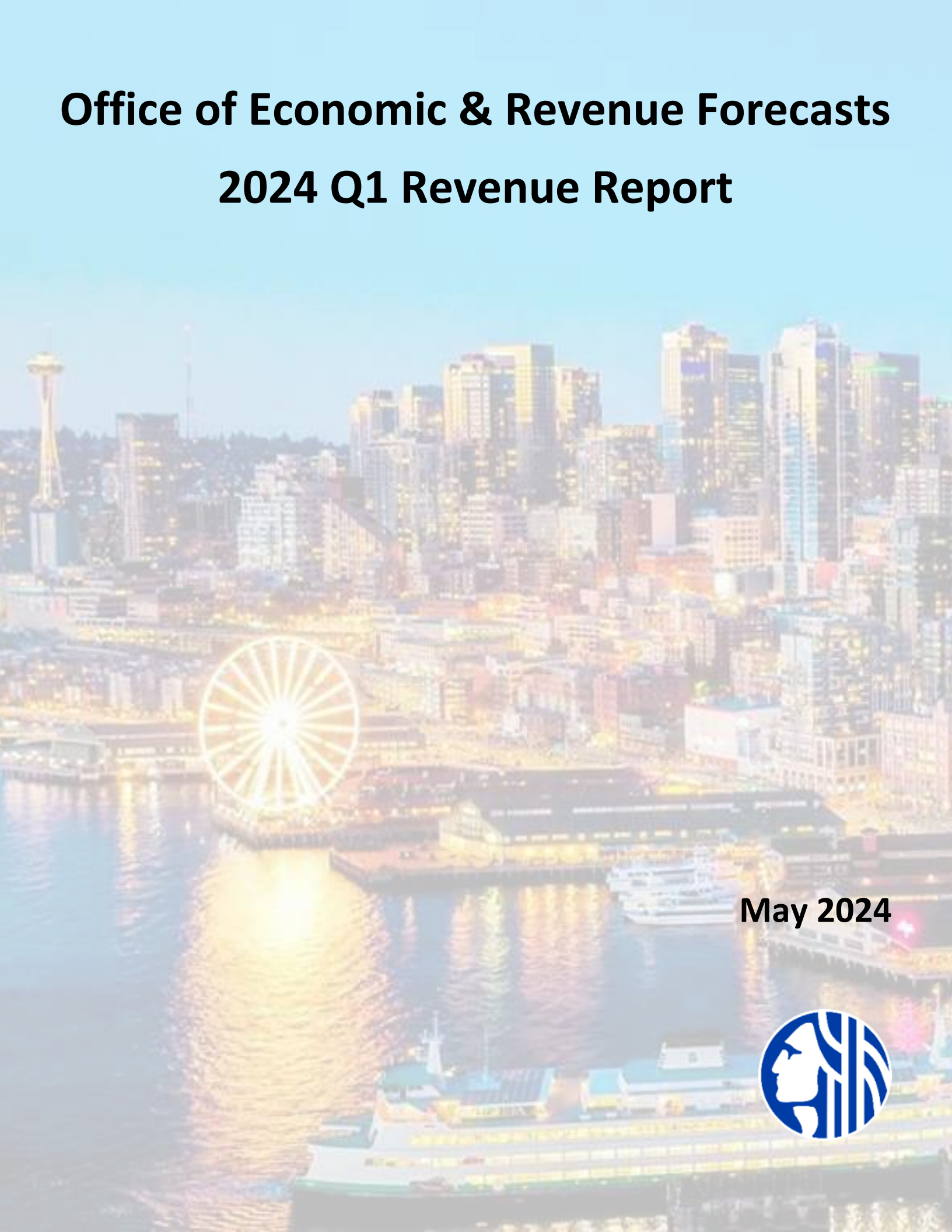


# Office of Economic & Revenue Forecasts

## 2024 Q1 Revenue Report



**May 2024**



## 1. Introduction

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**Structure and Schedule of Quarterly Revenue Reports.** This report documents revenues received through March 31<sup>st</sup> and is the first of four reports that the Office of Economic and Revenue Forecasts (Forecast Office) will provide regarding 2024 revenues.

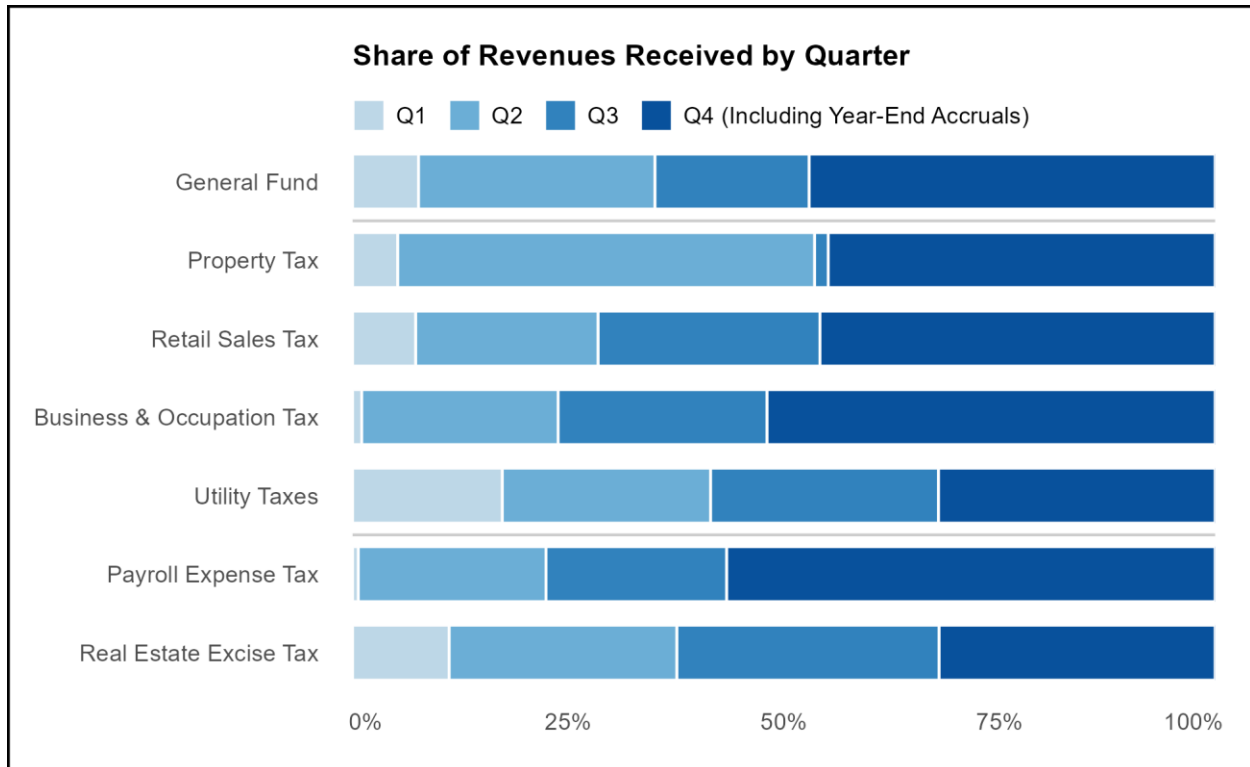
The goal of these reports is to track actual revenue receipts relative to the levels that could be anticipated given the most recent forecasts and historical quarterly patterns. The results presented in this report in particular are shown relative to the forecast approved by the City's Economic and Revenue Forecast Council on April 8<sup>th</sup> 2024. This forecast update replaced the October forecast, which underlies the City's 2024 Budget, as adopted by the City Council and signed by the Mayor.

The structure of this report remains largely unchanged from the previous quarterly summaries. Following introduction, Section 2 provides an overview of overall General Fund (GF) revenues, and detailed analyses of the four largest contributors to GF revenues (Property Tax, Retail Sales Tax, Business and Occupation Tax, and Utility taxes), as well as specific information regarding the Payroll Expense Tax and the Real Estate Excise Tax. Section 3 provides a comprehensive accounting of all GF revenue sources, as well as additional detail regarding 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 reporting quarter. The narrative in the report provides context and explanation when realized revenues differ significantly from the usual pattern of revenue receipts. For 2024, we are generally using the average share of revenues collected in each quarter of 2019 and 2021-2023 as typical pattern of payments. Detailed information is not readily available before that date because City shifted to a new accounting system in 2018. The timing of tax payments was significantly disrupted by the COVID pandemic, we thus remove 2020 when calculating average historic patterns of quarterly payments. 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.

**Timing of Revenue Receipts.** Although one might possibly think that roughly 25% of annual revenues are received each quarter, the actual distribution differs quite significantly from an even distribution. In general, both for individual revenue sources and for the General Fund as a whole, a larger share of receipts is received in the latter portion of the year.

The chart below illustrates this point by showing what share of annual General Fund, as well as main General Fund and non-General Fund revenues, are collected by the end of each quarter. By the end of the first quarter, the City generally receives less than 8% of the annual General Fund revenues. It is thus not possible to draw many conclusions about the performance of revenues from first quarter results. The chart also shows that even in October, when the Forecast Office develops its final forecast of current-year revenues, the City has still only received about 53% of the General Fund’s annual total.<sup>1</sup>



The primary explanation for the pattern of payments skewed toward later parts of the year is that most of the tax revenues received in January and February are not for first quarter tax liabilities, but rather represent payments for taxable activity that occurred 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 filing due dates for main sources including Property, B&O and Payroll taxes shift revenue out of the first quarter and toward the remainder of the year. Business and Occupation Tax returns for first quarter are only due by the end of April, the amount received by the

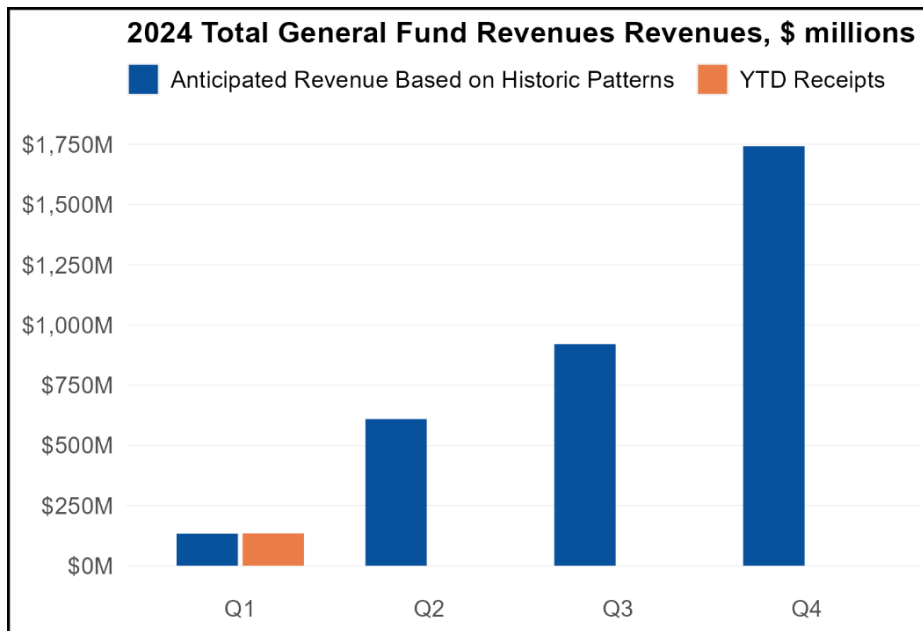
<sup>1</sup> This also has a significant impact on the City’s overall financial planning since during the budget process the Mayor and Council are making critical decisions about how to allocate resources from the current year and next with limited information about how revenues are performing.

end of first quarter is usually negligible and comes largely from non-current payments such as late payments, audits, or refunds. Similarly, for Payroll Expense Tax, the main non-General Fund revenue source, the estimated payments for the first quarter are also only due by the end of April. The timing of payments for each of the major revenue sources is discussed further in the next section of this report.

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

### 2.1 General Fund Revenue Results

The first quarter total is about \$1 million (0.7%) higher than what would have been expected if the 2024 annual forecasts for individual revenues were allocated across the



General Fund, \$ million	Q1	Q2	Q3	Q4
YTD Receipts	\$134.2			
Anticipated Revenue Based on Historic Patterns	\$133.2	\$610.8	\$922.2	\$1,742.2
<i>Difference</i>	\$1.0			

year based on recent quarterly patterns. As shown in the table below, the overall small net positive variance is a result of several largely offsetting forces. Larger than typical refunds lowered Business and Occupation Tax receipts by \$3.8 million and Payroll Expense Tax by \$5 million. Several irregular payments for Utility Taxes, discussed further

below, led to a notable negative variance from the anticipated amount. Finally, the \$7.9 million positive variance in Service Charges & Reimbursements category is due to improvements in cost allocation, which, unlike in previous years, resulted in some revenues to be more appropriately allocated into the first rather than second quarter.

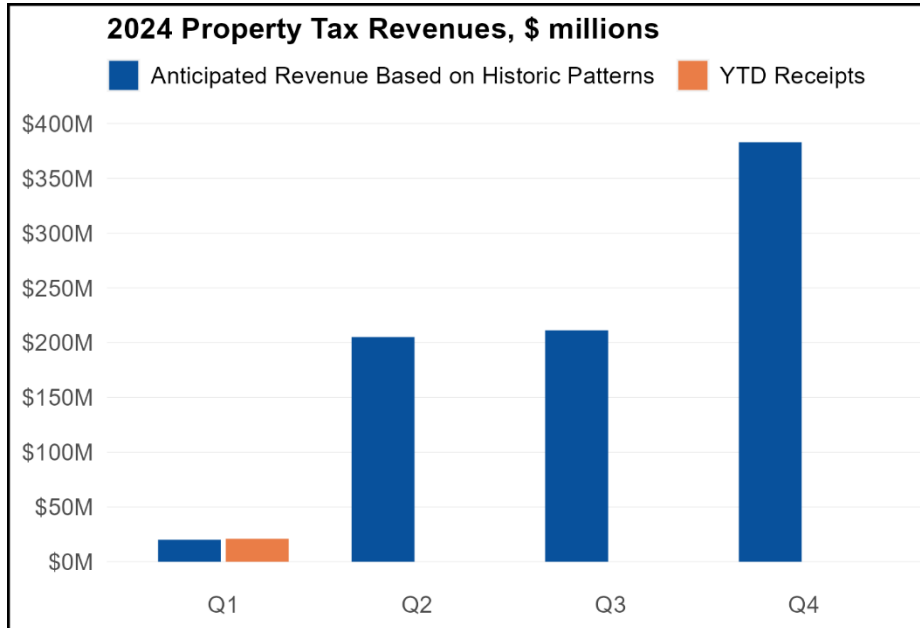
The table below provides additional detail regarding the GF’s major revenue sources, it is followed by discussion regarding the most significant sources. A more detailed breakdown of receipts by revenues source is provided in Section 3.

**General Fund Revenues – Major Revenue Categories**

Revenue	2024 Revised Forecast, April, \$ mil.	Historical Average, Q1 as % of Annual	2024 Q1 Estimate Based on Historical Average, \$ mil.	2024 Q1 Receipts, \$ mil.	Difference, 2024 Q1 Actual vs Estimate, \$ mil.
Property Tax (Including Medic One Levy)	\$382.91	5.2%	\$20.06	\$21.02	\$0.97
Retail Sales Tax	\$338.83	7.3%	\$24.79	\$26.27	\$1.47
Business & Occupation Tax	\$363.66	1.1%	\$3.85	-\$1.99	-\$5.84
Utility Tax - Private	\$37.75	19.4%	\$7.34	\$6.25	-\$1.09
Utility Tax - Public	\$214.33	17.0%	\$36.42	\$32.99	-\$3.42
Payroll Expense Tax (2021 obligations)	-\$3.37	–	-\$3.37	-\$3.37	\$0.00
Other City Taxes	\$14.30	9.7%	\$1.39	\$2.02	\$0.63
Parking Meters	\$40.25	18.3%	\$7.36	\$9.31	\$1.95
Court Fines	\$19.43	20.3%	\$3.94	\$3.96	\$0.02
Licenses, Permits, Interest Income and Other NEC Revenues	\$72.91	21.7%	\$15.85	\$16.60	\$0.75
Revenue from Other Public Entities	\$19.72	10.2%	\$2.01	\$2.01	\$0.01
Service Charges & Reimbursements	\$80.77	10.4%	\$8.38	\$16.29	\$7.91
Grants	\$64.96	8.0%	\$5.19	\$2.26	-\$2.93
Fund Balance Transfers	\$95.75	0.0%	\$0.00	\$0.58	\$0.58
<b>Total General Fund Revenues</b>	<b>\$1,742.21</b>	<b>7.6%</b>	<b>\$133.22</b>	<b>\$134.21</b>	<b>\$0.99</b>

## Property Tax

Property tax payments are due twice a year, first half in April and the second one in October. As a result, the first quarter revenue results are anticipated to be small and



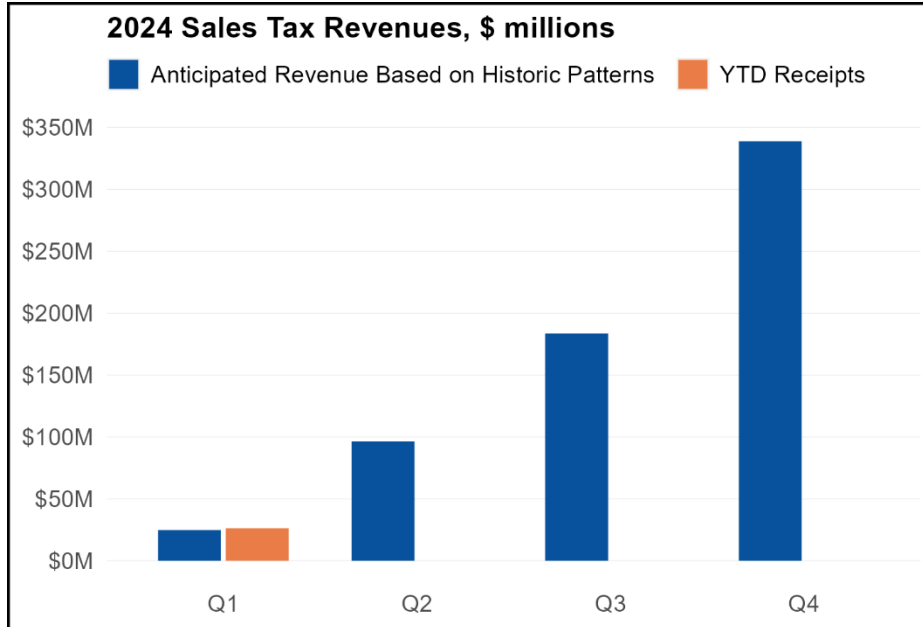
consist of early payments. Consistent with this expectation, the results to date show that the City has received 5.5% of the total 2024 forecasted receipts. Actual revenues are about \$1 million higher than projected at this point based on the 5.2% historical average for Q1 payments as a fraction of annual total. Compared to other revenue

Property Tax, \$ million	Q1	Q2	Q3	Q4
YTD Receipts	\$21.0			
Anticipated Revenue Based on Historic Patterns	\$20.1	\$205.1	\$211.2	\$382.9
<i>Difference</i>	\$1.0			

sources, property tax payments are affected much less by evolving economic conditions in the current year as the obligations are fixed at the beginning of the year.

## Retail Sales Tax

The State of Washington’s Department of Revenue (DOR) transmits a monthly distribution of the retail sales tax attributable to economic activity in the city. These



distributions occur in general six to seven weeks following the month during which the underlying taxable transactions occur. As a result, by the end of the first quarter, the City will have only received one distribution payment, for taxable sales activity through the end of January.

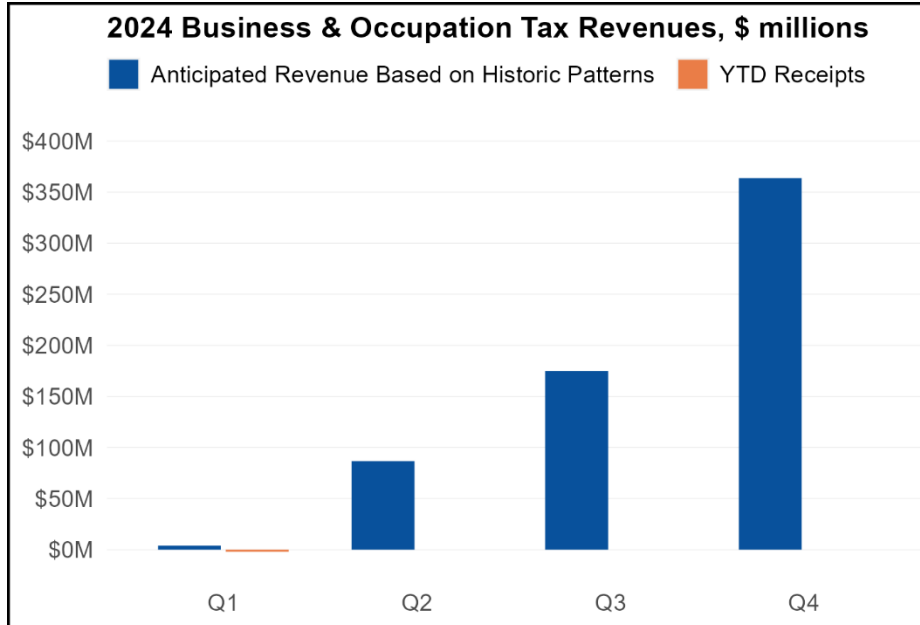
Sales Tax, \$ million	Q1	Q2	Q3	Q4
<b>YTD Receipts</b>	\$26.3			
<b>Anticipated Revenue Based on Historic Patterns</b>	\$24.8	\$96.5	\$183.6	\$338.8
<b>Difference</b>	\$1.5			

Thus, it is no surprise that in the

first quarter of 2024 the City has received just 7.8% of the total sales tax revenues forecasted for 2024. Actual revenues for the first quarter are \$1.5 million above what would be expected based on recent historical patterns of quarterly payments. In addition to this simple 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, 2024 Q1 sales tax revenues are about \$1.1 million above expectations from the April forecast.

## Business & Occupation (B&O) Tax

Businesses have to file B&O tax returns on either 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, the returns and payments received then need to be processed. Consequently, the total B&O tax payments received for a given obligation quarter are not known to the City until six or seven weeks after the quarter end. B&O revenues received through the end of March thus generally represent only 1% of the annual total.

B&O Tax, \$ million	Q1	Q2	Q3	Q4
YTD Receipts	-\$2.0			
Anticipated Revenue Based on Historic Patterns	\$3.8	\$86.7	\$174.8	\$363.7
Difference	-\$5.8			

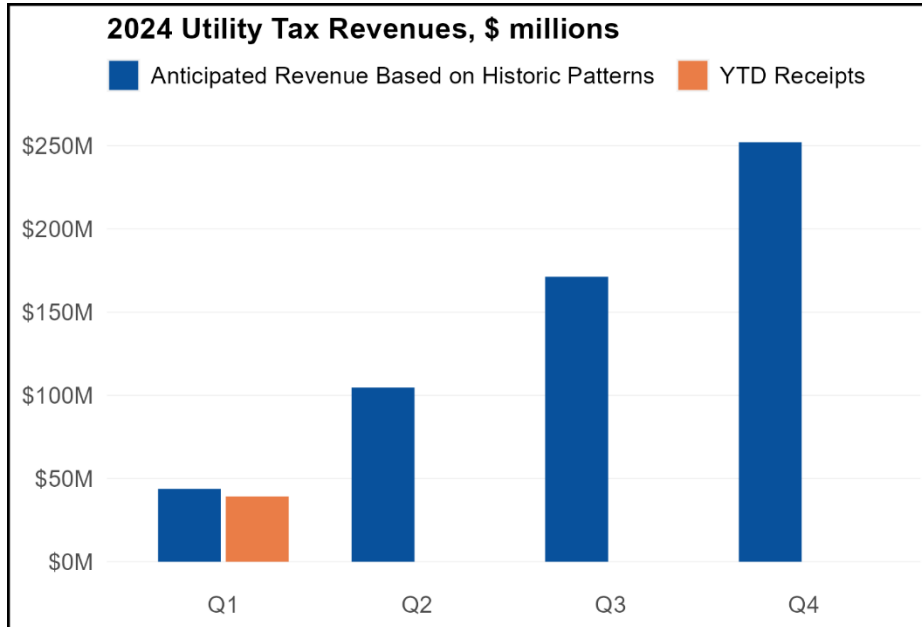
Furthermore, small businesses and new taxpayers have always been allowed to pay their B&O taxes annually, rather than on a quarterly basis. Starting in 2021, the due date for these annual payers shifted from January 31<sup>st</sup> to April 30<sup>th</sup>. Not all annual taxpayers took advantage of this new flexibility, but many have. This change in the due date shifted more than half of the revenues from annual obligations from the first to the second quarter.

B&O revenues received in 2024 Q1 are \$5.8 million below what would be expected using a simple allocation of total annual forecast based on recent historical patterns of quarterly payments. This is primarily due to significantly larger than typical refunds. On average, B&O refunds in the first quarter totaled about \$200 thousands between 2019 and 2023, in 2024 it was \$3.8 million. These large refunds were already incorporated in the revenue forecast in April 2024.



## Utility Taxes

The City charges tax on the bills paid to both public and private utility companies. Collectively, revenues from these taxes represent a significant share of overall GF



revenues.

Details about the amount received for individual utility services can be found in Section 3. The chart and table presented here summarize the total utility tax payments through 2024 Q1.

Payments generally arrive with a one-month lag, so the results for the first quarter generally reflect payments for January and February

Utility Taxes, \$ million	Q1	Q2	Q3	Q4
YTD Receipts	\$39.2			
Anticipated Revenue Based on Historic Patterns	\$43.8	\$104.6	\$171.2	\$252.1
<b>Difference</b>	<b>-\$4.5</b>			

obligations, with receipts for December obligations accrued to the previous year. In several instances this was however not case in the first quarter of 2024:

- December 2023 receipts for electric utility were not accrued to 2023 and increased 2024 Q1 revenues by \$5.7 million instead.
- March 2023 receipts for water utility were only fully accounted for in March 2024, increasing 2024 Q1 revenues by \$2.4 million.
- February 2024 receipts for natural gas utility tax were only accounted for in April 2024, moving \$1.4 million from the first to the second quarter.
- Receipts for January and February wastewater and drainage tax obligations were only accounted for in April, as a result \$10.6 million of revenues shifted from the first to the second quarter.

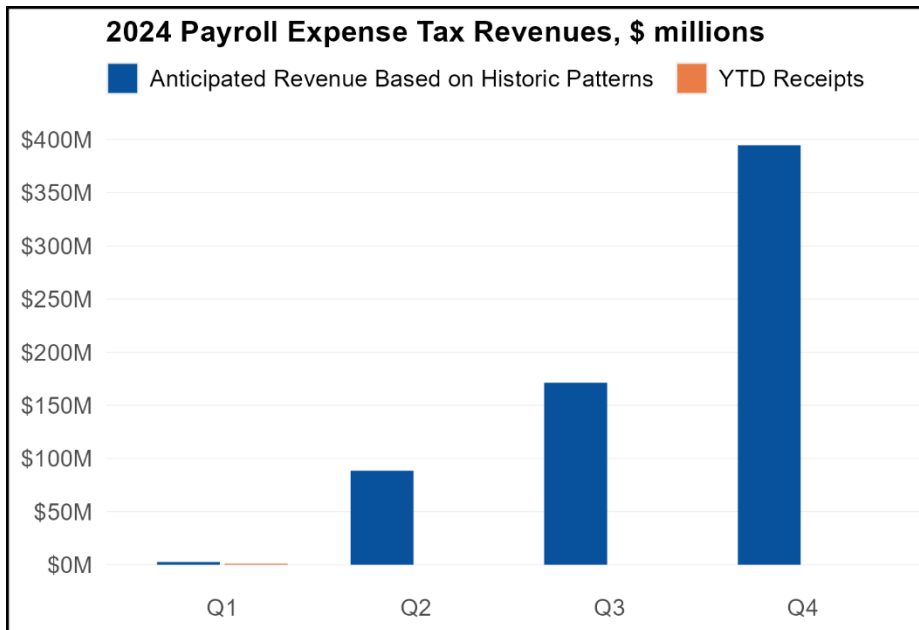
Overall, these add up to -\$3.9 million and thus explain almost all of the -\$4.5 million variance from the revenue amount anticipated based on recent historical patterns.

## 2.2 Select Non-GF Revenue Sources

The detailed table in Section 3 provides information on major non-General Fund revenues which support general government activities (as opposed to enterprise functions such as Seattle City Light and Seattle Public Utilities), but which have been dedicated to specific purposes and policy priorities. This section focuses on two of the largest non-General Fund revenues, Payroll Expense Tax and Real Estate Excise Tax.

### Payroll Expense Tax

Payroll Expense Tax imposes a graduated tax on businesses based on the annual compensations they pay their employees. The tax rate increases both with individual



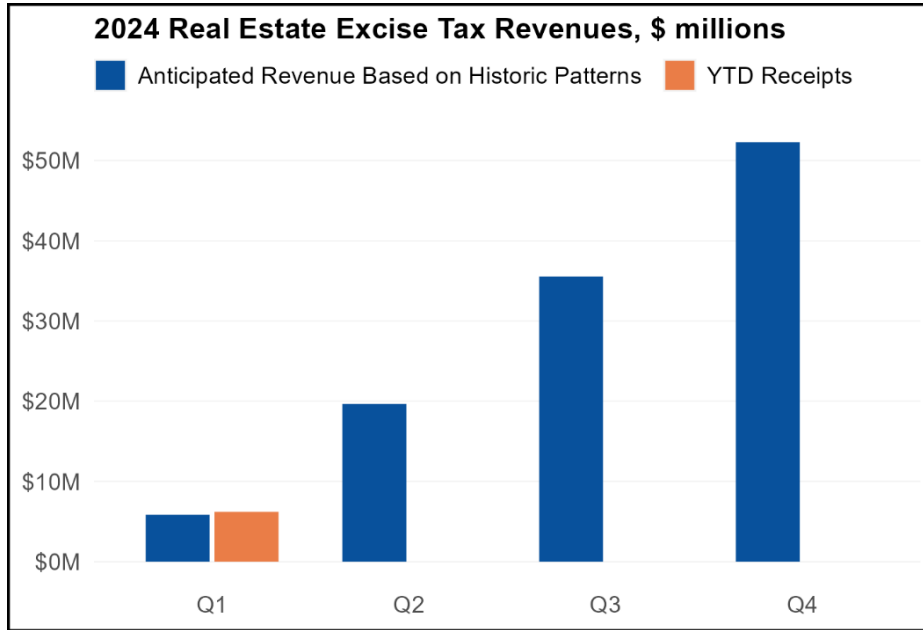
compensation and with the overall payroll of the company. Since tax obligations depend on annual payrolls, tax liabilities cannot be determined until year end. Firms are required to make estimated quarterly payments; the simplest way these payments can be calculated is to use 25% of the total obligation in the previous filing year. A large number of taxpayers use this

Payroll Tax, \$ million	Q1	Q2	Q3	Q4
YTD Receipts	\$1.1			
Anticipated Revenue Based on Historic Patterns	\$2.6	\$88.5	\$171.2	\$394.7
<i>Difference</i>	<i>-\$1.6</i>			

approach, we thus anticipate roughly 25% of previous year's annual payments to be made each of the first three quarters and potentially large adjustments in the final quarter, as was the case in 2023. Returns are due a month after the end of the quarter, revenues received in 2024 Q1 are thus primarily payments for previous obligation years. Late payments and refunds for 2021 obligations are credited/debited to General Fund, those for other obligations years go into the JumpStart Payroll Expense Tax fund.

### Real Estate Excise Tax (REET)

REET is collected on every property transaction that occurs within Seattle city. The tax is composed of two separate 0.25% taxes, for a total of 0.5%, which can each be used



REET, \$ million	Q1	Q2	Q3	Q4
YTD Receipts	\$6.2			
Anticipated Revenue Based on Historic Patterns	\$5.9	\$19.7	\$35.5	\$52.3
Difference	\$0.4			

for different purposes. Several factors make it in general difficult to determine whether current payments are tracking toward the forecast of annual revenues. Large transactions, such as sales of office towers or apartment buildings, can have a significant impact on the revenues reported in any single quarter and on the distribution of annual revenues

over the four quarters. In addition, regulatory and/or tax incentives, for example the introduction of graduated rate structure by Washington State in 2020, can provide incentives to pull forward and close transactions, shifting REET revenues temporarily.

More recently, the rising interest rates and economic uncertainty resulted in a significant slowdown in REET revenue. As interest rates increase, fewer individuals are willing to take and/or qualify for a mortgage, resulting in fewer buyers in the market. On the selling side, the interest rates are now considerably higher than the ultra-low rates of 2020-2022, resulting in interest rate lock-in, as potential sellers face higher costs if they decide to sell and move into a new mortgage financed home. High interest rates together with rising office vacancy rates have also led to a significant drop in commercial real estate sales.

REET revenues collected in the first quarter of 2024 are however in general consistent with the April forecast.

### 3. Details - General Fund Revenues and Major Non-General Fund Revenues

General Fund Revenue	2024 Revised Forecast, April, \$ mil.	Historical Average, Q1 as % of Annual	2024 Q1 Estimate Based on Historical Average, \$ mil.	2024 Q1 Receipts, \$ mil.	Difference, 2024 Q1 Actual vs Estimate, \$ mil.
Property Tax (Including Medic One Levy)	\$382.91	5.2%	\$20.06	\$21.02	\$0.97
Retail Sales Tax	\$310.85	7.3%	\$22.70	\$24.19	\$1.49
Retail Sales Tax - Criminal Justice	\$27.99	7.5%	\$2.10	\$2.08	-\$0.02
Business & Occupation Tax	\$363.66	1.1%	\$3.85	-\$1.99	-\$5.84
Utility Tax - Natural Gas	\$11.65	26.4%	\$3.08	\$1.53	-\$1.55
Utility Tax - Steam	\$1.60	17.9%	\$0.29	\$0.45	\$0.16
Utility Tax - Brokered Natural Gas	\$1.66	13.6%	\$0.23	\$0.17	-\$0.06
Utility Tax - Solid Waste	\$1.68	17.8%	\$0.30	\$0.29	\$0.00
Utility Tax - Cable Television	\$11.17	15.2%	\$1.70	\$1.92	\$0.22
Utility Tax - Telephone	\$10.00	17.5%	\$1.75	\$1.88	\$0.13
Utility Tax - City Light	\$73.33	19.3%	\$14.12	\$18.69	\$4.57
Utility Tax - City Water	\$39.95	13.2%	\$5.28	\$7.73	\$2.45
Utility Tax - Drainage & Wastewater	\$68.82	16.1%	\$11.06	\$1.31	-\$9.75
Utility Tax - City Solid Waste	\$32.23	18.5%	\$5.96	\$5.27	-\$0.69
Payroll Expense Tax (2021 obligations)	-\$3.37	–	-\$3.37	-\$3.37	\$0.00
Other Taxes	\$8.85	15.7%	\$1.39	\$2.02	\$0.63
Transportation Network Company Tax	\$5.45	0.0%	\$0.00	\$0.00	\$0.00
Parking Meters	\$40.25	18.3%	\$7.36	\$9.31	\$1.95
Court Fines	\$19.43	20.3%	\$3.94	\$3.96	\$0.02
Licenses, Permits, Interest Income and Other NEC Revenues	\$52.18	20.5%	\$10.68	\$11.45	\$0.77
Business License Fees	\$20.72	25.0%	\$5.17	\$5.15	-\$0.02
Revenue from Other Public Entities	\$19.72	10.2%	\$2.01	\$2.01	\$0.01
Service Charges & Reimbursements	\$80.77	10.4%	\$8.38	\$16.29	\$7.91
Grants	\$64.96	8.0%	\$5.19	\$2.26	-\$2.93
Fund Balance Transfers	\$95.75	0.0%	\$0.00	\$0.58	\$0.58
<b>Total General Fund Revenues</b>	<b>\$1,742.21</b>	<b>7.6%</b>	<b>\$133.22</b>	<b>\$134.21</b>	<b>\$0.99</b>

Major Non-General Fund Revenues	2024 Revised Forecast, April, \$ mil.	Historical Average, Q1 as % of Annual	2024 Q1 Estimate Based on Historical Average, \$ mil.	2024 Q1 Receipts, \$ mil.	Difference, 2024 Q1 Actual vs Estimate, \$ mil.
<b>General Government Revenues</b>					
Payroll Expense Tax	\$394.70	0.7%	\$2.62	\$1.05	-\$1.57
Admission Tax	\$25.84	9.2%	\$2.38	\$2.94	\$0.56
Sweetened Beverage Tax	\$21.83	1.3%	\$0.28	\$0.05	-\$0.23
Short Term Rental Tax	\$11.72	0.0%	\$0.00	\$0.00	\$0.00
Real Estate Excise Tax	\$52.27	11.2%	\$5.85	\$6.22	\$0.37
<b>Transportation Specific Revenues</b>					
Commercial Parking Tax	\$51.35	13.2%	\$6.76	\$5.84	-\$0.93
SSTPI - School Zone Speed Enforcement	\$9.71	24.3%	\$2.36	\$1.88	-\$0.48
STBD Sales Tax	\$52.94	7.5%	\$3.98	\$4.17	\$0.19
STBD Vehicle License Fee	\$19.96	14.5%	\$2.90	\$3.17	\$0.28