

# Economic and Revenue Update

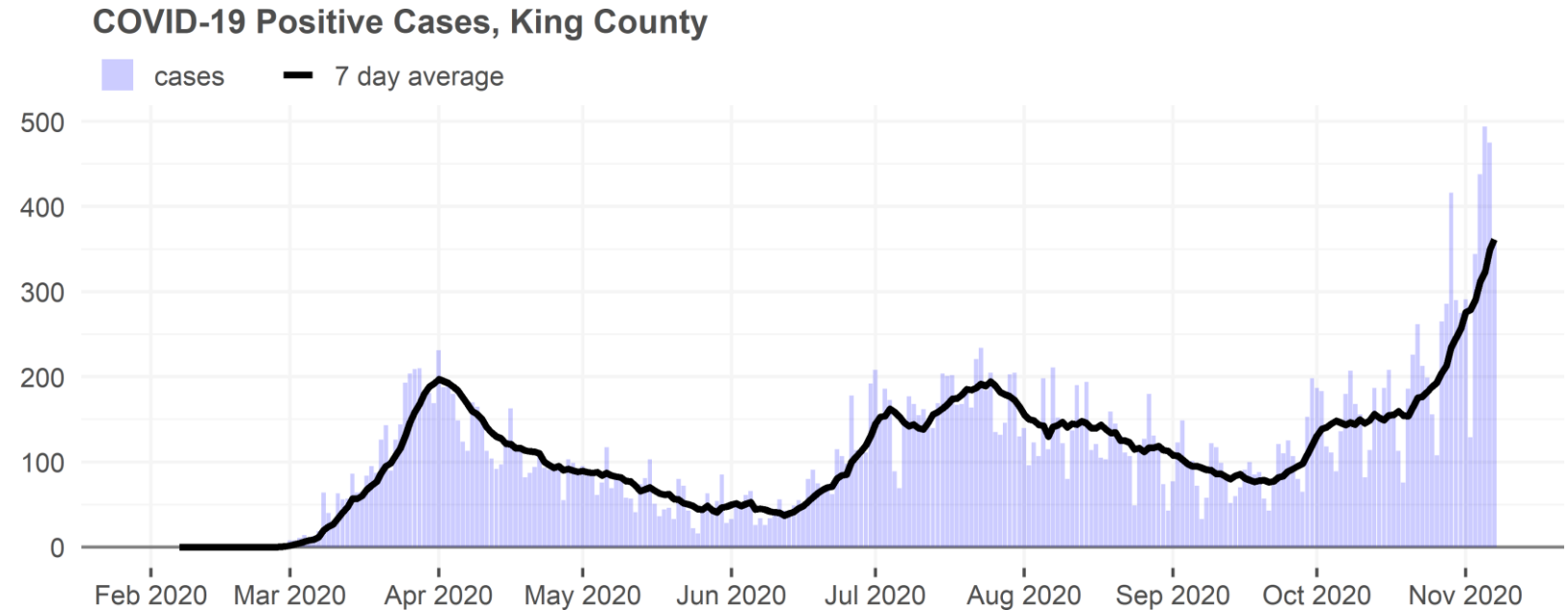
Seattle City Council

November 10, 2020



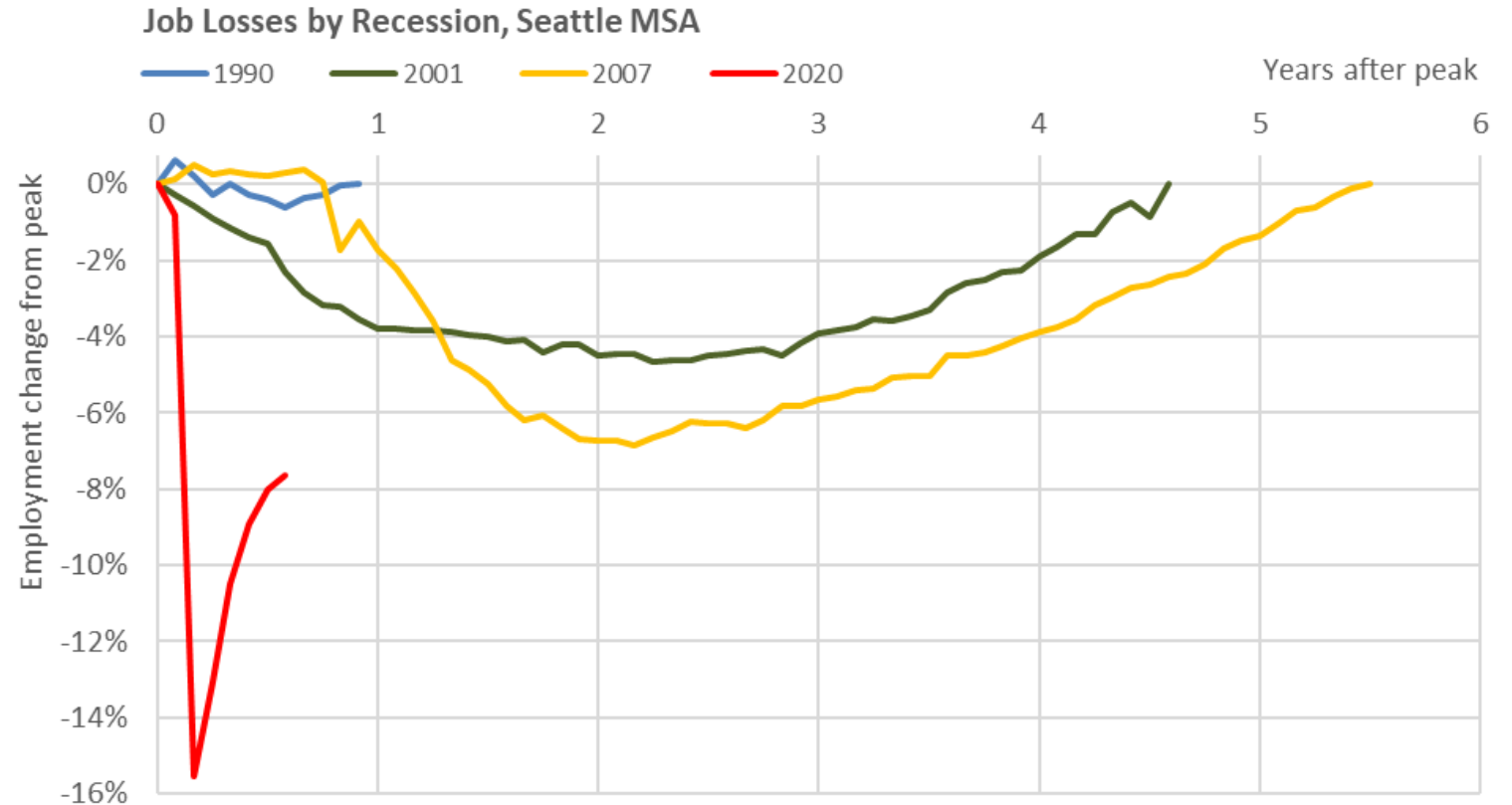
# Rising COVID-19 Cases in King County

- COVID-19 positive cases in King County are rising quickly
- Test positivity (7 day average) reached 5.7% on 11/7, up from 2.2% one month ago
- King County remains in Phase 2 of Washington's Safe Start reopening plan



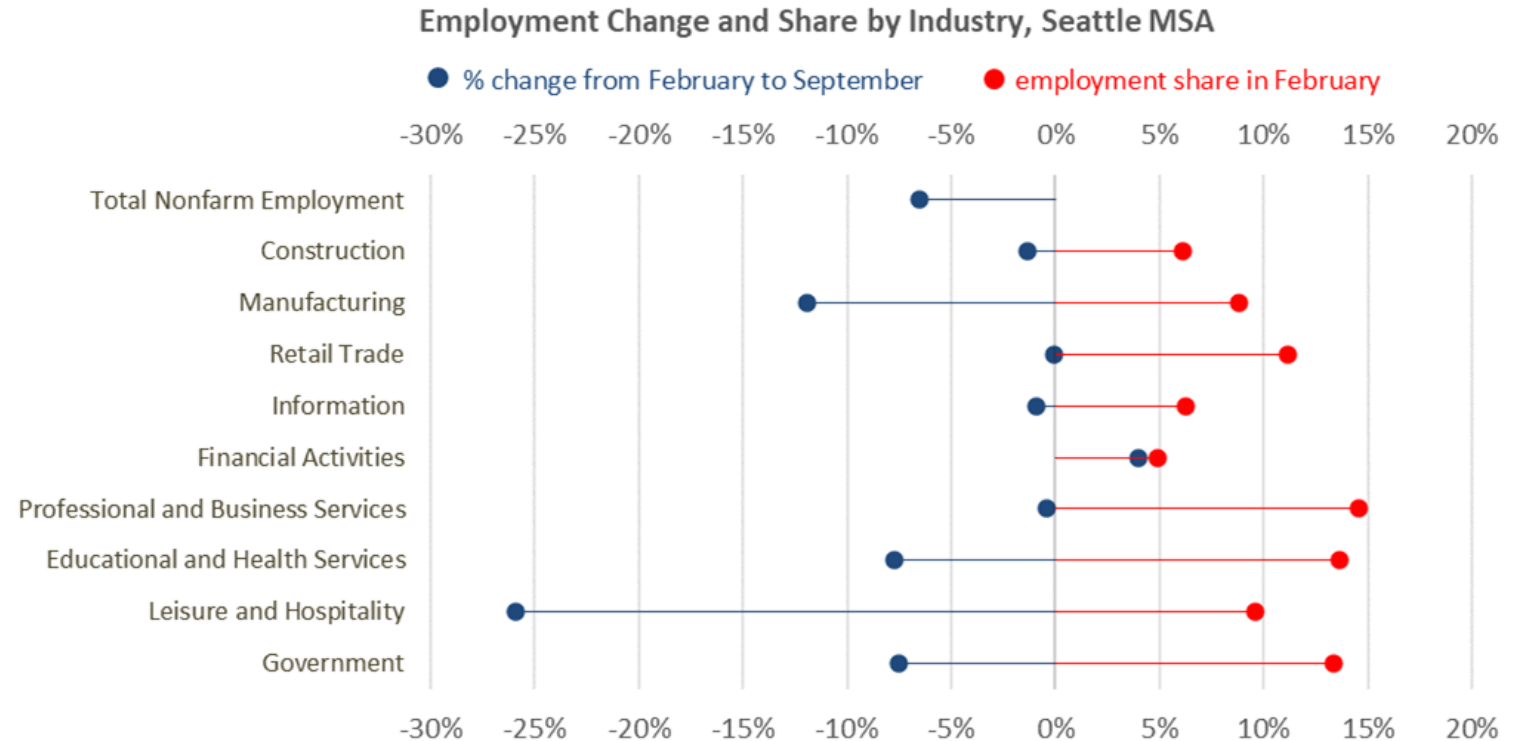
# 2020 Recession - Labor Market

- Magnitude and the speed at which the job losses occurred in 2020 is unprecedented
- Unemployment rate increased from 3.0% in February to 16.3% in April in Seattle MSA, from 3.5% to 14.7% in the U.S.
- Recovery is expected to be faster than from 2001 and 2007 recessions, which took about 4.5 and 5.5 years respectively



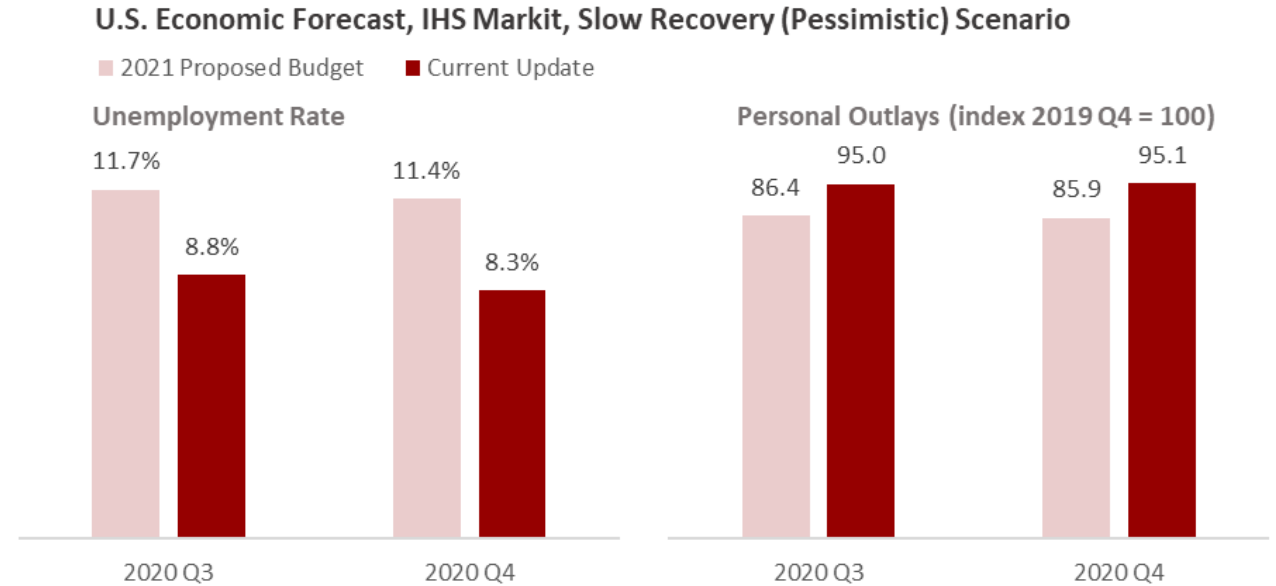
# 2020 Recession - Labor Market

- Recession affected different sectors very differently, recovery will take much longer for some sectors
- Diversity of Seattle's economy should help its path to recovery once the public health risks abate
- Technology sector and online commerce have driven expansion of the local economy in the past, are among the least affected by the recession and will be important during recovery



# Large Revision of IHS Markit U.S. Forecast

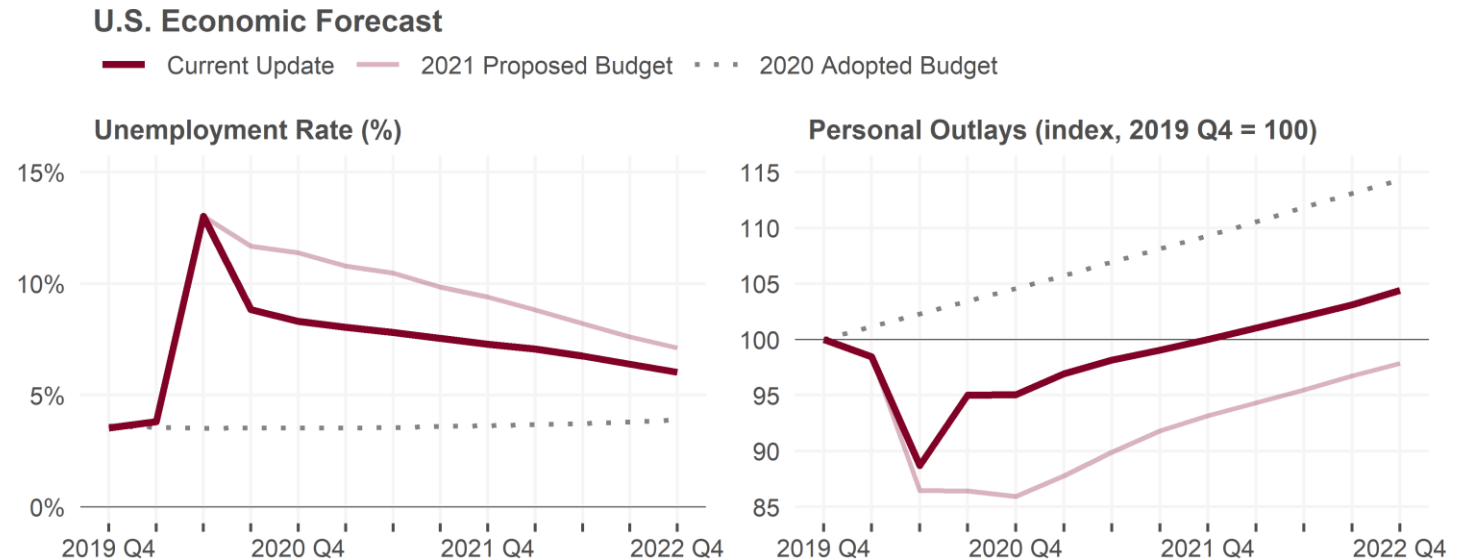
- Presented CBO forecast is based on the IHS Markit U.S. economic forecast from October 2020, slow recovery (pessimistic) scenario
- IHS Markit U.S. forecast was revised upward between July and October
- Faster recovery is now expected, pre-recession level of real GDP reached one year earlier
- Significantly improved outlook for the second half of 2020





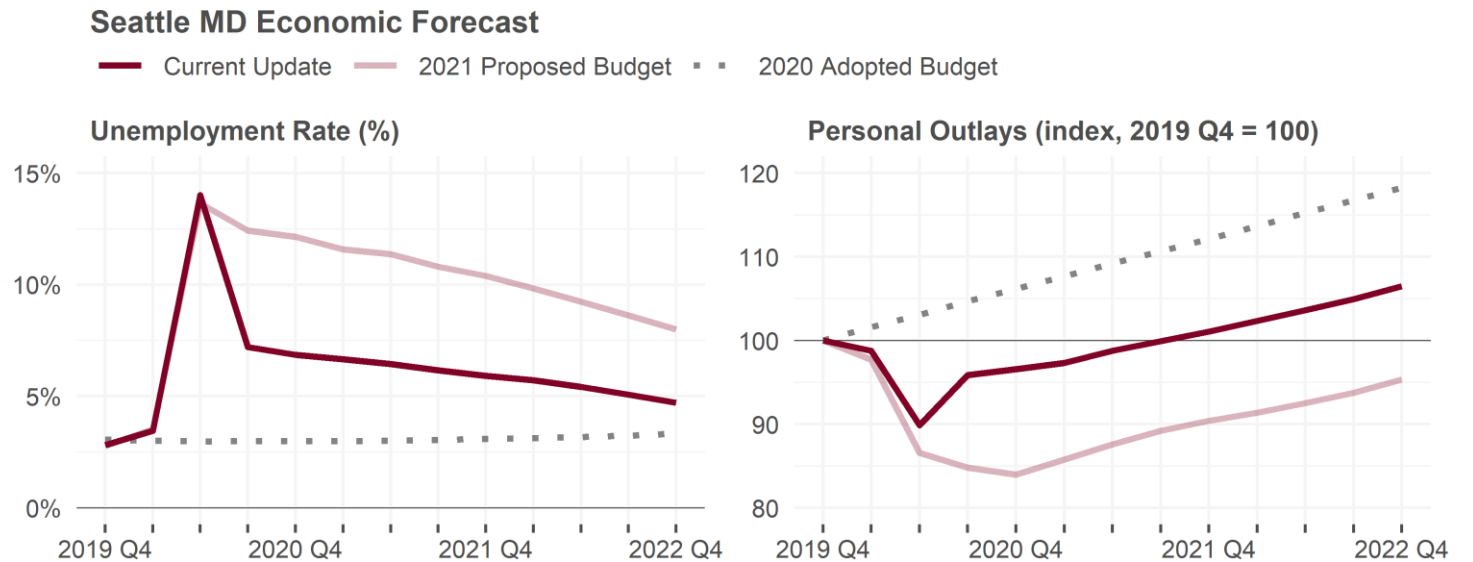
# Large Revision of IHS Markit U.S. Forecast

- Unlike July 2020 IHS Markit forecast, October 2020 forecast assumes additional fiscal stimulus
  - \$300/week emergency unemployment benefits from October through December
  - Stimulus checks sent out in 2020 Q4
- Personal income in 2020 is expected to be higher than in 2019 as a result of fiscal stimulus
- Personal outlays however plunged as personal saving rate grew dramatically



# Regional Economic Forecast for Seattle MD

- Large revisions in the U.S. forecast lead to large revisions in the regional forecast
- Personal outlays per capita, 2020 Q4 vs 2019 Q4
  - 17.2% in July forecast
  - 4.8% in October forecast
- Unemployment rate, 2020 Q4
  - 12.1% in July forecast
  - 7.2% in October forecast



# Forecast Risks

Regional forecast based on slower-growth scenario from the national IHS/Markit forecast because:

- Coronavirus cases are surging, which is inconsistent with national forecast assumptions
- Assumed fiscal stimulus is unlikely to be passed in 2020 Q4 and will not be available in October as forecast assumes
  - Without fiscal stimulus WA personal income in 2020 Q4 would be 7% lower
- Boeing announced additional layoffs after regional economic forecast was finalized
  - 31,000 (-19%) fewer employees companywide at the end of 2021 compared to the beginning of 2020
  - Almost twice as much as previously planned 16,000 (-10%)
- Work from home creates high uncertainty regarding B&O and payroll tax revenue





# Tax Revenue Forecast

- Large revisions to regional economic forecast led to large revisions in sales, B&O and Real Estate Excise tax forecasts, even as other revenues decline.
- B&O tax
  - +\$12.6 mil., so -15.3% year over year instead of -19.5%
  - Actual revenue, through 2020 Q2: -13.6% year over year
- Sales tax (regular and optional)
  - +\$20.6 mil., so -13.6% year over year instead of -21.2%
  - Actual revenue, through October distribution: -14.8% year over year
- Similar adjustments made to taxable retail sales forecasts for King County by other institutions
  - OEFA: -14.6% year over year September forecast, -30.0% June forecast
  - WWU PSEF: -8.7% year over year September forecast, -15.1% June forecast



# Tax Revenue Forecast - Change from 2021 Proposed Budget

Revenues (\$1,000s)	2020 November Change from August (2021 Proposed Budget)	2021 November Change from August (2021 Proposed Budget)	2-Year Total
General Fund Total	\$36,034	\$32,573	\$68,606
Other General Government Revenues - Total	(\$6,592)	(\$20,340)	(\$26,932)
<b>Grand Total - General Government Resources</b>	<b>\$29,441</b>	<b>\$12,233</b>	<b>\$41,674</b>
Real Estate Excise Tax	\$12,774	\$2,951	\$15,725
STBD Total	\$2,348	\$0	\$2,348

2021 Proposed Revenues (\$1,000s)	2020 Adopted	2020 August	2020 November	2020 Change	2021 Proposed	2021 November	2021 Nov - 2021 Prop
Property Taxes	\$345,085	\$340,894	\$340,888	(\$6)	\$354,041	\$356,740	\$2,700
Sales Taxes	\$298,842	\$231,103	\$253,541	\$22,438	\$237,008	\$273,950	\$36,942
Business & Occupation Taxes & Licenses	\$315,537	\$258,139	\$271,450	\$13,310	\$271,429	\$278,659	\$7,231
Utility Taxes	\$220,557	\$206,340	\$206,340	\$0	\$208,364	\$208,364	\$0
Payroll Tax	\$0	\$0	\$0	\$0	\$214,284	\$214,284	\$0
Parking	\$38,578	\$10,434	\$10,725	\$291	\$23,510	\$9,210	(\$14,300)
Transportation Network Company Tax	\$8,877	\$0	\$0	\$0	\$5,022	\$5,022	\$0
All Else	\$176,649	\$147,114	\$147,114	\$0	\$177,263	\$177,263	\$0
<b>General Fund Total</b>	<b>\$1,404,126</b>	<b>\$1,194,024</b>	<b>\$1,230,058</b>	<b>\$36,034</b>	<b>\$1,490,920</b>	<b>\$1,523,493</b>	<b>\$32,573</b>
Admission Tax	\$11,691	\$1,284	\$1,284	\$0	\$5,457	\$5,457	\$0
Short-term Rental Tax	\$10,500	\$3,675	\$2,625	(\$1,050)	\$7,350	\$5,775	(\$1,575)
Sweetened Beverage Tax	\$24,329	\$15,367	\$15,367	\$0	\$20,772	\$20,772	\$0
Mercer Megablock Sale	\$66,500	\$66,500	\$66,500	\$0	\$0	\$0	\$0
Commercial Parking Tax	\$45,596	\$24,394	\$18,694	(\$5,699)	\$38,756	\$29,181	(\$9,575)
School Zone Camera Fund	\$9,666	\$2,923	\$3,080	\$157	\$13,903	\$4,713	(\$9,190)
<b>Other General Government Revenues - Total</b>	<b>\$168,282</b>	<b>\$114,142</b>	<b>\$107,550</b>	<b>(\$6,592)</b>	<b>\$86,238</b>	<b>\$65,898</b>	<b>(\$20,340)</b>
<b>Grand Total - General Government Resources</b>	<b>\$1,572,408</b>	<b>\$1,308,166</b>	<b>\$1,337,608</b>	<b>\$29,441</b>	<b>\$1,577,158</b>	<b>\$1,589,390</b>	<b>\$12,233</b>
<b>Real Estate Excise Tax (REET)</b>	<b>\$82,958</b>	<b>\$49,626</b>	<b>\$62,400</b>	<b>\$12,774</b>	<b>\$62,409</b>	<b>\$65,360</b>	<b>\$2,951</b>
<b>Seattle Transportation Benefit District (STBD)</b>							
STBD Sales Tax	\$30,913	\$24,185	\$26,533	\$2,348	\$0	\$0	\$0
STBD Vehicle License Fee	\$32,897	\$28,876	\$28,876	\$0	\$7,255	\$7,255	\$0
<b>STBD Total</b>	<b>\$63,809</b>	<b>\$53,061</b>	<b>\$55,409</b>	<b>\$2,348</b>	<b>\$7,255</b>	<b>\$7,255</b>	<b>\$0</b>

Notes:

1) STBD Sales Tax: 2021 Proposed and November values assume current law, i.e. that the current 0.1% sales rate expires 12/31/2020. Should the ballot measure pass at the proposed 0.15% tax rate the revenues are projected to be \$33.4 million in 2021.

2) STBD Vehicle License Fee (VLF): The Supreme Court's invalidation of I-976 results in the City retaining its full \$80 fee in 2020 and maintaining its \$20 portion of the VLF in 2021.

