

NOVEMBER 2022



# CITY OF SEATTLE FISCAL ANALYSIS

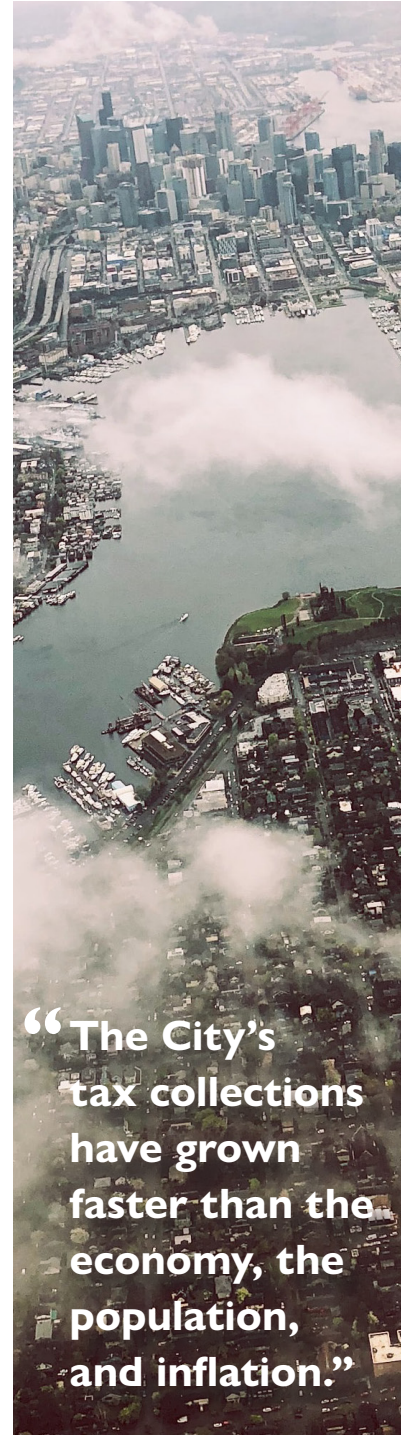
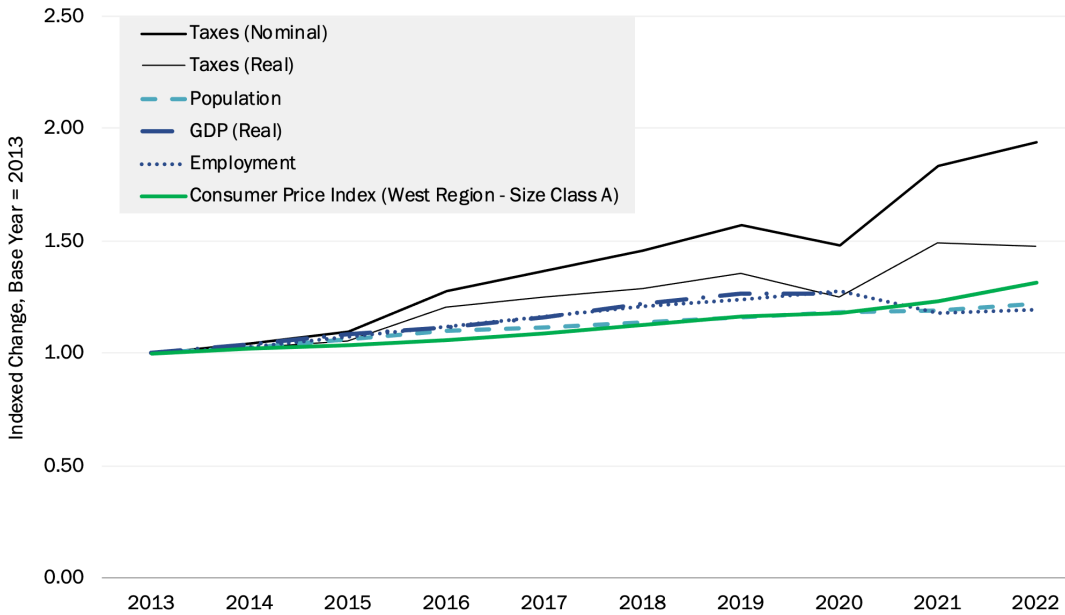
PREPARED FOR DOWNTOWN SEATTLE ASSOCIATION BY ECONORTHWEST

# Over the past decade, Seattle general fund and other operating fund taxes have grown more than 4X faster than the economy and the population.

The City's tax collections have grown faster than the economy, the population, and inflation. Unadjusted for inflation (in nominal terms), City taxes grew more than four times faster than population and employment. Since 2013, City of Seattle taxes collected have grown by 94 percent, while employment grew by 19 percent and population grew by 22 percent.<sup>1</sup> Even adjusting for inflation (in real terms), City taxes grew 84 percent, compared to the consumer price index which rose 31 percent during this time.<sup>2</sup>

## EXHIBIT 1. Growth in City of Seattle Economic and Fiscal Indicators (Indexed to 2013)

Source: Puget Sound Regional Planning Council, City of Seattle, US Census, ECONorthwest



<sup>1</sup> ECONorthwest collected actual tax revenues from 2010-2020 (2021 and 2022 where available) and budgeted 2021 and 2022 revenues from City of Seattle budget books, forecast materials, and other City documents, and Department of Revenue current expense, lid lift, and other levy information for the City of Seattle. Levies for capital purposes were excluded from this analysis. Throughout, we use the term “taxes” refer to taxes levied by the City of Seattle, including general fund taxes as well as other dedicated taxes which are budgeted to various City funds. Taxes used exclusively for capital purposes such as the real estate excise tax (REET) are not included.

<sup>2</sup> Consumer price index used was for the Western United States Cities of Class Size A (cities of 2.5 million persons or more).

**RESEARCH STATEMENT** ECONorthwest prepared this analysis for the Downtown Seattle Association (DSA) and is responsible for the content of this analysis. As Seattle’s policymakers and downtown interests engage on potential changes to tax policy and service delivery, the DSA is interested in advancing the community’s understanding of the local tax landscape in the City of Seattle.

Staff at ECONorthwest prepared this report based on previous economic and fiscal research, information derived from published financial documents, government agency information and reports, interviews, and other sources believed to be reliable. City of Seattle Adopted Budget books provide the primary source material (including for actual historical revenues).

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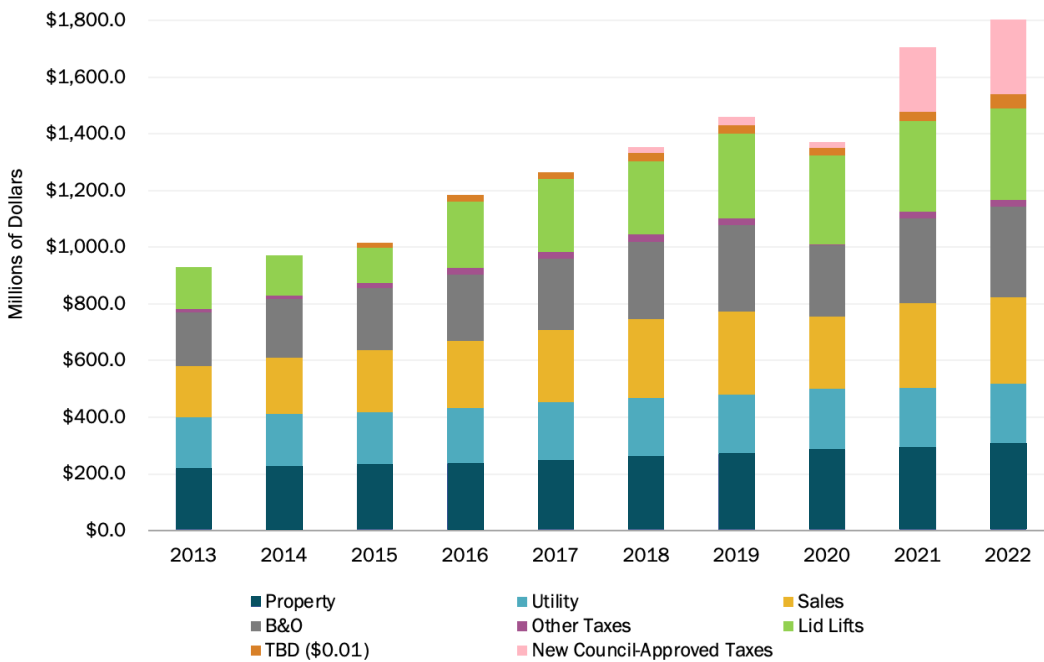


# This tax growth was fueled by voter-approved lid lifts and Council-imposed new taxes.

Cities in Washington State rely largely on property, sales, business and occupation, and utility taxes to fund general fund and other operations. Seattle has augmented these traditional sources of tax revenue with new voter-approved taxes and councilmanic excise taxes. These new taxes in Seattle have grown fast over the past 10 years – much faster than the traditional sources of tax revenue. These four traditional tax sources comprised around 83 percent of City tax revenues before 2013, but that share has shrunk to around 63 percent as the City has grown increasingly reliant on new taxes to fuel new spending.

## EXHIBIT 2. City of Seattle General Fund and Other Fund Taxes, 2013-2022<sup>3</sup>

Source: City of Seattle, Washington Department of Revenue, ECONorthwest



**Lid lifts** are voter-approved increases to City property tax levies that voters pay on top of other property taxes which fund general city operations, pay down capital debt, and support schools. Seattle voters have approved **\$2.7 billion** in lid lifts and levies since 2012 for a variety of operational functions, such as elections, family and children services, low-income housing, preschool, and library services.<sup>4</sup> In 2014, voters approved a new transportation benefit district funded by a 0.1 percent sales tax and a \$60 car tab fee, and in 2015, they approved a new property tax levy for a metropolitan park district.<sup>5</sup> **Together, these new levies and lid lifts brought in over \$350 million in 2021 ... more than 2.5 times as much in 2012.** (See Exhibit 3 on the following page.)

<sup>3</sup> Actual revenues from 2013-2020; revised 2021 revenues and adopted 2022 revenues were pulled from the 2022 Adopted Budget. The analysis includes external taxes and interfund taxes; ECONorthwest recategorized utility taxes separately to avoid double-counting due to a change in how utility taxes were accounted for in the budget in 2018.

<sup>4</sup> Actual revenues were pulled for specific levies from the Fund Financial Plan sections of the 2012-2022 Adopted Budget documents. Lid lift totals were obtained from the Department of Revenue.

<sup>5</sup> Transportation benefit district tax rate was 0.1 percent until 2020 but increased to 0.15 percent in 2021. The \$60 car tab has been replaced with a combined \$40 car tab. Other information: <https://www.seattle.gov/council/committees/sustainability-and-transportation/seattle-transportation-benefit-district#:~:text=On%20November%204%2C%202014%2C%20Seattle,for%20the%20STBD%20through%202020> and <https://www.seattlecontroller.com/post/seattle-sales-tax-rate-changes>. Metropolitan park district: <https://info.kingcounty.gov/kelections/Vote/contests/ballotmeasures.aspx?cid=53060>

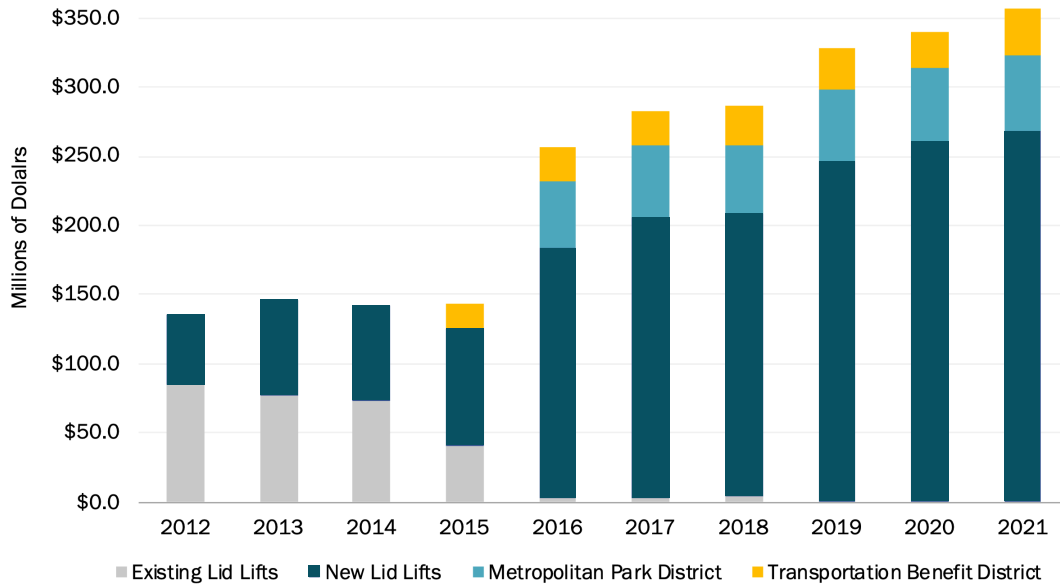
New taxes and tax increases must be approved by voters or enacted by City Council.

**Voter approved taxes (green and dark orange):** lid lifts (increases to property tax levies outside of statutory growth limitations) and the transportation benefit district sales tax.

**Council approved taxes (pink):** short-term rental, sweetened beverage, and payroll expense taxes.

### EXHIBIT 3. Voter Approved Levies and Lifts, 2012-2021

Source: City of Seattle, Washington Department of Revenue, ECONorthwest

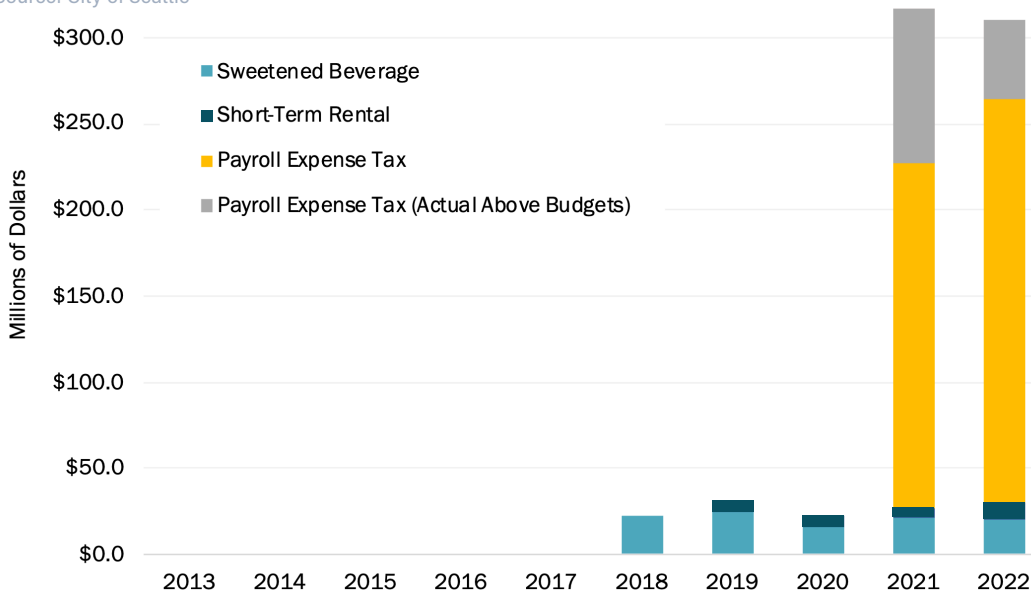


## Council-approved taxes have totaled \$700 million since 2018.

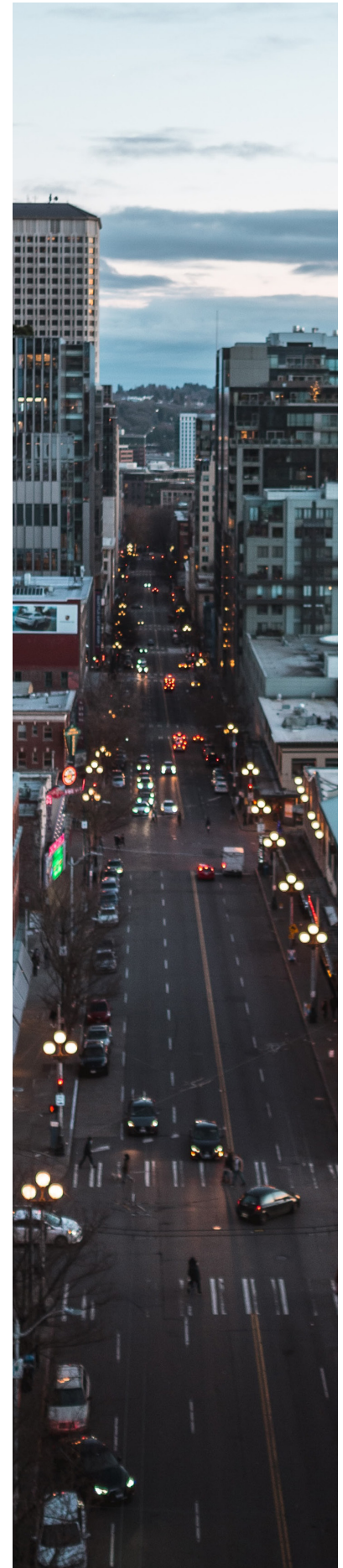
In the last five years, the Seattle City Council has approved new excise taxes on business activity. The **sweetened beverage tax** was enacted in 2018 to fund education and food access. The **short-term rental tax** was approved in 2019 to fund equitable development and affordable housing. And dwarfing all individual tax increases in recent Seattle history, the **payroll expense tax** was implemented in 2021 to fund affordable housing and other uses. These new taxes totaled over \$316 million in 2021 and nearly \$310 million in 2022.<sup>6</sup> (See Exhibit 4 below.)

### EXHIBIT 4. Seattle City Council-Approved Taxes, 2013-2022

Source: City of Seattle



<sup>6</sup> 2021 Adopted budget totals of \$20.8 million for the sweetened beverage tax, \$5.8 million for the short-term rental tax, and \$200.1 million for the Payroll Expense Tax. The August 2022 forecast identified \$290 million in total payroll expense taxes paid for 2021 and the November 2022 forecast for the payroll expense tax was \$280 million for 2022. City of Seattle Economic and Revenue Updates, August and November 2022.



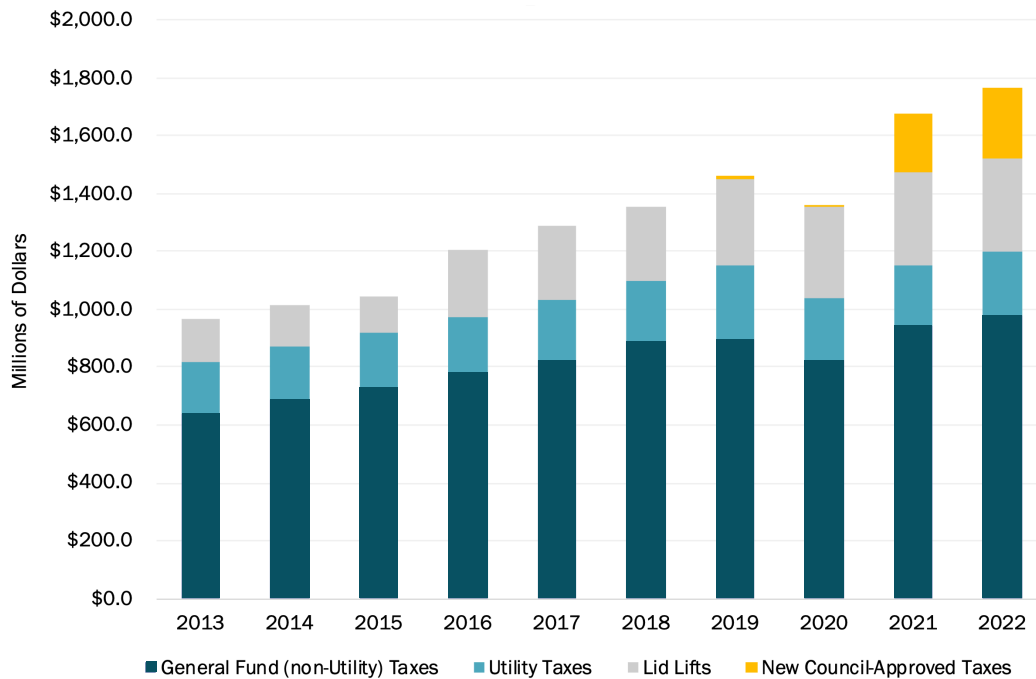
# Taxes grew during the pandemic, when revenues were expected to drop.

Traditional general fund taxes declined slightly during the early phase of the pandemic, largely due to social distancing and a resulting decline in sales and use tax (and B&O, to a lesser extent). However, the City of Seattle received nearly \$300 million in one-time federal funding from the American Rescue Plan Act of 2021 (not reflected in Exhibit 5), more than erasing Seattle’s temporary decline in traditional tax revenues.<sup>7</sup> General fund taxes recovered in 2021, rising above 2019 pre-pandemic levels despite continued social distancing. (See the dark blue area in Exhibit 5.)

The City budgets substantial tax revenues in other, non-general funds, including all lid lift levies.<sup>8</sup> City tax revenues as a whole bounced back in 2021, increasing 35 percent with the introduction of the payroll expense tax.<sup>9</sup> General fund taxes continued to grow in 2021 and 2022 despite the fact that short-term rental tax was removed from the general fund in 2020, sweetened beverage tax in 2021, and payroll expense tax in 2022.<sup>10</sup>

## EXHIBIT 5. General and Other Major Operating Fund Taxes, 2013-2021 (Actuals); 2022 (Budgeted)

Source: City of Seattle



<sup>7</sup> City of Seattle Budget Office, Seattle Rescue Plan: <https://www.seattle.gov/city-budget-office/seattle-rescue-plan>

<sup>8</sup> This is a common practice by municipalities, used to track uses of dedicated levies more easily.

<sup>9</sup> ECONorthwest pulled actual and budgeted revenue for the general fund as well as other funds, from fund financial statements in City of Seattle Adopted Budget documents. Actuals for the Payroll Expense Tax revenues collected in 2021 were reported by the City of Seattle’s Office of Economic and Revenue Forecasts & City Budget Office in their August 8, 2022 Economic and Revenue Update presentation (<https://www.seattle.gov/documents/Departments/OERF/meeting%20materials/>). Forecasted Payroll Expense Tax revenues for 2022 were reported by the same agencies in their November 2, 2022 Economic and Revenue Update presentation (<https://www.seattle.gov/documents/Departments/OERF/meeting%20materials/New%20Folder/November%202nd%20Revenue%20Forecast%20Presentation.pdf>).

<sup>10</sup> The 2022 Adopted Budget includes a transfer into the general fund of payroll expense tax. “Beginning in 2022, total projected PET revenues of \$233.9 million are moved from the General Fund to the JumpStart Payroll Expense Tax Fund, but a \$85.4 million transfer from the JumpStart Payroll Expense Tax Fund to the General Fund is included in the 2022 Adopted Budget.”

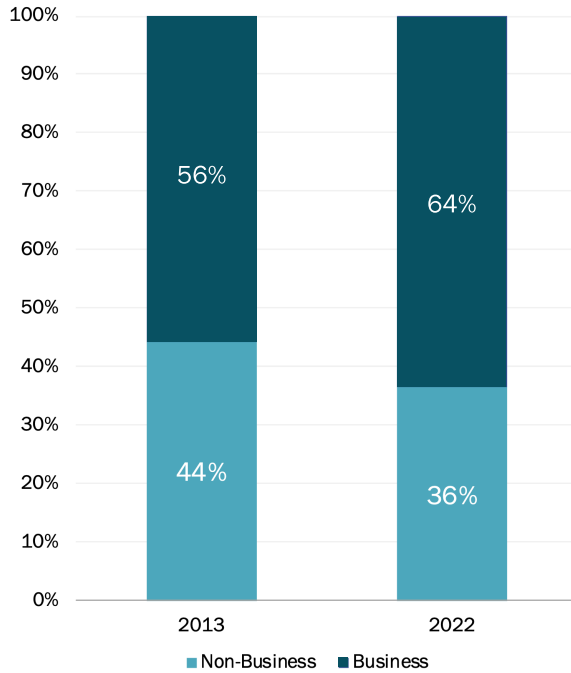


# Businesses pay an estimated two-thirds of City taxes, or \$1.1 billion in 2022.

The estimated share of taxes paid by business taxpayers has grown from 56 percent in 2013 to 64 percent in 2022 (see Exhibit 6 below). There are likely multiple factors underlying this trend. In the immediate term, the new payroll expense tax levied on businesses has perhaps permanently shifted more of the City tax burden onto business taxpayers (see Exhibit 8 on the following page).

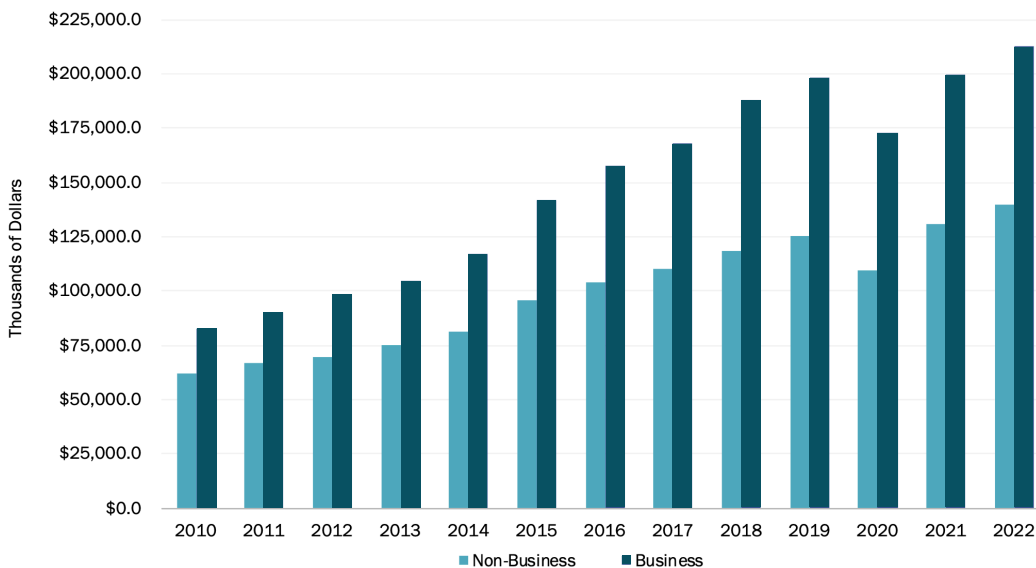
## EXHIBIT 6. Business and Non-Business Tax Incidence, 2013 v. 2022

Source: City of Seattle, Washington Department of Revenue, ECONorthwest



## EXHIBIT 7. Estimated Incidence of City of Seattle Sales and Use Tax, 2010-2022

Source: City of Seattle, Washington Department of Revenue, ECONorthwest



**Tax incidence** refers to the division of taxes that fall on different taxpayers.

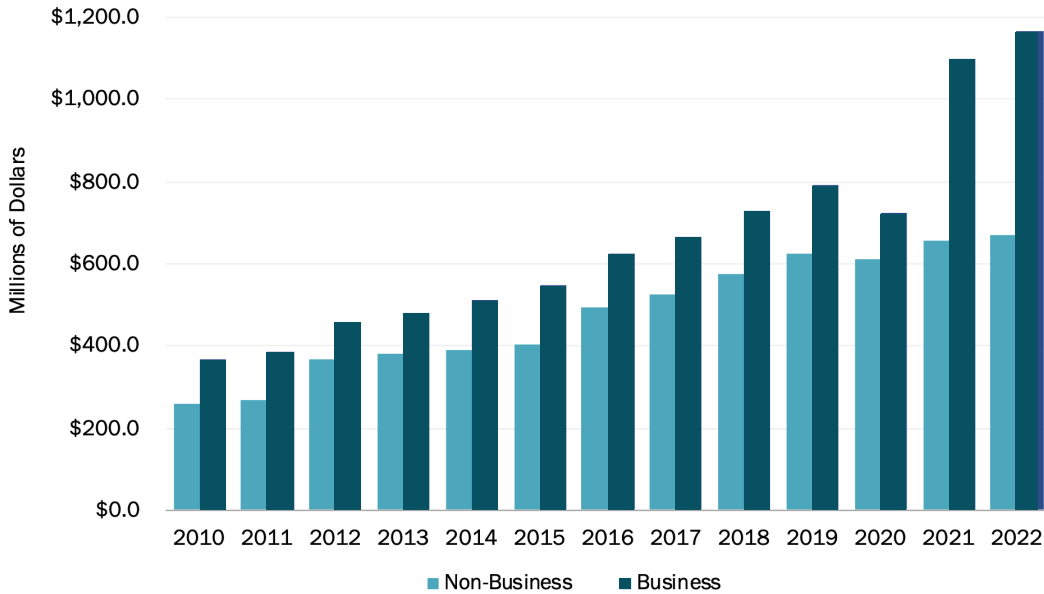
The City of Seattle and the Washington Department of Revenue have estimated tax incidence for business v. non-business taxpayers. ECONorthwest adjusted estimates regarding sales and use tax incidence to reflect more granular assumptions about economic activity, and property tax incidence based on King County assessor data.

Over the past ten years, the boom in construction and development has resulted in a surge in sales tax paid largely by private developers and builders.

Using Washington DOR data for City of Seattle sales and use tax by industry class, ECONorthwest estimates incidence for sales tax paid on activities such as commercial building.

### EXHIBIT 8. Estimated Incidence of City of Seattle Taxes, 2010-2022

Source: Washington Department of Revenue, City of Seattle, ECONorthwest



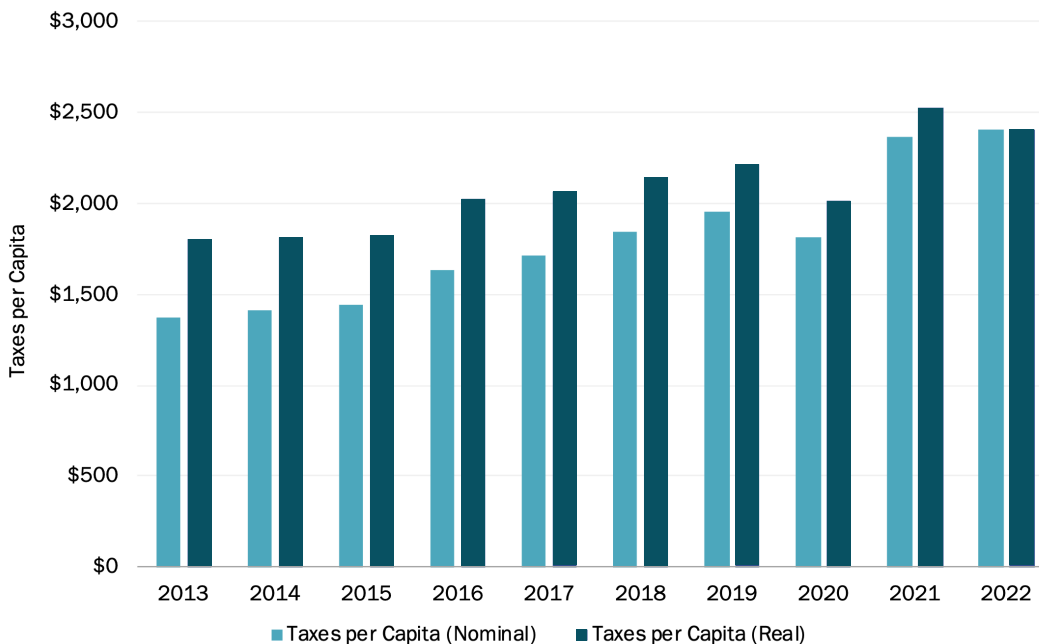
The overall incidence of City taxes did not change substantially until 2021 and 2022, with the implementation of the payroll expense tax, which has perhaps permanently shifted the balance between business and non-business taxpayers.

### The City collects \$607 more per person in City taxes in 2022 than in 2013 (adjusted for inflation).

Seattle collected \$1,802 in taxes for every person living in Seattle in 2013. In 2022, that number had grown to \$2,409 (adjusted for inflation) — a 34 percent increase. Unadjusted for inflation, taxes per person have grown \$1,036 (a 75 percent increase).

### EXHIBIT 9. City of Seattle Taxes Per Capita, 2013-2022

Source: City of Seattle, Puget Sound Regional Planning Council, ECONorthwest

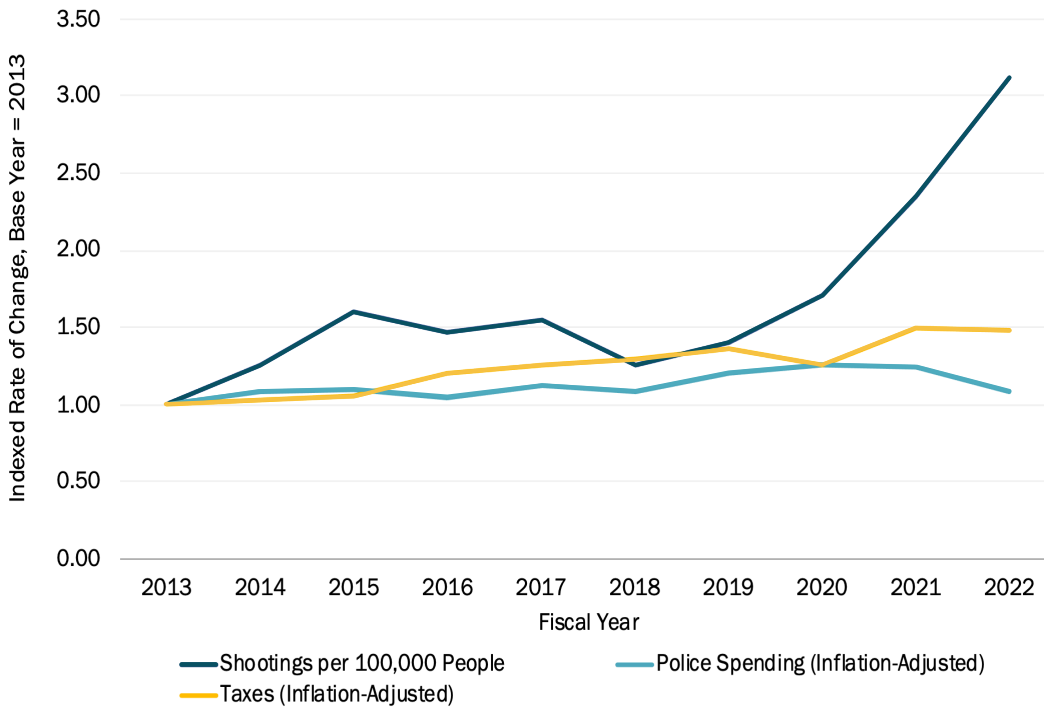


# Spending on public safety has flattened despite rising crime and taxes.

Spending on police has not kept pace with growth in tax revenues. Police staffing has diminished since 2020 and is currently at its lowest point in 30 years, according to the City.<sup>11</sup> The high staff turnover and departure have coincided with an uptick in violent crime and shootings in Seattle.<sup>12</sup>

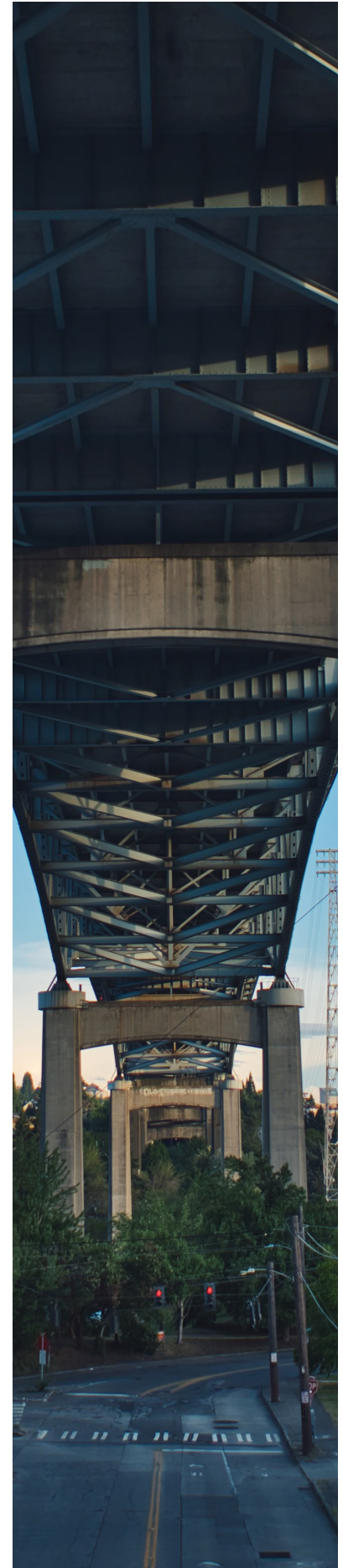
## EXHIBIT 10. City of Seattle Taxes, Police Spending, and Shootings per 100,000 People (Indexed to 2013)

Source: City of Seattle, ECONorthwest. Data note: Both estimates for taxes and police spending have been adjusted for inflation using the Bureau of Labor Statistics' CPI, West Region Cities of Class Size A (cities of 2.5 million persons or more).



There were 38 shootings per 100,000 people in 2013, and 97 in 2022 — a more than 155 percent increase in shootings.<sup>13</sup> During this time taxes have grown by almost 48 percent (in real terms) and police spending has decreased by eight percent. In nominal terms, taxes grew by 94 percent over the 2013 to 2022 period, and police spending increased by 20 percent.

The same pattern holds when looking at violent crimes per 100,000 people. The sharp decline in police spending coincided with an uptick in violent crimes, as shown in Exhibit 11 on the following page.



<sup>11</sup> "New recruiting plan unveiled as Seattle Police Department reports 30-year low in officers" King5.com. <https://www.king5.com/article/news/local/seattle/mayor-bruce-harrell-new-seattle-police-recruitment-plan-staffing-reaches-30-year-low/281-e98429ee-fc88-47f6-8890-b961393e2047>

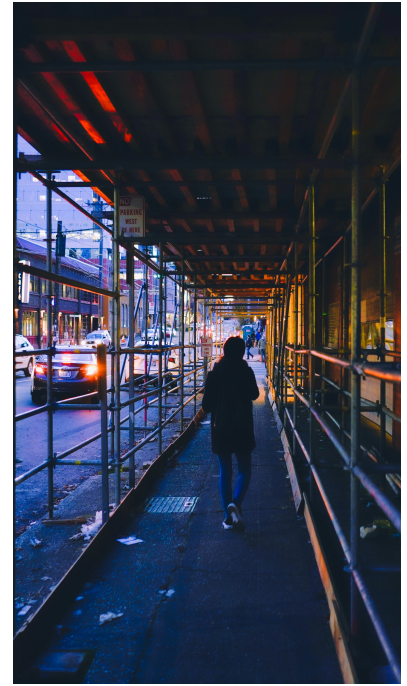
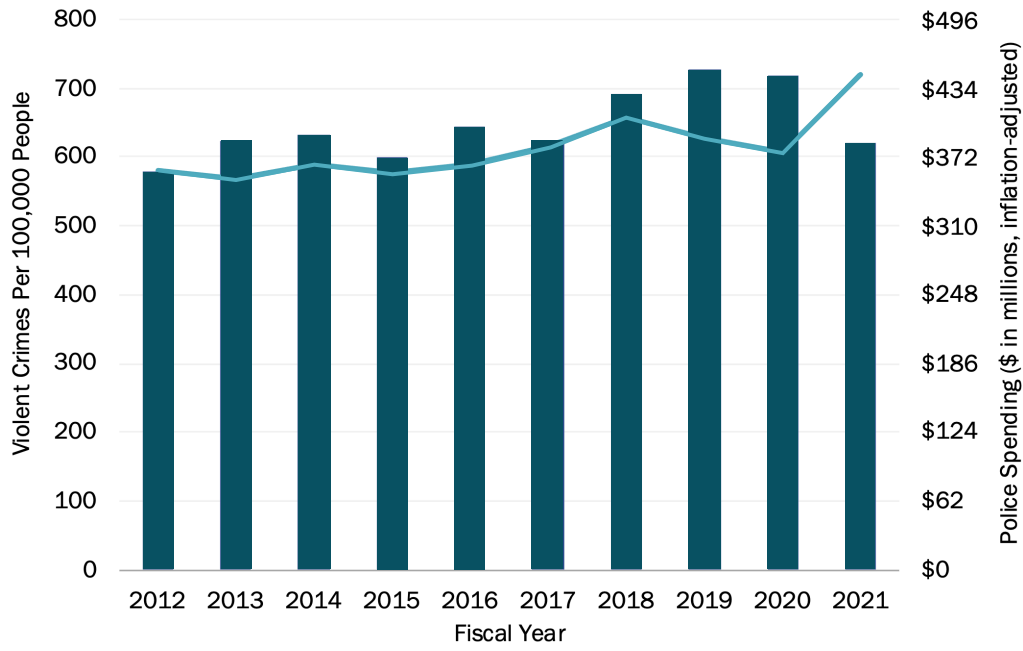
<sup>12</sup> There were 557 shootings in 2021 and 741 in 2022, as measured from October–September of each year (data for the last quarter of 2022 are not yet available).

<sup>13</sup> Seattle Police Department. "Crime Dashboard." Crime Dashboard - Police, <https://www.seattle.gov/police/information-and-data/crime-dashboard>.



### EXHIBIT 11. Violent Crimes and Police Spending, 2012-2021

Source: City of Seattle, ECONorthwest



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