

Economic and Revenue Forecast, April 2021

April 20, 2021

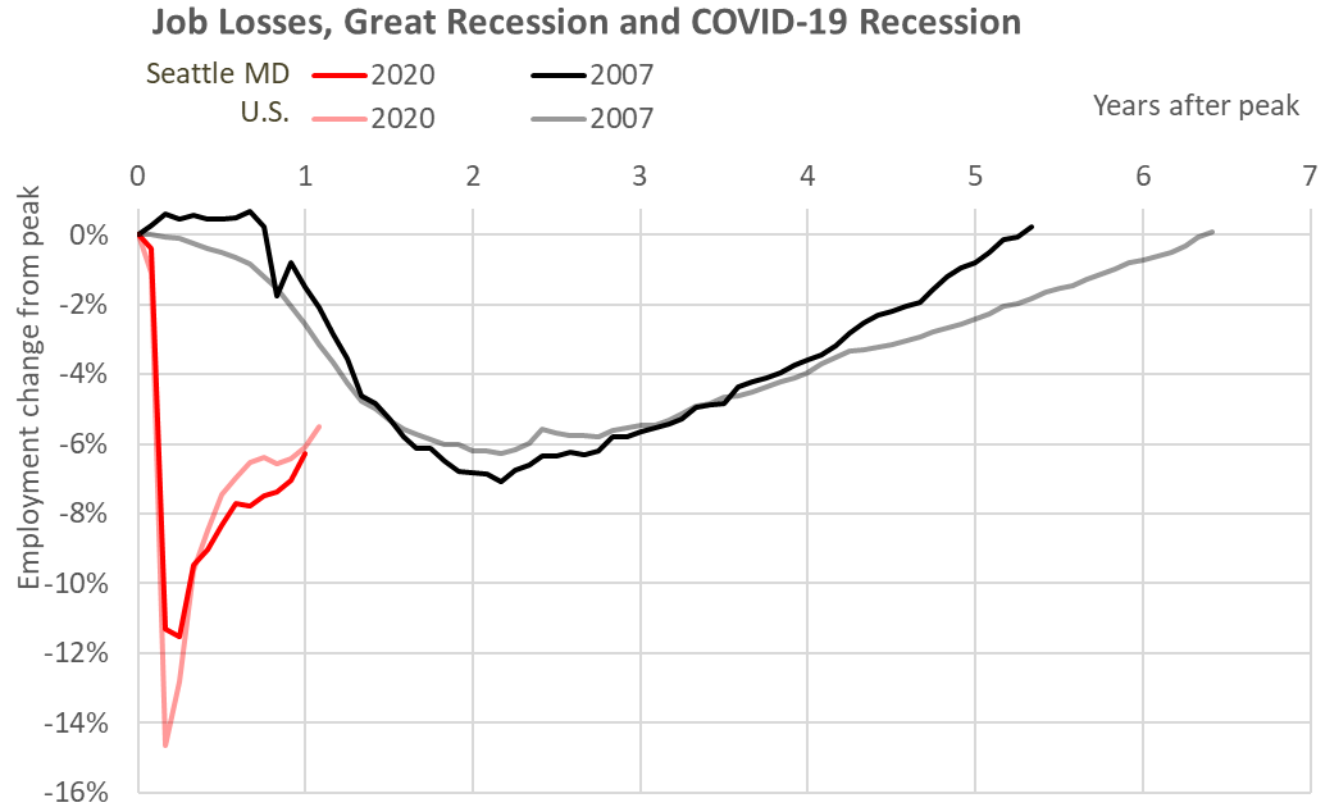


Economic Update



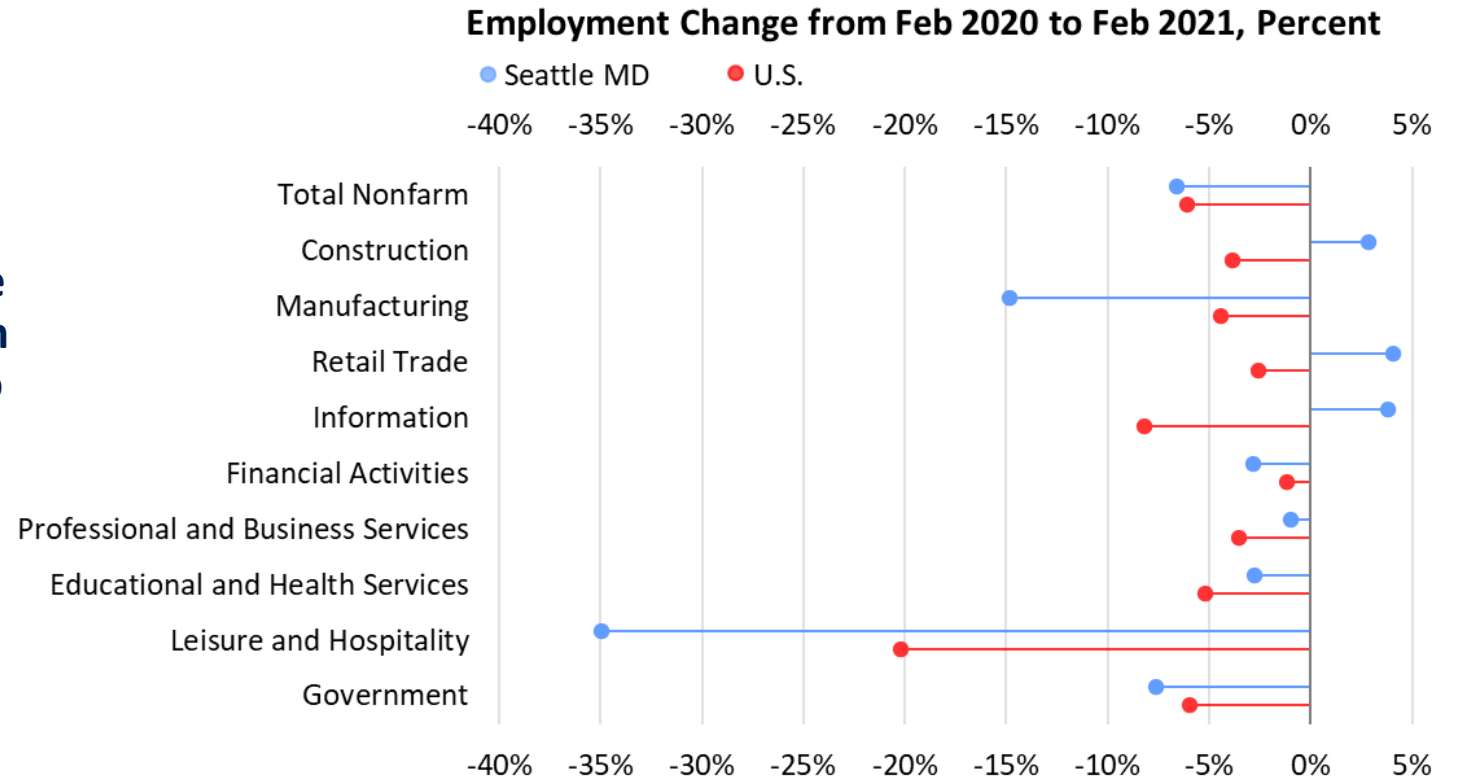
COVID recession has been severe but likely short

- Unemployment rate increased between February and April 2020 from 3.0% to a peak of 16.3% in Seattle MSA, and from 3.5% to 14.7% in the U.S.
- Employment recovery stalled in 2020 Q4
- **After essentially no job growth in 2020 Q4, the labor market recovery picked up speed in the first two months of 2021**
- Washington State Employment Security Department revised employment data in March: 2020 Q2 up, 2020 Q3 down



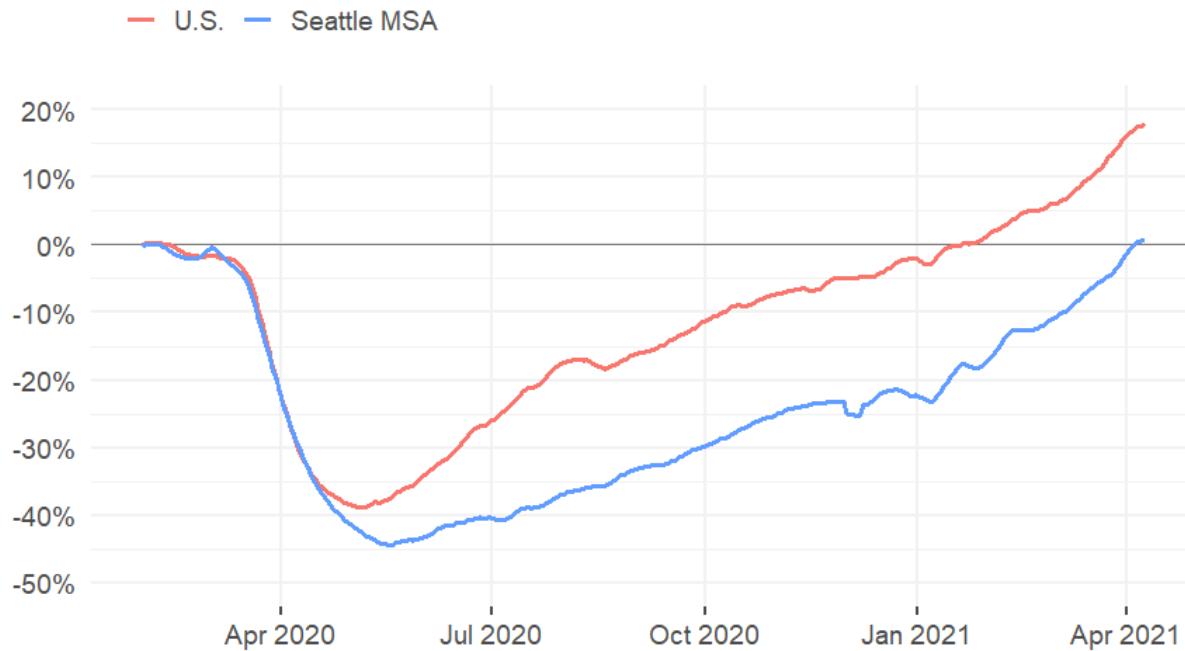
Information sector is driving labor market recovery

- Leisure and hospitality accounts for half of the jobs lost and not recovered yet
- Manufacturing and government account for an additional third
- **Technology sector and online commerce drove expansion of the local economy in past, important for current recovery too**
- Washington State Office of Financial Management (OFM) employment multiplier estimates
 - Leisure & Hospitality **1.52**
 - Aircraft and Parts Manufacturing **2.42**
 - Software Publishers, Data Processing & Internet Service Providers **4.67**



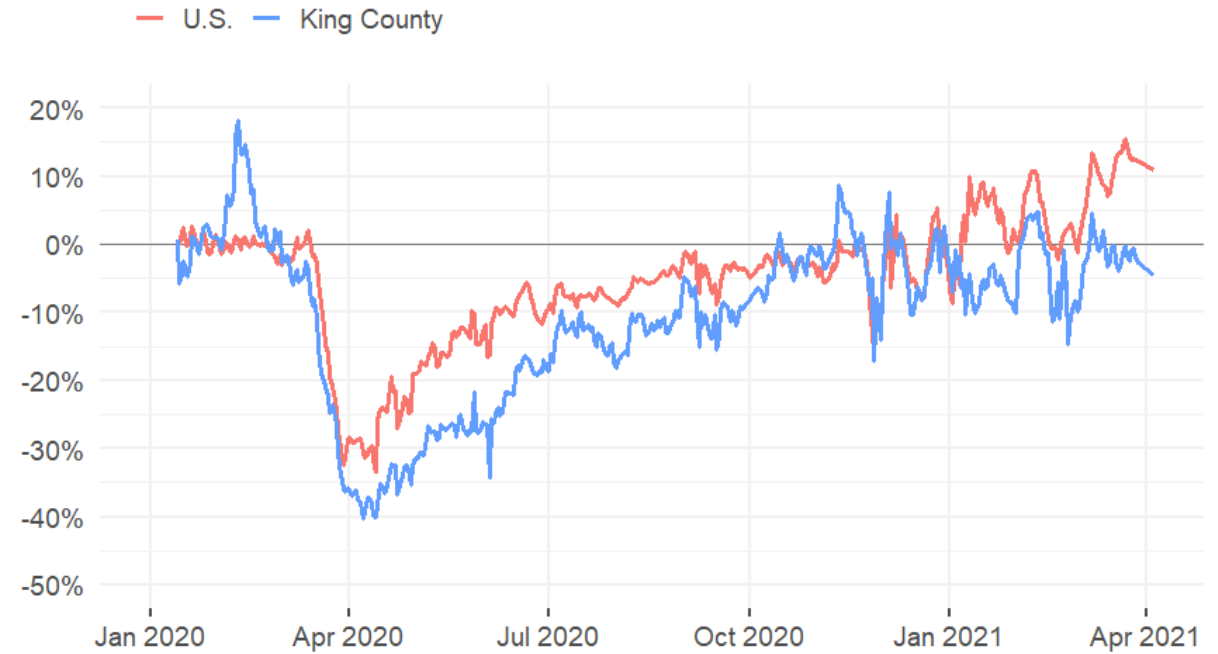
Job openings and consumer spending in Seattle are recovering slower than in the rest of U.S.

Job Postings on Indeed, Percent Change from Feb 1, 2020



Source: Federal Reserve Board of St. Louis FRED, 7-day trailing average, seasonally adjusted

Consumer Credit and Debit Card Spending, Percent Change from Jan 2020

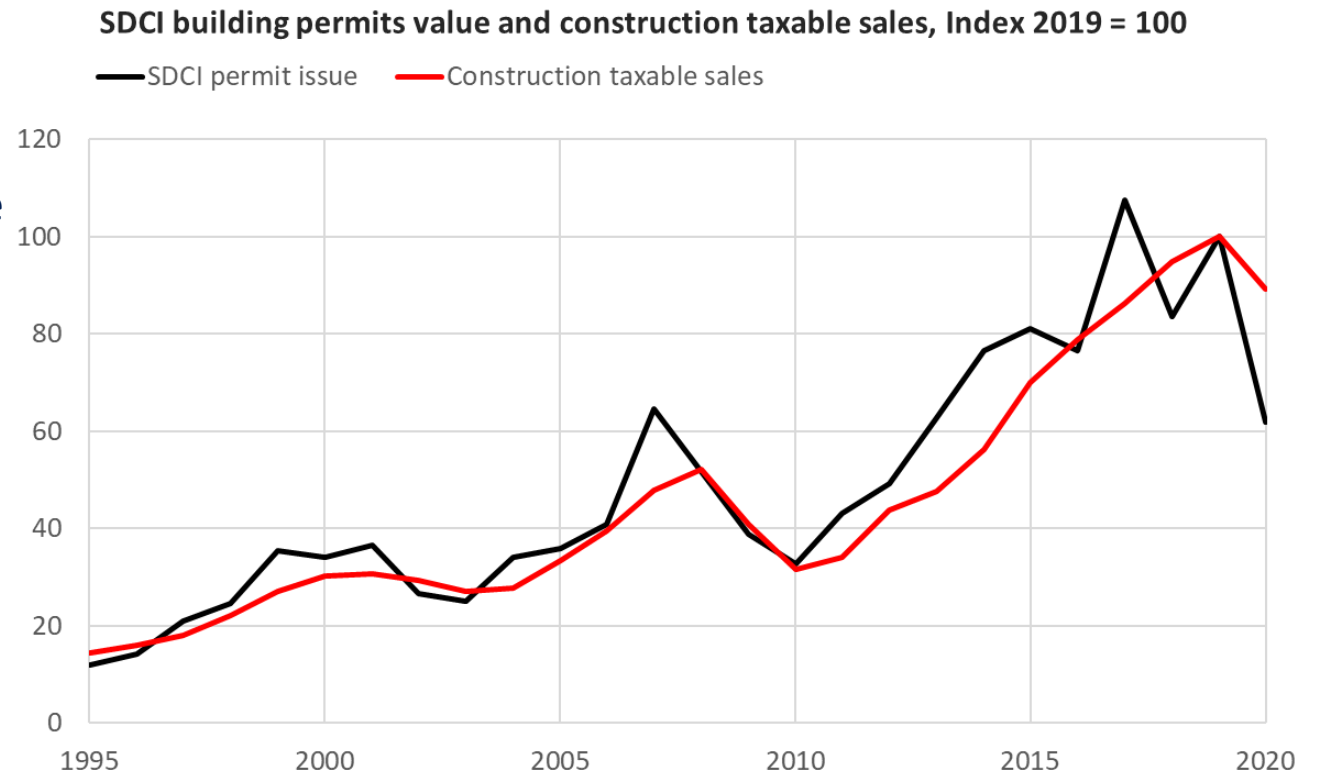


Source: Harvard University Opportunity Insights, based on data from Affinity Solutions, 7-day trailing average



Construction sector outlook very uncertain

- Construction sector generated \$102.6 mil. in B&O and sales taxes in 2019, \$90.8 mil. in 2020
- In 2020 construction accounted for 27.6% of sales tax revenue and 10.2% of B&O tax revenue
- **Value of building permits issued by SDCI fell by 38.2% in 2020**
- **Commercial real estate permits, which were 56.4% of the total value of permits in 2019, fell by 51.5% and accounted for three quarters of the overall decline**
- Commercial real estate permits above \$10 mil. accounted for almost two thirds of the decline

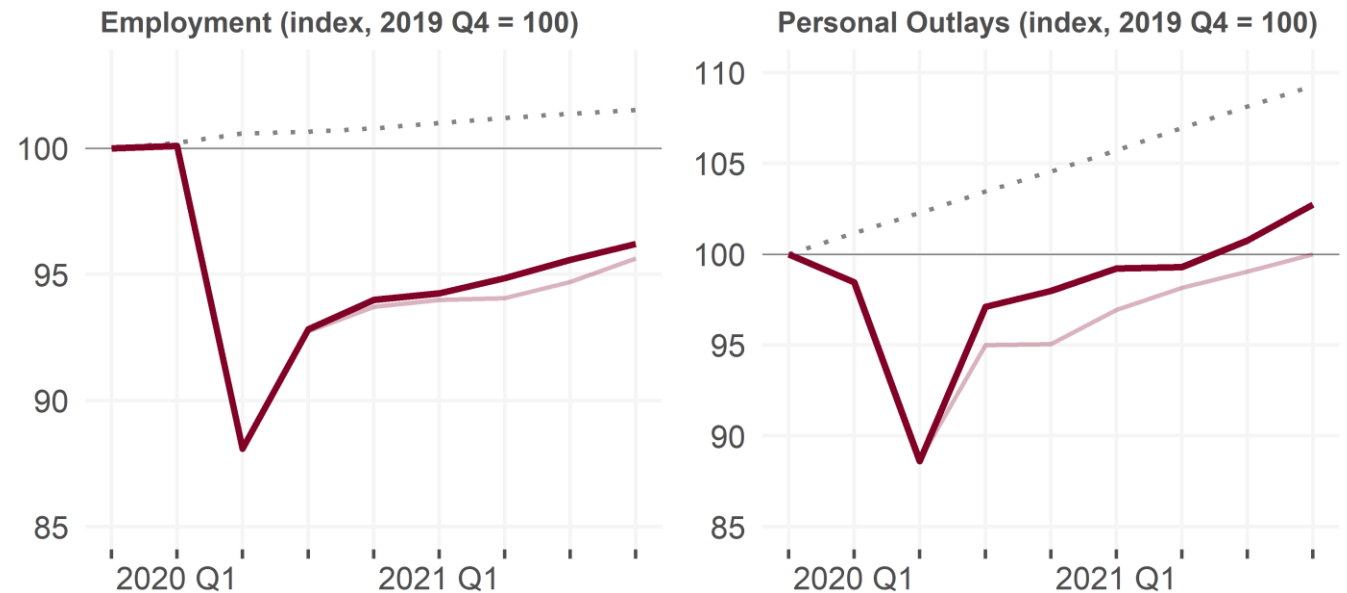


U.S. forecast higher for employment and outlays

- Presented forecast is based on IHS Markit U.S. economic forecast pessimistic scenario from March 2021
- COVID-19 social distancing restrictions imposed in November lowered employment
- Employment forecast was revised up slightly compared to October pessimistic scenario
- Personal outlays were revised up more significantly
- Large increase expected in personal income due to ARPA fiscal stimulus, but significant part will go to increased savings

U.S. Economic Forecast

— Current Update — 2021 Adopted Budget ··· Pre-COVID Expectation

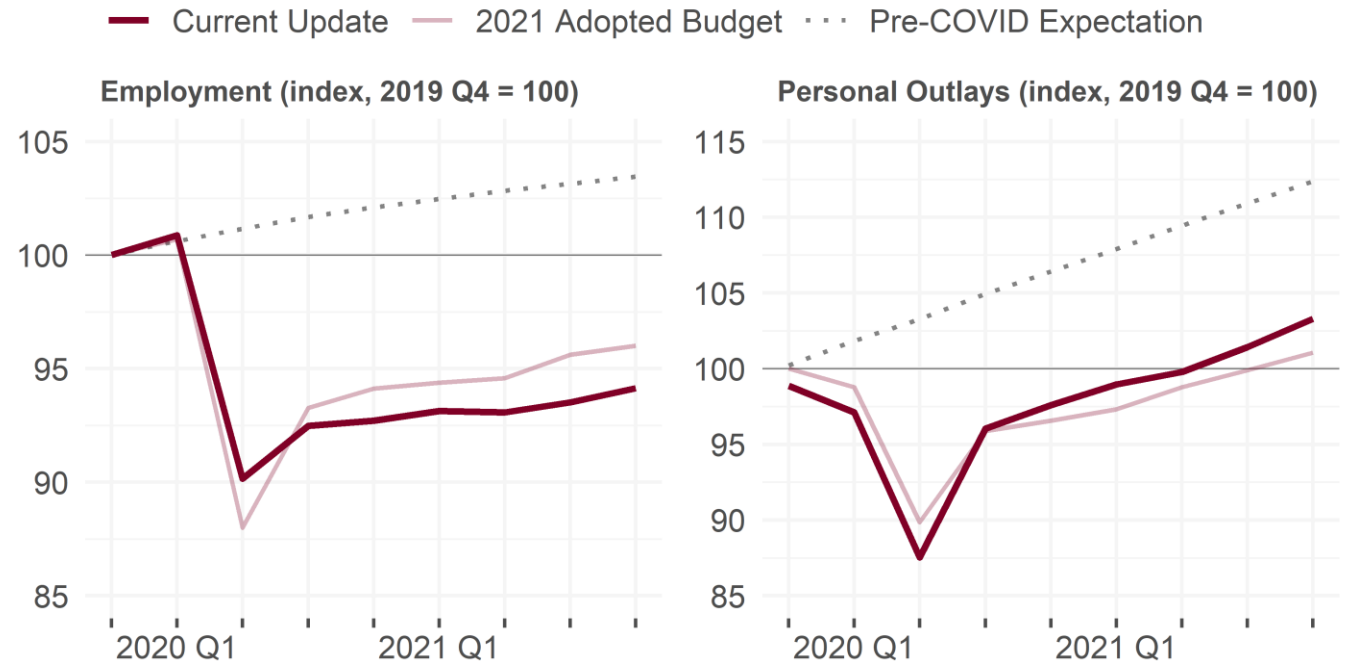


Regional Economic Forecast for Seattle Area

Regional forecast was further negatively affected by downward revisions in both regional employment and income data that took place after October forecast

- Washington State Employment Security Department March employment revision: 2020 Q2 up, but 2020 Q3 down
- 2019 income data released by BEA in November 2020 slightly lower than expected

Seattle MD Economic Forecast



Revenue Update



Longer economic outlook for Seattle positive but downside risk for revenue remains high

- Economic outlook for Seattle MD positive, recession significantly increased demand for e-commerce, telecommuting and cloud computing services
- Large share of construction and employment growth will however likely take place outside Seattle city
- In September 2020 Amazon announced plans to accommodate 25,000 employees in Bellevue in the next few years, up from 15,000 announced in February; no new development projects planned for Seattle



Longer economic outlook for Seattle positive but downside risk for revenue remains high (cont.)

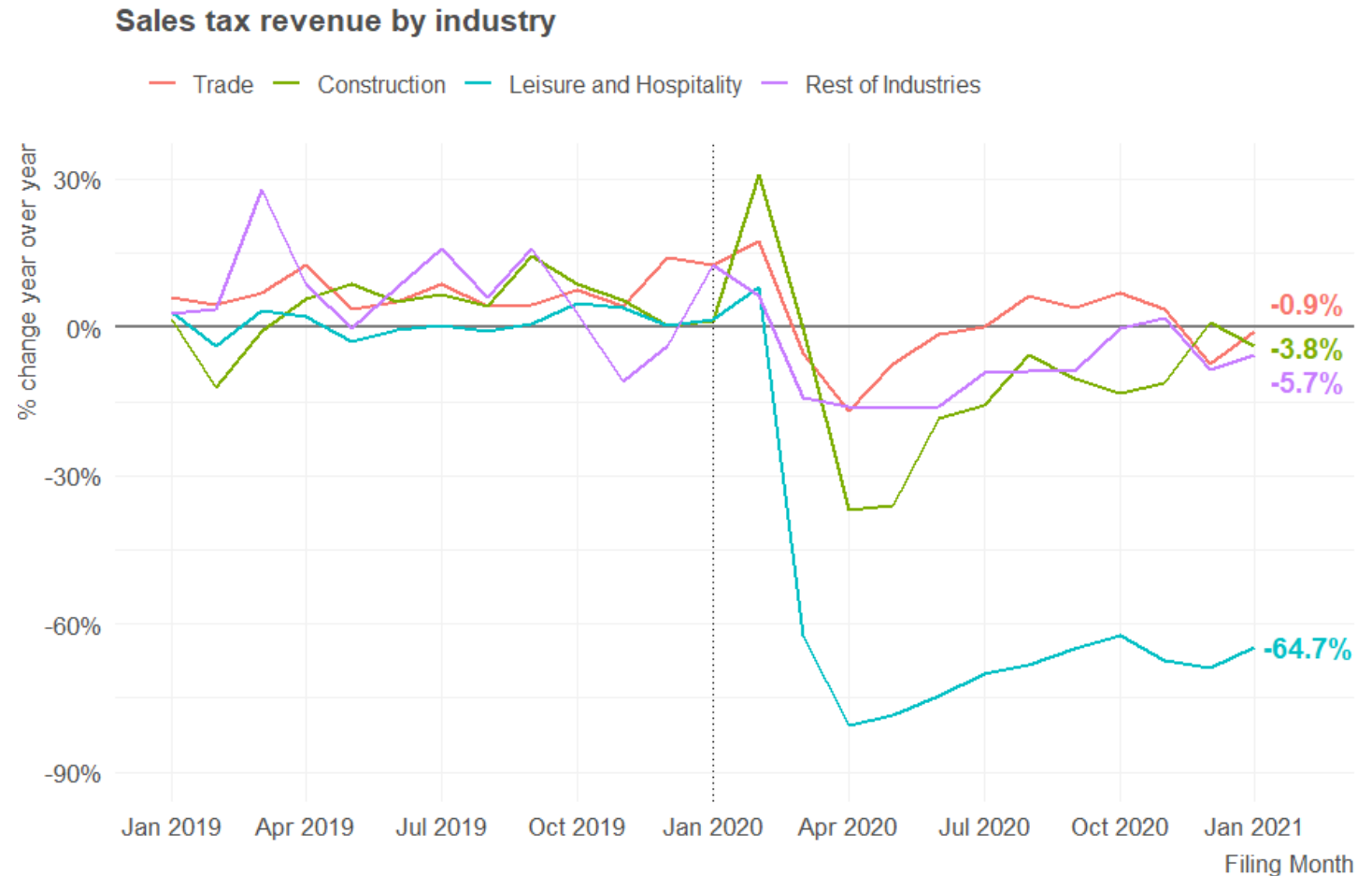
April 2021 tax revenue forecast is based on slower-growth economic regional scenario

- National and regional employment tracked pessimistic scenario in the second half of 2020
- Similarly, actual tax revenue came in close the CBO pessimistic scenario forecast from November 2020
- Not enough data for 2021 so far showing revenue significantly above pessimistic scenario forecast
- Work from home creates high uncertainty regarding B&O and payroll tax revenue
- Increased uncertainty regarding construction sector outlook



Sales Tax revenue is slowly recovering

- March 2021 distribution somewhat higher than November 2020 forecast, but 7.2% lower than in March 2020
- Leisure and hospitality sector accounted for 67.2% of the total decline in 2020, construction for additional 20.6%
- Sales tax revenue from information services and professional and business services actually increased in 2020



Effect of work from home on Business & occupation tax is still unclear

Payments for 2020 obligation year 11.1% lower than for 2019

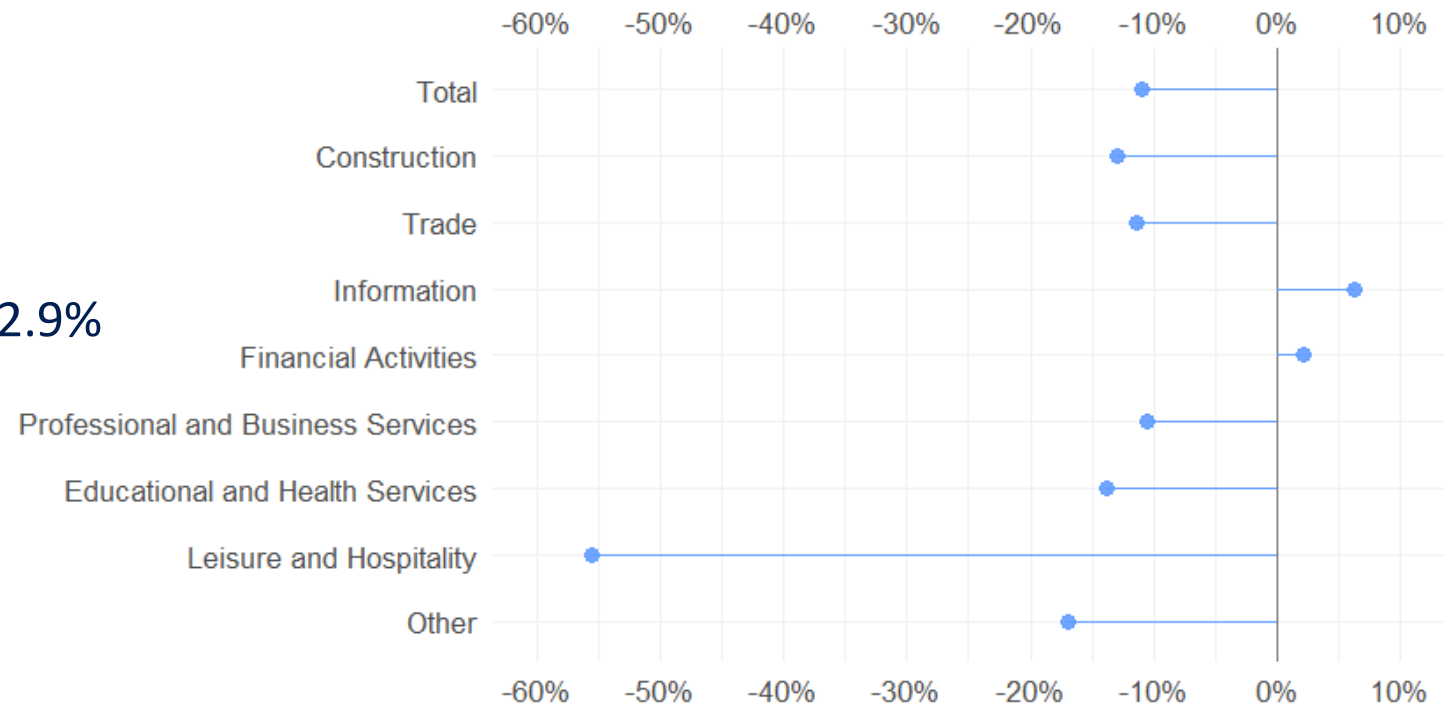
Biggest contributors to total B&O tax revenue decline in 2020

- Leisure and hospitality 26.4%
- Professional and business services 22.9%
- Trade 16.9%
- Construction 12.3%

B&O tax revenue from information services increased by 6.3%

B&O Tax Revenue by Industry

Percent Change 2020 over 2019 Obligation Period



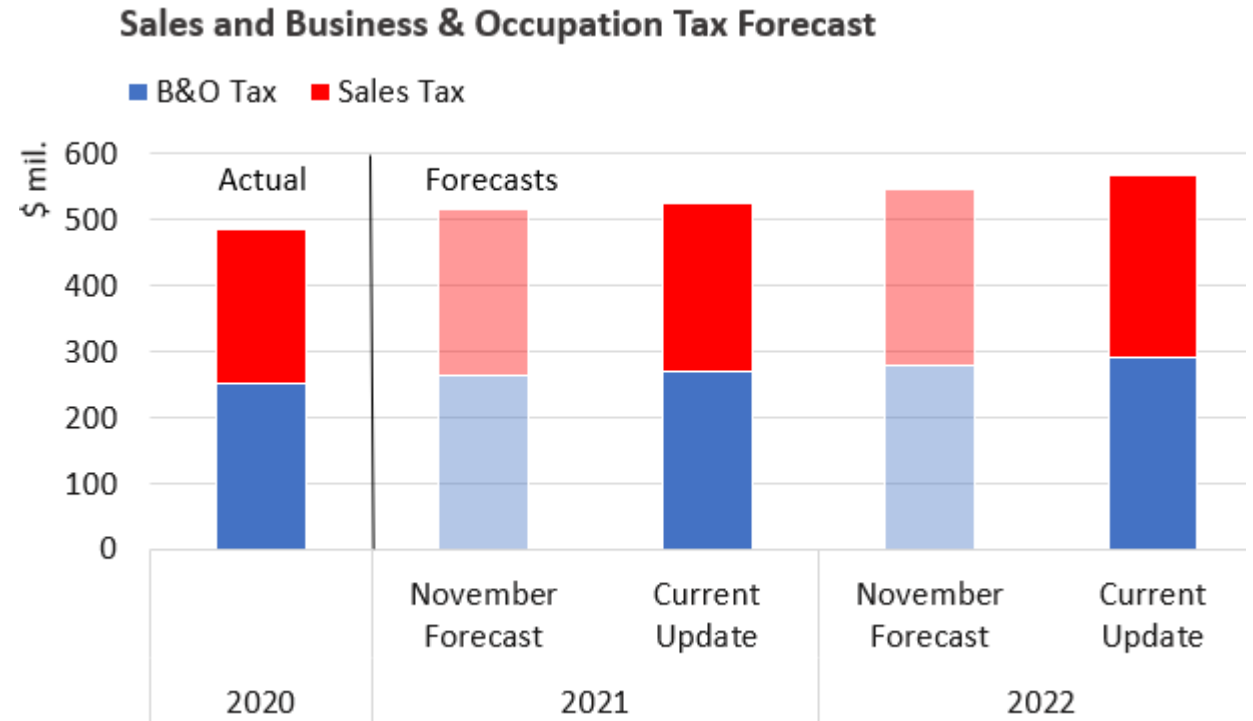
Note: Selected industries, with at least 5% share in 2019 total B&O revenue



Sales and B&O Tax revenue forecast improved

Additional revenue compared to November forecast

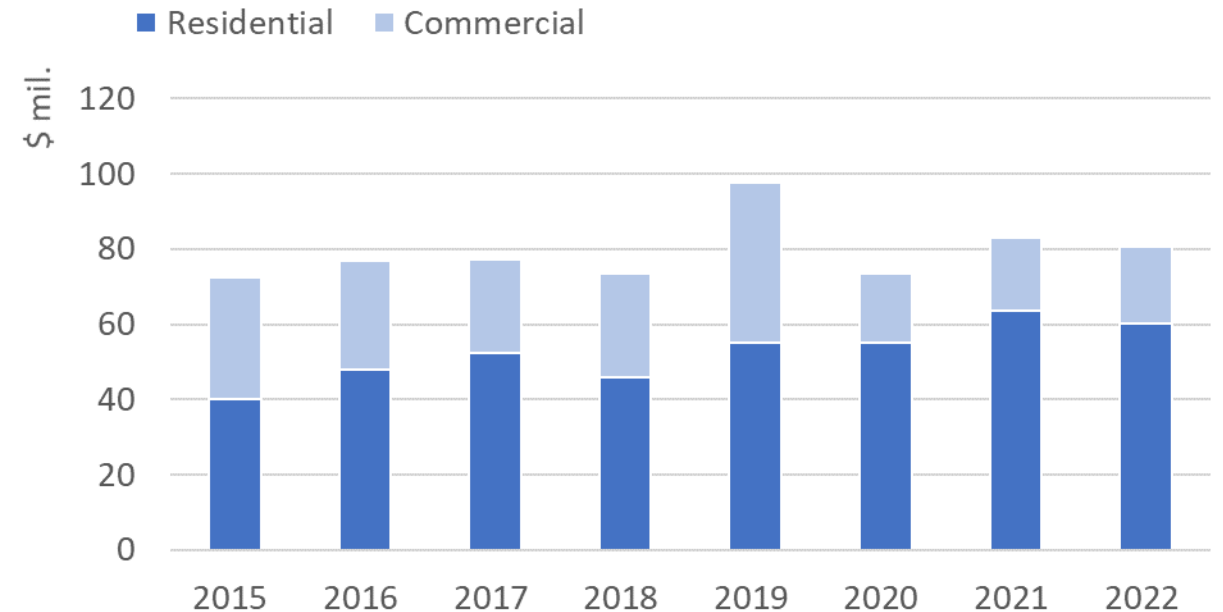
- 2021
 - Business & Occupation Tax \$5.7 million
 - Sales Tax \$4.3 million
 - Combined \$10.0 million
- 2022
 - Business & Occupation Tax \$12.7 million
 - Sales Tax \$9.8 million
 - Combined \$22.5 million



Real Estate Excise Tax

- Commercial segment fell by 56.7% in 2020 and is expected to stay low in 2021 and 2022
- Residential segment stayed about same as in 2019, as the 18.9% increase in single family sales almost completely offset the 44.8% drop in multifamily sales
- Due to generally high residential sales and few large December commercial sales, 2020 revenue ended \$14.2 mil. above November forecast
- The updated forecast adds \$17.5 mil. in additional 2021 REET revenue to \$82.5 million
- REET declines slightly to \$80.5 million in 2022

REET Revenue Forecast



Tax Revenue Forecast

2021 Revenues (\$ thousands)	2020 Actuals	2021 Adopted	2021 April	2021 Change Over Adopted	2022 April
Property Taxes	353,787	356,740	360,499	3,759	372,329
Sales Taxes	255,124	273,950	278,647	4,696	300,955
Business & Occupation Taxes & Licenses	249,184	263,168	268,833	5,665	290,473
Utility Taxes	215,379	208,364	217,291	8,927	220,796
Payroll Tax	-	214,284	214,284	-	233,911
Court Fines/Parking	27,488	31,454	30,375	(1,079)	39,489
Licenses & Permits	31,327	32,029	33,183	1,153	37,667
Grants & Transfers	156,397	87,137	86,409	(728)	13,084
All Else	102,642	106,861	104,731	(2,130)	117,939
General Fund Total	1,391,329	1,573,988	1,594,251	20,264	1,626,644
Admission Tax	1,742	5,457	5,457	-	9,186
Short-term Rental Tax	3,763	5,775	5,775	-	9,450
Sweetened Beverage Tax	15,674	20,772	20,772	-	22,292
Mercer Megablock Sale	-	-	66,500	66,500	-
Commercial Parking Tax	19,354	29,181	29,181	-	42,404
School Zone Camera Fund	3,130	4,713	7,298	2,586	14,622
Other General Government Revenues - Total	43,663	65,898	134,983	69,086	97,953
Grand Total - General Government Resources	1,434,992	1,639,886	1,729,235	89,349	1,723,597

