

## General Fund Revenue Overview

### City Revenue Sources and Fund Accounting System

The City of Seattle budget authorizes annual expenditures for services and programs for Seattle residents. State law authorizes the City to raise revenues to support these expenditures. There are four main sources of revenues. First, taxes, license fees, and fines support activities typically associated with City government, such as police and fire services, parks, and libraries. Second, certain City activities are partially or completely supported by fees for services, regulatory fees, or dedicated property tax levies. Examples of City activities funded in-whole or in-part with fees include certain facilities at the Seattle Center, recreational facilities, and building inspections. Third, City utility services (electricity, water, drainage and wastewater, and solid waste) are supported by charges to customers for services provided. Finally, grant revenues from private, state, or federal agencies support a variety of City services, including social services, street and bridge repair, and targeted police services.

The City accounts for all revenues and expenditures within a system of accounting entities called “funds.” The City maintains numerous funds. The use of multiple funds is necessary to ensure compliance with state budget and accounting rules and is desirable to promote accountability for specific projects or activities. For example, the City of Seattle has a legal obligation to ensure revenues from utility use charges are spent on costs specifically associated with providing utility services. As a result, each of the City-operated utilities has its own fund. For similar reasons, expenditures of revenues from the City’s various property tax levies are accounted for in separate funds. As a matter of policy, several City departments have separate funds. For example, the operating revenues and expenditures associated with those revenues for the City’s parks are accounted for in the Park and Recreation Fund. The City also maintains separate funds for debt service and capital projects, as well as pension trust funds, including the Employees’ Retirement Fund, the Fireman’s Pension Fund, and the Police Relief & Pension Fund. The City holds these funds in a trustee capacity, or as an agent, for current and former City employees.

The City’s primary fund is the General Fund. The majority of resources for services typically associated with the City, such as police and fire or libraries and parks are received into and spent from one of two funds of the City’s general government operation: the General Fund for operating resources and the Cumulative Reserve Fund for capital resources.

All City revenue sources are directly or indirectly affected by the performance of the local, regional, national, and even international economies. For example, revenue collections from sales, business and occupation, and utility taxes, fluctuate significantly as economic conditions affecting personal income, construction, wholesale and retail sales, and other factors in the Puget Sound region change. The following sections describe the current outlook for the local and national economies, and present greater detail on forecasts for revenues supporting the General Fund and the Cumulative Reserve Fund.

### National Economic Conditions and Outlook

The National Bureau of Economic Research (NBER) officially announced on June 8 that a recession began in the U.S. after the economy peaked in February 2020. The 128-month long expansion from June 2009 to February 2020 is the longest on record (since 1854), it is followed by the deepest but most likely also the shortest recession since World War II. Based on the IHS Markit forecast from July, in 2020 real GDP is expected to fall by 6.1% and payroll employment by 7.9 million jobs; the unemployment rate peaked

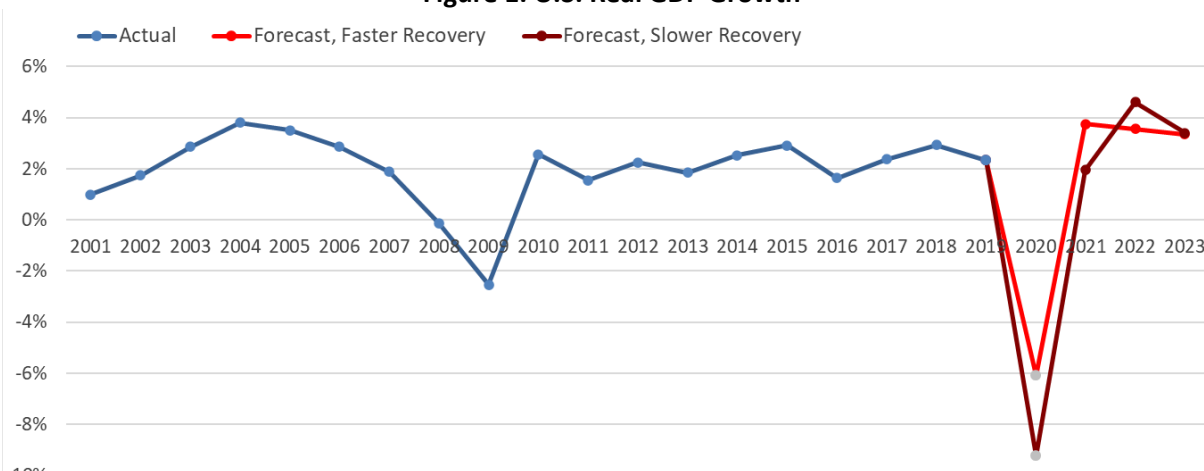
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at 14.4% in April 2020. For comparison, in 2009 the real GDP declined by 2.5% and the economy lost 5.9 million jobs; the unemployment rate peaked at 10.6% in January 2010.

Recovery will take years. In the Wall Street Journal Economic Forecasting Survey of 63 economists from August, the median forecast predicts real GDP will reach its 2019 Q4 level in 2022 Q1. In a global survey of 606 CEOs, conducted in June 2020 by The Conference Board, just 11% of CEOs expected a fast V-shaped recovery, while 42% predicted a gradual U-shaped recovery, 32% an L-shaped recovery, and 16% a double-dip W-shaped recovery. And according to a Bank of America Global Fund Manager Survey from early August, just 17% of the 181 participants expected a V-shaped recovery, 31% anticipated a slower U-shaped recovery, and 37% of fund managers predicted a W-shaped recovery.

In response to the economic downturn, the Federal Reserve lowered its benchmark interest rate to 0% to 0.25% in March 2020 and returned to aggressive quantitative easing, increasing its balance sheet by more than \$3 trillion. The U.S. Congress has passed an enormous \$2.2 trillion economic stimulus Coronavirus Aid, Relief and Economic Security (CARES) Act authorizing cash payments, extra unemployment benefits, relief for businesses, support for the health care sector, and state and local government support.

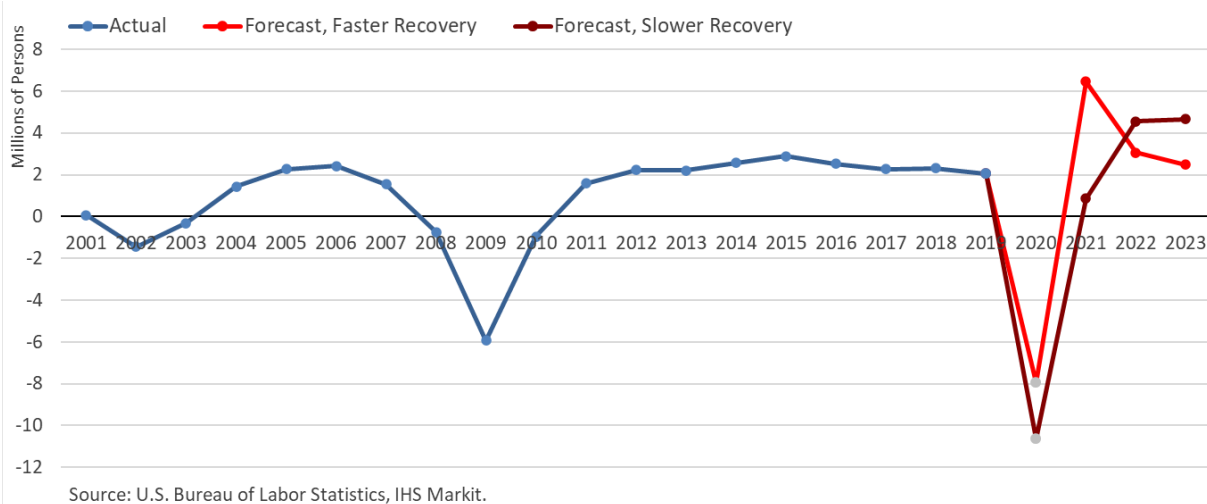
**Figure 1. U.S. Real GDP Growth**



Source: U.S. Bureau of Economic Analysis, IHS Markit.

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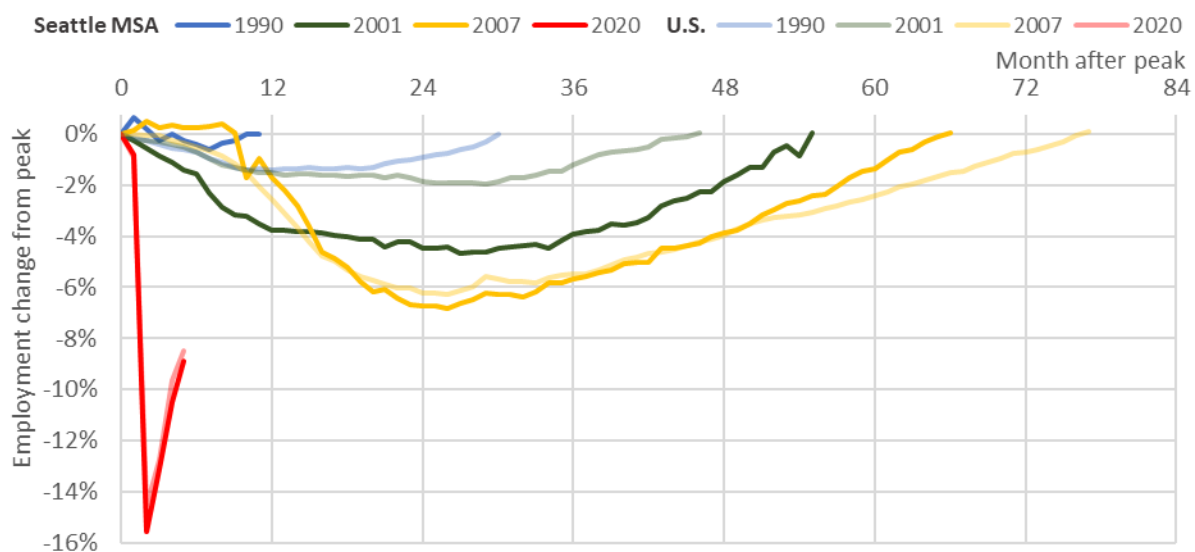
**Figure 2. U.S. Total Nonfarm Payroll Employment**



## Seattle Metropolitan Area Economic Conditions and Outlook

**Labor Market** The regional economy has in the last decade considerably outperformed the U. S. economy in income and employment growth. In February 2020, the seasonally adjusted unemployment rate for the Seattle MSA was just 3.0%, compared to 3.8% for Washington and 3.5% for the U.S. As a result of the stay-at-home orders imposed in March and April, the unemployment rate increased rapidly nationwide and peaked in April 2020, reaching 16.1% in the Seattle MSA, 16.3% in Washington and 14.7% in the U.S. Since then, it has declined somewhat, but in July 2020 it was still highly elevated: 8.5% in the Seattle MSA, 10.3% in Washington and 10.2% in the U.S. The magnitude and the speed at which the job losses occurred is really unprecedented, as shown in Figure 3. Even though the situation improved in the last couple of months, job losses even now exceed the deepest point of the Great Recession.

**Figure 3. Recession Job Losses in U.S. and Seattle MSA**



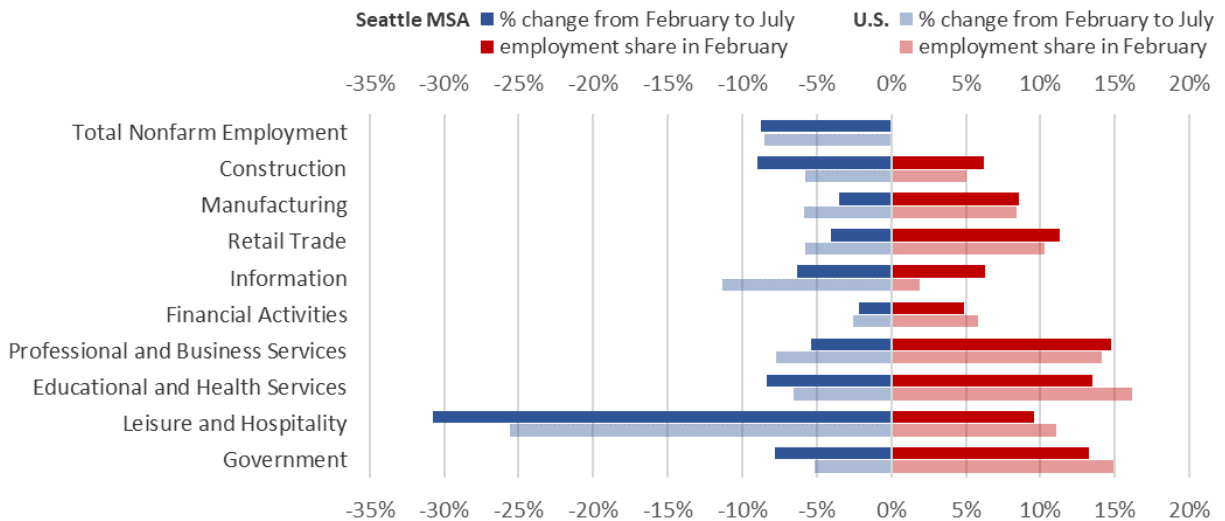
Although virtually all sectors in the Seattle region have seen employment increase in the decade after the Great Recession, the principal driver of growth has been high-technology business. Strong growth in the technology sector has spurred growth in professional and business services, as well as leisure and

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hospitality services and health care. Employment growth at these businesses boosted the demand for office space and housing in the city, spurring a construction boom. Payroll employment in the Seattle MSA peaked in February 2020, reaching 2.075 million jobs.

Seattle recovered from both the 1990 and the 2007 recessions much earlier than the U.S. The 2001 recession, after the collapse of the dotcom bubble, hit the region harder and the recovery took much longer. So far, the path of overall employment recovery from the 2020 recession is very similar on the regional and national level. A closer look at the industry sectors in Figure 4 shows where the effects differ considerably. As of July 2020, regional employment in manufacturing, retail trade, information, financial, professional and business services remains deep below February peak levels. These sectors were in general affected much less and they accounted for almost half of the employment in the Seattle MSA, but only for a quarter of the employment decline. On the other hand, regional employment in construction and leisure and hospitality services declined significantly more and is also recovering slower than on the national level. Representing just 16% of total regional employment, the two sectors accounted for 40% of jobs lost and have not recovered yet.

**Figure 4. Change in Employment by Industry in U.S. and Seattle MSA: February 2020 to July 2020**

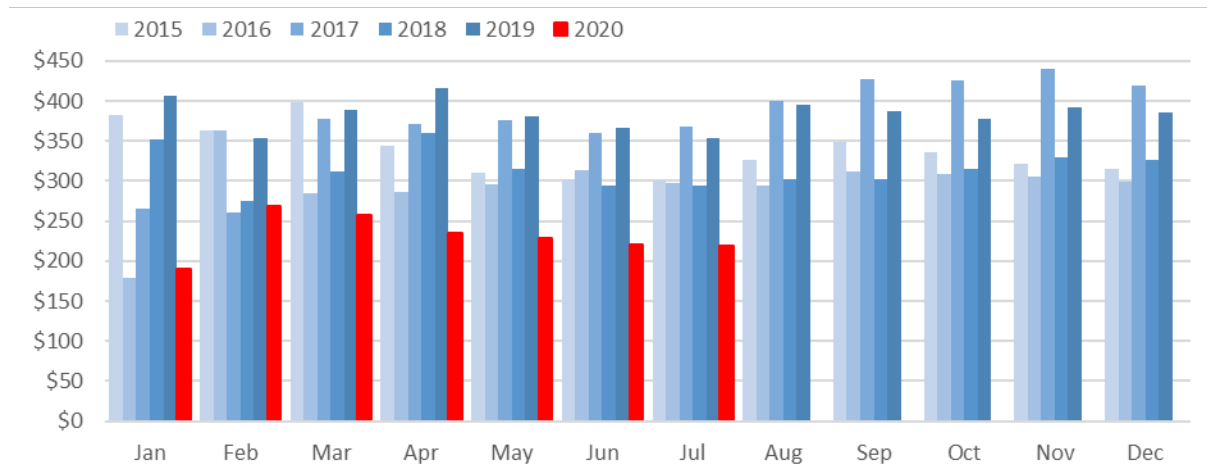


Construction activity is highly cyclical, with periods of strong growth often followed by steep downturns. Seattle experienced a prolonged construction boom in the last ten years. The value of building permits issued by Seattle Department of Construction & Inspections (DCI) increased from on average \$1.82 billion every year between 2000 and 2009 to on average \$3.33 billion every year between 2011 and 2019. As shown in Figure 5, investors appear to be taking a wait and see approach during the pandemic, resulting in a decline in the average monthly value of permits issued. This declined by 38% for the first seven months of 2020 compared to the same period last year, and by about 32% compared to the average for the first seven months of 2015 to 2019. For comparison, after the first seven months in 2009

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and in 2010, the average monthly value of permits issued was down 27% and 33% year-over-year respectively.

**Figure 5. Average Monthly Value of Building Permits Issued by Seattle city**



**Inflation** The Great Recession pushed inflation into negative territory in 2009, the first time in 54 years that consumer prices had declined on an annual basis. During the subsequent recovery, inflation has remained subdued, with the U.S. Consumer Price Index for All Urban Consumers (CPI-U) averaging 1.8% per year over the period 2010-2019. Lower consumer demand due to the COVID-19 pandemic put significant downward pressure on prices, the U.S. CPI-U increased by just 1.0% during the 12-month period ending July 2020. Inflation is expected to recover in 2021 and average 2.1% in the next five years.

Local inflation tends to track national inflation because commodity prices and national economic conditions are key drivers of local prices. Seattle inflation has, however, been running higher in recent years due to the region's high housing price inflation. From 2011 to 2019, Seattle CPI-U has grown on average 2.2% each year, compared to 1.8% for the U.S. CPI-U. Average annual housing inflation for this period was 3.9% for Seattle and 2.3% for the U.S. This trend will very likely continue, since the pandemic has increased demand in the housing market, resulting in rising home prices. After a drop to 1.5% in 2020, Seattle area CPI-U inflation is expected to continue to track higher than national inflation and average 2.3% in the next few years.

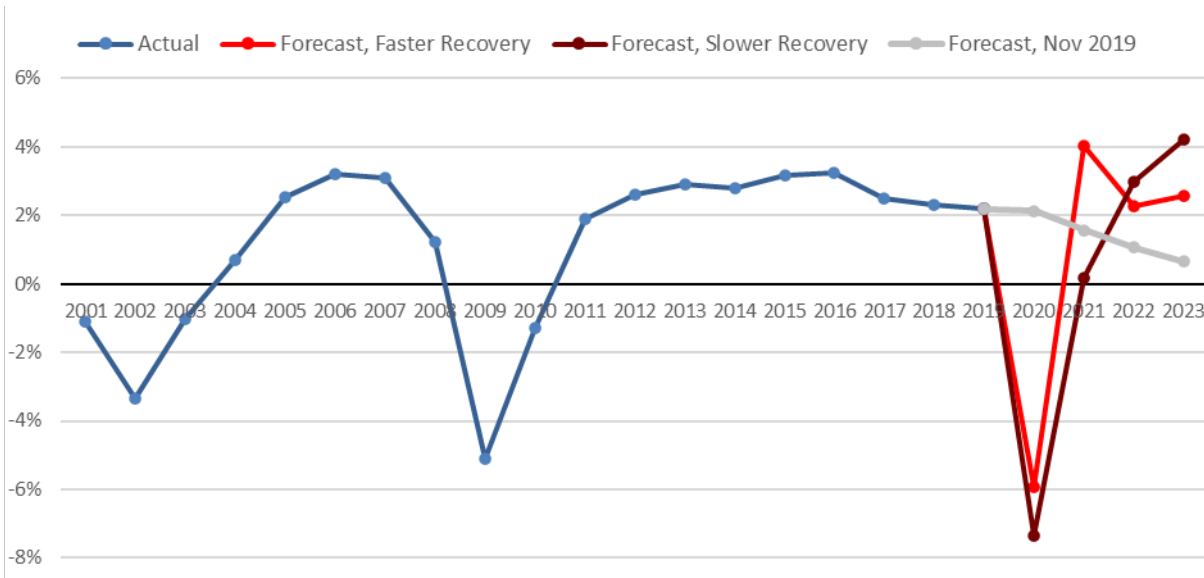
**Regional Economic Outlook** The regional economy and its labor force are well diversified, and with a large share of technology and e-commerce sector employment, the Seattle area has the potential for healthy employment growth once the current problems subside.

Based on the August CBO regional economic forecast, Seattle MD payroll employment is expected to decline in 2020 by 5.9% in the faster recovery scenario and 7.4% in the slower recovery scenario. The recovery will be gradual and take years: the 2019 Q4 peak is reached in the faster recovery scenario in

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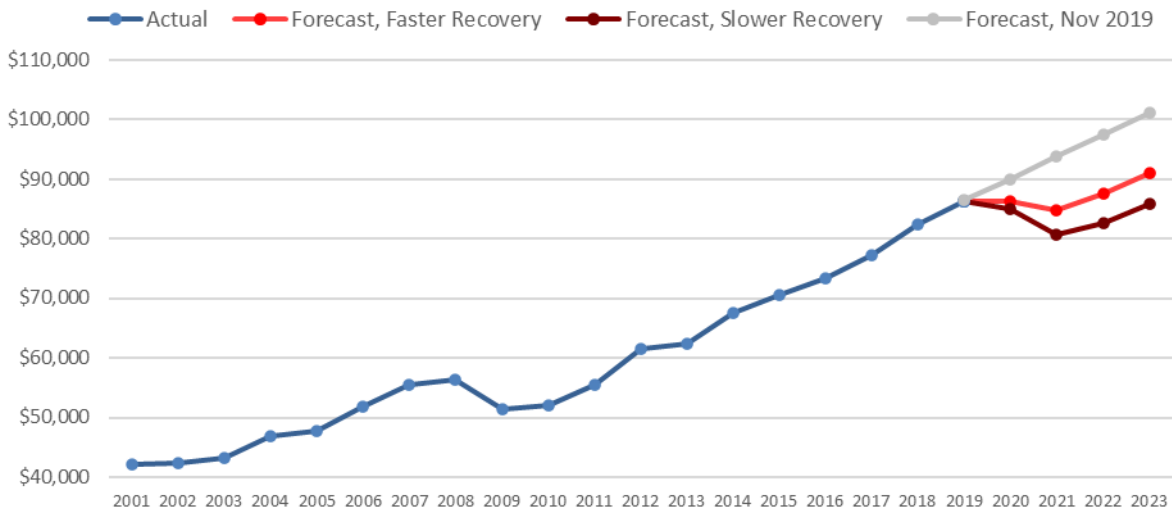
2022 Q4, and in the slower recovery scenario only in 2023 Q4. This would still be a quicker recovery than after the 2007 recession, when employment took five and half years to recover.

**Figure 6. Payroll Employment Growth, Seattle MD**



Personal income per capita is predicted to drop from its peak by 1.8% in the faster recovery scenario and by 6.9% in the slower recovery scenario before resuming growth in 2022.

**Figure 7. Per Capita Personal Income, Seattle MD**



There are several sources of uncertainty and downside risk for the local economy, both in the short- and long-run. Boeing is still struggling to get the 737 MAX approved to resume service after being grounded in March 2019. In addition, the collapse in demand for travel and canceled orders have led Boeing to consider whether to consolidate its two 787 assembly lines, in Washington and South Carolina, into a

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single location. Closing the assembly line in Everett where Boeing employs 30,000 workers would have large negative consequences not just for the local aerospace industry, but the local economy as a whole.

Prosperity in the leisure and hospitality sector, local hotels and restaurants, is closely tied to tourism, conventions and cruises. The travel and hospitality industry is a major employer in the region, it is facing a slow recovery from the pandemic, and the long term effects are hard to foresee, given how much they depend on consumers' perception of how safe it is to engage in these activities.

The outlook for the construction sector depends largely on the extent to which employers shift to work from home and the resulting drop in demand for new office space. In addition, there are signs that the pandemic might increase demand for living in the suburbs rather than densely populated city cores, slowing down multifamily housing construction in city centers.

Finally, the payroll expense tax that the Seattle City Council passed in July will add to business costs, possibly slow down the employment recovery, and make Seattle less attractive relative to other cities in the region. Amazon has recently revealed a plan to accommodate 25,000 employees in Bellevue in the next few years, up from 15,000 announced in February. The company said there are no new projects planned for Seattle. This follows the company's decision to sublease rather than occupy the Rainier Square Tower and might suggest an Eastside shift over the next several years. If a regional payroll tax is adopted at a level comparable to the one in JumpStart Seattle, labor demand and job growth will very likely be negatively affected in the whole region.

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## City Revenue

The following sections describe forecasts for revenue supporting the City’s primary operating fund, the General Fund, its primary capital funds – the Cumulative Reserve Funds, and two select other funds – the Sweetened Beverage Tax Fund and the Short-Term Rental Tax Fund.

## General Fund Revenue Forecast

Expenses paid from the General Fund are supported primarily by taxes. As Figure 8 illustrates, the most significant revenue source is the property tax.

**Figure 8. 2021 Proposed General Fund Revenue Forecast by Source - \$1,496.3 Million**

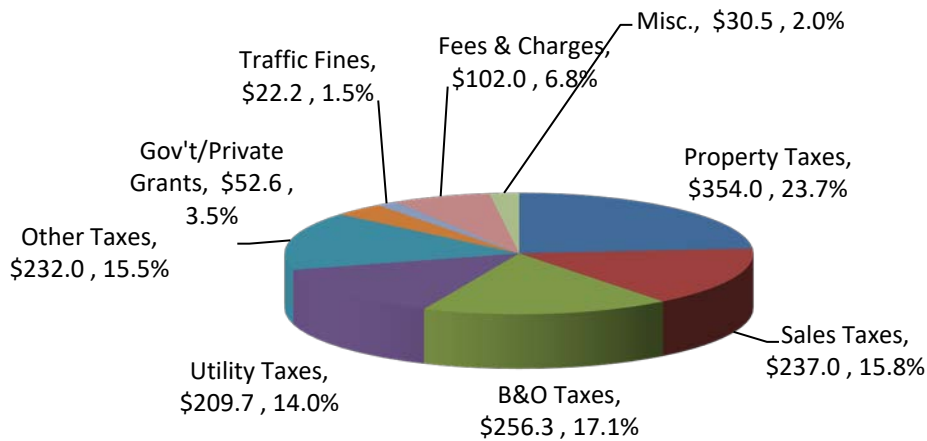
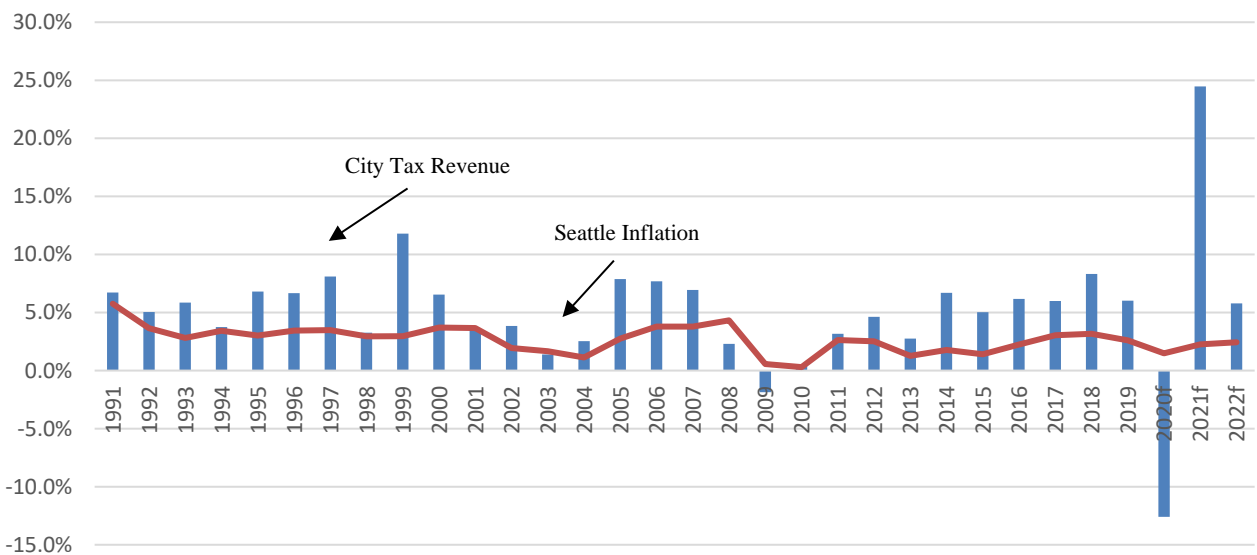


Figure 9 illustrates tax revenue growth compared to inflation. 2021 includes the new Payroll tax.

**Figure 9. City of Seattle Tax Revenue Growth, 1991-2022**





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**Figure 10. General Fund Revenue, 2019 – 2022\***  
(in thousands of dollars)

Account Code	Revenue	2019 Actuals	2020 Adopted	2020 Revised	2021 Proposed	2022 Proposed
310000	Payroll Tax	-	-	-	214,284	233,911
311010	Property Tax	268,168	277,985	274,740	285,750	297,472
311010	Property Tax-Medic One Levy	52,568	67,100	66,154	68,291	61,978
313010	Retail Sales Tax Use Tax - Brokered	268,955	274,740	212,930	218,371	236,338
313030	Natural Gas	1,502	1,358	1,148	1,296	1,434
313040	Retail Sales Tax - Criminal Justice Business & Occupation Tax (100%)	23,006	24,103	18,173	18,637	20,170
316010	Admission Tax	302,682	296,939	243,788	256,339	275,288
316020	Utilities Business Tax - Natural Gas (100%)	11,384	11,691	1,284	5,457	-
316070	Utilities Business Tax - Solid Waste (100%)	10,551	11,310	9,392	9,855	10,595
316080	Utilities Business Tax - Cable Television (100%)	1,907	1,800	1,500	1,500	1,500
316100	Utilities Business Tax - Telephone (100%)	15,203	14,739	13,900	13,232	12,588
316110	Utilities Business Tax - Steam (100%)	16,663	18,419	15,571	15,393	14,136
316120	Tonnage Tax (100%)	1,307	1,281	1,118	1,160	1,263
316180	Leasehold Excise Tax	6,426	6,634	5,732	5,983	6,481
317040	Gambling Tax	6,091	5,500	5,055	5,106	5,361
317060	Short-term Rental Tax	427	475	210	260	320
317090	Sweetened Beverage Tax	6,845	-	-	-	-
318100	Heating Oil Tax	24,119	-	-	-	-
318210	Transportation Network Company Tax	-	-	-	800	1,500
318310	Pleasure Boat Tax	-	8,877	-	5,022	11,491
335030	Pleasure Boat Tax	142	125	100	125	125
	<b>Total External Taxes</b>	<b>1,017,947</b>	<b>1,023,075</b>	<b>870,795</b>	<b>1,126,860</b>	<b>1,191,952</b>

\* In the past, 10% of certain tax and fee revenues were shown as revenue to the Parks and Recreation Fund and 90% as General Fund. As of 2009, 100% of these revenues (depicted as "100%" in the table) are deposited into the General Fund. General Fund support to the Department of Parks and Recreation is well above the value of 10% of these revenues.

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Account Code	Revenue	2019 Actuals	2020 Adopted	2020 Revised	2021 Proposed	2022 Proposed
316130	Utilities Business Tax - City Light (100%)	57,310	61,150	55,900	53,616	59,744
316140	Utilities Business Tax - City Water (100%)	34,468	34,936	33,494	32,792	36,555
316150	Utilities Business Tax - Drainage/Waste Water (100%)	53,170	55,420	55,694	59,797	63,459
316160	Utilities Business Tax - City SWU (100%)	22,031	21,502	19,771	21,020	23,408
	<b>Total Interfund Taxes</b>	<b>166,979</b>	<b>173,008</b>	<b>164,859</b>	<b>167,224</b>	<b>183,166</b>
321010	Professional & Occupational Licenses (100%)	7,296	5,384	3,474	4,264	5,350
321100	Business License Fees (100%)	17,821	18,599	14,351	15,090	16,205
321900	Marijuana License Fees	452	548	379	95	95
322030	Fire Permits & Fees	7,571	7,369	6,110	6,055	6,857
322040	Street Use Permits	1,227	1,721	1,597	1,694	1,933
322170	Vehicle Overload Permits Other Licenses, Permits & Fees	219	260	195	225	240
322200		866	1,132	2,173	1,505	2,383
322260	Meter Hood Service Other Non Business Licenses	2,735	4,500	3,825	3,600	4,275
322900		1,213	1,299	738	605	605
	<b>Total Licenses</b>	<b>39,400</b>	<b>40,812</b>	<b>32,841</b>	<b>33,132</b>	<b>37,944</b>
331110	Federal Grants - Other	8,873	1,959	5,059	5,759	4,759
331110	Federal Grants - CDBG Federal Indirect Grants - Other	-	1,794	830	1,080	650
333000		2,065	1,012	2,040	2,377	2,377
334010	State Grants - Other	4,635	4,450	4,339	4,123	4,123
	<b>Total Federal and State Grants</b>	<b>15,573</b>	<b>9,214</b>	<b>12,268</b>	<b>13,340</b>	<b>11,910</b>
335010	Marijuana Excise Tax Trial Court Improvement Account	1,410	1,500	1,350	1,350	1,350
335060		152	165	150	150	150
335070	Criminal Justice Assistance	4,085	3,715	4,100	4,100	4,100
335140	Liquor Excise Tax	4,082	3,750	2,500	4,000	4,000

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Account Code	Revenue	2019 Actuals	2020 Adopted	2020 Revised	2021 Proposed	2022 Proposed
335150	Liquor Board Profits	5,954	5,950	5,000	5,950	5,950
	<b>Total State Entitlements/Impact Programs</b>	<b>15,682</b>	<b>15,080</b>	<b>13,100</b>	<b>15,550</b>	<b>15,550</b>
337010	Interlocal Agreement	452	-	-	143	-
341060	Copy Charges	72	55	52	60	60
341180	Legal Services	1,675	1,434	1,434	1,700	1,708
341190	Automated Fingerprint Information System (AFIS)	3,865	3,926	3,865	3,926	3,926
341190	Fire Special Events Services	1,872	1,530	650	879	1,450
341190	Personnel Services	-	928	-	1,120	1,118
341220	Animal Shelter Licenses & Fees	2,322	2,532	1,851	1,896	1,991
341220	Other Service Charges - General Government	2,273	766	946	1,327	1,384
341220	Vehicle Towing Revenues	881	650	600	650	650
342010	Law Enforcement Services	12,668	7,201	4,131	9,287	9,466
342050	Adult Probation and Parole (100%)	233	300	160	220	270
342120	E-911 Reimbursements & Cellular Tax Revenue	2,822	3,531	2,797	2,377	2,377
342160	Emergency Alarm Fees	1,743	100	-	935	935
	<b>Total External Service Charges</b>	<b>30,878</b>	<b>22,954</b>	<b>16,486</b>	<b>24,520</b>	<b>25,336</b>
342040	Court Fines (100%)	29,323	27,127	15,931	22,244	24,932
350080	Municipal Court Cost Recoveries (100%)	430	300	179	266	300
	<b>Total Court Fines</b>	<b>29,752</b>	<b>27,427</b>	<b>16,110</b>	<b>22,510</b>	<b>25,232</b>
360010	Interest on Investments	3,652	6,765	3,750	2,125	2,110
360130	Other Interest Earnings	984	450	375	375	375
360290	Parking Meters	38,298	38,578	10,434	23,510	33,777
360900	Other Miscellaneous Revenue	20,527	69,338	68,671	1,190	1,190
	<b>Total Miscellaneous Revenues</b>	<b>63,461</b>	<b>115,131</b>	<b>83,230</b>	<b>27,199</b>	<b>37,452</b>

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Account Code	Revenue	2019 Actuals	2020 Adopted	2020 Revised	2021 Proposed	2022 Proposed
341900	Interfund Revenue to City Budget Office	1,989	1,874	1,874	1,701	1,701
341900	Interfund Revenue to HR	17,656	22,304	22,304	18,979	19,785
341900	Miscellaneous Interfund Revenue	24,306	23,878	24,101	23,563	23,564
	<b>Total Interfund Charges</b>	<b>43,951</b>	<b>48,055</b>	<b>48,278</b>	<b>44,243</b>	<b>45,050</b>
341900	Transfer from - Utilities for Council Oversight	541	600	185	778	778
397010	Transfer from - Other Fund	17,125	6,961	3,656	21,020	-
	<b>Total Operating Transfers</b>	<b>17,666</b>	<b>7,561</b>	<b>3,841</b>	<b>21,798</b>	<b>778</b>
	<b>Total General Fund</b>	<b>1,441,289</b>	<b>1,482,317</b>	<b>1,261,808</b>	<b>1,496,377</b>	<b>1,574,368</b>

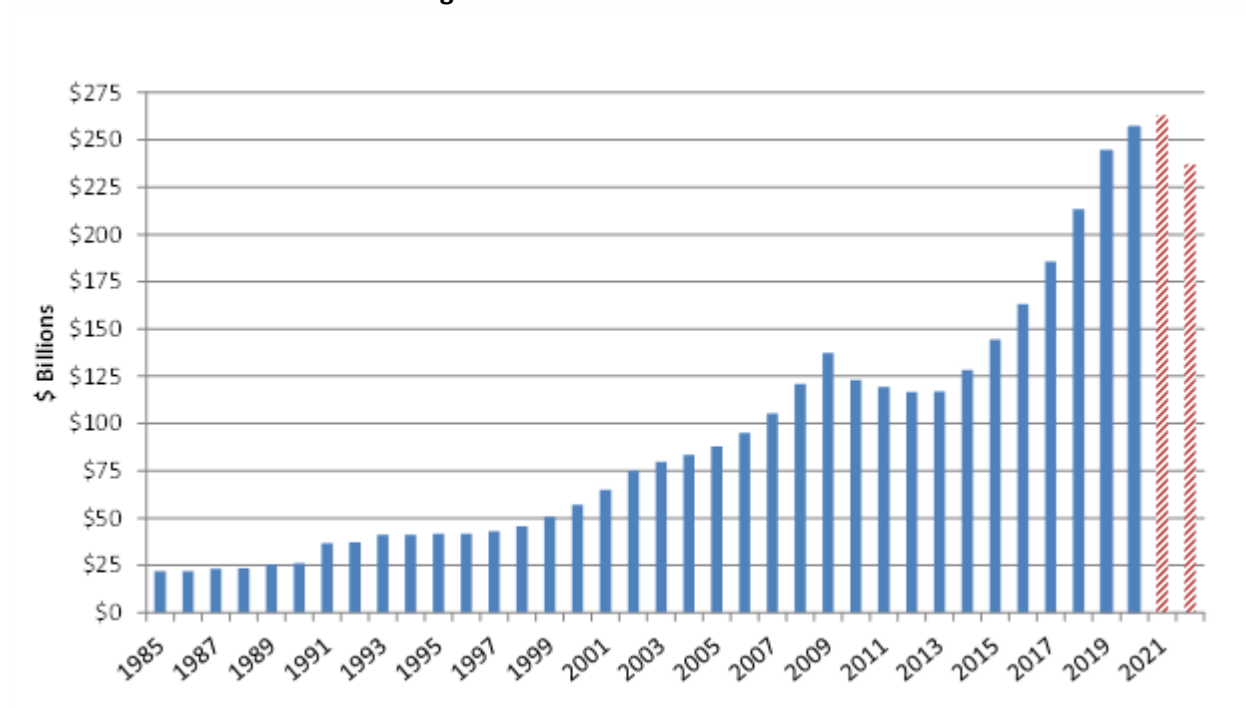
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## Property Tax

Property tax is levied primarily on real property owned by individuals and businesses. Real property consists of land and permanent structures, such as houses, offices, and other buildings. In addition, property tax is levied on various types of personal property, primarily business machinery and equipment. Under Washington State law, property taxes are levied by governmental jurisdictions in accordance with annual growth and total rate limitations.

*Assessed Value (AV)* -- Seattle AV growth for the 2020 tax collection year slowed significantly from 14.53% in 2019 to 4.97% in 2020. Growth is expected to slow even further to 2.39% and -9.89% respectively for 2021 and 2022 tax collection years. These decreases in AV will lead to increases in the tax rates and decreases in the amount of revenue the City will receive from the Medic 1/Emergency Medical Services levy (see below).

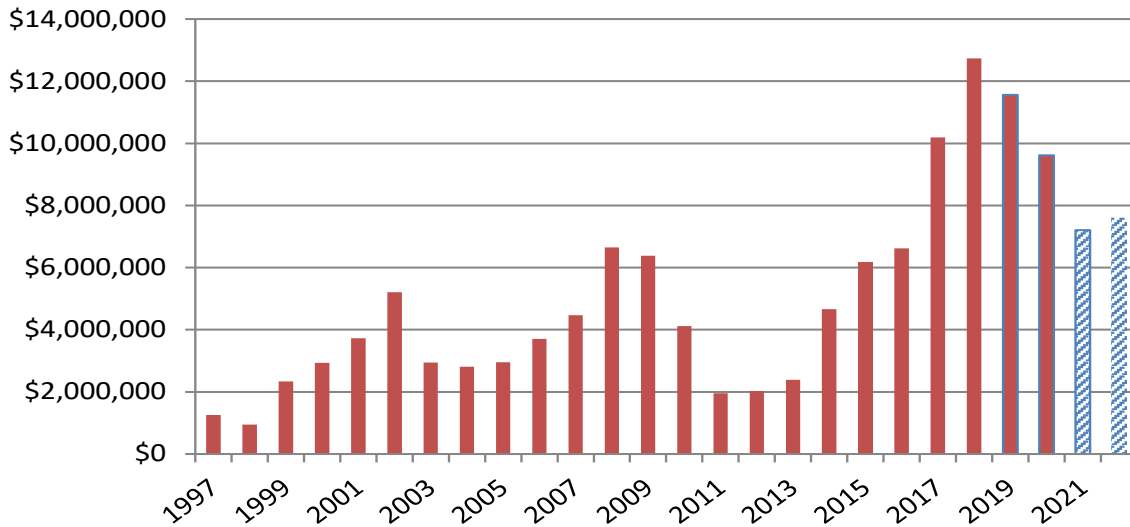
**Figure 11. Seattle Total Assessed Value**



*New Construction* -- In addition to the allowed annual maximum 1% levy growth, state law permits the City to increase its regular levy in the current year by an amount equivalent to the previous year's tax rate times the value of property constructed or remodeled within the last year, as determined by the assessor. The City is receiving \$9.6 million in additional levy revenues from new construction in 2020 based on \$4.66 billion in new construction added to the tax roll. The 2021 Proposed Budget assumes a decrease in new construction value to \$3.39 billion in 2021. These new construction volumes are projected to generate \$7.2 million in 2021 revenue.

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Figure 12. Seattle New Construction Property Tax Revenue



**The 2021 Proposed Budget assumes 1% growth plus new construction.** The forecast for the 2021 Proposed Budget’s General Fund (General Purpose) portion of the City’s property tax is a downwardly revised \$274.7 million in 2020 and \$285.7 million in 2021. Additionally, the City is levying approximately \$264.7 million for voter-approved lid lifts in 2020, and \$268.1 million in 2021. All levy lid lift proceeds are accounted for in other funds than the City’s General Fund. Finally, the City is levying \$22.7 million in 2020 and 2021 to pay debt service on voter-approved bond measures.

**Seattle Parks District.** 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, per its 6-year spending plan (2015-2020), is levying approximately \$53.3 million in 2020 and \$54.6 million in 2021, the first year under its second 6-year plan (2021-2026).

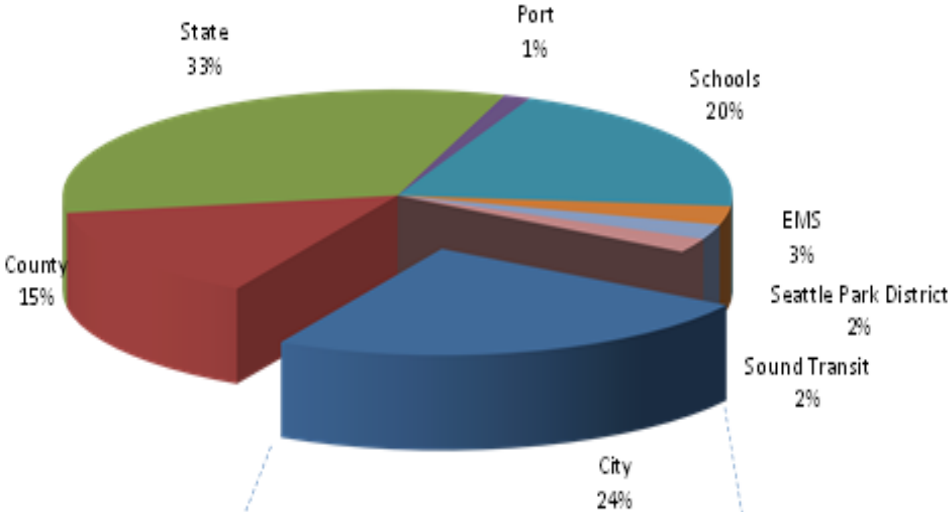
**Medic 1/Emergency Medical Services.** Voters in November 2019 approved a 6-year (2020-2025 collection years) renewal of the Medic 1/EMS levy at \$0.265 per \$1,000 of AV. Seattle’s share of this revenue is based on Seattle’s assessed value multiplied by the County rate. These revenues are recorded in the General Fund and expended by the Seattle Fire Department. This generates a revised \$66.1 million in 2020 and \$68.3 million in revenue in 2021.

Figure 13 shows the different jurisdictions whose rates make up the total property tax rate imposed on Seattle property owners, as well as the components of the City’s 2020 property tax.

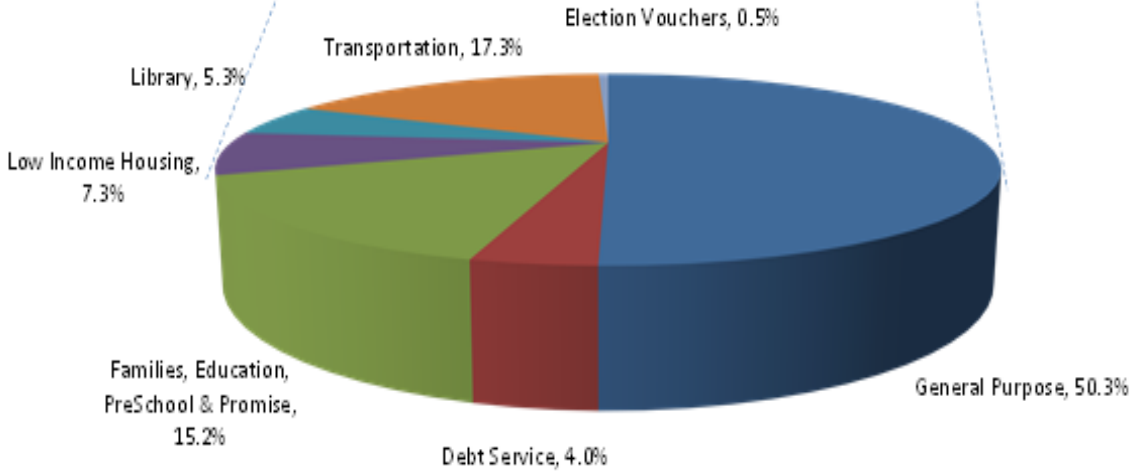
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Figure 13.

Components of Total Property Tax Levy for 2020  
(tax rate = \$9.23 per \$1,000 assessed value)



Components of City's Property Tax Levy for 2020  
(tax rate = \$2.22 per \$1,000 assessed value)



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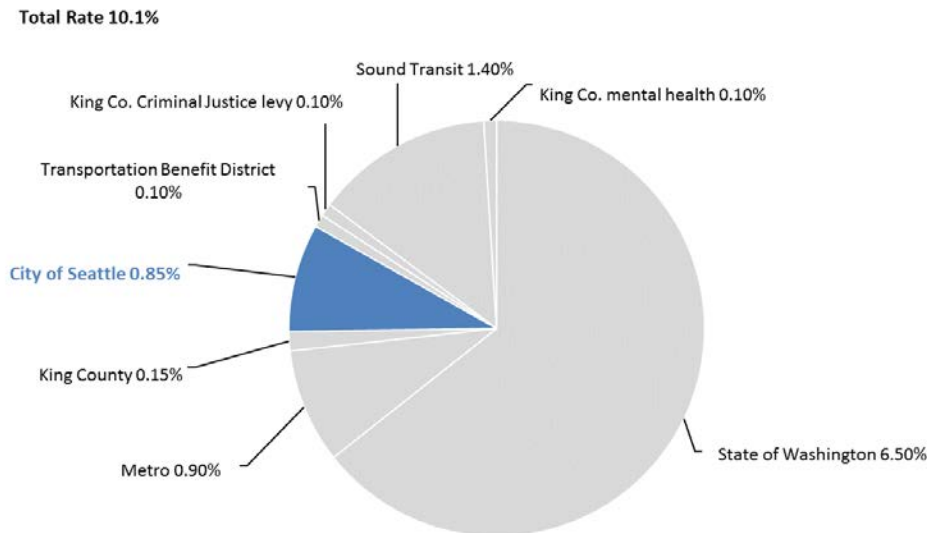
## Retail Sales and Use Tax

The retail sales and use tax (sales tax) is imposed on the sale of most goods and certain services in Seattle. The tax is collected from consumers by businesses which, in turn, remit the tax revenue to the state. The state sends the City its share of the collections each month.

The current sales tax rate in Seattle is 10.1%. The rate was increased to 10.1% on April 1, 2017 by the addition of a voted increase of 0.5% for the Regional Transit Authority (Sound Transit). This followed an increase from 9.5% to 9.6% on April 1, 2015, when a 0.1% sales tax levy for the Seattle Transportation Benefit District was added. Seattle voters approved that increase in November 2014.

The basic sales tax rate of 10.1% is a composite of separate rates for several jurisdictions as shown in Figure 14. The City of Seattle's portion of the overall rate is 0.85%. In addition, Seattle receives a share of the revenue collected by the 0.1% King County Criminal Justice Levy. Revenue collected by the Seattle Transportation Benefit District is used to make transportation improvements in Seattle.

**Figure 14. Sales and Use Tax Rates in Seattle, 2019**



**Sales tax revenue has grown and contracted with the local economy's ups and downs.** Of the City's four major taxes, the sales tax is the most volatile because it is the most sensitive to changing economic conditions. Over half of sales tax revenue comes from retail trade and construction activity, which are very sensitive to changing economic conditions.

Seattle's sales tax base grew rapidly in the late 1990s, driven by a strong national economy, expansion at Boeing in 1996-1997, and the stock market and technology booms. The recession that followed the bursting of the stock market bubble and the September 11, 2001 terrorist attacks ushered in three successive years of declining revenue. This was followed by four years of healthy growth, 2004–2007, led by a surge in construction activity. That expansion ended in 2008 with the onset of the Great Recession, which caused the largest contraction in the sales tax base in more than 40 years. In a period of five quarters beginning with the third quarter 2008, the sales tax base shrunk by 18.2%. The decline was led by a steep drop in construction along with falling sales in almost every industry.

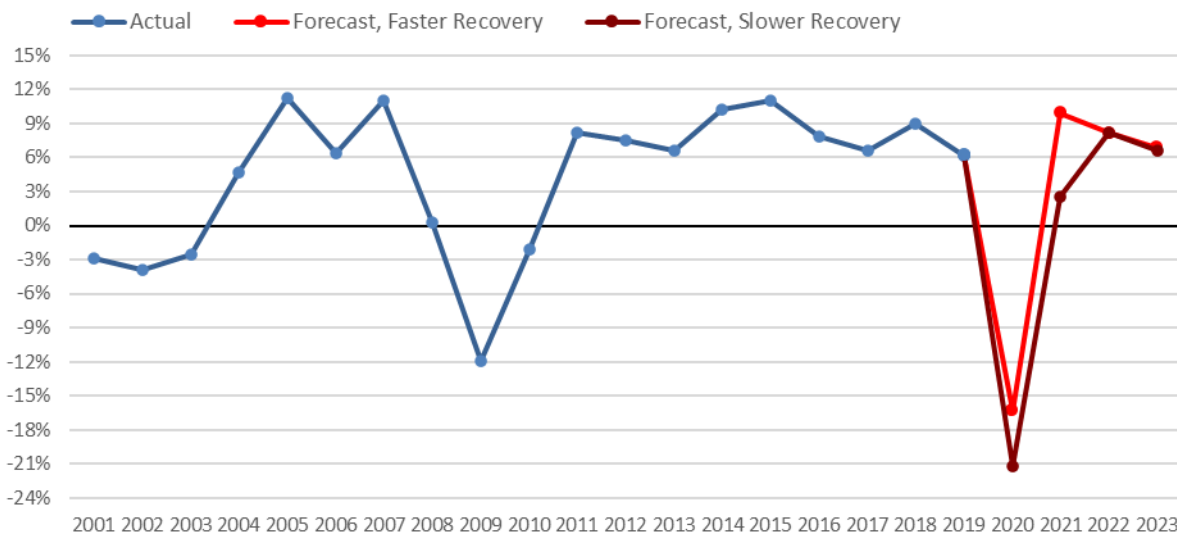


# Revenue Overview

After hitting bottom in 2010, Seattle’s sales tax base has rebounded strongly, with construction leading the way. Other fast-growing industries include motor vehicle and parts retailing, e-commerce retailing, professional, scientific and technical services, accommodation, and food services. Over the 2011-2018 period sales tax revenue increased on average at an average rate of 8.4% per year.

Sales tax revenue has declined by 15.0% in the first six months of 2020 compared to the same period in the previous year. The biggest decline took place in tax revenue from leisure and hospitality services which fell by 54.6%. The construction sector declined by 13.4% and the trade services sector only by 1.5%, thanks to online sales. Revenue from the rest of the services was lower by 10.1%. The second half of 2020 should see a gradual improvement, but sales tax revenue for the whole year 2020 is still expected to be 16.3% lower year-over-year in the faster recovery scenario and 21.2% in the slower recovery scenario (see Figure 15).

**Figure 15. Annual Growth of Retail Sales Tax Revenue**



## Business and Occupation Tax

Seattle’s principal business tax is the business and occupation (B&O) tax, which is levied on the gross receipts of most business activity that takes place in the city. The B&O tax has a small business threshold of \$100,000, which means businesses with taxable gross receipts below \$100,000 are exempt from the tax. Between January 1, 2008 and January 1, 2016, the City’s B&O tax also included a square footage tax that was complementary to the gross receipts tax. The square footage tax was implemented to offset an expected revenue loss from state mandated changes in the allocation and apportionment of B&O income. Included in B&O tax revenue are tax refunds, audit payments, and penalty and interest payments for past-due tax obligations.

The City levies the gross receipts tax at different rates on different types of business activity, as indicated in Figure 16. Most types of business activity, including manufacturing, retailing, wholesaling, and printing and publishing, are subject to a tax of 0.222% on taxable gross receipts. Services and transporting freight for hire are taxed at a rate of 0.427%. In 2017 and 2018, the City increased B&O tax rates to the maximum allowed under state law. The increase took place in two steps, a roughly two percent increase on January 1, 2017 and an increase of approximately one percent on January 1, 2018. In addition, the special 0.15% rate for international investment management services was eliminated on January 1, 2017.

# Revenue Overview

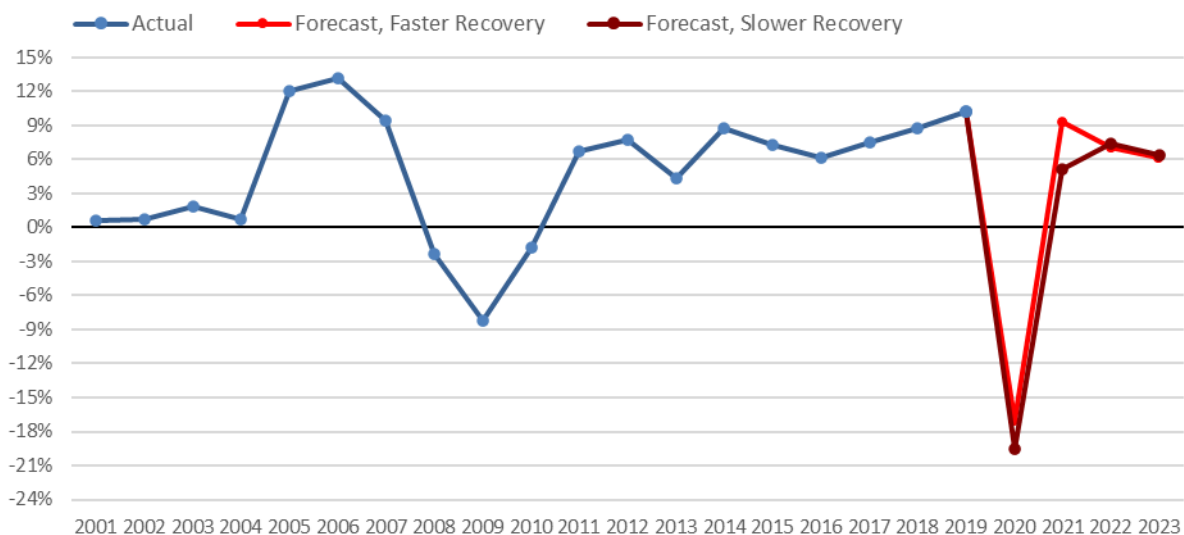
**Figure 16. Seattle Business and Occupation Tax Rates, 2016 – 2020**

	2016	2017	2018-present
Wholesaling, Retail Sales and Services	0.215%	0.219%	0.222%
Manufacturing, extracting	0.215%	0.219%	0.222%
Printing, publishing	0.215%	0.219%	0.222%
Service, other	0.415%	0.423%	0.427%
International investment management	0.150%	NA	NA

Other things being equal, the B&O tax base is more stable than the retail sales tax base. The B&O base is broader than the sales tax base, which does not cover most services. In addition, the B&O tax is less reliant than the sales tax on the relatively volatile construction and retail trade sectors, and it is more dependent upon the relatively stable service sector.

**B&O revenue growth has mirrored the growth of the local economy.** B&O receipts have fluctuated with the economy’s ups-and-downs, rising rapidly during the late-1990s stock market and dot-com boom and the housing bubble of the mid-2000s, going flat from 2001–2004 during the previous decade’s first recession, and falling sharply during the Great Recession (see Figure 17). During the Great Recession the B&O tax base lost 16.8% of its value between first quarter 2008 and second quarter 2010.

**Figure 17. Annual Growth of B&O Tax Revenue**



B&O tax revenue has grown at a healthy pace during the recovery from the Great Recession. Over the 2011-2018 period, revenue increased on average at a 7.2% annual rate. Growth was weak in 2013 because of a drop in the revenue from audit activity and an increase in refund payments, not because of a weakening of tax base growth. Industries growing rapidly during the recovery have been construction, information, real estate, management of companies and enterprises, food services, and accommodation.

The B&O revenue payments for the first two quarters of 2020 are 12.8% lower than in the same period last year. Tax revenue for the whole year 2020 it is expected to decrease by 17.1% in the faster recovery

# Revenue Overview

scenario and 19.5% in the slower recovery scenario. A one-time drop in revenue is expected in 2020 as a result of HB 1059, which changes the due date for annual payments from January 31 to April 15 beginning with 2020 obligations. Since January and February payments are accrued to 2020, but April and May payments are accrued to 2021, this delay in due date lowers the forecasted growth rate for the 2020 B&O tax revenue by roughly 1.5%.

## Utility Business Tax - Private Utilities

The City levies a tax on the gross income derived from sales of utility services by privately owned utilities within Seattle. These services include telephone, steam, cable communications, natural gas, and refuse collection for businesses.

**Natural gas prices remain low.** The City levies a 6% utility business tax on gross sales of natural gas and on sales of steam which has natural gas as an energy source. The bulk of revenue from the natural gas tax is received from Puget Sound Energy (PSE). PSE's natural gas rates are approved by the Washington Utilities and Transportation Commission (WUTC). Another tax is levied on consumers of gas delivered by private brokers. It is also assessed at 6% on gross sales. Spot prices, those paid for delivery in the following month, continue to be low. Temperatures play a key role in gas related revenues and are inversely related to natural gas usage and subsequent tax receipts.

**Telecommunications tax revenues continue to decline.** The utility business tax is levied on the gross income of telecommunication firms at a rate of 6%. Revenue from traditional land-line services has been on a steady decline. This was counteracted by the increasing prevalence of mobile/wireless phones. While new smartphone users have added to the wireless tax revenue base, the increased use of data and internet services which are not taxable have caused declines in the revenue streams.

As more and more wireless phone users are using the devices for data transmission instead of voice or text applications, and telecom companies change their rate plans to respond to this consumer behavior, the City may continue to see tax revenue declines. Some recent court decisions have altered what types of wireless phone calls the City can tax; the City may no longer assess a tax on interstate and international phone calls. There are continued pressures on this revenue stream.

**Cutting the cord is affecting Cable Tax revenues.** The City has franchise agreements with cable television companies operating in Seattle. Under the current agreements, the City levies a 10% utility tax on the gross subscriber revenues of cable TV operators, which accounts for about 90% of the operators' total revenue. The City also collects B&O taxes on miscellaneous revenues not subject to the utility tax. The imposition of a 4.4% franchise fee makes funds available for cable-related public access purposes. This franchise fee is deposited into the City's Cable Television Franchise Fund. Cable revenues have been declining year over year for some time. Increased competition from satellite and streaming services appear to be taking customers away from traditional cable providers. That is expected to continue and will be a drag on revenues.

## 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. The COVID-induced recession is having a small impact on commercial revenues for the utilities, while residential usage is resilient.

# Revenue Overview

## Other Notable Taxes

**Admission Tax.** The City imposes a 5% tax on admission charges to most Seattle entertainment events, the maximum allowed by state statute. This revenue source is highly sensitive to swings in attendance at athletic events. It is also dependent on economic conditions, as people’s ability and desire to spend money on entertainment is influenced by the general prosperity in the region. The recession has almost completely wiped out admissions tax revenues since March of 2020. The forecast is for a slow recovery in 2021. Beginning in 2022, all admissions tax revenues will be receipted into the Arts & Culture Fund. The Office of Arts and Culture section of this document provides further detail on the office’s use of Arts Account revenue from the admission tax and the implementation of this change.

**New Heating Oil Tax delayed.** Effective September 1, 2020, Council imposed a \$0.236 per gallon tax on heating oil service providers for every gallon of heating oil sold and delivered within Seattle. Council has delayed implementation until July of 2021. This tax is estimated to generate \$800,000 in 2021. The revenues primarily support low-income household oil furnace conversion programs administered by the Office of Sustainability and Environment.

**New 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. 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 has reduced the ride threshold to 200,000 rides per quarter effective in October 2020. The first proceeds are not expected until the first quarter of 2021. This tax is estimated to raise \$5.0 million in 2021.

## Licenses and Permits

The City requires individuals and companies conducting business in Seattle to obtain a City business license. In addition, some business activities, such as taxi cabs and security systems, require additional licenses referred to as professional and occupational licenses. The City also assesses fees for public-safety purposes and charges a variety of fees for the use of public facilities and rights-of-way.

In 2005 the City instituted a two-tier business license fee structure. The cost of a license, which had been \$80 per year for all businesses, was raised to \$90 for businesses with worldwide revenues of more than \$20,000 per year and lowered to \$45 for businesses with worldwide revenues less than \$20,000 per year. The City increased the fees for 2015 license renewals to \$110 and \$55, respectively. To provide funding for additional police officers, new business license fee structure took effect for 2017 licenses. Fees increased for businesses that have a taxable income (reported for B&O tax purposes) greater than \$500,000. Fees for all other businesses remain at 2016 levels until 2020. Fee increases were being phased in over a three-year period, 2017–2019, and will increase with inflation annually thereafter.

**Figure 18. Business License Fee Schedule, 2016 – 2021**

Taxable income	2016*	2017	2018	2019	2020	2021
Less than \$20,000	\$55	\$55	\$55	\$55	\$56	\$56
\$20,000 - \$500,000	\$110	\$110	\$110	\$110	\$113	\$114
\$500,000 - \$2 mil.	\$110	\$480	\$480	\$500	\$511	\$515
\$2 mil. - \$5 mil.	\$110	\$1,000	\$1,000	\$1,200	\$1,227	\$1,238
More than \$5 mil.	\$110	\$1,000	\$2,000	\$2,400	\$2,455	\$2,476

# Revenue Overview

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\*2016 fee is based on worldwide gross income, not taxable income.

## Parking Meters/Traffic Permits

As part of the overall response to the Corona virus, the City suspended on-street parking rates as of April 4, 2020. On July 13 the system was restarted with rates set at \$0.50 per hour and are anticipated to increase gradually at intervals as occupancy levels increase with the recovery into 2021. Overall 2020 revenue losses, relative to the 2020 Adopted Budget are anticipated to be on the order of 70%, or about \$28 million. In addition to expectations for rate growth by neighborhood, forecasts for 2021 are also trying to anticipate the loss or additions of paid parking spaces as the Department of Transportation attempts to respond to changing demands on city streets and curb space.

**Street Use and Traffic Permits.** Traffic-related permit fees, such as meter hood service, commercial vehicle load zone, truck overload, gross weight and other permits are projected to generate revenues of approximately \$5.6 million in 2020 and \$5.5 million in 2021. These are revised down from approximately \$6.5 million in the 2020 Adopted Budget.

## Court Fines

Typically, between 50% and 60% of court fine revenues collected by the Seattle Municipal Court are from parking citations written by Seattle Police Department parking enforcement (PEOs) and traffic officers. Fines from photo enforcement in selected intersections and school zones now comprise approximately 35-45% of revenues and 5-10% comes from traffic and other non-parking related citations.

Total 2020 General Fund fines revenues are expected to decrease in the 2021 Proposed Budget to \$15.6 million from \$27.1 million in the 2020 Adopted Budget. 2021 revenues are projected to increase to \$22.4 million. Of this total, Red light camera enforcement revenues (i.e., non-school zone cameras) are anticipated to be \$3.3 million in 2020 and \$3.6 million in 2021. These amounts are fully recognized in the General Fund. In 2021, per the City Council's action for 2018-20 to suspend the prior requirement of transferring 20% of red-light camera revenues to the School Safety Traffic and Pedestrian Improvement (SSTPI) Fund, an estimated \$700,000 is transferred to the SSTPI Fund, bringing the total Red Light Camera revenues to approximately \$4.3 million. Non-camera fine revenues are projected at approximately \$18.8 million in 2021, which is down from 2019 actual receipts of \$23.8 million but an increase from the \$12.4 million expected in 2020.

The 2021 Proposed Budget revises downward school zone camera revenue for 2020 from \$10.6 million to \$2.9 million. This revision is due to school closures with the onset of the Corona virus and delayed implementation of 10 new cameras at 6 schools. 2021 revenues assume in-person instruction and activation of the new cameras effective January 1, 2021. The forecast for 2021 revenues is \$13.2 million. School zone camera revenues are accounted for in the School Safety Traffic and Pedestrian Improvement Fund.

## Interest Income

Through investment of the City's cash pool in accordance with state law and the City's own financial policies, the General Fund receives interest and investment earnings on cash balances attributable to several of the City's funds that are affiliated with general government activities. Many other City funds are independent, retaining their own interest and investment earnings. Interest and investment income

# Revenue Overview

to the General Fund varies widely, subject to significant fluctuations in cash balances and changes in earnings rates dictated by economic and financial market conditions. Rates fell further with the Federal Reserve's actions as a result of the recession. This revenue will remain reduced for the foreseeable future.

## Revenue from Other Public Entities

***Washington State shares revenues with Seattle.*** The State of Washington distributes a portion of tax and fee revenue directly to cities. Specifically, portions of revenues from the State General Fund, liquor receipts (both profits and excise taxes), and motor vehicle fuel excise taxes, are allocated directly to cities. Revenues from motor vehicle fuel excise taxes are dedicated to street maintenance expenditures and are deposited into the City's Transportation Fund. Revenues from the other taxes are deposited into the City's General Fund.

***Criminal Justice revenues are stable.*** The City receives funding from the State for criminal justice programs. The State provides these distributions out of its General Fund. These revenues are allocated on the basis of population and crime rates relative to statewide averages. These revenues have been affected by State budget changes in the recent past and, while not expected, could be affected in future budgets out of Olympia.

***Marijuana related revenues are being shared with local jurisdictions.*** As part of the State's 2016 budget, marijuana related tax revenues are being shared with local jurisdictions for public safety purposes. The state has adopted a complicated allocation of these revenues, but in general only those cities in counties that have legalized marijuana sales will receive excise tax distributions based on both their jurisdictions proportion of marijuana related sales as well as a per capita basis. Because this is a relatively new revenue stream with a growing tax base, the forecast is imprecise.

***State budget restores liquor related revenues to cities.*** Cities in the state of Washington typically receive two liquor related revenues from the State. One is related to the liquor excise tax on sales of spirits and the other is a share in the State Liquor and Cannabis Board's profits accrued from the operation from their monopoly on spirits sales. The State no longer holds the monopoly in liquor sales in the state due to the passing of Initiative 1183 in November of 2011. The initiative guaranteed the cities would continue to receive distributions in an amount equal to or greater than what they received from liquor board profits prior to the implementation of the initiative as well as an additional \$10 million to be shared annually. There was no guarantee concerning liquor excise taxes. In recent budgets the State has eliminated, on a temporary basis, the sharing of liquor excise taxes. The most recent State budget has restored fully the excise tax funding to cities.

## Service Charges and Reimbursements

***Internal service charges reflect current administrative structure.*** In 1993, the City Council adopted a resolution directing the City to allocate a portion of central service expenses of the General Fund to City utilities and certain other departments not supported by the General Fund. The intent is to allocate a fair share of the costs of centralized general government services to the budgets of departments supported by revenues that are largely self-determined. These allocations are executed in the form of payments to the General Fund from these independently supported departments. More details about these cost allocations and methods are detailed in the Cost Allocation section of this budget.

# Revenue Overview

## Interfund Transfers

**Interfund transfers.** Occasionally, transfers from departments to the General Fund take place to pay for specific programs that would ordinarily be executed by a general government department or to capture existing unreserved fund balances. A detailed list of these transfers is included in the General Fund revenue table found in the Funds and Other section. This includes the transfer of school zone camera revenues described under Court Fines above.

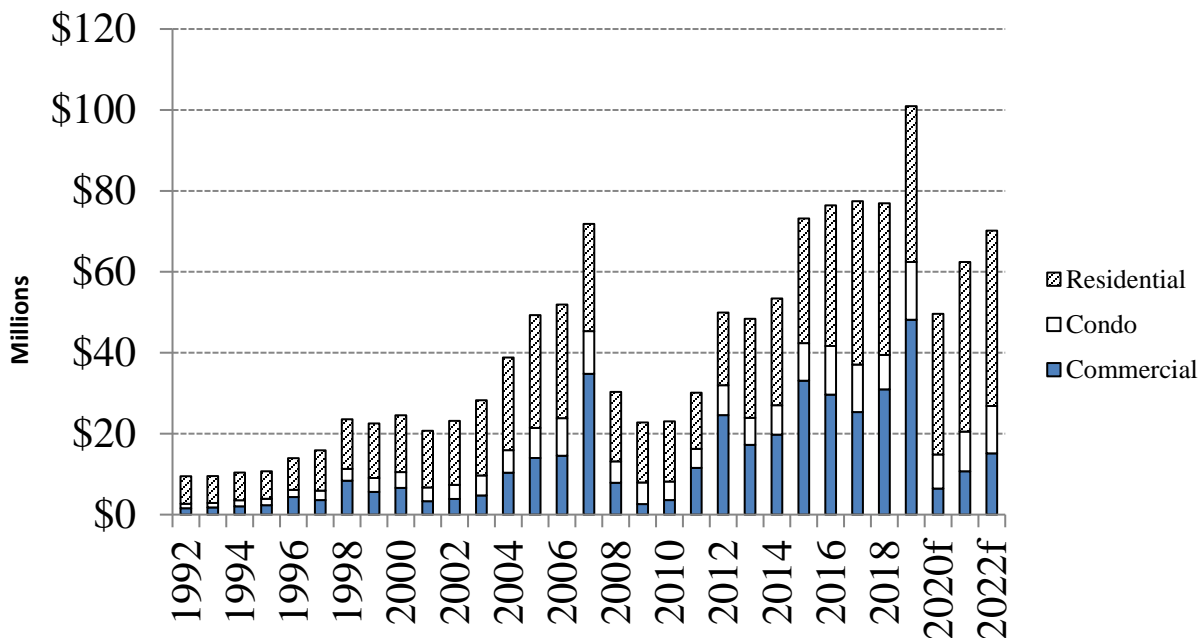
In adopting the 2020 Budget, it is the intent of the City Council and the Mayor to authorize the transfer of unencumbered, unreserved fund balances from the funds listed in the Finance General revenue table to the General Fund.

## Cumulative Reserve Fund – Real Estate Excise Tax

The Cumulative Reserve Fund resources are used primarily for the maintenance and development of City general government capital facilities. These purposes are supported mainly by revenues from the Real Estate Excise Tax (REET), but also, to a lesser degree, by the proceeds from certain property sales and rents, street vacation revenues, General Fund transfers, and interest earnings on fund balances.

The REET is levied by the City at a rate of 0.5% on sales of real estate measured by the full selling price. Because the tax is levied on transactions, the amount of revenue that the City receives from REET is determined by both the volume and value of transactions.

Figure 19. REET Revenues



## Sweetened Beverage Tax Fund

On June 5, 2017, the City Council approved the Sweetened Beverage Tax (SBT) effective January 1, 2018. Distributors of sweetened beverages are liable for the tax of \$0.0175 per fluid ounce of sweetened

## Revenue Overview

beverage distributed into the city of Seattle for final sale to the consumer. The 2021 Proposed Budget includes revenues of \$15.4 million in 2020 revised downward from \$24.3 million in the 2020 Adopted Budget. Restaurant consumption is anticipated to increase somewhat in 2021, increasing these revenues to \$20.7 million. Sweetened beverages include sodas, energy drinks, sweetened juices and teas, sport drinks and ready-to-drink coffee drinks. Revenues will be used to fund educational and food access programs primarily through the Department of Education and Early Learning (DEEL), the Human Services Department (HSD) and the Office of Sustainability and Environment (OSE). Beginning in 2020 these revenues and associated expenditures are moved from the General Fund to the Sweetened Beverage Tax Fund in the City's accounting system.

### 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). The proceeds generated from short-term rental charges in Seattle are distributed to the City of Seattle to support community-initiated equitable development and affordable housing programs. These revenues have been severely affected by the significant reduction in travel due to COVID-19 concerns. The 2021 Proposed Budget assumes 2020 revenues decline from \$10.5 million to \$3.7 million. Some growth is anticipated in 2021 to \$7.3 million. Beginning in 2020 these revenues and associated expenditures are moved from the General Fund to the Short-Term Rental Tax Fund in the City's accounting system.



# Revenue Overview

**Figure 20. Seattle City Tax Rates**

	2016	2017	2018	2019	2020
<b>Property Taxes (Dollars per \$1,000 of Assessed Value)</b>					
General Property Tax	\$1.47	\$1.35	\$1.25	\$1.25	\$1.17
Families & Education	0.20	0.18	0.16	0.16	0.34
Parks and Open Space					
Low Income Housing	0.12	0.22	0.19	0.19	0.16
Transportation	0.58	0.52	0.45	0.45	0.38
Pike Place Market					
Library	0.11	0.09	0.08	0.08	0.12
Pre-School For All	0.09	0.08	0.07		
Election Vouchers	0.02	0.02	0.01	0.01	0.01
City Excess GO Bond	0.18	0.16	0.14	0.14	0.09
<b>Other Property Taxes related to the City</b>					
Seattle Park District	0.29	0.28	0.23	0.23	0.21
Emergency Medical Services	0.28	0.26	0.24	0.24	0.26
<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%	0.10%	0.10%	0.10%
<b>Business and Occupation Tax</b>					
Retail/Wholesale	0.215%	0.219%	0.222%	0.222%	0.222%
Manufacturing/Extracting	0.215%	0.219%	0.222%	0.222%	0.222%
Printing/Publishing	0.215%	0.219%	0.222%	0.222%	0.222%
Service, other	0.415%	0.423%	0.427%	0.427%	0.427%
International Finance	0.150%	0.423%	0.427%	0.427%	0.427%
<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*	11.50%	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*	11.50%	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

\*Increase effective April 1, 2017

