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# THE STATE OF WASHINGTON



NFMA Investor Presentation

October 26, 2016

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# September 2016 Economic and Revenue Forecast



## September 2016 Forecast Overview

*The September 2016 Washington Forecast reflects expectations for steady employment gains.*

The Washington economy shows solid growth with employment rising in most sectors.

- Employment gains and lower unemployment claims indicate a strengthening labor market in Washington. After increasing by 2.8% in 2015, Washington employment is expected to again increase by 2.8% in 2016.
- Nominal personal income growth is expected to increase by 4.8% in 2016, averaging 4.9% annually from 2017 through 2020.

Downside risks outweigh upside risks. Risks to the baseline forecast include a slowing global economy, declining exports, and weak productivity growth.

General Fund-State revenue forecast for the

- 2015-17 Biennium has been increased by \$334 million to \$37.765 billion (\$38.482 billion including the Education Legacy Trust Account and Opportunity Pathways Account), 12.2% higher than the previous biennium, and
- The 2017-19 forecast has been increased by \$125 million to \$40.377 billion (\$41.152 billion including the Education Legacy Trust Account and Opportunity Pathways Account), a biennial growth rate of 6.9%.



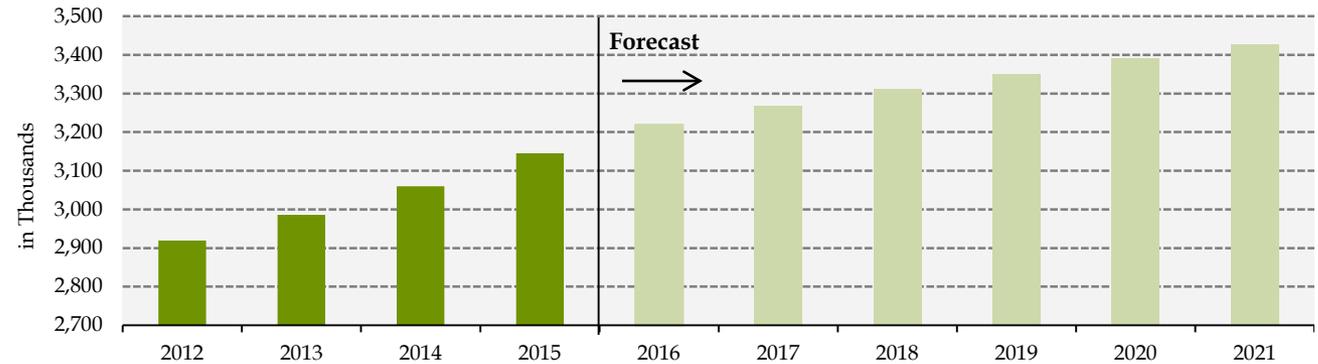
## Employment and Income

*The State's unemployment rate was 5.7% in August, up from 5.6% in August 2015.*

*The August Seattle area unemployment rate was 4.1%.*

*Washington personal income grew by 4.7% in 2015, significantly faster than the national average of 4.4%. Growth is expected to increase to 4.8% (SAAR) in 2016.*

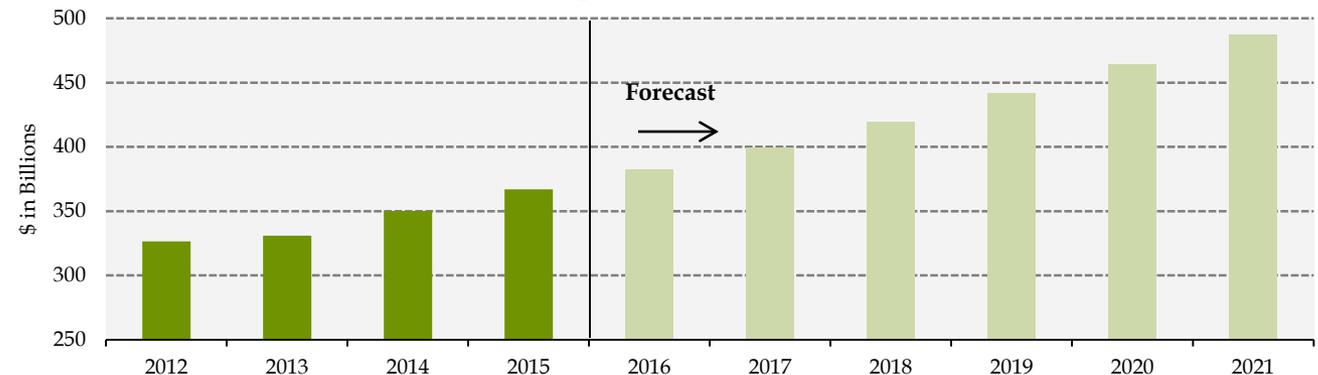
Washington Nonfarm Payroll Employment



Source: ERFC September 2016 Forecast; historical data through 2015

- Employment is expected to grow by 2.8% in 2016.

Washington Personal Income



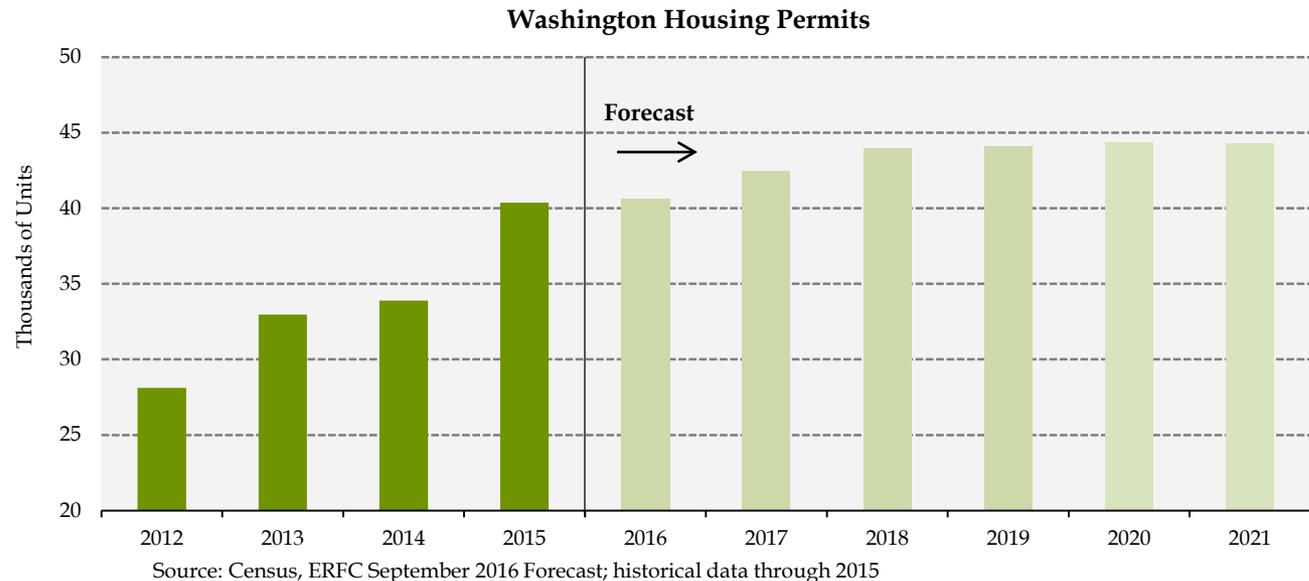
Source: BEA, ERFC September 2016 Forecast; historical data through 2015



## Housing Sector and Inflation

*The June Case-Shiller home price index for Seattle is 11.0% higher than a year ago and 50.0% higher than the November 2011 trough.*

- Housing permits increased to 45,300 units (SAAR) in the second quarter from 37,600 units in the first quarter of 2016. Housing permits are expected to increase by 1.5% in 2016.



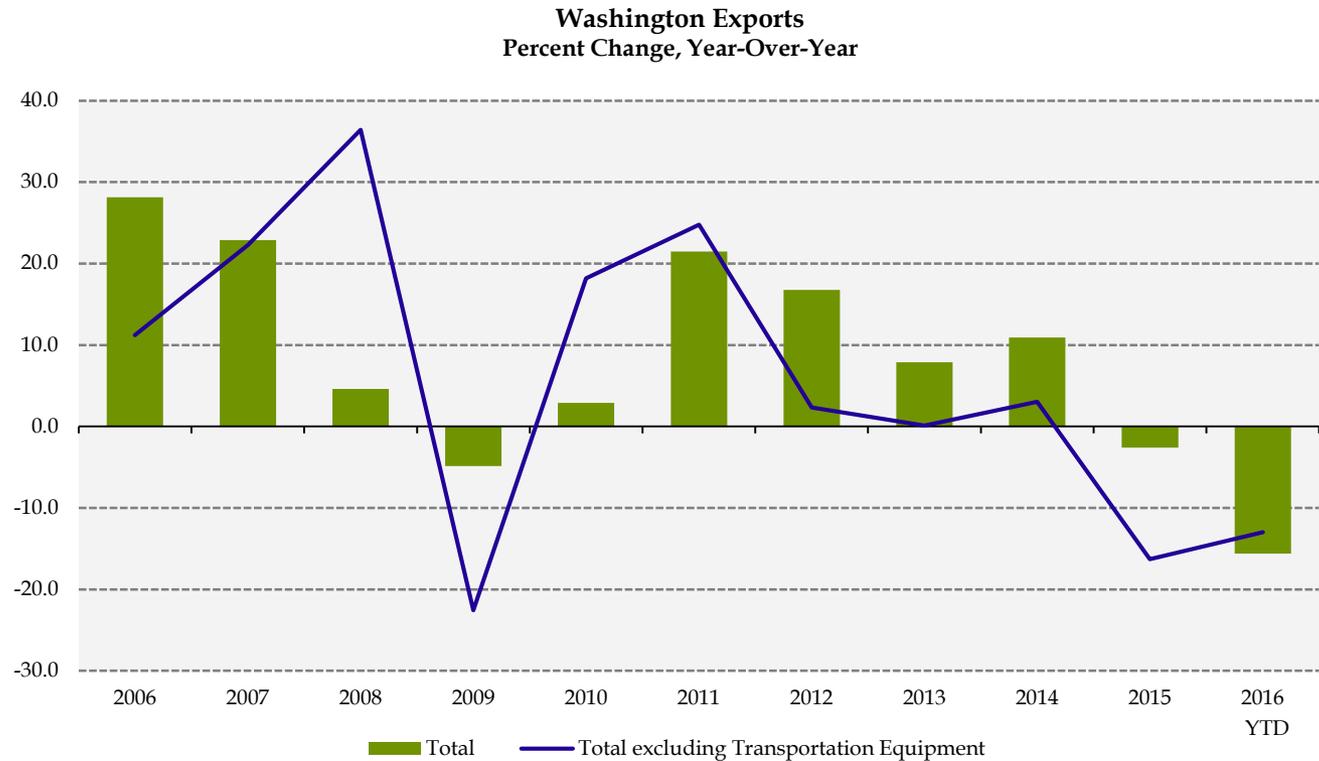
- Seattle area consumer price inflation was reported at an annual rate of 2.1%, above the U.S. average. Higher Seattle inflation is largely due to shelter costs, which increased by 6.1% over the year compared to 3.4% for the nation.



# Washington Exports

*Exports declined by 8.3% in the second quarter of 2016 compared to the same period last year, likely reflecting the impact of a stronger dollar and a slowing global economy.*

- Transportation equipment exports (mostly Boeing planes) for the first half of 2016 decreased by 13.2% compared to the same period in 2015; all other exports declined by 9.8%.



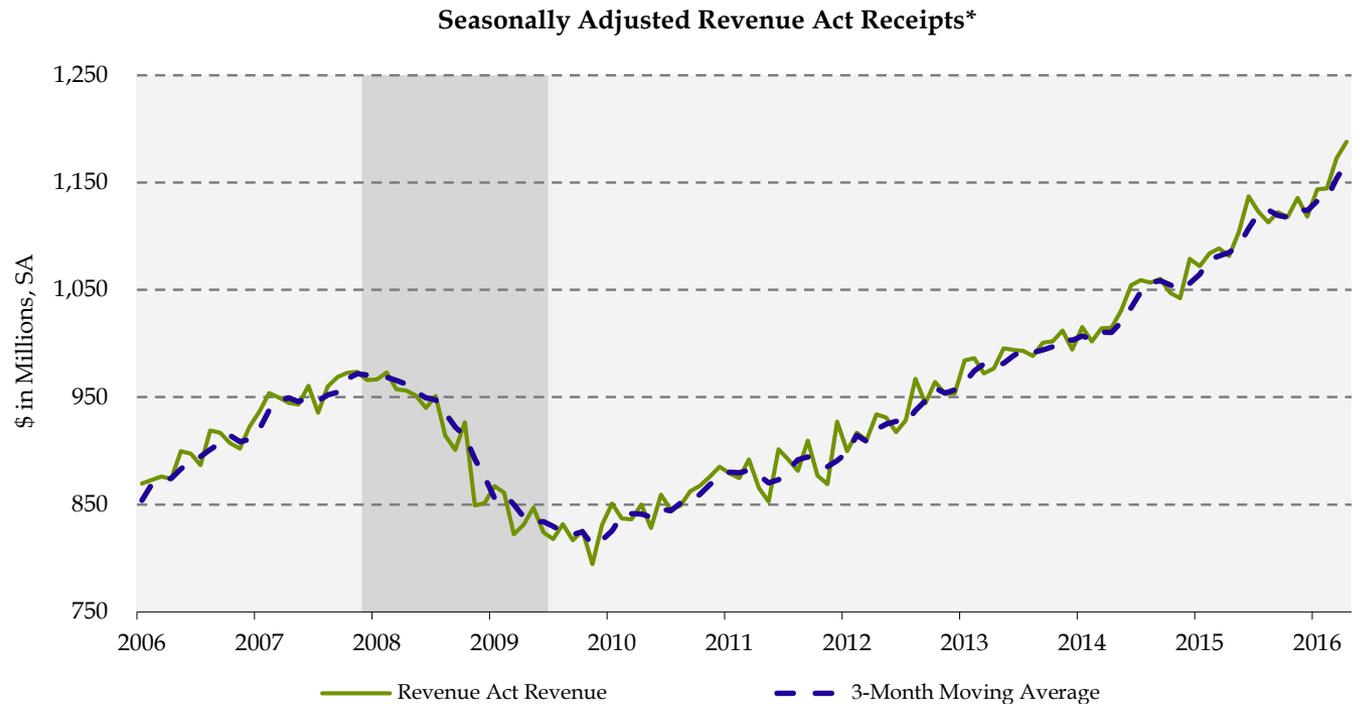
Source: WISER Trade Data; data through June 2016



## Revenue Collection Performance

*Growth in seasonally adjusted Revenue Act collections was 8.2% in the second quarter and 10.1% in the third quarter (preliminary).*

- September collections included \$127 million in large audit payments.
- October collections increased by 6.8% Y-O-Y (preliminary).



\*Current definition, adjusted for large payments/refunds and timing of payments  
Source: DOR, ERFC; Monthly data through October 2016 collections



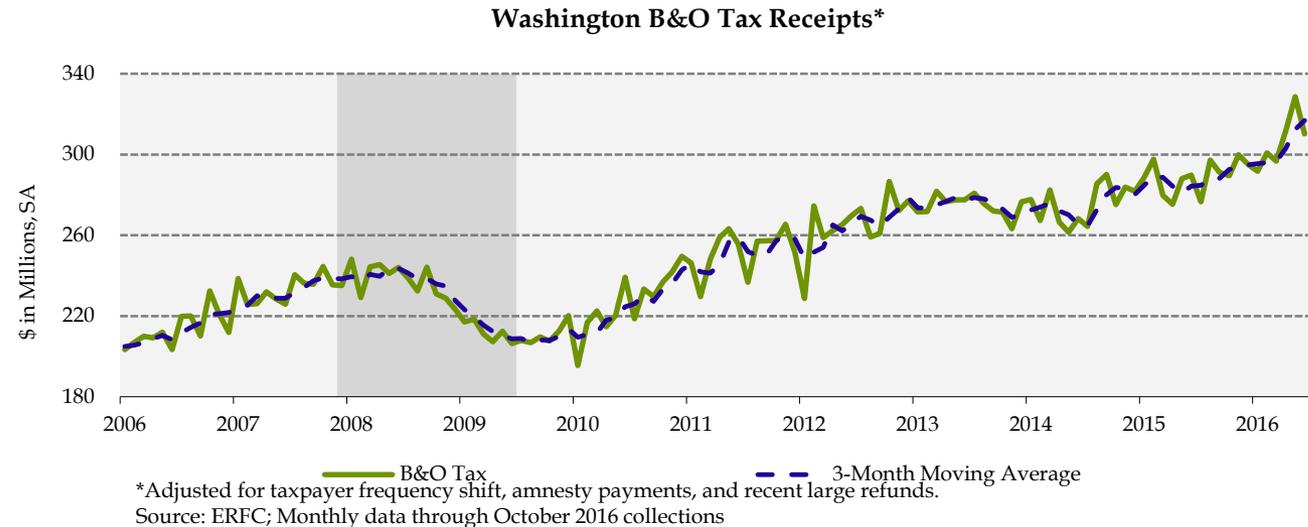
## Retail Sales Tax and B&O Receipts

*Adjusted sales tax collections were up 6.4% Y-O-Y in the 2<sup>nd</sup> quarter and 8.9% in the 3<sup>rd</sup> quarter (preliminary).*

*Sales tax growth has been boosted by construction activity and auto sales.*

*Adjusted B&O tax collections were up 11.3% Y-O-Y in the 2<sup>nd</sup> quarter and 7.1% in the 3<sup>rd</sup> quarter (preliminary).*

*Slightly higher oil prices have helped B&O tax growth.*





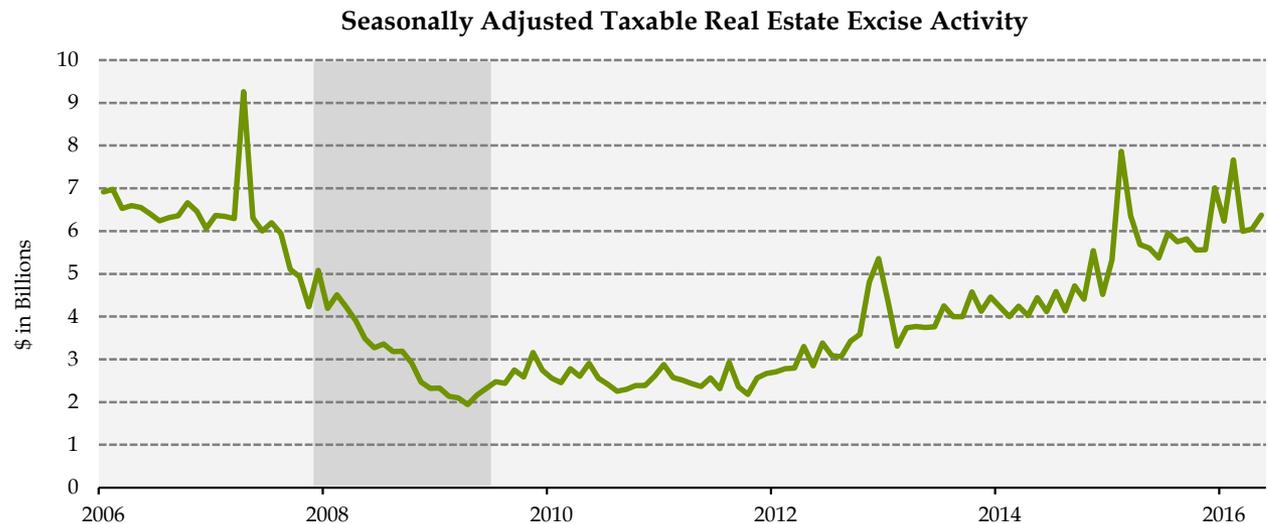
## REET Activity and Property Taxes

*Growth in State property tax is limited by law.*

*While large commercial property sales have caused spikes in taxable activity, underlying residential sales have shown strong growth due to rising prices.*

*Large commercial property sales are expected to decrease from recent elevated levels .*

- Growth in the amount of State property tax is limited to the lesser of 101%, or 100% plus inflation , with an additional amount associated with new construction.
  - Property taxes grew by 2.1% in FY16 to \$2.0 billion and are forecasted to grow by 2.2% in FY17.
- REET receipts grew by 19% in FY16, due mainly to a surge in large sales of commercial property. FY17 receipts are expected to slow but have been increased compared to the June forecast.

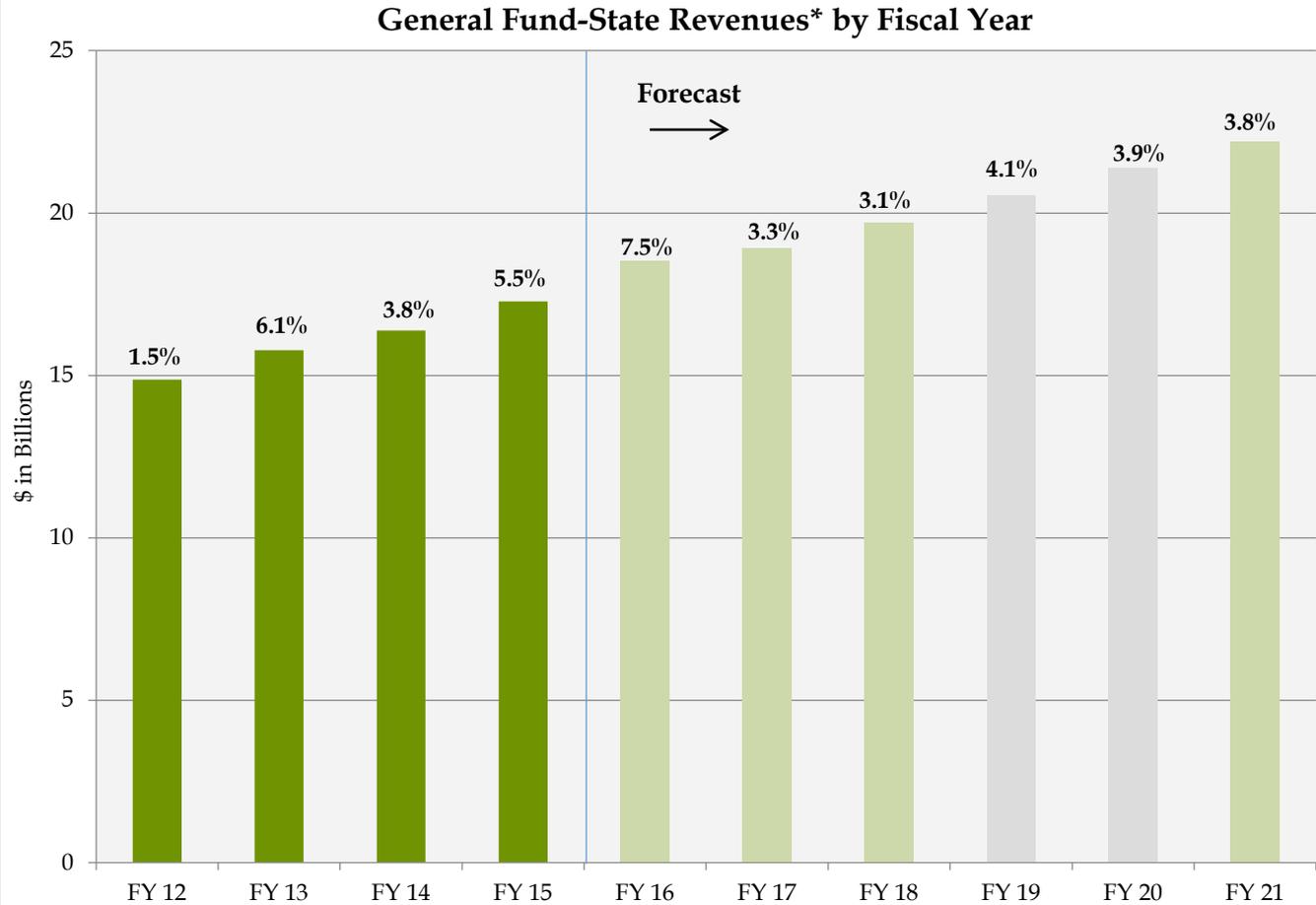


Source: ERFEC; Monthly data through September 2016 collections



# Forecasted Revenue

*The September Forecast adds \$334 million to General Fund-State revenues in the 2015-17 Biennium and \$125 million to the 2017-19 biennium.*



\*General Fund-State new definition for FY 10-17  
Source: ERFC September 2016 Forecast