

City Budget Overview

Finance, Native Communities & Tribal Governments Committee
February 21, 2024

Julie A. Dingley, Director, City Budget Office



Today's Agenda

- **Budget Next Steps:** Drill a layer deeper and begin to level set for the challenges and opportunities in front of us:
 - 2025 projected General Fund deficit
 - Transportation funding uncertainty
 - REET funding challenges (Capital projects)



Budget Context Setting

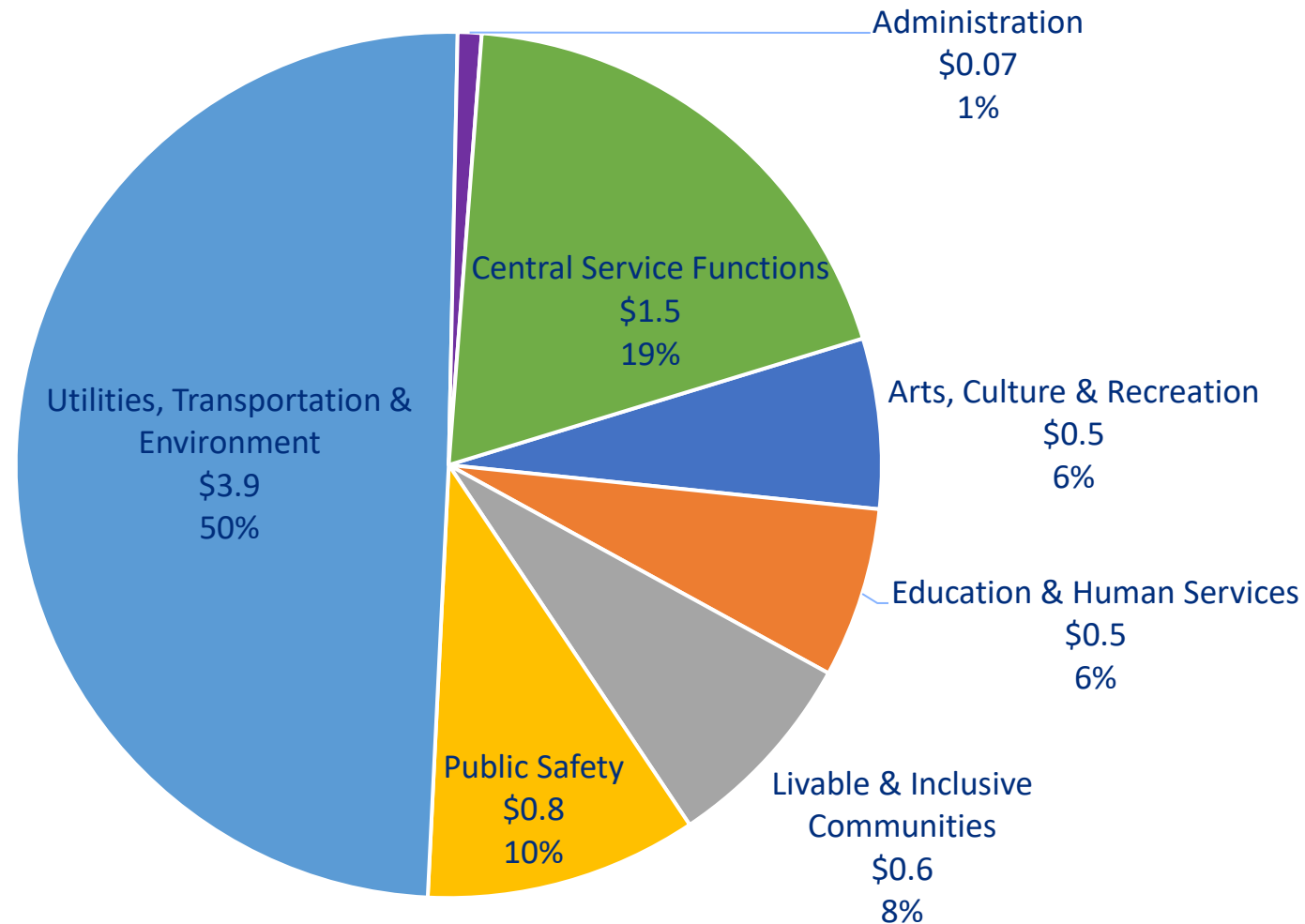
February 2024

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City of Seattle

Total City Budget by types of depts-\$7.9B All Funds (\$ in Billions)

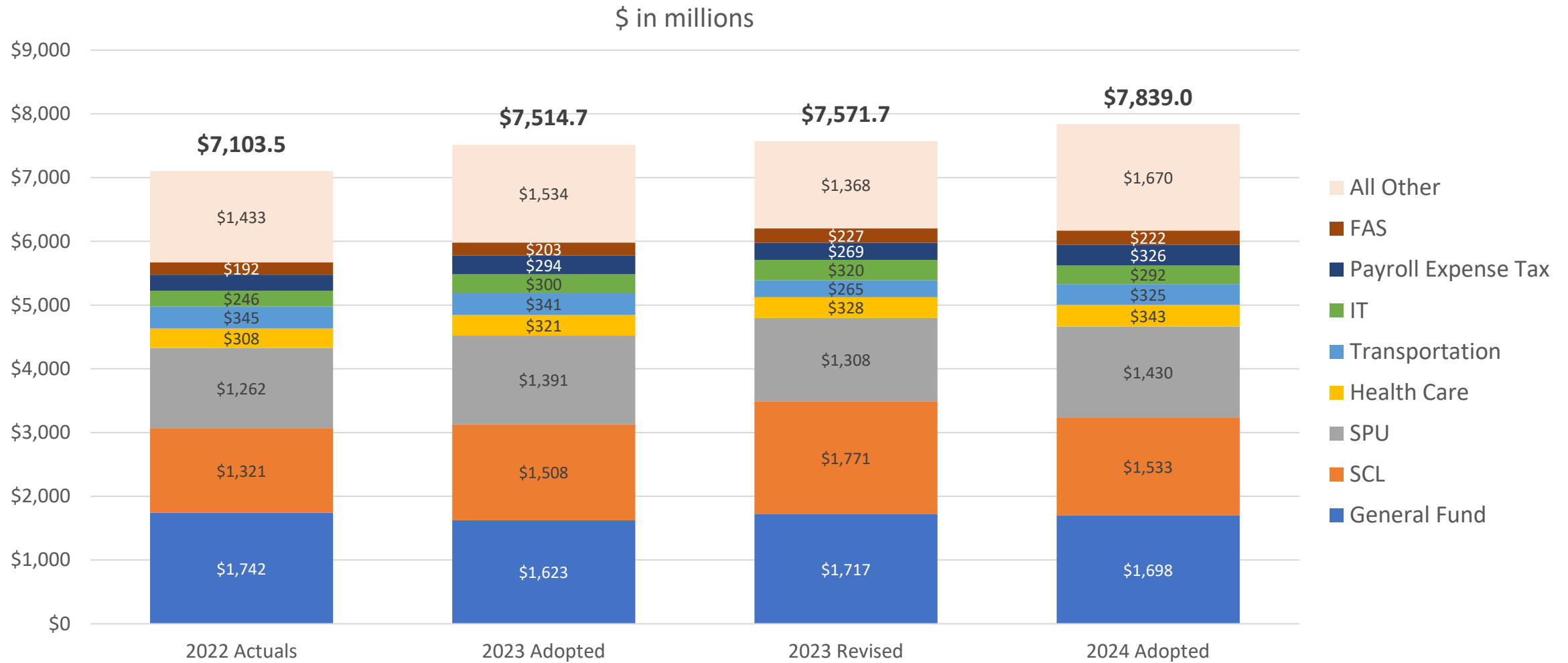


Administration includes: City Auditor, City Budget Office, Civil Service Commissions, Ethics & Elections Commission, Economic and Revenue Forecasts, Legislative Department, Mayor's Office, Employee Ombud, Office of Intergovernmental Relations and the City Employees' Retirement System

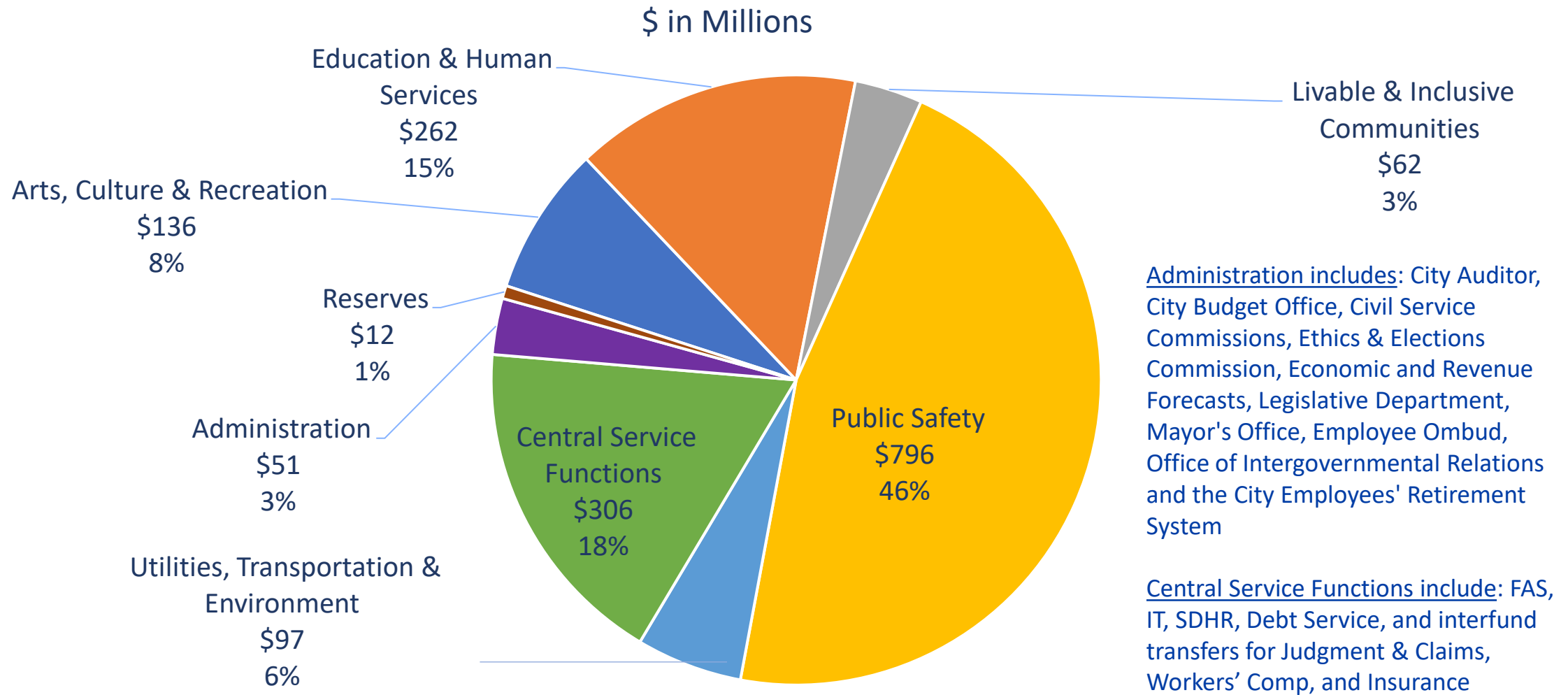
Central Service Functions include: FAS, IT, SDHR, Debt Service, and interfund transfers for Judgment & Claims, Workers' Comp, and Insurance



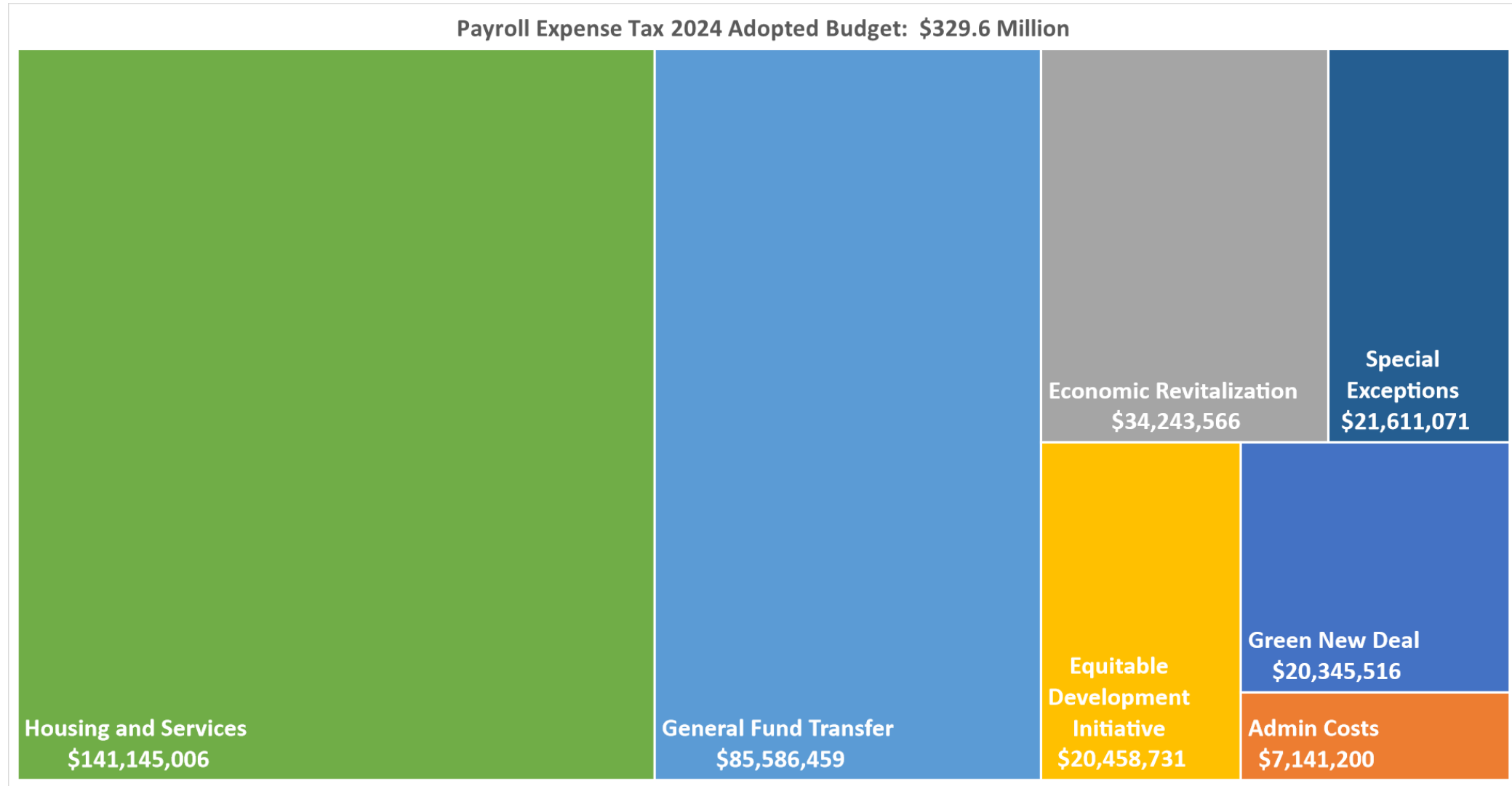
All Funds Budget Snapshot: 2022 Actuals – 2024 Adopted Adjustments by Fund



What does the \$1.7B General Fund support?

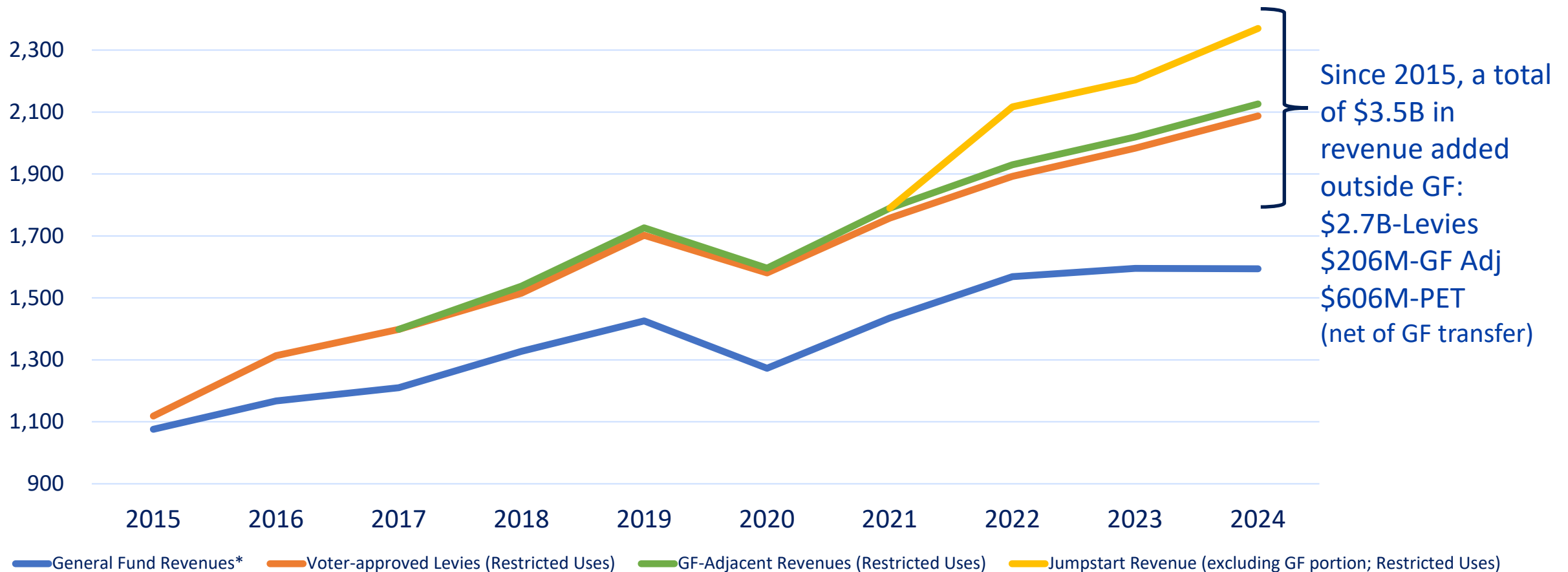


What does the ~\$300M Payroll Expense Tax Support?



Changes in Revenues 2015-2024

Cumulative amounts; \$ in Millions



*Core GF Revs-Excluding one-times, grants, Jumpstart revenues



Challenges and Opportunities

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General Fund Deficit

What is the current projected deficit?

- Current estimates are approx.: **\$230 million for 2025**
- Potential adjustments depending on how the 2023 books close and on outstanding labor contracts.

How did we get here?

- **General Fund revenues have not recovered** to where they would have been if not for COVID-19.
- **Inflation at a generational high**, raising costs to provide services & pressure on our labor needs.
- Federal COVID relief dollars are **done**.
- Prior decisions to use **one-time fund balance** to support budget additions that **became ongoing**.

What are our tools?

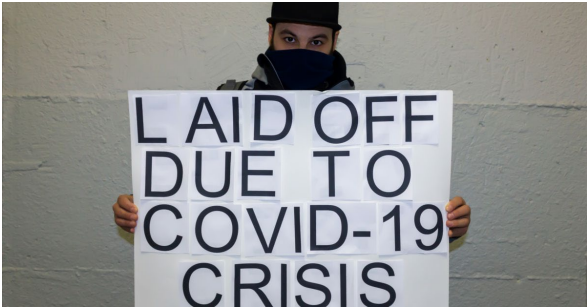
- **Cut Expenses** – Staff & Service Reductions
- **Reduce Self-Imposed Restrictions on GF adjacent funds** (PET, Ad Tax, SBT, TNC Tax)
- **Raise Revenues**
- **One-Time Balancing Approach** (year-to-year, vs holistic)



Other Cities' Approaches to the Impact of the COVID-19 Pandemic

Mass layoffs begin in cities and states amid coronavirus fallout, threatening education, sanitation, health and safety

Millions of municipal workers could find themselves out of a job or without pay, according to local leaders, who say programs would fall into disarray unless Washington intervenes



How COVID-19 is Driving Big Job Losses in State and Local Government

Cuts to payrolls are mostly temporary for now, but decisions ahead will depend on the virus and budget stresses



Cities Have Never Seen A Downturn Like This, And Things Will Only Get Worse

MAY 20, 2020 · 3:46 PM ET
HEARD ON ALL THINGS CONSIDERED
By Jim Zarroli

 3-Minute Listen

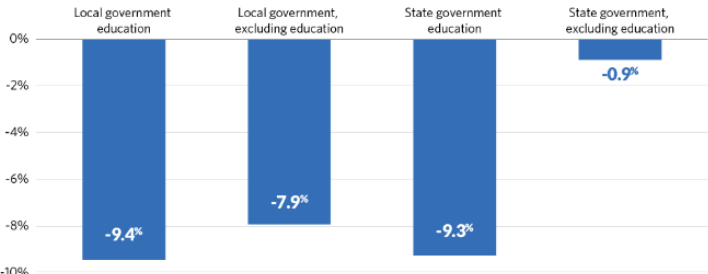




Detroit faces a \$350 million deficit and is cutting city workers' pay.
Jeff Kowalsky/AFP via Getty Images

The coronavirus has taken a hatchet to municipal budgets everywhere, forcing cities and towns to lay off librarians, parks workers and even first responders like police and firefighters.

Figure 1
Recent Cuts to State and Local Public Sector Employment
Changes between March and May 2020



Source: U.S. Bureau of Labor Statistics, seasonally adjusted employment estimates
© 2020 The Pew Charitable Trusts

ARTICLE | June 16, 2020 | By: Barb Rosewicz & Mike Maciag | Read time: 4 min
Projects: [State Fiscal Health](#)

CORONAVIRUS

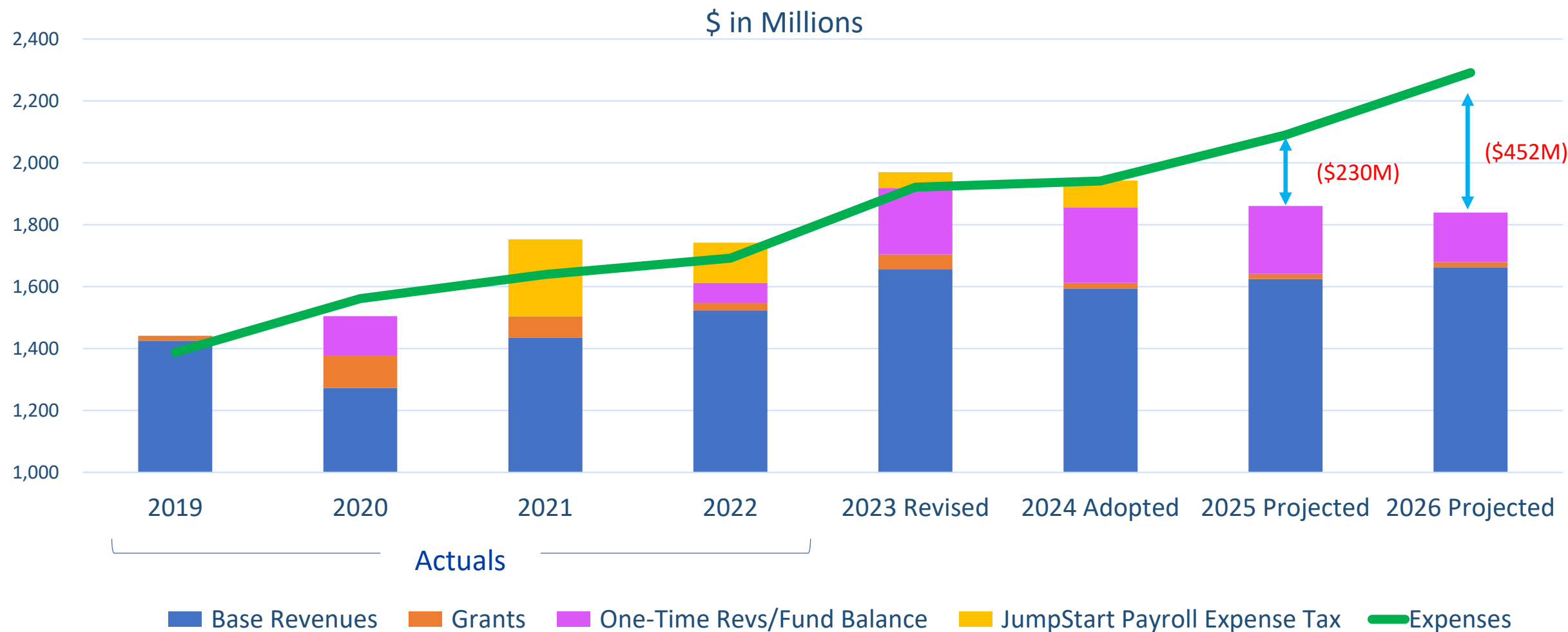
LA Budget Officer Says City Should Lay off About 1,900 Due to COVID-19

BY CITY NEWS SERVICE | LOS ANGELES
PUBLISHED 2:13 PM PT DEC. 04, 2020

LOS ANGELES (CNS) — The latest budget report released Friday by Los Angeles' city administrative officer recommends that the city lay off nearly 1,900 employees amid budget concerns brought on by the COVID-19 pandemic — with most staff cuts slated for the police department.



General Fund Revenue/Expense Long-Range Picture

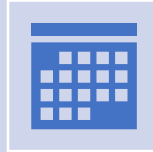


**Grants, one-time revenues, and fund balances are not sustainable solutions; and this chart reflects no PET transfers to the general fund after 2024 per current law*

Known Unknowns: Year End and Next Revenue Forecast

Key Takeaway:

2023 underspend may help with one-time costs but see mixed news on revenues. Early April forecast will inform the size of the deficit.



2023 underspend will not be known until end of February when the books close and we complete review of last year's contracts.



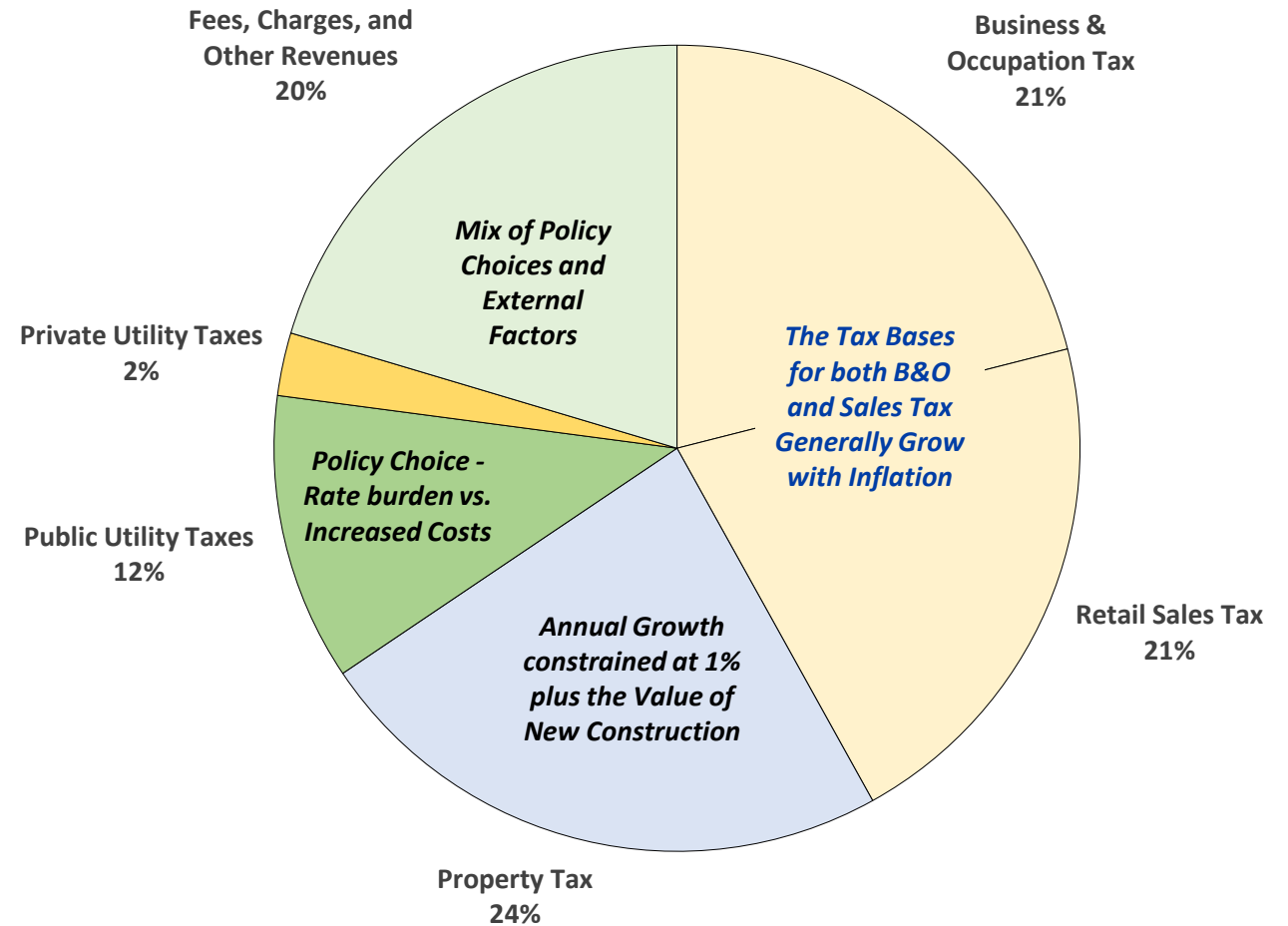
Current revenue information is mixed, making it hard to predict our final position. Actual 2023 revenue known end of Feb; next Forecast update in April.



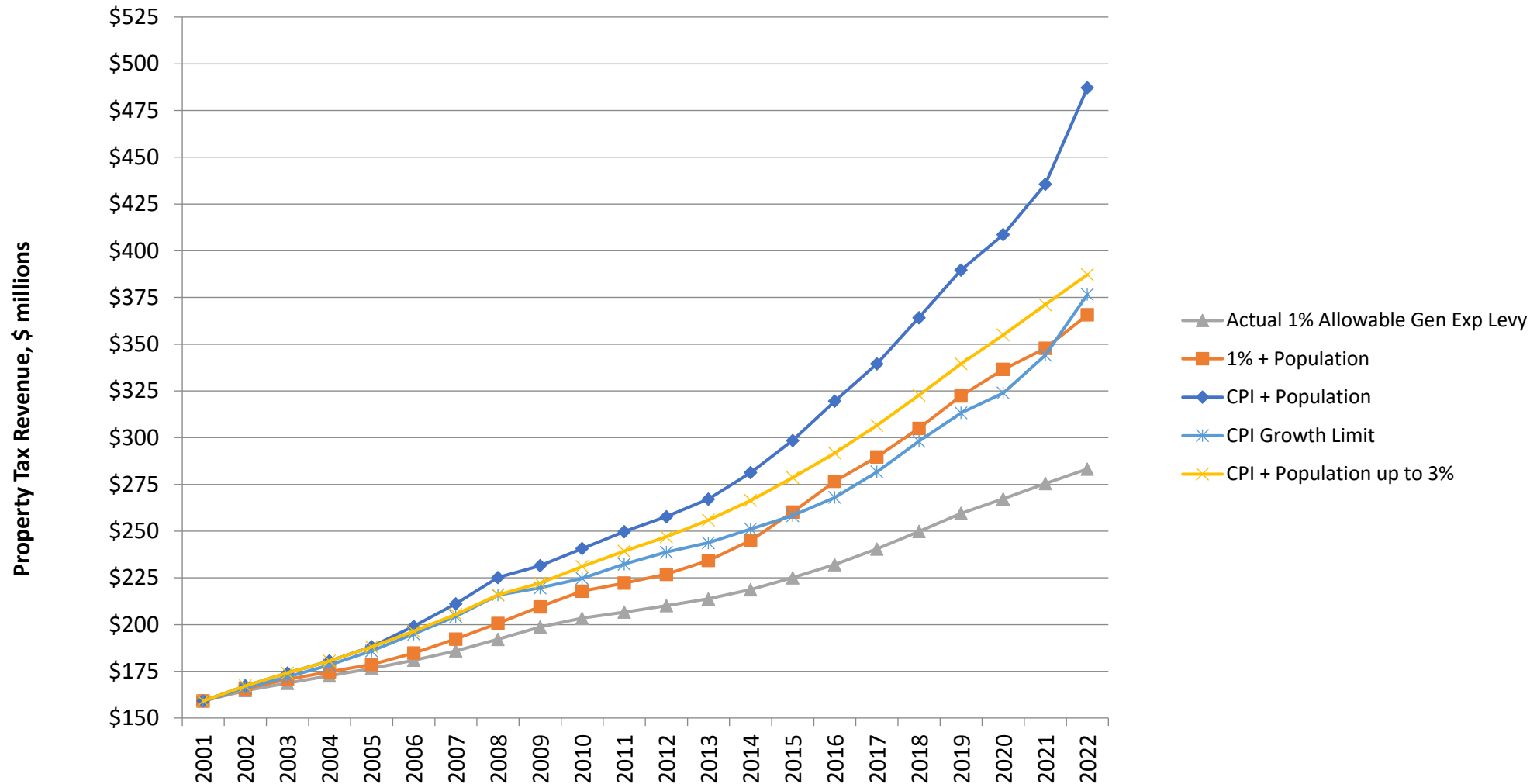
Economic Outlook – 2023 stronger than expected and risk of recession is lower over next 12 months. Stock values increased in Q4, potentially benefitting PET revenue.

Impact of High-Inflation on City Revenues - a Structural Challenge

- The direct impacts of high inflation systematically weaken the purchasing power of General Fund revenues.
- While one might assume that City revenues will generally grow as the prices of goods and services increase, that is not true for all the City's revenue streams.
- Property tax revenues, which represent 24% of total General Fund revenues, are statutorily constrained to grow at just 1% plus the value of new construction. In the high inflation environment of 2021 into 2024, these revenues have grown 8.9% compared to CPI growth of 19.5%.
- Furthermore, policy choices about public utility rates and the fees charged for City services could also constrain overall revenue growth.
- And at the same time, inflation has driven up the costs of all the goods and services the City purchases.



Historical look at 1% property tax cap



Transportation Funding Challenges

- Declining transportation revenue sources:
 - Commercial Parking Tax – unrestricted for transportation, used for debt service, maintenance, operations and streetcar subsidies
 - Gas Tax – restricted by 18th amendment of the state constitution – can use for "highway purposes," e.g., streets and street maintenance
 - Permitting and license fees – use fees must be used for cost of issuing permits and related inspections; occupation fees may be used for broader transportation purposes
 - School zone safety cameras – restricted to activity in the SSTPI Fund (school safety, traffic and pedestrian improvements)
- Declining General Fund and REET revenues
- Higher costs due to inflation for labor and non-labor
- Sound Transit support for First Hill Streetcar operations ending in 2023 (\$5 million/year)
- Move Seattle Levy expiring 12/31/24



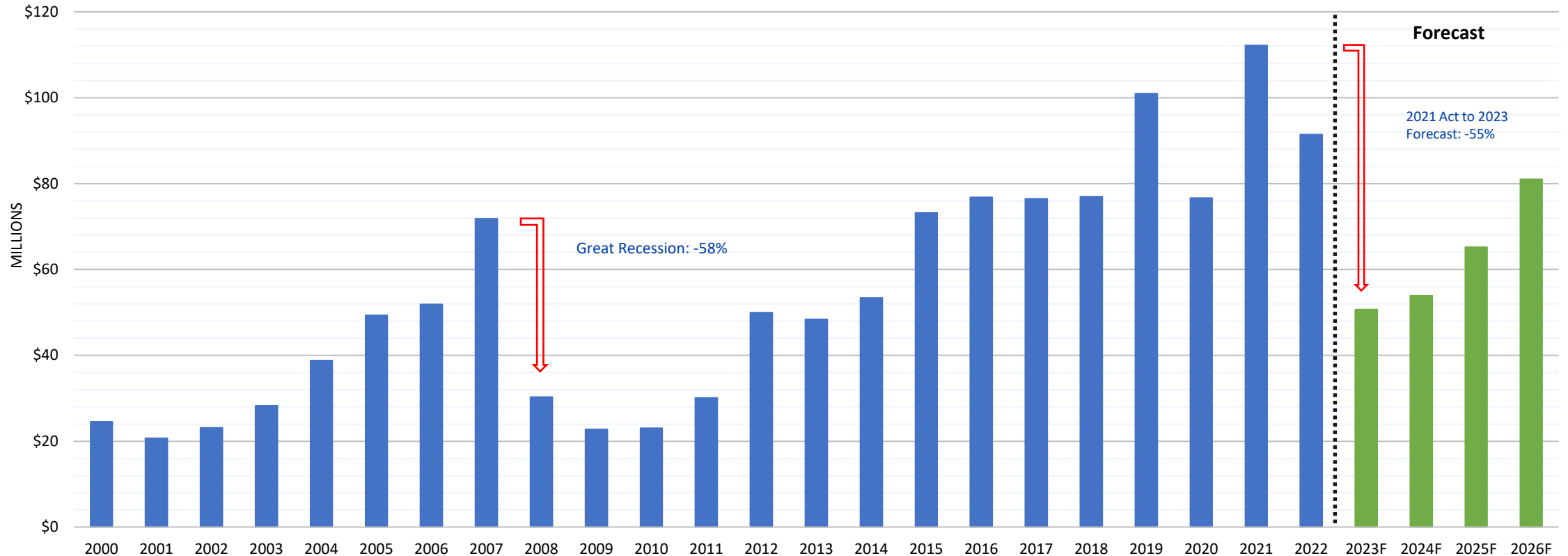
REET Funding (Capital Projects) Challenges

- Real Estate Excise Tax (REET) revenues reflect the health of the local real estate market (based on the volume of transactions and the sales prices)
- Revenues during 2023 declined significantly as the Federal Reserve raised interest rates and real estate activity cooled
- REET forecasts anticipate revenues will drop below 2020-2021 levels and well below the 2019 peak
- Revenues not anticipated to resume growth until 2025
- REET revenues fund pay-as-you-go maintenance and capital projects as well as debt service in Parks, Seattle Center, SDOT, SPL, and FAS
- Declining revenues require the budget to be rebalanced by deferring projects to future years and/or swapping with other funding (if available)



Real Estate Excise Tax (REET) - Ongoing Challenges

Real Estate Excise Tax Receipts



Strategies & Approaches Moving Forward

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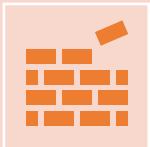
2025-2026 Preliminary Budget Guidance



Goal: To create a sustainable budget that reflects City priorities, preserves core City services and supports the health, safety, and economic vitality of Seattle.



Situation Reminder: The scale of this deficit is significantly larger than in past years and represents about 15% of our General Fund.



Individual Department Preliminary Guidance:

Describe what services department will maintain in 2025-26

Describe what services will need to be adjusted (through scaling, efficiencies, elimination)

Questions?

