

Budget Deliberations – October 16, 2019

## GENERAL FUND BALANCING ANALYSIS

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This memo provides a high-level crosswalk of General Fund (GF) resource and spending increases from the 2020 Endorsed Budget to the 2020 Proposed Budget. GF resource changes include taxes shifted to new funds, new revenue sources including the Council adopted Heating Oil Tax and the Mayor's proposed Transportation Network Companies (TNC) tax, proceeds from the sale of the Mercer Mega Block, increased forecast revenue, and use of fund balances from 2019. The memo describes expenditure increases using five categories: (1) baseline adjustments, (2) shifting expenditures to new funds, (3) transfer of Sweetened Beverage Tax (SBT) balance, (4) heating oil tax supported expenditures, and (5) Executive proposals. Department specific changes will be presented throughout the Budget Deliberation meetings. Given the use of one-time resources in the budget, the memo identifies one issue for council consideration pertaining to the use of one-time funds for ongoing expenditures.

### I. GF Resource Increase - Endorsed to Proposed

From a resource perspective, the Mayor's 2020 Proposed Budget is \$65.8 million higher than the 2020 Endorsed Budget, as shown in Table 1.

*Table 1: Resource Additions - Endorsed to Proposed Budget*

| GF Resources         |                     |
|----------------------|---------------------|
| 2020 Endorsed Budget | \$1,427,476,000     |
| 2020 Proposed Budget | \$1,493,280,210     |
| <b>Increase</b>      | <b>\$65,804,210</b> |

The increase can be categorized as:

- Shift Taxes to New Funds;
- Heating Oil Tax;
- Forecast Changes;
- TNCs Tax Proposal;
- Mercer Mega Block Proceeds (GF); and
- Use of Prior Year Balance.

Each major category is described below. The descriptions include whether the new resources are only available in 2020 (one-time) or will be available at similar levels in the future (ongoing).

#### A. Shift Taxes to New Funds: \$32.4 million ongoing decrease

The 2020 Endorsed Budget included approximately \$32.4 million in revenue from two new taxes, including \$21.9 million from the SBT passed in 2018 and \$10.5 million from the Short-Term Rental Tax (STRT) implemented in 2019. Subsequent to the adoption of the 2019-2020 Budget, the City Council adopted two ordinances to move these new tax

revenues and their underlying expenditures to new funds, as follows:

- [Ordinance 125872](#), which created the STRT Fund; and,
- [Ordinance 125886](#), which created the SBT Fund.

Consistent with these ordinances, the Mayor's proposal budgets these revenues in the new funds. These revenue shifts are largely offset by expenditure shifts to the new funds, which will be covered later in this memo. These adjustments do not reflect a revenue loss to the City, but they must be included in this analysis to provide a complete crosswalk from the 2020 Endorsed to the 2020 Proposed levels of GF resources. This shift is ongoing.

**B. Heating Oil Tax: \$568,000 ongoing increase**

On September 23, 2019 the City Council adopted [Ordinance 125934](#) which imposed a tax on heating oil providers, based on the gallons of heating oil sold in the City. The new tax is estimated to generate \$567,825 for the GF in 2020; in future years the revenue from this tax will be higher. Expenditures of the new tax revenues are discussed later in this memo. This new revenue is ongoing.

**C. Forecast Changes: \$7.2 million ongoing increase**

The City Budget Office (CBO) fully updates the GF forecast in April and September each year and provides a minor update in October to reflect any notable changes that could not be captured in the September projection. The September update, which supports the 2020 Proposed Budget, includes a total change of \$7.2 million across all GF revenue categories compared to the 2020 Endorsed Budget. Economic circumstances can change, and the presentation by the CBO notes a risk of recession in future years. However, for the purposes of this analysis these forecast changes are assumed to be ongoing.

**D. TNC Tax Proposal: \$9.7 million ongoing increase**

The 2020 Proposed Budget includes \$9.7 million from a new proposed tax on rides contracted through TNCs. This is a new proposal, so the revenue was not included in the 2020 Endorsed Budget. A full review of the proposed tax and related spending and policy proposals will be discussed at the October 18 Budget Committee meeting. This revenue as proposed is ongoing.

**E. Mercer Mega Block Proceeds (GF): \$66.5 million one-time increase**

On September 16, 2019 the City Council adopted [Ordinance 125916](#), approving an agreement to sell three acres of City-owned land in South Lake Union (the "Mercer Mega Block"). Proceeds from the transaction, combined with a \$5 million donation from the purchaser for homelessness services, are projected to total \$143.5 million, of which \$66.5 million is deposited in the GF to support housing and homelessness proposals. Of the remainder, the 2020 Proposed Budget includes \$54.7 million in the Transportation Fund and approximately \$21 million in the Office of Housing's Low-Income Housing Fund. Approximately \$1.3 million of the proceeds are held in escrow. These details are shown in

Table 2.

*Table 2: Mercer Mega Block Proceeds*

|                            |                     |
|----------------------------|---------------------|
| Total Proceeds             | \$143,499,731       |
| To Transportation Fund     | \$54,700,000        |
| To Low Income Housing Fund | \$20,999,731        |
| Held in Escrow             | \$1,300,000         |
| <b>GF Share</b>            | <b>\$66,500,000</b> |

Proposed uses of these resources will be covered in the housing and homelessness discussion at the October 17 Budget Committee meeting and the Seattle Department of Transportation presentation at the October 18 Budget Committee meeting.

**F. Use of Prior Year Balance: \$14.3 million one-time increase**

This represents year-end fund balances carried forward from 2019. Proposed supplemental budget legislation for the third quarter of 2019, transmitted with the Proposed 2020 Budget Ordinance, reduces appropriation authority to the Seattle Police Department (SPD) Budget by \$12.42 million, due to vacancies and retroactive wage increase payments for the Seattle Police Officers Guild (2015 – 2018) being lower than originally estimated. There are also new appropriations being made in the bill such as a \$5 million transfer to the Judgment and Claims Fund. After accounting for all revenues and expenditures in the third quarter supplemental legislation there is a net savings of \$4.8 million that falls to fund balance.

Another component of this balance is \$4.018 million of SBT revenues collected above forecast in 2019. This balance is transferred to the new fund in the 2020 Proposed Budget. The remainder of the prior year balance can be described as revenues above forecast in 2019. These details are shown in Table 3. Prior-year balance resources are available on a one-time basis.

*Table 3: Prior Year Balance Detail*

|                                          |                     |
|------------------------------------------|---------------------|
| 3rd Quarter Supplemental Ordinance (Net) | \$4,817,745         |
| SBT Balance                              | \$4,018,000         |
| 2019 Revised Forecast                    | \$5,507,707         |
| <b>Total Prior Year Balance</b>          | <b>\$14,343,452</b> |

Table 4 shows each category's contribution to the resource increase in the 2020 Proposed Budget and categorizes them as ongoing or one-time.

*Table 4: Summary of Resource Additions - Endorsed to Proposed Budget*

| Resource                    | Ongoing                | One-time            | Total                  |
|-----------------------------|------------------------|---------------------|------------------------|
| 2020 Endorsed Budget        | \$1,427,476,000        | -                   | \$1,427,476,000        |
| Shift Taxes to New Funds    | (\$32,420,860)         | -                   | (\$32,420,860)         |
| Heating Oil Tax             | \$567,825              | -                   | \$567,825              |
| Forecast Changes            | \$7,158,793            | -                   | \$7,158,793            |
| TNC Tax Proposal            | \$9,655,000            | -                   | \$9,655,000            |
| Mercer Mega Block           | -                      | \$6,500,000         | \$66,500,000           |
| Prior Year Balance          | -                      | \$14,343,452        | \$14,343,452           |
| <b>2020 Proposed Budget</b> | <b>\$1,412,436,758</b> | <b>\$80,843,452</b> | <b>\$1,493,280,210</b> |

As shown in the table, the 2020 Proposed GF Budget includes approximately \$1.41 billion of ongoing resources and \$80.8 million from one-time resources.

## **II. GF Expenditure Increases – Endorsed to Proposed**

As shown in Table 5, the 2020 Proposed Budget includes \$118.8 million greater expenditures than the 2020 Endorsed GF Budget.

*Table 5: Expenditure Increase - Endorsed to Proposed Budget*

| GF Expenditures      |                      |
|----------------------|----------------------|
| 2020 Endorsed Budget | \$1,374,502,552      |
| 2020 Proposed Budget | \$1,493,280,210      |
| <b>Increase</b>      | <b>\$118,777,658</b> |

This increase can be described using the following categories:

- Baseline Adjustments;
- Shift Expenditures to New Funds;
- Transfer SBT Balance;
- Heating Oil Tax Supported Expenditures; and,
- Executive Proposals.

The following is a high-level discussion of each major category, including a description of the increase and whether the spending is likely to occur only in 2020 (one-time) or reflects a higher level of spending that will continue in future years (ongoing).

### **A. Baseline Adjustments: \$36 million ongoing increase, \$6.2 million one-time decrease**

This amount represents citywide adjustments to support baseline spending levels. The largest increase in this category is a \$28.1 million increase to GF department budgets for the 2020 annual wage increase as outlined in the tentative agreement between the City and the Coalition of City Unions. Other notable baseline adjustments include \$5 million for citywide standard cost changes to cover higher internal services costs assessed by the Department of Finance and Administrative Services, Seattle Information Technology, and

the Department of Human Resources, and a one-time \$6.18 million reduction in the SPD to realign the SPD personnel services budget in 2020, due to delays in hiring. Except for the SPD personnel services change, these baseline adjustments are ongoing.

**B. Shift Expenditures to New Funds: \$24.9 million ongoing decrease**

As discussed above, in 2019 the City Council created the STR Fund and the SBT Fund. The 2020 Proposed Budget includes baseline adjustments across several departments to move the 2020 Endorsed baseline level of expenditures to the new funds. While these adjustments are a reduction to the GF, they are neutral from a citywide perspective, since the expenditures will be budgeted in the new funds. These adjustments are ongoing in nature.

**C. Transfer SBT Fund Balance: \$4.0 million one-time increase**

This amount represents the transfer of SBT revenues collected above forecast to the new fund in 2020. This is a one-time increase.

**D. Heating Oil Tax Supported Expenditures: \$568,000 ongoing increase**

This amount represents the expenditure of the new heating oil tax revenues mentioned earlier in this memo. Like the revenues, this represents spending of only the first-year's collection amount and will likely be higher in the future. This expenditure is ongoing.

**E. Executive Proposals: \$28.0 million ongoing increase, \$81.1 million one-time increase**

In addition to the adjustments described above, the 2020 Proposed Budget include \$109.1 million of new GF spending proposals compared to the 2020 Endorsed Budget.

Approximately \$81.1 million of the additional amount is one-time in nature, with the remaining \$28.0 million supporting new ongoing spending.

Table 6 summarizes the spending categories' contributions to the expenditure increase in the 2020 Proposed Budget and categorizes them as either ongoing or one-time.

*Table 6: Summary of Expenditure Additions – Endorsed to Proposed*

| <b>Expenditures</b>                    | <b>Ongoing</b>         | <b>One-time</b>     | <b>Total</b>           |
|----------------------------------------|------------------------|---------------------|------------------------|
| 2020 Endorsed Budget                   | \$1,374,502,552        | -                   | \$1,374,502,552        |
| Baseline Changes                       | \$36,187,850           | (\$6,178,689)       | \$30,009,161           |
| Shift Costs to New Funds               | (\$24,909,459)         | -                   | (\$24,909,459)         |
| Transfer SBT Fund Balance              | -                      | \$4,018,000         | \$4,018,000            |
| Heating Oil Tax Supported Expenditures | \$567,825              | -                   | \$567,825              |
| Executive Proposals                    | \$28,021,014           | \$81,071,117        | \$109,092,131          |
| <b>2020 Proposed Budget</b>            | <b>\$1,414,369,782</b> | <b>\$78,910,428</b> | <b>\$1,493,280,210</b> |

### III. GF Summary

Table 7 summarizes the resource and expenditures in the 2020 Proposed Budget using the ongoing and one-time categorizations.

*Table 7: Summary of 2020 Proposed GF Budget – Ongoing and One-Time*

| 2020 Proposed Budget                           | Ongoing              | One-Time           | Total           |
|------------------------------------------------|----------------------|--------------------|-----------------|
| Revenues                                       | \$1,412,436,758      | \$80,843,452       | \$1,493,280,210 |
| Expenditures                                   | \$1,414,369,782      | \$78,910,428       | \$1,493,280,210 |
| <b>Difference (Revenues less Expenditures)</b> | <b>(\$1,933,024)</b> | <b>\$1,933,024</b> | <b>-</b>        |

As shown in the table, ongoing General expenditures exceed ongoing resources by approximately \$1.9 million in the 2020 Proposed Budget.

#### Issue Identification

##### 1. Ongoing GF Spending Exceeds Ongoing Resources

The 2020 Proposed GF Budget programs approximately \$1.9 million more ongoing spending than ongoing revenues. This means that, in 2021 and beyond, additional ongoing revenue will be necessary to support the proposed ongoing spending.

##### Options:

- A. Assume ongoing revenues in 2020 will exceed the forecasted levels by at least \$1.9 million, resolving the imbalance in future years.
- B. Shift a total of \$1.9 million of proposed ongoing spending to one-time.
- C. Identify new ongoing revenues totaling \$1.9 million.
- D. No action.