

Budget Deliberations – October 22, 2018

SWEETENED BEVERAGE TAX (SBT) AND SUPPORTED PROGRAMS

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This memo discusses (1) the background of the Sweetened Beverage Tax (SBT), a tax on sugar-sweetened beverages; (2) proposed amendments to the SBT ordinance; (3) the use of SBT revenues to supplant unrestricted General Fund (GF) in the budgets for the Department of Education and Early Learning (DEEL), the Human Services Department (HSD), and the Office of Sustainability and Environment (OSE); (4) issues related to the 2019-20 Proposed budgets; and (5) specific Council proposals related to SBT revenues.

Background:

On January 1, 2018, the City began collecting revenues from the SBT, which was established by [Ordinance 125324](#) in 2017. The tax is generally \$0.0175 per fluid ounce of beverage distributed, with exceptions for manufacturers having annual gross receipts (business income) of \$5 million or less. Initial estimates for revenue in 2018 were approximately \$14,816,000. This was later revised to \$20,663,000, based on actual revenues received. The ordinance dedicates the revenues to specific purposes. For the first five years that the tax is collected (2018 - 2022), 20 percent of the net proceeds must be used to fund the following one-time or limited-duration expenditures:

1. One-time costs necessary to enable the Department of Finance and Administrative Services (FAS) to administer the tax, such as computer systems;
2. Up to \$5 million in total as a one-time contribution to an endowment for the Seattle Colleges' 13th Year Promise Scholarship program;
3. Up to \$1.5 million in total for job retraining and placement programs for workers adversely impacted by the tax; and
4. Funding to construct or enhance classroom facilities for use by the Seattle Preschool Program.

The remainder of the proceeds from the SBT are limited to use in support of and in order of priority, as follows:

1. Expanding access to healthy and affordable food, closing the food security gap, and promoting healthy food choices through programs such as:
 - a. Community-based investments to expand food access, such as food banks and meal programs;
 - b. Fresh Bucks and Fresh Bucks to Go;
 - c. Implementation of the Seattle Food Action Plan;
 - d. Public health and nutrition programs targeted to assist persons experiencing diabetes and obesity;
 - e. Public awareness campaigns to highlight the impact of sugar-sweetened beverages on health outcomes and increase education about healthy food and beverages; and

- f. Capital investments to promote healthy choices, such as water bottle filling stations in schools and community centers.
2. Supporting evidence-based programs that improve the social, emotional, educational, and physical and mental health for children, especially those services that seek to reduce the disparities in outcomes for children and families based on race, gender, or other socioeconomic factors and to prepare children for a strong and fair start in kindergarten.
3. Administration of assessing and collecting the tax.
4. Ensuring resources for OSE and the SBT Community Advisory Board (CAB).
5. The cost of evaluations by the Office of the City Auditor (AUD) of SBT-funded programs, including health outcomes, and the economic impacts of the tax.

The legislation that created the SBT also established the CAB to advise and make recommendations to the Mayor and Council, including funding recommendations across the range of programs described above. The CAB is directed to publish an annual report summarizing tax collection efforts, programs funded to date, and any completed studies evaluating the tax or program funded by it, as well as stating its recommendations for the allocation of SBT revenues to programs.

Distribution of 2018 Reserve Funds

In 2018, about \$2.8 million was held in reserve until the CAB was appointed and could develop recommendations on how the City should use these funds; the funds were released in the second quarter of 2018 following transmittal by the CAB of its [recommendations](#) to the Mayor on July 5, 2018. The funding amounts by CAB-identified program area and department are shown in Table 1.

Table 1: Programming of 2018 SBT reserve funds by department per CAB recommendations

Program Area and Department Funding	Share	Amount
Healthy food and beverage access <ul style="list-style-type: none"> • Fresh Bucks (OSE): \$480,000 • School subsidies for fresh fruits and vegetables (OSE): \$388,000 • Community-based meal providers and programs (HSD): \$48,000 	33%	\$916,000
Community-based programs and activities to support good nutrition and physical activity <ul style="list-style-type: none"> • Community-based food and nutrition education (HSD): \$60,000 • Fresh Bucks to Go (HSD): \$210,000 • Community-based meal providers and programs (HSD): \$286,000 	20%	\$555,000
Birth-to-three services and kindergarten readiness <ul style="list-style-type: none"> • Home visiting programs (DEEL): \$100,000 • Instructional coaching (DEEL): \$114,000 • Health supports (DEEL): \$175,000 • Development supports (DEEL): \$166,000 	20%	\$555,000
Support for people with obesity and diabetes <ul style="list-style-type: none"> • Provision of healthy foods to people with diabetes (OSE): \$55,000 • Provision of healthy foods to people with diabetes (HSD): \$140,000 Community-based education and support (HSD): \$55,000 	9%	\$250,000

Program Area and Department Funding	Share	Amount
Public awareness campaign about sugary drinks		
• Community organization-led mass media campaign (HSD): \$200,000	9%	\$250,000
• Youth-led counter-marketing campaign (HSD): \$50,000		
Evaluation support for community-based organizations (AUD)	9%	\$250,000
Total	100%	\$2,775,000

Note: All dollar amounts rounded to the nearest \$1,000; values may not add to total shown.

Proposed 2019-20 Spending Plan

The 2019-20 Proposed budgets assume that the SBT will generate about \$21.4 million in 2019 and \$21.9 million in 2020. The allocation of SBT revenues by department in the 2018 budget and the 2019-20 Proposed budgets is summarized in Table 2 below, along with projected net surplus funds.

Table 2. Allocation of SBT revenue in 2018 adopted and revised budgets and 2019-20 proposed budgets

Department	2018		2019	2020
	Adopted	Supplemental	Proposed	Proposed
One-time expenditures				
FAS	--	\$967,000	--	--
Finance General (Job training set-aside)	\$500,000	--	\$500,000	\$500,000
DEEL	\$1,382,000	--	\$2,168,000	\$2,063,000
AUD	\$20,000	--	--	--
Subtotal – one-time expenditures	\$1,902,000	\$967,000	\$2,668,000	\$2,563,000
Ongoing expenditures				
FAS	\$180,000	--	\$180,000	\$180,000
DEEL	\$4,454,000	\$3,041,000	\$7,817,000	\$7,823,000
HSD	\$1,539,000	\$2,999,000	\$5,641,000	\$5,641,000
OSE	\$2,563,000	\$1,288,000	\$3,856,000	\$3,856,000
AUD	\$500,000	\$250,000	\$750,000	\$750,000
Department of Parks and Recreation	--	--	\$150,000	\$150,000
CAB reserve	\$2,775,000	(\$2,775,000)	--	--
Subtotal – ongoing expenditures	\$12,011,000	\$4,803,000	\$18,394,000	\$18,399,000
Total expenditures	\$13,913,000	\$5,770,000	\$21,061,000	\$20,962,000
Net surplus	\$903,000	--	\$460,000	\$1,419,000

Note: All dollar amounts rounded to the nearest \$1,000; values may not add to total shown.

Department Budget Summaries:

Of the \$18.4 million in ongoing expenditures, the 2019-20 Proposed budgets include about \$5.7 million of SBT revenues that supplant GF for programs that align with SBT spending priorities, freeing up GF for other purposes. Some of the supplanting is proposed to begin in the 3rd Quarter 2018 Supplemental budget and is carried forward into 2019 and 2020, and other supplanting is new in the 2019 Proposed budget. This occurred in three departments: DEEL, HSD, and OSE. All of these departments also receive additional SBT funding, which is included in their respective 2019 baselines. The following describes SBT funding in the 2018 Adopted budget for the affected departments; how much they are proposed to receive in 2019 and 2020; the programs where SBT revenue supplanted GF; and any added SBT funds.

Department of Education and Early Learning (DEEL) – Brian Goodnight

DEEL’s 2019-20 Proposed budgets include slightly less than \$10 million of SBT proceeds in each year, of which approximately \$3.4 million would supplant unrestricted GF funding. SBT proceeds account for approximately 55 percent of the department’s total GF appropriations, and the mix of SBT-funded programs has changed from the 2018 Adopted budget. Table 3 below shows DEEL’s SBT-funded programs in 2018, and the programs proposed to be funded in 2019 and 2020.

Table 3: Allocation of SBT revenue to DEEL programs, 2019-20 proposed

Program	2018		2019	2020
	Adopted	Supplemental	Proposed	Proposed
A. Culturally Specific Summer Learning	\$461,000	--	--	--
B. Innovation High School	\$441,000	--	--	--
C. Our Best - Mentoring Campaign	\$189,000	--	--	--
D. Summer Melt	\$103,000	--	--	--
E. Parent-Child Home Program	\$525,000	--	\$1,113,000	\$1,113,000
F. 13 th Year/Seattle Promise Scholarship Endowment	\$1,382,000	--	\$2,168,000	\$1,451,000
G. Birth-5 Child Care Providers	\$2,735,000	--	\$2,742,000	\$2,748,000
H. Birth-3 Services	--	\$555,000	\$555,000	\$555,000
I. Child Care Assistance Program*	--	\$2,311,000	\$2,311,000	\$2,311,000
J. Comprehensive Child Care Program*	--	\$176,000	\$176,000	\$176,000
K. Nurse Family Partnership*	--	--	\$921,000	\$921,000
L. Preschool Capital Projects	--	--	--	\$612,000
Total	\$5,835,000	\$3,041,000	\$9,985,000	\$9,886,000

Note: All dollar amounts rounded to the nearest \$1,000; values may not add to total shown.

*Programs where SBT funds supplanted GF funds in 2018 or 2019.

- A–D: Summer Learning, Innovation High School, Our Best, Summer Melt – These four programs were funded in 2018 with SBT proceeds, but were subsumed into the Families, Education, Preschool, and Promise (FEPP) Levy.
- E: Parent-Child Home Program (PCHP) – The City has historically provided funding for PCHP through the Families and Education Levy, including \$588,000 in 2018. In each of the last two years, the City has also provided supplemental funding via the GF, with the 2018 supplemental funding coming from SBT proceeds. During consideration of the FEPP Levy earlier this year, the

Executive proposed to replace the levy funds with additional SBT proceeds. The 2019-20 Proposed budgets effectuate this change, and SBT proceeds provide the entirety of the City's funding.

- F: 13th Year/Seattle Promise Scholarship Endowment – Consistent with the list of eligible one-time or limited-duration expenditures in the SBT authorizing ordinance, the 2018 Adopted budget appropriated almost \$1.4 million of SBT proceeds as part of a multi-year effort to create a \$5 million endowment for the 13th Year/Seattle Promise Scholarship program. As of this time, DEEL is still in conversations with Seattle Colleges about this proposed endowment funding, including how and when the City will disperse the funds. The proposed budgets provide approximately \$2.2 million in 2019 and \$1.5 million in 2020 to fulfill the City's contribution to the endowment fund.
- G–H: Birth-5 Child Care Providers and Birth-3 Services – The 2018 Adopted budget included approximately \$2.7 million for support services for family child care and birth-to-three child care providers, along with associated staffing increases. Based on the CAB's recommended distribution of reserved funds, the 2nd Quarter 2018 Supplemental budget provided an additional \$555,000 in SBT funds to enhance existing programs for birth-to-three providers by increasing coaching, home visiting, and health and developmental supports. These investments are continued in the 2019-20 Proposed budgets at similar funding levels.
- I–J: Child Care Assistance Program (CCAP) and Comprehensive Child Care Program (CCCP) – The proposed 3rd Quarter 2018 Supplemental budget would shift all of the 2018 funding for CCAP and about one quarter of the funding for CCCP from GF to SBT. The 2019-20 Proposed budgets continue the use of SBT for these programs, and CCCP continues to receive approximately \$468,000 in GF appropriation as well.
- K: Nurse Family Partnership – The total proposed budget for the Nurse Family Partnership in 2019 and 2020 is approximately \$2.2 million each year. For the first time, in 2019, SBT proceeds will be used to supplant about 41 percent of the program's cost, or approximately \$921,000. This split between GF and SBT resources is proposed to continue in 2020.
- L: Preschool Capital Projects – The 2020 Proposed budget includes approximately \$612,000 for capital projects in support of the Seattle Preschool Program. This is the first time that SBT proceeds have been proposed for this purpose and is consistent with allowed one-time or limited-duration expenditures.

Human Services Department (HSD) – Jeff Simms

HSD’s 2019-20 Proposed budgets includes approximately \$5.6 million of SBT proceeds each year for an array of programs that support nutrition and food access, including related media campaigns (Table 4).

Table 4: Allocation of SBT revenue to HSD programs, 2019-20 proposed

Program	2018		2019	2020
	Adopted	Supplemental	Proposed	Proposed
Farm to Table*	\$424,000	\$23,000	\$447,000	\$447,000
Food Banks*	\$370,000	\$1,155,000	\$1,525,000	\$1,525,000
Out-of-School Nutrition Time*	\$195,000	\$55,000	\$250,000	\$250,000
Fresh Bucks to Go	\$551,000	\$210,000	\$918,000	\$918,000
Senior Meal Delivery*	--	\$346,000	\$346,000	\$346,000
Senior Congregate Meals*	--	\$372,000	\$372,000	\$372,000
Community-Based Meal Providers and Programs	--	\$333,000	\$719,000	\$719,000
Food Access Opportunity Fund	--	--	\$500,000	\$500,000
Community-Based Food and Nutrition Education	--	\$60,000	\$120,000	\$120,000
Provision of Healthy Food to People with Diabetes	--	\$140,000	\$140,000	\$140,000
Mass Media Counter-Marketing Campaign Led by a Community-based Organization	--	\$200,000	\$200,000	\$200,000
Youth-Led Counter-Marketing Campaign Led by a Community-based Organization	--	\$50,000	\$50,000	\$50,000
Community-Based Education and Support	--	\$55,000	\$55,000	\$55,000
Total	\$1,539,000	\$2,999,000	\$5,642,000	\$5,642,000

Note: All dollar amounts rounded to the nearest \$1,000; values may not add to total shown.

*Programs where SBT funds supplanted GF funds in 2018 or 2019.

Of the total SBT allocation for HSD in 2019 and 2020, nearly \$2.0 million would supplant unrestricted GF funding that had been provided for these programs in the 2018 Adopted budget. This swapping with GF revenue first occurred in the 2018 Supplemental. The following amounts would be supplanted by SBT proceeds:

- \$23,000 for Farm to Table
- \$1.2 million for Food Banks
- \$55,000 for Out-of-School Nutrition Time
- \$346,000 for Senior Meal Delivery
- \$372,000 for Senior Congregate Meals

HSD’s remaining \$3.7 million of SBT funds in the proposed budget includes a further \$1.1 million expansion of nutrition and food access programs and maintains expansions first initiated in 2018. The programs that would receive additional funds in 2019 are:

- \$500,000 for the Food Access Opportunity Fund
- \$386,000 for Community-Based Meal Providers and Programs
- \$157,000 for Fresh Bucks to Go
- \$60,000 for Community-Based Food and Nutrition Education

Office of Sustainability and Environment (OSE) – Yolanda Ho

OSE’s 2019-20 Proposed budgets include about \$3.8 million of SBT proceeds for both years, which represents about half of the department’s GF budget. Most of OSE’s SBT funds would be dedicated to the Fresh Bucks program, which provides low-income Seattle residents assistance purchasing healthy fruits and vegetables from Seattle-area farmers markets, farm stands, and grocery stores. The other revenues fund healthy food access programs recommended by the CAB, Citywide food access policy, and CAB administration and support, as shown in Table 5.

Table 5: Allocation of SBT revenue to OSE programs and administration, 2019-20 proposed

Program	2018		2019	2020
	Adopted	Supplemental	Proposed	Proposed
Fresh Bucks*	\$2,257,000	\$680,000	\$2,786,000	\$2,786,000
Food Action Plan	\$159,000	--	\$159,000	\$159,000
Food policy programming*	--	\$165,000	\$165,000	\$165,000
Provision of healthy foods to people with diabetes and obesity	--	\$55,000	\$55,000	\$55,000
Subsidies to schools to provide fresh fruits and vegetables	--	\$388,000	\$388,000	\$388,000
Administration				
CAB administration (staffing)	\$148,000	--	\$163,000	\$163,000
CAB outreach and administration support	--	--	\$140,000	\$140,000
Total	\$2,564,000	\$1,288,000	\$3,856,000	\$3,856,000

Note: All dollar amounts rounded to the nearest \$1,000; values may not add to total shown.

*Programs where SBT funds supplanted GF funds in 2018 or 2019.

Of this, \$365,000 of 2018 SBT revenue supplanted GF for the following programs and was included in the 2019-20 baseline:

- \$200,000 for Fresh Bucks
- \$165,000 for an existing strategic advisor who oversees OSE’s food access investments and leads food policy development, such as identifying opportunities to improve food access in low-income areas of Seattle

These changes, combined with the CAB-reserved funds, appear in the 2018 supplemental column of Table 5. OSE has additional funding in 2019 to support the CAB:

- \$16,000 in technical adjustments for Citywide costs
- \$100,000 for community engagement
- \$40,000 to provide the CAB with services for strategic planning, meeting facilitation, communications, and translation

Issue Identification:

1. Use of SBT revenue to supplant GF

The 2018 Adopted budget included the use of SBT revenue to supplant GF and expanded several existing programs, such as Fresh Bucks and community-based meal providers and programs. As discussed above, the 2019-20 Proposed budgets use the unanticipated revenue surplus to further supplant GF, without expanding these programs in many cases.

Options:

- A. Reduce SBT appropriations for those programs where SBT revenue is used to supplants GF and reallocate 2019 SBT revenues to create new or expand existing programs that align with SBT spending priorities. This would require the identification of unrestricted GF revenue or other funding sources to sustain the programs receiving SBT reductions.
- B. Direct a portion of future SBT revenues to create new or expand existing programs that align with SBT spending priorities.
- C. No action.

2. Alignment of proposed 2019 funding with CAB recommendations

Along with its recommendations for allocating the 2018 reserve funds, the CAB also provided recommendations for distributing all SBT revenues in 2019, excluding one-time expenditures in the first five years, tax evaluation, and CAB administrative support. Table 6 shows the difference between the proposed 2019 spending for ongoing programs and the CAB’s recommended distribution.

Table 6. Proposed 2019 allocation of SBT ongoing revenue and CAB recommended distribution

Program Area		2019 Proposed	CAB rec’d	Difference
Healthy food and beverage access	Amount	\$7,371,000	\$5,659,000	\$1,712,000
	Share	42.3%	32.5%	
Birth to three services and kindergarten readiness	Amount	\$7,817,000	\$5,223,000	\$2,594,000
	Share	44.9%	30.0%	
Community-based programs and activities to support good nutrition and physical activity	Amount	\$1,473,000	\$2,612,000	(\$1,139,000)
	Share	8.5%	15.0%	
Support for people with obesity and diabetes	Amount	\$250,000	\$1,741,000	(\$1,491,000)
	Share	1.4%	10.0%	
Public awareness campaign	Amount	\$250,000	\$1,654,000	(\$1,404,000)
	Share	1.4%	9.5%	
Evaluation support	Amount	\$250,000	\$522,000	(\$272,000)
	Share	1.4%	3.0%	
Total (excl. ongoing administration and evaluation)		\$17,411,000	\$17,411,000	--

Note: All dollar amounts rounded to the nearest \$1,000; values may not add to total shown.

For the CAB’s top two priorities, healthy food and beverage access and birth-to-three services and kindergarten readiness, the 2019 Proposed budget provides a greater than recommended share of funding. However, aside from reserve funds the CAB recommended for the bottom three program

areas, the proposed budget does not allocate any additional funds to these efforts, which, in some cases, represent new bodies of work for the City.

Options:

- A. Reallocate 2019 SBT revenues to align with CAB recommendations and develop new programs. This would require the identification of unrestricted GF revenue or other funding sources to sustain the programs receiving SBT reductions.
- B. Direct additional funding (e.g. net surplus) to underfunded CAB priority program areas in 2019.
- C. Require future spending to follow CAB recommendations.
- D. No action.

Budget Legislation:

The proposed budgets include legislation that amends the allocation of SBT proceeds. The original ordinance required that the City dedicate 20 percent for one-time expenditures for the first five years that the tax is collected. This amendment changes the percentage of net proceeds for one-time expenditures to 20 percent in the first year and 10 percent for the second through the fifth year of collections. This change is based on the revised SBT revenue projections and is expected to provide sufficient funding for one-time priorities, while allowing for greater investment in ongoing programs.

Budget Actions Proposed by Councilmembers as of October 10, 2018:

- 1. Allocate SBT expenditures to follow CAB recommendations and create separate fund for SBT revenue (Councilmember O'Brien)** – The 2019-20 Proposed budgets reflect some of the CAB’s funding priorities, but does not fully follow their recommendations. This proposal would create a separate fund for SBT revenue and require that future spending align with the CAB’s recommendations.
- 2. Bond issuance for com affordable housing and community health facilities (Councilmember Mosqueda)** – This proposal is for a Statement of Legislative Intent (SLI) requesting that the Executive explore the feasibility of issuing additional bonds for affordable housing and facilities that enhance community health (e.g. P-Patches, healthcare clinics, and early learning facilities), using future SBT revenues to cover the debt service. If determined to be feasible, then the SLI response should include a detailed plan outlining the actions necessary to issue bonds as early as possible. The strategy should ensure that dedication of future revenue for this purpose would provide stable funding for SBT-funded programs.