

## 2025 Work Program

This document outlines the proposed work program for the Office of Economic and Revenue Forecasts for 2025.

### Overview

The primary responsibility of the Office of Economic and Revenue Forecasts (OERF or Forecast Office) is to produce regional economic and revenue forecasts for the City of Seattle. In addition, the Forecast Office conducts special analyses at the request of the Forecast Council and provides analytical support on economic and revenue estimation for legislative and executive staff. Finally, beyond the direct work on the forecast updates that takes place only during certain parts of the year, the staff is engaged in ongoing work aimed to improve the quality of the forecasts, as well as monitoring and reporting efforts that provide insights on the performance of the economy and revenue collection.

The staff of the Forecast Office consists of three economists: a Director and Chief Economist, a Principal Economist, and a Regional Economist; currently however the office only has two employees and the Principal Economist position is not filled.

### Economic and revenue forecasts

The Forecast Office produces regional economic forecasts for main economic indicators (personal income, employment, unemployment rate, inflation, and housing permits) and revenue forecasts for City of Seattle (revenue from sales tax, business and occupation tax, payroll expense tax, real estate excise tax, private utility taxes, admission tax, business license fees, assessed value of real and personal property, and the value of new construction).

Each year the Forecast Office is required to prepare three regional economic and revenue forecasts, for the current fiscal year and the five following fiscal years. Per establishing ordinance, these forecasts must be presented to the Forecast Council by April 10, August 10, and the Wednesday immediately following the first Tuesday in November, respectively. In addition to these three required forecasts, one more regional economic forecast is prepared in January, with primary focus to update the outlook for inflation.

The following is the proposed schedule for Forecast Council meetings in 2024:

Day	Time	Location
April 10, 2025	9:30 am – 11:30 pm	City Hall Historical Room and Webex
August 4, 2025	9:30 am – 11:30 pm	City Hall Conference Room 370 and Webex
TBD, October 2025	TBD	TBD and Webex

Prior to each of the revenue forecast meetings of the Forecast Council, the staff of the Forecast Office holds a briefing for the City Budget Office staff and Central Staff, intended to provide an overview of the forecast and an opportunity to request additional information. After they are officially adopted, the Forecast Office makes the forecasts available on the public website its staff maintains. The website also provides the public with access to the Forecast Council meetings calendar, as well as agendas, minutes and presentations from these meetings.

## **Revenue monitoring and reporting**

The Forecast Office tracks on an ongoing basis various economic data that are used in its forecasts and analyses. This includes monitoring the status of the national, regional and local economy - tracking employment, personal income and wages, inflation, interest rates, retail sales, residential and non-residential real estate sales, vacancy rates, trends in the workforce office presence and office demand, number of building permits issued and construction costs.

Monthly reports which the Forecast Office distributes that summarize the S&P Global Market Insight forecasts for the U.S. economy provide insight into changes in the outlook of the national economy.

The Forecast Office is also monitoring the year-to-date revenue received by the City and prepares four revenue reports that document revenue received as of March 31, June 30, and September 30; the final report for the fiscal year is completed after the revenue accrual process is finalized at the end of February of the following year. Power BI dashboard version of the revenue report was developed by Forecast Office staff in 2024, it is available on our website, improving the ease of access to information about City's revenues for both staff and public.

## **Forecast accuracy assessment**

In 2022, the Forecast Office conducted a thorough assessment of forecast accuracy, covering the forecasts for tax years 2010-2021. To identify opportunities for improvements in our overall forecasting approach, we took stock of the forecasting models used, assessed the size of the forecast errors, and for main economically driven revenues also examined the underlying sources of these errors (national vs regional economic forecasts, the role of the revisions to official economic data). The analysis of General Fund revenues examined the forecast accuracy for both the individual sources as well as their collective sum. We are currently working to update this analysis and extend it to cover tax years 2022-2024.

## **Improvements to the forecasting process**

In addition to the above outlined work on forecasts and reporting, the following are proposed to be part of the work program in 2025 as part of the ongoing effort to improve the quality of forecasts.

1. Incorporating new data into the forecasting and monitoring processes

A wide range of data is used to track the health of the economy and as inputs for economic and revenue forecasting models employed by the Forecast Office. As part of the ongoing efforts to better understand the local economy and to improve the accuracy of our forecasts, several new data sources were introduced in the past three years. Notable additions include location analytics data from Placer.ai, commercial real estate market data from CoStar, and consumer spending data provided by Earnest Analytics. In 2023 the Forecast Office has entered into a data sharing agreement with the Washington State Employment Security Department, which provides access to employment and payroll data for King County employers. This data required a significant amount of time to be processed and analyzed, starting in 2025 it is used to inform the forecast of the payroll expense tax revenues.



2. Continued improvements to the forecasting process and forecasting models.

The economy has been undergoing significant structural changes triggered by pandemic and the shift to hybrid work. On top of that, the rise of inflation and the aggressive monetary policy response created additional challenges for the economy as whole and for the construction sector and the real estate market in particular. Large changes like these necessitate a re-assessment of the forecasting approach; the staff of the Forecast Office has in the past years spent a considerable amount of time monitoring the accuracy of existing forecast models and on efforts to improve the forecasting process. Development and refinements of the existing models are expected to take place between the work on the forecasts this year again. We began incorporating payroll data from Washington State Employment Security Department into the payroll expense tax forecasting process, but developing and testing a more sophisticated model to take full advantage of the data will require additional time.

**Supporting the work of other departments**

The Forecast Office conducts special analyses at the request of the Forecast Council and provides analytical support on economic and revenue estimation for legislative and executive staff, as needs arise throughout the year. These analyses are nonpartisan, and confidential to the extent allowed by law. The Forecast Office provides the City Budget Office with updates for the economic situation section of the Proposed Budget and Adopted Budget books, as well as updates for the sections summarizing the outlook for revenues in purview of the Forecast Office. The office also supports the Office of City Finance in preparing the Limited Tax General Obligation Bond ratings presentations to Moody's, S&P Global Ratings, and Fitch Group.