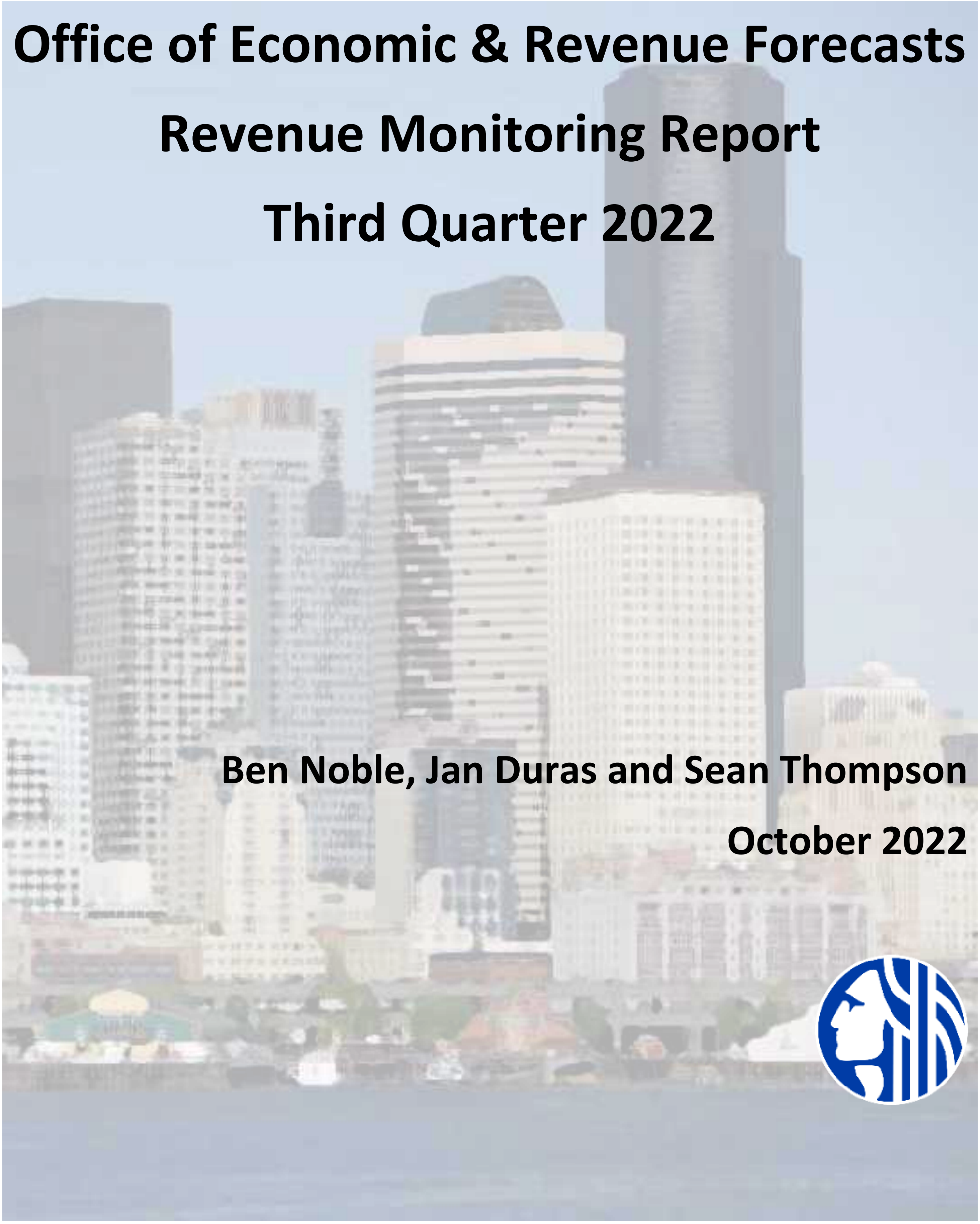

Office of Economic & Revenue Forecasts

Revenue Monitoring Report

Third Quarter 2022

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October 2022

1. Introduction

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

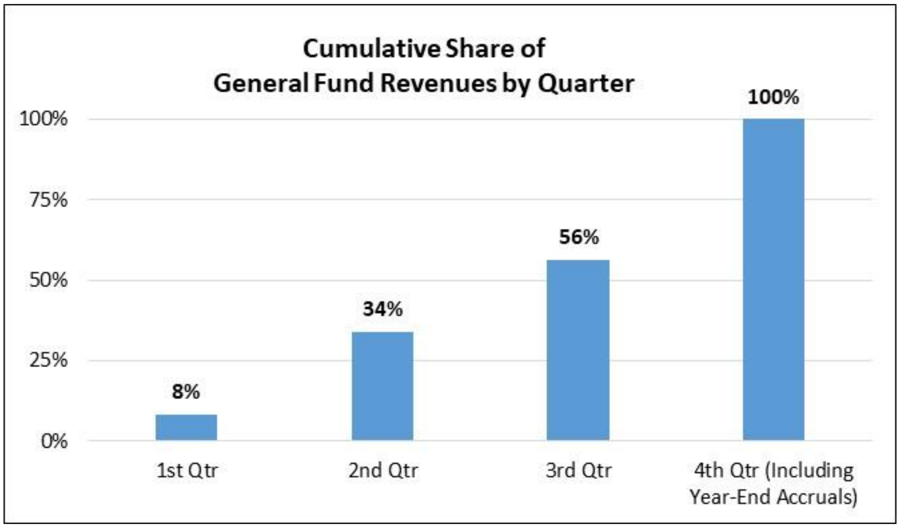
The goal of these reports is to track actual revenue receipts relative to the levels anticipated by the most recent forecasts prepared by the Forecast Office. The results presented here are shown relative to the forecast approved by the City's Economic and Revenue Forecast Council on August 8th of this year. This forecast update replaced the previous forecasts, which had been approved on April 8th. Forecast Council will approve a new, revised forecast in early November and this will then serve as the point of comparison for the year-end, fourth 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 reports, 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 third quarter, the City typically has still received less than 60% of its annual revenues.



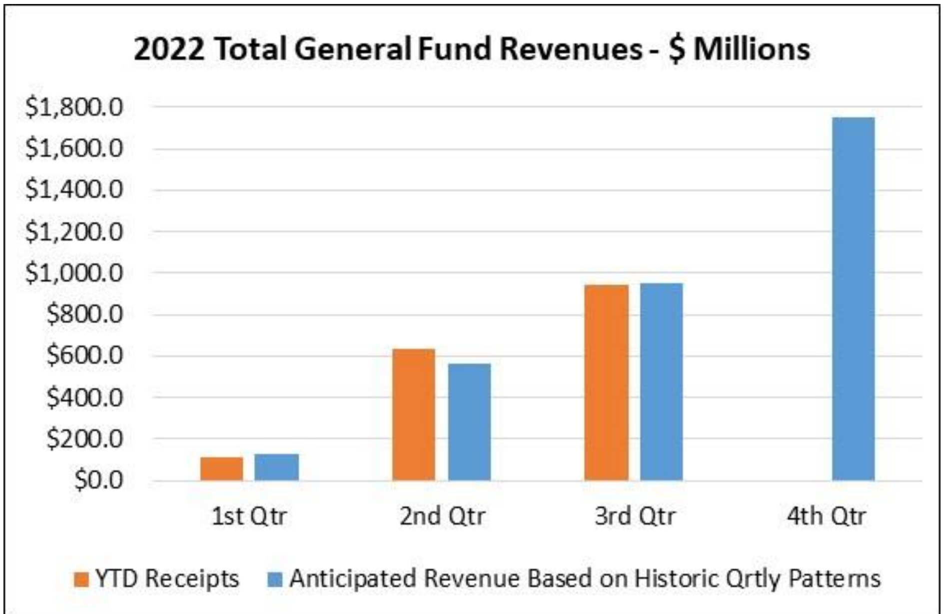
The primary explanation for the skewed pattern of payments is that tax obligations for the previous quarter are not due until 30 days after the close of the quarter. As a result, the cash received by the City through the end of September does not include third quarter payments for many significant revenue streams. These delays are "resolved" at year end. The City's financial books for the previous year are not closed until late February so that all fourth quarter and annual tax payments can be "accrued" back to the previous year. As a result, the fourth quarter revenue report will not be complete until March of next year, after the accrual process is completed.

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 54% of the GF revenues currently anticipated for 2022. These results are 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 the revised August forecast. As shown here, actual year-to-date GF receipts totaled $955.7 million as of September 30th. This represents about 54% of the total $1.75 Billion that is anticipated under the revised forecast.

The third quarter total is $11 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. However, this simple comparison does not fully capture the nuance of the current circumstances. In 2022, GF revenues rely on an unusually large set of fund transfers. The budgeted transfers, which total $156 million, including more than $85 million from the Payroll Expense Tax (PET) Fund. These transfers have yet been completed, which has the effect of understating total revenues relative to past percentages. At the same time, the pace of total 2022 revenue payments have been accelerated beyond standard expectations by the delayed payment of 2021 PET obligations. These payments, which now exceed $40 million, have the effect of inflating the share of GF revenue relative to what normally would have been tallied by the end of September. In addition, the lump sum payment of $60 million associated with the sale of the Mercer Street "mega block" has inflated the year-to-date pace of payments for the "Service Charge and Reimbursement" category. As detailed below, setting aside these anomalies, payments of the City's most significant and economically dependent revenues are tracking very close to forecasted levels.



Total General Fund Revenues - $ Millions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$115.8	$633.9	$944.3	---
Anticipated Revenue Based on Historic Qrtly Patterns	$126.7	$563.8	$955.7	$1,751.4
Difference	*($10.9)*	*$70.1*	*($11.4)*	---

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.

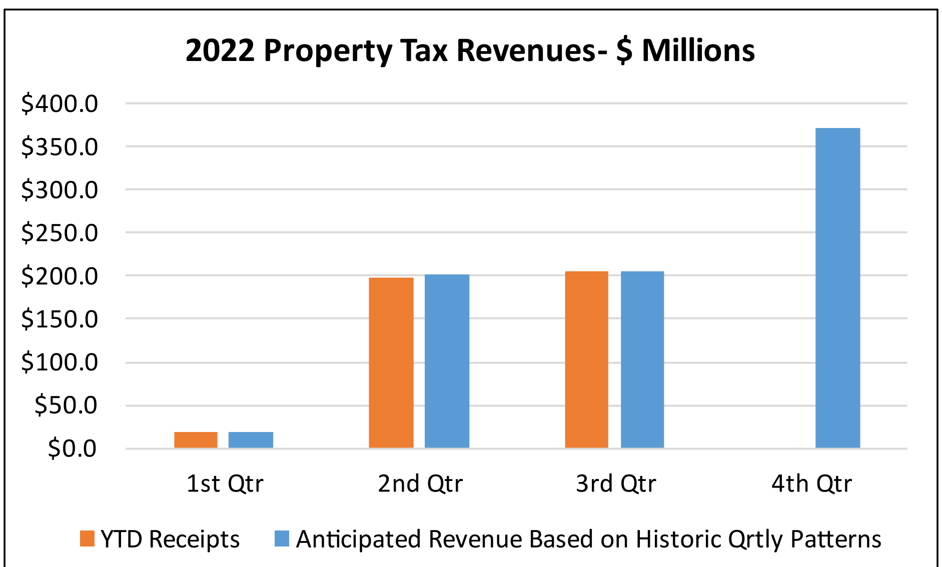
General Fund Revenues Year-to-Date – Major Revenue Categories

Source	2022 YTD	2022 Revised Revenue Forecast	Percent of 2022 Revised Forecast	Average Percent YTD, *Data from 2018 & 2019*
Property Tax	$205,495,141	$371,631,405	55%	55%
Sales Tax	$183,077,121	$326,077,911	56%	56%
Business and Occupation (B&O) Tax	$159,277,098	$326,904,459	49%	46%
Private Utility Taxes	$28,462,458	$41,658,755	68%	68%
Public Utility Taxes	$124,392,819	$179,475,418	69%	66%
Other City Taxes	$10,322,867	$19,235,566	54%	46%
Parking Meters	$17,300,193	$23,854,043	73%	74%
Court Fines	$9,518,078	$12,805,471	74%	72%
Revenue from Other Public Entities	$16,092,828	$24,556,555	66%	63%
Grants	$12,842,687	$59,795,272	21%	47%
Fund Balance Transfers	$64,733	$155,911,953	0%	28%
Service Charges and Reimbursements	$89,466,875	$100,472,370	89%	59%
Licenses, Permits, Interest, and (all) Other	$44,436,431	$67,130,078	66%	60%
Payroll Tax - Late Payments	$43,564,193	$41,902,000	104%	NA
Total	**$944,313,521**	**$1,751,411,256**	**54%**	**55%**

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 third quarter. Consistent with this expectation, results to date show that the City has received 55% of expected payments, matching the third quarter average. Actual revenues are about $1 million more than projected at this point, but



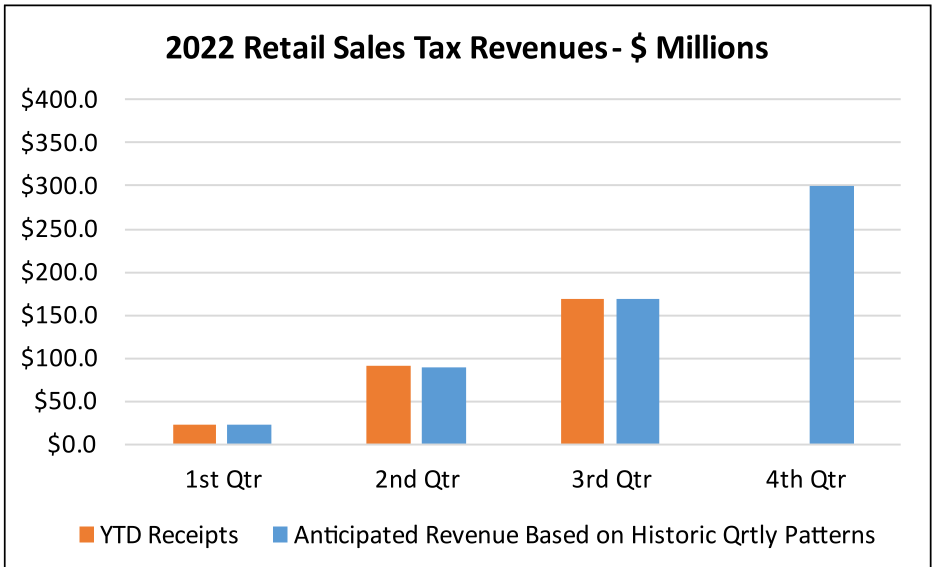
Property Tax Revenues - $ Millions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$17.8	$197.4	$205.5	---
Anticipated Revenue Based on Historic Qrtly Patterns	$18.3	$202.2	$204.5	$371.6
Difference	*($0.5)*	*($4.9)*	*$1.0*	---

that is just a result of rounding issues in the calculation of the year-to-date vs. the historic percentages. In any case, 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.

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. At the end of the third quarter, the City has thus received payment for taxable sales activity through the end of July. At the end of the year, the City waits until DOR distributes payments corresponding to November and December sales before closing the books.



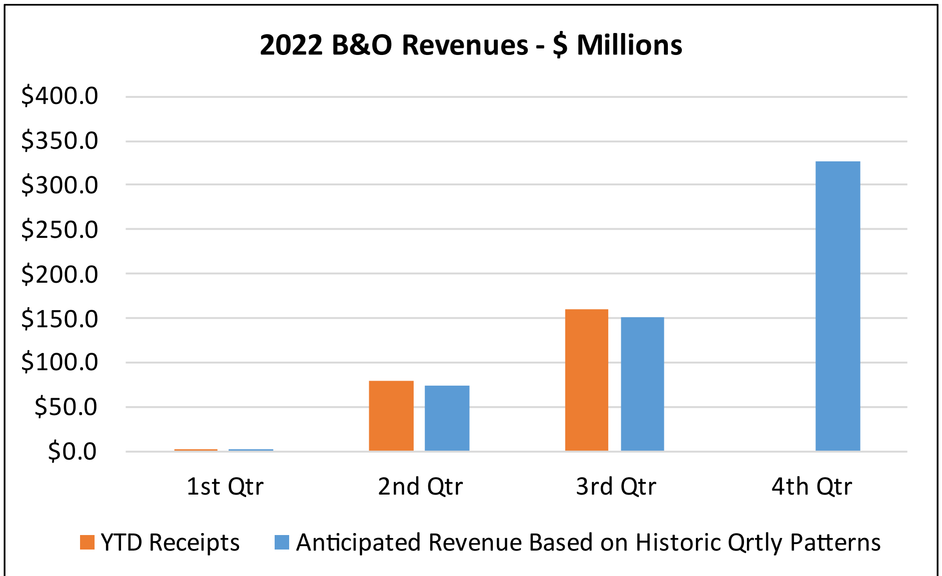
Retail Sales Tax Revenues - $ Millions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$22.1	$91.4	$168.1	---
Anticipated Revenue Based on Historic Qrtly Patterns	$21.9	$88.9	$168.8	$299.7
Difference	*$0.2*	*$2.5*	*($0.7)*	---

Thus, it is no surprise that the City has received just 56% of anticipated sales tax revenues through the end of the third quarter. Actual revenues for the first three quarters fell just $700,000 of what we would expect based on recent history. In addition to the historic comparison, we also track year-to-date payments relative to the specific monthly forecasts developed as part of the Forecast Office's more detailed modeling of this revenue stream. Based on this comparison, current payments are about $1 million ahead of our expectations from the August forecast.

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 September generally represent about 46% of the annual total, as they do not include most 3rd quarter obligations.



B&O Tax Revenues - $ Millions

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$2.9	$79.8	$159.3	---
Anticipated Revenue Based on Historic Qrtly Patterns	$0.1	$74.2	$151.2	$326.9
Difference	*$2.7*	*$5.5*	*$8.1*	---

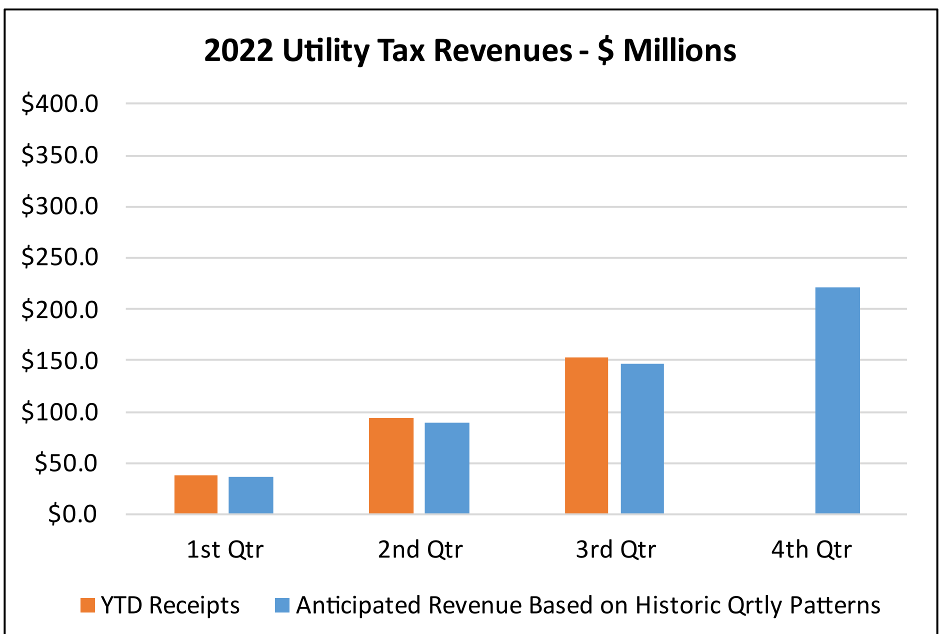
In addition, as was explained in the second quarter report, one recent change has further complicated efforts to cleanly track B&O payments on a quarterly basis. Smaller businesses and new taxpayers have always been allowed to pay their B&O taxes annually, rather than on a quarterly basis. Prior to last 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 $8 million, this is largely due to the delayed 2021 payments. Our more detailed forecast modeling of anticipated B&O payments indicates that payments through the end of September are about $1 million below the underlying forecast. Current payments received in the third quarter were closely in line with expectations, but the overall payments for past quarterly and annual obligations, audits, and refunds were in total much lower than expected.

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 third quarter of 2022. Payments generally arrive with a one-month lag, so the results for the third quarter generally reflect payments through August, but not September. To date, actual revenues are



Utility Tax Revenues - $ Millions

	1st Qtr	**2nd Qtr**	**3rd Qtr**	**4th Qtr**
YTD Receipts	$38.6	$94.6	$152.9	---
Anticipated Revenue Based on Historic Qrtly Patterns	$36.9	$89.6	$146.8	$221.1
Difference	*$1.7*	*$5.0*	*$6.0*	---

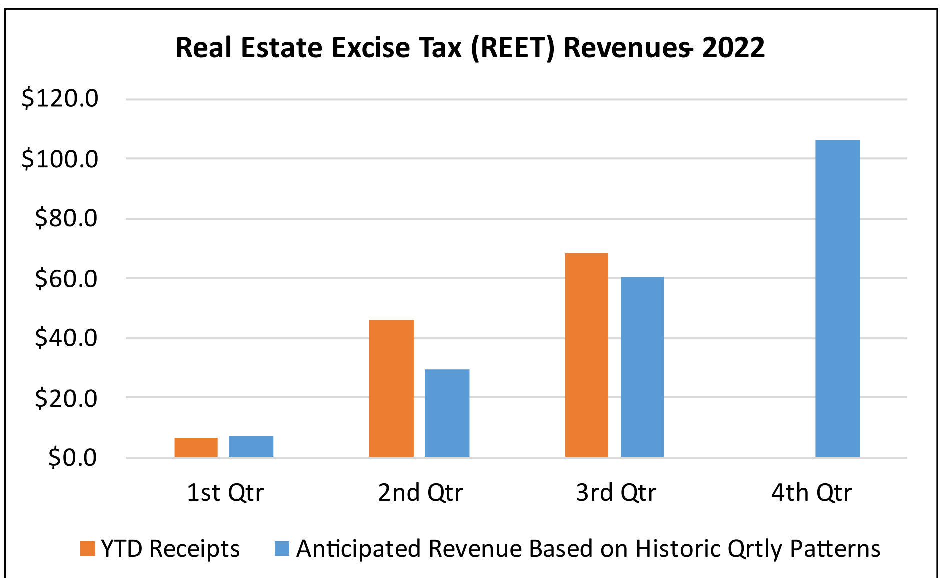
tracking about $6 million ahead of the revised forecasts and the historic pattern of payments generally seen through the third quarter. As part of the November forecast update, staff will review whether the pace of year-to-date payments justifies an increase in the revenue forecast for any of the individual public and private utilities included in this overall category.

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, large, hard-to-predict transactions, such as the sale of downtown office towers or apartment



REET Revenues - $ Millions	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	$6.6	$46.0	$68.6	---
Anticipated Revenue Based on Historic Qrtly Patterns	$7.1	$29.5	$60.5	$106.6
Difference	*($0.5)*	*$16.5*	*$8.0*	---

buildings, can have a significant impact on the revenues reported in any single quarter. In addition, regulatory and/or tax incentives sometimes 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 are posted 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 2021 in an effort to provide a broader basis for comparison.

Consistent with the first point regarding the impact of large transactions, the year-to-date totals several high value real estate transactions that have produced revenues above what the annual forecast would imply for this time of the year. At this stage, actual receipts are outpacing the historic third quarter share of annual revenues by $8.0 million. However, recent monthly totals indicate that the pace of taxable real estate transaction has slowed dramatically, and with interest rates increasing sharply in recent weeks, the pace of real estate activity is likely to slow in the fourth quarter. These developments will likely lead to a downward revision of the 2022 forecast as part of the November update, but that will be determined in the coming weeks as part of the overall November forecasting process.

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 payroll, 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, this report only reflects payments through the second quarter of 2022.

The results for the second set of quarterly payments surprised somewhat in that they showed a pattern of lower payments, relative to the first quarter. After receiving $62 million in first quarter payments, the City received only about $54 million in the second quarter payments. These quarterly payments are based on taxpayers' estimates of 2022 annual obligation, because the tax is applied to annual payroll, and thus final obligations and "true-ups" cannot occur until after the end of the year. In terms of potential explanations for the decline, there is no evidence that overall work force of the businesses paying the tax has shrunk, so the issue must be an expectation of lower average taxable compensation. One likely explanation for declining taxable compensation are the declining stock values. The technology sector accounts for a significant share of the total PET revenues, stock awards are an important element of compensation in this sector, and through the first half of the year stock values for many large technology companies have declined. In addition, "work from home" may also account for some share of the decline. As such work arrangements become more permanent, firms may be taking advantage of PET provisions that exempt compensation paid for the share of any employees work that is conducted outside the city. Use of these provisions requires that the location of work hours be tracked in some way, and firms may be moving to payroll tracking methods that make this possible.

At the same time that 2022 estimated payments are being posted each quarter, the City is also 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. As of the end of September, these late payments total more than $43.5 million. This figure exceeds the $41.9 million included in the most recent forecast update as late 2021 payments have continued to post even after the August forecast update was finalized. Further payments may yet still be received, but we have no basis for forecasting how much.

The increase payments for 2021 imply that the 2021 tax base was larger than we first understood. At the same time, the lower second quarter payments suggest that the tax base for 2022 will be smaller than in 2021. In this context, the August forecast update revised the 2022 PET forecast to just under $280 million. Once the third quarter results are posted in late October and early November, will be able to reassess this forecast.

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 third 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)	$205,495,141	$371,631,405	55%	55%
Retail Sales Tax	$168,107,545	$299,657,705	56%	56%
Retail Sales Tax - Criminal Justice	$14,969,576	$26,420,206	57%	56%
Business & Occupation Tax	$159,277,098	$326,904,459	49%	46%
Utility Tax - Natural Gas	$8,717,539	$12,663,083	69%	72%
Utility Tax - Steam	$771,362	$1,477,706	52%	75%
Brokered Natural Gas	$1,030,971	$1,943,220	53%	65%
Utility Tax - Solid Waste	$1,149,091	$2,154,746	53%	62%
Utility Tax - Cable Television	$10,047,343	$13,320,000	75%	67%
Utility Tax - Telephone	$6,746,151	$10,100,000	67%	66%
Utility Tax - City Light	$41,842,532	$59,475,123	70%	69%
Utility Tax - City Water	$22,335,578	$34,054,544	66%	61%
Utility Tax - Drainage & Wastewater	$40,315,157	$62,530,104	64%	67%
Utility Tax - City Solid Waste	$21,406,729	$28,298,579	76%	65%
Parking Meters	$17,300,193	$23,854,043	73%	74%
Court Fines	$9,518,078	$12,805,471	74%	72%
Fund Balance Transfers	$64,733	$155,911,953	0%	28%
Grants	$12,842,687	$59,795,272	21%	47%
Licenses, Permits, Interest Income and Other	$39,451,952	$50,814,694	78%	71%
Business License Fees	$4,984,479	$16,315,384	31%	26%
Other Taxes	$5,833,255	$8,045,118	73%	67%
Transportation Network Company Tax	$2,982,434	$6,307,516	47%	Insufficient Data
Revenue from Other Public Entities	$16,092,828	$24,556,555	66%	63%
Service Charges & Reimbursements	$89,466,875	$100,472,370	89%	59%
Payroll Tax	$43,564,193	$41,902,000	104%	NA
Total	**$944,313,521**	**$1,751,411,000**	**54%**	**55%**

Regarding GF results for the first quarter, Section 3 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 – Water: Revenues from the tax on SPU's water service are somewhat ahead of what would be anticipated given the current forecast and the pace of payments seen in previous years. Seattle's unusually warm, dry summer has likely increased demand, and as part of the November forecast update we will evaluate whether an increase in the overall annul forecast is justified.

Utility Tax – City Solid Waste: Solid waste tax revenues are also running ahead of expectations, and the annual forecast for this revenue source will also be evaluated as part of the November revenue forecast update.

Grants: Grant revenues differ significantly from other sources in that these revenues are paid to the City on a reimbursement basis, only as costs are incurred. In addition, the full amount of grant awards is generally appropriated at the time the grant is accepted, even if spending is expected to occur over two or more calendar years. While the current pace of grant spending trails that seen in previous years, the 2022 budget includes an unusually large amount of grant-backed appropriations and some share of these appropriations will likely be carried forward into 2023. The 2022 year-end process will provide an opportunity to determine exactly what share of the grant appropriations has been spent, what share needs to be carried forward into 2023, and how the revenue forecast for 2023 will need to be adjusted at that time to support these carry-forward appropriations.

Transportation Network Company (TNC) Tax: The City recently imposed 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 third quarter results only reflect payments from the first 6 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.

Service Charges and Reimbursements: As noted previously, the apparent strong performance of this category simply reflects the large, $60 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 third 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 *Data from 2018 & 2019*
General Government Revenues:				
Payroll Tax	$116,320,068	$279,641,893	42%	Insufficient Historic Data
Admission Tax	$12,672,293	$20,345,780	62%	59%
Sweetened Beverage Tax	$9,612,713	$21,766,440	44%	47%
Short-Term Rental Tax	$4,292,414	$9,048,340	47%	49%
REET I	$34,276,728	$53,301,599	64%	57%
REET II	$34,276,728	$53,301,599	64%	57%
Transportation-Specific Revenues:				
Trans. Ben. Dist. - Sales & Use Tax	$28,797,711	$51,029,945	56%	56%
Trans. Ben. Dist. - Vehicle License Fee	$10,890,849	$15,475,865	70%	66%
Commercial Parking Tax	$24,850,661	$37,867,059	66%	64%
SSTPI - Trafffic Fines	$6,464,629	$12,721,602	51%	72%

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, the one other result of note is the apparent underperformance of the SSTPI Traffic Fine revenues (which comes from school-zone speed cameras). 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 generate additional revenues now that school has resumed.

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 only reflect payments through the second quarter.