Economic and Revenue Update

Seattle City Council

April 22, 2020

City of Seattle

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U.S. Economic Forecast from IHS Markit

- Assumes that the spread of coronavirus in U.S. peaks in 2020 Q2, allowing a gradual lifting of restrictions on social gathering starting in 2020 Q3

- Scenarios: baseline (45% probability), pessimistic (35% probability), optimistic (20% probability)

- All three scenarios **predict a recession that will be short** (2020 Q1 - 2020 Q3 in the baseline and pessimistic scenarios, 2020 Q1 - 2020 Q2 in the optimistic scenario) **but quite deep**
  - Baseline scenario: consumer spending drops by 5.5% in 2020, real GDP by 5.4%, employment by 14 mil., unemployment peaks at 10.3% in 2020 Q4
  - Pessimistic scenario: consumer spending drops by 17.1% in 2020, real GDP by 14.9%, employment by 34 mil., unemployment rate peaks at 22.2% in 2020 Q3

- All three scenarios incorporate the $2.3 trillion CARES Act, near zero federal funds rate maintained through 2025, plus new round of Quantitative Easing (net purchases of Treasury debt)

Regional Economic Forecast for Seattle Metropolitan District (MD)

- Econometric model for Seattle MD (King and Snohomish Counties)
- Inputs
  - U.S. economic forecast from IHS (GDP, income, employment, unemployment rate, CPI, and other variables)
  - regional data is also used (GDP and income from BEA, employment from ESD, permit data from SDCI, and other variables)
- Output
  - regional economic forecast for 2020-2029 (GDP, personal income, employment by industry, unemployment rate, CPI, housing permits)
- Our regional forecast is used as input into our revenue forecasts for the large economically driven revenues (e.g., sales tax, B&O tax, REET and others)
- April 2020 forecast scenarios
  - **rapid recovery** based on IHS baseline scenario
  - **slow recovery** based on IHS pessimistic scenario

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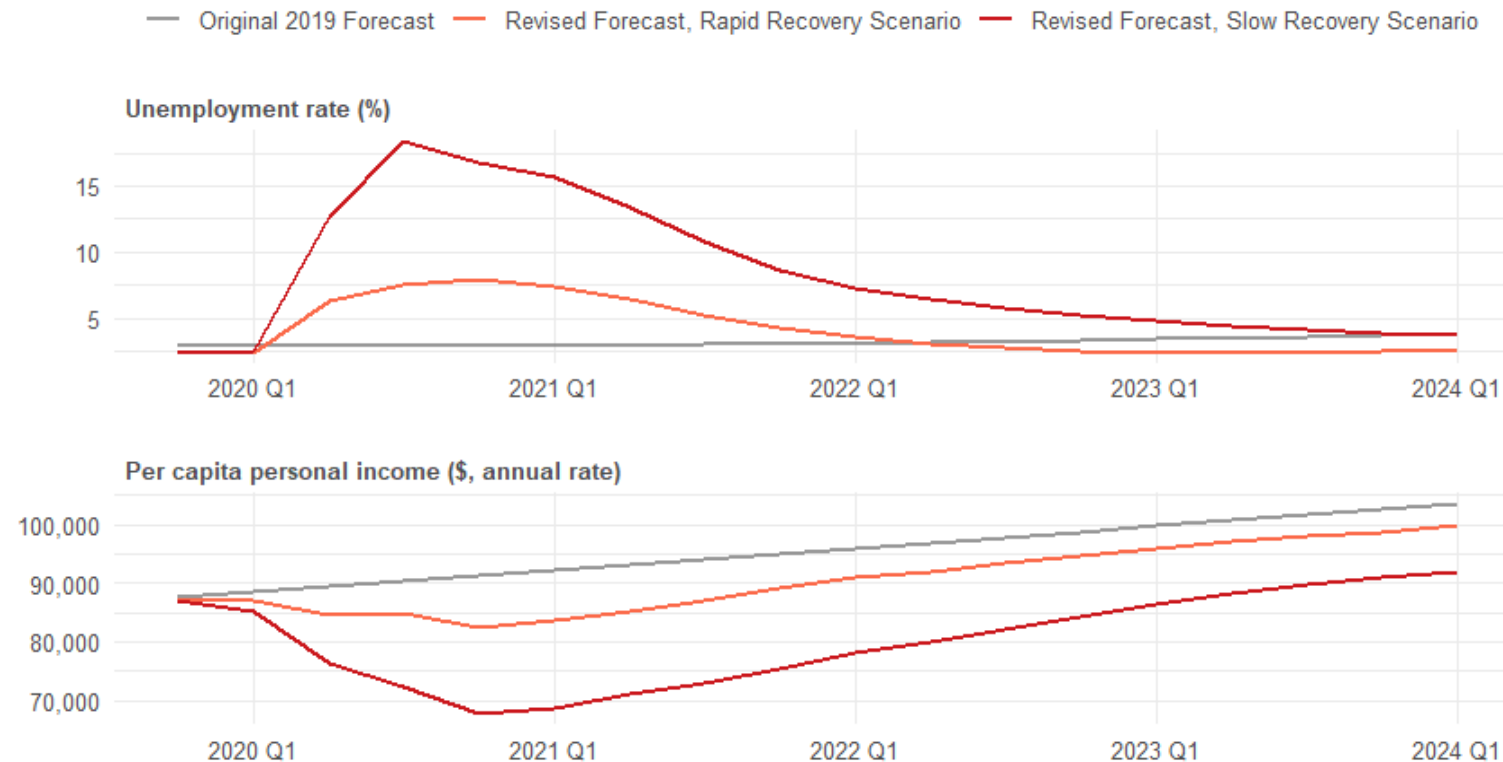
Regional Economic Forecast for Seattle MD

Significant downside risk for 2020

Rapid Recovery Scenario

- 45% probability
- About 65,000 jobs lost
- 8% unemployment rate by year end
- Income per capita 5.5% lower by year end

Slow Recovery Scenario

- 35% probability
- About 170,000 jobs lost
- 18% unemployment rate by year end
- Income per capita 12.5% lower by year end

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Uncertainty Prevails -
Only Just Beginning to See Revenue Receipts from Crisis Period

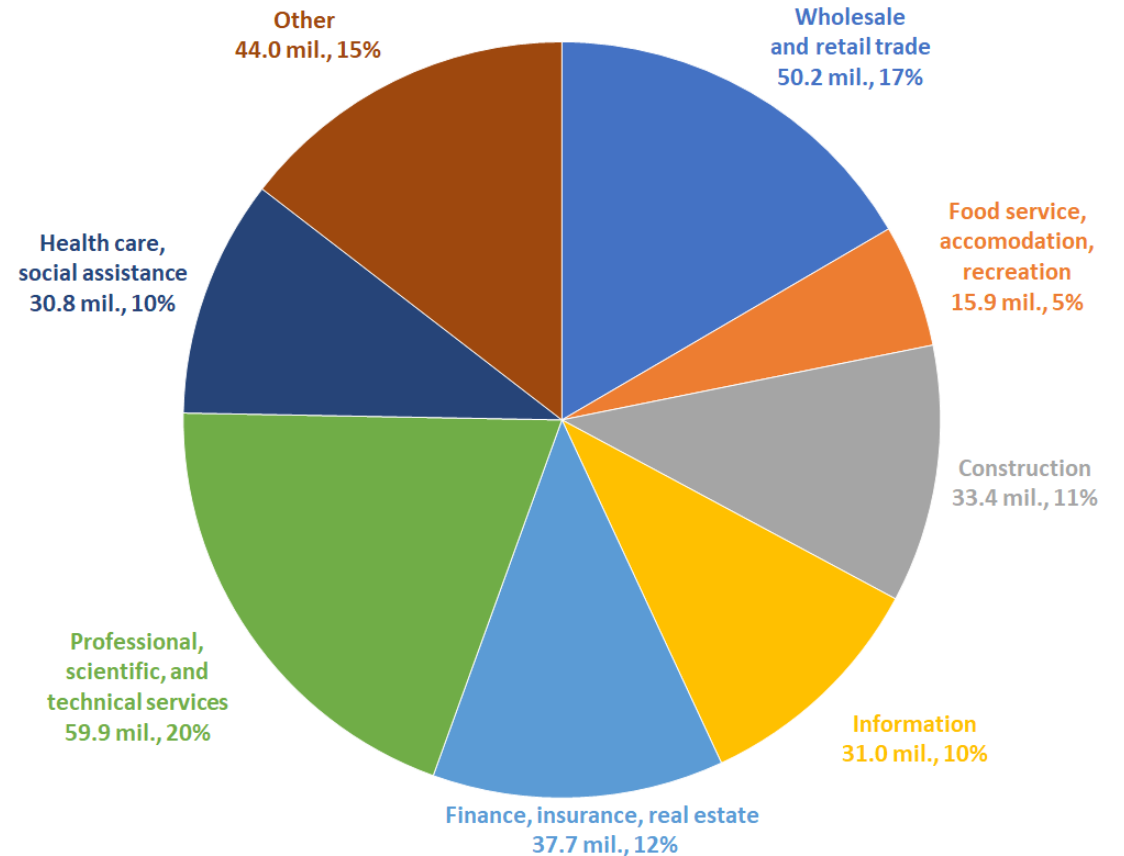| Availability of Revenue Information			
	% of General Fund	Tax Period	Information Lag (weeks from end of tax period)
Property Taxes	23%	Bi-Annual	2
B&O Tax	20%	Quarterly	7
Sales Tax	20%	Monthly	7
Utilities Taxes	15%	Monthly	6
REET	NA	Monthly	1

Sales Tax Revenue Composition in 2019

- 133.7 mil. so about **half** of sales tax revenue (about 10% of General Fund revenue) was generated by sectors at high risk (wholesale and retail trade, food, accommodation and recreation services)

- construction which accounted for additional quarter of sales tax revenue (5% of General Fund) is likely to see large decline as well

Other
29.1 mil., 11%

Health care, social assistance
3.1 mil., 1%

Professional, scientific, and technical services
12.1 mil., 4%

Finance, insurance, real estate
8.3 mil., 3%

Information
11.7 mil., 4%

Wholesale and retail trade
91.7 mil., 34%

Construction
72.0 mil., 27%
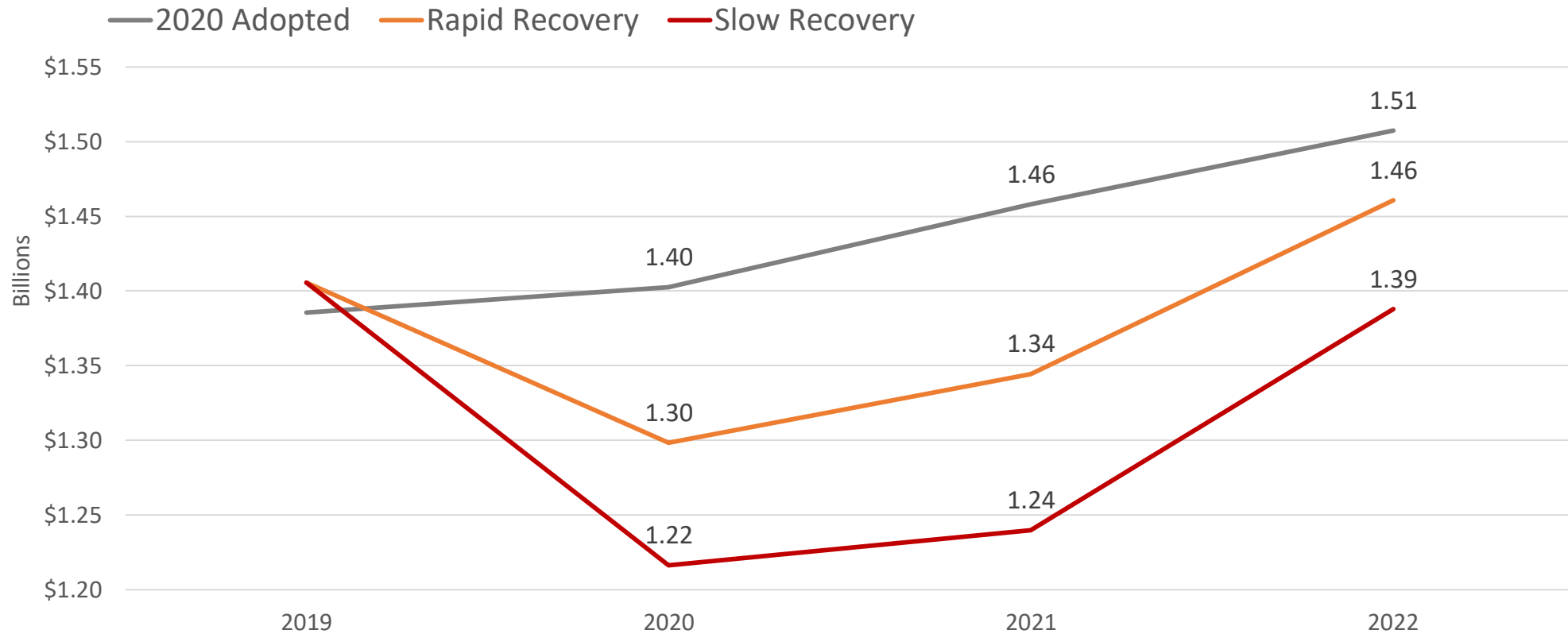
Food service, accomodation, recreation
42.0 mil., 16%
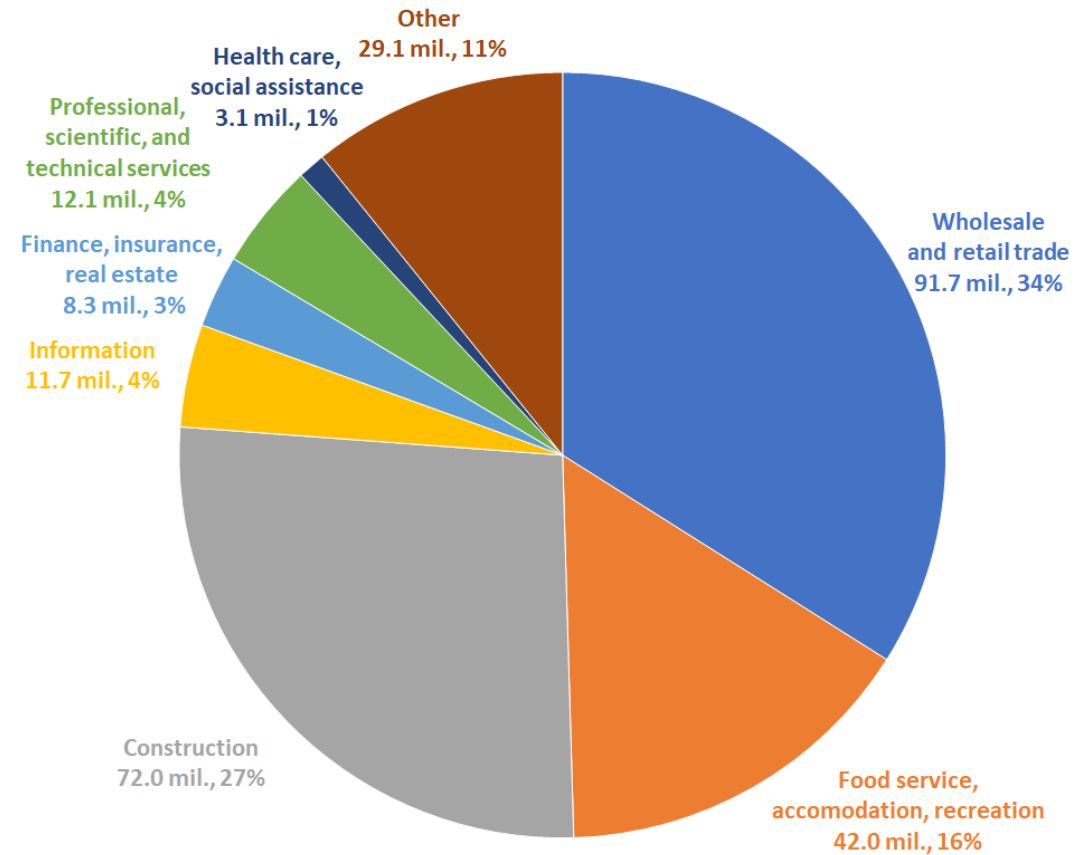
B&O Tax Revenue Composition in 2019

- B&O tax revenue sources are more diversified across industries

- in 2019 wholesale and retail trade, and food, accommodation and recreation services brought in 66.1 mil. so about 4.5% of General Fund revenue

Other
44.0 mil., 15%

Wholesale and retail trade
50.2 mil., 17%

Food service, accomodation, recreation
15.9 mil., 5%

Construction
33.4 mil., 11%

Information
31.0 mil., 10%

Finance, insurance, real estate
37.7 mil., 12%

Professional, scientific, and technical services
59.9 mil., 20%

Health care, social assistance
30.8 mil., 10%

General Fund Revenue Scenarios

General Fund Revenue – Slow Recovery

Slow Growth Scenario ($1,000s)	2019 Actuals	2020 Adopted	2020 Revised	2020 Change	2021 April	2022 April
Property Taxes	320,736	345,085	340,888	(4,197)	353,291	365,600
Sales Taxes	291,961	298,842	233,423	(65,420)	224,522	276,851
Business & Occupation Taxes & Licenses	320,503	315,537	257,531	(58,007)	246,406	303,489
Utility Taxes	212,610	220,557	207,286	(13,270)	216,037	226,703
Court Fines/Parking	67,621	65,705	31,459	(34,246)	52,128	64,217
All Else	192,079	156,775	145,567	(11,208)	147,227	150,876
General Fund Total	**1,405,509**	**1,402,501**	**1,216,154**	**(186,347)**	**1,239,610**	**1,387,736**
Growth Rate Year/Year				*-13%*	*2%*	*12%*
Seattle Center	21,666	22,033	12,881	(9,152)	13,129	14,698
Parks & Recreation	30,153	33,474	10,474	(23,000)	10,676	11,952

2020 Totals do not include Mercer Megablock proceeds

Other Revenue - Slow Recovery

Slow Growth Scenario ($1,000s)	2019 Actuals	2020 Adopted	2020 Revised	*2020 Change*	2021 April	2022 April
Other General Government Revenues						
Admission Tax	11,384	11,691	3,462	*(8,230)*	9,073	9,527
Short-term Rental Tax	6,845	10,500	5,600	*(4,900)*	8,750	10,500
Sweetened Beverage Tax	24,119	24,329	16,876	*(7,453)*	21,515	23,970
Real Estate Excise Tax	100,933	82,958	48,313	*(34,645)*	61,645	75,351
STBD	64,832	63,726	54,960	*(8,766)*	TBD	TBD
Commercial Parking Tax	49,232	45,596	30,321	*(15,275)*	43,088	45,596
School Zone Camera Fund	9,657	9,666	7,440	*(2,226)*	14,219	13,162
Total	**267,003**	**248,466**	**166,972**	***(81,494)***	**158,290**	**178,106**
Grand Total	**1,724,330**	**1,706,474**	**1,406,480**	***(299,994)***	**1,421,705**	**1,592,492**

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Resources for Balancing

- Rainy Day Fund (Revenue Stabilization Account) ($60.8 m)
- Emergency Fund ($66.9 m)
- Unanticipated 2019 Year-end General Fund Balance ($18.6 m)
- Reduce 2020 spending
- Other Fund Balances / One-time Resources
- Levy Funds – pursue flexibility allowed under authorizing legislation
- Federal and State COVID-19 response and mitigation funding

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