

General Fund Balancing Analysis

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I. Background

On November 25, 2019, the City Council (Council) adopted [Council Bill \(CB\) 119689 \(Ordinance 126000\)](#), authorizing the \$6.5 billion budget for the City of Seattle in 2020. Of that amount, \$1.5 billion was for critical human and safety services, parks and equity programs, and general operations from the General Fund (GF). The GF revenue is primarily taxes, which represent over 80 percent of the fund's total revenue, with fees, transfers, and intergovernmental support, among other sources providing the remainder. The revenue forecast depended on continued economic growth projections, following a record eleventh year of growth since the "Great Recession" ended in 2009.

Though reasonable at the time of adoption, the 2020 Adopted Budget's economic growth assumptions faltered in late February 2020 with the first COVID-19 diagnosis in Western Washington. In response to this highly transmissible and deadly respiratory virus, which the World Health Organization [declared a pandemic](#) on March 11, 2020, Governor Inslee issued a [Stay Home, Stay Healthy](#) order, effective March 23, 2020, requiring state residents to stay home if not performing essential activities. While achieving the goal of slowing infections and minimizing loss of life, these "social distancing" measures negatively effected the state, local, and national economy, especially the leisure and hospitality industry. These combined events and actions invalidated the continued tax and fee revenue growth assumptions the budget was built on, replacing them with an uncertain, but clearly negative projection of the economic future.

In addition to revenue loss, the type and extent of services Seattle City government needed to provide has expanded during the pandemic. Businesses, particularly small businesses, and workers in industries dependent on frequent face to face interaction, especially hospitality and entertainment, have borne the brunt of the economic impact, facing potential shutdown and job losses without assistance. Workers who lost their jobs were left unable to meet basic needs. Even before the pandemic, the City had declared a state of emergency due to high numbers of people experiencing homelessness. The pandemic makes this emergency worse for people.

[RCW 35.32A.030](#) requires that Seattle adopts a balanced budget, with each fund's estimated revenues meeting or exceeding budgeted expenditures. However, State law requires only that the budget be balanced once per year upon adoption. It is not legally required that the annual budget be constantly updated to reflect changes in the City's revenue projections throughout the year. If authorized spending exceeds available revenues, the binding constraint on the Executive is the amount of resources available to support authorized spending. If authorized spending exceeds available revenues, the Executive is required to make administrative spending reductions (that is, the Executive must choose areas to stop spending).

With a specific focus on the City’s GF balance and fiscal reserves, Section II describes the budgetary measures, including use of reserves, taken by the Council and Mayor to meet the dual challenges of lower resources and greater needs in 2020. This section also describes additional proposals from the Mayor to bring the 2020 Budget into final balance, with a bottom-line assessment of this impact on the GF and the status of the City’s Fiscal Reserves for 2021.

Section III of this paper continues this financial balancing focus with a high-level review of the Mayor’s 2021 Proposed GF budget, in preparation for more detailed departmental Issue Identification discussions on October 16, 20, and 21. This review compares major components of the Mayor’s 2021 Proposed Budget, which relies on revenues from the new Payroll Expense Tax approved by Council on July 6, 2020, with their intended uses as codified in the [detailed spending plan](#) adopted by Council on July 20, 2020. The final section concludes with an assessment of the future sustainability of the GF budget in 2022 and offers policy options.

II. 2020 GF Rebalancing

1. Adopted Budget

Adopted on November 25, 2019, [ORD 126000](#) authorized a 2020 GF budget of \$1.5 billion. This budget relied on a 2020 revenue estimate of \$1.48 billion and an assumed beginning balance of \$79 million, as shown in the following table:

Description	Sources	Uses	Total
2020 Adopted Beginning Balance ¹	\$79,016,594	-	\$79,016,594
2020 Adopted Revenues	\$1,482,685,564	-	\$1,482,685,564
2020 Adopted Expenditures	-	(\$1,502,029,742)	(\$1,502,029,742)
2020 Adopted Budget	\$1,561,702,158	(\$1,502,029,742)	\$59,672,416

¹Of this amount, \$40.5 million is reserves. The 2020 Ending Balance of \$59.7 m is reserves, which represents a \$19.1 million use of fund balance in the 2020 Adopted Budget (\$59.7 million less \$40.5 million).

After accounting for balances, assumed revenues and approved spending, the 2020 Adopted Budget’s GF Ending Balance was \$59,672,416, the total of which represents unappropriated reserves.

2. Technical and Supplemental Adjustments and Grants

Since adoption, the 2020 GF Budget has been adjusted by both non-legislated technical changes and legislative changes, such as accepting grants and other supplemental budget adjustments, including:

- **Adjust balances for 2019 actuals:** This represents better than expected revenues, or lower than expected expenditures, than were budgeted in 2019.
- **Automatic carryforward budgets:** These amounts represent revenues and expenses, often grant or capital in nature, adopted with an automatic carryforward provision where spending authority carries over from year to year. Carryforwards also include amounts which were obligated, but not spent in the prior year, representing a draw on this year’s carryforward resources.

- [CB 119820 - 2019 Carryforward](#): These are 2019 budget appropriations the Council approved for carryforward into 2020.
- [CB 119819 - Q2 Grant Acceptance](#): This represents the City’s formal acceptance of grants from non-City sources.
- [CB 119818 - Q2 Supplemental](#): This represents policy and technical changes to the City budget, including the spending authority for grant resources accepted in CB 119819.

The following table demonstrates the GF balance impact from these adjustments:

Description	Sources	Uses	Total
2019 Actual Results - Higher Balance	\$59,147,840	-	59,147,840
Automatic Carryforward	\$25,008,511	(\$76,179,204)	(\$51,170,693)
Legislated Carryforward (CB 119820)	-	(\$17,514,937)	(\$17,514,937)
Q2 Grant Acceptance (CB 119819)	\$3,820,979	-	\$3,820,979
Q2 Supplemental (CB 119818)	\$2,069,984	\$1,204,411	\$3,274,395
Technical and Supplemental	\$90,047,314	(\$92,489,730)	(\$2,442,417)

The impact is small, as these measures are largely revenue neutral because either supported by new grant revenues and/or prior year balances carried into 2020 to meet existing obligations.

3. COVID-19 Relief and Recovery Measures

Responding to the economic hardship and public health emergency caused by the COVID-19 pandemic, the Council and Mayor approved the measures, supported by a mix of existing and new resources, as described below:

- [CB 119757 - Small Business Stabilization Fund Expansion](#): Using Community Development Block Grant (CDBG) funds, this legislation increased the Office of Economic Development’s (OED) existing Small Business Stabilization Fund by about \$1.4 million to provide grants to small businesses suffering economic hardship because of COVID-19.
- [CB 119760 – 2nd Small Business Stabilization Bill](#): This legislation transferred \$968,000 of CDBG underspent funds from the Office of Housing to OED to provide financial assistance to small businesses.
- [CB 119764 – Grocery Voucher Program](#): This legislation created a new \$5 million grocery voucher program in the Office of Sustainability and Environment (OSE) for low-income families facing food insecurity because of COVID-19. While the program is an increase funded by Sweetened Beverage Tax (SBT) funds, the amount in the table below is negative due to the net result of a \$13.7 million cash transfer of SBT revenues from the GF to the Sweetened Beverage Tax Fund that the bill authorized.
- [CB 119783 – 2020 Emergency Supplemental](#): This legislation accepted and authorized spending a mix of federal and state funds into several City funds, including \$1.4 million to OED’s Small Business Stabilization Fund in the GF to support small businesses facing challenges as a result of COVID-19.

- [CB 119816 - Washington Department of Commerce and Federal Department of Health and Human Services Grants](#): This legislation accepted and authorized spending a mix of federal and state funds into several City funds, including \$750,000 from the Washington Department of Commerce for hygiene services necessary to respond to the COVID-19 outbreak.
- [CB 119859 - Heating Oil Tax Delay](#): This legislation delayed the effective date of the Heating Oil Tax from September 1, 2020, to September 1, 2021, reducing revenues in 2020 by approximately \$560,000.
- [CB 119824 – 2020 Federal CRF Funds](#): This legislation accepted \$131.5 million from the federal Coronavirus Relief Fund into City funds, including \$108 million deposited into the GF. Of the GF amount, approximately \$43 million supported new appropriations for COVID-related expenditures, with the remainder supporting existing appropriations made in the 2020 Budget for a substantially different purpose.

The following table demonstrates the GF balance impact from these adjustments.

Description	Sources	Uses	Total
Small Business Supplemental (CB 119757)	\$1,416,298	(\$1,416,298)	-
Small Business Supplemental 2 (CB 119760)	\$968,718	(\$968,718)	-
Food Voucher Supplemental (CB 119764)	-	(\$7,354,411)	(\$7,354,411)
Emergency Supplemental 1 (CB 119783)	\$1,410,045	(\$1,410,045)	-
2020 Commerce Grant (CB 119816)	\$750,000	(\$750,000)	-
Heating Oil Tax Amendment	(\$595,537)	-	(\$595,537)
2020 Federal CRF Funds (CB 119824)	\$107,950,174	(\$42,950,174)	\$65,000,000
COVID-19 Relief and Recovery Measures	\$111,899,698	(\$54,849,646)	\$57,050,052

4. Revised Forecast and City Budget Office (CBO) 2020 Revisions

The same economic impacts devastating the small business community have also translated into negative revenue impacts, and measures to address them, as follows:

- **CBO Revenue Forecast Update**: At the April 22, 2020 Select Budget Committee meeting, CBO staff presented a [Spring Economic Revenue Forecast Update](#). This was the first of three successive, significant downward adjustments to revenues caused by the COVID-19 emergency, the latest of which came in an August 10, 2020 memo from the City Budget Director (Attachment A). In the August memo, CBO staff forecasted a \$220.9 million reduction to GF revenues for 2020.
- **2020 Budget Revisions – CB 119825¹**: As amended by the Council to include spending proposals submitted by the Mayor, this legislation reduced 2020 GF appropriations by \$43.3 million through a mixture of discretionary budget cuts, fund shifts, and vacancy savings. In addition, it appropriated \$29 million from the Revenue Stabilization Account, one of the City’s two main fiscal reserves. The second of the two fiscal reserves, the

¹ CB 119825 was vetoed by the Mayor on August 23, 2020, and the Council subsequently voted to override the Mayor’s veto on September 22, 2020.

Emergency Fund, has revenues generally held for responding to unexpected emergencies. Finally, the legislation as passed included appropriations of \$14 million for community safety investments in the Human Services Department, \$13.1 million of which came from an interfund loan authorized in [CB 119863](#)²

The following table demonstrates the GF balance impact from these adjustments:

Description	Sources	Uses	Total
CBO August Forecast Update	(\$220,877,492)	-	(\$220,877,492)
2020 Budget Revisions (CB 119825)	\$29,030,000	\$43,322,105	\$72,352,105
Revised Forecast and First CBO Rebalancing	(\$191,847,492)	\$43,322,105	(\$148,525,387)

Bringing together the totals from each of the prior subsections, the 2020 Revised GF balance after all approved adjustments is negative \$34.3 million, which represents the total authorized spending above available resources, based on approved legislation.

Description	Sources	Uses	Total
2020 Adopted Budget	\$1,561,702,158	(\$1,502,029,742)	\$59,672,416
Technical and Supplemental	\$90,047,314	(\$92,489,730)	(\$2,442,417)
COVID Relief and Recovery Measures	\$111,899,698	(\$54,849,646)	\$57,050,052
Revised Forecast and First CBO Rebalancing	(\$191,847,492)	\$43,322,105	(\$148,525,387)
Total After Approved Adjustments	\$1,571,801,678	(\$1,606,047,013)	(\$34,245,335)

The next subsection discusses the formal legislation and administrative measures that the Mayor has proposed to address the remaining 2020 budget shortfall.

5. Proposed and Future Rebalancing Measures

The Mayor proposes several additional measures addressing the remaining 2020 budget shortfall, including formally introduced legislation, planned future legislation, and planned administrative adjustments, as follows:

- **Introduced Q3 Supplemental Legislation:**
 - **Q3 Supplemental:** Transmitted to the Council as part of a package of legislation necessary to implement the 2021 Proposed Budget, this bill would increase revenues to the GF by \$13.9 million and decrease expenditures by \$11.1 million, with a combined balancing impact of \$25 million. The largest proposed cut is the reduction of \$30 million appropriated in the 2020 Adopted Budget to create the Strategic Investment Fund. The Strategic Investment Fund, financed by the sale of the Mercer Megablock property, is intended for community-driven strategic investments in areas at high risk of displacement and/or economically disadvantaged and historically marginalized communities. The community process for planning these investments began in early 2020 but was delayed by the COVID-19 pandemic. (Please see

² CB 119863 was also vetoed by the Mayor on August 23, 2020 but then subsequently implemented following a veto override approved by the Council on September 22, 2020. A September 30, 2020, letter from the Mayor's Office (Attachment B) indicated that, while the investments in CB 119825 will be made as adopted, the loan providing the resources will not be issued. Based on this letter, the revenue from the interfund loan authorized in CB 119863 is excluded from this analysis.

Attachment A for more details on the Q3 Supplemental legislation).

- Q3 Grant Acceptance: Introduced as budget legislation, this represents the City’s formal acceptance of grants from non-City sources. Total GF grant revenue accepted by this bill would be \$6.9 million, which is fully appropriated in the Q3 supplemental bill.
- **Planned Q4 Supplemental:** Planned by the Executive for introduction after the budget process is complete, this bill would increase revenues by \$6.3 million to account for a rebate from the Information Technology Fund to the GF, and increase appropriations by \$3.5 million due to a \$700,000 increase in the bill paid to Seattle City Light and a \$2.79 million increase to insurance premiums.
- **Administrative Underspend:** These amounts represent Executive’s proposed savings through spending less than the appropriated amounts, as shown in the following table:

Description	Total
Administrative Reductions Round 2	\$5,711,767
Healthcare Holiday	\$1,628,794
Annual Wage Increase	\$659,805
Transit Subsidy Reserve	\$2,822,721
Reduce Sweetened Beverage Tax Transfer	\$484,710
Total	\$11,307,797

The following table demonstrates the GF balance impact of these adjustments:

Description	Sources	Uses	Total
Introduced Q3 Supplemental Legislation	\$13,905,646	\$11,102,757	\$25,008,403
Planned Q4 Supplemental	\$6,328,000	(\$3,490,000)	\$2,838,000
Administrative Underspend	-	\$11,307,797	\$11,307,797
Proposed and Future Rebalancing Measures	\$20,233,646	\$18,920,554	\$39,154,200

6. 2020 GF Balancing Status

The following table demonstrates the 2020 Revised GF balance after all approved and planned adjustments described in the preceding subsections:

Description	Sources	Uses	Total
2020 Adopted Budget	\$1,561,702,158	(\$1,502,029,742)	\$59,672,416
Technical and Supplemental	\$90,047,314	(\$92,489,730)	(\$2,442,417)
COVID Relief and Recovery Measures	\$111,899,698	(\$54,849,646)	\$57,050,052
Revised Forecast and First CBO Rebalancing	(\$191,847,492)	\$43,322,105	(\$148,525,387)
Proposed and Future Rebalancing Measures	\$20,233,646	\$18,920,554	\$39,154,200
2020 GF Balance	\$1,592,035,324	(\$1,587,126,459)	\$4,908,865

As shown in the ‘2020 GF Balance Row’ above, after accounting for all approved, proposed and planned budget adjustments, the total 2020 GF ending balance would be \$4.9 million. This is lower than the 2021 beginning balance assumed in the Mayor’s 2021 Proposed Budget for the GF (\$18 million). This shortfall is due to the Mayor’s Office’s decision to withhold the interfund loan in CB 119863 without proposing an alternative funding source.

In brief, the 2021 Proposed Budget would authorize spending \$13.2 million more than the revenues currently projected by CBO. Even if the Council made no other changes to the 2021 Proposed Budget, the Council would be required either to cut \$13.2 million of spending or add \$13 million of new revenues to achieve a balanced budget as required by State law.

7. Issue Identification

Issue 1: The Mayor's 2020 GF budget rebalance proposal relies on \$11.3 million of uncodified administrative underspend reductions.

Options:

- A. Amend Q3 Supplemental bill to codify these adjustments
- B. Identify alternate cuts for formal codification in the 2020 budget.
- C. Identify new offsetting revenues.
- D. No action.

Issue 2. The Mayor's 2020 GF budget rebalance proposal relies on abandonment of the \$30 million authorized in the 2020 Adopted Budget for the Strategic Investment Fund. This depletes all funding for this investment that was intended to support strategic investment in areas at high risk of displacement or in areas of low access to opportunity. This description of this fund in the 2002 Adopted Budget is not entirely dissimilar from the aspects of the proposed \$100 million for [Equitable Communities Initiative](#) in the 2021 Proposed Budget.³

Options:

- A. Do not accept the Mayor's proposal to eliminate the Strategic Investment Fund. This could be achieved by using funds from the Revenue Stabilization Fund in 2020 to rebalance and reducing the proposed use of reserves in the 2021 proposed budget.
- B. No action.

Issue 3. The 2021 Proposed Budget relies on a beginning balance that is \$13.2 million higher than available after all identified 2020 adjustments.

Options:

- A. Identify an additional \$13.2 million from any combination of reductions and/or new revenues to cover the shortfall in 2020.
- B. Identify an additional \$13.2 million in new reductions and/or revenues in the Proposed 2021 budget to cover the shortfall.
- C. No action.

³ Please see the Miscellaneous Issue ID paper that will be presented to the Committee on October 16th for a proposal from Councilmember Sawant to restore the \$30 million for the Strategic Investment Fund.

III. 2021 Proposed Budget

This section includes an overview of the Mayor’s 2021 Proposed GF Budget, which totals \$1.5 billion.

1. Jump Start Seattle

Adopted on July 6, 2020, [CB 119810](#) authorized a new Payroll Expense Tax for the City. At the time of adoption, the payroll tax was estimated to generate about \$214 million annually beginning in 2021. The Mayor’s 2021 Proposed Budget projects annual revenues at that same amount. Passed by the Council on July 6, 2020, CB 119811 codified a high-level spending plan for these new tax revenues; additional details were adopted through [Resolution 31957](#) on July 20, 2020. The detailed spending plan establishes as City policy the following 2021 spending intent:

- First use: to replenish the City’s 2020 reduced Emergency Fund and Revenue Stabilization Fund balance to fund programs addressing the economic impacts caused by COVID-19. The remainder of payroll tax proceeds should be used as follows:
 - Five percent: Administer the payroll tax and administer the investments made by the tax.
 - 75 percent: Provide continuity of services and programs administered or supported by the City prior to the COVID-19 crisis that, absent the support from the payroll tax revenue, would see a reduction in funding; and to fund increased costs in critical existing supportive programs.
 - 20 percent: to maintain Continue 2020 funding for programs and services that address the impacts of the COVID-19 crisis.

The remaining subsections compare the Mayor’s proposed uses of the new Payroll Expense Tax revenue with the intended use listed in CB 119811 and detailed in [Resolution 31957](#).

2. 2021 Proposed GF Budget – Baseline

At the start of each new budget year, CBO establishes the baseline from the prior year’s adopted budget and applies technical changes and removes prior year one-time spending. The following table details the 2021 Baseline Budget adjustment, which represents the continuation of approved ongoing 2020 budget items into 2021. The table also includes the 2021 proposed revenue forecast underlying the budget. Further, to provide visibility on key resourcing proposals, the table includes columns tracking uses of the payroll expenses tax, according to the intent described above, and the uses of the City’s fiscal reserves. Finally, the column at the table’s far right edge tracks the GF balancing status at each successive stage of the analysis.

Description	Uses	Resources			Total
	GF Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)

As shown in the table, the 2021 baseline GF budget, after accounting for technical changes, reflects a \$191 million deficit.

3. Mayor's Net Reductions

The 2021 Proposed Budget includes several adjustments across City departments, which are highlighted in more detail in upcoming Issue Identification presentations. This analysis aggregates these adjustments into a total reduction of \$27 million across the entire GF in 2021. That amount, combined with \$800,000 in new revenues from a variety of minor sources, is added to the table from the prior subsection to demonstrate the impact on the deficit.

Description	Uses	Resources			Total
	General Fund Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)
Mayor's Proposed Reductions / Revenue	\$27,012,991	\$823,745	-	-	\$27,836,736
Subtotal	(\$1,409,454,018)	\$1,246,473,263	-	-	(\$162,980,755)

After these proposed adjustments, which together decrease the 2021 deficit by a total of \$27.8 million, the cumulative deficit falls to \$163 million.

4. Payroll Expense Tax

The 2021 Proposed Budget includes \$214 million from the Payroll Expense Tax. Adding this to the table changes the \$162 million shortfall into a \$51.3 million surplus, as shown below.

Description	Uses	Resources			Total
	General Fund Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)
Mayor's Proposed Reductions/Revenue	\$27,012,991	\$823,745	-	-	\$27,836,736
Payroll Expense Tax Revenues			214,283,518		214,283,518
Subtotal	(1,409,454,018)	1,246,473,263	214,283,518	-	51,302,763

5. Payroll Expense Tax Implementation

As discussed previously, the Jump Start spending plan codified in CB 119811 dedicates revenue from the new tax toward administration. The Mayor’s proposed budget includes \$3.3 million for administrative costs in the 2021 GF, which is added to the table.

Description	Uses	Resources			Total
	General Fund Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)
Mayor’s Proposed Reductions/Revenue	\$27,012,991	\$823,745	-	-	\$27,836,736
Payroll Expense Tax Revenues	-	-	\$214,283,518	-	\$214,283,518
Payroll Expense Tax Administration	(\$3,302,763)	-	-	-	-
Subtotal	(1,412,756,781)	\$1,246,473,263	\$214,283,518	-	\$48,000,000

6. Extended COVID Relief

The spending plan for the payroll expense tax dedicates revenue from the new tax toward repaying COVID-19 relief spent from reserves in 2020. The Council first authorized spending \$86m from the City’s two reserve funds to provide public assistance during the COVID-19 emergency through adoption of CB 119812. That bill was vetoed by the Mayor on July 31, 2020, which the Council subsequently overrode on August 12, 2020. Immediately following the veto override, the Council adopted CB 119860, reducing the authorized spending from the City’s only the emergency fund (one of the two reserve funds) in 2020 to \$57 million in order to address the anticipated additional GF revenue shortfall described in the August 10, 2020 memo from the City Budget Director (Attachment A).

Following adoption of CB 119860, the Council and the Mayor reached a compromise to further reduce spending from the City’s emergency fund to \$45 million for COVID-19 response efforts in 2020 and 2021. The Mayor transmitted budget legislation consistent with that compromise, to reflect This bill authorizes spending \$19.8 million from the emergency fund in 2020 with an additional \$3.4m supported by CDBG monies. To be consistent with the spending plan for the payroll tax revenue, the 2021 Proposed Budget should reflect repayment of the \$19.8 million used in 2020. Some of the remaining \$45 million in emergency COVID relief spending from the reserves agreed to by the Council and the Mayor in 2020 (about \$21 million) will be spent in 2021. Therefore, the 2021 Proposed Budget should also reflect an additional \$21 million of spending from the Emergency Fund because the spending plan for the payroll tax should immediately replenish that spending.

The proposed budget does not include a discrete repayment amount but does include \$21.75 million for Extended COVID-19 Relief, \$1 million of which is funded through Community Development Block Grant (CDBG) monies. Absent a budgeted repayment to reserves, and consistent with the Council’s intent that 2021 payroll expense tax monies be used to address the COVID-19 emergency, the remaining \$20.75 million agreed to by the Council and the Mayor is shown in the following table:

Description	Uses	Resources			Total
	General Fund Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)
Mayor's Proposed Reductions/Revenue	\$27,012,991	\$823,745	-	-	\$27,836,736
Payroll Expense Tax Revenues	-	-	\$214,283,518	-	\$214,283,518
Payroll Expense Tax Administration	(\$3,302,763)	-	-	-	-
Extended COVID Relief	(\$21,750,000)	\$1,000,000	-	-	(\$20,750,000)
Subtotal	(\$1,434,506,781)	\$1,247,473,263	\$214,283,518	-	\$27,250,000

After accounting for each of the adjustments described so far, the GF shows a \$27.3 million surplus.

7. Mayor's Equitable Communities Initiative

The 2021 Proposed GF Budget includes a new ongoing allocation of \$100 million titled the Equitable Communities Initiative. This amount would be held in the City's Finance General Reserves budget, and the Executive has announced plans to await recommendations by a community task force for focused investments for Black, Indigenous, and People of Color (BIPOC) communities to address disparities. The Mayor's proposed task force would be comprised of BIPOC community leaders selected by the Mayor and supported by city departments. The following table adds this new funding commitment to the GF balance analysis, and demonstrates this new addition creates a deficit of \$72.75 million.

Description	Uses	Resources			Total
	General Fund Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)
Mayor's Proposed Reductions/Revenue	\$27,012,991	\$823,745	-	-	\$27,836,736
Payroll Expense Tax	-	-	214,283,518	-	214,283,518
Payroll Expense Tax Administration	(\$3,302,763)	-	-	-	(\$3,302,763)
Extended COVID Relief	(\$21,750,000)	1,000,000	-	-	(\$20,750,000)
Mayor's Equitable Communities Initiative	(\$100,000,000)	-	-	-	(\$100,000,000)
Subtotal	(\$1,534,506,781)	\$1,247,473,263	\$214,283,518	-	(\$72,750,000)

8. Fiscal Reserves

Use of fiscal reserves totaling \$72.75 million balance this shortfall, as shown in the following table:

Description	Uses	Resources			Total
	General Fund Expenditures	General Revenues	Payroll Expense Tax	Fiscal Reserves	
Baseline	(\$1,436,467,009)	\$1,245,649,518	-	-	(\$190,817,491)
Mayor's Proposed Reductions /Revenue	\$27,012,991	\$823,745	-	-	\$27,836,736
Payroll Expense Tax		-	214,283,518	-	214,283,518
Payroll Expense Tax Administration	(\$3,302,763)	-	-	-	(\$3,302,763)
Extended COVID Relief	(\$21,750,000)	1,000,000		-	(\$20,750,000)
Mayor's Equitable Communities Initiative	(\$100,000,000)	-	-	-	(\$100,000,000)
Use of Fiscal Reserves	-	-	-	\$72,750,000	\$72,750,000
Total	(\$1,534,506,781)	\$1,247,473,263	\$214,283,518	\$72,750,000	\$0

After accounting for this proposal, and all uses described in this memo, the fiscal reserves would have a combined ending 2021 balance of \$6.1 million, as shown below.

Description	Revenue Stabilization Fund	Emergency Management Fund	Total
2020 Beginning Balance	\$60,772,000	\$66,875,000	\$127,647,000
2020 Budget Revisions - CB 119825	(\$29,030,000)	-	(\$29,030,000)
2020 Proposed - Joint COVID Relief Bill	-	(\$19,764,357)	(\$19,764,357)
Proposed 2021 Budget	(\$25,700,000)	(\$47,050,000)	(\$72,750,000)
Remaining 2021 Balances	\$6,042,000	\$60,643	\$6,102,643

The preceding discussion is one way of viewing the order of cuts and fiscal reserves in the 2021 proposed budget. There may be others, though during a time of historical uncertainty and a financial program balanced using a significant new revenue source, each would have the same results, including:

- Reducing spending on items that were budgeted during 2020 by a net amount of \$27 million.
- Reducing the City's fiscal reserves from a beginning 2021 balance of \$78.9 million to an ending balance of \$6.1 million.
- As discussed in Section II, being imbalanced by \$13.1 million due to an unresolved deficit in 2020.

9. Issue Identification

Issue 1: The proposed budget includes both reductions totaling \$27 million and a similar amount of new spending supported by payroll expense tax revenues.

Options:

- A. Reduce the Mayor's new adds by \$27 million (i.e., reducing the \$100 million Finance General Reserve amount or making other changes or some of both), thereby fully using payroll expense tax for its intended purpose.
- B. Identify a new revenue source to support the Mayor's new budget adds, allowing payroll expense tax to offset the proposed reductions.
- C. No action

Issue 2: The proposed budget leaves a reserve balance of \$6.1 million during a time of heightened uncertainty, including an ongoing public health and homelessness emergency, and despite stated concerns by CBO about legal risks and future collectability of the payroll expense tax.

Options:

- A. Reduce the new spending in the proposed budget by the amount of the reserves being used (i.e., reducing the \$100 million Finance General Reserve amount or making other changes or some of both), thereby retaining a combined reserve balance of \$78.9 million in the 2021 budget.
- B. Identify a new revenue source to support new adds in the proposed budget, thereby retaining a combined reserve balance of \$78.9 million in 2021.
- C. No action.

Issue 3: Due to a carryforward shortfall from the 2020 authorized and planned budget revisions, the Mayor's 2021 Proposed budget is out of balance by \$13 million.

Options:

- A. Identify an additional \$13 million from any combination of reductions and/or new revenues to cover the shortfall in 2021.
- B. Reauthorize \$13.1 million interfund loan.
- C. No action.

IV. Sustainability

Since 1994, the City has followed a modified biennial budget process, whereby in even numbered years, Council would adopt a budget for the next odd numbered year and endorse a budget for the following even-numbered year. [Resolution 31954](#) suspended this practice for the Fall 2020 budget process, therefore the Council is only considering adopting a budget for 2021. While this is logical given historic levels of uncertainty, it remains important to consider budget actions in a longer-term context than a single year.

Developed by CBO, the 2021 Proposed Budget book includes a [five-year financial plan](#) for the GF that can aid this longer-term view. This financial plan projects a future of no deficits in 2022 and beyond, and replenishment of nearly \$75 million of the fiscal reserves by 2024. This forecast is based on assumptions made by CBO, and it is useful primarily for understanding Executive assumptions about deployment of the payroll expense tax in 2022 and beyond.

For example, this plan assumes that the full measure of the payroll expense tax, growing to \$265 million per year by 2024, supports GF expenses included in the 2021 Proposed Budget.

Page 569 of the Proposed Budget indicates that the Mayor's Equitable Communities Initiative at a \$100 million level is anticipated to be an ongoing, annual investment. The GF financial plan includes \$100 million per year through 2024. Though it is understood that the task force assembled as part of this proposal would ostensibly be charged to seek a new revenue source for this Initiative, the GF financial plan does not add any offsetting revenue.

Further, the embedded assumption is that the new revenue is added to the GF base to sustain 2021 Proposed service levels. This is contrary to the provisions of the [spending plan](#) authorized by the Council, and further detailed through development of an implementation plan in 2021, directing these monies towards a series of investments in new housing, equitable development, green new deal, and business support.

While decisions about 2022 spending will be made in the Fall 2021 budget process, it is important to understand that projections of future balancing do not include the investments intended in RES 31957.

Attachments:

- A. Proposed Third Quarter Grant Acceptance and Supplemental Budget Ordinances Issue Identification
- B. September 30, 2020 Letter from the Mayor's Office

Proposed Third Quarter Grant Acceptance and Supplemental Budget Ordinances

Staff: Lise Kaye

I. Grant Acceptance Ordinance Overview

The Mayor transmitted with the 2021 Proposed Budget the proposed third quarter (Q3) 2020 grant acceptance ordinance (legislation will be introduced on Monday, October 19) that would authorize City departments to accept eight grants totaling approximately \$12.7 million, as shown in Table 1 below. The proposed third quarter (Q3) Supplemental Budget Ordinance would provide appropriation authority for these grants. The largest of the accepted grants would be \$3 million of a \$26 million federal Emergency Solutions Grant (ESG) provided as part of the Federal Coronavirus Aid, Relief, and Economic Security (CARES) Act. The remaining \$23 million of the ESG award would be accepted and appropriated upon approval of the proposed Recurring Grant Ordinance and the 2021 Proposed Budget. Please see additional information in the Central Staff’s Issue Identification papers about the Mayor’s proposed COVID-19 investments and the Human Services Department (both to be presented to the Select Budget Committee on October 21st)

Table 1. Grants Accepted in Proposed Q3 Grant Acceptance Ordinance

Item	Grant/Loan	Amount (\$000s)
COVID-19 Related		
1.1	Emergency Solutions Grant totaling \$26 million, awarded as part of the Federal CARES Act for COVID-19 emergency response. The proposed 2021 Budget would accept and appropriate the balance of the grant. Please see Central Staff’s Issue Identification Paper for the Human Services Department for more details on this grant.	\$3,000
1.7	Community Services Block Grant awarded as part of the Coronavirus Aid Relief and Economic Security Act (CARES Act) to support response and recovery efforts for COVID-19. Please see Central Staff’s Issue Identification Paper on COVID-19 for details.	\$293
1.8	State Emergency Management Division funding to support emergency management activities related to the COVID-19 public health emergency.	\$140
Emergency Management Related (other than COVID-19 activities)		
1.4	Recurring Emergency Management Performance Grant supports three positions in the Office of Emergency Management with primary responsibility for the City’s Hazard Identification and Vulnerability Analysis, citywide and multi-agency training and exercise plans, and administrative support.	\$410
1.5	Federal Emergency Management Agency Pre-Disaster Mitigation grant to support a seismic retrofit of an affordable housing facility (Bremer Apartments), in partnership with Capitol Hill Housing.	\$3,719
Other		
1.2	Recurring State Department of Social and Human Services grant to support naturalization assistance for low-income immigrant applicants.	\$670
1.3	King County Flood Control District grant to reimburse Seattle Public Utilities for stormwater control improvements in the Broadview neighborhood.	\$2,763
1.6	Federal Transit Authority Transit-Oriented Development Planning grant that will primarily support the Office of Planning and Community Development’s land use planning for the Ballard to West Seattle light rail line.	\$1,750
Total		\$12,746

II. Proposed Supplemental Budget Ordinance Overview

The proposed Q3 Supplemental Budget Ordinance would increase General Fund appropriations by about \$300,000 and would respond to the 2020 General Fund revenue shortfall primarily through reprogramming \$30 million from the Strategic Investment Fund created in the 2020 Adopted Budget. The proposed legislation would also offset \$17.2 million of an anticipated \$19.2 million Parks and Recreation Fund shortfall with General Fund revenues as well as capital project reductions, program reductions, and savings from position vacancies. Please see Central Staff's Issue Identification paper for the Seattle Department of Parks and Recreation (Parks) for additional information about the status of the Parks and Recreation and Parks District Funds (to be presented at the Select Budget Committee (Committee) meeting on October 20th).

The proposed legislation would also make \$11.7 million in reductions to the Information Technology Department's (ITD's) capital program and appropriate an additional \$1.5 million for the Transportation Fund. Please see Central Staff's Miscellaneous Issue Identification paper for details about the ITD reductions (to be presented to the Committee on October 16th) and the Seattle Department of Transportation (SDOT) Issue Identification paper (to be presented on October 20th) for additional information about the status of the Transportation Fund.

The proposal would transfer about \$8 million in appropriation authority related to the City's COVID-19 response to various departments and would appropriate the three COVID-19 related grants from the Q3 Grant Acceptance Ordinance totaling about \$3 million. Please see additional information in the Central Staff's Issue Identification papers about the Mayor's proposed COVID-19 investments and the Human Services Department (both to be presented to the Committee on October 21st).

III. Proposed Budget Increases, Decreases and Transfers

The following summaries correspond to the sections of the proposed Q3 Supplemental Budget Ordinance and describe major components of the proposed appropriation increases, decreases and transfers. Where noted, additional information is available in Central Staff's department and topical Issue Identification papers.

Section 1. Appropriation Decreases – Operating Budget

The proposed legislation would reduce appropriations for operations by approximately \$38 million, the largest non-technical reductions of which would be \$30 million from abandonment of Strategic Investment Fund reserves in Finance General, and \$3.3 million from Parks. The Strategic Investment Fund, financed by the sale of the Mercer Megablock property, was intended "to support strategic investment in areas at high risk of displacement or in areas of low access to opportunity that present unique opportunities for transformational equitable development... with the potential to achieve multiple community benefit outcomes through mixed-use and mixed-income development that creates opportunities for housing, affordable commercial and cultural space, public open space, and childcare." ([2020 Adopted Budget, p. 541](#)) The proposed Q3

Supplemental Ordinance would eliminate the funding for this work.¹

The proposal would also reduce appropriations to the High Barrier Reserve in Finance General by \$752,500: of this reduction, \$400,000 is due to a delay in completing the shelter in the West Wing of the King County Jail, and \$361,500 is due to not initiating two pilot programs (rapid reentry and case conferencing). Please see Central Staff's Issue Identification paper on Community Safety for additional details on this reduction. Other reductions greater than \$500,000 would decrease the Seattle Storm Relocation Reserve by \$700,000, consistent with agreed upon terms, and would decrease Finance General appropriations of Coronavirus Relief Funds by \$690,7551, in anticipation of supporting department activities prior to expiration of the grant.

Section 2. Appropriation Increases – Operating Budget

The proposed legislation would increase appropriations for operations by approximately \$17.5 million. The largest non-technical, discretionary increases are approximately \$4 million to Finance General (from the ITD CIP abandonment) and \$3.7 million from ITD's "true up" of internal rates collected versus actual expenditures in 2019. Increases over \$500,000 would include restoration of an erroneous \$800,000 Transportation Fund reduction in the 2020 Adopted Budget, \$750,000 to the Office of Housing to provide operations and maintenance support to new projects from the 2016 Housing Levy, and approximately \$543,000 to the Seattle Fire Department to support resources to help mitigate the closure of the West Seattle Bridge. The proposal also includes \$120,000 (and the 2021 budget contains \$360,000) that would be used by the Department of Neighborhoods to lease permanent space for Black Lives Matter Seattle/King County; please see Central Staff's Issue Identification paper for the Department of Neighborhoods, that will be presented to the Committee on October 16th, for additional information about this proposal.

Section 3. Revenue Backed Appropriation Increases – Operating Budget

The proposed legislation would increase revenue-backed appropriations for operations by approximately \$12.6 million. The largest discretionary appropriations in this category would appropriate \$4.3 million in Coronavirus Relief Funds to help departments comply with COVID-19 related health measures, and \$3.9 million to purchase and deploy devices for telework needs, of which \$2.5 million will be funded by Coronavirus Relief Funds. This section also appropriates approximately \$308,000 in reimbursements to the Seattle Police Department (SPD) for its participation on a number of federal task forces and approximately \$1.2 million to SPD from contracts with the Downtown Business Improvement Area (\$450,000), the SODO Business Improvement Area (\$150,000) and the Seattle Housing Authority (\$618,000).

Section 4. Grant Backed Appropriation Increases – Operating Budget

The proposed Q3 Supplemental Budget ordinance would authorize all but one of the grants proposed in the Grant Acceptance Ordinance, totaling approximately \$9.9 million. The proposed Grant Acceptance Ordinance would authorize Seattle Public Utilities (SPU) to accept a \$2.7 million grant from the King County Flood Control District to reimburse SPU for flood control

¹ Please see the Miscellaneous Issue ID paper that will be presented to the Committee on October 16th for a proposal from Councilmember Sawant to restore the \$30 million for the Strategic Investment Fund.

improvements in the Broadview neighborhood; the project is already in SPU's Capital Improvement Program and has the necessary appropriation authority. As noted in the overview section, above, the proposed ordinance would appropriate \$3 million of a \$26 million federal ESG provided as part of the CARES Act. (The remaining \$23 million of the award would be accepted and appropriated upon approval of the Mayor's 2021 Proposed Budget). Please see Central Staff's Issue Identification paper for the Human Services Department, that will be presented to the Committee on October 21st, for additional information about this grant.

Section 5. Appropriation Transfers – Operating Budget

The proposed legislation would make operating budget transfers totaling \$19.6 million. The largest would make a \$7 million transfer in appropriation authority using General Fund Reserves to offset losses to the Parks and Recreation Fund. Two additional transfers from the Parks and Recreation Fund would reduce Parks expenditures by \$869,000 and would effectively reduce Park District funded capital projects by \$5.3 million. The proposed legislation also transfers \$500,000 from SPD to DON for community engagement for alternatives to public safety and new investments. Please see Central Staff's Issue Identification paper for Community Safety for additional information about this proposal and its relation to other executive initiatives.

The proposal would also reassign a \$1.7 million SDOT Surface Transportation Grant from One Center City congestion relief to support transportation demand management programs intended to address access challenges related to COVID-19 response during the extended closure of the West Seattle Bridge. It would also transfer \$1.1 million in CRF funds within the Department of Finance and Administrative Services to support future expenditures. Finally, it would make technical accounting corrections to three SPD grants dating back to the 4th Quarter 2018 supplemental budget.

Section 6. Appropriation Decrease – Capital Budget

The proposed legislation would make almost \$20 million in reductions to the City's Capital Program, about \$11.7 million of which comes from the ITD Fund, \$5.7 million of which comes from the Park District Fund, and \$2.4 million of which comes from the Transportation Fund. Most of the ITD reductions reflect funds left over upon project completion, reduced replacement costs, realignment of appropriations with the rate of expenditure, project discontinuance and technical corrections. The Parks reductions reflect savings from capital projects that are being delayed due to reduced resources and the transfer of these resources to Parks' operating budget to support revenue shortfalls due to facility closures.

The proposed project specific reductions from SDOT would affect four projects to which Council restored funding by overriding the Mayor's veto of [Ordinance 126148](#), the 2020 Budget Revisions Ordinance. The proposed Q3 Supplemental Budget Ordinance would fund the Fortson Square and Pedestrian Master Plan Sidewalk Projects through the REET (Real Estate Excise Tax) II Fund instead of the Transportation Fund, and it would reverse Council's proposed funding increases to the Thomas Street Redesign (a \$777,000 reduction) and Market to MOHAI projects (a \$396,000 reduction). Please see Central Staff's Issue Identification paper for SDOT, that will be presented to the Committee on October 20th, for additional information about the status of these projects.

Section 7. Appropriation Increase – Capital Budget

The proposed legislation would add approximately \$1.9 million for four capital projects, two of which are technical corrections and one of which would provide appropriation authority for funds to be reimbursed by King County Metro. The fourth item would appropriate \$680,000 for repair of damage to City buildings during ongoing marches and protests.

Section 8. Appropriation Increase – Capital Budgets – Revenue Backed

The proposed legislation would add approximately \$5.3 million of revenue backed appropriation authority, \$5.1 million of which would provide utility reimbursement associated with SDOT's Delridge Multimodal Corridor project. The balance is a technical correction to Seattle Center's budget.

Section 9. Appropriation Transfers – Capital Budget

The proposed legislation would make a number of transfers to support appropriation increases and decreases previously discussed (e.g. STP (Surface Transportation Program) Grant Transfer for W. Seattle Bridge TDM (Transportation Demand Management), Thomas Street Redesigned Project, Fortson Square and Pedestrian Master Plan Sidewalks). It would also use funds made available by delaying the start of the Fire Station #5 project to pay for added costs on SDOT's King Street Station Tenant Improvements and for improvements to the Joint Training Facility used for safety training by SFD and SPU. It would also make a \$350,000 fund swap in Parks to help offset the General Fund revenue shortfall and a swap between the Park District Fund and the REET II fund.

Section 10. New Positions

The proposed legislation would create four new positions in the Seattle Municipal Court. The proposal would transfer four existing temporary positions from the ITD and the employees will continue to work on and be funded by the Municipal Court Information System (MCIS) 2.0 replacement project. The positions would sunset at the end of the project, estimated for 2022.

Section 11. Transferred Positions

The proposed legislation would transfer seven positions from ITD to SPU. The staff in these positions support technology associated with SPU operations.

IV. Issue Identification

Issues described in this memo will be addressed in the appropriate Issue Identification paper, as noted above.



City of Seattle

Mayor Jenny A. Durkan

September 30, 2020

Councilmembers -

With your override of C.B. 119863, you have authorized the Executive to initiate an interfund loan of up to \$13.1 million from the Construction and Inspection Fund to the General Fund in order to support community-led safety programs and organizations in 2020. Our understanding of Council's intent is to make up to \$14 million in financial resources available through the Human Services Department (HSD) for services and capacity building.

Given the work with community necessary to develop a full Request for Proposals (RFP) process with a plan for community safety and program outcomes, it is our understanding that Council appreciates that the entirety of the \$14 million could not be fully distributed by December 31, 2020. While the Mayor continues to have concerns that there is no clear funding source identified to repay this debt, we have a shared sense of urgency to initiate these efforts, so the Mayor has directed the following actions:

- HSD Director Jason Johnson will initiate an abbreviated process for allocating \$4 million of immediate resources to currently funded community safety programs with an aim to scale-up, amend contracts, and expand services as soon as possible;
- Director Johnson and his team will also begin a community process to develop an RFP and new program for \$10 million in capacity building for programs and agencies to carry out new or expanded safety related efforts. Once this plan is formulated, consistent with Council's proviso on these funds, we will bring an ordinance forward for Council consideration on releasing these dollars for allocation; and
- Budget Director Noble will not execute an interfund loan. Given HSD's contract reimbursement procedures, the vast majority of these resources, from a cash-flow standpoint, will not be needed until 2021. As such, he has been directed to identify the necessary cash resources for October – December for HSD and bring to Council any legislative authorization that might be required.

To be clear, the Mayor's proposed 2021 budget will not include a funding source for this \$14 million obligation. We will work with Council in the 2021 budget process with an assumption that the Council will identify the revenues needed to balance to this \$14 million expenditure. The Mayor has no objection to accelerating this work and getting funding out to community organizations, so long as there is an understanding that this funding will be accounted for in the final Council 2021 Adopted Budget.

We look forward to hearing back from you soon.

Sincerely,

Mike

Mike Fong
Senior Deputy Mayor
City of Seattle