BUDGET DELIBERATIONS

DEPARTMENT OF FINANCE AND ADMINISTRATIVE SERVICES

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Budget Summary ($ in 000's)

	2017 Adopted	2018 Endorsed	2018 Proposed	% Change 2018 Endorsed to Proposed
Appropriations by BCL				
A. FileLocal Agency	$364	$375	$385	2.6%
B. Wheelchair Accessible Services Program	$1,488	$1,488	$1,488	0%
C. Central Waterfront Improvement Program Financial Support	$1,099	$924	$1,880	103.5%
D. Budget and Central Services	$15,211	$12,138	$13,990	15.3%
E. City Finance Division Budget Control	$22,125	$24,543	$24,474	(0.3%)
F. City Purchasing and Contracting Services	$7,071	$7,038	$7,355	4.5%
G. Facility Services	$79,016	$72,714	$73,577	1.2%
H. Fleet Capital Program	$21,830	$21,830	$21,830	0%
I. Fleet Services	$33,386	$33,825	$33,922	0.3%
J. Office of Constituent Services	$4,633	$4,650	$5,075	9.1%
K. Regulatory Compliance and Consumer Protection	$7,062	$9,276	$8,902	(4%)
L. Seattle Animal Shelter	$4,411	$4,525	$4,531	0.1%
M. Technical Services	$4,547	$4,673	$4,533	(3%)
Total Expenditures	**$202,243**	**$197,997**	**$201,941**	**2%**
Total FTEs	**625**	**620.5**	**627.5**	**1.1%**
Revenues				
General Subfund	$28,141	$29,302	$31,624	7.9%
Other sources	$174,102	$168,295	$170,317	1%
Total Revenues	**$202,243**	**$197,997**	**$201,941**	**2%**

Totals may not exactly reflect sum of line items due to rounding.

Interactive Budget Site: http://www.seattle.gov/city-budget/2018-proposed-budget/finance-and-admin-services

BACKGROUND:

The Department of Finance and Administrative Services (FAS) has the most diverse set of responsibilities of any City department. Below is a brief overview by function with BCLs most involved in parentheses.

Customer Service (F, G, I, L)
FAS is often the first stop for the public to interact with City government, fielding over 230,000 contacts in 2016. Contact may come through the City's Customer Service Bureau, the Downtown Customer Service Center, the six customer service centers located throughout the city, or through the Mobile Customer Service Center launched in late 2016. Over the phone, online, or in person, customers can get information about City services, request services, pay bills, resolve problems, or just voice opinions.

FAS provides Citywide coordination and guidance on responses to public disclosure. It helps residents clarify requests so they receive the information they seek. In addition, FAS oversees the City's efforts to comply with Title II of the Americans with Disabilities Act. Finally, through the Seattle Animal Shelter, FAS advocates for animal welfare, reunites lost animals with their owners, and finds suitable owners to adopt homeless animals.

Regulation and Oversight (A, B, K)
FAS ensures that all businesses operating in Seattle are properly licensed and paying required taxes. It issues regulatory licenses for certain businesses including taxis and similar services, adult entertainment venues, door-to-door salespeople, recreational marijuana establishments, and trade shows. FAS also enforces requirements related to those licenses.

FAS monitors certain types of businesses to increase consumer safety and ensure proper charges for services. This includes setting rate caps for private property tows, as well as ensuring consumers are not overcharged for gas or goods at supermarkets because of inaccurate measuring devices.

As the central coordinator for City contracting, FAS establishes policies and procedures to ensure fair competition for City-funded construction projects and oversees programs like Priority Hire to ensure everyone in the community has equal access to jobs and opportunities involving those projects. FAS also enforces animal-related ordinances, including the investigation of animal cruelty, neglect, and abuse.

Financial Services (A, E)
The City Finance Director is located within FAS and oversees functions that ensure the City's financial health. These include managing City debt, purchasing insurance, and overseeing City investments. It also manages claims for damages against the City, balancing proper stewardship of taxpayer dollars with fairness to claimants when settling claims. FAS oversees the City's accounting system, employee payroll, and treasury services, ensuring revenue is collected and vendors and staff are properly paid in a timely manner. And FAS helps administer the City's three retirement systems: Employees' Retirement System, Firefighters' Pension Fund and the Police Relief and Pension Fund.

Financial services is also responsible for implementing and administering new fees and taxes established by the City, including the firearms and ammunitions tax, the income tax, and the sweetened beverage tax. These are all relatively new responsibilities for the department. Standing up new fees and taxes takes resources and especially time to do well.

Operational Services (G, H, I, L, M)

FAS designs, builds, and maintains more than 150 public buildings and facilities covering 3.7M square feet, including Seattle City Hall, the Seattle Municipal Tower, the Justice Center, the Joint Training Facility, 33 neighborhood fire stations, and five police stations. When departments need to acquire property or when the City no longer has a use for property, FAS is responsible for managing the acquisition or disposition of the property.

FAS buys and maintains over 4,000 vehicles for the City's vehicle fleet, including shared occasional passenger vehicles, police patrol cars, fire engines, and heavy equipment used by City Light, Seattle Public Utilities, and Seattle Department of Transportation.

Below is a brief overview of the changes in the 2018 Proposed Budget.

1. Increased Effort on Homelessness: $662,819 in spending and 3.5 FTEs. This is discussed in a separate paper on homelessness.
2. ADA and Title II Training: $195,000. This provides funding to accommodate the hearing and visually impaired. It also provides funding for FAS to work with the Seattle Department of Human Resources to develop a curriculum and training for City staff to comply with Title II.
3. Increased support to City Finance: $332,090 and 2 FTEs. This item adds funding and staff to support two new areas of responsibility in FAS: administration of the new Sweetened Beverage Tax; and management of a new banking services program to comply with new fair business practice criteria in awarding contracts.
4. Waterfront LID: $956,000. This supports the development and administration of the planned Local Improvement District (LID) for the Central Waterfront project. FAS is the lead for this effort in 2018, continuing the work that began in 2017. The total proposed funding in 2018 for LID work in the FAS budget is $1,880,000 which will pay for: outreach services and materials, continuing the study of special benefits to properties for the LID, five positions including an LID manager and two temporary long-term positions, and other administrative expenses. There are no proposed additions to positions; the FAS positions were created in previous budget cycles and have not been filled to date. FAS plans to fill the positions in 2018. The Central Waterfront Improvement Fund (CWIF), a single fund from which multiple departments draw to support work on the Waterfront, is the sole source of funding for the LID administration efforts in FAS. The CWIF is currently backed by an interfund loan that will be repaid with expected revenues from the planned Central Waterfront LID.
5. Equity Programs: $300,000. This provides support for two new programs to further equity in the workplace: (A) the Respectful Workplace program will provide training to help construction businesses create respectful workplaces; (B) the Women and Minority Businesses (WMBE) Technical Business Center will help WMBE firms participate in Priority Hire.

FAS BUDGET LEGISLATION:

1. Seattle Animal Shelter fee increases, standardization and process
Proposes to increase adoption fees, miscellaneous animal control fees and spay and neuter deposit fees to reduce the need for General Fund support for the Seattle Animal Shelter program. The legislation standardizes fee structures and allows for the implementation of director's rules so that the FAS director can periodically adjust fees as necessary.

2. Increase various regulatory license fees
Regulatory license fees help to fund services provided by the FAS Regulatory Compliance and Consumer Protection Division. Many of these fees have not been adjusted in five to 20 years. For example, his legislation proposes a modest three to six percent increase for 16 regulatory fees and an increase to the tradeshow participant's fee from $5 per day (since 1993) to $10 per day. FAS projects that the overall increase in fees will raise program revenues by $22,000 annually, and it will reduce the need for General Fund support for the Regulatory Compliance and Consumer Protection program.

3. LTGO Bond Ordinance
Authorizes the issuance of limited tax general obligation (LTGO) bonds to support a share of the City of Seattle's Capital Improvement Program (CIP). The City's CIP identifies debt financing for specific projects, including certain transportation-oriented projects, fire facilities and information technology. While the debt service on these bonds is appropriated in the adopted budget, the actual issuance of the bonds also requires the legal authority.

4. CBO Property Tax
Imposes the City's property tax for 2018 to pay for City government activities and for general obligation bond interest and redemption.

5. Seattle City Light 2018 Bond
Although the budget, CIP and adopted rates make specific assumptions about the use of debt financing for a certain share of the CIP, separate authorization for the issuance of bonds is technically required. Bond proceeds from this issuance, combined with internally generated funds, will support City Light's capital program.

6. Drainage and Wastewater 2018 Bond
Although the budget, CIP and adopted rates make specific assumptions about the use of debt financing for a certain share of the CIP, separate authorization for the issuance of bonds is technically required. Proceeds from the drainage and wastewater bond sale, combined with internally generated funds, will support the drainage and wastewater capital program.

7. Water 2018 Bond
Although the budget, CIP and adopted rates make specific assumptions about the use of debt financing for a certain share of the CIP, separate authorization for the issuance of bonds is technically required. Proceeds from the water bond sale, combined with internally generated funds, will support the water capital program.

ISSUE IDENTIFICATION:

1. Additional Resources for Priority Hire (P. Lee)

The City established the Priority Hire Program in 2015 to increase access to training programs and well-paying construction jobs for local workers, and to increase the number of women and people of color working on City funded capital projects. Priority Hire applies to City funded projects of $5M or more. The number of applicable projects continues to grow; from seven projects in 2015 to 11 in 2017 with an estimated eight to 15 additional projects to be added in 2018. In addition, three private development construction projects, the Seattle Asian Art Museum, Seattle Aquarium and the proposed Key Arena expansion will be covered by the Priority Hire Program and the community workforce agreement between the City and labor unions participating in Priority Hire.

The City originally allocated 10 FTEs to FAS to administer Priority Hire. However, due to increased costs only one of the three Senior Contract Analysts positions has been filled. These positions monitor work sites and provide training and technical assistance to contractors. They are actively involved in resolving issues or questions at the work site. If FAS had funding for additional Analysts, it would be able to work with other businesses, unions, and regional leaders to expand Project Hire to additional trades and contract types.

Options:

A. Amend the 2018 Proposed Budget and add $234,000 for two Senior Contract Analysts for the Priority Hire Program.

B. Amend the 2018 Proposed Budget and add $117,000 for one Senior Contract Analyst for the Priority Hire Program.

C. Do not change the 2018 Proposed Budget.

2. Resources to implement a short-term rental tax and regulatory license (Pennucci)

The Council is currently considering three council bills (CB) that would establish a regulatory framework for short-term rental activity and introduce a tax on short-term rental operators in Seattle:

- CB 119081: establishes a regulatory licensing framework for short-term rental platforms and operators, and bed and breakfast operators who utilize short-term rental platforms;
- CB 119082: Defines short term rentals as a type of land use; and
- CB 119083: Establishes a $10 per night tax on each short-term rental operator in the City.

CB 119081 and CB 119083 will require additional staff and appropriation authority for FAS in 2018 to acquire and modify administrative systems, and to develop rules, procedures and processes in advance of the effective date of the new regulatory license and tax. If adopted, the regulatory license and tax would go into effect in 2019, however, resources are needed in 2018 to prepare for implementation. The resources necessary to implement will be supported by license fees and tax revenue.

Temporary use of General Subfund will provide resources to prepare for implementation of the regulatory license and tax in 2019 and will be paid back over time using revenue from the regulatory license and the short-term rental tax. Council staff is currently working with the City Budget Office to determine the specific position authority and appropriations needed in 2018. If the Council does not take final action on the short-term rental legislation prior to taking final action on the 2018 budget, Central staff recommends that a proviso is imposed restricting spending pending adoption of the proposed regulations and tax.

Options:

A. Increase FAS' appropriation authority and add position authority needed to support implementation of the proposed short-term rental regulations and tax.

B. Approve the 2018 Proposed Budget.

BUDGET ACTIONS PROPOSED BY COUNCILMEMBERS AS OF 10/09/17:

1. Equitable Development (CM Sawant)

This Budget amendment would cut the $11.6M in FAS's CIP currently designated for Seattle Police Department North Area Interim and Long-Term Facilities (A1PS117), and use that money to fund Equitable Development Initiative projects such as the Ethiopian Community Center and the Filipino Community Center**.**

Staff has yet to determine if the revenue source used for the FAS project (Real Estate Excise Tax or "REET I") can be used directly for the proposed projects. If it cannot, there may be other ways to convert the freed-up REET I into funds that could be used to the proposed projects.

2. Public Bank green sheet (CM Sawant)

This proposal would allocate $200,000 of General Subfund to FAS to conduct a feasibility study for a public bank. This is especially timely given the City's withdrawal of funds from Wells Fargo. The feasibility study would focus on the legal issues and implementation details, as suggested in City Attorney Peter Holmes' December 2015 memo (Attachment A), as well as other key components such as: actual feasibility of a public bank; participation of surrounding municipalities; banking requirements; ability to provide community benefit lending; and the ability to handle cannabis business deposits.

3. Business Tax (CM Harris-Tally, CM O'Brien, CM Sawant)

CMs Harris-Tally, O'Brien, and Sawant have expressed interest in a "Progressive Business Tax" that would apply only to businesses with taxable gross receipts higher than $5M. About 90 percent of all businesses have taxable gross receipts below this threshold and would therefore be exempt. Different CMs have discussed higher rates per FTE, generating anywhere from $25M (at $100/FTE) to $50M (at $200/FTE) annually; and the revenue would be used to provide additional affordable housing, expand the existing Law Enforcement Assisted Diversion (LEAD) program, and increase both homelessness services and services for Seattle youth.

Attachments:

A. December 2015 Memo from City Attorney Peter Holmes on Municipal Banking

I. INTRODUCTION

This memo outlines legal and practical issues that should be considered in deciding whether to pursue the establishment of a city-owned bank.

While there are legal arguments both for and against the proposition that the City can establish and own a bank, in light of the financial risks involved, we advise a measured and deliberate approach. This includes: 1) determining the overall purpose in establishing a municipal bank, 2) determining specific goals to be achieved, 3) conducting a detailed analysis of economic, geographic, and demographic conditions in the bank's proposed market including supply and demand analysis, 4) analyzing the feasibility of alternative banking models in light of market conditions, 5) establishing a detailed business plan that will sustain a bank's business operations, minimize risks, and achieve the stated goals, 6) remove legal impediments that would jeopardize the bank's financial health, and 7) obtain legal protections that would assure financial security.

II. Legal considerations

The Washington Legislature has not explicitly conferred upon local jurisdictions the power to create banks, nor has the State itself created one. The financial health of a municipal bank could be seriously impaired by any legal challenge to the ability of the City to establish a bank in the first instance, and by other legal challenges to specific functions that such a bank would undertake. It is in the best interest of the City to minimize risks of legal challenges and potential liability prior to the establishment of a bank. It would be imprudent to establish a bank only to have its legitimacy challenged after operations have begun, deposits have been received, loans have been made, and projects whose financing depends on the bank have been started.

A strong legal foundation either through legislation or the obtaining of competent legal authority should be established prior to embarking on an enterprise whose financial health depends on economic factors.

III. Financial Risks

The City should decide whether establishing, owning and operating a city-owned bank is financially feasible. At a minimum, beyond merely deciding that the overall purpose of a bank would be to facilitate financing for affordable housing, this includes defining specific goals to be achieved and the methods and strategies to achieve them. For example, as shown below, the risk profile differs markedly depending on whether such a bank engages predominantly in extending mortgage loans to individual residential homebuyers, or whether it engages in extending development loans for multi-family or other housing.

The Federal Deposit Insurance Corporation (FDIC) in 2012 completed a statistical analysis for the period 1984 through 2012 of community banks, which includes banks that "mainly conduct lending and deposit gathering activities within a fairly limited market area,"[1] but more notably, do not fit within the description of a non-community bank which includes, among others, the "four largest banking organizations (Bank of America Corporation; Citigroup Inc.; JP Morgan Chase & Company; and Wells Fargo & Company)."[2]

The study is helpful because it is likely that any bank established by a municipality in Washington for the limited purposes of promoting affordable housing would be similar to a community bank. Of importance is the FDIC's analysis of how specializing in certain lending areas such as mortgage lending or construction and development affected community banks' financial health and failure rates.

The study categorizes community banks into seven lending specialty groups: "mortgage specialists, consumer specialists, commercial real estate (CRE) specialists, commercial and industrial (C&I) specialists, and agricultural specialists, while the rest were categorized into a group with multiple lending specialties or a group with no lending specialty. The no specialty group was the largest group in nearly every period, and is made up of banks that are diversified lenders or that tend to have more securities and fewer loans."[3]

"CRE loans include construction and development (C&D) loans, loans secured by multifamily properties, and loans secured by nonfarm, nonresidential real estate."[4]

In general, the study found that during the study period "[c]ommunity banks in the mortgage, agricultural and no specialty groups were generally the strongest and steadiest performers over the study period, reporting lower provision expenses to assets and a lower incidence of failure than each of the other four lending specialty groups."[5]

On the other hand, "[a]t the other end of the spectrum, CRE (commercial real estate) lending specialists turned out to be the lowest-performing lending specialty group by a

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[1] [1] *FDIC Community Banking Study,* December 2012, p. 1-5.
[2] *Id.*, p. 1-4.
[3] *FDIC Community Banking Study,* December 2012, p. V.
[4] *Id.*, p. 5-2.
[5] *Id*.

variety of measures. They trailed the average ROA [return on assets] of all community banks by one-third, and failed more than twice as often as the average community bank."[6]

"CRE specialists performed slightly better than the average for all community banks in good economic times, but performed significantly worse during the periods that coincided with banking crises."[7]

"Most notably, banks that had high levels of C&D (construction and development) loans performed significantly worse than other banks."[8]

The poor performance of commercial real estate specialists including those that engaged in construction and development loans can be attributed to the 2008 economic downturn:

> Lending strategy is an important factor in community bank success, and it proved to be especially so in the tumultuous second half of the 2000s decade. More than two-thirds of community banks entered the decade as members of one of three baseline lending specialty groups that demonstrated consistently strong performance across the study period. Nonetheless, hundreds of community banks left these baseline groups in the first half of the decade as the U.S. real estate boom was nearing a peak and pursued alternative lending strategies built on C&D or CRE lending. These institutions slightly outperformed those that remained in the baseline lending groups while real estate prices were rising. After 2007, community banks that shifted to these alternative lending strategies underperformed those that remained in one of the three baseline groups by a substantial margin, as did community banks that began the decade already engaged in the C&D and CRE lending strategies. Finally, almost 60 percent of community banks chartered between 2000 and 2005 also were engaged in the C&D or CRE lending strategies by 2005, and these institutions also generally underperformed new community banks that pursued one of the three baseline lending strategies.[9]

Regardless, "CRE specialists clearly experienced the most volatile earnings performance . . . reporting the lowest pretax ROA of any group in three intervals (1986-1990, 1991-1995, and 2006-2010), and the highest pretax ROA of any group in the other two intervals (1996-2000 and 2001-2005)."[10]

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[6] *Id*.
[7] *Id*., p. 5-22.
[8] *Id*.
[9] *Id*.
[10] *Id*., p. 5-10.

The varying performance of these banking specialties, as identified by the FDIC, has important implications for any bank that the City would seek to establish. For example restricting the bank's practice to one that is statistically stronger and more stable, such as mortgage lending may reduce the risks associated with a practice that is more volatile, such as construction and development. Both these lending specialties, however, may be methods to achieve an overall purpose of facilitating affordable housing. On the other hand, depending on the needs of Seattle's citizenry, its current supply of housing, and its projected capacity for expansion, one or more of these options may or may not be appropriate. It is therefore imperative that any effort to establish and operate a municipal bank clearly define the overall purpose, specific goals, and detailed methodology to be employed.

III. CONCLUSION

The establishment of a bank entails inherent financial risks. Legal risks also exist because the Washington courts have not addressed multiple legal issues concerning whether and under what circumstances a municipality may establish, own and operate a bank. At a minimum, the City, should it embark on such an endeavor, should strive to obtain clarity both in the law and on the financial front before implementation. In furtherance of this we recommend the following:

A. Legal clarity. The City should seek legal clarity affirming the City's authority to establish, own and operate a bank prior to establishing one.

1. Court rulings. It is unlikely that a ruling can be secured from a court prior to the City taking concrete steps to form a bank as a court will not rule, even in a declaratory action, unless there is an actual case or controversy. This places the City at a disadvantage, however, as an adverse ruling would likely result in a loss to the City in terms of investment of time, effort and planning should the city establish a bank only to lose a legal challenge.

2. Attorney General Opinion. The City could request, through one or more of its legislative representatives, an opinion from the Washington Attorney General. Such an opinion, while instructive, however, would not be binding on a court.

3. State Legislation. The City may seek enactment of legislation by the Washington Legislature authorizing and guiding the City in the establishment, ownership and operation of a bank, including the establishment of adequate safeguards.

B. A Clear Implementation Plan. The City should develop a thorough plan determining specific and tangible goals, and specific and concrete strategies to achieve those goals, including benchmarks to measure achievement. These include:

1. Determining the target constituency to benefit from the bank, its composition and magnitude, the needs of the constituency, and the desired outcomes concerning the constituency.

2. Based on the needs to be met, a determination of financial resources necessary to meet those needs.

3. A determination of how the constituency would receive the most benefit from available banking tools. For example, does the constituency need assistance in obtaining mortgages for available housing, or is there an affordable housing shortage that would require construction and development?

4. A determination of whether the needs of the constituency can be met at an acceptable risk level in employing a particular strategy.