

Office of Economic & Revenue Forecasts
Revenue Monitoring Report
First Quarter 2023

Ben Noble, Jan Duras, and Sean Thompson

May 2023



1. Introduction

Structure and Schedule of Quarterly Revenue Reports. This represents the first of four quarterly revenue reports that the Office of Economic and Revenue Forecasts (Forecast Office) will provide in 2023. This marks the second year that the Forecast Office has produced these quarterly reports. The current report documents revenues received through March 31st 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 April 10th of this year. This forecast update replaced the November forecasts, which underlie the City’s 2023 Budget, as it was adopted by the City Council and signed by the Mayor.

The structure of this report remains largely unchanged from the previous quarterly summaries: Following this introduction, 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.

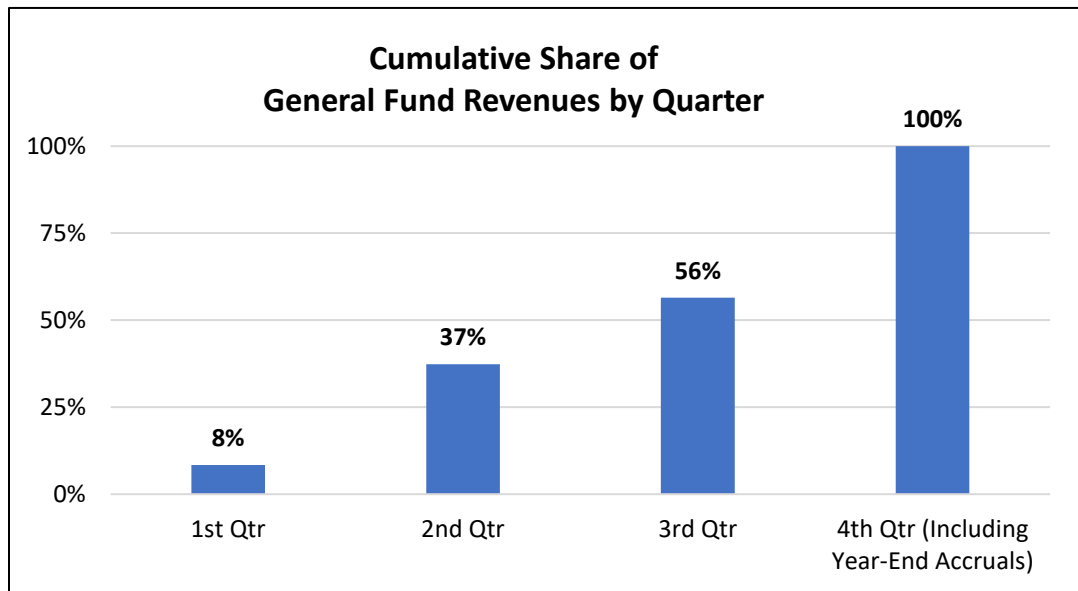
As was noted in the previous reports, tracking and comparisons are done relative to the share of the annual forecast that is typically seen for each revenue stream by the end of the current quarter. The narrative in the report includes observations and explanations for situations in which realized revenues differ significantly from the usual pattern of revenue receipts. For 2023, we are generally using the average share of revenues collected in each quarter of 2018, 2019, 2021 and 2022 as our “usual 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 2020. For some individual revenues streams, we have also excluded the 2021 results because the timing of tax payments was still being affected by the COVID pandemic.

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.

Timing of GF Revenue Payments. Although one might naively assume 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"



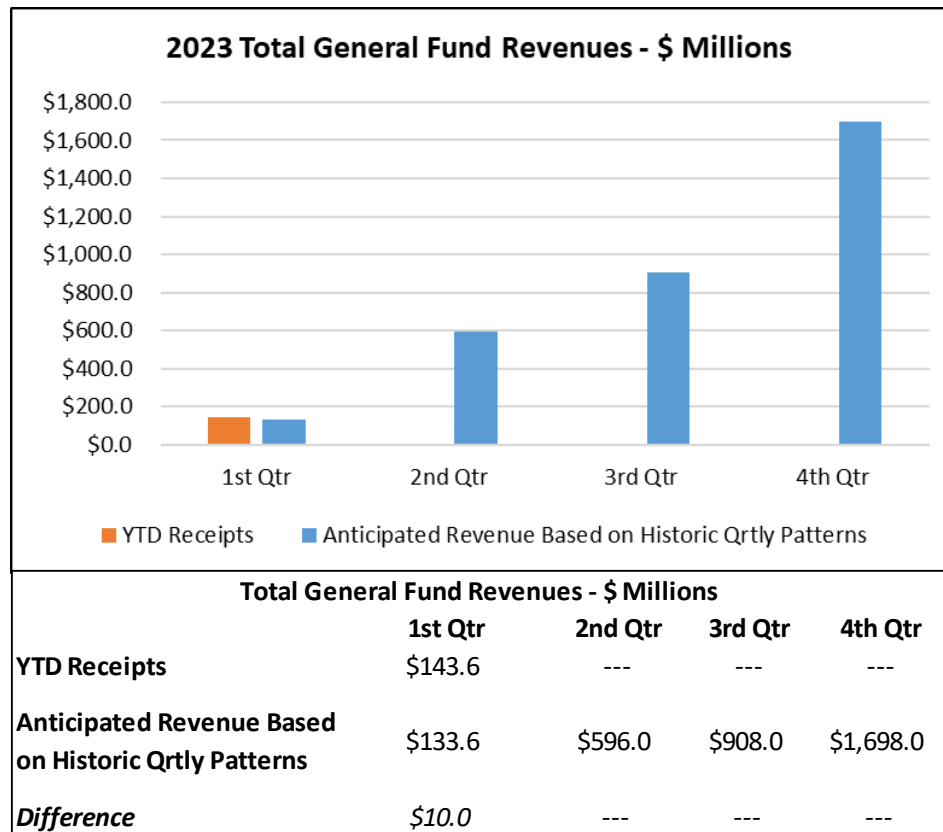
back to the previous year. In addition to the impact of accruals, the schedule of required payments for significant sources including both Property and B&O taxes shifts revenue out of the first quarter and toward the remainder of the year.

Per the chart above, 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

GF Revenue Results. As reported in the chart and associated table below, the first quarter GF revenues are \$10 million more than we would have expected if we took the current 2023 annual forecast and allocated it across the year based on recent quarterly patterns. Roughly a third of the \$10 million comes from court fines, and results from the Court’s process of starting up the collections process again after suspending it during COVID. This “restart” process has shifted revenues relative to past annual patterns. The other

revenue categories that have notably outperformed past patterns are “Permits, Interest Income, and (all) Other” and “Business License Fees”. This year, with interest rates running high, forecast interest earnings significantly exceed recent years. Interest income is consistently deposited



throughout the year and is more immediate compared to other revenues in this category. Thus, interest income is the cause for overperformance in the “Permits, Interest Income, and (all) Other” group as interest revenues have become a larger share of the aggregate. The additional revenue from Business License Fees represents a shift in timing, rather than a net increase in City revenues. Compared to past years, more businesses delayed license renewal payments and made them in early 2023 rather than late 2022. This resulted in a revenue shortfall relative in the 4th quarter of 2022, and now an increase in 2023 1st quarter revenues, relative to past years.

Another factor explaining the relative overperformance of first quarter revenues is the rather surprising contribution of Payroll Expense Tax revenues. The Payroll Expense Tax (PET) only contributes to the General Fund through late 2021 payments. All payments for Payroll Expense Tax obligations incurred in 2022 and after are deposited into a separate fund. The late 2021 payments received in the first quarter of 2023 which totaled \$2.1 million, were not anticipated our forecast, as these payments are now more than one year late. 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.

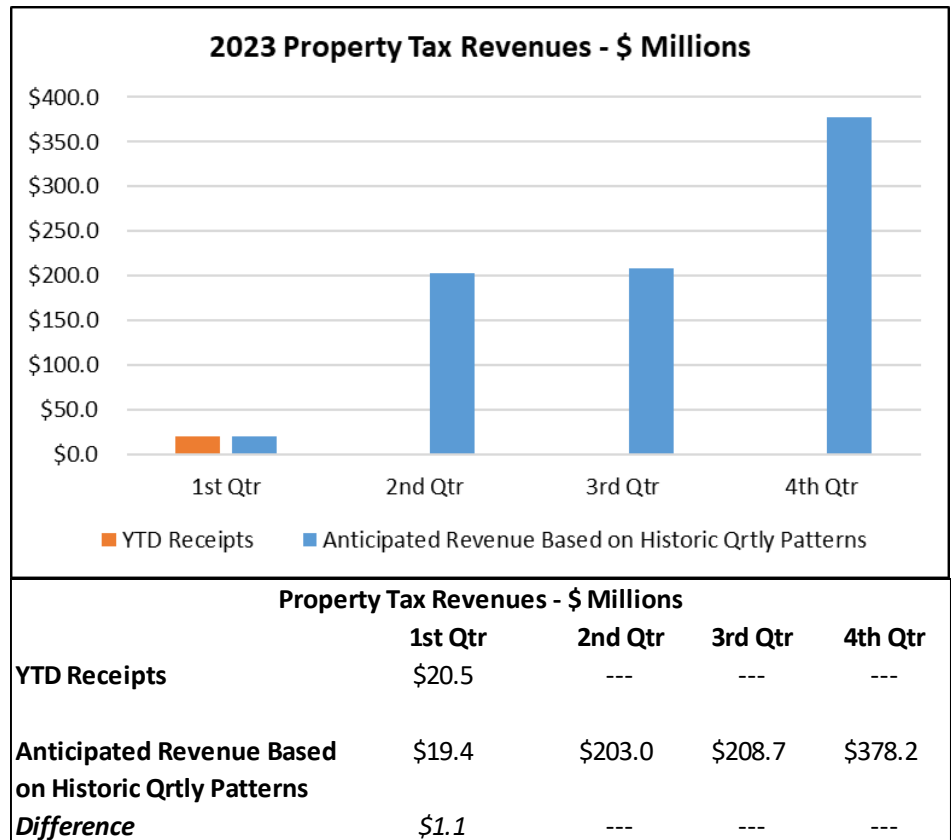
The table below provides additional detail regarding the GF’s major revenue sources. The subsections that follow provide additional information regarding the most significant revenue sources, with a further detailed breakdown of year-to-date receipts provided in Section 3.

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

Revenue Source	2023 Q1 Revenues	2023 Revised Forecast (April)	Percent of Revised 2023 Forecast	Average Percent YTD
Property Tax (Including Medic One Levy)	\$20,509,486	\$378,209,926	5.4%	5.1%
Retail Sales Tax	\$25,952,912	\$343,794,268	7.5%	7.6%
Business & Occupation Tax	\$4,069,287	\$353,735,129	1.2%	0.8%
Utility Tax - Private	\$8,411,798	\$42,134,424	20.0%	23.3%
Utility Tax - Public	\$34,347,052	\$191,909,628	17.9%	18.6%
Other City Taxes	\$1,654,450	\$13,662,239	12.1%	0.0%
Parking Meters	\$6,858,927	\$36,927,496	18.6%	19.3%
Court Fines	\$6,140,635	\$14,695,375	41.8%	19.1%
Revenue from Other Public Entities	\$2,058,860	\$19,493,734	10.6%	13.3%
Grants	\$3,618,751	\$51,300,227	7.1%	9.8%
Fund Balance Transfers	\$0	\$117,260,147	0.0%	0.0%
Service Charges & Reimbursements	\$8,228,639	\$69,810,110	11.8%	8.2%
Licenses, Permits, Interest Income and Other	\$19,543,142	\$62,839,820	31.1%	20.1%
Payroll Tax	\$2,164,093	\$2,164,093	100.0%	NA
Total General Fund Revenues	\$143,558,032	\$1,697,936,616	8.5%	8%

Property Tax

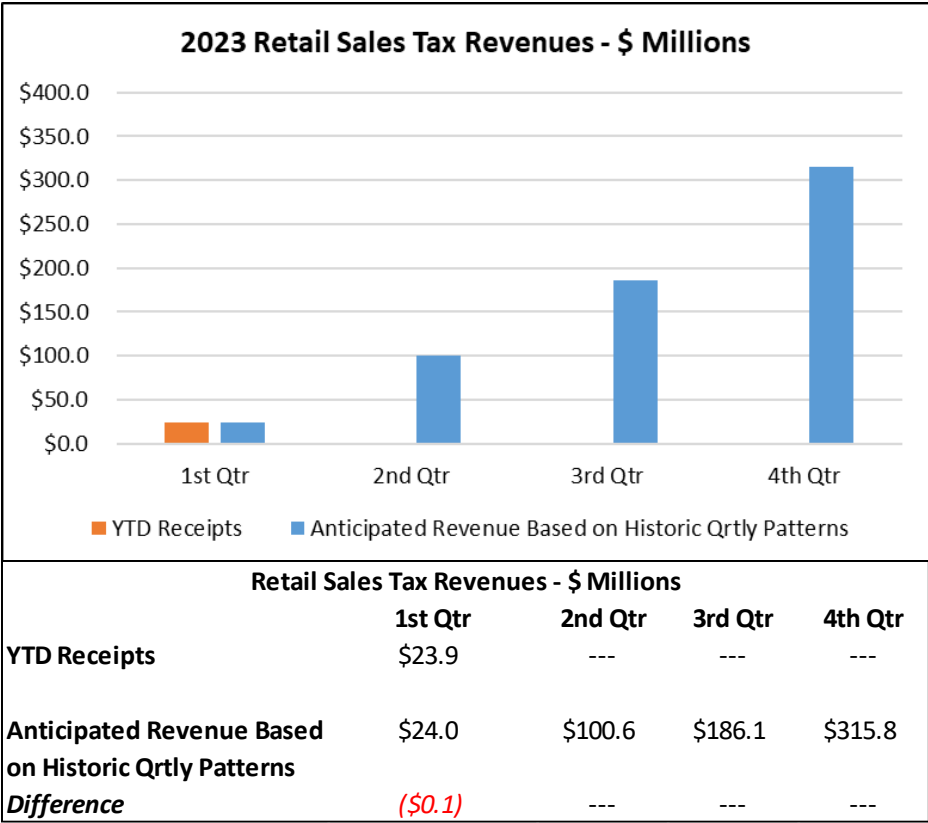
Property tax payments are due twice a year, half in April and the remainder in October. As a result, the first quarter revenue results are anticipated to be small and early payments. Consistent with this expectation, the results to date show that the City has received 5% of the expected payments. Actual revenues are about \$1.1 million more than projected at this point, not a significant amount compared to the \$378 million annual forecast. 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 first quarter, the City will thus receive payment for taxable sales activity through the end of January.



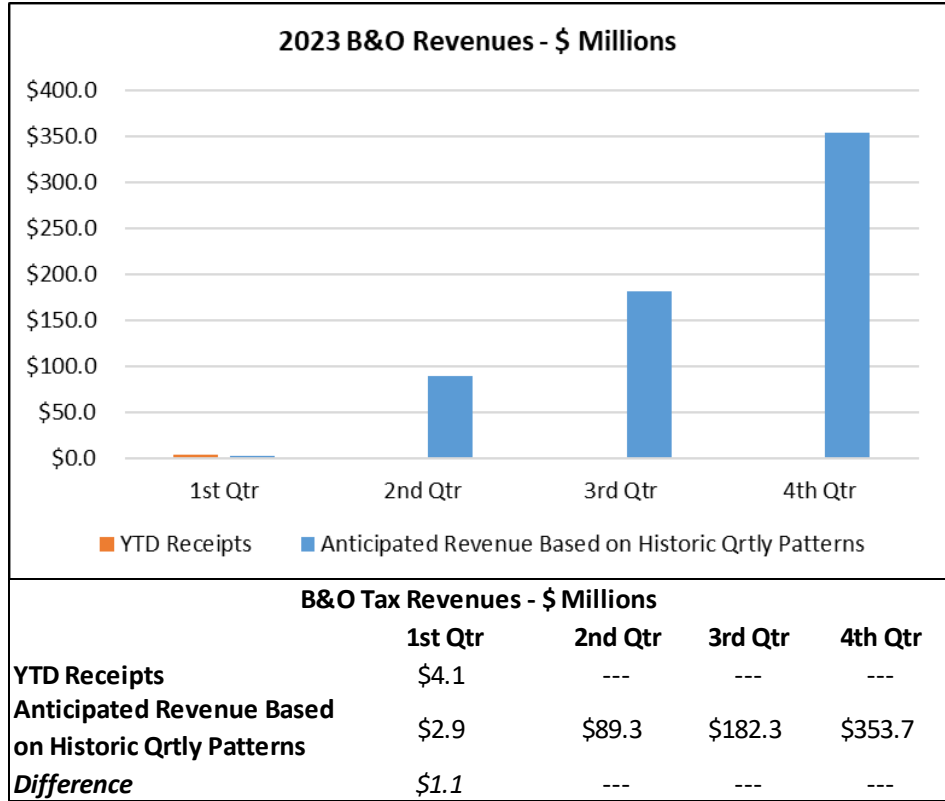
Thus, it is no surprise that the City has received just 7.5% of anticipated sales tax revenues through the end of the first quarter. Actual revenues for the first quarter, which again only reflect January payments, fell just \$100,000 short of what we would expect based on recent history.

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 March generally represent only 1% of the annual total.

At this stage, B&O revenues are ahead of what we would anticipate, but not significantly so.

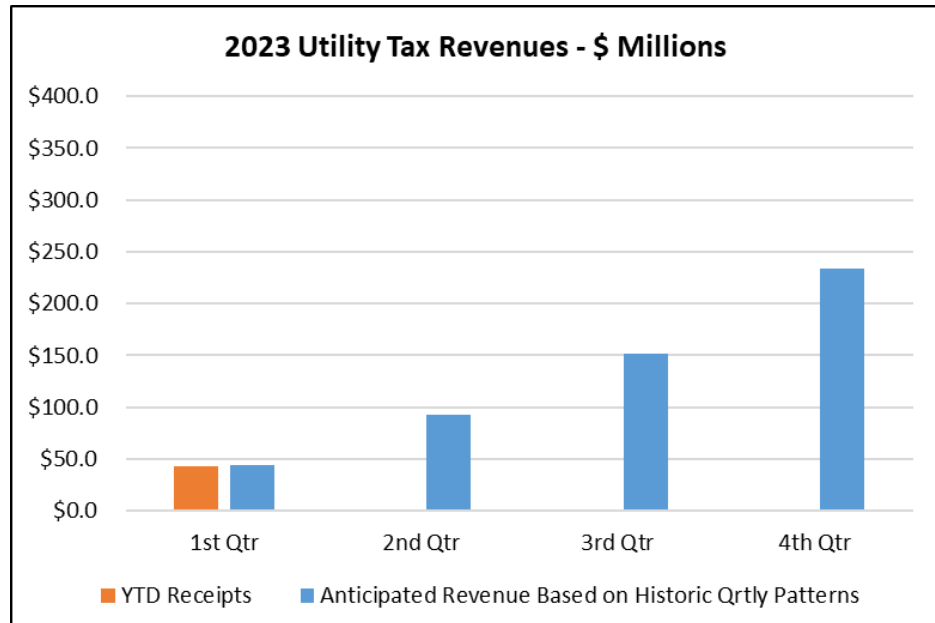


Utility Taxes

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 14% of the overall 2023 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 first quarter of 2023. Payments generally arrive with a one-month lag, so the results for the first quarter generally reflect payments through the end of February. To date, actual revenues are tracking about \$1.9 million below the historic pattern of payments generally seen through the first quarter. It is too early at this point



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$42.8	---	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$44.6	\$92.2	\$151.4	\$234.0
Difference	(\$1.9)	---	---	---

to determine whether this under-collection will persist, but we will continue to track it closely.

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)

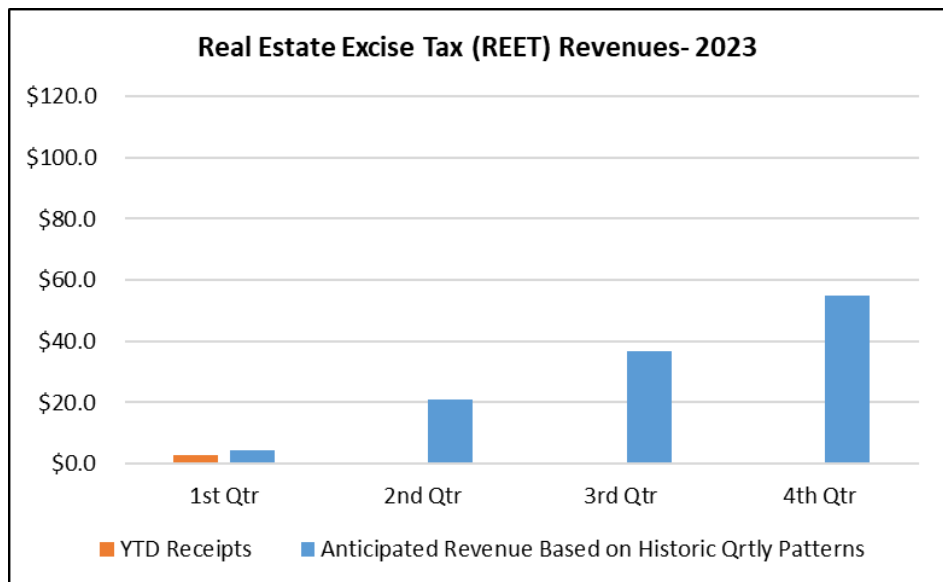
REET is collected on every property transaction that occurs within the City of Seattle.

The tax is composed of two separate 0.25% taxes (for a total of 0.5%), which can each be used for different purposes.

As expected in prior forecasts, rising interest rates and uncertainty around the economy has resulted in a significant slowdown in real estate activity and thus REET revenue.

We anticipate these conditions to persist, and

accordingly the annual REET forecast for 2023 is significantly lower than totals received in 2022. Unfortunately, to date, actual revenues are not actually keeping pace with even that lower forecast. Through the first quarter, year-to-date REET receipts were just \$2.6 million, \$1.8 million below the level implied by historic patterns. While it is too early to conclude that the initial forecast is overly optimistic, we will be tracking REET revenues closely to determine if a reduction in the 2023 forecast will be necessary.



REET Revenues - \$ Millions				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$2.6	---	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$4.4	\$20.9	\$36.9	\$55.0
Difference	<i>(\$1.8)</i>	---	---	---

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. Estimated payments are due quarterly, but not until one month after the end of the quarter. Thus, first quarter payments are not due until April 30th. As a result, we did not anticipate any significant payments by March 31st, which is the “cut off” date for this report. Consistent with this expectation, revenues to date total just \$3.5 million, which is just over 1% of the annual forecast of \$263 million.

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 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.

Source	2023 Q1 Revenues	2023 Revised Forecast (April)	Percent of Revised 2023 Forecast	Average Percent YTD
Property Tax (Including Medic One Levy)	\$20,509,486	\$378,209,926	5.4%	5.1%
Retail Sales Tax	\$23,856,842	\$315,807,409	7.6%	7.6%
Retail Sales Tax - Criminal Justice	\$2,096,071	\$27,986,859	7.5%	7.8%
Business & Occupation Tax	\$4,069,287	\$353,735,129	1.2%	0.8%
Utility Tax - Natural Gas	\$3,729,472	\$13,471,080	27.7%	32.6%
Utility Tax - Steam	\$297,453	\$1,356,390	21.9%	22.0%
Brokered Natural Gas	\$429,479	\$2,067,212	20.8%	16.6%
Utility Tax - Solid Waste	\$450,115	\$1,579,742	28.5%	18.4%
Utility Tax - Cable Television	\$991,102	\$12,100,000	8.2%	18.3%
Utility Tax - Telephone	\$2,514,176	\$11,560,000	21.7%	19.6%
Utility Tax - City Light	\$11,731,013	\$60,857,872	19.3%	20.4%
Utility Tax - City Water	\$4,962,311	\$37,205,047	13.3%	15.3%
Utility Tax - Drainage & Wastewater	\$10,238,088	\$65,091,668	15.7%	18.4%
Utility Tax - City Solid Waste	\$7,415,640	\$28,755,041	25.8%	19.6%
Parking Meters	\$6,858,927	\$36,927,496	18.6%	19.3%
Court Fines	\$6,140,635	\$14,695,375	41.8%	19.1%
Fund Balance Transfers	\$0	\$117,260,147	0.0%	0.0%
Grants	\$3,618,751	\$51,300,227	7.1%	9.8%
Licenses, Permits, Interest Income and Other	\$11,315,404	\$41,818,561	27.1%	19.3%
Business License Fees	\$8,227,737	\$21,021,259	39.1%	21.6%
Other Taxes	\$1,654,418	\$8,331,977	19.9%	18.3%
Transportation Network Company Tax	\$32	\$5,330,262	0.0%	0.0%
Revenue from Other Public Entities	\$2,058,860	\$19,493,734	10.6%	13.3%
Service Charges & Reimbursements	\$8,228,639	\$69,810,110	11.8%	8.2%
Payroll Tax	\$2,164,093	\$2,164,093	100.0%	NA
Total	\$143,558,000	\$1,697,937,000	8.5%	8%

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: Utility tax revenue from Natural Gas is below expectations for the first quarter, most likely in part because of slightly higher temperatures occurring earlier in the year than in previous years. We will continue to monitor this revenue source and determine any revisions needed as part of upcoming forecast updates.

Utility Tax – Solid Waste: Solid waste tax revenues are also running ahead of expectation. At this stage, we have no clear explanation for this result, but we will continue to monitor these results and the annual forecast for this revenue will also be reevaluated as part of upcoming forecast updates.

Non-General Fund Revenues

Using the same format employed for the GF revenue sources, the table below provides an accounting of first 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	2023 Q1 Revenues	2023 Revised Forecast (April)	Percent of Revised 2023 Forecast	Average Percent YTD
General Government Revenues:				
Payroll Tax	\$3,539,845	\$263,261,414	1%	Insufficient Historic Data
Admission Tax	\$2,025,641	\$22,024,156	9%	12%
Sweetened Beverage Tax	\$241,161	\$20,933,302	1%	2%
Short-Term Rental Tax	\$0	\$10,286,588	0%	0%
REET	\$2,619,638	\$55,018,390	5%	8%
Transportation-Specific Revenues:				
Trans. Ben. Dist. - Sales Tax	\$4,124,912	\$53,780,144	8%	7%
Trans. Ben. Dist. - VLF	\$2,481,556	\$18,261,100	14%	17%
Commercial Parking Tax	\$7,698,250	\$48,376,675	16%	14%
SSTPI - School Zone Speed Enforcement	\$3,285,885	\$11,274,013	29%	25%

The results for REET were discussed above and none of the other non-GF revenues shows a notable deviation from historic patterns. Per our normal practice, we will continue to monitor all of them and will formally review our forecasts as part of the August forecast update.