

# **Office of Economic & Revenue Forecasts**

## **Revenue Monitoring Report**

### **First Quarter 2022**

**Ben Noble & Jan Duras**

**June 2022**



## 1. Introduction

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**Structure and Schedule of Quarterly Revenue Reports.** This represents the first of four quarterly revenue reports that Office of Economic and Revenue Forecasts (Forecast Office) will provide in 2022. Going forward, these reports will be completed approximately two weeks after the close of the quarter, and report cash payments made during the previous three months. The one exception to this timing will be the fourth quarter, year-end report. Payments for certain significant tax sources, including retail sales, B&O and payroll taxes are made on a delayed basis, and the City awaits the final payments for November and December before closing its books for the year. As a result, the fourth quarter, year-end report cannot be finalized until late February or early March.

The goal of these reports is to track actual revenue receipts relative to the levels anticipated by the most recent forecasts prepared by the Forecast Office. In this case, actual first quarter revenues are reported relative to the forecast approved by the City's Economic and Revenue Forecast Council on April 8<sup>th</sup> of this year. From a General Fund perspective, this updated forecast increased anticipated 2022 revenues by approximately \$25 million, and we are now tracking to the increased total. As detailed in the body of the report, a relatively small share of overall revenues is generally received in the first quarter, so it is too soon to draw any firm conclusions relative to any specific year-end benchmark.

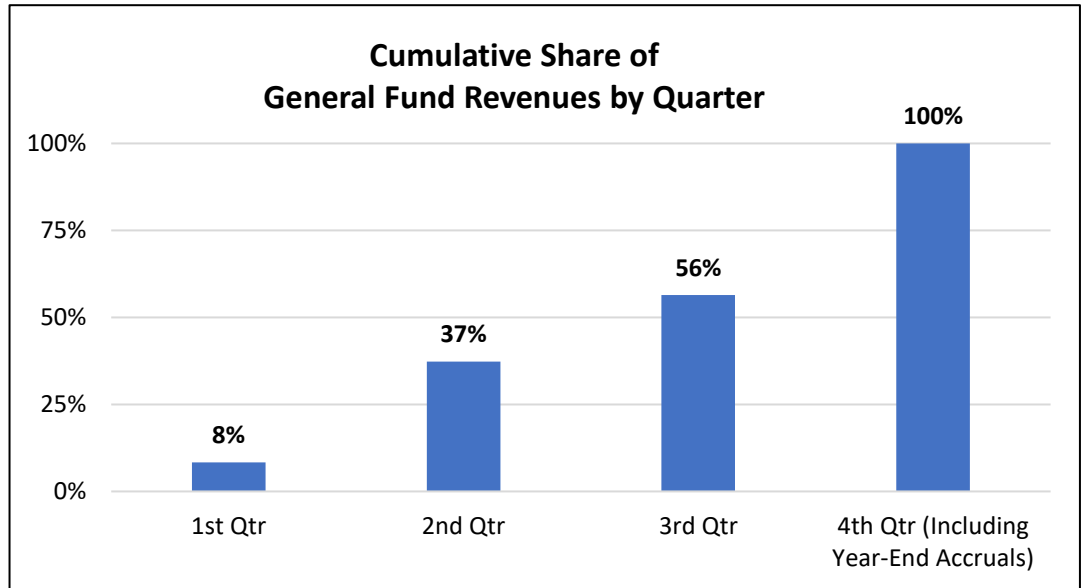
The overall report is structured as follows: Section 2 provides an overview of overall General Fund revenues, and detailed analyses of the four largest contributors to General Fund revenues (Property, Retail Sales, B&O, and Utility taxes), as well as specific information regarding Real Estate Excise taxes and the Payroll Expense tax. Section 3 includes a comprehensive accounting of all General Fund revenue sources, as well as additional detail regarding ten of the most significant non-General Fund resources.

Tracking and comparisons are done relative to the share of the annual total that is typically seen for each revenue stream by the end of the first quarter. At present, we are using the average share of revenues collected in each quarter of 2018 and 2019 as our "historic pattern" of payments. Detailed information is not readily available before that date because the City shifted to a new accounting system in 2018, and the timing of tax payments in both 2020 and 2021 was significantly disrupted by the COVID pandemic. The narrative in the report includes observations and explanations for situations in which realized revenues differ significantly from the historic pattern.

**Timing of GF Revenue Payments.** Although one might naively expect that roughly 25% of annual revenues are received each quarter, the actual pattern for individual revenue sources and the GF as a whole differs significantly from this expectation, with payments significantly tilted toward the latter portion of the year.

The chart below illustrates this point by showing what share of annual GF revenues are collected by the end of each quarter. The primary explanation for the skewed pattern of payments seen here is that most of the tax revenues received in January and

February are not for current tax liabilities, but rather represent delayed payments for taxable activity that occurs in November and December of the previous year. The City's financial books



for the previous year are not closed until late February so that these delayed payments can be “accrued” back to the previous year. In addition to the impact of accruals, the schedule of required payments for significant sources including both property and B&O taxes shifts revenue out of the first quarter and toward the remainder of the year.

The specific timing of payments and the accruals for each of the GF’s major revenue sources is discussed later in this report, but the overall effect is captured in the chart above. At end of the first quarter, the City generally receives just 8% of the annual GF revenues, so it is very hard to draw any conclusions about the overall trajectory of revenues from the first quarter results. Moreover, in October, when the Forecast Office develops its final forecast of current-year revenues, the City has still only received about 56% of the GF’s annual total. This latter point has a significant impact on the City’s ability to manage its overall finances because this means that during the fall budget process the Mayor and Council are making critical decisions about how to allocate resources from the current year and next with limited information about how even current year revenues are actually performing.

## 2. Total General Fund Revenues and Highlights of Major Revenue Sources

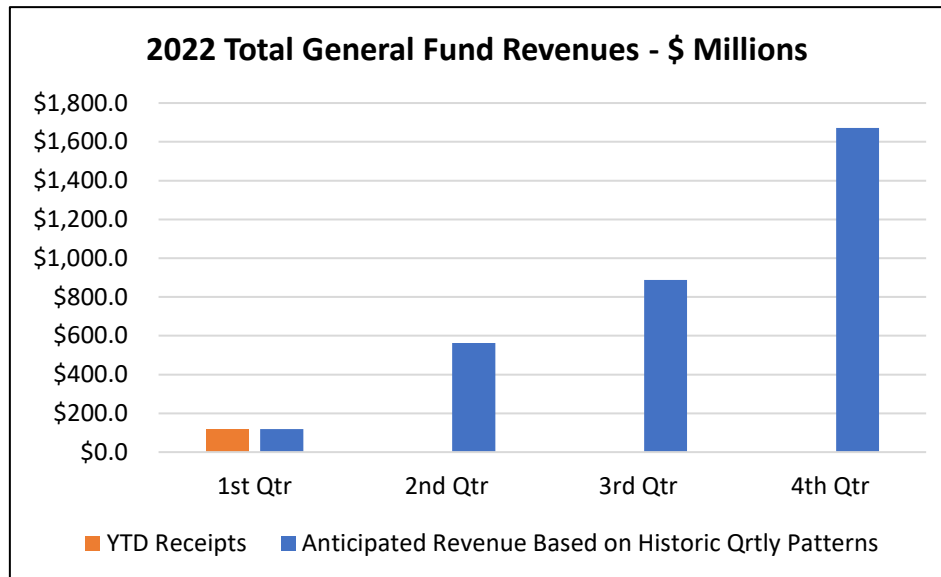
### 2.1 Total General Fund Revenues

The chart and table below highlight the revenues received through the end of March from all sources that contribute to the General Fund (GF).

As was noted above, there is a significant delay between when transactions occur and when tax payments are due for many of the City's most significant revenue sources.

The early results for this year are generally consistent with the pattern discussed above. As shown here, actual year-to-

date GF receipts totaled \$115.8M as of March 31<sup>st</sup>. This represents about 7% of the total \$1.67 Billion that is anticipated under the revised forecast presented in April of this year. The first quarter total is \$3 million less than we would have expected if we took the current 2022 annual forecast and allocated it across the year based on recent quarterly patterns. Given that a variety of factors can influence the timing of tax payments from quarter to quarter, and this minor difference is not an issue of concern at this point.

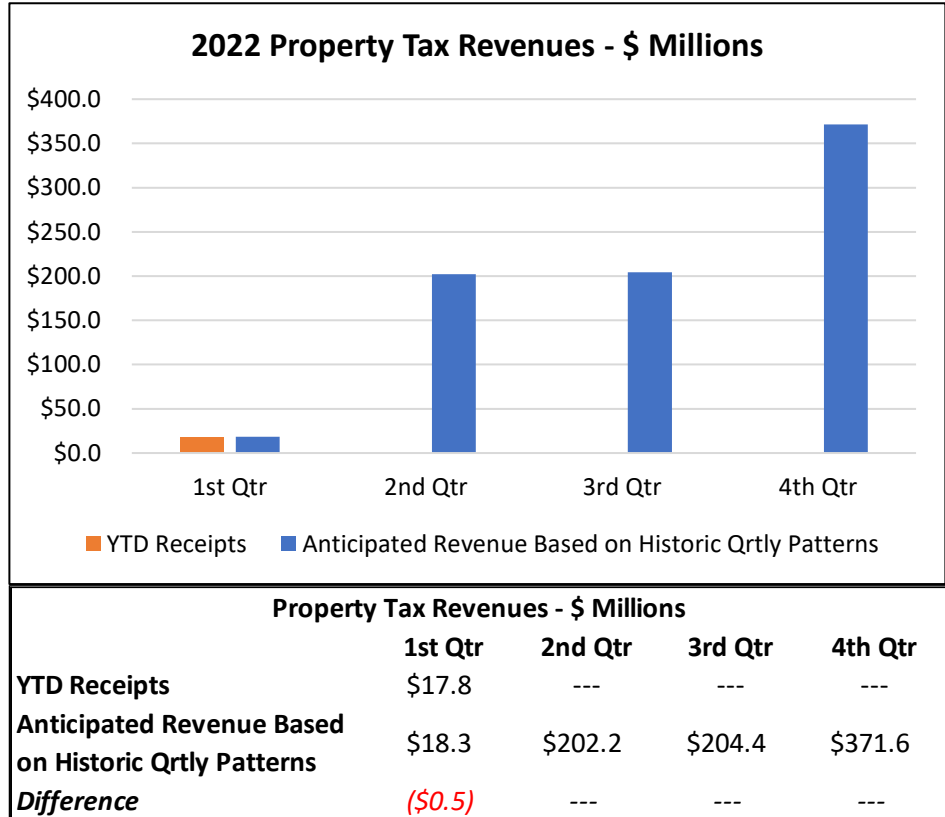


	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
<b>YTD Receipts</b>	\$115.8	---	---	---
<b>Anticipated Revenue Based on Historic Qrtly Patterns</b>	\$118.8	\$563.4	\$888.3	\$1,671.4
<b>Difference</b>	<i>(\$3.0)</i>	---	---	---

The charts that follow provide additional detail about the GF's largest revenue streams, and those that are among the most sensitive to changing economic conditions.

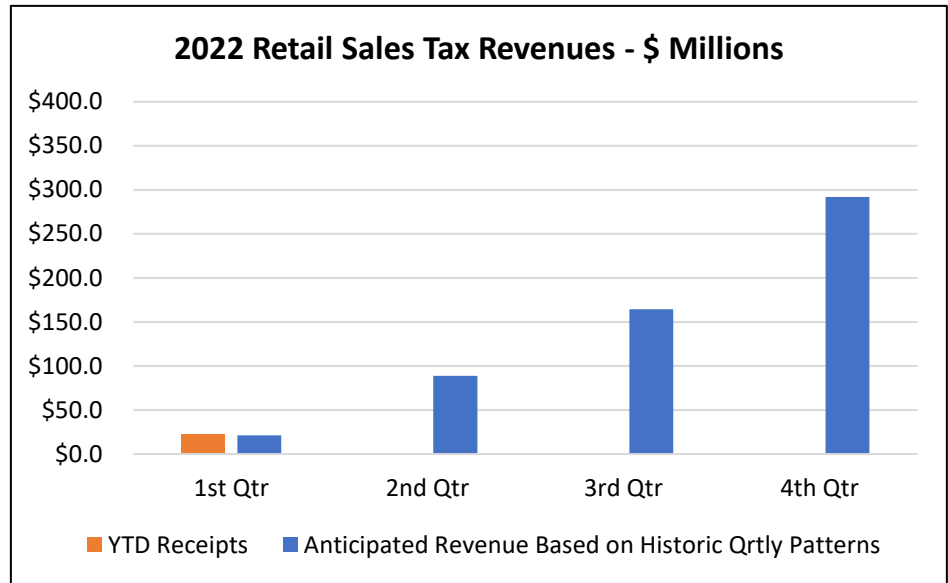
**Property Tax**

Property tax payments are due twice a year, at the end of April and October. As a result, minimal payments are made by the close of the first quarter. As the chart and table illustrate, some taxpayers choose to pay in advance, but it is not until the second quarterly report that we anticipate seeing a significant share of 2022’s forecasted Property tax revenues. In this context, we have no concerns about first quarter revenues being somewhat below what historic patterns would suggest.



**Retail Sales Tax**

The State of Washington’s Department of Revenue (DOR) provides a monthly distribution of the retail sales tax attributable to economic activity in the City. These distributions occur six to seven weeks following the month during which the underlying transactions occur. Thus, by the end of the first quarter, the City only receives payment for the sales tax liabilities due on transactions that occurred in January. At the end of the year, the City waits until DOR distributions corresponding to November and December sales come in before closing the books. As a result, fourth quarter results, which will be reported only after the books are final, will include sales tax distributions for a total of five months, August through December.



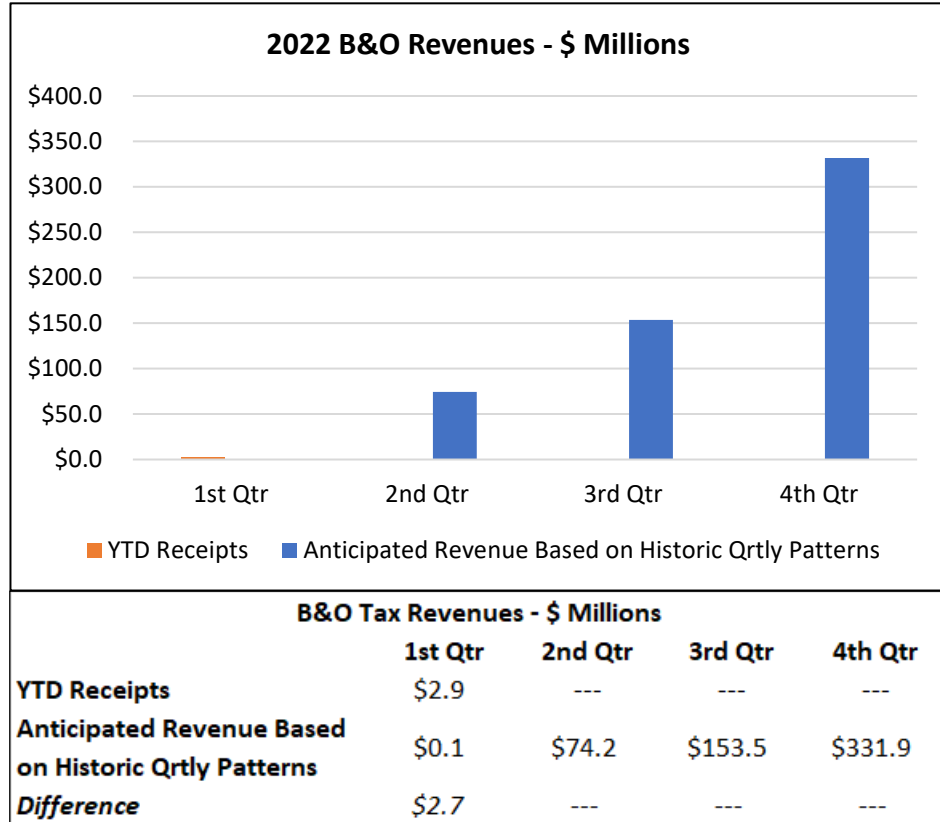
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
<b>YTD Receipts</b>	\$22.1	---	---	---
<b>Anticipated Revenue Based on Historic Qrtly Patterns</b>	\$21.4	\$88.9	\$164.5	\$291.9
<b>Difference</b>	\$0.7	---	---	---

Thus, it is no surprise that the City has received only 8% of anticipated sales tax revenues in the first quarter. Actual revenues for the first quarter exceeded the implied by historic patterns by \$0.7 million. This simply reflects the fact that the January sales tax slightly outpaced expectations, and it is far too early to draw any specific conclusions from the results for this single month.

**Business & Occupation (B&O) Tax**

B&O taxes are paid on either a quarterly or annual basis, depending on the size of the business. Quarterly filings are not due until one month after the close of the quarter, and then must be filed and processed.

The net impact is that tax obligations from the previous quarter are not available to the City until six or seven weeks after the quarter end. Thus, B&O revenues received in January and February are mostly payments for fourth quarter obligations and are accrued back to the previous year.



In addition, one recent change has further complicated efforts to cleanly track B&O payments on a quarterly basis. Smaller businesses and new taxpayers have always been allowed to pay their B&O taxes annually, rather than on a quarterly basis. Prior to last year, such payments were due by January 31<sup>st</sup>, and the City’s accountants then accrued the revenues back to the prior year. But starting in 2021 (for 2020 tax obligations), the due date for annual payers shifted from January 31 to April 30<sup>th</sup>. Not all annual payers took advantage of this new flexibility. Many paid by January 31<sup>st</sup>, and others submitted payments after that but before April 30<sup>th</sup>. In any case, the effect of this change has been to shift some payments from the previous year into the first quarter of the current. Per standard accounting practices, payments received with this much delay cannot be attributed back to the previous year and become part of current year revenues.

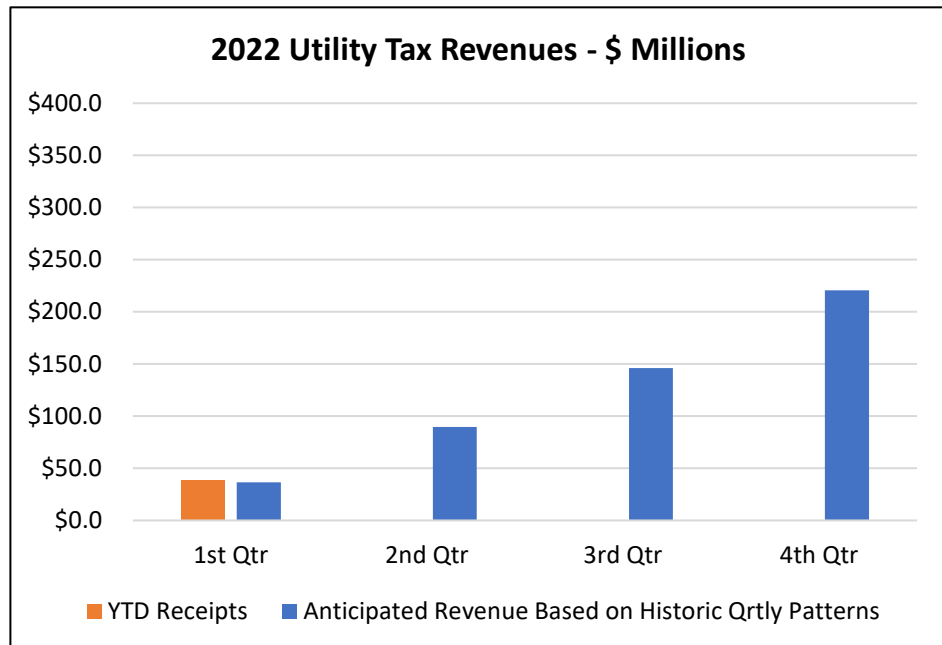
These payments, together with somewhat higher late payments for the fourth quarter, resulted in \$2.9 million revenue in the first quarter, outpacing previous historic patterns. This new shift in timing is one of the factors the Forecast Office is now

sorting through in terms of updating its forecasting approach, as this pattern of delayed payments will now continue into the future.

### Utility Taxes

The City charges tax on the bills paid to both public and private utility companies, including for example Seattle City Light, Seattle Public Utilities, Puget Sound Energy, and the full range of cell-phone providers. Collectively, the revenues from these taxes represent a significant share of overall GF revenues; roughly 13% of the overall 2022 revenue forecast.

Details about the amount paid for each utility service are provided in Section 3, but the chart and table presented here summarize the total utility tax payments made through the first quarter of 2022. Payments generally arrive with a one-month lag, so the results for the first quarter generally reflect January and February utility use,



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
<b>YTD Receipts</b>	\$38.6	---	---	---
<b>Anticipated Revenue Based on Historic Qrtly Patterns</b>	\$36.4	\$89.6	\$146.1	\$220.6
<b>Difference</b>	\$2.2	---	---	---

but not yet that for March. There is significant seasonal variation in the consumption of utility services such as gas and electricity, and this is also reflected in the pattern shown here. In addition, like for retail sales and B&O taxes, the fourth quarter totals for utility taxes cannot be finalized until February of the year following. This addresses the one-month delay in tax payments and means that the fourth quarter results capture taxes due from utility bills for the four months from September through December. To date, actual revenues are tracking about \$2.2 million ahead of the revised forecasts and the historic pattern of first quarter payments.



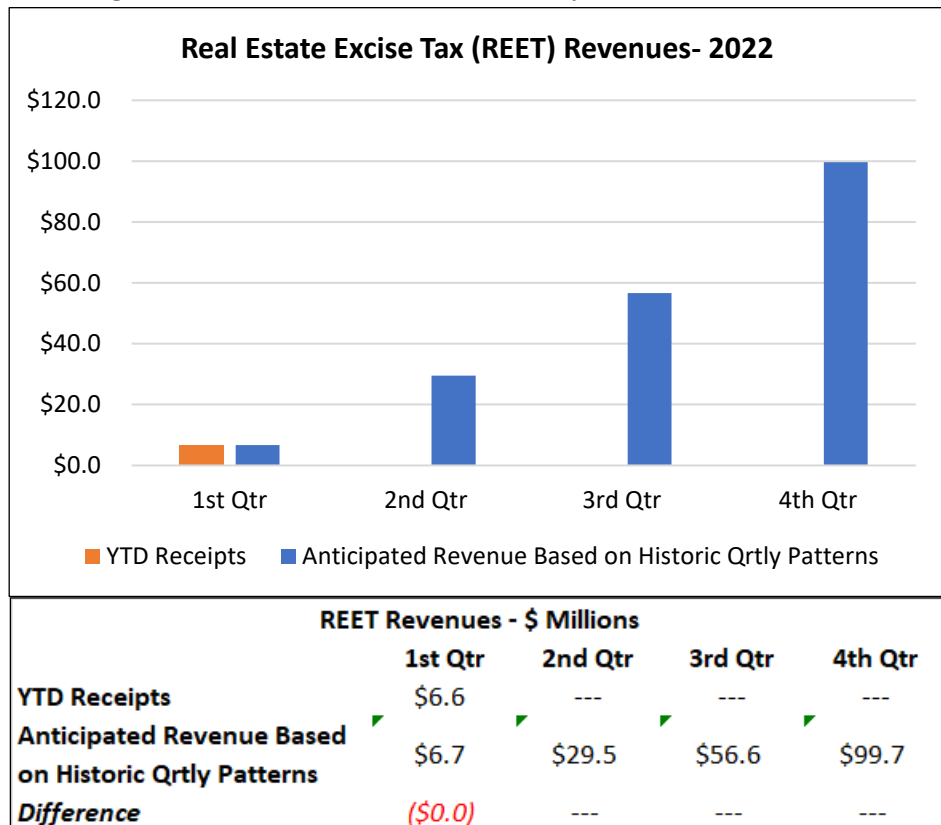
## 2.2 Select Non-GF Revenue Sources

The comprehensive table presented in Section 3 provides summary-level information for ten different non-GF revenues that support general government activities (as opposed to enterprise functions such as City Light and SPU). The report specifically focuses on revenue sources that have been dedicated to specific purposes and policy priorities. In advance of this summary presentation, Section 2 concludes with additional detail and discussion regarding two of the largest non-GF revenues: Real Estate Excise Tax and the Payroll Expense Tax.

### **Real Estate Excise Tax (REET)**

REET is collected on every property transaction that occurs within the City of Seattle. The tax is composed of two separate 0.25% taxes (for a total of 0.5%), which can each be used for different purposes. Several factors make it difficult to determine whether current payments are tracking toward the forecast of annual, year-end revenues.

Single, large transactions, such as the sale of downtown office buildings, can have a significant impact on the revenues reported in any single quarter. Regulatory and/or tax incentives often drive a push to close transactions by year-end, so often the fourth quarter includes a large share of the annual transactions.



Several idiosyncratic factors, including a change in state-level tax rates starting 2020

and processing delays disrupted the timing of payments for the period from 2019 through 2021. Nonetheless, first quarter results for 2022 are tracking very closely to results we would expect given the revised 2022 forecast and past quarterly revenues patterns.

### ***Payroll Expense Tax (PET)***

First applied in 2021, the PET imposes a tax of between 0.7% and 2.4% on the wages paid to higher compensated employees working at relatively large companies. The tax rate increases with individual compensation and with the overall payroll of the company. For 2021, payments were not due until the first part of 2022. This has shifted to quarterly payments for 2022, but we have no historic data to inform the specific pattern of payments we should expect to see. Moreover, the tax is applied on current year's employees' compensation, so each company's exact tax liability cannot be determined until year end. However, firms are required to make estimated payments each quarter. Simplistically, this might imply that we could anticipate about 25% of annual payments to be made each quarter. However, we have yet to see how firms will approach their estimated payments. First quarter payments are not legally due until a month after the close of the quarter, so we did not anticipate that any significant share of the revised annual forecast of \$277.5 million would be received by March 31<sup>st</sup>. That expectation has proven accurate. Although the City received payments of \$4.1 million of PET in the first quarter, all but \$25,000 of this amount was for late 2021 payments. Per current ordinance, these additional 2021 payments will be credited to the City's General Fund.

### 3. Detailed Results for All General Fund Revenue Sources and Select Non-General Fund Revenues

The table below provides a full accounting of all GF revenues received through the end of the first quarter, and compares these revenues in percentage terms to the share of each annual total that typically has been collected at this point of the year. The section includes comparable information for ten specific Non-GF revenues, in particular those dedicated to certain specific general government purposes.

#### General Fund Revenues

Source	2022 YTD	2022 Revised Revenue Forecast	Percent of 2022 Revised Forecast	Average Percent YTD (March) <i>Data from 2018 &amp; 2019</i>
Property Tax (Including Medic One Levy)	\$17,759,591	\$371,599,957	5%	5%
Retail Sales Tax	\$22,054,128	\$291,941,848	8%	7%
Retail Sales Tax - Criminal Justice	\$1,900,671	\$26,523,261	7%	7%
Business & Occupation Tax	\$2,862,789	\$331,859,886	1%	0%
Business License Fees	\$3,635,464	\$17,674,405	21%	19%
Utility Tax - Natural Gas	\$3,310,604	\$10,456,714	32%	26%
Utility Tax - Solid Waste	\$250,221	\$2,154,746	12%	15%
Utility Tax - Cable Television	\$2,607,130	\$14,050,000	19%	10%
Utility Tax - Telephone	\$1,315,376	\$11,020,000	12%	17%
Utility Tax - Steam	\$131,215	\$1,219,649	11%	21%
Utility Tax - City Light	\$11,421,807	\$57,966,314	20%	18%
Utility Tax - City Water	\$4,627,095	\$36,642,957	13%	13%
Utility Tax - Drainage & Wastewater	\$10,014,559	\$62,530,104	16%	16%
Utility Tax - City Solid Waste	\$4,706,613	\$23,395,550	20%	19%
Brokered Natural Gas	\$215,263	\$1,137,243	19%	17%
Transportation Network Company Tax	0	\$7,407,382	0%	0%
Parking Meters	\$3,938,022	\$22,332,093	18%	22%
Court Fines	\$2,821,508	\$18,434,113	15%	19%
Fund Balance Transfers (ERF, RSA, J&C, CRS-U)	\$5,696	\$159,585,820	0%	1%
Grants	\$1,831,807	\$13,494,725	14%	17%
Licenses, Permits, Interest Income and Other	\$12,597,042	\$55,541,575	23%	18%
Other Taxes	\$2,089,578	\$13,823,758	15%	16%
Revenue from Other Public Entities	\$1,986,442	\$17,257,410	12%	14%
Service Charges & Reimbursements	\$3,738,227	\$103,320,708	4%	10%
<b>Total</b>	<b>\$115,820,847</b>	<b>\$1,671,370,000</b>	<b>7%</b>	<b>8%</b>

With regard to GF results for the first quarter, Section 2 includes a discussion of where overall GF payments stand relative to forecast, as well as some analysis of the largest GF revenue sources, including Property, Retail Sales, B&O, and Utility taxes. Focusing on the additional information provided here, the results for several specific revenue sources are worth some note:

Utility Tax – Cable Television: In percentage terms, year-to-date payments for the taxes on cable services are outpacing the amounts we would have generally anticipated, but this reflects some delayed payments from 2021, rather than unanticipated 2022 activity, and we expect that revenues will revert towards the annual forecast later in the year. Moreover, this is a small revenue stream in the context of the overall GF and does not have a significant impact on overall GF Revenues.

Utility Tax – Steam: The relative shortfall here is just an issue of the timing of payments, and we expect that this will be resolved by year-end, without any significant impact on the overall GF revenue forecast.

Transportation Network Company (TNC) Tax: The City imposes a per trip tax on all TNC companies that provide more than 200,000 rides in any given quarter. However, the tax payments are not due until after the close of quarter, so no revenues were anticipated, or received, before March 31<sup>st</sup> of this year.

Parking Meters: Approximately \$4 million of the annual 2022 forecast of \$22 million was received in the first quarter. This represents 18% of the expected total and trails the 22% share more typically seen in the first quarter. However, the parking meter forecast anticipated that hourly rates would be increasing over the year as overall parking demand grows, and thus a greater share of revenue is expected to be earned in second, third and fourth quarters.

Court Fines: Total revenue from Court Fines is slightly below what we would expect at this point of the year, relative to the annual forecast. In total dollars, the difference is less than \$700,000 and could be easily made up later in year. However, the recent decision to void parking infractions issued during the first four months of the year will also have a significant impact on the annual revenues from this source. We have not yet had an opportunity to assess the full financial impacts of this development.

Service Charges and Reimbursements: Measure in percentage terms, the year-to-date totals for this category are about half of what they have been in recent years. A significant share of the revenues in this category actually represent internal charges and reimbursements that reflect charges between and among City departments. The timing of when such transfers are posted to the accounting system vary some year-to-year, and that appears to be the issue currently. We will continue to track this category closely to determine whether payments are being posted appropriately.

**Non-General Fund Revenues of Interest**

Source	2022 YTD	2022 Revised Revenue Forecast	Percent of 2022 Revised Forecast	Average Percent YTD (March) Data from 2018 & 2019
Payroll Tax	\$4,149,002	\$277,487,209	1%	Insufficient Historic Data
Admission Tax	\$2,444,823	\$20,054,209	12%	12%
Sweetened Beverage Tax	\$6,932	\$22,191,151	0%	1%
Short-Term Rental Tax	\$0	\$7,923,621	0%	Insufficient Historic Data
Commercial Parking Tax	\$4,699,743	\$38,441,833	12%	16%
SSTPI - Parking Infraction Penalties	\$2,335,328	\$13,409,486	17%	23%
Trans. Ben. Dist. - Sales & Use Tax	\$3,831,189	\$49,204,821	8%	7%
Trans. Ben. Dist. - VLF	\$2,394,137	\$15,475,865	15%	19%
REET I	\$3,320,872	\$49,859,773	7%	7%
REET II	\$3,320,872	\$49,859,773	7%	7%

Using the same format employed for the GF revenue sources, this table provides an accounting of first quarter revenues for a select group of non-GF funding sources. Section 2 of the report includes a specific discussion of results for the Payroll and REET taxes. First quarter results for the other sources reported here are generally aligned with what previous historic patterns would imply for these payments. Although Commercial Parking Tax revenues trail previous patterns, the overall forecast for 2022 anticipates that parking demand will be increasing over the course of the year, and the projections also reflect the fact that the tax rate will increase in July. Thus, a greater share of revenues than typical will be earned in the second half of the year. In addition, the revenue earned so far for the School Safety Traffic and Pedestrian Improvement Fund (SSTPI) is somewhat below what previous patterns would imply for the first quarter. These revenues mainly come from school zone enforcement cameras. The latest forecast assumes additional revenues later in the year from delayed school-zone camera installations. Thus, it is not surprising that current quarter receipts represent a lesser share of the forecasted total than historical averages. COVID continues to disrupt the normal operations of the Seattle Municipal Court, where these payments are processed, so it is too soon to draw any conclusions about the overall revenue that will

be earned from this source in 2022. The second quarter report will provide a better opportunity to assess whether actual revenues are continuing to track towards the 2022 forecast.

In addition, we have somewhat limited experience from which to establish an average collection rate for the Short-Term Rental tax (STR), as this tax was first imposed beginning in 2019 and the pandemic significantly disrupted this revenue stream. The STR and the Sweetened Beverage Tax (SBT) are collected quarterly, with a delay for actual payments. Given this, the lack of first quarter revenues is not surprising.