

King County: A View From Circular Flow's Third Box

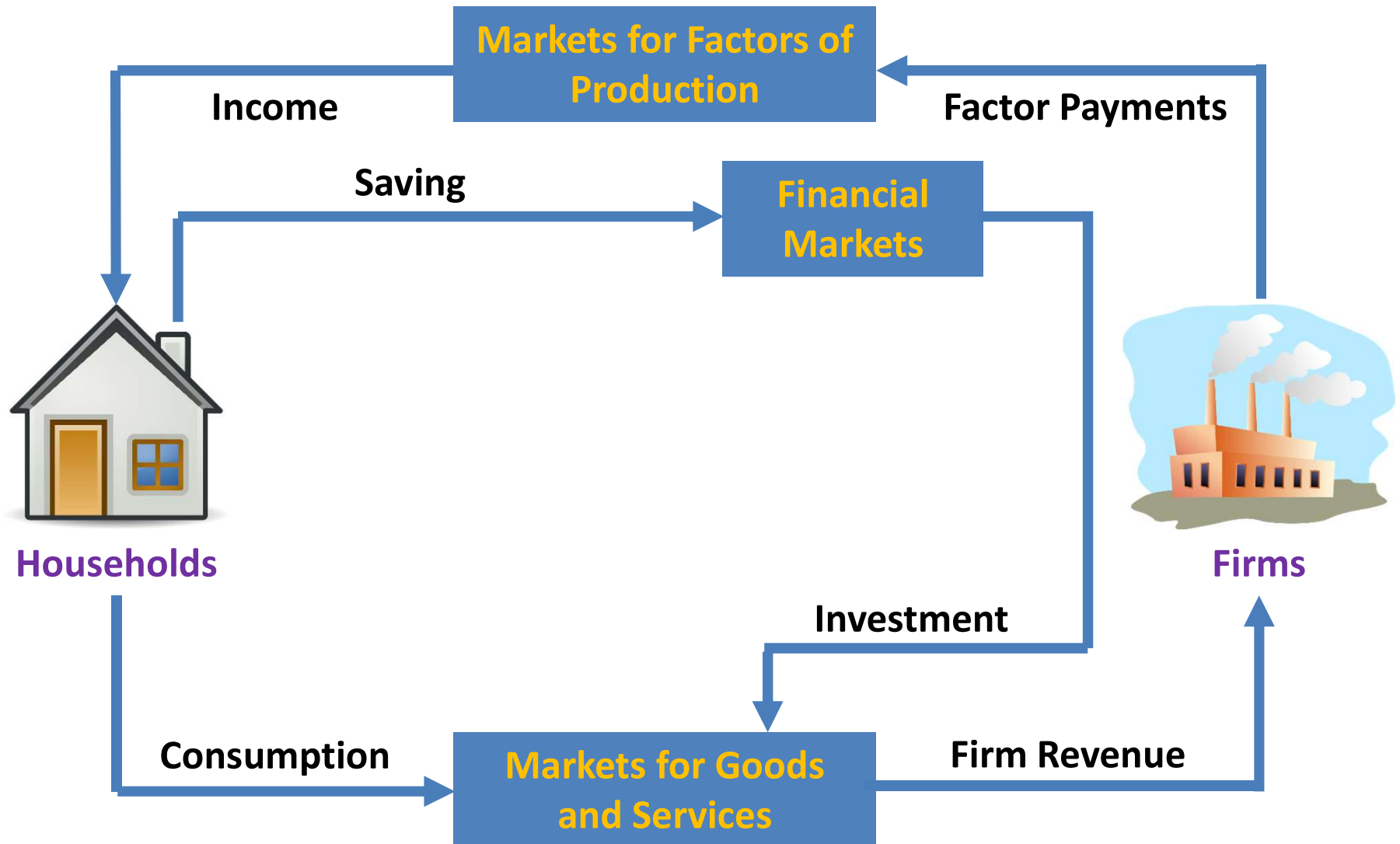
Presentation to the Seattle Economics Council

Presented on:
Nov. 7th, 2018

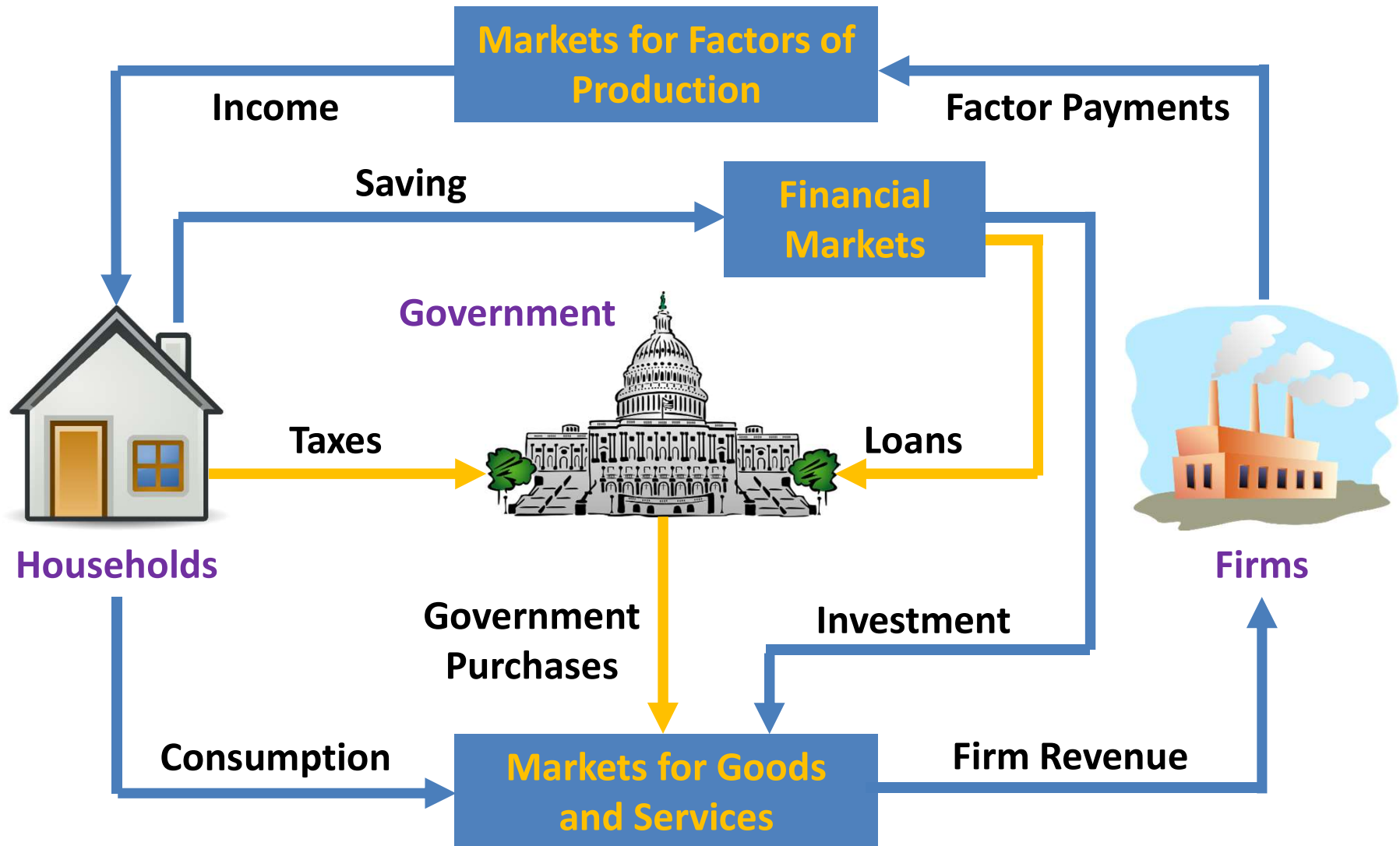
Dave Reich
King County Office of Economic and Financial Analysis



The Economy's Circular Flow



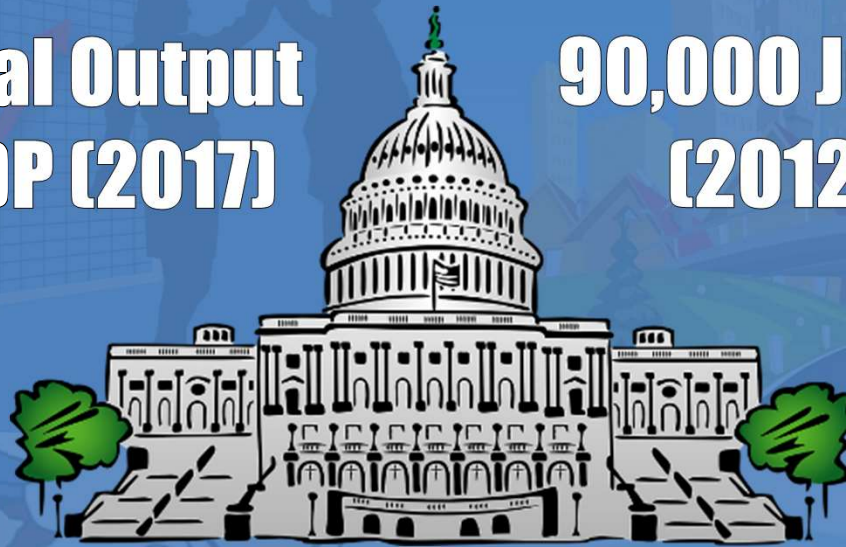
The Economy's Circular Flow



Local Government and the U.S. Economy

**State & Local Output
10.7% of GDP (2017)**

**90,000 Jurisdictions
(2012 Census)**



**15 Million Jobs (local)
(10% of Employment)**

**Spending Focused on:
Education, Health, & Public
Safety**

King County's Government

King County provides local and regional services

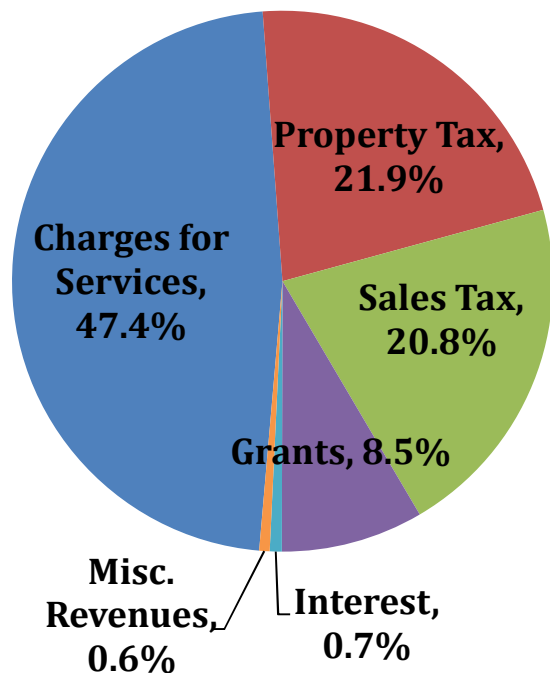
- 2018 population about 2.2 million
- Regional services include transit, wastewater services, human services, elections, public health, parks, courts
- Local services to unincorporated county (roads, sheriff, land use)
- Contract services also important (e.g. sheriff partnerships)

Proposed Budget for 2019-2020 is \$11.6b

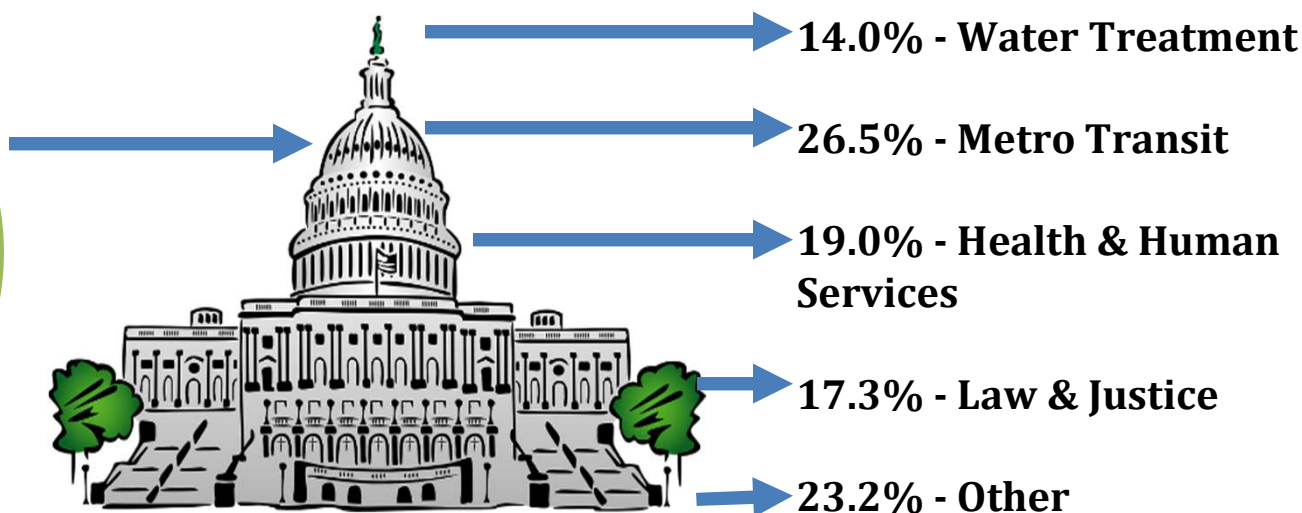
- County employees about 15K (large employer)
- Revenues to support this
- Expenditures part of the local economy
- County produced goods and services (e.g. transit)
- Contractor produced goods and services (e.g. human services)

King County Revenues & Expenditures

**King County
Revenues by Type**



**King County
Expenditures by Share**



Source: King County 2017 CAFR

How services are provided matters!

They Didn't Pay The Fee: Firefighters Watch Tennessee Family's House Burn



Expenditures: Local Public Goods

King County produces many local goods/services

- Basics of democracy (Exec/Council), law enforcement, courts, public health
- Non-rivalrous and non-excludable (Samuelson)
- Congestible-function of service level (e.g. sheriff)
- “Local” public goods
- Tend to be paid with tax revenues (General Fund)

Issues in service provision

- Theory (median voter, Tiebout hypothesis)
- Practice is less clear (levy lid lift vs. sheriff)
- Budgeting is incremental, revenue limitations
- Spillovers (unincorporated roads)
- Regional vs. local (EMS and economies)
- Efficiency (annexations)

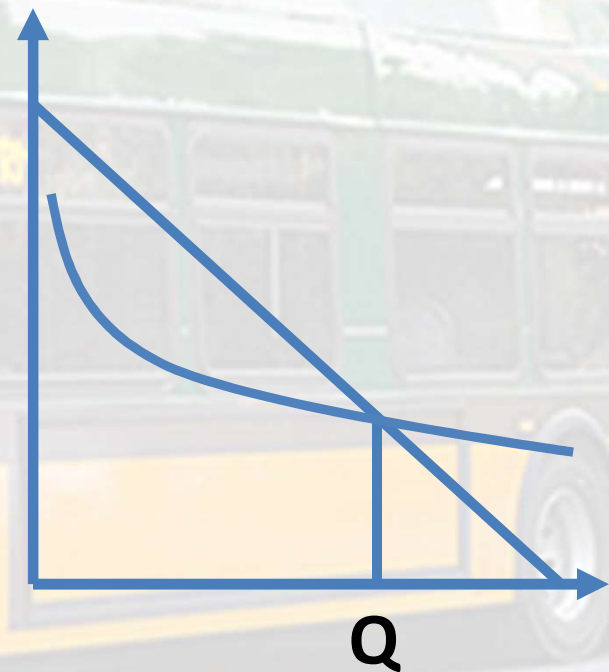
Expenditures: Monopoly Provision and Others

King County is a monopoly provider of several services

- Regional wastewater (transit, solid waste less so)
- Could be privately provided (in theory)
- Key is falling average cost
- Rate process drives KC to average cost provision

Other

- Regulation (building codes, health)
- “Private” services (water taxi, airport)

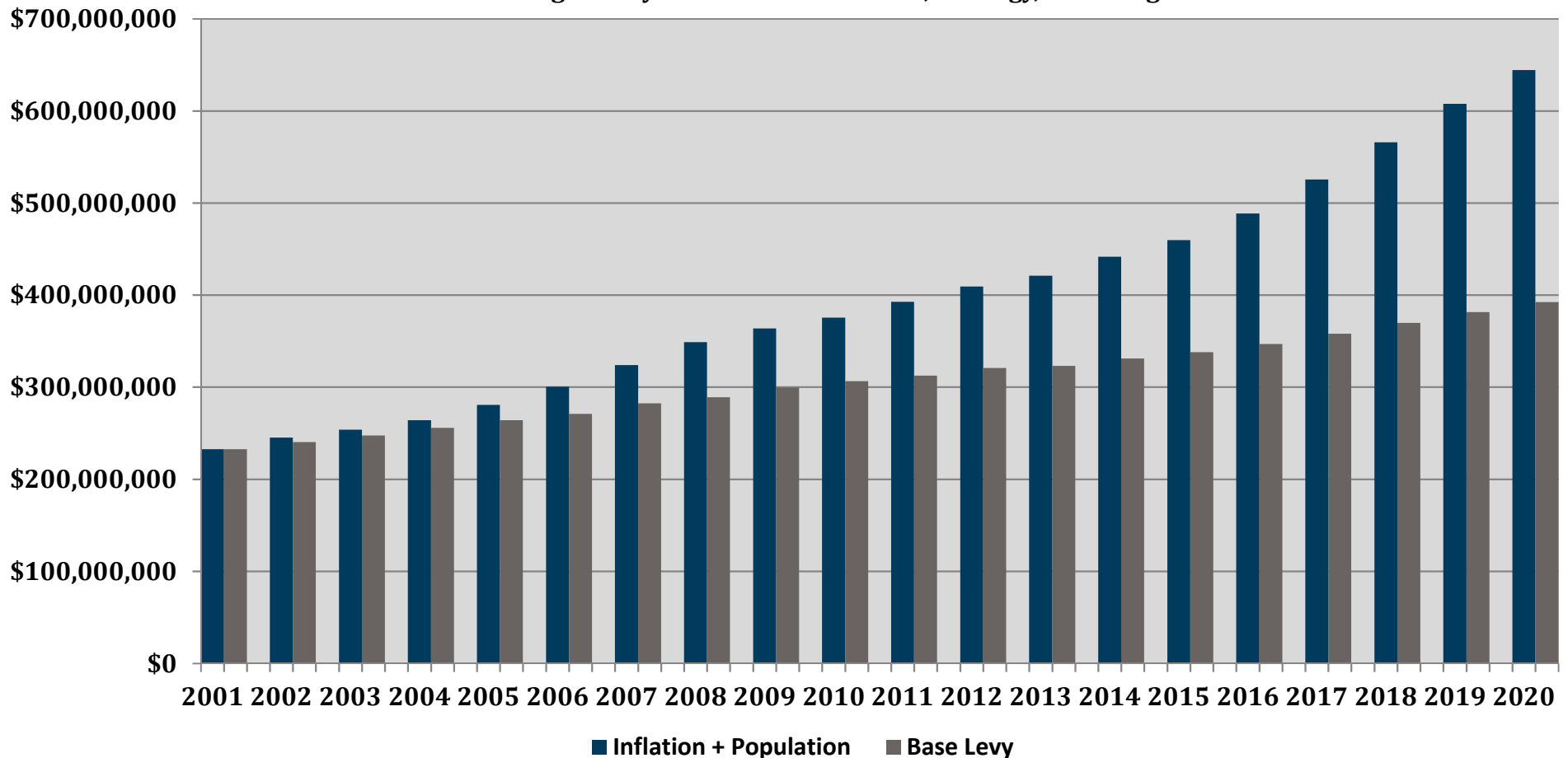


Tax Revenue-State Limitations on Property Tax Revenue

King County Property Tax Levies

Current Expense Fund Property Tax

Source: King County Office of Performance, Strategy, and Budget



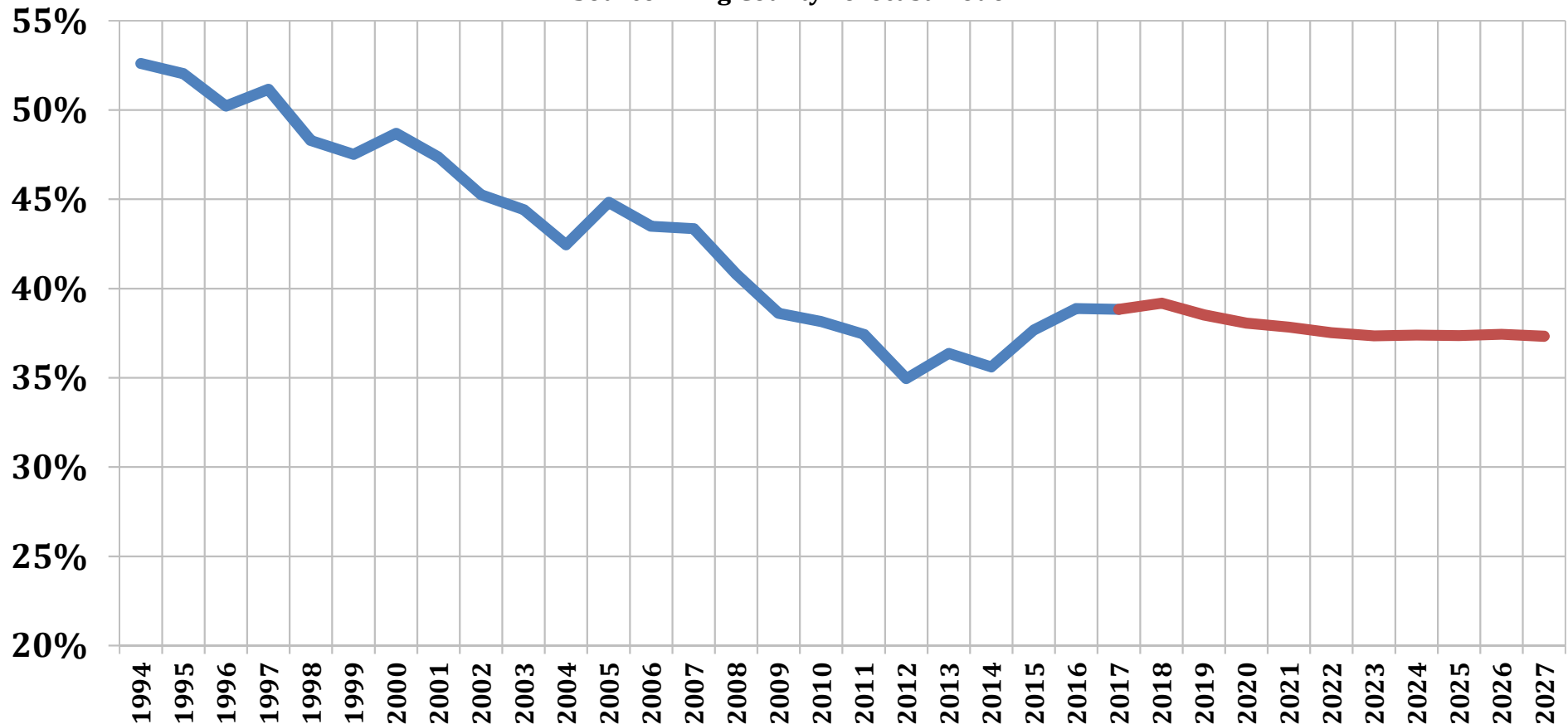
Tax Revenue-Taxable Sales to Income Ratio Falling



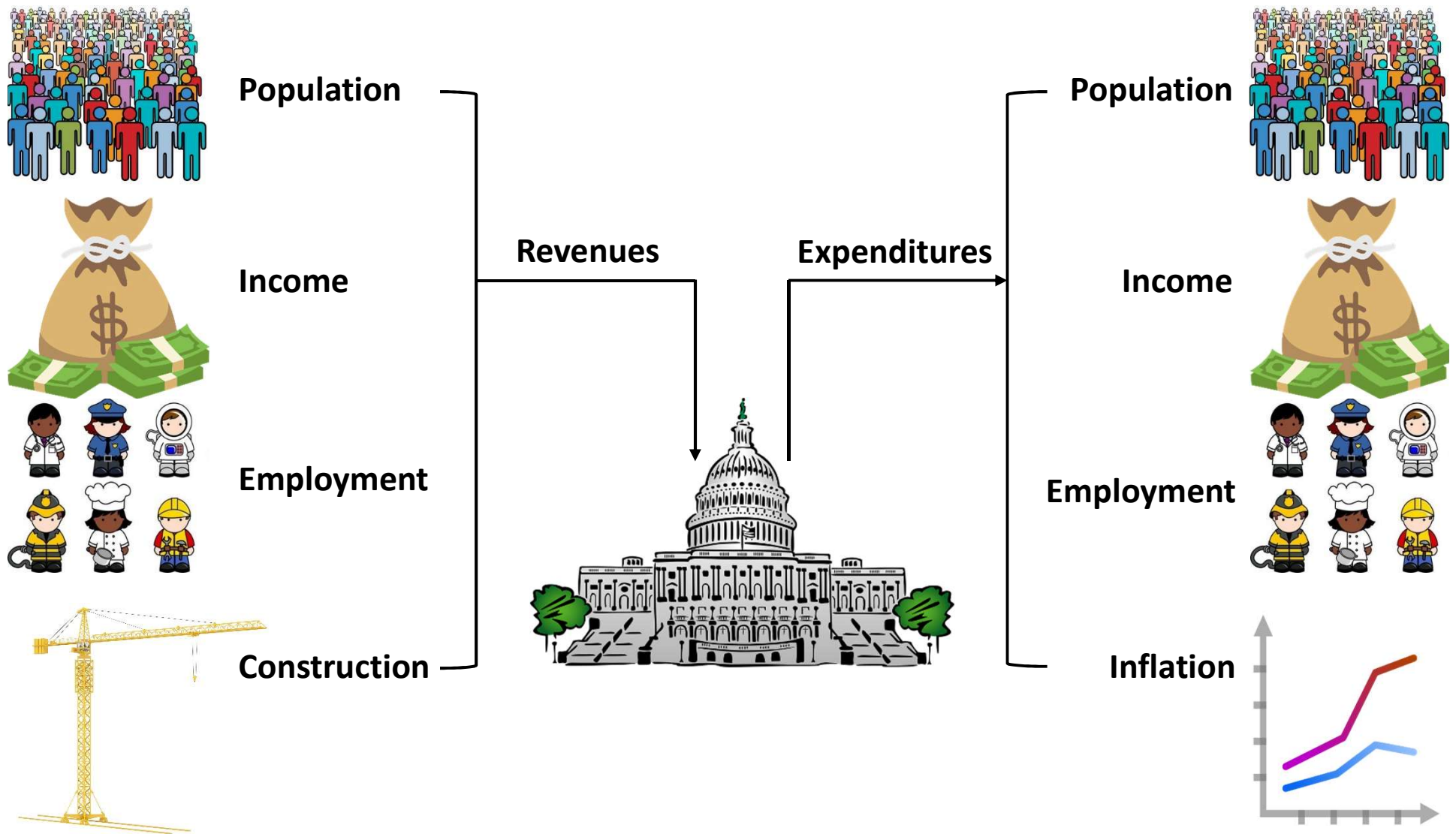
King County Taxable Sales to Income Ratio

Annual data, **Actual (line)**, **Forecast (line)**

Source: King County Forecast Model



King County Impacts and is Impacted by the Local Economy



Overview of the Office of Economic and Financial Analysis (OEFA)

OEFA was created by a charter amendment in 2008

- Set up as an independent agency
- Reports to the King County Forecast Council (FC)

Primary role is revenue forecasting

- Two forecasts required (typically do three)
- Must be approved by the FC
- Used in budget preparation

Lots of other work

- King County forecast model
- Other forecasting and analysis
- Data management & analysis
- County-wide efforts

The King County Economy

King County is a dynamic economy

- 2018 population about 2.2 million-13th largest county (9th by employment)
- If KC were a state we'd be the 36th largest (right after Kansas)
- Part of a regional economy totaling 4.1M (w/Snohomish, Pierce and Kitsap)
- 1 in 4 homes speak a language other than English at home (1:5 in the U.S.)
- Almost half of adults have a bachelor's degree (30% in the U.S.)
- 9th largest county by employment
- Home to companies known worldwide
- Birthplace of great things (e.g. the flying fortress, Jimi Hendrix, Pictionary)

KC is one of the dynamic urban areas in the U.S.

- Part of small number of mostly urban areas that are driving growth
- 50% of U.S. job growth in the 2010s from 2% of the counties (KC was 11th, EIG)

Bodes well for the future

- Base industries are global players
- Risks include keeping our edge

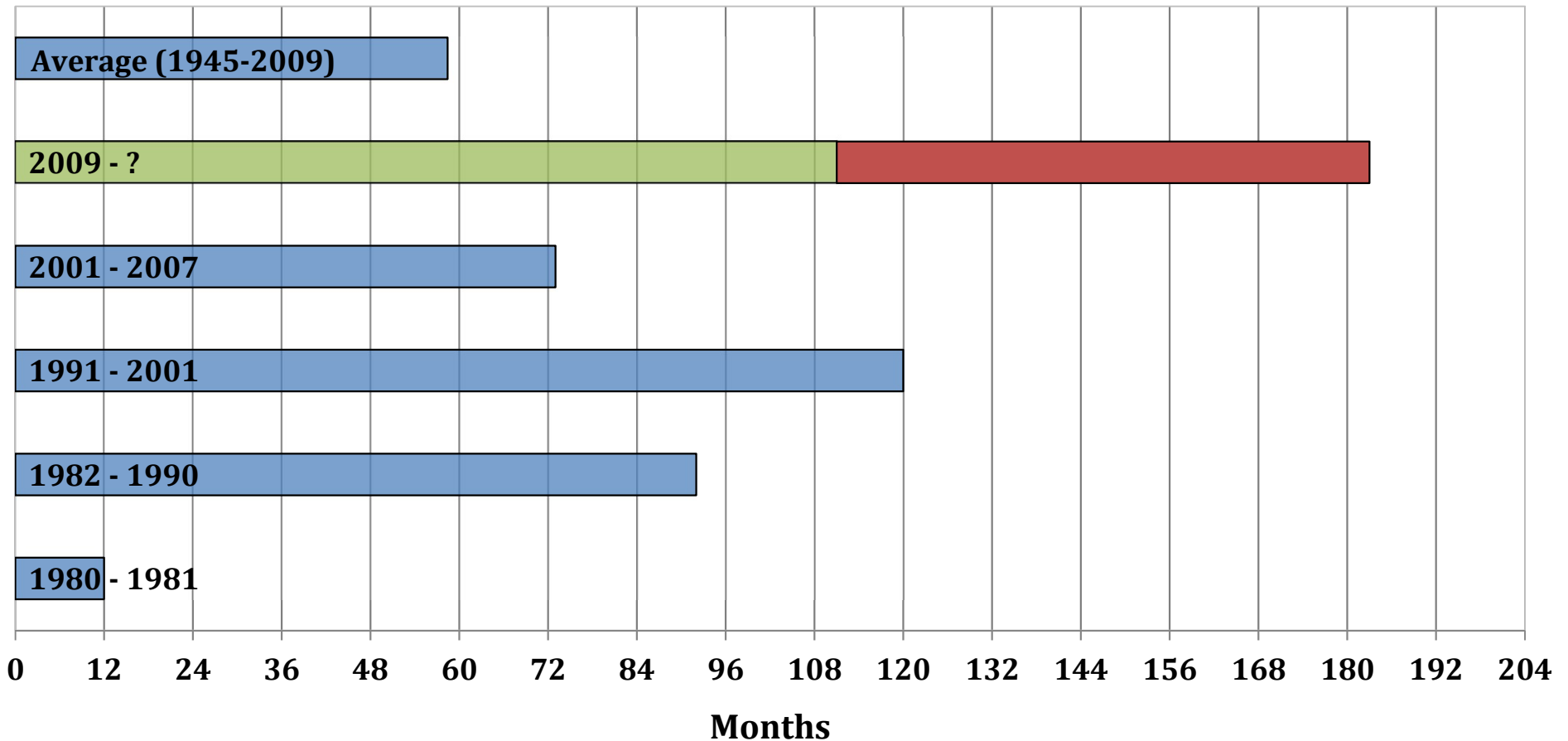
The King County Economy is tied directly to the U.S. Economy...currently good times!



US Economic Expansions

In months, **Actual (bar)**, **Forecast (bar)**

Source: Bureau of Economic Analysis



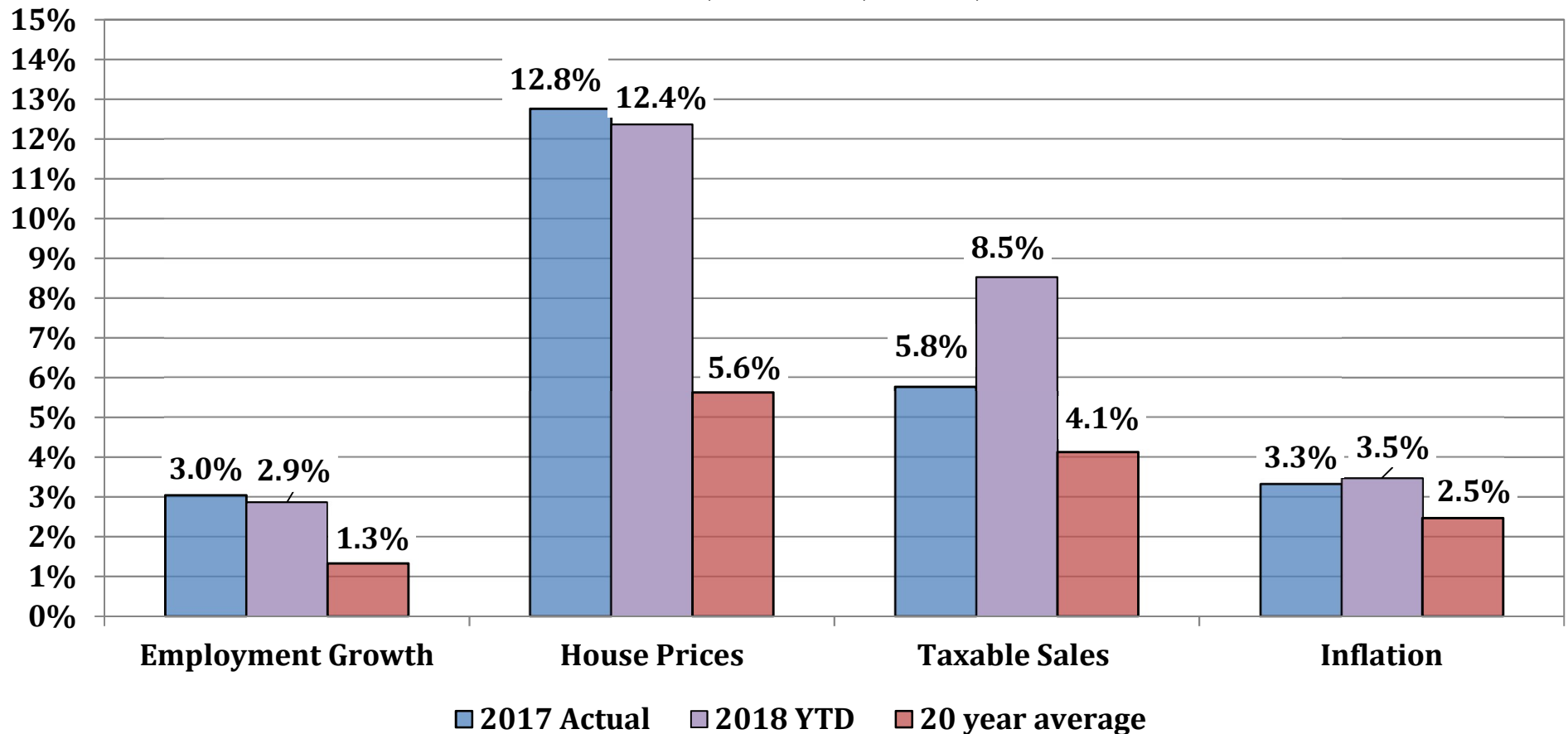
King County economic indicators have been strong and are holding up in 2018



King County Economic Indicators

2017 actuals and 2018 YTD vs. 20 year average

Source: PSEF, Case-Shiller, WA DOR, BLS



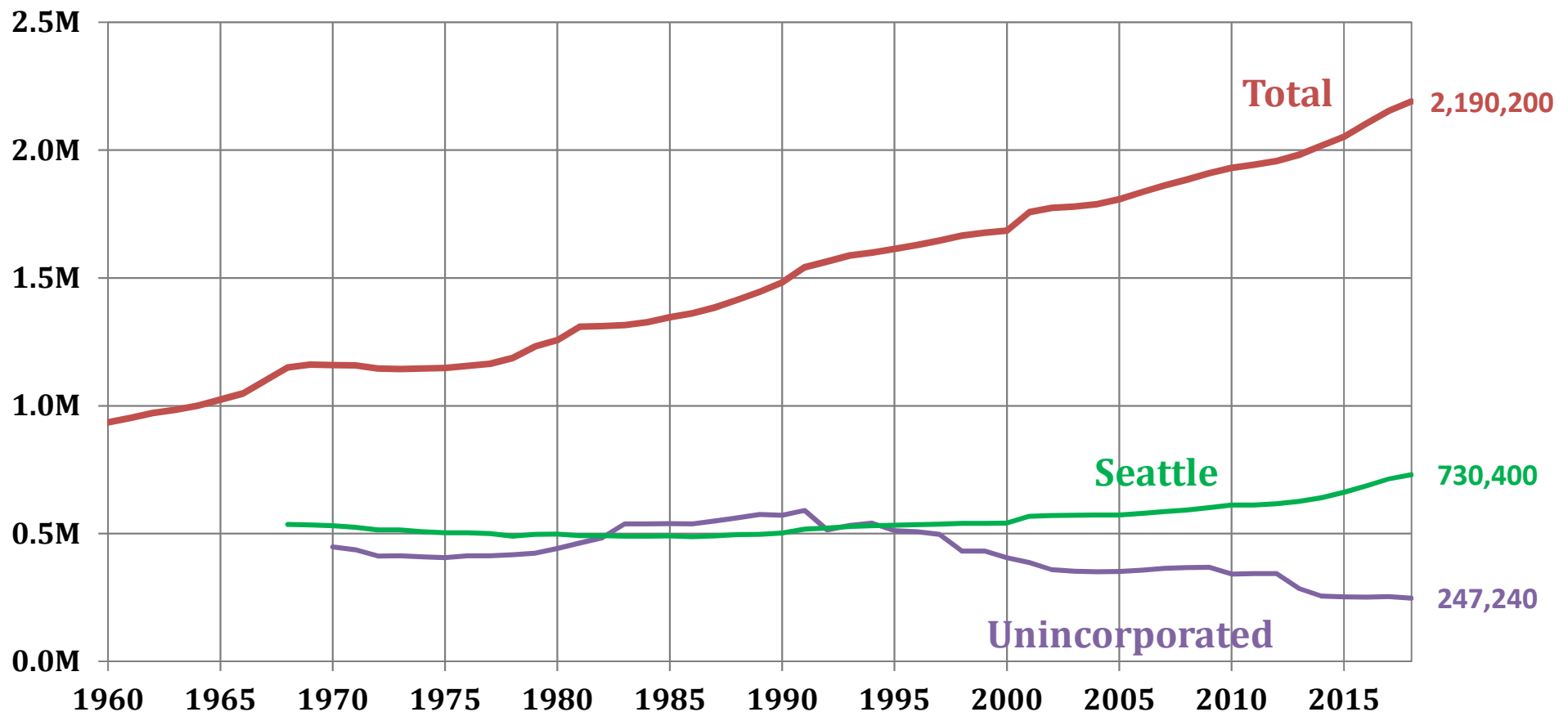
We've seen rapid population growth in King County of late but really a continuation of a long-term trend



Population in King County (1960-Present)

Population Growth: **KC Total**, **KC Unincorporated** & **Seattle**

Source: OFM



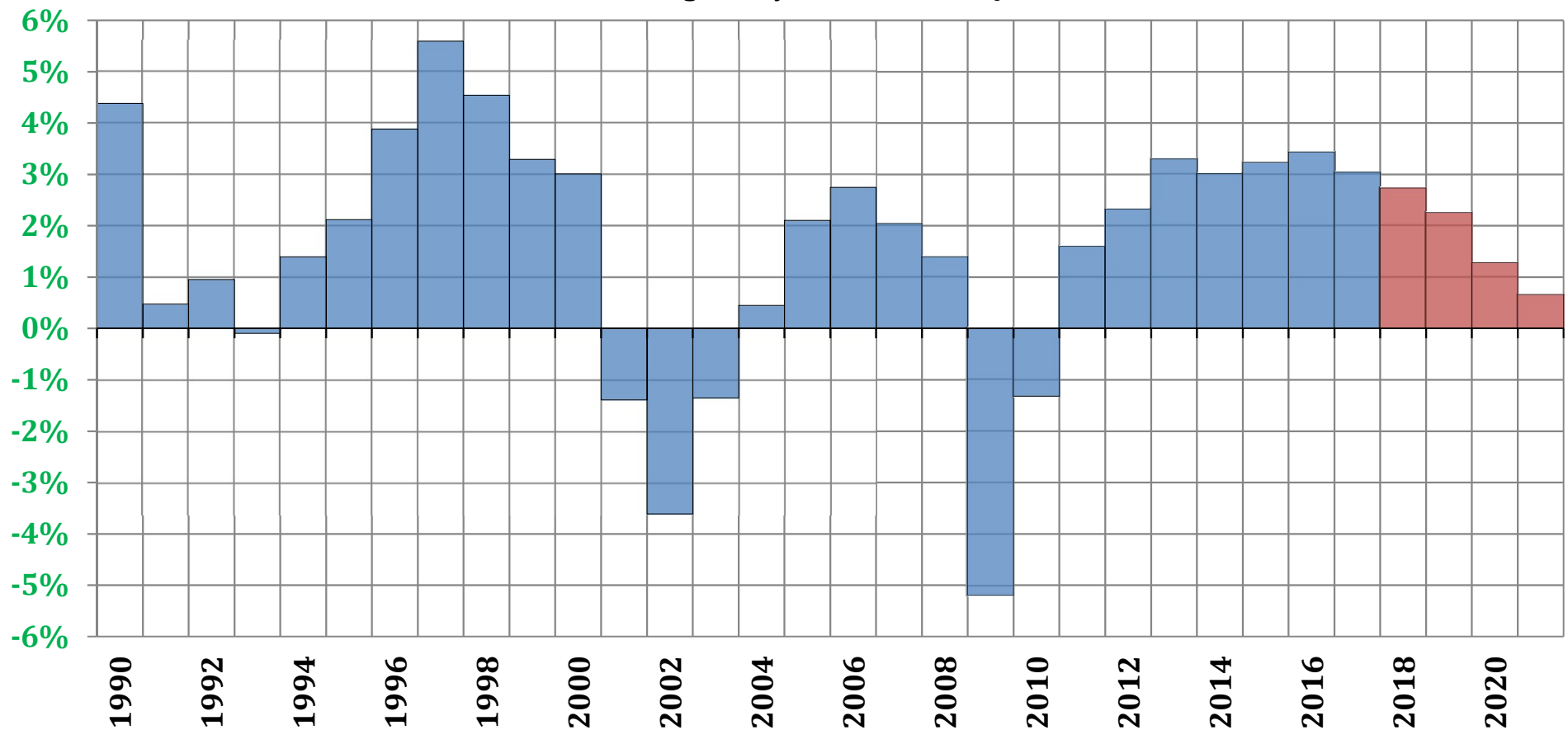
Local job growth since 2011 with more likely to come!



King County Annual Employment Growth

With Actuals and Forecast bars

Source: King County Forecast Model Q3 2018



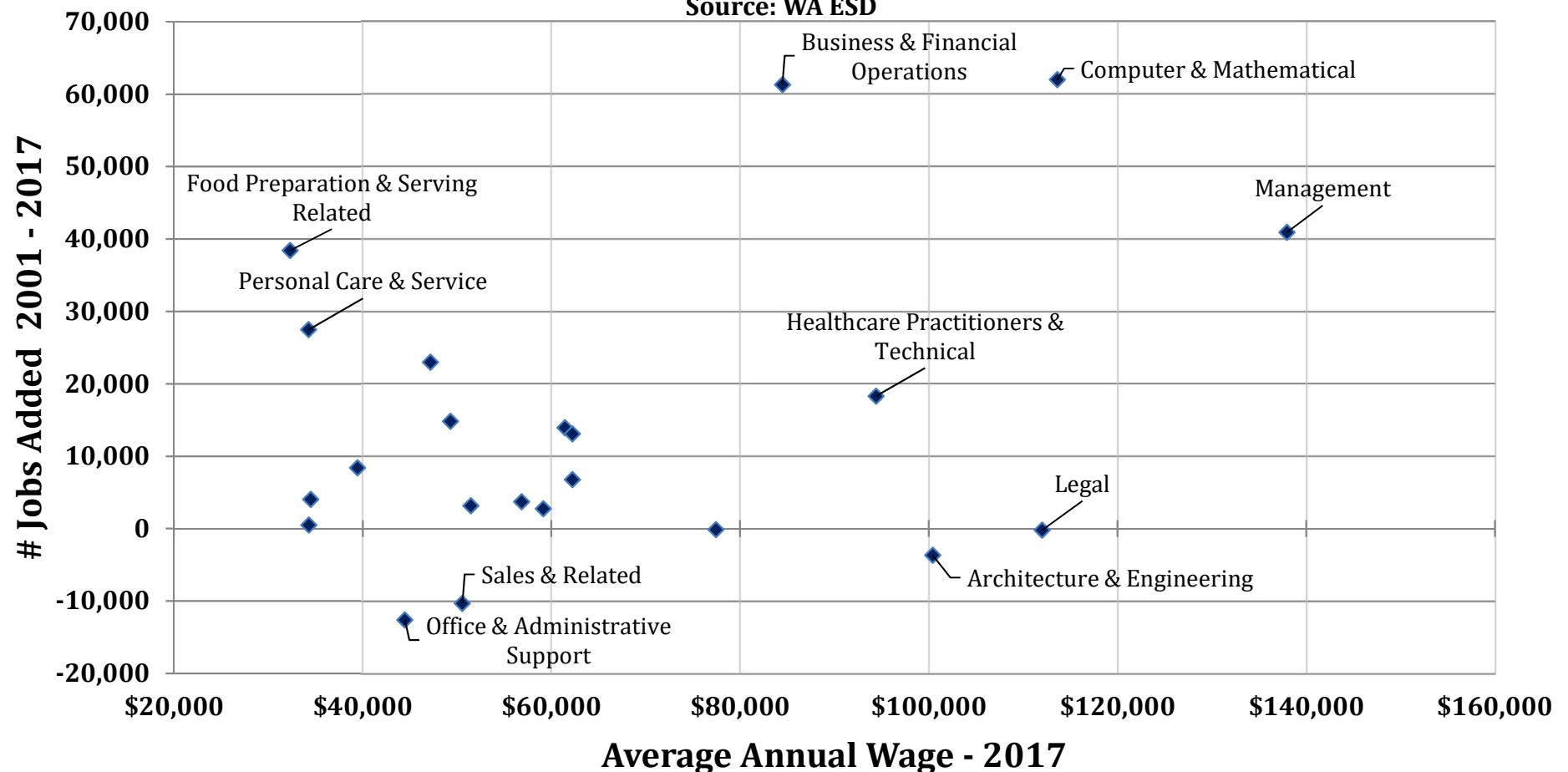
KC occupational growth has tended to be at the ends of the income spectrum



Employment Growth and Wages by Occupation

Seattle-Bellevue-Everett Metro Area

Source: WA ESD



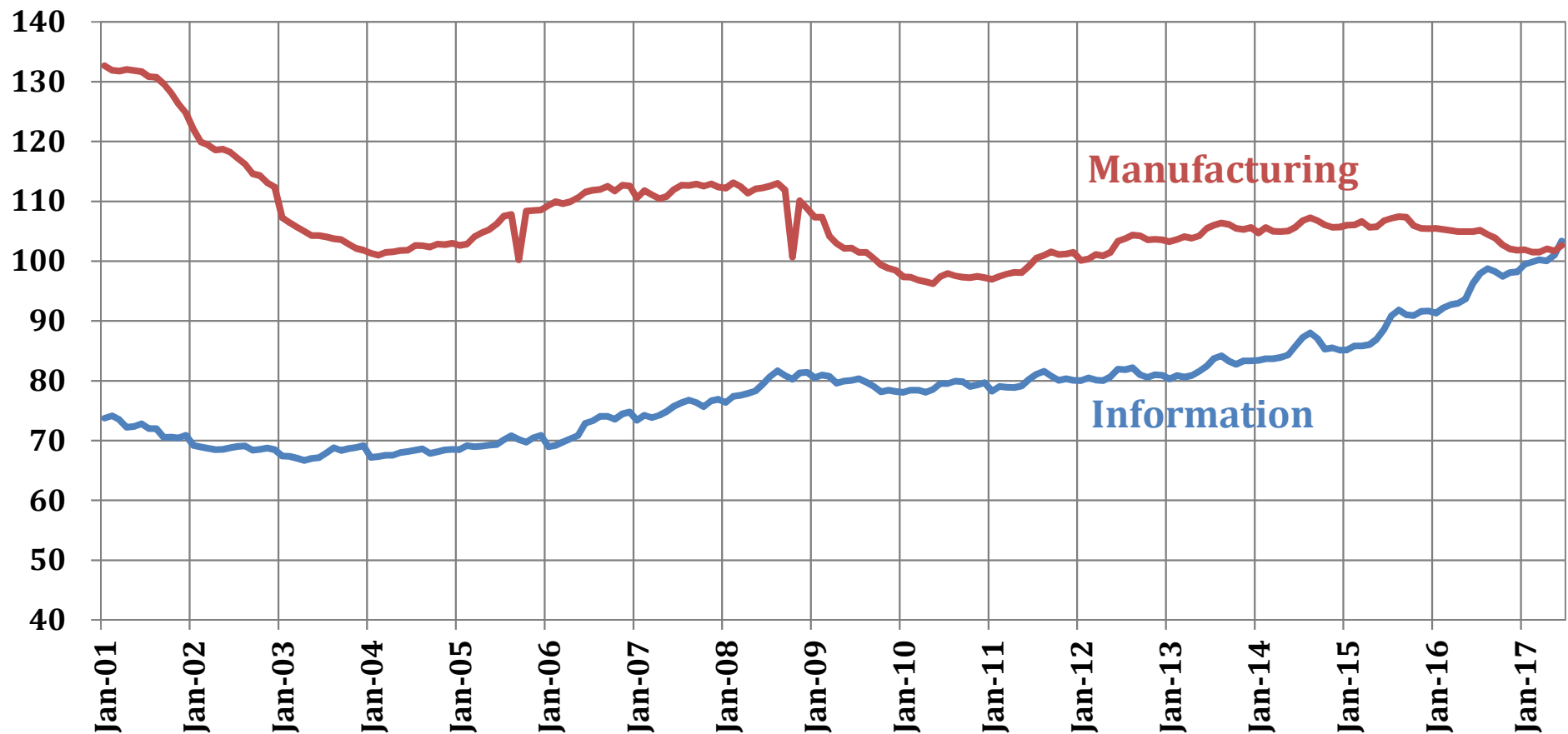
Information employment overtook manufacturing for the first time in 2017



King County Manufacturing and Information Employment

Manufacturing and Information jobs in thousands

Source: Bureau of Labor Statistics



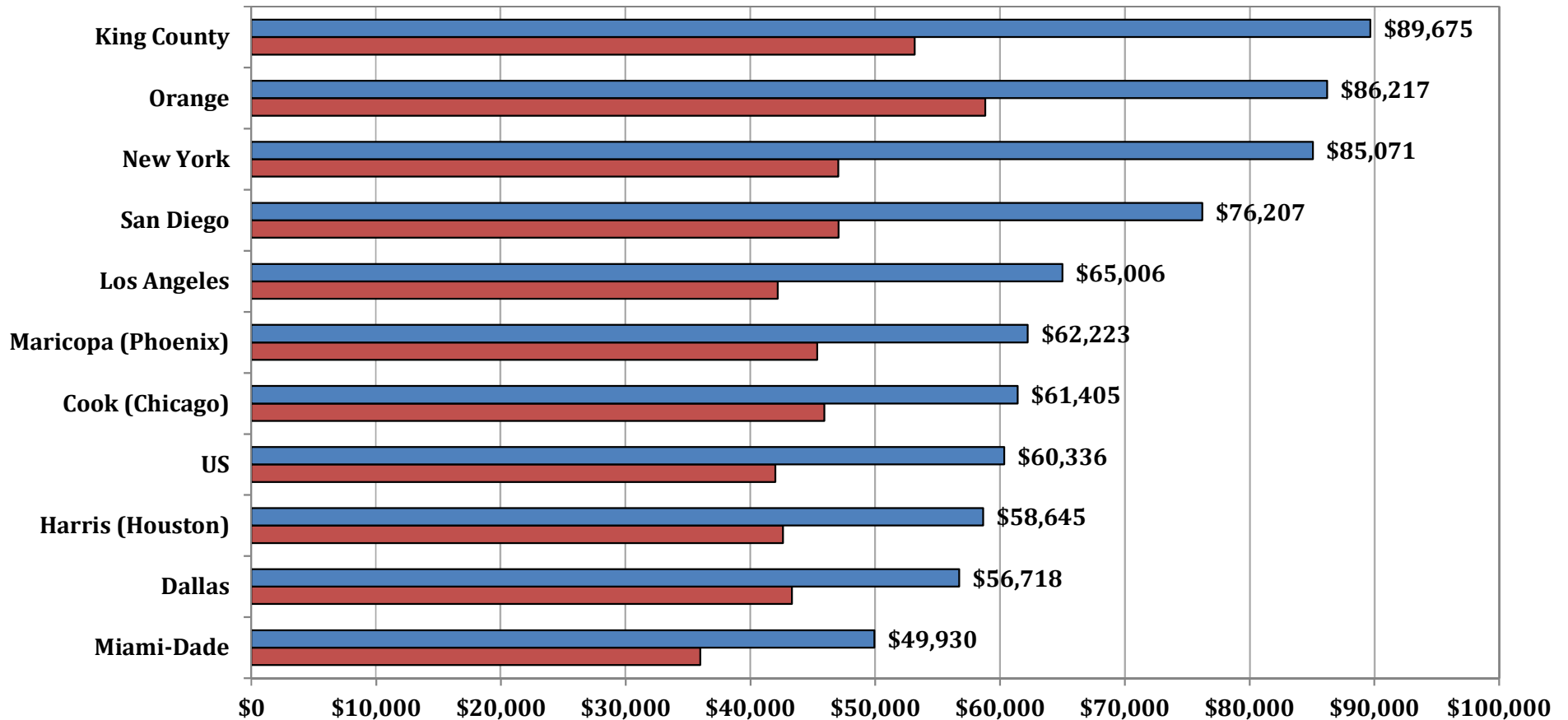
KC has seen strong growth in median household income



Median Household Income - 2000 vs. 2017

US, King County, and Peer Counties

Source: Census, ESD



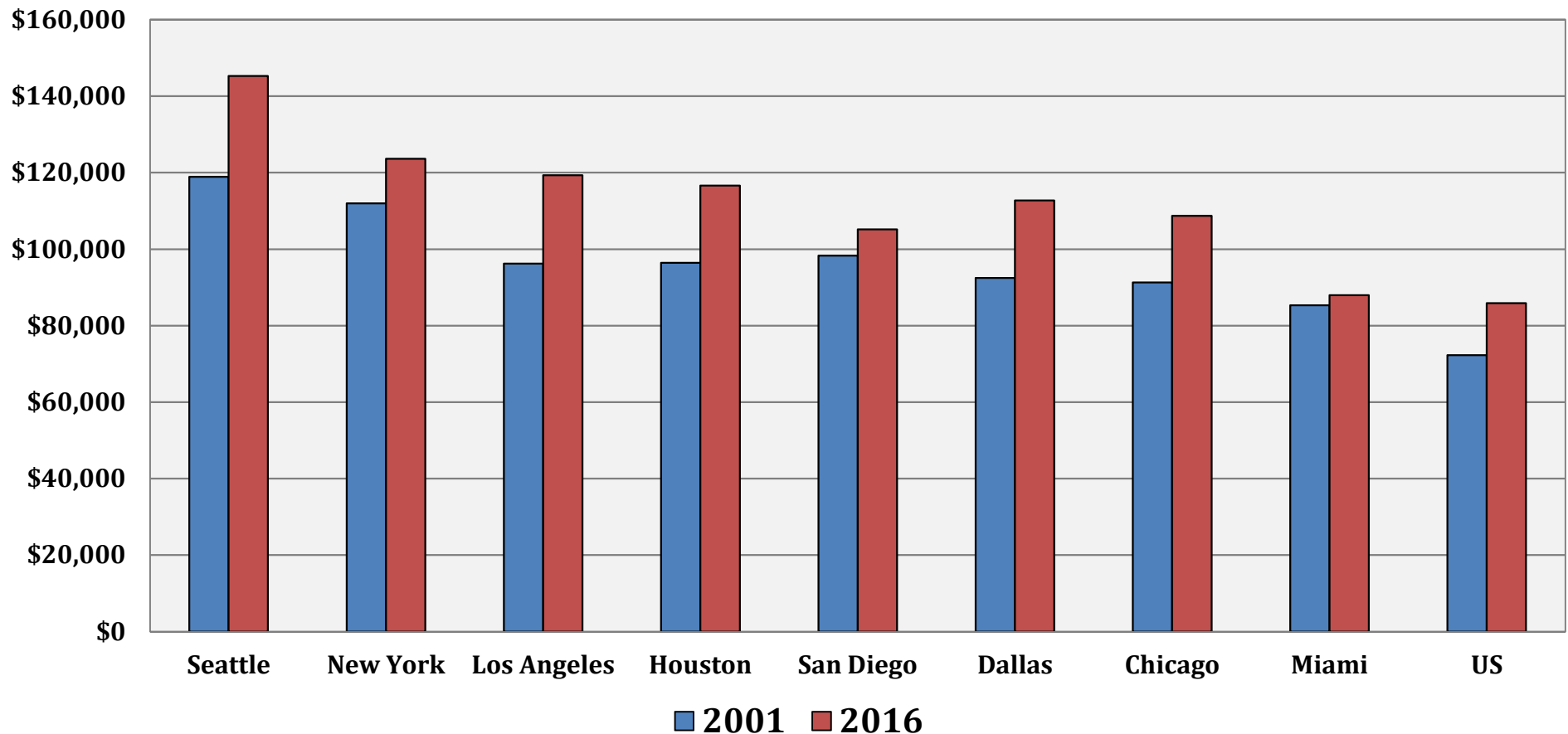
Likely reflecting the productivity of local workers



Real Output per Worker by MSA

2016 values adjusted using MSA specific CPI-U

Source: BEA, BLS



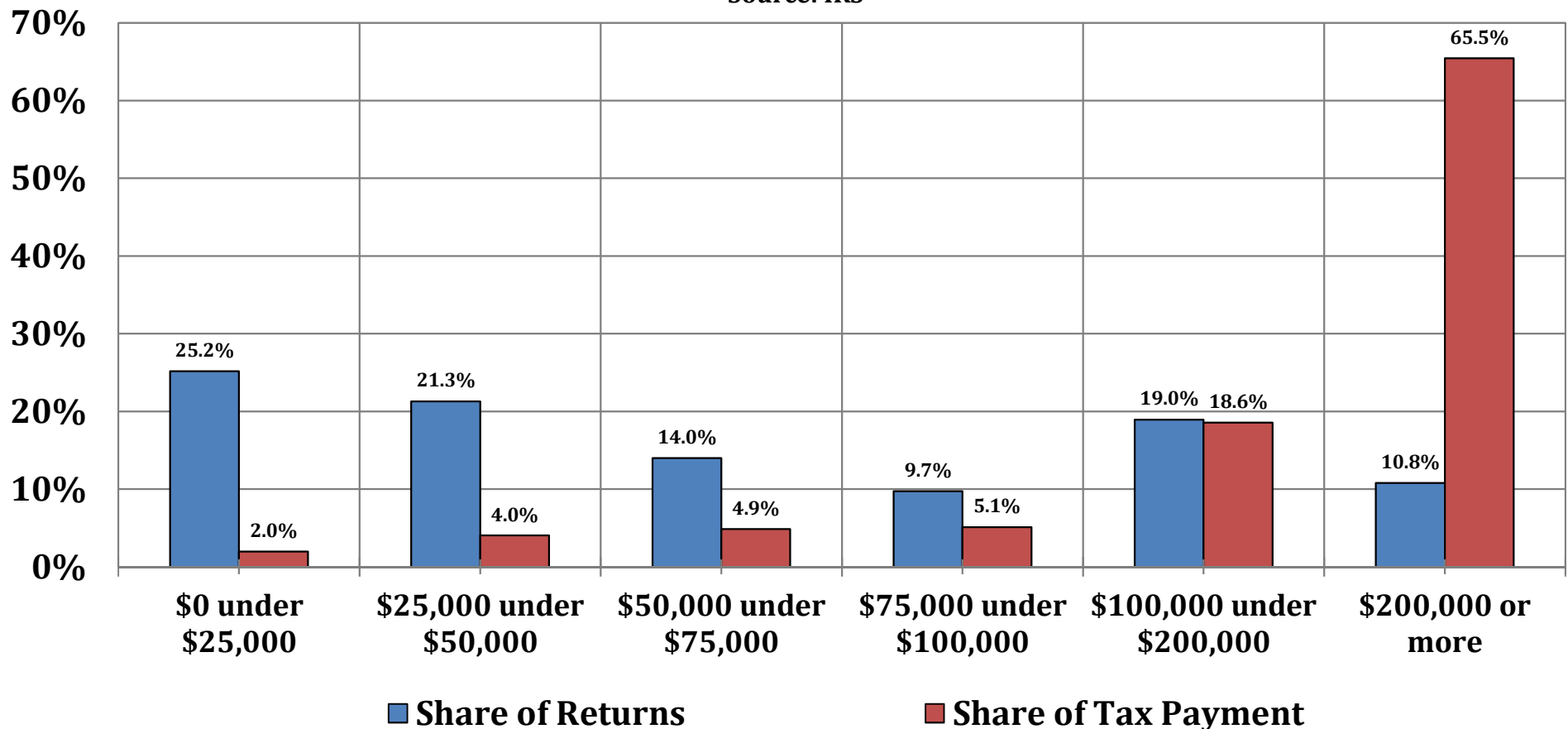
Overall, county income reflects national trends



Income by IRS Tax Filings in King County

Statistics of Income Data (SOI) for King County 2016

Source: IRS



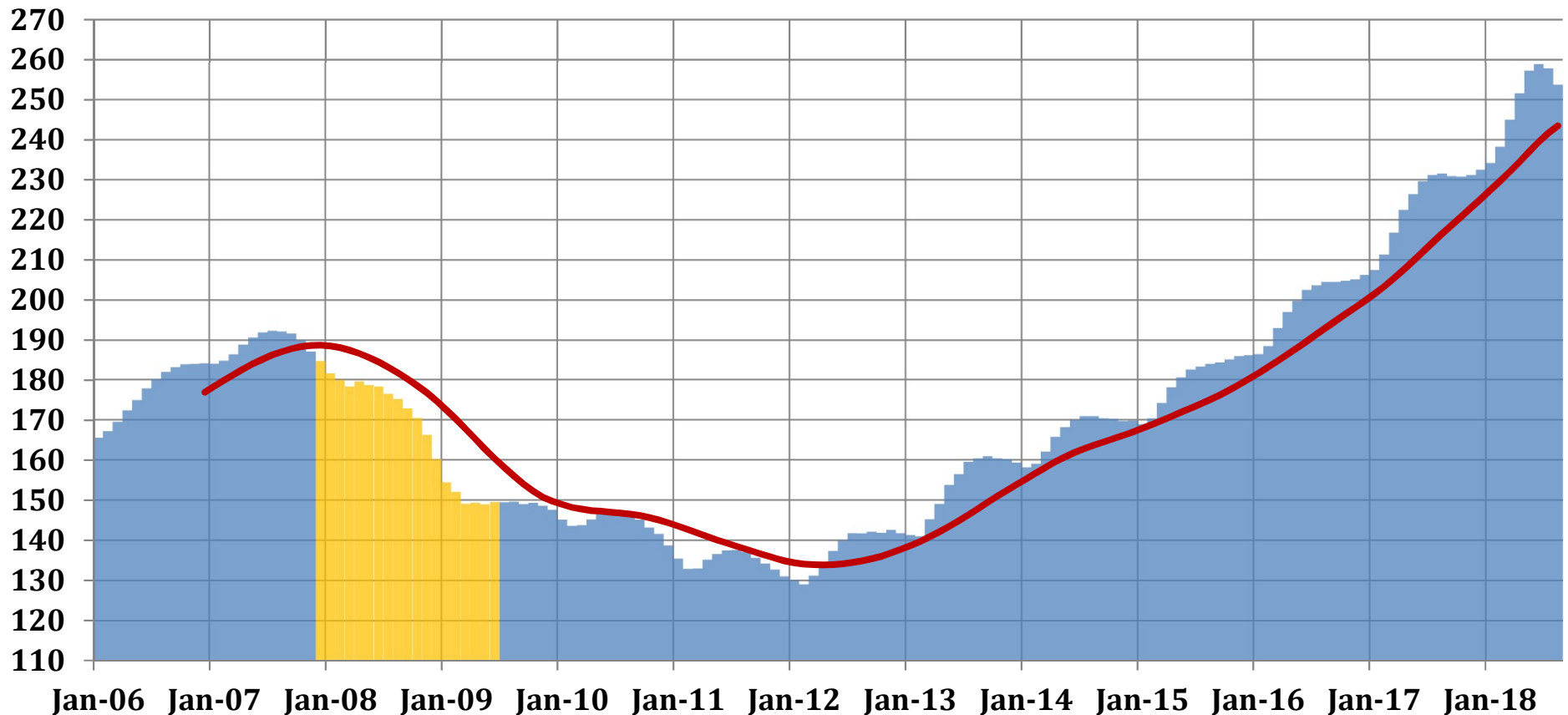
Seattle area home prices reach new highs, though they have slowed of late



Seattle Case-Shiller Index

with recession bars and rolling annual average line

Source: S&P Dow Jones Indices



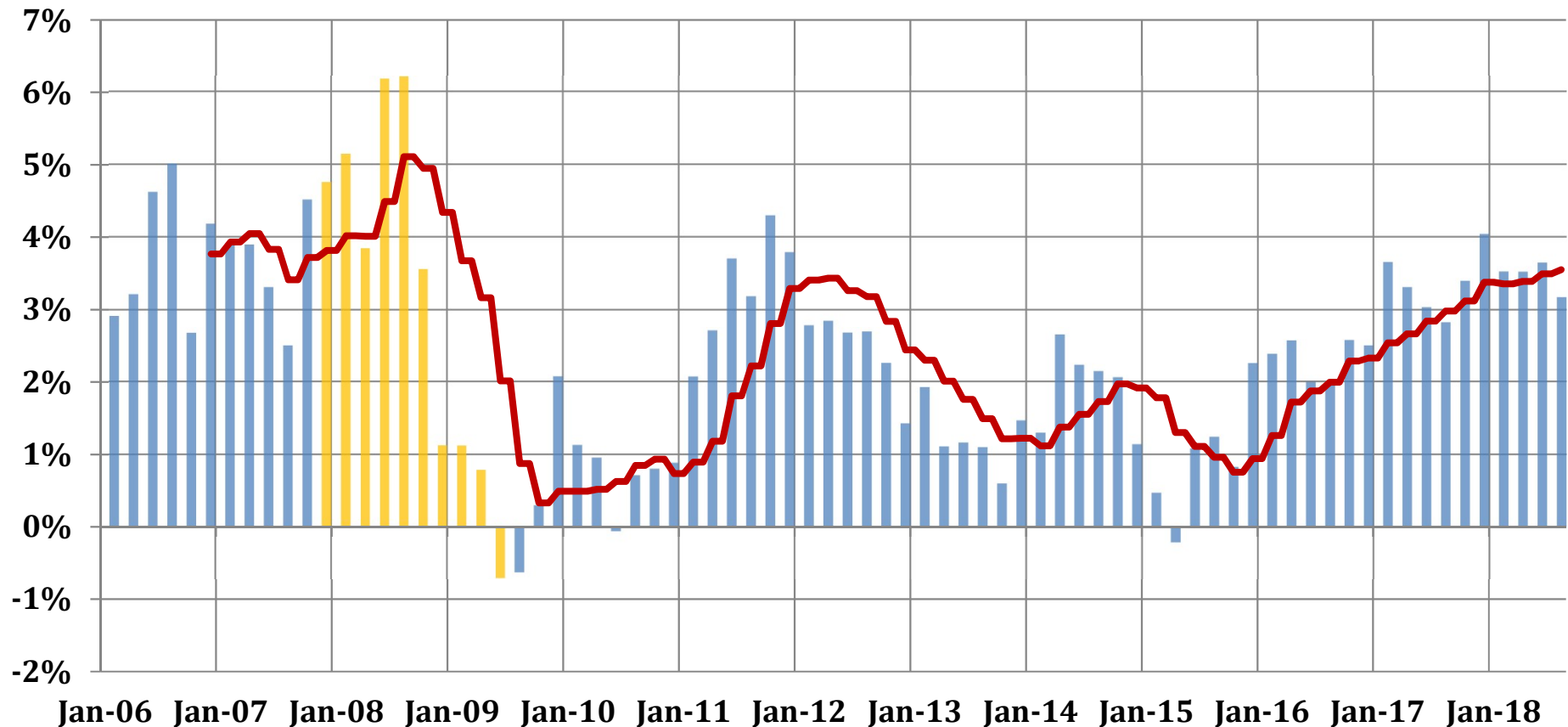
Local inflation has increased in 2018 mostly driven by housing



Seattle CPI-W Annual Inflation

with recession bars and rolling annual average line

Source: Bureau of Labor Statistics



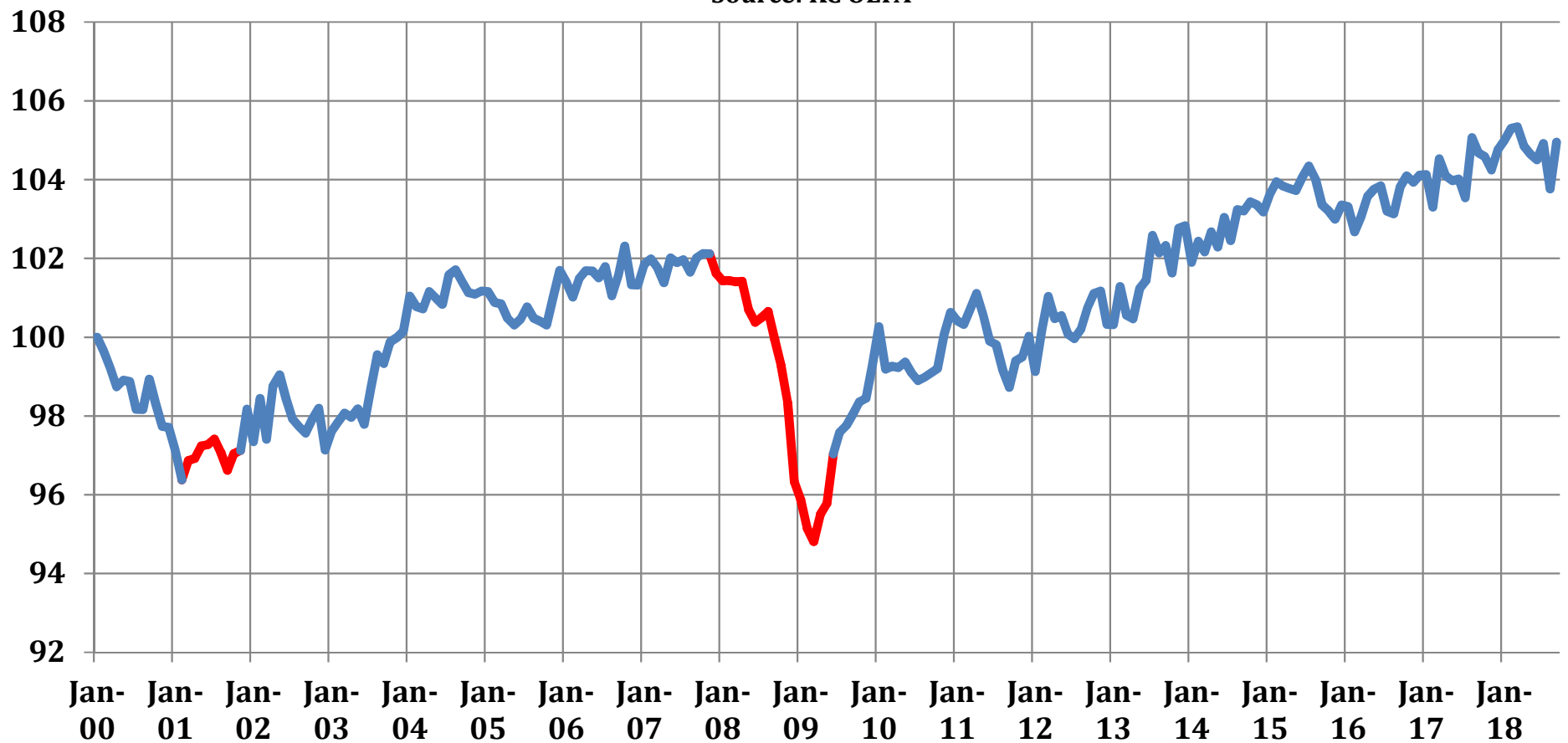
Local economic signals still solid



King County Index of Leading Indicators

Jan 2000=100, with economic contraction highlighted in red

Source: KC OEFA



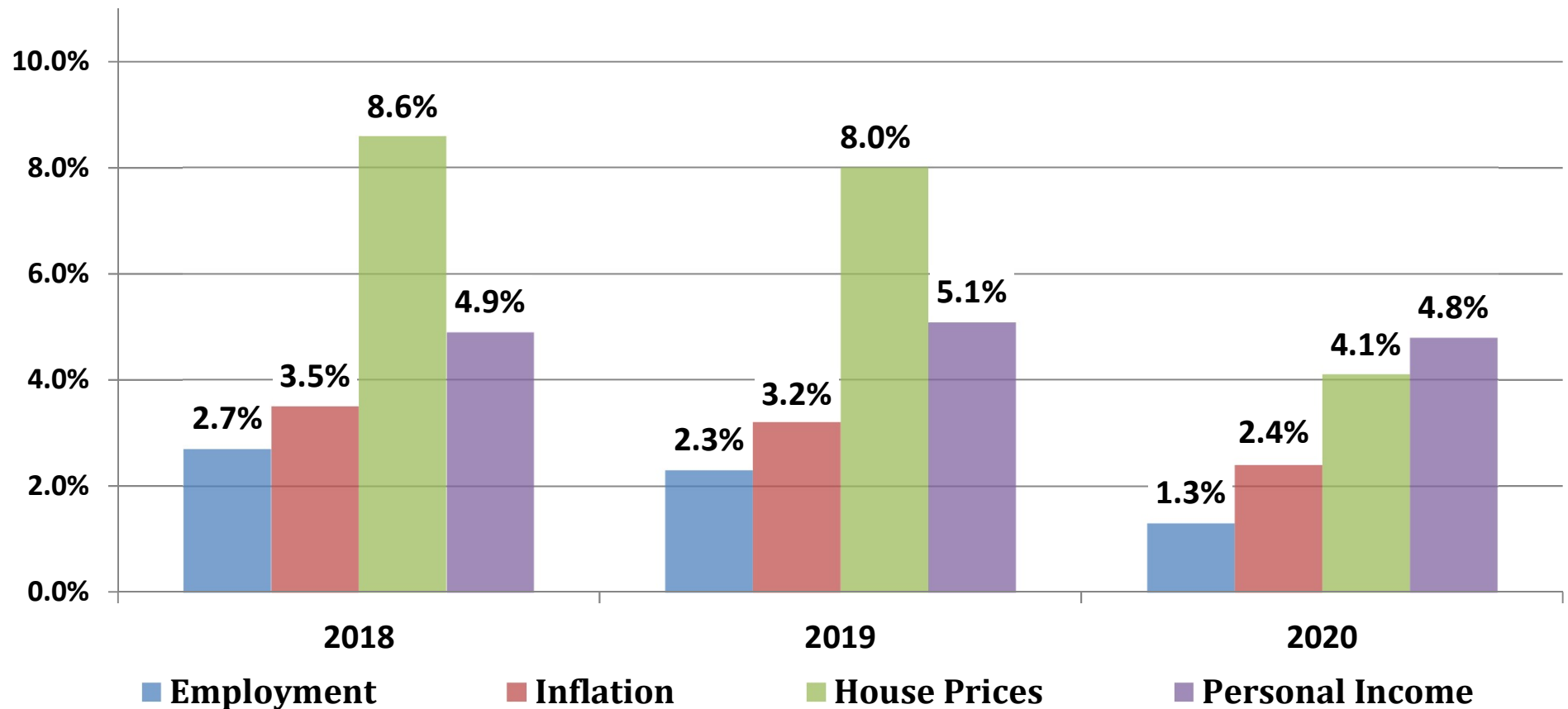
The KC forecast for 2018-2020 calls for growth but at a reduced pace



Employment, Inflation, Housing & Income

Forecast 2018-2020

Source: Q3 2018 King County Forecast Model



Countywide Assessed Value Forecast

Tax Year	Value	Annual Growth	% Change from July 2018 Forecast	\$ Change from July 2018 Forecast
2016	\$426,335,605,836	9.85%	0.00%	\$0
2017	\$471,456,288,020	10.58%	0.00%	\$0
2018	\$534,662,434,753	13.41%	0.00%	\$0
2019	\$597,760,518,060	11.80%	0.57%	\$3,389,097,625
2020	\$646,003,549,173	8.07%	0.43%	\$2,752,253,081
2021	\$684,596,035,903	5.97%	0.16%	\$1,123,150,833
2022	\$719,529,606,162	5.10%	0.03%	\$232,858,396
2023	\$747,211,511,231	3.85%	0.04%	\$295,809,303
2024	\$778,086,063,528	4.13%	0.11%	\$867,723,404
2025	\$814,337,811,484	4.66%	0.19%	\$1,511,551,114
2026	\$844,711,132,706	3.73%	0.05%	\$438,269,006
2027	\$877,909,360,431	3.93%	0.08%	\$720,847,204

King County Taxable Sales Forecast

Tax Year	Value	Annual Growth	% Change from July 2018 Forecast	\$ Change from July 2018 Forecast
2016	\$62,234,630,017	8.02%	0.00%	\$0
2017	\$65,826,124,662	5.77%	0.00%	\$0
2018	\$70,805,382,467	7.56%	0.42%	\$298,167,394
2019	\$73,233,367,085	3.43%	0.08%	\$59,012,958
2020	\$74,593,136,828	1.86%	-0.05%	(\$39,869,470)
2021	\$77,270,204,785	3.59%	-0.16%	(\$127,152,033)
2022	\$80,469,748,248	4.14%	-0.17%	(\$137,250,593)
2023	\$83,095,102,123	3.26%	0.00%	(\$2,563,932)
2024	\$86,499,652,424	4.10%	0.16%	\$135,096,441
2025	\$90,642,432,230	4.79%	0.04%	\$36,723,651
2026	\$93,874,774,163	3.57%	-0.04%	(\$35,354,897)
2027	\$97,225,664,162	3.57%	-0.13%	(\$121,745,418)

The Look Ahead-King County

Lots to be optimistic about, but challenges too:

King County (The Organization)

Structural deficit/taxes

The grey wave

Distressed funds

Environment (politics, climate change, etc.)

King County (The Entity)

Managing growth/QOL

Staying dynamic

Economy for all (housing, income inequality, Best Starts)

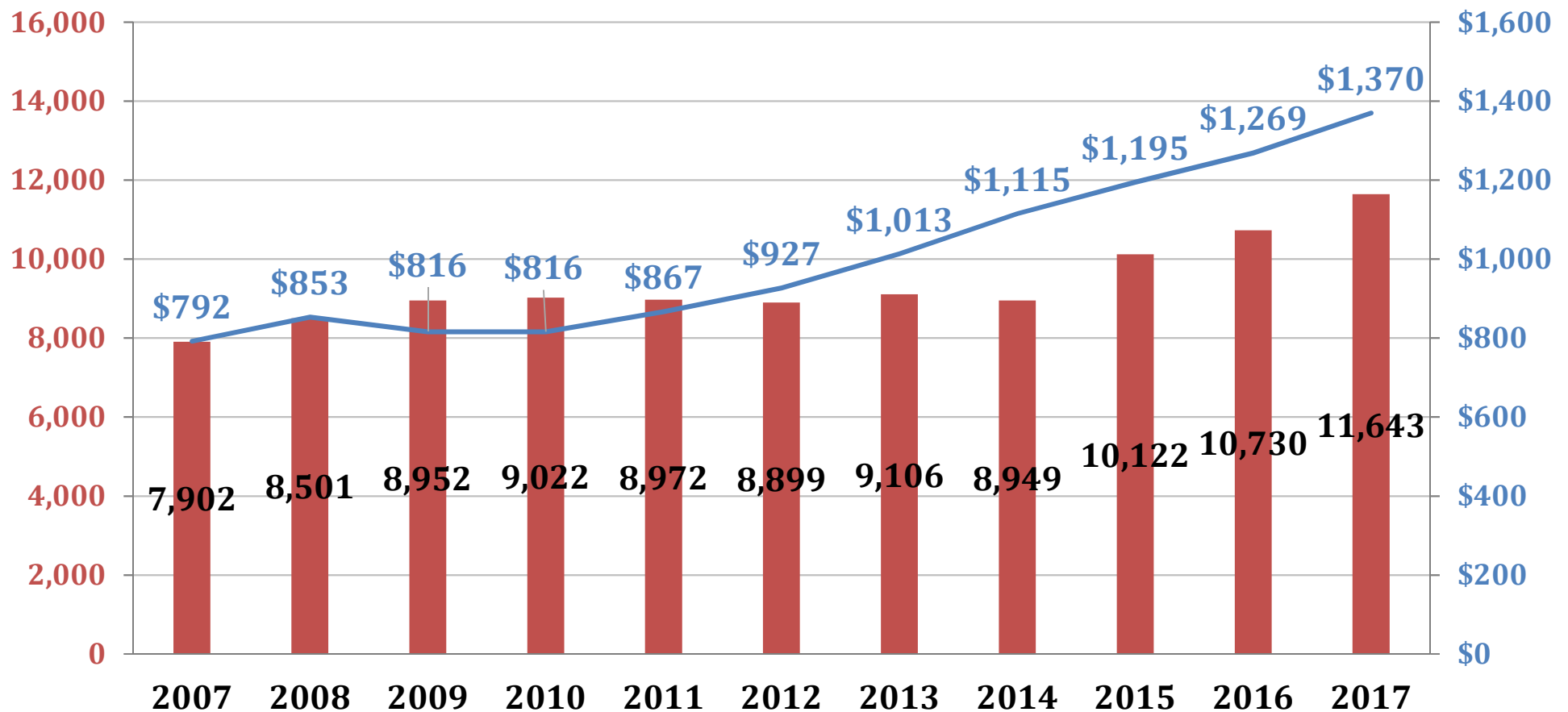
Biggest asset; all of us!

Homelessness continues to challenge our community

King County Homeless PIT Count and King County Average Studio Rent

Average Studio Rent [line] and Point In Time Count [bar]

Source: One Table



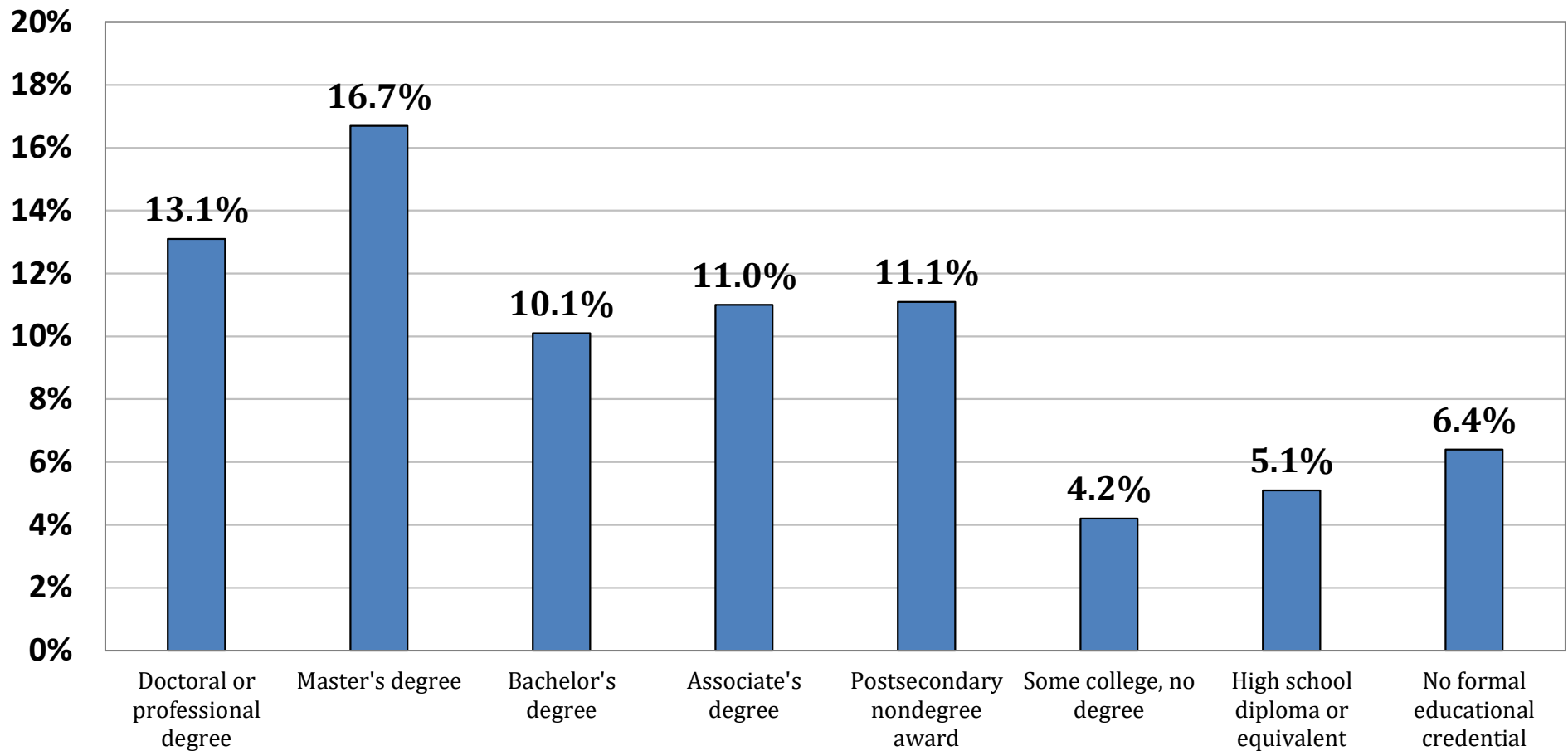
From 2016-2026, U.S. job growth will be highest amongst those with advanced degrees, but...



U.S. Occupational Growth by Educational Attainment

Forecasted employment growth by education from 2016-2026

Source: BLS



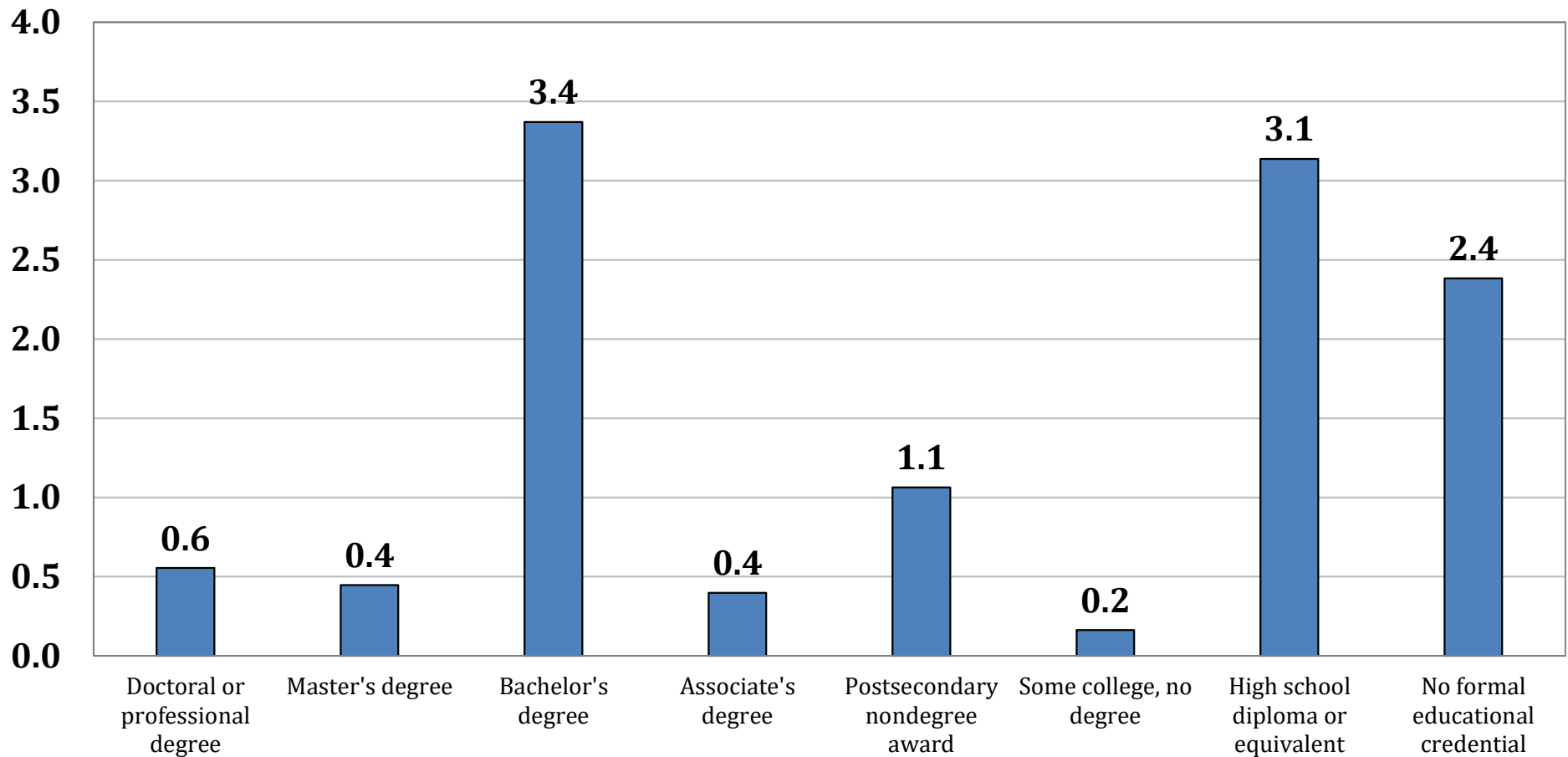
...many new jobs won't require more than a high school diploma



U.S. Occupational Growth by Educational Attainment

Forecasted employment changes by education from 2016-2026, in millions

Source: BLS



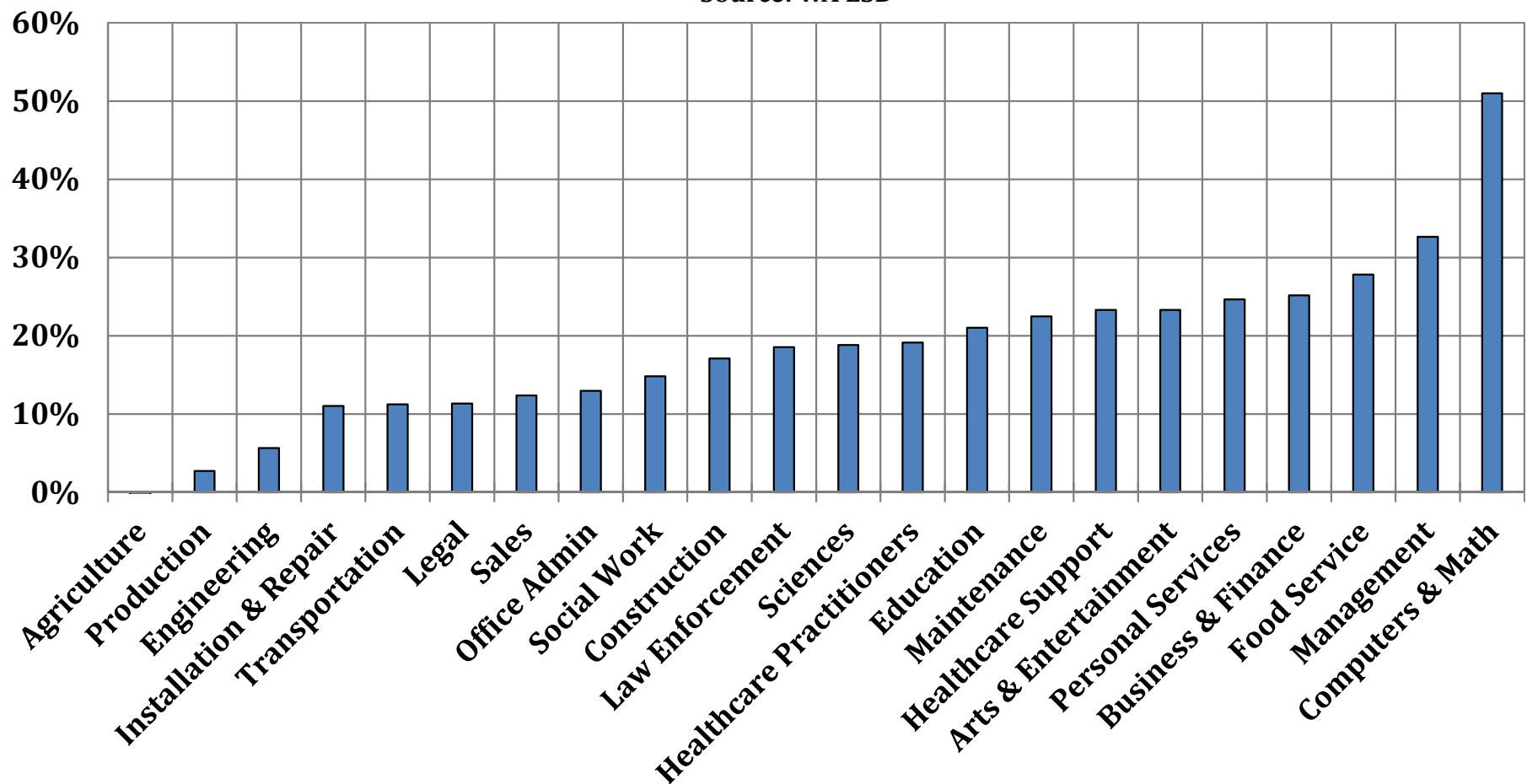
The King County occupational forecast indicates overall good growth...



KC Occupational Forecast Growth

Estimated jobs added from 2016-2026 by type

Source: WA ESD



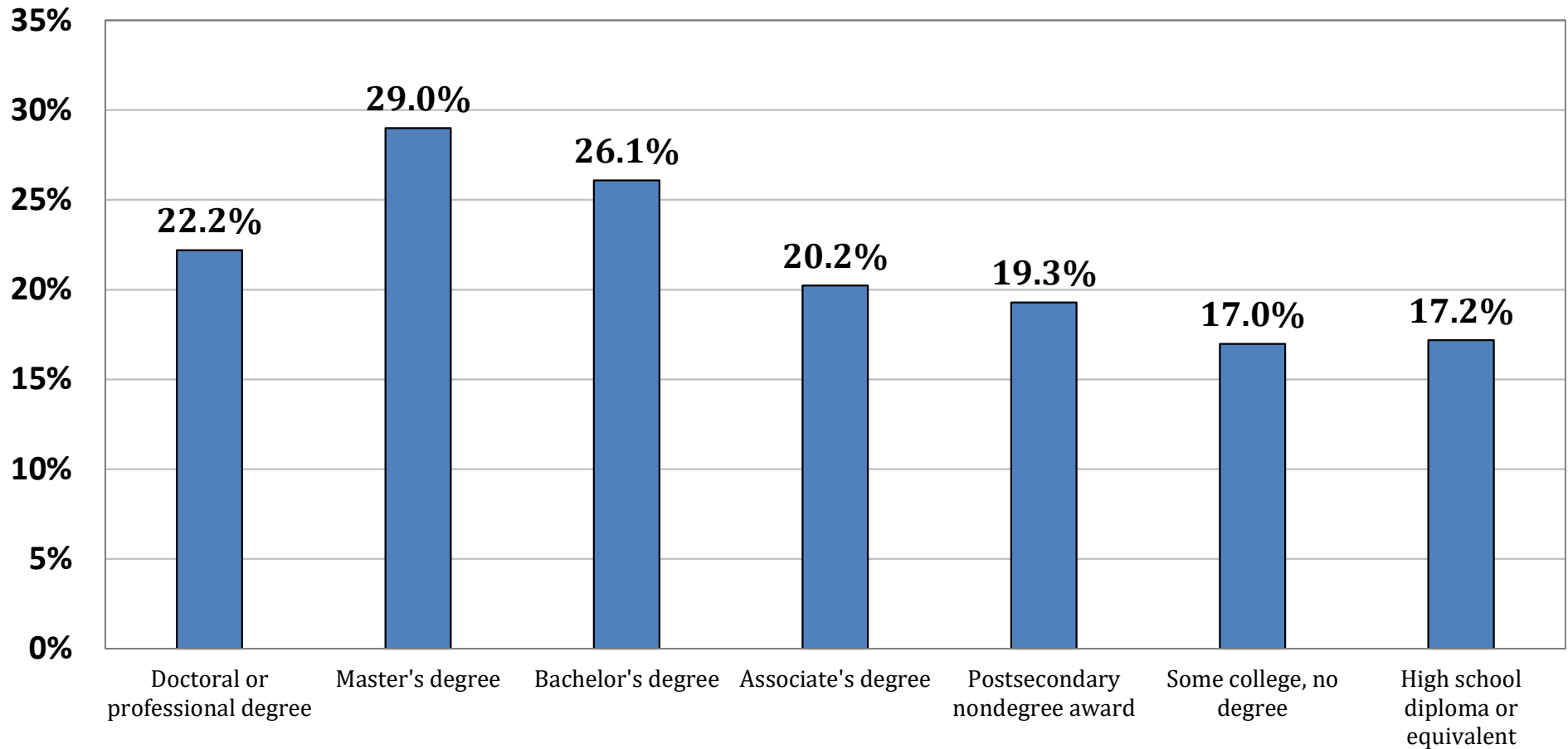
... and a similar trend in terms of job growth by education, but...



KC Occupational Growth by Educational Attainment

Forecasted employment growth by education from 2016-2026

Source: BLS, OEFA calculations



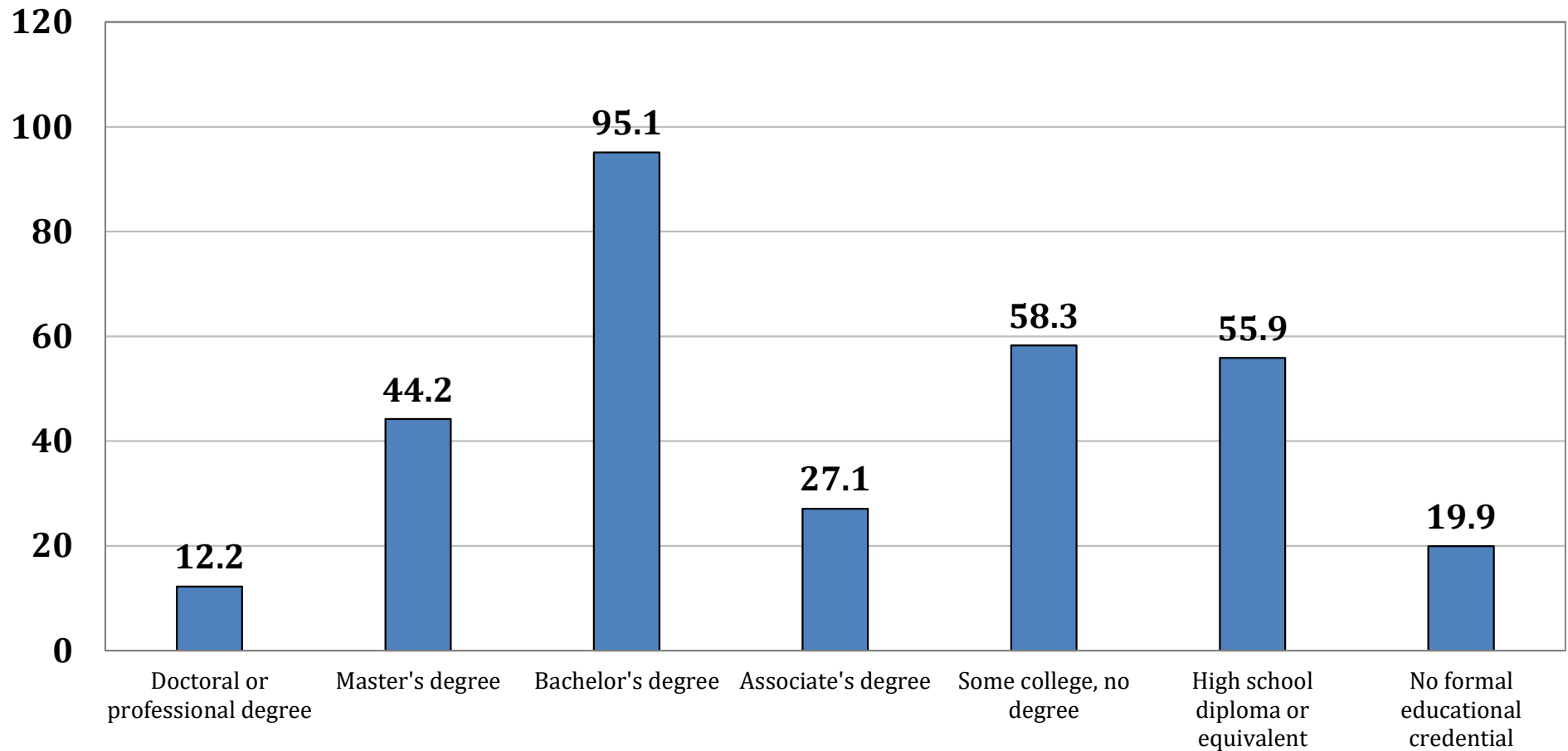
Many more of our future jobs will require at least a Bachelor's degree



KC Occupational Growth by Educational Attainment

Forecasted employment changes by education from 2016-2026, in thousands

Source: BLS



King County Office of Economic and Financial Analysis

<http://www.kingcounty.gov/independent/forecasting.aspx>