



2021 Budget Questions October 9

To: City Council
From: Mayor Gregerson
Date: October 9, 2020

Please find below information in response to a question raised by Council President Emery on October 6, 2020.

Based on my review of regional, state and national sources, it appears that it would be wise to adjust sales tax revenue estimates down to \$2,565,000. If we implement that reduction of \$135,000 in sales tax revenues, Council direction on whether to use ending fund balance, identify other revenues, or identify other service and expenditure cuts, would be a valuable next step.

Regional Economic Impacts

Council President Emery asked about the impact of Boeing and other factors in understanding our economic outlook.

It is clear this is not a normal year, and next year does not appear to be a normal year either. Analysis of past trends is of little use during the pandemic; the tax collection schedules have been disrupted by a series of proclamations resulting in receipts coming in to local governments over inconsistent periods of time; meaning we can't even rely on the revenue reports we are getting to reflect the revenue from that period of time. (Source: [MRSC](#): Revenue Forecasting in a Non-Traditional Year).

MRSC recommends using the Washington State Economic and Revenue Forecast Council, King County Office of Economic and Financial Analysis, City of Everett, and Factiveus, which provides weekly retail trends. Each of these sources was used in the information that follows, as well as information from the Government Finance Officers Association. All sources are linked throughout and compiled at the end of this memo.

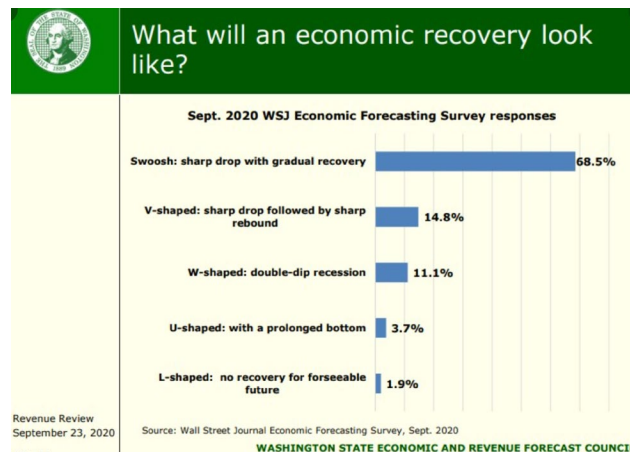
State Economic Forecast

With the latest [State Economic Forecast](#) report, Steve Lerch, forecast council executive director noted, “forecasting in the current environment remains challenging. Although there has been an improvement in revenues above our anticipated level this quarter, they remain below pre-pandemic levels.” Findings from the September report include:

- U.S. employment increased by 1.4 million jobs in August; the unemployment rate declined to 8.4%.
- Nationally, industrial production continued to expand but remains below year-ago levels.
- U.S. residential construction and sales activity were strong in July.
- The state’s economy has recovered nearly half the jobs lost in March and April.
- Seattle consumer price inflation exceeded the national average due to higher food and energy inflation.
- Major General Fund-State (GF-S) revenue collections for the August 11 – September 10, 2020 collection period came in \$319.9 million (22.5%) higher than the June forecast.
- Cumulatively, collections are now \$962.8 million (20.5%) higher than forecasted.
- Most of the taxable activity behind this month’s collections occurred in July, which was the last month in which the unemployed received a supplemental \$600 per week from the federal government. The absence of the payment could lower next month’s collections.

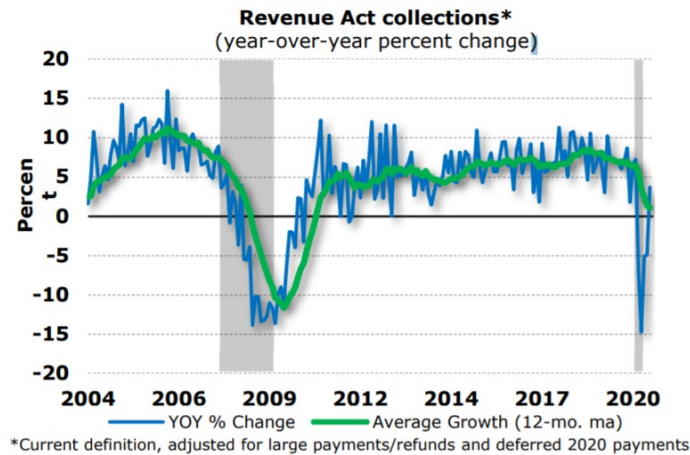
Predicting the Recovery

Most forecasters expect a “swoosh” recovery—a gradual improvement over one to two years following the sharp decline.



General Tax Forecasting

From the Washington State Economic and Revenue Forecast Council, the chart below shows State Revenue Act taxes consist of the sales, use, business and occupation (B&O), utility, and tobacco products taxes along with associated penalty and interest payments. The revenue collections reported here are for the August 11 – September 10, 2020 collection period.

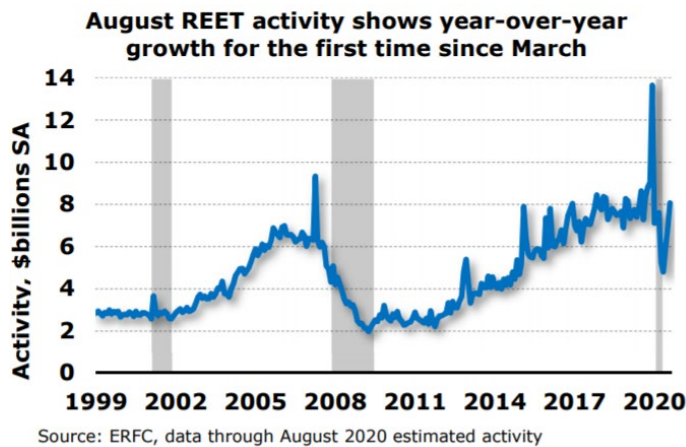


Real Estate Excise Tax

In their August 2020 report, [King County predicts](#) growth of 7.38% in REET collections in 2021, back to within 2% of 2019 levels. Collections are anticipated to be above 2019 levels by 2022.

An increase of 7.38 % from the 2020 figures would result in \$751,660 in REET collections in 2021 for Mukilteo. Our budget is set at \$700,000.

The chart below, from the Washington State Economic and Revenue Forecast Council, shows the start of a potential rebound after a dip in REET collections, statewide. We have used this forecast over the last five years to help develop REET projections.



Retail Sales

In their August 2020 report, [King County predicts](#) growth in sales tax in 2021, at a rate of +3.51% from 2020. Their prediction for 2020 is a drop of 14.71%. They predict sales tax dollars to return to 2019 levels in 2022/2023.

An increase of 3.51% from the reduced 2020 figures would result in \$2,515,293 in sales tax collections in 2021 for Mukilteo.

At the [July 22, 2020 City of Everett Budget Development Update](#), the City of Everett predicted a +6.5% increase in 2021 from the new 2020 estimated figures.

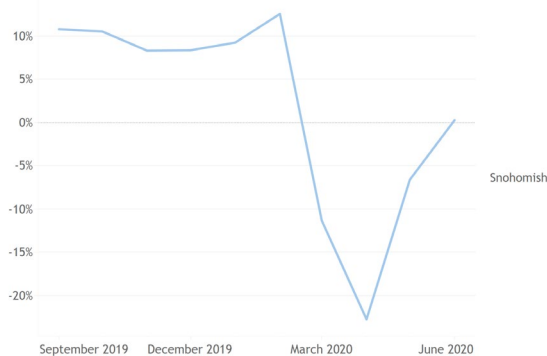
At the City of Everett's [September 16, 2020 Budget/Revenue Expense Workshop](#), sales tax was forecast at a 5.0% decrease from the original 2020 budget.

A decrease of 5.0 % from the original 2020 figures would result in \$2,565,000 in sales tax collections in 2021 for Mukilteo.

Our budget is set at \$2,700,000, an increase of 10% from the estimated actuals for 2020, and a flat amount from the original 2020 figures.

Snohomish County Retail Sales

Taxable retail sales by county and month
Year-over-year % change

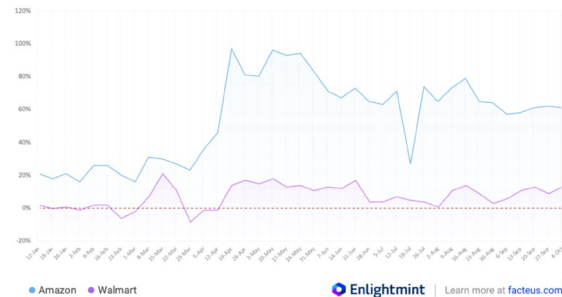


Source: <https://www.commerce.wa.gov/datadashboard/>

National Data on Spending, January-October

Consumer Spend on Amazon and Walmart

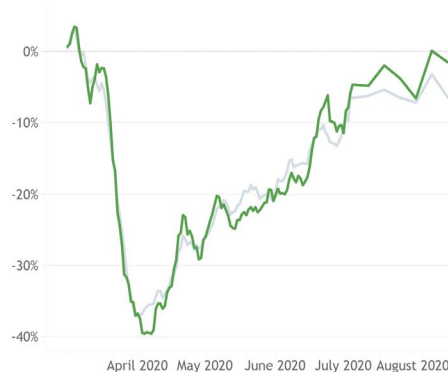
Year over Year % by Week



Source: <https://www.facteus.com/reports/first-report-10-7-2020/>

Credit/debit card spend by day

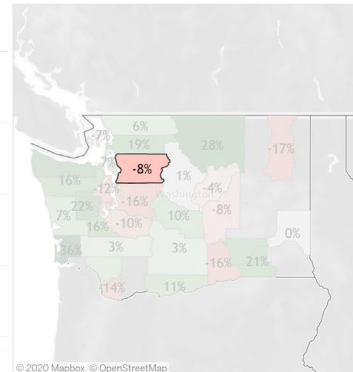
% change vs. Jan 2020 (7-day rolling average)



Source: [Opportunity Insights Economic Tracker](#)

sSource: <https://www.commerce.wa.gov/datadashboard/>

% change vs. Jan 2020 at end of period (7-day rolling avg)



Select time period: 3/1/2020 9/13/2020

Color key
Snohomish
WA State

Lodging

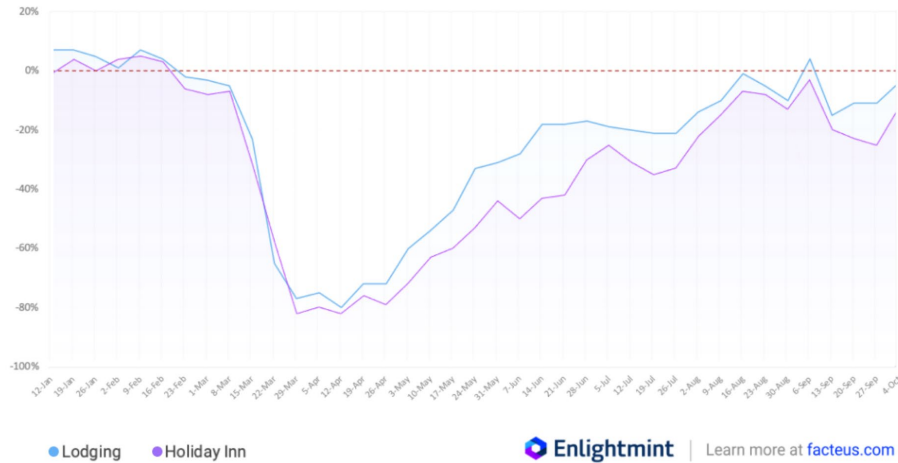
In August 2020, [King County predicts](#) a big jump in lodging taxes in 2021, back up to 2019 levels. This is similar to the City's estimate for lodging taxes in 2021.

The anticipated average increase of 118.96% from the reduced 2020 figures would result in \$291,452 in lodging tax collections in 2021 for Mukilteo.

National data on lodging spending: Spending on Lodging also saw a week-to-week improvement, showing only a small 4% decline year over year, vs an 11% decline the prior week.

Consumer Lodging Spend

Year over Year % by Week



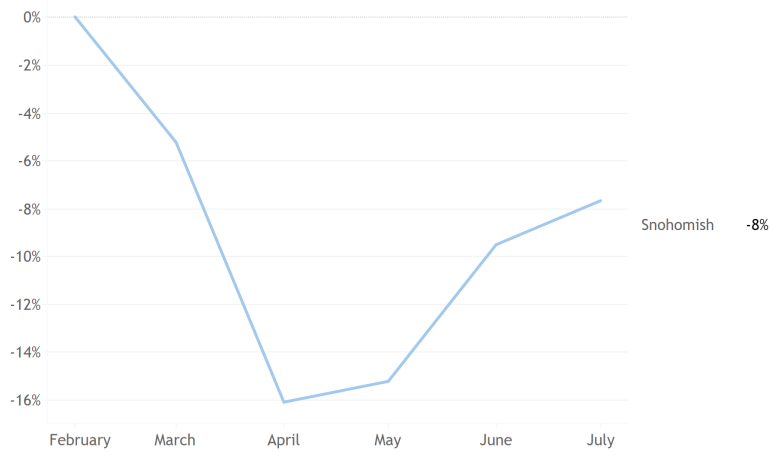
Source: <https://www.facteus.com/reports/first-report-10-7-2020/>

Employment

Snohomish County has lost 11,000 jobs since March 2020, down to 401,000.

Washington employment by county and month

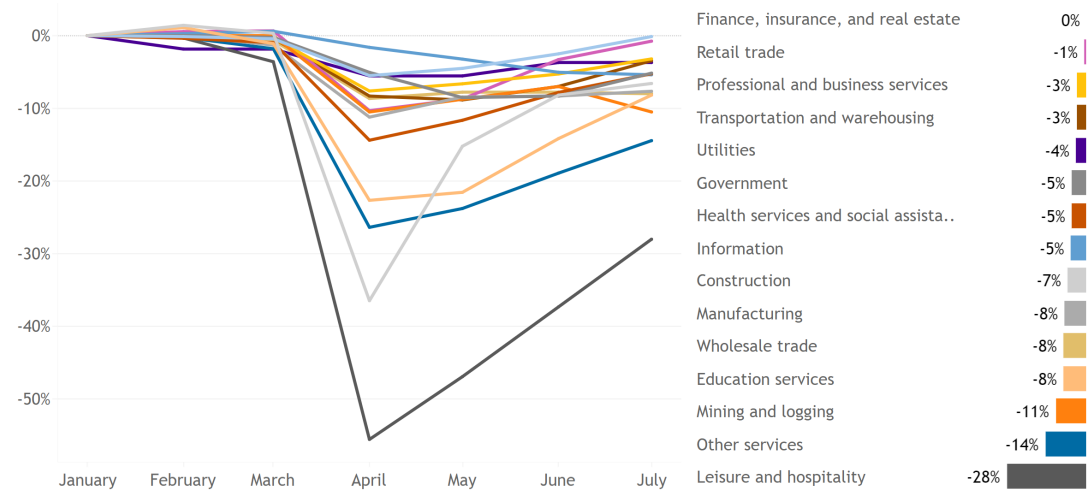
% change since start of period



Source: [Local Area Unemployment Statistics \(not seasonally adjusted\)](#)

Washington employment by industry and month

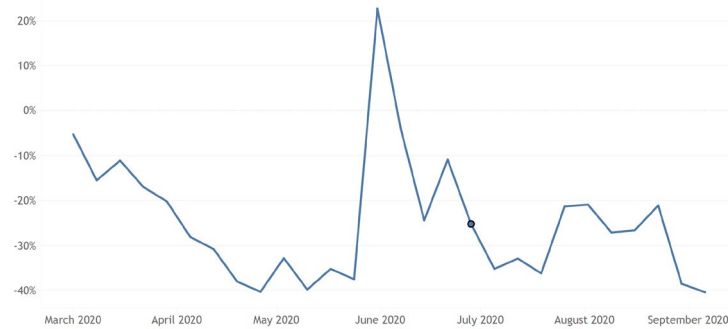
% change since start of period



Source: [WA-QB Current Employment Statistics \(seasonally adjusted\)](#)

Online job postings by week

% change vs. January 2020



Source: [Opportunity Insights Economic Tracker](#)

Aerospace Sector

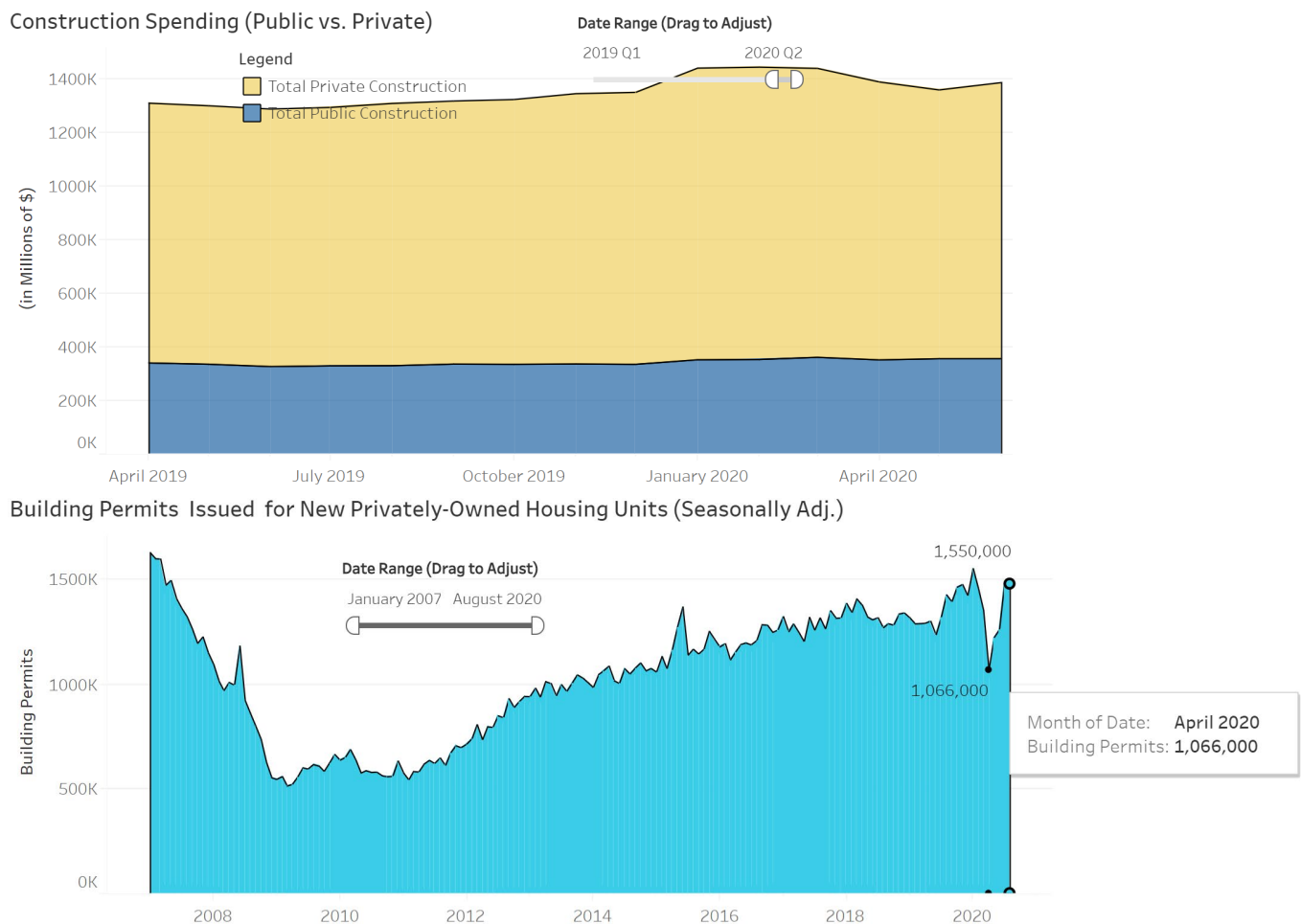
Snohomish County has the state's largest concentration of aerospace jobs, as well as a significant concentration of aerospace-related industries. As a result, a large portion of the inter-industry purchases made by Snohomish aerospace companies is made within the county, a significant driver of secondary impacts. In 2017, Snohomish County aerospace supported a total of 103,720 jobs, including 63,900 through indirect and induced impacts.

The City of Everett uses their aerospace industry forecasting mostly to predict their business and occupation taxes. The City of Mukilteo collects business license fees, but not the type of B&O taxes that Everett does. The impact is different for Mukilteo, and seen mostly through secondary, indirect impacts. Based on the most recent information presented by the City of Everett ([September 16, 2020 meeting](#)), they have only forecast B&O impacts. They stated at that time that the loss of the full 787 line would have a significant impact on B&O revenues.

Construction

[King County predicts](#) a 25.76% drop in new construction in 2021 in their incorporated city areas, a 9.39% reduction in 2022, with net annual growth beginning in 2023 and moving into future years.

National data from the Government Finance Officers Association shows historical spending on construction and building permits:



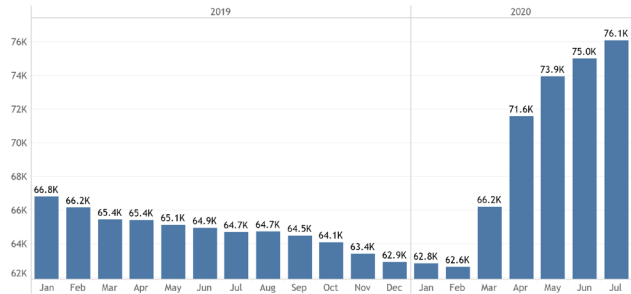
April is highlighted on the chart above to note the dip in that month. The chart extends to August 2020.

Source: <https://www.gfoa.org/dashboard--housing-data>

State Support Programs, Participants in Snohomish County

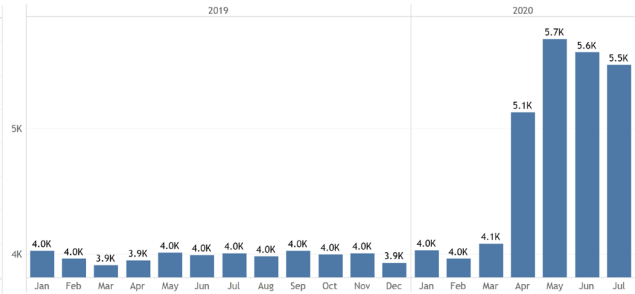
Basic Food Program Support

Program participants by month



Temporary Assistance for Needy Families (TANF) Program

Program participants by month



All Resources Used, For Reference:

City of Everett:

- [July 22, 2020 City of Everett Budget Development Update](#)
- [September 16, 2020 Budget/Revenue Expense Workshop](#)

Government Finance Officers Association:

- Economic Indicator Dashboard: <https://www.gfoa.org/economic-indicator-dashboard>
- Balancing the Budget in Bad Times: https://gfoaorg.cdn.prismic.io/gfoaorg/41015e63-c27b-42bf-a15b-87c0a0703780_GFR820_BalancingtheBudgetinBadTimes.pdf

Facteus: <https://www.facteus.com/reports/first-report-10-7-2020/>

King County Office of Economic and Financial Analysis: <https://www.kingcounty.gov/independent/forecasting.aspx>

MRSC:

- <http://mrsc.org/Home/Stay-Informed/MRSC-Insight/August-2020-1/Locating-Good-Data-for-Your-Revenue-Forecasting.aspx>
- <http://mrsc.org/Home/Explore-Topics/Public-Safety/Emergency-Services/Public-Health-Emergencies/Coronavirus-Economic-Impacts-and-Mitigation.aspx>

Washington State Department of Commerce Economic Data Dashboard: <https://www.commerce.wa.gov/datadashboard/>