



City of Seattle
Economic and Revenue Forecast Council
August 5th, 2024, 10:30 AM – 12:30 PM

Meeting Minutes

Forecast Council Attendees:

Forecast Council Chair Dan Strauss

City Council President Sara Nelson

Forecast Council Vice-chair Jeremy Racca's designee – Mayor's Deputy Chief of Staff Dan Nolte

City Finance Director Jamie Carnell

Meeting Items:

1. Adoption of the minutes from the April 8th, 2024 meeting.
The Forecast Council unanimously approved the minutes of the previous meeting.
2. Presentation of the August 2024 Economic and Revenue Forecasts, and recommendation from the Office of Economic and Revenue Forecasts regarding the 2024, 2025, and 2026 revenue forecasts.

Forecast Council was first briefed on the current economic conditions and changes in the outlook, in particular regarding Fed's monetary policy. Weak reports on U.S. hiring, employment, and unemployment rate released in the last week of July came as a surprise and increased overall economic uncertainty. In addition, the performance of the labor market in the past 12 months through July 2024 was along several metrics notably weaker in the regional economy than in the U.S. and in Washington State. Moreover, office vacancy rates continued to rise and are projected to increase significantly more in Seattle city than in the U.S. or in the rest of the Seattle metro region. Forecast Council members discussed these developments extensively, given their implications for Business and Occupation tax, Sales and Use tax, Real Estate Excise Tax, and Payroll Expense Tax.

Updated general fund revenue projections for 2024 were presented next and showed a \$3.3 million (0.2%) increase relative to the April forecast, as revisions of various General Funds revenue categories mostly offset each other. Excluding grants and fund transfers, total general fund revenues remained virtually unchanged – they increased only \$0.6 million. Nevertheless, for main economically driven revenues the forecast revisions were



more notable. Business and Occupation tax was revised down by \$5.4 million for 2024, \$5.2 million for 2025, and \$8.7 million for 2026 as the result of a downward revision of historical employment data and consequently slower anticipated employment growth. Sales and Use tax revenue was revised up by \$1.1 million in 2024, but down by \$4.4 million for 2025 and \$8.5 million for 2026, as a result of a 1% lower forecast for U.S. retail sales by S&P Global and the expected slower regional employment growth.

For 2025 and 2026, the August forecast anticipates overall revenue growth of general fund revenues excluding grants and transfers at 2.3% and 4.3% respectively. The total General Fund revenues for 2025-2026 biennium were revised up by \$10 million - the impact of an increase in the EMS levy in 2026 more than offsets the remaining changes.

The revised 2024 forecast for non-General Fund revenues anticipates \$9.7 million more in Payroll Expense Tax, up from \$394.7 million to 404.4 million. The Payroll Expense Tax forecast for 2025-2026 was also revised up, by \$13.9 million and \$14.9 respectively. The main factor behind these revisions is the strong performance of the stock prices of tech companies, which increases the value of stock grants that are subject to the tax. This continues to dominate the effects of employment changes, most notably the reported 17% decline in Amazon's headcount in Seattle city from its peak in 2020.

In addition to the baseline scenario forecast, the presentation included the pessimistic and optimistic scenario outlook and also addressed the potential risks to the forecast – weaker employment growth, construction sector slowdown, rising office vacancy rates and the risks that the Initiative 137 poses for job growth and City's revenues.

In the pessimistic scenario, the underlying U.S. forecast by S&P Global assumes a recession. Recognizing the risks and the elevated uncertainty regarding the outlook, the forecasting team still considers the baseline scenario regional economic and revenue forecasts to be the most likely future outcome. Like the nation, the regional economy is still likely to avoid a recession. Consequently, the baseline scenario was recommended for adoption.

3. Forecast Council Adoption of the August 2024 Revenue Forecast – Discussion and Possible Vote.

The Forecast Council discussed the forecast and given the unanimous consensus among Council members to concur with recommendation to use the baseline scenario forecast as the basis for the revenue projections, the Forecast Council Chair Strauss directed that these meeting minutes reflect that decision.