



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

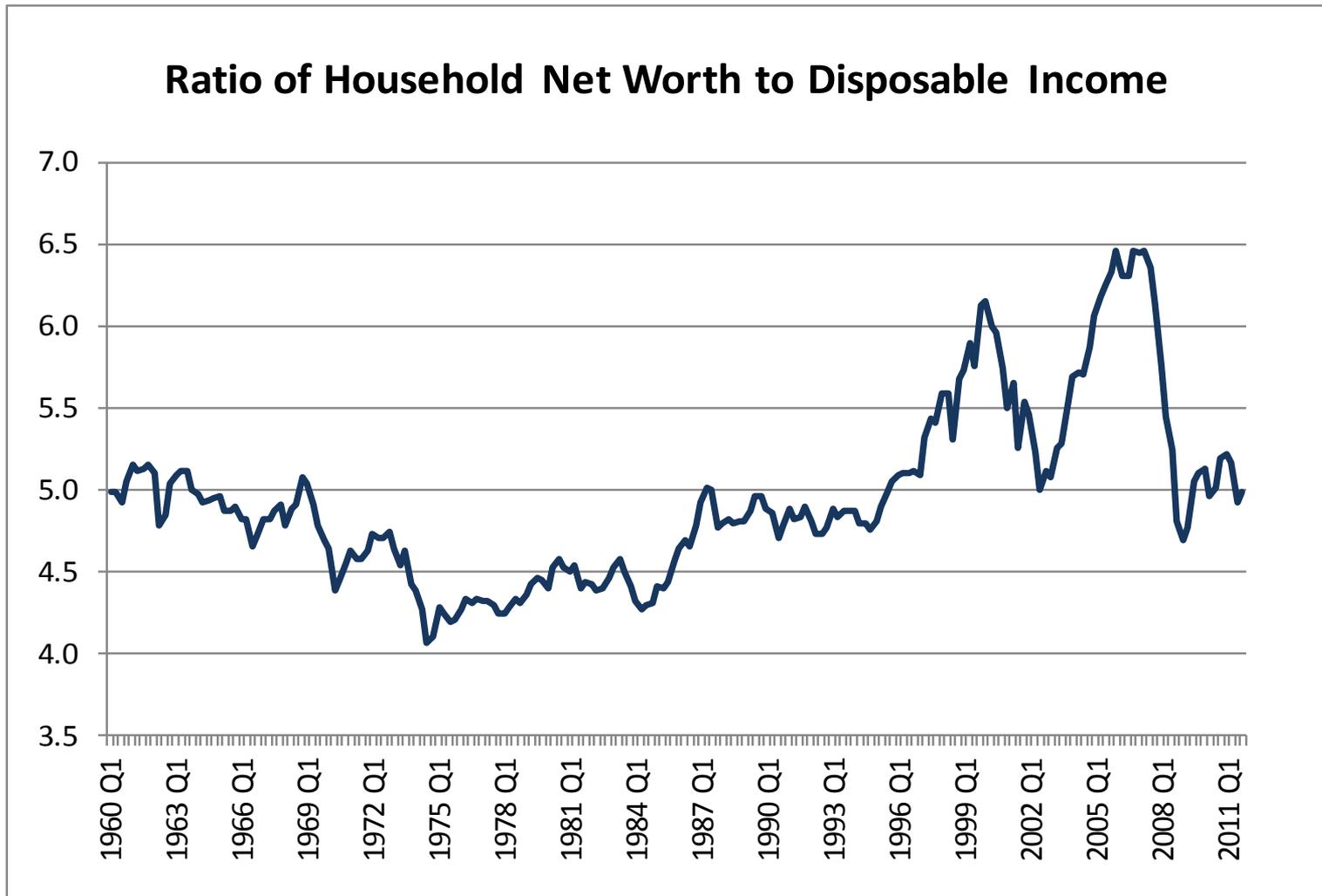
- ▶ Nonetheless, revenue growth remains subdued
 - ▶ While the size of the deficit for 2013 is smaller than what was anticipated in November, we are still projecting a \$32 million shortfall for 2013 and 2014
 - ▶ Down from a forecasted \$42 million in November



U.S. Economy

- ▶ 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

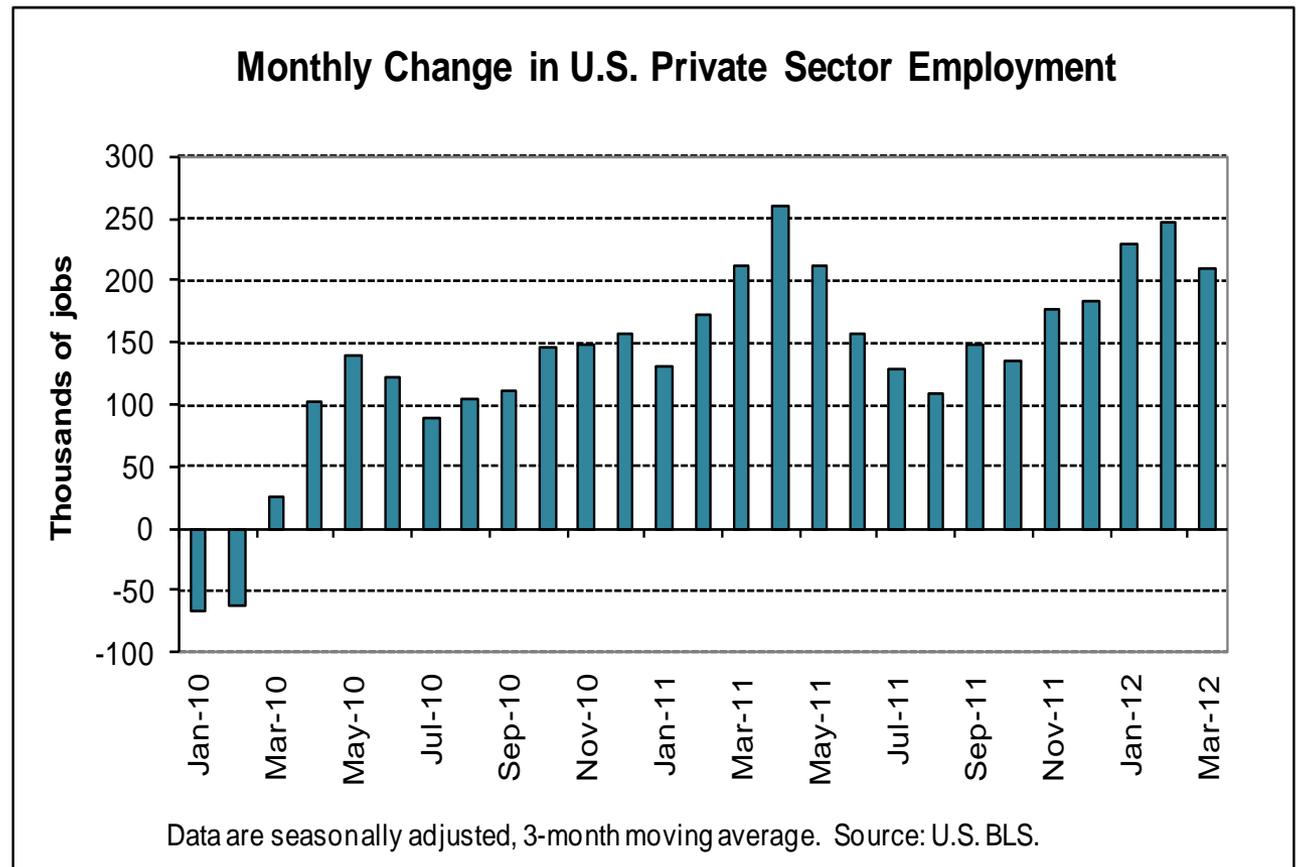
U.S. Economy



U.S. Economy



- ▶ Economy has been relatively stable & generally improving over past 6 months

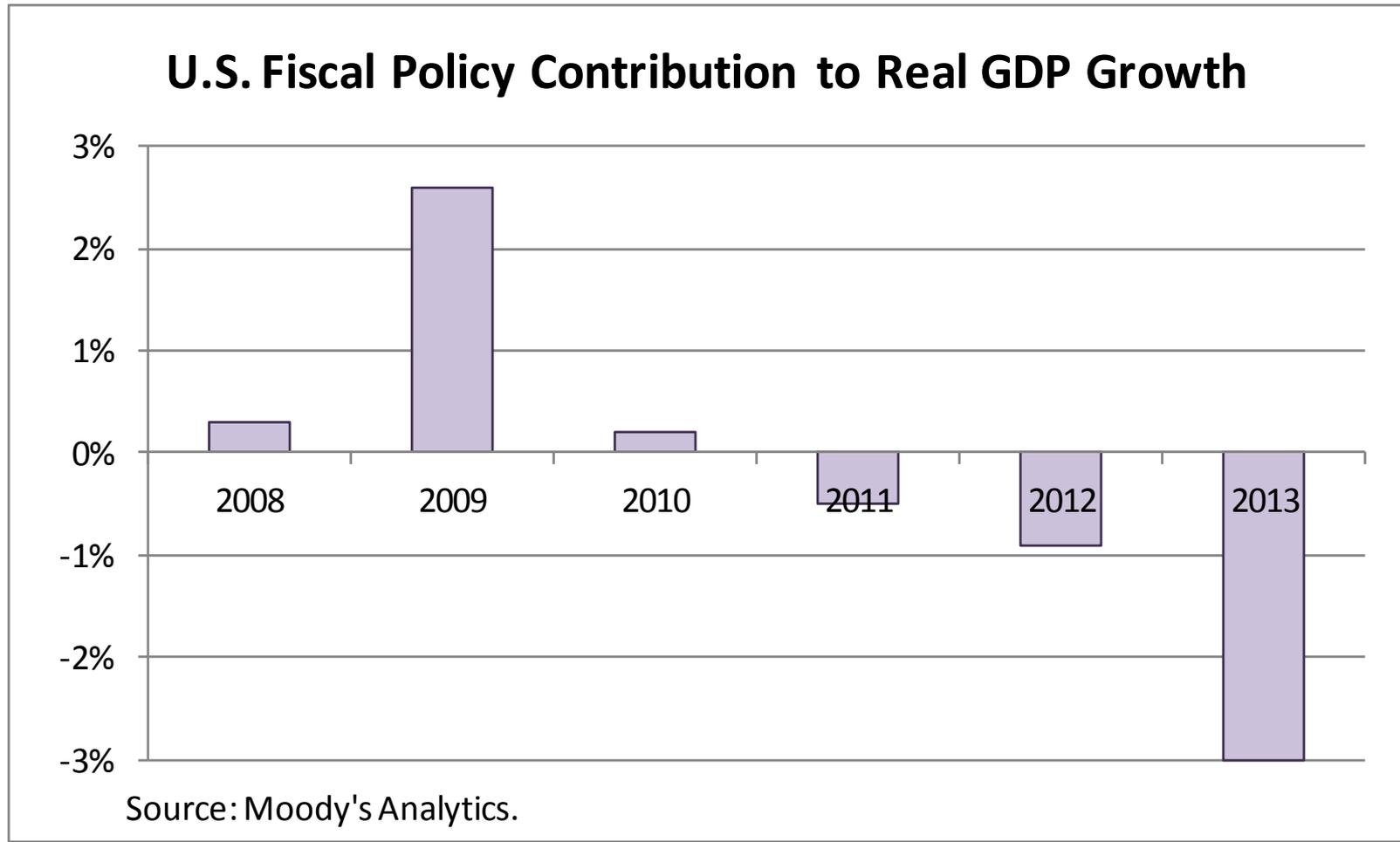


U.S. Economy



- ▶ **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 %
 - ▶ Forecasters expect 1% - 1½ impact
- ▶ **Global insight sees faster growth in 2014**
 - ▶ As housing recovers

U.S. Economy: Fiscal Policy



Local Economy

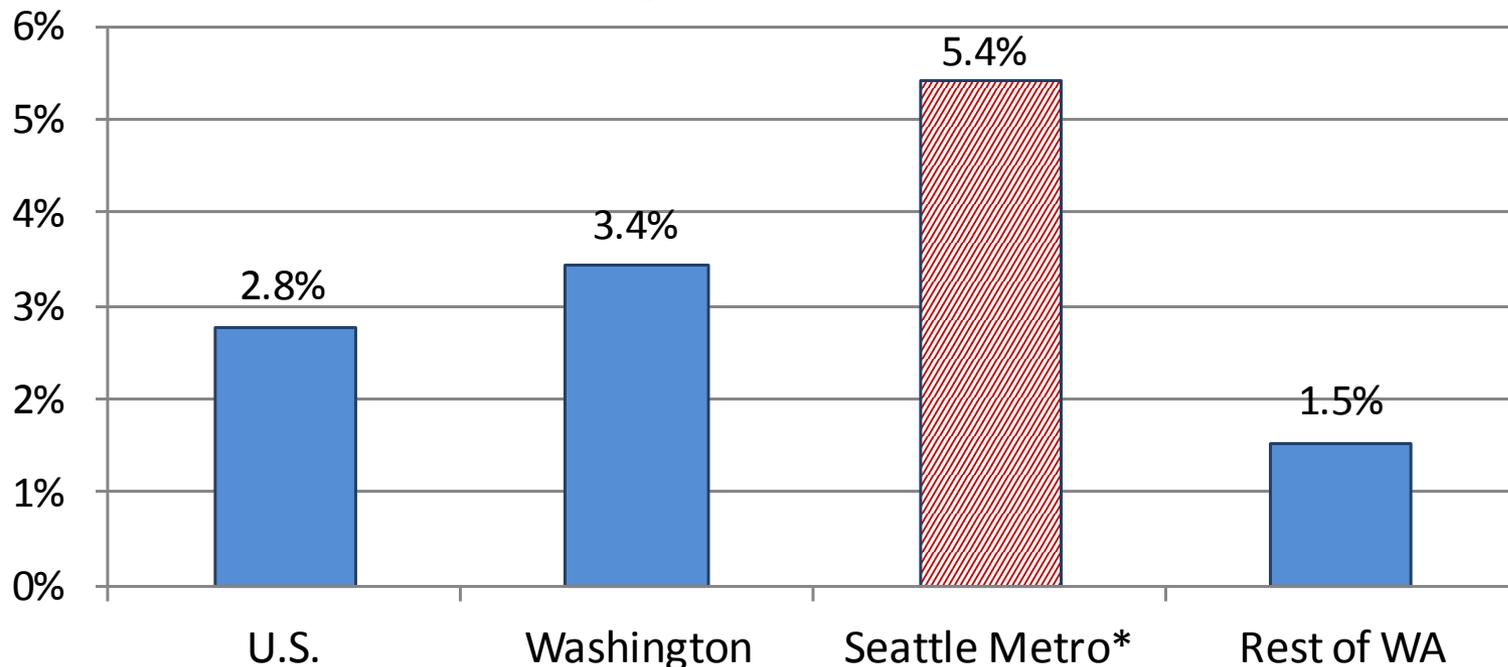


- ▶ **Region growing faster than U.S., state**
 - ▶ Boeing has added 11,000 jobs since June 2010
 - ▶ Professional, scientific, technical services employment up 12,200 (12.2%) from Nov. 2009
- ▶ **Regional economic forecast was revised upward in March**
 - ▶ In part due to upward revision of 2011 employment data

Local Economy



Employment Growth: Post Recession Trough through March 2012



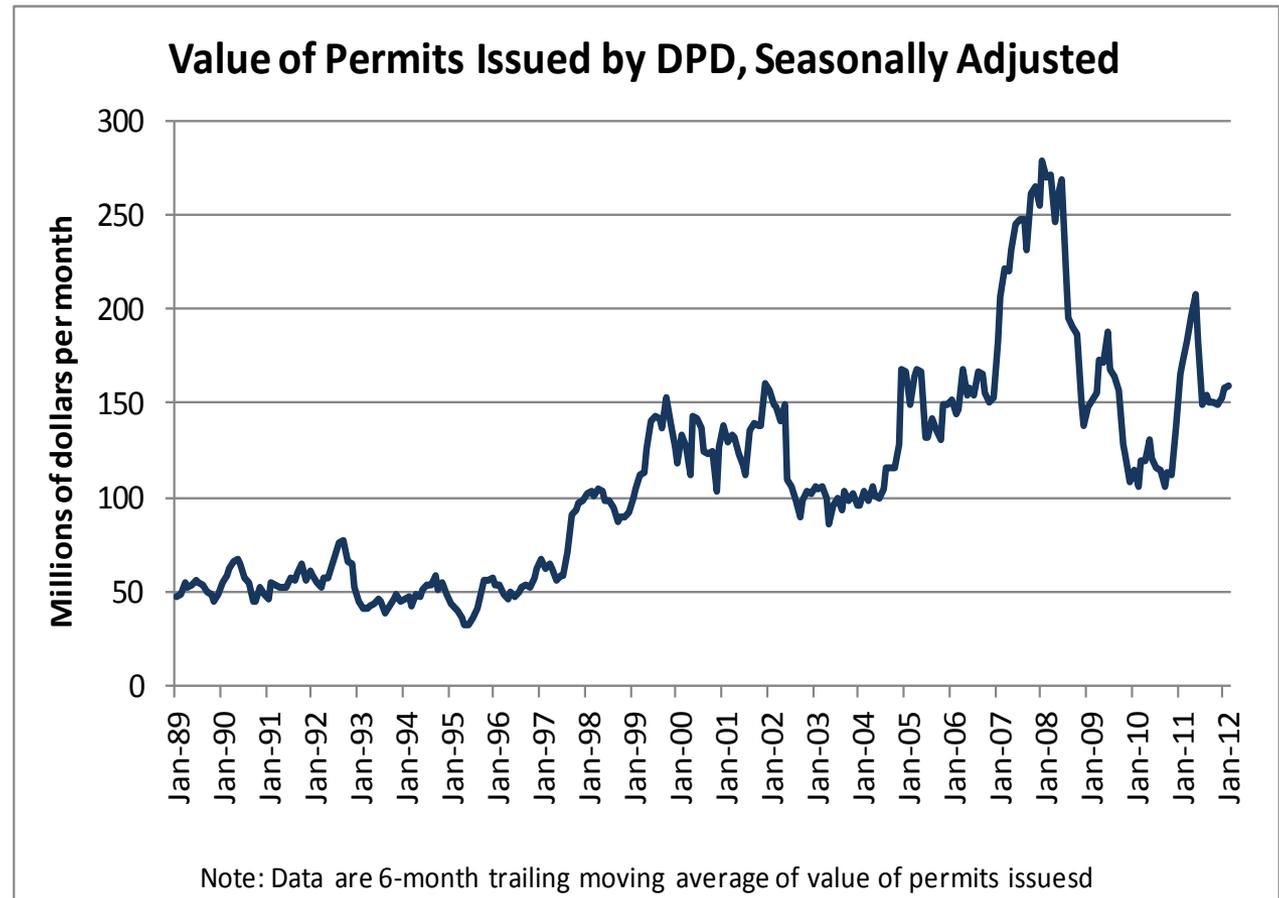
*King & Snohomish Counties. Source: WA ESD, U.S. BLS.

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



Retail Sales and B&O Taxes



- ▶ **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

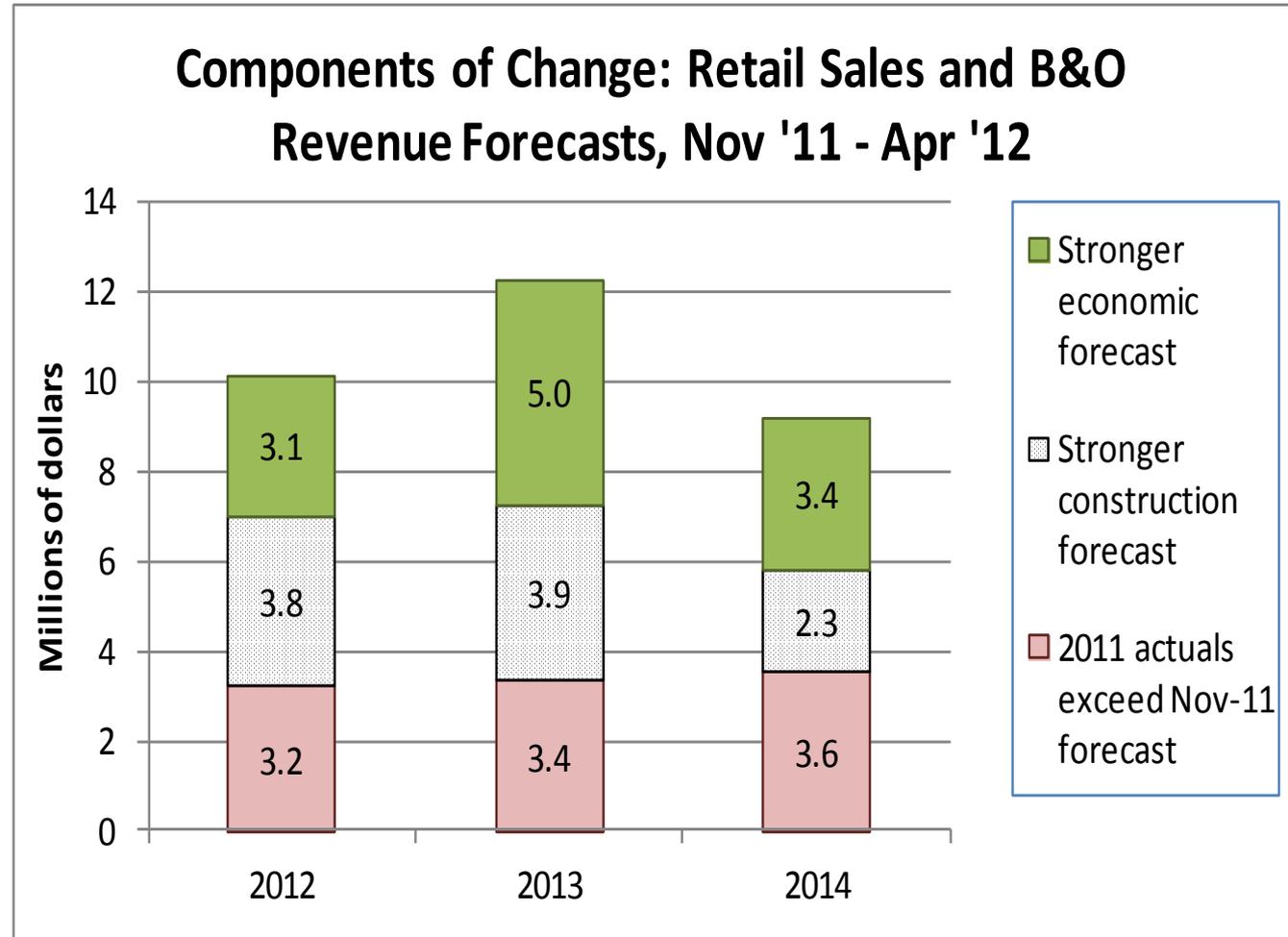


▶ Forecast increase: sales and B&O taxes

▶ 2012 \$10.2M

▶ 2013 \$12.3M

▶ 2014 \$9.2M





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

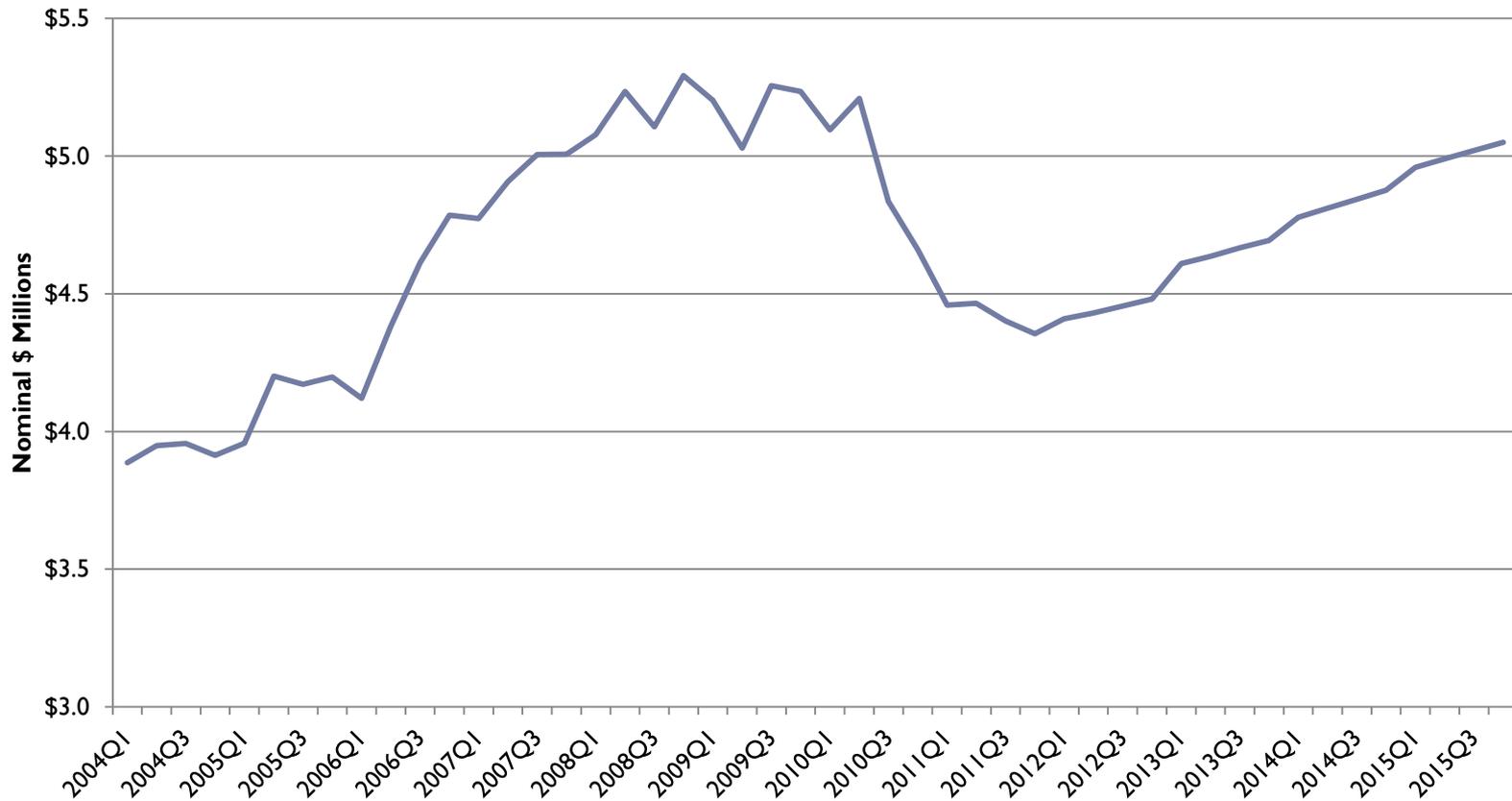
- ▶ Telephone forecast lowered by \$2 - \$3 mil. per year
 - ▶ Continued slackness in mobile tax revenues resulted in a yr/yr growth rate of -14.5%
 - ▶ Risk: two refund requests total over \$6 million

- ▶ 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





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



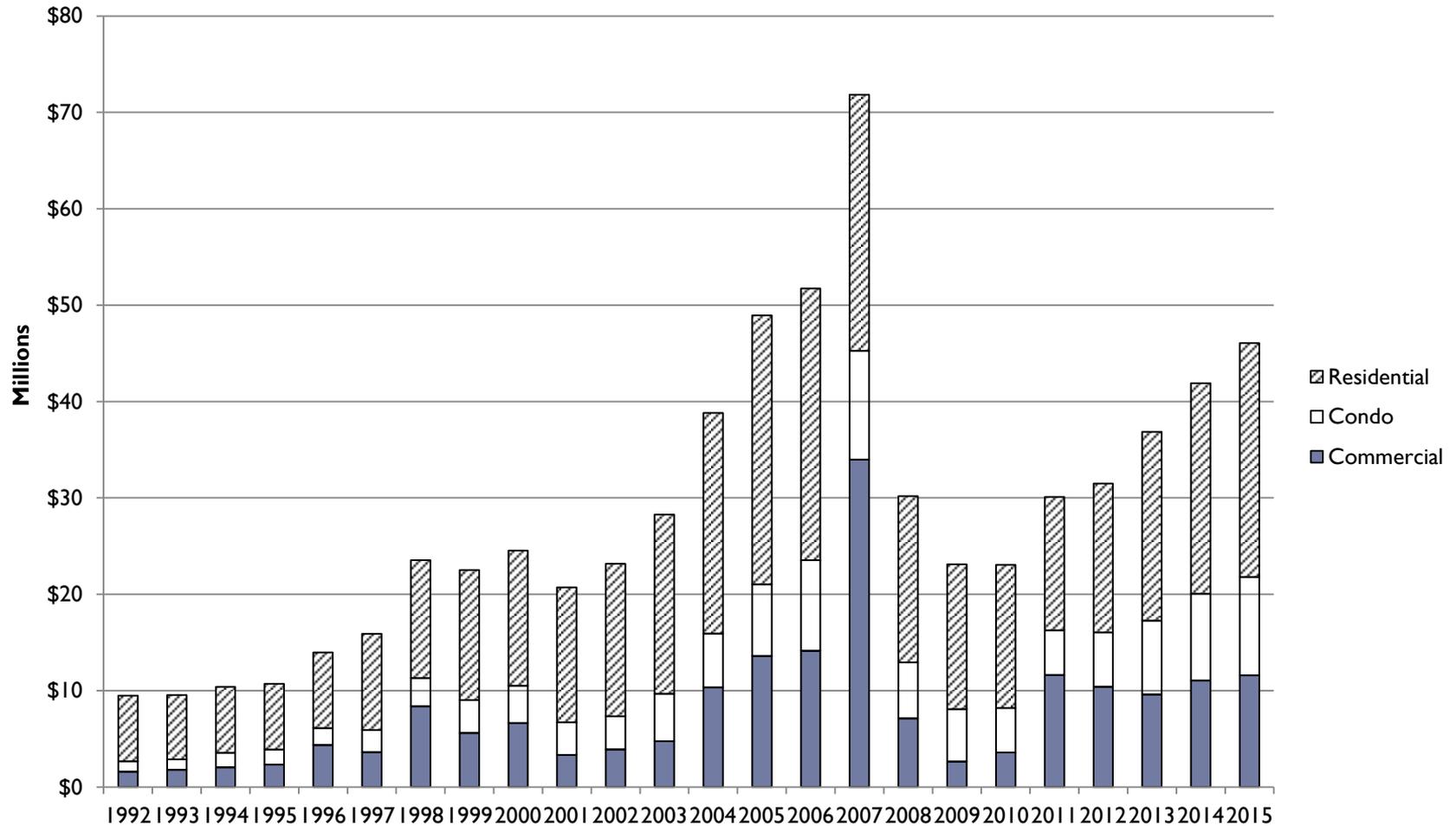
- ▶ Significant decrease in forecasted parking enforcement revenues:
 - ▶ Delays in red-light & school zone camera placements and relocations
 - ▶ Parking enforcement productivity factors
 - ▶ Reduction in scofflaw booting revenues
- ▶ Commercial Parking Tax
 - ▶ 2011 cash below forecast, but base may 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



General Subfund Revenues



GSF - Item	2011		2012		2013		2014	
	Actuals	April	Fcst Change	April	Fcst Change	April	Fcst Change	
Property Taxes	258,883,763	263,145,000	1,321,000	265,005,000	867,000	269,789,000	727,000	
Retail Sales, B&O, Admission Taxes	331,694,714	349,098,481	11,071,010	365,157,893	12,532,287	384,555,776	9,295,043	
Public Utility Taxes	108,524,266	114,354,471	(493,623)	120,185,191	1,223,209	125,795,299	4,995,259	
Private Utility Taxes	61,390,977	57,711,235	(4,514,163)	59,597,314	(5,818,388)	62,296,035	(4,868,749)	
Other Notable GSF Revenues	62,861,746	66,348,850	(3,193,150)	69,443,920	(2,931,080)	70,300,483	(3,677,517)	
Subtotal	823,355,466	850,658,037	4,191,074	879,389,318	5,873,028	912,736,593	6,471,036	
Grants	27,632,720	1,194,015	-	343,000	-	343,000	-	
Other General Subfund Revenues	66,322,444	61,440,615	(829,579)	60,630,859	(829,579)	62,617,686	366,699	
Subtotal	917,310,630	913,292,667	3,361,495	940,363,177	5,043,449	975,697,279	6,837,735	
Other Funds - Fund Balance Transfers	9,062,971	9,806,818	10,000	1,073,150	175,000	725,000	-	
GSF - Grand Total	926,373,601	923,099,485	3,371,495	941,436,327	5,218,449	976,422,279	6,837,735	
Real Estate Excise Tax	30,109,189	31,501,207	2,576,816	36,860,812	2,873,813	41,898,836	2,036,662	
Commercial Parking Tax	28,300,237	30,379,255	(380,274)	31,290,633	(853,075)	32,698,711	(891,464)	

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

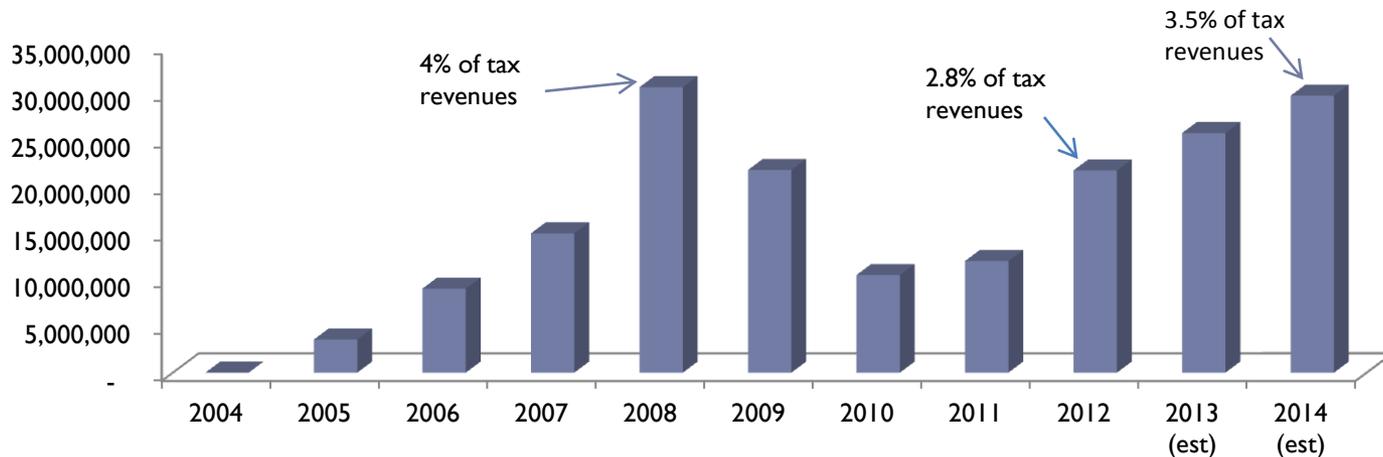
- ▶ **Important for three reasons:**
 - ▶ Provides a buffer to address budget hits that will result from the State budget
 - ▶ For the 1st time in three years the City can avoid a formal mid-year reduction process
 - ▶ Helps offset projected budget shortfalls for 2013 and 2014
 - ▶ Allows us to build up the Rainy Day Fund
 - ▶ Critical to the City retaining its AAA bond rating



Rainy Day Fund Snapshot

- ▶ 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

Rainy Day Fund Balances



2013-2014 Outlook



- ▶ \$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

	Revenue Change from Nov Forecast (in millions)	% of Total Revenues
2012	\$4.2	0.5%
2013	\$5.9	0.6%
2014	\$6.6	0.7%

New Budget Challenges:

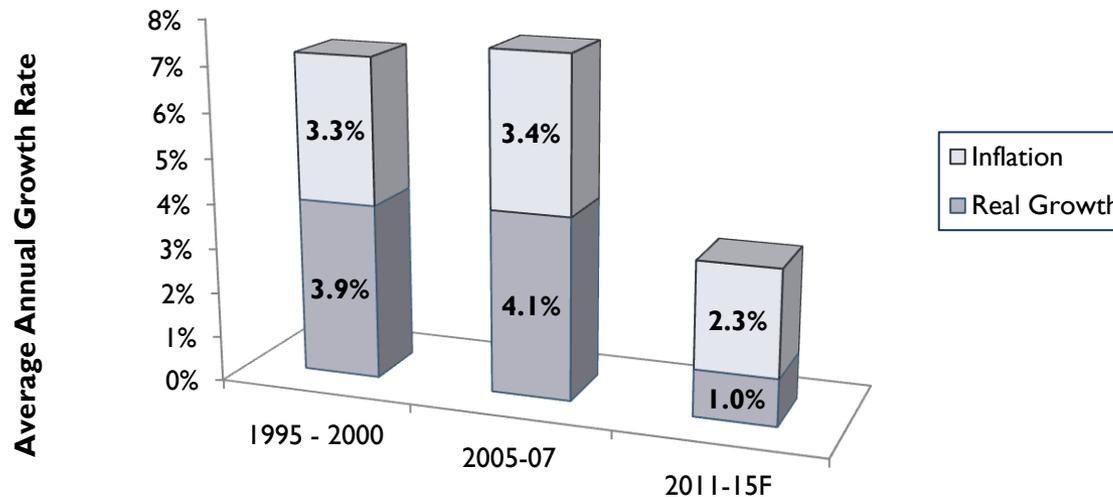
- ▶ State budget impacts for 2012 worse than what we anticipated
- ▶ Costs to implement the recommendations related to the DOJ review of the Seattle Police Department

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



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

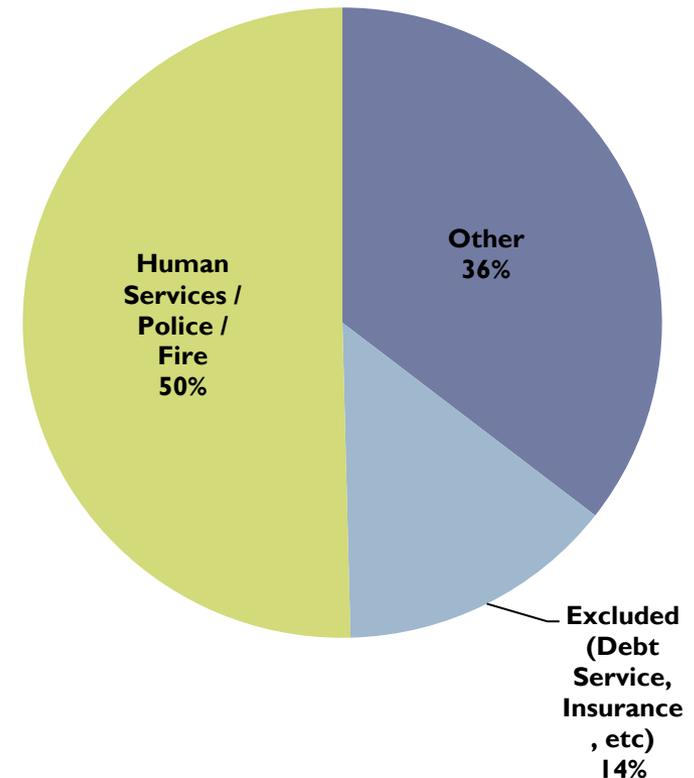
Going from 2012 Adopted to 2013 projections:

<u>2013</u>	<u>2014</u>	
-\$6.7	-\$0.4	Difference Between Revenue and Expenditure Growth
-\$14.9	-\$13.6	Impact of one time adjustments, including reliance on fund balance in 2012
-\$6.0	-\$9.8	Policy Choices Made - Annualize ongoing programs, prudent fiscal management
-\$14.7	-\$17.0	Risks and Anticipated Requests
-\$42.3	-\$40.8	Subtotal
\$10.6	\$9.1	Anticipated Fund Balance Available for 2013/2014 Biennium Balancing
-\$31.7	-\$31.7	Gap Remaining

Next Steps - Plan for Closing the Gap

- ▶ 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



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?

