

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

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1. Introduction

Structure and Schedule of Quarterly Revenue Reports. This report represents the second 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 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. 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 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 nine 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 2019, 2021 and 2022 as our “usual pattern” of payments. Detailed and consistent 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.

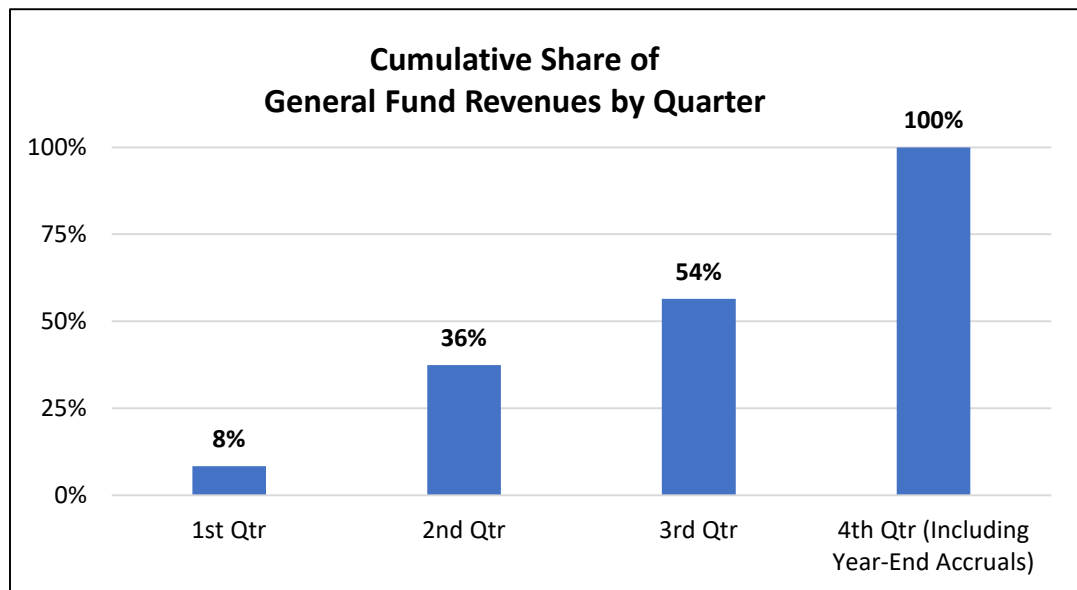
In addition, for both Sales and B&O tax we have supplemented this historic analysis with more detailed assessments of the likely timing of tax payments over the course of the current year. These assessments are informed by our underlying economic projections and how we anticipate the local economy to develop over the course of the year. For

example, if our forecast anticipates increasing overall economic activity in the second half the year, then our projections of economically dependent revenue receipts such as those from Retail Sales and B&O taxes would be skewed towards the second half 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 this skewed pattern of payments 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.

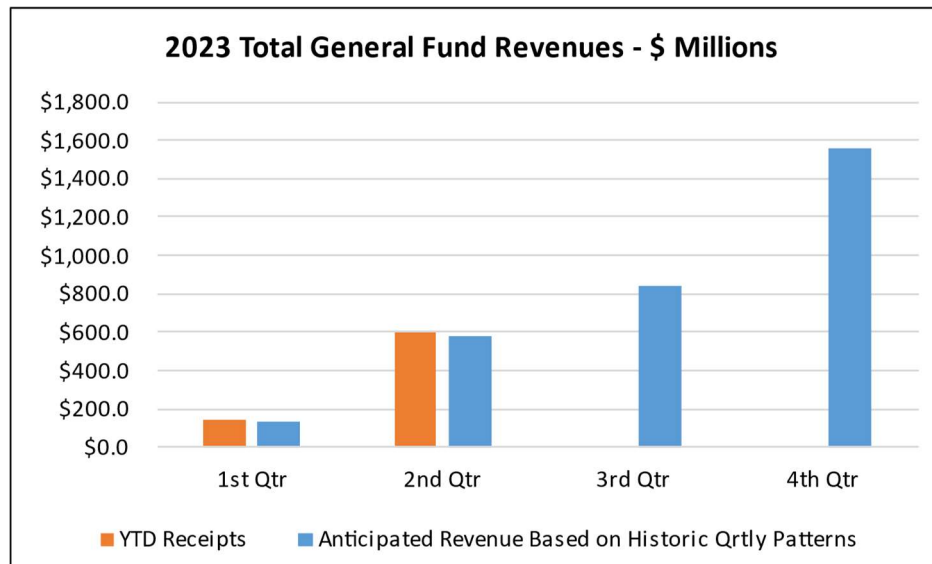
Per the chart above, the City generally receives just 36% of the annual GF revenues by the end of the second quarter (June 30th), so it is difficult to draw any conclusions about the overall trajectory of revenues from the second quarter results. Moreover, in October, when the Forecast Office develops its final forecast of current-year revenues, the City has still only received about 54% 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 second quarter GF revenues are \$21.1 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 fifth of the \$21.1 million comes from court fines, and results from the Court’s process of starting up the collections process again after suspending it during COVID. As we described in the First Quarter report, 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 same pattern of relative over performance among these revenue sources was observed in the first quarter report, and the explanations are essentially the same.



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$143.6	\$597.1	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$133.6	\$576.0	\$903.0	\$1,678.0
Difference	\$10.0	\$21.1	---	---

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 this aggregated category. 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 and 2nd quarter revenues, relative to past years. This pattern will likely hold through the third quarter, and the timing of fourth quarter payments will ultimately determine whether total payments exceed the annual forecast.

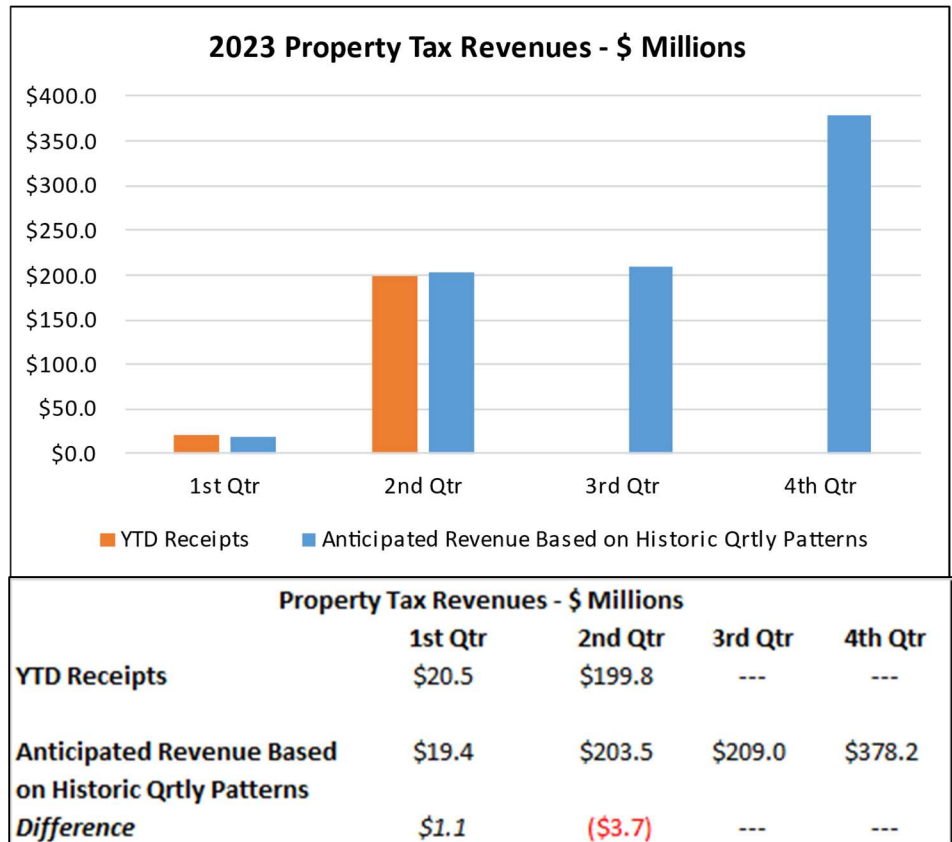
The table below provides further detail regarding the GF’s major revenue sources. The subsections that follow provide further analysis regarding the most significant revenue sources, with a further detailed breakdown of year-to-date receipts provided in Section 3.

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

Revenue Source	2023 Q2 Revenues	2023 Revised Forecast (April)	Percent of Revised 2023 Forecast	Average Percent YTD
Property Tax (Including Medic One Levy)	\$199,761,364	\$378,209,926	52.8%	53.8%
Retail Sales Tax	\$78,489,465	\$343,794,268	22.8%	30.3%
Business & Occupation Tax	\$86,584,414	\$353,735,129	24.5%	23.5%
Utility Tax - Private	\$19,491,365	\$42,134,424	46.3%	45.7%
Utility Tax - Public	\$79,895,037	\$191,909,628	41.6%	39.6%
Other City Taxes	\$5,624,041	\$13,662,239	41.2%	17.2%
Parking Meters	\$16,353,840	\$36,927,496	44.3%	43.8%
Court Fines	\$11,778,415	\$14,695,375	80.2%	44.4%
Revenue from Other Public Entities	\$4,637,265	\$19,465,805	23.8%	32.9%
Grants	\$18,723,148	\$31,919,054	58.7%	26.5%
Fund Balance Transfers	\$0	\$0	0.0%	1.2%
Service Charges & Reimbursements	\$33,671,895	\$68,589,694	49.1%	38.8%
Licenses, Permits, Interest Income and Other	\$39,850,875	\$61,130,523	65.2%	27.9%
Payroll Tax	\$2,270,170	\$2,164,093	NA	N/A
Total General Fund Revenues	\$597,131,294	\$1,558,337,654	38.3%	37%

Property Tax

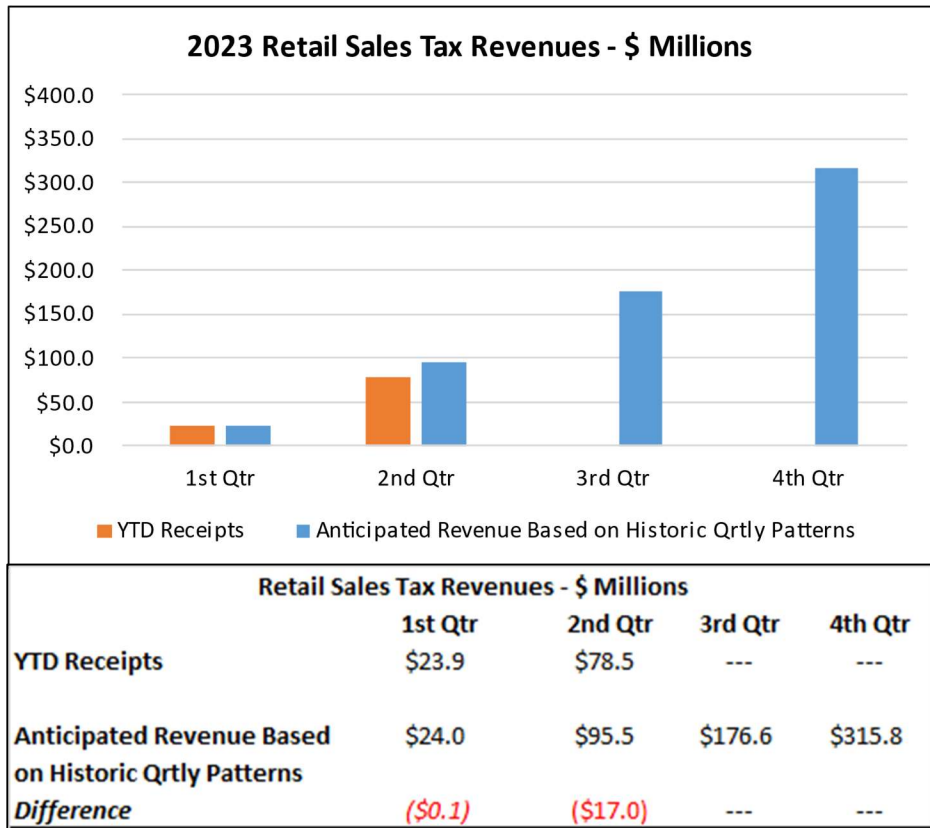
Property tax payments are due twice a year, half in April and the remainder in October. As a result, the 2nd quarter revenue results are anticipated to be roughly half of the annual forecasted results. Consistent with this expectation, the results to date show that the City has received 53% of the expected payments. Actual revenues are about \$3.7 million less 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. Variations in voluntary early payments and late payments from previous years underlie the variation in the quarterly flow of payments from one year to another.

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. This year, however, the City did not receive its’ distribution of April payments in time to process them by the end of June,



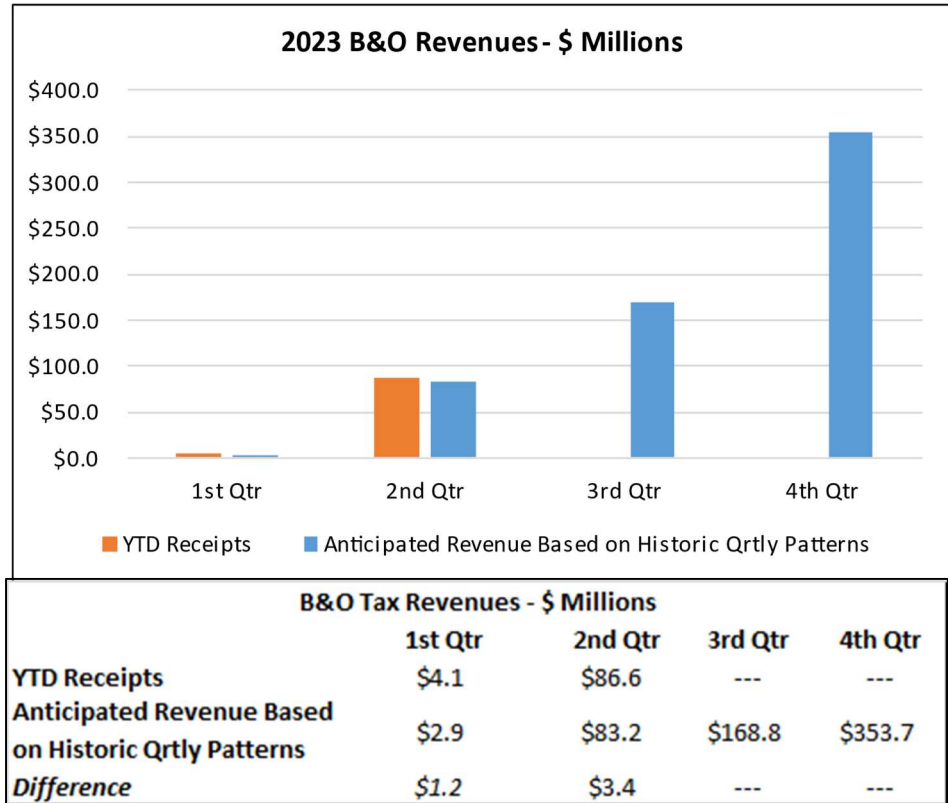
and as a result they are not reflected in this report. As a result, Retail Sales Tax revenue is \$17 million less than forecasted. The City has since processed the April distribution, and when that is considered, our year-to-date revenues are running about \$1.4 million above forecasted, but this is due to non-current payments from previous filing periods.

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 the end of the second quarter generally represent less than 25% of the annual total.

At this stage, B&O revenues are ahead of what recent patterns would suggest, but not significantly so.

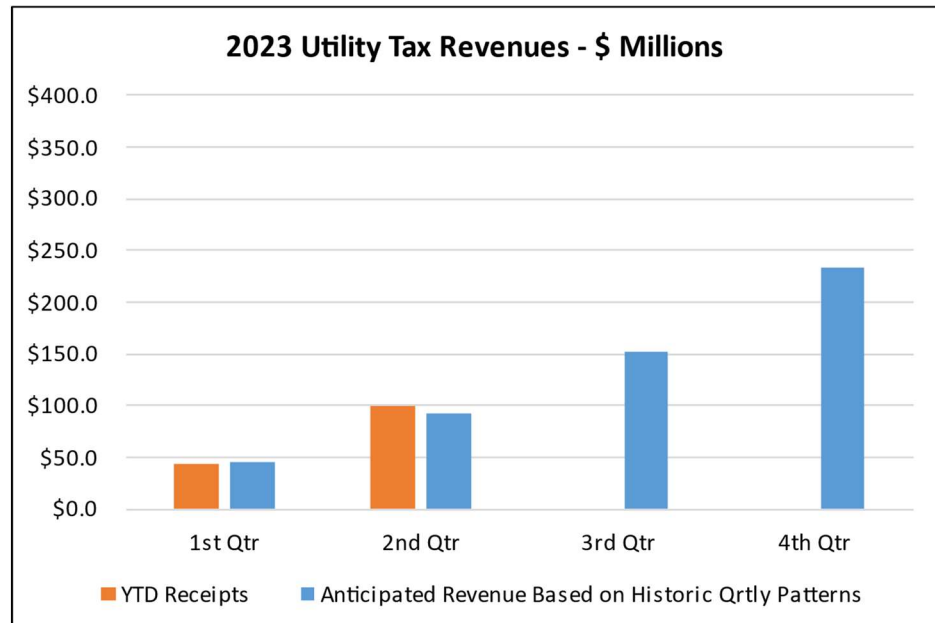


Utility Taxes

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 second quarter of 2023. Payments generally arrive with a one-month lag, so the results for the second quarter generally reflect payments through the end of May. To date, actual revenues are tracking about \$7.7 million above the historic pattern of payments generally seen through the second quarter. This additional



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$42.8	\$99.4	---	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$44.6	\$91.7	\$151.2	\$234.0
Difference	(\$1.9)	\$7.7	---	---

\$7.7 million consists of higher payments that is concentrated between City Light and City Solid Waste, which are both revenues forecasted by Seattle City Light and Seattle Public Utilities respectively.

2.2 Select Non-GF Revenue Sources

The comprehensive table presented below in Section 3 provides summary-level information for nine 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

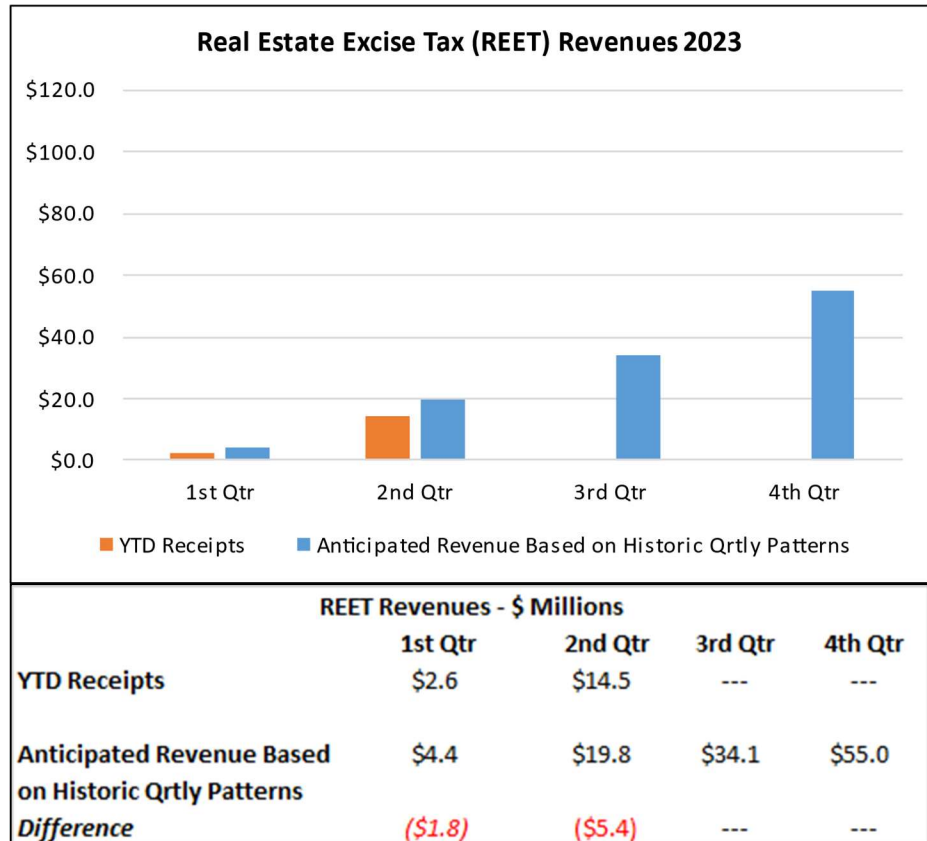
and policy priorities. In advance of this summary presentation, Section 2 concludes with additional detail and discussion regarding two of the largest non-GF revenues: Real Estate Excise Tax and the Payroll Expense Tax.

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 anticipated in our 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 second quarter, year-to-date REET receipts were just \$14.5 million, \$5.4 million below the level implied by historic patterns. These results likely imply that we will need to revise the forecast downward, but a final determination will be made as part of the August forecast update.

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. As of 2022 estimated payments are due quarterly, although not until one month after the end of the quarter. This implies that first quarter payments were not due until April 30th, and second quarter payments will not be due until July 31st.

Given that the quarterly payments were only first required last year, we do not have a record of “typical” year-to-date payments. Moreover, in interpreting such payments it is important to recognize that companies do not know their final tax liability until year-end, because the tax thresholds and tax payments depend on total annual compensation, which cannot be known until year-end. Final fourth quarter payments serve as a “true-up”, offering a chance for those who have been on pace for overpayment to make a smaller payment, and those who have been underestimating their payments to “catch up”. In general, firms do not have any strong incentive to “overpay” and are more likely to err on the side of underpayment because there is no penalty for “catch up” payments. Taking a somewhat agnostic approach, many firms have simply paid 25% of the previous year’s liability each quarter, but these payments may or may not ultimately represent a 25% share of their current year liability. For this reason, the year-to-date payments the City has received through June 30th do not offer a strong signal about what final payments will total. That said, second quarter payment total 24% of the revised forecast, which is generally consistent with our expectations.

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 nine specific Non-GF revenues, in particular those dedicated to certain specific general government purposes.

Source	2023 Q2 Revenues	2023 Revised Forecast (April)	Percent of Revised 2023 Forecast	Average Percent YTD
Property Tax (Including Medic One Levy)	\$199,761,364	\$378,209,926	52.8%	53.8%
Retail Sales Tax	\$72,059,766	\$315,807,409	22.8%	30.2%
Retail Sales Tax - Criminal Justice	\$6,429,699	\$27,986,859	23.0%	30.4%
Business & Occupation Tax	\$86,584,414	\$353,735,129	24.5%	23.5%
Utility Tax - Natural Gas	\$8,116,306	\$13,471,080	60.2%	56.7%
Utility Tax - Steam	\$731,845	\$1,356,390	54.0%	43.7%
Brokered Natural Gas	\$779,087	\$2,067,212	37.7%	36.6%
Utility Tax - Solid Waste	\$773,135	\$1,579,742	48.9%	39.4%
Utility Tax - Cable Television	\$4,105,160	\$12,100,000	33.9%	40.9%
Utility Tax - Telephone	\$4,985,832	\$11,560,000	43.1%	40.6%
Utility Tax - City Light	\$29,313,119	\$60,857,872	48.2%	45.6%
Utility Tax - City Water	\$10,281,849	\$37,205,047	27.6%	28.8%
Utility Tax - Drainage & Wastewater	\$24,786,626	\$65,091,668	38.1%	39.8%
Utility Tax - City Solid Waste	\$15,513,443	\$28,755,041	54.0%	40.4%
Parking Meters	\$16,353,840	\$36,927,496	44.3%	43.8%
Court Fines	\$11,778,415	\$14,695,375	80.2%	44.4%
Fund Balance Transfers	\$0	\$0	0.0%	1.2%
Grants	\$18,723,148	\$31,919,054	58.7%	26.5%
Licenses, Permits, Interest Income and Other	\$30,866,833	\$40,109,264	77.0%	29.0%
Business License Fees	\$8,984,042	\$21,021,259	42.7%	26.0%
Other Taxes	\$4,497,784	\$8,331,977	54.0%	41.4%
Transportation Network Company Tax	\$1,126,257	\$5,330,262	21.1%	17.2%
Revenue from Other Public Entities	\$4,637,265	\$19,465,805	23.8%	32.9%
Service Charges & Reimbursements	\$33,671,895	\$68,589,694	49.1%	38.8%
Payroll Tax	\$2,270,170	\$2,164,093	104.9%	N/A
Total	\$597,131,000	\$1,558,338,000	38.3%	37%

Regarding GF results for the second 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: Cable Television tax revenue is behind on expectations, but after reviewing it seems that the pattern of payments has shifted for 2023. Instead of obligations and payments occurring in the same month, now 2023 payments lag 2023 obligations by one month. This shift in payment patterns results in less apparent revenue for the second quarter but ultimately has no impact on overall annual revenues for Cable Television.

Utility Tax – Court Fines: Court Fines are running ahead of expectations due to a restart in the City’s processing of citations. A large glut of tickets, citations, and fines accumulated during the pandemic and were kept in limbo until the City sent notices to citation holders, spurring payments to the City and driving revenue ahead of expectations.

Utility Tax – Natural Gas: Natural Gas tax revenue is running ahead of expectations. The main factor for this is the colder winter, driving the demand for heating to higher levels than previous years and resulting in higher Natural Gas use.

Utility Tax – Solid Waste: Solid waste tax revenue is running ahead of expectations. This is due to a misplacement of within the tax journal for December and the resulting correction applied in March. Likewise, the annual 2023 expectations for Solid Waste Tax will require recalculations given this technical correction.

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	2023 Q2 Revenues	2023 Revised Forecast (April)	Percent of Revised 2023 Forecast	Average Percent YTD
General Government Revenues:				
Payroll Tax	\$62,977,918	\$263,261,414	24%	Insufficient Historic Data
Admission Tax	\$7,548,655	\$22,024,156	34%	31%
Sweetened Beverage Tax	\$5,206,804	\$20,933,302	25%	23%
Short-Term Rental Tax	\$2,080,133	\$10,286,588	20%	12%
REET	\$14,454,911	\$55,018,390	26%	36%
Transportation-Specific Revenues:				
Commercial Parking Tax	\$19,190,477	\$48,376,675	40%	34%
SSTPI - School Zone Speed Enforcement	\$6,888,422	\$11,274,013	61%	55%
Trans. Ben. Dist. - Sales Tax	\$12,403,885	\$53,780,144	23%	30%
Trans. Ben. Dist. - VLF	\$5,126,506	\$18,261,100	28%	37%

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.