

Budget Hearing

JumpStart Fund Balancing Analysis

Select Budget Committee | October 11, 2023

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Agenda and Defining Terms

Agenda:

1. Introduction
2. JS Fund Balancing
3. Flexible Use of JS Funds
4. Proposed Adjustments to 2024 JS Fund Expenditures & JS Tax Deductions

Defining terms:

- JS Fund = JumpStart Payroll Expense Fund
- JS Tax = JumpStart Payroll Expense Tax
- GF = General Fund
- Proposed Adjustments = Mayor's 2024 Proposed Budget Adjustments

Introduction

The 2024 Proposed Adjustments:

- Reduce expenditures from the JS Fund by \$8.2 million (3% reduction);
- Reduce the transfer from the JS Fund to the General Fund (GF) by \$10 million; and
- Modify expenditures approved in the 2024 Endorsed Budget, prioritizing the use of higher than anticipated GF revenues to replenish emergency reserves and other new expenditures ahead of funding the expenditures from the JS Fund approved in the 2024 Endorsed. This includes a proposal to amend Seattle Municipal Code (SMC) 5.38.055 to expand the flexible use of JS Funds in 2024 only.

JumpStart Fund Balancing

Revenues

2024 Endorsed	\$311.5 million
- 2024 Proposed	<u>\$289.9 million</u>
	= (\$21.6) million

Expenditures

2024 Endorsed	\$309.3 million
- 2024 Proposed	<u>\$301.0 million</u>
	= (\$8.2) million

To balance, the proposed adjustments:

- Reduce the JS Fund Reserves included in the 2023 Adopted Budget by \$10.5 million, use in 2024;
- Reduce total spending from the fund by \$8.2 million; and
- Assume a \$3 million underspend over the 2023-2024 biennium.

JS Fund transfer to balance the GF (\$ in 000s)

	2024 Endorsed	CS Analysis	2024 Proposed
GF Beginning Fund Balance	210,898	242,216	242,216
Total GF Budgetary Revenues	1,550,456	1,608,184	1,608,184
(A) Total GF Resources	1,761,354	1,850,400	1,850,400
GF Expenditures	(1,651,357)	(1,651,357)	(1,702,405)
Adjustment to Endorsed expenditures	n/a	(34,120)	n/a
(B) Total expenditures	(1,651,357)	(1,685,477)	(1,702,405)
2024 Endorsed Reserves	(194,049)	(194,049)	(194,049)
Adjustment to the 2024 reserves	n/a	(27,541)	(27,541)
(C) Total Reserves	(194,049)	(221,590)	(221,590)
TOTAL AUTHORIZED TRANSFER (A + B + C)	(84,052)	(56,667)	(73,595)^{/3}

Use of the JS Fund to balance the General Fund

- August Revenue Forecast: \$41 million more GF revenues in 2024 (excluding grant revenues) to use in the 2024 Proposed compared the Endorsed
- After addressing cost increases to spending approved in the 2024 Endorsed, any remaining balance should reduce the transfer from the JS Fund to the GF
 - Central Staff's analysis: reduce transfer by \$27 million
 - Proposed Adjustments: reduces the transfer by \$10 million

Issue Identification

1. **Use of the JS Fund to balance the General Fund**

The \$8.2 million reduction to the 2024 Endorsed expenditures from the JS Fund was not necessary to keep the fund in balance (before new spending is considered)

Options:

- A. Further reduce the amount of JS Funds transferred to the GF in 2024.
This will require reducing GF spending by the same amount.
- B. No change.

Flexible Use of JS Funds

Description	2024 Endorsed	2024 Proposed
Sound Transit 3 Staffing outreach and planning	\$162,395	\$162,395
Eviction Legal Defense	\$455,985	\$455,985
Transfer to Sweetened Beverage Tax Fund to address projected revenue shortfall and avoid reductions in critical food services	\$1,200,000	\$1,200,000
Expand mental health services available in School-Based Health Centers	\$1,000,000	\$1,000,000
Add a Code Compliance Analyst to support Economic Displacement Relocation Assistance (ERDA) application processing	-	\$142,109
Start-up Costs for the Social Housing PDA	-	\$850,500
Childcare workers	-	\$2,900,000
Human Services Provider Pay	-	\$4,528,366
TOTAL	\$2,818,380	\$11,239,355

Flexible Use of JS Funds

SMC 5.38.055.D.2 (from the fund flexibility ord)

- After subtracting out the amount of JS Funds transferred to the GF, and then subtracting out any JS Funds spent under this specific flexibility allowance, funds are allocated to each of the JS Fund spending categories by the percentages outlined in the spending plan
- However, when Council endorsed a budget for 2024, the flexible use of JS Funds was assumed to only allow flexible use of JS Funds up to the amount that would otherwise be allocated to the up to five percent of JS Funds allocated to the administration and evaluation category.
 - Attachment A to ORD 126719 clearly articulates Council's intent: "[t]hese expenditures are supported by JumpStart funds that otherwise would be allocated to the administration category within JumpStart."

Flexible Use of JS Funds

Table 2: JS Spending – Council Framing (Legislative intent) (\$s in 000s)

JS Spending Category	2024 Endorsed		2024 Proposed	
	\$	%	\$	%
GF Balancing	84,053	n/a	74,053	n/a
Administration & Evaluation <i>(Includes flexible uses)</i>	10,965	5%	18,380	8%
Economic Revitalization	33,435	15%	31,329	14%
Equitable Development Initiative	20,467	9%	20,459	9%
Green New Deal	20,311	9%	20,328	9%
Housing	140,039	62%	136,483	60%
<i>Subtotal - JS Spending Plan</i>	225,216	100%	226,979	100%
Grand Total	309,269		301,032	

Flexible Use of JS Funds

Table 1: JS Spending - Executive Framing (meets letter of the law) (\$s in 000s)

JS Spending Category	2024 Endorsed		2024 Proposed	
	\$	%	\$	%
GF Balancing	\$84,053	n/a	74,053	n/a
Flexibility	\$2,818	n/a	11,239	n/a
Administration & Evaluation	\$8,147	4%	7,141	3%
Economic Revitalization	\$33,435	15%	31,329	15%
Equitable Development Initiative	\$20,467	9%	20,459	9%
Green New Deal	\$20,311	9%	20,328	9%
Housing	\$140,039	63%	136,483	63%
<i>Subtotal - JS Spending Plan</i>	\$222,398	100%	215,739	100%
Grand Total	\$309,269		301,032	

Issue Identification

2. JS Spending – Temporary Flexibility v Permanent Policy Change

- Flexibility provisions do not technically limit the amount of JS Fund used under the flexibility provision only to underspend in the administration and evaluation category
- Proposed Adjustments, if the amendments to the Fund Flexibility ORD are approved, meet the letter of the law, though it is not in line with Council's intent
- Spending plan for the JS Fund was designed to “help the City make the necessary changes to shift Seattle’s economy to be more equitable and ecologically sustainable.”
- Impacts from COVID emergency and associated impacts to community and economy persist
- Council will continue to be challenged to preserve the JS Funds for the specific spending categories approved in 2020
- Is it time to consider expanding the areas of spending the JS Fund can be used for on a permanent basis?

Issue Identification

2. JS Spending – Temporary Flexibility v Permanent Policy Change

Options:

- A. Reject the proposed changes to the Fund Flexibility ORD and reduce or find alternative sources to fund the expenditures added to the flexibility provisions
- B. Do not reduce the amount of JS Funds transferred to the GF by \$10 million and fund the three new areas of flexible spending proposed by the Mayor from the GF
- C. Amend the JS Fund policies to allow ongoing use of the JS Fund for certain expenditures (e.g., new categories of spending, expanded definition of eligible uses under each category)
- D. No change

Issue Identification

3. Reduction to total spending in the Economic Revitalization and Housing and Services categories

Proposed Adjustments reduce spending in Economic Revitalization category by \$2.1 million and in the Housing and Services category by \$3.6 million

Options:

- A. Reduce other proposed GF spending and transfer the funds back to the JS Fund to restore the categories to the 2024 Endorsed levels.
- B. No change

Issue Identification

4. Proposed \$1 million for Administration and Evaluation

- Proposed Adjustments add \$1 million under the Admin and Evaluation category to the City Budget Office's Innovation & Performance (IP) team to conduct evaluation and reporting on the effectiveness of programs funded by the JS Fund
- In 2020 Council establish in code a Payroll Tax Oversight Committee; but committee recruitment is underway.
- Given delay in establishing oversight committee, and budget deficit projections, this proposal may be premature.

Options:

- A. Reject the proposed \$1 million GF increase and repurpose those funds for other purposes. This could include partially restoring the reduction to the Economic Revitalization and Housing and Services categories.
- B. No change.

Issue Identification

5. Proposed extension of deduction for non-profit healthcare entities

Proposed changes to JS Fund policies include extending for three years an existing deduction from the JS Tax that applies to compensation between \$150,000 to \$399,999.99 at non-profit healthcare entities. If the deduction did expire at the end of 2023, revenues from the payroll tax would be about \$5 million higher than current estimates in 2024

Options:

- A. Reject the proposed \$1 million GF increase and repurpose those funds for other purposes. This could include partially restoring the reduction to the Economic Revitalization and Housing and Services categories.
- B. No change.

Questions?