

# General Fund Revenue Overview

## City Revenue Sources and Fund Accounting System

The City of Seattle budget authorizes annual expenditures for services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in-whole or in-part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state, or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

The City accounts for all revenues and expenditures within a system of accounting entities called “funds.” The City maintains numerous funds. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules and is desirable to promote accountability for specific projects or activities. For example, the City of Seattle has a legal obligation to ensure revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own fund. For similar reasons, expenditures of revenues from the City’s various property tax levies are accounted for in separate funds. As a matter of policy, several City departments have separate funds. For example, the operating revenues and expenditures associated with those revenues for the City’s parks are accounted for in the Park and Recreation Fund. The City also maintains separate funds for debt service and capital projects, as well as pension trust funds, including the Employees’ Retirement Fund, the Fireman’s Pension Fund, and the Police Relief & Pension Fund. The City holds these funds in a trustee capacity, or as an agent, for current and former City employees.

The City’s primary fund is the General Fund. The majority of resources for services typically associated with the City, such as police and fire or libraries and parks are received into and spent from one of two funds of the City’s general government operation: the General Fund for operating resources and the Cumulative Reserve Fund for capital resources.

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, which together account for 55.5% of General Fund revenue, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Fund and the Cumulative Reserve Fund.

## National Economic Conditions and Outlook

“As Janet Yellen says, expansions don’t die of old age. I like to say they get murdered instead.”

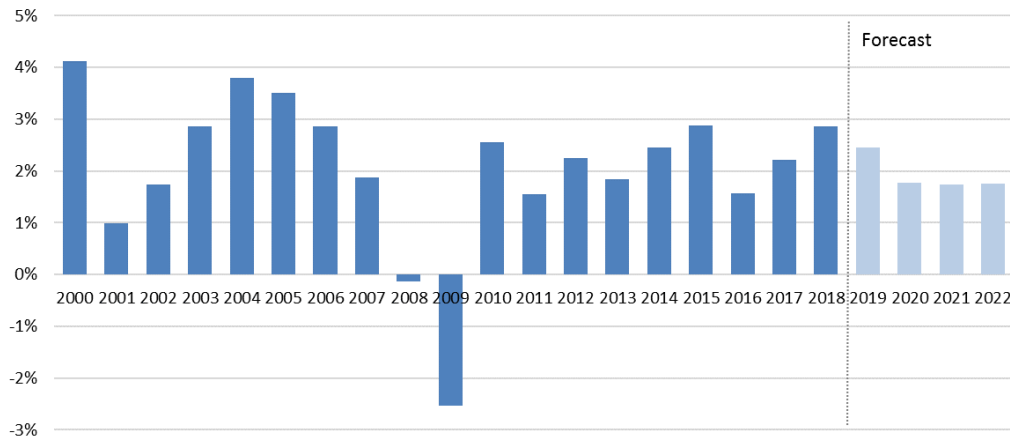
- Ben Bernanke

***Long live the expansion.*** The economic expansion that began after the Great Recession ended in June 2009 is now 123 months long, making it the longest expansion in U.S. history. However, compared to

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the previous expansions it is weaker, with real gross domestic product (GDP) growth averaging only 2.3% per year. Over the course of the recovery, the economy has been adding on average 169,000 jobs each month and the unemployment rate has gradually fallen from its 10.0% peak in October 2009 to 3.7% in July 2019. Wages have risen rather slowly, on average at 2.1% per year, but have slightly outpaced the consumer price inflation which averaged 1.7% per year.

Figure 1. Annual U.S. Real GDP Growth



Source: U.S. Bureau of Economic Analysis, IHS Markit.

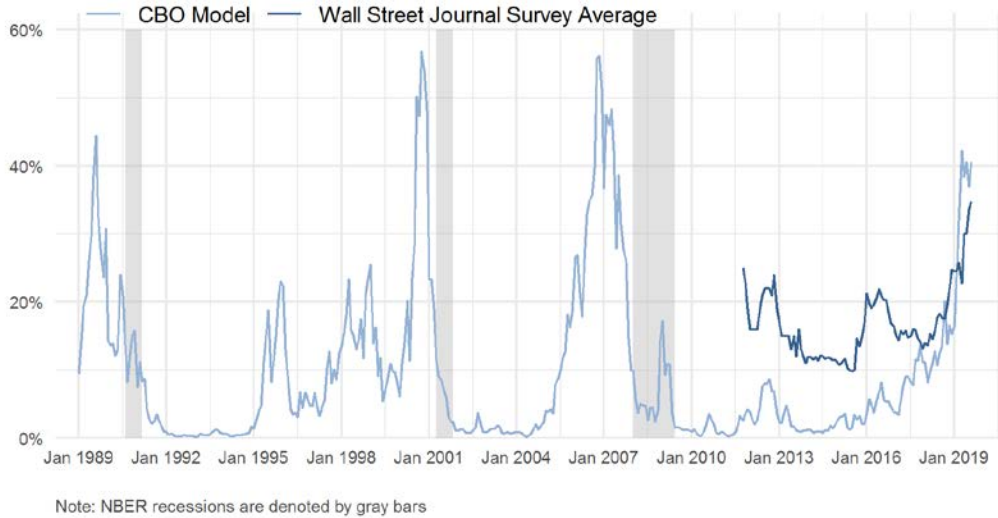
**Increased uncertainty and economic slowdown ahead.** Even though the fundamentals of the U.S. economy appear solid, with continued job and income growth and strong consumer spending, there are increased concerns regarding the future. The rate of economic growth has been decreasing steadily for several decades and is expected to decline further in coming years. It was temporarily stimulated in 2018 by the Tax Cuts and Jobs Act which lowered individual and corporate federal taxes and the Bipartisan Budget Act, which boosted federal spending in 2018 and 2019. This stimulus was however considered by many economists as poorly timed, possibly overheating the economy and causing a boom-bust cycle.

In addition, the overall increase in policy uncertainty and recent escalation in the trade war between the U.S. and China make it more difficult for businesses to anticipate costs and demand. A new study by Federal Reserve economists suggests that the increased trade policy uncertainty could lower growth by about 0.5% in 2019 and 1% in 2020. Combined with a slowdown of global demand, this leads to lower investment and hiring by firms, which could also lower confidence and spending by consumers, thus increasing the risk of a recession. Greater uncertainty about the future has already increased volatility in financial markets and lowered long-term Treasury yields. The 10-year Treasury yield dropped below the 2-year Treasury yield at the end of August 2019. Similar inversions preceded each of the past seven recessions by about 18 months on average. In the September 2019 Wall Street Journal Economic Forecasting Survey of economists, the average probability of recession in the next 12 months was 34.8%, up from 17.7% a year ago. The IHS Markit August 2019 recession probability estimate for the next 12 months is 35%. Finally, based on the 2019Q2 Duke University/CFO Global Business Outlook 68.8% of the 237 U.S. CFOs that participated in the survey believe that a recession will have begun by the end of 2020.

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In response to recent economic developments and outlook, the Federal Reserve has lowered interest rates in July 2019 for the first time since the last recession, and another rate cut is very likely in September 2019.

**Figure 2. Probability of a U.S. Recession In Next Twelve Months**

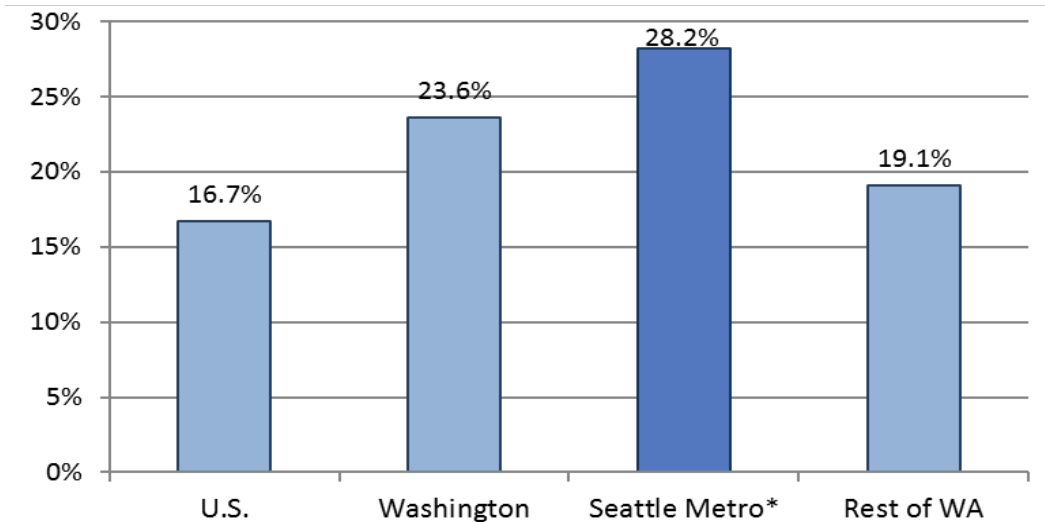


## Seattle Metropolitan Area Economic Conditions and Outlook

***Despite the weak national recovery, the Seattle area economy has grown rapidly.*** Since the Great Recession ended in June 2009, the region’s economy has outperformed the national economy by a considerable margin. This is reflected in the region’s robust job growth and low unemployment rate. Seattle Metro Area (King and Snohomish Counties) employment increased by 28.2% from its post-recession low in February 2010 through July 2019. This compares to a 16.7% gain for the U.S. and a 19.1% gain for the rest of Washington state (see Figure 3). In July 2019, the seasonally adjusted unemployment rate for the Seattle metro area was 3.2%, compared to 4.6% for Washington and 3.7% for the U.S. The region has also outpaced the nation and the state in both income and wage growth during the recovery.

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Figure 3. Employment Growth: February 2010 to July 2019



\*King & Snohomish Counties.

Source: WA Employment Security Dept., U.S. Bureau of Labor Statistics.

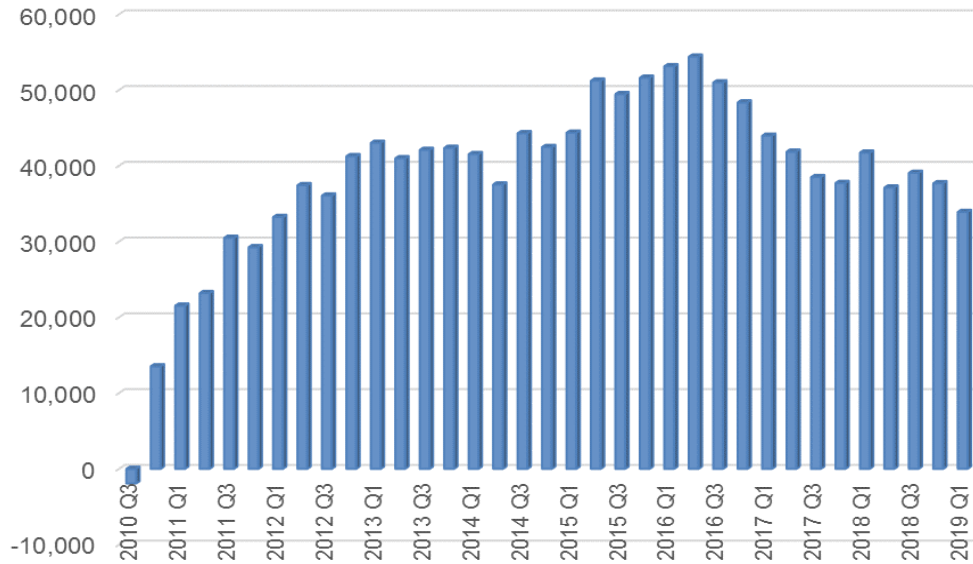
Although virtually all sectors of the region’s economy have seen employment increase during the recovery, the principal driver of growth has been high-technology business. Foremost is Amazon, which has increased its Seattle area employment from less than 10,000 in 2010 to more than 45,000 in 2019. Google and Facebook each have more than 3,000 employees in the region, and other Silicon Valley firms have opened or expanded Seattle area offices. In addition, local firms, including Microsoft, Tableau, and Zillow, have been growing, and new firms have emerged. Strong growth in the technology sector and other basic industries has spurred growth in construction, real estate, and business and professional services.

Strong employment growth has drawn workers and job seekers to the region, boosting the region’s population. Between 2010 and 2019, the population of King and Snohomish Counties increased by 400,000 (15.5%). Slightly more than a third of that increase took place in Seattle. Strong population growth has stimulated employment in the local serving sectors of the economy, including retailing, eating and drinking places, and health care.

Employment growth peaked in the first half of 2016 and has been slowing gradually since then (see Figure 4). One cause of the slowing has been job reductions at Boeing. Between December 2015 and September 2017, Boeing reduced its Washington employment by 12,600. In addition, there are signs that Amazon’s pace of growth slowed in 2018 and 2019.

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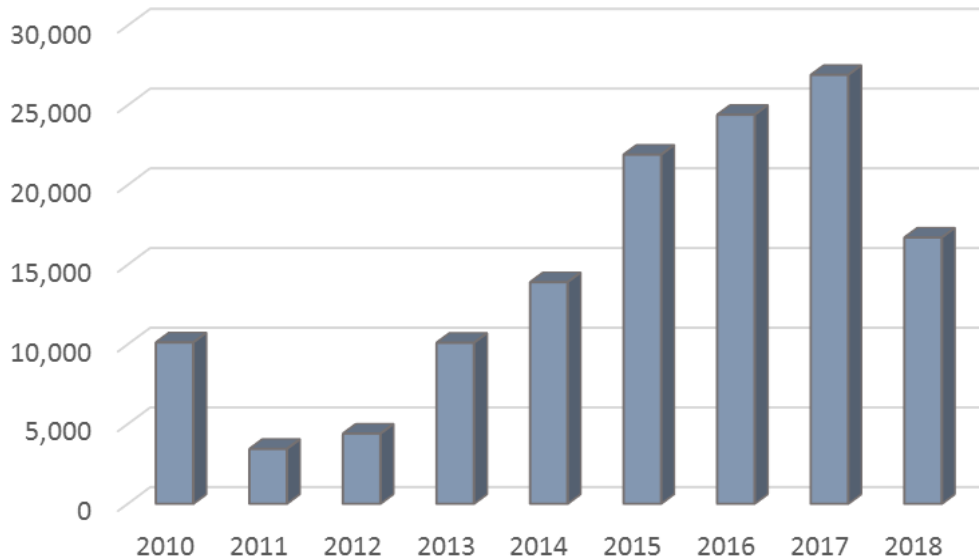
**Figure 4. Seattle Metro Area\* Year-over-Year Employment Change**



\*King and Snohomish Counties. Source: WA Employment Security Dept.

**Seattle has been home to an outsized share of metro area growth during the recovery.** The region’s economic growth during the current recovery has been concentrated in the city of Seattle. Both employment and population growth have been more robust in Seattle than in the rest of the region. The difference has been most pronounced for population growth. Between 2010 and 2018 Seattle’s population increased by 138,640, a 22.8% gain, to reach 747,300 (see Figure 5). The increase for the rest of the metro area (the rest of King and Snohomish Counties) was 12.9%.

**Figure 5. Annual Population Growth, City of Seattle\***

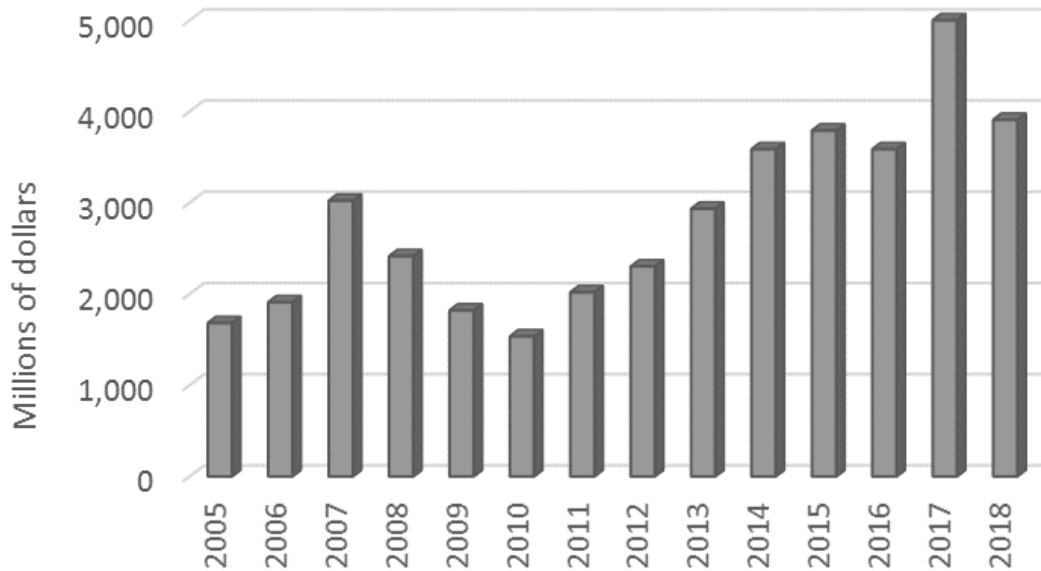


\*April 1 data. Source: WA Office of Financial Management.

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The biggest driver of growth in the city has been Amazon, which has added more than 35,000 jobs since 2010. Also contributing the city's growth have been other technology businesses, and business and professional service firms. Employment growth at these businesses, along with the current popularity of in-city living, has boosted the demand for office space and housing in the city, spurring a construction boom. Initially construction was focused in new apartments and public construction, but over time activity has broadened to include more office projects and condominiums. In 2017, the City issued building permits valued at a record \$5.0 billion (see Figure 6).

Figure 6. Value of Building Permits Issued, Seattle

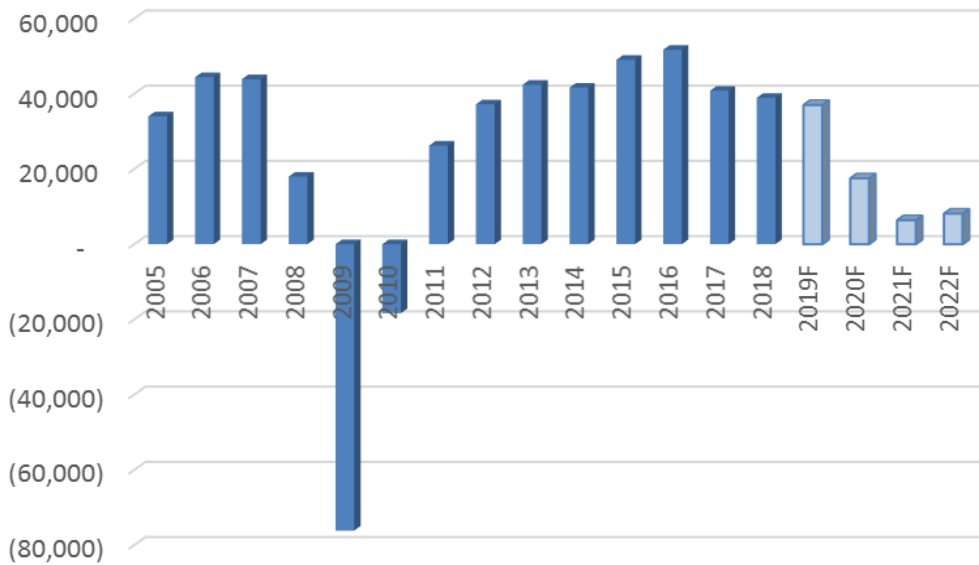


Source: Seattle Dept. of Construction and Inspections.

**The Seattle metro area economy is expected to continue slowing.** The economic forecast for the metro area assumes that 2016 will be the peak year for employment and population growth during the current cycle, and that the slowing which began in 2017 will continue going forward (see Figure 7). 2019 will see moderate growth, but it will be followed by a fairly steep slowdown in 2020 and 2021. Driving the deceleration is the forecast for the U.S. economy, which predicts the nation's economy will slow as the impact of the 2018 tax cuts wanes and the trade war and slowing world economy take their toll. At the local level, the forecast assumes Amazon's growth will continue to slow and that construction employment will fall gradually for several years after peaking in 2019.

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**Figure 7. Annual Growth of Seattle Metro Area\* Employment**



\*King and Snohomish Counties. Source: WA ESD, City of Seattle Budget Office.

The risks to the forecast are high in large part because the probability of a national recession is elevated. A national recession would almost certainly precipitate a regional recession. Even if a national recession is avoided, there are sources of risk and uncertainty in the local economy, including the outlook for the current construction cycle and the fortunes of the region’s technology sector, including major employers Boeing, Amazon, and Microsoft.

Construction activity is highly cyclical, with periods of strong growth often, but not always, followed by steep downturns. The city is currently well into a boom period, with the value of building permits issued annually having more than tripled since 2010. The regional economic forecast incorporates a modest construction downturn beginning in 2020, but a more severe downturn is possible, particularly if there is a national recession.

Risks for Boeing include the federal government’s expanding trade war, the risk of a national recession, and the grounding of the 737 MAX. As the nation’s biggest exporter, Boeing is vulnerable to trade war retaliation, and national recessions have always been followed by employment reductions in the aerospace industry. Boeing’s most immediate problem is resolving the safety issues that have led to the grounding of the 737 MAX. If the return of the MAX is delayed longer than currently anticipated, Boeing has said it might temporarily halt MAX production and lay off workers at its Renton facility.

A major source of uncertainty is the future course of Amazon in the region. The company’s decision to sublease rather than occupy the Rainier Square Tower suggests its expansion in Seattle will continue to slow. However, Amazon has been both purchasing and leasing office space in Bellevue, and the firm is in the process of moving its worldwide operations unit from Seattle to Bellevue. At the same time, Amazon is developing a second headquarters in Virginia.

## Consumer Price Inflation

***Inflation remains moderate, effect of trade tariffs likely to be small.*** The Great Recession pushed inflation into negative territory in 2009, the first time in 54 years that consumer prices had declined on

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an annual basis. During the subsequent recovery, inflation has remained subdued, with the U.S. Consumer Price Index for All Urban Consumers (CPI-U) averaging 1.8% per year over the period 2010-2018. For the 12-month period ending in July 2019, the U.S. CPI-U increased by 1.7%.

Local inflation tends to track national inflation because commodity prices and national economic conditions are key drivers of local prices. Seattle inflation has been, however, running higher in recent years due to the region's high housing price inflation. From 2011 to 2018, the Seattle CPI-U has grown on average 2.3% each year, compared to 1.8% for the U.S. CPI-U. Average annual housing inflation for this period was 3.8% for Seattle and 2.3% for the U.S.

Nationally, inflation is expected to average about 2.3% over the next several years. The estimates of the effect of trade tariffs suggest only a small impact around 0.3%, because goods constitute just 30% of total consumer spending and consumers will to some extent lower and shift their spending. Seattle area inflation will continue to track higher than national inflation in the short run, though the gap will narrow as the region's housing price inflation slows.

## ***Annual Wage Increase adjustments for City of Seattle employees are based on the Seattle CPI-W.***

Annually, the City of Seattle adjusts employee salaries for changes in the cost-of-living. Most wage adjustments are based on the Seattle CPI-W, which measures price changes for urban wage earners and clerical workers (the CPI-U measures price changes for all urban consumers). In recent years, some adjustments have been based on negotiated fixed rate increases. The two CPI measures that the City uses for annual wage increase adjustments are:

- June-to-June change in Seattle CPI-W
- Change in Seattle CPI-W averaged for 12 months ending in June

## City Revenue

The following sections describe forecasts for revenue supporting the City's primary operating fund, the General Fund, its primary capital funds – the Cumulative Reserve Funds, and two select other funds – the Sweetened Beverage Tax Fund and the Short-Term Rental Tax Fund.

## General Fund Revenue Forecast

Expenses paid from the General Fund are supported primarily by taxes. As Figure 8 illustrates, the most significant revenue source is the property tax, which accounts for approximately 24%, followed by sales tax, the Business and Occupation (B&O) tax, and utility taxes.



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**Figure 8. 2020 Proposed General Fund Revenue Forecast by Source - \$1,469.3 Million**

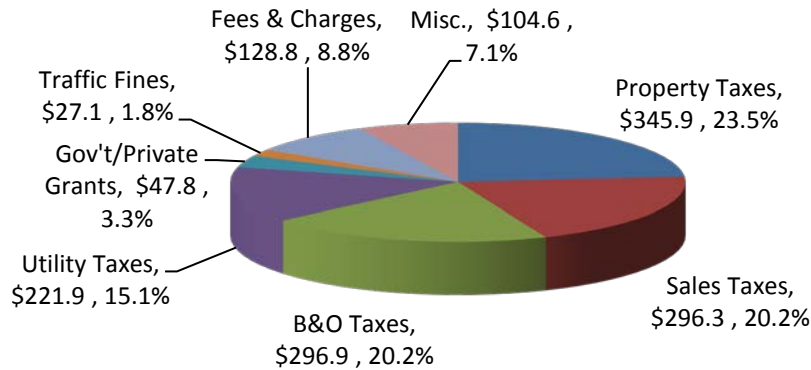
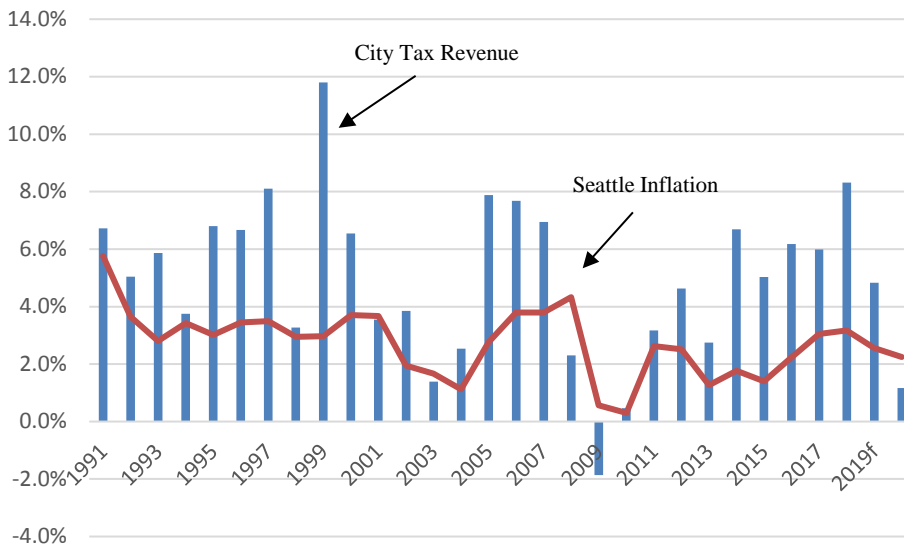


Figure 9 illustrates tax revenue growth continuing to outpace inflation for almost all of the economic expansion since the Global Financial Crisis. Inflation is forecast to be stable and low. Tax revenue growth is forecast to be positive and above inflation, with an average annual growth rate of over 3.0%, 2019 through 2020. Inflation for the same period will average 2.4%. Tax growth is artificially low in 2020 because two relatively new taxes that were included in the general fund (Sweetened Beverage Tax and the Short-term Rental Tax) will now be in their own funds beginning in 2020.

**Figure 9. City of Seattle Tax Revenue Growth, 1991-2020**



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**Figure 10. General Fund Revenue, 2018 – 2020\***  
(in thousands of dollars)

Summit Code	Revenue	2018 Actuals	2019 Adopted	2019 Revised	2020 Endorsed	2020 Proposed
311010	Property Tax	260,616	267,942	268,207	278,238	278,786
	Property Tax-Medic One					
311010	Levy	50,711	52,187	52,495	71,212	67,100
313010	Retail Sales Tax	254,492	262,806	266,195	268,078	272,162
	Use Tax - Brokered Natural					
313030	Gas	1,407	1,479	1,485	1,516	1,358
	Retail Sales Tax - Criminal					
313040	Justice	21,783	22,289	23,220	22,736	24,103
	Business & Occupation Tax					
316010	(100%)	274,774	285,467	289,660	295,092	296,939
316020	Admission Tax	11,616	11,302	11,585	11,661	11,691
	Utilities Business Tax -					
316070	Natural Gas (100%)	8,739	11,789	10,929	12,114	11,310
	Utilities Business Tax -					
316080	Solid Waste (100%)	1,829	1,650	1,650	1,800	1,800
	Utilities Business Tax -					
316100	Cable Television (100%)	16,287	16,131	15,498	15,630	14,739
	Utilities Business Tax -					
316110	Telephone (100%)	20,048	20,133	18,897	19,482	18,419
	Utilities Business Tax -					
316120	Steam (100%)	1,086	1,350	1,276	1,390	1,281
316180	Tonnage Tax (100%)	6,385	6,439	6,439	6,634	6,634
317040	Leasehold Excise Tax	5,932	5,250	5,500	5,250	5,500
317060	Gambling Tax	551	425	500	425	475
317090	Short-term Rental Tax	-	10,500	10,500	10,500	-
318100	Sweetened Beverage Tax	22,254	21,386	23,970	21,921	-
335030	Pleasure Boat Tax	131	125	125	125	125
	<b>Total External Taxes</b>	<b>958,640</b>	<b>998,651</b>	<b>1,008,131</b>	<b>1,043,804</b>	<b>1,012,422</b>
	Utilities Business Tax -					
316130	City Light (100%)	54,293	58,010	57,446	60,148	61,150
	Utilities Business Tax -					
316140	City Water (100%)	33,784	33,925	34,500	35,043	34,936
	Utilities Business Tax -					
316150	Drainage/Waste Water (100%)	49,963	51,115	50,876	55,420	55,420
	Utilities Business Tax -					
316160	City SWU (100%)	21,028	20,622	20,622	21,502	21,502
	<b>Total Interfund Taxes</b>	<b>159,068</b>	<b>163,672</b>	<b>163,444</b>	<b>172,113</b>	<b>173,008</b>

\* In the past, 10% of certain tax and fee revenues were shown as revenue to the Parks and Recreation Fund and 90% as General Fund. As of 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Fund. General Fund support to the Department of Parks and Recreation is well above the value of 10% of these revenues.

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Summit Code	Revenue	2018 Actuals	2019 Adopted	2019 Revised	2020 Endorsed	2020 Proposed
321010	Professional & Occupational Licenses (100%)	6,134	5,600	5,600	5,964	5,964
321100	Business License Fees (100%)	17,314	17,439	18,163	17,857	18,599
321900	Marijuana License Fees	248	-	548	-	548
322030	Fire Permits & Fees	7,147	7,406	7,775	7,234	7,369
322040	Street Use Permits	960	2,225	2,725	2,175	2,260
322170	Vehicle Overload Permits	264	280	280	260	260
322200	Other Licenses, Permits & Fees	1,514	1,147	1,132	1,147	1,132
322260	Meter Hood Service	4,691	3,985	4,250	3,585	4,500
322900	Other Non Business Licenses	1,256	1,373	1,302	1,371	1,300
	<b>Total Licenses</b>	<b>39,528</b>	<b>39,454</b>	<b>41,775</b>	<b>39,593</b>	<b>41,932</b>
331110	Federal Grants - Other	7,558	188	-	188	1,559
331110	Federal Grants - CDBG	55	2,459	2,459	1,934	2,194
333000	Federal Indirect Grants - Other	4,346	-	-	-	1,012
334010	State Grants - Other	5,275	3,924	4,522	3,928	4,450
	<b>Total Federal and State Grants</b>	<b>17,235</b>	<b>6,572</b>	<b>6,982</b>	<b>6,051</b>	<b>9,214</b>
335010	Marijuana Excise Tax	1,854	1,500	1,500	1,500	1,500
335060	Trial Court Improvement Account	154	165	165	165	165
335070	Criminal Justice Assistance	3,939	3,715	3,715	3,715	3,715
335140	Liquor Excise Tax	3,681	3,650	3,650	3,750	3,750
335150	Liquor Board Profits	5,914	5,950	5,950	5,950	5,950
	<b>Total State Entitlements/Impact Programs</b>	<b>15,541</b>	<b>14,980</b>	<b>14,980</b>	<b>15,080</b>	<b>15,080</b>
337010	Interlocal Agreement	4,205	-	25	-	-
341060	Copy Charges	58	76	55	76	55
341180	Legal Services	2,136	15	657	15	1,434
341190	Automated Fingerprint Information System (AFIS)	3,926	4,504	3,926	4,504	3,926
341190	Fire Special Events Services	1,767	1,320	1,548	1,303	1,530
341190	Personnel Services	1,103	1,103	1,330	1,092	1,330
341220	Animal Shelter Licenses & Fees	2,281	2,400	2,482	2,375	2,532
341220	Other Service Charges - General Government	683	1,028	746	1,093	766

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Summit Code	Revenue	2018 Actuals	2019 Adopted	2019 Revised	2020 Endorsed	2020 Proposed
341220	Vehicle Towing Revenues	-	650	650	650	650
342010	Law Enforcement Services	9,736	6,951	8,460	6,986	7,201
342050	Adult Probation and Parole (100%)	270	300	300	300	300
342120	E-911 Reimbursements & Cellular Tax Revenue	2,204	3,489	2,114	3,497	3,531
342160	Emergency Alarm Fees	2,823	-	100	-	100
	<b>Total External Service Charges</b>	<b>31,190</b>	<b>21,836</b>	<b>22,392</b>	<b>21,891</b>	<b>23,356</b>
342040	Court Fines (100%)	26,663	25,864	27,030	25,793	27,127
350080	Municipal Court Cost Recoveries (100%)	202	300	300	300	300
	<b>Total Court Fines</b>	<b>26,865</b>	<b>26,164</b>	<b>27,330</b>	<b>26,093</b>	<b>27,427</b>
360010	Interest on Investments	5,365	8,607	6,295	9,362	6,765
360130	Other Interest Earnings	924	250	450	250	450
360290	Parking Meters	39,013	41,133	39,119	41,014	39,019
360900	Other Miscellaneous Revenue	12,933	4,732	2,802	4,813	69,627
	<b>Total Miscellaneous Revenues</b>	<b>58,235</b>	<b>54,722</b>	<b>48,666</b>	<b>55,439</b>	<b>115,861</b>
341900	Interfund Revenue to City Budget Office	1,826	1,883	1,883	1,874	1,874
341900	Interfund Revenue to HR	9,083	17,039	18,004	17,307	22,304
341900	Miscellaneous Interfund Revenue	20,811	24,034	24,034	23,870	23,870
	<b>Total Interfund Charges</b>	<b>31,720</b>	<b>42,956</b>	<b>43,921</b>	<b>43,051</b>	<b>48,048</b>
341900	Transfer from - Utilities for Council Oversight	564	600	600	600	600
397010	Transfer from - Other Fund	5,844	18,845	19,335	3,762	2,334
	<b>Total Operating Transfers</b>	<b>6,408</b>	<b>19,445</b>	<b>19,935</b>	<b>4,362</b>	<b>2,934</b>
	<b>Total General Subfund</b>	<b>1,344,430</b>	<b>1,388,452</b>	<b>1,397,555</b>	<b>1,427,476</b>	<b>1,469,281</b>

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## Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. Under Washington State law, property taxes are levied by governmental jurisdictions in accordance with annual growth and total rate limitations.

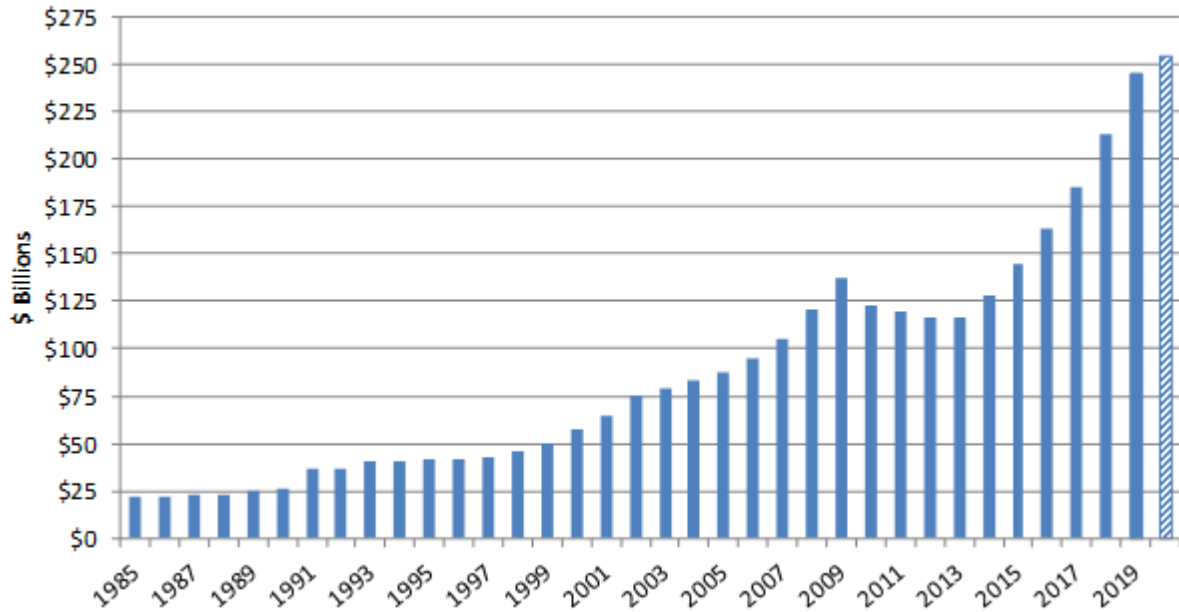
***Statutory growth limits, assessed value and new construction.*** State statute restricts the annual growth in property tax revenue in two ways. First, state law limits growth in the amount of tax revenue a jurisdiction can levy to the lesser of 1% or the national measure of the Implicit Price Deflator. Previously, beginning in 1973, state law limited the annual growth of the City's regular levy (i.e., General Purpose plus voted lid lifts) to 6%. In November 2001, voters statewide approved Initiative 747, which changed the 6% limit to the lesser of 1% or the Implicit Price Deflator, effective for the 2002 collection year. On November 8, 2007, Initiative 747 was found unconstitutional by the state Supreme Court. However, the Governor and state legislature, in a special session on November 29, 2007, reenacted Initiative 747, thus preserving the 1% growth limit. The second growth restriction is that state law caps the maximum tax rate a jurisdiction can impose. For the City of Seattle, this cap is \$3.60 per \$1,000 of assessed value and covers the City's general purpose levy, including Fire Pension, and lid lifts.

The City of Seattle's 2019 tax rate at \$2.23 per \$1,000 AV was roughly 27% of the total \$8.28 rate paid by Seattle property owners for all taxing jurisdictions. In 2019, for a home of median assessed value in Seattle, although the tax obligation for taxes imposed by the City of Seattle increased 7.6% from \$1,410 to \$1,518, the total property tax obligation from all taxing jurisdictions decreased 1.1% from \$5,709 to \$5,642. The increase in the City levy is largely due to voter approval of the new Families, Education Preschool and Promise Levy, which replaces the expired Families and Education Levy and the Pre-School Services Levy. The overall decrease is due to the legislated decrease in the Seattle School District's levy for public school funding. For the median valued Seattle residence this was a 23.4% and \$281 decrease from \$1,201 in 2018 to \$920 in 2019. As part of the State Legislature's solution on school funding, the Seattle Public School District's (SPS) levy is capped beginning in the 2019 tax collection year. The State's schools levy increased 2.7% from \$1,742 in 2018 to \$1,790 in 2019 for the median assessed valued residence.

***Assessed Value (AV)*** -- Prior to 2010, the last significant decrease in Seattle's total assessed value (AV) was in 1984 when AV decreased 3.6%. As Figure 11 illustrates, total assessed value in the City of Seattle fell in 2010 by approximately 10.3 percent. AV fell again in 2011 and 2012 by 2.9 percent and 2.2 percent respectively. Since then, AV growth has clearly reversed as Seattle AV (commercial and residential combined) has grown an annual average of approximately 13.0% from 2014 to 2019. Seattle AV growth has slowed significantly, however, in the past 12 months. The 2020 Proposed Budget assumes AV growth of 3.9% for the 2020 tax collection year.

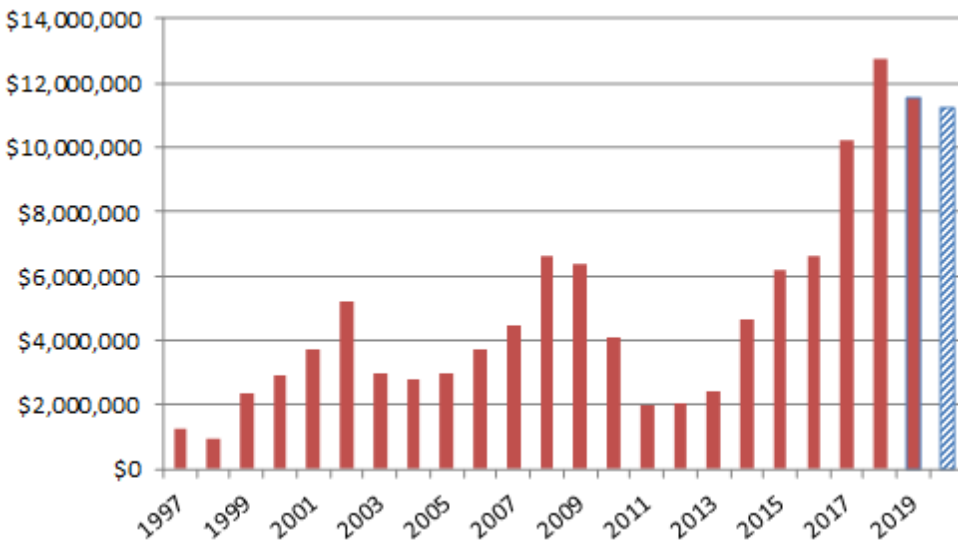
# Revenue Overview

Figure 11. Seattle Total Assessed Value



*New Construction* -- In addition to the allowed maximum 1% levy growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor. The City is receiving \$11.5 million in additional levy revenues from new construction in 2019 based on \$5.77 billion in new construction added to the tax roll. The 2020 Proposed Budget assumes a small decrease in new construction value to \$5.45 billion in 2020. These new construction volumes are projected to generate \$11.22 million in 2020 revenue.

Figure 12. Seattle New Construction Property Tax Revenue



## Revenue Overview

**The 2020 Proposed Budget assumes 1% growth plus new construction.** The forecast for the 2020 Proposed Budget's General Fund (General Purpose) portion of the City's property tax is \$268.2 million in 2019 and \$278.7 million in 2020. The 2019 and 2020 amounts include approximately \$200,000 and \$500,000 in additional revenue added since the 2019 Adopted and 2020 Endorsed Budget from increases in new construction relative to prior forecast. Additionally, the City is levying approximately \$249.4 million for voter-approved lid lifts in 2019, and \$264.7 million in 2020. The 2019 amount includes \$86.7 million from the voter-approved 2018 Families, Education, Pre-school and Promise Levy and the 2020 revenue includes \$30.3 million for the renewed Library levy. All levy lid lift proceeds are accounted for in other funds than the City's General Fund. Finally, the City is levying \$22.8 million in 2019 and \$22.7 million in 2020 to pay debt service on voter-approved bond measures.

**Seattle Parks District.** In August 2014, voters approved creation of a Metropolitan Park District (MPD). Pursuant to RCW 35.61, the MPD is a legally separate taxing jurisdiction from the City of Seattle, whose property tax levy authority of \$0.75 per \$1,000 assessed value is outside of the City's statutory rate limit of \$3.60 per \$1,000 assessed value and whose revenues will not be accounted for in the City's General Fund. The MPD, per its 6-year spending plan (2015-2020), is levying approximately \$52.1 million in 2019 and \$53.3 million in 2020.

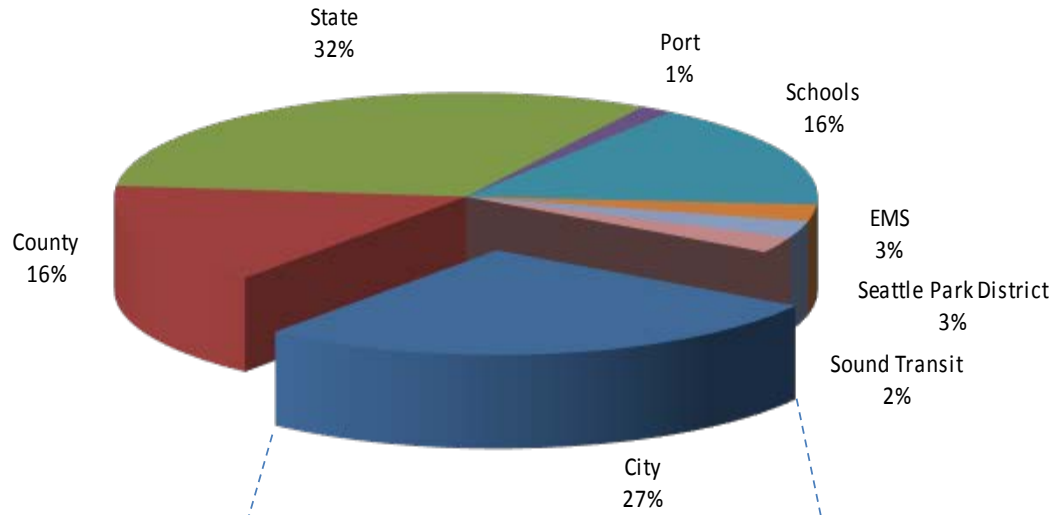
**Medic 1/Emergency Medical Services.** Voters in November 2013 approved a renewal of the Medic 1/EMS levy at \$0.335 per \$1,000 of AV. At this rate King County projected revenues over the 6-year life of the levy of \$678 million, approximately \$256 million of which will come to the City of Seattle. The 2020 Proposed Budget projects revenues of \$52.5 million in 2019, the final year of the current levy. The 2020 Proposed Budget assumes renewal of this levy in 2019 at the proposed \$0.265 per \$1,000 assessed value. This generates approximately \$67.1 million in revenue in 2020.

Figure 13 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners, as well as the components of the City's 2019 property tax.

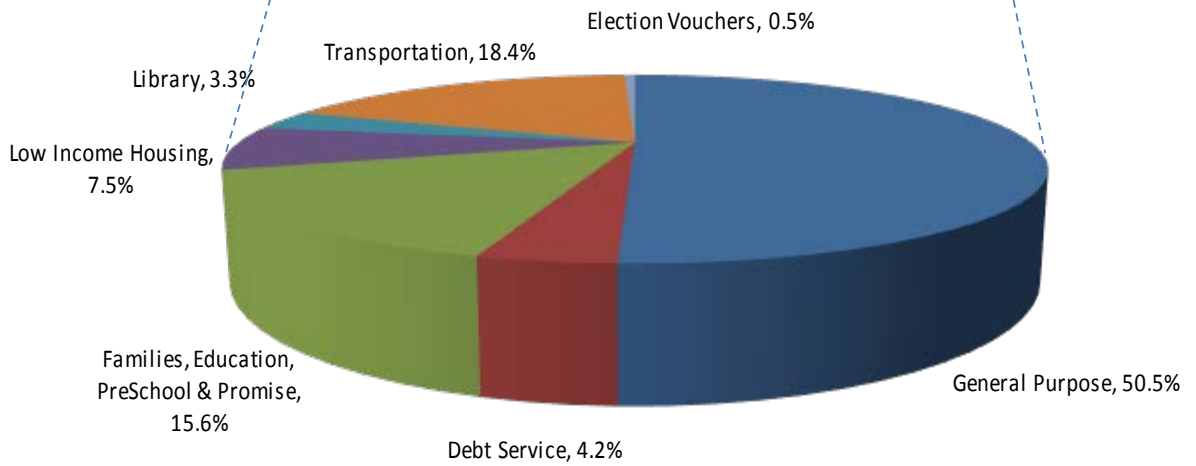
# Revenue Overview

Figure 13.

**Components of Total Property Tax Levy for 2019**  
(tax rate = \$8.28 per \$1,000 assessed value)



**Components of City's Property Tax Levy for 2019**  
(tax rate = \$2.23 per \$1,000 assessed value)





# Revenue Overview

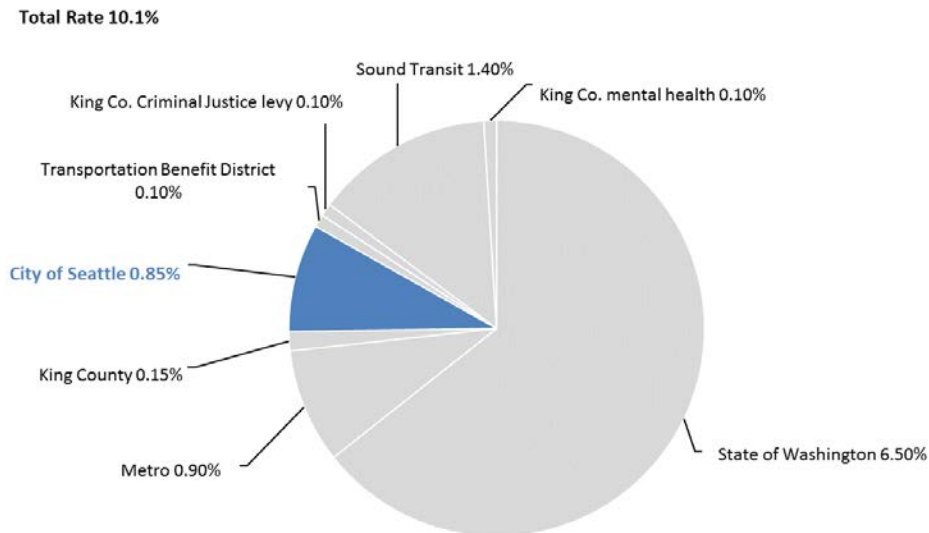
## Retail Sales and Use Tax

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Seattle. The tax is collected from consumers by businesses who, in turn, remit the tax revenue to the state. The state sends the City its share of the collections each month.

The current sales tax rate in Seattle is 10.1%. The rate was increased to 10.1% on April 1, 2017 by the addition of a voted increase of 0.5% for the Regional Transit Authority (Sound Transit). This followed an increase from 9.5% to 9.6% on April 1, 2015, when a 0.1% sales tax levy for the Seattle Transportation Benefit District was added. Seattle voters approved that increase in November 2014.

The basic sales tax rate of 10.1% is a composite of separate rates for several jurisdictions as shown in Figure 14. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the 0.1% King County Criminal Justice Levy. Revenue collected by the Seattle Transportation Benefit District is used to make transportation improvements in Seattle.

**Figure 14. Sales and Use Tax Rates in Seattle, 2019**



**Sales tax revenue has grown and contracted with the local economy's ups and downs.** Of the City's four major taxes, the sales tax is the most volatile because it is the most sensitive to changing economic conditions. Over half of sales tax revenue comes from retail trade and construction activity, which are very sensitive to changing economic conditions.

Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-1997, and the stock market and technology booms. The recession that followed the bursting of the stock market bubble and the September 11, 2001 terrorist attacks ushered in three successive years of declining revenue. This was followed by four years of healthy growth, 2004-2007, led by a surge in construction activity. That expansion ended in 2008 with the onset of the Great Recession, which caused the largest contraction in the sales tax base in more than 40 years. In a period of five quarters beginning with the third quarter 2008, the sales tax base shrunk by 18.2%. The decline was led by a steep drop in construction along with falling sales in almost every industry.

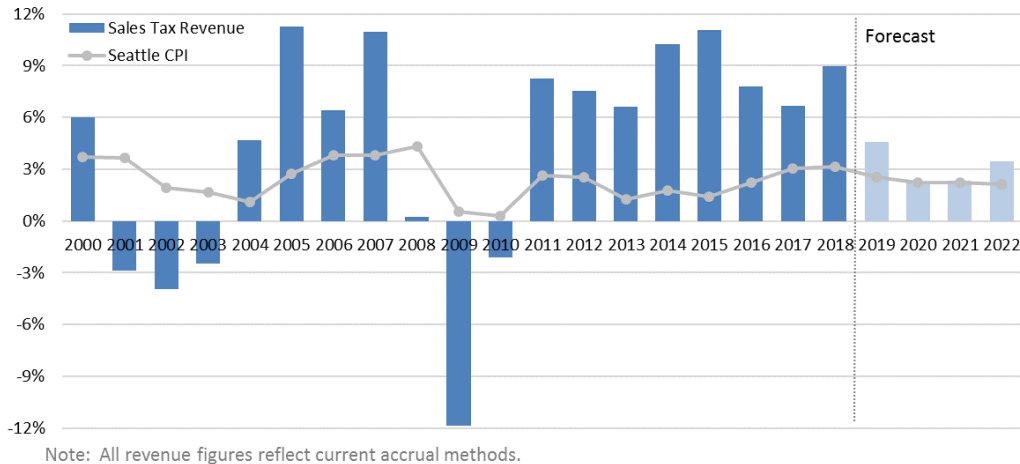
# Revenue Overview

After hitting bottom in 2010, Seattle’s sales tax base has rebounded strongly, with construction leading the way. Other fast-growing industries include motor vehicle and parts retailing, e-commerce retailing, professional, scientific and technical services, accommodation, and food services. Over the 2011-2018 period sales tax revenue increased on average at an average rate of 8.4% per year.

**Sales tax revenue growth is expected to slow down in the coming years.** Sales tax revenue has grown by 6.0% in the first six months of 2019 compared to the same period in the previous year. This is a slowdown from 10.9% growth in 2018, which was above average for several reasons. Retail trade and construction sectors, which account for about 55% of the sales tax revenue, both posted strong increases by 15.0% and 15.7% respectively in the first half of 2018. Retail trade tax revenue increased considerably as a result of the Washington Marketplace Fairness Act and the Wayfair decision which expanded taxation of online retail sales. Compliance is expected to increase over time and retail trade grew by a solid 8.2% in the first half of 2019. The construction sector, on the other hand, posted a revenue increase of only 2.6% in the first six month of 2019 as a result of the 2018 base effect and the February 2019 snowstorms.

Sales tax revenue is expected to increase by 4.6% in 2019, 2.2% in 2020, and 2.3% in 2021 (see Figure 15). Weaker growth in 2020 and 2021 reflects the expected slowing of the metro area economy and the assumption of a modest decline in construction activity from its current above the trend levels. The expected decline accumulates to 10.5% over the three-year period 2019-2021.

**Figure 15. Annual Growth of Retail Sales Tax Revenue**



## Business and Occupation Tax

Seattle’s principal business tax is the business and occupation (B&O) tax, which is levied on the gross receipts of most business activity that takes place in the city. The B&O tax has a small business threshold of \$100,000, which means businesses with taxable gross receipts below \$100,000 are exempt from the tax. Between January 1, 2008 and January 1, 2016, the City’s B&O tax also included a square footage tax that was complementary to the gross receipts tax. The square footage tax was implemented to offset an expected revenue loss from state mandated changes in the allocation and apportionment of B&O income. Included in B&O tax revenue are tax refunds, audit payments, and penalty and interest payments for past-due tax obligations.

# Revenue Overview

The City levies the gross receipts tax at different rates on different types of business activity, as indicated in Figure 16. Most types of business activity, including manufacturing, retailing, wholesaling, and printing and publishing, are subject to a tax of 0.222% on taxable gross receipts in 2018. Services and transporting freight for hire are taxed at a rate of 0.427%. In 2017 and 2018, the City increased B&O tax rates to the maximum allowed under state law. The increase took place in two steps, a roughly two percent increase on January 1, 2017 and an increase of approximately one percent on January 1, 2018. In addition, the special 0.15% rate for international investment management services was eliminated on January 1, 2017.

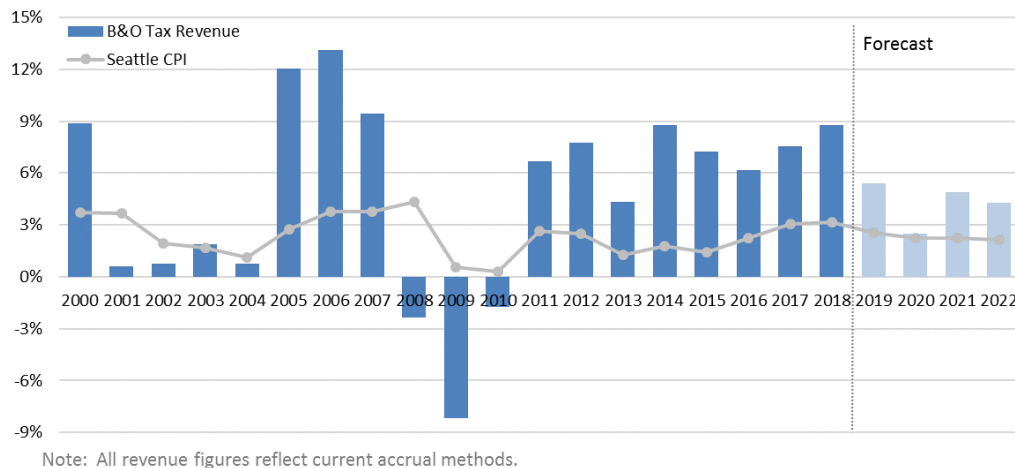
**Figure 16. Seattle Business and Occupation Tax Rates, 2016 – 2019**

	2016	2017	2018-2019
Retailing, wholesaling	0.215%	0.219%	0.222%
Manufacturing, extracting	0.215%	0.219%	0.222%
Printing, publishing	0.215%	0.219%	0.222%
Service, other	0.415%	0.423%	0.427%
International investment management	0.150%	0.423%	0.427%

Other things being equal, the B&O tax base is more stable than the retail sales tax base. The B&O base is broader than the sales tax base, which does not cover most services. In addition, the B&O tax is less reliant than the sales tax on the relatively volatile construction and retail trade sectors, and it is more dependent upon the relatively stable service sector.

**B&O revenue growth has mirrored the growth of the local economy.** B&O receipts have fluctuated with the economy’s ups-and-downs, rising rapidly during the late-1990s stock market and dot-com boom and the housing bubble of the mid-2000s, going flat from 2001–2004 during the previous decade’s first recession, and falling sharply during the Great Recession (see Figure 17). During the Great Recession the B&O tax base lost 16.8% of its value between first quarter 2008 and second quarter 2010.

**Figure 17. Annual Growth of B&O Tax Revenue**



B&O tax revenue has grown at a healthy pace during the recovery from the Great Recession. Over the 2011-2018 period, revenue increased on average at a 7.2% annual rate. Growth was weak in 2013 because of a drop in the revenue from audit activity and an increase in refund payments, not because of

# Revenue Overview

a weakening of tax base growth. Industries growing rapidly during the recovery have been construction, information, real estate, management of companies and enterprises, food services, and accommodation.

**B&O tax revenue growth will slow down in the coming years.** The B&O revenue forecast has been shaped by the expected slowdown of the economic growth in the metro area. Tax revenue growth forecast is 5.4% for 2019 and on average 4.3% per year for the 2019-2022 period. A one-time drop in revenue is expected in 2020 as a result of HB 1059 which changes the due date for annual payments from January 31 to April 15 beginning with 2020 obligations. Since January and February payments are accrued to 2020, but April and May payments are accrued to 2021, this delay in due date lowers the forecasted growth rate for the 2020 B&O tax revenue from 3.7% to 2.5%.

## Utility Business Tax - Private Utilities

The City levies a tax on the gross income derived from sales of utility services by privately owned utilities within Seattle. These services include telephone, steam, cable communications, natural gas, and refuse collection for businesses.

**Natural gas prices remain low.** The City levies a 6% utility business tax on gross sales of natural gas and on sales of steam which has natural gas as an energy source. The bulk of revenue from the natural gas tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales. Spot prices, those paid for delivery in the following month, continue to be low. Temperatures play a key role in gas related revenues and are inversely related to natural gas usage and subsequent tax receipts.

**Telecommunications tax revenues continue to decline.** The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. Revenue from traditional land-line services has been on a steady decline. This was counteracted by the increasing prevalence of mobile/wireless phones. While new smartphone users have added to the wireless tax revenue base, the increased use of data and internet services which are not taxable have caused declines in the revenue streams.

As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City may continue to see tax revenue declines. Some recent court decisions have altered what types of wireless phone calls the City can tax; the City may no longer assess a tax on interstate and international phone calls. There are continued pressures on this revenue stream.

**Cutting the cord is affecting Cable Tax revenues.** The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.4% franchise fee makes funds available for cable-related public access purposes. This franchise fee is deposited into the City's Cable Television Franchise Fund. Cable revenues have been declining year over year for some time. Increased competition from satellite and streaming services appear to be taking customers away from traditional cable providers. That is expected to continue and will be a drag on revenues.

# Revenue Overview

## Utility Business Tax - Public Utilities

The City levies a tax on most revenue from retail sales collected by City-owned utilities (Seattle City Light and Seattle Public Utilities). Tax rates range from a State-capped 6% on City Light up to a current 15.54% on the City Water utility.

**Revenue Stabilization Account Surcharge is in effect.** City Light sells excess power on the wholesale energy market. City Light energy production, almost exclusively hydro power, competes with natural gas in the wholesale market. For the 2010 fiscal year, the City Council authorized the creation of a rate stabilization account (RSA) for the utility funded with an as needed surcharge based on funding levels of the RSA. The rate stabilization surcharge was triggered in 2016 because the RSA funding level has dropped below \$90 million, the account's minimum required balance set by the Council. This forecast expects the surcharge to remain in effect through October of 2020.

**Water rates are adopted through 2023.** Tax revenue growth is expected to average 1.7% for 2019 through 2020.

**Drainage and Wastewater rates are adopted through 2020.** Drainage and wastewater tax revenue growth will average 8.0% 2019 through 2020.

**Value of some recycled products has declined.** Some recycled products that had a market overseas have seen their demand collapse. No recovery in these commodity prices is forecast soon. Solid waste has also seen a decline in demand from single-family households that has been offset by increased demand from multi-family and commercial users. Solid waste tax revenues will average 1.2% growth 2019 through 2020.

**Tonnage taxes remain stable.** The City imposes a \$13.27 per ton tax on solid waste hauled within the city limits. Historically these tax revenues, which apply to both public and private haulers, was collected by Seattle Public Utilities and used to pay for Clean City programs. These programs support public garbage collection, graffiti removal, illegal dumping, and other activities. In 2016 the tonnage tax began accruing to the General Fund which continues to support Clean City programs.

## Other Notable Taxes

**Admission Tax.** The City imposes a 5% tax on admission charges to most Seattle entertainment events, the maximum allowed by state statute. This revenue source is highly sensitive to swings in attendance at athletic events. It is also dependent on economic conditions, as people's ability and desire to spend money on entertainment is influenced by the general prosperity in the region. Recently, entertainment venues have opened around the City, increasing the size of the tax base. Offsetting this, the former Key Arena has closed for renovations affecting some large entertainment events. Once reopened, the refurbished venue should provide increases in admissions tax revenues starting mid-2021. Revenues are forecast to grow by an average annual rate of 0.5% for 2019 through 2020.

Of admission tax revenues, excluding men's professional basketball, 20% were dedicated to programs supported by the Office of Arts and Culture (Arts) before 2010. In 2010 this contribution increased to 75% based on the actual admission tax receipts from two years prior, this was increased to 80% for 2016. In 2017 funding was increased to 90% and then 100% of actual receipts in 2018. As a result, Arts is fully funded by the admission tax, except for money received from the 1% for Arts program. The

## Revenue Overview

forecasts in Figure 10 for admission taxes reflect the full amount of tax revenue. The Office of Arts and Culture section of this document provides further detail on the office’s use of Arts Account revenue from the admission tax and the implementation of this change.

### Licenses and Permits

The City requires individuals and companies conducting business in Seattle to obtain a City business license. In addition, some business activities, such as taxi cabs and security systems, require additional licenses referred to as professional and occupational licenses. The City also assesses fees for public-safety purposes (e.g., pet ownership and fire hazard inspection) and charges a variety of fees for the use of public facilities and rights-of-way.

In 2005 the City instituted a two-tier business license fee structure. The cost of a license, which had been \$80 per year for all businesses, was raised to \$90 for businesses with worldwide revenues of more than \$20,000 per year and lowered to \$45 for businesses with worldwide revenues less than \$20,000 per year. The City increased the fees for 2015 license renewals to \$110 and \$55, respectively.

To provide funding for additional police officers, the City implemented a new business license fee structure that took effect for 2017 licenses. Fees increased for businesses that have a taxable income (reported for B&O tax purposes) greater than \$500,000. Fees for all other businesses remain at 2016 levels (See Figure 18) until 2020. Fee increases were being phased in over a three-year period, 2017–2019, and will increase with inflation annually thereafter. Largely as a result of the fee increases, business license revenue grew from \$6.8 million in 2015 to \$17.3 million in 2018, a 153.2% increase. Revenue growth is expected to slow to 4.9% in 2019 and 2.4% in 2020.

**Figure 18. Business License Fee Schedule, 2016 – 2020**

<b>Taxable income</b>	<b>2016*</b>	<b>2017</b>	<b>2018</b>	<b>2019</b>	<b>2020</b>
Less than \$20,000	\$55	\$55	\$55	\$55	\$56
\$20,000 - \$500,000	\$110	\$110	\$110	\$110	\$113
\$500,000 - \$2 mil.	\$110	\$480	\$480	\$500	\$511
\$2 mil. - \$5 mil.	\$110	\$1,000	\$1,000	\$1,200	\$1,227
More than \$5 mil.	\$110	\$1,000	\$2,000	\$2,400	\$2,455

\*2016 fee is based on worldwide gross income, not taxable income.

### Parking Meters/Traffic Permits

In spring 2004, the City of Seattle began replacing traditional individual space parking meters with pay stations in various areas throughout the City. In addition to offering the public more convenient payment options, including credit cards and debit cards, for hourly on-street parking, pay station technology has allowed the City to more actively manage the street right-of-way by adopting different pricing, time limit and other management parameters on different blocks throughout the city and at different times of day. The City currently has around 1,700 pay stations controlling approximately 12,000 parking spaces. The overall objective of the parking management program is to provide a more data-driven, outcome-based management and price-setting approach in pursuit of the adopted policy goals of one to two open spaces per block-face, reduced congestion, support of business districts, and reduced vehicle emissions and improved air quality.

# Revenue Overview

Based on collected occupancy data, the 2020 Proposed Budget assumes the implementation in Fall 2019 of planned changes to parking rates (increases and decreases), which are reviewed and adjusted annually by SDOT based on parking availability targets. Also assumed are projected space additions and removals for coming years, as planned by SDOT. The net effect of rate, space and timing changes leads to a 2020 Proposed Budget forecast for -0.25% revenue growth in on-street parking revenue between 2019 and 2020, from \$39.1 million to \$39.0 million.

**Street Use and Traffic Permits.** Traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits, including revenues from the City's car sharing program with Car2Go, Lime and ReachNow, are projected to generate revenues of approximately \$7.2 million in 2019, and \$7.0 million in 2020. The 2020 Proposed Budget includes fee increases for meter hoods (a \$2 increase) and vehicle load zone permits (from \$195 to \$250), but also reflects the discontinuation, as of mid-2019, of the ReachNow car share service.

## Court Fines

Although shifting with the introduction of photo enforcement cameras, between 50% and 60% of court fine revenues collected by the Seattle Municipal Court are from parking citations written by Seattle Police Department parking enforcement (PEOs) and traffic officers. Fines from photo enforcement in selected intersections and school zones now comprise approximately 35-45% of revenues and 5-10% comes from traffic and other non-parking related citations.

Overall fines revenue increased approximately \$1.3 million (3.3%) from 2017 to 2018 to \$39.5 million. Approximately \$1.1 million of that increase came from camera enforcement revenues. In 2018 school zone speed camera revenues came in at \$12.2 million, up from \$11.2 million in 2017. The 2020 Proposed Budget includes \$9.9 million in school zone camera revenue for 2019 and \$10.6 million in 2020. The decline in 2019 is due to an assumed rate of change in the number of citations based on driver behavior. 2020 revenues assume activation of six new cameras at three new school locations. School zone camera revenues are accounted for in the School Safety Traffic and Pedestrian Improvement Fund.

Total General Fund fines revenues were approximately \$27.3 million in 2018 and are expected to decline slightly in 2019 and 2020 to \$26.9 million. Red light camera enforcement revenues (i.e., non-school zone cameras) in 2019 and 2020 are projected to remain relatively flat at about \$5.1 million in each year. These amounts are fully recognized in the General Fund through 2020, per the City Council's action for 2018-20 to suspend the prior requirement of transferring 20% of red-light camera revenues to the School Safety Traffic and Pedestrian Improvement Fund. Non-camera fine revenues are projected to fall approximately \$500,000 from 2018 to \$21.7 million in 2019 and 2020, due to reduced citation volumes.

## Interest Income

Through investment of the City's cash pool in accordance with state law and the City's own financial policies, the General Fund receives interest and investment earnings on cash balances attributable to several of the City's funds that are affiliated with general government activities. Many other City funds are independent, retaining their own interest and investment earnings. Interest and investment income to the General Fund varies widely, subject to significant fluctuations in cash balances and changes in earnings rates dictated by economic and financial market conditions.

# Revenue Overview

As a result of the financial crisis in 2008 and the Federal Reserve Bank's (Fed) unprecedented purchasing of assets through quantitative easing, borrowing rates fell to historic lows. These rates have remained relatively low, but the Fed has ended their purchasing programs. They have recently begun to lower short-term interest rates to head off a slowing economy. This will lead to fairly flat interest earnings on the City's cash pool for 2020. The annual earnings yield for the cash pool was 2.58% in 2018 but forecast to be 2.29% in 2019 before rising to 2.46% by 2020. Should the economy suffer any material setbacks, these rates would be expected to fall further.

## Revenue from Other Public Entities

**Washington State shares revenues with Seattle.** The State of Washington distributes a portion of tax and fee revenue directly to cities. Specifically, portions of revenues from the State General Fund, liquor receipts (both profits and excise taxes), and motor vehicle fuel excise taxes, are allocated directly to cities. Revenues from motor vehicle fuel excise taxes are dedicated to street maintenance expenditures and are deposited into the City's Transportation Fund. Revenues from the other taxes are deposited into the City's General Fund.

**Criminal Justice revenues are stable.** The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. These revenues have been affected by State budget changes in the recent past and, while not expected, could be affected in future budgets out of Olympia.

**Marijuana related revenues are being shared with local jurisdictions.** As part of the State's 2016 budget, marijuana related tax revenues are being shared with local jurisdictions for public safety purposes. The state has adopted a complicated allocation of these revenues, but in general only those cities in counties that have legalized marijuana sales will receive excise tax distributions based on both their jurisdictions proportion of marijuana related sales as well as a per capita basis. Because this is a relatively new revenue stream with a growing tax base, the forecast is imprecise.

**State budget restores liquor related revenues to cities.** Cities in the state of Washington typically receive two liquor related revenues from the State. One is related to the liquor excise tax on sales of spirits and the other is a share in the State Liquor and Cannabis Board's profits accrued from the operation from their monopoly on spirits sales. The State no longer holds the monopoly in liquor sales in the state due to the passing of Initiative 1183 in November of 2011. The initiative guaranteed the cities would continue to receive distributions in an amount equal to or greater than what they received from liquor board profits prior to the implementation of the initiative as well as an additional \$10 million to be shared annually. There was no guarantee concerning liquor excise taxes. In recent budgets the State has eliminated, on a temporary basis, the sharing of liquor excise taxes. The most recent State budget has restored fully the excise tax funding to cities.

## Service Charges and Reimbursements

**Internal service charges reflect current administrative structure.** In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Fund to City utilities and certain other departments not supported by the General Fund. The intent is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of



# Revenue Overview

payments to the General Fund from these independently supported departments. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

## Interfund Transfers

**Interfund transfers.** Occasionally, transfers from departments to the General Fund take place to pay for specific programs that would ordinarily be executed by a general government department or to capture existing unreserved fund balances. A detailed list of these transfers is included in the General Fund revenue table found in the Funds and Other section. This includes the transfer of school zone camera revenues described under Court Fines above.

In adopting the 2020 Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the Finance General revenue table to the General Fund.

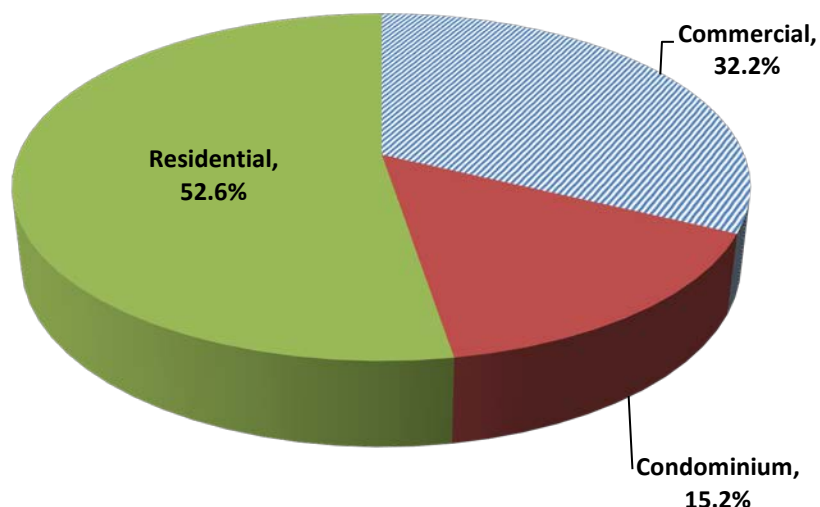
## Cumulative Reserve Fund – Real Estate Excise Tax

The Cumulative Reserve Fund resources are used primarily for the maintenance and development of City general government capital facilities. These purposes are supported mainly by revenues from the Real Estate Excise Tax (REET), but also, to a lesser degree, by the proceeds from certain property sales and rents, street vacation revenues, General Fund transfers, and interest earnings on fund balances.

The REET is levied by the City at a rate of 0.5% on sales of real estate measured by the full selling price. Because the tax is levied on transactions, the amount of revenue that the City receives from REET is determined by both the volume and value of transactions.

Over time, 52.6% of the City’s REET tax base has come from the sale of residential properties, which include single-family homes, duplexes, and triplexes. Commercial sales, which include apartments with four units or more, account for 32.2% of the tax base, and condominiums constitute the remaining 15.2% (see Figure 19).

**Figure 19. Value of Seattle Real Estate Transactions by Property Type, 1982 - 2018**

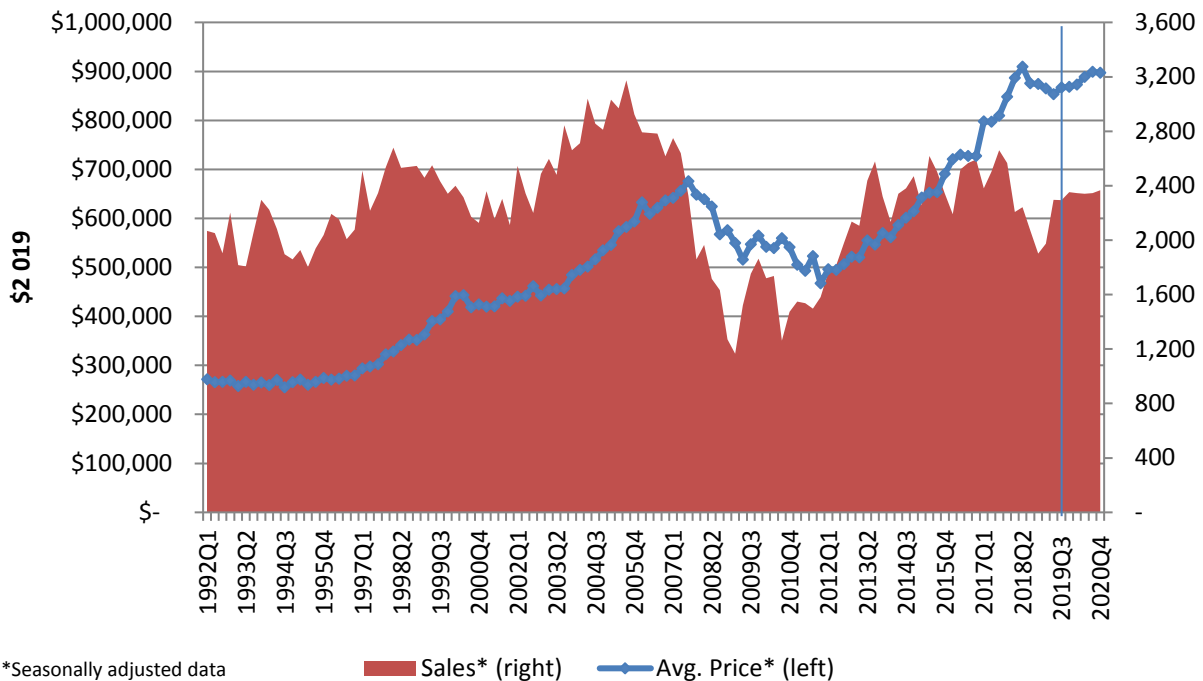


# Revenue Overview

**The residential market showing signs of calming.** The value of Seattle real estate transactions (the REET tax base) increased at an average annual rate of 13.1% between 1982 and 2007, a period when Seattle area inflation averaged only 3.4% per year. Growth was particularly strong during the recent boom years, fueled by low interest rates and a growing economy. 2008 saw the national property bust that started in late 2005 come to Seattle. The REET tax base declined 50.7% from 2007 to 2008 and continued to decline by 23.4% into 2009. The decline was felt across all three real estate categories. The first quarter of 2009 was the bottom of Seattle’s residential market for both sales and prices on a seasonally adjusted basis. With low financing rates and a strong economy, residential and condominium sales have been on an upswing in Seattle increasing Real Estate Excise Tax revenues. Single-family home prices, both nominal and adjusted for inflation, have well surpassed their previous peak set in 2007 (see Figure 20). Average prices have come down from that peak but are expected to stabilize over the next few years.

Figure 20. Seattle Single-family Market

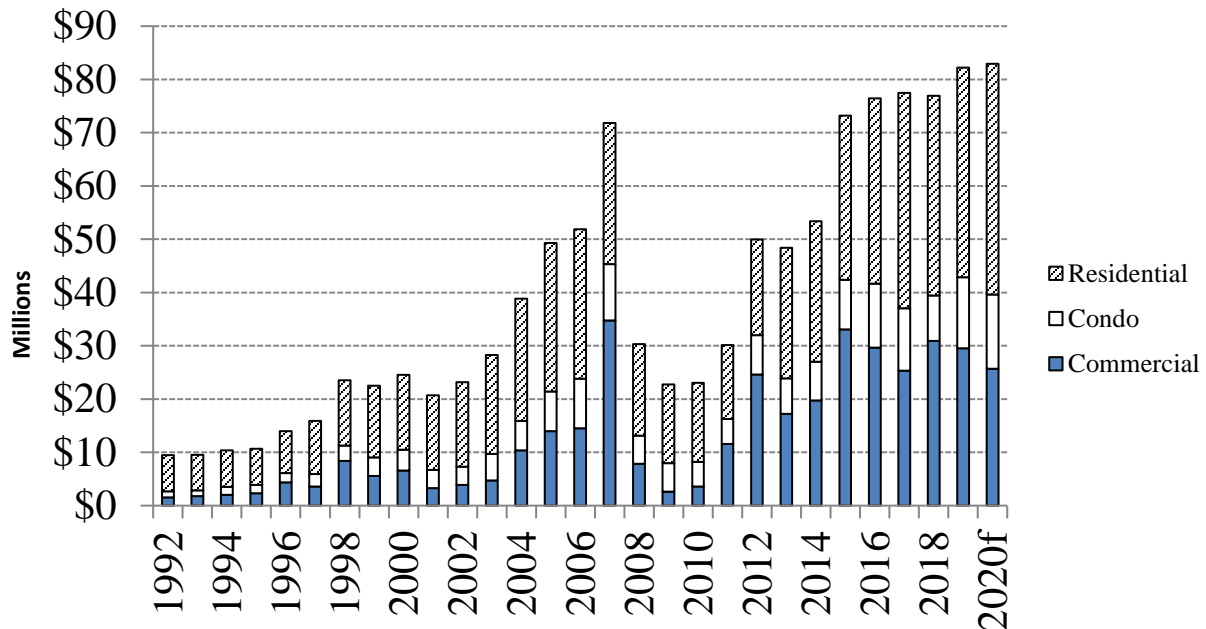
## Seattle Single-family Market



The volatility of REET is reflected by the fact that despite a 8.7% compounded average annual growth rate, the REET tax base declined in eleven years during the period 1982–2018. This volatility is largely the result of changes in sales volumes, which are sensitive to shifts in economic conditions and movements in interest rates; average prices tend to be more stable over time. Commercial activity tends to be more volatile than the residential market, in part because the sale of a handful of expensive properties can result in significant swings in the value of commercial sales from one year to the next, as was seen in 2007, 2012, and 2015 (see Figure 21). Those years saw significant commercial activity with many large buildings in the downtown core changing hands.

# Revenue Overview

Figure 21. REET Revenues



## Sweetened Beverage Tax Fund

On June 5, 2017, the City Council approved the Sweetened Beverage Tax (SBT) effective January 1, 2018. Distributors of sweetened beverages are liable for the tax of \$0.0175 per fluid ounce of sweetened beverage distributed into the city of Seattle for final sale to the consumer. The 2020 Proposed Budget includes revenues of \$23.9 million in 2019 and \$24.3 million in 2020. Sweetened beverages include sodas, energy drinks, sweetened juices and teas, sports drinks and ready-to-drink coffee drinks. Revenues will be used to fund educational and food access programs primarily through the Department of Education and Early Learning (DEEL), the Human Services Department (HSD) and the Office of Sustainability and Environment (OSE). Beginning in 2020 these revenues and associated expenditures are moved from the General Fund to the Sweetened Beverage Tax Fund in the City’s accounting system.

## Short-Term Rental Tax Fund

Effective January 1, 2019, the State legislature authorized the public facilities district that is the Washington State Trade and Convention Center to impose a 7% tax on the sale of or charge made for the furnishing of lodging (including but not limited to any short-term rental). The proceeds generated from short-term rental charges in Seattle are distributed to the City of Seattle to support community-initiated equitable development and affordable housing programs. The 2020 Proposed Budget assumes \$10.5 million in each of 2019 and 2020. Beginning in 2020 these revenues and associated expenditures are moved from the General Fund to the Short-Term Rental Tax Fund in the City’s accounting system.

# Revenue Overview

**Figure 22. Seattle City Tax Rates**

	2015	2016	2017	2018	2019
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>					
General Property Tax	\$1.63	\$1.47	\$1.35	\$1.25	\$1.25
Families & Education	0.23	0.20	0.18	0.16	0.16
Parks and Open Space					
Low Income Housing	0.14	0.12	0.22	0.19	0.19
Transportation	0.27	0.58	0.52	0.45	0.45
Pike Place Market					
Library	0.12	0.11	0.09	0.08	0.08
Pre-School For All	0.10	0.09	0.08	0.07	0.07
Election Vouchers		0.02	0.02	0.01	0.01
City Excess GO Bond	0.13	0.18	0.16	0.14	0.14
<b>Other Property Taxes related to the City</b>					
Seattle Park District	-	0.29	0.28	0.23	0.23
Emergency Medical Services	0.30	0.28	0.26	0.24	0.24
<b>Retail Sales and Use Tax</b>					
	0.85%	0.85%	0.85%	0.85%	0.85%
<b>Transportation Benefit District Sales and Use Tax</b>					
	-	0.10%	0.10%	0.10%	0.10%
<b>Business and Occupation Tax</b>					
Retail/Wholesale	0.215%	0.215%	0.219%	0.222%	0.222%
Manufacturing/Extracting	0.215%	0.215%	0.219%	0.222%	0.222%
Printing/Publishing	0.215%	0.215%	0.219%	0.222%	0.222%
Service, other	0.415%	0.415%	0.423%	0.427%	0.427%
International Finance	0.150%	0.150%	0.423%	0.427%	0.427%
<b>City of Seattle Public Utility Business Taxes</b>					
City Light	6.00%	6.00%	6.00%	6.00%	6.00%
City Water	15.54%	15.54%	15.54%	15.54%	15.54%
City Drainage	11.50%	11.50%	11.50%	11.50%	11.50%
City Wastewater	12.00%	12.00%	12.00%	12.00%	12.00%
City Solid Waste*	11.50%	11.50%	14.20%	14.20%	14.20%
<b>City of Seattle Private Utility B&amp;O Tax Rates</b>					
Cable Communications (not franchise fee)	10.00%	10.00%	10.00%	10.00%	10.00%
Telephone	6.00%	6.00%	6.00%	6.00%	6.00%
Natural Gas	6.00%	6.00%	6.00%	6.00%	6.00%
Steam	6.00%	6.00%	6.00%	6.00%	6.00%
Commercial Solid Waste*	11.50%	11.50%	14.20%	14.20%	14.20%
<b>Other Taxes</b>					
Admissions	5.00%	5.00%	5.00%	5.00%	5.00%
Amusement Games (less prizes)	2.00%	2.00%	2.00%	2.00%	2.00%
Bingo (less prizes)	10.00%	10.00%	10.00%	10.00%	10.00%
Punchcards/Pulltabs	5.00%	5.00%	5.00%	5.00%	5.00%
Cable Franchise Fee	4.40%	4.40%	4.40%	4.40%	4.40%
Fire Arms Tax (Dollars per weapon)	-	\$25.00	\$25.00	\$25.00	\$25.00
Ammunition Tax (Dollars per round)	-	\$0.05	\$0.05	\$0.05	\$0.05
Sweetened Beverage Tax (Dollars per fluid ounce)				\$0.0175	\$0.0175

\*Increase effective April 1, 2017