

BUDGET UPDATE - QUARTER 2 2020 REVENUE PROJECTIONS

Office of Management & Budget
September 1, 2020



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2021-2022
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AGENDA

- Economic Update and Risk
- Quarter 2 2020 Financial Update
- Revenue Projection Update for 2020-2022
- Next Steps - Outreach and Decision Points



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ECONOMY

U.S.	2018 (% Change)	2019 (% Change)	2020 June (over June 2019)
Consumer Sentiment	98.4 (7.1%)	96.0 (-2.4%)	83.6 (-12.9%)
Tacoma-Lakewood Metro			
Unemployment	5.3%	5.2%	10.4% (117%)
Population	888k (3.3%)	891K (0.34%)	
Median Household Income	\$67.3k (4.5%)	\$75.4k (12%)	
City of Tacoma			
Tacoma Median Home Selling Price	\$299,669 (25.5%)	\$324,490 (8.28%)	\$354,019 (9.1%)
Tacoma Median 2Br Monthly Rent	\$1,440 (14.3%)	\$1,491(3.5%)	\$1,552(4.1%)

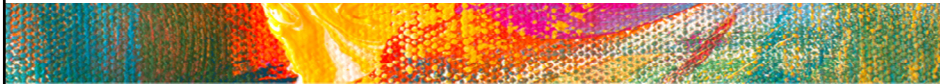
RISK

- Response timelines (phases led by Governor), recovery, testing, and vaccine development COVID-19 all may impact the local economy and workers
- Federal stimulus package, timing and size
- Resiliency of local employers and their ability to withstand prolonged economic stress
- Exacerbation of long term retail/brick and mortar issues, automation, and manufacturing concerns
- 2020 Presidential elections

High level of uncertainty expected through 2020 and early 2021

QUARTER 2 FINANCIAL UPDATE

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QUARTER 2 REVENUE: GENERAL FUND VARIANCE TO BUDGET (MILLIONS)

Revenue Source	1 st Quarter Variance - Jan-Mar (%)	2 nd Quarter Variance - Apr - Jun (%)
Property Tax	\$0.4 (30.8%)	-\$3.5 (-10.9%)
Sales Tax	-\$1.0 (-6.8%)	-\$2.4 (-17.4%)
Business Tax	\$1.1 (7.2%)	-\$1.6 (-12.5%)
Utility Tax	\$0.3 (2.4%)	\$0.0 (0.0%)
Other Revenue	\$0.6 (5.7%)	\$0.8 (13.1%)
Total	\$1.4 (2.6%)	-\$6.7 (-8.8%)

*Revenue plans have not been adjusted to reflect revised 2020 projections in response to COVID-19.

** Actual revenues will show as \$3.5M higher due to a "return" of capital contributions from previous year - included as part of a savings strategy for the 2020 budget

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QUARTER 2 EXPENSE: GENERAL FUND EXPENDITURE VARIANCE (MILLIONS)

Q2 2020 Plan*	Q2 2020 Actual	Variance (Amount)	Variance (%)
\$122.8	\$115.0	\$7.8	6.4%

* Expense plans have been adjusted to reflect cancelled projects in response to COVID-19.

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QUARTER 2 FINANCIAL UPDATE: OTHER FUND TRENDS

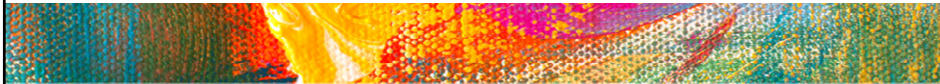
- Revenue is trending well below plan for many funds
 - Funds relying on Sales and Property tax
 - Emergency Medical Services
 - Mental Health and Chemical Dependency
 - Tacoma Creates
 - Public Works Related Funds
 - Streets Initiative
 - Street Operations & Engineering
 - Traffic Enforcement, Engineering, and Education
 - Parking Operations
 - Tacoma Venues and Events
 - Convention Center, Cheney Stadium, Dome, Theaters

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GENERAL FUND FORECAST 2020-2022

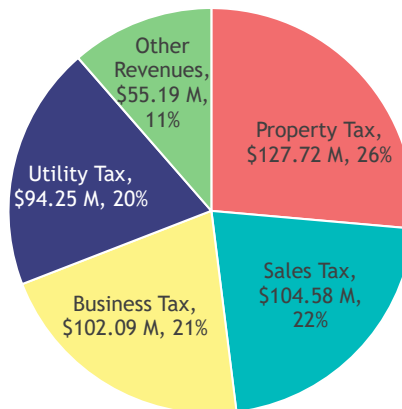
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2021-2022 REVISED GENERAL FUND REVENUE PROJECTION (\$486M)



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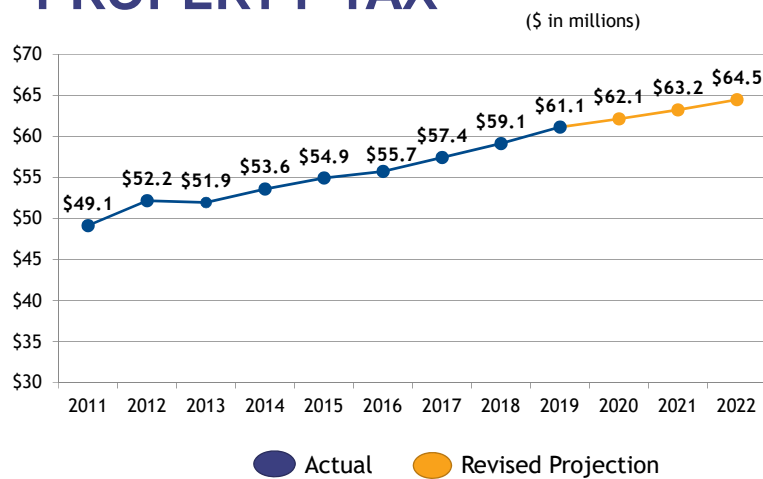
PROPERTY TAX - 26% OF GENERAL FUND

- Levy is limited at 1% growth per year plus new construction
- The City's levy does not increase because home prices/assessed value is rising
- Since the property tax rate is the levy divided by assessed values, the rate charged to property owners varies with home prices
- Overtime, assessed value reduces the City's property tax rate which then opens up options for "lifting" or increasing our levy amount to collect taxes to support capital projects or new services

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PROPERTY TAX



2020 amounts have not changed

2021 updated to recognize increased valuation of property for new construction

2022 future growth remains uncertain

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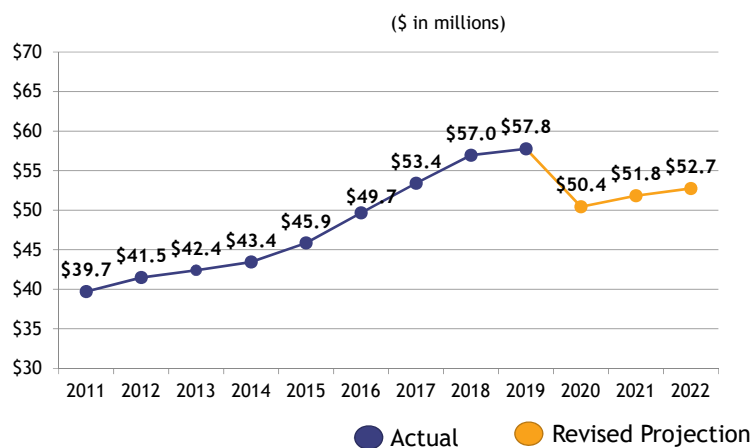
SALES TAX - 22% OF GENERAL FUND

- Assessed on purchases to end-users of products or services (total in Tacoma is 10.2% of sale price)
- Impacted by incomes and spending patterns
- Projected using data from other jurisdictions, economic agencies, and trends in consumer confidence, unemployment, and incomes
- City benefits from all spending in Tacoma (especially from Pierce County residents and tourism)

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SALES TAX



Sales tax receipts have shown single month declines year-over-year of -25.4% in May 2020 and -18.3% in June 2020

2020 revised projections include Q1 and Q2 experience and projects a sluggish recovery in 2020

2021 is projected at 10% below 2019

2022 is projected at a 2% growth rate due to uncertainty and labor market impacts

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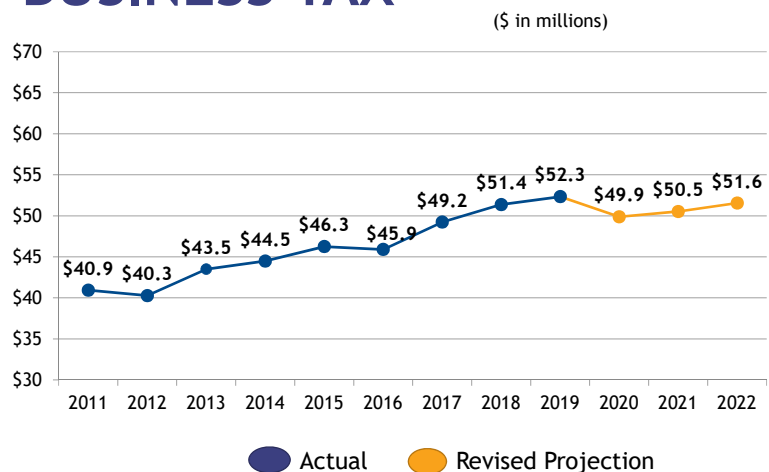
BUSINESS TAX - 21% OF GENERAL FUND

- Assessed on Gross Sales of Businesses
- Impacted by changes in inflation, volume of business activity, consumer spending
- Charged on operations in Tacoma; therefore, the City can benefit from local businesses that bring in business from other communities to Tacoma and lose if business moves outside the City
- City has a large number of small business and very few large employers

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BUSINESS TAX



Revised 2020 to better reflect the quarterly delays (most impacts in 3rd and 4th Quarters) and some of the resiliency shown in the service sector

2021 projections are slightly under 2019's revenues

2022 projects a recovery for all sectors

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UTILITY TAX - 20% OF GENERAL FUND

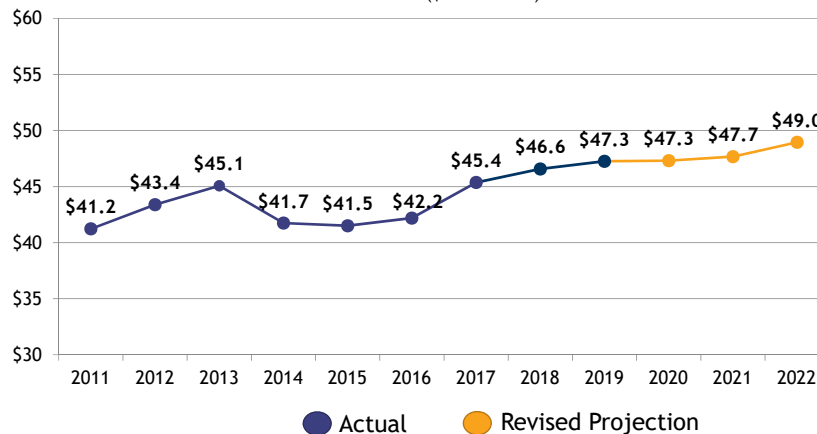
- Assessed on gross revenues of Power, Water, Rail, Solid Waste, and Sewer Utilities
 - 7.5% for Power & Natural Gas
 - 8% for Water, Rail, Solid Waste, Sewer
- Grows based on overall usage - commercial and residential, rate growth, and other revenues (such as power trading)
- Limited impacts due to current economic changes
- Rates and overall revenues are set to meet long term operations and capital investment needs



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UTILITY TAX

(\$ in millions)



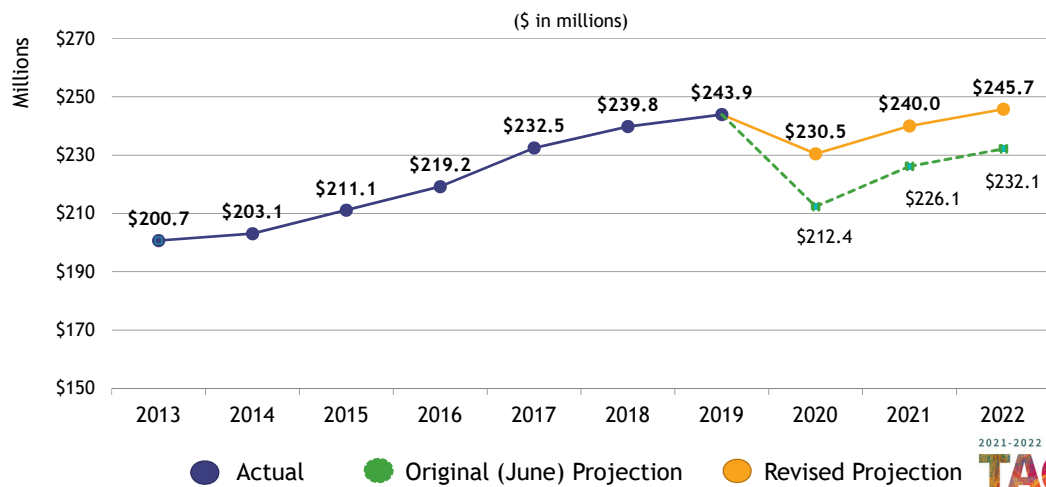
2020-2022 projections include updates from Rail, Water, Power, and ES utilities

* In 2014, 2% of several Utility Tax revenues began to be directly deposited into the streets fund for dedicated street maintenance. The average annual increase after controlling for the movement in revenues is 3.5%



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OVERALL REVENUE SUMMARY

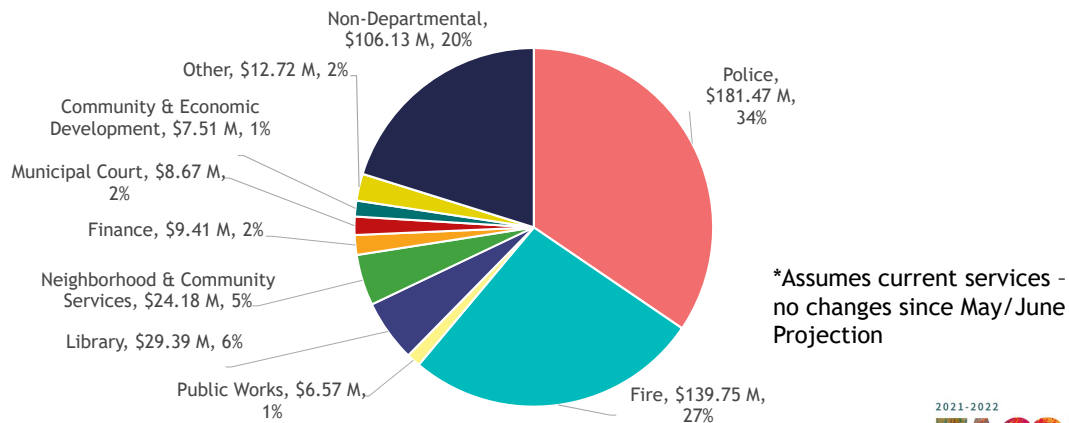


UPDATED GAP 2020-2022

	June Projection	September Projection
2020 Projected Gap	\$40M	\$20M
2021-2022 Projection	\$67M	\$40M

*Using savings from 2020 to mitigate projected 2021-2022 biennium

2021-2022 GENERAL FUND EXPENSE PROJECTION (\$526M)



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NEXT STEPS

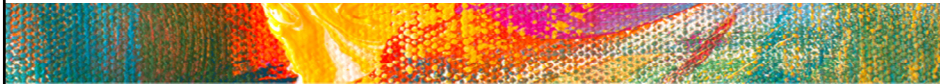
- Individual Council and City Manager Discussions
- October 6th Proposed Budget Presentation and Budget Book
- October Workshops by Council Priority
- October through November Outreach on Proposed Budget
 - Online Town Halls - Hosted by Council Members
 - Balancing Act Interactive Sessions and Online Tool
 - In-Person and Paper Options
 - Marketing

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