Office of Economic & Revenue Forecasts

2022 Year-End Revenue Report

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Presentation Outline

1. **General Fund Revenues**

   > Compare final 2022 revenues to most recent (November) forecasts

2. **Selected Non-General Fund Revenues that Support General Government Services**

   > JumpStart Payroll Expense Tax – including discussion of shortfall relative to forecast

   > REET – including historical context for current revenue declines

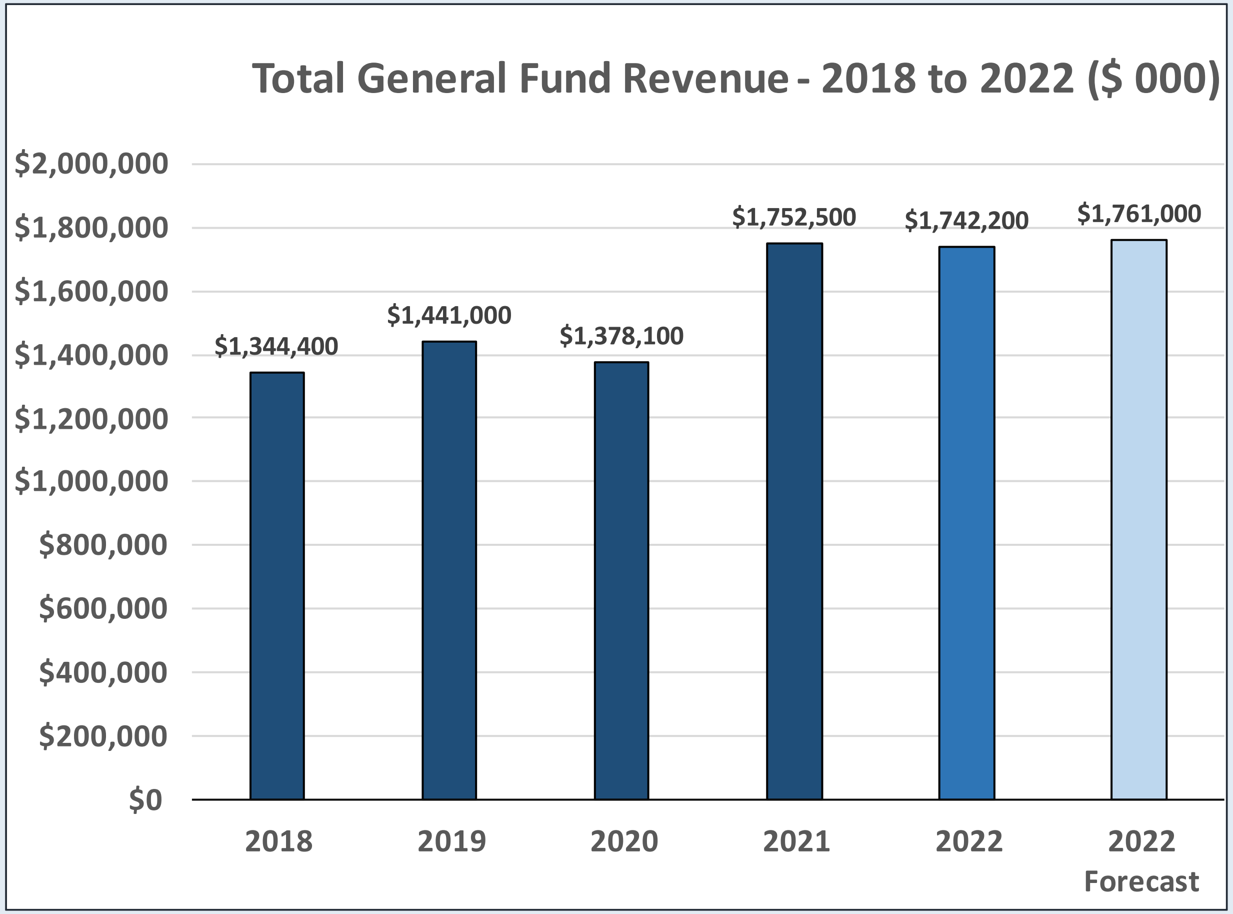
   > Commercial Parking Tax, Sweetened Beverage Tax, Short-term Rental Tax, etc.

3. **Update on national and regional economy**

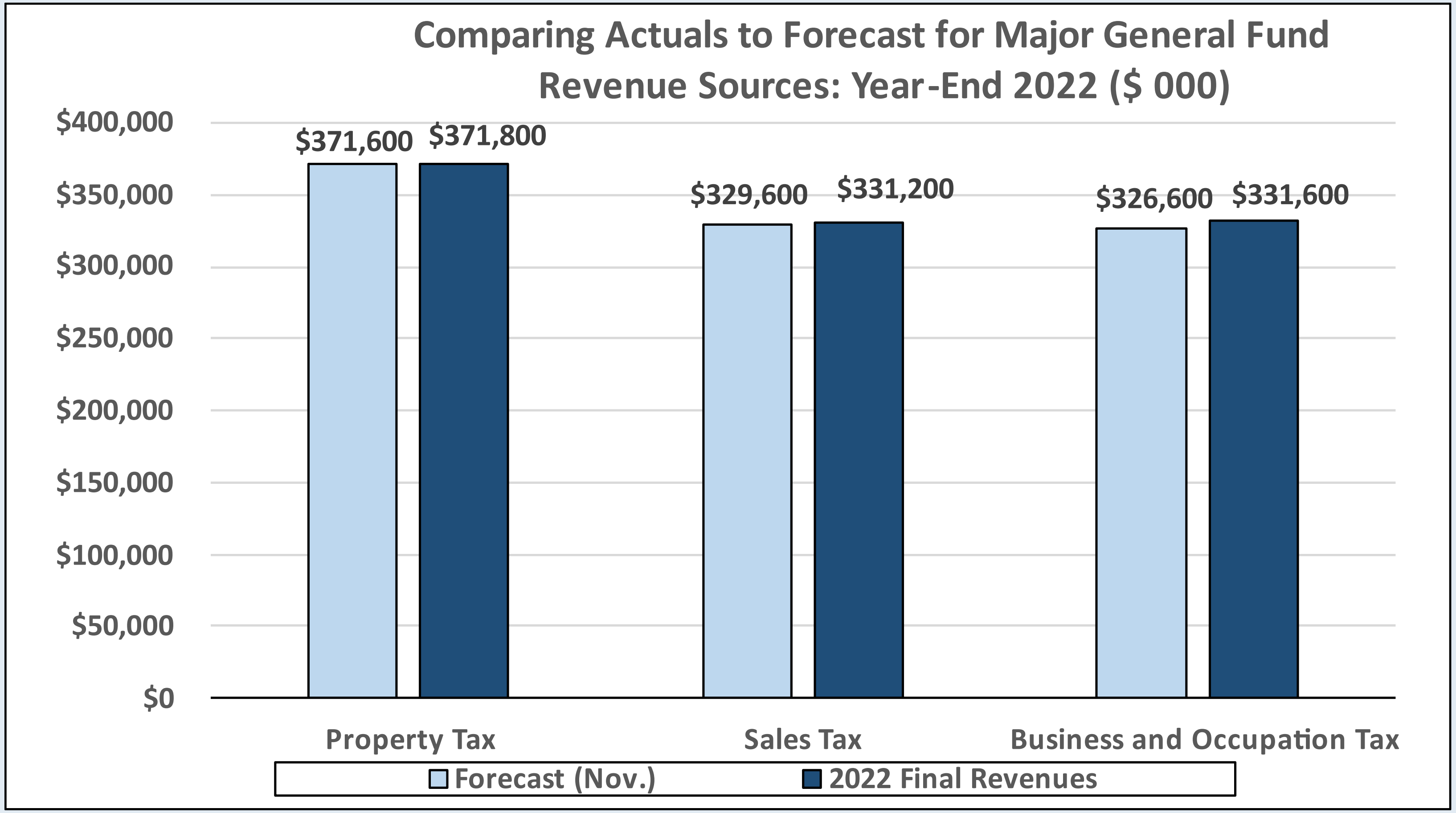
   > Provide context for the overall 2022 revenue results, and a general update regarding the regional economic climate

General Fund Revenues - Overview

- Final 2022 General Fund revenues showed continued recovery from the impacts of the Covid-19 pandemic.
- Although final 2022 General Fund revenues fell approximately $19M short of the November forecast, this is largely due to technical discrepancies. When these discrepancies are set aside, the remaining General Fund revenues actually exceed forecast by $22.6M.
- Most of the discrepancy is due to lower than anticipated grant revenues. In total, Grant Revenues fell short of forecast by almost $37M. However, in most cases, granting agencies are not billed until the City incurs expenses. So, this shortfall represents a delay in expenditures rather than a revenue shortfall with broader implications.
- Note that these totals do reflect the policy decision to shift the JumpStart Payroll Tax revenues from the General Fund to their own separate fund in 2022. This is the main reason total 2022 revenues are lower than 2021 revenues. That said, and as discussed later, a significant share of JumpStart Payroll revenue was transferred into the General Fund for 2022 and that transfer is reflected here.



General Fund Revenues Relative to Forecast– Major Sources



This graph compares 2022 final revenues to the November Forecasts for the three largest General Fund revenue sources. Note that actuals equal or exceed forecasts for all three sources.

- Property tax totals are essentially equal to the forecast, with a difference of less than $150,000 "to the good". Total growth relative to 2021 was 2.2%.

- Retail Sales Tax revenues exceed forecasts by just over $1.5M, reflecting a forecast error of less than 0.5%. Relative to 2021, retail sales grew 10.6%.

- Business and Occupation Tax revenues exceeded forecast by $5M, or roughly 1.5%. The $331.6M total represents 5.1% growth over 2021.

General Fund Revenues Relative to Forecast – Detail

Revenue Source	2022 Final Revenues	Forecast (Nov.)	Variance from Forecast	Percent of Forecast
Property Tax	$371,770	$371,630	$130	100.0%
Sales Tax	$331,220	$329,640	$1,590	100.5%
Business and Occupation Tax	$331,580	$326,620	$4,970	101.5%
Private Utility Taxes	$41,850	$42,920	($1,070)	97.5%
Public Utility Taxes	$192,850	$184,360	$8,490	104.6%
Other City Taxes	$14,540	$14,800	($260)	98.2%
Parking Meters	$23,860	$24,310	($450)	98.1%
Court Fines	$13,220	$12,810	$420	103.2%
Revenue from Other Public Entities	$23,080	$24,060	($980)	95.9%
Grants	$23,120	$59,800	($36,680)	38.7%
Fund Balance Transfers	$151,010	$155,910	($4,910)	96.9%
Service Charges and Reimbursements	$103,170	$99,460	$3,700	103.7%
Licenses, Permits, Interest, and (all) Other	$75,870	$71,350	$4,510	106.3%
Payroll Tax - Late 2021 Payments	$44,980	$43,400	$1,580	103.6%
Total General Fund Revenues	**$1,742,110**	**$1,761,060**	**($18,950)**	**98.9%**
Total - Less Grants and Transfers	**$1,567,990**	**$1,545,360**	**$22,630**	**101.5%**

General Fund Revenues Relative to Forecast – Discussion

For several of the General Fund revenue sources/categories actual revenues deviated from forecasts in notable ways:

- **Public Utility Taxes.** Actual revenues exceeded forecast by almost $8.5M. The largest share of this overperformance is due to an unexpected increase in City Light utility tax revenue due to higher heating load from colder than expected weather in the 4th quarter.
- **Grants.** Much of the variance is driven by appropriation automatically carried forward from the previous year and the assumption that it will be used within the current year. In reality, grants are commonly spent down over multiple years and revenues flow in accordingly. CBO will be working with departments over the course of this year to refine the process of tracking grant revenues and to improve the accuracy of these forecasts.
- **Fund Balance Transfers.** The November forecast assumed that 2022 fund balance transfers would total $156M, including $85+M of revenue from the JumpStart Payroll Tax and $66M of CLFR funding. The latter amount fell short by $5M due to delays in the implementation of some projects that qualify for revenue replacement. However, this should only be a matter of timing, and the City anticipates capturing the remaining revenues in 2023.
- **Service Charges and Reimbursements.** This revenue category reflects payments for services or the City being reimbursed for incurred costs. The additional $3.7M reported in this category was generated by SFD services for unanticipated FEMA/COVID-related activities and parking enforcement at special events. The latter revenue was newly directed to SDOT but the shift had not been accounted for in the forecast.
- **Licenses, Permits, Interest Income and Other**. The $4.5M in additional revenue in this category is largely due to increased interest earnings associated with increasing rates. In addition, there was some miscommunication between SPD and CBO regarding anticipated payments for some services provided by SPD that resulted in higher than projected revenues in this category.

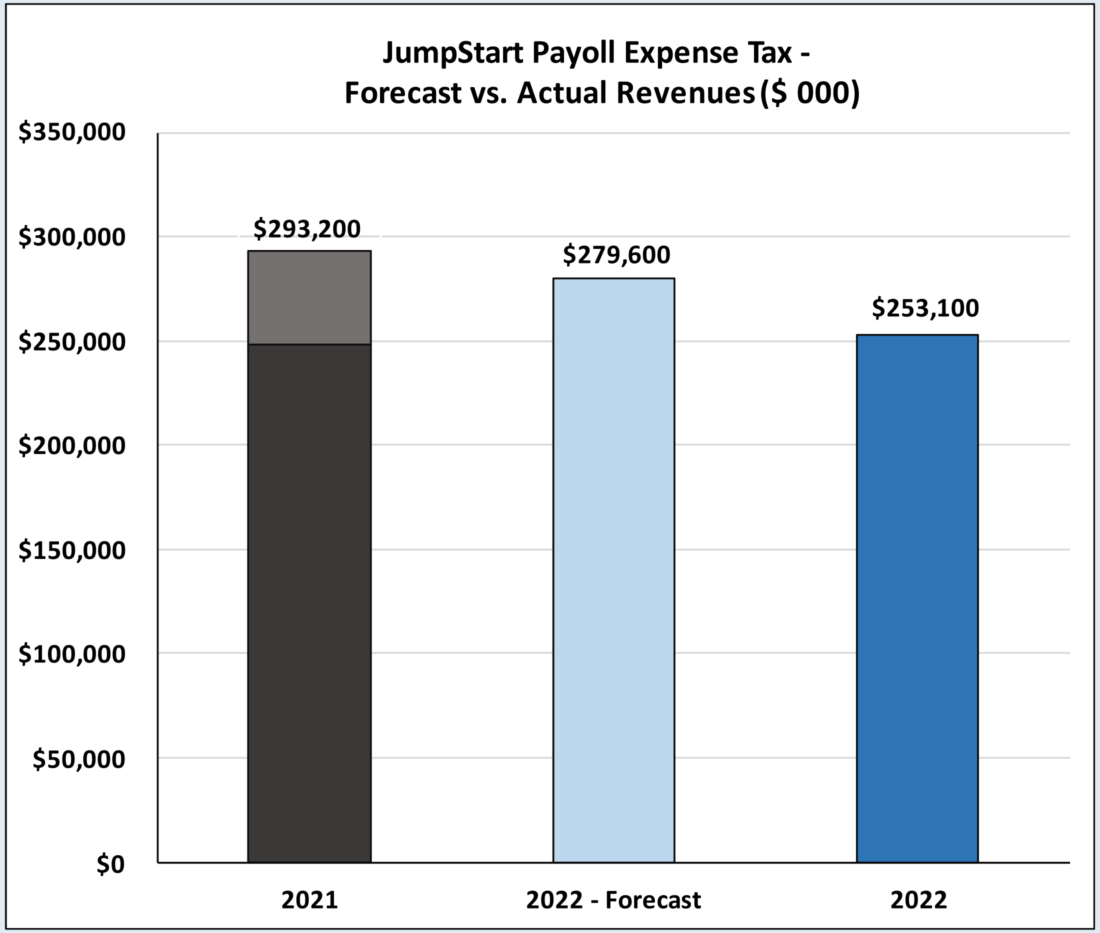
JumpStart Payroll Tax Revenues in 2021 and 2022

- For 2022, JumpStart Payroll Tax revenues totaled $253M. As illustrated to the right, this is *$40M* less than the $293M ultimately received for 2021, and *$26.5M* less the $279M that was forecast for 2022. Recall that this was the August forecast, which was not updated in November.

- Recall that a significant share of 2021 revenues were received after February 2022, as a number firms took some time to understand and calculate their liabilities under the new tax.

- We do not anticipate the same pattern for 2022 revenues. There appear to be no significant payments outstanding at this point:
  - Taxpayers that filed for 2022 Q3, but have not yet filed for Q4, accounted for only $1.3M in Q3.
  - Taxpayers that filed a 2021 return, but have not paid any tax for 2022, accounted for only 1.5% of 2021 revenue.

- The regular pattern of refunds, late payments and audit findings could lead to further revenue changes. This is standard practice for other revenue sources, but the volatility could be larger with this source.



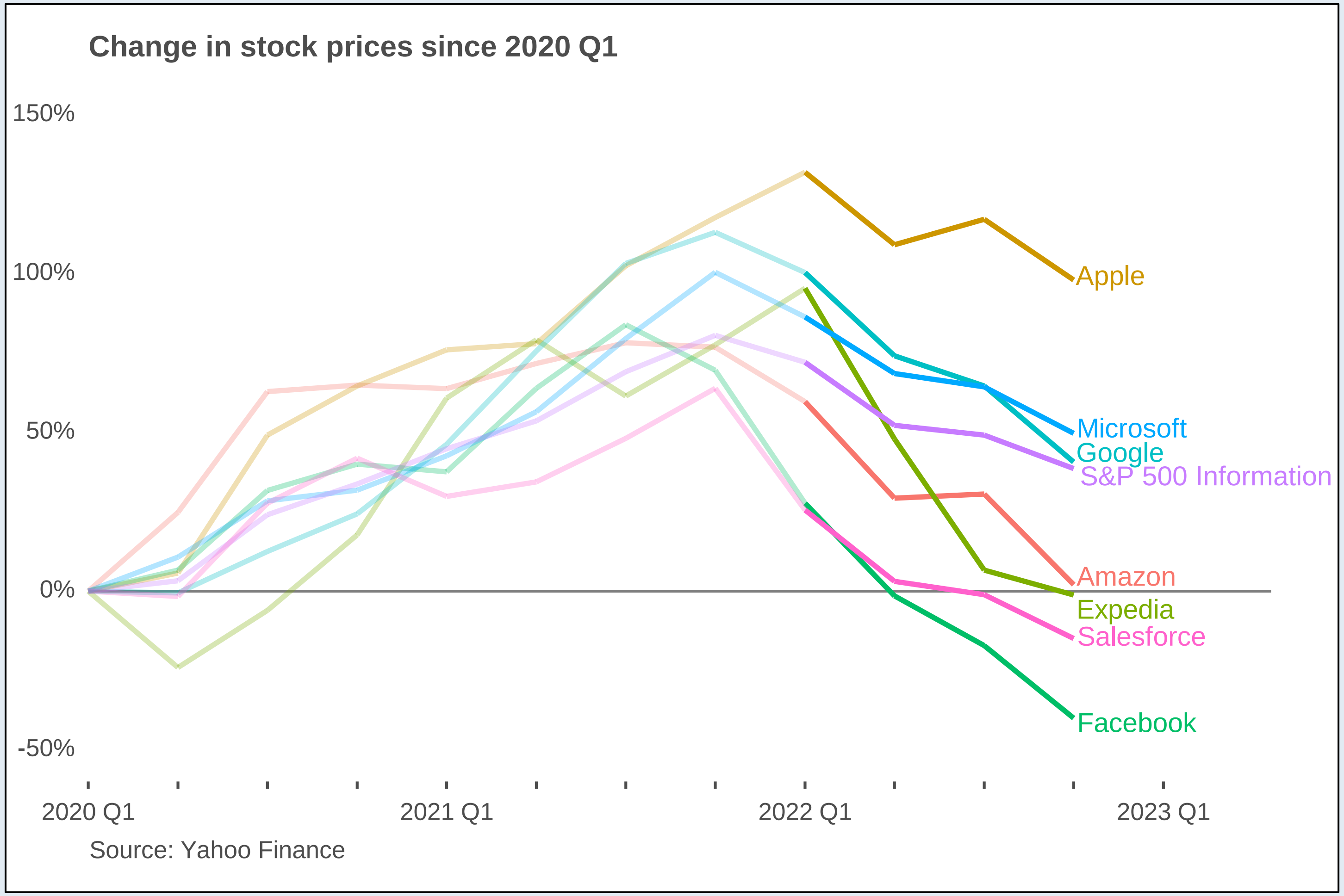
JumpStart Payroll Expense Tax – Why Did Revenues Decline and Why Did They Fall Short of Forecast?

Decline in Revenues:

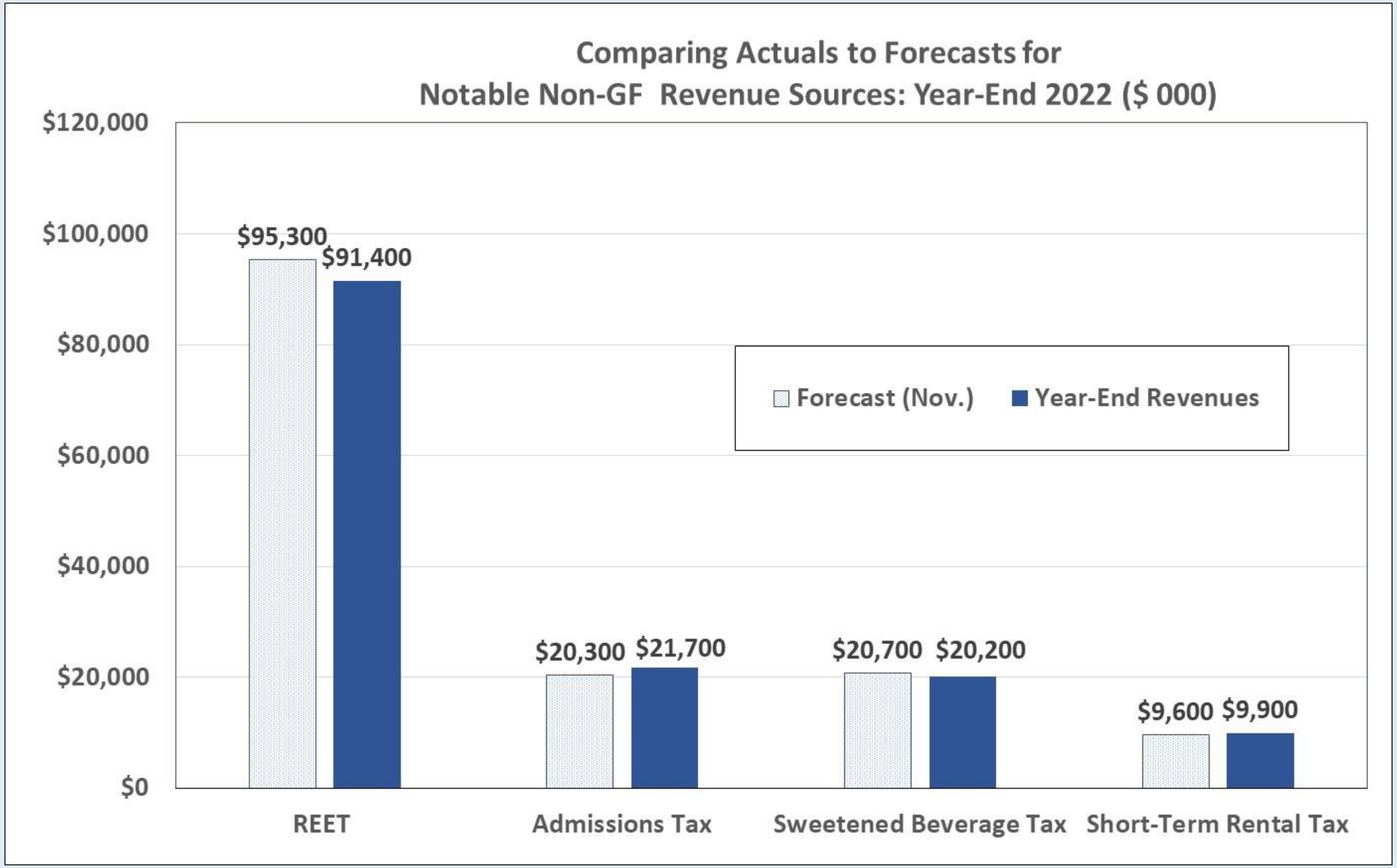
- A significant share of compensations at many affected firms takes the form of stock grants.
- After a strong performance in 2021, tech stock prices have declined significantly in 2022, in some case erasing all the gains since 2020.
- With hybrid work arrangements becoming the norm, firms have an increasing incentive to track work location in detail, and the overall impact is to reduce payroll tax obligations.

Shortfall Relative to Forecast:

- Revenues are generated from relatively few firms and depend on their individual financial performance.
- Jumpstart Payroll Expense Tax revenue is thus more volatile and harder to forecast than sales tax or B&O tax.
- The largest 10 taxpayers account for 70% of total revenue, and essentially all the revenue decline in 2022 is accounted for by these top 10 taxpayers.



Select Non-General Fund Revenues Relative to Forecast

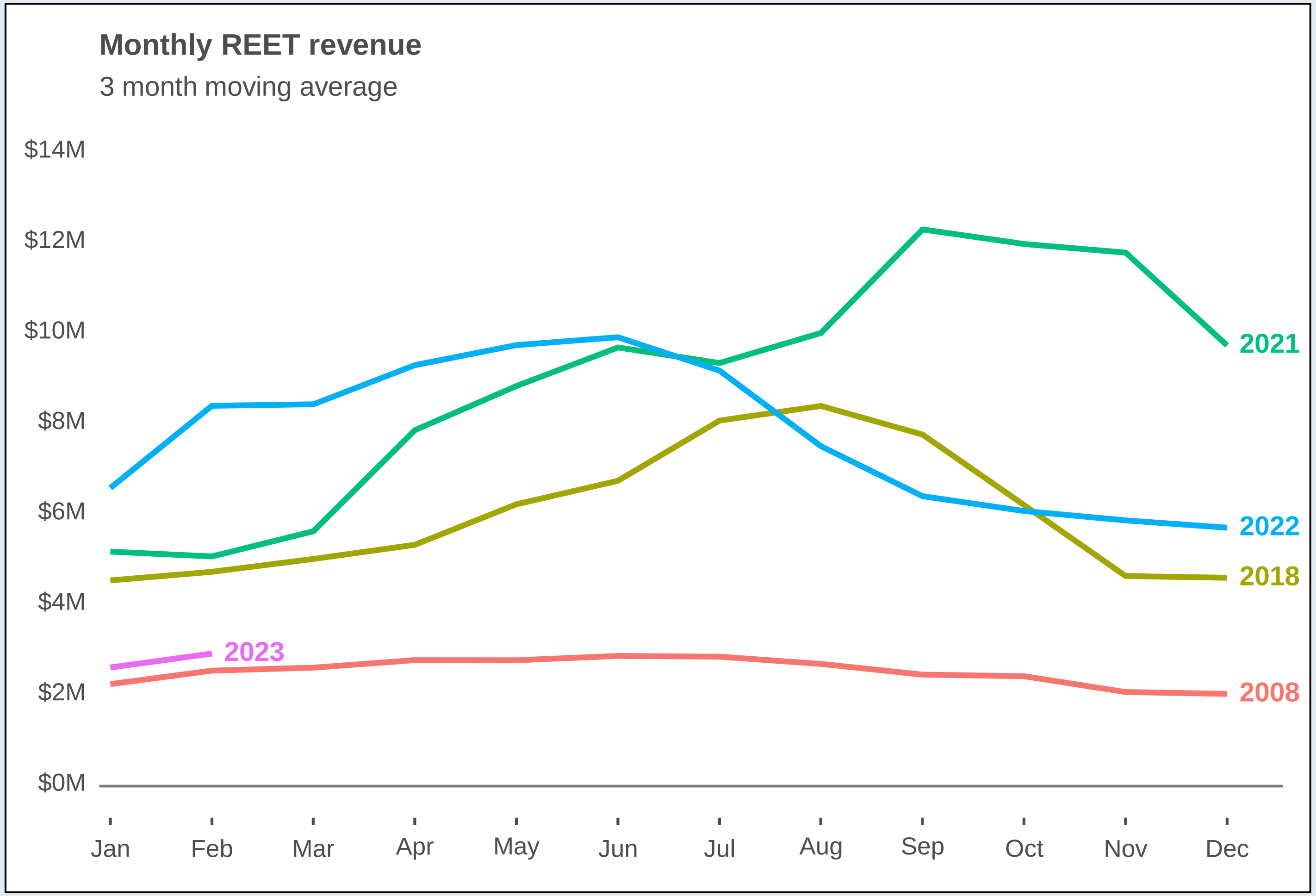


This chart compares 2022 final revenues to the November forecasts for these four selected general government revenues.

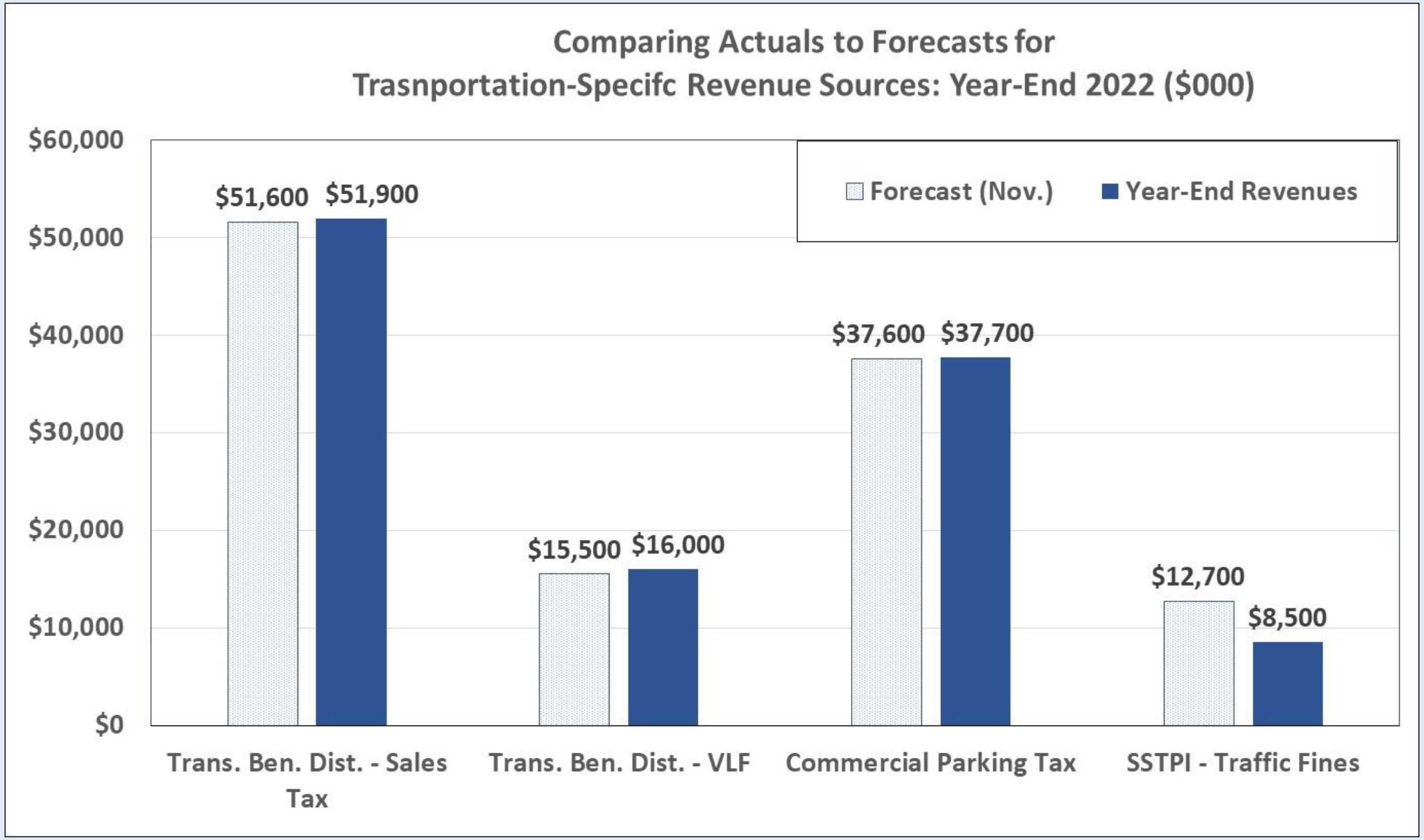
- The most significant variance from forecast is Real Estate Excise Tax (REET) revenues. 2022 REET totals fell short of our revised forecast by $3.9M. The sharp increase in interest rates in the second half of the year had a dramatic impact on the volume of real estate transactions in the fourth quarter. These impacts have continued into January and February of this year.
- Admissions tax revenues slightly outpaced our last forecast, producing and additional $1.4M in revenue.
- Revenues from the Sweetened Beverage tax fell about $500K short of forecast, and declined about $1M from last year.
- Short-Term Rental Tax revenues exceeded forecasts, but by just $300K.

REET Revenues – So What Happened?

- After revising the forecast downward in November by $11+M, final revenues still fell short of the revised forecast by almost $4M.
- After very strong performance in the first part of the year, REET revenues fell very sharply during the fourth quarter of 2022, as mortgage rates continued to increase.
- Both residential and commercial markets have been affected. Although prices have declined somewhat, the number of transactions has dropped dramatically.
- Overall, increasing uncertainty in the technology sector has likely contributed to the cooling markets in both residential and commercial real estate.



Transportation-Specific Revenues Relative to Forecast



This chart compares 2022 final revenues to the November forecasts for multiple transportation specific revenue streams.

- Seattle's Transportation Benefit District (STBD) relies on two primary revenue sources: a 0.15% increment of retail sales tax and a annual Vehicle License Fee (VLF).
- Per the chart to the left, both have generated revenues slightly ahead of forecast, with the sales tax overperforming by $300K and the VLF by about $500K
- Commercial Parking Tax revenues, which are also dedicated to transportation purposes, tracked very closely to the November forecast, producing $100K more than expected.
- Unfortunately, these net gains were more than offset by a $4M+ shortfall in school-zone and red-light camera revenue.

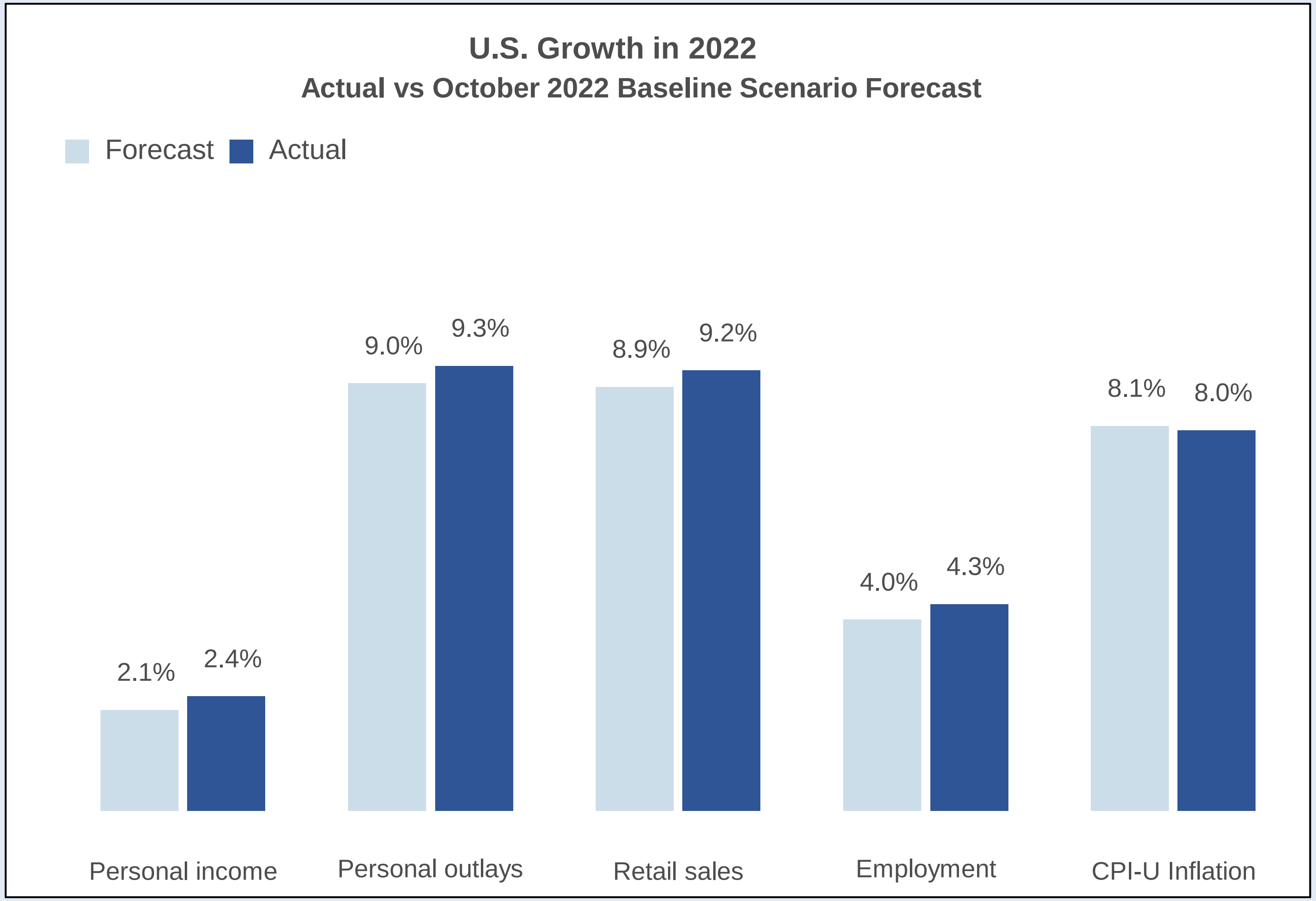
U.S. Economic Climate: Update

- The national-level financial metrics presented here are ones that the Forecast Office incorporates into our regional economic modeling. Thus, their performance relative to forecast can help explain the divergence between predicted and actual revenues.

- Consistent with the small deviations in our revenue forecasts, personal income, outlays, and retails sales have outperformed expectations from November economic forecast, but not by dramatic amounts.

- Despite increased uncertainty and the apparent risk of a recession, the labor market has been more resilient than expected. The strong labor market is one reason that many recession forecasts have been moderated and/or delayed.

- Inflation remains high, but IHS Markit anticipates inflation to moderate over 2023 as supply-chain issues are addressed and the impact of falling rents is reflected in the various prices indexes that measure inflation.



Regional Economic Climate: Update

The regional economy has shown the same strength as we have seen at the national level.

- For example, in line with the developments in the national economy, regional sales grew in 2022 somewhat faster we forecast in the fall, and this helps explain the strength of both retail sales and B&O revenues.
- Regional employment grew modestly more than forecast, and overall the regional labor market remained quite strong in 2022.
- Regional inflation continues to outpace the national rate, but recent trends suggest that it has also begun to decline.