



Seattle City Budget Office

Date: November 2, 2020

To: Honorable Teresa Mosqueda, Chair, Select Budget Committee
Dan Eder, Interim Council Central Staff Director

From: Ben Noble, City Budget Director

RE: November 2020 update of 2020-21 revenue forecast

Attached please find the update to the City of Seattle's August General Fund forecast and notable non-General Fund revenues. The August forecast is the basis for the Mayor's 2021 Proposed Budget. This update provides a significant 3.0% increase in 2020 General Fund revenues of \$36.0 million and a 2.2% increase in 2021 General Fund revenues of \$32.5 million. These adjustments bring total General Fund revenues to \$1.23 billion in 2020 and \$1.52 billion in 2021, from \$1.19 billion and \$1.49 billion, respectively. Note, however, that decreases in several revenue sources that do not technically flow into the General Fund but do support general government services effectively offset a share of the General Fund increases. In particular, unless General Fund resources are used to offset projected declines in the Short-Term Rental Tax, Commercial Parking Tax, and School-zone Traffic Camera Fines, the Council will be forced to cut the services supported by these dedicated revenue streams. The magnitude of the shortfall is highlighted in the attached table, which summarizes the forecast and separately summarized the General Fund and non-General Fund changes.

This revenue forecast continues the tack we have taken since April of being based on the "slower recovery" scenario we have developed from the more conservative range provided by our national forecast service. There are several reasons why we believe this is the preferred approach, but the overarching uncertainties lead us to believe there is cause to be prudent for the purposes of setting the City's budget. Primarily, growth at the more optimistic levels is highly contingent on getting control of the Coronavirus. National forecast assumptions are that the current third wave will not exceed the second wave experience of July and therefore not lead to significant restrictions and closures. This may prove true, but recent numbers of national and local cases have surpassed earlier highs and it has become apparent that the trajectory of the pandemic still remains highly uncertain. Moreover, the relevant impacts of the pandemic are not just on overall local economic activity, but where that activity occurs. Both the new payroll tax and the B&O tax are fully or partially dependent on where employees work. Stay at home orders and work from home policies, could have significant effects on these two revenue streams, effects that tax payment data does not yet capture and that we do not yet understand. Furthermore, due to the timing of its announcement, job and business activity losses related to Boeing are only partially captured in this forecast.

As indicated in the attached revenue table, sales and B&O taxes are the primary sources of increased revenues in both 2020 and 2021. These increases are driven by significant improvement in the national and regional economic forecasts, particularly employment, personal income and personal outlays, between July and September. In 2021, increases of \$36.9 million and \$7.2 million in the sales and B&O taxes respectively are augmented by an increase in property taxes of \$2.7 million due to additional new

construction being added to the tax roll. These 2021 increases are offset, however, by a decrease of \$14.3 million in on-street parking revenues, due to changed expectations for how on-street parking rates may change in 2021.

As we have all learned, the pandemic and our response to it affects different sectors and revenue streams differently. Non-General Fund revenue adjustments forecast by the City Budget Office include increased sales tax revenues for 2020 in the Seattle Transportation Benefit District (STBD) Fund but also 2020 and 2021 decreases to Short-Term Rental Tax and Commercial Parking Tax revenues, both of which have been hit particularly hard by the pandemic in 2020. And even with growth into 2021 both are still anticipated to underperform relative to assumed revenues in the 2021 Proposed Budget. This update also reduces School Zone Camera fine revenues in 2021 to reflect the very likely reality that schools will not reopen for in-person instruction until September 2021.

Further, Real Estate Excise Tax revenues, driven by increased commercial and single-family sales are increased \$12.7 million in 2020 to \$62.4 million total. In 2021, commercial sales are anticipated to be depressed until a clearer picture emerges of the need for office and retail space in a post-pandemic world. Single-family sales are expected to grow, sufficiently to increase total REET revenues to increase to \$65.3 million.

Should you have questions or inquiries about these revenue changes or other revenue matters, please let me know or contact Dave Hennes (684-0537).

cc:

Aly Pennucci, Council Central Staff

Tom Mikesell, Council Central Staff

Lise Kaye, Council Central Staff

City of Seattle Revenue Forecast Update

	2020 Adopted	2020 Sept	2020 October	2020 Change	2021 Proposed	2021 October	2021 Oct - 2021 Prop
2021 Proposed Revenues (\$1,000s)							
Property Taxes	\$345,085	\$340,894	\$340,888	(\$6)	\$354,041	\$356,740	\$2,700
Sales Taxes	\$298,842	\$231,103	\$253,541	\$22,438	\$237,008	\$273,950	\$36,942
Business & Occupation Taxes & Licenses	\$315,537	\$258,139	\$271,450	\$13,310	\$271,429	\$278,659	\$7,231
Utility Taxes	\$220,557	\$206,340	\$206,340	\$0	\$208,364	\$208,364	\$0
Payroll Tax	\$0	\$0	\$0	\$0	\$214,284	\$214,284	\$0
Parking	\$38,578	\$10,434	\$10,725	\$291	\$23,510	\$9,210	(\$14,300)
Transportation Network Company Tax	\$8,877	\$0	\$0	\$0	\$5,022	\$5,022	\$0
All Else	\$176,649	\$147,114	\$147,114	\$0	\$177,263	\$177,263	\$0
General Fund Total	\$1,404,126	\$1,194,024	\$1,230,058	\$36,034	\$1,490,920	\$1,523,493	\$32,573
Other General Government Revenues							
Admission Tax	\$11,691	\$1,284	\$1,284	\$0	\$5,457	\$5,457	\$0
Short-term Rental Tax	\$10,500	\$3,675	\$2,625	(\$1,050)	\$7,350	\$5,775	(\$1,575)
Sweetened Beverage Tax	\$24,329	\$15,367	\$15,367	\$0	\$20,772	\$20,772	\$0
Mercer Megablock Sale	\$66,500	\$66,500	\$66,500	\$0	\$0	\$0	\$0
Commercial Parking Tax	\$45,596	\$24,394	\$18,694	(\$5,699)	\$38,756	\$29,181	(\$9,575)
School Zone Camera Fund	\$9,666	\$2,923	\$3,080	\$157	\$13,903	\$4,713	(\$9,190)
Other General Government Revenues - Total	\$168,282	\$114,142	\$107,550	(\$6,592)	\$86,238	\$65,898	(\$20,340)
Grand Total - General Government Resources	\$1,572,408	\$1,308,166	\$1,337,608	\$29,441	\$1,577,158	\$1,589,390	\$12,233
REET							
Real Estate Excise Tax	\$82,958	\$49,626	\$62,400	\$12,774	\$62,409	\$65,360	\$2,951
Seattle Transportation Benefit District (STBD)							
STBD Sales Tax	\$30,913	\$24,185	\$26,533	\$2,348	0	0	\$0
STBD Vehicle License Fee	\$32,897	\$28,876	\$28,876	\$0	\$7,255	\$7,255	\$0
STBD Total	\$63,809	\$53,061	\$55,409	\$2,348	\$7,255	\$7,255	\$0

Notes:

- 1) STBD Sales Tax: 2021 Proposed and 2021 October values assume current law, i.e., that the current 0.1% sales tax expires at 12/31/2020. Should the ballot measure pass at the proposed 0.15% tax rate the revenues are projected to be \$33.4 million in 2021.
- 2) STBD Vehicle License Fee (VLF): The Supreme Court's invalidation of I-976 results in the City retaining its full \$80 fee in 2020 and maintaining its \$20 portion of the VLF into 2021.