

Summary of the 2022 Proposed Budget

Introduction

Mayor Durkan’s 2022 Proposed Budget will be the last of her administration. If the City had maintained its usual biennial approach to budgeting, 2022 would have been the second year of the 2021-2022 biennium, and the 2022 Proposed Budget would have followed through on the second year of a two-year financial plan. However, due to the unprecedented financial uncertainties created by the COVID-19 pandemic, the budget for 2021 was proposed and adopted as a single-year budget. Thus, the 2022 Proposed Budget takes the 2021 budget as a starting point. As detailed in this summary, the economic, financial, and public health circumstances have led to significant changes relative to 2021. Following a brief review of the region’s underlying economic conditions and their impact on City revenues, this section provides highlights of those changes. While changes are proposed in every City department and address the wide range of service provided by the City, this summary highlights the following issues: Financial Assistance from the Federal Government; Restoration of Base Funding; Expanding Approaches to Community Safety; Addressing the Immediate Needs of Those Experiencing Homelessness and Investing in Affordable Housing for the Long-term; the Clean City Initiative; Ongoing Commitments to Invest in BIPOC Communities, Implementing the Green New Deal; Investments in the Duwamish Valley; and the overall funding approach for the Council’s “JumpStart” revenue priorities. This summary focuses on general government functions, additional information about the City’s “enterprise” functions, including Seattle City Light, Seattle Public Utilities and the Seattle Department of Construction and Inspections can be found in the separate budget book sections for those departments.

The Local Economy and City Revenues

COVID-19 remains a dominant influence on both the national and local economies, and its influence is being felt across the world economy as well. The dramatic drop in employment and overall economic activity associated with the onset of the pandemic has eased, and the fiscal stimulus provided by the federal government has had the intended effect of promoting activity across the economy. For example, unemployment for the Seattle regional economy, which peaked at a rate of 17.1% in April of 2020, has now fallen to 5.0%. The recovery has been uneven in terms of its impact on different sectors within the economy, and employment in the service sector continues to lag, with the restaurant, tourism and entertainment industries still facing significant, COVID-19-related restrictions. To date, City, state and federal relief efforts have targeted assistance to these industries and those who work within them.

The 2022 Proposed Budget is balanced to a revenue forecast that was developed in July and August 2021 and formally presented to the City Council on August 17, 2021. The forecast highlighted the significant positive impacts of the federal stimulus, and the initial success of the widespread vaccination efforts implemented in the first half of this year. Consumer spending returned more quickly than had been expected, and this has led to a material increase in the City’s largest revenue streams, including both sales, and business and occupation (B&O) taxes. The general consensus among national forecasters is that the most significant impacts of the stimulus, having arrived more rapidly than anticipated, will also likely dissipate sooner than had been originally anticipated. Thus, relative to the forecasts developed in April 2021, the new forecast of General Fund and related general government

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resources includes a projected increase of almost \$55 million in 2021, but less than \$25 million for 2022. In total, the 2022 forecast projects that General Fund and related general government resources will total \$1.74 billion. The comparable revised figure for 2021 is \$1.71 billion. (The 2021 total is \$1.79 billion but that includes \$66.5 million associated with a property transaction that has been delayed, and the City has already allocated those anticipated proceeds.)

The generally good news about a faster and more robust economic recovery that underlies the upward revision in the August revenue forecast, has been tempered by the growing threat of COVID-19's Delta variant. The rapidly spreading variant has increased case counts both locally and across the nation, and is leading to the readoption of social distancing policies that could hamper continued economic recovery. Locally, data indicate that since July recovery of the hospitality sector – namely hotels and restaurants – has plateaued. The “return-to-office” plans of major local employers, including Amazon and Microsoft, have been delayed. The ultimate economic and revenue impacts of these developments remain unclear as many sectors within the local economy, particularly the high-wage technology sector, have adapted to the realities of COVID, and have even taken advantage of some of the economic opportunities it has provided.

Other economic risks have also intensified. Inflation has risen notably and this puts pressure on the cost side of local government at the same time that revenues have been reduced. Supply chain disruptions have hampered the manufacturing sector, and concerns about how COVID-19 will affect where employees will work in the long-run has dampened demand for commercial office space and commercial construction has begun to slow in response. The tax revenues generated by construction have become a notable share of both sales and B&O taxes.

These risks will be monitored over the coming months and will inform the revenue forecast that will be provided to the City Council in late October or early November, as it moves closer to final budget decisions.

Financial Assistance from the Federal Government

In addition to the funding available from City sources, the 2022 Proposed Budget also relies upon significant one-time federal financial assistance. First in 2020 and again in 2021, the federal government has provided significant financial relief directly to local municipalities. For Seattle, this has included more than \$160 million from the 2020 CARES Act, approximately \$230 million from the 2021 Coronavirus Local Fiscal Recovery (CLFR) fund, and an additional \$50+ million in targeted assistance included in the overall 2021 American Rescue Plan Act (ARPA). The CLFR funds have been awarded in two tranches, with the first half available in 2021 and the second half in 2022. The 2022 Proposed Budget includes appropriation of the second tranche, which amounts to approximately \$116 million.

Additional federal support provided to the state and county has been a source of financial relief and assistance to Seattle residents and businesses. Moreover, throughout the pandemic, the Federal Emergency Management Agency (FEMA) has been providing, on a reimbursement basis, resources to directly address the costs of mass testing and vaccinations, as well as measures needed to provide appropriately socially-distanced shelter and housing for those experiencing homelessness. The City has had to “front” these costs, but reimbursements have begun to flow from FEMA.

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In both 2020 and 2021, the available federal assistance has been used by the City to provide support to those most directly affected by the pandemic. This has included financial assistance to small businesses, particularly those in the service and hospitality sector, and to the residents who work in those sectors, or who have otherwise faced financial hardships due to job loss, illness or other factors. This has taken the form of direct financial grants, expanded emergency food provision, socially distanced shelter and housing, as well as increased hygiene services for those who remain living unsheltered. The City also used a share of these resources to help maintain basic City operations, providing personal protection equipment to first responders, investing in the technology needed to sustain remote work for a large number of City employees, and adapting City facilities to operate in a safe, socially-distanced paradigm.

The 2022 Proposed Budget includes allocations of the final major tranche of federal assistance, namely the \$116 million provided by the second tranche of CLFR funding. The proposed uses of these funds shift from a primary focus on immediate assistance and relief to longer-term perspective. The investments proposed for 2022 represent lasting investments that will help provide a platform for a more equitable recovery, with the specific goal of improving opportunities for those most affected by the pandemic. At the same time, the proposed spending does include continued assistance for those facing immediate needs. In summary, the budget directs federal funding to the following areas:

Affordable housing: More than \$50 million of the available CLFR funding will be used to build or acquire affordable housing. Access to affordable housing is perhaps the greatest challenge facing the city, and increased investment in this area will also help create jobs throughout the housing development pipeline and increase the number of people served by the shelter system by giving people a place to go after shelters.

COVID-19 pandemic related food and shelter programs: During 2020 and 2021, the City has ramped up food support and homeless shelter capacity to de-densify the system and reduce risk of COVID transmission. For 2022, approximately \$25 million of CLFR funds will be appropriated for these purposes. At the same time, the budget recognizes that as the current health crisis eases, the City and the region must transition to a more sustainable model of shelter and food assistance. As described later, this transition will be overseen by the King County Regional Homelessness Authority (KCRHA), as part of new policy and governance approach to dealing with homelessness.

Invest in economic inclusion: The allocations proposed for 2022 also include \$14.5 million for investments in workforce development, childcare provider stabilization to ensure help parents transition back to work or to a specific workplace, and a small business ownership fund designed to give underinvested communities the opportunity to own space and build equity while offering a public benefit. Funding in the amount of \$6.7 million is also proposed to support the Seattle Promise program, which provides free tuition and educational support to young people who are interested in pursuing education at one of the Seattle Colleges.

In addition to these community-focused allocations, the budget allocates the remaining federal funds to enhance clean-up activities focused on parks and the public right-of-way, and to defray the costs associated with sustaining safe work environments and/or remote work for City employees. Further details about the previous and proposed uses of federal aid are provided in the “Seattle Rescue Plan” section of the budget book.

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While they are summarized above as separate items for transparency and clarity, the 2022 Proposed Budget uses these federal resources in combination with the forecast City resources to develop a comprehensive plan for City spending in 2022. Key components of the plan are described in the sub-sections that follow.

Restoration of Base Funding

The economic slowdown and associated decline in City revenues caused by COVID-19 forced a significant reallocation of City resources in both 2020 and 2021. In particular, the proceeds from several voter-approved property tax measures were redirected from their originally intended purposes to support basic operations, which had otherwise been funded by the City's General Fund. Property taxes have not suffered significant declines through the pandemic, so these voter-approved funding streams provided a reliable resource to help "cushion" the impacts of other revenues falling short of expectations. For example, revenues from the voter-approved Metropolitan Park District (MPD) were shifted from their originally intended purposes to support basic operations at Seattle Parks and Recreation (SPR). Funding that had been intended to enhance programming, expand major maintenance, and support various capital investments was instead used to pay salaries and other operational costs as parks facilities continued operations in support of pandemic relief. A similar approach was taken with resources provided by the Seattle Public Library Levy. This approach represented a significant policy choice by the City's elected officials, and it required a supermajority vote of the City Council to authorize spending in a manner that was not originally intended by the voters.

In this context, Mayor Durkan has made it a priority to restore base funding where possible. This includes the restoration of \$7.7 million in General Fund to SPR, and \$5 million to the Seattle Public Library. At the same, funding for capital projects provided by Real Estate Excise Tax revenues have largely been restored to pre-pandemic levels as this revenue stream has rapidly recovered. While these allocations do not expand services or fund new programs, they do have the affect of honoring and restoring the original intent of voters.

Expanding Approaches to Community Safety

The Mayor's 2022 Proposed Budget builds upon recent efforts to expand the City's approach to ensuring community safety through programs and approaches that expand beyond a traditional, uniformed police response. This includes investments in the Seattle Fire Department (SFD), the Seattle Police Department (SPD), and the Human Services Department (HSD).

In 2021, SFD continued to expand the Health One program that was initiated as a pilot in 2019. This program responds to individuals immediately in their moment of need and helps them navigate the situation – whether they need medical care, mental health care, shelter, or other social services. In 2022, approximately \$2 million is provided to SFD to initiate a "Triage Team" as a complementary program. This program is being developed under the umbrella of SFD's Mobile Integrated Health (MIH) unit, which includes Health One. The Triage Team is designed to respond to non-medical, non-criminal calls identified by the 911 dispatch center at the Community Safety and Communications Center (CSCC).

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This specialized response model will operate out of SFD in close connection with the CSCC and will be dispatched after SFD and SPD 911 operators determine the appropriate form of response.

SPD has also continued to develop non-traditional approaches to addressing community safety. In 2022, this will include an expansion of the existing Community Service Officer program. The addition of five officers and one supervisor will expand the CSO team to a total of 24. CSOs are non-commissioned officers who work as liaisons between the community and SPD. They serve to bridge the service gap on non-criminal calls for service and perform a variety of public safety-related community service and outreach work that does not require the enforcement authority of a sworn officer.

Significant community safety investments are also proposed in the Human Services Department (HSD). For example, an additional \$1.5 million is appropriated to the department to support an investment in the new Regional Peacekeepers Collective, bringing the total funding for this program to \$2 million. The goal of the Regional Peacekeepers Collection is to prevent and eliminate youth gun violence. This investment is complemented by continued funding in the amount of \$10 million to continue support for community-developed or community-led solutions to increase safety and reduce violence. HSD recently completed a contract award process that allocated the \$10 million from the 2021 Adopted Budget to an initial set of new programs. The 2022 funding will ensure that these programs can be sustained into the future. The 2022 Proposed Budget also includes funding for two additional victim advocates, and there will be sufficient resources in HSD's base budget to initiate a new Domestic Violence Intervention Project (DVIP). This pilot project is modeled after the national best practice *Colorado State Differentiated Treatment Program*. The program provides funding for community-based, nonprofit organizations who provide consultation and treatment services for batterers.

At the same time that the budget makes these commitments to new approaches to community safety, funding is also provided to support increased uniformed staffing at SPD. This past two years have seen a dramatic reduction in the size of SPD's uniformed force as resignations and retirements reached unprecedented levels. The 2022 Proposed Budget for SPD includes funding sufficient to add a net of 35 new officers. This increase would increase the average officer count to 1,230 still well short of the 1,343 officers that had been funded for 2021. The Mayor is committed to restoring SPD staffing to previous levels, but recognizes that this will require a sustained commitment to recruitment. Accordingly, the budget includes funding to provide financial incentives for both newly hired recruits and lateral transfers from other departments.

Addressing the Immediate Needs of Those Experiencing Homelessness and Investing in Affordable Housing for the Long-term

COVID-19 has posed significant challenges to the City's long standing efforts to address the needs of those experiencing homelessness. The economic impacts of the pandemic have increased the number of individuals living without shelter at the same time that the social-distancing and hygiene practices needed to contain COVID-19 have demanded costly changes in the way shelter services are provided. Recognizing these challenges, the 2022 Proposed Budget for HSD includes \$115 million for services in support of those experiencing homelessness. In addition to base funding for emergency shelters, case management, diversion, outreach, hygiene/day centers, homelessness prevention and permanent supportive housing supportive services, this human services budget includes investments to sustain

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shelter facilities established in response to COVID-19, expand shelter opportunities (including three new tiny-home villages), and implement a new approach to leverage federally funded housing vouchers. In particular, the proposed budget provides \$6 million in City-funded support services to pair with these vouchers. By pairing supportive services with the voucher, housing becomes more accessible to people with a higher acuity of need, who may have a longer history of homelessness, who may be unsheltered, and for whom support services will help with stabilization and successful retention of housing.

More broadly, the Human Services Department's 2022 budget marks a milestone in establishing a true regional approach toward addressing the crisis of homelessness. Rather than being directly administered by HSD, more than 90% of the funding allocated for homelessness will be transferred to the recently established KCRHA. The Mayor's Office, HSD and KCRHA worked together to identify priorities and funding gaps in the current homelessness programs and address them in this budget. HSD is also working closely with the KCRHA to ensure the Authority has the appropriate infrastructure in place to assume administration of 2022 contracts that fund homelessness services across the city.

While investments in shelter and other forms of emergency housing are essential, the long-term solution to the region's housing crisis rests in increased access to affordable housing. Accordingly, the proposed budget includes an historically large investment in affordable housing. Made possible by a combination of resources from the Mandatory Housing Affordability (MHA) program, federal CLFR funds and the payroll expense tax, the Office of Housing (OH) will have more than \$190 million for 2022 investments in housing capital and home ownership. This includes \$6 million to promote home ownership, as recommended by the Equitable Communities Initiative (ECI) Task Force, and \$15.7 million from a continued investment in the Strategic Investment Fund that was established in the last year's budget, as part of an overall financial commitment to address historical disparities that primarily impact Black, Indigenous, and People of Color (BIPOC) communities. These funds will be specifically targeted to address the risk of residential displacement from these communities.

Clean City Initiative

Trash, litter and debris have become more common sights across the city during the COVID-19 pandemic. To address this issue the proposed budget includes \$10.4 million in funding for critical operations that ensure our public spaces are clean, safe, and accessible. This investment package includes:

- Funding to continue the Clean Cities Initiative through August 2022, funding a surge-level response to address immediate recovery needs through strategies such as purple bag, community litter abatement, graffiti rangers and needle disposal.
- Support for City efforts to maintain clean and accessible right-of-way (ROW) and parks, resourcing the expanded demand on Seattle Parks and Recreation to address impacts of unsheltered populations including litter removal, site restoration, storage of personal belongings, and data collection & reporting.
- Enhanced RV remediation, RV pump outs and additional Hygiene Stations, resourcing Seattle Public Utilities to work collaboratively with people living in RVs to maintain clean and accessible areas in the ROW around RVs. SPU will hire a new Field Coordinator who will support connecting people

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living in RVs to resources as part of their role. In addition, SPU will add 3 hygiene station locations to the 18 locations currently planned in 2022.

The funding needed to support these additional investments is derived both from the City's own financial resources and the federal CLFR dollars available in 2022.

Ongoing Commitments to Invest in BIPOC communities

The 2021 Adopted Budget included funding commitments that acknowledge a pattern of underinvestment rooted in centuries of institutional racism. The Strategic Investment Fund, mentioned above in the context of affordable housing investments, was one element of these investments. In addition to this \$30 million fund, the budget also included \$30 million to support recommendations to be brought forward by the ECI Task Force, nearly \$30 million for a Council-designed Participatory Budget process, and \$10 million to support community-driven community safety investments. This latter component corresponds to the funding noted previously that HSD recently distributed among a group of new community-proposed programs. The 2022 Proposed Budget includes sufficient resources not only to sustain these community safety programs, but also to continue the recommendations of the ECI Task Force, and move forward with the Participatory Budgeting program.

The ECI Task Force has made recommendations for ongoing funding in the areas of homeownership (noted previously), work force training, education, healthcare access, and business development, among others. The 2022 Proposed Budget will provide the resources needed to make these investments ongoing, consistent with the Task Force recommendations.

The same approach is taken with Participatory Budgeting. Although the initial spending recommendations have not yet been developed for this program, by building \$30 million of funding into the ongoing base budget, the 2022 Proposed Budget ensures that there will be sufficient funding to implement the recommendations that do emerge as ongoing programs. In addition, because a share of the 2021 funding for Participatory Budgeting remains unspent, there will also be an opportunity to expand the current Participatory Budgeting process to include recommendations for a significant set of one-time investments.

The 2022 Proposed Budget also includes funding to continue the Strategic Investment Fund, although in a slightly modified form that also helps address some of the priorities articulated in the Council's JumpStart legislation. In particular, \$14.3 million of what had been the \$30 million Strategic Investment Fund will be directed on an on-going basis to the existing Equitable Development Initiative (EDI), with the remaining \$15.7 million directed to OH to help mitigate the risk of residential displacement. These two approaches are consistent with the goals that have been articulated for the Strategic Investment Fund, and also help meet Council's direction to use payroll taxes to support EDI and expand investments in affordable housing.

Moreover, these are not the only proposed investments that will target historical disparities primarily experienced by BIPOC communities. For example, the budget includes proposals to increase City support for capital facilities and programs that prioritize Seattle's Native American and Indigenous residents by more than \$1 million. In addition, an appropriation of \$400,000 is proposed to continue efforts to battle increasing incidents of hate crimes, some motivated by ignorance around the source of

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COVID-19. The budget also includes significant new investments in the Duwamish Valley, described below, which are designed to benefit the residents of this diverse community.

Implementing the Green New Deal

The City of Seattle has been a long-standing leader and shown a steadfast commitment to advancing policies to protect the environment and address the undeniable threat of global climate change. The Mayor proposes to further these commitments, and to meet the Council direction regarding the use of payroll tax resources, by providing more than \$14 million of funding to implement a series of Green New Deal priorities. This includes:

- \$4.1 million in support of operationalizing the Duwamish Valley Action Plan with programmatic and capital investments in the South Park and Georgetown neighborhoods;
- \$6.5 million held in reserve awaiting recommendations from the recently convened Green New Deal Advisory Board;
- \$1.7 million to advance conversions from oil-heated to more efficient carbon-neutral electric heat;
- additional funding to both assess and mitigate vehicle emissions; and workforce investments designed to expand employment opportunities in the new “green” economy.

Further details regarding the Duwamish Valley proposal are provided below. The vast majority of the funding to support the Green New Deal investments listed here comes from the proceeds of the new payroll expense tax, but a share is also made possible by the federal CLFR dollars.

This package complements a wide range of investments in transit, electrification, sustainability, and workforce development throughout the city. These include \$3.8 million in existing work at OSE on climate justice, buildings and energy, and transportation electrification, \$3.2 million budgeted at the Department of Finance and Administrative Services for municipal fleet electrification, and \$2.9 million in REET funding for the Municipal Energy Efficiency Program which electrifies and makes energy improvements at City-owned facilities.

In addition, the Seattle Department of Transportation’s 2022-2027 Capital Improvement Plan (CIP) includes \$231 million (\$16 million in new funding) covering Pedestrian Master Plan projects, Bike Master Plan projects, transit projects, and other projects supporting bike and pedestrian master plans. Seattle City Light is budgeting \$9.7 million for Transportation Electrification, \$2.8 million in new CIP spending for Grid Modernization, and \$5.5 million for its “Create Our Energy Future” initiative advancing Green New Deal and decarbonization goals. At the same time, Seattle Public Utilities is proposing \$600,000 for utility-funded grants for workforce development and circular economy investments aligned with the Green New Deal.

Investing in the Duwamish Valley

The 2022 Proposed Budget includes more than \$8.5 million for new investments in the Duwamish Valley. These investments will advance key priorities of the Duwamish Valley Action Plan (DVAP). The

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DVAP is a community-led plan driven by environmental justice and racial equity, all designed to deliver measurable improvements in community health and well-being. The DVAP includes seven priority focus areas: healthy environment, parks and open spaces, community capacity, mobility and transportation, economic opportunity and jobs, affordable housing, and public safety. The 2022 budget demonstrates the City's commitment to this community and includes:

- \$500,000 to expand youth training and leadership development;
- \$550,000 to invest in economic and workforce development;
- nearly \$200,000 to support inclusive community engagement;
- \$1,000,000 to incentivize the conversion of heavy-duty vehicles from fossil fuels to clean electricity; and
- \$6.35 million to construct or rehabilitate community spaces to ensure climate pollution-free operations, improve resiliency, address environmental inequities.

Overall Approach to the Use of Payroll Taxes and the JumpStart Priorities

The Green New Deal and associated Duwamish Valley investments represent one use of the payroll expense tax revenues available for 2022. An overall review of how these resources are deployed is important for understanding the overall 2022 Proposed Budget.

In July 2021, Council adopted Ordinance 126393, which established a separate fund to receive payroll tax revenues and set out a specific annual spending plan for the these revenues for 2022 and beyond. This included formulas that would allocate the revenues between support of the overall General Fund and investments in four priority policy areas: affordable housing; economic recovery and assistance to small businesses, the Green New Deal, and the Equitable Development Initiative.

The package of legislation submitted with the 2022 Proposed Budget includes legislation that would amend this legislation as the budget includes a modified allocation of the payroll tax revenues. The proposed changes are necessary in order to reconcile the priorities identified in Ordinance 126393 with Council actions in support of other critical funding needs, including homelessness, community safety, BIPOC investments, domestic violence prevention and victim services, appropriate compensation for City employees, and the ongoing shortfall in some City revenues.

Nonetheless, the 2022 Proposed Budget does meet the funding targets established under Ordinance 126393. It does so by combining payroll tax revenues with the federal CLFR resources. On net, nearly \$100 million of new funding is provided for affordable housing and expanded shelter offerings, approximately \$25 million is proposed for economic recovery and business assistance, and more than \$14 million each is proposed for the Green New Deal and the Equitable Development Initiative.

Sustaining these levels of funding going forward will be a challenge because the CLFR resources will not be available in 2023 and beyond. Further work will be needed by the Council and perhaps the next Mayor to fully reconcile all the City's competing policy demands.

