

2019-2020 Proposed Budget Executive Summary

Introduction

The City of Seattle's 2019-2020 Proposed Budget is the first of Mayor Jenny A. Durkan's administration. The total proposed appropriations are approximately \$5.9 billion per year, including about \$1.3 billion in General Fund spending per year. The City operates on a biennial budget, with a two-year spending proposal developed every other year. Following a brief review of projected revenues, and a summary of the economic forecasts that underlie these projections, this section provides a high-level description of the proposed budget's key initiatives. As highlighted below, Seattle continues to enjoy a period of significant economic vitality and growth. This economic strength has helped grow City resources, but also created challenges in both managing the pace of growth and addressing the disparities in opportunity that have characterized recovery from the Great Recession at a national and regional level.

Understanding the Local Economy and its Impact on City Revenues

The City's revenues are highly dependent on the health of the local economy. Growth in revenues from retail sales, Business and Occupation (B&O), property, and utility taxes are directly linked to increased economic activity in the city. Driven by expansions in the technology, online sales and construction sectors, Seattle has led the region's economic growth through the post-recession recovery that began in 2009. During that period, total employment in King and Snohomish County has grown by 25%, compared to just under 18% statewide, and 15% nationally.

Looking forward, our forecasts anticipate further growth in the local economy, but that the rate of growth will slow. The region's employment growth peaked in first of half 2016 and the pace of job growth has been gradually declining since then. With Amazon now searching for a second headquarters location and no indication that Boeing will significantly increase employment, there is no reason to anticipate a near-term return to the employment growth peaks in 2015 and 2016. In turn, without rapid growth in the demand for new homes and new office space, we anticipate that the City's booming construction sector will cool over the next few years. These expectations about local economic conditions are reinforced by the consensus forecasts for the performance of the overall national economy. The stimulus provided by federal tax cuts has increased Gross Domestic Product (GDP) growth in the first part of this year and is expected to boost growth somewhat in 2019. However, by 2020, most forecasters expect to see a slowing of growth at the national level as that stimulus effect wears off. This will be accompanied by an increased risk of recession.

Given the link between local economic conditions and City revenues, the revenue forecast for the upcoming 2019-2020 biennium mirrors the overall economic forecast. In particular, the growth for overall General Fund revenues is projected to be just 3.5% in 2019, if we set aside the impacts of the new short-term rental tax. With the local inflation rate now pushing past 3%, this implies that without the new short-term rental tax, there would be almost no net increase in the real purchasing power of the City's underlying tax revenues for 2019. For 2020, the forecast is comparable. We are anticipating a policy-driven increase in revenues from the county-wide Emergency Services Levy. However, if revenue growth were restricted to just economic-driven increases, General Fund revenues would increase by just 3.7%. These modest levels of growth highlight the budgetary challenges ahead. While there are clear

Proposed Budget Executive Summary

pressures to increase City services on a number of fronts, the City's revenues are not likely to increase at a rate that will allow us to meet these demands for new services without reprioritizing current spending. Moreover, as highlighted in the section below, we face the very real risk that a downturn in the local economy will lead to declining revenues and force cuts in City spending. In this context, the proposed budget takes steps to reduce expenditures across the City and offers only modest expansion of the services that rely directly on General Fund resources.

Building a Sustainable Budget

Reducing Expenditures. Recognizing that the City's tax and fee resources are vulnerable to the inevitable downturn in construction-related revenues or a more general economy-wide recession, the Mayor has developed the 2019-2020 Proposed Budget with goal of putting the City's finances on a long-term sustainable path. Rather than expanding City services beyond the level that can be reliably sustained by current revenues and projected growth, the Mayor has taken steps to reduce the resources spent in support of current services, while also identifying how existing revenue streams can be used to close the gap between the cost of sustaining current services and the revenues available in the upcoming biennium.

This has led to a centralized effort to reduce discretionary spending in areas including consultant contracts, City vehicles, and unnecessary positions, with an emphasis on long-standing vacancies. Annual spending on discretionary consultant contracts is targeted for a \$10.9 million reduction, with more than half of the reduction coming from Seattle City Light, and more than 156 positions will be abrogated over the 2019-2020 biennium.

Mayor Durkan has taken a two-pronged approach on reducing fleet costs. This month the Mayor issued an Executive Order imposing a moratorium on the acquisition of new sedans and directing the Department of Finance and Administrative Services (FAS) to complete an assessment of how the City can reduce its fleet of specialized vehicles, such as trucks and heavy machinery. The proposed budget also reduces individual department allocations for the purchase of fuel by a total of more than \$1 million Citywide. This reduction will better align budgeted resources to the actual spending seen in recent years. The push to reduce the size of the fleet and its use of fuel is driven not only by financial considerations, but also by the Mayor's commitment to addressing climate change and reducing the emissions associated with transportation.

Prioritizing the Use of Available Funding Sources. The push toward building a sustainable budget is not limited to the spending side. In developing the proposed budget, the City Budget Office (CBO) evaluated how the City's existing revenue streams might be directed to support activities that were funded for 2018, but for which ongoing, sustained funding had *not* been identified. For example, in 2017, the City's budget included authorization for \$30 million in long-term debt to finance an expansion of the City's investments in affordable housing. Funding was identified for repaying these bonds for the initial two-years of the obligation, but not the remaining 28 years. Additionally, as part of its final actions in approving the 2018 budget, the City Council authorized a \$4.3 million interfund loan to support additional ongoing spending on services for people experiencing homelessness. This loan was authorized in anticipation of adopting a new, dedicated revenue source. However, no new revenue source was ultimately approved. Recognizing that additional investments in the City's response to

Proposed Budget Executive Summary

homelessness were indeed necessary, Mayor Durkan proposed, and Council authorized, the use of roughly \$10 million in one-time resources to support further spending in 2018.

To sustain these commitments in 2019, the budget needed additional resources. CBO identified a number of existing sources that can be used directly or indirectly to support these investments in the proposed budget:

Sweetened Beverage Tax (SBT). In 2018 the City began collection of an excise on the distribution of sugar-sweetened beverages. Original estimates projected total revenues of approximately \$15 million per year, with an expectation that these revenues could decline significantly over time. Based on actual receipts from the first half of this year and the trends observed in cities that have imposed such a tax for a longer time, these estimates have been increased to roughly \$21 million annually, and significant decline is no longer expected. The proposed budget maintains the spending planned under the original revenue estimates but directs roughly \$5 million of the previously unanticipated funding to support existing food distribution programs. Support of such programs is consistent with permissible uses of Sweetened Beverage Tax (SBT) revenues, which include access to healthy food. Using this new funding source to cover the costs of food distribution programs means that the General Fund resources now supporting these programs can be redirected to sustain other priorities, including the additional homelessness services funding described above. At the same time, the proposed budget will sustain funding for the programs now supported by SBT revenues, including the allocations of 2018 revenues recommended by the SBT Community Advisory Board. In addition, the proposed budget uses \$1.4 million per year of the newly forecast revenues to increase spending on programs consistent with the recommendations received from the SBT Community Advisory Board. This includes establishing a \$500,000 low-barrier “opportunity fund,” which will be awarded to community-driven projects designed to discourage the consumption of sugar-sweetened beverages.

Short-term Rental Tax. During the 2018 legislative session, the Washington State Legislature imposed a tax on short-term housing rentals, such as Airbnb and VRBO. Recent revenue estimates indicate that the City will receive about \$10.5 million per year from this source, considerably more than had been anticipated when the City first considered imposing such a tax itself. Per state law, this revenue stream can only be used to support equitable development or affordable housing. Consistent with Council’s policy direction regarding the use of these revenues, the proposed budget directs \$5 million of the new revenues to the City’s Equitable Development Initiative. The remaining resources are directed towards existing commitments for affordable housing, including more than \$3.5 million for permanent supportive housing, homelessness prevention services, and debt service on a portion of the \$30 million in long-term debt referenced above.

Real Estate Excise Tax (REET). The City imposes two 0.25% taxes, REET I and REET II, on all real estate transactions within Seattle. Per state law, the associated revenue can only be spent on capital projects, with slightly different restrictions limiting the types of capital projects that can be funded with each tax. Revenue projections indicate that total REET revenues will exceed \$80 million per year over the coming biennium. While these revenues cannot be directly used to support homelessness services or other General Fund operational costs, there are opportunities for indirect funding.

By investing REET dollars in the major maintenance activities at the Department of Parks and Recreation (Parks), now funded by the Seattle Metropolitan Park District (MPD), the City can repurpose the MPD dollars which had been committed to capital projects to instead fund Parks operations and maintenance

Proposed Budget Executive Summary

(O&M). In turn, this reduces the General Fund resources need to support Parks and allows those General Fund dollars to pay for other priorities. The proposed budget allocates \$10 million in REET per year to Parks in this fashion, and thus effectively provides an additional \$10 million per year for other General Fund priorities.

REET revenues can be volatile and will decline during an economic downturn, as was experienced during the Great Recession. However, with annual REET revenues now expected to exceed \$80 million per year, this annual \$10 million will be sustainable going forward and will still allow the City to direct significant REET revenues toward other basic major maintenance and infrastructure needs.

Furthermore, sufficient resources are available not only to sustain current Parks operations, but also to significantly increase capital investments in recreational facilities across the City. As detailed later in this section, the proposed budget provides additional funding for facilities in a number of targeted areas, including Bitter Lake, Lake City, North Rainier, and South Park.

Sustaining and Expanding Funding for Those Most in Need

The first funding priority for these newly identified resources was the continuation and expansion of services targeting the City's growing population of people experiencing homelessness. The City of Seattle is entering its fourth year in a state of emergency due to the homelessness crisis. The City's investments in homelessness services have increased over this period, but the number of people experiencing homelessness has continued to grow. In 2017, City departments spent approximately \$71.3 million directly addressing homelessness, with resources dedicated to shelters, sanctioned encampments, outreach, case workers, meals, sanitation and clean-up. The 2018 Adopted Budget included approximately \$77 million for homelessness investments across all City and added approximately \$10 million midyear for two new programs, the Seattle Rental Housing Assistance Pilot and the Path to 500 Bridge Housing Strategy. The Seattle Rental Housing Assistance Pilot focuses on preventing households from falling into homelessness while on the waitlist for longer-term assistance from the Seattle Housing Authority. The Path to 500 Bridge Housing Strategy will establish over 500 new shelter spaces – a 25% increase over 2017 City-supported shelter capacity. In addition, a one-time \$500,000 contribution from King County will allow the City to expand the Navigation Team, which helps match people experiencing homelessness with shelter and services. As described in greater detail immediately below, the 2019-2020 Proposed Budget sustains these new programs, continues existing programs which had one-time funding in the 2018 Adopted Budget, and adds several new programs, including a vehicular resident program and outreach services.

Safer Spaces: Shelter and Encampments. In the summer of 2018, the Human Services Department (HSD) was supporting approximately 1,854 shelter beds. These include 681 “basic” beds, of which 52 are winter-only, and 1,109 “enhanced” beds, of which 64 are winter-only. The underlying goal of City investments in shelter spaces (and other homelessness service investments) is to move people to permanent housing. With case management services and extended hours, individuals have more success in accessing needed assistance to get out of homelessness in enhanced shelters. Performance results from the second quarter of 2018 demonstrate this: 21% of exits from enhanced shelter were to permanent housing while only 4% of exits from basic shelter were to permanent housing.

Proposed Budget Executive Summary

HSD also invests in alternative shelter spaces, including sanctioned encampments and tiny home villages, as part of the City's unsheltered emergency response strategy. The City's Navigation Team and partner service providers report that these kinds of lower barrier options are in high demand by people who are living unsheltered. In the summer of 2018, there were approximately 272 tiny homes or tent spaces available in City-funded encampments, which can serve approximately 345 people at once.

The 2019-2020 Proposed Budget includes approximately \$9.3 million of additional ongoing funding to sustain services at 163 existing basic shelter spaces, for which ongoing funding was not identified in the 2018 budget, and over 500 new shelter beds and tiny homes at ten shelter sites and three new encampment sites. The majority of the new beds and tiny homes are enhanced with case management services and extended hours. In addition to new beds, there is also an incremental addition of \$460,000 in the proposed budget for contracted case management and behavioral health positions to enhance several of the City's sanctioned encampment sites.

Vehicular Response. The 2019-2020 Proposed Budget includes \$250,000 each year for a new program to assist some of the nearly 2,300 vehicular residents who were counted in the 2018 Point-in-Time (PIT) Count. This incremental increase in funding will support a pilot overnight safe parking program, which will aid individuals living in vehicles who are largely self-sufficient and require a relatively low level of services.

Navigation Team Transfer and Expansion. The Navigation Team is comprised of human services outreach workers paired with specially trained Seattle Police Department (SPD) personnel. The team works to connect unsheltered people to housing and critical resources, while helping address pervasive challenges around the issue of homelessness in Seattle. In 2017, the Navigation Team's first year of operations, the team made 1,842 unique contacts with people living unsheltered, and 64% accepted some kind of service. With the additional shelter and tiny house village capacity funded as part of the Path to 500 Bridge Housing Strategy, HSD anticipates that the Navigation Team will have continued success in referral acceptance.

In July 2018, the City's Navigation Team was transferred to the Human Services Department from the Department of Finance and Administrative Services (FAS). HSD, as the City department holding the vast majority of contracts with homelessness service providers, is well situated to ensure that the Navigation Team work is embedded into the entire network of services.

The 2019-2020 Proposed Budget annualizes the transfer of funding for the existing Navigation Team from FAS to HSD. In addition, the 2019-2020 Proposed Budget annualizes the expansion of the Navigation Team, which began in 2018 with a one-time \$500,000 contribution from King County. The goal of the Navigation Team expansion is to increase outreach to people living unsheltered and help to connect them with safer living alternatives such as the 500 new shelter beds and tiny houses.

The proposed budget also includes \$200,000 for additional neighborhood-based outreach to people experiencing homelessness. This funding will support three full-time outreach workers in Chinatown International District (CID)/Little Saigon, Capitol Hill, and First Hill, as part of the Downtown Seattle Association (DSA) homelessness outreach program. DSA's homeless outreach team meets unsheltered individuals where they are and provides case management to connect them with services, housing, treatment and employment options. Furthermore, the budget also sustains funding for the Court

Proposed Budget Executive Summary

Resource Center (CRC) operated by the Seattle Municipal Court (SMC). The CRC provides on-site resources to court defendants, persons re-entering the community from either jail or prison, and individuals who are experiencing homelessness or at risk for homelessness.

Protecting Other Vulnerable Residents

In recent years, the City's policy priorities have an increased emphasis on providing regulatory protections and direct resources in support of those who are at risk of being exploited in the workplace and/or who face threats from shifting national policy on immigration and deportation. For example, the City's Office of Labor Standards (OLS), which started as a small division with the Office for Civil Rights, now has a staff of 23 and a budget of more than \$5.6 million. These staff educate employees and employers about their rights and responsibilities under the City's workplace regulatory standards. OLS staff take the lead role in investigating and enforcing workplace standards. The proposed budget includes funding to sustain three new positions needed to effectively enforce existing regulations, as well as two additional staff to enforce the recently approved domestic worker protection ordinance. These additions will bring the total staff to 28, and the overall OLS budget to more than \$6.5 million per year. Funding is also proposed in the City Attorney's Office to hire an additional staff attorney to assist in policy development and enforcement for OLS.

Legal protections are also the focus of funding proposed for the Office of Immigrant and Refugee Affairs. In response to increased federal enforcement against immigrants, regardless of legal status, the City stands with King County to protect those in need. In 2017, the City provided \$1 million in one-time funding and the County added \$550,000 in one-time funds to create the Seattle-King County Immigrant Legal Defense Network (LDN) and provide free legal services to qualifying immigrants in Seattle and the County. The proposed budget continues the City's commitment to LDN, in partnership with King County. The City and County will contribute equally to the Network: \$795,000 in 2019 and \$810,000 in 2020, for a total of more than \$1.5 million per year. The City will continue to review its funding level to ensure its share of total funding matches the share of Seattle residents using LDN.

Increased protections for the City's own employees are also a focus of the proposed budget. Earlier this year, at Mayor Durkan's direction, the City formed an Anti-Harassment Inter-Department Team (AH IDT) to provide recommendations on training, reporting mechanisms, and personnel rules dealing with discrimination and workplace harassment. The proposed budget allocates funding to implement a number of its recommendations. This includes additional resources within the Seattle Department of Human Resources (SDHR) to centralize investigations of workplace harassment and develop appropriate mandatory trainings. The budget also includes funding to establish an Office of the Employee Ombud, another of the IDT's recommendations. The Ombud will be wholly independent of SDHR. The office will help employees who have experienced workplace harassment, or other comparable workplace issues, navigate the City's human resources and other processes for resolution.

Investing in Equity

The Mayor's proposed budget also takes a proactive approach to investing in communities that have not shared in the prosperity experienced in many of the City's neighborhoods. The current boom in the

Proposed Budget Executive Summary

local economy has both highlighted these disparities and placed the pressure of displacement on the residents of these traditionally affordable neighborhoods. To help these residents take a lead role in the shaping the future of their own communities, the budget takes advantage of the new tax on short-term rentals to expand the City's Equitable Development Initiative (EDI). EDI provides direct funding for community-led groups to pursue development projects designed to serve existing residents. Some involve developing facilities such as community centers, while others are focused more directly on economic opportunity and employment. To date, the EDI program has relied heavily on \$16 million in one-time funding. Under the proposed budget, EDI will now receive consistent funding of \$5 million per year, which will provide resources to directly fund specific projects and support the staff needed to implement what will now be a sustainable ongoing program.

Recognizing that parks and recreation facilities are examples of the basic public infrastructure that can also help build community, the proposed budget also includes new investments in neighborhoods that lack such facilities or where existing facilities have been neglected. This includes funding to support the future development of a community center in Lake City, additional resources to develop a land-banked site in North Rainier into a park, funding to support a comprehensive park site plan in South Park, and funding for a play area renovation in Bitter Lake.

However, neighborhood investments are not to limited to recreational facilities or EDI. For example, the budget includes funding to support neighborhood-led planning efforts in the Chinatown/International District and continues ongoing funding in support of the Duwamish Valley Action Plan, which has been developed in conjunction with the South Park and Georgetown neighborhoods. The budget also includes funding to advance two significant civic projects that will provide benefits to all Seattle residents: the redevelopment of the Waterfront in alignment with the upcoming demolition of the Alaskan Way Viaduct, and the restoration of the Arena at Seattle Center. The latter will be funded by private dollars, but the proposed budget addresses the financial challenges that Seattle Center will face during the period of construction.

Continued Commitment to Public Safety

The Mayor's proposed budget grows the City's considerable investments in basic public safety, including increased funding for both the Seattle Police Department (SPD) and the Seattle Fire Department (SFD). The proposed budget reserves the resources needed to meet the City's commitment under the tentative contract recently negotiated with the Seattle Police Officer's Guild (SPOG). At the time of this writing, the contract has not received final approval, but the budget anticipates that it will, and provides the funding needed both to make retroactive salary payments back to 2015 and to address personnel costs in 2019 and 2020. The proposed agreement marks a significant milestone in the overall efforts toward increased police accountability, as the new contract will allow the City to follow through with those elements of the accountability reforms that were subject to collective bargaining.

The budget also provides the resources needed to continue growth in the overall police force. Since 2014, the police force has grown by approximately 100 officers. To date, 2018 staffing has been steady, with the department challenged by a larger than anticipated number of separations and the difficulty of recruiting when pay had been frozen at 2014 levels. With the compensation increases provided in the proposed contract and a renewed focus on recruitment at SPD, the budget anticipates a shift back to net

Proposed Budget Executive Summary

growth in the force and provides funding for a net addition of 40 officers over the next two years. The budget also provides the resources needed to expand non-sworn staff, and, most significantly, to implement a Community Service Officer (CSO) Program. Twelve CSOs, including two supervisors, will be brought on board to initiate the program, which will support the department's community-oriented policing and expand the outreach of current community engagement efforts. Finally, the proposed budget provides the resources needed for some essential technology upgrades, including replacement of SPD officers' in-car computer terminals and video systems.

Increasing recruitment is also a focus at the Seattle Fire Department. The focus is not on expanding the number of firefighters on duty at any given time, as all stations must be fully staffed 24/7, but rather to reduce the number of overtime hours needed to meet these fixed staffing levels. As the number of retirements at SFD has grown, so has the demand for overtime hours and current work loads are not sustainable. To ensure that available staffing will grow to a more sustainable level, the proposed budget includes funding for an additional recruit class in both 2019 and 2020. The department has recently retooled some of its recruitment and interview practices and anticipates that the additional hiring will provide an opportunity to increase firefighter diversity, in terms of both race and gender. Staffing additions are also proposed for the Fire Marshall's Office, where the City's construction boom has increased demand for the review of construction-related documents. The budget also addresses civilian staffing needs that SFD had related to ongoing management and oversight of payroll and firefighter scheduling.

Transportation – Managing Growth in the Near-Term and Building Capacity for Long-term

The budget for the Seattle Department of Transportation (SDOT) reflects a renewed focus on the near-term challenges created by the region's booming economy and major upcoming changes to the City's transportation infrastructure. While construction activity is limiting roadway capacity downtown, and buses are being added to City streets as the Downtown Seattle Transit Tunnel shifts to exclusive light rail use, the Washington State Department of Transportation (WSDOT) is preparing to open the State Route 99 tunnel and demolish the Alaskan Way Viaduct. To help mitigate the anticipated impacts to mobility, the budget includes funding for expanded transit service, additional investments in technology such as traffic light timing and enhanced hours at the Transportation Operations Center, and increased staffing at the Project Construction and Coordination Office. The SDOT budget also takes a long-run view toward increasing capacity in the overall transportation network, with an emphasis on transit. In particular, funding is included for the City to prepare for Sound Transit's upcoming investments, including light rail service for West Seattle and Ballard. The budget also reflects a renewed focus on delivering the commitments made under the Move Seattle Transportation Levy, including basics such as paving, bridge maintenance, sidewalk repair, curb ramps and greenways.

Conclusion

The balance between addressing near-term needs, while maintaining a vision for the City's longer-run future is not only reflected in SDOT's funding, but across the budget more generally. The focus on building a sustainable budget has led for a push toward efficiency and limited any significant expansion

Proposed Budget Executive Summary

in City services. However, these short-term pressures have not precluded investments aimed at longer run returns that look toward the City's more distant future. For example, the proposed Families, Education, Preschool and Promise Plan Levy would make significant investments in the education of Seattle's next generation, funding programs from pre-K through college. At the same time, generational investments in capital projects such as the Seattle Waterfront and the Arena at the Seattle Center will move forward, setting the stage for the City's future growth and development.