

2020 Proposed Budget Executive Summary

The City of Seattle's 2020 Proposed Budget represents the second year of the City's 2019-2020 biennial budget process. The City's biennial budget process requires that the City develop a two-year budget plan every other year. The first year of the biennial budget is adopted as law, and the second provides the foundation from which to develop a single-year proposal the following year. Accordingly, as part of last year's budget actions, the Mayor and the City Council formally adopted the 2019 Budget and endorsed a budget for 2020. The 2020 Endorsed Budget did not legally appropriate spending for 2020 but did provide a firm baseline from which the 2020 Proposed Budget has been developed.

As described below, the overall revenue forecast for 2019 and 2020, which defines the resources available for appropriation, has changed relatively little since the 2020 budget was endorsed last fall. The local economy has remained stable over the past year, growing steadily but at a relatively modest rate, consistent with the City's forecast. However, several other developments have provided additional resources to support some new spending in 2020. For example, the sale of the Mercer Megablock properties and payments to the City associated with the expansion of the Washington State Convention Center have provided significant resources for both housing and transportation investments. Inflation costs have been somewhat lower than anticipated and the cost of retroactive pay at the Seattle Police Department was less than projected. Most of these additional resources represent one-time infusions and balancing this limitation against the pressures for expansion of ongoing services is among the challenges that the Mayor faced in developing the 2020 Proposed Budget. Recognizing the one-time nature of the additional revenues, a number of the proposals for additional spending represent one-time spending or cautionary investments in pilot programs that need to be further assessed before the City makes long-term funding commitments.

Local Economy Remains Strong but Growth Has Slowed

For the past two years the City Budget Office (CBO) has predicted that the local economy would continue to grow – buoyed by a strong technology sector and robust construction activity – but that this growth would slow as the pace of hiring and expansion locally began to track more closely to national trends. While stronger growth persisted somewhat longer than had been anticipated, this prediction has largely been realized. Looking forward, the local economic forecast, which underlies the prediction of economically dependent revenues such as sales tax and business and occupation tax, anticipates that this trend will continue. In 2020, CBO is forecasting 1% growth in regional employment, which is significantly slower than the approximately 3% average annual growth rate since the post-recession low point in February 2010. General Fund revenues are expected to grow by about 2.8%, after adjustments, such as removing the one-time proceeds from the sale of the Mercer Megablock, that allow for cross-year comparisons. Such growth is just above the expected rate of inflation at about 2.3%.

Relative to recent forecasts, the most important difference is the downward risk in the current projections. Current federal trade policy has been reducing the volume of international trade, and a further escalation in volleying tariffs poses a significant risk to the regional economy. Major employers including Boeing, Microsoft and Amazon are all dependent on access to international markets. Neither CBO's forecast, nor the national predictions upon which it is built, anticipate that these policies will lead

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to a recession in the coming year, but the probability that such an event could occur has definitely increased. The 2020 Proposed Budget includes additional contributions to both the City's Revenue Stabilization Account and its Emergency Fund, per the terms of existing financial policies, that could help mitigate the impacts of an economic downturn, should one occur.

Affordable Housing and Equitable Development – Opportunities Provided by the Sale of the Mercer Megablock and New State Laws

While the recent strength of the local economy has driven growth in City revenues, it also has created significant policy challenges in terms of housing affordability and displacement. The City has responded with a variety of strategies, both in terms of direct funding and regulatory intervention. In the 2020 Proposed Budget, the proceeds from the sale of the Mercer Megablock properties will provide significant resources to expand direct investments in new and existing strategies to provide affordable housing and promote a more equitable, community-driven pattern of neighborhood development. In total, after accounting for transaction costs, the sale of the Megablock properties will provide more than \$78 million for these programs. Of this total, \$15 million is allocated to the City's existing Equitable Development Initiative (EDI). Led by the Office of Planning and Community Development, EDI provides direct funding for community-driven development efforts that are designed to serve existing residents, businesses and the cultural organizations that are at the highest risk of displacement. This will complement the \$5 million in annual funding from the Short-Term Rental (STR) Tax that now will now be fully devoted to EDI projects. In 2019, approximately \$1 million of STR revenues are being used to fund the staff tasked with implementing EDI. Consistent with recent City Council action directing that STR revenues not be used to fund City staff, the 2020 Proposed Budget allocates General Fund resources for this purpose.

An additional \$15 million will be directed to the Office of Housing to further mitigate residential displacement by funding affordable home ownership via a community land-trust model. Residential affordability, both for homeowners and potential tenants, will also be enhanced by a proposed \$6 million investment in enhancing the affordability of accessory dwelling development. The City recently approved legislation expanding the opportunities for the construction of such units, and the Mayor is now proposing that \$6 million of the proceeds from the sale of the Mercer Megablock properties be used to fund a low-cost loan program to reduce the cost of building such units, in exchange for ensuring that they will be rented at affordable rates.

The remaining \$42 million in proceeds from the sale of the Mercer Megablock properties will be held in Finance General, awaiting appropriation for strategic investments that will produce publicly-owned assets, whether that be undeveloped land or existing facilities, to provide affordable housing, mitigate the pressures of displacement, and provide other potential public benefits on a permanent and enduring basis. The Megablock properties are a significant tangible asset and the Mayor believes that if they are to be sold, the proceeds from the sale should be used to purchase comparable assets that can provide long-term value to future generations of Seattle residents. Over the coming months and into the first part of 2020, the Mayor has proposed a process to work with the City Council to identify such opportunities, vet these potential investments with a committee of community experts and stakeholders, and to bring forward specific proposal for Council action. Rarely does the City have access to the resources needed to make such targeted investments in support of the joint goals of expanding

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access to affordable housing and mitigating the risk of displacement for local residents, businesses and cultural institutions.

In addition to this funding for affordable housing and equitable development, more than \$50 million of the total \$143.5 million in proceeds from the sale of the Mercer Megablock properties are dedicated to transportation purposes. Portions of the Megablock properties were originally purchase with transportation-restricted resource and must be used for transportation purposes. The details of this proposed spending are summarized below as part of a more general discussion of proposed transportation funding.

Actions by the state legislature to increase the funding available for affordable housing have provided for further opportunities to expand investments in affordable housing, relative to what was originally planned in the 2020 Endorsed Budget. The City recently adopted legislation taking advantage of a new state law that provides an opportunity to redirect a portion of the sales tax collected from local jurisdictions into new affordable housing investments. This will provide up to \$4.5 million per year for 20 years for new affordable housing. The 2020 Proposed Budget invests in 175 new units of Permanent Supportive Housing (PSH) and the associated operation and maintenance costs. Debt will be issued to secure the funding needed to build the housing, and this new revenue stream will provide both the resources needed to repay that loan and the operational costs of the facility.

Taking advantage of another state law change in 2019 ([HB 1219](#)), the Mayor is also making \$25 million total of Real Estate Excise Tax (REET) revenues available to support additional capital investments for new affordable housing through 2025. Per City policy, REET revenues are generally targeted toward spending on the long-term maintenance of City facilities, including things such as roof repair, HVAC replacement and other basic capital needs. While additional funding for affordable housing is a priority for the City, ongoing investments in our existing facilities is necessary to support the provision of other City services and to avoid costly projects that result from the neglect and deferred maintenance. The budget strikes a balance between these competing uses of REET revenues.

A Renewed Focus on Assistance for Small Business

The strength of the local economy has also been a mixed blessing for the City's business community. The growth in employment and population has created significant opportunities, but the pressure on wage costs, commercial rental rates and competition have also created significant challenges, particularly for small businesses. The Mayor's proposed budget responds to this dynamic by expanding the tools available to the Office of Economic Development's (OED) Only in Seattle (OIS) Program, as well as an increased strategic focus at OED on service-oriented small businesses in neighborhoods facing high-risk of displacement. The proposed budget includes \$300,000 for two designated funds to assist small businesses, the Business Stabilization and Tenant Improvement funds. The Business Stabilization Fund will help small businesses facing short-term emergencies, such as theft, vandalism, or emergency repairs, with a focus on those in high-risk displacement neighborhoods. The Tenant Improvement Fund encourages the development of affordable commercial tenant improvements for businesses in high displacement risk areas. Both these funds are part of the office's new Inclusive Economy Agenda, which aims to reduce barriers to economic success for small business owners.

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Expansion of Childcare Subsidies and Access to Healthy Food – Opportunities Provided by Sweetened Beverage Tax Revenues

Unanticipated growth in the revenues from the City's Sweetened Beverage Tax (SBT) represents a notable exception to the general observation that tax revenues have tracked closely to forecast. For the second year in a row, 2019 SBT revenues will significantly outpace our initial forecasts, and this outcome has led CBO to also revise 2020 revenue estimates as well. The original forecasts for 2019 and 2020 anticipated approximately \$21 million per year in SBT revenues—the forecast now projects that to be closer to \$24 million per year. This will provide an additional \$3 million per year in funding for SBT-eligible activities. Furthermore, after final action was taken on the 2019 Adopted and 2020 Endorsed Budget, Council provided direction to the Executive that will make additional SBT resources available for such activities in 2020 and beyond. In particular, the 2019 Adopted and 2020 Endorsed Budget relied on SBT revenues to support more than \$6 million in annual spending that had previously relied on General Fund resources. The 2020 Proposed Budget implements that direction, meaning that about \$9 million of ongoing SBT funding is available to be allocated in the 2020 Proposed Budget (approximately \$3 million from the forecast revision and \$6 million due to change in policies regarding the use of funding). In addition, unspent fund balance of approximately \$4 million from 2019 is also available for appropriation on a one-time basis in 2020.

This additional ongoing funding will be used to make three significant investments. First, \$2.7 million will be dedicated to a significant expansion of the Fresh Bucks program, which provides direct assistance for the purchase of healthy foods to those who might not otherwise be able to afford such options. An additional \$3 million will be made available to the Department of Education and Early Learning (DEEL) to expand the eligibility and depth of the subsidies offered through the City's Child Care Assistance Program (CCAP). Specifically, this funding will support increasing income eligibility from 300% to 350% of the Federal Poverty Level (FPL), fund enrollment increases, reflect the increasing cost of childcare, support providers who participate in the program, and enhance staffing capacity. The 2020 Proposed Budget almost doubles the funding for the program, and as a result, an additional 500-700 families will receive childcare vouchers. In addition, the proposed budget provides \$2.5 million to the Department of Neighborhoods to create a Healthy Food Fund, a new community grant program to improve public health. The Fund is consistent with the recommendations from the Sweetened Beverage Tax Community Advisory Board (CAB), which provides recommendations regarding the City's use of SBT revenue. Additional funding will also be provided to fund some additional youth-focused recreational activities in the Department of Parks and Recreation. The remaining resources are to be used to support the staff needed to implement the new and expanded programs.

The additional, one-time \$4 million unspent fund balance mentioned above will be used for two purposes: the creation of a one-time \$3 million opportunity fund to address capital needs at P-patches and community gardens, which can directly help provide access to healthy food for both the gardeners themselves and the agencies to whom the P-patches and community gardens donate; and the creation of a fund reserve to protect against a future downturn of SBT revenues. Initially, the reserve would be funded at \$1 million.

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Public Safety

Seattle Police Department Staffing. The Mayor maintains a strong commitment to public safety and consistent with that view, the 2020 Proposed Budget includes funding to enhance public safety services in a number of ways. Unanticipated challenges in both recruitment and retention have constrained the Seattle Police Department's (SPD) ability to meet the hiring goals set in the original budget. With lower staffing levels than anticipated there are resources available to fund new recruitment and retention efforts, and to invest in programs that can complement the officers who are available for duty.

As the hiring challenges became clear early in 2019, the Executive formed a work group that included experts from SPD and elsewhere in the City to identify new strategies to enhance both recruitment and retention. The 2020 Proposed Budget includes approximately \$1.6 million to implement these strategies and an additional \$800,000 will be spent on direct financial incentives for new recruits and "lateral" hires who move to SPD from another police department.

These efforts will help increase the size of the force over time, but investments are also proposed to address near-term public safety needs. Nearly \$850,000 in funding will be available to continue the community-based emphasis patrols that began earlier this year. At the same time, the Mayor proposes redirecting \$1.2 million that would have otherwise been spent to fund new sworn officers towards the expansion of the recently revived Community Service Officer (CSO) program. CSOs are non-sworn, civilian positions that work closely with police officers to coordinate on specific community needs and build stronger relationships with communities across the city and may serve as a community pipeline for new officers. The funding will add six CSOs, including a supervisor, expanding the overall program from 12 to 18 employees.

Behavioral Health and Public Safety. Beyond these general commitments to enhancing SPD, the budget also includes funding for several innovative pilots designed to address more specific public safety issues. For example, one issue that has become an increasing challenge for both SPD and the Seattle Fire Department (SFD) is the number of non-emergency calls that require attention of both police and fire personnel. Many of these calls come from individuals who are facing significant mental or emotional challenges, but not immediate risks to their physical health. To help reduce the number of calls that are generated, the budget includes funding to provide dedicated nurses at five locations that currently generate a high volume of non-emergent, low-acuity 9-1-1 calls. This will be complemented by a dedicated nurse call line available to other facilities that also generate many such calls. In addition, resources will be available to expand the new "Health One" unit, which will be launched in October of 2019. This unit, which is being piloted by SFD, provides a team that includes both medical and mental health personnel to respond to calls that are not life-threatening emergencies and where other services are required to address both the near- and long-term needs of those seeking assistance. Funding will also be provided to expand SPD's Crisis Response Unit with four new mental health professionals, providing one such professional for each of the five precincts. This addition is not designed to reduce call volumes, but rather ensure that SPD has an appropriate team available to respond to situations where significant mental health crises have created a public safety risk.

Response to "High Barrier" Individuals. An analysis of data from SPD, SFD, the Seattle Municipal Court and the Human Services Department has revealed that a relatively small number of individuals are putting significant stress on the City's public safety systems, and that a significant majority of these individuals suffer from serious mental health and/or substance abuse issues. Recognizing that the City's

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existing structure of interventions and services is not successfully addressing their needs or effectively minimizing their impact on the broader community, the Mayor formed a multi-jurisdictional, multi-agency work group, which included City and County representation from the relevant law enforcement, court, prosecution, defense and human service agencies to develop new, more effective strategies. The High Barrier Individual Work Group has just completed a progress report that recommends a number of pilot projects. The 2020 Proposed Budget includes just over \$3 million, including \$2 million in capital costs, to implement these recommendations. The capital investment is associated with a joint effort by the County and the City to transform an unused portion of the King County Jail into a place-based treatment center for those dealing with mental health and substance abuse issues. In addition, the County and the City are working together to provide enhanced services, including referral to appropriate treatment, for individuals who are being released from jail after relatively short stays, but for whom such stays have been repeated and frequent. The Seattle Municipal Court, which also has been an active participant in High Barrier Individual Work Group, will pilot a new approach to probation services for this group of individuals, with an emphasis on lower caseloads for probation counselors, specialized training in harm reduction, and a more flexible approach to court-controlled sanctions and incentives.

Human Services and Homelessness – Increased Services and a Shift to Regional Governance

In terms of overall funding, the Mayor's 2020 Proposed Budget continues a strong commitment to serving the needs of those who find themselves experiencing homelessness in Seattle. Funding is maintained for current services and additional resources are proposed for an expansion of some existing programs. The specific proposals are described below. At the same time, initial funding will be provided to the newly formed King County Regional Homelessness Authority, which has been proposed in conjunction with King County to take over responsibility for the development and implementation of programs to both prevent homelessness and provide services to those who are experiencing homelessness. A funding allocation of \$2 million, paid for by part of a \$5 million donation from the developer that purchased the Mercer Megablock properties, will provide the one-time resources needed to stand up the agency.

The remainder of this donation will provide funding to address a number of other funding needs, including: the resources that may be needed to ramp down operations at two of the City-sanctioned tiny house villages and replace any lost shelter system capacity with increased space in other villages and enhanced shelters; the ongoing operation costs for the recently opened Mount Baker Family Resource Center; and one-time funding needed to sustain families enrolled in the pilot Seattle Rental Housing Assistance Program.

The budget also provides resources to sustain the City's Navigation Team at its current size and capacity level. The Human Services Department used one-time salary savings to expand the Navigation Team in 2019 by hiring two additional Field Coordinators. This expansion has allowed the Team to increase outreach services to those living in unsanctioned locations, and provided the resources needed to remove unsanctioned encampments with a focus on those blocking the right-of-way.

The budget also includes additional resources for Seattle Public Utilities, the Department of Finance and Administrative Services, and the Department of Parks and Recreation to expand the City's existing

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recreational vehicle remediation program. The budget makes an additional investment in 2020 to support the pilot Safe Parking Program originally funded through the 2019 Adopted and 2020 Endorsed Budget. These funds will be added to the \$250,000 already in the 2020 Endorsed Budget, expanding the program's 2020 budget by 50%.

The proposed budget also makes an additional inflationary adjustment for human service provider contracts. The 2020 Endorsed Budget contained a 2% inflationary increase for contracts that are funded by the City's General Fund. The City Council passed [Ordinance 125865](#) in July 2019, requiring that the City adjust all human services provider contracts by CPI-W each year. The proposed budget increases this adjustment to a total of 2.6% across nearly all City HSD contracts.

Transportation – Implementing the “Move Seattle” Levy and Investing in Mobility

As noted previously, the sale of the Mercer Megablock properties will generate significant revenues for the Seattle Department of Transportation (SDOT). Much of this money will be spent to repay previous outstanding debts, including for the construction of the Mercer Corridor itself (\$12.2 million), past operations of the South Lake Union Streetcar (\$3.6 million) and a recent Council-authorized allocation to the Center City Streetcar (\$9 million). In addition, \$9.2 million will be needed to address a decline in the forecast of Commercial Parking Tax revenues. This leaves \$16.7 million for new transportation investments. The 2020 Proposed Budget directs this funding into bicycle facilities, new sidewalks, sidewalk repair, curb ramps, and traffic calming devices that will be SDOT-owned and maintained. These Vision Zero projects were selected based on the priorities in the Bicycle Master Plan, the Pedestrian Master Plan and the Safe Routes to School Action Plan. These documents contain strong equity components, driving capital investments toward neighborhoods that are historically disadvantaged.

The 2020 Proposed Budget continues to support the Move Seattle Levy plan by including capital project staffing support, sidewalk and ADA improvements, multimodal corridor projects, bridge rehabilitation, and school zone safety enhancements. 2019 saw a ramp-up in delivery on many programs, including over 800 striped crosswalks; nearly 15 lane miles of paving; 12 blocks of new sidewalks; and 8 sidewalk block equivalents repaired. The funding in the proposed budget will support the various programs and keep on-track to meet annual planned accomplishments.

In addition, the 2020 Proposed Budget invests the remaining Seattle Transportation Benefit District (STBD) Proposition One revenues by adding 25,000 Metro transit service hours, beginning in March 2020, and continues funding for first/last mile transit service. These investments will support and increase mobility in areas where service gaps remain. The proposed budget also adds almost \$5 million to STBD's capital improvement program to fund items such as new bus shelter pads and benches, transit-only lanes, queue jumps and other spot improvements. Funding in the proposed budget continues to promote affordability and accessibility of transportation options through the ORCA Opportunity program, which provides transit passes to students. The STBD Proposition One measure will expire at the end of 2020.

Addressing Climate Change and Shifting to Carbon-free Energy Sources

In addition to the more traditional transportation funding outlined above, the Mayor's focus on climate change and the need to shift toward carbon-free energy sources is reflected in other transportation-related investments. An additional \$2.2 million is proposed to continue advance electrification of the

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City's vehicle fleet, as called for in the Green Fleet Action Plan. The budget also includes a proposed expenditure of \$600,000 by Seattle City Light to add six more direct current fast chargers for electric vehicles. The 2019 budget included funding for 20 stations and this additional investment will bring the total number of stations to 26. However, investments to reduce the use of carbon-based fuels are not limited to transportation. For example, the budget includes an additional \$1.5 million for the City's Municipal Energy Efficiency Program, which funds capital investments in City facilities that will reduce overall energy consumption, with a focus reducing the use of carbon-based fuels. Looking beyond the actions of the City government itself, Mayor Durkan also recently proposed legislation that would impose a tax on home heating oil, with the associated revenues dedicated to subsidizing homeowners to help offset the costs of converting from oil heat to more efficient electric heat pumps.

Investing in Community Assets

As noted above, much of the additional funding available for the 2020 Proposed Budget was from one-time sources and thus is most appropriately spent on one-time commitments. This has provided an opportunity for the City to meet the funding needs of several community organizations that have been seeking support for one-time capital investments. For example, using proceeds from street vacations associated with expansion of the Washington State Convention Center, the 2020 Proposed Budget includes \$500,000 to support Lambert House in its effort to purchase the facility it uses to provide services to LGBTQ youth in Seattle; \$1 million for the Chief Seattle Club to complete a major renovation and expansion of its facility in downtown Seattle; and \$500,000 to supplement funding awards for the Equitable Development Initiative. In addition, one-time investments are also proposed for redevelopment of a facility at Magnuson Park that the *Outdoors for All* organization will use to "enrich the quality of life for children and adults with disabilities through outdoor recreation" (\$1,000,000), and for International Community Health Services to pursue the development of a new facility on North Beacon Hill (\$1,000,000).

Fulfilling Commitments to City Employees

Following through on initial commitments that were made during last year's budget process, the 2020 Proposed Budget includes funding to increase staffing at the newly formed Office of the Employee Ombud, provides resources to the newly formed workplace investigations unit at the Seattle Department of Human Resources (SDHR), adds staff at SDHR to support anti-harassment and anti-discrimination training, and includes a new staff position at the Seattle Office for Civil Rights to support implementation of the Race and Social Justice Initiative. In addition, the budget includes the resources needed to fulfill the financial commitments made to City employees represented by the Coalition of City Unions, and to provide comparable increases to the compensation and benefits provided to the City's non-represented employees.