

# Office of Economic & Revenue Forecasts

## 2022 Year-End Revenue Report

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# 2021 Year-End Revenue Report

Comparing Actual Receipts to Forecasts and  
Summarizing the Regional Economic Context

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# Presentation Outline

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## **1. General Fund Revenues**

- Compare final 2021 revenues to most recent (November) forecasts of these same revenues; and
- Compare final 2021 revenues to final 2019 revenues to track pandemic “recovery”

## **2. Selected Non-General Fund Revenues that Support General Government Services**

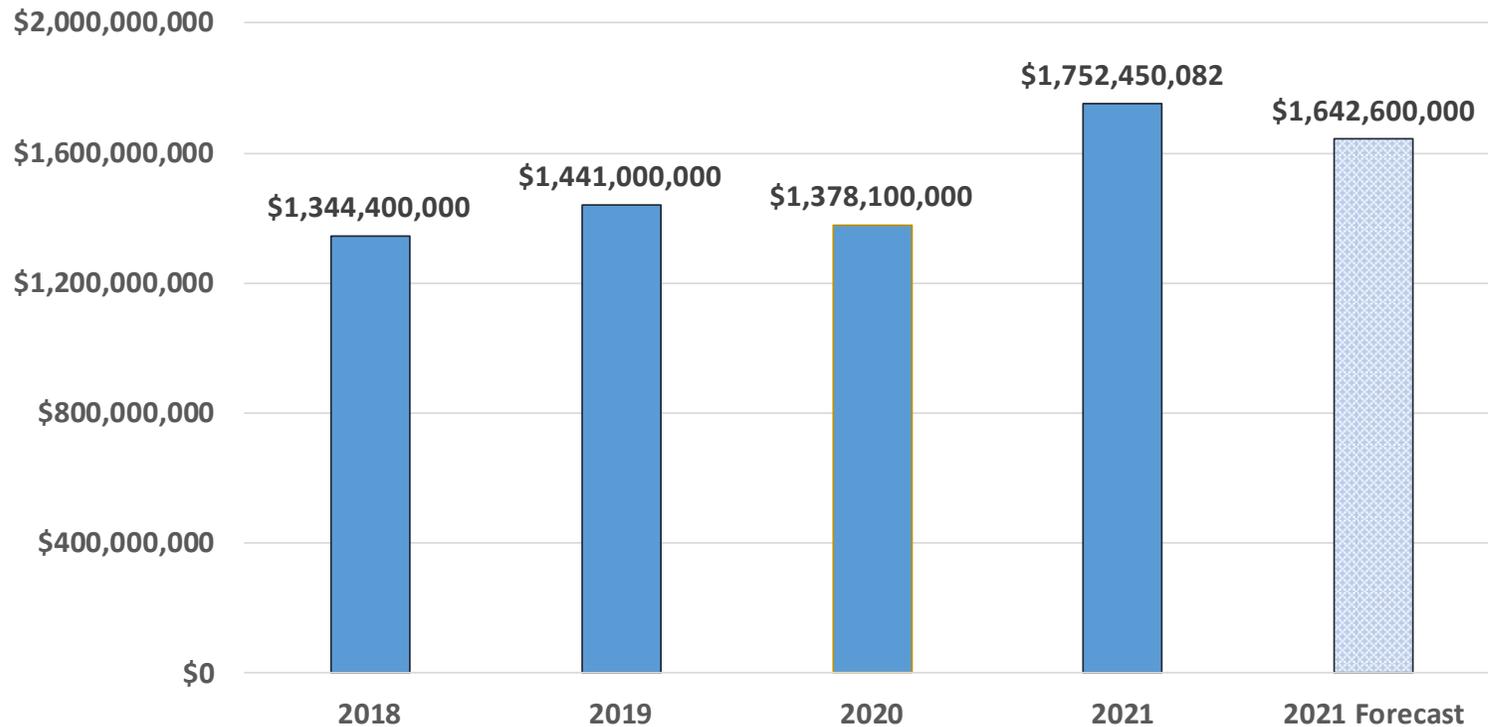
- REET, Commercial Parking Tax, Sweetened Beverage Tax, and Short-term Rental Tax
- Same comparisons as above

## **3. Update on national and regional economy**

- Provide context for the overall 2021 revenue results, and a general update regarding the regional economic climate

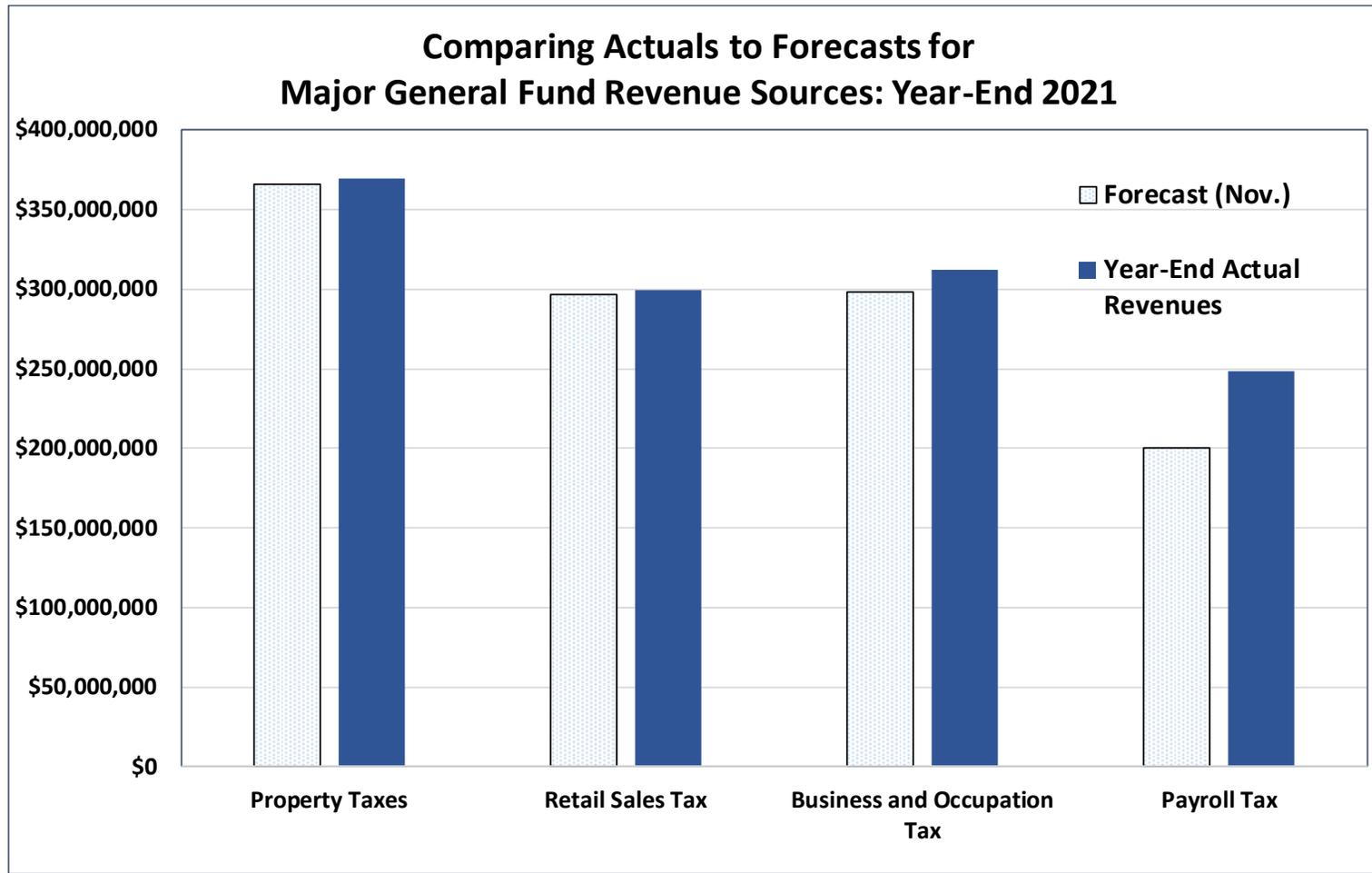
# General Fund Revenues - Overview

Total General Fund Revenue



- Final General Fund 2021 revenues show continued recovery from the impacts of the pandemic.
- However, 2021 General Fund revenues would have been almost \$250M less, if the new Payroll Tax had not been imposed. And note that in 2022 and beyond, the Payroll Tax will be not part of the General Fund.
- Relative to forecast, final 2021 General Fund revenues exceeded the November projections by \$110M.
- However, much of this \$110M can be attributed to additional grant revenues and the Payroll Tax. The increased grant revenues are offset by increased expenditure authority. And the potential uses of additional of Payroll Tax is a policy question.
- Setting aside these two components, the remaining net amount of 2021 GF revenue above forecast is \$25M-\$35M, and the final figure will depend on what portion is offset by expenditures, which requires further consultation with CBO.

# General Fund Revenues Relative to Forecast– Major Sources



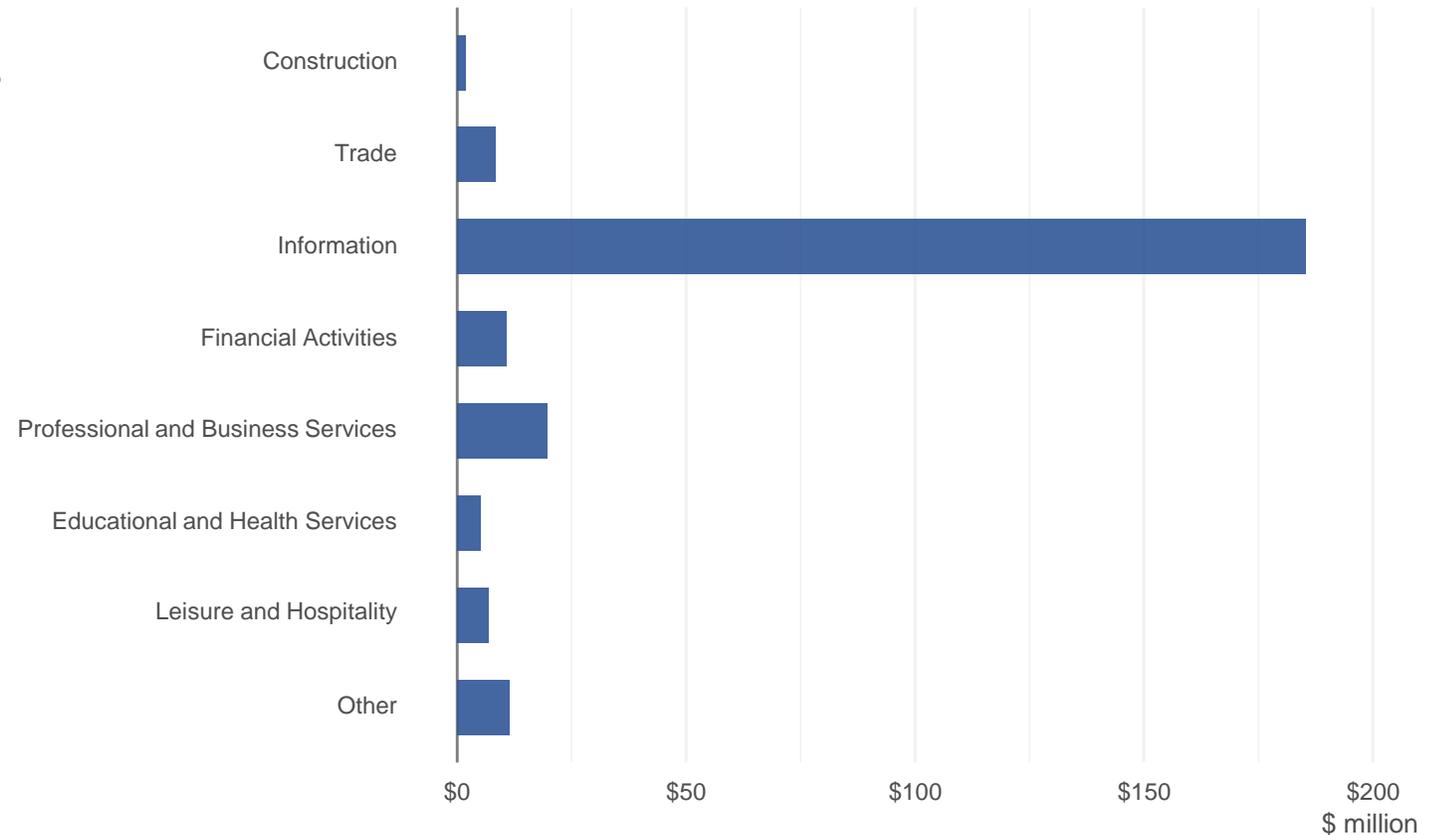
- This graph compares 2021 final revenues to the November Forecasts for these major revenue sources.
- Property tax totals exceeded forecasts by about \$3M, or less than 1%.
- Retail Sales Tax results exceeded forecasts by \$2.6M, also a difference of less than 1%.
- Business and Occupation Tax outperformed expectations by \$14M, or roughly 5%.
- Further details are provided on the slide following, but the Payroll Expense Tax exceeded revised forecasts by \$48M. The tax base for this new revenue was unknown, so initial forecasting was a particular challenge.

# Payroll Expense Tax – What We Know So Far

- 2021 payments now total \$248.1 million. Payments have come from 325 taxpayers
- Information Services and Professional & Business Services account for more than 82% of tax receipts
- Finance and Administrative Services (FAS) will continue its efforts to identify firms with potential tax obligation and to review payments from businesses that have paid. Compliance with this new tax has been challenging for some firms
- Large amount of uncertainty remains regarding the tax base and the implications of work from home. This uncertainty will continue to make forecasts challenging

## Payroll Expense Tax Revenue

Payments by Industry, \$ million

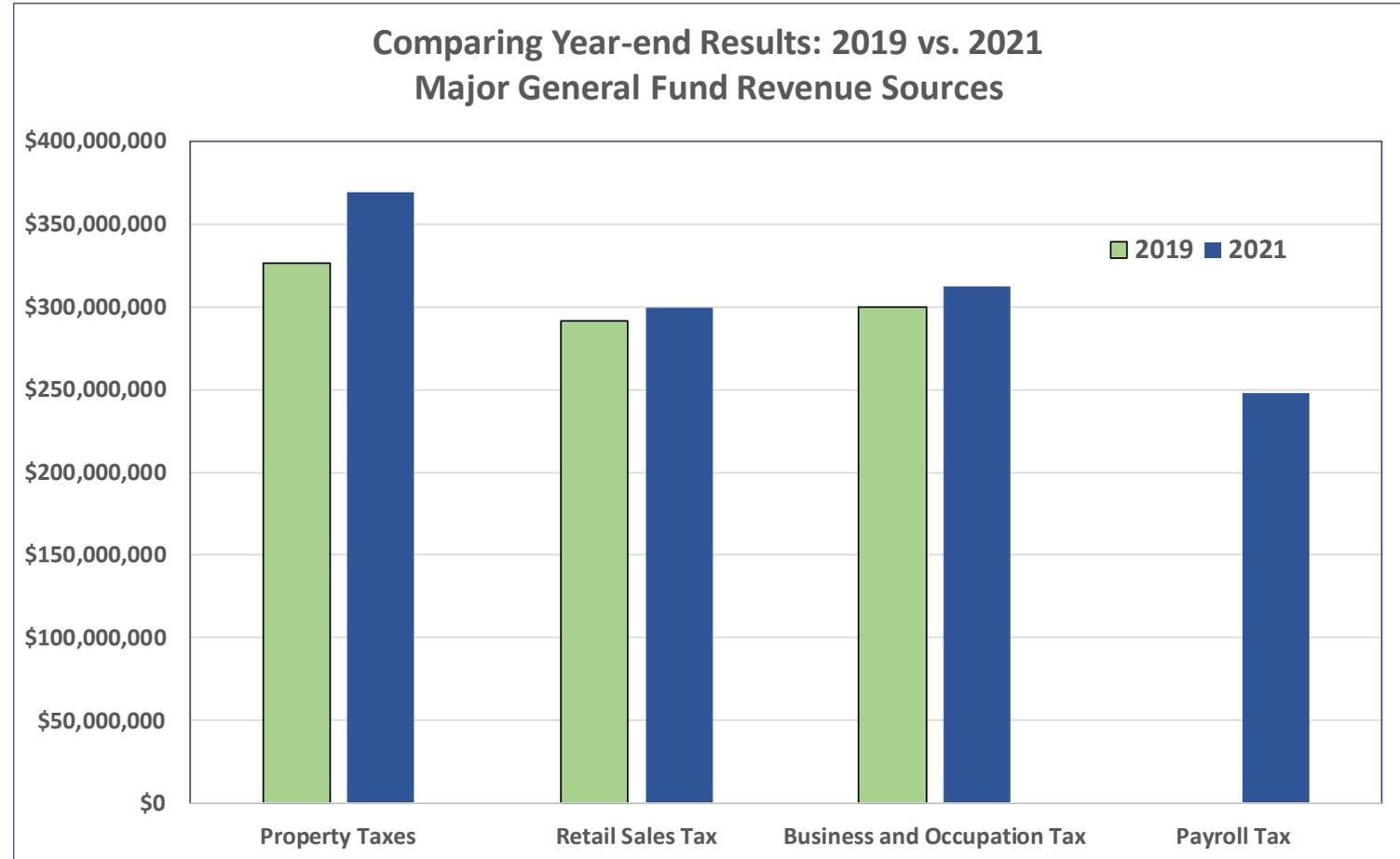


# General Fund Revenues Relative to Forecast – Detail

Revenue Source	2021			
	Forecast (Nov.)	Year-End Actual Revenues	Forecast Variance - Dollars	Forecast Variance - Percentages
Property Taxes	\$366,260,000	\$369,560,000	\$3,300,000	0.9%
Retail Sales Tax	\$296,770,000	\$299,410,000	\$2,640,000	0.9%
Business and Occupation Tax	\$298,230,000	\$312,400,000	\$14,170,000	4.8%
Business License Fees	\$16,900,000	\$16,650,000	(\$250,000)	(1.5%)
Payroll Tax	\$200,140,000	\$248,100,000	\$47,960,000	24.0%
Public Utility Taxes - City Light	\$56,630,000	\$52,880,000	(\$3,750,000)	(6.6%)
Public Utility Taxes - SPU	\$118,770,000	\$120,740,000	\$1,970,000	1.7%
Private Utility Taxes - Energy and Solid Waste	\$17,300,000	\$18,830,000	\$1,530,000	8.9%
Private Utility Taxes - Cable and Telephone	\$27,010,000	\$27,410,000	\$400,000	1.5%
Parking Meters	\$11,320,000	\$11,010,000	(\$310,000)	(2.7%)
Court Fines	\$16,140,000	\$14,720,000	(\$1,420,000)	(8.8%)
Admission Tax	\$8,350,000	\$9,450,000	\$1,100,000	13.2%
Remaining General Fund Revenues	\$208,790,000	\$251,290,000	\$42,500,000	20.4%
<b>Total General Fund Revenues</b>	<b>\$1,642,610,000</b>	<b>\$1,752,450,000</b>	<b>\$109,840,000</b>	<b>6.7%</b>

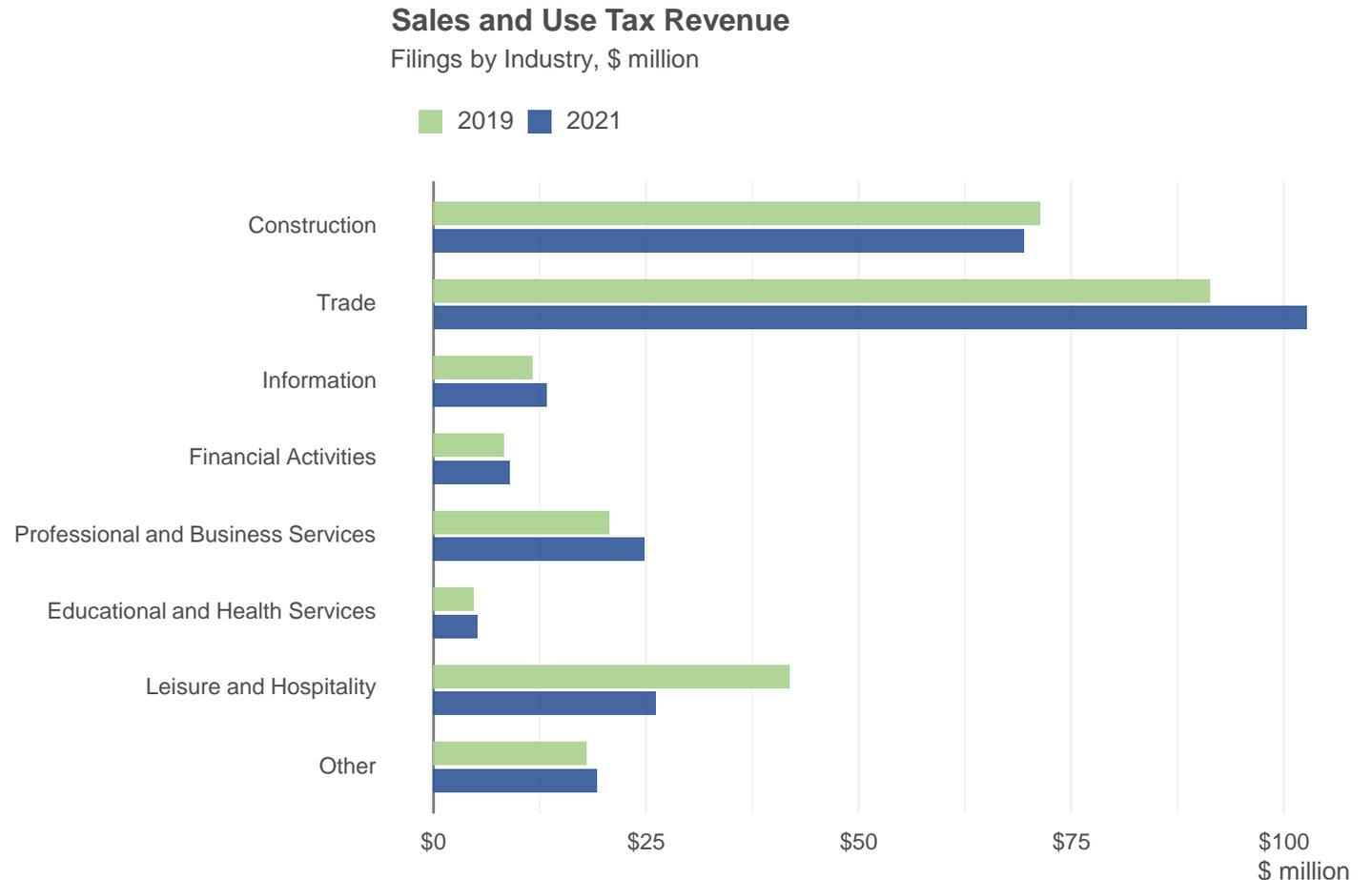
# General Fund Revenues Relative to 2019 – Major Sources

- This graph compares 2021 final revenues to final 2019 revenues to highlight the progress economic of recovery from the pandemic.
- In general, annual property tax revenue increases are limited to 1% plus the value of new construction. The significant increase illustrated her includes a \$16+M increase in the City’s portion of the voter-approved County-wide EMS Levy. And it is worth noting that property tax delinquencies have not significantly increased during the pandemic.
- At this point in the recovery, both Sales and B&O Tax revenues exceed their pre-pandemic levels, in nominal terms, but not by much. In addition, inflation has reduced the purchasing power of these revenues, and we have not “caught up” to the revenue growth that would have otherwise occurred over the last two years.



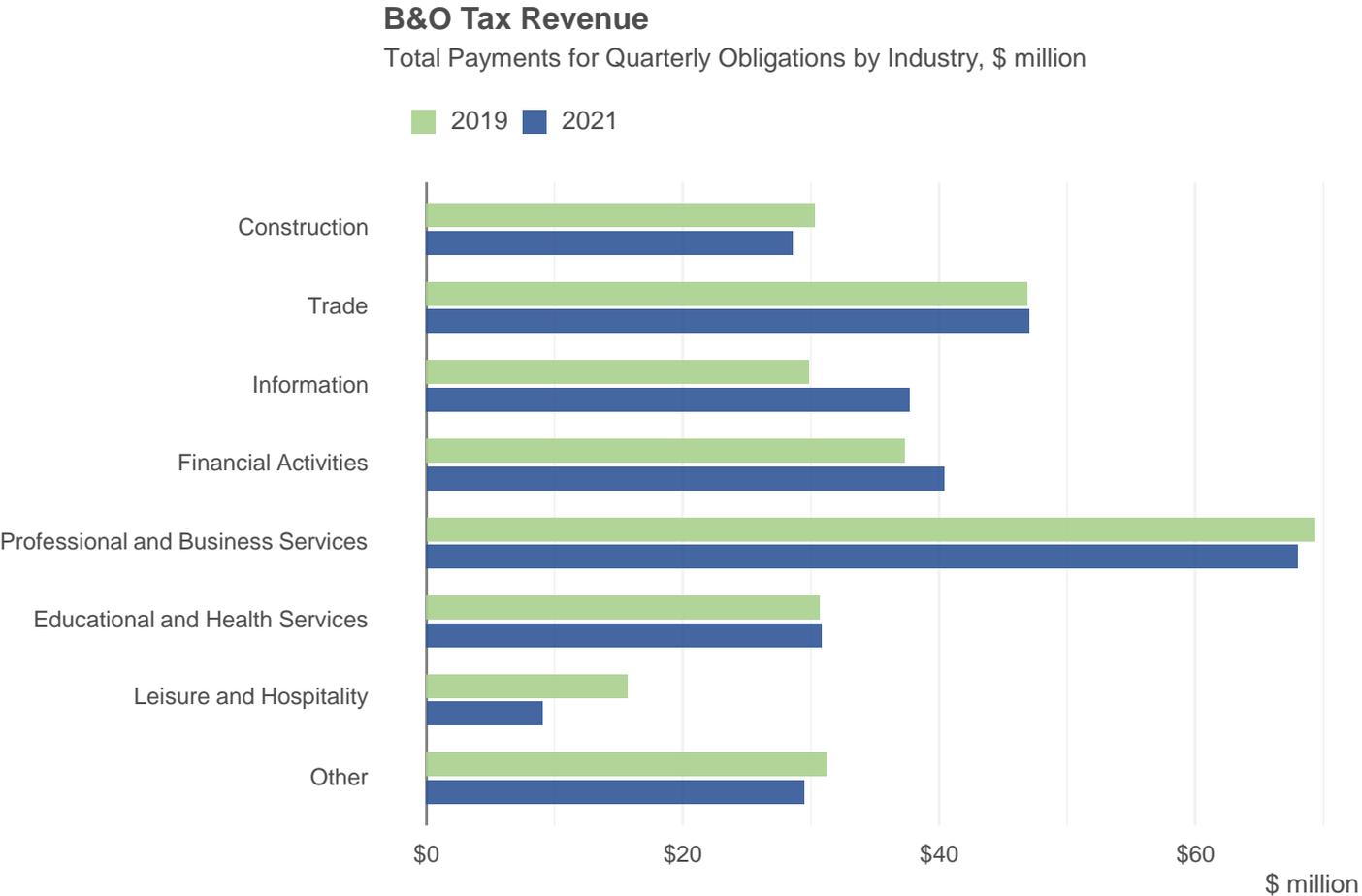
# Sales Tax Revenue Now Slightly Higher Than Pre-COVID

- Relative to 2019, Sales Tax Revenue has increased by \$7.5 million, which is about 2.5%
- In terms of Sales Tax revenues, weakness in the Leisure & Hospitality, and Construction sectors continues to partially offset gains in Trade, Professional and Business Services, and Information Services
- Food services and drinking places account for 55.1% and hotels for 35.9% of the Leisure & Hospitality sector's losses, compared to 2019
- So overall, sales tax revenue is now slightly higher than pre-COVID, but interestingly the composition of spending has not (yet?) returned to pre-pandemic patterns



# Business and Occupation Tax Revenue

- Compared to 2019, B&O Tax revenues are up 4.2%, which equates to \$7.5M.
- Continued strength and strong recovery in both the Information Services and Financial Services sectors has helped B&O rebound.
- As noted above, 2021 final revenues were approximately \$14M above forecast. However, about half this total came from non-current payment that do not reflect recent economic activity. And thus, do not represent an ongoing increase in overall B&O tax revenues.

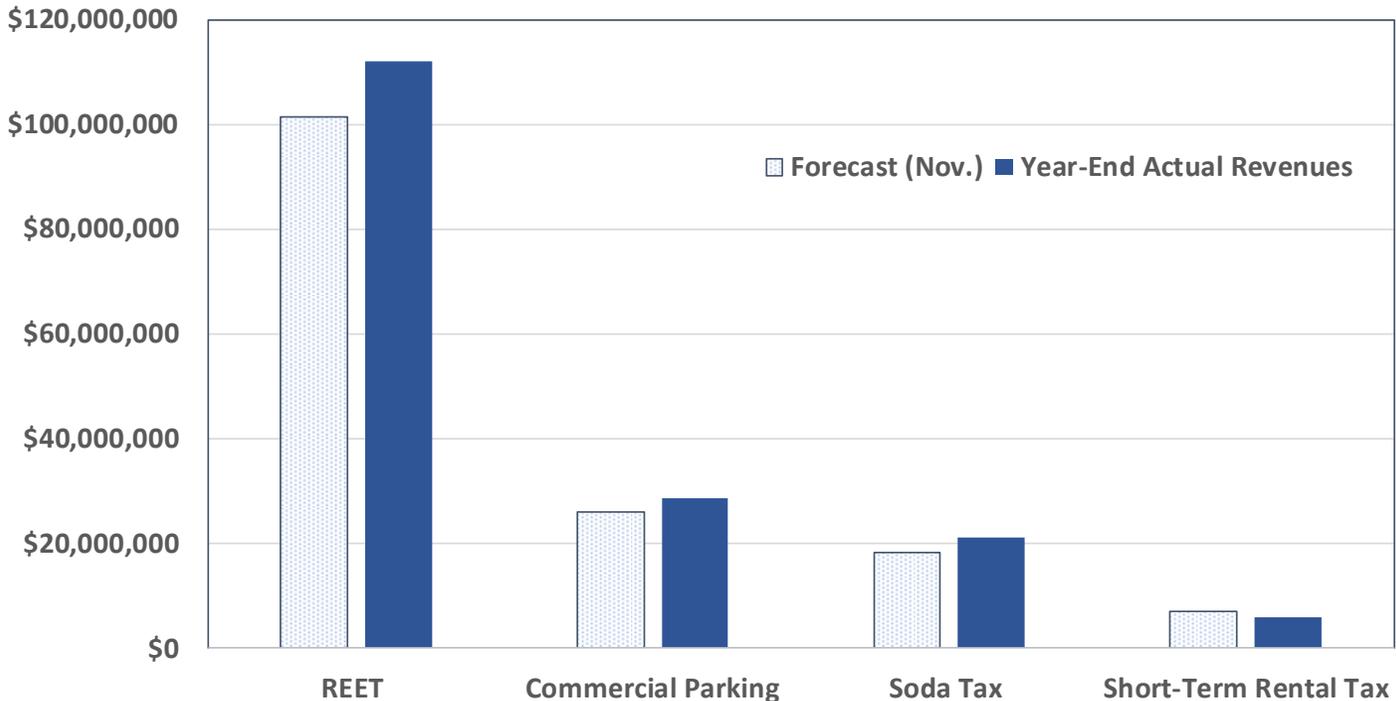


# General Fund Revenues Relative to 2019 - Detail

Revenue Source	2019 Year-End Actual Revenues	2021 Year-End Actual Revenues	Year/Year Difference in Dollars	Year/Year Difference in Percentages
Property Taxes	\$326,820,000	\$369,560,000	\$42,730,000	13.1%
Retail Sales Tax	\$291,960,000	\$299,410,000	\$7,450,000	2.6%
Business and Occupation Tax	\$299,690,000	\$312,400,000	\$12,710,000	4.2%
Business License Fees	\$17,820,000	\$16,650,000	(\$1,170,000)	(6.6%)
Payroll Tax	\$0	\$248,100,000	\$248,100,000	N/A
Public Utility Taxes - City Light	\$57,310,000	\$52,880,000	(\$4,430,000)	(7.7%)
Public Utility Taxes - SPU	\$116,090,000	\$120,740,000	\$4,640,000	4.0%
Private Utility Taxes - Energy and Solid Waste	\$15,270,000	\$18,830,000	\$3,570,000	23.4%
Private Utility Taxes - Cable and Telephone	\$31,870,000	\$27,410,000	(\$4,460,000)	(14.0%)
Parking Meters	\$38,300,000	\$11,010,000	(\$27,290,000)	(71.2%)
Court Fines	\$27,980,000	\$14,720,000	(\$13,260,000)	(47.4%)
Admission Tax	\$11,340,000	\$9,450,000	(\$1,890,000)	(16.7%)
Remaining General Fund Revenues	\$206,550,000	\$251,290,000	\$44,740,000	21.7%
<b>Total General Fund Revenues</b>	<b>\$1,441,000,000</b>	<b>\$1,752,450,000</b>	<b>\$311,450,000</b>	<b>21.6%</b>

# Select Non-General Fund Revenues Relative to Forecast

Comparing Actuals to Forecasts for Notable Non-GF Revenue Sources: Year-End 2021



- This chart compares 2021 final revenues to the November forecasts for these four selected general government revenues
- Real Estate Excise Tax finished more than \$10.5M over forecast, as several large property transactions late in the year added significant unanticipated revenues
- Commercial Parking Tax revenues exceeded forecast, but as the next slide will show remain well below pre-pandemic levels
- Revenues from the Sweetened Beverage or “Soda Tax” exceeded the November forecast by \$3M. This tax is paid quarterly, and a stronger than anticipated 4<sup>th</sup> quarter drove this result
- Short-Term Rental Tax revenues fell short of forecasts by almost 19% (\$1.1M), consistent with overall challenges that the Omicron variant has played in delaying recovery in the hospitality sector

Revenue Source	2021			
	Forecast (Nov.)	Year-End Revenues	Forecast Var. in \$	Forecast Var. in %
REET	\$101,520,000	\$112,180,000	\$10,660,000	9.5%
Commercial Parking	\$26,100,000	\$28,550,000	\$2,450,000	8.6%
Soda Tax	\$18,200,000	\$21,240,000	\$3,040,000	14.3%
Short-Term Rental Tax	\$7,190,000	\$6,050,000	(\$1,140,000)	(18.9%)



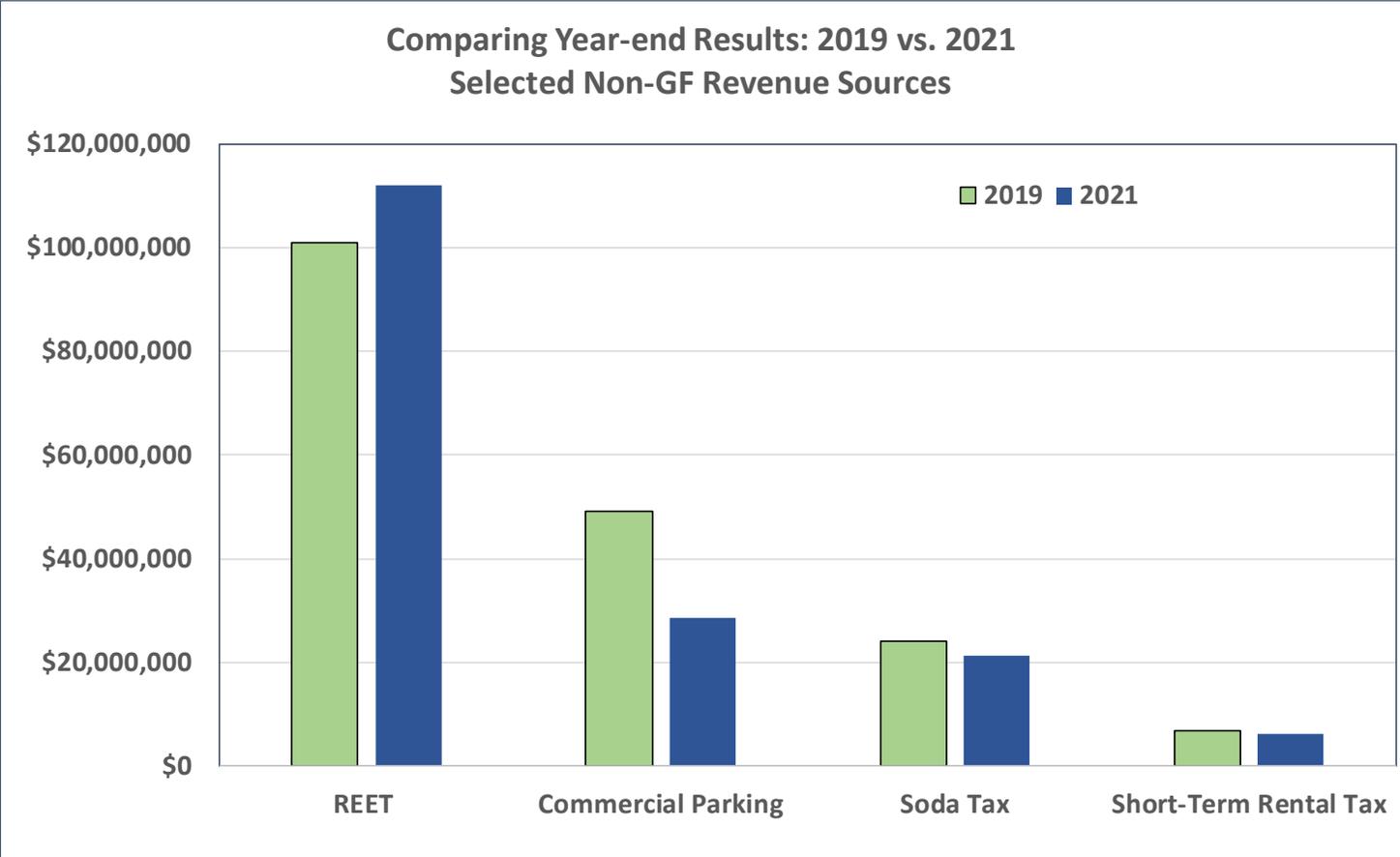
# Select Non-General Fund Revenues – Comparing 2021 and 2019

➤ This chart compares 2021 final revenues to those received in 2019 for four selected general government revenue sources. The goal of this comparison is to highlight the difference between current and “pre-pandemic” resources

➤ Increase in state REET rates and pandemic significantly lowered real estate sales in the first half of 2020; in 2021 REET rebounded largely due to 16 sales above \$100 million each that added \$19 million to the annual total

➤ Note, however, that the other three revenue streams remain significantly lower than their pre-pandemic levels:

- 2021 Commercial Parking Tax revenues were more than 40% lower than the 2019 totals
- Soda Tax and Short-Term Rental Tax revenues have begun to recover, but still remain about 12% below their pre-pandemic levels



Revenue Source	2019 Revenues	2021 Revenues	Year/Year Difference in \$	Year/Year Difference in %
REET	\$100,930,000	\$112,180,000	\$11,240,000	11.1%
Commercial Parking	\$49,230,000	28,550,000	(\$20,680,000)	(42.0%)
Soda Tax	\$24,100,000	21,240,000	(\$2,870,000)	(11.9%)
Short-Term Rental Tax	\$6,850,000	\$6,050,000	(\$800,000)	(11.6%)

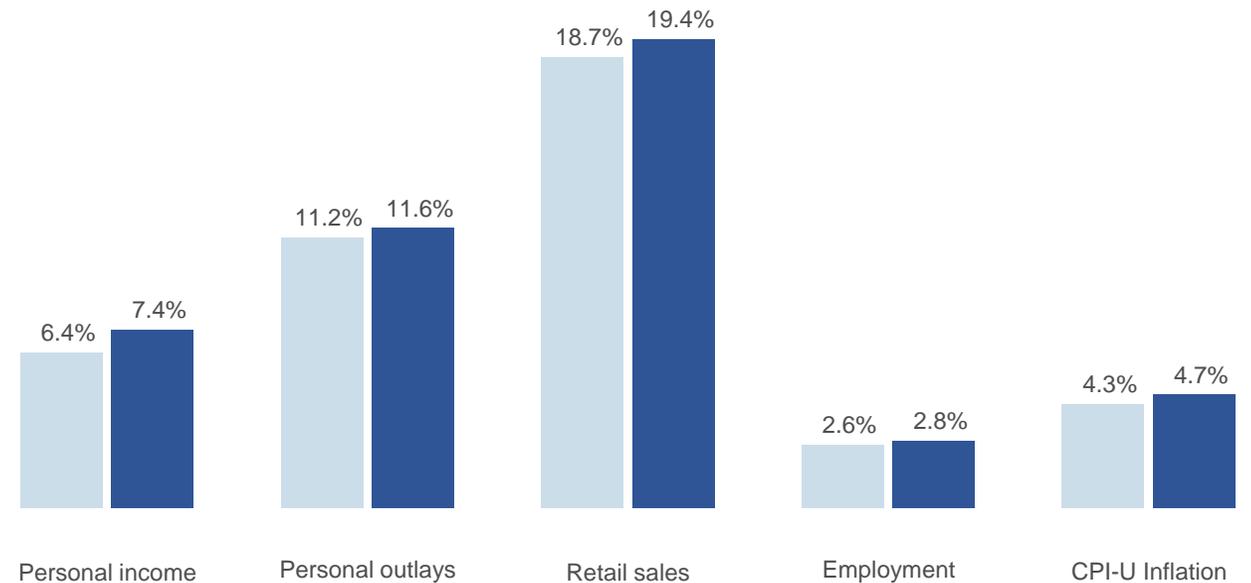
# U.S. Economic Climate: Update

- These basic financial metrics are ones that we will report on consistently, and track over time, as high-level, summary-level measures of national economic conditions.
- Personal income, outlays and retails sales have outperformed expectations from the fall, but not by dramatic amounts.
- Omicron caused a slowdown 2021 Q4 growth and depressed average hours worked, but had little effect on total employment
- Higher than expected inflation due to strong demand facing supply chain disruptions, shortage of workers, and rising home and rent prices
- IHS Markit anticipates inflation to moderate gradually as supply-chain issues are addressed, labor force continues to recover, and the Fed increases interest rates. However, the war in Ukraine will further increase inflation pressures.

## U.S. Growth in 2021

Actual vs October 2021 Baseline Scenario Forecast

Forecast Actual



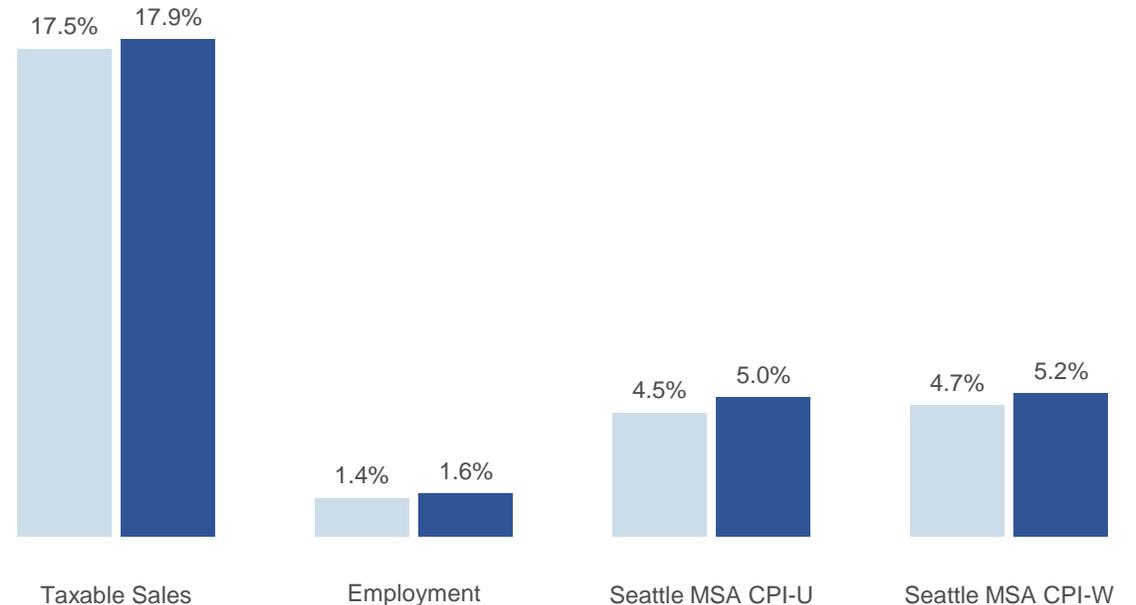
# Regional Economic Climate: Update

- In line with the developments in the national economy, regional sales and employment grew in 2021 somewhat faster than expected in October, while inflation outpaced expectations more dramatically
- Until recently, the consensus among forecasters was that inflation pressures would wane during 2022, but the persistence of supply chain issues and the war in Ukraine are leading to upward revisions in inflation forecasts for 2022 at the local level as well
- Increases in regional inflation rates will put upward pressure on City expenditures, including the City's own labor costs

## Seattle MD Growth in 2021

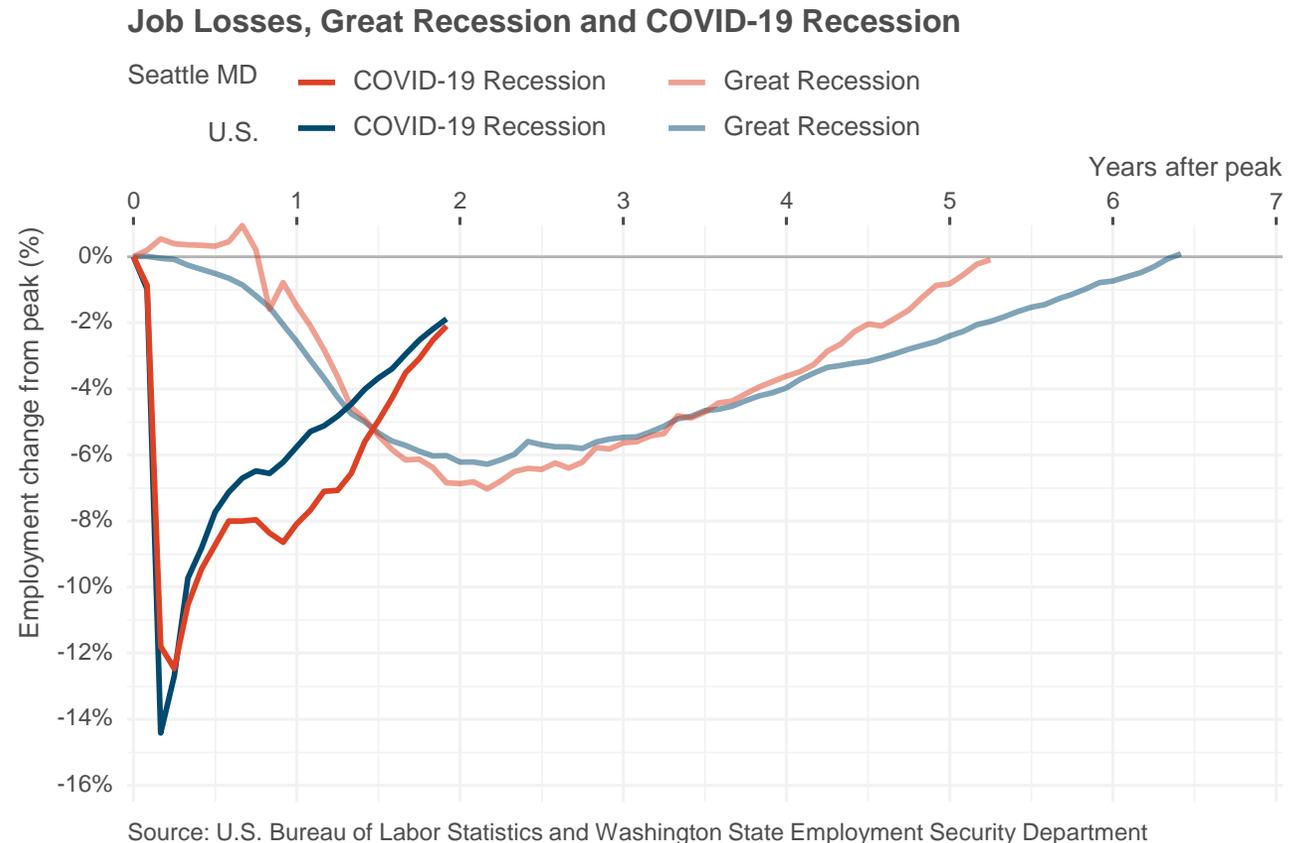
Actual vs October 2021 Baseline Scenario Forecast

Forecast Actual



# Regional Employment Recovery “Catching-up” to Rest of the Nation

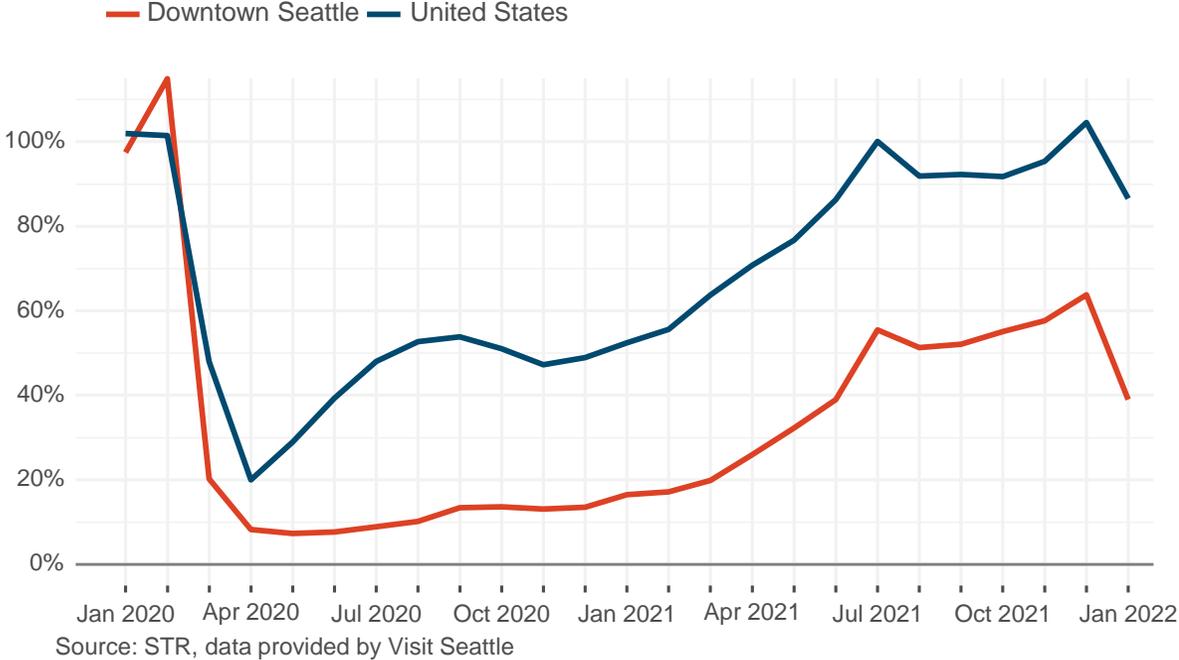
- Job losses compared to February 2020, as of January 2022
  - U.S. = -1.9%
  - Seattle Metro Area = -2.1%
- U.S. job openings are at a record high, there are 1.73 openings per unemployed person
- Wages are increasing. U.S. average hourly wage is 10.7% above February 2020 level, in leisure and hospitality sector it is 15.1% above
- U.S. job quits are however at a record high as well, especially in leisure and hospitality services and retail trade
- City level employment data for 2021 will only become available later this year, in the summer



# Recovery of Hospitality Sector Setback by Omicron

## Hotel Revenue Per Available Room

Relative to the same month in 2019



## Seated Diners at Restaurants

Compared to same week-day in 2019, 7 day average



# Construction Activity is Below Pre-Pandemic Levels and Future is Uncertain

- Construction generated \$101.7 million in B&O and Sales Tax revenue in 2019. For 2021 this total was \$98.1 million.
- 2021 Permit data suggests that further declines are possible. The value of building permits issued by SDCI in 2021 was 15.1% lower than in 2019
- Commercial real estate permits, which represented 56.4% of the total value of issued permits in 2019, ended 26.4% lower in 2021 than in 2019.
- Multifamily residential permits remained strong in 2021, with the total value of issued permits more than 20% above 2019. This is consistent with the strength of demand in the local residential real estate market.

## SDCI building permits value and construction taxable sales

Six month moving averages of monthly values, Index Jan 2016 = 100

