



SEATTLE CITY COUNCIL

Select Budget Committee

Agenda

Wednesday, April 17, 2024

9:30 AM

Council Chamber, City Hall

600 4th Avenue

Seattle, WA 98104

Dan Strauss, Chair

Maritza Rivera, Vice-Chair

Joy Hollingsworth, Member

Robert Kettle, Member

Cathy Moore, Member

Tammy J. Morales, Member

Sara Nelson, Member

Rob Saka, Member

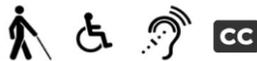
Tanya Woo, Member

Chair Info: 206-684-8806; Dan.Strauss@seattle.gov

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SEATTLE CITY COUNCIL
Select Budget Committee
Agenda
April 17, 2024 - 9:30 AM

Meeting Location:

Council Chamber, City Hall, 600 4th Avenue, Seattle, WA 98104

Committee Website:

<http://www.seattle.gov/council/committees/budget>

This meeting also constitutes a meeting of the City Council, provided that the meeting shall be conducted as a committee meeting under the Council Rules and Procedures, and Council action shall be limited to committee business.

Members of the public may register for remote or in-person Public Comment to address the Council. Details on how to provide Public Comment are listed below:

Remote Public Comment - Register online to speak during the Public Comment period at the meeting at

<https://www.seattle.gov/council/committees/public-comment>

Online registration to speak will begin one hour before the meeting start time, and registration will end at the conclusion of the Public Comment period during the meeting. Speakers must be registered in order to be recognized by the Chair.

In-Person Public Comment - Register to speak on the Public Comment sign-up sheet located inside Council Chambers at least 15 minutes prior to the meeting start time. Registration will end at the conclusion of the Public Comment period during the meeting. Speakers must be registered in order to be recognized by the Chair.

Pursuant to Council Rule VI.C.10, members of the public providing public comment in Chambers will be broadcast via Seattle Channel.

Submit written comments to Councilmembers at Council@seattle.gov

Please Note: Times listed are estimated

A. Call To Order

B. Approval of the Agenda

C. Public Comment

D. Items of Business

1. April Economic and Revenue Forecast Update

Supporting Documents: [Presentation](#)

Briefing and Discussion

Presenters: Jan Duras, Interim Director, and Sean Thompson, Office of Economic and Revenue Forecasts; Dave Hennes, Joseph Russell, and Alexandria Zhang, City Budget Office

2. 2024 Budget Discussions

Supporting Documents: [Presentation](#)

Briefing and Discussion

Presenters: Aly Pennucci, Deputy Director, and Tom Mikesell, Council Central Staff

E. Adjournment



Legislation Text

File #: Inf 2447, **Version:** 1

April Economic and Revenue Forecast Update



Economic and Revenue Forecast April 2024

**Office of Economic and Revenue Forecasts
&
City Budget Office**

Outline

This presentation is an abbreviated version of that provided to the Forecast Council on April 8th.

Part I: Update on economic developments, national vs regional economy

Part II: Summary of April Economic Forecasts

- S&P Global's national economic forecast
- Forecast Office's regional economic forecast for Seattle Metropolitan Division (King and Snohomish counties)

Part III: Summary of April Revenue Forecast

- General Fund (GF) Revenues
- Selected Other Government Revenues

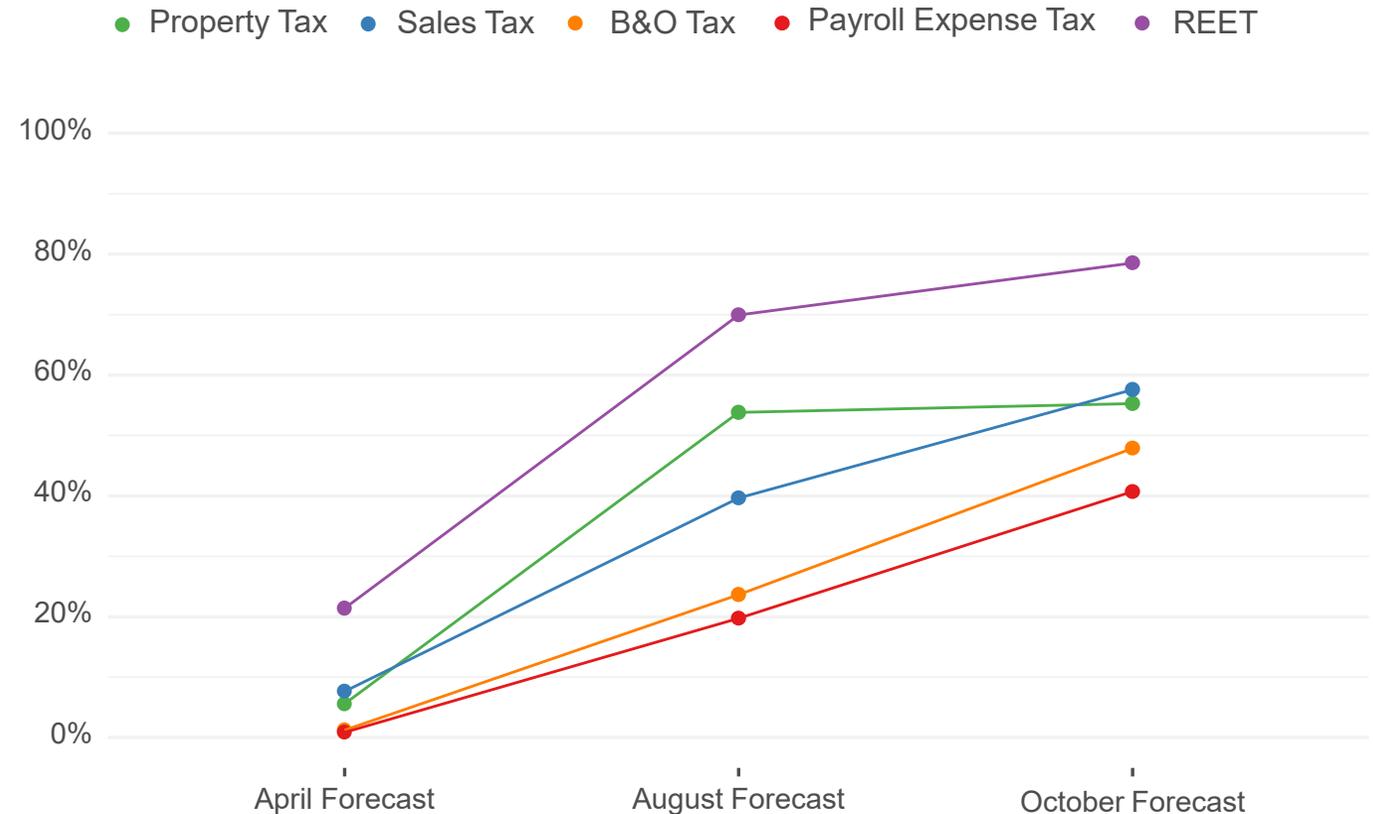
Part 1

Economic Situation Update

For large economically driven revenues little is collected by April

- The April revenue forecasts are informed primarily by the economic outlook for current year and information about revenue collected in the previous year - little revenue has been collected for current year so far.
- About half of the annual General Fund revenue is collected by the time of the October update.
- The share of total annual revenue collected by the time of October update however varies a lot by revenue stream. In 2023, almost 80% of REET revenue had been collected by that point, but just 40% of Payroll Expense Tax revenue.

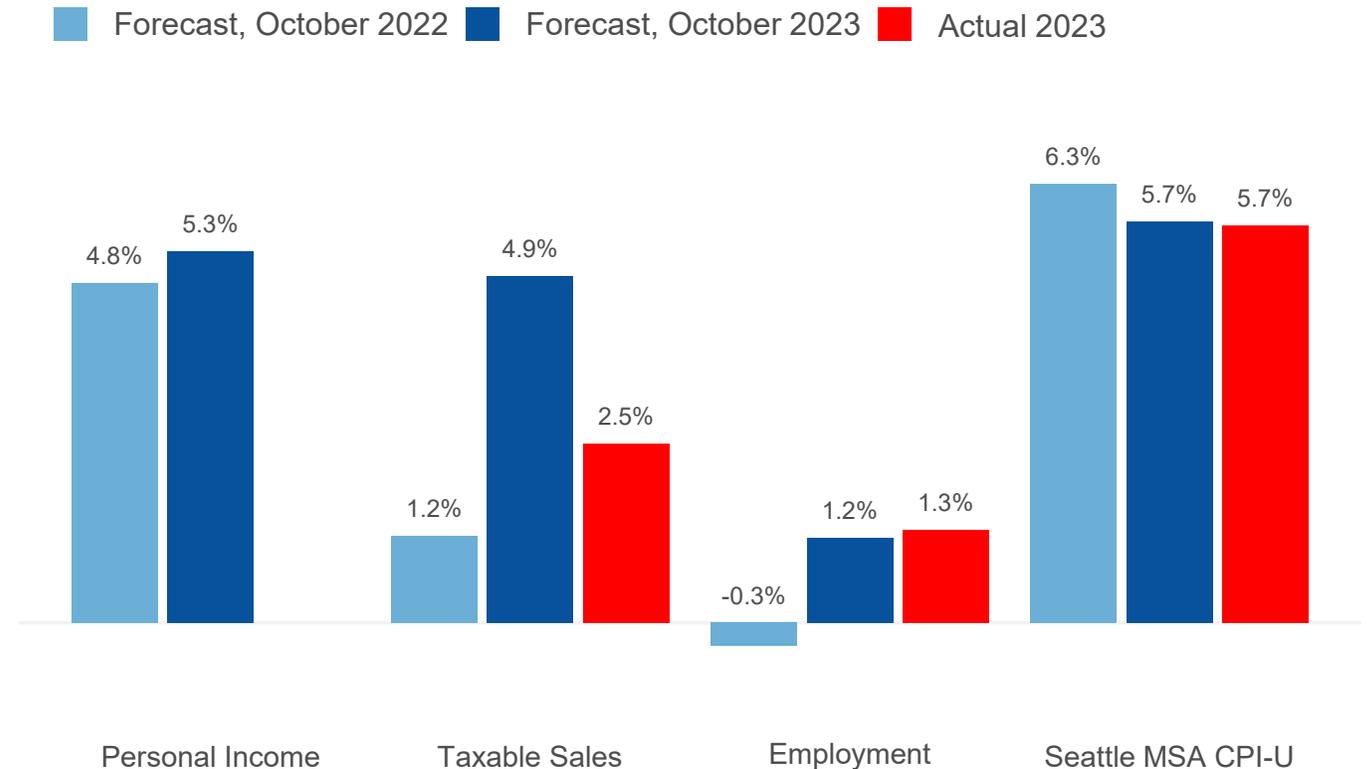
Share of revenue collected in 2023 by the time of forecast updates



Regional employment grew slower, price faster than in U.S.

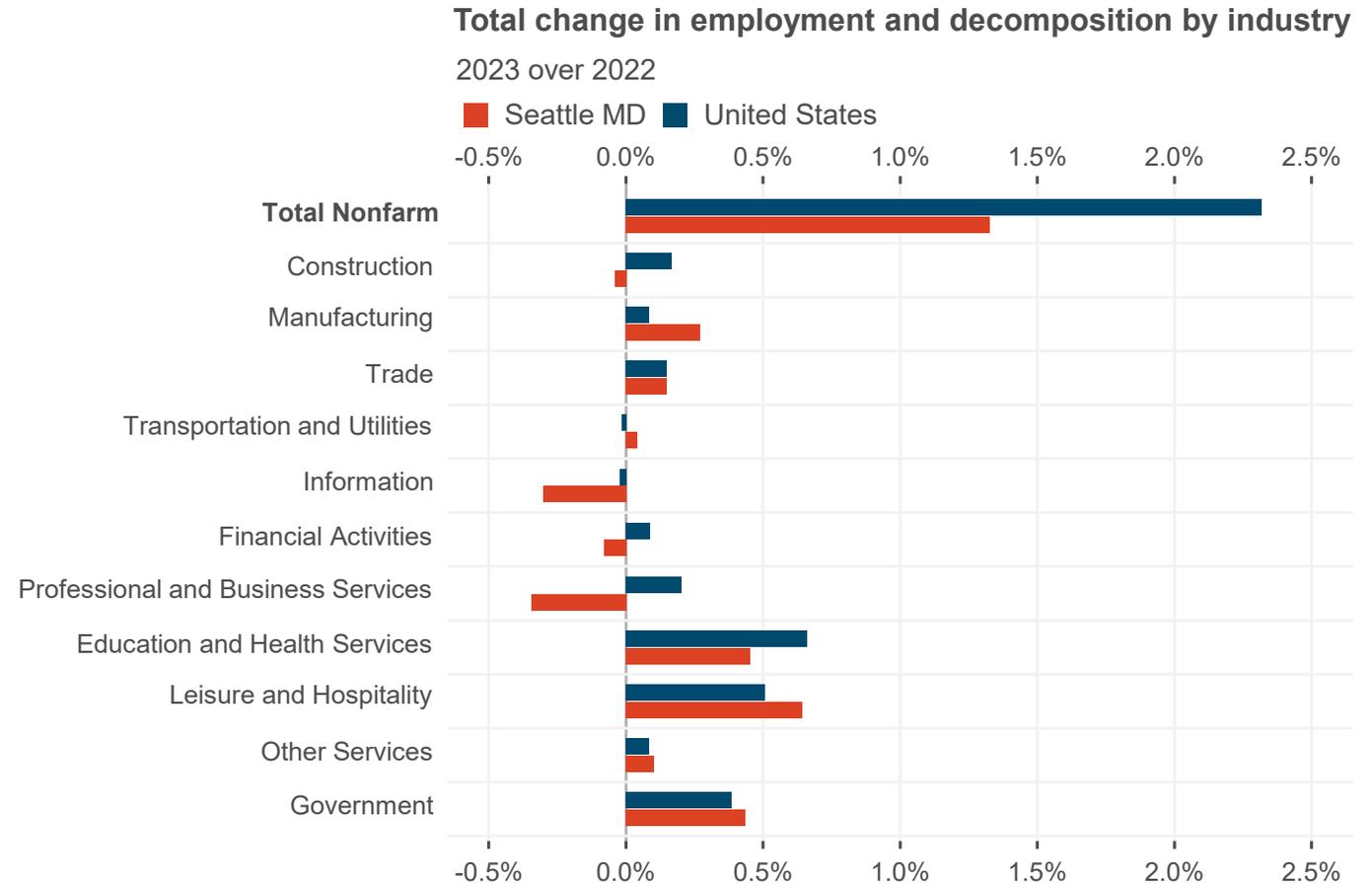
- In early 2023, economists were expecting a recession, as a result of high interest rates and tightening of financial conditions needed to stabilize inflation.
- U.S. economy outperformed expectations, with strong growth in real GDP, employment, and spending.
- Relative to the economic forecast from October 2022, the regional labor market has in 2023 outperformed expectations in terms of overall employment growth.
- While outperforming expectations, regional job growth has been modest in 2023 and Seattle regional economy has trailed the performance seen at the national level.
 - Regional employment grew just 1.3% compared to 2.4% in the U.S. as whole
 - Regional inflation was 5.7% compared to 4.1% at the national level.
- Moreover, taxable sales grew significantly less than we anticipated in October 2023 forecast.

Economic Growth in Seattle Metropolitan Division in 2023, Forecasts vs Actual
Percent change year-over-year



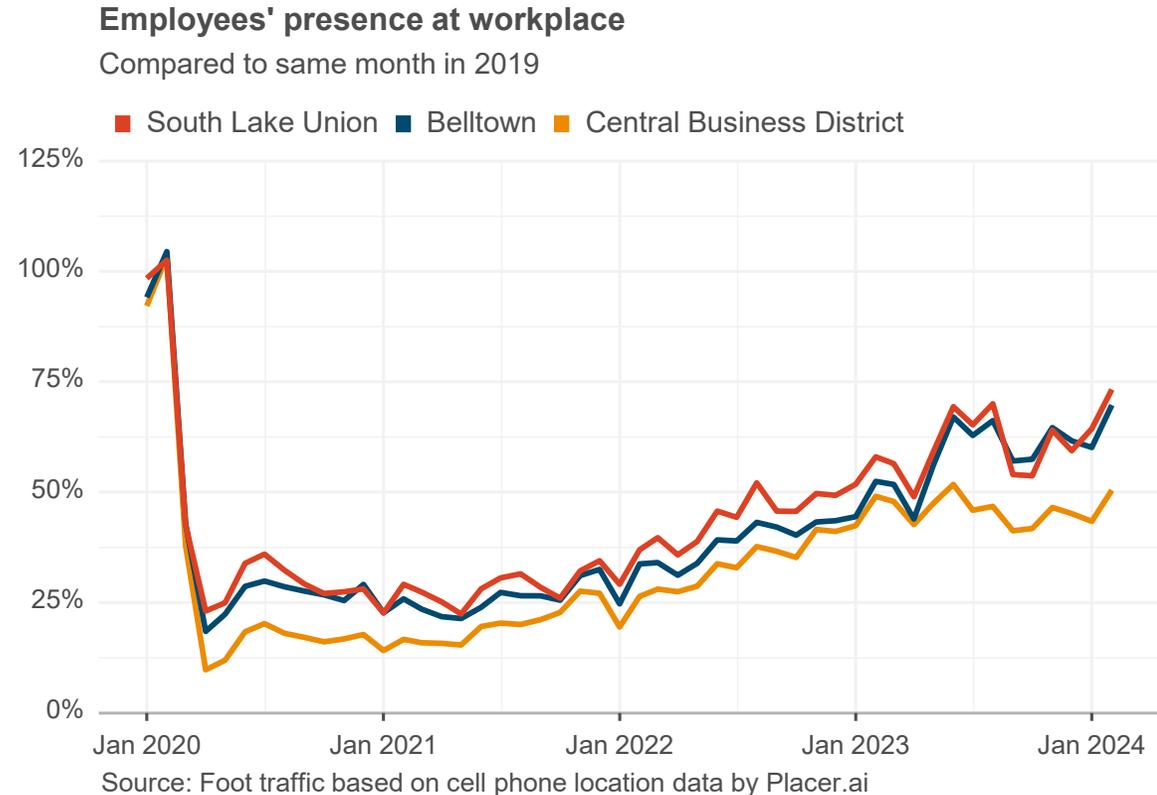
Tech sector weighted down on regional employment growth in 2023

- Several factors have negatively affected the region's recent economic performance.
- There was a rather dramatic reversal in the technology sector, which has been a key driver of the region's post-pandemic recovery.
- From the second half of 2022, announcements of layoffs were accompanied by declining stock prices and resulted in a pullback in regional consumer spending.
- Seattle area workers have also lagged the national trends on return to office.
- Altogether, these factors led to a sharp reduction in demand for office space and rising office vacancy rates, which combined with high interest rates resulted in a slowdown of construction activity after a decade of construction boom.
- By December 2023, seasonally adjusted regional employment in the construction sector has declined 4.8% from its peak in summer 2022.



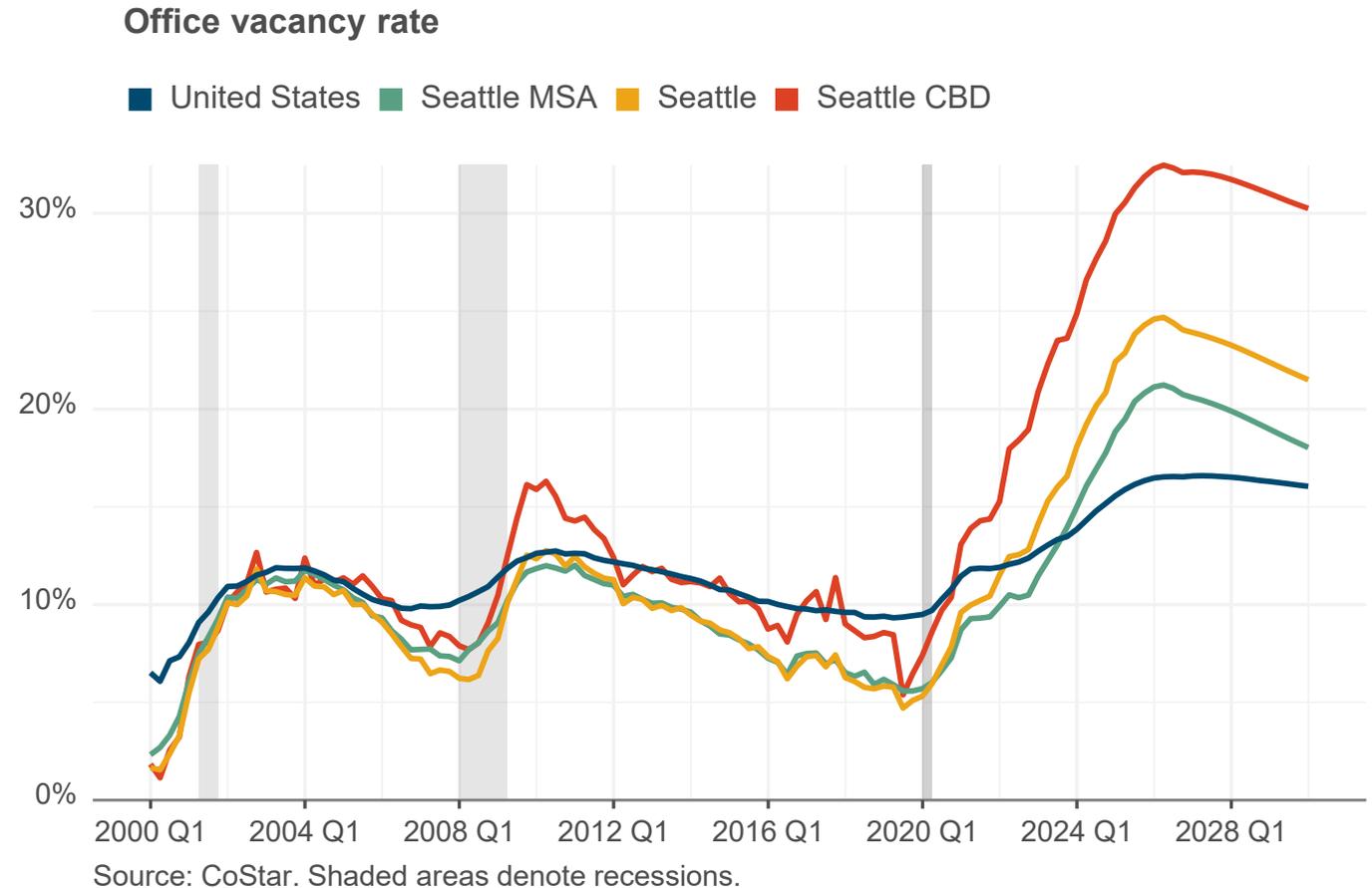
Return to office in Seattle was slow but steady over past two years

- Anonymized and aggregated cell phone location data provided by Placer.ai allows to analyze trends in employee workplace presence, number of visitors coming to Seattle, and attendance of various events. This data is used to inform the Payroll Expense Tax and Admission Tax forecasts.
- Overall trends show a slow but steady return to the office across the city.
- Amazon's move to three days in the office in Spring 2023 increased workplace presence notably in South Lake Union neighborhood.
- Central Business District lags in recovery and showed limited improvement in 2023.



Higher office vacancy rates, less construction expected in near term

- Technology sector appears to have stabilized, but demand for office space remains low and some leases that will expire will not be renewed.
- The office vacancy rates are thus expected to rise further before they turn around.
- Federal Reserve is expected to pivot to monetary easing in the second half of 2024, but interest rates are unlikely to go back to the ultra-low levels of 2010s.
- As a result, demand for new construction will remain muted for a while.



Part 2

Economic Outlook for U.S. and Seattle Area

Adopted forecast scenario

During the April 8 meeting, the Forecast Council adopted the baseline scenario forecast recommended by the Forecast Office as the official April 2024 forecast.

Context

- S&P Global assigns a 55% probability to their baseline scenario. Their baseline forecast for national economy is neither overly optimistic nor pessimistic, when compared to forecasts from Moody's Analytics and the median in the Wall Street Journal Survey of economic forecasters.
- Our regional economic projections are consistent with the slowing growth forecast at the national level, they have been adjusted to reflect revised information about regional employment and income.
- Regional employment grew slower than in U.S. economy in 2023. There was a net loss of a significant number of regional jobs in the information and professional business services sectors, but these appear to have bottomed out.
- Construction sector is expected to decline and continue to weight down on regional growth in the short term, as a result of higher interest rates and increasing office vacancy rates.
- But even though there are a number of risks which can result in regional or local economy to notably underperform the U.S. economy, and can have significant negative impact on certain revenue streams, at this point we still consider the baseline scenario regional economic and revenue forecasts to be the most likely future outcome.

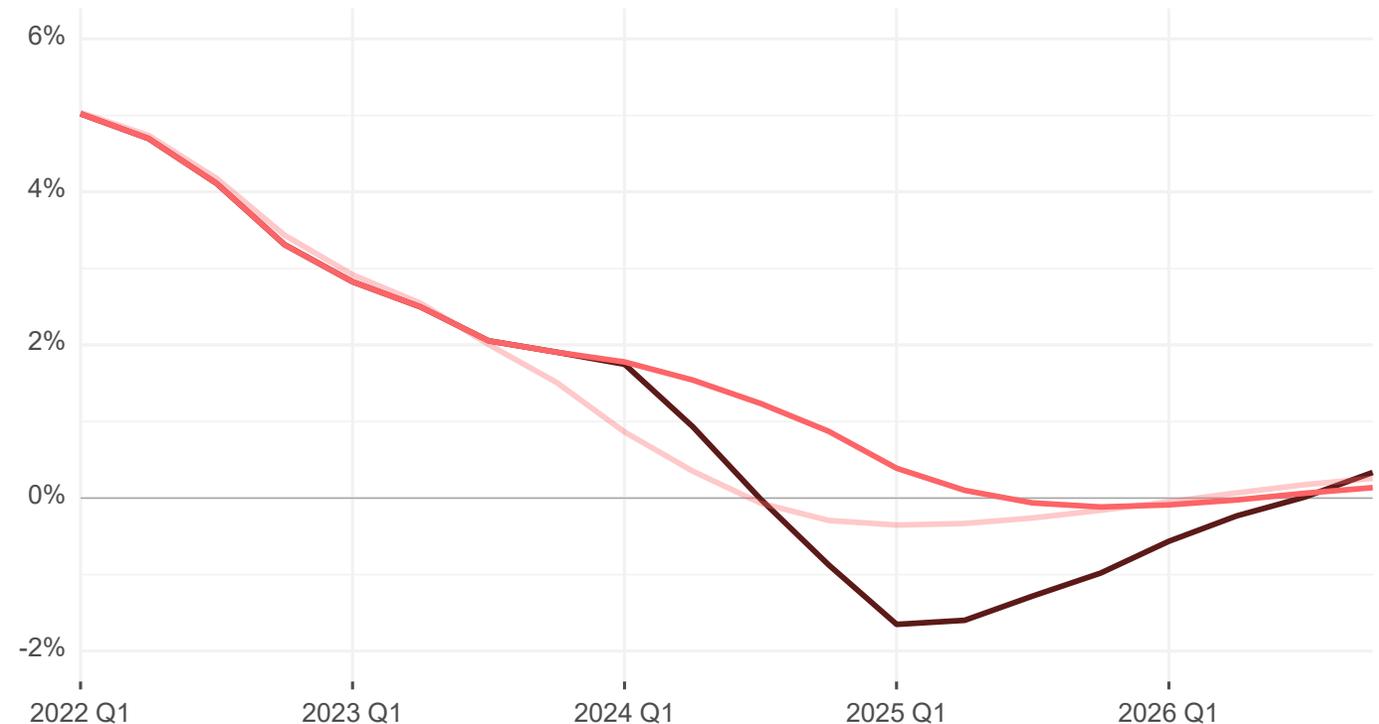
U.S. employment forecast reflects continued strength of labor market

- S&P Global currently assigns 55% probability to their baseline scenario, 30% to the pessimistic scenario, and 15% to the optimistic scenario.
- The continued strength of the labor market led S&P Global to revise up the baseline scenario employment growth forecast for 2024 by more than 1%. Little employment growth is however expected in the following years.
- Inflation declined notably since its peak in Summer 2022. While the improvements have been in recent months somewhat smaller than most economists were hoping for, Fed is expected to pivot to rate cuts in the second half of 2024.
- Continued strength of the labor market and smaller improvements with disinflation could however compel Fed to a slower approach to interest rates cuts.

S&P Global U.S. Employment Forecast

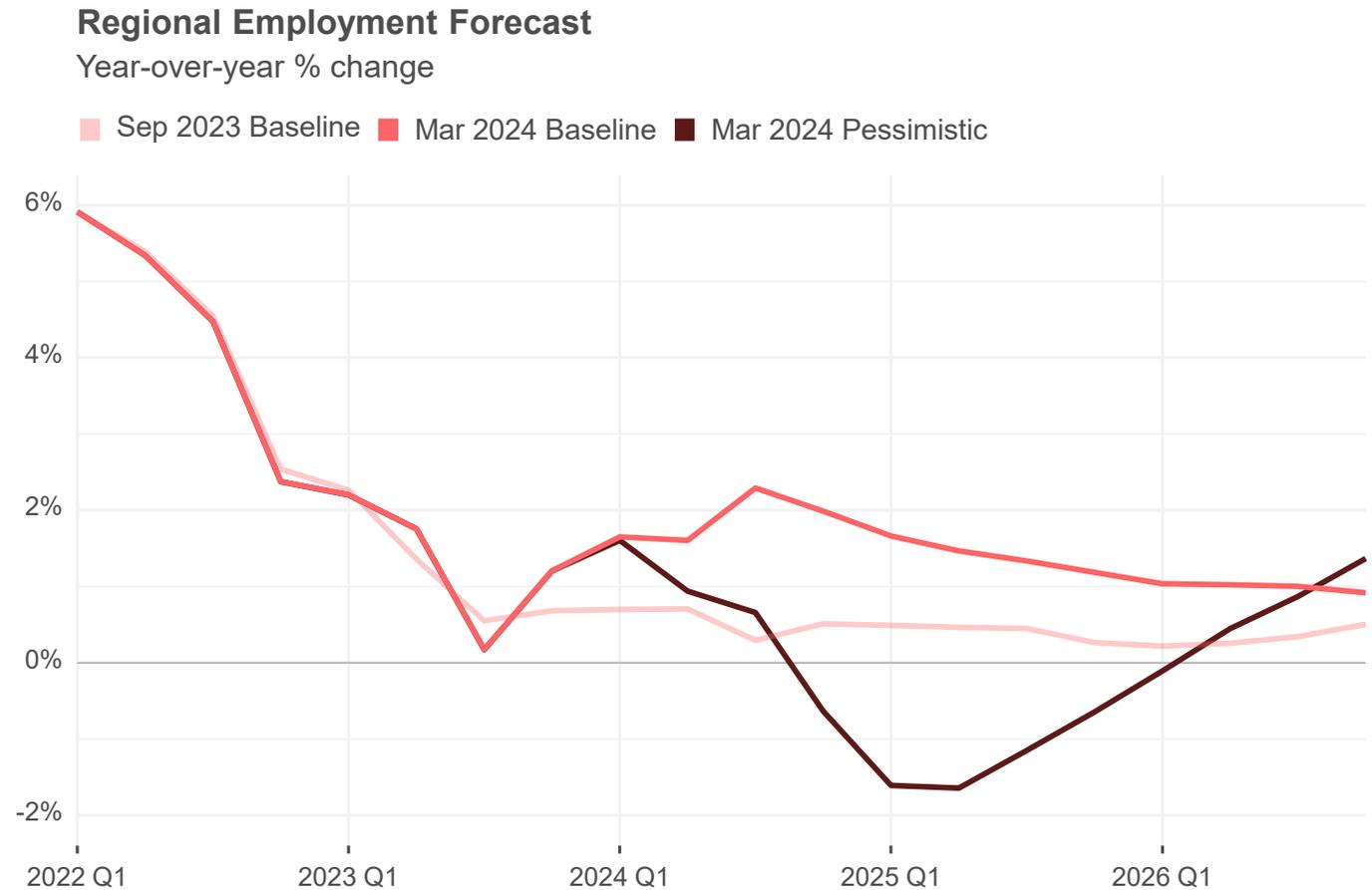
Year-over-year % change

■ Sep 2023 Baseline ■ Mar 2024 Baseline ■ Mar 2024 Pessimistic



Regional employment forecast for Seattle Metropolitan Division

- Employment in Seattle MD (King and Snohomish counties) grew about 1.3% year-over-year in the first two months of 2024.
- Stronger than expected job gains in Manufacturing, Leisure and Hospitality, as well as an improved outlook for the tech sector motivated an upward revision of the employment forecast growth to 1.9% in 2024, despite a weakening outlook for Construction.
- In 2025 and 2026, the employment is expected to grow 1.4% and 1% respectively.



Part 3

2023 Revenue Actuals and Forecast for 2024-2026

Large economically driven taxes - 2023 revenues by industry

More than half of the total sales tax revenue comes from just two sectors:

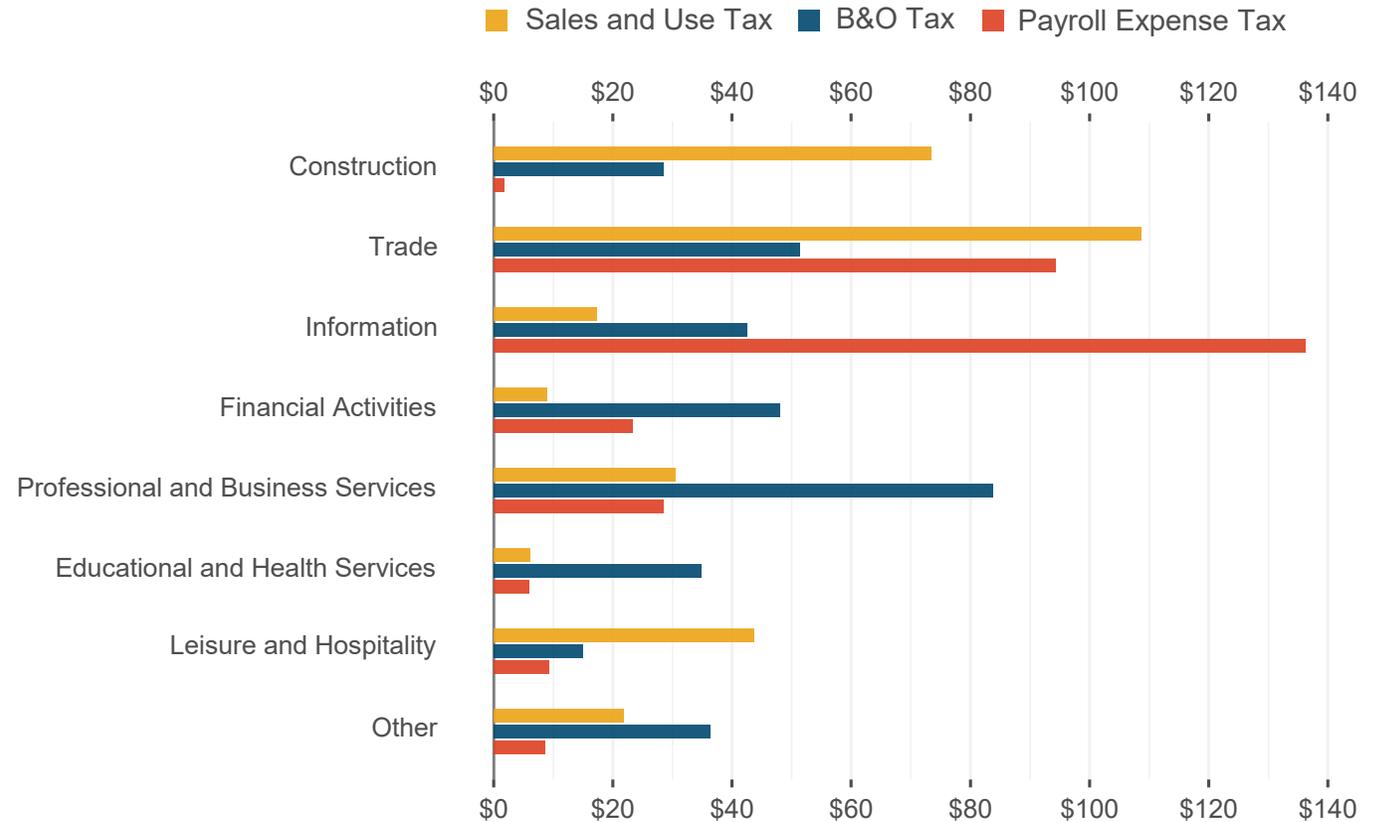
- Trade accounts for slightly more than a third.
- About one quarter was in previous years generated by construction sector.

Tax base for B&O is well diversified, though professional and business services constitute a notably bigger share than other sectors.

Payroll expense tax is paid by less than 500 companies and is highly concentrated at the top:

- In 2023, top 100 companies accounted for more than 90% of the tax revenue
- About 70% was generated from just ten companies, with eight of them in the tech sector.

Tax revenue by industry, 2023 (\$ million)



General Fund Revenues Forecast (\$ millions)

Revenue Source	2023	2024			2025	2026
	Actuals	Adopted	April Forecast	Difference	April Forecast	April Forecast
Property Tax (Including Medic One Levy)	\$377.8	\$385.5	\$382.9	-\$2.6	\$391.6	\$390.9
Retail Sales Tax	\$339.9	\$355.4	\$338.8	-\$16.6	\$352.7	\$367.0
Business & Occupation Tax	\$356.2	\$368.2	\$363.7	-\$4.5	\$385.1	\$413.0
Utility Tax - Private	\$43.2	\$38.4	\$37.8	-\$0.7	\$35.9	\$34.5
Utility Tax - Public	\$185.7	\$198.8	\$214.3	\$15.5	\$211.0	\$219.3
Other City Taxes	\$14.1	\$13.4	\$14.3	\$0.9	\$15.0	\$15.7
Parking Meters	\$37.0	\$45.7	\$40.3	-\$5.5	\$43.5	\$45.6
Court Fines	\$24.0	\$19.6	\$19.4	-\$0.2	\$20.0	\$20.0
Revenue from Other Public Entities	\$19.1	\$19.0	\$19.7	\$0.7	\$20.2	\$20.7
Grants	\$34.1	\$17.6	\$65.0	\$47.4	\$14.5	\$11.6
Fund Balance Transfers	\$80.5	\$94.9	\$95.8	\$0.9	\$7.3	\$7.3
Service Charges & Reimbursements	\$76.2	\$72.7	\$80.8	\$8.0	\$77.9	\$79.3
Licenses, Permits, Interest Income and Other	\$77.6	\$68.3	\$72.9	\$4.6	\$69.7	\$68.9
Payroll Tax - 2021 obligations	\$3.6	\$0.0	-\$3.4	-\$3.4	\$0.0	\$0.0
Total	\$1,669.1	\$1,697.5	\$1,742.2	\$44.7	\$1,644.4	\$1,693.8
Total w/o Grants and Transfers	\$1,554.4	\$1,585.1	\$1,581.5	-\$3.6	\$1,622.5	\$1,674.9

Annual Growth w/o Grants and Transfers	-0.9%	2.0%	1.7%	2.6%	3.2%
Seattle MSA CPI-U inflation	5.7%	5.7%	3.8%	2.7%	2.9%

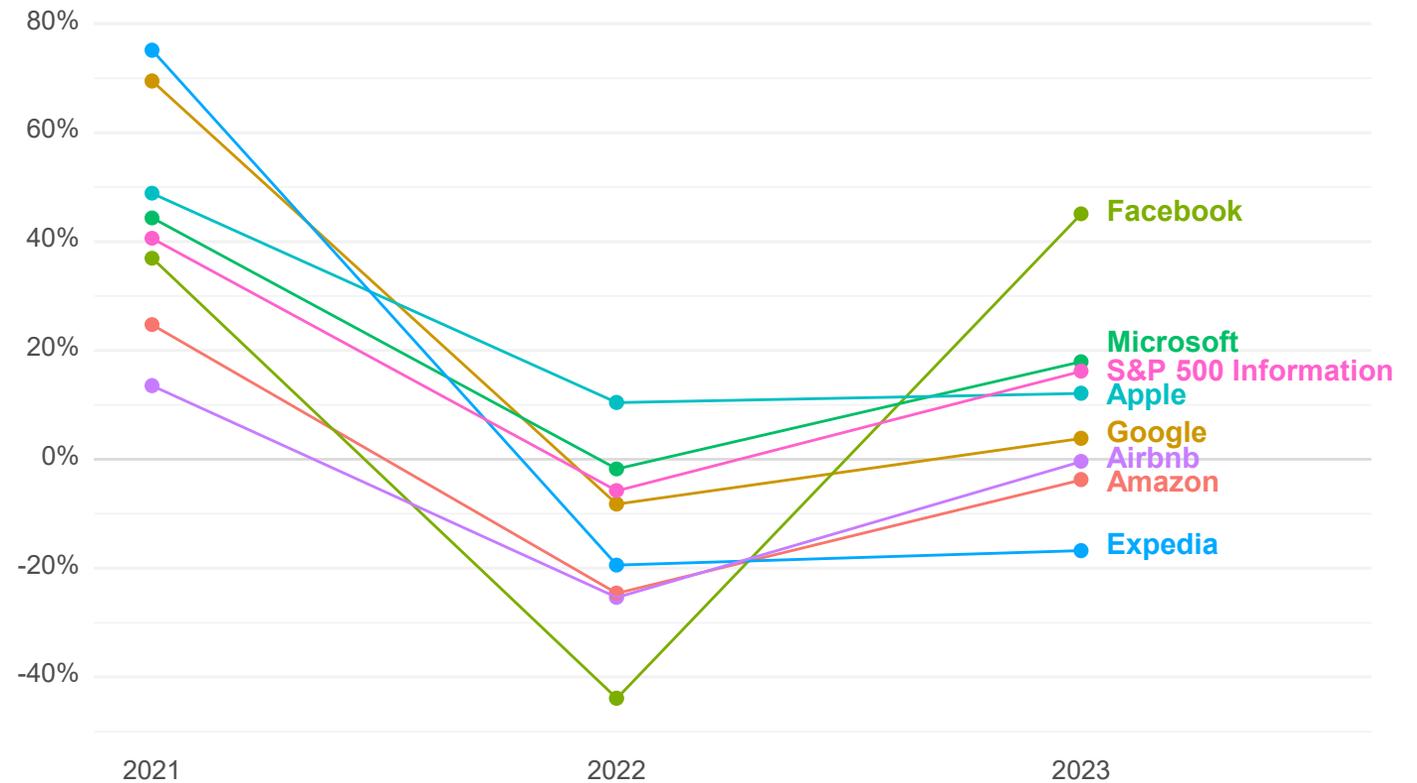
Selected Other Revenues Forecast (\$ millions)

Revenue Source	2023	2024			2025	2026
	Actuals	Adopted	April Forecast	Difference	April Forecast	April Forecast
Payroll Expense Tax - w/o 2021 obligations	\$313.3	\$325.7	\$394.7	\$69.0	\$416.1	\$436.7
REET	\$47.9	\$52.3	\$52.3	\$0.0	\$65.4	\$79.0
Admission Tax	\$25.3	\$24.4	\$25.8	\$1.4	\$26.6	\$27.3
Sweetened Beverage Tax	\$21.5	\$21.2	\$21.8	\$0.6	\$22.3	\$22.7
Short Term Rental Tax	\$11.4	\$11.9	\$11.7	-\$0.1	\$12.6	\$12.8
STBD Sales Tax	\$53.1	\$55.4	\$52.9	-\$2.5	\$55.1	\$57.4
STBD Vehicle License Fee	\$16.5	\$20.6	\$20.0	-\$0.7	\$20.9	\$21.2
Commercial Parking Tax	\$51.7	\$48.9	\$51.4	\$2.5	\$53.5	\$55.6

Payroll expense tax revenue is to a large extent driven by stock prices

- For many employers, the compensation paid to their employees includes the value of stock grants, making the taxable payroll highly dependent on stock price changes.
- This further exacerbates the volatility of payroll expense tax due to a narrow tax base.
- Taxpayers are required to file quarterly, but quarterly payments can and are mostly estimated as 25% of the total obligation for previous year, with “true up” when filing Q4 returns in February following year.
- For 2023 obligations, total payments for Q4 returns account for about 40% of the overall revenue collected.

Year-over-year change in average stock price



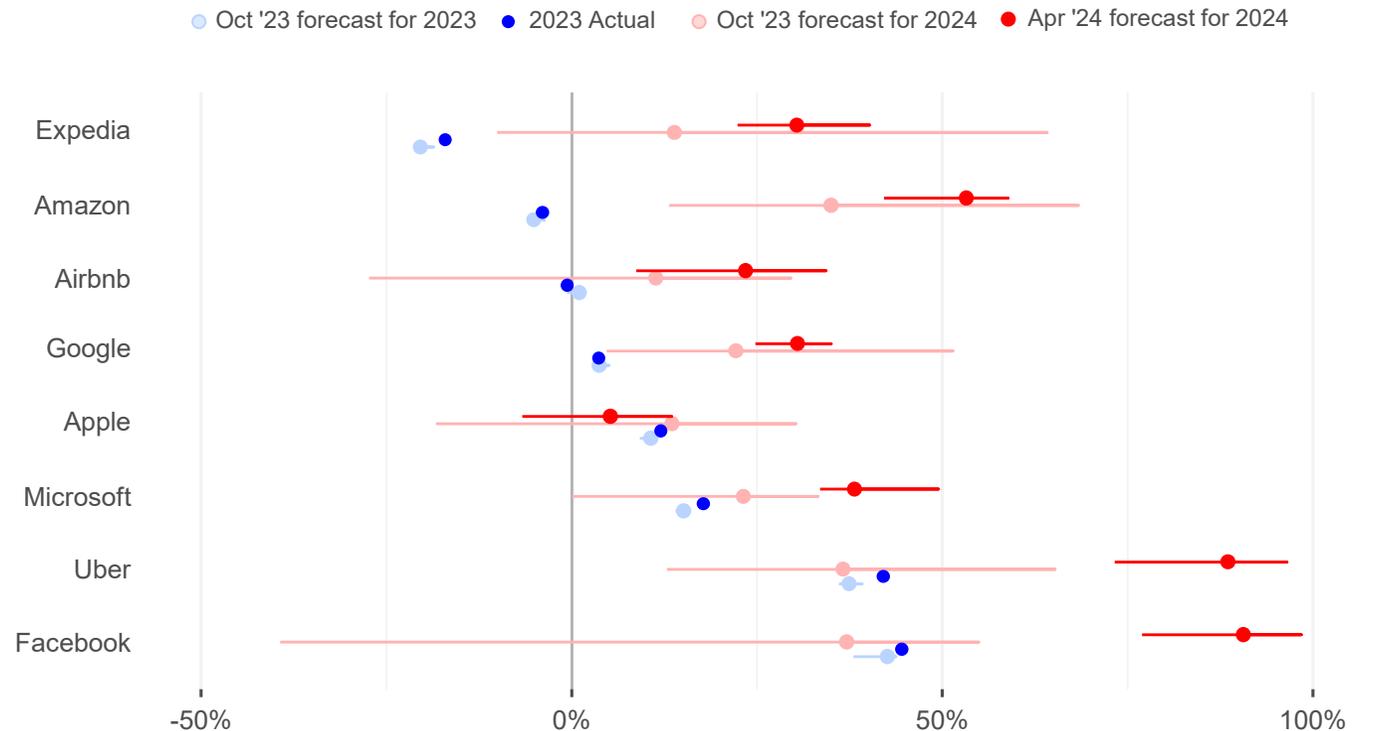
Source: Yahoo Finance

Stock prices are expected to post strong growth in 2024

- Large changes in stock prices expected by Wall Street analysts lead to large changes in payroll expense tax revenue forecasts.
- S&P Global now expects the S&P 500 index to grow about 20% in 2024, up from essentially no growth expected in September 2023 forecast.
- Stock market is then expected to grow only 1% in 2025 and decline about 2% in 2026

Year-over-year expected change in stock prices

Low, average and high estimates



Source: Wall Street Journal, stock price targets from analyst ratings

Questions?

Appendix

General Fund Revenues - 2023 Actuals vs Forecast (\$ millions)

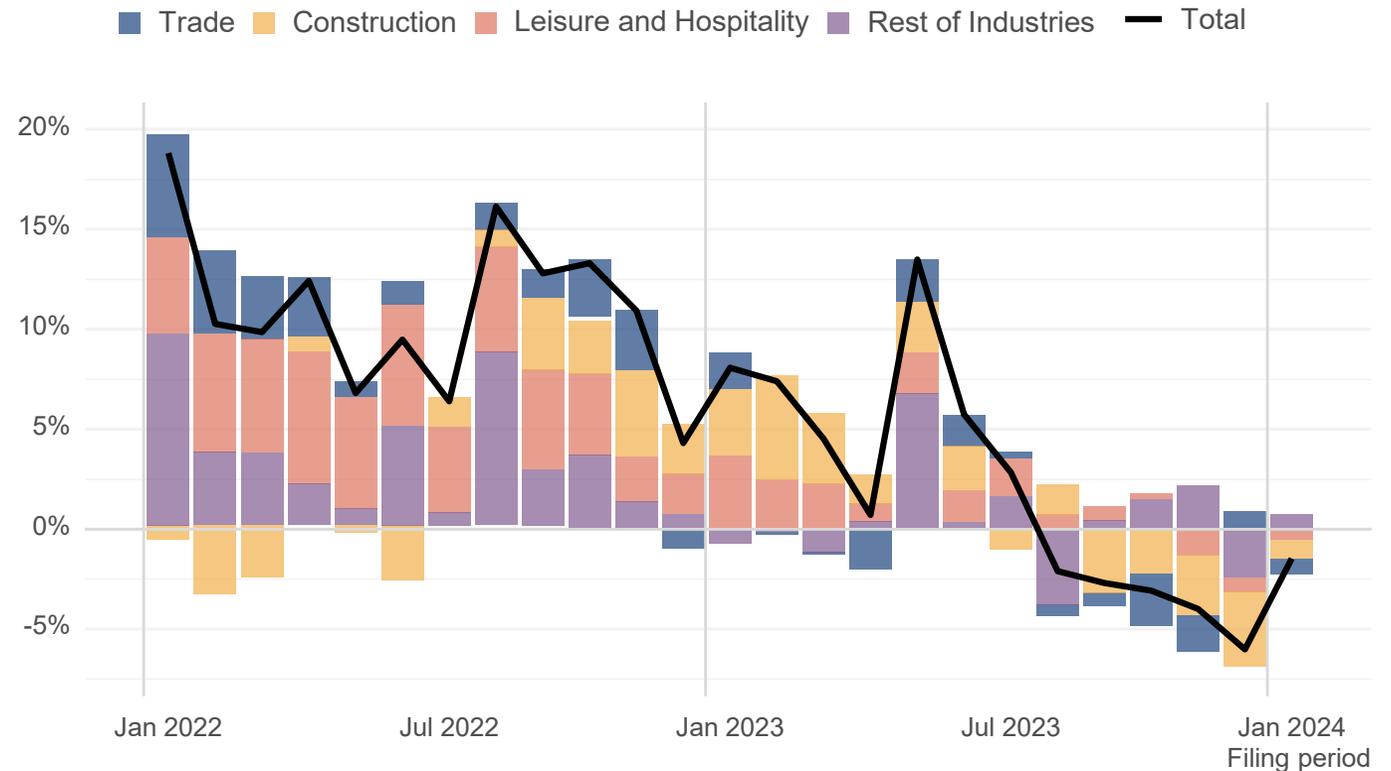
Revenue Source	2023			
	Forecast Oct. 2023, \$ mil.	Actual Revenues, \$ mil.	Variance from Forecast, \$mil.	Variance from Forecast, %
Property Tax (Including Medic One Levy)	\$379.3	\$377.8	-\$1.5	-0.4%
Retail Sales Tax	\$348.0	\$339.9	-\$8.1	-2.3%
Business & Occupation Tax	\$355.4	\$356.2	\$0.8	0.2%
Utility Tax - Private	\$42.6	\$43.2	\$0.7	1.6%
Utility Tax - Public	\$192.9	\$185.7	-\$7.2	-3.7%
Other City Taxes	\$13.8	\$14.1	\$0.3	2.0%
Parking Meters	\$36.6	\$37.0	\$0.3	0.9%
Court Fines	\$22.3	\$24.0	\$1.7	7.5%
Revenue from Other Public Entities	\$18.9	\$19.1	\$0.2	0.9%
Grants	\$73.3	\$34.1	-\$39.2	-53.4%
Fund Balance Transfers	\$81.3	\$80.5	-\$0.8	-1.0%
Service Charges & Reimbursements	\$76.0	\$76.2	\$0.2	0.2%
Licenses, Permits, Interest Income and Other	\$77.0	\$77.6	\$0.6	0.8%
Payroll Expense Tax	-\$0.4	\$3.6	\$4.1	
Total	\$1,717.0	\$1,669.1	-\$48.0	-2.8%
Total w/o Grants and Transfers	\$1,562.4	\$1,554.4	-\$8.0	-0.5%

Sales tax revenue collection underperformed unexpectedly in 2023

- Sales tax revenue collection deteriorated sharply after the October 2023 forecast.
- October 2023 forecast expected a downturn in construction sector in 2024, but the declines started already in the second half of 2023
- Taxable sales in other sectors showed surprising weakness in the second half of 2023 as well, and in several cases actually declined year-over-year in the last couple of months.
- Sales tax underperformed similarly in the Fall 2023 forecast by King County's OEFA, by 2%, and the WWU's Center for Economic and Business Research forecast for King County, by 3.5%.

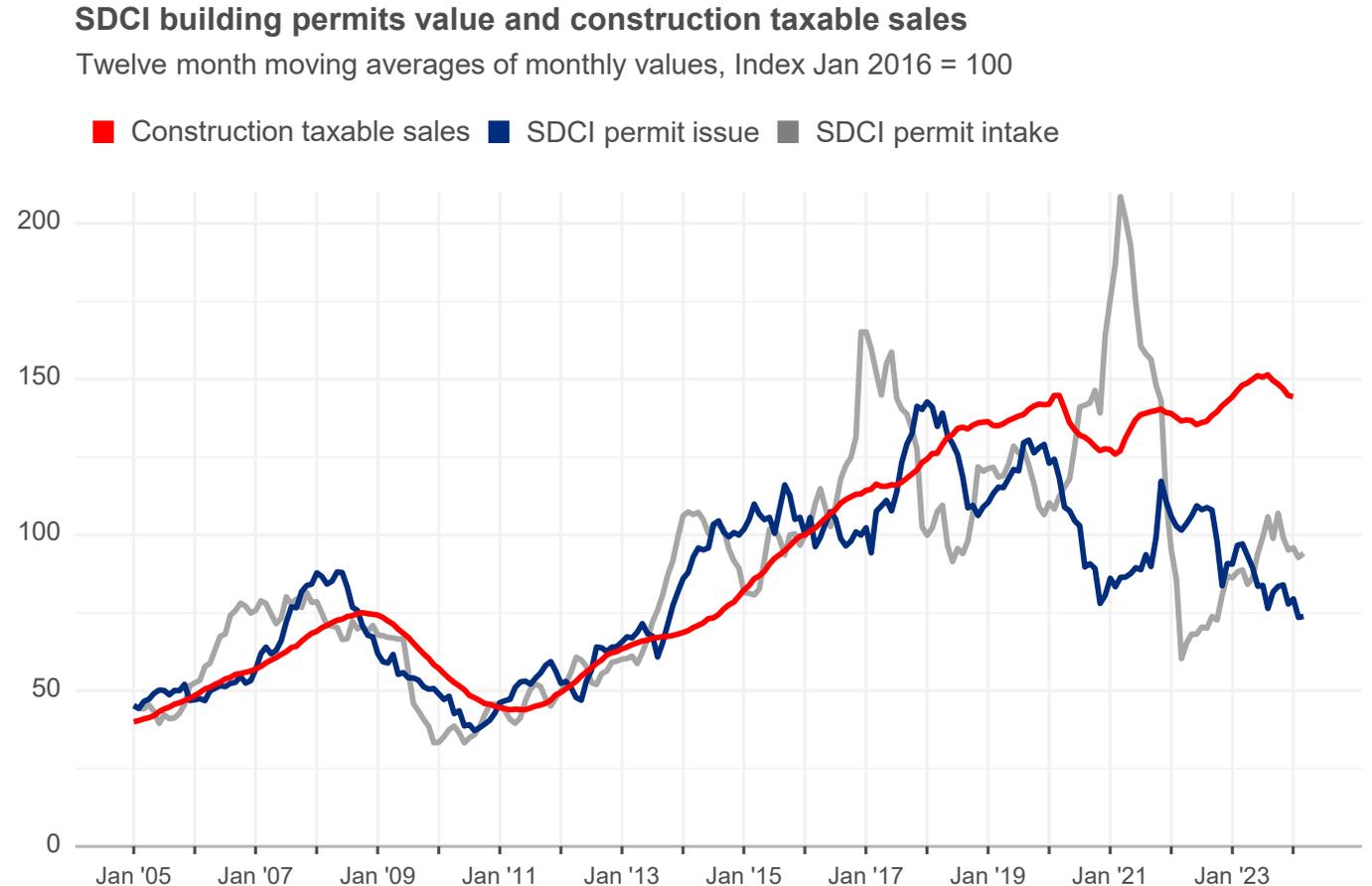
Sales Tax Revenue

Total year-over-year % change and decomposition by industry



Less construction activity is expected in near term

- Technology sector appears to have stabilized, but demand for office space remains low and some leases that will expire will not be renewed.
- The office vacancy rates are thus expected to rise further before they turn around.
- Federal Reserve is expected to pivot to monetary easing in the second half of 2024, but interest rates are unlikely to go back to the ultra-low levels of 2010s.
- As a result, demand for new construction will remain muted for a while.





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2024 Budget Discussions



SEATTLE CITY COUNCIL
CENTRAL STAFF

2024 BUDGET DISCUSSIONS

ALY PENNUCCI, DEPUTY DIRECTOR, AND TOM MIKESELL, ANALYST
SELECT BUDGET COMMITTEE
APRIL 17, 2024

Outline



Projected General Fund Deficit

How did we get here?
What are our tools?



Budget Review and Examination

2019-2024 Citywide Budget Changes



Key Takeaways



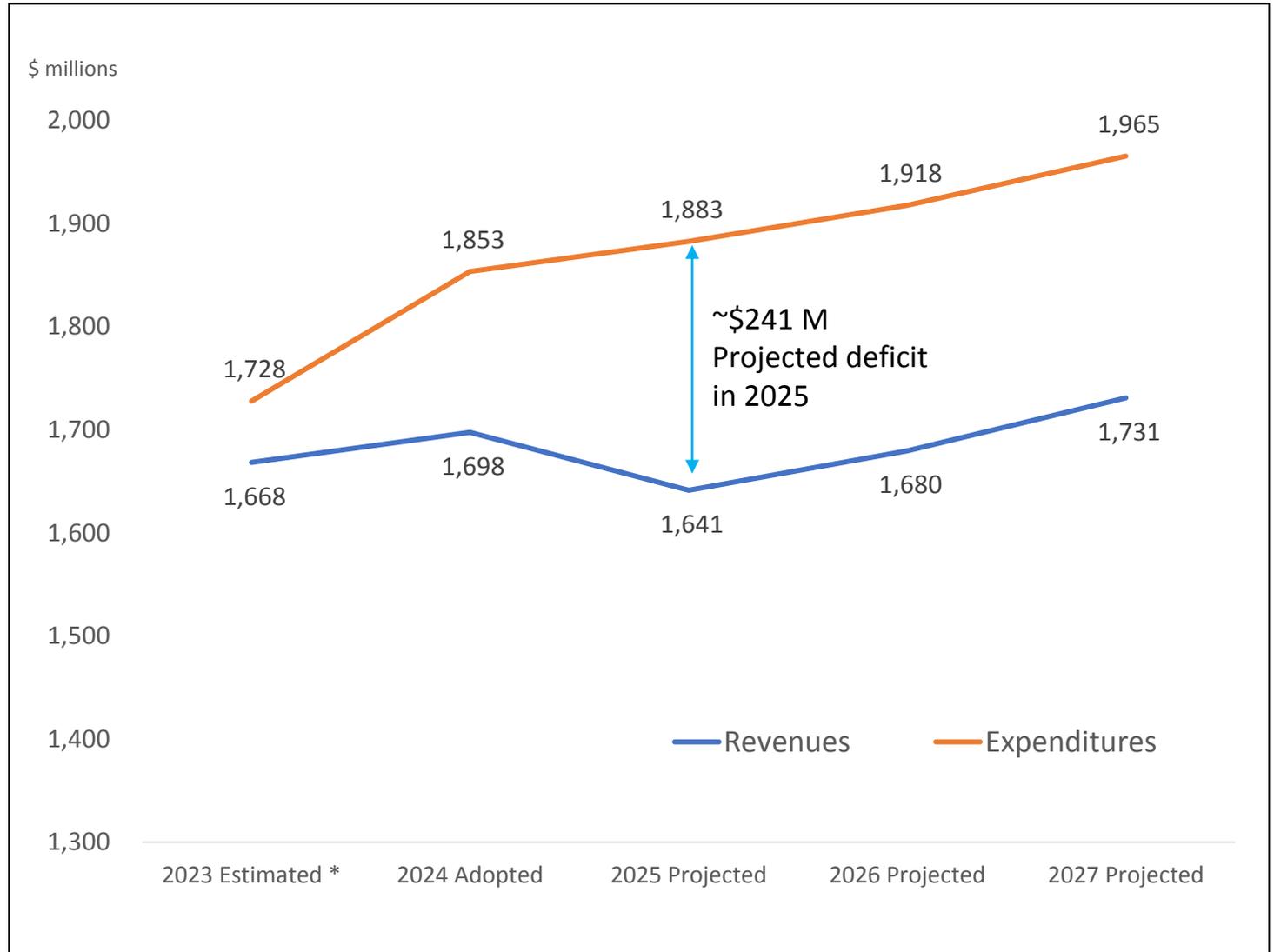
Upcoming Budget Discussions

General Fund Projections

This shows the projected GF deficit if you look at projected ongoing revenues against projected spending.

In 2023-2024, that gap was closed using one-time resources to support ongoing spending

Example: The 2024 Adopted Budget, \$146 million of one-time fund balance used to balance the GF

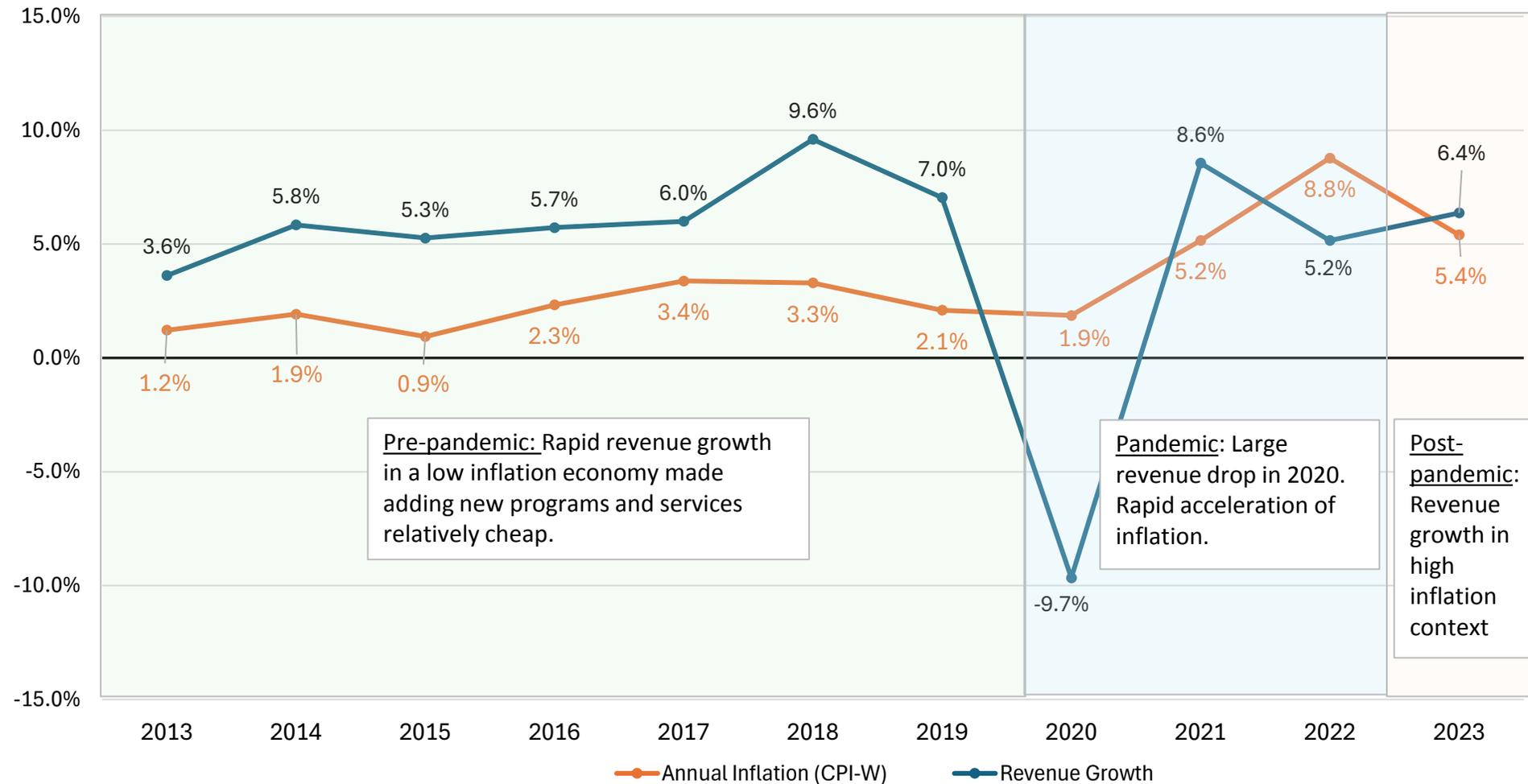


**Excludes carryforwards.*

***Projected deficit does not include full impacts from pending labor contracts (e.g., SPOG)*

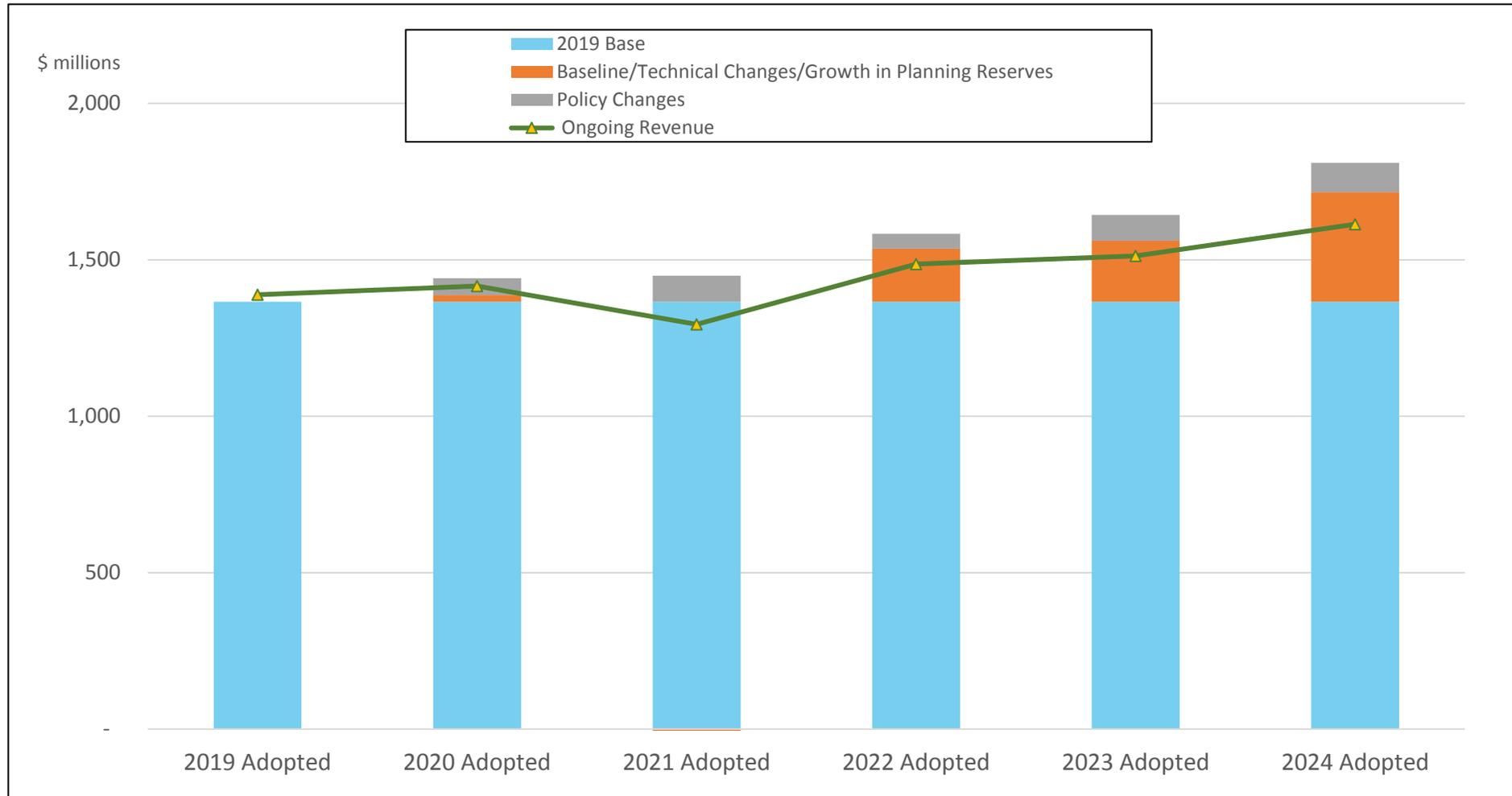
How Did We Get Here?

Growth Trends: Revenues and Inflation 2013 to 2023



Additional information is provided in the [General Fund Deficit Historical Analysis](#) staff memo (2023).

2019 to 2024 Revenue and Expenditure Budget Growth *Excluding One-time Sources and Uses*



What are our tools?



Expenditures

- ✓ Pause the growth: Hiring freeze, pause new spending
- Early Retirement
- Make underspend assumptions permanent
- Reduce or eliminate programs or services
- Consolidate departments or lines of business



Revenues

- Adopt new revenues
- Do not add new ongoing spending if actual revenues outperform forecast or if forecast improves
- Review fee policies and raise fees where appropriate to achieve full cost recovery



Restricted Funds

- Review spending restrictions on locally restricted funds
 - Sweetened Beverage Tax
 - Admission Tax
 - JumpStart Payroll Expense Tax
 - Transportation Network Companies Tax

Key Takeaways

Beginning in 2025, a \$241 million deficit is projected for the GF:

- Following a long period of low inflation and high annual revenue growth, the pandemic caused a sudden revenue decline while costs continued to grow.
- National supply chain pressures drove inflation to levels not seen in decades, while real GF revenue growth began to stagnate in real terms
- Since 2019, 79 percent of GF budget growth was largely to fund baseline and technical changes to the base budget due to rapid inflation.
- Ongoing GF revenues have not kept pace, leading to a structural deficit plugged with one-time measures (fund balance, temporary interfund transfers, underspend)
- A mix of fiscal tools available for consideration in the fall budget deliberations

2019-2024 Budget Review

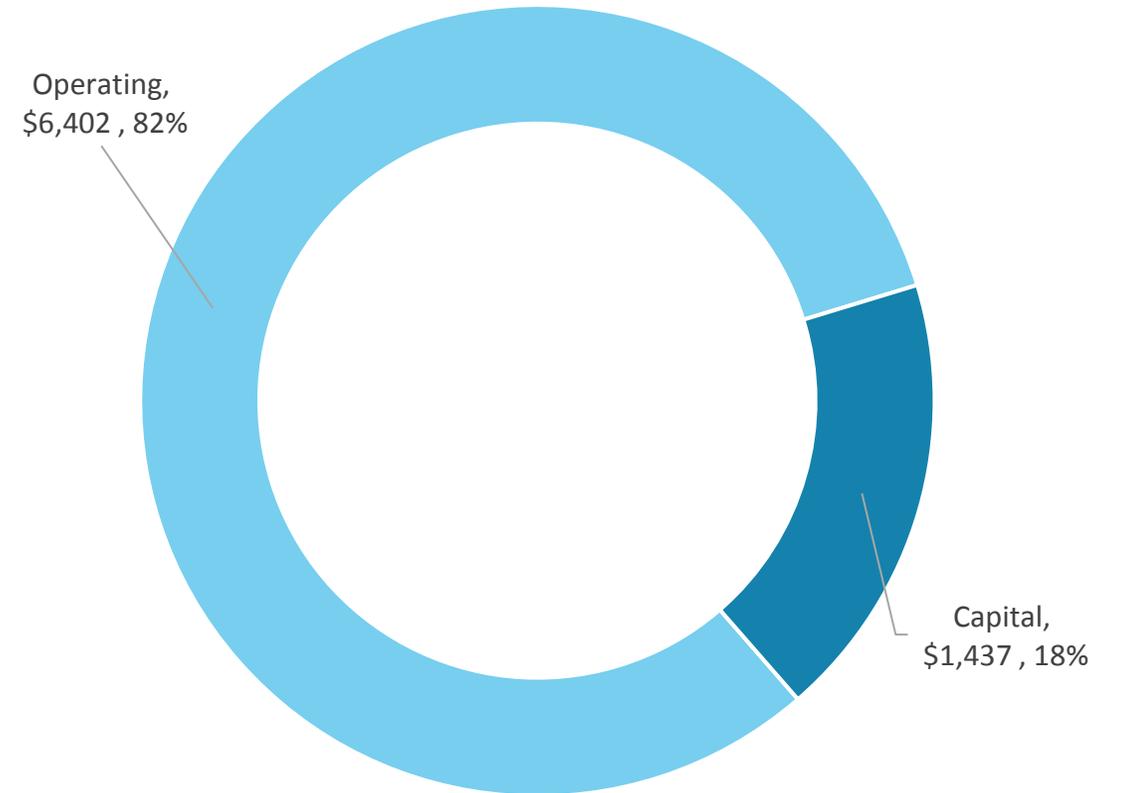
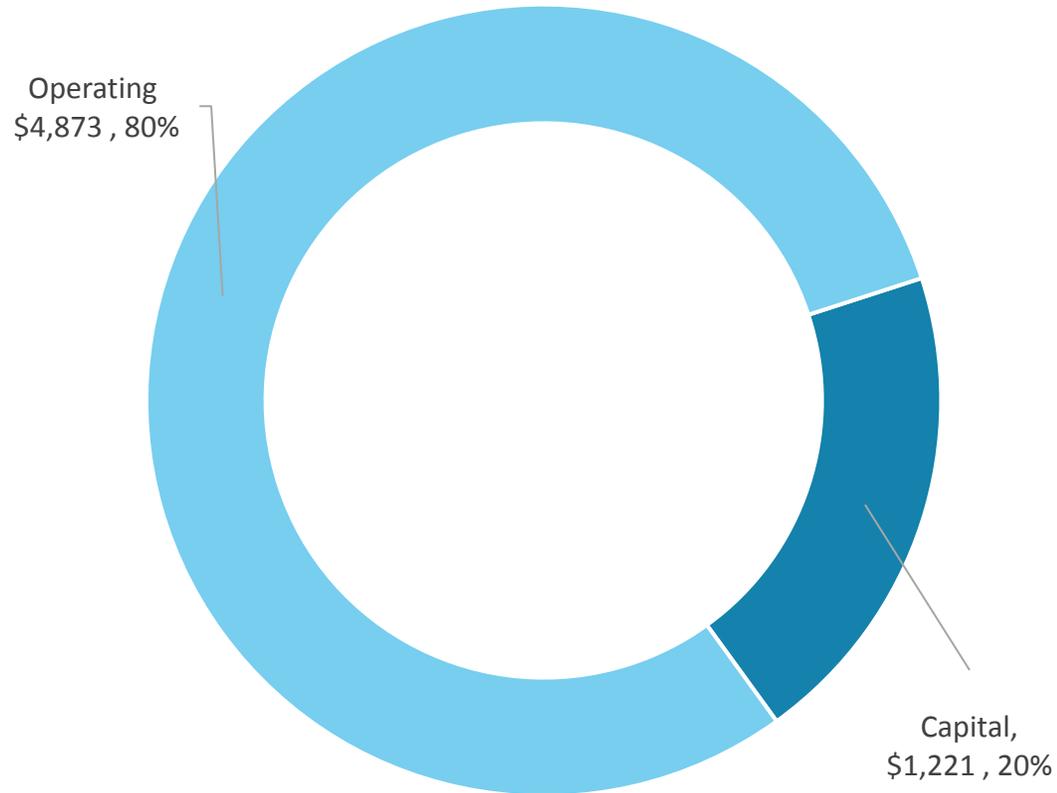
2019-2024 Budget Review Document

- 1) Citywide budget changes over a five-year period (2019-2024)
- 2) Review of every City department's budget at the budget summary level (BSL), fund, expense category, and (for some but not all) budget program level and highlight what has driven budget changes between 2019 and 2024

2019-2024 Budget Comparison: Operating/Capital

2019 Adopted Budget: \$6.1B

2024 Adopted Budget: \$7.8B



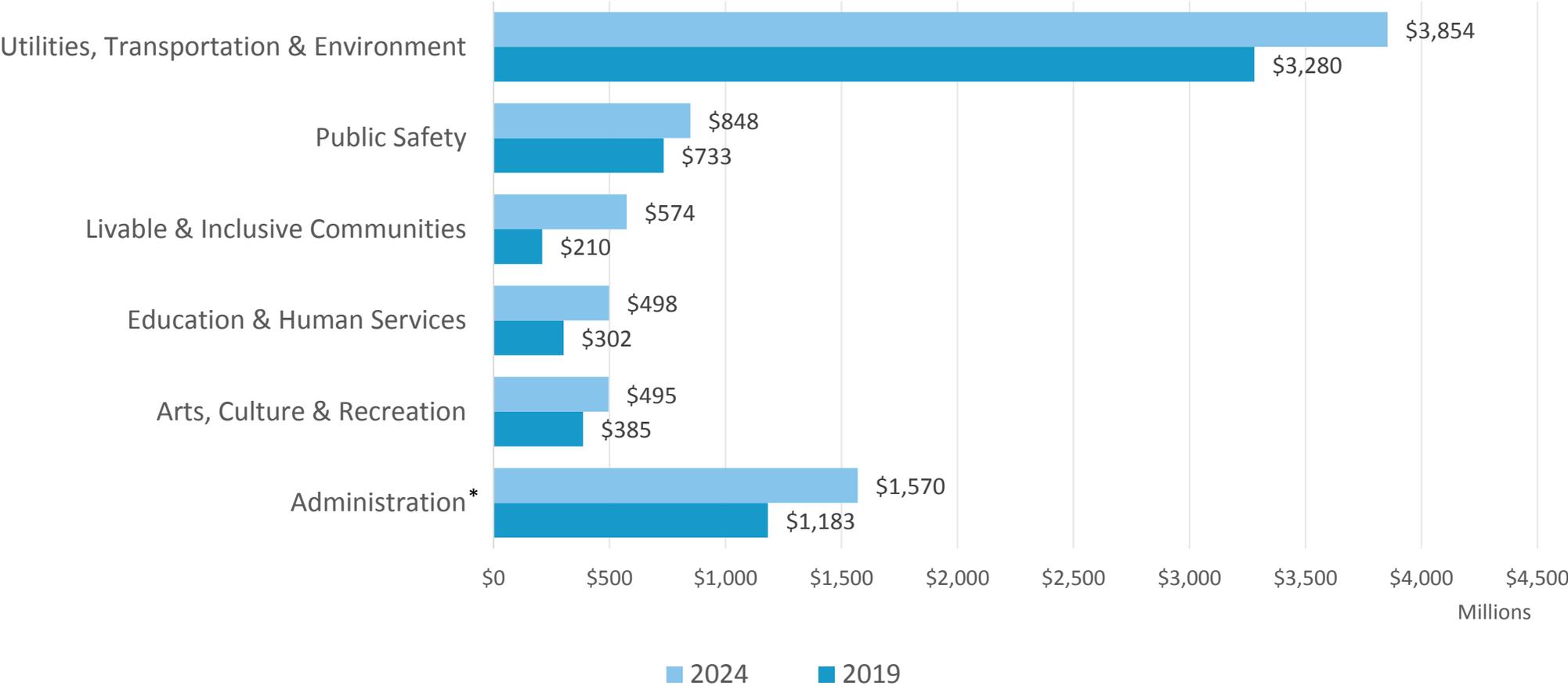
\$ in millions

2019-2024 Citywide Budget Comparison

Fund	2019 Adopted Budget*	2024 Adopted Budget*	5-Year Growth*	Percent Growth
Operating				
General Fund	1,363.7M	1,717.7M	354.0M	26%
JumpStart Fund	-	328.6M	328.6M	-
Other Sources	3,508.8M	4,355.3M	846.5M	24%
<i>Operating Subtotal</i>	<i>4,872.5M</i>	<i>6,401.6M</i>	<i>1,529.1M</i>	<i>31%</i>
Capital				
General Fund	2.1M	4.5M	2.4M	113%
JumpStart Fund	-	1.0M	1.0M	-
Other Sources	1,218.6M	1,431.5M	212.8M	17%
<i>Capital Subtotal</i>	<i>1,220.7M</i>	<i>1,436.9M</i>	<i>216.2M</i>	<i>18%</i>
Grand Total	6,093.2M	7,838.5M	1,745.3M	29%
Total FTE	12,479	13,070	591	5%

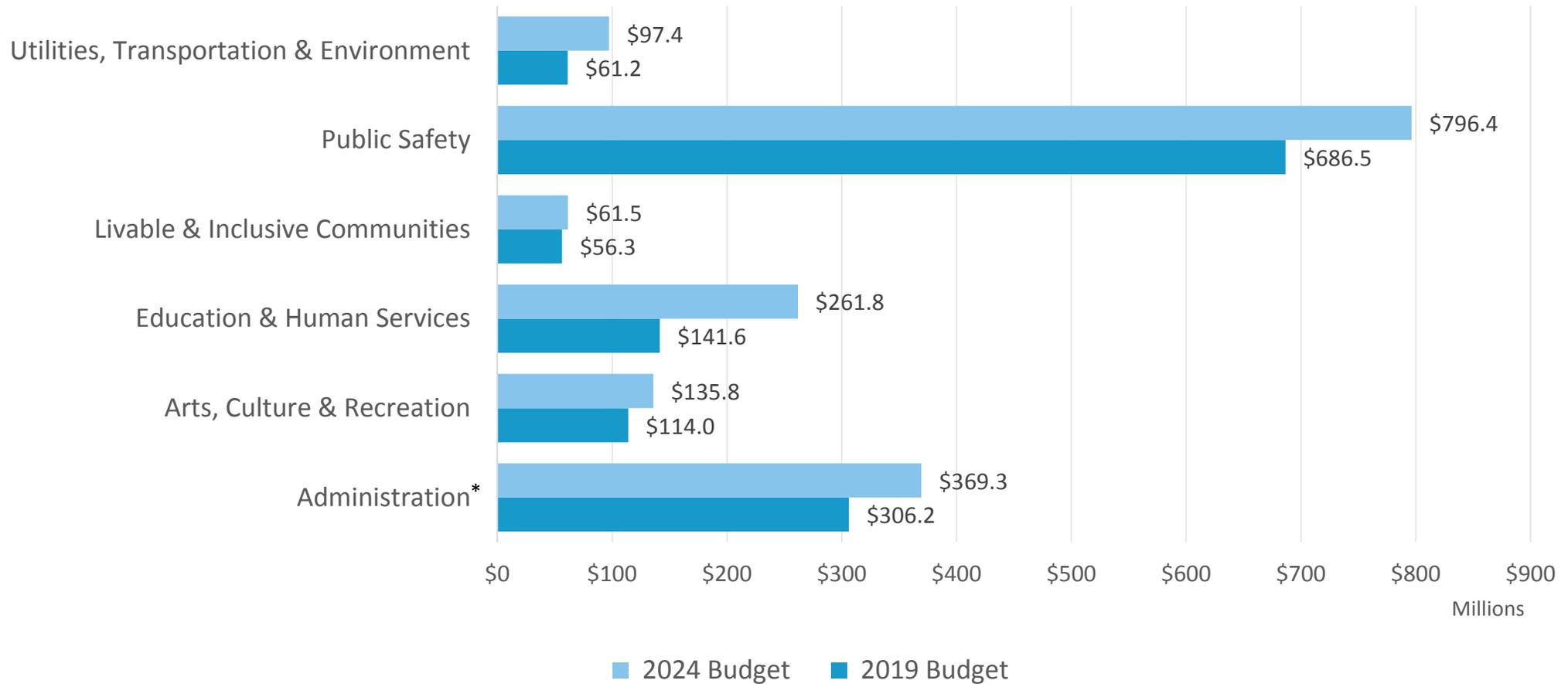
*These numbers exclude unappropriated planning reserve for labor agreements and other costs that were (and in some cases still are) under negotiation at the time the 2024 Budget was adopted.

2019-2024 Budget Comparison by Policy Grouping



*Administration includes internal services, policy and oversight, debt service, insurance premiums, public safety pre-LEOFF 2 pensions, and reserves.

2019-2024 Comparison by Policy Grouping - GF



*Administration includes policy and oversight, debt service, insurance premiums, public safety pre-LEOFF 2 pensions, and reserves.

Key Takeaways

Since 2019, total City budget grew by \$1.7 billion or 29%.

- An average growth of 5.8% per year, primarily driven by expenditure increases responding to historically high inflation rates (CPI growth during this period averaged ~5%)
- ~50% of total budget growth across all funds from 4 departments: SPU, OH, SCL, and HSD, followed by growth in non-departmental budgets (Finance General) and internal service departments (SDHR and FAS)
- The introduction of the JSF Payroll Expense Tax represents 19% of the \$1.7 billion increase. Departments that administer the majority of JSF resources experienced the largest % increase (OH, OED, OPCD, and OSE)
- GF budget grew by \$256 million or 26%, an average of 5.2% per year. The majority (51%) was in HSD and SFD, followed by growth in Finance General, Parks, SDOT and SPU

Upcoming Committee Discussions

Budget Review cont'd

- 2019-2024 Budget Review – continue at department level
- Sources of city revenues and associated restrictions
- Locally restricted funds and options to modify (JSF focused)

General Fund Balancing Analysis

- Central Staff will present an updated GF Financial Plan following the April forecast update and introduction of the 2023 Carryforward Supplemental Budget ORD

2024 Fall Budget Process

- Fall Select Budget Committee Calendar
- Steps in the process

Questions?