



King County

July 2015 King County Economic and Revenue Forecast

Presentation to the Puget Sound Finance
Officers Association

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Summary

- **Economic growth slow at the beginning of 2015**
 - But economy expected to grow in spite of slow Q1
 - Continued employment growth
 - Housing market recovering (1st time buyers are coming back)
- **Remainder of 2015 & 2016 look to be solid**
- **Risks; Greece & China among others**
- **King County economic expansion continues**
 - Added nearly 36,000 people (1.8% growth) in KC in last year
 - In the midst of a building boom driving construction employment and commerce
 - Our businesses (small and large) continue to thrive
- **County revenues continue to be strong**

Economic growth disappointed in 2015:1Q, but is expected to improve

The 1st quarter of 2015 saw slow growth.

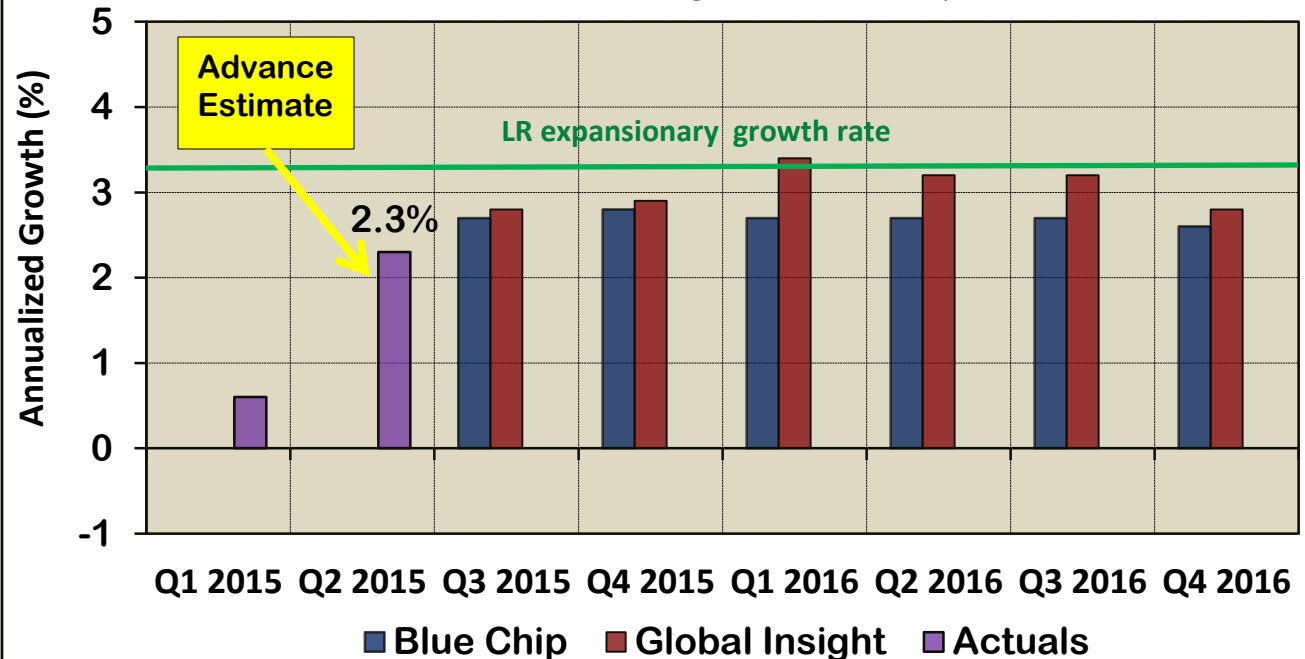
Some causes are likely one-offs (port slowdown, weather).

The forecast for 2015-2016 is for improved growth.

Real GDP Growth Forecast

Q1 2015 to Q4 2016

Source: Global Insight and Blue Chip



Note: LR Expansionary growth rate is 1990-2013 average, excl. 1990, 1991, 2001, 2007-2009



The national economy continues to create jobs

Labor market continues to strengthen.

Through June, we're averaging about 210K job ads per month.

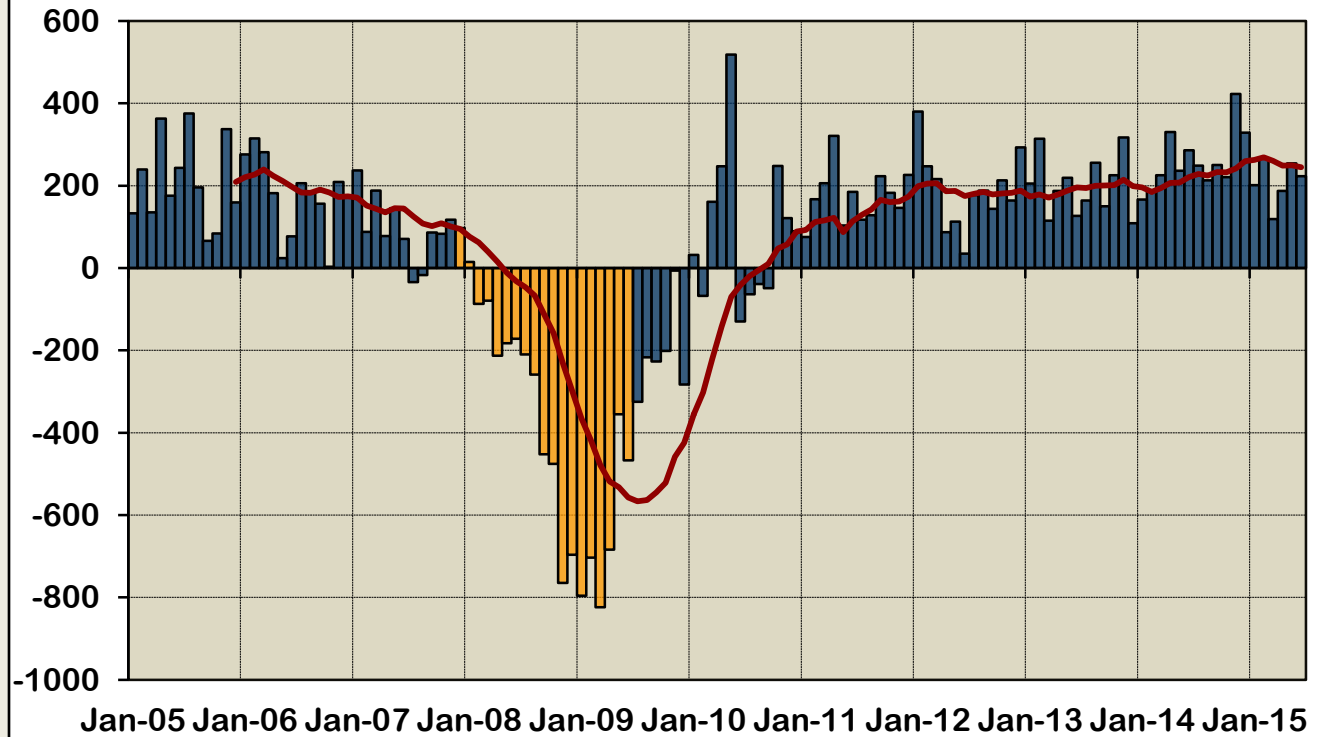
In 2014, adds averaged 260K per month.

The national unemployment rate is now 5.3% (July).

U.S. Monthly Employment Adds

In thousands of jobs, January 2005 to Present

Source: BLS



Blue = Actual Orange = Recession Red Line = Annual average



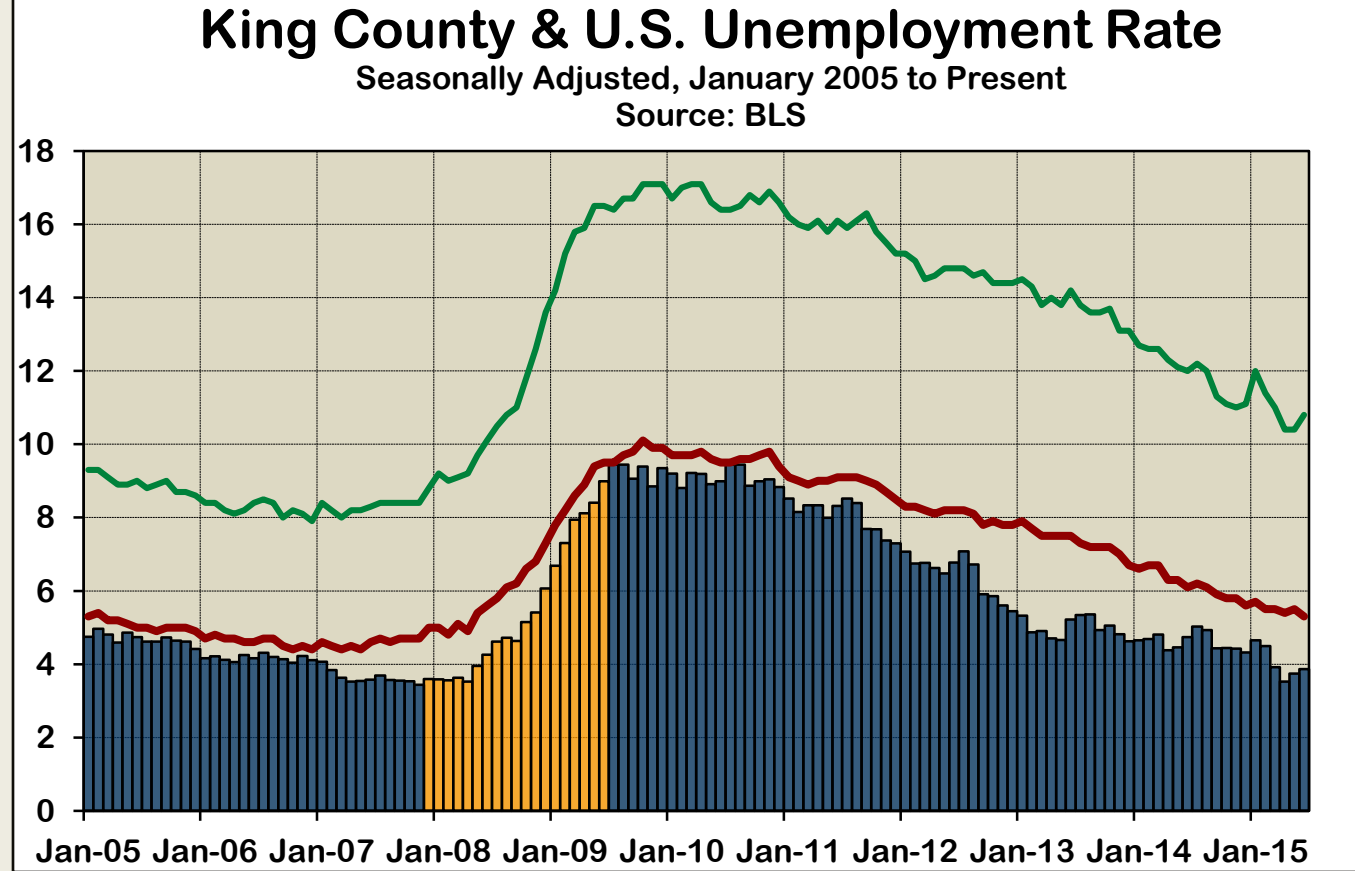
Employment growth reduces unemployment, but labor slack remains

The U.S. unemployment rate continues to fall.

Fed has noted this but that slack remains.

Some evidence of wage gains.

Fed rate increase(s) still forecasted for 2015.



Blue = King County U3 rate Red = US U3 rate Green = US U6 rate Orange = Recession

Rapid drop in gas prices at the end of 2014 is tailwind for consumers...

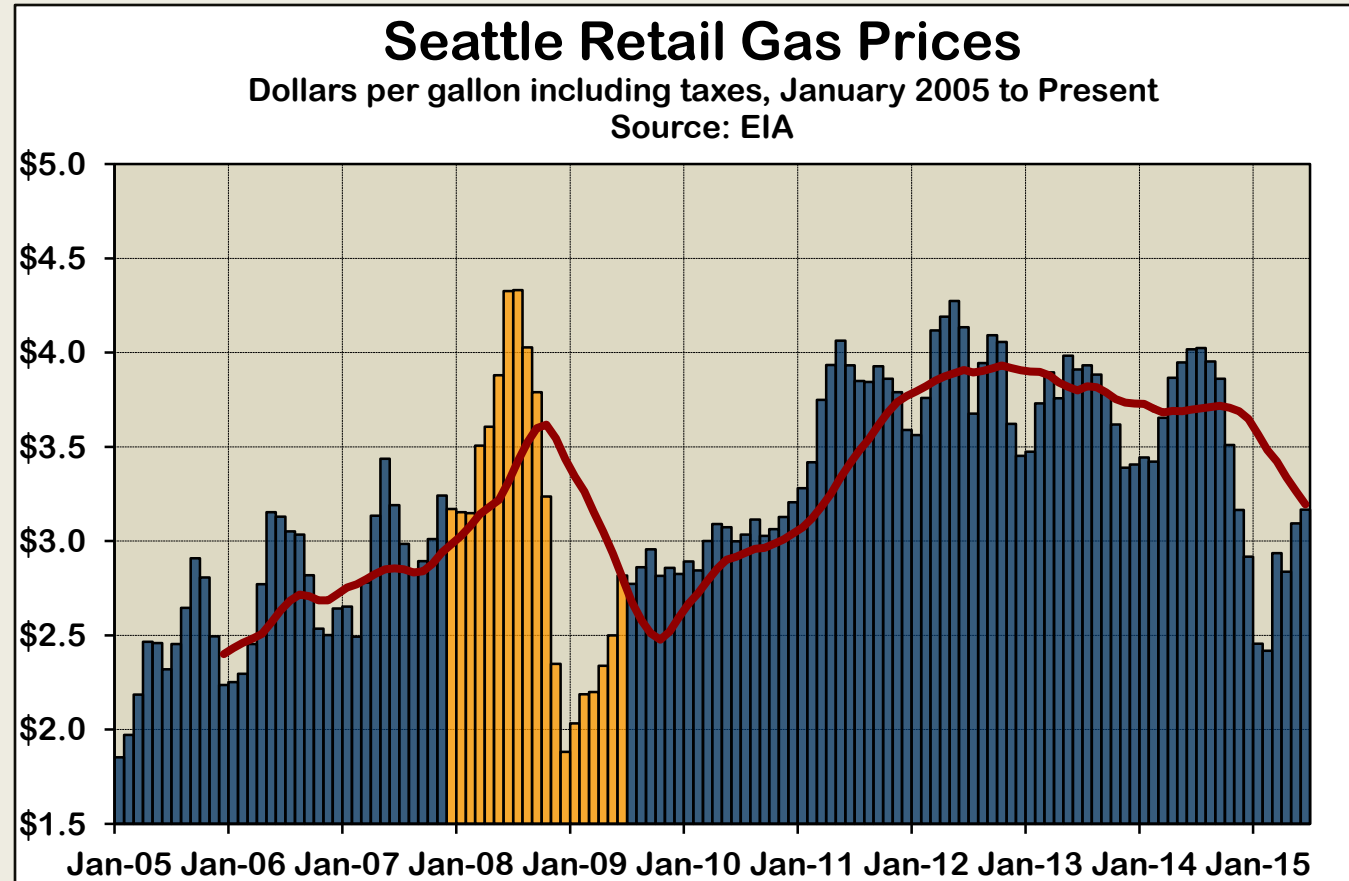
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Economic context: Retail gas prices from the Energy Information Administration

Increased oil production (among other things) led to a large drop in oil prices at the end of 2014.

Gas prices are about 20% lower than a year ago.

Gas prices affected by state tax increase (Aug. 1).



Blue = Actual Red = 12 month rolling average Orange = Recession

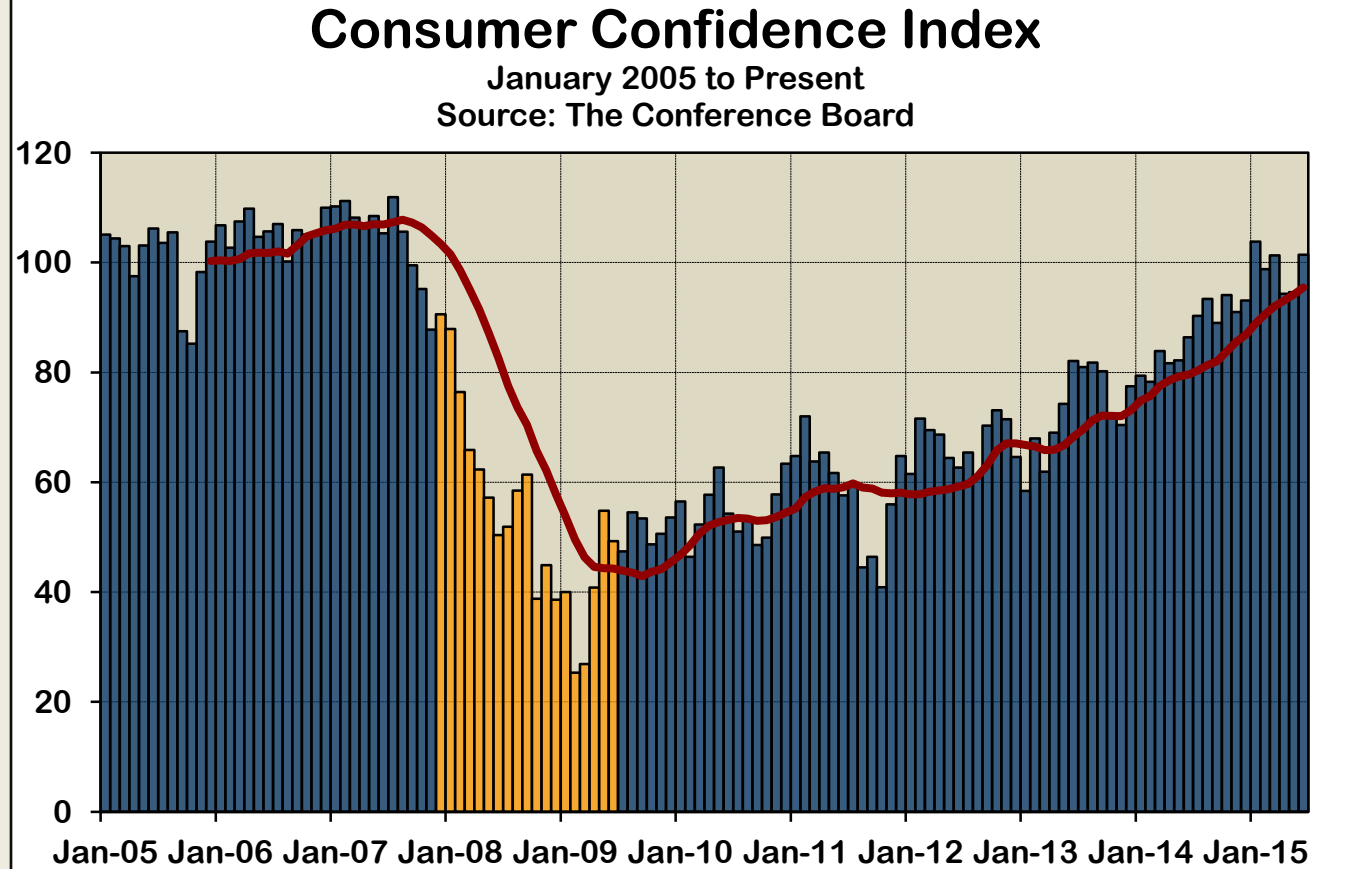


.... and contributes to continued confidence in the economic recovery

Consumer confidence dropped significantly during the recession.

HH net worth at record in 2015:1Q.

The upward trend is encouraging for the economy.



Blue = Actual Red = 12 month rolling average Orange = Recession



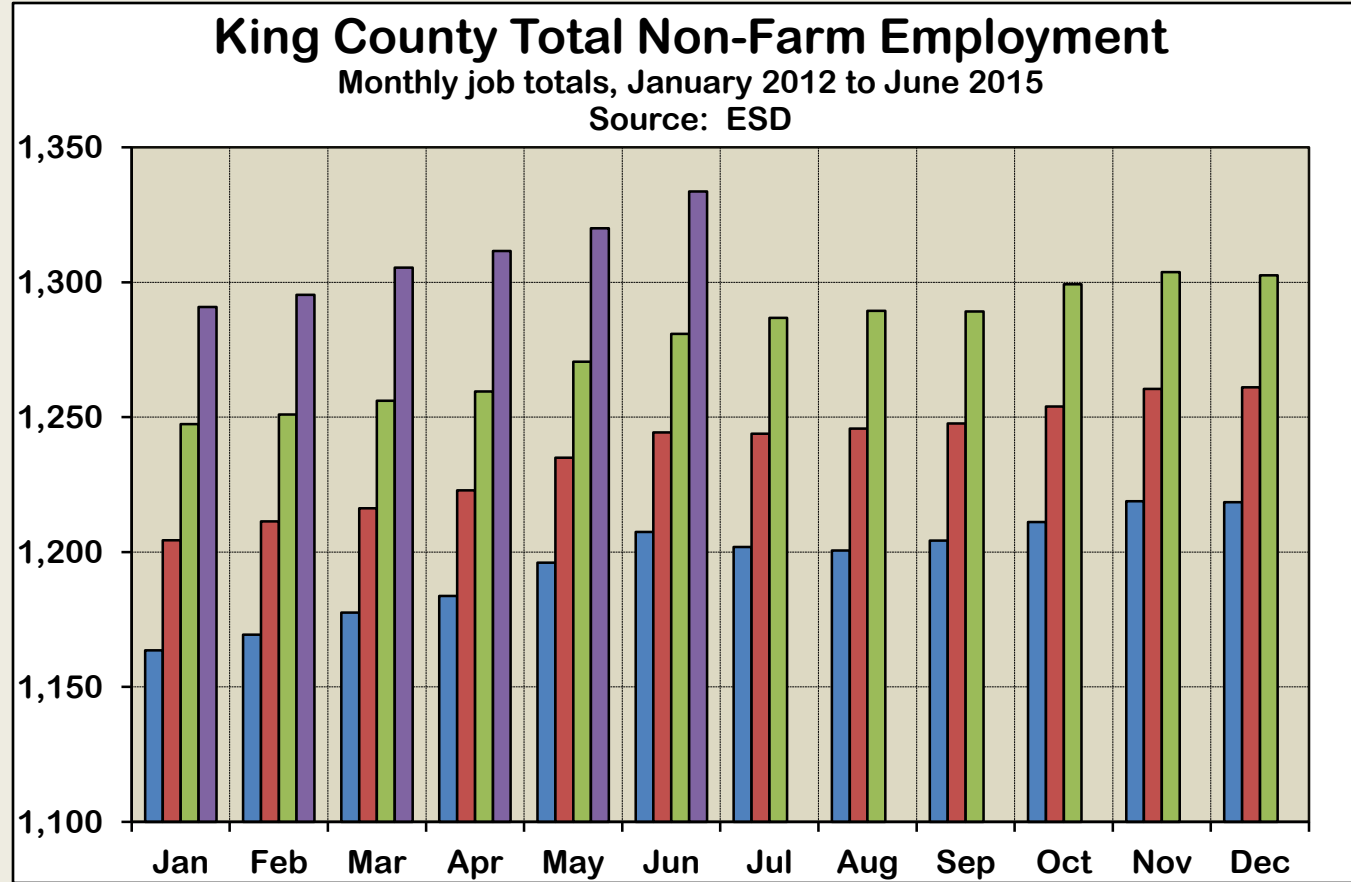
Employment growth in King County continues to be really strong!

Employment was up 3.3% in 2014 with job growth in most sectors.

In 2015:1Q employment grew 3.6%.

Very large construction employment growth.

Other sectors doing well too.



Blue bar = 2012 Red bar = 2013 Green bar = 2014 Violet bar = 2015



King County

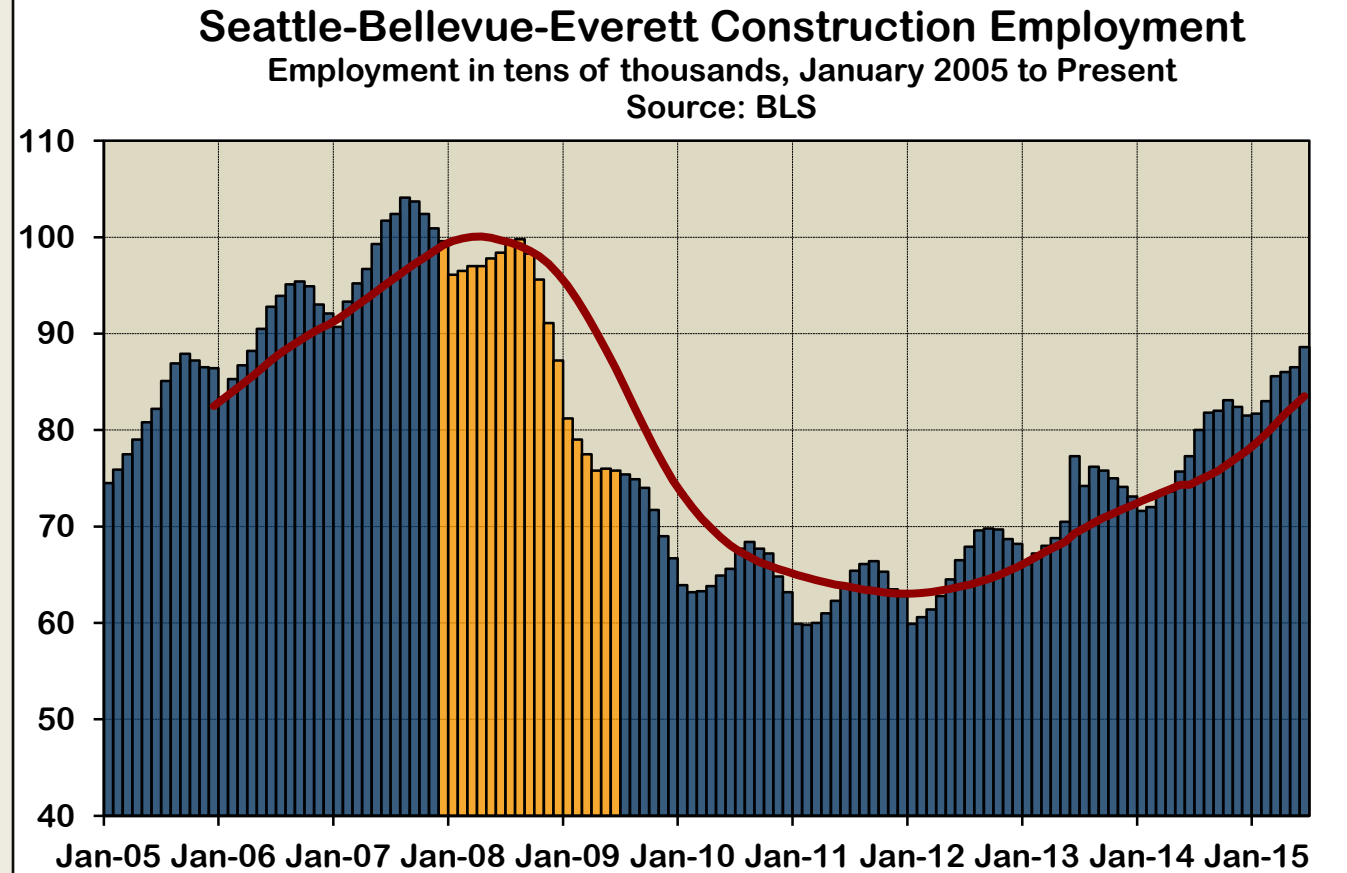
Construction was hit very hard during the recession but is growing significantly

Economic context: King County construction employment from the BLS

Construction was the hardest hit employment sector in the Great Recession.

For the region we're back to 2005 levels of employment.

In KC we're just under 90% of the peak in construction emp.



Blue bar = Construction employment Red line = annual rolling average Orange bar = Recession



Online job postings continue to grow in King County

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Economic context: Online job postings from the Conference Board

Online job postings have grown steadily since the recession ended.

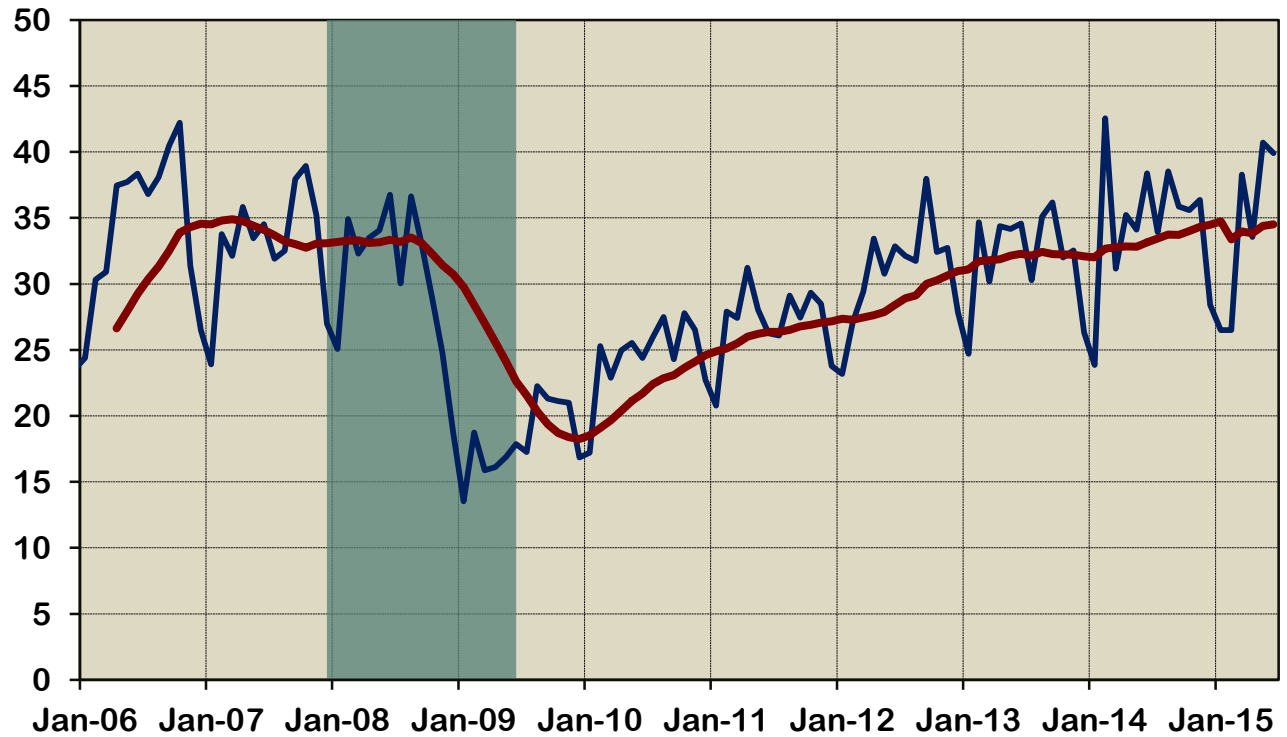
Amazon currently has 4,600 job openings in Seattle.

Postings now at about the level before the great recession.

King County Online Employment Postings

In thousands of jobs, January 2006 to Present

Source: The Conference Board



Blue = Actual Red Line = Annual average Gray area = Recession

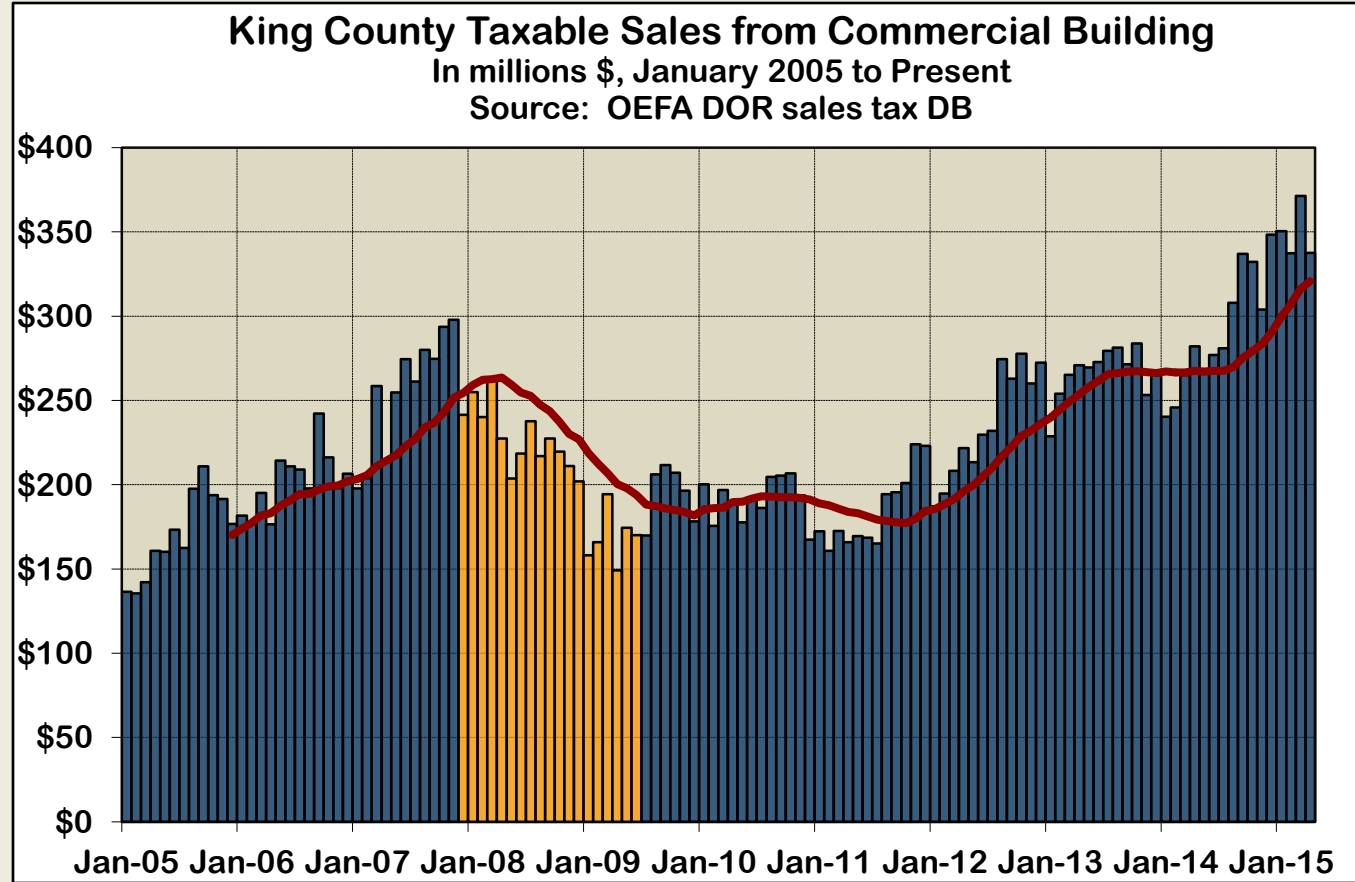


King County is in the midst of a building boom....

We are seeing lots of construction activity in the county.

Many large scale infrastructure projects (e.g. ST) but also office and residential.

Commercial building taxable sales is the largest component of construction sales.



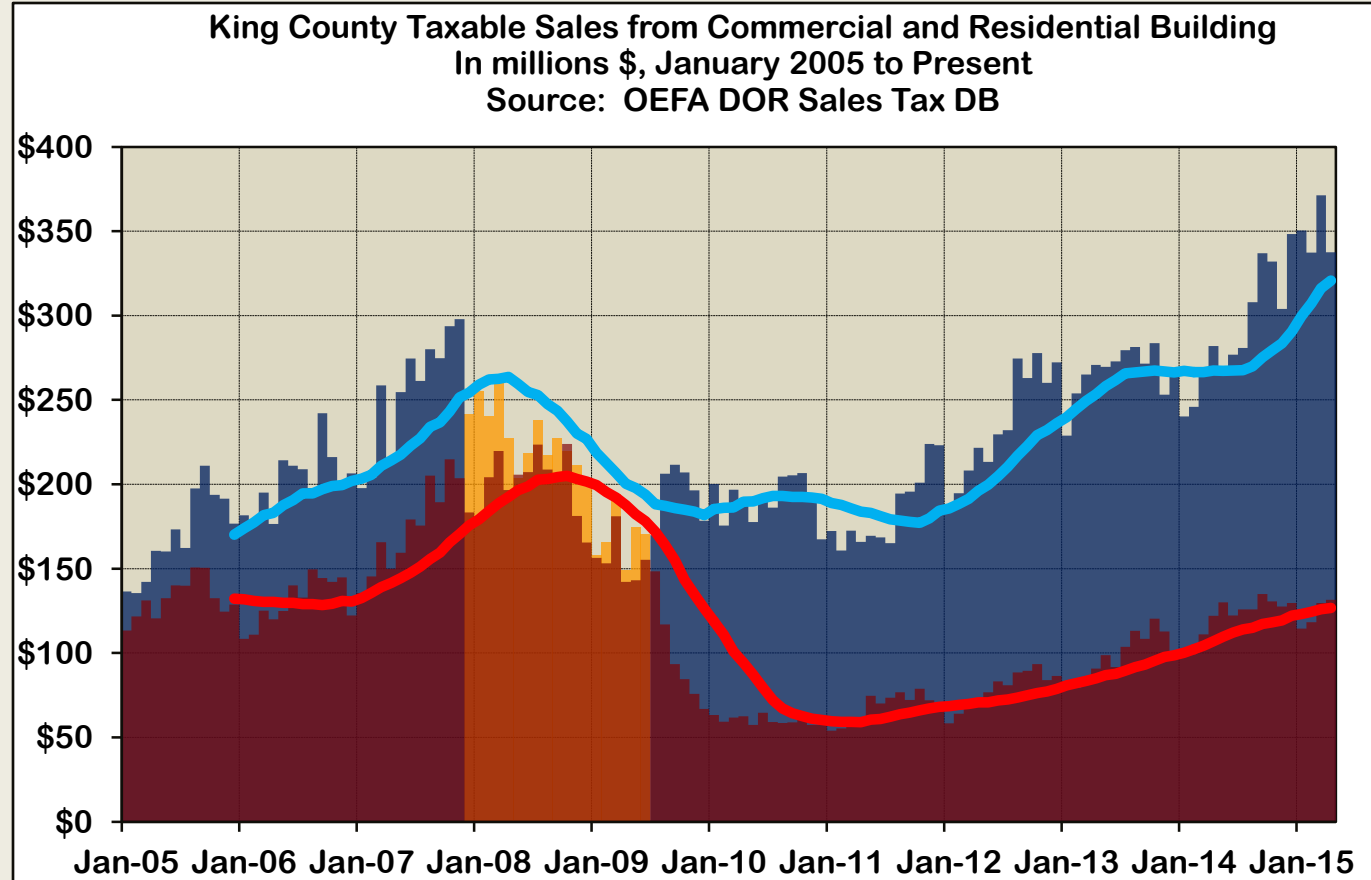
Blue = Actual Red = 12 month rolling average Orange = Recession



A divergent building boom: commercial growth outpaces residential

New residential construction is the second largest component of construction taxable sales.

Residential construction taxable sales are not back to pre-recession levels.



Blue line = Commercial construction sales annual average
Red line = Residential construction sales annual average
Orange = Recession



King County

The Seattle real estate market continues to see rising prices at all value levels....

Economic context: Seattle home price index by tier from Case-Shiller

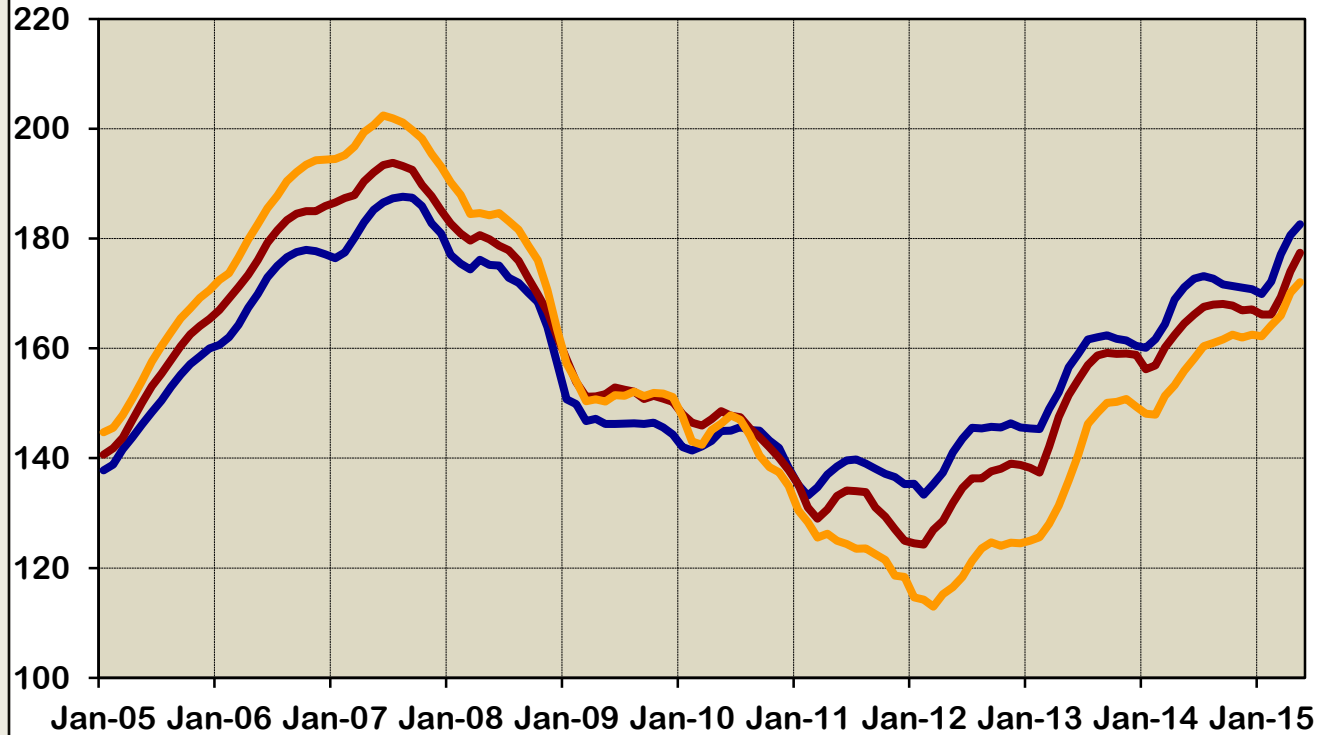
Home prices continue to climb.

Case-Shiller index up 7.4% in May (yoy)

Real estate market affected by low inventory levels and strong demand.

Seattle Case-Shiller Home Price Tiers

January 2007 to Present
Source: Case Shiller Online Index



Blue bar = high tier Orange bar = middle tier Red = low tier

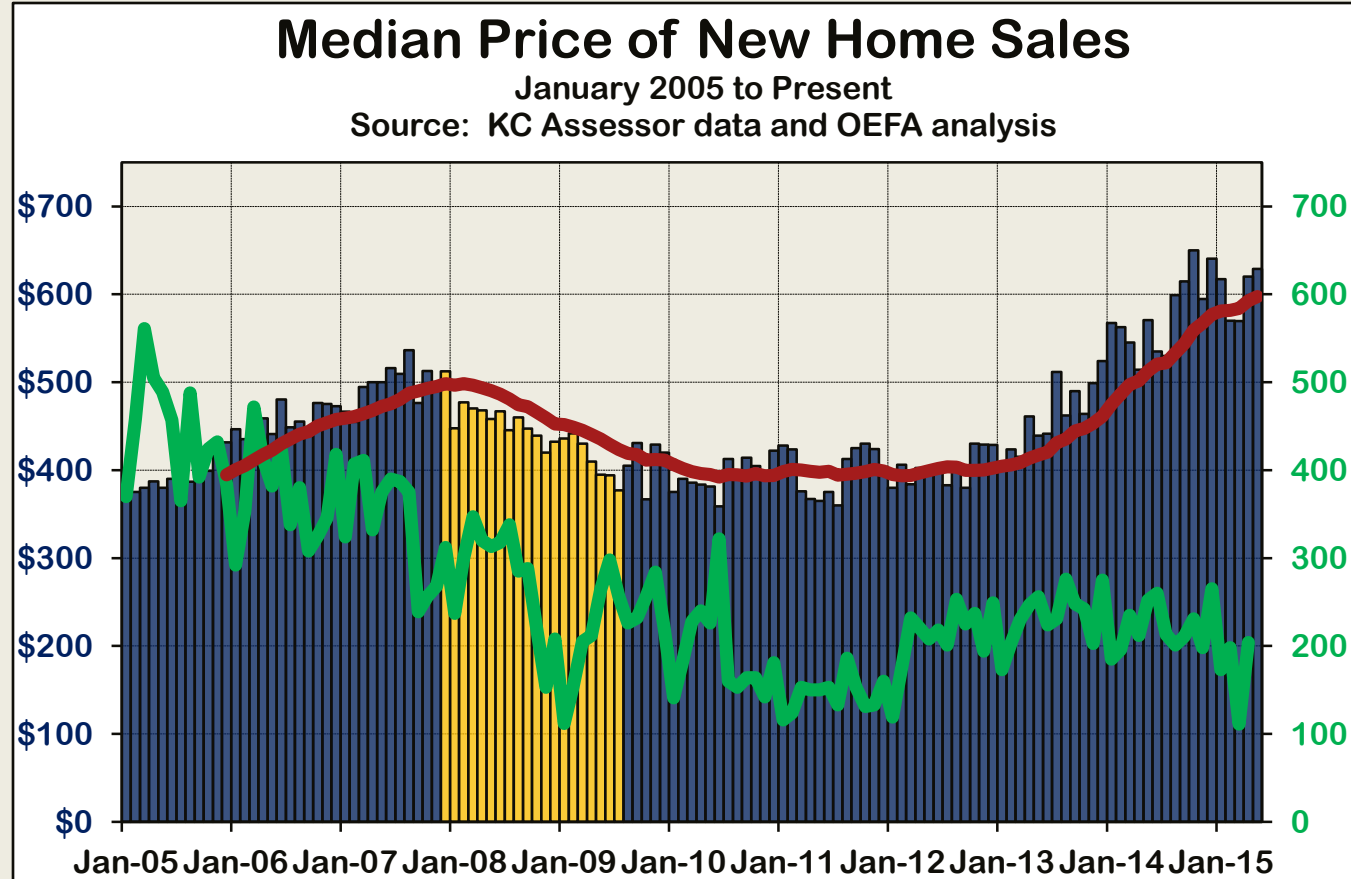


The price of new housing is quickly rising....

New home prices have risen significantly.

The median new home price is \$620k as of April.

The number of new homes sold is not at pre-recession levels.



Blue bar = median price (in thousands \$) Green line = monthly count
 Orange bar = recession Red = annual rolling average

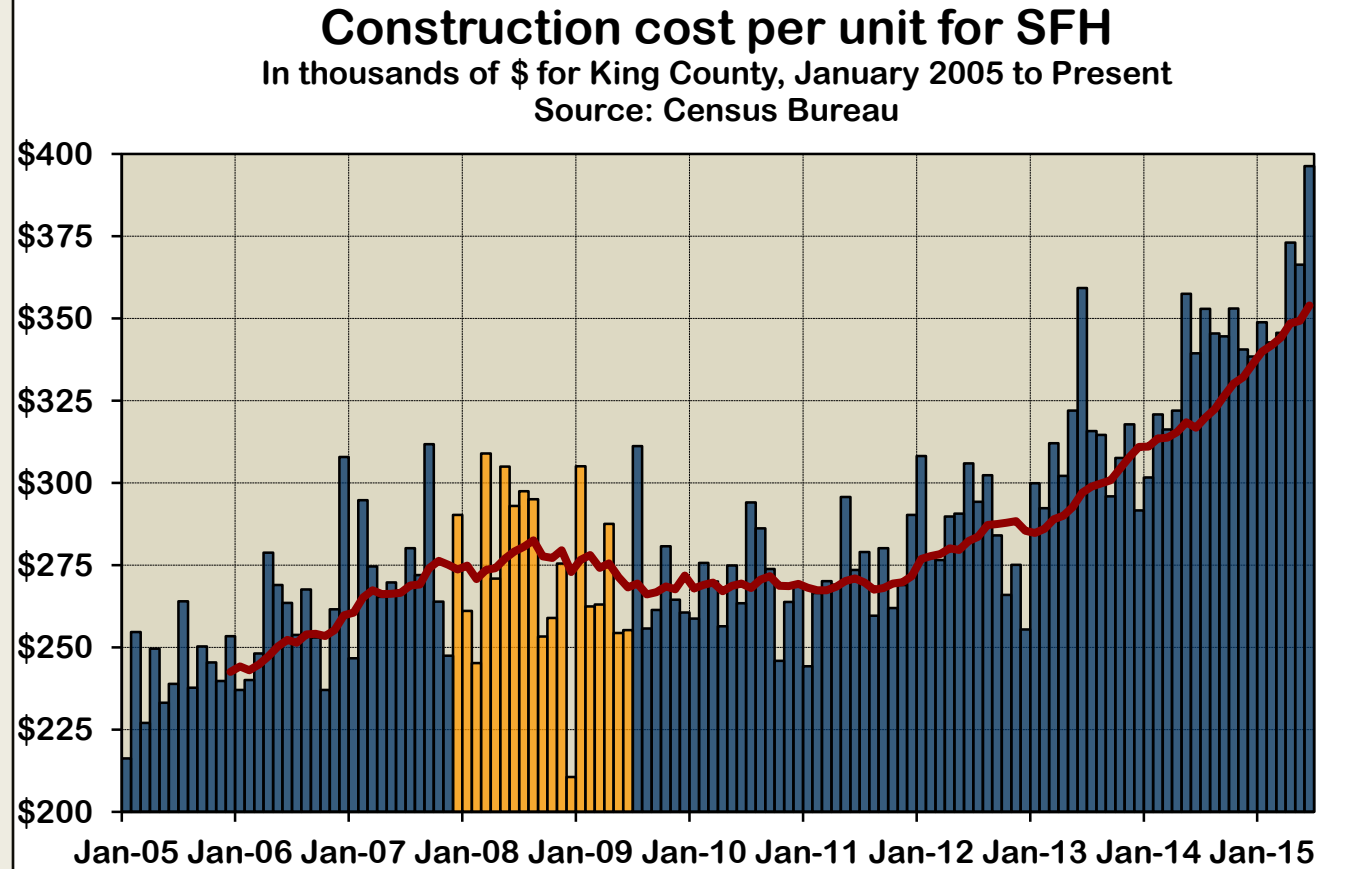


....partly due to the cost to build them

Construction costs for SFH are rising significantly.

Fewer SF homes are being permitted in 2015.

MF costs are flat.



Blue = Value of permits Red = 12 month rolling average Orange = Recession



Rental inflation continues to be high

Economic context: Seattle primary residence rental inflation

Rents have been increasing since late 2011.

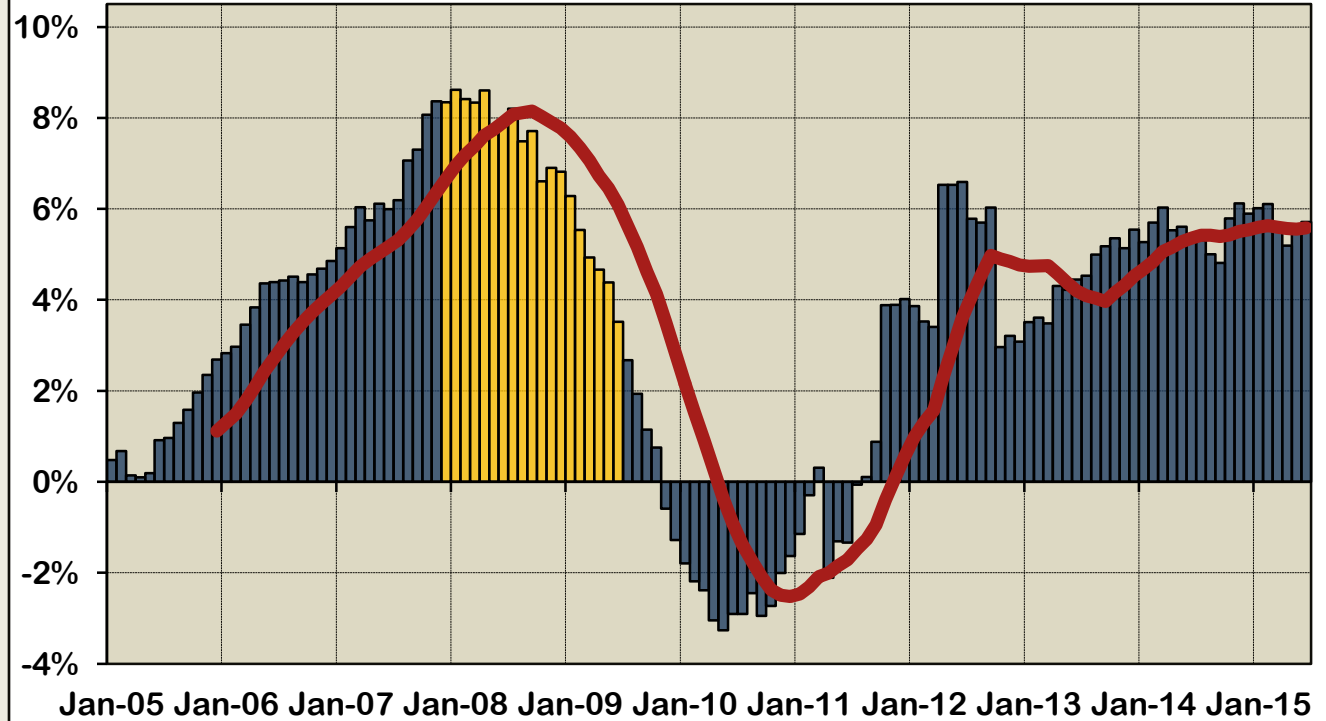
Increases have been averaging 5%-6% of late.

This rent growth is contributing to demand in the hot residential real estate market.

Seattle Rental Inflation

January 2005 to Present

Source: BLS



Blue bar = inflation rate Orange bar = recession Red = annual rolling average



Permitting activity suggests continued construction activity

Since bottoming out in 2009 permit values have nearly quintupled.

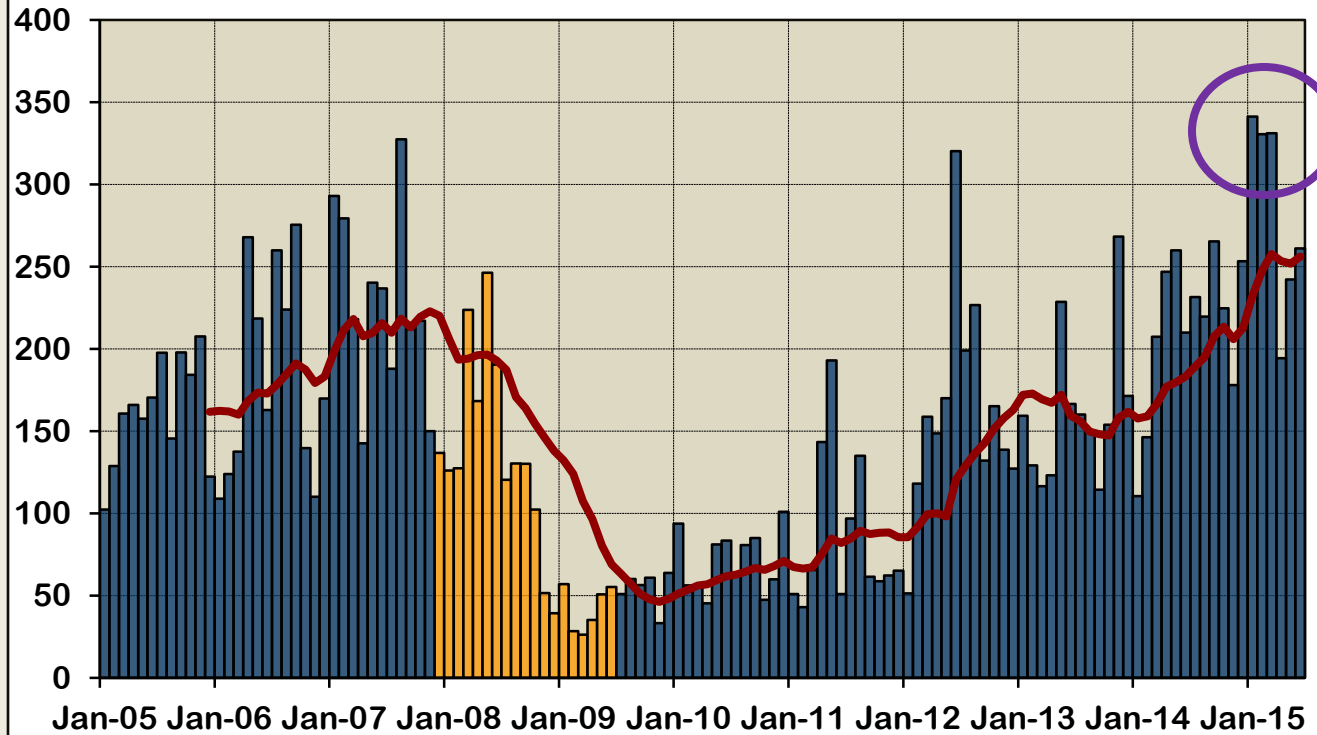
Multi-family permits continue to make up the majority of the permit value.

In 2015:1Q MF permit value was almost 3 times the value from 2014:1Q.

Value of all New & Privately Owned Permits

In millions of \$ for King County, January 2005 to Present

Source: Census Bureau



Blue = Value of permits Red = 12 month rolling average Orange = Recession

July Revenue Forecasts

Assumptions

65% Confidence Level – 65% chance revenues will come in higher than forecasted (lower for inflation/price forecasts)

All potential annexation areas are assumed to occur on schedule:

Klahanie	(01-01-16)
North Highline (Area Q/Sliver)	(01-01-17)
North Highline (Remainder)	(01-01-18)
West Hill	(01-01-19)



Countywide Assessed Value Forecast

King County

19 Forecasts: Assessed value

2015 AV is new nominal high value at \$388b.

There was growth in both residential and commercial sectors.

Assessments for 2016 are based on Jan. 1, 2015 value.

Growth is forecast for 2016 and beyond.

July Countywide Assessed Value Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2015 Forecast	\$ Change from March 2015 Forecast
2013	\$314,746,206,667	-1.48%	0.00%	\$0
2014	\$340,643,616,342	8.23%	0.00%	\$0
2015	\$388,118,855,592	13.94%	0.00%	\$0
2016	\$417,288,518,442	7.52%	0.20%	\$827,985,032
2017	\$435,187,791,166	4.29%	0.23%	\$978,621,196
2018	\$452,268,677,893	3.92%	0.64%	\$2,880,661,711
2019	\$471,685,269,214	4.29%	0.72%	\$3,352,241,425
2020	\$492,339,806,636	4.38%	0.62%	\$3,013,017,687
2021	\$515,304,529,732	4.66%	0.74%	\$3,785,404,722
2022	\$542,456,952,059	5.27%	1.18%	\$6,313,655,306
2023	\$567,733,514,415	4.66%	1.26%	\$7,081,774,313
2024	\$594,184,010,899	4.66%	1.29%	\$7,547,849,496



Residential assessed value changes mostly positive but less overall than 2015

Based on KC Assessor area reports which may not match city boundaries.

So far, the residential change for most of King County is positive for 2016.

Decreases so far are small.

District	Location	2015	2016
NE	Duvall/Environs	25.0%	-1.7%
NE	Woodinville/Cottage Lake/Hillywd Hill	26.2%	4.2%
NW	Central Shoreline	16.2%	9.8%
NW	Maple Leaf/ Northgate	9.1%	12.3%
NW	Lake City	9.6%	15.1%
NW	East Ballard	8.4%	11.5%
SE	Mercer Island	11.0%	8.4%
SE	Enumclaw Plateau	3.4%	15.4%
SE	Enumclaw	29.1%	4.7%
SE	Lake Youngs	14.3%	10.9%
SE	Newcastle	15.5%	11.8%
SE	Covington	20.5%	3.2%
SW	Kentridge	15.4%	4.4%
WC	Magnolia	3.6%	16.6%
WC	Madison Park/Leschi	11.6%	12.2%



New Construction Forecast

King County

21 Forecasts: New construction

New construction bottomed in 2012 down 75% from the peak (\$8b).

Small growth in 2013 and huge growth in 2014/15.

Positive signs for 2016: construction employment, sales and permits.

July Countywide New Construction Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2015 Forecast	\$ Change from March 2015 Forecast
2013	\$1,983,503,613	3.02%	0.00%	\$0
2014	\$3,406,198,290	71.73%	0.00%	\$0
2015	\$4,994,659,235	46.63%	0.00%	\$0
2016	\$6,381,515,813	27.77%	8.24%	\$485,693,624
2017	\$6,981,501,415	9.40%	2.21%	\$151,065,914
2018	\$7,073,865,176	1.32%	3.13%	\$214,641,437
2019	\$7,137,174,217	0.89%	1.77%	\$124,415,705
2020	\$7,143,680,384	0.09%	-0.14%	(\$10,291,446)
2021	\$7,291,580,265	2.07%	-0.75%	(\$55,028,108)
2022	\$7,393,967,834	1.40%	-5.59%	(\$437,565,673)
2023	\$7,706,566,555	4.23%	4.38%	\$323,409,963
2024	\$8,063,594,750	4.63%	3.48%	\$271,300,154



King County property tax forecasts

Small changes for most levies as most are “limit-factor” limited.

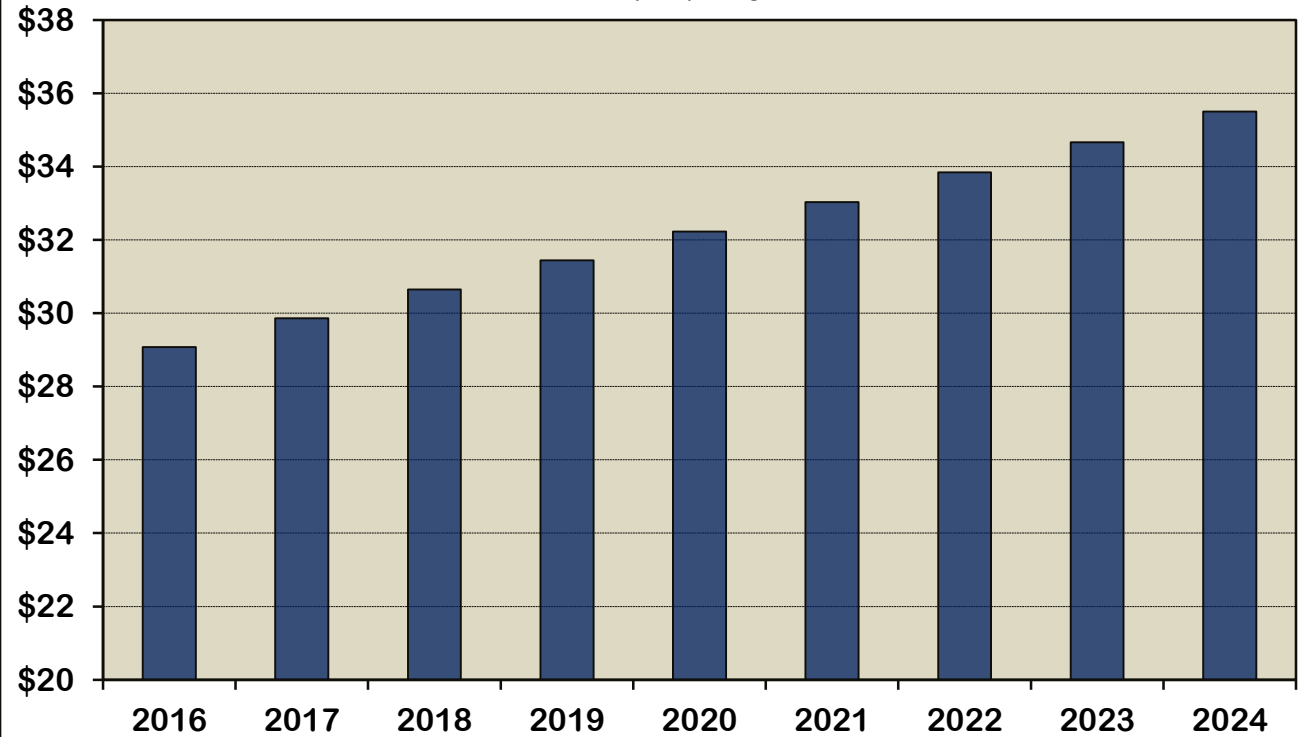
Slightly improved outlook for unincorporated AV is good for the UAL/Roads levy.

PSERN levy approved in April 2015 for first-year collections in 2016.

PSERN Levy Forecast

In millions \$, 2016 to 2024

Source: OEFA property tax forecast



Blue = July 2015 Forecast

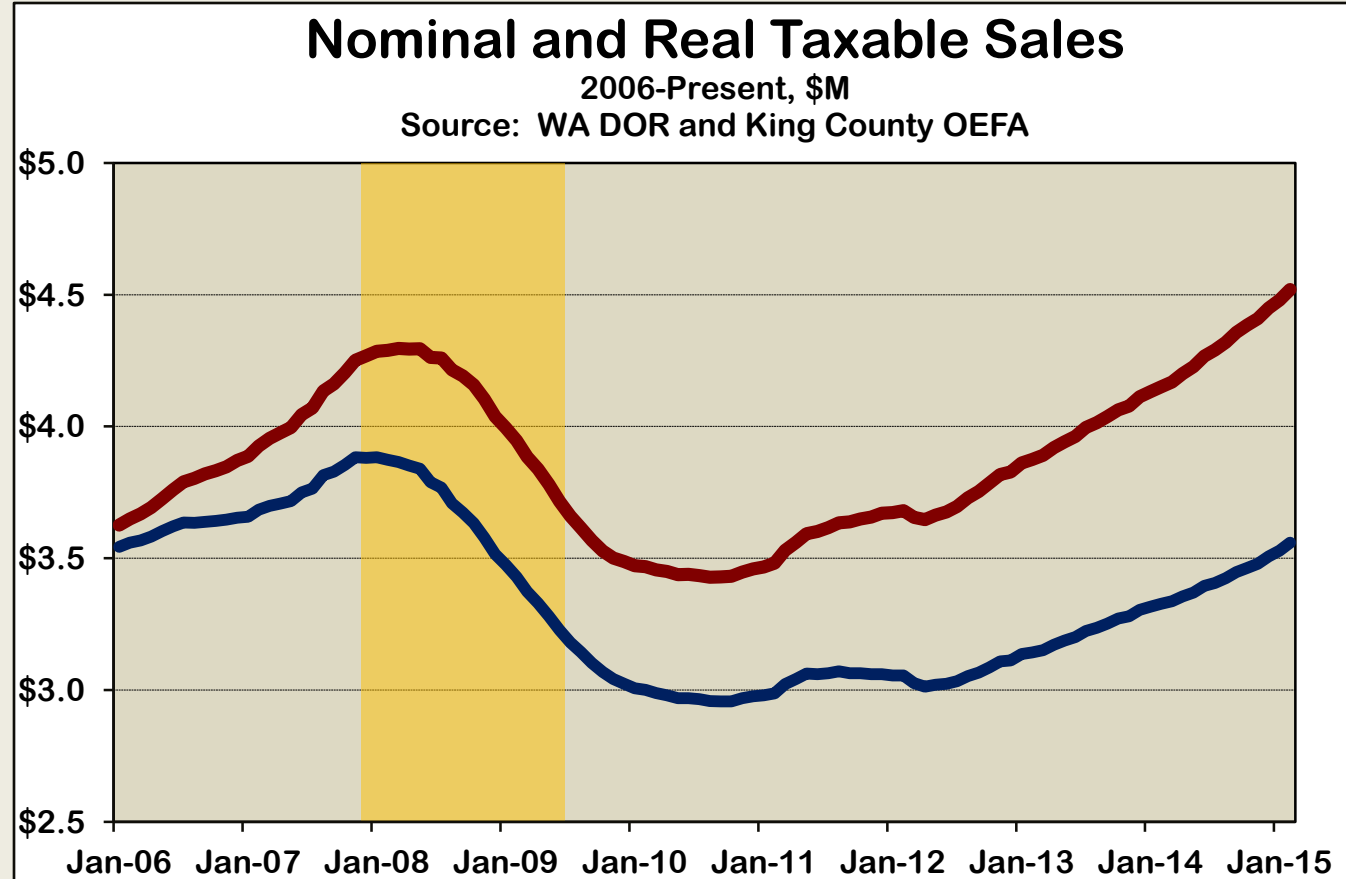


Taxable Sales exceeded the pre-recession peak but not when adjusted for inflation

Taxable sales have continued to recover.

In nominal terms we are above the pre-recession level.

However, adjusting for inflation, we have not reached the previous peak yet.



Blue = Real taxable sales growth Red = Nominal growth Orange = recession

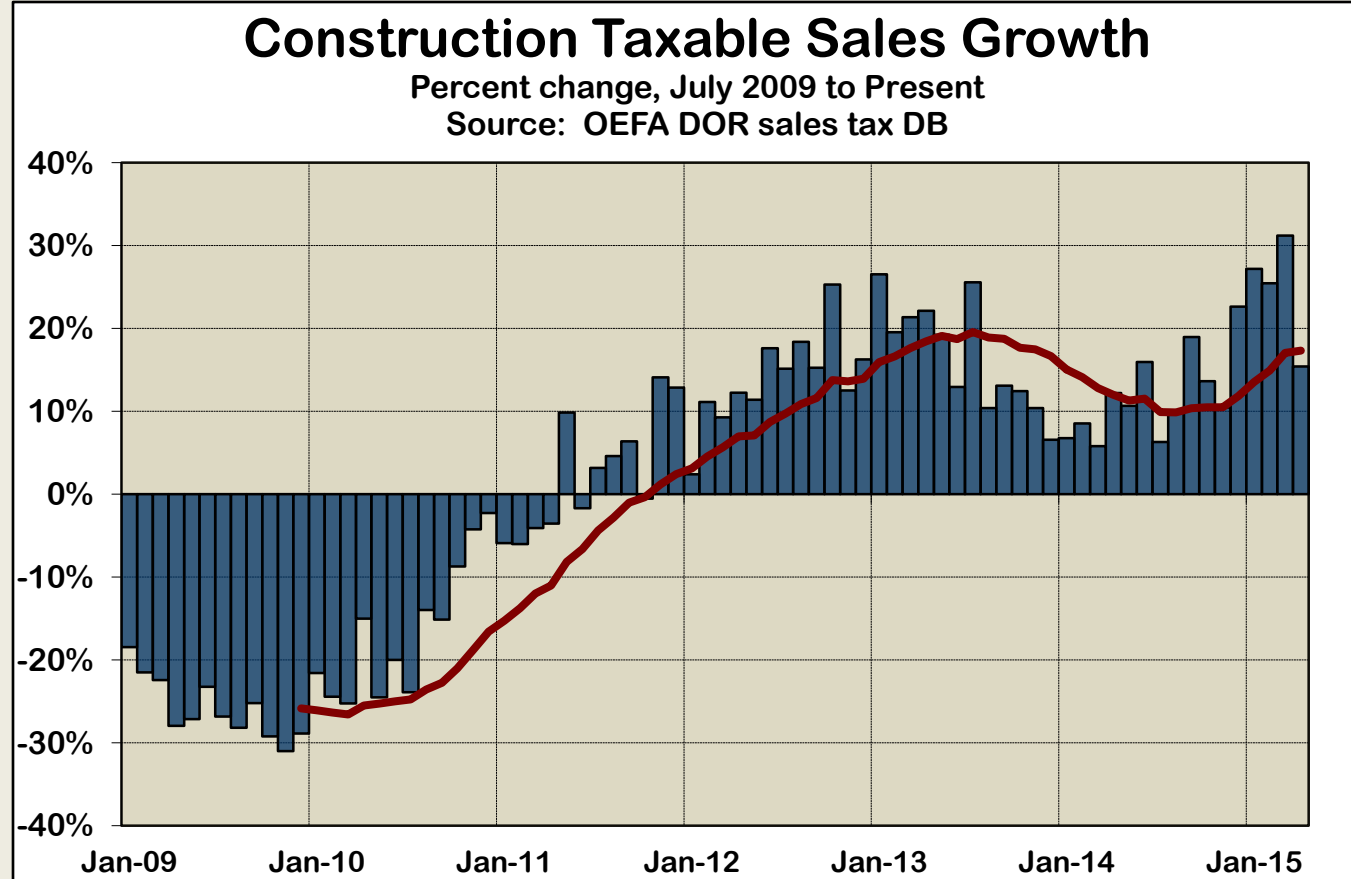


Construction taxable sales continue to be a source of growth for now

Construction sales grew strongly in 2012-2013. Growth in 2014 at a lower rate.

A big driver of sales tax growth the last several years.

Construction taxable sales are up significantly so far in 2015.



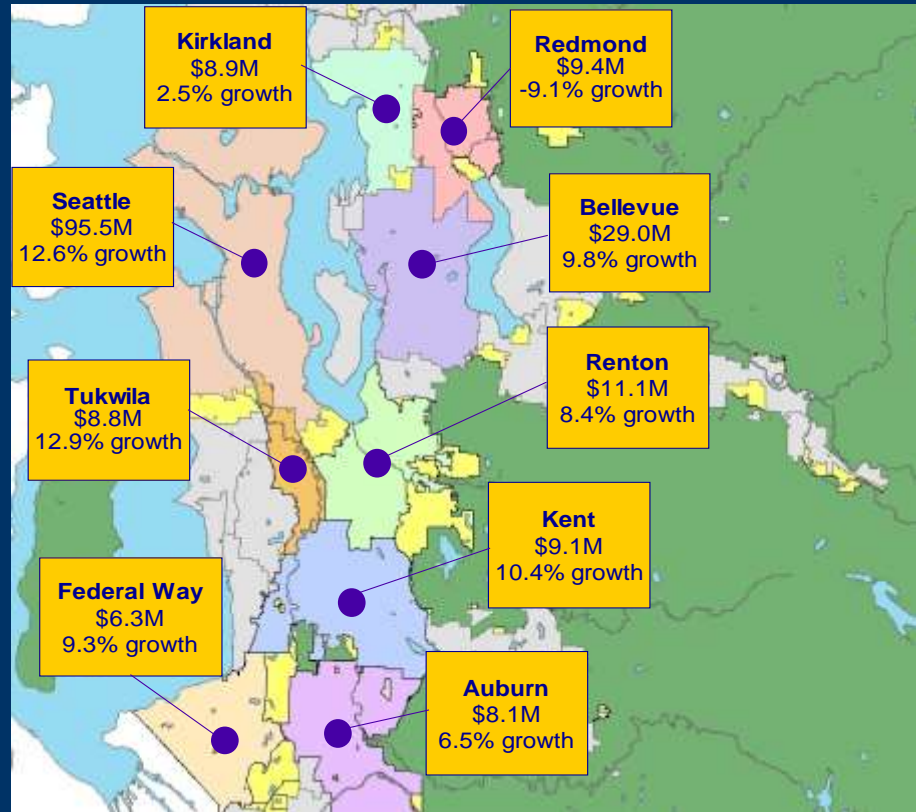
Blue = Actual Red = 12 month rolling average



Most large cities have experienced sales tax growth so far in 2015

This map shows nine cities that have collected the most sales tax distributions so far in 2015.

It also shows the growth rate though June, 2015 relative to 2014.



2015 OFM Population Estimates (in thousands)

- (1) Seattle – 662.4
- (2) Bellevue – 135.0
- (3) Kent – 122.9
- (4) Renton – 98.4
- (5) Fed. Way – 90.8
- (6) Kirkland – 83.5
- (7) Auburn – 65.9
- (8) Redmond – 59.2
- ...
- (19) Tukwila – 19.3



Taxable Sales Forecast

King County

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Forecasts: Local sales tax

2015 and beyond are looking good due to the continuing recovery.

Forecast for 2015 is for 7.7% growth.

Expect continued growth across most sectors.

Reduced energy costs should contribute in near-term.

July King County Sales and Use Taxbase Forecast Office of Economic and Financial Analysis

Tax Year	Value	Annual Growth	% Change from March 2015 Forecast	\$ Change from March 2015 Forecast
2013	\$48,553,937,856	7.47%	0.00%	\$0
2014	\$52,335,343,480	7.79%	-0.03%	(\$17,656,520)
2015	\$56,371,080,166	7.71%	1.37%	\$760,669,717
2016	\$58,792,940,265	4.30%	1.40%	\$810,767,097
2017	\$60,782,864,211	3.38%	1.16%	\$697,890,485
2018	\$62,789,907,382	3.30%	0.85%	\$532,158,886
2019	\$65,231,054,944	3.89%	0.95%	\$615,182,071
2020	\$67,819,538,816	3.97%	0.97%	\$654,568,518
2021	\$70,711,318,633	4.26%	0.85%	\$598,218,293
2022	\$73,449,241,282	3.87%	0.77%	\$562,670,665
2023	\$76,224,611,999	3.78%	0.89%	\$668,787,207
2024	\$79,135,979,862	3.82%	0.94%	\$740,616,871



Transit Sales Tax Forecast

King County

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Forecasts: Transit sales tax

2014 came in about 1% above forecast.

2015-2016 forecast is up a little over 1% reflecting the stronger taxable sales forecast.

Forecasts account for mitigation, annexations.

July Metro Transit Sales Tax Forecast Office of Economic and Financial Analysis

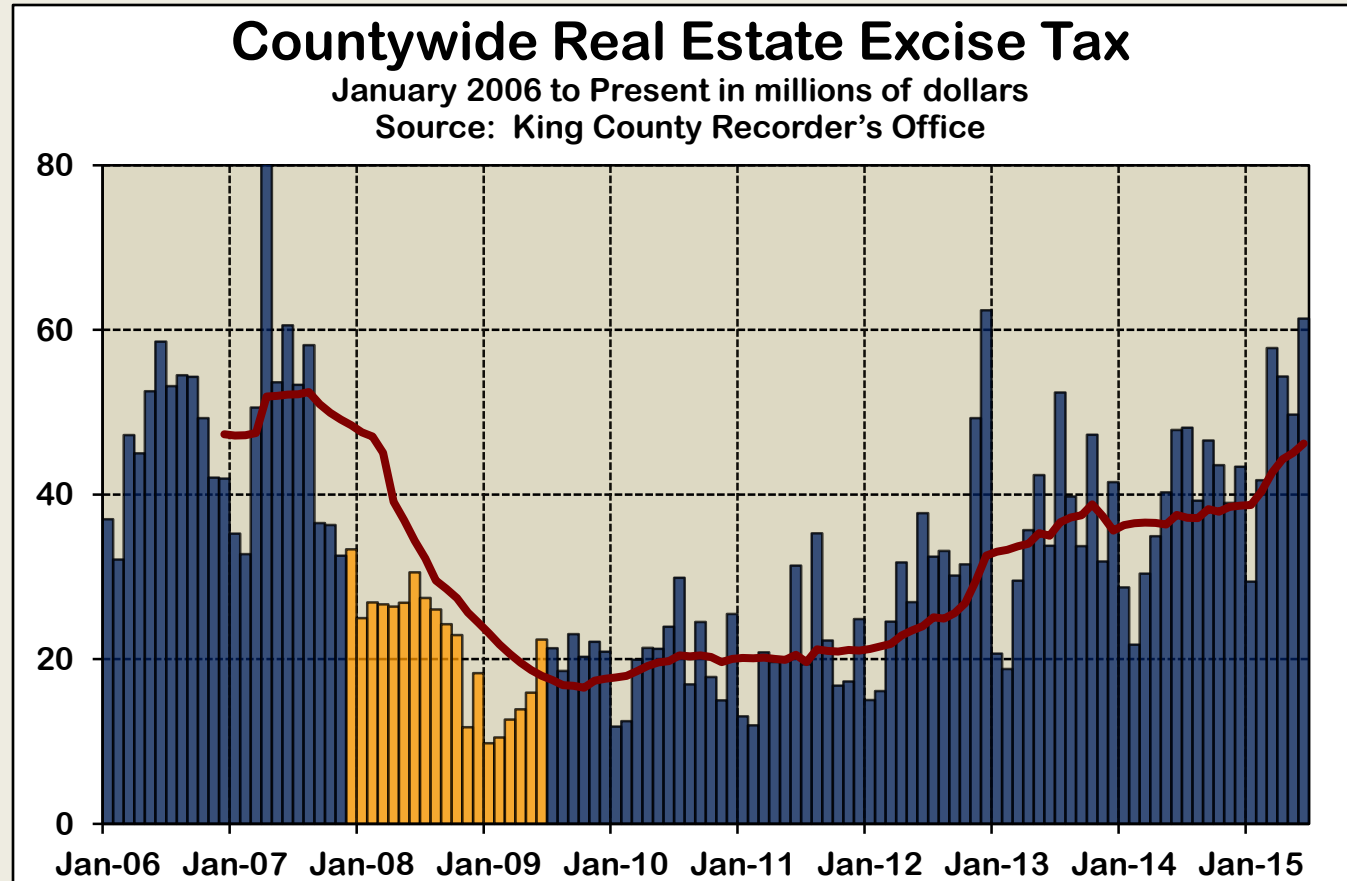
Tax Year	Value	Annual Growth	% Change from March 2015 Forecast	\$ Change from March 2015 Forecast
2013	\$442,835,695	7.34%	0.00%	\$0
2014	\$479,433,577	8.26%	-0.01%	(\$28,074)
2015	\$517,848,741	8.01%	1.34%	\$6,837,329
2016	\$539,803,719	4.24%	1.37%	\$7,293,382
2017	\$557,833,728	3.34%	1.14%	\$6,268,287
2018	\$576,019,869	3.26%	0.83%	\$4,762,828
2019	\$598,151,780	3.84%	0.93%	\$5,518,094
2020	\$621,623,250	3.92%	0.95%	\$5,876,774
2021	\$647,851,666	4.22%	0.84%	\$5,365,373
2022	\$672,682,324	3.83%	0.76%	\$5,043,022
2023	\$697,853,839	3.74%	0.87%	\$6,008,137
2024	\$724,261,839	3.78%	0.93%	\$6,661,639

Countywide REET revenues continue to improve

REET revenues have risen significantly since the recession.

Recovering transaction numbers and strong price growth.

Significant commercial activity is also a factor.



Blue = Actual Red = 12 month rolling average Orange = Recession



Inflation in Seattle has been falling on lower energy prices.

The annual Seattle inflation rate for 2014 was 1.9%.

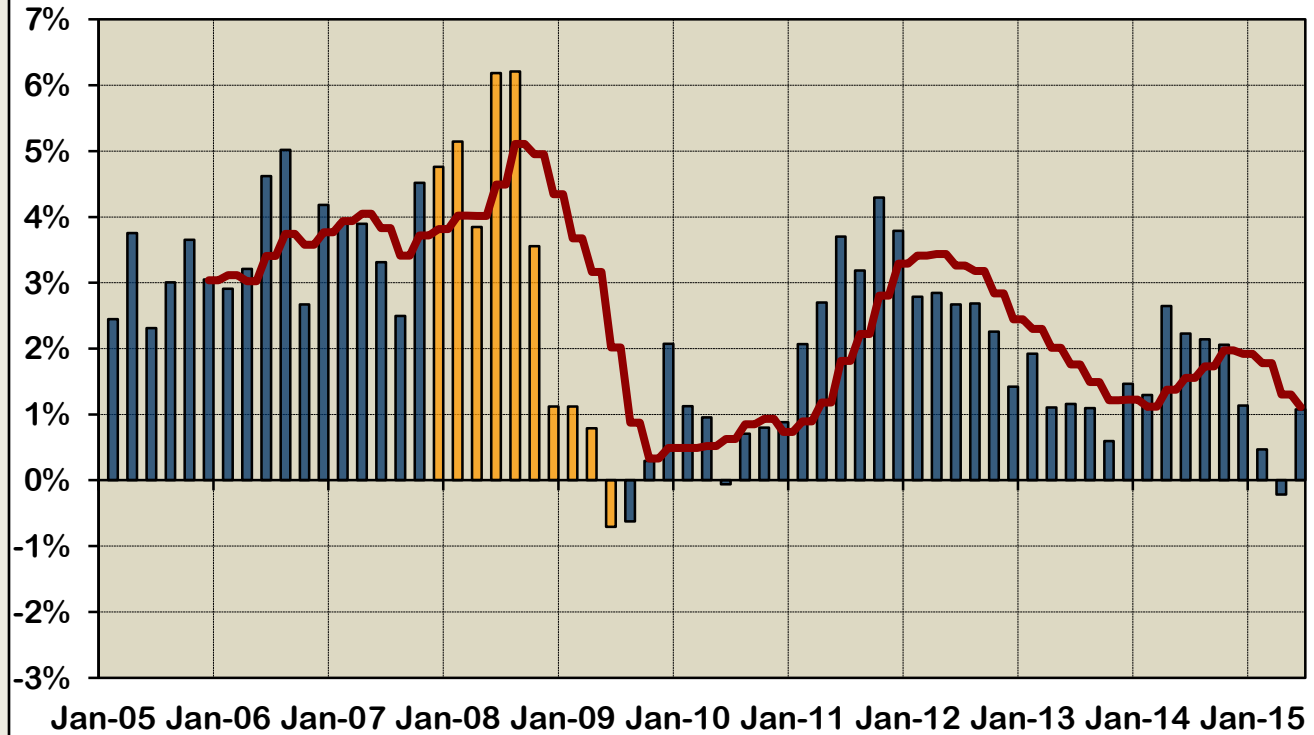
Shelter costs have been driving most of the recent increase.

So far in 2015, inflation has been very low.

Seattle CPI-W Bi-Monthly Inflation

January 2005 to Present

Source: BLS



Blue = Actual Red = average annual inflation rate Orange = Recession

King County Office of Economic and Financial Analysis

<http://www.kingcounty.gov/business/Forecasting.aspx>