



## City of Seattle

City Budget Office

**Date:** August 10, 2020

**To:** Jenny Durkan, Mayor

**From:** Ben Noble, City Budget Office, Director

**RE:** August update of revenue forecast

Attached please find a summary of the August update to the City of Seattle's 2020 and 2021 revenue forecast. This forecast includes revised projections for both the General Fund, and notable non-General Fund revenues. Overall, the forecast represents a significant decline relative to our most recent June update, and thus adds to the financial challenge we face in balancing the City budget this year and next. In particular, based on the "slow recovery" scenario forecast, the new August forecast update reduces 2020 General Fund revenues by \$26.0 million (-2.1%) relative to the June forecast, and we are now projecting total 2020 General Fund revenues of \$1.19 billion. It also decreases the 2021 General Fund forecast by \$24.2 million (-1.9%), with the new 2021 General Fund total at \$1.25 billion.

At present, the nation and our region are trying to balance efforts to reopen the economy with the prudent actions needed to contain the spread of the Corona virus and address the public health crisis that it has created. From an economic and revenue forecasting perspective, the economic reopening and recent government stimulus programs have led to a stronger than expected rebound in May and June from the deep trough of April. This, in turn, has led to upward revisions in the near-term projections of economic metrics such as GDP, employment and personal income. At the same time, surging infections have led to both policy retrenchment and the likelihood of protracted anemic consumer spending, business investment and total economic activity over the longer run. Given this apparent path, previous notions of a "V" or "U"-shaped recovery, where measures such as GDP, employment and personal income, as well as the City's revenues, bounce back to pre-virus levels relatively quickly are no longer realistic. Instead recovery to pre-virus levels cannot be reasonably anticipated until 2023 and 2024.

To date, actual revenues have tracked closely to our "slow recovery" scenario that we first developed in April of this year. Given that, one might reasonably ask why the forecast is being revised downward at this time. While there are several factors, the most important is simply that our original forecast

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anticipated that economic activity would begin to return to more normal levels over the summer and into the fall. Instead, as noted above, we now anticipate that the lower levels of economic activity that have driven down tax revenues for the first half of the year will continue for the remainder of 2020 and well into 2021.

With actual receipts tracking more closely to the “slow recovery” scenario we developed earlier this year and have now refined, I recommend that we continue to balance to these somewhat more conservative estimates and take actions consistent with balancing to this forecast. Reinforcing this recommendation is the uncertainty that still remains around our actual year-to-date revenues. Many taxpayers have taken advantage of various payment deferral and deadline extension offerings, and this has made it difficult to gauge our actual position. Some B&O taxpayers will not be paying taxes until the end of October and the County has provided a time payment program that could extend property tax payments up to 18 months. Total annual General Fund revenues under the revised August “slow recovery” scenario are projected to be short of 2019 actual revenues by approximately 14%. Through August 1<sup>st</sup>, revenues are down approximately 16%, with receipts for Sales and early B&O payments yet to come, due to a week lag in reporting between 2019 and 2020.

Relative to the 2020 Adopted Budget, the revenue gap created by the new forecast has grown substantially. The table attached to this memo indicates projected 2020 General Fund revenues of approximately \$210 million less than the Adopted 2020 revenues. The comparable figure in our June forecast was approximately \$185 million. Significant losses are expected in Sales taxes (-22.6%), B&O taxes (-18.2%) and Court Fines and On-Street Parking (-59.8%). Although not General Fund revenues, Parks and Seattle Center revenues are projected to take significant losses from decreases in use fees for recreation facilities and activity programs, as well as parking and facility space rental and lease revenues.

The lower half of the table provides a look at some additional revenue streams that support general government purposes and are heavily affected by the sheltering restrictions of the Corona virus. Combining the General Fund losses with these, the City is down approximately \$25.4 million compared to the June forecast and \$337 million relative to the 2020 Adopted Budget. The comparable figure from the April forecast was \$296 million, so the net effect over time has been a fairly significant deterioration in overall revenues. Of particular note are gaps below the Adopted Budget in Admissions tax (-89%), Real Estate Excise Tax (REET) (-40.2%) and Short-Term Rental taxes (-65%). Transportation sources are also significantly affected with Seattle Transportation Benefit District (STBD) Sales taxes, Commercial Parking Tax (CPT) and the School Zone Camera revenues falling \$4.7 million relative to June and stand approximately \$35.0 million below the 2020 Adopted Budget.

These revised projections will force changes in our strategy for balancing the 2020 and 2021 budgets. For example, we had anticipated using \$29 million of the City’s fiscal reserves (the Rainy Day and Emergency Funds) in 2020, while reserving the remainder of the \$127.5 million total of these reserves to balance in 2021. I intend to bring recommendations regarding additional cost-savings measures in the coming days, but I will need to coordinate with Department of Human Resources, your Deputy Mayors

and department directors. Nonetheless, I thought it essential to immediately share this new information regarding revenues.

And while there are additional cost saving steps we can take in 2020, a significant additional reliance on our financial reserves will be unavoidable this year, unless we were to move quickly to reduce the City's labor costs, as we have already taken steps to reduce most non-labor discretionary spending. This need for an additional draw on our financial reserves conflicts with the City Council's current plans to deploy the remainder of the City's fiscal reserves for other purposes in 2020. Accordingly, I am concurrently sharing this update with all nine Councilmembers, as well as Central Staff Director Arestad.

Sincerely,

Ben Noble

Attachment

Cc:

Council President Gonzalez

Councilmember Mosqueda

Councilmember Herbold

Councilmember Morales

Councilmember Sawant

Councilmember Pederson

Councilmember Juarez

Councilmember Strauss

Councilmember Lewis

Kirstan Arestad, Central Staff Director

Mike Fong, Senior Deputy Mayor

Shefali Ranganathan, Deputy Mayor

Casey Sixkiller, Deputy Mayor

<b>2020 and 2021 Revenue Forecast Update, August 2020</b>									
<b>Slow Recovery (\$ millions)</b>									
	<b>2020 Adopted</b>	<b>2020 June</b>	<b>2020 August</b>	<b>2020 Change</b>	<b>2021 June</b>	<b>2021 August</b>	<b>2021 Change</b>		
<b>General Fund Revenues</b>									
Property Taxes	345.1	340.9	340.9	-	355.5	354.0	(1.4)		
Sales Taxes	298.8	243.5	231.1	(12.4)	240.9	237.0	(3.9)		
Business & Occupation Taxes & Licenses	315.5	267.9	258.1	(9.8)	272.8	271.4	(1.4)		
Utility Taxes	220.6	204.4	206.3	1.9	214.1	208.4	(5.8)		
Court Fines/Parking	65.7	27.7	26.4	(1.3)	50.4	46.4	(4.0)		
Transportation Network Company Tax	9.7	2.6	-	(2.6)	10.1	1.9	(8.2)		
All Else	148.7	133.1	131.2	(1.9)	134.9	135.3	0.5		
<b>General Fund Total</b>	<b>1,404.1</b>	<b>1,220.1</b>	<b>1,194.0</b>	<b>(26.1)</b>	<b>1,278.7</b>	<b>1,254.5</b>	<b>(24.2)</b>		
<i>Growth Rate Year/Year</i>			-14%			5%			
Seattle Center	22.0	12.9	12.9	-	12.4	12.4	-		
Parks & Recreation	33.5	10.5	10.5	-	10.1	10.1	-		
<b>Total</b>	<b>55.5</b>	<b>23.4</b>	<b>23.4</b>	<b>-</b>	<b>22.6</b>	<b>22.6</b>	<b>-</b>		
<b>Other General Government Revenues</b>									
Admission Tax	11.7	2.8	1.3	(1.6)	8.7	5.5	(3.2)		
Short-term Rental Tax	10.5	3.7	3.7	-	8.3	7.4	(1.0)		
Sweetened Beverage Tax	24.3	15.4	15.4	-	20.8	20.8	-		
Mercer Megablock Sale	66.5	66.5	66.5	-	-	-	-		
Real Estate Excise Tax	83.0	42.7	49.6	6.9	61.6	62.4	0.8		
STBD	31.3	25.5	24.2	(1.3)	-	21.7	21.7		
Commercial Parking Tax	45.6	25.5	24.4	(1.1)	40.6	38.8	(1.8)		
School Zone Camera Fund	9.7	5.3	2.9	(2.4)	13.8	13.9	0.2		
<b>Total</b>	<b>282.5</b>	<b>187.4</b>	<b>188.0</b>	<b>0.6</b>	<b>153.7</b>	<b>170.3</b>	<b>16.6</b>		
<b>Grand Total</b>	<b>1,742.2</b>	<b>1,430.8</b>	<b>1,405.3</b>	<b>(25.5)</b>	<b>1,455.0</b>	<b>1,447.4</b>	<b>(7.6)</b>		