

COVID-19 Response

Staff: Aly Pennucci

Table 1: COVID-19 Investment Summary (\$ in 000s)

| | 2020 | 2021 |
|--|------------------|-----------------|
| First responder + Other City Operations | | |
| First Responder Supports | \$77,147 | TBD |
| Other | \$28,963 | TBD |
| Staffing for Emergency Response | \$25,833 | TBD |
| <i>Subtotal</i> | \$131,943 | TBD |
| Public Assistance | | |
| Business & Nonprofit Support | \$7,905 | \$3,000 |
| Childcare + Education | \$4,377 | - |
| Food Access | \$38,000 | \$3,400 |
| Hygiene Services | \$3,693 | \$6,300 |
| Immigrant & Refugee Support | \$9,080 | - |
| Public Health/MISC | \$15,457 | \$5,000 |
| Rental Assistance | \$13,566 | \$8,000 |
| Shelter and Housing Supports | \$22,707 | \$34,350 |
| <i>Subtotal</i> | \$114,785 | \$60,050 |
| TOTAL¹ | \$246,728 | \$60,050 |

¹ Numbers may not add up due to rounding.

I. Background

Following the first COVID-19 related death in King County on February 28, 2020, the Governor declared a [State of Emergency](#), and the Mayor followed suit, declaring a [state of emergency](#) on Monday, March 3, and began announcing actions the City would take to respond to the emergency. By the end of 2020, the City will spend about \$247 million¹ on COVID-19 response efforts. New state and federal resources (e.g., FEMA, CARES Act funding, State Commerce grant, etc.) have significantly offset the cost of the City’s 2020 COVID-19 response and make up the majority of the \$247 million of 2020 spending on COVID-19 relief efforts. About eight percent of spending relies on use the City’s emergency fund authorized by the City Council, and agreed to by the Mayor, to provide public assistance to those impacted by COVID-19.

Approximately 47 percent of the 2020 COVID-19 resources provide direct public assistance to mitigate the negative impacts of the pandemic through new programs like the emergency grocery voucher program implemented in 2020, and expansions or modifications to existing programs and services, such as investments in congregate and non-congregate shelter. The remaining 53 percent of funds in 2020 support first responder operations and other organizational measures necessary

¹ Based on expenditures as of August 30, 2020, and the spending estimated at that time for remainder of 2020.

to respond to the public health emergency, like redeploying staff to support the City’s COVID-19 response efforts, investing in measures needed to adapt City facilities, and purchasing COVID-19 related supplies, paid Leave and Unemployment Insurance.

The 2021 Proposed Budget includes about \$60 million to continue or expand funding for some of these programs and services. However, this does not include costs the City will continue to incur for first responder operations and organizational measures necessary to respond to the public health emergency. This also does not reflect actions the City has taken to modify service delivery and funds reserved to continue those operations in the future. As an example, DEEL has reserved funding in case there continues to be additional costs for childcare and education.

All City departments and offices have modified their operations during the pandemic to varying degrees; the costs to support City operations generally versus those needed to address the COVID-19 pandemic specifically are not delineated in the Proposed Budget and would be difficult to determine at this time. Further, in most categories, funding for the public assistance programs and services only supports such assistance for part of 2021.² If additional federal or state funds become available in 2021, those funds could support the City’s operational costs and increase public assistance to respond to COVID-19 in 2021. The acceptance of future federal or state funds and any proposed spending would require authorization by the Council.

The \$60 million in 2021 proposed spending listed in Table 1 assumes use of the following resources:

- Emergency Solutions Grant: \$23,485,029 (39%)
- Emergency Fund: \$20,750,000 (35%)
- Community Development Block Grant: \$6,850,084 (11%)
- General Fund: \$9,050,000 (15%)

Proposed 2021 COVID-19 Relief Efforts + Use of Payroll Tax Proceeds

In 2020, the Council took several actions to increase the City’s spending to mitigate the effects of the COVID-19 pandemic. In addition to passing several pieces of legislation accepting and authorizing spending of state and federal funds and transferring funds between departments to support COVID-19 relief efforts,³ the Council proposed the JumpStart COVID-19 relief program to be funded from the City’s reserve funds. The following legislation is related to Council’s 2020 JumpStart COVID-19 Relief program:

- [Ordinance \(ORD\) 126109](#) + [Resolution 31957](#)
On July 6, 2020, the Council adopted [ORD 126108](#) establishing the payroll expense tax (payroll tax) anticipated to generate about \$214 million annually beginning in 2021. The same day, the Council passed ORD 126109 codifying a high-level spending plan for the payroll tax revenues and affirming the Council’s intent to adopt, by resolution, more spending details by year and program area for the payroll tax revenues; RES 31957, the detailed spending plan, was adopted on July 20, 2020.

² The \$6.3 million proposed for hygiene services will maintain existing services throughout 2021.

³ See pages 3-4 in the [Issue Identification paper on General Fund balancing](#) presented to the Select Budget Committee on October 15th for a list of COVID-19 Relief and Recovery Measures approved by the Council and the Mayor in 2020.

Table 2: Proposed Uses of Payroll Tax Revenues in 2021, as adopted in Resolution 31957

| 2021 Spending Category | % | Amount |
|---|-------------|----------------------|
| Replenish reserves funds used in 2020 for COVID-19 relief | - | \$86 million |
| <i>After replenishing the reserve funds:</i> | | |
| Continuity of Services | 75% | \$96 million |
| COVID-19 Response | 20% | \$26 million |
| Start-up costs and ongoing administration | 5% | \$6 million |
| Total | 100% | \$214 million |

- **[ORD 126119](#)**

This legislation authorized spending a combined \$86 million from the Emergency Fund (EMF) and the Revenue Stabilization Fund (RSF) – the City’s two reserve funds – to support programs and services that address economic impacts of COVID-19 in 2020 to be repaid in 2021 using proceeds from the payroll tax. This included spending on services and financial support to small businesses, low-income and low-wage individuals and families, people experiencing homelessness, and immigrant and refugee communities. The legislation also affirmed the Council’s intent to replenish the reserve funds in 2021 with proceeds from the payroll tax. ORD 126119 was vetoed by the Mayor on July 31, 2020; the Council subsequently overrode the veto on August 12, 2020.

- **[ORD 126149](#)**

Immediately following the veto override of ORD 126119, the Council’s initial 2020 JumpStart COVID-19 Relief plan, the Council adopted ORD 126149 to reduce the total amount of authorized spending from \$86 million to \$57 million for the 2020 COVID-19 relief plan, spending only from the EMF (eliminating any spending for COVID-19 relief in 2020 from the RSF).

The Council reduced the authorized spending to (1) leave funds in the City’s reserves to address the anticipated additional \$26 million GF revenue shortfall described in the August 10, 2020, revenue update memo from the City Budget Director (Attachment A); and (2) to return funds to the RSF needed to support the \$3 million of spending from the RSF authorized in [ORD 126151](#); that funding was appropriated to the Legislative Department to enter into contracts with community-based organizations to research processes that will promote public safety informed by community needs.

- **[CB 119911](#): Council – Mayor JumpStart COVID-19 Relief Compromise Plan**

Following adoption of the revised 2020 JumpStart COVID-19 relief plan, the Council and the Mayor reached a compromise agreement to further reduce EMF spending on COVID-19 relief from \$57 million in 2020 to a total of \$45 million in 2020 and 2021. To confirm that agreement, the Mayor transmitted legislation with her 2021 Proposed Budget, which would repeal ORD 126149 (authorizing the \$57 million of spending in 2020) and replace it with a bill that reflects the compromise agreement.

CB 119911 authorizes spending \$19.9 million from the EMF in 2020 on COVID-19 relief, with an additional \$3.4 million supported by Community Development Block Grant monies. The 2021 Proposed Budget includes an additional \$22 million of proposed spending to fulfill the agreement for this compromise plan.

II. Issue Identification

1. Proposed 2021 COVID-19 Relief Efforts + Use of Payroll Tax Proceeds

To be consistent with the adopted spending plan, the 2021 Proposed Budget should reflect the use of GF resources supported by payroll tax proceeds as described in Table 3. However, there are several instances where the proposed budget differs from the adopted spending plan. The 2021 Proposed Budget:

- Does not include a discrete repayment amount to the emergency fund, and in fact, would only leave a balance of about \$60,643 in the EMF in 2021. With some of the spending agreed to in the joint Council-Mayor plan occurring in 2021, the 2021 budget should either support that portion (about \$20 million) directly with GF spending backed by payroll tax revenues or should show use of emergency funds and then an immediate repayment into that fund.
- Spends about \$30 million more on continuity of services than the spending plan allocates for that use. The City Budget Office previously indicated that more funds may be needed for continuity of services in 2021. Central Staff’s analysis of the GF balancing in the 2021 budget identified about \$163 million of payroll tax proceeds needed to address the revenue shortfalls in 2021 after other adjustments to the base budget proposed by the Mayor.⁴
- Spends less on administration of the payroll tax and continued 2021 COVID-19 relief efforts than what was called for in the spending plan.
- Uses about 18 percent of payroll tax revenues to support other spending proposed in 2021.

Table 3: Uses of Payroll Tax Revenues in 2021, modified to reflect Council-Mayor compromise:

| Description | Authorized spending per RES 31957 / modified to reflect joint plan | Spending in the 2021 Proposed Budget |
|--|--|--------------------------------------|
| Replenish emergency fund | \$40,602,567 ⁵ | \$0 |
| Administration | \$8,684,048 | \$3,302,763 |
| Continuity of Services | \$130,260,713 | \$162,980,755 |
| Continued COVID-19 Relief ¹ | \$34,736,190 | \$9,050,000 |
| Other 2021 proposed spending (not specifically for COVID-19 relief efforts) | - | \$38,950,000 |
| TOTAL | \$214,283,518 | \$214,283,518 |

¹This excludes COVID-19 investments in the 2021 Proposed Budget that are support by grant funds or are part of the \$45 million joint Council-Mayor plan.

⁴ See the [Issue Identification paper on General Fund balancing](#) presented to the Select Budget Committee on October 15th for additional discussion.

⁵ The Council and the Mayor agreed to spending a total of \$45 million from the EMF in 2020 and 2021 for COVID-19 relief efforts. The agreement included an option of using federal, state or other outside resources if they become available in late 2020 or 2021; in this case about \$4.5 million of the agreed to \$45 million is supported by other resources. Further, about half of the \$45 million agreed to is spread into 2021; the proposed budget supports using monies from the EMF but does not replenish those funds.

The Council may want to consider adjusting the proposed budget to align more closely with the adopted payroll tax spending plan; this will require cutting other 2021 spending proposed by the Mayor. In addition, as noted previously, most of the funding for continuing COVID-19 response programs and services providing public assistance in 2021 is expected to drop off part way through the year (with most funding expected to support efforts through April or July). With limited resources left in reserves, and absent additional resources from the state or federal government or other external sources, the City will have limited ability to extend or expand assistance if needed in 2021.

Options:

- A. Reduce new spending in the proposed budget to (1) repay in full or in part the use of the emergency fund; and (2) increase funding for additional COVID-19 relief efforts in 2021.
- B. No Action

2. Provisos on the Joint COVID-19 Relief Plan Spending

The legislation establishing and then modifying the Council’s 2020 JumpStart COVID-19 Relief plan included a series of provisos restricting the funding to ensure investments are made consistent with Council’s intent. This includes specifying the intended eligibility criteria for individuals or businesses to receive assistance through these programs, restricting the maximum amount of assistance provided through various programs, and restricting the amount used to support the administrative costs of the programs.

The 2021 Proposed Budget reflects spending in the various departments to support programs and services consistent with the compromise, but the provisos would not be maintained. Because the proposed 2021 spending is consistent with the compromise, adopting the same provisos for 2021 may be unnecessary. On the other hand, without a proviso the funds could be used for anything consistent with the purpose of the budget summary level that the funds are appropriated to.

Options:

- A. Amend the proposed budget to include provisos on the appropriations related to the joint COVID-19 relief plan.
- B. No Action

III. Budget Legislation

1. [CB 119911](#): CBO LEG Revised JumpStart Appropriations ORD

This legislation would repeal ORD 126149, which authorized spending \$57 million from the City’s Emergency Fund for COVID-19 relief efforts, and replace it with a bill reflecting the compromise between the Council and the Mayor to spend a total of \$45 million for COVID-19 relief efforts in 2020 and 2021.

CB 119911 maintains the provisos included in ORD 126149 for the most part but does not include any limit on administrative costs. Removing this limit provides greater flexibility for City

departments and offices to partner with community-based organizations that may have varying needs to support the administration of the grants. A few departments have requested greater allowance for administrative costs; CB 119911 as proposed would address that request.

Options:

- A. Pass legislation.
- B. Amend CB 119911 to limit spending on administrative costs + pass legislation.
- C. Do not pass legislation.

IV. Budget Actions/SLIs Proposed by Councilmembers as of October 8, 2020

Proposals related to specific COVID-19 response efforts are included in other Issue Identification memos under the relevant department, office, or topic.

Attachments:

- A. August 10, 2020, revenue update memo from the City Budget Director



City of Seattle

City Budget Office

Date: August 10, 2020

To: Jenny Durkan, Mayor

From: Ben Noble, City Budget Office, Director

RE: August update of revenue forecast

Attached please find a summary of the August update to the City of Seattle's 2020 and 2021 revenue forecast. This forecast includes revised projections for both the General Fund, and notable non-General Fund revenues. Overall, the forecast represents a significant decline relative to our most recent June update, and thus adds to the financial challenge we face in balancing the City budget this year and next. In particular, based on the "slow recovery" scenario forecast, the new August forecast update reduces 2020 General Fund revenues by \$26.0 million (-2.1%) relative to the June forecast, and we are now projecting total 2020 General Fund revenues of \$1.19 billion. It also decreases the 2021 General Fund forecast by \$24.2 million (-1.9%), with the new 2021 General Fund total at \$1.25 billion.

At present, the nation and our region are trying to balance efforts to reopen the economy with the prudent actions needed to contain the spread of the Corona virus and address the public health crisis that it has created. From an economic and revenue forecasting perspective, the economic reopening and recent government stimulus programs have led to a stronger than expected rebound in May and June from the deep trough of April. This, in turn, has led to upward revisions in the near-term projections of economic metrics such as GDP, employment and personal income. At the same time, surging infections have led to both policy retrenchment and the likelihood of protracted anemic consumer spending, business investment and total economic activity over the longer run. Given this apparent path, previous notions of a "V" or "U"-shaped recovery, where measures such as GDP, employment and personal income, as well as the City's revenues, bounce back to pre-virus levels relatively quickly are no longer realistic. Instead recovery to pre-virus levels cannot be reasonably anticipated until 2023 and 2024.

To date, actual revenues have tracked closely to our "slow recovery" scenario that we first developed in April of this year. Given that, one might reasonably ask why the forecast is being revised downward at this time. While there are several factors, the most important is simply that our original forecast

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anticipated that economic activity would begin to return to more normal levels over the summer and into the fall. Instead, as noted above, we now anticipate that the lower levels of economic activity that have driven down tax revenues for the first half of the year will continue for the remainder of 2020 and well into 2021.

With actual receipts tracking more closely to the “slow recovery” scenario we developed earlier this year and have now refined, I recommend that we continue to balance to these somewhat more conservative estimates and take actions consistent with balancing to this forecast. Reinforcing this recommendation is the uncertainty that still remains around our actual year-to-date revenues. Many taxpayers have taken advantage of various payment deferral and deadline extension offerings, and this has made it difficult to gauge our actual position. Some B&O taxpayers will not be paying taxes until the end of October and the County has provided a time payment program that could extend property tax payments up to 18 months. Total annual General Fund revenues under the revised August “slow recovery” scenario are projected to be short of 2019 actual revenues by approximately 14%. Through August 1st, revenues are down approximately 16%, with receipts for Sales and early B&O payments yet to come, due to a week lag in reporting between 2019 and 2020.

Relative to the 2020 Adopted Budget, the revenue gap created by the new forecast has grown substantially. The table attached to this memo indicates projected 2020 General Fund revenues of approximately \$210 million less than the Adopted 2020 revenues. The comparable figure in our June forecast was approximately \$185 million. Significant losses are expected in Sales taxes (-22.6%), B&O taxes (-18.2%) and Court Fines and On-Street Parking (-59.8%). Although not General Fund revenues, Parks and Seattle Center revenues are projected to take significant losses from decreases in use fees for recreation facilities and activity programs, as well as parking and facility space rental and lease revenues.

The lower half of the table provides a look at some additional revenue streams that support general government purposes and are heavily affected by the sheltering restrictions of the Corona virus. Combining the General Fund losses with these, the City is down approximately \$25.4 million compared to the June forecast and \$337 million relative to the 2020 Adopted Budget. The comparable figure from the April forecast was \$296 million, so the net effect over time has been a fairly significant deterioration in overall revenues. Of particular note are gaps below the Adopted Budget in Admissions tax (-89%), Real Estate Excise Tax (REET) (-40.2%) and Short-Term Rental taxes (-65%). Transportation sources are also significantly affected with Seattle Transportation Benefit District (STBD) Sales taxes, Commercial Parking Tax (CPT) and the School Zone Camera revenues falling \$4.7 million relative to June and stand approximately \$35.0 million below the 2020 Adopted Budget.

These revised projections will force changes in our strategy for balancing the 2020 and 2021 budgets. For example, we had anticipated using \$29 million of the City’s fiscal reserves (the Rainy Day and Emergency Funds) in 2020, while reserving the remainder of the \$127.5 million total of these reserves to balance in 2021. I intend to bring recommendations regarding additional cost-savings measures in the coming days, but I will need to coordinate with Department of Human Resources, your Deputy Mayors

and department directors. Nonetheless, I thought it essential to immediately share this new information regarding revenues.

And while there are additional cost saving steps we can take in 2020, a significant additional reliance on our financial reserves will be unavoidable this year, unless we were to move quickly to reduce the City's labor costs, as we have already taken steps to reduce most non-labor discretionary spending. This need for an additional draw on our financial reserves conflicts with the City Council's current plans to deploy the remainder of the City's fiscal reserves for other purposes in 2020. Accordingly, I am concurrently sharing this update with all nine Councilmembers, as well as Central Staff Director Arestad.

Sincerely,

Ben Noble

Attachment

Cc:

Council President Gonzalez

Councilmember Mosqueda

Councilmember Herbold

Councilmember Morales

Councilmember Sawant

Councilmember Pederson

Councilmember Juarez

Councilmember Strauss

Councilmember Lewis

Kirstan Arestad, Central Staff Director

Mike Fong, Senior Deputy Mayor

Shefali Ranganathan, Deputy Mayor

Casey Sixkiller, Deputy Mayor

| 2020 and 2021 Revenue Forecast Update, August 2020 | | | | | | | | | |
|---|---------------------|------------------|--------------------|--------------------|------------------|--------------------|--------------------|-------------|-------------|
| Slow Recovery (\$ millions) | | | | | | | | | |
| General Fund Revenues | 2020 Adopted | 2020 June | 2020 August | 2020 Change | 2021 June | 2021 August | 2021 Change | 2021 | 2021 |
| Property Taxes | 345.1 | 340.9 | 340.9 | - | 355.5 | 354.0 | (1.4) | | |
| Sales Taxes | 298.8 | 243.5 | 231.1 | (12.4) | 240.9 | 237.0 | (3.9) | | |
| Business & Occupation Taxes & Licenses | 315.5 | 267.9 | 258.1 | (9.8) | 272.8 | 271.4 | (1.4) | | |
| Utility Taxes | 220.6 | 204.4 | 206.3 | 1.9 | 214.1 | 208.4 | (5.8) | | |
| Court Fines/Parking | 65.7 | 27.7 | 26.4 | (1.3) | 50.4 | 46.4 | (4.0) | | |
| Transportation Network Company Tax | 9.7 | 2.6 | - | (2.6) | 10.1 | 1.9 | (8.2) | | |
| All Else | 148.7 | 133.1 | 131.2 | (1.9) | 134.9 | 135.3 | 0.5 | | |
| General Fund Total | 1,404.1 | 1,220.1 | 1,194.0 | (26.1) | 1,278.7 | 1,254.5 | (24.2) | | |
| <i>Growth Rate Year/Year</i> | | | -14% | | | 5% | | | |
| Seattle Center | 22.0 | 12.9 | 12.9 | - | 12.4 | 12.4 | - | | |
| Parks & Recreation | 33.5 | 10.5 | 10.5 | - | 10.1 | 10.1 | - | | |
| Total | 55.5 | 23.4 | 23.4 | - | 22.6 | 22.6 | - | | |
| Other General Government Revenues | | | | | | | | | |
| Admission Tax | 11.7 | 2.8 | 1.3 | (1.6) | 8.7 | 5.5 | (3.2) | | |
| Short-term Rental Tax | 10.5 | 3.7 | 3.7 | - | 8.3 | 7.4 | (1.0) | | |
| Sweetened Beverage Tax | 24.3 | 15.4 | 15.4 | - | 20.8 | 20.8 | - | | |
| Mercer Megablock Sale | 66.5 | 66.5 | 66.5 | - | - | - | - | | |
| Real Estate Excise Tax | 83.0 | 42.7 | 49.6 | 6.9 | 61.6 | 62.4 | 0.8 | | |
| STBD | 31.3 | 25.5 | 24.2 | (1.3) | - | 21.7 | 21.7 | | |
| Commercial Parking Tax | 45.6 | 25.5 | 24.4 | (1.1) | 40.6 | 38.8 | (1.8) | | |
| School Zone Camera Fund | 9.7 | 5.3 | 2.9 | (2.4) | 13.8 | 13.9 | 0.2 | | |
| Total | 282.5 | 187.4 | 188.0 | 0.6 | 153.7 | 170.3 | 16.6 | | |
| Grand Total | 1,742.2 | 1,430.8 | 1,405.3 | (25.5) | 1,455.0 | 1,447.4 | (7.6) | | |