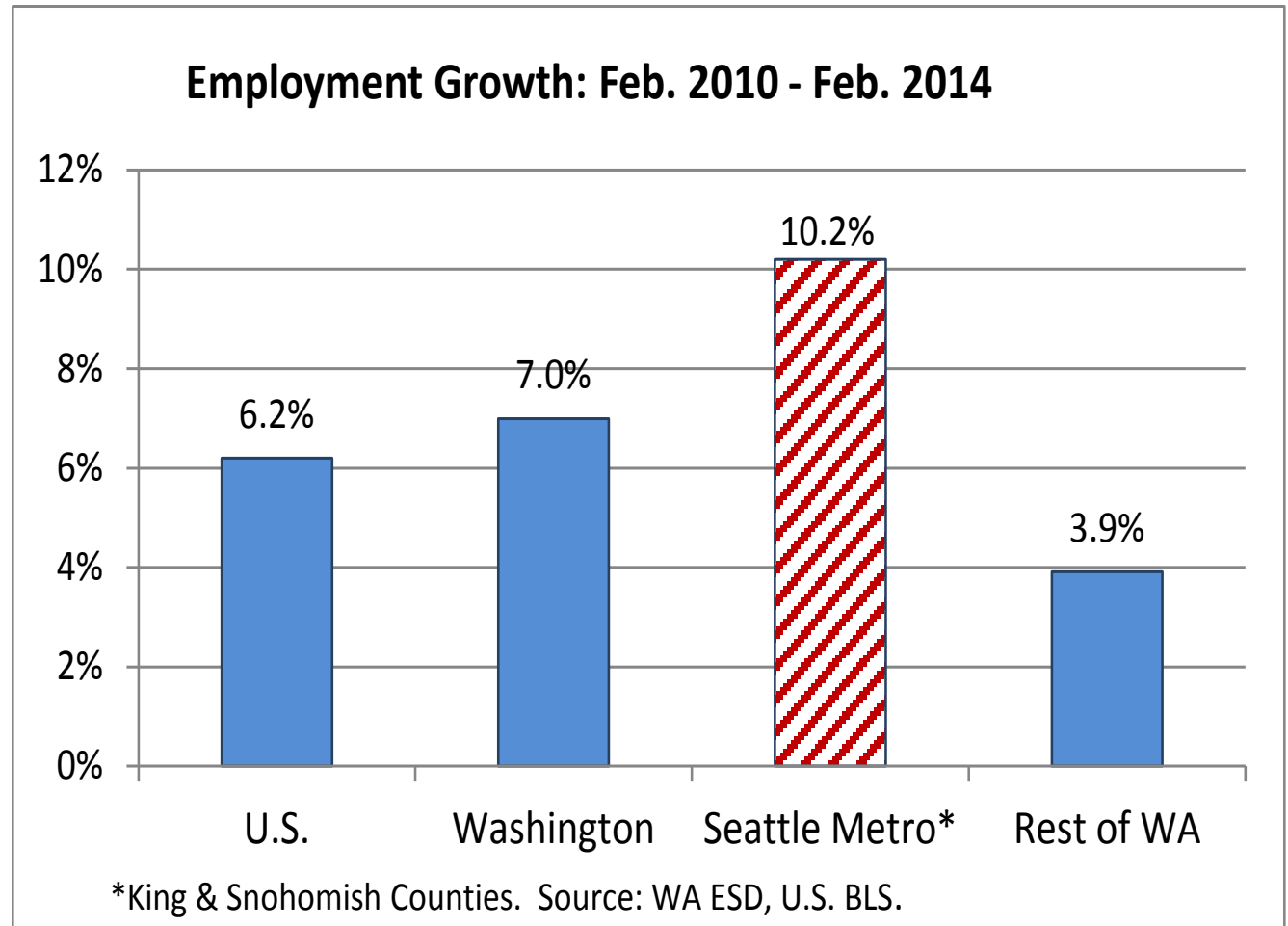
U.S. forecast: stronger growth in 2014-16

- Household balance sheets have improved
 - Debt loads have been reduced
 - Household wealth is rising
- Housing expected to pick up after winter slowdown
- Federal policy will be less harmful to growth in 2014
 - Smaller drag from federal tax and spending policies
 - Debt limit suspended until March 2015

Regional Economy

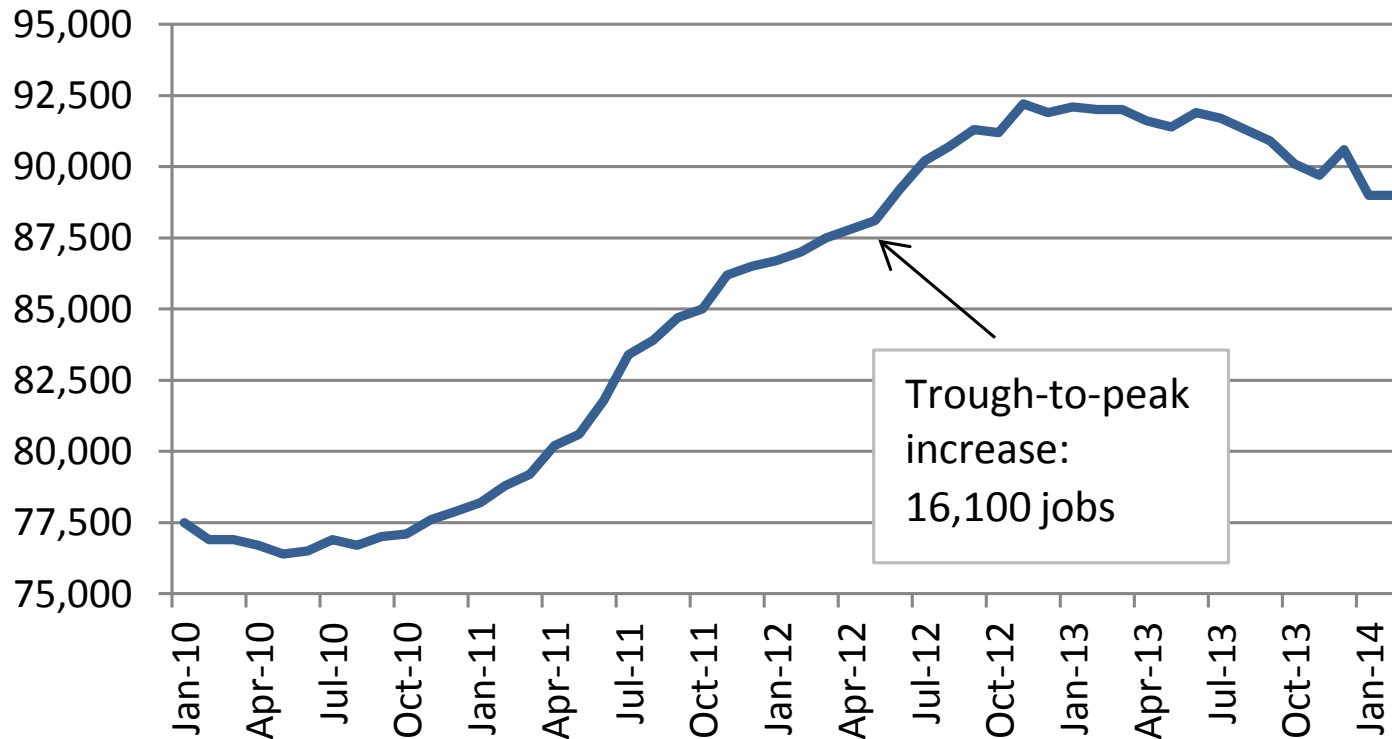
Region's recovery has outpaced U.S., WA

- Strong aerospace growth in 2010 -12
- E-commerce retailing expansion
- Other tech growth



Regional Economy

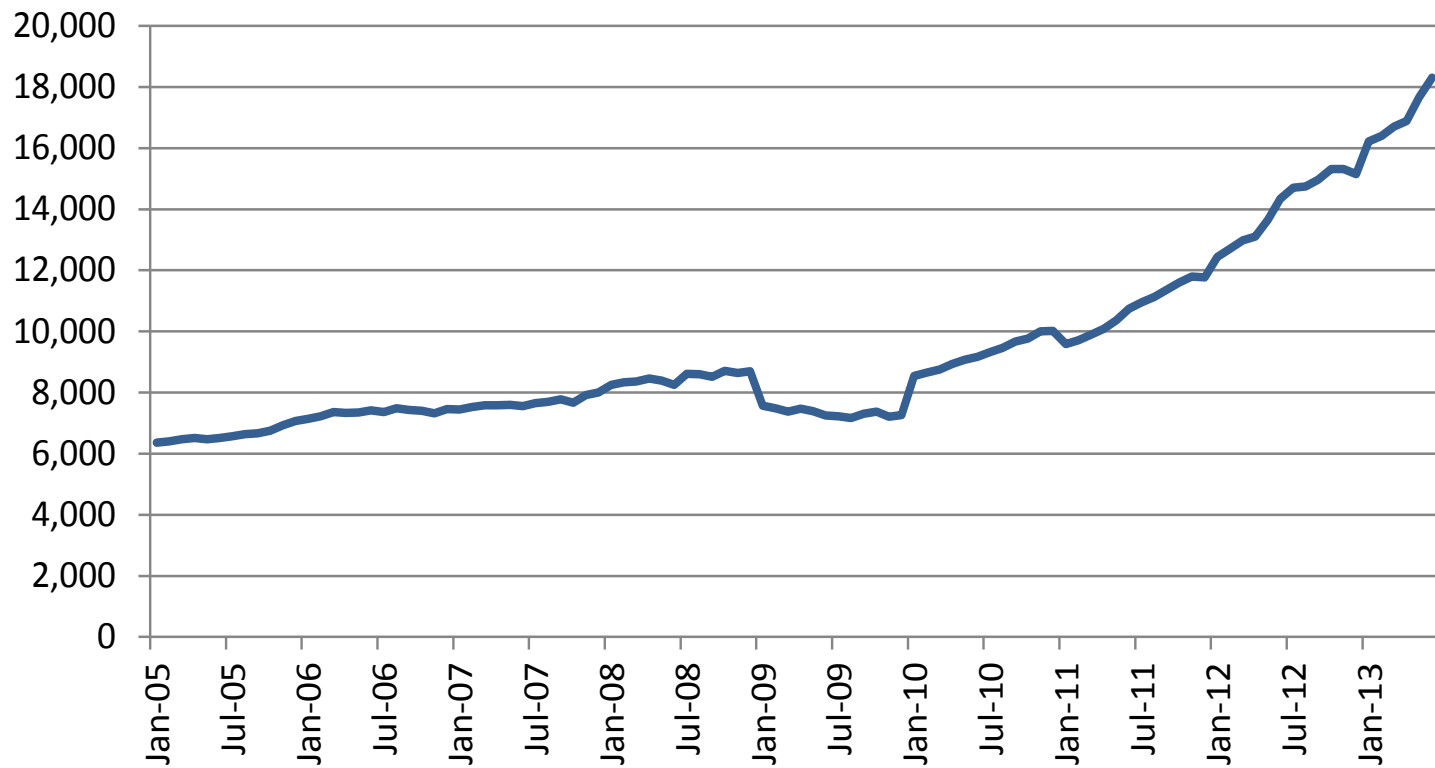
Seattle Metro Area* Aerospace Employment



*King & Snohomish Co. Data are seasonally adjusted. Source: WA ESD.

Regional Economy

King County Employment: E-Commerce and Mail Order Retailers*



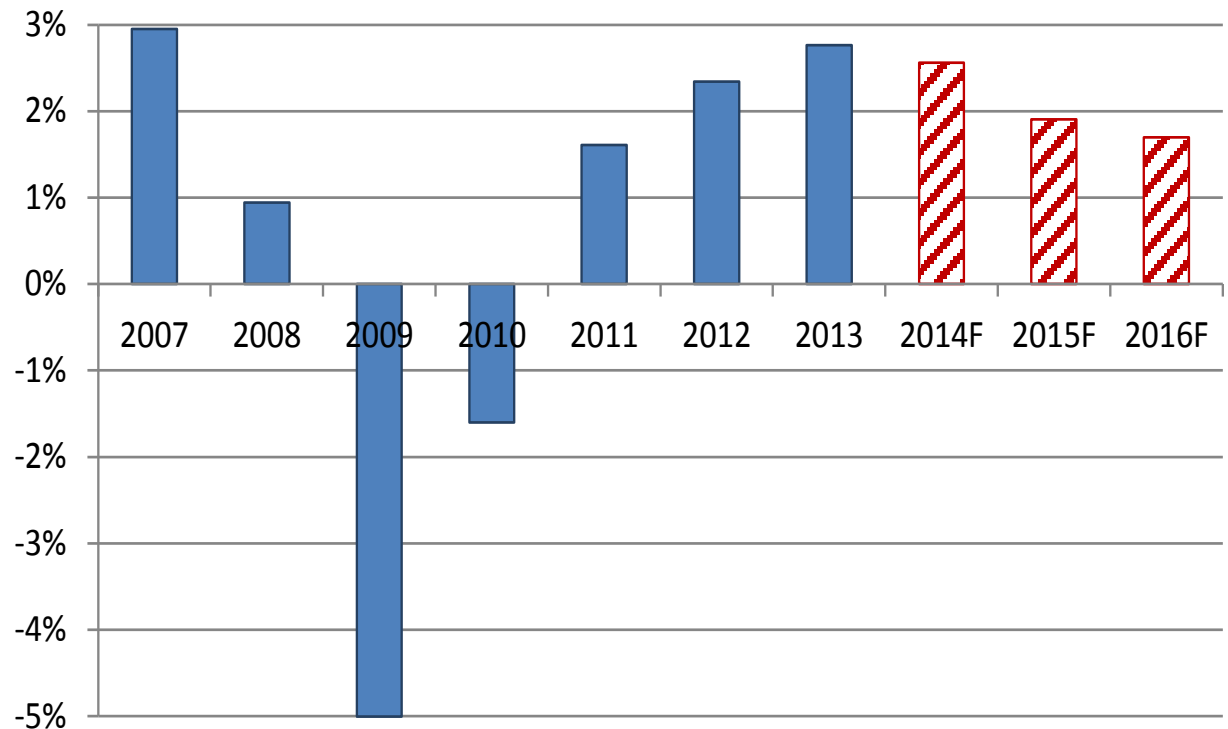
*Covered employment for NAICS 454. Source: WA ESD.

Regional Forecast

Regional forecast

- Job growth to slow
- Modest decline in aerospace employment expected

Annual Growth of Puget Sound Region* Employment



*King, Kitsap, Pierce & Snohomish Co. Source: PSEF.

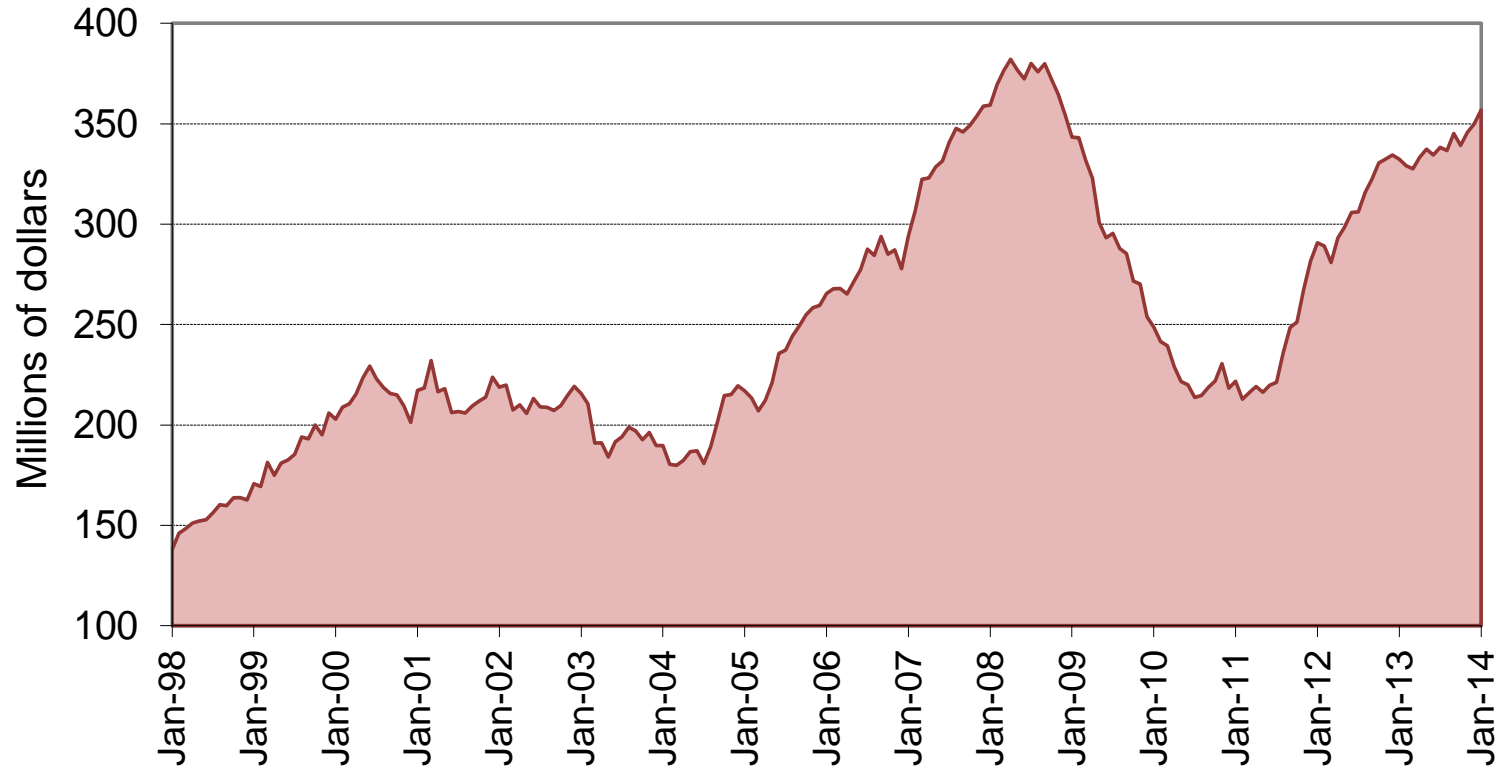
Regional Economy: Seattle

Seattle has led region's recovery

- Amazon, South Lake Union growth
- Business, professional & technical services
- Construction - in particular housing
 - There are currently over 13,000 new units for which permits have been issued but construction is not yet completed

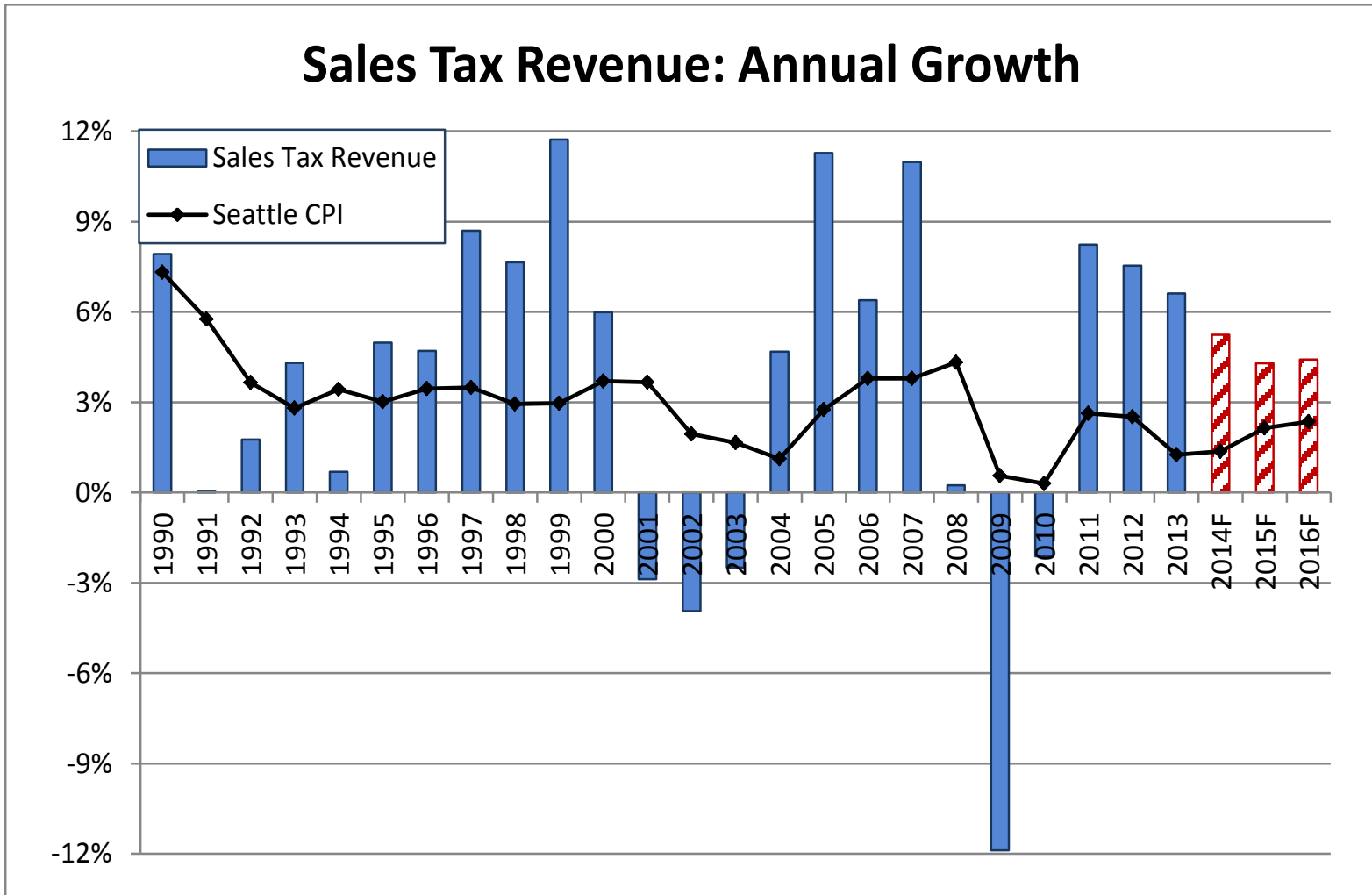
Regional Economy: Seattle

Monthly Taxable Retail Sales, Construction*



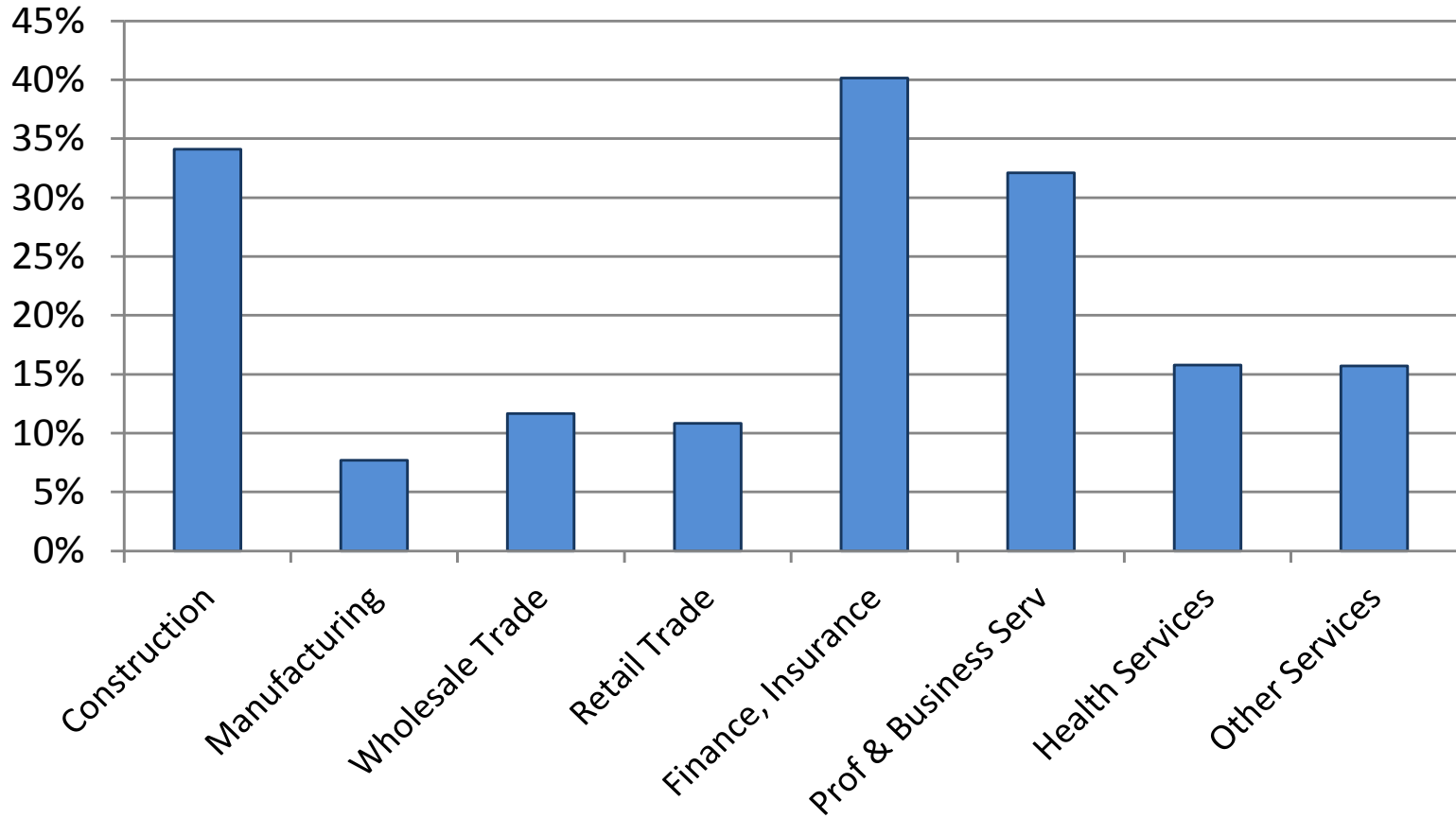
*Data include non-current sales. Data are 3 month moving average of seasonally adjusted monthly series. Source: WA Dept. of Revenue.

Retail Sales Tax



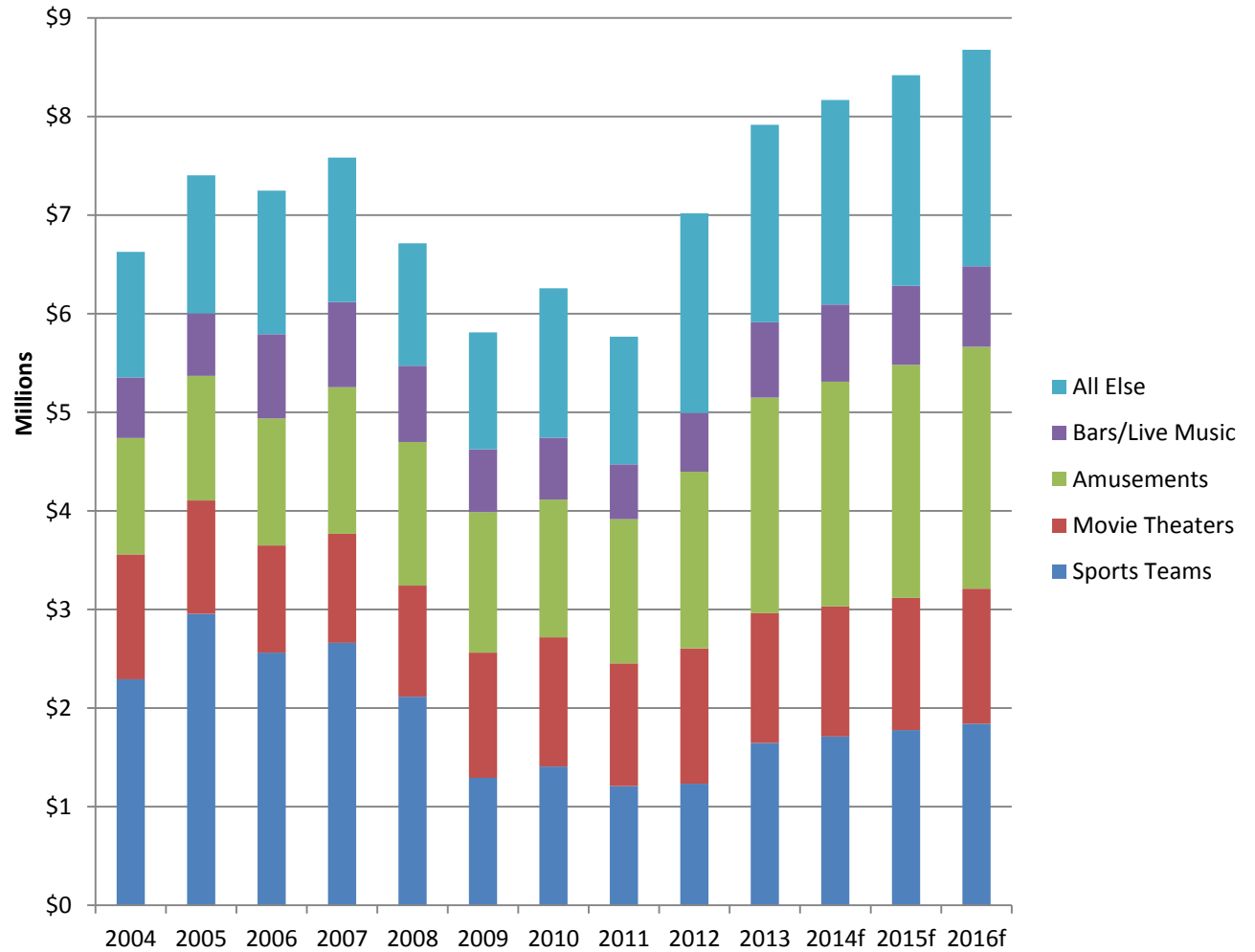
B&O Tax

Growth of B&O Taxable Income, 2010 - 2013

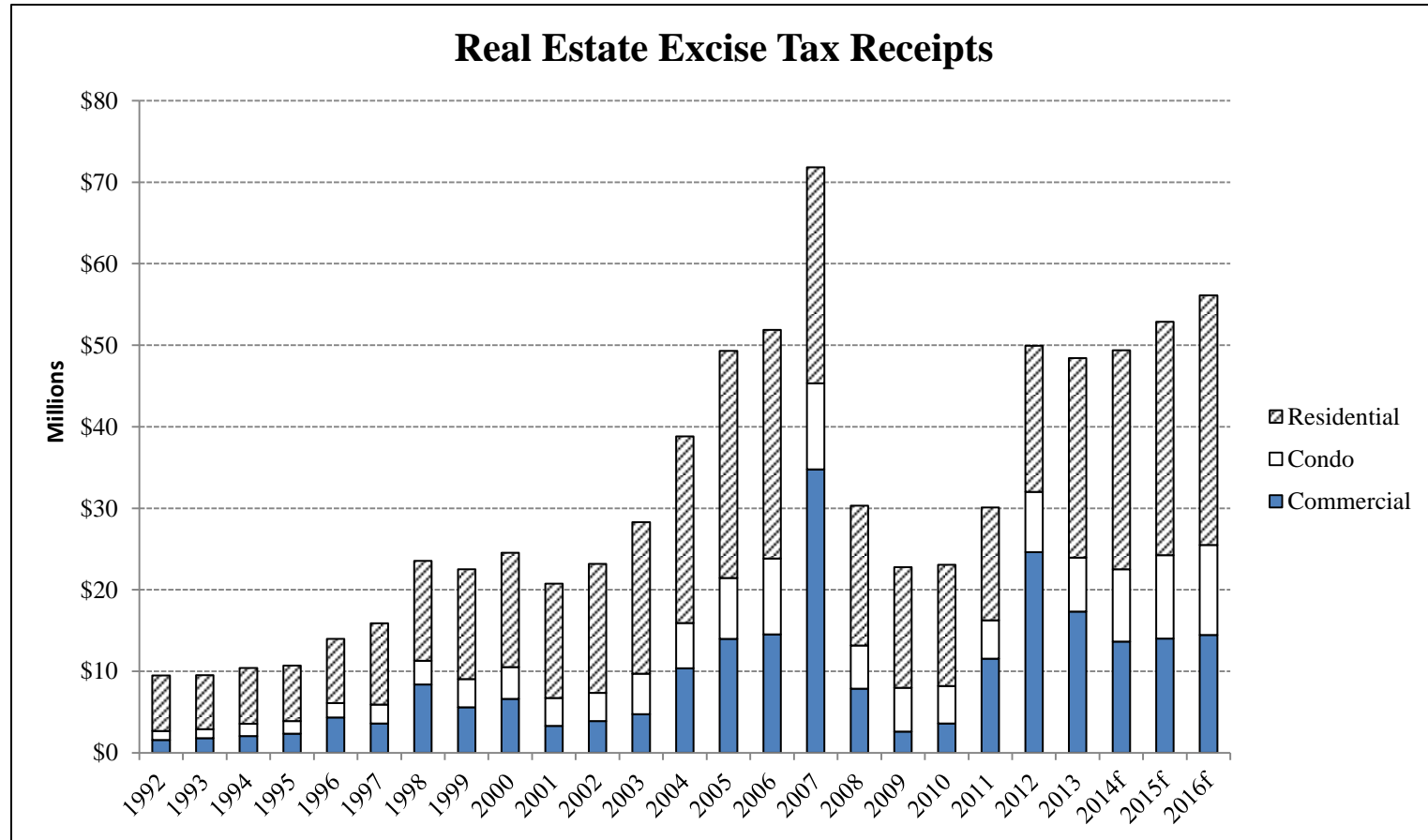


Admissions Tax

Revamped Husky Stadium brings in record tax receipts



Real Estate Excise Tax



General Subfund

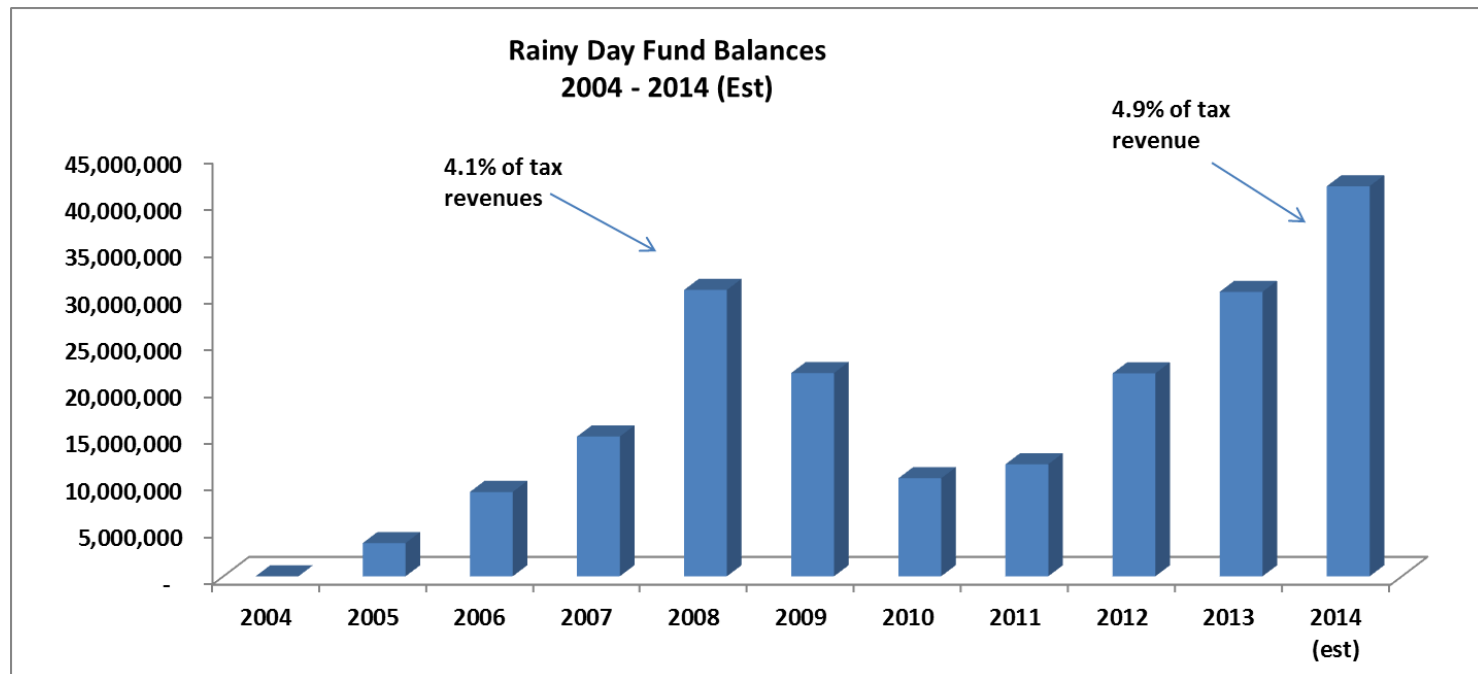
GSF - Item	2013			2014			2015	2016
	November	Actuals	Act-Nov	November	April	Apr-Nov	April	April
Property Taxes	251,365,000	252,681,520	1,316,520	267,091,111	266,676,250	(414,861)	270,096,110	277,750,551
Sales Taxes	177,785,395	179,816,019	2,030,624	186,296,893	189,245,427	2,948,534	197,501,783	206,243,675
B&O and Ad-Taxes	192,303,580	197,659,171	5,355,591	206,150,649	210,189,245	4,038,596	220,948,021	233,997,484
Public Utility Taxes	122,952,035	123,591,056	639,021	129,518,395	129,851,973	333,578	133,765,375	140,616,613
Private Utility Taxes	58,500,955	58,677,823	176,868	61,107,589	58,083,284	(3,024,305)	58,808,042	60,502,676
Other Notable GSF Revenues	82,304,875	82,609,785	304,910	76,997,816	75,829,079	(1,168,737)	76,649,567	79,900,593
Subtotal	885,211,840	895,035,374	9,823,533	927,162,453	929,875,258	2,712,805	957,768,898	999,011,592
Grants	487,000	30,486,500	29,999,500	1,728,000	1,728,000	-	238,000	238,000
Other General Subfund Revenues	64,252,052	67,402,789	3,150,737	69,350,926	68,280,394	(1,070,532)	67,048,493	66,931,221
Other Funds - Fund Balance Transfers	3,623,556	1,278,687	(2,344,869)	4,492,825	4,682,825	190,000	2,154,000	2,025,000
GSF - Grand Total	953,574,448	994,203,350	40,628,901	1,002,734,204	1,004,566,477	1,832,273	1,027,209,391	1,068,205,813
Real Estate Excise Tax	46,499,069	48,406,729	1,907,660	50,794,250	49,396,391	(1,397,859)	52,874,523	56,102,861
Commercial Parking Tax	31,944,866	31,187,021	(757,845)	32,807,377	33,688,000	880,623	34,698,000	35,739,000
School Zone Camera Fund		-	-	8,620,000	6,006,000	(2,614,000)	8,342,000	8,486,000
GSF - Subtotal Growth Rates (yr/yr)		3.6%			3.9%		3.0%	4.3%

2013 Year-end Results

- The General Fund ended 2013 with \$14 M more than had been projected in November. (A final balance of \$42.2 M vs. November projection of \$28.2 M.)
- These positive results were driven in largest part by unanticipated revenues, but final expenditures were also lower than the November projections.
- Per City policy, half the \$14 M in unanticipated fund balance has been automatically directed to the Revenue Stabilization Account (AKA the “Rainy Day Fund”).
- The remaining funds will help pay for unanticipated 2014 expenses, and more importantly to address on-going budget challenges for 2015 and 2016.

Rainy Day Fund – Nearly at Maximum Balance

- The Rainy Day Fund was budgeted at \$34.7 M for 2014, including a \$4 M deposit that was made as part of the 2014 adopted budget.
- The Rainy Day Fund Balance has now increased to \$41.8 M after the automatic transfer of an additional \$7.0 M.
- The maximum balance for the Rainy Day Fund is set at 5% of General Fund Tax revenues, per ordinance 123743. Currently, this translates into a maximum of \$42.8 M.



Baseline Budget Process

- A revenue forecast is only half the picture in terms of developing a budget forecast for the upcoming biennium.
- Expenditure estimates are also needed to complete the analysis.
- To develop planning-level estimates, baseline process takes the current budget (2014 Adopted) and estimates cost increases based on known drivers, such as general inflation, potential wage increases, employee benefits (health care and retirement), etc.
- Baseline process also removes current one-time expenses that will not be repeated in future years.
- Projected growth in General Fund costs averages approximately 3.5% per year for 2015 and 2016.

Updated Budget Projections

Update Budget Projections: 2014-2016

	2013 Actual	2014 Revised	2015 Proposed	2016 Proposed
Beginning Fund Balance	\$56,120,000	\$42,150,000	\$8,910,000	(\$22,890,000)
Revenues	\$970,510,000	\$1,003,910,000	\$1,027,210,000	\$1,068,210,000
Transfer to Rainy Day Fund	\$0	(\$6,990,000)	\$0	\$0
Expenditures	(\$984,480,000)	(\$1,030,150,000)	(\$1,059,020,000)	(\$1,094,080,000)
Ending Fund Balance	\$42,150,000	\$8,910,000	(\$22,890,000)	(\$48,770,000)

- Forecasting a healthy balance of \$8.9 M at the close of 2014.
- However, note that current expenditures exceed current revenues by roughly \$25 M.
- Given that revenues and expenditure are projected to grow at roughly the same rate, this gap is projected to persist into 2015 and 2016.
- In turn, this creates budget shortfalls that average roughly \$25 M per year for 2015 and 2016, and that would accumulate to almost \$50 M over the biennium.

Understanding Situation and Strategy Going Forward

So, how did we get here?

- Although recovery from great recession has been sustained for several years, the overall growth in General Fund revenues remains a relatively weak 3.5%; not the 5% or 6% seen during previous economic expansions.
- Cost drivers such as retirement and health care are pushing the growth of City expenditures beyond the relatively modest rates of general inflation.

Budget Strategy Going Forward

- In the context of a the \$1 billion General Fund, projected annual shortfalls of \$25 M are relatively modest. But clearly resources are constrained and these shortfalls must be addressed.
- At present, strategy is to achieve balance through underspend targets rather than specific line-item reductions or “cut targets”.
- However, this approach does not allow for net budget additions. Therefore, identifying opportunities for reprioritizing existing resources will be the path to fund new and/or emerging needs.