

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 Firefighters’ 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, 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 regional 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

The year 2022 has experienced considerable economic instability and uncertainty at the national level. Just as the case-loads associated with the COVID-19 Omicron variant had begun to stabilize early in the year, Russia began its invasion of Ukraine. Inflationary pressures that had already emerged because of tightening labor markets and increased consumer demand, associated at least in part with the federal COVID relief spending, were quickly exacerbated by a spike in commodity prices. The war in Ukraine disrupted, and continues to disrupt, the global markets for fuel, food, and other basic commodities. The net result has been a sharp rise in inflation. As of July, annual inflation as measured at the national level

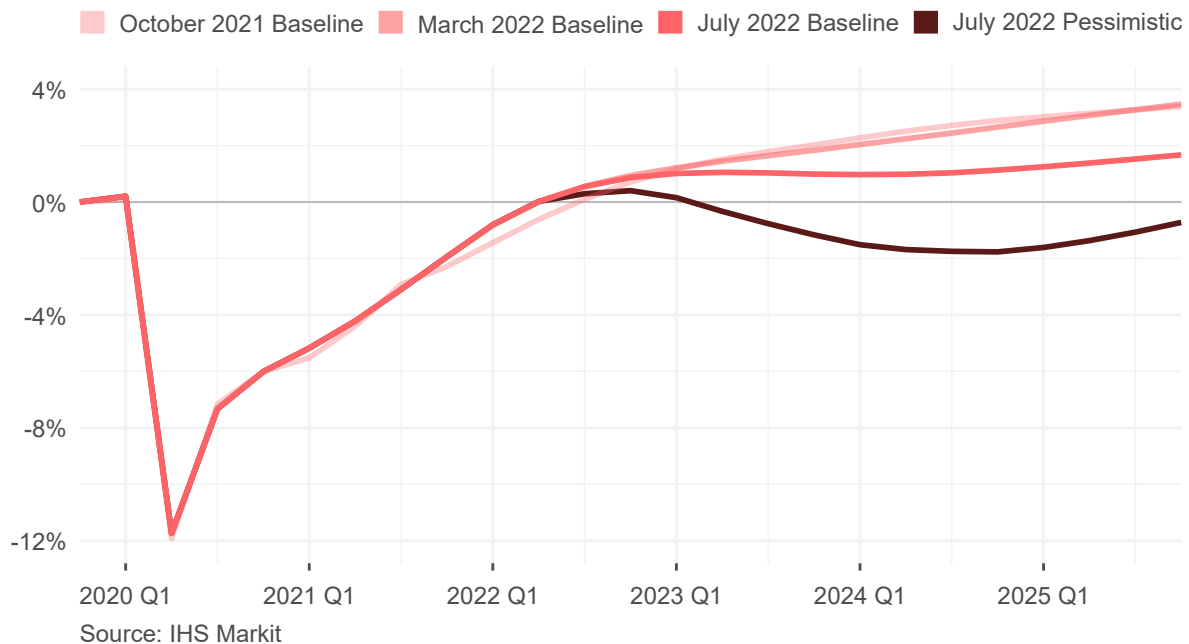
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exceeded 9%, a level not seen in more than 40 years. In turn, the Federal Reserve Bank (Fed) has responded to these inflationary pressures with a commitment to aggressively increase interest rates in an attempt to cool demand and reduce the rate of price escalation. This commitment has been reflected in both words and action. Since the beginning of the year the Fed has increased rates by 3%, including three successive 0.75% increases in June, July, and September. The latter adjustments were made as the evidence of accelerating and persistent inflation become ever-more apparent. The Fed has indicated that further increases are virtually certain and could be implemented before the budget is adopted into law. This all represents a dramatic shift from the Fed's stance in 2021, when rates were reduced as part of the overall effort to stimulate economic recovery in the wake of COVID-19.

This shift, in part, reflects the fact that the overall economic recovery from the COVID-19 disruption has been quite strong. As of August, employment levels in the US matched those seen before the pandemic. While overall consumer sentiment about the economy has weakened over the course of this year, actual consumer spending has remained strong and actually grown. Spending patterns have shifted away from goods, which were in high demand during the pandemic, and towards services such as restaurant dining and travel as social distancing requirements have eased. The overall recovery is perhaps most evident in the continued strength of the labor market. The addition of 315,000 jobs in August at the national level extended the current period of sustained labor market growth to 20-months.

Looking forward, the question that remains is whether this job growth will continue even as the Fed takes purposeful steps to cool demand and reduce inflation. The consensus among national forecasters is that inflation can be brought under control and back to more recent trends by the middle of next year (2023), and that economic growth can be sustained next year and beyond, although at a somewhat lower rate than forecast earlier this year. The uncertainty regarding the economic outlook has however increased considerably, the average for the probability of recession in the next 12 months in the Wall Street Journal Economic Forecasting Survey of about 60 economists increased from 28% in April to 49% in July. Being notably shallower and shorter, this recession would resemble the 2001 recession more than the Great Recession or the COVID-19 recession. The graphic below, which compares employment forecasts from national forecasting firm IHS Markit over the course of this year, illustrates these points.

Figure 1. U.S. Employment Outlook



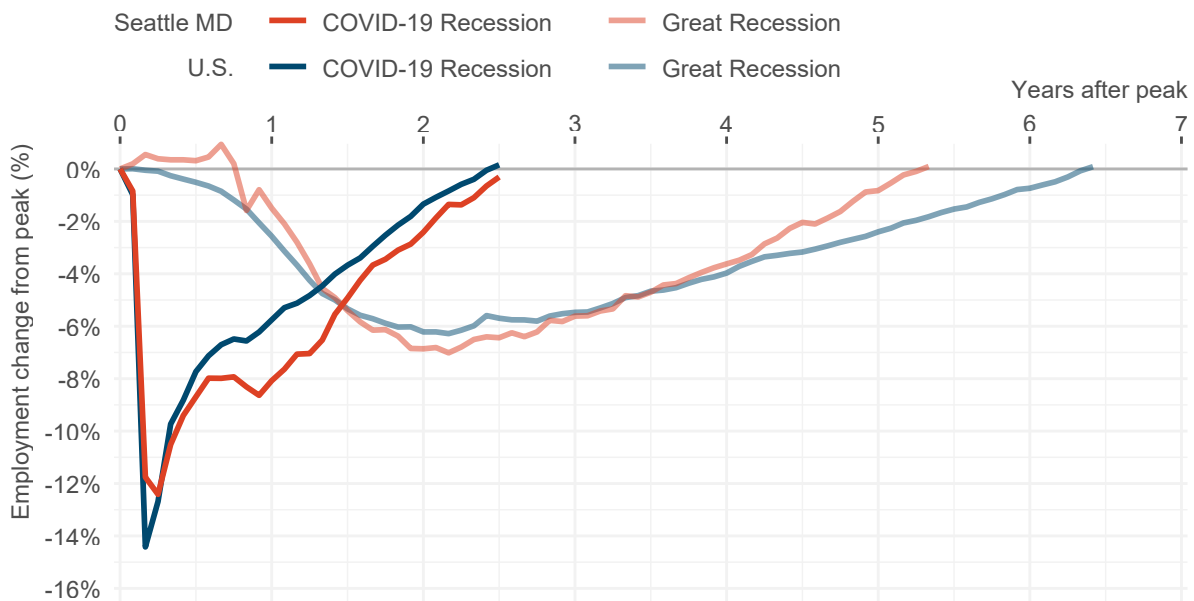
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Seattle Metropolitan Area Economic Conditions and Outlook

The dynamics of the regional economy have generally tracked those seen at the national level. The regional labor market remains strong, although as illustrated below, some sectors have shown considerably more strength than others. But at the same time, the rate of inflation has increased dramatically in the region, and outpaced national levels. In June, the year-over-year CPI-U increase for the Seattle region had reached 10.1%. Increasing housing costs, reflected both in residential rental rates and home prices, have been a key driver of an overall escalation in the regional cost of living.

Labor Market. The recovery of the regional labor market has trailed the nation since the recovery began in mid-2020. As the graph below illustrates, employment at the national level is essentially back to pre-pandemic levels, while regionally the number of filled jobs remains about 1% or 20,000 jobs below the levels seen in very early 2020.

Figure 2. Job Losses, COVID Recession and Great Recession

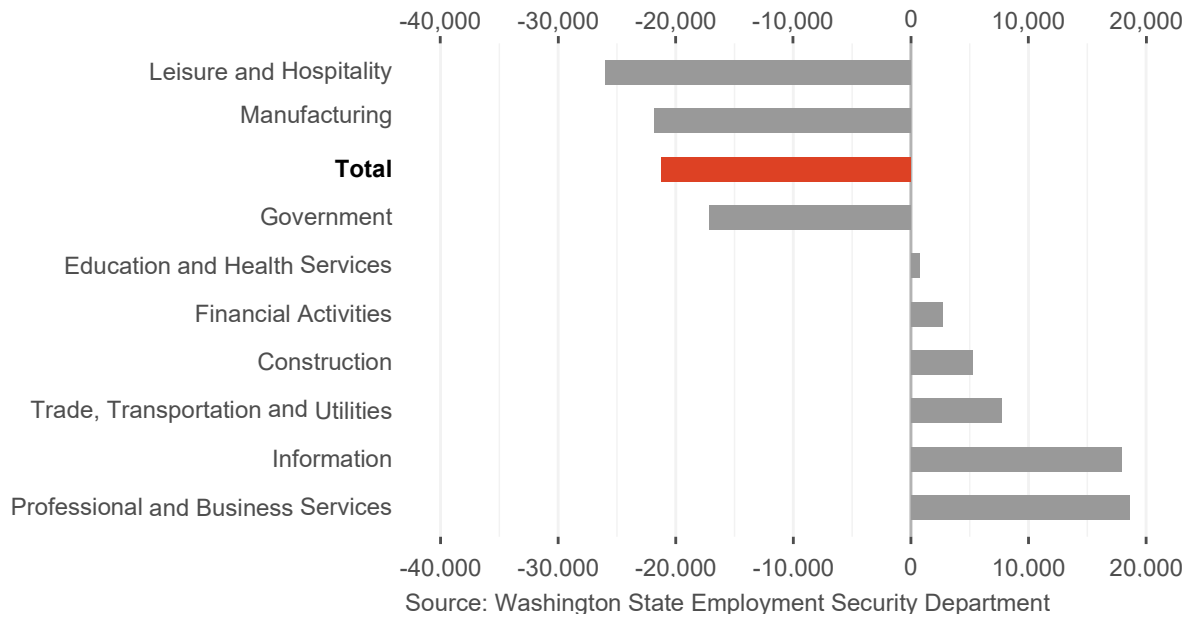


Source: U.S. Bureau of Labor Statistics and Washington State Employment Security Department

The region's dependence on tourism and aerospace manufacturing (Boeing), together with its more cautious public health approach and sustained commitment to social distancing has likely led to a slower employment recovery. A sector-level analysis confirms this assessment. As shown below, as of June, total regional employment was about 20,000 jobs below pre-pandemic levels, but the overall impacts varied significantly by sector. While employment in the Leisure & Hospitality and Manufacturing sectors remains well below pre-pandemic levels, there has been significant job growth since February 2020 in various other sectors, led by both Information and Professional & Business Services.

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Figure 3. Change in Seattle MD employment between February 2020 and June 2022



Another dynamic that distinguishes the local and regional employment recovery is the trend toward “work from home”. Relative to other parts of the nation, a larger share of the region’s employees continues to work from home. There is no evidence that this has had a negative impact on the region’s overall economic recovery, but it has affected City revenues by reducing the overall level of taxable activity that is occurring in the city.

Inflation Regional inflation tends to track national inflation because commodity prices and national economic conditions are key drivers of regional prices. Seattle inflation has, however, been running on average about 0.5% higher in recent years due to the region’s higher population and income growth and high housing price inflation compared to the nation. However, overall inflation rates had been quite low. For example, from 2011 to 2019, regional prices grew an average of just 2.2% per year.

In the initial phases of the pandemic, depressed consumer demand put downward pressure on prices, but that trend reversed in late 2021. As noted previously, accelerating inflation has become a dominant factor in the economy, both its direct impacts on the cost-of-living and the potential near-term impacts of the Fed’s aggressive approach to bringing it under control. On the regional level, recent cost-of-living impacts have outpaced the national figures. For the 12 months ending in June of this year, the regional consumer price index reflected an increase of 7.8%, compared to the national level of 7.2%. Escalation in the price of goods and energy (e.g. gasoline) have received a good deal of attention, but “core” inflation, which excludes these two factors, reached 8.9% for the same 12 month period. Fortunately, the current forecast is that inflation will cool relatively quickly and return to more moderate levels by mid to late next year.

Regional Economic Outlook Overall, the region appears to have weathered the economic shocks created by the COVID-19 pandemic relatively well. Total regional employment is fast-approaching pre-pandemic levels, and the sectors most negatively affected by the social distancing requirements appear to be in recovery. While not necessarily at pre-pandemic levels, this summer’s tourist season saw the

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return of the cruise industry and overall tourism traffic was up from last year. Through July, overall passenger traffic at SeaTac airport reached 25.4 million, down 13.9% from 2019 levels, but up 37% from 2021. The rebound in airline traffic was not unique to Seattle and increasing overall demand for air travel also represents good news for Boeing and the region's aerospace manufacturing sector. After reducing regional employment by more than 20,000, the company has returned to hiring and currently has several thousand openings region-wide.

At the same time, employment growth in the technology sector continued at a robust pace through the pandemic and continued to be a driving force behind the growth of the regional economy. While Amazon and Microsoft are perhaps the highest profile of Seattle's technology employers, Facebook (Meta), Apple, and Google (Alphabet Inc.) have each established a significant presence in the region. This agglomeration of technology firms also provides a labor pool that supports innumerable smaller firms and start-ups. On average, the jobs offered in this sector pay well and help drive demand in other sectors such as hospitality, entertainment, and construction. Whether the city of Seattle remains the focus of technology sector's regional growth is a point of uncertainty looking forward. Several of the region's larger employers are making capital investments in office facilities elsewhere in the region, and this could preview a shift in where growth will be focused in coming years. Seattle will still benefit from an overall economic growth perspective whether the jobs are here in the city or elsewhere in the region, but slower in-city growth will likely impact the pace of both commercial (office-space) and residential construction. The city's building boom slowed during the pandemic and the projections are for a slower pace of activity in the next few years.

At the same time, the "work from home" model, which was established by necessity during the pandemic, appears to have permanently shifted employment patterns for at least some industries. At present, Seattle's daily, downtown workforce is only about 40% of its pre-pandemic levels. Some workers are facing increasing pressure to be in the office on at least a part-time basis, but a return to a fulltime, 5-day a week office presence seems unlikely for many. Uncertainty about these once fundamental employment patterns is another challenge for the City going forward, particularly in terms of municipal finances. A smaller commuting work force will translate into less day-time demand for restaurants, retailers and other downtown businesses. At the same time, fewer productive employees working in the city will also reduce or at least slow the growth of the taxable economic activity that supports revenue streams such as the Business and Occupation Tax and the Jumpstart Payroll Expense Tax.

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 three select other funds – the Sweetened Beverage Tax Fund, the Short-Term Rental Tax Fund and the JumpStart Payroll Expense Tax Fund.

General Fund Revenue Forecast

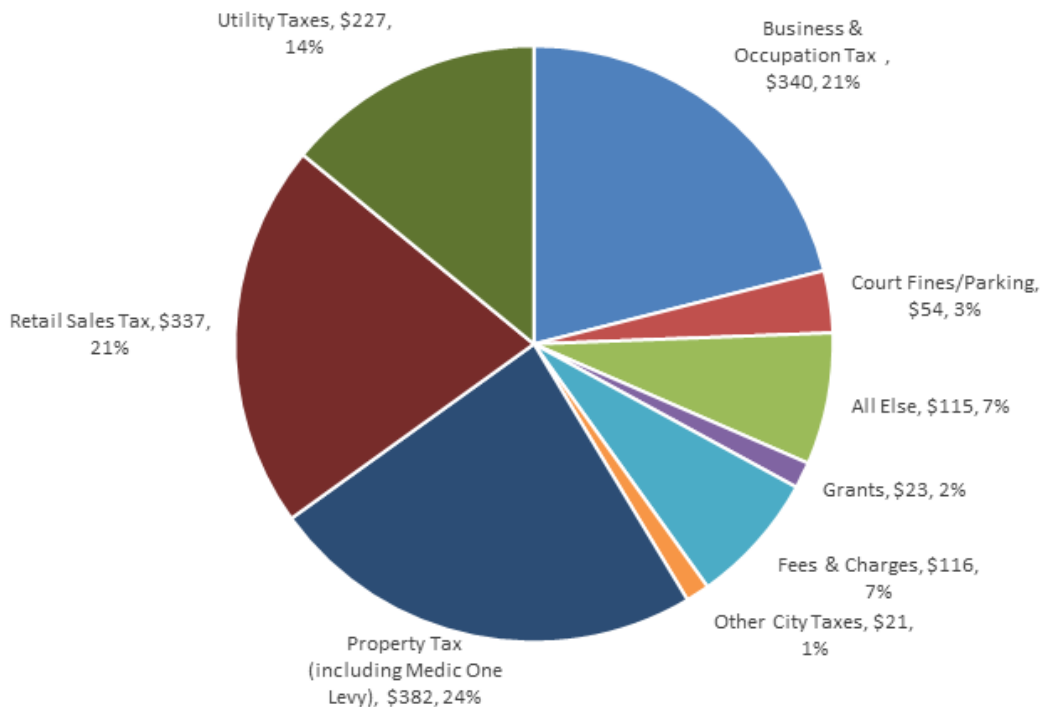
Taxes primarily support expenses paid from the General Fund. The COVID-19 pandemic caused a 5.3% drop in total revenue and a 9.1% drop in tax revenue in 2020. Inclusive of the new revenues generated by the new Payroll Expense Tax, 2021 General Fund revenues grew by more than 20%, relative to 2020. However, without the additional revenue from the new tax, 2021 revenue growth would have been just 7.7%, consistent with the moderate recovery experienced last year.

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For 2022, the overall revenue picture is complicated by the infusion of significant one-time resources. Fund balance transfers, grants, and a significant property sale, accounted for more than \$200 million of total General Fund resources. For 2023, the one-time amounts made possible by federal grants, property sales and fund balances are no longer available. As shown in Figure 5 below, the 2023-2024 Proposed Budget anticipates continued support for the General Fund from the JumpStart Payroll Expense Tax Fund. While critical to supporting City expenditures in 2022, these one-time factors also distort an assessment of how the underlying City revenues are recovering as the pandemic eases. Focusing on those core revenues, and again excluding fund balance transfer, grants and property sales, the updated forecasts for year-end 2022 revenues anticipate somewhat lower revenue growth, at just over 4%. Looking forward, a comparable growth of 4.3% is projected for these core revenues in 2023, while a slower rate of just 3.3% is expected for 2024. The latter reflects national and regional forecasts that anticipate slower overall economic growth in the post-pandemic period.

The total General Fund revenue forecast for the 2023 Proposed Budget is \$1,615.3 million, its composition by source is in Figure 4 and Figure 5. This total includes an additional \$95.7 million in 2023 and \$93.6 million in 2024 relative to the forecast presented and approved by the Revenue Forecast Council on August 8, due to select revenue changes approved after August 8 as part of the Executive’s Proposed Budget development process. These amounts include the transfer amounts from the JumpStart Payroll Expense Tax Fund.

Figure 4. 2023 Proposed General Fund Revenues by Source -- \$1,615.3 Million



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Figure 5. General Fund Revenue, 2021 – 2024*, thousands of dollars

Revenue	2021 Actuals	2022 Adopted	2022 Revised	2023 Proposed	2024 Proposed
Property Tax	294,241	303,789	303,757	315,237	317,839
Property Tax - Medic One Levy	69,448	69,978	67,874	66,564	70,909
Retail Sales Tax	274,187	280,007	299,658	310,719	319,148
Use Tax - Brokered Natural Gas	1,618	1,137	1,943	2,119	1,988
Retail Sales Tax - Criminal Justice	25,225	23,922	26,420	26,759	27,080
Payroll Expense Tax	248,216		41,902		
Business & Occupation Tax (100%)	315,425	317,427	326,904	339,805	354,113
Admission Tax	9,451				
Utilities Business Tax - Private Utilities (100%)	43,099	37,820	39,716	38,636	36,062
Tonnage Tax (100%)	5,534	6,481	4,883	4,969	5,072
Leasehold Excise Tax	5,868	6,441	7,425	7,676	7,802
Gambling Tax	249	350	350	330	380
Heating Oil Tax		781		1,403	1,251
Transportation Network Company Tax	4,814	9,113	6,308	5,916	6,760
Pleasure Boat Tax	129	125	130	130	130
Total External Taxes	1,297,504	1,057,370	1,127,270	1,120,264	1,148,532
Utilities Business Tax - City Light (100%)	52,878	56,175	59,475	60,097	62,836
Utilities Business Tax - City Water (100%)	35,032	35,990	34,055	37,205	37,703
Utilities Business Tax - Drainage/Waste Water (100%)	58,583	62,530	62,530	65,092	67,194
Utilities Business Tax - City SWU (100%)	23,115	23,408	23,416	23,786	24,153
Total Taxes on Public Utilities	169,608	178,104	179,475	186,180	191,886
Professional & Occupational Licenses (100%)	1,987	2,821	2,821	4,351	4,351
Business License Fees (100%)	16,648	18,048	16,315	17,152	17,900
Marijuana License Fees	366	379	379	379	379
Fire Permits & Fees	6,190	6,947	6,270	7,375	7,570
Street Use Permits	711	2,894	825	825	925
Vehicle Overload Permits	146	190	175	165	175
Other Licenses, Permits & Fees	435	631	741	670	670
Meter Hood Service	5,497	4,388	4,100	3,700	4,388
Other Non-Business Licenses	250	872	901	2,048	2,048
Total Licenses	32,231	37,169	32,527	36,664	38,404
Federal Grants	63,420	5,872	38,253	14,443	4,578
Federal Grants - CDBG		430	430	430	430
Federal Indirect Grants	3,294	1,574	5,824	2,094	135
State Grants	5,837	4,960	8,472	5,536	5,374
Total Federal and State Grants	72,551	12,836	52,979	22,504	10,517

* 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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Figure 5. General Fund Revenue, 2021 – 2024*, thousands of dollars, continued

Revenue	2021 Actuals	2022 Adopted	2022 Revised	2023 Proposed	2024 Proposed
Marijuana Excise Tax	1,573	1,350	1,845	1,878	1,931
Trial Court Improvement Account	151	150	150	150	150
Criminal Justice Assistance	7,608	4,100	4,763	4,916	5,063
Liquor Excise Tax	5,298	4,000	5,429	5,330	5,393
Liquor Board Profits	6,013	5,950	5,925	5,943	5,951
Total State Entitlements/Impact Programs	20,644	15,550	18,112	18,217	18,488
Interlocal Agreement	952		6,386	258	258
Copy Charges	65	30	56	69	69
Legal Services	1,772	3,057	2,639	3,050	3,068
Automated Fingerprint Information System (AFIS)	4,482	4,500	1,500	4,500	4,500
Fire Special Events Services	1,520	1,665	1,693	1,787	1,872
Animal Shelter Licenses & Fees	1,998	1,943	1,943	2,839	2,839
Other Service Charges - General Government	2,042	675	1,719	679	690
Vehicle Towing Revenues	800	822	822	819	819
Law Enforcement Services	7,628	6,952	9,492	8,432	9,612
Adult Probation and Parole (100%)	4	221	4		
E-911 Reimbursements & Cellular Tax Revenue	5,913	718	1,218	1,218	1,418
Emergency Alarm Fees	4,335		3,203	2,927	1,927
Total External Service Charges	31,510	20,583	30,675	26,577	27,071
Court Fines (100%)	18,380	20,228	12,747	19,696	24,279
Municipal Court Cost Recoveries (100%)	58	200	70	90	110
Total Court Fines	18,438	20,428	12,817	19,786	24,389
Interest on Investments	3,157	2,216	3,595	2,763	3,578
Other Interest Earnings	360	225	260	260	260
Parking Meters	11,012	21,216	19,754	30,933	37,730
Other Miscellaneous Revenue	3,993	71,409	64,046	3,650	3,165
Total Miscellaneous Revenues	18,522	95,066	87,655	37,606	44,732
Interfund Revenue to City Budget Office	1,759	1,595	1,563	1,867	1,905
Interfund Revenue to HR	20,302	22,877	22,877	23,679	24,293
Miscellaneous Interfund Revenue	24,229	24,146	23,428	23,783	24,109
Total Interfund Charges	46,291	48,617	47,869	49,328	50,306
Transfer from - Utilities for Council Oversight	600	558	992	1,019	1,019
Transfer from - Payroll Expense Tax Fund		85,355	85,355	94,637	93,034
Transfer from - Other Fund	44,551	74,231	69,874	2,500	2,500
Total Operating Transfers	45,151	160,144	156,221	98,155	96,553
Total General Fund	1,752,448	1,645,866	1,745,601	1,615,281	1,650,877

* 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.

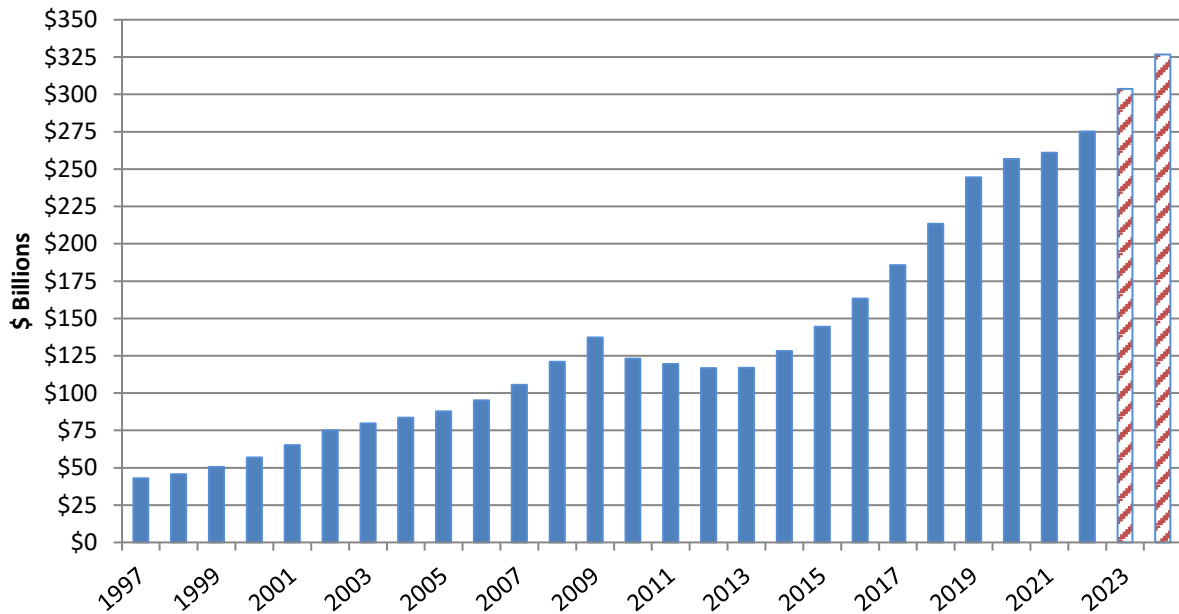
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Property Tax

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 levy-amount growth and total tax rate limitations. Taxes paid in the current year are based on valuations as of January 1, of the previous year. So, taxes collected this year (2022) were based on valuations of January 1, 2021. Accordingly, the revenue forecasts and projected tax rates for 2023 will be based on January 1, 2022 valuations. Over the course of this year, the King County assessor has been conducting the research and appraisals needed to retroactively determine those valuations.

Assessed Value (AV) – Based on the partially completed work of the assessor and other modeling, we anticipate that AV as of January 1, 2022 will have grown 10.3% over the previous year. As described immediately above, these new valuations will underlie the 2023 tax collections. This significant increase is driven largely by growth in residential property values. Although the pandemic slowed growth in commercial values, strong demand has continued to drive up residential valuations. Looking forward, we are anticipating somewhat slower growth of 7.5% for the valuations for 2024 collections. These valuation changes do not themselves drive increases in total property tax collections. Per state law, the City’s property tax revenues from existing property and improvements cannot grow by more than 1%. To the extent that valuations increase by more than 1%, the net effect is to lower the tax rates applied to the higher valuations.

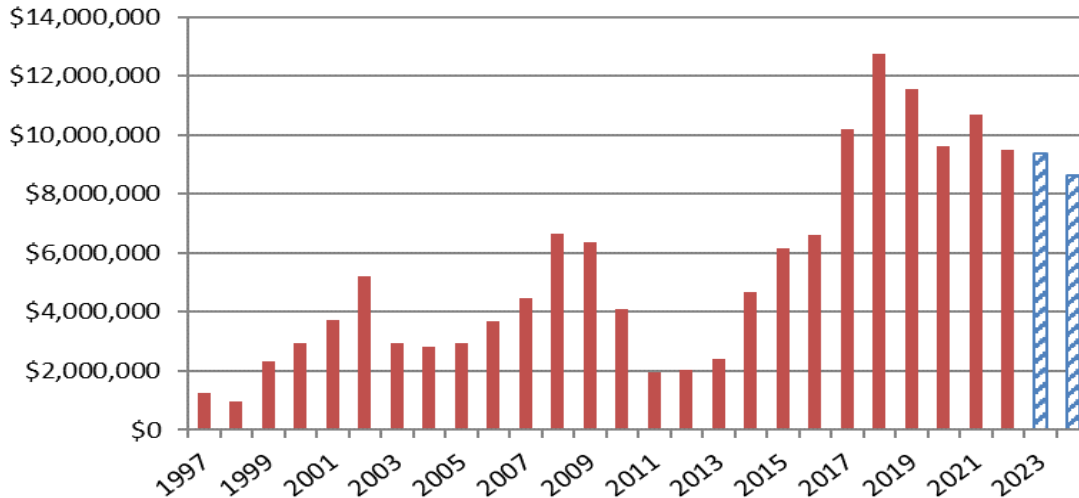
Figure 6. Seattle Total Assessed Value



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New Construction -- In addition to the allowed annual 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 King County Assessor. For 2022 tax collections, the City is receiving nearly \$9.5 million in additional levy revenues from new construction based on \$4.4 billion in new construction added to the tax roll. The 2023 Proposed Budget assumes a new construction value of \$4.5 billion, generating approximately \$9.4 million in 2023 revenue.

Figure 7. Seattle New Construction Property Tax Revenue



The 2023-2024 Proposed Budget assumes 1% growth plus new construction. The forecast for the 2023-24 Proposed Budget’s General Fund (General Purpose) portion of the City’s property tax is \$315.2 million for 2023 and \$317.8 million for 2024. Additionally, the City is levying approximately \$274.9 million for 5 voter-approved lid lifts in 2022. There are no new lid lifts added in 2023 and none expire in 2022. All levy lid lift proceeds are accounted for in other funds than the City’s General Fund. Finally, the City is levying \$16.3 million in 2023 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 is levying approximately \$56.0 million in 2022.

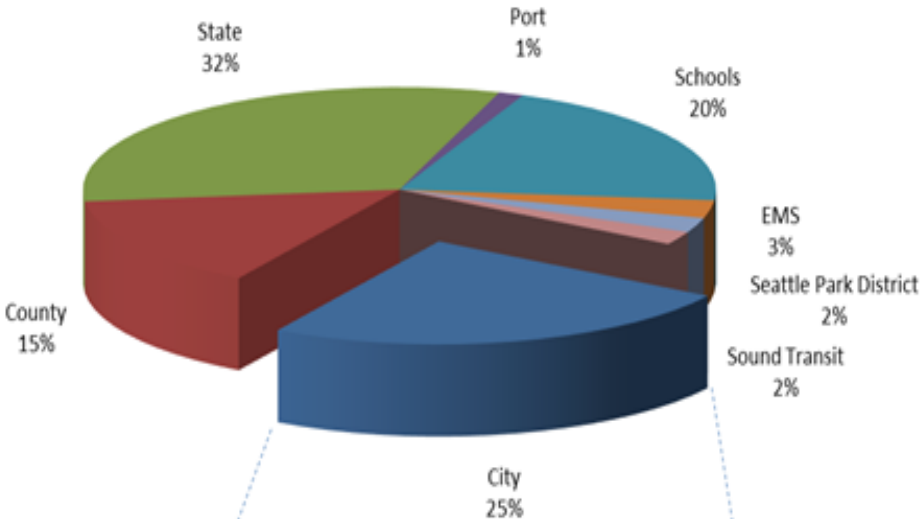
Medic 1/Emergency Medical Services. Voters in November 2019 approved a 6-year (2020-2025 collection years) renewal of the Medic 1/EMS levy at \$0.265 per \$1,000 of AV. Seattle’s share of this revenue is based on Seattle’s assessed value multiplied by the County rate. These revenues are recorded in the General Fund and expended by the Seattle Fire Department. The levy generates a downwardly revised \$67.8 million in revenue in 2022, \$66.5 million in 2023 and \$70.9 million in 2024. The downward revision in this period is due to the relative rates of increase of total assessed value in Seattle versus the rest of King County.

Figure 8 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 2022 property tax.

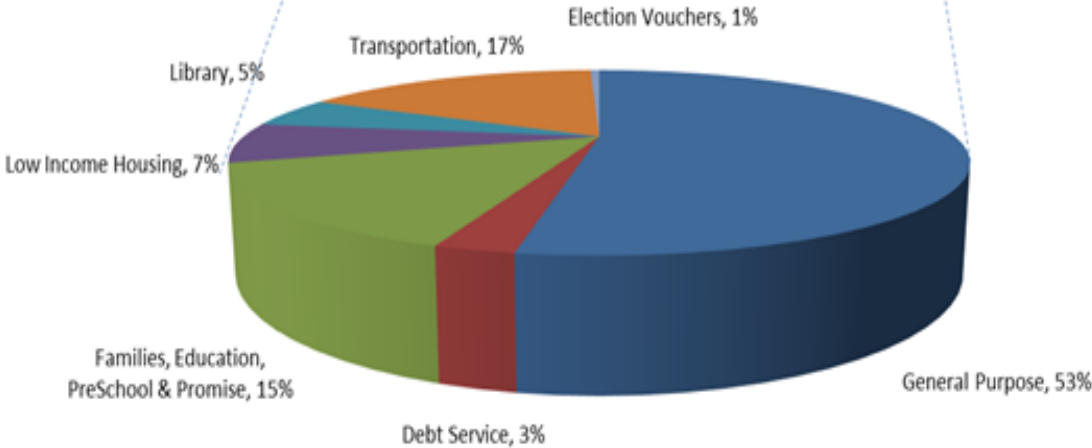
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Figure 8.

Components of Total Property Tax Levy for 2022
(tax rate = \$8.81 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2022
(tax rate = \$2.17 per \$1,000 assessed value)



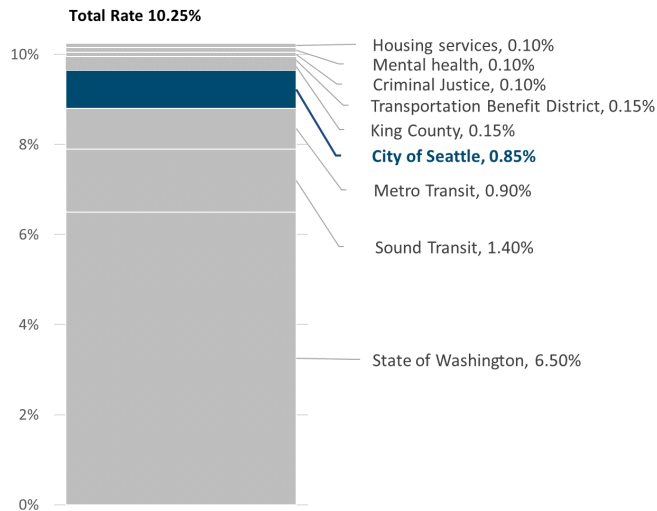
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Retail Sales and Use Tax

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 which, in turn, remit the tax revenue to the state. The state sends the City its share of the collections each month.

The sales tax rate in Seattle increased from 10.1% to 10.25% on April 1st, 2021 as a result of the new county housing services tax and the increased transportation benefit district rate approved by voters in November 2020. The basic sales tax rate of 10.25% is a composite of separate rates for several jurisdictions as shown in Figure 9. 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 accounted for in a separate fund and is used to make transportation improvements in Seattle.

Figure 9. Sales and Use Tax Rates in Seattle



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 activities, 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.

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 at an average rate of 8.4% per year.

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Sales tax revenue fell 13.0% in 2020. The biggest decline took place in tax revenue from leisure and hospitality services which fell by 60.5%. Construction sector revenue declined by 10.8%, but trade services just by 0.2% thanks to online sales. Revenue from the rest of the industries was lower by 7.3%. As fiscal stimulus fueled consumer spending in 2021, sales tax revenue recovered and reached \$274.2 million, which is about \$5.2 million or 1.9% above the 2019 level. In nominal terms, revenue is predicted to grow by 9.3% to \$299.6 million in 2022, in large part as a direct result of high inflation, but also because consumer spending continues to show resilience in face of high prices. Significantly slower growth, 3.7% and 2.8%, is expected in 2023 and 2024, reflecting less construction in Seattle and an overall economic slowdown.

Business and Occupation Tax

Seattle’s principal business tax is the business and occupation (B&O) tax, levied on the gross receipts of most business activity that takes place in the city. Small 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.

The City levies the gross receipts tax at different rates on different types of business activity, as indicated in Figure 10. 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. 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. In addition, the special 0.15% rate for international investment management services was eliminated on January 1, 2017.

Figure 10. Seattle Business and Occupation Tax Rates, 2016 – Present

	2016	2017	2018-present
Wholesaling, Retail Sales and Services	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%	NA	NA

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. During the Great Recession, the B&O tax base lost 16.8% of its value between first quarter 2008 and second quarter 2010. 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 revenue from audit activity and an increase in refund payments, not because of 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 revenue payments fell 17.6% in 2020. The leisure and hospitality sector is the biggest contributor to total B&O revenue decline, accounting for 26.4% of the drop in payments for the 2020 obligation

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year. Professional and business services accounted for an additional 22.9% of the drop, trade 16.9% and construction 12.3%. B&O tax revenue from information services increased by 6.3% and offset some of the loss. In addition to the negative effects of the pandemic, revenue dropped 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. January and February payments are accrued to the previous year, but March and April are not. In addition to smaller revenue in 2020, HB 1059 increased the uncertainty regarding the revenue received in a given year, since not all of the annual filers take advantage of the later due date.

Just like sales and use tax, B&O revenue recovered in 2021, reaching \$312.4 million which is \$9.7 million, or 3.2%, above 2019 revenue. In nominal terms revenue is expected to grow by 4.5% in 2022 and reach \$326.6 million. After that, the predicted growth for the following two years is 5.1% and 4.4% respectively. 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. These sectors significantly contribute to the predicted slowdown in sales tax revenue in 2023 and 2024, the effect on B&O is much smaller.

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. 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. The revenue forecast has been revised upward quite dramatically, compelled by a sharp increase in gas prices in 2022 that is expected to reverse only partially over the next few years.

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 initially counteracted by the increasing prevalence of mobile/wireless phones. However, while new smartphone users have added to the potential wireless tax revenue base, the increased use of data and internet services, which are exempt from the City tax, have caused declines in the actual taxable 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 expects to see further declines in this revenue stream. The forecast for 2023 and 2024 reflects this expectation.

"Cutting the cord" is decreasing Cable Tax revenues. The City has franchise agreements with the 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. Overall

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revenues from cable services have been in decline for several years as more and more residents shift away from cable (cutting the cord) and toward internet-based streaming services. These latter services are exempt from the City's cable tax. The forecast for 2023, 2024 and beyond reflects a prediction that this behavior will continue in the coming years.

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. The 2023-24 Proposed Budget assumes moderate growth in usage and utility rates yielding a combined \$186.2 million in 2023 and \$191.9 million in 2024 for all public utility revenues.

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 events and is dependent on economic conditions, as people's ability to spend money on entertainment is influenced by the general prosperity in the region. The COVID-19 pandemic almost completely wiped out admissions tax revenue in 2020 when it fell by almost 85%. Revenue recovered partially over the next two years and is expected to exceed pre-pandemic levels in 2022, aided by the revenue generated by the new Climate Pledge Arena. Beginning in 2022, all admissions tax revenues will be receipted into the Arts & Culture Fund. 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.

New Heating Oil Tax. Effective September 1, 2020, Council imposed a \$0.236 per gallon tax on heating oil service providers for every gallon of heating oil sold and delivered within Seattle. In consideration of the pandemic's effects on households and businesses, Council has continued to defer implementation first until September 1, 2021, then further until April 1, 2022, and most recently until January 1, 2023. The 2022 forecast was eliminated with a reduction of \$780,000. The 2023-2024 Proposed Budget assumes revenues of \$1.4 million and \$1.25 million in 2023 and 2024 respectively. The revenues primarily support low-income household oil furnace conversion programs administered by the Office of Sustainability and Environment.

Transportation Network Company Tax. In November 2019, Council approved a tax on transportation network companies (TNC), such as Uber and Lyft, effective July 1, 2020. As approved, the tax of \$0.57 per trip is owed for all rides originating in Seattle by TNC's with more than 1 million rides per calendar quarter. Council has reduced the ride threshold to 200,000 rides per quarter effective in October 2020. In compliance with HB2076, the 2023-2024 Proposed Budget assumes the City Council reduces the tax rate to \$0.42 per trip effective January 1, 2023. At the start of the COVID-19 pandemic in early 2020, both the demand for rides and the number of drivers fell, significantly reducing TNC tax revenue. This revenue has since risen slowly as the market struggles to recover. This tax is estimated to raise \$5.9 million in 2023 and \$6.8 million in 2024.

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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 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, a new business license fee structure 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 until 2020. Fee increases were being phased in over a three-year period, 2017–2019, and will increase with inflation annually thereafter.

Figure 11. Business License Fee Schedule, 2016 – 2022

Taxable income	2016*	2017	2018	2019	2020	2021	2022
Less than \$20,000	\$55	\$55	\$55	\$55	\$56	\$56	\$59
\$20,000 - \$500,000	\$110	\$110	\$110	\$110	\$113	\$114	\$120
\$500,000 - \$2 mil.	\$110	\$480	\$480	\$500	\$511	\$515	\$543
\$2 mil. - \$5 mil.	\$110	\$1,000	\$1,000	\$1,200	\$1,227	\$1,238	\$1,306
More than \$5 mil.	\$110	\$1,000	\$2,000	\$2,400	\$2,455	\$2,476	\$2,613

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

Parking Meters/Traffic Permits

As part of the overall response to the Corona virus, the City suspended on-street parking rates as of April 4, 2020. On July 13 the system was restarted with rates set at \$0.50 per hour and are anticipated to increase gradually at intervals as occupancy levels increase with the recovery into 2023 and 2024. Overall, 2020 revenue losses, relative to 2019 Actuals were about \$28 million, falling from \$38.3 million to \$10.4 million. 2021 revenues increased slightly to \$11.0 million. In accordance with occupancy measures, the Seattle Department of Transportation is implementing more frequent rate adjustments across the City’s paid parking areas. As a result, revised 2022 revenues from on-street parking is expected to reach \$19.7 million, then more substantially to \$30.9 and \$37.7 million in 2023 and 2024 respectively.

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 are tied to construction and trade services primarily. The 2023-2024 Proposed Budget revises 2022 expectations downward from \$7.4 million to \$5.1 million, primarily due to slower growth in commercial load zone permits, which are significantly influenced by downtown activity. Trade services remain stable and these revenues overall are projected to increase modestly in 2023 and 2024, but will be affected by slower construction activity. The 2023-2024 Proposed Budget assumes revenues of approximately \$4.7 million in 2023 and \$5.5 million in 2024.

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Court Fines

Typically, 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. These percentage shares have shifted considerably throughout the pandemic with school closures and other factors leading to changes in citation volumes. Overall, parking citation volume is comparable to pre-pandemic levels, but all other citation categories remain significantly lower. Revenues have been adjusted down reflecting refunds given on the 200,000 voided but paid citations from approximately October 2021 to April 2022 related to the Parking Enforcement Officer certification issue, the elimination of a non-cash, balance sheet revenue accounting requirement, and an adjustment of the payment rate on citations.

Total 2022 to 2024 General Fund court fines revenues are projected at \$12.7 million in 2022 (revised down from \$20.2 million in the 2022 Adopted), \$19.7 million in 2023 and \$24.3 million in 2024. Of this total, red-light camera enforcement revenues (i.e., non-school zone cameras) are anticipated to be \$3.5 million in 2022, \$3.6 in 2023 and \$3.9 in 2024. Beginning in 2021 the City will again direct 20% of total red-light camera revenues to the School Safety Traffic and Pedestrian Improvement (SSTPI) Fund after Council suspended this allocation for 2018-20. These allocated amounts into the SSTPI Fund are estimated at \$875,000 in 2022, \$911,000 in 2023 and \$988,000 in 2024.

The 2023-2024 Proposed Budget includes revenues from 6 new school zone speeding enforcement cameras active for the fall 2022 term. Assumed revenues are \$13.9 million for 2023 and \$13.0 for 2024. School zone camera revenues are accounted for in the School Safety Traffic and Pedestrian Improvement (SSTPI) Fund.

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. Rates are projected to increase gradually throughout the current forecast period as the economy stabilizes and the Federal Reserve continues then stabilizes its actions in its efforts to reduce inflation.

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. 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

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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.

State budgeted 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.

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 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.

Cumulative Reserve Fund – Real Estate Excise Tax

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.

REET revenue spiked in 2019, as sellers, particularly those of large real estate, rushed to close sales before the scheduled increase in state tax rates in January 2020. This, and the increased uncertainty

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brought about by the pandemic, led to a large drop in 2020 revenue from real estate valued above \$10 million. But in 2021 a number of large properties were sold again and together with rising home prices and the generally high residential sales, this led to a record high REET revenue. The Proposed Budget anticipates \$106.6 million in revenue in 2022. REET revenue is expected to be lower in the following years, since the housing market is expected to cool down and sales of homes are expected to decline due to lower demand as mortgage rates rise.

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. Sweetened beverages include sodas, energy drinks, sweetened juices and teas, sport 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 were moved from the General Fund to the Sweetened Beverage Tax Fund in the City's accounting system. The 2023-2024 Proposed Budget assumes SBT revenues of an upwardly revised \$21.7 million in 2022 based on actuals received (\$20.4 million in the 2022 Adopted Budget), \$21.9 million in 2023 and \$22.5 million in 2024.

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. Beginning in 2020 these revenues and associated expenditures were moved from the General Fund to the Short-Term Rental Tax Fund in the City's accounting system.

These revenues were severely affected by the reduction in travel due to COVID-19 concerns, but have seen a strong recovery in 2022 due to a resurgence in tourism. The 2023-24 Proposed Budget assumes 2023 and 2024 revenues of \$9.3 million and \$10.0 million, respectively.

JumpStart Payroll Expense Tax Fund

2022 is the second year that businesses operating in the city have been subject to the JumpStart Payroll Expense Tax. The tax applies only to businesses with total revenues of more than \$7.4 million. That latter threshold, like all those incorporated into the payroll expense tax structure are indexed for inflation; the original 2021 threshold was \$7 million. The tax rates are tiered according to the size of the business' payroll (less than \$105.5 million/\$105.5 million to less than \$1.055 billion/\$1.055 billion or more) and the employee's compensation (less than \$158,282/\$152,282 to less than \$422,085/\$422,085 or more). Tax rates range from 0% for employees with annual compensation less than \$158,282, regardless of the size of the business' overall payroll, to 2.4% for employees with annual compensation of \$422,085 or more, working in businesses with total payroll of \$1.055 billion or greater. For 2021, businesses made one annual tax payment that was due January 31, 2022. For this year and going forward, the payroll expense tax has been, and will be, reported and paid on a quarterly basis

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To date, the tax has significantly outperformed initial projections. Accounting for all late payments and penalties received to date, total 2021 payments have reached approximately \$290 million. This compares to the November 2021 revised forecast of \$200 million. Based on the pace of payments received to date, the current forecast for 2022 is approximately \$280 million. The slower pace of payments reflects an anticipation on the firm level that their total payroll subject to taxation will be lower in 2022 than it was in 2021. Given that much of the revenue generated by the tax comes from technology firms, this is probably the result of two known factors: technology stock valuations have been in decline this year, which influences a significant share of compensation in this sector; and continued “work from home” means that at least some of the working hours of employees living outside the City are not subject to the tax. Returns to date show an increasing number of firms tracking time worked in versus outside the City. Looking forward, the revenue projections for the tax anticipate annual growth of 5.2 to 5.9%.

Beginning in 2022 the Payroll Expense Tax revenues and associated expenditures were moved from the General Fund to the JumpStart Payroll Expense Tax Fund in the City’s accounting system, so they are no longer a direct component of the General Fund. However, as shown in figure 5 above, the General Fund is receiving transfers of payroll expense tax revenues of approximately \$85, \$86 and \$84 million in 2022, 2023 and 2024 respectively to support general government services as well as \$8.8 million in 2023 and \$8.9 million in 2024 to support the administration and evaluation work anticipated as part of the overall programming of the payroll expense tax.

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Figure 12. Seattle City Tax Rates

	2018	2019	2020	2021	2022
Property Taxes (Dollars per \$1,000 of Assessed Value)					
General Property Tax	\$1.25	\$1.13	\$1.12	\$1.16	1.14
Families & Education	0.16	0.16	0.34	0.34	0.32
Low Income Housing	0.19	0.19	0.16	0.16	0.15
Transportation	0.45	0.45	0.38	0.38	0.37
Library	0.08	0.08	0.12	0.12	0.11
Pre-School For All	0.07				
Election Vouchers	0.01	0.01	0.01	0.01	0.01
City Excess GO Bond	0.14	0.14	0.09	0.09	0.06
Other Property Taxes related to the City					
Seattle Park District	0.23	0.23	0.21	0.21	0.20
Emergency Medical Services	0.24	0.24	0.26	0.26	0.25
Retail Sales and Use Tax					
	0.85%	0.85%	0.85%	0.85%	0.85%
Transportation Benefit District Sales and Use Tax					
	0.10%	0.10%	0.10%	0.15%	0.15%
Business and Occupation Tax					
Retail/Wholesale	0.222%	0.222%	0.222%	0.222%	0.222%
Manufacturing/Extracting	0.222%	0.222%	0.222%	0.222%	0.222%
Printing/Publishing	0.222%	0.222%	0.222%	0.222%	0.222%
Service, other	0.427%	0.427%	0.427%	0.427%	0.427%
International Finance					
City of Seattle Public Utility Business Taxes					
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*	14.20%	14.20%	14.20%	14.20%	14.20%
City of Seattle Private Utility B&O Tax Rates					
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*	14.20%	14.20%	14.20%	14.20%	14.20%
Other Taxes					
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	\$25.00
Ammunition Tax (Dollars per round)	\$0.05	\$0.05	\$0.05	\$0.05	\$0.05
Sweetened Beverage Tax (Dollars per fluid ounce)	\$0.0175	\$0.0175	\$0.0175	\$0.0175	\$0.0175

*Increase effective April 1, 2017