

Economic and Revenue Update

Seattle City Council

April 22, 2020



City of Seattle

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U.S. Economic Forecast from IHS Markit

- Assumes that the spread of coronavirus in U.S. peaks in 2020 Q2, allowing a gradual lifting of restrictions on social gathering starting in 2020 Q3
- Scenarios: baseline (45% probability), pessimistic (35% probability), optimistic (20% probability)
- All three scenarios **predict a recession that will be short** (2020 Q1 - 2020 Q3 in the baseline and pessimistic scenarios, 2020 Q1 - 2020 Q2 in the optimistic scenario) **but quite deep**
 - Baseline scenario: consumer spending drops by 5.5% in 2020, real GDP by 5.4%, employment by 14 mil., unemployment peaks at 10.3% in 2020 Q4
 - Pessimistic scenario: consumer spending drops by 17.1% in 2020, real GDP by 14.9%, employment by 34 mil., unemployment rate peaks at 22.2% in 2020 Q3
- All three scenarios incorporate the \$2.3 trillion CARES Act, near zero federal funds rate maintained through 2025, plus new round of Quantitative Easing (net purchases of Treasury debt)



Regional Economic Forecast for Seattle Metropolitan District (MD)

- Econometric model for Seattle MD (King and Snohomish Counties)
- Inputs
 - U.S. economic forecast from IHS (GDP, income, employment, unemployment rate, CPI, and other variables)
 - regional data is also used (GDP and income from BEA, employment from ESD, permit data from SDCI, and other variables)
- Output
 - regional economic forecast for 2020-2029 (GDP, personal income, employment by industry, unemployment rate, CPI, housing permits)
- Our regional forecast is used as input into our revenue forecasts for the large economically driven revenues (e.g., sales tax, B&O tax, REET and others)
- April 2020 forecast scenarios
 - **rapid recovery** based on IHS baseline scenario
 - **slow recovery** based on IHS pessimistic scenario

Regional Economic Forecast for Seattle MD

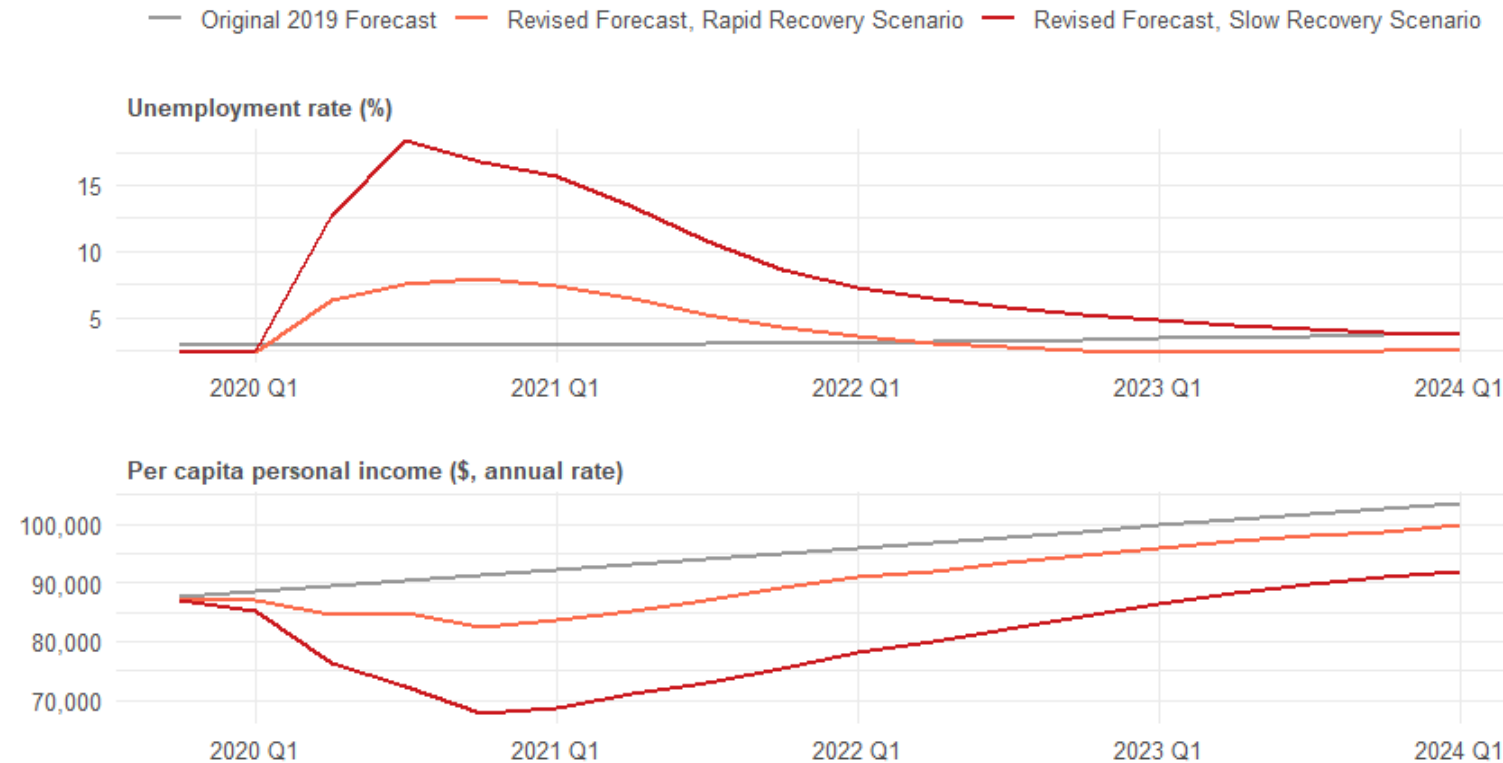
Significant downside risk for 2020

Rapid Recovery Scenario

- 45% probability
- About 65,000 jobs lost
- 8% unemployment rate by year end
- Income per capita 5.5% lower by year end

Slow Recovery Scenario

- 35% probability
- About 170,000 jobs lost
- 18% unemployment rate by year end
- Income per capita 12.5% lower by year end

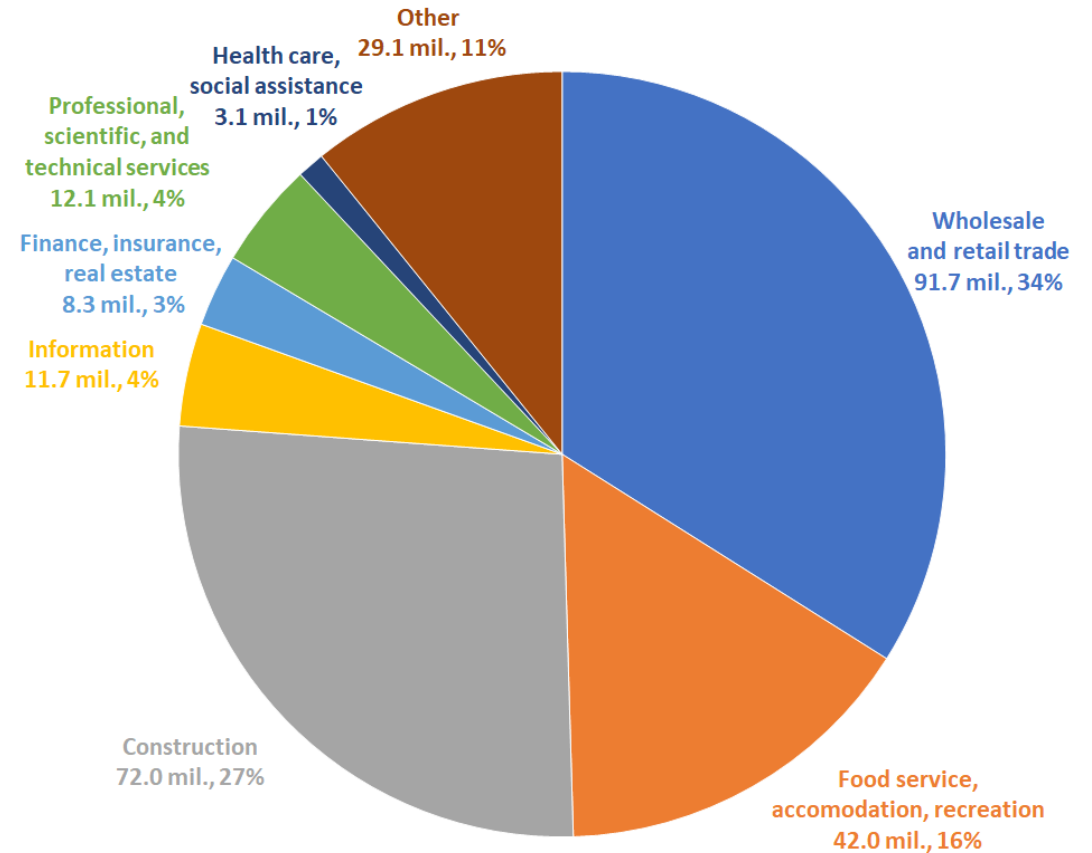


Uncertainty Prevails - Only Just Beginning to See Revenue Receipts from Crisis Period

Availability of Revenue Information			
	% of General Fund	Tax Period	Information Lag (weeks from end of tax period)
Property Taxes	23%	Bi-Annual	2
B&O Tax	20%	Quarterly	7
Sales Tax	20%	Monthly	7
Utilities Taxes	15%	Monthly	6
REET	NA	Monthly	1

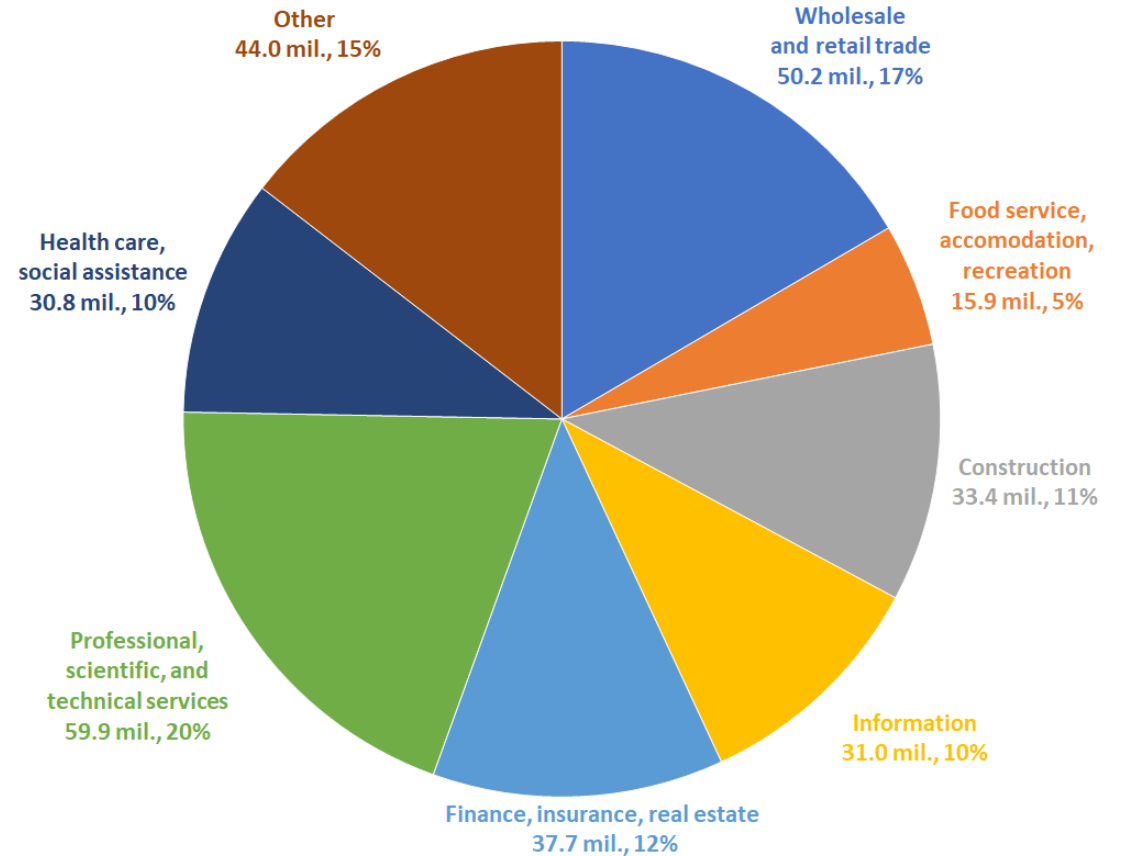
Sales Tax Revenue Composition in 2019

- 133.7 mil. so about **half** of sales tax revenue (about 10% of General Fund revenue) was generated by sectors at high risk (**wholesale and retail trade, food, accommodation and recreation services**)
- construction which accounted for additional quarter of sales tax revenue (5% of General Fund) is likely to see large decline as well

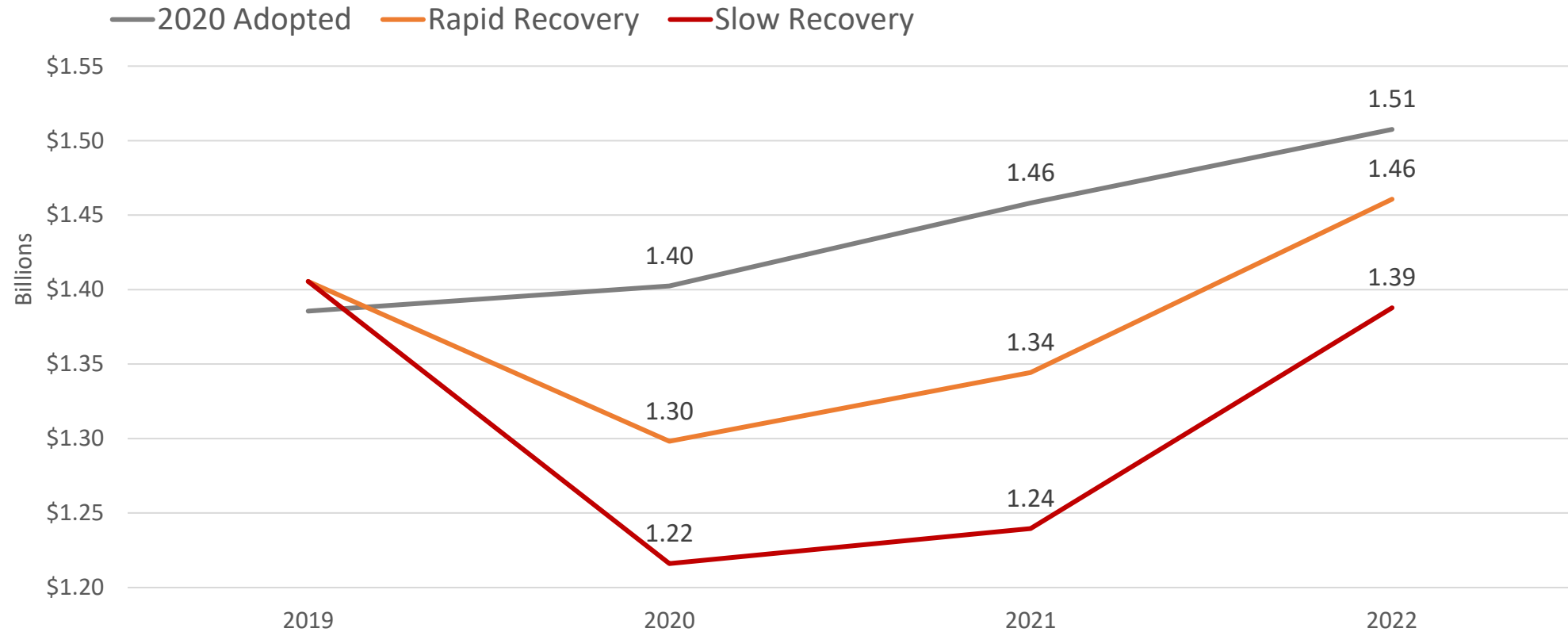


B&O Tax Revenue Composition in 2019

- B&O tax revenue sources are more diversified across industries
- in 2019 wholesale and retail trade, and food, accommodation and recreation services brought in 66.1 mil. so about 4.5% of General Fund revenue



General Fund Revenue Scenarios



General Fund Revenue - Slow Recovery

Slow Growth Scenario (\$1,000s)	2019 Actuals	2020 Adopted	2020 Revised	2020 Change	2021 April	2022 April
Property Taxes	320,736	345,085	340,888	(4,197)	353,291	365,600
Sales Taxes	291,961	298,842	233,423	(65,420)	224,522	276,851
Business & Occupation Taxes & Licenses	320,503	315,537	257,531	(58,007)	246,406	303,489
Utility Taxes	212,610	220,557	207,286	(13,270)	216,037	226,703
Court Fines/Parking	67,621	65,705	31,459	(34,246)	52,128	64,217
All Else	192,079	156,775	145,567	(11,208)	147,227	150,876
General Fund Total	1,405,509	1,402,501	1,216,154	(186,347)	1,239,610	1,387,736
<i>Growth Rate Year/Year</i>			-13%		2%	12%
Seattle Center	21,666	22,033	12,881	(9,152)	13,129	14,698
Parks & Recreation	30,153	33,474	10,474	(23,000)	10,676	11,952

2020 Totals do not include Mercer Megablock proceeds

Other Revenue - Slow Recovery

Slow Growth Scenario (\$1,000s)	2019 Actuals	2020 Adopted	2020 Revised	2020 Change	2021 April	2022 April
Other General Government Revenues						
Admission Tax	11,384	11,691	3,462	(8,230)	9,073	9,527
Short-term Rental Tax	6,845	10,500	5,600	(4,900)	8,750	10,500
Sweetened Beverage Tax	24,119	24,329	16,876	(7,453)	21,515	23,970
Real Estate Excise Tax	100,933	82,958	48,313	(34,645)	61,645	75,351
STBD	64,832	63,726	54,960	(8,766)	TBD	TBD
Commercial Parking Tax	49,232	45,596	30,321	(15,275)	43,088	45,596
School Zone Camera Fund	9,657	9,666	7,440	(2,226)	14,219	13,162
Total	267,003	248,466	166,972	(81,494)	158,290	178,106
Grand Total	1,724,330	1,706,474	1,406,480	(299,994)	1,421,705	1,592,492

Resources for Balancing

- Rainy Day Fund (Revenue Stabilization Account) (\$60.8 m)
- Emergency Fund (\$66.9 m)
- Unanticipated 2019 Year-end General Fund Balance (\$18.6 m)
- Reduce 2020 spending
- Other Fund Balances / One-time Resources
- Levy Funds – pursue flexibility allowed under authorizing legislation
- Federal and State COVID-19 response and mitigation funding

