

2021 Proposed Budget Overview

Presentation to Seattle City Council
September 30, 2020



Agenda

Economic and Revenue Update

2021 Budget – Highlights of Proposed Expenditures



Economic and Revenue Update

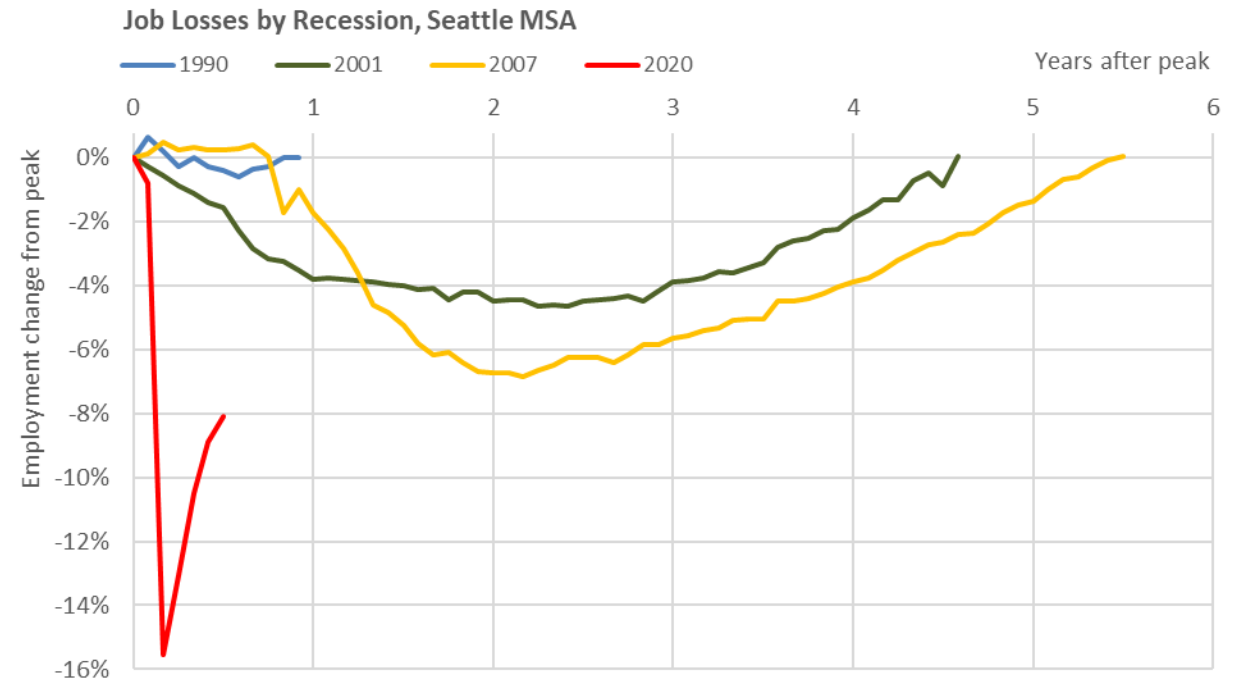
Seattle City Council

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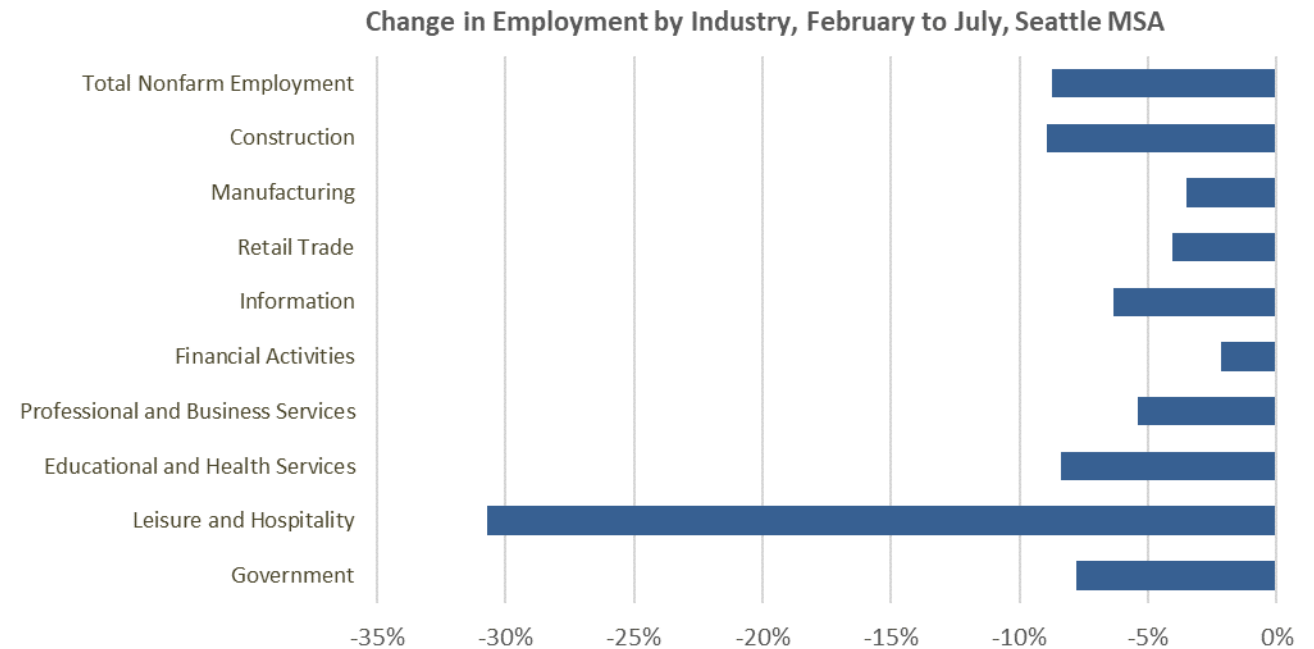
2020 Recession - Labor Market

- COVID-19 pandemic ended the longest period of economic growth that lasted almost 11 years
- 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.
- According to the IHS Markit pessimistic scenario forecast, employment recovery in U.S. could take almost 4 years



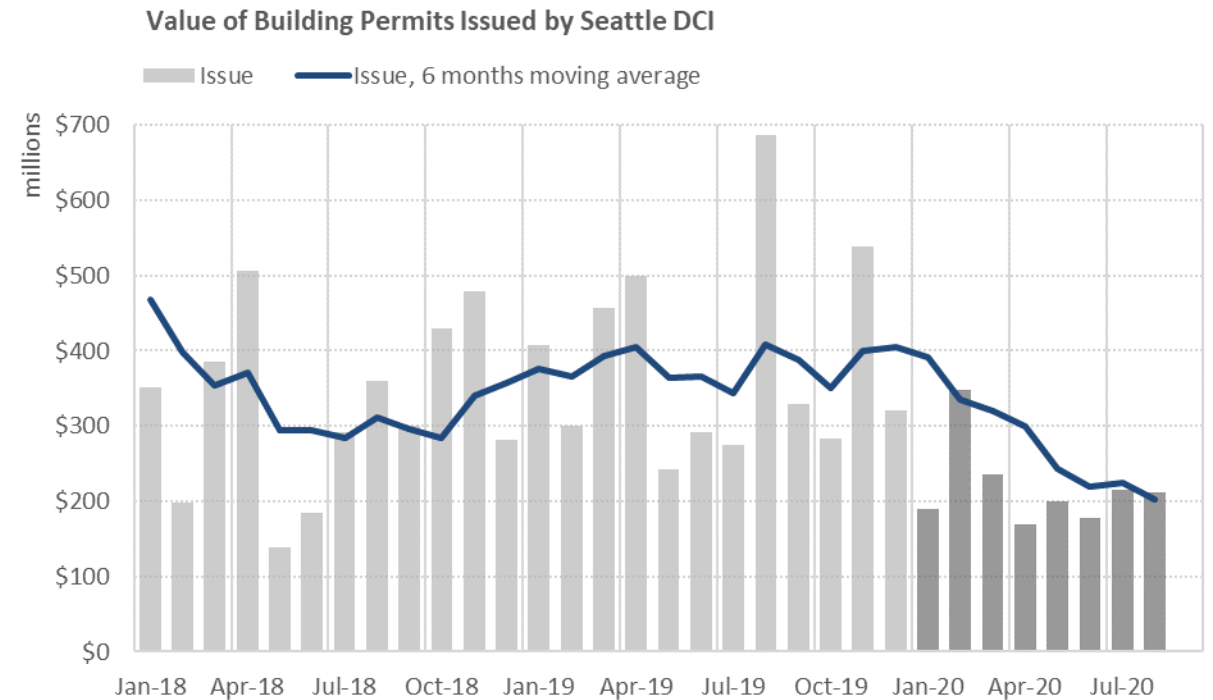
2020 Recession - Labor Market

- 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 past, they are among the least affected by the recession and will be important during recovery
- Most dramatic impacts are on the leisure and hospitality and construction sectors, together they account for about 16% of all jobs, but for 40% of jobs lost and have not substantially recovered yet in the local economy



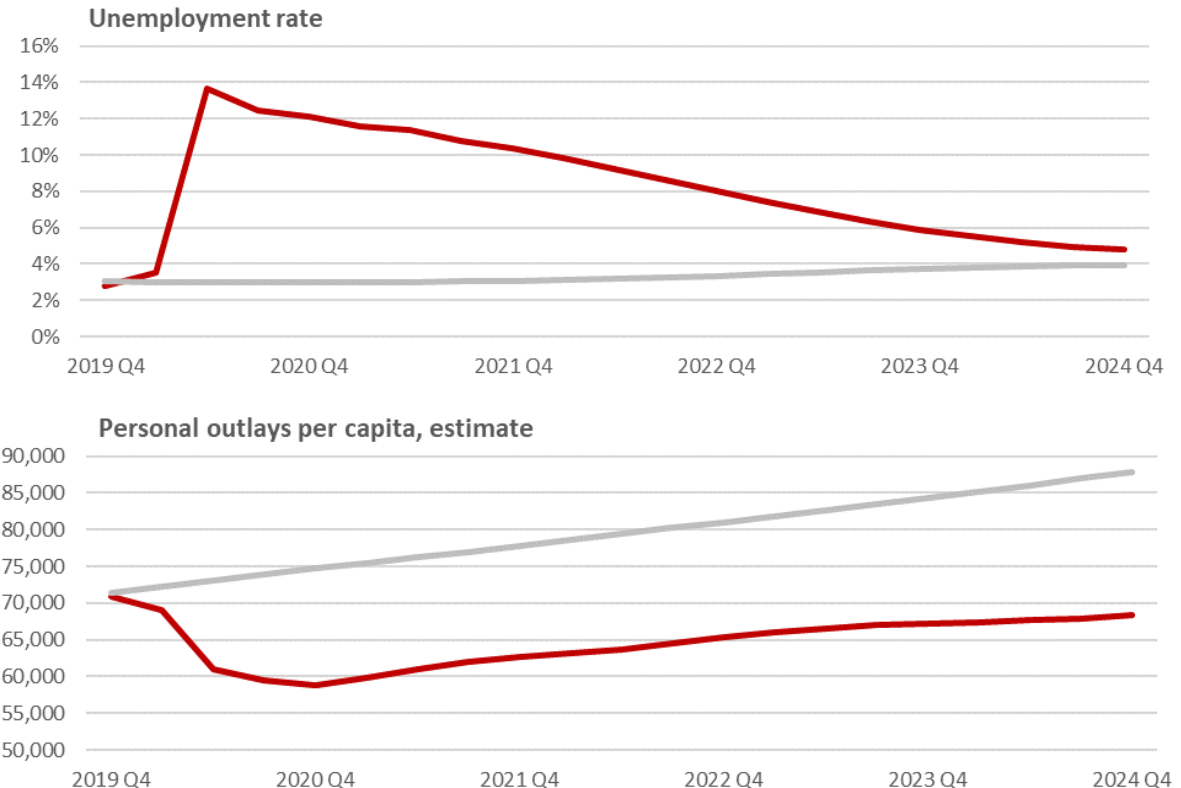
2020 Recession - Construction

- Value of building permits issued by SDCI in the first eight months of 2020 is 44.7% lower than in same period of 2019
- Signals the end of Seattle's construction boom and a coming drop in the revenue from construction sector
- In 2019 construction accounted for 27% of sales tax revenue and 11% of B&O tax revenue



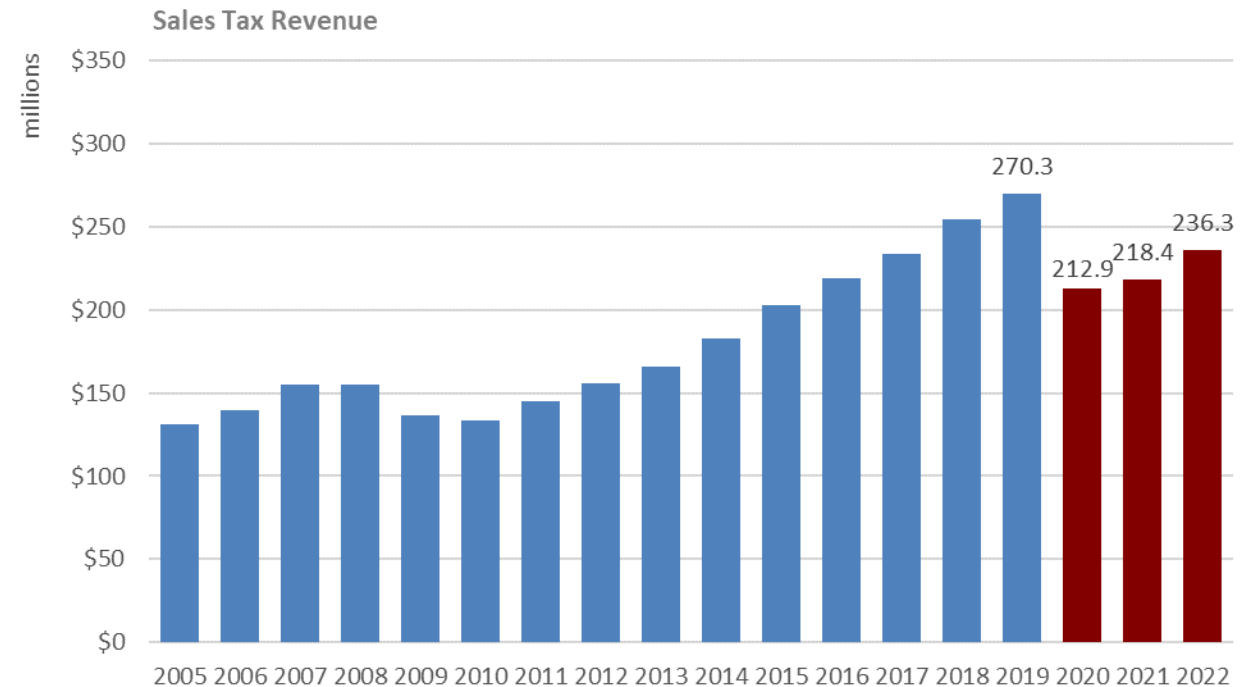
Regional Economic Forecast for Seattle MD

- CBO August forecast, based on IHS Markit's pessimistic scenario of its July U.S. economic forecast
- Unemployment rate reaches 12% in 2020 Q4 followed by slow, gradual recovery
- Personal outlays per capita fall 8.5% lower by year end, persistently lower than pre-COVID forecast
- Personal income was sustained temporarily by CARES act fiscal stimulus, but significantly increased savings rate implies a large drop in personal outlays and related revenues



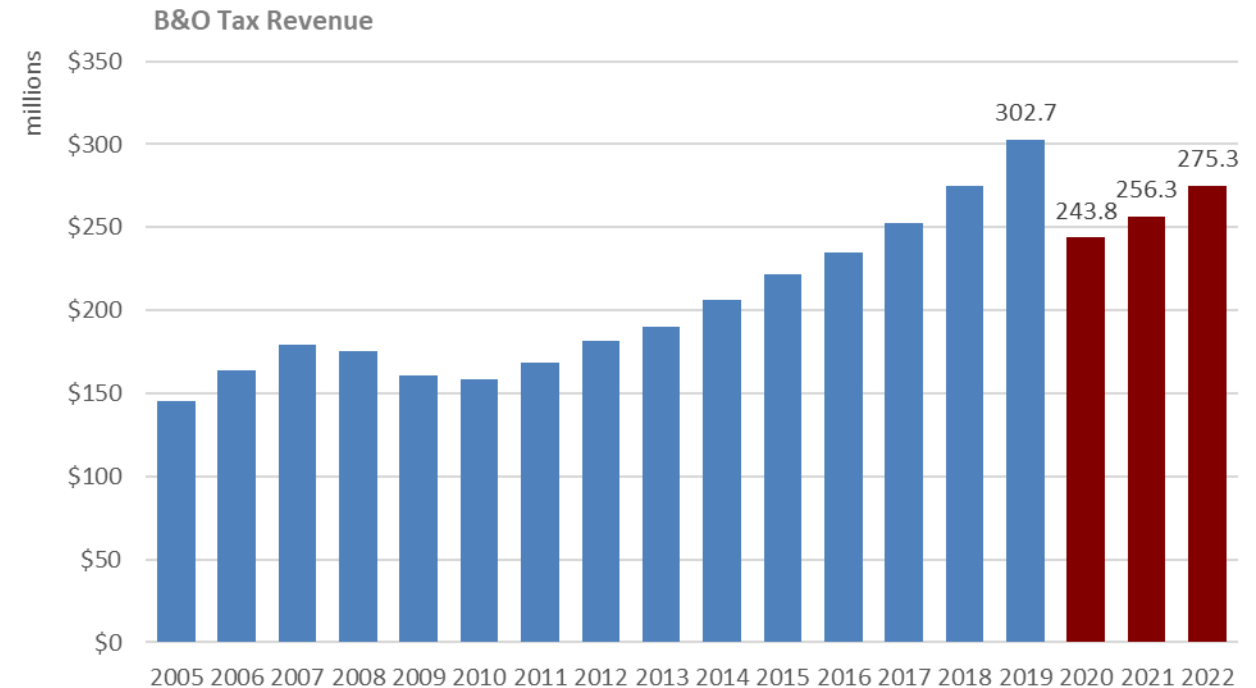
Sales Tax Revenue Forecast

- About 19% of GF revenue in 2019
- 2019 composition: 27% construction, 34% trade sector, 16% leisure and hospitality, 23% other industries
- Sales tax revenue in 2020 is expected to be \$57.4 million (21.2%) lower than in 2019
- Cumulative revenue distribution from WA DOR through July 2020 was \$128.7 million, which is \$23.1 million (15.2%) lower than in 2019



B&O Tax Revenue Forecast

- About 21% of GF revenue in 2019
- B&O tax revenue sources are more diversified across industries than sales tax
- 2019 composition: 11% construction, 17% trade sector, 5% leisure and hospitality, 10% information, 12% FIRE, 20% professional services, 10% health care, 15% other
- Tax revenue in 2020 is expected to decline \$58.9 million (19.5%)
- Tax revenue payments for the first half of 2020 are 12.8% lower than in 2019



Revenue Forecast

2021 Proposed Revenues (\$1,000s)	2020 Adopted	2020 Revised	2020 Change	2021 Proposed	2021 - 2020 Adpt
General Fund Revenue Sources					
Property Taxes	\$345,085	\$340,894	(\$4,191)	\$354,041	\$8,956
Sales Taxes	\$298,842	\$231,103	(\$67,739)	\$237,008	(\$61,834)
Business & Occupation Taxes & Licenses	\$315,537	\$258,139	(\$57,398)	\$271,429	(\$44,109)
Utility Taxes	\$220,557	\$206,340	(\$14,216)	\$208,364	(\$12,192)
Payroll Tax	\$0	\$0	\$0	\$214,284	\$214,284
Parking	\$38,578	\$10,434	(\$28,144)	\$23,510	(\$15,068)
Transportation Network Company Tax	\$8,877	\$0	(\$8,877)	\$5,022	(\$3,854)
Mercer Megablock Sale	\$66,500	\$66,500	\$0	\$0	(\$66,500)
All Else	\$176,649	\$147,114	(\$29,535)	\$156,243	(\$20,407)
Admission Tax	\$11,691	\$1,284	(\$10,408)	\$5,457	(\$6,234)
General Fund Total	\$1,470,626	\$1,260,524	(\$210,101)	\$1,475,357	(\$726)



Revenue Forecast

Other Resources that Support General Government Services	2020 Adopted	2020 Revised	2020 Change	2021 Proposed	2021 - 2020 Adpt
Seattle Center Revenues	\$22,033	\$12,881	(\$9,152)	\$8,809	(\$13,224)
Parks & Recreation Revenues	\$33,474	\$21,090	(\$12,384)	\$29,589	(\$3,885)
Short-term Rental Tax	\$10,500	\$3,675	(\$6,825)	\$7,350	(\$3,150)
Sweetened Beverage Tax	\$24,329	\$15,367	(\$8,962)	\$20,772	(\$3,557)
Real Estate Excise Tax	\$82,958	\$49,626	(\$33,332)	\$62,409	(\$20,549)
Seattle Trans. Benefit District	\$31,299	\$24,185	(\$7,114)	\$19,277	(\$12,022)
Commercial Parking Tax	\$45,596	\$24,394	(\$21,202)	\$38,756	(\$6,840)
School Zone Camera Fund	\$9,666	\$2,923	(\$6,743)	\$13,903	\$4,237
Total	\$259,855	\$154,140	(\$105,715)	\$200,865	(\$58,990)
Grand Total	\$1,730,481	\$1,414,664	(\$315,817)	\$1,676,222	(\$59,716)



Forecast Risks - Upside/Downside

Upside

- Some economic indicators are performing better than the July base forecast
- If implemented, additional fiscal stimulus by U.S. Congress could have a positive impact

Downside

- COVID –significant uncertainty regarding:
 - Leisure, tourism, conventions & hospitality
 - Aerospace: production consolidation and effects on suppliers
 - Construction: rethinking office space and in-city housing construction
- Location of work: adds to uncertainty for B&O and new Payroll tax



2021 Proposed Budget

Seattle City Council

September 30, 2020



Mayor's Priorities in Building the 2021 Budget

- Sustaining the City's Response to the COVID-19 Pandemic
- New \$100 Million Investment in BIPOC Communities while Protecting Current BIPOC Programs like EDI
- Immediately Removing Functions Out of the Department and Create the Foundation to a New Approach to Community Safety
- Preserve Essential Public Services and Supports
- Expand Efforts to Address Homelessness and Housing Crisis
- Minimize Impact to the City's Workforce



Balancing the General Fund Consistent with These Priorities

2021 General Fund Balancing - Summary

Resources

Projected General Fund Revenues (including Payroll Tax)	\$1,475,000,000
Starting Fund Balance	\$8,000,000
Rainy Day and Emergency Funds	\$73,000,000
Total	\$1,556,000,000

Proposed Spending and Reductions

<i>Base General Fund Expenditures</i>	\$1,458,000,000
Proposed General Fund Reductions	(\$63,500,000)
COVID-19 Relief Package	\$21,750,000
Equity Initiative	\$100,000,000
Additional Human Services Spending	\$19,000,000
Other Spending Additions	\$20,800,000
Total	\$1,556,000,000



Further Financial Context

- General Fund is only one fund of multiple City funds. For example, SDOT, Parks and Recreation, and Seattle Center all manage their own revenues, in addition to their General Fund support. Significant additional cuts are necessary due to the dedicated and earned revenues that support these and other departments.
- Additional non-General Fund resources have also been applied to the 2021 priorities, including \$26M in federal Emergency Service Grant (ESG) funding to immediately expand shelter services (\$3M in 2020; \$23M in 2021)
- The City's 2021 investments in COVID-19 response is not limited to the \$21.75M from the Relief Package. Base budgets in HSD, Parks, Fire, FAS, SDOT, DEEL, etc. have all been redirected towards these efforts.
- The Proposed Budget does not assume additional FEMA reimbursements to support for COVID-19 response. Additional outside resources could expand or extend the City's relief efforts.
- The proposed use of \$73M in Rainy Day and Emergency Funds, when combined with the \$48M that will be needed this year, will leave approximately \$5M in these Fiscal Reserves. As a result, the City will have limited options of their further shortfalls in revenues or unanticipated expenditures.
- If the economic recovery follows current forecast, the proposed level of General Fund spending can be sustained into the future.



Sustaining COVID-19 Response

- 2021 elements of COVID-19 Relief Package total \$21.75M include:
 - \$8M for continued rental assistance
 - \$2M to address increased costs for shelter providers (supplements additional funding provided in 2020)
 - \$3.4M for grocery vouchers
 - \$350K for mortgage counseling
 - \$3M for small business assistance
 - \$5M to sustain City operated testing sites
- 2021 Budget provides resources to continue operation of existing homelessness supports (including shelter and food programs) with appropriate social distancing and risk management.
- Also includes \$6M of new General Fund to sustain expanded hygiene facilities and mobile shower services.
- Seattle Parks and Recreation is providing childcare and supports for elementary-aged children at 19 existing community center locations, as well establish teen resource hubs at seven of these facilities.
- DEEL has taken steps to adapt to the current childcare and educational environment, expanding eligibility for K-12 student homelessness and housing supports, modifying the Child Care Assistance Program provider payment structure, and adapting and expanding K-12 services and supports. These measures will all continue.
- Seattle Public Utilities and Seattle City Light continue to provide bill relief and to increase discount program enrollment.
- SDOT will continue work to repurpose streets and public rights-of-way for recreation and to provide open-air socially distanced locations for bars and restaurants.



Investing in BIPOC Communities

- Proposed Budget includes \$100 million Equitable Communities Fund to address systemic racial inequities in our city.
- An unallocated fund that would be used in 2021 based on community recommendations regarding investment strategies in Spring 2021.
- In 2022 and beyond, the Mayor has discussed proposing an Equity Levy or another progressive revenue to sustain funding.



Restructuring SPD and Investing in Community Safety

Reduce Police Spending and Transfer Civilian Functions Out of SPD -\$60 million

- Reduction in sworn officers and overtime, and savings from a civilian hiring freeze (-\$22.4M)
- Transfer Parking Enforcement Officers to SDOT (-\$14.9M, 120 FTE)
- 911 Call Center to become the independent “Emergency Communications Center” (-\$18.3M, 140 FTE)
- Office of Emergency Management also to be independent office (-\$2.5M, 14 FTE)
- Complete and make permanent transfer of Victim Advocates to HSD (-\$1.3M, 11 FTE)

Investing in Community Safety

- Establish joint Inter-Departmental Team to complete a review of 911 calls and all current SPD functions. \$2M provided in HSD’s budget to implement potential IDT recommendations.
- Restructure and reduce budget for Seattle Municipal Courts probation services (-\$1.4M, 12 FTE).
- Add funding for case manager services to support new Seattle Community Court (\$100K)
- Continue Funding for Crisis Connections “OneCall” service (\$400K)
- Continue Funding for Community Critical Incident Responders pilot program (\$430K)
- Expand Health One pilot to include a second vehicle (\$575K)
- Increase funding for OIG, OPA and CPC



Preserve and Expand Critical Services and Supports

Sustain and Grow Support for Those in the Greatest Need

- Sustain Human Services Department (HSD) funding for existing, ongoing services and programs, while streamlining and reducing internal staffing and overhead costs.
- \$2.9M in additional funding to provide inflationary increases to HSD's contracted providers
- Provide funding to sustain HSD adds made with one-time funding added by the City Council in 2020. Total of \$2.6M including more than \$1.5M to support those experiencing homelessness.
- Additional \$2.75M to expand shelter offerings – funding is sufficient to sustain 125 additional units.
- As noted previously, \$23M ESG resources in 2021 for temporary housing for those living without shelter.
- Continue steps to establish the King County Regional Homelessness Authority (KCRHA).
- Consistent with recommendations from the Soda Tax Community Advisory Board, provide a \$1.5M of soda tax revenue to implement a new prenatal to 3-year-old grant program for community-based organization.



Preserve and Expand Critical Services and Supports (cont.)

Transportation Network Company (TNC) Fare Share Program

- The Fair Share Program is designed to provide living wages and fair treatment to TNC “gig” workers.
- Proposed Budget includes the creation of two full-time positions on the OLS enforcement team, as well as appropriations for the outreach and implementation of the TNC ordinances.

Maintain Critical Transit Investments – Seattle Transportation Benefit District

- Proposed budget does *not* assume voter approval of November ballot measure that would provide continued funding for the Seattle Transportation Benefit District.
- The Executive is ready to partner with Council to amend the budget to implement if the measure is approved.
- Budget also does not include revenues from the voter-approved Vehicle License Fees (VLF) that are the subject of case currently before the State Supreme Court.



Budget Reduction Strategies: City-wide and Department Specific

City-wide Strategies – consistent with approach taken this year

- Maintain vacancies for non-essential positions
- Pay freeze for APEX/SAM broad-band employees (strategic advisors, managers and executives)
- Eliminate non-essential spending on travel, training, consultants, etc.
- Defer one-time expenditures on equipment, IT systems, vehicles, etc.
- Manage vacancies and reduce staffing in ways that minimize direct services to the community.
- Re-prioritize levy and other voter-approved funding toward basic services.



Budget Reduction Strategies: City-wide and Department Specific (cont.)

Department Specific – Seattle Parks and Recreation

- Total revenue impact was a loss of \$22M in operating revenue (\$11.4M of General Fund and \$10.6M of “earned” revenues); and \$19+M in REET for capital investments. A total revenue loss of more than \$40M.
- The Proposed Budget mitigates the operational impacts of these losses by reprioritizing \$13M of Parks District capital resources to operations budget and using \$1.2M of REET to pay for debt service. This minimizes operational cuts, which will be limited to less than \$8M, but exacerbates the reductions to planned capital spending.
- Seattle Parks and Recreation anticipates operating under COVID-19 restrictions into next summer. The department will reduce hiring of seasonal workers, and some facilities will not be reopened in 2021. Currently planning to operate 4 of 10 swimming pools. Other facilities, such as the Community Centers have been refocused to support COVID-19 relief efforts. And 5 community centers will be closed to complete planned capital renovations.
- The most significant impacts are to the Department’s planned capital investments:
 - Major maintenance spending will be reduced;
 - Recreational field conversion and replacement projects will be deferred;
 - Development of sites “land-banked” for future parks will slow; and
 - Funding of new land acquisition will be reduced, as will the Major Projects Challenge Fund.
- These cuts to capital sending will create very real pressure to increase the funding provided by the Parks District as we move forward to develop a new multi-year spending plan. The Parks District property tax revenue can be increased by Council vote.



Budget Reduction Strategies: City-wide and Department Specific (cont.)

Department Specific – Seattle Department of Transportation (SDOT)

- SDOT is managing a total funding gap of \$85M for 2021.
- The Proposed Budget calls for \$60M in reduced spending; and \$25M in short-term borrowing to minimize the cuts needed in 2021 and 2022.
- SDOT approached the necessary reductions with multiple goals:
 - Maintaining essential services, while prioritizing safety, basic maintenance, and asset restoration;
 - Minimizing direct impacts to underserved communities; and
 - Preserving City personnel to maintain ability to respond to COVID-19 and recovery.
- Largest impacts will be on capital spending, including both system enhancements and basic maintenance. Examples include:
 - Delays of major grant-dependent projects (e.g. Northlake Retaining Wall and the Heavy Haul Network);
 - Reductions in paving, as well as bike, ped and transit infrastructure projects; and
 - Minimal impact to bridge maintenance, but current financial constraints limit opportunity to expand funding.
- Beyond the overall reductions, there are several notable element in SDOT's budget:
 - \$100M in bond funding for the West Seattle Bridge, to be repaid from future REET revenue.
 - The transfer of the City's Parking Enforcement Function into SDOT; and
 - Ongoing funding for partnership with Sound Transit for planning, design and construction of RapidRide lines and light rail.

