

Office of Economic & Revenue Forecasts

2024 Q3 Revenue Report

October 2024



1. Introduction

Structure and Schedule of Quarterly Revenue Reports. This report documents revenues received through September 30th and is the third 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 forecast and historical quarterly patterns. The results for year-to-date revenue receipts presented in this report are shown relative to the revised August forecast that underlies the Mayor's 2025-2026 Proposed Budget and differs only marginally from the forecast approved by the City's Economic and Revenue Forecast Council on August 5th, 2024, adding about \$0.46 million to Grants and Fund Balance Transfers.

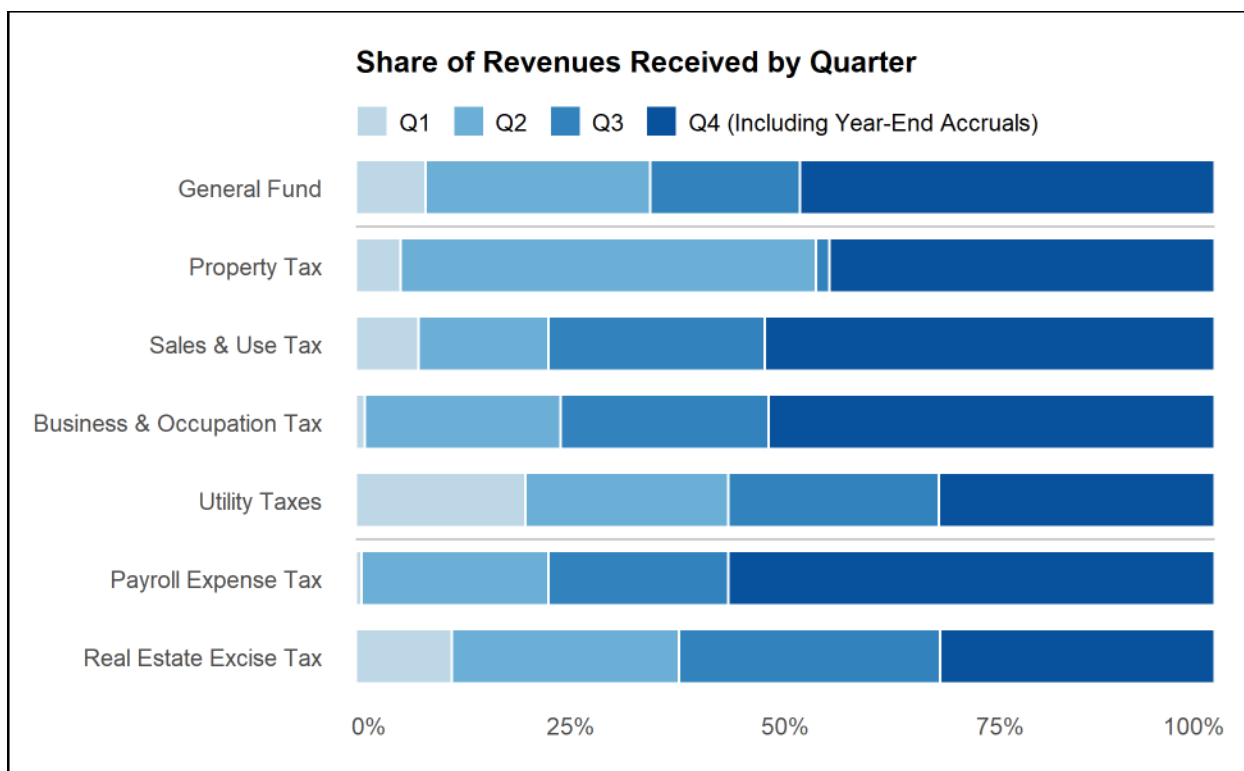
The structure of this report remains largely unchanged from the previous quarterly summaries. Following introduction, Section 2 provides an overview of overall General Fund (GF) revenues, and detailed analyses of the four largest contributors to GF revenues (Property Tax, Sales & Use Taxes, Business 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 explanations when realized revenues differ significantly from the usual pattern of revenue receipts. For 2024, we are generally using the average percentage 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 the 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 believe that roughly 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 total annual General Fund revenues, as well as main individual 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 just 35% of the annual GF revenues. And by the time of the third quarter report, when the Forecast Office develops its final forecast in October, the City has historically received about 52% 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

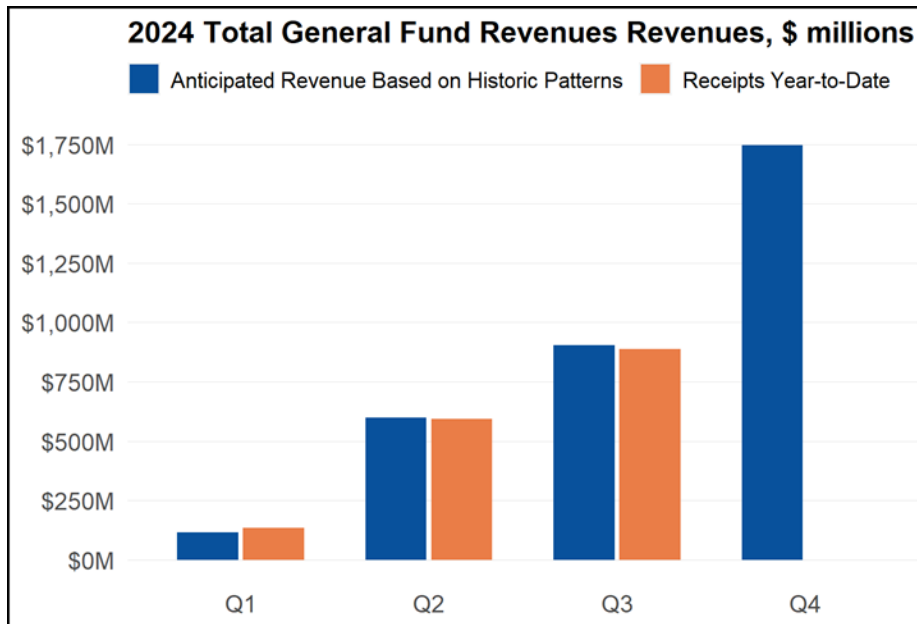
¹ This also has a significant impact on the City's overall financial planning since during the budget process the Mayor and Council are making critical decisions about how to allocate resources from the current year and next with incomplete information about how revenues are performing.

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 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 three quarters of 2024 for all General Fund revenues amounts to \$888.2 million, about \$14.5 million or 1.6% 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, this difference is more than accounted for by Grants, which are \$17.9 million short of the expected amount.

General Fund, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$134.2	\$593.9	\$888.2	
Anticipated Revenue Based on Historic Patterns	\$116.6	\$597.9	\$902.7	\$1,745.9
<i>Difference</i>	\$17.6	-\$4.0	-\$14.5	

Grants are however 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.

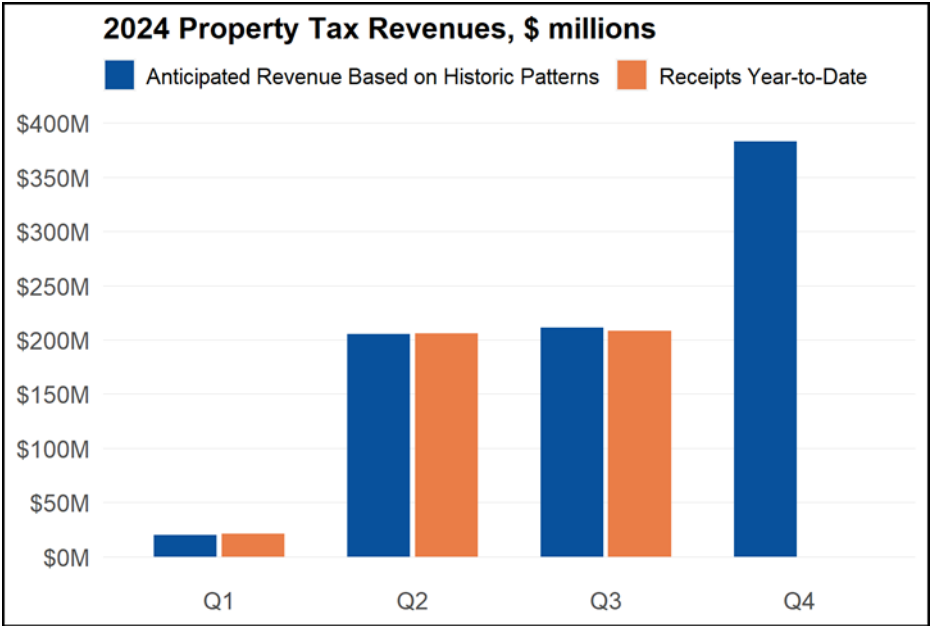
Excluding Grants and Fund Balance Transfers, total GF revenues are \$0.36 million, less than 0.1%, above the August forecast - lower Property Tax, Business & Occupation Tax, and Interest Income revenues are offset by higher Utility Taxes, Service Charges and Reimbursements, and other taxes. Further details regarding main revenue categories and their year-to-date receipts can be found below, in their respective sections.

General Fund Revenues – Major Revenue Categories

Revenue	2024 Revised Forecast, August, \$ mil.	Historical Average, Q1-Q3 as % of Annual	2024 Q1-Q3 Estimate Based on Historical Average, \$ mil.	2024 Q1-Q3 Receipts, \$ mil.	Difference, 2024 Q1-Q3 Actual vs Estimate, \$ mil.
Property Tax (Including Medic One Levy)	\$382.91	55.1%	\$211.15	\$208.35	-\$2.80
Sales & Use Tax	\$339.92	47.6%	\$161.89	\$163.30	\$1.41
Business & Occupation Tax	\$358.27	48.1%	\$172.16	\$168.50	-\$3.66
Utility Tax - Private	\$37.65	67.9%	\$25.56	\$26.59	\$1.03
Utility Tax - Public	\$214.84	67.9%	\$145.89	\$148.46	\$2.57
Payroll Expense Tax (2021 obligations)	-\$2.14		-\$2.14	-\$0.90	\$1.23
Other City Taxes	\$13.35	56.4%	\$7.53	\$8.62	\$1.08
Parking Meters	\$39.80	73.2%	\$29.13	\$29.57	\$0.44
Court Fines	\$19.66	70.3%	\$13.83	\$14.44	\$0.61
Licenses, Permits, Interest Income and Other	\$76.48	55.5%	\$42.46	\$38.95	-\$3.51
Revenue from Other Public Entities	\$19.65	53.7%	\$10.55	\$9.54	-\$1.01
Service Charges & Reimbursements	\$81.70	66.1%	\$53.97	\$56.93	\$2.96
Grants	\$67.77	45.3%	\$30.69	\$12.75	-\$17.94
Fund Balance Transfers	\$96.06	0.0%	\$0.00	\$3.08	\$3.08
Total General Fund Revenues	\$1,745.92	51.7%	\$902.67	\$888.17	-\$14.50
Total General Fund Revenues excl. Grants and Fund Balance Transfers	\$1.582.09	55.1%	\$871.98	\$872.34	\$0.36

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



three quarters is anticipated to be about 55.1% of the annual total.

The actual year-to-date revenues are somewhat lower, \$2.8 million or 1.3% below the amount anticipated.

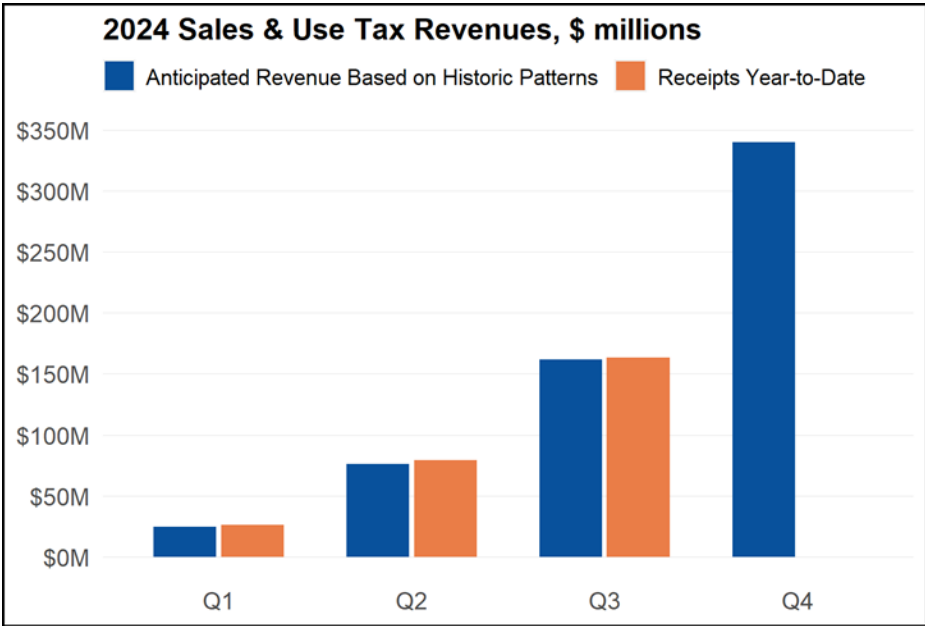
Because property tax obligations are fixed at the beginning of the year, compared to other revenue sources, property tax payments are affected much less

Property Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$21.0	\$205.7	\$208.4	
Anticipated Revenue Based on Historic Patterns	\$20.1	\$205.1	\$211.2	\$382.9
Difference	\$1.0	\$0.6	-\$2.8	

by evolving economic conditions in the current year. Variations in the timing of filings by taxpayers for the current year and the resulting early or late payments, as well as varying number of delinquencies, are instead the main reasons behind the differences in the distribution of the quarterly receipts.

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



Sales & Use Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$26.3	\$79.4	\$163.3	
Anticipated Revenue Based on Historic Patterns	\$24.8	\$76.4	\$161.9	\$339.9
Difference	\$1.5	\$3.0	\$1.4	

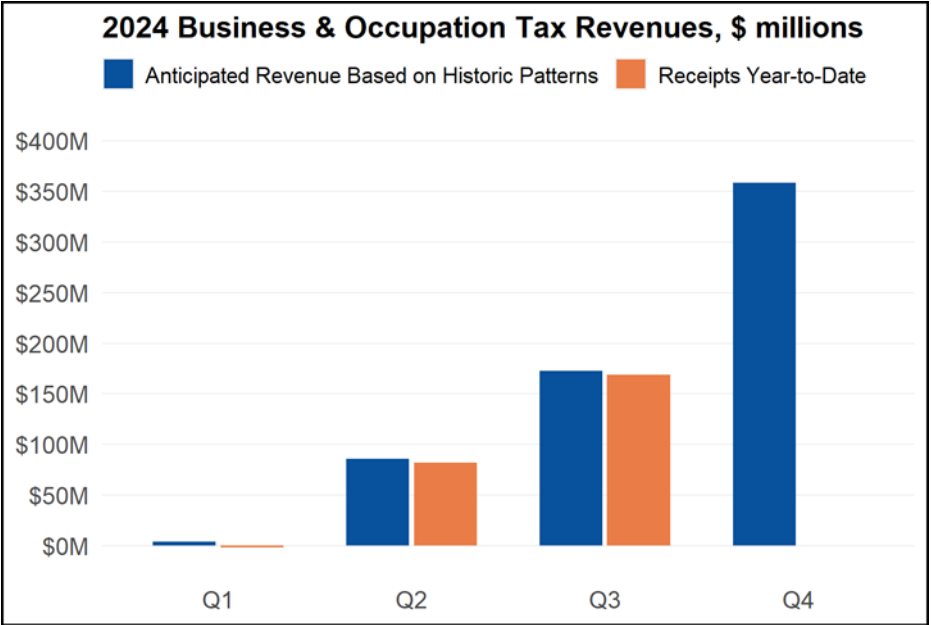
distributions occur in general about seven weeks following the month during which the underlying taxable transactions occur. The remitted amounts then need to be processed by the City and posted to the appropriate accounts for various sales and use taxes imposed. As a result, by the end of the second quarter of 2024, City’s sales and use tax accounts have

received three monthly distribution payments from DOR for the 2024 tax year. By the end of 2024 Q3, six monthly distribution payments have been received, primarily for taxable sales activity through the end of June 2024.

Sales tax revenues are about \$1.4 million above what would be expected based on the recent historical patterns of quarterly payments. In addition to this simple comparison, the Forecast Office also tracks year-to-date payments relative to the specific monthly forecasts developed as part of our more detailed modeling of these revenue streams that take into account current economic developments and the outlook for the rest of the year. Based on this comparison, General Fund sales tax revenues for the first three quarters are about \$1.6 million below the August 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



B&O Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	-\$2.0	\$81.6	\$168.5	
Anticipated Revenue Based on Historic Patterns	\$3.8	\$85.4	\$172.2	\$358.3
Difference	-\$5.8	-\$3.8	-\$3.7	

after the close of the quarter, in which 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 completely known until approximately two months after the quarter end. B&O revenues received through the end of Q3 generally represent about

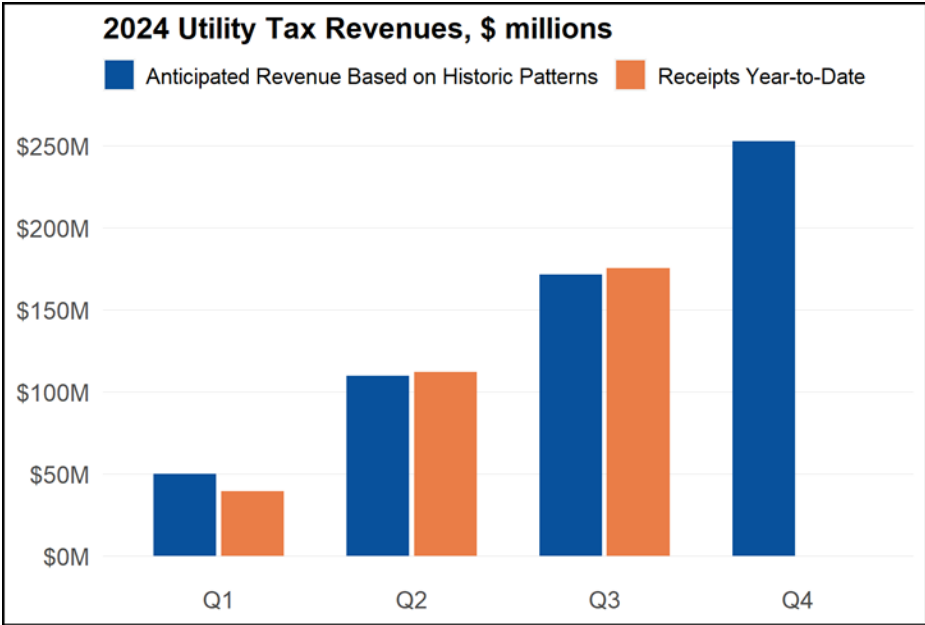
48% of the annual total and consist primarily of payments for Q1 and Q2 obligations.

Furthermore, small businesses and new taxpayers have always been allowed to pay their B&O taxes annually, rather than quarterly. 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 Q3 are \$3.7 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 current revenue forecast.

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



Utility Taxes, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$39.2	\$112.0	\$175.1	
Anticipated Revenue Based on Historic Patterns	\$49.9	\$109.6	\$171.4	\$252.5
Difference	-\$10.7	\$2.4	\$3.6	

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 Q3. Payments generally arrive with a one-month lag, so the results for the first three quarters generally reflect payments for January through May obligations,

with receipts for December obligations accrued to the previous year. There were however two notable exceptions in 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 August forecast accounts for both and so do the summary tables in this report.

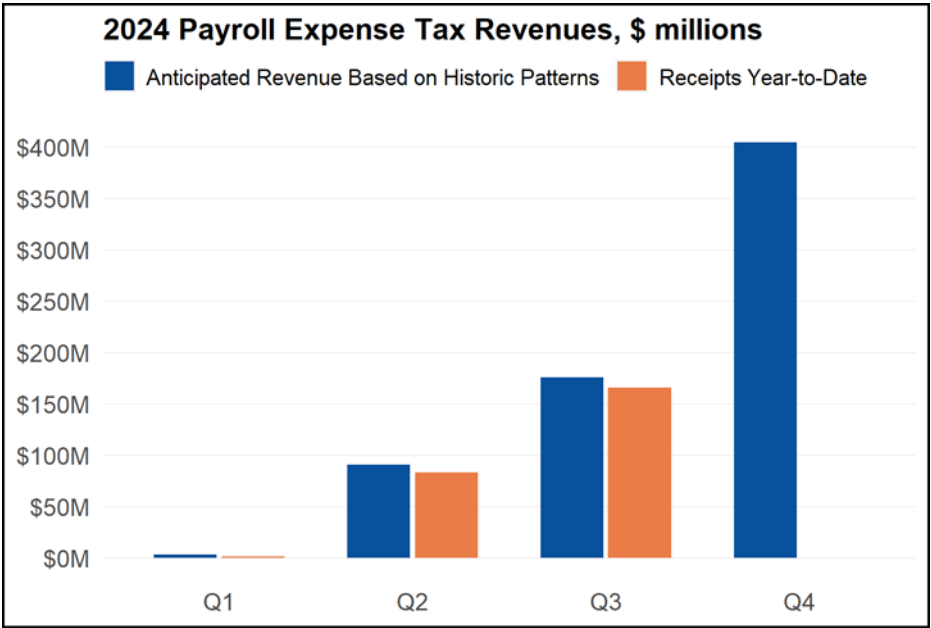
As shown in the table further below in Section 3, almost every revenue stream in the utility taxes category exceeded expectations. Overall, utility tax revenues are about \$3.6 million, or 2.1%, higher than what would be anticipated given a simple allocation of total annual forecast based on recent historical patterns of quarterly payments.

2.2 Select Non-General Fund 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 gradual tax on businesses based on the annual compensations they pay their employees. The tax rate increases both with individual



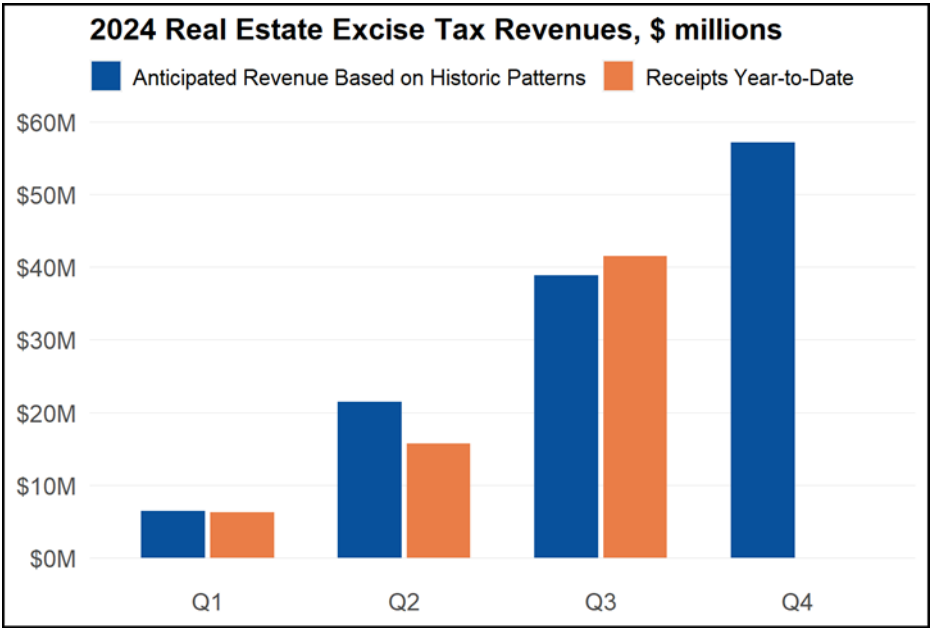
compensation and with the overall payroll of the company. Since tax obligations depend on annual payrolls, tax liabilities cannot be determined until year end. Firms are required to make estimated quarterly payments. Returns are due a month after the end of the quarter, revenues received by the end of Q3 are thus primarily Q1 and Q2 estimated payments. The

Payroll Expense Tax, \$ million	Q1	Q2	Q3	Q4
Receipts Year-to-Date	\$1.1	\$83.1	\$165.6	
Anticipated Revenue Based on Historic Patterns	\$2.7	\$90.7	\$175.4	\$404.4
Difference	-\$1.6	-\$7.5	-\$9.8	

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 approach, so roughly 25% of previous year’s annual payments will be made each of the first three quarters of 2024, followed by large true-up payments in the final quarter, as was the case in 2023. As a result, year-to-date revenues provide very little information regarding the actual performance of the Payroll Expense Tax in the current year.

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	\$41.6	
Anticipated Revenue Based on Historic Patterns	\$6.4	\$21.5	\$38.9	\$57.2
Difference	-\$0.2	-\$5.8	\$2.7	

for different purposes. Several factors make it rather difficult to determine whether current payments are tracking toward the forecast. Large transactions, such as sales of office towers or apartment buildings, can have a significant impact on the revenues reported in any quarter and on the distribution of 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, so 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, thus \$8.2 million got shifted from the second to the third quarter. Three larger sales, each valued more than \$50 million, added about \$2.2 million to REET in 2024 Q3, therefore the year-to-date revenue is higher than projected.

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

Revenue	2024 Revised Forecast, August, \$ mil.	Historical Average, Q1-Q3 as % of Annual	2024 Q1-Q3 Estimate Based on Historical Average, \$ mil.	2024 Q1-Q3 Receipts, \$ mil.	Difference, 2024 Q1-Q3 Actual vs Estimate, \$ mil.
Property Tax (Including Medic One Levy)	\$382.91	55.1%	\$211.15	\$208.35	-\$2.80
Sales & Use Tax	\$311.71	47.6%	\$148.43	\$149.83	\$1.40
Sales & Use Tax - Criminal Justice	\$28.22	47.7%	\$13.46	\$13.46	\$0.00
Business & Occupation Tax	\$358.27	48.1%	\$172.16	\$168.50	-\$3.66
Utility Tax - Cable Television	\$10.93	68.5%	\$7.49	\$7.31	-\$0.17
Utility Tax - Telephone	\$10.01	66.8%	\$6.69	\$7.49	\$0.80
Utility Tax - Natural Gas	\$11.53	70.3%	\$8.11	\$8.45	\$0.35
Utility Tax - Steam	\$1.85	65.9%	\$1.22	\$1.26	\$0.04
Utility Tax - Brokered Natural Gas	\$1.64	57.3%	\$0.94	\$0.83	-\$0.11
Utility Tax - Solid Waste	\$1.68	66.3%	\$1.11	\$1.24	\$0.13
Utility Tax - City Light	\$73.83	68.5%	\$52.35	\$53.01	\$0.66
Utility Tax - City Water	\$40.64	63.4%	\$26.63	\$27.11	\$0.48
Utility Tax - Drainage & Wastewater	\$68.18	66.3%	\$45.19	\$46.30	\$1.11
Utility Tax - City Solid Waste	\$32.19	67.4%	\$21.71	\$22.04	\$0.33
Payroll Expense Tax (2021 obligations)	-\$2.14		-\$2.14	-\$0.90	\$1.23
Transportation Network Company Tax	\$5.34	39.1%	\$2.09	\$2.48	\$0.39
Other Taxes	\$8.01	68.0%	\$5.44	\$6.14	\$0.69
Parking Meters	\$39.80	73.2%	\$29.13	\$29.57	\$0.44
Court Fines	\$19.66	70.3%	\$13.83	\$14.44	\$0.61
Business License Fees	\$20.72	32.7%	\$6.78	\$6.69	-\$0.09
Licenses, Permits, Interest Income and Other	\$55.76	64.0%	\$35.68	\$32.26	-\$3.42
Revenue from Other Public Entities	\$19.65	53.7%	\$10.55	\$9.54	-\$1.01
Service Charges & Reimbursements	\$81.70	66.1%	\$53.97	\$56.93	\$2.96
Grants	\$67.77	45.3%	\$30.69	\$12.75	-\$17.94
Fund Balance Transfers	\$96.06	0.0%	\$0.00	\$3.08	\$3.08
Total General Fund Revenues	\$1,745.92	51.7%	\$902.67	\$888.17	-\$14.50

Revenue	2024 Revised Forecast, August, \$ mil.	Historical Average, Q1-Q3 as % of Annual	2024 Q1-Q3 Estimate Based on Historical Average, \$ mil.	2024 Q1-Q3 Receipts, \$ mil.	Difference, 2024 Q1-Q3 Actual vs Estimate, \$ mil.
General Government Revenues					
Payroll Expense Tax	\$404.39	43.4%	\$175.40	\$165.57	-\$9.83
Admission Tax	\$26.27	55.9%	\$14.69	\$14.67	-\$0.01
Sweetened Beverage Tax	\$20.91	47.5%	\$9.93	\$9.89	-\$0.05
Short Term Rental Tax	\$11.31	45.9%	\$5.19	\$5.31	\$0.11
Real Estate Excise Tax	\$57.16	68.0%	\$38.87	\$41.56	\$2.69
Transportation Specific Revenues					
Commercial Parking Tax	\$52.40	61.6%	\$32.27	\$30.91	-\$1.36
SSTPI - School Zone Speed Enforcement	\$9.31	74.8%	\$6.97	\$6.60	-\$0.37
STBD Sales Tax	\$53.08	47.9%	\$25.44	\$25.55	\$0.11
STBD Vehicle License Fee	\$19.47	62.2%	\$12.11	\$13.12	\$1.01