

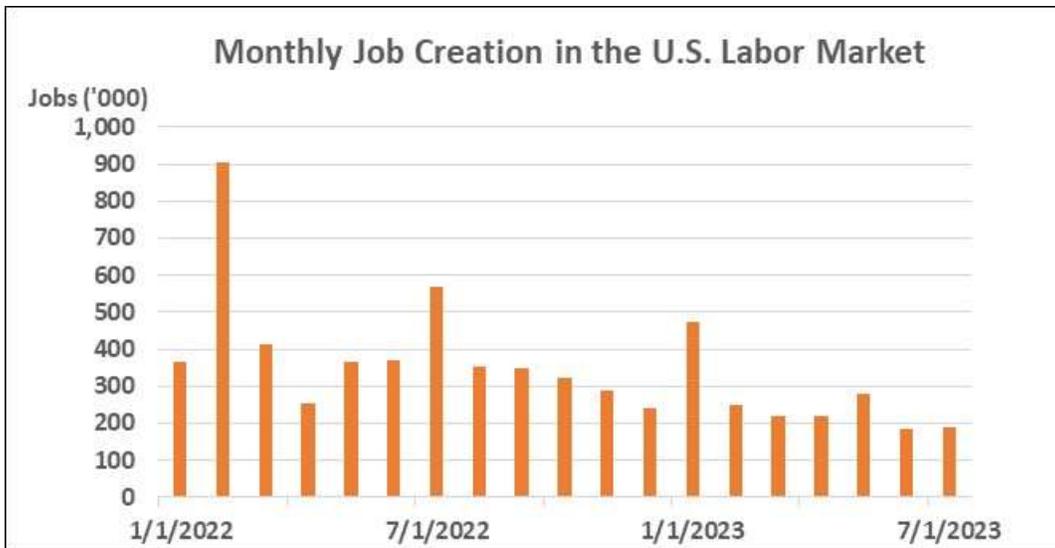
## General Fund Revenue Overview

### National Economic Conditions and Outlook

In November of last year, at the time the City Council adopted, and the Mayor signed, the 2023-2024 Biennial Budget, the national economic outlook was deteriorating. The U.S. economy had shown significant resiliency, but a dramatic shift in monetary policy was underway and the expectation was that this pivot would put the brakes on the post-pandemic recovery. Job growth had been strong over the first half of 2022, and employment levels had finally reached and just surpassed pre-pandemic levels. The fiscal stimulus provided by the federal government, in combination with the Federal Reserve's initial policy response of easing monetary policy and reducing interest rates, had succeeded in restoring the economy.

However, there was an emerging recognition, or at least concern, that the stimulus had perhaps been too effective, and that the economy had become "overheated", with excess demand driving up prices and fueling wage escalation in the markets still under pressure from supply chain issues and high commodity and energy prices. While down from its June peak of 9.1%, inflation was still running an annual rate of 7.7%. In an effort to bring this price escalation under control quickly, the Federal Reserve had increased interest rates by 3% since June, and an additional 0.5% increase was anticipated in December. The expectation was this aggressive increase in interest rates would induce a brief, but mild, recession during the latter part of 2023 and early 2024. Increasing interest rates would soften demand for major capital purchases and cool private investment that was dependent on access to relatively low-cost capital. In turn, these changes would slow job creation and cool the rapid rate of wage growth, which itself had become a driver of inflation. In particular, the baseline scenario national forecast from S&P Global, incorporated into the City's revenue predictions, anticipated that GDP would decline by 0.5% through the first half of 2023 and that total employment would decline by approximately 2% over this same period. Growth was expected to return in the second half of 2023, but at only modest levels for the near-term. For 2024, GDP was projected to increase by just 1.3%.

These projections proved overly pessimistic, and through the first three quarters of 2023 the national economy has demonstrated tremendous resiliency. Even as interest rates rose, employment continued to expand, with the U.S. economy adding an average of more than 250,000 job per month through June of this year. Job growth has slowed somewhat in the past few months, but this is consistent with the overall goal of cooling the economy, while maintaining some level of growth. The chart below illustrates the recent pattern of job growth at the national level.



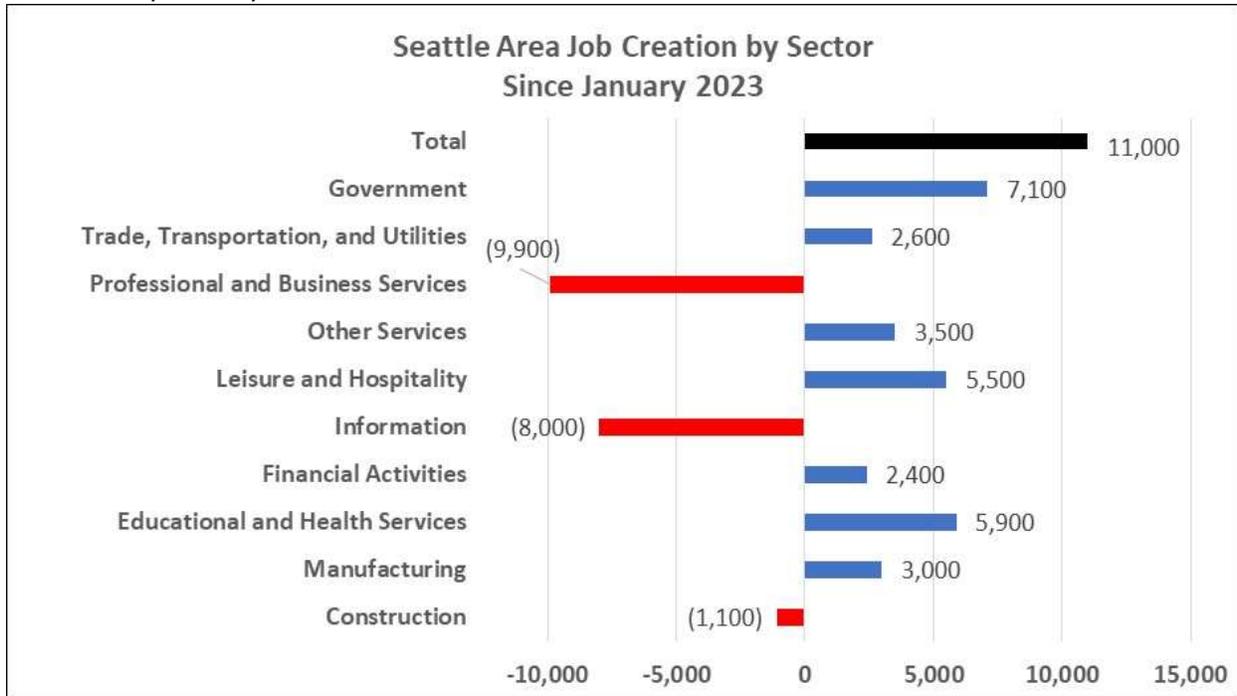
At the same time, inflation measured at the national level has dropped dramatically, reaching an annual rate of just 3.7% in August of this year. “Core inflation”, which excludes price changes in the more volatile areas of food and energy, is running somewhat higher at 4.3%, but has also fallen significantly over the course of the year.

The unexpected strength of the national economy in 2023 has avoided the recession predicted last fall, but looking forward, the expectation is that the Fed’s restrictive monetary policy will remain in place through the first half of next year, slowing overall economic growth at the same time that it continues to help control inflation. Thus, at this stage, it appears that the Federal Reserve is succeeding in its goal of managing the economy toward a “soft landing”. In particular, inflation is being brought under control without a decrease in GDP or an increase in unemployment. Current national projections for the remainder of this year and 2024 are consistent with that expectation. Growth will continue, but at a modest rate, with GDP expected to grow by 1.5%, when measured in inflation-adjusted terms.

### Seattle Metropolitan Area Economic Conditions and Outlook

Overall, the Seattle regional economy has tracked the performance seen at the national level. Employment growth has remained relatively strong and regional measures of inflation have fallen significantly over the past 12 months. However, as described below, there are at least two significant factors that have specifically affected the region’s recent economic performance. First, the past year has seen a rather dramatic reversal in the technology sector, which has been a key driver of the region’s post-pandemic recovery. There was early evidence of this correction last fall, as announcements of layoffs were accompanied by declining stock prices and in the following months hiring slowdowns and layoffs became common even among the region’s largest technology employers. While not unique to Seattle, the technology sector has a disproportionate impact on the Seattle region, relative to the nation as a whole. In addition, the slow rates of “return to the office” have meant that overall economic activity in Seattle’s downtown core has been relatively slow to recover. Comparable patterns have been seen across the nation, but Seattle workers have lagged the overall national trends on returning to traditional work locations.

**Labor Market.** Relative to the economic forecast that underlies the revenue forecasts developed last fall, the regional labor market has outperformed expectations in terms of overall employment. In November of last year, the Office of Economic and Revenue Forecasts (Forecast Office) projected that the regional unemployment rate would average 3.6% in 2023. The most recent forecast, prepared in August, projects that figure to be just 3.0% for 2023. The projections for next year reflect a comparable pattern of improvement. The forecasts from last fall anticipated average regional unemployment would run at 4.2% for 2024. The August revisions now put that estimate at just 3.1%. Rising interest rates have cooled some aspects of the local economy, but have not led to overall job losses. That said, recent hiring patterns have differed significantly by sector. The chart below highlights job changes by sector since January of this year.



Overall, regional job growth has been relatively slow this year. The net addition of 11,000 jobs from January through August represents an increase of just 0.6%, and the growth has been very uneven across sectors. While there has been net job creation in seven of ten sectors, the notable reductions in the Information, Professional & Business Services, and Construction sectors highlight the impacts of the technology sector slowdown and the wider implications of “work from home”. The rapid growth of highly paid technology jobs added significant spending power to the local economy in 2021 and 2022 as the local economy recovered quickly from the pandemic, but clearly that is no longer a driving force of local economic growth. In addition, rapidly falling demand for commercial office space will slow commercial construction activity, and the City has already seen a reduction in issued building permits.

**Inflation.** Driven in a significant part by strong income growth and the rapidly increasing cost of housing, the regional rate of inflation has been outpacing the national level for much of the post-pandemic period. As of last October, regional inflation was running at annual rate of 8.9%, compared to the national level of 7.7%. The regional forecast developed at that time anticipated that regional price escalation would track with national trends and cool over the last quarter of 2022 and throughout 2023. That forecast was generally accurate, and in fact prices have cooled more rapidly than anticipated. At the time the budget was adopted, the regional forecast projected that inflation would run at 6.3% over

2023, and then fall to 3.4% in 2024. The most recent modeling from the Forecast Office anticipates the annual rate for 2023 will be just 5.7%, and that in 2024 inflation will further cool to 3.1%. A softening in the local residential rental market has been a key factor in these declines, as housing represents about one third of the overall expenditures accounted for in the consumer price index used to measure inflation.

**Regional Outlook.** Following a stronger than expected performance to date in 2023, the outlook for 2024 anticipates the same general level of subdued growth that had been projected last fall. Like the nation, the regional economy is now expected to avoid a recession, and while unemployment is expected to trend up modestly as hiring slows, there is no expectation of net job losses. That said, the cooling technology sector and the slowing demand for new construction were not fully anticipated last fall, and these factors as well as general national trends have shifted the longer-term outlook toward slower growth. For example, last fall, the Forecast Office’s regional model anticipated that regional personal income would grow at an average annual rate of about 4% from 2024 through 2028. The most recent forecast projects average income growth closer to 3% over this same period. This pattern of slower growth marks a distinct shift from pre-pandemic trends when the local economy experienced an extended period of robust expansion, driven by strong growth in the technology sector and sustained construction activity in both the commercial and residential sectors. The sections that follow highlight how revenue forecasts have changed since last fall and how evolving economic conditions have changed those forecasts over the course of this year.

## **City Revenue**

The following sections describe forecasts for revenue sources supporting the City’s primary operating fund, the General Fund, its primary capital funds – the REET 1 and REET 2 Capital Funds, and six select other funds – the Arts and Culture Fund, Seattle Park District Fund, Sweetened Beverage Tax Fund, the Short-Term Rental Tax Fund, the Transportation Fund, and the JumpStart Payroll Expense Tax Fund.

### **General Fund Revenue Forecast**

Based on the stronger than expected 2023 performance of the regional economy, overall General Fund revenues are projected to increase relative to 2023 Adopted and 2024 Endorsed budget expectations approved in November 2022. As the General Fund revenue table below indicates, the 2023-2024 Proposed Mid-Biennial Budget Adjustments assume approximately \$76.2 million additional revenues over the 2023 Adopted and a smaller \$47.6 million over the 2024 Endorsed budgets. The smaller growth increment in 2024, though due to many factors, signals the trend revealed in the regional forecast for slower growth in the major, economically driven taxes heading into 2024-2028. The 2024 increase includes proposed policy changes added to the forecast since the August General Fund forecast was approved by the City’s Forecast Council on August 10, 2023. These changes include a total reduction to the JumpStart Payroll Expense Tax Fund transfer to the General Fund of \$6.5 million and increases to several fee revenues that total \$3.4 million.

**General Fund Revenue, 2022 – 2024, thousands of dollars**

<b>Revenue</b>	<b>2022 Actuals</b>	<b>2023 Adopted</b>	<b>2023 Revised</b>	<b>2024 Endorsed</b>	<b>2024 Proposed</b>
Property Tax	303,933	314,168	315,362	316,321	316,615
Property Tax - Medic One Levy	67,832	66,309	63,910	70,306	68,654
<b>Total Property Tax</b>	<b>371,765</b>	<b>380,477</b>	<b>379,272</b>	<b>386,627</b>	<b>385,269</b>
Retail Sales Tax	304,240	306,848	316,516	313,333	319,820
Retail Sales Tax - Criminal Justice	26,985	26,146	27,945	26,494	28,381
<b>Total Retail Sales Tax</b>	<b>331,225</b>	<b>332,994</b>	<b>344,461</b>	<b>339,827</b>	<b>348,201</b>
<b>Total Business &amp; Occupation Tax</b>	<b>331,582</b>	<b>334,960</b>	<b>353,731</b>	<b>344,132</b>	<b>367,462</b>
<b>Total Payroll Expense Tax</b>	<b>44,977</b>		<b>2,270</b>		
<b>Total Utilities Business Tax - Private Utilities</b>	<b>41,854</b>	<b>40,924</b>	<b>42,553</b>	<b>38,190</b>	<b>38,444</b>
Tonnage Tax	1,869	4,969	5,061	5,072	5,072
Utilities Business Tax - City Light	66,040	60,097	62,658	62,836	65,552
Utilities Business Tax - City SWU	27,254	23,786	26,386	24,153	25,684
Utilities Business Tax - City Water	36,210	37,205	37,408	37,703	37,608
Utilities Business Tax - Drainage/Waste Water	61,476	65,092	63,116	67,194	64,870
<b>Total Utility Tax – Public</b>	<b>192,849</b>	<b>191,149</b>	<b>194,629</b>	<b>196,958</b>	<b>198,786</b>
Firearms & Ammunition Tax	77	140	110	140	110
Gambling Tax	356	330	430	380	380
Leasehold Excise Tax	7,356	7,491	7,896	7,491	7,316
Pleasure Boat Tax	141	130	140	130	140
Transportation Network Company Tax	6,610	5,868	5,320	6,698	5,520
<b>Total Other City Taxes</b>	<b>14,540</b>	<b>13,959</b>	<b>13,896</b>	<b>14,838</b>	<b>13,466</b>
Meter Hood Service	4,356	3,700	3,500	4,388	4,000
Parking Meters	19,505	34,257	33,146	40,076	42,271
<b>Total Parking Meters</b>	<b>23,861</b>	<b>37,957</b>	<b>36,646</b>	<b>44,463</b>	<b>46,271</b>
Adult Probation and Parole	4				
Court Fees & Charges	443	251	131	286	172
Court Fines	12,893	19,648	21,083	24,215	18,108
<b>Total Court Fines</b>	<b>13,339</b>	<b>19,898</b>	<b>21,214</b>	<b>24,501</b>	<b>18,281</b>
Criminal Justice Assistance	4,634	4,916	4,930	5,063	4,946
E-911 Reimbursements & Cellular Tax Revenue	718	718	718	718	718
Liquor Board Profits	5,758	5,776	5,943	5,784	5,951
Liquor Excise Tax	5,263	5,007	5,330	5,066	5,393
Marijuana Excise Tax	1,901	1,878	1,878	1,931	1,931
Trial Court Improvement Account	151	150	150	150	150
<b>Total Revenue from Other Public Entities</b>	<b>18,423</b>	<b>18,444</b>	<b>18,948</b>	<b>18,711</b>	<b>19,089</b>

**General Fund Revenue, 2022 – 2024, thousands of dollars, continued**

<b>Revenue</b>	<b>2022 Actuals</b>	<b>2023 Adopted</b>	<b>2023 Revised</b>	<b>2024 Endorsed</b>	<b>2024 Proposed</b>
Federal Direct Grants	7,781	4,145	21,272	3,513	6,209
Federal Direct Grants – FEMA	2,618	10,328	11,574	1,095	1,162
Federal Indirect Grants	6,984	2,494	12,321	535	2,785
Other Grants	417	550	2,710	50	552
State and Local Grants	5,532	5,536	9,391	5,374	6,868
<b>Total Grants</b>	<b>23,333</b>	<b>23,054</b>	<b>57,267</b>	<b>10,567</b>	<b>17,576</b>
Transfer from - JumpStart Payroll Expense Tax Fund	85,355	108,508	74,512	92,200	85,723
Transfer from - Other Fund	65,586	2,500	11,491	2,500	2,500
<b>Total Fund Balance Transfers</b>	<b>150,940</b>	<b>111,008</b>	<b>86,003</b>	<b>94,700</b>	<b>88,223</b>
Cost Allocations & Administrative Charges	26,870	28,238	31,074	28,442	30,285
Legal Services	1,837	3,068	3,141	3,086	3,216
Other Proceeds	1,478	72	185	72	114
Personnel Service Charges	30,083	30,196	31,135	30,895	33,441
Public Safety Enforcement	12,219	7,889	6,348	9,069	5,719
Sales Proceeds	59,982				
Use Charges	69	164	159	164	159
<b>Total Service Charges &amp; Reimbursements</b>	<b>132,538</b>	<b>69,627</b>	<b>72,042</b>	<b>71,728</b>	<b>72,934</b>
Animal Shelter Licenses & Fees	1,920	2,594	2,082	2,765	2,608
Business License Fees	14,621	17,152	21,175	17,900	18,936
Emergency Alarm Fees	2,701	2,400	1,800	1,400	1,200
Fire Permits & Fees	6,451	7,119	7,259	7,306	7,257
Interest on Investments	8,114	5,847	18,615	5,636	17,731
Other Business Licenses, Permits, & Fees	6,271	6,104	7,136	6,104	7,427
Other Interest Earnings	619	260	560	260	500
Miscellaneous Revenue	2,593	3,559	13,451	3,824	8,080
Private Contributions & Donations	5,158	208	262	208	
Professional & Occupational Licenses	1,685	2,766	3,592	2,766	3,579
Street Use Permits	818	990	780	1,100	865
<b>Total Licenses, Permits, Interest Income and Other</b>	<b>50,952</b>	<b>48,998</b>	<b>76,712</b>	<b>49,268</b>	<b>68,183</b>
<b>Total General Fund</b>	<b>1,742,178</b>	<b>1,623,449</b>	<b>1,699,644</b>	<b>1,634,510</b>	<b>1,682,184</b>

**Property Tax.** Property taxes paid in the current year are based on valuations as of January 1 of the previous year. The revenue forecasts and projected tax rates for 2024 are based on January 1, 2023 valuations. Over the course of this year, the King County assessor has been conducting the research and appraisals needed to retroactively determine those valuations. Overall, real estate valuations have been in decline. The combination of high interest rates, uncertainty about the long-term demand for office space, and cooling residential demand have all contributed to this decline. The impacts of these factors are expected to be reflected in the assessed values that will underlie 2024 tax collections. However, due to the structure of state property tax laws, these changes in the assessed value of existing values will not have a negative impact on City property tax revenues. The cooling residential market has also reduced the forecasts of the value of new construction, which do have some impact on property tax revenues. However, these forecast changes have been small in magnitude, in part because the cost of new construction has been escalating due to inflation, even as the volume of projected demand has been declining. The Proposed Budget Adjustments show an increase of \$1.2 million in 2023 over the adopted budget due to changes in technical assumptions. There is no significant change in 2024 despite the slowing real estate market for the reasons laid out above.

**Medic 1/Emergency Medical Services.** This county-wide property tax is levied by King County. The City of Seattle receives a distribution of the proceeds equal to the county-wide tax rate multiplied by the City's assessed value (AV). The county-wide tax rate is based on the annual Medic 1/EMS levy amount divided by total King County AV. Thus, the tax rate will increase or decrease respectively when King County AV shrinks or grows faster than the rate of growth of the levy amount. The City's share will, in turn, grow or shrink with the tax rate and whether City AV growth is sufficient to outpace any changes resulting from King County AV changes. The Proposed Budget Adjustments include a decrease of \$2.4 million for 2023 and \$1.6 million for 2024, due to the effect of King County AV growth and decline on the tax rate relative to the growth and decline in City AV in 2023 and 2024.

**Retail Sales and Use Tax.** Consistent with the overperformance of the regional economy relative to the forecasts developed last fall, the revised estimates for sales tax have been upgraded for 2023 and 2024. An additional \$11.5 million is anticipated for 2023, and an additional \$8.4 million for 2024. While arguably significant in absolute dollar terms, they represent forecast revisions of just 3.5% and 2.5%, respectively. In addition, the new estimates anticipate that retail sales tax will grow just 1.1% between 2023 and 2024, compared to the 2.1% growth projected last fall. Thus, the increased dollar amount for 2024 is driven mainly by the increased base attributable to the stronger than expected 2023 results. The slower rate growth for 2024 is consistent with the observations above about slower long-term growth in the regional economy.

**Business and Occupation (B&O) Tax.** The forecasts for 2023 and 2024 B&O Tax revenues have also both increased relative to the amounts projected in November of last year. Anticipated revenues are up \$18.8 million for 2023, and \$23.3 million for 2024. These changes represent increases of 5.6% and 6.8%, respectively, relative to the 2023 Adopted and 2024 Endorsed budgets. Again, the region's stronger than anticipated economic performance this year is expected to increase the B&O tax base for 2023, and this higher base will compound to increase 2024 revenues as well. While retail sales and B&O tax tend to move together, the taxes do not apply to exactly the same types of economic activity, so it is not surprising that the B&O revenues have shown stronger relative performance. For example, the slowing construction sector has created a larger drag on sales tax growth than it has on B&O growth.

**Utility Business Tax – Private Utilities.** This revenue category includes taxes on cable television, telephone service, natural gas, and the central steam heat services provided in the downtown core.

Relative to last fall, revenue forecasts for this category have been increased by \$1.6 million in 2023, and a modest \$254,000 in 2024. The increase for 2023 is driven by three factors: a shift in timing of payments that had been expected in 2022, a colder than expected winter in early 2023, and a slower than anticipated decline in the demand for telephone and cable service, which have been on a long-term downward trend.

**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. Compared to the 2023 Adopted and 2024 Endorsed Budgets, electric tax revenues are up nearly \$3 million in each year due to a colder than expected winter. There are also anticipated increases in revenues from solid waste of \$2.6 million and \$1.5 million in 2023 and 2024, respectively. Sewer tax revenues are expected to decrease by about \$2 million in each year, driven by a downward revision in the County’s projections. On net, the Proposed Budget Adjustments assumes an increase in Public Utilities revenues over the 2023 Adopted and 2024 Endorsed Budgets of \$3.5 million and \$1.8 million, respectively.

**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 reduced the ride threshold to 200,000 rides per quarter effective October 2020, and then the tax rate to \$0.42 per trip effective January 1, 2023. At the start of the COVID-19 pandemic, the demand for rides and the number of drivers fell, significantly reducing TNC tax revenue. The recovery of both demand and supply has been anemic. The Proposed Budget Adjustments assume \$5.3 million in 2023 and \$5.5 million in 2024, a decrease of \$0.5 million and \$1.2 million from the 2023 Adopted and 2024 Endorsed, respectively.

**Parking Meters.** Revenue from on-street parking meters is forecast to be \$33.1 million in 2023 and \$42.3 million in 2024, a year-over-year increase of \$9.1 million or 27.5%. The 2024 forecast represents an additional \$8.0 million (23.4%) relative to the 2023 Adopted total and an increase of \$2.2 million (5.4%) from the 2024 Endorsed forecast. The year-over-year increase is due mostly to rate changes that the Seattle Department of Transportation implements on a quarterly basis with rates determined by its Performance-Based Parking Program model which sets rates in order to achieve 1-2 open spaces per blockface. In recent years, these rate changes have resulted in many more increases than decreases due to the reset of rates to \$0.50 in all areas in 2020 in response to the COVID-19 pandemic. With the rate changes that took effect in July of 2023, average parking rates have now surpassed pre-pandemic levels for the first time since the reset. Variations in the forecast over time are often due to shifting demand for parking across the city. In recent cycles, neighborhood parking areas have tended to see increasing demand relative to downtown, a trend that has weakened but persisted since the height of the pandemic. In addition to rate changes, the Proposed Budget Adjustments include revenue of \$2.4 million in 2024 for the proposed policy change to increase the minimum and maximum city parking rates. For additional details on planned expenditures of this projected revenue increase, see the Seattle Department of Transportation section of the budget.

**Court Fines.** The City imposes and collects fines and related fees on various citations, primarily on-street parking and camera enforced red light violations. Relative to the 2023 Adopted and 2024 Endorsed budgets the Proposed Budget Adjustments assume \$1.3 million additional revenue in 2023 and a decrease of \$6.2 million in 2024. The increase in 2023 is likely a one-time bump as it is largely due to the City reinstating referrals to collection of a backlog of citations created when the City suspended referrals

during the COVID-19 pandemic. Through notifications, some people paid prior to referral to collections to avoid penalties and interest charges being added to the fine amount. Fine revenues are reduced in 2024 relative to the 2024 Endorsed forecast due to a downward revision in the citation volumes.

**Grant Revenues.** Federal, State and local grant revenues can change significantly with the passage of time as departments learn of new grant opportunities and applications are successful. Importantly, grant revenues are by their nature and purpose matched dollar-for-dollar with expenditures across the life of the grant. As such, grants are not providing additional discretionary revenues for allocation through the budget process. The Proposed Budget Adjustments contain an additional \$34.2 million of grant revenues in 2023 relative to the 2023 adopted budget, with roughly half coming in the form of direct federal grants. An additional \$7.0 million is expected in 2024.

**Fund Balance Transfers.** Changes in fund balance transfer amounts from the 2023 Adopted and 2024 Endorsed budget are predominantly due to changes in transfer amounts from the JumpStart Payroll Expense Tax Fund. By policy, transfers will increase or decrease in 2023 as General Fund revenues decrease or increase plus an amount for administrative support that will remain in future years. The transfer amount in the Proposed Budget Adjustments for 2023 is reduced approximately \$34.0 million from the 2023 Adopted amount – a year-end supplemental is proposed to reduce the transfer amount further by approximately \$4.7 million – and \$6.5 million for 2024 from the 2024 Endorsed amount. For further explanation of the transfer and uses of the payroll expense tax, please see the Budget Overview section of this budget book.

**Service Charges and Reimbursements.** Total revenues in this category are increasing a net \$2.4 million and \$1.2 million in 2023 and 2024 respectively relative to 2023 Adopted and 2024 Endorsed budget assumptions. While cost allocation revenues (recovery of costs for services within city government) in the General Fund are increasing, as are legal and personnel services revenues, in 2023 and 2024 due to general cost increases for provision of services, revenues from public safety enforcement services are projected to decline due to reduced expectations for and changes in provision of reimbursable services.

**Licenses and Permits.** The City requires all businesses operating in Seattle to have a business license, and the cost of these licenses operates on a sliding scale that increases with the business' revenues. The current revenue forecasts show an apparent increase of \$4 million in anticipated revenues in 2023, and \$1 million in 2024. However, a significant share of the 2023 increment represents a shift in the timing of payments, rather than a net increase in revenues. The City did not process many of the payments made in December of 2022 until early 2023, which distorts the 2023 totals. That said, the local economic recovery and increasing business revenues have helped drive overall business license revenue above last November's forecast. The \$1 million increment for 2024 reflects this net increase.

**Interest Income.** The City receives interest earnings on its cash holdings. Elevated cash balances and higher earnings rates have led to increases of \$12.7 and \$12.1 million for 2023 and 2024, respectively, relative to the 2023 Adopted and 2024 Endorsed Budgets. As the Federal Reserve has increased the Federal Funds Rate, the yields on Treasuries and other investments available to the City in accordance with State law have also increased. Overall earnings rate on the City's cash pool are projected to increase by approximately 50 basis points between the 2023 Adopted and 2024 Endorsed budget and the Proposed Budget Adjustments.

## **Non-General Fund Revenues of Note**

In addition to forecasts of General Fund revenues, the Forecast Office and the City Budget Office track and forecast various other revenues that are accounted for in separate funds and that support general government purposes.

### **REET 1 and REET 2 Capital Funds – Real Estate Excise Tax (REET).**

REET revenues are generated by a combined 0.5% tax on all real estate transactions. The sharp increase in interest rates, which has been induced by the Federal Reserve’s monetary tightening, has significantly increased the cost of borrowing and negatively impacted the volume of both residential and commercial real estate transactions. In addition, the shift toward “work from home” has created a great deal of uncertainty about the value of commercial office space. This uncertainty has further dampened the sales of large office properties, which had previously represented a notable share of REET revenues. These dynamics were emerging last fall, but since then the total volume of real estate activity has fallen dramatically. As a result, REET forecasts for both 2023 and 2024 have been significantly reduced. The forecast for 2023 has been reduced by \$17.4 million, from \$68.1 million to \$50.7 million. For 2024, the forecast has been reduced by \$14.7 million, from \$68.6 million to \$53.9 million.

### **Arts and Culture Fund - Admission Tax.**

Relative to the forecast from last November, anticipated admission tax revenues have increased by \$1.2 million per year for both 2023 and 2024. This adjustment reflects an overall increase in the demand for entertainment activities, attributable to both local residents and tourists. This increases the total projected revenues for 2023 and 2024 to \$22.6 million and \$23.4 million, respectively.

### **Seattle Park District Fund – Property Tax Levy.**

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 \$118.4 million in 2023 and \$122.5 million in 2024, which have not changed from the 2023-24 Adopted Budget as the amounts are in accordance with the MPD’s spending plan.

**Sweetened Beverage Tax Fund.** The Sweetened Beverage Tax is a tax of 1.75 cents per ounce of sweetened beverages or the equivalent for condensed syrups distributed into the City of Seattle. Consumption patterns and volumes changed during the COVID-19 restrictions reducing revenues. Although not completely returned to pre-COVID consumption, consumption levels have grown and revenues from the tax have been increasing. The Proposed Budget Adjustments anticipate increases of approximately \$500,000 in 2023 to \$20.9 million and \$550,000 in 2024 to \$21.2 million.

### **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). 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 in 2020 and 2021 but are now on track to surpass 2019 levels as a result of tourism that has rebounded and remained robust. The Proposed Budget Adjustments anticipate \$10.9

million in 2023 and \$11.8 million in 2024 - \$1.4 million and \$1.7 million over the 2023 Adopted and 2024 Endorsed, respectively.

**Transportation Fund - Commercial Parking Tax.**

Commercial parking tax revenues continue a steady recovery from the effects of the COVID-19 pandemic, buoyed by a rate increase of 2 percentage points from 12.5% to 14.5%, effective July 2022. Given that the economy has been stronger than expected at the end of 2022 – particularly the leisure and hospitality sector – the Proposed Budget Adjustments anticipate \$48.4 million in 2023 and \$50.2 million in 2024, an increase of \$3.3 million and \$3.2 million over the Adopted and Endorsed, respectively.

**JumpStart Payroll Expense Tax Fund.**

As of 2023, the City's Payroll Expense tax applies to employee compensation of more than \$174,000 per individual at businesses with a total Seattle-based payroll of more than \$8.1 million. Specific tax rates vary with the level of individual employee's compensation and each company's total Seattle payroll. The City has a very limited history with both forecasting and collecting the resulting tax obligations. The tax was first imposed in 2021, with the first payments not made until January of 2022. Total 2021 tax obligations were approximately \$293 million, but fell to \$253 million in 2022. The majority of the revenues from this tax are generated from relatively few firms, most of which are concentrated in the technology sector. Thus, the reduction in revenue experienced between 2021 and 2022 is directly associated with the overall slowdown in this sector, and particularly in falling stock values, because stock grants represent a notable share of total compensation for many technology workers. At the time that the 2023 and 2024 revenue forecasts were developed last fall, the 2022 revenue results were not yet known. Although some reduction in revenues relative to 2021 was anticipated, actual 2022 collections were significantly lower than expected. When these results were incorporated into revised forecasts for 2023 and 2024 the overall impact was a reduction in anticipated revenues. Relative to the adopted 2023 forecast of \$294 million, the revised figure has been reduced by \$19.5 million to \$274.6 million. Concurrently, the forecast for 2024 has been reduced by \$21.6 million, from \$311.5 million to 289.9 million.

## Seattle City Tax Rates

	2019	2020	2021	2022	2023
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>					
General Property Tax	\$1.13	\$1.12	\$1.16	1.14	1.06
Families & Education	0.16	0.34	0.34	0.32	0.29
Low Income Housing	0.19	0.16	0.16	0.15	0.14
Transportation	0.45	0.38	0.38	0.37	0.33
Library	0.08	0.12	0.12	0.11	0.10
Election Vouchers	0.01	0.01	0.01	0.01	0.01
City Excess GO Bond	0.14	0.09	0.09	0.06	0.05
<b>Other Property Taxes related to the City</b>					
Seattle Park District	0.23	0.21	0.21	0.20	0.39
Emergency Medical Services	0.24	0.26	0.26	0.25	0.21
<b>Retail Sales and Use Tax</b>					
	0.85%	0.85%	0.85%	0.85%	0.85%
<b>Transportation Benefit District Sales and Use Tax</b>					
	0.10%	0.10%	0.15%	0.15%	0.15%
<b>Business and Occupation Tax</b>					
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					
<b>City of Seattle Public Utility Business Taxes</b>					
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%
<b>City of Seattle Private Utility B&amp;O Tax Rates</b>					
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%
<b>Other Taxes</b>					
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

