

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

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November 2023



1. Introduction

Structure and Schedule of Quarterly Revenue Reports. This report represents the third 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 September 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. Last year, the third quarter report compared actual revenue performance to the August forecast, as that was the most recently available update. This year, due to a request from the City Council to accelerate the final revenue forecast into October rather than November, we can compare year-to-date revenue performance to the recently released October Revenue Forecast. This represents the final forecast update for the year, and its revisions of both 2023 and 2024 revenues will serve as the basis for final legislated changes to the 2023 budget and adoption of the City's 2024 Budget.

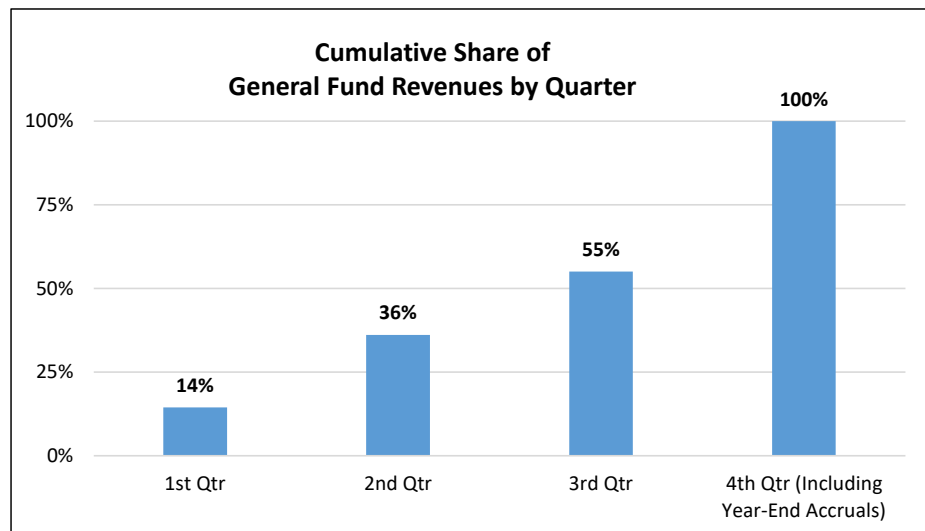
The structure of this report remains unchanged from the previous quarterly summaries: Following this introduction, Section 2 provides an overview of overall General Fund (GF) revenues, and detailed analyses of the four largest contributors to GF revenues (Property, Retail Sales, B&O, and Utility taxes), 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 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 last quarter 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 last quarter 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 55% of the annual GF revenues by the end of the third quarter (September 30th), so it is difficult to draw any conclusions about the overall trajectory of revenues from the third quarter results.

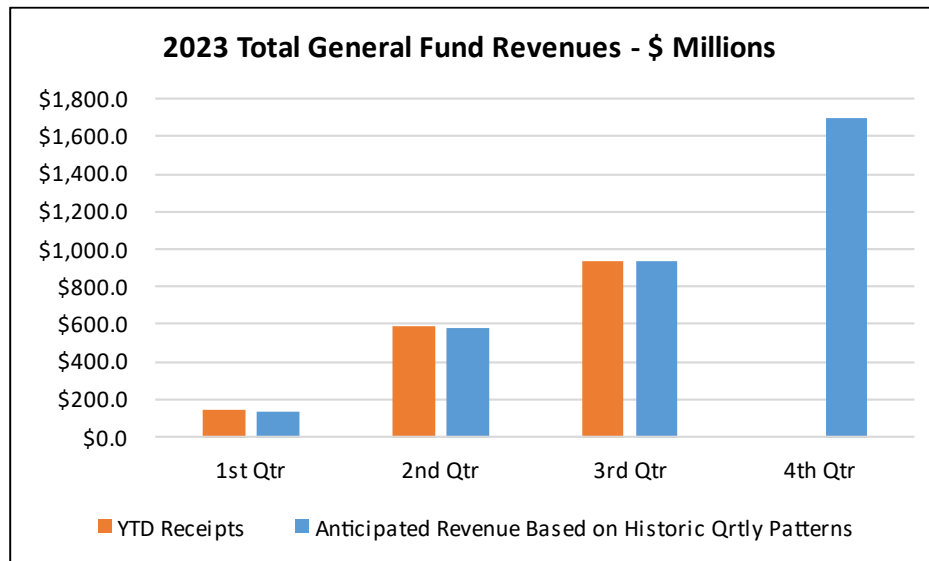
2. Total General Fund Revenues and Highlights of Major Revenue Sources

GF Revenue Results. As reported in the chart and associated table below, the third quarter GF revenues are \$6.4 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. This “overperformance” is small in percentage terms, less than one percent, and given the month-to-month and quarter-to-quarter variations in revenue receipts indicates that revenues are tracking close to our recently revised forecasts. We fully anticipate that final 2023 revenues will closely match the overall forecast, and this report does not identify or raise any specific revenue concerns.

Although the overall revenue results are consistent with our forecasts, the table below highlights several revenue categories that have exceeded our expectations, and others’ year-to-date results are trailing

historic patterns. In particular Other City Taxes, Court Fines, Service Charges and Reimbursements, and Licenses, Permits, Interest Income and Other have overperformed to date, while Retail Sales tax and Grant revenues are running below expectations. Further discussion along with analysis of these specific results is provided in Section 3.

The remainder of this section provides further analysis regarding the most significant revenue sources, with a further detailed breakdown of year-to-date receipts, and variations from forecast expectations by revenue category provided in Section 3.



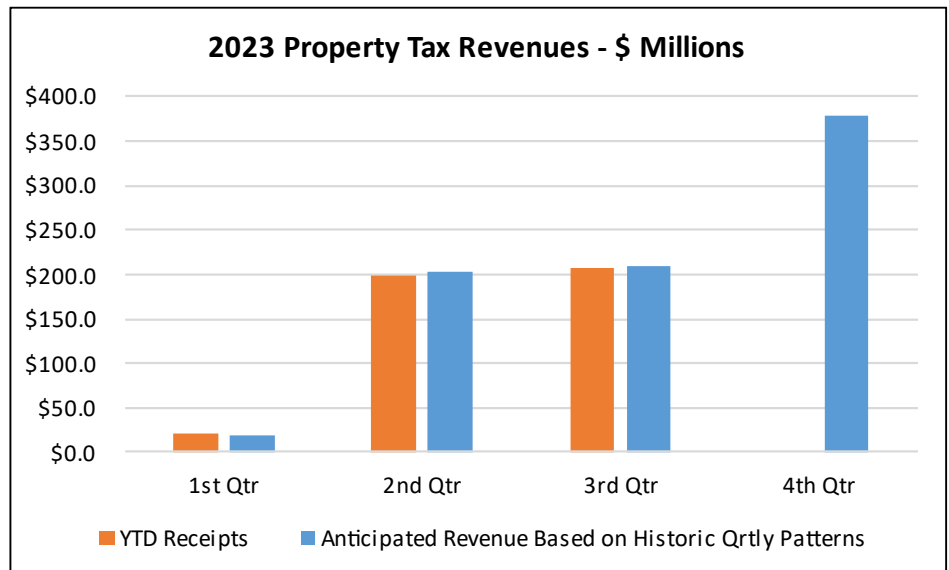
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$143.6	\$591.7	\$940.5	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$133.6	\$576.0	\$934.1	\$1,700.0
Difference	\$10.0	\$15.7	\$6.4	---

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

Revenue Source	2023 Q3 Revenues	2023 Revised Forecast (Oct)	Percent of Revised 2023 Forecast	Average Percent YTD
Property Tax (Including Medic One Levy)	\$207,049,640	\$379,289,871	54.6%	55.3%
Retail Sales Tax	\$166,078,808	\$348,010,031	47.7%	56.0%
Business & Occupation Tax	\$172,849,410	\$355,416,660	48.6%	47.7%
Utility Tax - Private	\$29,372,016	\$42,552,913	69.0%	67.9%
Utility Tax - Public	\$131,265,016	\$192,873,967	68.1%	66.6%
Other City Taxes	\$9,022,327	\$13,838,656	65.2%	35.2%
Parking Meters	\$26,860,396	\$36,648,613	73.3%	73.4%
Court Fines	\$18,239,643	\$22,311,801	81.7%	68.5%
Revenue from Other Public Entities	\$9,216,510	\$18,903,277	48.8%	55.5%
Grants	\$24,553,117	\$57,267,355	42.9%	48.3%
Fund Balance Transfers	\$4,381,553	\$86,003,414	5.1%	33.3%
Service Charges & Reimbursements	\$52,357,679	\$73,046,896	71.7%	56.3%
Licenses, Permits, Interest Income and Other	\$44,346,806	\$74,716,654	59.4%	55.1%
Payroll Tax	\$3,262,151	(\$437,849)	NA	N/A
Total General Fund Revenues	\$898,855,072	\$1,700,442,258	52.9%	55%

Property Tax

Property tax payments are due twice a year, half in April and the remainder in October. As a result, the third quarter revenue results, ending in September, 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 54% of the expected payments. Actual revenues are about \$2.5 million less than projected at this point, a slight improvement from last report. In any case,



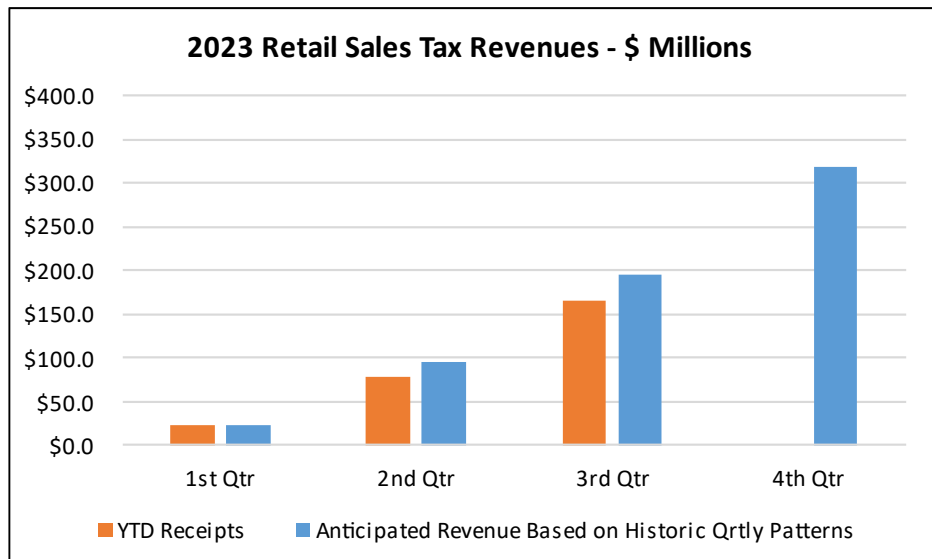
Property Tax Revenues - \$ Millions				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$20.5	\$199.8	\$207.0	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$19.4	\$203.5	\$209.6	\$379.3
Difference	\$1.1	(\$3.7)	(\$2.5)	---

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

Retail sales tax revenues are one source that is notably lagging behind expectations. A delay in the

distribution of revenues from the State has left the City about \$28 million short of what would have otherwise anticipated by the end of the third quarter, but we anticipate that this will be addressed by year-end. By way of explanation, the State of Washington’s Department of Revenue (DOR)



	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$23.9	\$78.5	\$166.1	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$24.0	\$95.5	\$194.6	\$319.3
Difference	(\$0.1)	(\$17.0)	(\$28.5)	---

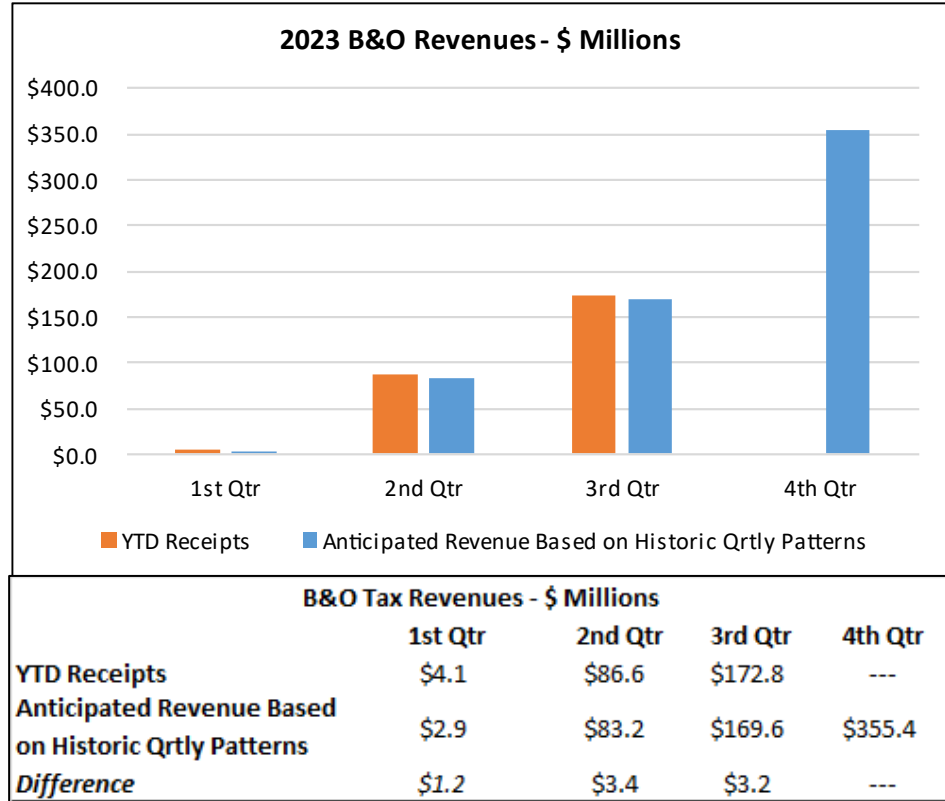
provides a monthly distribution of the retail sales tax attributable to economic activity in the City. These distributions occur six to seven weeks following the month during which the underlying transactions occur. This year, however, the City did not receive its’ distribution of April payments in time to process them by the end of June, and again in September the City did not receive it’s August distribution and once more as a result they are not reflected in this report. As a result, Retail Sales Tax revenue is \$28.5 million less than forecasted. The City has since processed the August distribution, and when that is considered, our year-to-date revenues are consistent with the overall annual forecast.

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 third quarter generally represent less than 50% of the annual total.

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

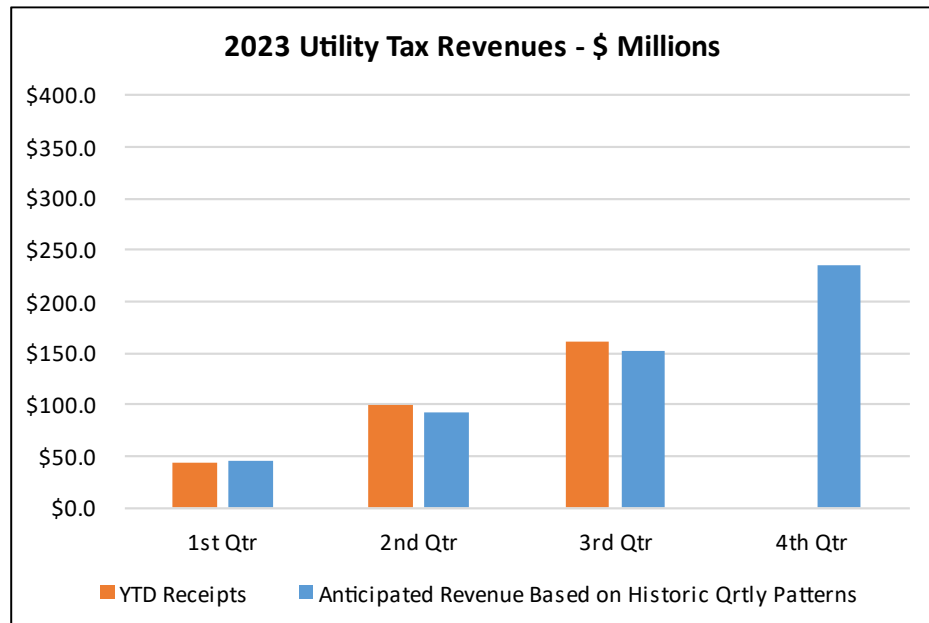


Utility Taxes

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 third 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 August. To date, actual revenues are tracking about \$8.8 million above the historic pattern of payments generally seen through the third quarter. This



Utility Tax Revenues - \$ Millions				
	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr
YTD Receipts	\$42.8	\$99.4	\$160.64	---
Anticipated Revenue Based on Historic Qrtly Patterns	\$44.6	\$91.7	\$151.8	\$235.4
Difference	<i>(\$1.9)</i>	\$7.7	\$8.8	---

additional \$8.8 million is mainly due to stronger than anticipated performance for both City Light and Seattle Public Utilities' solid waste service. City Light benefited from a cold winter and a hot summer, while solid waste tax revenues will be somewhat inflated in 2023 because an accounting issue shifted some late 2022 payments into 2023.

22 Select Non-GF Revenue Sources

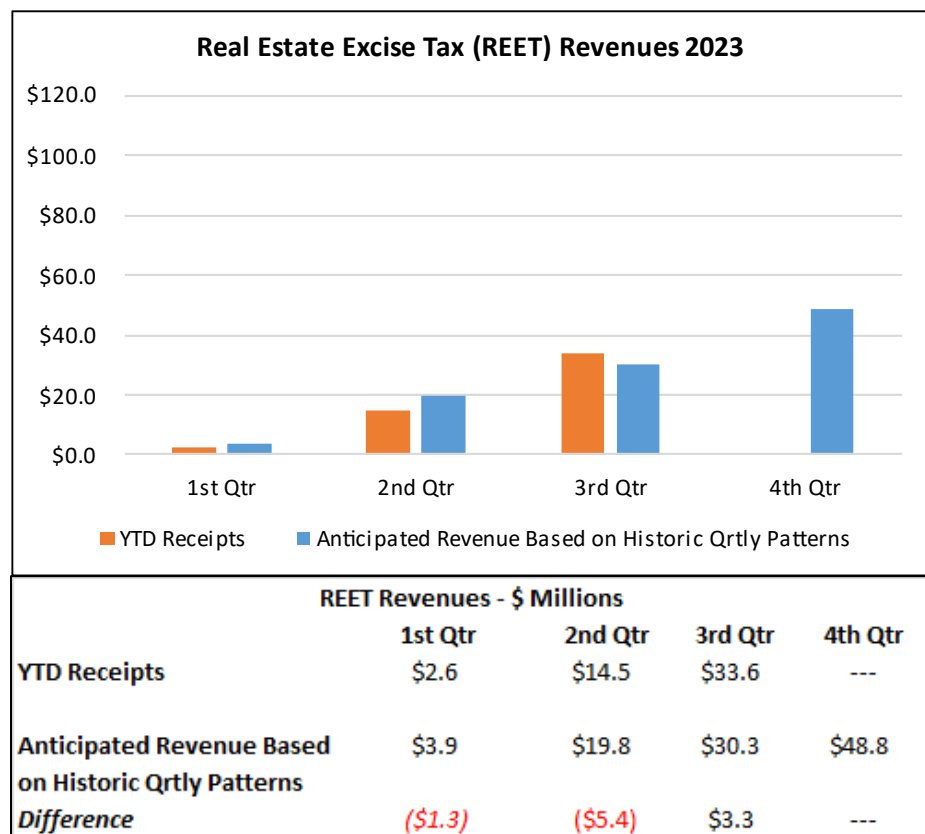
Section 2 concludes with additional detail and discussion regarding two of the largest non-GF revenues: Real Estate Excise Tax and the Payroll Expense Tax. Further details about these and seven other significant non-GF revenues can be found in Section 3.

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, higher 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. But given the deteriorating real estate market throughout 2023, OERF in its October economic update revised annual REET revenue forecast to \$48.8 million, down from \$55 million, thus putting the actuals slightly above historical estimates by \$3.3 million. Based on recent market behavior, we anticipate that relatively poor revenue performance in the fourth quarter will bring final revenues toward our revised

projection.

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 third-quarter payments are not due until the end of October.

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 September 30th do not offer a strong signal about what final payments will total. That said, third quarter payments total 47% 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 third 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. This section also includes comparable information for nine specific Non-GF revenues, in particular those dedicated to certain specific general government purposes.

Source	2023 Q3 Revenues	2023 Revised Forecast (Oct)	Percent of Revised 2023 Forecast	Average Percent YTD
Property Tax (Including Medic One Levy)	\$207,049,640	\$379,289,871	54.6%	55.3%
Retail Sales Tax	\$152,521,815	\$319,254,842	47.8%	55.9%
Retail Sales Tax - Criminal Justice	\$13,556,993	\$28,755,189	47.1%	56.4%
Business & Occupation Tax	\$172,849,410	\$355,416,660	48.6%	47.7%
Utility Tax - Natural Gas	\$10,040,006	\$14,197,802	70.7%	69.6%
Utility Tax - Steam	\$1,062,205	\$1,540,383	69.0%	66.7%
Brokered Natural Gas	\$1,221,901	\$2,024,986	60.3%	57.1%
Utility Tax - Solid Waste	\$1,171,254	\$1,579,742	74.1%	66.5%
Utility Tax - Cable Television	\$7,963,015	\$12,100,000	65.8%	68.9%
Utility Tax - Telephone	\$7,913,634	\$11,110,000	71.2%	67.1%
Utility Tax - City Light	\$43,900,551	\$57,730,526	76.0%	68.7%
Utility Tax - City Water	\$21,618,662	\$37,407,790	57.8%	63.6%
Utility Tax - Drainage & Wastewater	\$42,000,252	\$63,805,245	65.8%	66.3%
Utility Tax - City Solid Waste	\$23,745,551	\$33,930,406	70.0%	67.0%
Parking Meters	\$26,860,396	\$36,648,613	73.3%	73.4%
Court Fines	\$18,239,643	\$22,311,801	81.7%	68.5%
Fund Balance Transfers	\$4,381,553	\$86,003,414	0.0%	33.3%
Grants	\$24,553,117	\$57,267,355	42.9%	48.3%
Licenses, Permits, Interest Income and Other	\$34,707,334	\$53,541,316	64.8%	65.0%
Business License Fees	\$9,639,471	\$21,175,338	45.5%	30.2%
Other Taxes	\$6,540,696	\$8,601,840	76.0%	65.9%
Transportation Network Company Tax	\$2,481,631	\$5,236,816	47.4%	35.2%
Revenue from Other Public Entities	\$9,216,510	\$18,903,277	48.8%	55.5%
Service Charges & Reimbursements	\$52,357,679	\$73,046,896	71.7%	56.3%
Payroll Tax	\$3,262,151	(\$437,849)	-745.0%	N/A
Total	\$898,855,000	\$1,700,442,000	52.9%	55%

Regarding GF results for the third 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 Taxes: Section 2 includes explanations for the overperformance of both City Light and Solid Waste. The results summarized above highlight that SPU's water utility is tracking somewhat below expected revenues. SPU staff have indicated that additional revenue associated with the installation of new taps, which will be fully recorded in the fourth quarter, will bring the final year-end total up to the most recent forecast.

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. In addition, both parking demand and enforcement have been increasing this year, contributing to an overall increase in the volume of parking tickets, which are key drive of this revenue stream.

Grants: The flow of revenue from grant reimbursements is difficult to forecast. Current receipts are behind the relative pace of previous years, but this simply reflects the specific timing of grant activity this year, which has skewed toward the second half of the year.

Business License Fees: Business License Fee revenues are running ahead of forecast because a significant share of 2023 forecast revenues represent delayed payments from 2022. This has shifted revenue receipts forward in the calendar year, relative to historic patterns, but again we remain confident that final payments will track closely to the most recent forecast.

Other Taxes: The overperformance in this category is most directly linked to increased leasehold excise tax payments. These payments are made by the private tenants of public entities that are exempt from property taxes, in lieu of the property taxes that they would otherwise owe. As these payments have become an increasingly large share of this category, they have changed the overall quarter-to-quarter pattern of payments, so our historical pattern of quarterly payments for this category do not apply as directly as for other revenue categories. In any case, at this stage we are not expecting a significant year-end variance in this category.

Transportation Network Company Tax: The TNC tax is relatively new, and we have a limited historical record from which to develop an anticipated rate of payment. This year, payments have been made more regularly and earlier, so revenues are tracking ahead of previous years, but we still anticipate ending the year close to the revised forecast.

Service Charges and Reimbursements: As a collection, Service Charges, Fees, and Reimbursements is a group of revenue streams that are well above expectations for the third quarter. Specifically, accounts for Personnel Service Fees, Law Enforcement Fees, and Legal Service Fees are the main driver of overperformance and is due to an increase in legal activity and other fee incurring events in 2023. The timing of these types of payments, which typically involve the City being paid or reimbursed after the fact for providing a product or service, are difficult to predict and shift year-to-year based on when products and services are provided and when the City receives payments. Thus, although payments are running ahead of past patterns, we do not anticipate that final revenues will significantly exceed the most recent forecast.

Payroll Tax: We have already documented and explained the payment pattern for the share of Payroll Expense Tax revenues that are deposited into their own separate fund, but a small share of these revenues is still associated with the GF. In particular, all payments related to 2021 tax obligations are made to the General Fund. After receiving about \$2 million in revenue from late 2021 payments early this year, the City recently issued a multi-million-dollar refund to a taxpayer who had overpaid their 2021 obligations. Hence, we are reporting negative revenue for this category. We have no way of predicting such payments but do anticipate that they will become ever smaller over time, as we move further past the events of 2021.

Non-General Fund Revenues

Using the same format employed for the GF revenue sources, the table below provides an accounting of third 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 Q3 Revenues	2023 Revised Forecast (Oct)	Percent of Revised 2023 Forecast	Average Percent YTD
General Government Revenues:				
Payroll Tax	\$127,303,347	\$268,773,000	47%	Insufficient Historic Data
Admission Tax	\$13,716,595	\$23,510,893	58%	66%
Sweetened Beverage Tax	\$10,494,060	\$20,933,302	50%	65%
Short-Term Rental Tax	\$5,122,590	\$11,068,012	46%	62%
REET	\$33,581,253	\$48,825,161	69%	73%
Transportation-Specific Revenues:				
Commercial Parking Tax	\$33,848,208	\$47,378,744	71%	74%
SSTPI - School Zone Speed Enforcement	\$9,804,639	\$12,955,792	76%	72%
Trans. Ben. Dist. - Sales Tax	\$26,164,554	\$54,367,222	48%	74%
Trans. Ben. Dist. - VLF	\$9,352,017	\$16,637,891	56%	75%

The results for REET were discussed above and a few of the other non-GF revenues show a notable deviation from historic patterns. Transportation Benefit Distribution tax revenues are significantly behind expectations. This is due to two items, one being a delay in a fee rate increase that was supposed to take place in July and late distributions of these revenues from the state. The new VLF rate will now be in effect on January 18th, 2024. As for its 2023 forecast, it was lowered to both reflect the delay in the increase for the fee and further delays in State distribution, resulting in final revenues falling short of expectations. Per our normal practice, we will continue to monitor all of them and will formally review our forecasts as part of any forecast update. Sweetened Beverage Tax and Short-term Rental Tax revenues are also trailing past patterns, but this appears to be an issue of payment timing and the recent revenue forecast affirmed the year-end forecasts for both these two revenue sources.