

Economic Update

Update on economic issues affecting Seattle's tax revenue performance

MAY 2003

SPECIAL TOPIC

Downtown Retail Study – three years later

In the summer of 1999, the economics team embarked on a project to study retail activity in downtown Seattle. This effort was prompted by a number of events that had recently occurred; most prominently, the opening of the Pacific Place downtown plaza and the transfer of ownership of the Pacific Place garage to the City. The City's participation in the garage ownership was a major part of a variety of City-sponsored strategies to revitalize downtown retailing after the closure of the Frederick & Nelson and other downtown merchants in the early 1990's.

The opening of Pacific Place in November 1998 marked a period of strong growth for retail trade. The economy was robust and consumer spending was at an all-time high. The original study tracked retail activity occurring in the last quarter 1997 through first quarter 1999 when strong retail growth was readily apparent. In the following three years, we saw the economy begin to falter in early-2001 and descend further toward the end of the year and throughout 2002. Because of the dichotomous economic conditions underlying these periods, it seemed like an appropriate time to revisit the study to compare recent data with data from the last analysis.

Time periods covered and special caveats of multi-site firms

The focus of this study was the downtown core, defined as the area bounded by Stewart and Olive on the north, Seventh Avenue on the east, University Street on the south, and Third Avenue on the west. Sales tax revenue data was tracked for the 4th and 1st quarters for citywide and for Seattle's downtown core, beginning 4th quarter 1997 through 1st quarter 2002. Retail trade has a distinct seasonal nature, where 4th quarter sales covering October – December comprises more of the annual sales, proportionately, than the other three quarters. First quarter data was included to capture overlapping 4th quarter payments.

As a means of comparing retail patterns, sales data was aggregated into four groups: 1) Citywide; 2) Downtown, including multi-site firms; 3) Downtown-only firms, excluding firms with locations outside of the downtown core; and 4) Downtown same store firms. There are several limitations in trying to assess retail activity for sub areas within the city. The largest difficulty lies in the inability to segregate sales, by area, for firms with multiple sites in multiple areas in the city. This is because multi-site firms, i.e. downtown firms with more than a downtown location in Seattle (group 2), report sales at the citywide level and it is not possible to ascertain the amount at any given location for this group.

Downtown still a specialized area

Downtown retail districts vary considerably in major cities, but typically they house the major department stores and single-site stores. Chain stores have increasingly located in downtown and Seattle is no exception. However, the data shows that stores choosing to locate only in downtown (group 3) have retained their strength and that the development of Pacific Place increased their base. In the 1997-98 period before Pacific Place opened, this group comprised 5% of citywide sales (see figure 1). After Pacific Place opened, its share grew to almost 7% and has retained that share today. Figure 2 shows that the downtown-only stores increased the most with the new mall, which would be expected since many new stores opened at this time; however, this group suffered the largest decline during the economic slump in the 2001-02 period.

Figure 1
Taxable Sales by grouping category
and as a percent of citywide sales

Grouping Category	Combined two quarter periods				
	97Q4 & 98Q1	98Q4 & 99Q1	99Q4 & 00Q1	00Q4 & 01Q1	01Q4 & 02Q1
1. Citywide	2,319,221,232	2,491,146,896	2,708,289,616	2,734,841,698	2,622,078,201
2. Total downtown, including multi-site firms outside downtown	502,086,919	585,217,895	612,987,812	617,209,747	570,175,168
3. Downtown-only firms	117,294,869	156,551,628	169,450,265	174,636,628	158,565,109
4. Downtown same store firms	72,281,125	76,355,286	84,970,040	83,261,650	81,214,171
<u>As a percent of citywide sales</u>					
2. Total downtown, including multi-site firms outside downtown	21.6%	26.4%	26.4%	26.6%	24.6%
3. Downtown-only firms	5.1%	6.8%	7.3%	7.5%	6.8%
4. Downtown same store firms	3.1%	3.3%	3.7%	3.6%	3.5%

Stores that existed throughout the entire study periods are represented by group 4. Although it is the smallest group, in term of sales, it represents the most stable group. Figure 1 shows that it retained its share of citywide sales through all periods and figure 2 shows that while its growth was not as large as the other groups immediately following Pacific Place opening, its decline was not as severe in the slow period. This is not surprising since, by definition, this group is represented by long-standing stores that did not open, close, or move in the study's time horizon.

The prominence of multi-site firms downtown is evident when comparing group 2, to groups 3 and 4, in figure 1. It should be noted that group 2 is the weakest group to attribute to downtown since it contains the citywide sales of the largest retailers in town (see multi-site reporting issues described earlier); however, it gives an idea of the magnitude of chain stores in downtown.

Figure 2
Percent change of sales between periods by grouping category

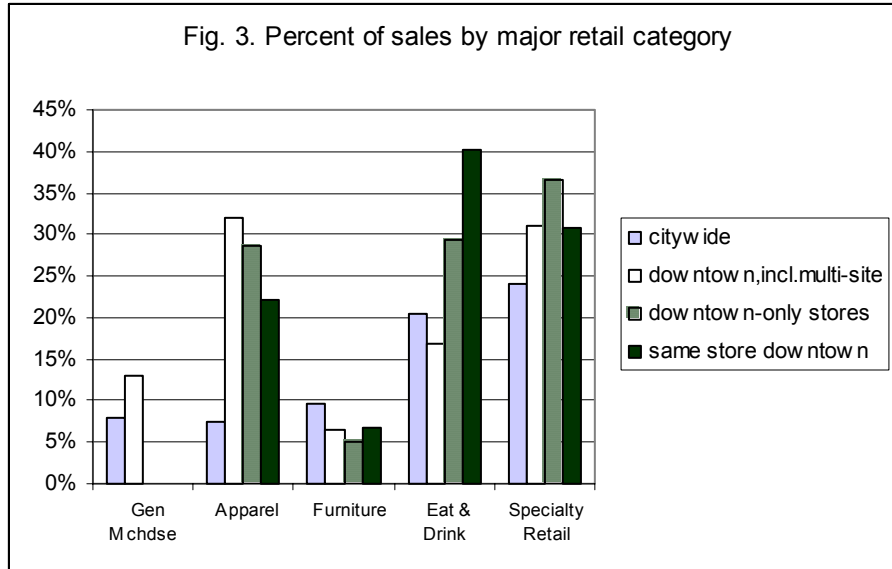
Grouping Category	Comparing year over year change				Comparing first period and last period
	97/98 - 98/99	98/99 - 99/00	99/00 - 00/01	00/01 - 01/02	
	01/02-97/98				
1. Citywide	7.4%	8.7%	1.0%	-4.1%	13.1%
2. Total downtown, including multi-site firms outside downtown	16.6%	4.7%	0.7%	-7.6%	13.6%
3. Downtown-only firms	33.5%	8.2%	3.1%	-9.2%	35.2%
4. Downtown same store firms	5.6%	11.3%	-2.0%	-2.5%	12.4%

Types of retail stores located downtown

There are eight major retail categories in Seattle, but only five of the eight are prominent downtown: general merchandise, apparel, furniture, eating and drinking, and specialty retail. The categories exclusive of downtown are building materials, food stores, and auto dealers.

Figure 3 illustrates the proportion of sales by major retail category. Restaurants that choose downtown as their sole location account for a significant piece of the downtown-only firms. In addition to small eateries, downtown is the location for the high-end restaurants that cater to businesses and tourists.

Specialty retail is a broad category that includes jewelry, books, art galleries, cameras, and small convenience items. There are several exclusive jewelry stores that choose downtown as their sole location, and because their sales are high, this contributes to the large representation of this category in the downtown-only firms (groups 3 and 4).



Summary

Seattle's downtown has undergone a number of changes in the past 5 years. Many stores have opened and closed, while older retailers have moved to different sites. The opening of Pacific Place, during the height of retail growth, provided a short term boost to sales downtown and has increased the base of downtown-only firms.

Looking at the sales by retail category, we find that downtown has areas of specialization. While moderately-priced chain stores have developed significantly, downtown remains the location for specialty retail and one-of-a-kind restaurants. These categories are over-represented in the downtown-only groupings compared to the city as a whole, due in part to the high-end jewelry and specialty retail stores and upscale restaurants that choose downtown as their sole locations.

Forecast Changes – General Subfund

REVISIONS TO FALL 2002 FORECAST

There are three major forecast periods that occur in the Spring, Summer, and Fall. The Spring forecast, completed in April 2003, is the first forecast with hindsight of a few months of actual revenues for the current year. The table below shows how expectations for 2003 revenues have changed since Fall, with the most significant changes noted below.

Summary Name	April 03 Forecast	Nov 02 Forecast	Dollar Difference	Notes
Taxes				
General Property Tax	158,148,000	157,401,000	747,000	(1)
Property Tax - EMS Levy	19,046,000	19,015,000	31,000	
Retail Sales Tax	116,929,023	117,907,000	(977,977)	(2)
Retail Sales Tax - Criminal Justice Levy	11,004,928	11,032,000	(27,072)	
B&O Tax (90%)	112,920,414	109,382,000	3,538,414	(3)
Utilities Business Tax - Telephone (90%)	31,461,000	35,164,000	(3,703,000)	(4)
Utilities Business Tax - City Light (90%)	30,049,058	30,388,000	(338,942)	(5)
Utilities Business Tax - SWU & priv.garb. (90%)	7,754,583	8,157,251	(402,668)	(5)
Utilities Business Tax - City Water (90%)	8,230,547	8,231,000	(453)	
Utilities Business Tax - DWU (90%)	13,252,000	13,839,800	(587,800)	(5)
Utilities Business Tax - Natural Gas (90%)	9,369,000	9,182,000	187,000	
Utilities Business Tax - Other Private (90%)	9,012,000	9,179,000	(167,000)	
Admission Tax	6,311,000	6,311,000	-	
Other Tax	5,048,000	5,048,000	-	
subtotal, taxes	538,535,553	540,237,051	(1,701,498)	
Other Revenue				
Licenses and Permits	12,900,360	12,989,556	(89,196)	
Parking Meters/Meter Hoods	12,024,800	12,612,800	(588,000)	(6)
Court Fines	18,125,500	19,775,750	(1,650,250)	(7)
Interest Income	2,295,000	3,592,000	(1,297,000)	(8)
Revenue from Other Public Entities	7,694,736	7,550,736	144,000	
Service Charges & Reimbursements	39,004,364	38,708,860	295,504	
All Else	1,078,619	910,619	168,000	
Use of Fund Balances	5,123,633	5,123,633	-	
Total, General Subfund	636,782,565	641,501,005	(4,718,440)	

Notes:

1. reflects levy to recoup the property tax refunds granted the previous year
2. includes reduction in revenue from Sound Transit construction
3. includes \$2.7 million from audit activity, and approximately \$700,000 of 2002 revenue that was posted in 2003
4. reflects further decline by major phone payers and reduced estimate of audit payment
5. reflects reduced forecast due to weaker than anticipated demand
6. reflects change in plan from installing 1,600 new meters in 2003 to only 300 new meters
7. reflects new estimates in parking enforcement activities and other new fee revenues between 2002 and 2003
8. reflects drop in City's rate of return and decrease in general fund-related average daily cash balances between 2002 and 2003