

July 8, 2019

MEMORANDUM

To: Finance and Neighborhoods Committee
From: Yolanda Ho, Council Central Staff
Subject: Council Bill 119551 – Sweetened Beverage Tax Fund Legislation

On July 10, 2019, the Finance and Neighborhoods Committee (Committee) will discuss and may vote on [Council Bill \(CB\) 119551](#), that would create a fund for Sweetened Beverage Tax (SBT) revenues and amend the financial policies established in [Ordinance 125324](#).¹

This memorandum describes CB 119551 and potential amendments for the Committee's consideration.

CB 119551

Under the direction of Councilmember O'Brien, Central Staff drafted CB 119551 that would establish a fund for SBT proceeds and modify the financial policies in Ordinance 125324. The CB would:

1. Create an SBT fund to track revenues and expenditures by City departments;
2. Establish financial policies for use of SBT revenues to:
 - a. Codify policies for revenues included in Ordinance 125324 by adding a new section to Chapter 5 of the Seattle Municipal Code;
 - b. Increase flexibility for the allocation of funds to one-time or limited-term expenditures, allowing up to 10 percent of SBT proceeds to be used for these purposes;² and
 - c. Require that all SBT revenues be used to expand existing programs or create new programs that align with the spending guidance.

Beginning on the effective date of the ordinance, no SBT revenues could be used to supplant (i.e. take the place of) General Fund (GF) monies or other funding sources. This may affect any proposed use of SBT funds in 2019 supplemental budgets and would impact the 2020 endorsed budget, which included the use of over \$5 million in SBT proceeds to supplant GF. This would require that new revenue sources be created and/or budget cuts identified in order to restore GF support for programs where the fund swaps occurred (e.g., Parent-Child Home Program,

¹ See Central Staff memoranda from the [June 12, 2019](#) and [June 26, 2019](#) meetings of the Finance and Neighborhoods Committee for additional background information.

² Adopted in Fall 2018, [Ordinance 125718](#) amended Ordinance 125324 to reduce the amount of net proceeds dedicated to one-time and limited-term uses from 20 percent to 10 percent in 2019, 2020, 2021, and 2022, to account for higher than anticipated revenue projections.

child care vouchers, food banks), freeing up SBT revenues to supplement (i.e. increase the level of service) these or other programs in accordance with statute.

If other cuts or new revenues are not identified to restore the base GF support for these programs, the programs could be significantly reduced or eliminated. For example, prior to 2019, the Parent-Child Home Program was funded by the Families and Education Levy and other GF resources. SBT revenues were used to replace the levy funds and GF in the adopted 2019 and endorsed 2020 budgets. If GF cuts or new revenues are not identified, as proposed, CB 119551 could result in elimination of that program because with the base funding cut, there will no longer be a program to supplement.

Amendments to CB 119551

There are two amendments for the Committee to consider, described below:

- Amendment 1 (Attachment A), sponsored by Councilmember O'Brien, would remove the word "net" in reference to SBT proceeds; clarify that SBT revenues should be used to expand evidence-based child development programs; and allow SBT proceeds to be used to cover SBT-funded program cost increases.
- Amendment 2 (Attachment B), sponsored by Councilmember Bagshaw, would change the proposed financial policies to require that any unallocated surplus SBT revenues be used for expanding existing or creating new programs and beginning in 2021, require that all SBT revenues be used only for expanding existing or creating new programs. This amendment is consistent with the adopted 2019 and endorsed 2020 budgets.

Attachments:

- A. Amendment 1 – Technical and clarifying amendments
- B. Amendment 2 – Financial policy alternative

cc: Kirstan Arestad, Central Staff Director
Aly Pennucci, Supervising Analyst

Attachment A. Amendment 1 – Technical and clarifying amendments

Sponsor: Councilmember O’Brien

Background:

This amendment would make technical and clarifying amendments to CB 119551. Specifically, this amendment would remove the word “net” in reference to Sweetened Beverage Tax (SBT) proceeds; clarify that SBT revenues should be used to expand evidence-based child development programs; and allow SBT proceeds to be used to cover SBT-funded program cost increases.

Notes:

Double underlines indicate new language to be added.

~~Double strikethroughs~~ indicate language proposed to be removed.

Amendments

Amend Section 2 of Council Bill 119551, as follows:

Section 2. Section 3 of Ordinance 125324, as amended by Ordinance 125718, is amended as follows:

Section 3. A new Section 5.53.055 is added to the Seattle Municipal Code, to read as follows:

5.53.055 Sweetened beverage tax—Allocation of proceeds

Services funded by the proceeds of the beverage tax are intended to expand access to healthy and affordable food; ~~((;))~~ close the food security gap; ~~((;))~~ promote healthy nutrition choices; ~~((;))~~ reduce disparities in social, developmental, and education readiness and learning for children; ~~((;))~~ assist high school graduates enter college; ~~((;))~~ and expand services for the birth-to-five population and their families.

A. For the first five years that the tax is collected, a portion of the ~~net~~ proceeds shall be used to fund one-time expenditures to administer the tax, in support of education, and for training programs. Eligible expenditures include, in order of priority:

1. One-time costs necessary to enable the administration of the tax;

Att A. Amendment 1 – Technical and clarifying amendments

2. Up to \$5,000,000 in total as a contribution to an endowment for the Seattle Colleges 13th Year Promise Scholarship program;
3. Up to \$1,500,000 in total as funding for job retraining and placement programs for workers adversely impacted by the tax; and
4. Funding for capital projects to construct or enhance classroom facilities for use by the Seattle Preschool Program.

The portion of the ~~net~~ proceeds that shall be used for the above eligible expenditures shall be as follows: 20 percent in the first year; and ~~((10))~~ up to ten percent in each of the second, third, fourth, and fifth years of collections.

Beginning in the sixth year of collections, all ~~net~~ proceeds from the tax collected shall be for programs defined in subsection 5.53.055.B. ~~((of this section.))~~

B. Except as required by subsection 5.53.055.A. ~~((of this section.))~~ ~~net~~ proceeds from the beverage tax shall be used to support, in order of priority:

1. Expanding access to healthy and affordable food, closing the food security gap, and promoting healthy food choices through programs including, but not limited to:
 - 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;

Att A. Amendment 1 – Technical and clarifying amendments

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. ~~Evidence~~ Expanding evidence-based programs that improve the social, emotional, educational, physical, and mental health of 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 the Office of Sustainability and the Environment and the Sweetened Beverage Tax Community Advisory Board.

5. The cost of program evaluations conducted by the Office of the City Auditor under subsection 5.B of (~~this ordinance~~) Ordinance 125324, including costs borne by other City departments in facilitating such evaluations.

In the annual City budget or by separate ordinance, the City’s legislative authority shall from year to year determine the services and funding allocations that will most effectively achieve the goals and outcomes in accordance with chapter 35.32A RCW.

C. Beginning on the effective date of this Section 5.53.055 and thereafter, all revenues shall be used to either expand existing programs or create new programs, including associated program cost increases, that are in accordance with subsection 5.53.055.B, and may not be used to supplant appropriations from other funding sources.

Sponsor: Councilmember Bagshaw

Background:

This amendment would change the proposed financial policies in CB 119551 prohibiting the use of Sweetened Beverage Tax (SBT) revenues to supplant other funding sources. Beginning on the effective date of the ordinance, this amendment would require that any unallocated surplus SBT revenues be used only for expanding existing or creating new programs, including program cost increases, in accordance with statute.

This would accept the use of SBT proceeds to supplant General Fund monies in the adopted 2019 and endorsed 2020 budgets, but ensure that unallocated surplus revenue in these years is used to expand existing or create new programs in accordance with statute. Beginning in 2021, the amendment would require that all SBT revenues be used only for expanding existing or creating new programs, including program cost increases, in accordance with statute, allowing the Council and Mayor more time to either create additional revenue sources and/or reprioritize appropriations to undo the fund swaps.

Notes:

Double underlines indicate new language to be added.

~~Double strikethroughs~~ indicate language proposed to be removed.

Amendments

Amend Section 2 of Council Bill 119551, as follows:

Section 2. Section 3 of Ordinance 125324, as amended by Ordinance 125718, is amended as follows:

Section 3. A new Section 5.53.055 is added to the Seattle Municipal Code, to read as follows:

5.53.055 Sweetened beverage tax—Allocation of proceeds

* * *

C. Beginning on the effective date of this Section 5.53.055 and thereafter, all ~~unallocated surplus~~ revenues shall be used to either expand existing programs or create new programs, ~~including associated program cost increases,~~ that are in accordance with subsection 5.53.055.B, and may not be used to supplant appropriations from other funding sources. ~~Beginning on January 1, 2021, all revenues shall be used to either~~

Att B. Amendment 2 – Financial policy alternative

expand existing programs or create new programs, including associated program cost increases, that are in accordance with subsection 5.53.055.B, and may not be used to supplant appropriations from other funding sources.