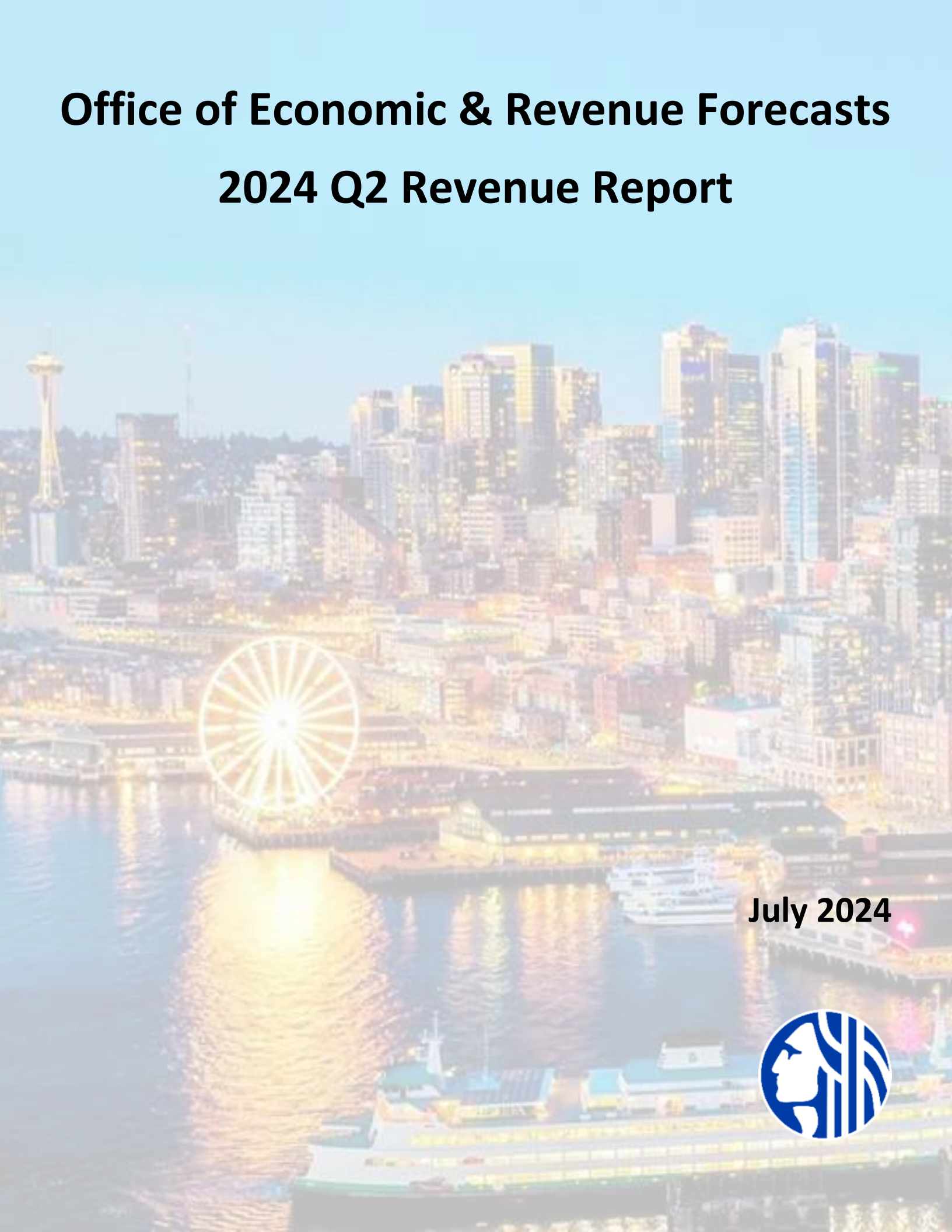


Office of Economic & Revenue Forecasts

2024 Q2 Revenue Report



July 2024



1. Introduction

Structure and Schedule of Quarterly Revenue Reports. This report documents revenues received through June 30th and is the second of four reports that the Office of Economic and Revenue Forecasts (Forecast Office) will provide regarding 2024 revenues.

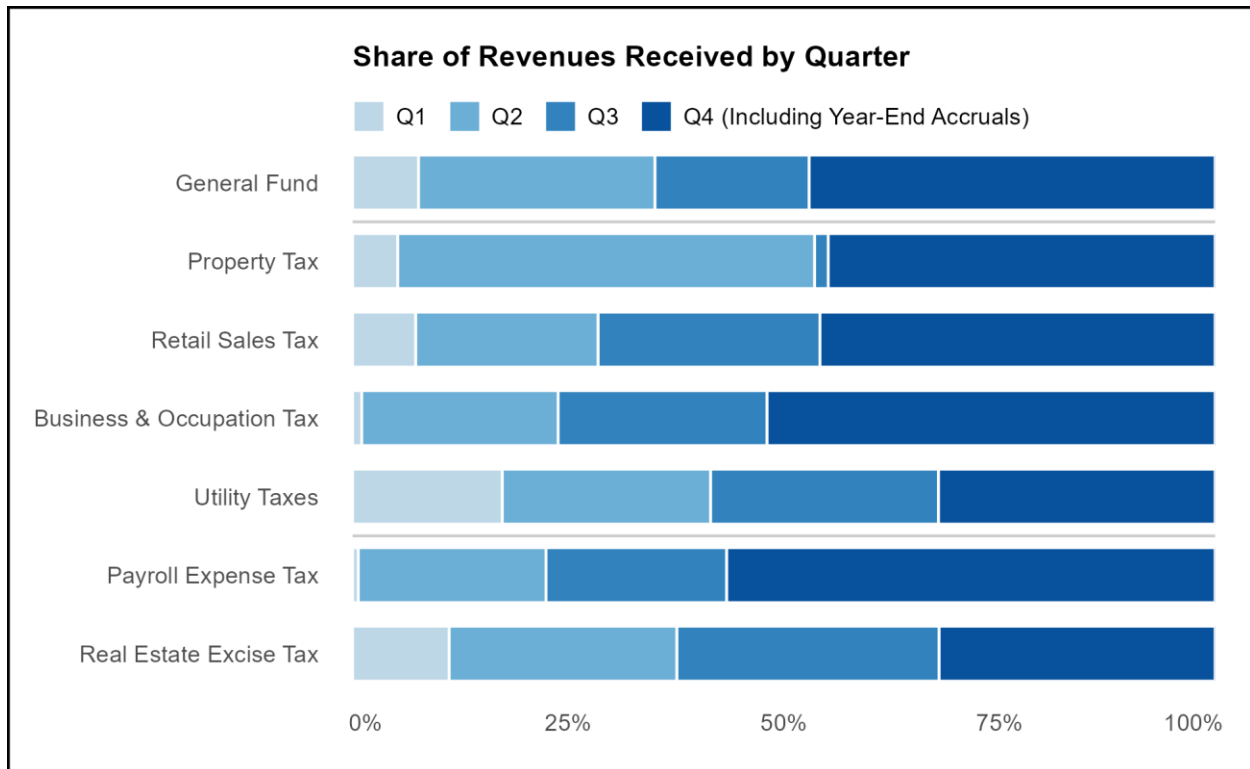
The goal of these reports is to track actual revenue receipts relative to the levels that could be anticipated given the most recent forecasts and historical quarterly patterns. The results presented in this report are shown relative to the forecast approved by the City's Economic and Revenue Forecast Council on April 8th, 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, Sales & Use Taxes, 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 details 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-19 pandemic, we thus remove 2020 when calculating average historic patterns of quarterly payments. For some individual revenue streams, we have also excluded the 2021 results because the timing of tax payments was still being affected by the COVID-19 pandemic.

Timing of Revenue Receipts. Although one might possibly think that 25% of annual revenues are received each quarter, the actual distribution differs quite significantly from an even quarterly 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 second quarter, the City had typically received 35% of the annual GF revenues. Thus, unlike in the first quarter report, results now do provide some information on the performance relative to the historical patterns that will influence the August forecast. Note that by the time of the third quarter report, when the Forecast Office develops its final forecast in October, the City has historically received about 53% of the General Fund’s annual total.¹



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 revenue sources such as Property, B&O and Payroll taxes shift revenue out of the first quarter and toward the remainder of the year. Business and Occupation

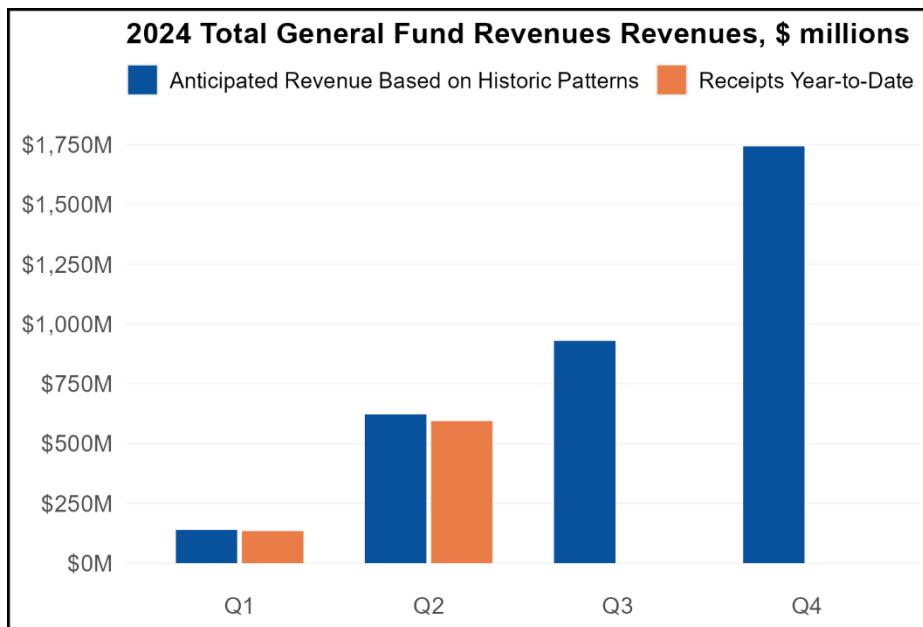
¹ This also has a significant impact on the City’s overall financial planning since during the budget process the Mayor and Council are making critical decisions about how to allocate resources from the current year and next with incomplete information about how revenues are performing.

Tax returns for first quarter are only due by the end of April, the amount received by the end of first quarter is usually negligible and comes largely from non-current payments such as late payments, audits, or refunds. Another example is Property Taxes, which are due once in April and once in October, and result in little to no activity in the first and third quarters. Similarly, for the Payroll Expense Tax, the largest non-General Fund revenue source, the estimated payments for the first quarter are also only due by the end of April.

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

2.1 General Fund Revenue Results

The total for the first two quarters of 2024 for all General Fund revenues amounts to \$539.9 million, about \$28.2 million or 4.5% below what would be expected if the 2024



annual forecasts for individual revenues were allocated across the year based on recent quarterly patterns. As per the table below, the main contributors to the this difference were the Sales & Use Taxes and to a smaller extent also Business & Occupation Tax and Grants. In case of the Sales & Use Taxes, the reason is not a significantly larger than

General Fund, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$134.2	\$593.9		
Anticipated Revenue Based on Historic Patterns	\$139.2	\$622.1	\$929.3	\$1,742.2
<i>Difference</i>	<i>-\$5.0</i>	<i>-\$28.2</i>		

forecasted decline in taxable activity, but rather the fact that all revenues that typically post to these accounts in June were delayed to July, resulting in \$26 million that will be

accounted for only in the third quarter. Furthermore, B&O Tax revenues were reduced by larger-than-typical refunds in the first quarter. Additional detail on these revenue groups and their year-to-date receipts can be found below, in their respective sections.

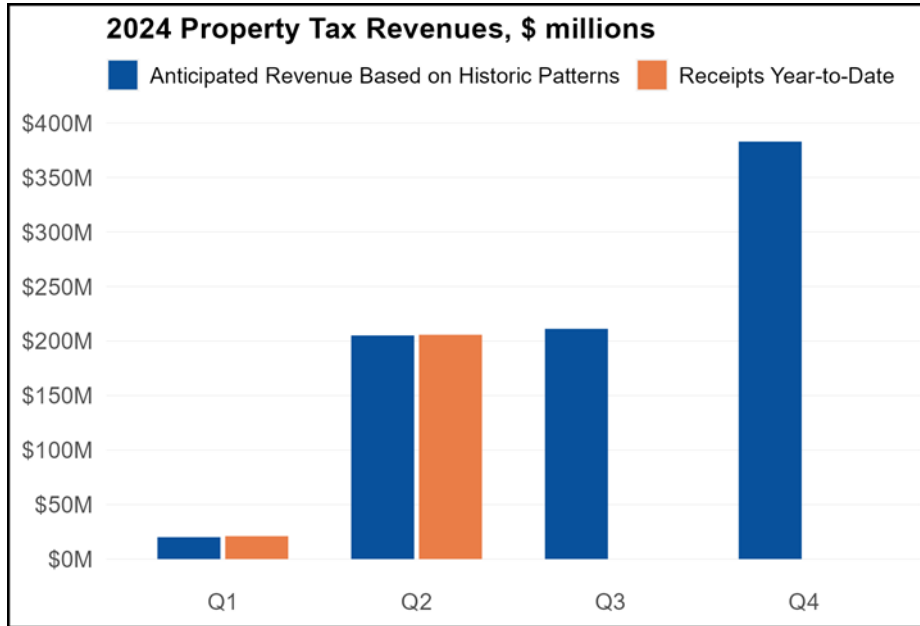
Other than Sales and B&O taxes, remaining GF revenue sources are generally keeping up with expectations, or constitute smaller revenue sources. The main exception is Grants, down nearly \$8 million. Grants are however also unique due to the way they are appropriated and spent down. Generally, departments receive appropriations and assumed revenues for the full amount of the grant in the year the grant is awarded. However, revenues come in only when spending occurs. The difference between the expectations and actual year-to-date receipts suggests that spending on awarded grants has been slow and therefore reimbursements have not yet been received.

General Fund Revenues – Major Revenue Categories

Revenue	2024 Revised Forecast, April, \$ mil.	Historical Average, Q1-Q2 as % of Annual	2024 Q1-Q2 Estimate Based on Historical Average, \$ mil.	2024 Q1-Q2 Receipts, \$ mil.	Difference, 2024 Q1-Q2 Actual vs Estimate, \$ mil.
Property Tax (Including Medic One Levy)	\$382.91	53.6%	\$205.12	\$205.73	\$0.62
Sales & Use Tax	\$338.83	30.4%	\$102.97	\$79.40	-\$23.57
Business & Occupation Tax	\$363.66	23.8%	\$86.66	\$81.58	-\$5.08
Utility Tax - Private	\$37.75	45.4%	\$17.12	\$18.15	\$1.02
Utility Tax - Public	\$214.33	43.1%	\$92.30	\$93.84	\$1.54
Payroll Expense Tax (2021 obligations)	-\$3.37	–	-\$3.37	-\$2.14	\$1.24
Other City Taxes	\$14.30	33.9%	\$4.84	\$5.09	\$0.25
Parking Meters	\$40.25	43.9%	\$17.68	\$19.49	\$1.81
Court Fines	\$19.43	45.8%	\$8.89	\$9.51	\$0.62
Licenses, Permits, Interest Income and Other	\$72.91	39.8%	\$28.99	\$28.92	-\$0.07
Revenue from Other Public Entities	\$19.72	30.8%	\$6.07	\$4.79	-\$1.28
Service Charges & Reimbursements	\$80.77	46.5%	\$37.52	\$37.05	-\$0.47
Grants	\$64.96	26.7%	\$17.32	\$9.39	-\$7.94
Fund Balance Transfers	\$95.75	0.0%	\$0.00	\$3.08	\$3.08
Total General Fund Revenues	\$1,742.21	35.7%	\$622.12	\$593.87	-\$28.25

Property Tax

Property tax payments are due twice a year, first half in April and the second one in October. As a result, based on the historical averages, revenue received in the first two



quarters is anticipated to be about 53.6% of the annual total.

Consistent with this expectation, the results to date show that the City has received 53.7% of the total 2024 forecasted receipts.

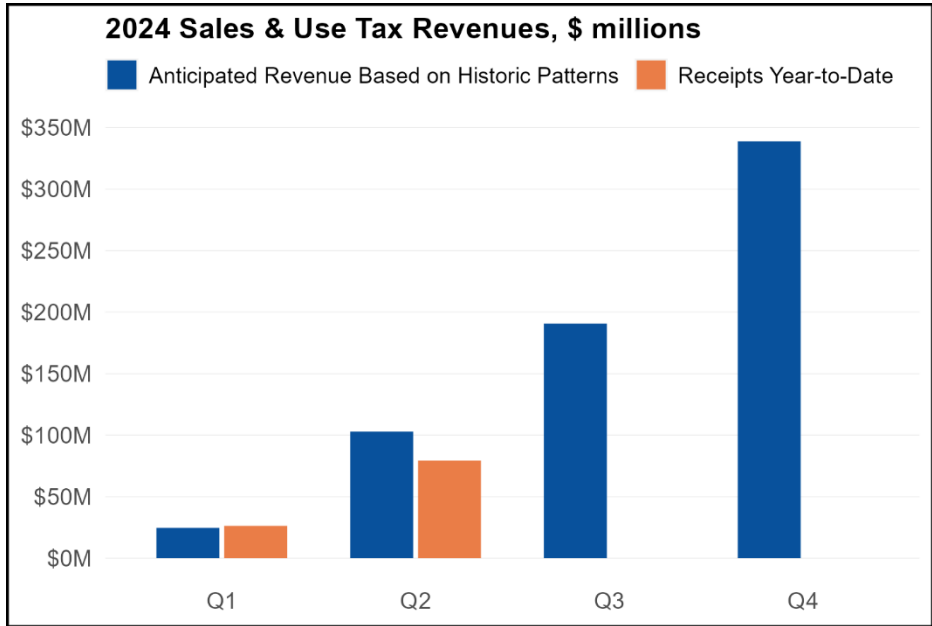
Actual revenues are thus just \$0.6 million higher than projected at this point. Because property tax obligations are fixed at the

Property Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$21.0	\$205.7		
Anticipated Revenue Based on Historic Patterns	\$20.1	\$205.1	\$211.2	\$382.9
<i>Difference</i>	\$1.0	\$0.6		

beginning of the year, compared to other revenue sources, property tax payments are affected much less by evolving economic conditions in the current year.

Sales & Use Tax

The State of Washington’s Department of Revenue (DOR) transmits a monthly distribution of the sales taxes 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 second quarter, the City will have received four distribution payments from DOR, for taxable sales activity through the end of April.

Sales & Use Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$26.3	\$79.4		
Anticipated Revenue Based on Historic Patterns	\$24.7	\$103.0	\$190.7	\$338.8
<i>Difference</i>	\$1.6	<i>-\$23.6</i>		

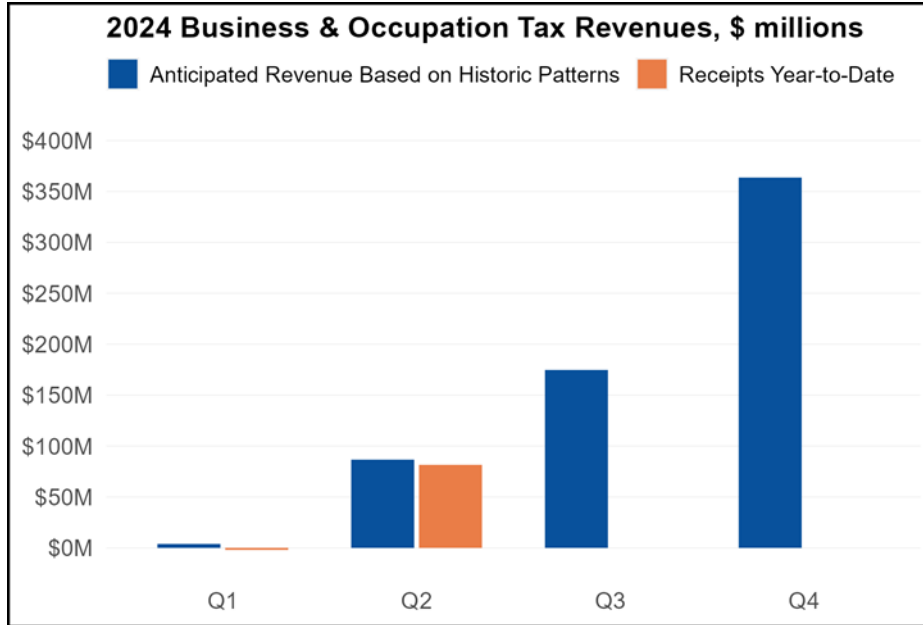
The June

distribution payments from DOR for various sales and use taxes imposed by the City have not been posted to their accounts by the end of June however, and so about \$26 million will be only part of Q3 revenues instead. As a result, the revenues reported for the first two quarters are \$26 million lower than what they should be and are \$23.6 million lower than what would be expected based on recent historical patterns of quarterly payments.

In addition to this simple comparison based on historical patterns in quarterly payments, 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 these revenue streams. Based on this comparison, General Fund sales tax revenues for the first two quarters, including the \$26 million June distribution, are about \$3.3 million above expectations from the April forecast.

Business & Occupation (B&O) Tax

Businesses have to file B&O tax returns 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, 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 June generally represent about 24% of the

B&O Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	-\$2.0	\$81.6		
Anticipated Revenue Based on Historic Patterns	\$3.8	\$86.7	\$174.8	\$363.7
<i>Difference</i>	-\$5.8	-\$5.1		

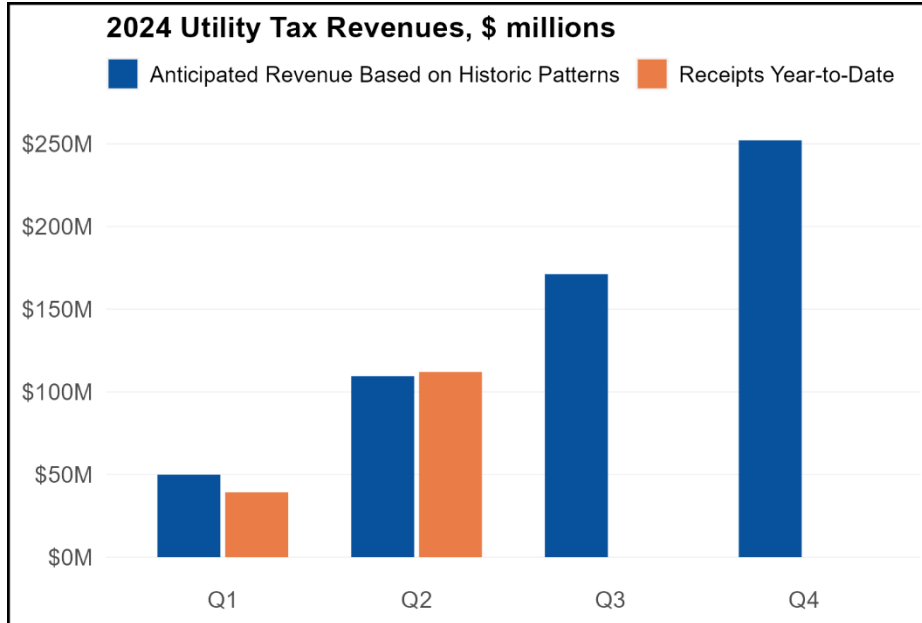
annual total and primarily consist of payments for first quarter obligations.

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 31st to April 30th. 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 by the end of 2024 Q2 are \$5.1 million below what would be expected using a simple allocation of total annual forecast based on recent historical patterns of quarterly payments. As noted in the 2024 Q1 report, this is primarily due to significantly larger than typical refunds. On average, B&O refunds in the first quarter totaled about \$0.2 million 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 amounts 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 Q2. Payments generally arrive with a one-month lag, so the results for the first two quarters generally reflect payments for January through May obligations,

Utility Taxes, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$39.2	\$112.0		
Anticipated Revenue Based on Historic Patterns	\$49.9	\$109.4	\$171.2	\$252.1
<i>Difference</i>	<i>-\$10.6</i>	<i>\$2.6</i>		

with receipts for December obligations accrued to the previous year. There were however two notable exceptions in the first half 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.

These two add up to \$8.1 million of revenues received in 2024 instead of 2023. The April forecast accounts for both and so do the summary tables in this report.

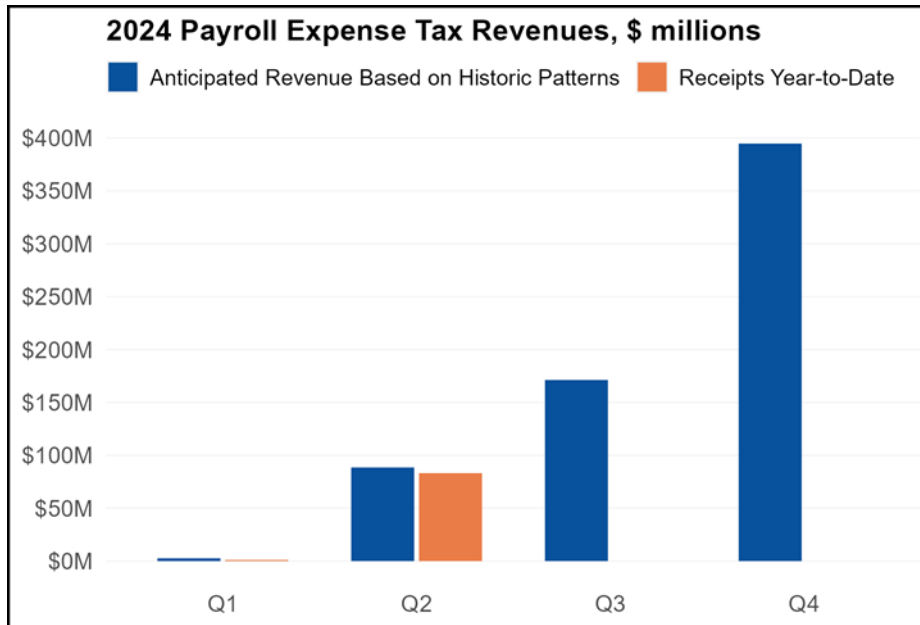
Overall, utility tax revenues are about \$2.6 million, or 2.3%, higher than what would be anticipated given a simple allocation of total annual forecast based on recent historical patterns of quarterly payments.

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



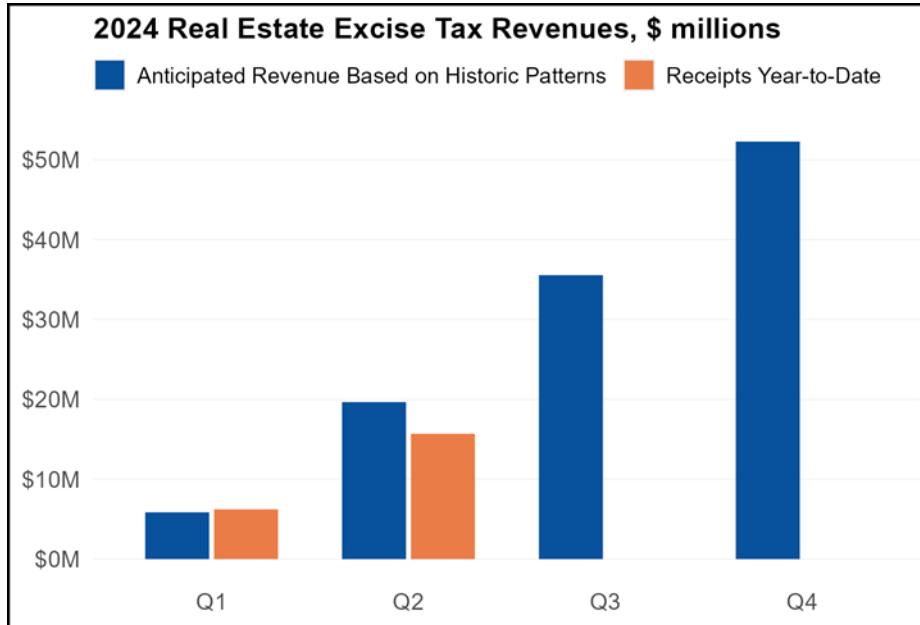
compensation and with the overall payroll of the company. Since tax obligations depend on annual payrolls, tax liabilities cannot be determined until year end. Firms are required to make estimated quarterly payments; the simplest way these payments can be calculated is to use 25% of the total obligation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

Payroll Expense Tax, \$ mil.	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$1.1	\$83.1		
Anticipated Revenue Based on Historic Patterns	\$2.6	\$88.5	\$171.2	\$394.7
<i>Difference</i>	<i>-\$1.6</i>	<i>-\$5.4</i>		

approach, so roughly 25% of previous year's annual payments will be made each of the first three quarters, followed by large true-up payments in the final quarter, as was the case in 2023. Returns are due a month after the end of the quarter, revenues received by the end of Q2 are thus primarily Q1 estimated payments. 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
Receipts Year-to-Date	\$6.2	\$15.7		
Anticipated Revenue Based on Historic Patterns	\$5.9	\$19.7	\$35.5	\$52.3
<i>Difference</i>	\$0.4	<i>-\$4.0</i>		

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.

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 and rising office vacancy rates have also led to a significant drop in commercial real estate sales.

REET revenue is typically accounted for in the month following the sale of the property, taxes for real estate properties sold in May were thus expected to be part of REET collected through 2024 Q2. They were however only credited to the City's REET account in July, \$8.2 million thus got shifted from the second to the third quarter and actuals ended \$4 million below the anticipated amount, instead of \$4.2 million above.

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

Revenue	2024 Revised Forecast, April, \$ mil.	Historical Average, Q1-Q2 as % of Annual	2024 Q1-Q2 Estimate Based on Historical Average, \$ mil.	2024 Q1-Q2 Receipts, \$ mil.	Difference, 2024 Q1-Q2 Actual vs Estimate, \$ mil.
Property Tax (Including Medic One Levy)	\$382.91	53.6%	\$205.12	\$205.73	\$0.62
Sales & Use Tax	\$310.85	30.4%	\$94.48	\$72.91	-\$21.57
Sales & Use Tax - Criminal Justice	\$27.99	30.3%	\$8.49	\$6.49	-\$2.00
Business & Occupation Tax	\$363.66	23.8%	\$86.66	\$81.58	-\$5.08
Utility Tax - Cable Television	\$11.17	39.3%	\$4.39	\$4.71	\$0.31
Utility Tax - Telephone	\$10.00	40.8%	\$4.08	\$4.83	\$0.74
Utility Tax - Natural Gas	\$11.65	57.2%	\$6.66	\$6.47	-\$0.20
Utility Tax - Steam	\$1.60	43.7%	\$0.70	\$0.91	\$0.21
Utility Tax - Brokered Natural Gas	\$1.66	36.7%	\$0.61	\$0.51	-\$0.10
Utility Tax - Solid Waste	\$1.68	40.4%	\$0.68	\$0.72	\$0.04
Utility Tax - City Light	\$73.33	45.6%	\$36.54	\$37.07	\$0.54
Utility Tax - City Water	\$39.95	33.9%	\$15.10	\$15.83	\$0.73
Utility Tax - Drainage & Wastewater	\$68.82	39.6%	\$27.25	\$27.47	\$0.22
Utility Tax - City Solid Waste	\$32.23	41.6%	\$13.42	\$13.47	\$0.05
Payroll Expense Tax (2021 obligations)	-\$3.37	–	-\$3.37	-\$2.14	\$1.24
Transportation Network Company Tax	\$5.45	18.6%	\$1.01	\$1.16	\$0.15
Other Taxes	\$8.85	43.3%	\$3.83	\$3.92	\$0.09
Parking Meters	\$40.25	43.9%	\$17.68	\$19.49	\$1.81
Court Fines	\$19.43	45.8%	\$8.89	\$9.51	\$0.62
Business License Fees	\$20.72	28.8%	\$5.97	\$5.89	-\$0.08
Licenses, Permits, Interest Income and Other	\$52.18	44.1%	\$23.01	\$23.03	\$0.01
Revenue from Other Public Entities	\$19.72	30.8%	\$6.07	\$4.79	-\$1.28
Service Charges & Reimbursements	\$80.77	46.5%	\$37.52	\$37.05	-\$0.47
Grants	\$64.96	26.7%	\$17.32	\$9.39	-\$7.94
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General Government Revenues					
Payroll Expense Tax	\$394.70	22.4%	\$88.50	\$83.14	-\$5.36
Admission Tax	\$25.84	30.9%	\$7.99	\$8.53	\$0.55
Sweetened Beverage Tax	\$21.83	23.1%	\$5.04	\$4.52	-\$0.52
Short Term Rental Tax	\$11.72	14.8%	\$1.73	\$2.01	\$0.28
Real Estate Excise Tax	\$52.27	37.6%	\$19.65	\$15.69	-\$3.97
Transportation Specific Revenues					
Commercial Parking Tax	\$51.35	34.7%	\$17.83	\$18.83	\$1.00
SSTPI - School Zone Speed Enforcement	\$9.71	57.9%	\$5.62	\$4.62	-\$1.01
STBD Sales Tax	\$52.94	30.7%	\$16.25	\$12.49	-\$3.76
STBD Vehicle License Fee	\$19.96	35.7%	\$7.13	\$7.67	\$0.53