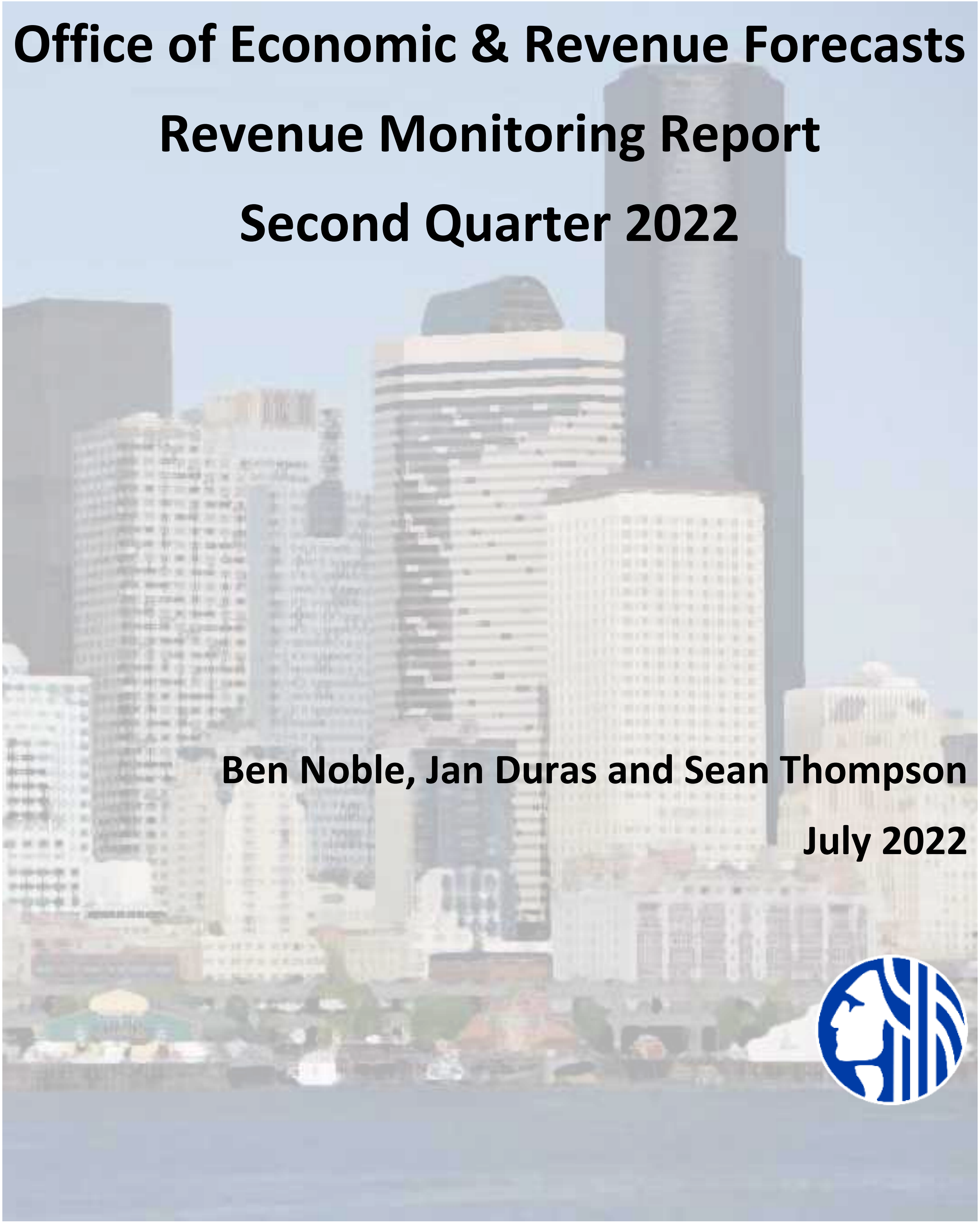
Office of Economic & Revenue Forecasts

Revenue Monitoring Report

Second Quarter 2022



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July 2022

1. Introduction

Structure and Schedule of Quarterly Revenue Reports. This represents the second of four quarterly revenue reports that Office of Economic and Revenue Forecasts (Forecast Office) will provide in 2022. The report documents revenues received through June 30th of this year.

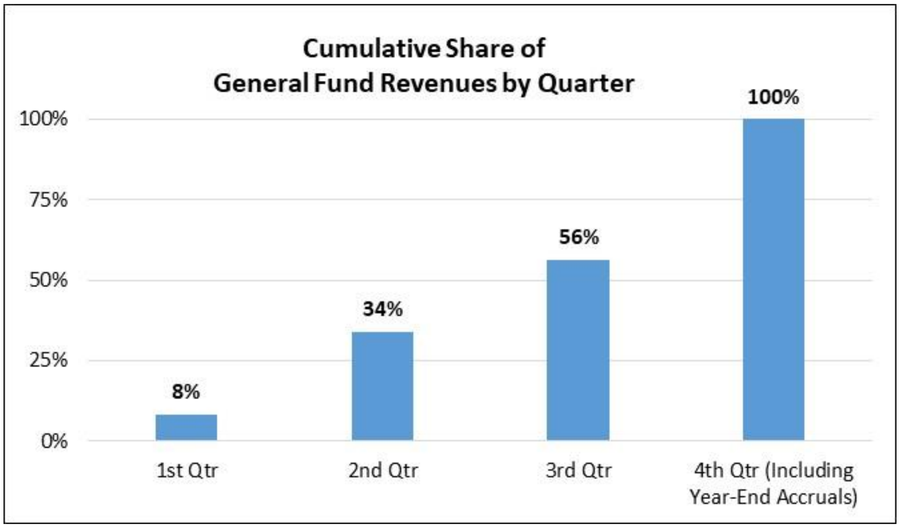
The goal of these reports is to track actual revenue receipts relative to the levels anticipated by the most recent forecasts prepared by the Forecast Office. Consistent with the structure of the first quarter report, the second quarter results presented here are shown relative to the forecast approved by the City's Economic and Revenue Forecast Council on April 8th of this year. The Forecast Council will approve a new, revised forecast in early August and this will then serve as the point of comparison for the third quarter revenue report.

The report's structured remains unchanged from the previous: Section 2 provides an overview of overall General Fund (GF) revenues, and detailed analyses of the four largest contributors to GF 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 GF revenue sources, as well as additional detail regarding ten of the most significant non-GF resources.

As was noted in the previous report, tracking and comparisons are done relative to the share of the annual forecast that is typically seen for each revenue stream by the end of the current quarter. The narrative in the report includes observations and explanations for situations in which realized revenues differ significantly from the historic pattern. 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 was significantly disrupted by the COVID pandemic in both 2020 and 2021.

In addition, for both Sales and B&O tax we have supplemented this historic analysis with more detailed assessments of the likely timing of tax payments over the course of the current year. These assessments are informed by our underlying economic projections and how we anticipate the local economy to develop over the course of the year. These two revenue sources sufficiently dependent on changing economic conditions that the historic pattern of payments is not necessarily the best prediction of what we anticipate for the current year.

Timing of GF Revenue Payments. To help frame overall expectations about the results presented here, the chart below illustrates the share of annual revenues typically received by the close of each quarter. Note that the delayed timing on when taxpayers must submit payments means that overall collections are skewed toward the latter part of the year. At the end of the second quarter, the City typically has received about one third of its annual revenues.



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.

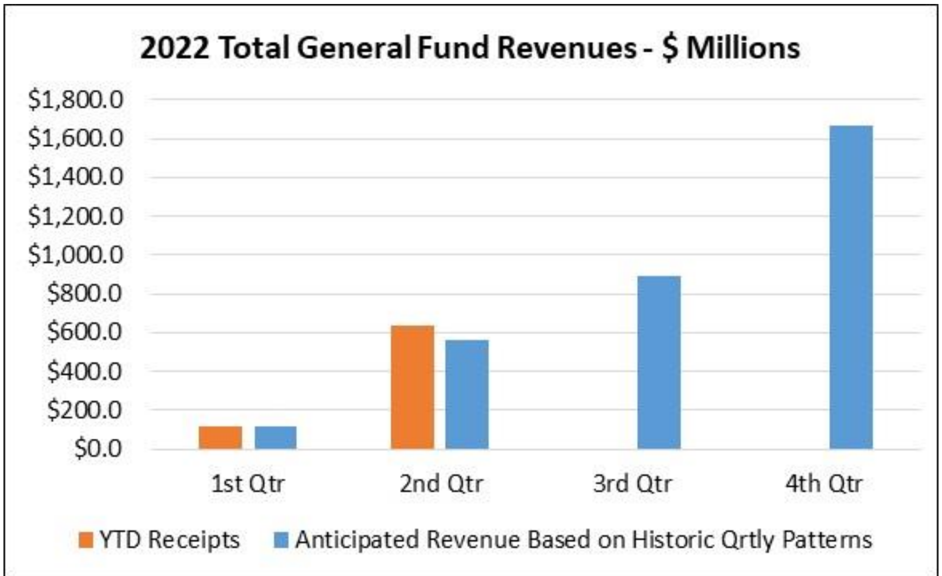
2. Total General Fund Revenues and Highlights of Major Revenue Sources

2.1 Total General Fund Revenues

As illustrated below, through June of this year, the City has received 38% of the GF revenues currently anticipated for 2022. These results are generally consistent with the pattern seen in recent years. As detailed later in the report, there are some significant deviations in the expected amounts of certain specific revenue sources, but overall results are tracking quite closely to forecasts. That said, the overall macro-economic climate is deteriorating, and this could impact revenue collections in the second half of the year. The economic and revenue forecast update that will be presented in early August will provide additional clarity about this point.

As shown here, actual year-to-date GF receipts totaled $633.8 million as of June 30th. This represents about 38% of the total $1.67 Billion that is anticipated under the revised forecast presented in April of this year. The second quarter total is $70 million more than we would have expected if we took the current 2022 annual forecast and allocated it across the year based on recent quarterly patterns.

However, a single financial transaction underlies much of this over performance. After some delay, the sale of the Mercer Street "mega-block" closed during the second quarter. This resulted in a large one-time deposit into the GF. These revenues were anticipated, but the timing of the payment was uncertain. We had effectively forecast that a share of these revenues would have been paid by now, but not the full amount, as has actually occurred.



Total General Fund Revenues - $ Millions

	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
YTD Receipts	$115.8	$633.8	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	$118.8	$563.8	$888.3	$1,671.4
Difference	*($3.0)*	*$70.0*	---	---

In addition, the second quarter results include $14.1 million in GF revenue that was not anticipated in our forecasts at all. As detailed in the Section 2 review of Payroll Expense Tax (PET) payments, the City has continued to receive payments for 2021 PET obligations during the first half of this year. These are late payments for 2021 obligations, and per City ordinance, these funds are being directed into the General Fund, rather than the new PET fund. The PET fund receives all payments for 2022 obligations, but not these delayed 2021 payments.

The table below provides additional detail regarding the GF's major revenue sources. Section 2 provides additional information regarding the most significant sources, with a further detailed breakdown of year-to-date receipts provided in Section 3.

General Fund Revenues Year-to-Date – Major Revenue Categories

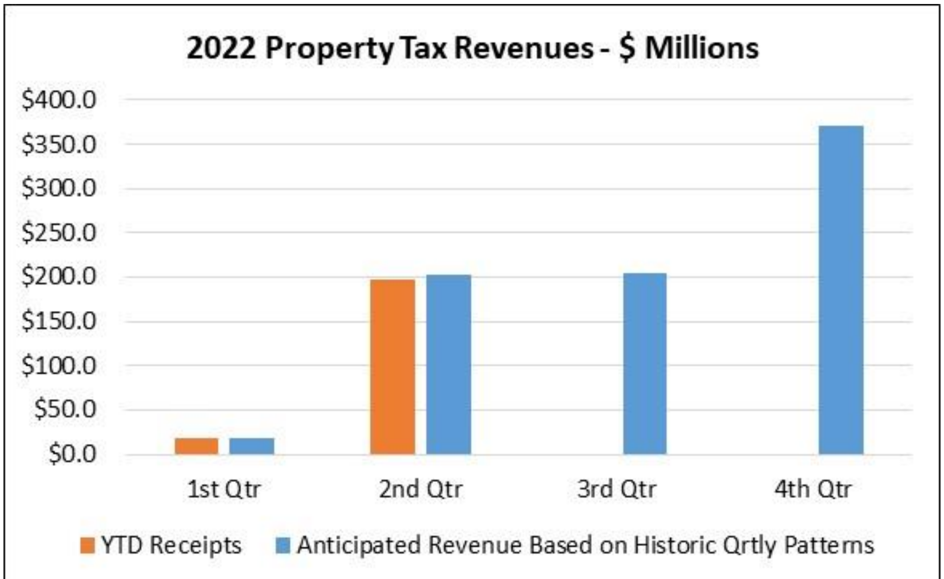
Source	2022 YTD	2022 Revised Revenue Forecast	Percent of 2022 Revised Forecast	Average Percent YTD, *Data from 2018 & 2019*
Property Tax	$197,384,118	$371,599,957	53%	54%
Sales Tax	$99,431,392	$318,465,109	31%	30%
Business and Occupation (B&O) Tax	$79,764,476	$331,859,886	24%	22%
Private Utility Taxes	$18,696,379	$40,038,352	47%	45%
Public Utility Taxes	$75,859,417	$180,534,925	42%	40%
Other City Taxes	$5,928,243	$21,231,140	28%	27%
Parking Meters	$10,097,191	$22,332,093	45%	48%
Court Fines	$6,285,382	$18,434,113	34%	46%
Revenue from Other Public Entities	$11,681,859	$17,257,410	68%	34%
Grants	$6,882,156	$13,494,725	51%	29%
Fund Balance Transfers	$43,582	$159,585,820	0%	0%
Service Charges and Reimbursements	$79,707,923	$103,320,708	77%	38%
Licenses, Permits, Interest, and (all) Other	$28,038,598	$73,215,980	38%	37%
Payroll Tax - Late 2021 Payments	$14,126,213	NA	NA	NA
Total	**$633,926,930**	**$1,671,370,217**	**38%**	**34%**

After adjusting for the impacts of the Mercer Street property sale, year-to-date revenues are effectively running about $20 million ahead of our annual forecasts, including the $14.1 million in additional late PET payments. With overall economic conditions generally deteriorating, one should be cautious about placing too much weight on the current year-to-date results. The forecast update that will be presented in early August will provide a broader context for evaluating where 2022 revenues may be headed.

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

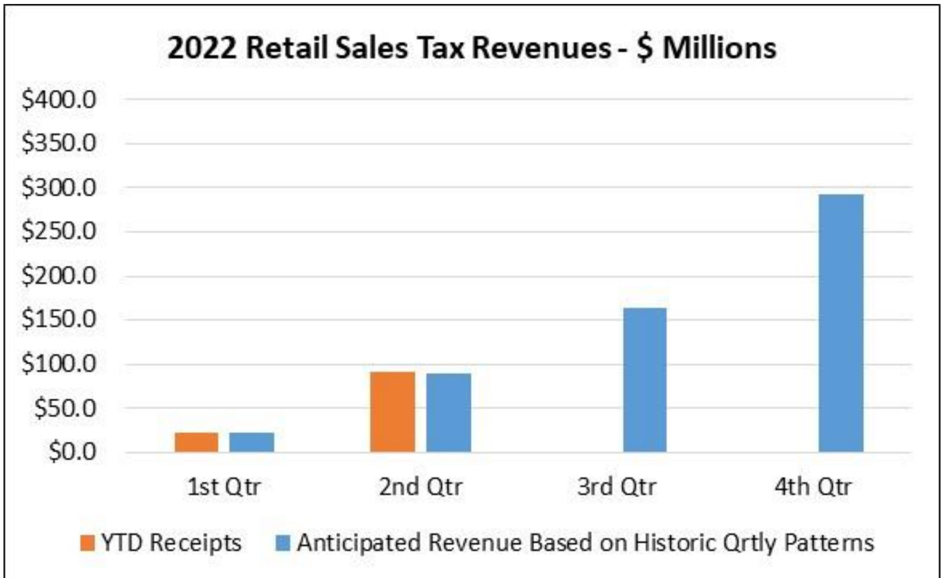
Property tax payments are due twice a year, half in April and the remainder in October. As a result, about half of anticipated revenues should be paid by the end of the second quarter. Consistent with this expectation, results to date show that the City has received 53% of expected payments. This is just below the second quarter average of 54%, but the current shortfall is not of particular concern as several factors can affect the timing of payments. In addition, unlike other revenue sources, property tax payments are not generally affected by evolving economic conditions as the obligations are fixed at the beginning of the year. Some degree of delinquency is anticipated in our forecast, and current economic conditions do not suggest that increased delinquency is likely this year.



Property Tax Revenues - $ Millions	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$17.8	$197.2	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	$18.3	$202.2	$204.4	$371.6
Difference	*($0.5)*	*($5.1)*	---	---

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 second quarter, the City only receives payment for the sales tax liabilities due on transactions that occurred through April. At the end of the year, the City waits until DOR distributions corresponding to November and December sales come in before closing the books.



Retail Sales Tax Revenues - $ Millions				
	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
YTD Receipts	$22.1	$91.4	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	$21.4	$88.9	$164.5	$291.9
Difference	*$0.7*	*$2.5*	---	---

Thus, it is no surprise that the City has received only 34% of anticipated sales tax revenues through the end of the second quarter. Actual revenues for the first two quarters exceeded the amount that would be anticipated by historic patterns by about $2.5 million. And relative to our additional assessment of the likely timing of sales tax payments in 2022, the current results outpace the April forecast by about $3.1 million, as retail sales remained stronger in the first four months than we had expected, despite historically high inflation.

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 through June generally represent less than 25% of the annual total, as they do not include most 2nd quarter obligations.

B&O Tax Revenues - $ Millions

	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
YTD Receipts	$2.9	$80.6	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	$0.1	$74.2	$153.5	$331.9
Difference	*$2.7*	*$6.4*	---	---

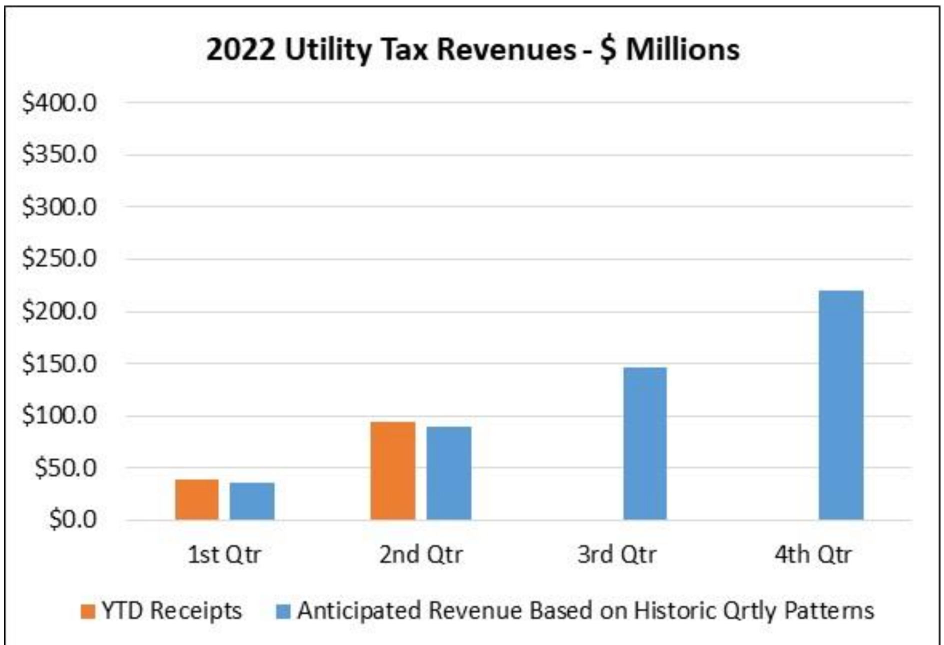
In addition, one recent change has further complicated efforts to cleanly track B&O payments on a quarterly basis. Smaller businesses and new taxpayers have always been allowed to pay their B&O taxes annually, rather than on a quarterly basis. Prior to last year, such payments were due by January 31st, 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 30th. Not all annual payers took advantage of this new flexibility, but many have. The effect of this change has been to shift some payments for 2021 B&O obligations into 2022.

This change was incorporated into the April forecast and thus while the B&O revenues are outpacing the amount that would be anticipated by historical patterns by over $6 million, this is largely due to the delayed 2021 payments. Our more detailed forecast modeling of anticipated B&O payments indicates that payments through end of June are actually about $1.7 million below the April forecast. Our ongoing work to develop the August revenue update will be informed by both the one-time addition of payments for past obligations and the shortfall relative to forecasts for 2022 activity.

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. The chart and table presented here summarize the total utility tax payments made through the second quarter of 2022. Payments generally arrive with a one-month lag, so the results for the second quarter generally reflect payments through May, but not June. To date, it appears that actual revenues are tracking about $5 million ahead of the revised forecasts and the historic pattern of payments generally seen through the second quarter. However, about 50% of this additional revenue is associated with a change in accounting procedures that has led shifted some revenue receipts into this category, while our forecast had anticipated that they would be accounted for elsewhere. Thus, overall utility tax revenues are generally tracking very close to the overall forecast, as they did in the first quarter.



Utility Tax Revenues - $ Millions

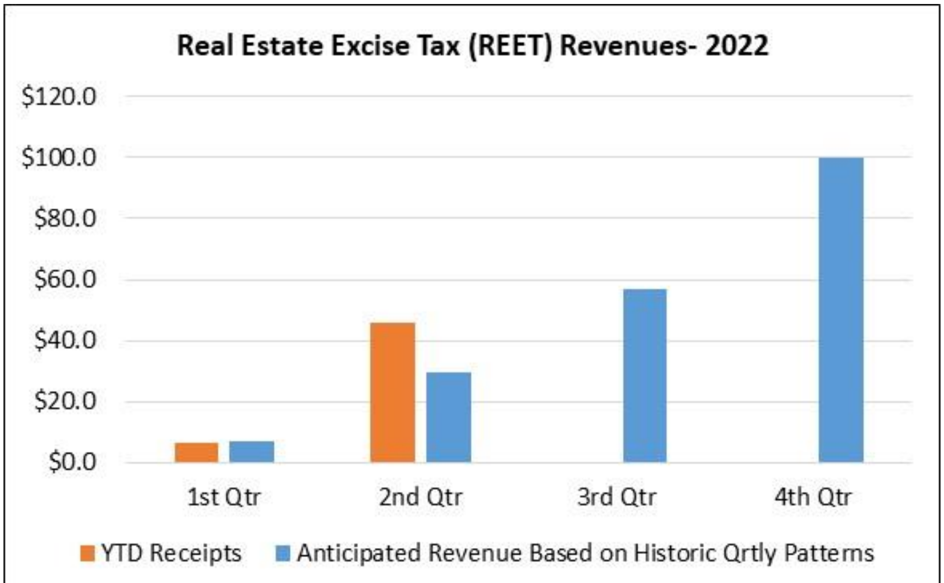
	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
YTD Receipts	$38.6	$94.6	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	$36.4	$89.6	$146.1	$220.6
Difference	*$2.2*	*$5.0*	---	---

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 table 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. First, single, hard to predict large transactions, such as the sale of downtown office or apartment buildings, can have a significant impact on the revenues reported in any single quarter. In addition, 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. Finally, while in general REET payments post one month after the taxable activity, there are significant deviations from this timing which complicate the comparisons with historic patterns. For this reason we have expanded the analysis of REET's historic patterns to include 2020 and



REET Revenues - $ Millions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$6.6	$46.0	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	$6.7	$29.5	$56.6	$99.7
Difference	*($0.1)*	*$16.5*	---	---

2021 in an effort to provide a broader basis for comparison.

Consistent with the first point regarding the impact of large transactions, the second quarter included several high value real estate transactions that have produced revenues well above what the original forecast would imply for this time of the year. Actual receipts are outpacing the historic second quarter share of annual revenues by $16.5 million. This figure somewhat overstates how far ahead revenues are tracking relative to the forecast because the historic pattern which we use as a basis for comparison has been affected by past delays in posting revenues into the City's financial system. In particular, May payments in 2019 and in 2020 only posted in August instead of June, which lowered the base of comparison for current 2022 results. As the Forecast Office develops the revised projections for 2022, we will further assess the implications of the current overperformance, with the expectation that these results will likely lead to an upward adjustment in REET forecast.

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 pattern of payments we should expect to see. Moreover, the tax applies to annual compensation, so final tax liabilities cannot be determined until year end. However, firms are required to make estimated payments each quarter and are allowed to make these estimates based on filing for previous year. Thus, we can generally anticipate about 25% of previous year's annual payments to be made each of the first three quarters and potentially large adjustments in the final quarter. Since the payments are not due until a month after the end of the quarter, we saw no significant payments in the first quarter, and only anticipate one quarter worth of payments in this second quarter.

But at the same time, the City is still receiving late payments for 2021 PET obligations. The PET is a new tax, which is rather difficult to calculate, and multiple firms have struggled to make timely payments. Per ordinance, these late 2021 payments will be credited to the GF, rather than the new PET fund.

In terms of the results themselves, through June the City had received a total of $76.4 million in PET payments. Of this total, $14.1 million is for 2021 payments and $62.3

million is for 2022 tax obligations. These payments for 2021 obligations and were not part of our 2022 forecast, so whatever the final amount, the payments will represent a net gain of GF revenue. The $62.3 million in current year PET revenue is somewhat less than 25% of our 2022 PET forecast. But we can expect some late payments again, moreover, about a third of firms are using 25% of their 2021 payments as an estimate of this year's quarterly obligations. These estimated payments thus do not include any employment and wage growth, which will have to be accounted for in the final quarter payments. Bottom-line, we have only one quarter of estimated payments and thus it is too early to draw any specific conclusions. The second quarter payments, which are due in by the end of July, will provide another important benchmark.

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

General Fund Revenues

The table below provides a full accounting of all GF revenues received through the end of the second 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.

Source	2022 YTD	2022 Revised Revenue Forecast	Percent of 2022 Revised Forecast	Average Percent YTD, *Data from 2018 & 2019*
Property Tax (Including Medic One Levy)	$197,384,118	$371,599,957	53%	54%
Retail Sales Tax	$91,359,731	$291,941,848	31%	30%
Retail Sales Tax - Criminal Justice	$8,071,661	$26,523,261	30%	30%
Business & Occupation Tax	$79,764,476	$331,859,886	24%	22%
Utility Tax - Natural Gas	$6,965,880	$10,456,714	67%	57%
Utility Tax - Steam	$498,778	$1,219,649	41%	52%
Brokered Natural Gas	$639,011	$1,137,243	56%	44%
Utility Tax - Solid Waste	$645,401	$2,154,746	30%	38%
Utility Tax - Cable Television	$5,876,213	$14,050,000	42%	38%
Utility Tax - Telephone	$4,071,096	$11,020,000	37%	42%
Utility Tax - City Light	$27,841,728	$57,966,314	48%	46%
Utility Tax - City Water	$11,841,072	$36,642,957	32%	30%
Utility Tax - Drainage & Wastewater	$24,147,886	$62,530,104	39%	40%
Utility Tax - City Solid Waste	$12,028,731	$23,395,550	51%	40%
Parking Meters	$10,097,191	$22,332,093	45%	48%
Court Fines	$6,285,382	$18,434,113	34%	46%
Fund Balance Transfers (ERF, RSA, J&C, CRS-U)	$43,582	$159,585,820	0%	0%
Grants	$6,882,156	$13,494,725	51%	29%
Licenses, Permits, Interest Income and Other	$23,704,386	$55,541,575	43%	41%
Business License Fees	$4,334,213	$17,674,405	25%	23%
Other Taxes	$4,658,542	$13,823,758	34%	41%
Transportation Network Company Tax	$1,269,701	$7,407,382	17%	Insufficient Data
Revenue from Other Public Entities	$11,681,859	$17,257,410	68%	34%
Service Charges & Reimbursements	$79,707,923	$103,320,708	77%	38%
Payroll Tax - Late 2021 Payments	$14,126,213	NA	NA	NA
Total	**$633,926,930**	**$1,671,370,000**	**38%**	**34%**

Regarding 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 – Natural Gas: Natural Gas utility tax revenue is running about 10% over our expectations for this point of the year. This translates into about $1 million more than anticipated. This is likely a result of increased demand created by the region's relatively cool spring weather.

Utility Tax – City Light: The cool weather has also increased the demand for electricity, and the revenues generated by the tax on City Light's services are about $1.4 million ahead of the seasonal pattern seen in previous years. These results will be considered in developing the August forecast update.

Utility Tax – City Solid Waste: Revenues recorded in the account associated with taxes SPU's solid waste services appear to be ahead of pace by about 11%, which translates into about $2.7 million. However, as noted in Section 2 of this report, this is mainly attributable to a change in accounting procedures that has led revenues associated with the tax on the services provided at SPU's transfer stations to be co-mingled with the tax revenues from basic garbage collection services. In turn this has led to shortfall in the revenues anticipated in the account that had previously received the transfer station tax revenue. This is reflected in the relative shortfall in the "Other Taxes" category, which can be seen in the table above. On net, there is no impact on actual revenues, just a reassignment of where they are accounted for. Moving forward, we will align the forecast and accounting practices so that comparisons can be made more directly.

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 the second quarter results only reflect payments from the first 3 months of the year. The forecast anticipates increasing demand in the second half of the year which is assumed to outpace that of the first half given the continued opening of the economy. The Budget Office is tracking this revenue closely for signs that demand and the supply of drivers are not returning as anticipated.

Parking Meters: Approximately 45% of the predicted annual total has been collected through the end of June, and with rates being increased as demand grows, we anticipate stronger collections in the second half of the year.

Court Fines: Primarily comprised of citation revenue from parking infractions, but also citations resulting from patrol officers, this revenue is running about 12 percentage points or about $2.1 million below historical expectations for receipts through 2nd quarter. 2022 revenues through June are running approximately $700,000 behind 2021 revenues, which may suggest the overall forecast is too high, or that payment compliance is low. We are also likely seeing the first effects of the voiding of parking citations that occurred in late May. These factors will be all be reviewed as part of preparing the August forecast update.

Other Taxes: See the explanation above regarding Solid Waste Utility taxes for the reason why these revenues are trailing historic patterns for this time of year.

Service Charges and Reimbursements: As noted previously, the apparent strong performance of this category simply reflects the large, $65+ million, payment received for the sale of the Mercer Street “mega-block”.

Non-General Fund Revenues

Using the same format employed for the GF revenue sources, the table below provides an accounting of second quarter revenues for a select group of non-GF funding sources. The table is divided into two sections, with the first reporting results for a set of revenues that are not part of the General Fund, but which are used to support general government services. The second section tracks the performance of four revenue sources specifically dedicated to transportation purposes. They do not represent an exhaustive list of transportation funding sources, but rather highlight a set of revenues that have been implemented in recent years to enhance overall transportation funding.

Source	2022 YTD	2022 Revised Revenue Forecast	Percent of 2022 Revised Forecast	Average Percent YTD (June) *Data from 2018 & 2019*
General Government Revenues:				
Payroll Tax	$62,307,835	$277,487,209	22%	Insufficient Historic Data
Admission Tax	$7,201,078	$20,054,209	36%	33%
Sweetened Beverage Tax	$4,528,103	$22,191,151	20%	NA
Short-Term Rental Tax	$1,537,368	$7,923,621	19%	Insufficient Historic Data
REET I	$23,008,484	$49,859,773	46%	30%
REET II	$23,008,484	$49,859,773	46%	30%
Transportation-Specific Revenues:				
Trans. Ben. Dist. - Sales & Use Tax	$15,801,190	$49,204,821	32%	31%
Trans. Ben. Dist. - Vehicle License Fee	$6,538,934	$15,475,865	42%	37%
Commercial Parking Tax	$13,655,100	$38,441,833	36%	41%
SSTPI - Parking Infraction Penalties	$5,419,886	$13,409,486	40%	56%

The most notable results here include the performance of both the Payroll tax and REET. These are discussed in some detail in Section 2 of the report. Regarding the other revenues streams summarized above, other areas of note include the apparent underperformance of both the Commercial Parking tax and the SSTPI Parking Infraction revenues (which are those school-zone cameras). For both, we are anticipating stronger performance in the second half of the year. The overall forecast for 2022 Commercial Parking tax revenue anticipates that parking demand will be increasing over the course of the year, and the projections also reflect the fact that the tax rate was increased in July. For the SSTPI revenues, the latest forecast assumes that a disproportion share of revenues will be produced in the second half of the year because additional enforcement cameras will be installed before school resumes in the fall.

Lastly, both the Short-term Rental tax and the Sweetened Beverage tax are collected quarterly, with a one-month delay before payments are due. Given this, the relatively small share of annual revenues collected to date is not surprising, as they reflect only first quarter payments.