

2021 Proposed Budget Executive Summary

Introduction

Mayor Durkan's 2021 Proposed Budget reflects the ongoing financial challenges created by the historic events of 2020. The public health crisis created by the COVID-19 pandemic has resulted in an economic slowdown of nearly unprecedented magnitude. The negative impact to City revenues has been sharp and steep, and comes at the same time the public health crisis and associated recession have created an increased demand for basic City services. The City has taken affirmative measures to contain the spread of the virus, and to provide basic lifeline supports to those who have lost their jobs or otherwise been adversely affected by the deepening recession. The state and federal governments have provided significant financial assistance to the City as it has stepped into these roles, but the City has also been forced both to cut its overall budget and reprioritize its spending in response.

At the same time, the murders of George Floyd, Breonna Taylor and so many, many more have renewed and invigorated a fight for racial justice that rightfully demands a response to centuries of discrimination and oppression. This fight has put a sharp focus on the role that government and law enforcement have played in perpetuating and perpetrating oppression and violence against Black, Indigenous and People of Color (BIPOC) communities. This fight has also drawn attention to the historic underinvestment by government in the infrastructure and services that support BIPOC communities. The 2021 Proposed Budget reflects initial steps toward addressing these historic failings, including reductions in the budgets of the Seattle Police Department and the Seattle Municipal Court, initial funding for a public process to address the future of the City's approach to law enforcement, and a new, ongoing financial commitment to support investments in BIPOC communities. These and other proposals are described at a summary level in the remainder of this overview section, and then more fully detailed in the department-level chapters that follow.

The Local Economy and Impacts on City Revenue

Before continuing with a summary of the major funding changes included in the 2021 Proposed Budget, we begin with a description of the economic and revenue impacts experienced in 2020 and predicted for 2021. Washington Governor Jay Inslee first declared a public health emergency in February 2020, and followed in March with a statewide Stay Home – Stay Healthy Order. Mayor Durkan acted in response to the initial COVID-19 outbreak on a comparable timeline, declaring a city-wide Civil Emergency on March 3, 2020. Such actions, and the social distancing measures imposed by these declarations and orders, were essential for public health, but the impacts to the local, regional and ultimately national economy have been dramatic.

The Local Economy

The economic downturn caused by the COVID-19 pandemic ended the longest period of economic growth in the nation's history, which had lasted almost 11 years. We are now experiencing what may prove to be the deepest, and hopefully shortest, recession since World War II. By the close of 2020, the national economy is expected to have shrunk by slightly more than 6% and shed nearly 8 million jobs. The impacts on the local economy will be comparable. Before the onset of the crisis, the local unemployment rate was about 3%. At its peak in April, the figure had spiked to just over 16%. That rapid

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a decline in employment is without precedent. The unemployment rate has now “stabilized” at about 8.5% in Seattle, and about 10% both statewide and nationally. However, full recovery will take many years.

Moreover, this recovery will take much longer for some sectors of the economy than others. In recent years, growth in the technology sector has driven a rapid expansion of the overall local economy, with sectors such as construction, hospitality and retail sales all feeling the positive impact of the employment boom in technology and online purchasing. The current recession has ended this period of rapid growth but has affected individual sectors very differently. For example, while employment has declined significantly in the manufacturing, retail trade, information, and financial sectors, the most dramatic impacts have been felt in the leisure, hospitality and construction sectors, which accounted for 40% of the jobs lost regionally. Travel restrictions and health concerns have decimated Seattle’s tourism business, and there is initial evidence that Seattle’s long-term construction boom has come to an end. While the volume of newly requested construction permits has remained strong, the value of those permits has declined. In particular, the average monthly value of permits issued declined by 38% for the first seven months of 2020 compared to the same period last year. While current construction activity is being driven by commitments made and projects initiated before the crisis, future activity and employment will depend on whether the general economic growth drives further demand for office space and residential units.

Looking forward, the diversity of Seattle’s economy should help its path to recovery once the public health risks abate. Some forecasts indicate that local employment could return to pre-COVID-19 levels in two to three years. One key risk in that forecast is how COVID-19 will impact the tourism and travel sector over the coming months and years. Seattle is directly dependent on this sector for local employment in hotels, restaurants and retail businesses but, through Boeing, our local economy is also indirectly affected by the national and international demand for air travel, including both business and leisure trips. The 737 Max program has already suffered significant production slowdowns, and Boeing is considering whether to consolidate its production of the 787 Dreamliner, which could lead to a significant drop in local aerospace employment.

Another general risk that is specific to Seattle is whether COVID-19 will have an impact on the pattern and geography of future economic growth in the region. For example, a shift to online work could decrease the demand for downtown office space and the service businesses supported by downtown employment. Similarly, remote work could increase the demand for suburban homes, at the expense of residential construction in Seattle’s neighborhoods and downtown core.

Impact on City Revenues

The City’s revenues are a direct reflection of local economic conditions. Tax revenues, particularly Sales Taxes and Business and Occupation (B&O) Taxes, are driven by local economic activity. Furthermore, local economic activity drives the City’s “earned” revenues, those paid as fees for the services provided by departments such as Seattle Center, Seattle Parks and Recreation, the Seattle Department of Construction and Inspections, and the utility rates paid to Seattle City Light (SCL) and Seattle Public Utilities (SPU). COVID-19 has driven a decline in all these revenues.

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Sales tax revenue declined by 15% in the first six months of 2020 compared to the same period in the previous year. Sales tax revenue for 2020 as a whole is expected to decline by 16 to 21%. B&O Tax revenues are generally more stable than Sales Tax revenues because they are collected from a broader base of the economy. Nonetheless the impacts here have also been dramatic because the impacts of COVID-19 have been so widespread. The B&O revenue payments for the first two quarters of 2020 are 12.8% lower than in the same period last year. While this is slightly less dramatic than the impact on Sales Tax revenues, these losses are still significant. By year end, B&O tax revenues are expected to be down by as much as 19.5% compared to 2019.

The overall impacts on the City's General Fund revenues, which include both the Sales and B&O taxes have been dramatic. Before COVID-19, anticipated General Fund revenues totaled \$1.4 billion for 2020. Although the City Budget Office had not prepared a 2021 forecast before the onset of the virus, recent trends of 4-5% growth would have pushed that total above \$1.45 billion. Current 2021 forecasts for that same set of revenues total just \$1.28 billion, a decline of \$120 million relative to 2020. Furthermore, if we consider other revenues that support general government activities, such as the admission tax, the soda tax and the Real Estate Excise Tax, there is an additional decline of approximately \$65 million. There is, however, a significant new source of revenue that could offset these losses in the overall revenues for General Government services. Beginning in 2021 the City will begin to collect a Payroll Tax, applied to jobs that pay more than \$150,000 per year. This new tax is projected to generate \$214 million in 2021, and thus can offset much of the revenue declines relative to 2020. There is risk and uncertainty in the forecast of this new Payroll Tax, as we have only an estimate of the applicable tax base and no direct experience in collecting a Payroll Tax from the city's employment base. In better times, the reserves held in the City's Rainy Day Fund, technically known as the Revenue Stabilization Fund, would provide a source to "backfill" resources if actual collections did not meet the forecast. However, these resources have been depleted by the current crisis, and only \$5 million will remain to protect against this risk.

However, as described in the rest of this summary and detailed in the pages that follow, the revenue side of the story only captures a portion of the overall financial challenge. The City's underlying costs will grow from 2020 to 2021, driven by general inflation and the City's contractual obligations to its unionized workforce. The COVID-19 pandemic and resulting economic downturn has led to increased demand for basic supports such as food assistance and shelter, and the City will continue its efforts to step up to meet at least some share of these overwhelming needs. Moreover, the Mayor's Proposed 2021 Budget takes an initial step to address the historic underinvestment in BIPOC communities and includes \$100 million in new funding for this specific purpose. To balance this additional spending and address the revenue shortfalls described above, the budget reflects reductions of more than \$75 million in General Fund appropriations and relies upon \$52.5 million of one-time resources from the Rainy Day and Emergency Funds. This will leave just \$5 million in the Rainy Day Fund and will fully exhaust the Emergency Fund by the end of 2021. This will leave the City susceptible to further financial shocks, and could force immediate reductions in planned spending if revenues fall short or new emergency costs emerge.

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Approach to Developing the 2021 Budget

The sections below provide additional detail about the changes to individual City departments, highlighting both areas of additional expenditure and specific spending reductions. The sections are organized to highlight Mayor Durkan's policy priorities for 2021 and how they are reflected in the budget. In approaching the development of this budget, the City Budget Office was aware of these priorities and considered how to balance the available resources to meet them. Spending reductions were necessary, but when departments were asked to develop potential specific proposals an emphasis was placed on minimizing the impact to critical, basic services and to both preserve and expand the ongoing services and capital investments provided to BIPOC communities. In addition, reductions in General Fund support to departments were also informed by their ability to draw upon other resources, such as voter-approved levies, to mitigate the impacts of General Fund reductions. The flexibility proved beneficial in managing reductions to the Seattle Public Library, the Department of Education and Early Learning, the Seattle Department of Transportation, and Seattle Parks and Recreation. The overall approach to balancing also reflected a specific sensitivity toward impacts on the City's work force. To the extent possible, we have sought to reduce labor expenses through voluntary attrition -- holding positions vacant as workers resign or retire -- rather than layoffs. .

Sustaining the City Response to the COVID-19 Pandemic

In 2020, the City took immediate and dramatic steps to address the COVID-19 pandemic, this included measures to contain the virus and also to mitigate its impacts, including the financial hardships created by unemployment and lost business opportunities. While the level of federal support offered in 2020 is not expected to continue next year, the 2021 Proposed Budget dedicates a mix of City, state and federal dollars to continue many of the measures implemented this year. Included in this funding is \$22 million for 2021 that the Mayor and Council agreed to in August 2020 as part of a \$45 million overall package of additional COVID-19 relief for both 2020 and 2021. On-going services will, for example, include:

- Enhanced resources are provided to continue operation of the existing shelter system in a manner that reduces COVID-19 risk by reducing the number of individuals served at any specific facility and operating the facilities with appropriate social distancing and risk mitigation measures.
- An additional \$23 million in Federal Emergency Services Grant (ESG) will be spent on temporary non-congregate shelter to rapidly expand the short-term housing opportunities available for those living unsheltered. This will build upon a \$3 million allocation of ESG resources for this same purpose for latter part of 2020.
- Additional funding of \$2.75 million will support the ongoing operations of new shelter facilities with a capacity for 125 individuals that are planned for opening in late 2020.
- The program established in 2020 to provide expanded hygiene facilities and mobile shower services to those living unsheltered will continue for 2021. This will require \$6 million of General Fund support, because the City cannot assume the current FEMA support will continue.
- An additional \$8 million of General Fund resources will be provided for rental assistance.
- Mortgage counseling services will be supported by a new \$350,000 investment in 2021, consistent with the amount added for 2020.

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- The grocery voucher food assistance program now being implemented by the Office of Sustainability and Environment, and partially supported by revenues from the City's tax on sweetened beverages, will be supplemented in 2021 with \$3.4 million from the package of COVID-19 relief funding. Even before the COVID-19 crisis hit, the City had increased funding for the program operations in 2020. This new higher level of base funding will continue and now be further enhanced by this additional investment from the Council and Mayor's two-year package of COVID-19 relief.
- Additional funding of \$5 million will be provided to ensure that the City's current drive-up COVID-19 testing sites operate next year, even if federal and/or state support is not provided.
- Seattle Parks and Recreation will provide childcare and supports for elementary-aged children at 19 community center locations, as well establish teen resource hubs at seven of these facilities.

If additional state and federal funding for COVID-19 response and relief is provided later in 2020 or in 2021, the City may have the opportunity to expand this programming and provide additional support to those whose lives have been most disrupted by the virus.

New Investments to Prioritize Equity

From both a financial and policy perspective the most significant element of Mayor Durkan's Proposed 2021 Budget is \$100 million of dedicated, ongoing spending to invest in Black, Indigenous, and Communities of Color (BIPOC) communities. The specific form that these investments will take has not been prescribed in the budget. Instead, the City will establish a community-led Equitable Investment Task Force to identify and recommend appropriate spending priorities. This funding is explicitly designed to be additive to the City's existing programs that support BIPOC communities. For example, the 2021 Proposed Budget continues support for the City's Equitable Development Initiative (EDI). EDI is designed to provide opportunities to build community wealth and invest public dollars in ways that enhance community's capacity to develop and implement projects that can become long-standing community assets. The budget adds scarce General Fund resources to this program to backfill for dedicated revenues that were to come from the City's new tax on short-term rental properties. The COVID-19 pandemic has dramatically reduced those revenues, but not the City's commitment to the initiative.

Community Safety and Re-Imagining Policing in Seattle

Throughout the summer of 2020, Seattle residents took to the streets to protest the unjust murders of Black Americans like George Floyd and Breonna Taylor and the shooting of Jacob Blake; all of these individuals experienced violent and lethal force at the hands of police officers. For years, Seattle has been making progress to expand alternatives to arrest and incarceration and has increased investments in community-based programs that address the root causes of crime and violence. Important reforms required by the federal consent decree have led to progress by the Seattle Police Department (SPD), including a substantial decrease in use of force involving people in crisis and the implementation and advancement of community outreach programs. However, there is still a long way to go in both reforming the Department and building community trust. Communities are not only protesting race-based disparities in interactions with SPD, but the systemic racism built into government.

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The City recognizes the need to increase transparency and accountability with SPD and its budget, functions, and the policymaking process. To begin this work, the City will create an Inter-Departmental Team (IDT) to conduct a thorough analysis of 9-1-1 calls and all functions of the Seattle Police Department to ensure the department can continue to swiftly respond to Priority One and Two calls while transitioning calls that result from homelessness, behavioral health issues, or substance use problems to organizations outside of law enforcement. Throughout this effort, the City's guiding principle will be creating a system that does not disproportionately criminalize Black people and other communities of color and does not criminalize people for experiencing the effects of institutional failures. Righting the wrongs of American history will not happen overnight, but the City will endeavor every day to embrace this seminal moment in history to create true and lasting change. Additional funding in the amount of \$2 million has been set aside in the Human Services Department in a proposed new Safe and Thriving Communities Division to provide initial funding for recommendations that may come from the work of the IDT and the input it gathers in consulting with various community stakeholders.

Even as the IDT begins its work, the 2021 Proposed Budget for the Seattle Police Department outlines a solid first step in reinventing policing and reimagining community safety. The budget reduces the size of SPD's sworn force, transfers functions from SPD that are better performed in a more civilianized practice, and makes short-term reductions to SPD's budget in response to the COVID-19 pandemic. In particular:

- The Seattle Police Department was budgeted for 1,422 sworn officers in the 2020 Adopted budget, but will only be funded for 1,400 in 2021. The IDT referenced above will work in the fall of 2020 and into early 2021 to assess the appropriate force size for the long run.
- SPD's Parking Enforcement unit and its 120 employees will be transferred to the Seattle Department of Transportation.
- The Office of Emergency Management, which coordinates the City's efforts to prepare for, respond to, and recover from disasters and emergencies, will be moved out of SPD and become an independent office.
- The existing 9-1-1 Communications Center, currently housed in SPD, will also be transferred out into its own independent, stand-alone unit. As non-sworn, community-based alternative responses to calls are developed, the 9-1-1 Communications Center, now to be called the Seattle Emergency Communications Center, will be crucial in dispatching those responses.
- The 2021 budget will make permanent the transfer of the Seattle Police Department's Victim Advocacy Team to the Human Services Department (HSD). This transfer was initially made by the City Council in the 2020 2nd Quarter Supplemental Budget Ordinance. This team is comprised of 11 FTEs and a budget of \$1.25 million. These resources will be added to the proposed new Safe and Thriving Communities Division in HSD.

The 2021 Proposed Budget expands activities pertaining to sustainment of the federal consent decree, reinforcing implemented reforms and investing additional resources to expand the capacity of both the Office of Professional Accountability and the Office of the Inspector General for Public Safety.

However, the reform efforts represented in the Proposed 2021 Budget are not limited to changes related to SPD. In addition, there are funding modifications for both the Seattle Municipal Court (SMC) and the City's relationship with King County for the provision of jail services. Responding to the recommendations of an outside assessment of SMC's current probation services, the Court has proposed a significant restructuring of this function. SMC will reorganize probation services to transform pretrial justice by reducing in-person day reporting and moving to a collaborative Community Court

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model; and reduce traditional post-sentence supervision to focus on higher risk charges. The redesign reduces the SMC budget by \$1.4 million and cuts probation staff by 13 positions (a 25% staffing reduction). In support of this new approach, the budget adds \$100,000 for the Court to contract with a non-profit for a case manager equipped to make culturally appropriate referrals to community-based agencies which will support clients in services with the goal of long-term self-sufficiency outside the court system.

With respect to jail services, the City and County are working to complete an agreement that would redirect a share of the resources now spent on jail operations toward community-based supports that can reduce the use of jail. The goal is to increase community-based support for disproportionately incarcerated communities through investment in programs lowering the risk of any involvement with the criminal justice system. The plan is to have the County and City work collaboratively with representatives from the affected communities to allocate these resources. As part of this agreement, the County and City will also establish a process for ongoing monitoring of jail operations with the aim of providing appropriate services and care for those who are incarcerated.

Highlights of Necessary Budget Reductions and Use of Fiscal Reserves

To balance the investments described in the sections above and address the revenue shortfalls created by the COVID-19 pandemic and resulting economic downturn, the 2021 Proposed Budget will reduce spending across the City, shift funding sources to support essential functions, and draw down some of the City's fiscal reserves. The most significant of these budget actions include:

- A wage freeze in 2021 for the City's unrepresented, broad-band salaried employees, including strategic advisors, managers and executives. This will save approximately \$6 million across the City, including \$2 million of General Fund resources, relative to the 2.9% pay increase that had otherwise been planned for 2021.
- Maintaining position vacancies as employees choose to leave the City and reducing discretionary spending for consultants, travel, and training will save approximately \$30 million in General Fund resources and an additional \$46 million in expenditures from other City funding sources.
- General Fund support to The Seattle Public Library (SPL) will be reduced by 10%, or \$5.8 million. The impacts of this reduction will be partially offset by using Library Levy resources that would have been used to expand hours and programming to support base operations. For planning and budgetary purposes, the budget assumes that the SPL will not resume full operations until July of 2021, and reduced operations during the first half of the year will also provide some financial savings.
- Seattle Parks and Recreation (SPR) is managing a significant reduction in its overall revenues, including an \$11.4 million (10%) reduction in its General Fund support, \$10.5 million reduction in revenues earned from user fees, and a \$19.3 million reduction in Real Estate Excise Tax (REET), which supports capital investments at SPR. Capital resources from the Park District will be shifted to support operations and minimize the operational impacts associated with the reduced revenues. Nonetheless, there will be significant operational impacts.

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- Five of the City's 26 community centers will be closed in 2021. These closures will provide an opportunity to complete planned capital projects, but will also provide some operational savings.
- Of the City's 10 pools, only four will remain in operation during 2021.
- Due to facility closures and reduced capacity due to COVID, there will be a significant decrease in indoor recreation opportunities. SPR hopes to mitigate this by providing outdoor recreation opportunities where possible.
- SPR staff are being redeployed to support new outdoor recreational programming that will be designed as alternatives to the indoor opportunities that are not available under COVID-19 restrictions.
- Overall, SPR has assumed that full operations will not resume until mid-year 2021, due to these restrictions.
- In addition to the operational impacts, the proposed budget significantly reduces major maintenance spending across nearly all of SPR's ongoing capital programs.
- The Seattle Department of Transportation (SDOT) is managing financial pressures from both sides. The pressure is created by a combination of declining revenues (General Fund, Real Estate Excise Tax, and transportation-specific revenues) and unexpected spending pressures (COVID-19 response, emergency snow and ice response from winter 2020, protests, and the failure of the West Seattle Bridge). The total 2021 funding gap of \$85 million will be addressed through \$60 million in spending reductions and a \$25 million interfund loan.
- Seattle's Human Services Department (HSD) will see an increase in total funding. As highlighted in the earlier section regarding COVID-19 response, there will be increased investments in shelter services and rental assistance. Additional funding will also continue some one-time investments made in 2020. At the same time, 2021 will mark a turning point in the City's approach to funding services for those living without shelter. HSD's budget for addressing homelessness will reflect the establishment of the King County Regional Homelessness Authority (KCRHA) in 2021. Once operational, KCRHA will provide homeless services which have historically been managed by the Human Services Department.

Fiscal Reserves. The actions highlighted above will not be sufficient to balance the General Fund for 2021, and additional resources from the General Fund's fiscal reserves will be needed to fully support the proposed 2021 General Fund spending. The City entered 2020 with approximately \$126 million combined in the Rainy Day and Emergency Funds, which constitute the General Fund's fiscal reserves. To make up for 2020 revenue shortfalls, and to support the first half of the \$45 million, 2-year COVID-19 relief plan, these reserves will be depleted by almost \$70 million in 2020. An additional \$52.5 million will be needed in 2021, leaving just \$5 million available going forward. This is a thin margin in the context of the current uncertainties, but it is difficult to balance the very real pressures to address the current crises while also planning for unknown future risks. If circumstances increase financial pressure on the City over the coming year, quick action would be needed to shift resources from some share of the activities proposed for funding in 2021. With the most easily identified discretionary spending now having been eliminated from the budget, such a reprioritization could be very difficult, forcing the reduction in important City services and/or a reduction in personnel costs that could force layoffs. To avoid such risks in the future, it is important to replenish the General Fund's fiscal reserves once the current crises have abated and we return to a pattern of growing revenues.

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Impacts to the City's Utilities. The City's two utilities, Seattle City Light (SCL) and Seattle Public Utilities (SPU), have also had to respond to the impacts of the COVID-19 pandemic and resulting economic downturn. SCL is managing a reduction in revenues associated with a decline in energy demand driven by the current recession. Reductions in operational and capital expenditures will be needed in response, but SCL will continue to prioritize the replacement of aging poles, which have been identified as a potential safety and reliability risk, and its forward-looking investments in support of transportation electrification. For SPU, revenue impacts have been less significant, as reductions in commercial demand have been offset by increased residential demand. Nonetheless, SPU has delayed development of the Utility's Strategic Business Plan to better understand the implications of the COVID-19 pandemic, and shifted its immediate priorities to address the current public health crisis. Both utilities will forego planned rate increases in 2021, SCL freezing rates at 2020 levels and SPU doing the same for water. The utilities have also taken steps to provide financial relief to customers who have encountered difficulty in paying their bills, expanding outreach and enrollment for the Utility Discount Program, and offering deferred payment plans for those who need this relief.