

# 2023-2024 Proposed Mid-Biennial Budget Adjustments

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City Budget Office



City of Seattle

# Agenda

Mid-Biennial Proposed Adjustments Snapshot

Economy and Revenue Context

Developing the budget

- Mid-Biennial View
- General Fund-Changes vs 2024 Endorsed
- Payroll Expense Tax Fund-Spending Summary
- Unanticipated or Significant Cost Pressures
- Looking Ahead to 2025-2026 Biennium: Addressing Structural Challenges

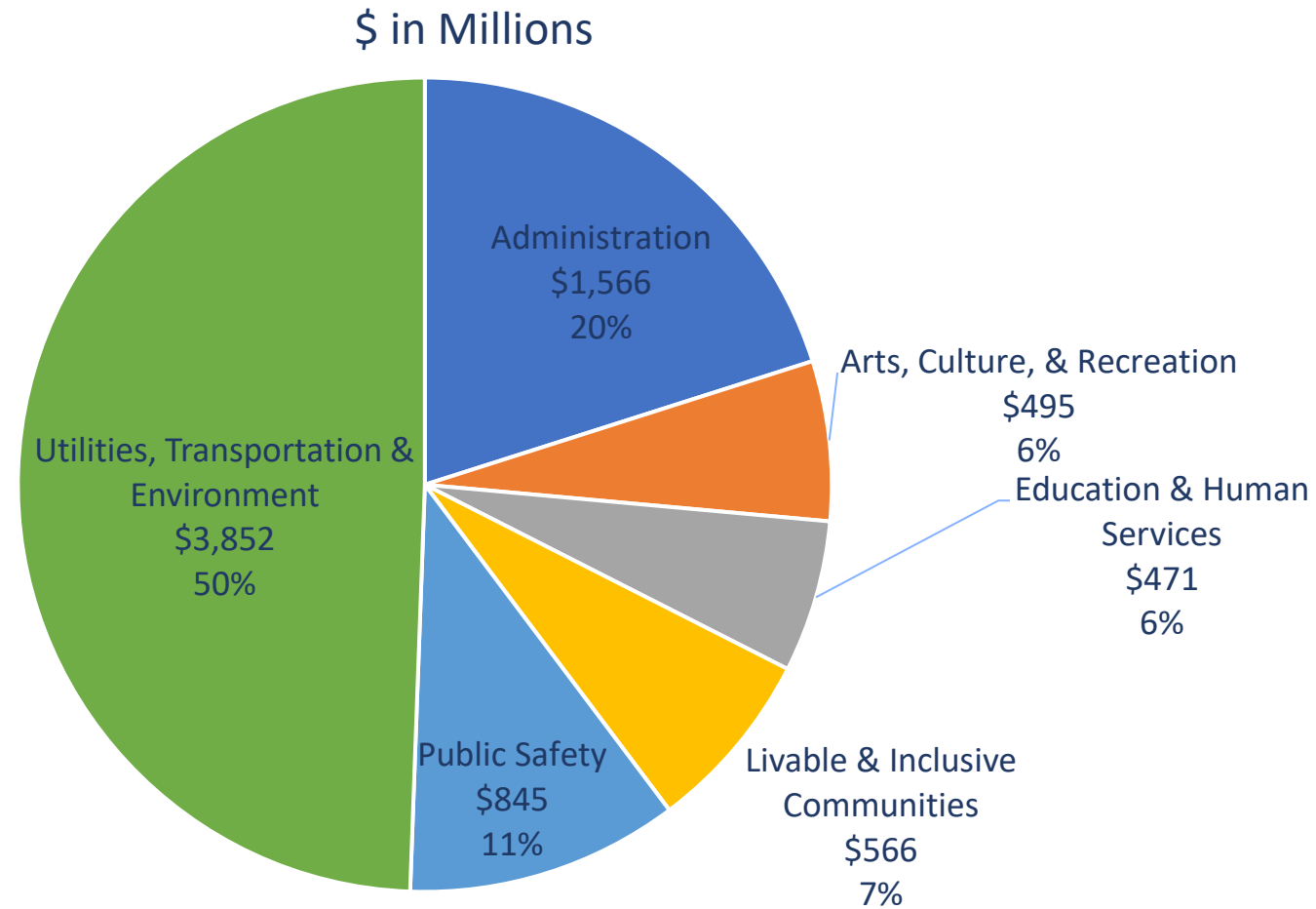
Mid-Biennial Proposed Budget Adjustments

- Sustaining Critical Services
- Bolstering Public Safety and Public Health
- Investing in Workers
- Furthering Economic Recovery

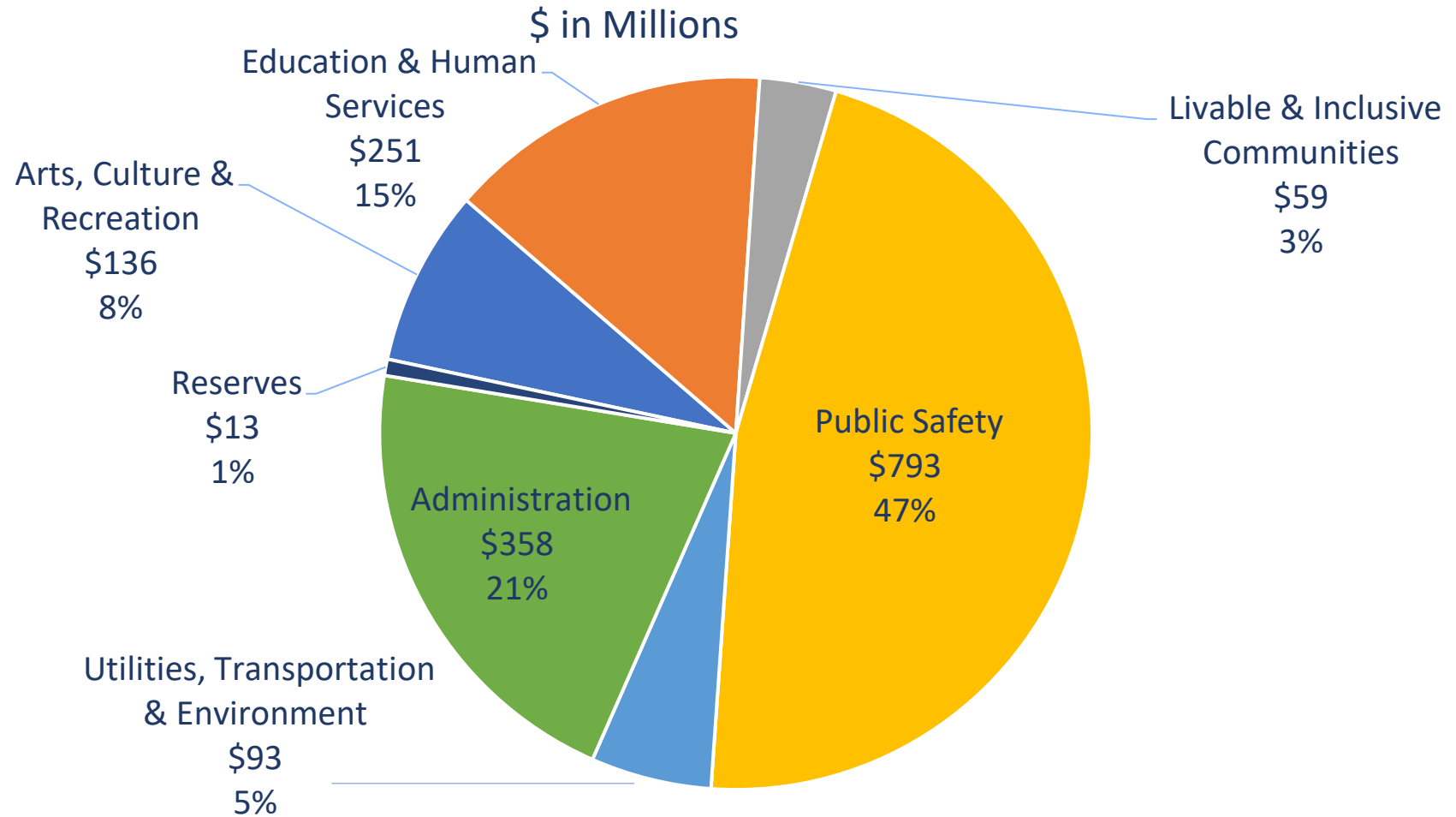
Fiscal Reserves



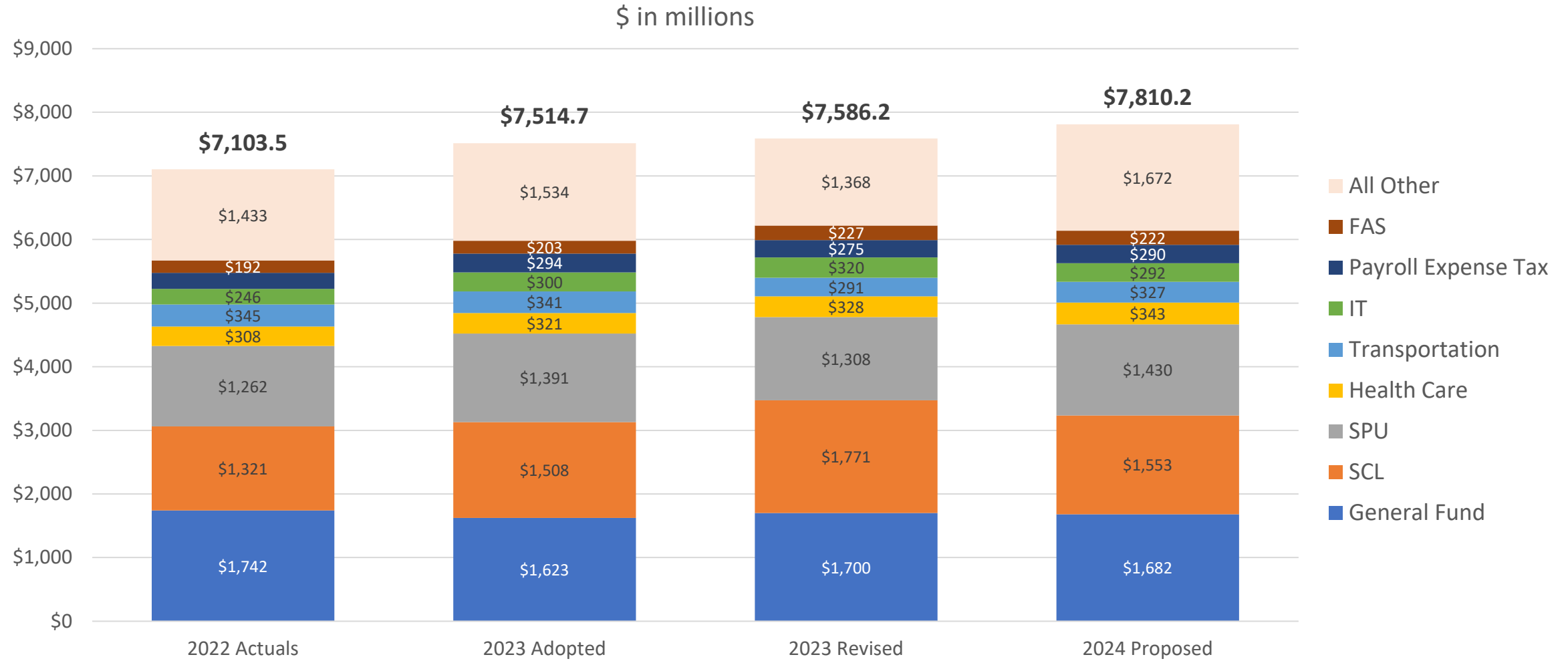
# 2024 Proposed Adjustments: All Funds Budget by Investment Area-\$7.8 Billion



# 2024 Proposed Adjustments: General Fund Budget by Investment Area-\$1.7B



# All Funds Budget Snapshot: 2022 Actuals - 2024 Proposed Adjustments by Fund



# Budget Context: Local Economy and Revenue Picture

- 1. The Federal Reserve's (Fed's) actions are working to bring inflation under control.**
- 2. Economy stronger than expected; expectation is for softer landing than expected in April, but with slower growth into 2025-26.**
- 3. Job growth continues but is changing; shifting away from tech and toward leisure/hospitality – impacting overall economic activity levels.**



# Budget Context: Local Economy and Revenue Picture

## ***August Revenue Forecast compared to 2024 Endorsed Levels:***

- **General Fund (GF)** – Based on the stronger than expected 2023 performance of the regional economy, overall GF revenues are projected to increase relative to 2023 Adopted and 2024 Endorsed Budget expectations. The Mayor's 2023-2024 Proposed Mid-Biennial Budget Adjustments assume:
  - \$1.7B in 2023 GF revenues; approx. \$76.2M increase over the 2023 Adopted Budget
  - \$1.68B in 2024, \$47.6M over the 2024 Endorsed Budget.
  - Although revenues are higher than the 2024 Endorsed Budget, amounts represent a 2.8% decrease between 2023 and 2024 projected levels.

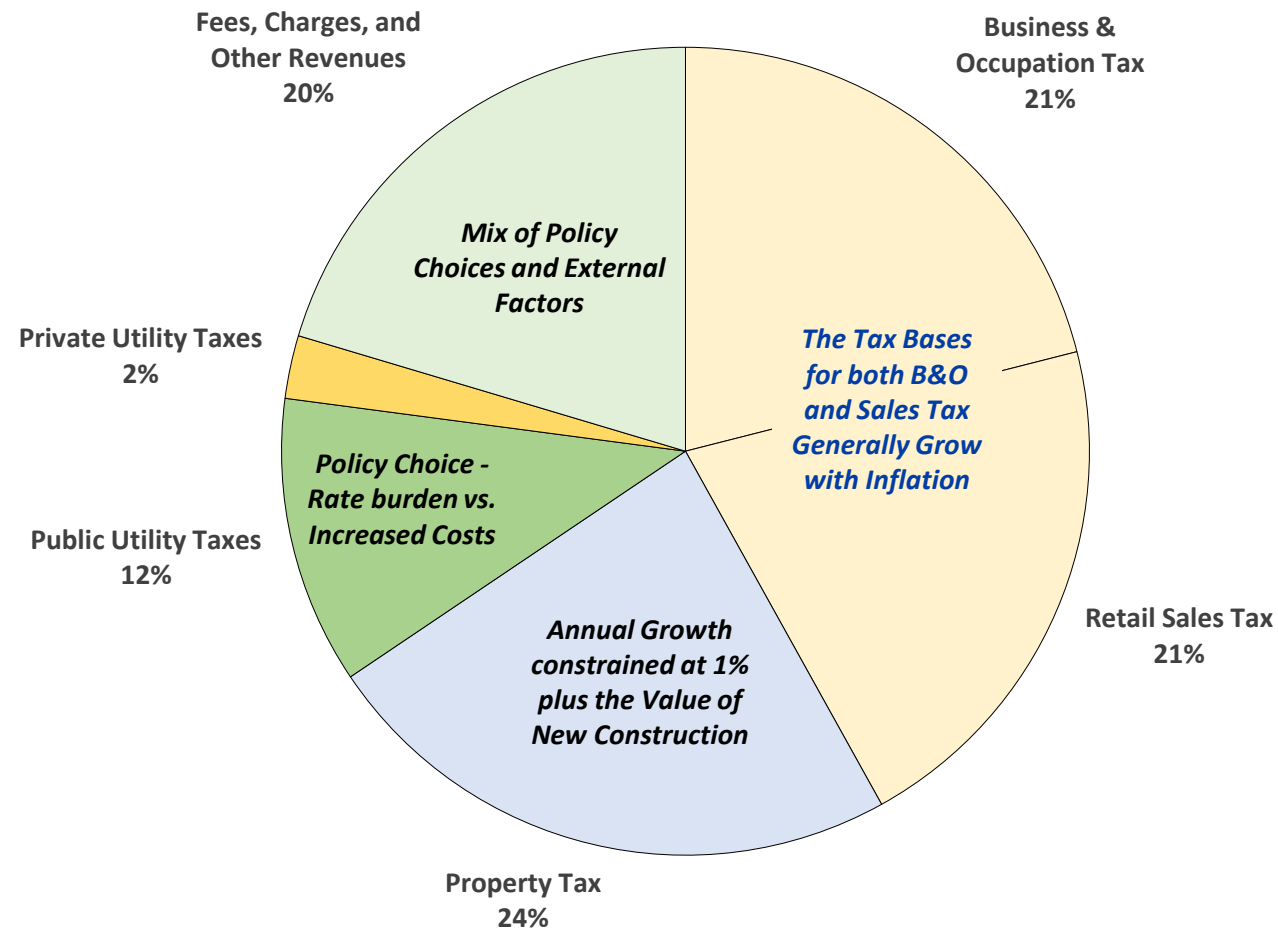
## ***Other significant revenues supporting general government operating and capital expenditures have not fared as well:***

- **JumpStart Payroll Expense Tax** – A slowing technology sector and lower valued stock grant compensation resulted in lowered forecasts. Relative to the 2023 Adopted and 2024 Endorsed Budgets, the Proposed Mid-Biennial Adjustments reduced revenues by approximately \$19.5M and \$21.6M to \$274.6M and \$289.8M, respectively.
- **Real Estate Excise Tax** – Forecasts of \$50.6M in 2023 and \$53.9M in 2024 are reduced from 2023 Adopted and 2024 Endorsed projections of \$68.0 and \$68.M, respectively, reflecting reduced commercial and residential sales volumes resulting from increased borrowing rates and uncertainty about the value of commercial office properties in a "work from home" environment.



# Impact of High-Inflation on City Revenues - a Structural Challenge

- The direct impacts of high inflation systematically weaken the purchasing power of General Fund revenues.
- While one might assume that City revenues will generally grow as the prices of goods and services increase, that is not true for all the City's revenue streams.
- Property tax revenues are statutorily constrained to grow at just 1% plus the value of new construction. They represent 24% of total General Fund revenues.
- Furthermore, policy choices about public utility rates and the fees charged for City services could also constrain overall revenue growth.
- And at the same time, inflation will be driving up the costs of all the goods and services the City purchases.





# Developing the Budget: Process and Guidance

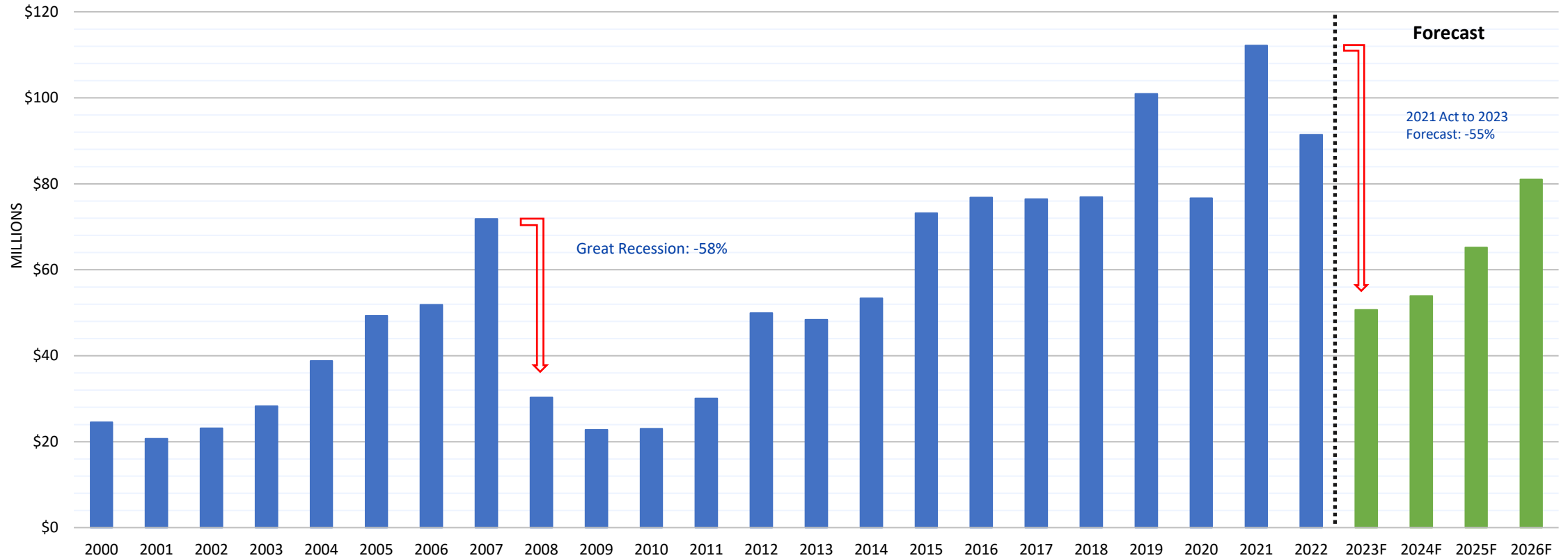
JAN	FEB	MAR	APRIL	MAY	JUN	JUL	AUG	SEPT	OCT	NOV	DEC	JAN
CBO Analyzes Costs for Service vs Endorsed		Update Forecast, Assess Balancing Picture, Depts Prep Budget Adjustments			CBO/MO Review and Finalize Budget Adjustments				Council Reviews, Modifies, and Adopts			Goes into effect

- Mid-Biennial budget process conducted within context of funding/service levels included within the 2024 Endorsed Budget
- 2024 is the second year of the City’s biennial budget process. The City Council endorsed departmental funding amounts for 2024 as part of the 2023 Adopted Budget and that Endorsed Budget served as the starting point for the 2024 Budget Process.
- Decisions for 2024 made in the context of the looming \$251 million General Fund deficit projected in 2025.
- The budget book is 33% shorter!



# Real Estate Excise Tax (REET) - Ongoing Challenges

## Real Estate Excise Tax Receipts



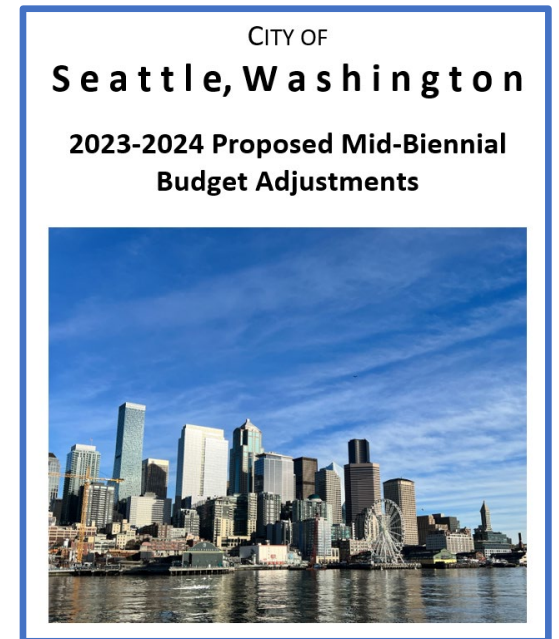
# Developing the Budget: Racial Equity Considerations

- Racial equity impacts are considered as part of budget deliberations
  - Each individual proposal has an opportunity to note how the change impacts Race and Social Justice Initiative (RSJI) goals
- Departments used a new tool to self-assess their process based on five categories and set a goal for next year's budget process in one category:
  - Equity leads and/or Change Team engagement
  - Workforce equity
  - Data and analysis
  - Staff & community engagement
- CBO's Change Team has lead efforts along three main areas:
  - Collecting and analyzing data to measure equity impacts,
  - Collectively reviewing impacts of reductions, and
  - Implementing a tool to assess growth in racial equity focus in budget development



# Developing the Budget: GF Comparison to 2024 Endorsed

- Fewer changes overall compared to 2023 budget process.
- Over half of City departments have no changes outside of Citywide central costs or budget neutral changes that are “paid for” either via offsetting reduction within the department or are using a planning reserve established in anticipation of the spending need.
- General Fund change vs 2024 Endorsed: +\$51 million
  - \$2.9M-Net new program spending
  - \$10.8M-Increases for central service costs related to inflation, fleet replacement costs, and investments in IT infrastructure and security
  - \$9.3M-Judgment and Claims
  - \$8.5M-Replenishing Emergency Fund
  - \$7.9M-Grants
  - \$6M-revenue- or reserve-backed
  - \$4.9M-Ongoing costs of 2023 legislation



# JumpStart Payroll Expense Tax Changes

	2024 Endorsed Budget	2024 Mid-Biennium Proposed Budget
General Fund (GF) Transfer to Support GF Expenses	\$84.2 million	\$74.2 million
Special Flexibility Items	\$2.8 million	\$11.2 million
Admin/Evaluation	Up to 5%	✓
Housing and Services	62%	✓
Equitable Development Initiative	9%	✓
Economic Revitalization	15%	✓
Green New Deal	9%	✓
Revenue Stabilization Reserve	\$14.7 million	\$1.9 million

Reduces \$10M transfer to GF that was originally supporting GF operations to instead invest in Human Service Provider Pay and child care supports and to help balance the fund.

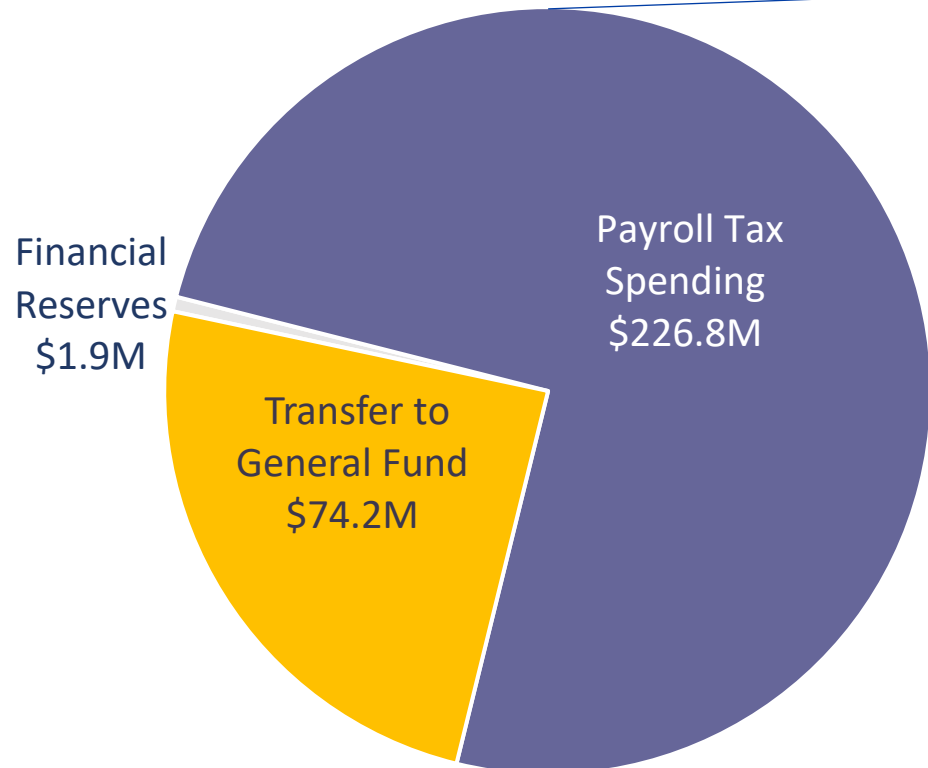
2024 Endorsed funding levels left virtually unchanged and consistent with underlying spending ordinance.

Used reserve as intended facing revenue decrease.

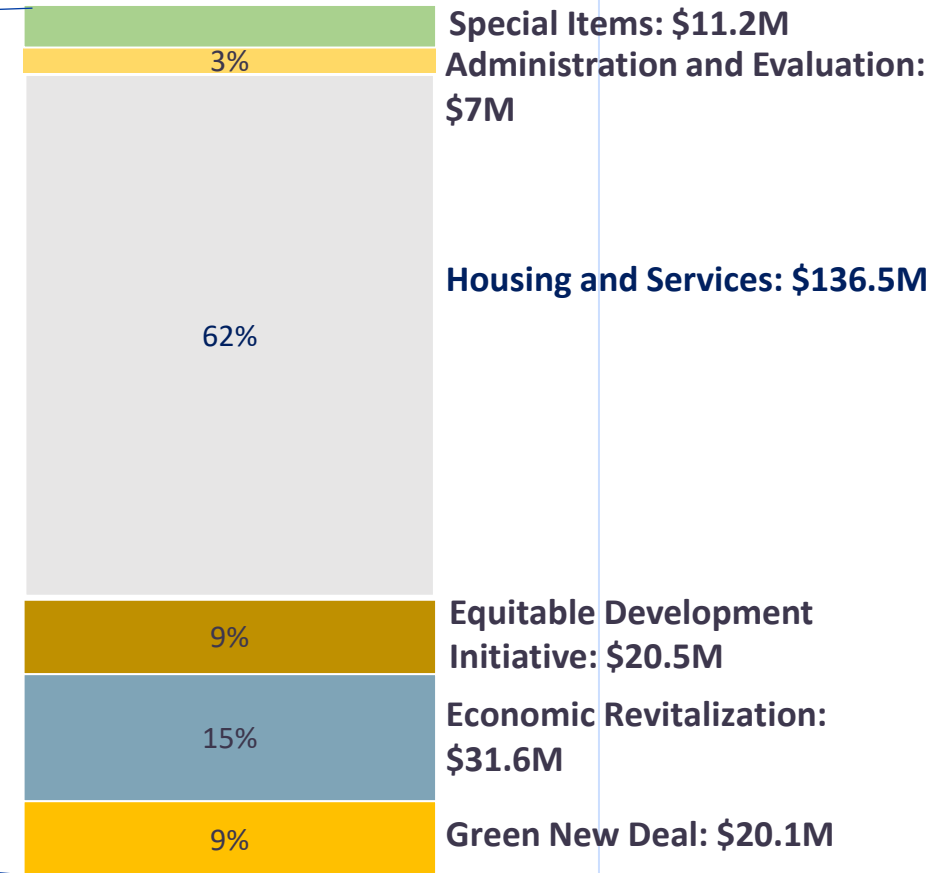


# JumpStart Payroll Expense Tax Spending Summary

\$ in Millions



## Payroll Tax Spending summary



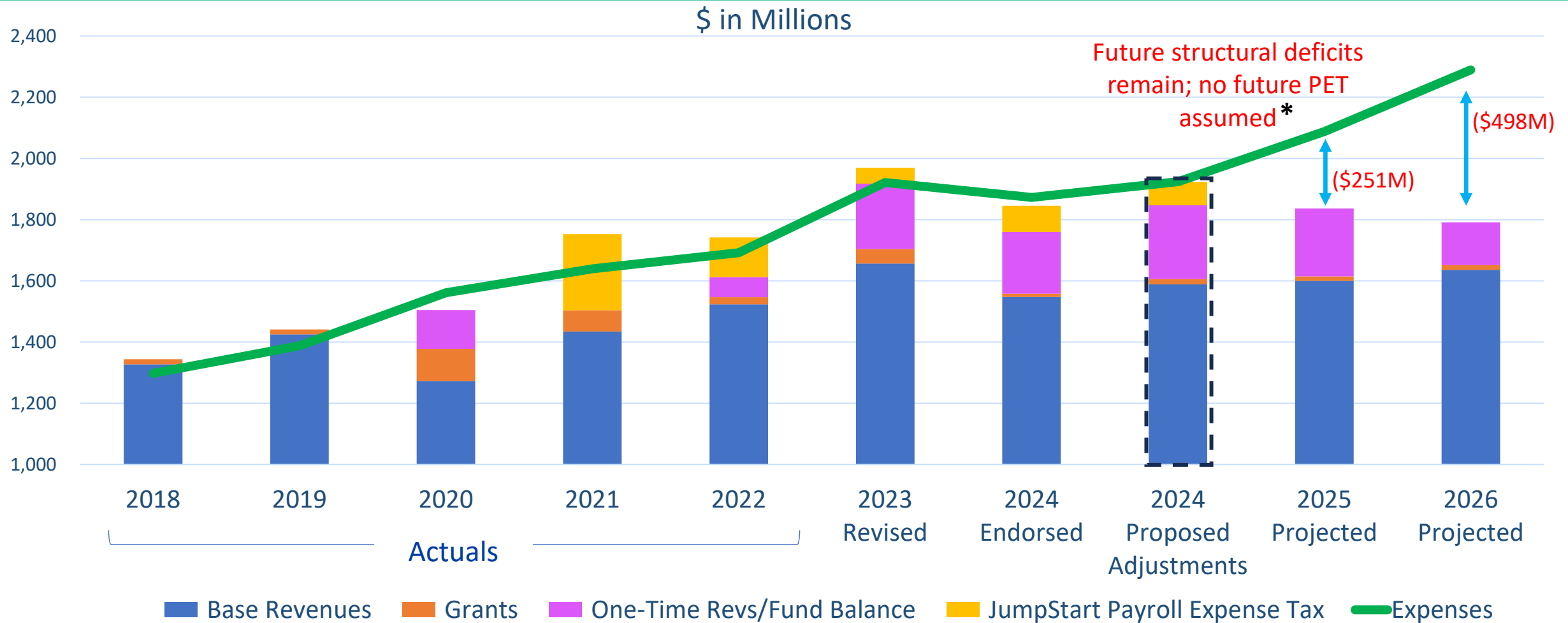
# Comparison of Payroll Tax Spending Estimate to 2024 Adjustments

2022 + Beyond Proposed Spending (based on the 2020 payroll tax revenue <u>estimate</u> )			2024 Proposed Budget Updates		
Categories	Payroll Tax %	2020 Payroll Tax Spending Estimate	2024 Endorsed	Proposed Budget Updates %	2024 Proposed Budget Updates
Housing and Services	62%	\$135 million	\$140 million	62%	\$137 million
Equitable Development Initiative	9%	\$20 million	\$20 million	9%	\$20 million
Economic Revitalization	15%	\$33 million	\$33 million	15%	\$31 million
Green New Deal	9%	\$20 million	\$20 million	9%	\$20 million
Administration and Evaluation	5%	\$11 million	\$8 million	Up to 5%	\$7 million
2024 Endorsed Category - Funds Flexibility Exceptions	-	-	\$3 million		\$11 million
<b>Total Annual Payroll Tax Program Spending:</b>		<b>\$219 million</b>	<b>\$224 million</b>	<b>100%</b>	<b>\$226 million</b>

Despite \$41M revenue decrease for 2023 and 2024, Payroll Expense Tax investments virtually unchanged from the 2024 Endorsed levels; and \$7.4M going to support human service provider pay and child care supports.



# General Fund Revenue/Expense Long-Range Picture



Future structural deficits remain; no future PET assumed\*

(\$251M)

(\$498M)

\*Grants, one-time revenues, and fund balances are not sustainable solutions; and this chart reflects no PET transfers to the general fund after 2024 per current law





# Looking Ahead: 2025-2026 Biennium

## 1. This budget is not designed to solve the 2025 deficit.

- 2023-2024 Biennial Budget closed a \$140 million General Fund (GF) revenue gap.
- The goal of developing 2024 was to keep changes to a minimum to be able to focus more attention on considering levers for 2025. To that end, these adjustments do not aim to solve the 2025 deficit.

**2. Difficult decisions are coming next year.** City's elected leaders will likely face difficult decisions in the upcoming year about how to reduce expenses and/or increase revenues to keep the City's budget in balance

## 3. Contextual factors are important to keep in mind while considering 2024 budget:

- City's labor contracts remain under negotiation
- Outyear GF revenue growth is slowing considerably
- GF revenue growth is restricted and does not keep pace in a high-inflation environment
- JumpStart Payroll Expense Tax transfer ends after 2024 under current law
- New spending under restricted revenue sources is growing considerably



# Unanticipated or Significant Cost Pressures

- **Citywide central costs (\$19.5M total; \$10.8M GF):** Increased costs for central services including information technology, finance and administration and human resources.
- **Judgment and Claims (\$9.3M GF):** Provides for the payment of legal claims and suits brought against City government. Per [Resolution 31847](#), the budget level for the Judgment and Claims Fund must be set at the 90% confidence level of meeting actual expenditures as estimated by the City's actuaries every year.
- **Open Labor Contracts (\$TBD):** The majority of the City's labor contracts are currently up for renewal, which adds considerable uncertainty to the overall budget planning process. Reserves are maintained for this purpose, however, the exact details around the future settlements remain in negotiation.
- **Social Housing PDA Start-up Costs (\$850k):** In early 2023, Seattle voters approved Initiative I-135 which created a new Seattle Social Housing Public Development Agency. The initiative did not include an independent revenue source and requires the City to provide 18 months of start-up costs. Amount reflects the first 12 months of that 18-month requirement, paid for with excess Payroll Expense Tax – Administration dollars.



## Strategic Investment Areas:

Sustaining Critical Services

Bolstering Public Safety and Health

Investing in Workers

Furthering Economic Recovery



# Sustaining Critical Services (1 of 3)

- **Housing (\$334M):** Historic \$334 million for affordable housing, a 32% increase above 2023.
  - \$88M: Assumes passage of 2023 Housing Levy, replacing expiring 2016 Levy
  - \$137M: Payroll Expense Tax – Housing and Services
  - \$73M: Other revenue sources (MFTE, MHA, Grants, etc)
- **King County Regional Homelessness Authority (\$105.7 million):**
  - \$1M payroll tax: relocate Tiny Home Village
  - \$1.2M GF: Increasing contract inflation from 6.7% to 7.5% to reflect CPI-W
  - \$2.1M payroll tax: provider wages (2% - additional detail in “Investing in Workers” section)
  - Existing funds: Maintaining 300 Shelter Beds
- **3rd Ave/We Deliver Care one year extension (\$1.9M GF):** In fall 2022, the City launched the Third Avenue Project in partnership with We Deliver Care to address and improve the public safety and order concerns in the Third Avenue community. We Deliver Care outreach workers establish relationships and earn the trust of individuals while offering care and treatment service to individuals suffering from substance use disorder and using drugs in public places along Third Avenue. Amount supports an additional year of funding for this program from the City’s general fund.



# Sustaining Critical Services (2 of 3)

- **SDOT Pothole repair (\$1.5M):** one of the core functions of Seattle Department of Transportation (SDOT) in responding to conditions to secure safe passage for City and County services including not only first responders, transit, and other high-priority transport - both commercial and private - as well as the general public. Funded with Vehicle License Fees.
- **SDOT Emergency Response (\$2M):** SDOT's budget has been historically challenged to meet the increasing incidence, severity, and cost to respond to emergency incidents. Funded with GF.
- **SDOT Bridge Maintenance:**
  - \$500k to expand SDOT's ability to plan bridge maintenance and deliver more work with SDOT crews and adding. Funded with Vehicle License Fees.
  - \$300k to support 3 FTE positions for bridge maintenance using Vehicle License Fees.
  - \$2.5M Federal Highway Administration grants that are accepted as part of the 2023 Year-End Supplemental budget legislation, including S. Spokane Street Viaduct bridge repair
- **SDOT Parking rate changes (new revenue):** legislation that will increase minimum and maximum parking charges to reflect city parking policies and climate goals. Increases are supported by parking data that shows an increase in the demand for parking throughout the city. The Paid Parking program at SDOT includes the Paid Parking Maintenance Program that pays for the expenses associated with pay stations and Pay-by-Phone services, the application that allows paying parking fees with a cell phone rather than at the station.



# Sustaining Critical Services (3 of 3)

- **Seattle Parks and Recreation (SPR) General Fund (GF) Floor**
  - Legislation included with the budget that limits the inflation factor to 3% for 2024 only, which creates a GF floor of \$118 million in 2024.
  - Aligns SPR's GF floor with financial policies governing a similar floor in the Seattle Department of Transportation, which uses a 3% or inflation, whichever is less.
  - SPR's 2024 budget includes nearly \$120 million of General Fund, an increase of \$2.1 million above the 2023 Adopted Budget. More GF will be added once City Labor contracts are finalized.
- **HSD Victim Advocate (\$123k GF):** Continues funding from an expiring Federal grant. Maintains staffing levels for victim services requirements reinforced in Executive Order 2022-05 which requires all eligible backlogged sexual assault cases be assigned to SPD detectives for investigation.
- **OIRA Immigrant and Safety Access Network (\$150k GF):** Continues funding from an expiring grant from King County to support immigrant and refugee families who experience disproportionate harm from violence. Adds to a base of \$70k, for \$220k total for the program.



# Bolstering Public Safety and Public Health (1 of 3)

- **Establishing the new Community Assisted Response and Engagement (CARE) department** (currently the Community Safety and Communications Center, CSCC), as the City's 3<sup>rd</sup> public safety department; budget increasing 30% over 2023, supported by new revenue and reserves:
  - Dual Dispatch Pilot (\$1.8M): Incorporates ongoing funds for the new pilot, begun at the end of 2023, consisting of teams of behavioral health professionals that respond to low acuity calls with a mental and behavioral health nexus
  - Planning resources (\$607k): to consider how the City delivers community-focused services unrelated to the criminal justice system
  - Additional Call-takers (\$355k): 3 additional call takers that will improve the department's ability to answer the City's 911 Emergency line
- **Seattle Fire Department – West Seattle positions (24 FTE)**: During the closure of the West Seattle Bridge in 2020, funding was added to support additional operations in West Seattle on a temporary basis. To reduce reliance on use of overtime, adding 24 FTEs to maintain the West Seattle operations and make these temporary services permanent at Fire Station 26 and 37.



# Bolstering Public Safety and Public Health (2 of 3)

- **Consent Decree and Accountability Infrastructure:**

- Office of Police Accountability (OPA) Deputy Director: to provide internal staffing management and day-to-day investigative capacity, allowing the OPA Director to focus on high level investigation responsibilities and external relationships. Paid for with department vacancy assumption.
- Community Police Commission (CPC) Deputy Director: to assist in managing the operations of the office, facilitate strategic planning, and ensure the ongoing structural integrity of CPC commission administration and operations. Paid for with a reserve.
- Three new positions added to Office of Inspector General for Public Safety for assuming the federal monitor's oversight and assessment related to the 2012 Consent Decree entered into between the City and the Department of Justice (DOJ) as well as a half-time Communication and Community Engagement Specialist to provide racial equity expertise in scoping work projects, as well as strategic engagement with community. Paid for with a reserve.

- **Crime Prevention Pilot (\$1.8M)**: With the extreme shortage of police officers, it is essential for SPD to deploy technology tools to help prevent and suppress crime. Reinvesting \$1.8M of Seattle Police Department salary savings into a new crime prevention pilot to leverage technology in areas hardest hit by gun violence. Funding is for implement automatic license plate readers, CCTV cameras, and acoustic gunshot locator systems to deter criminal behavior, assist in evidence retrieval, and hold offenders accountable.





# Bolstering Public Safety and Public Health (3 of 3)

In June 2023, the Mayor announced a \$27 million investment in efforts to improve addiction treatment:

- **New treatment facilities (\$7 million):** 2023 investment for an RFP to support capital costs at drug treatment facilities. Backed by Community Development Block Grant (CDBG) funds.
- **Opioid Response (\$2.2M):** Funds will be used for several purposes, including drug user health and harm reduction services previously funded with one-time funds, to expand Health One's Post Overdose Response Team, and for post-overdose facility services (for the 2 treatment facilities listed above). Funded from Opioid Settlement Fund. \$580k is one-time and \$1.6M is ongoing.
- **Diversion:** The endorsed budget includes nearly \$17 million for diversion, including over \$15 million for the Purpose Dignity Action's (PDA's) suite of programs. Funded in the base with GF.
- **3<sup>rd</sup> Ave / We Deliver Care:** We Deliver Care outreach workers establish relationships and earn the trust of individuals while offering care and treatment service to individuals suffering from substance use disorder and using drugs in public places along Third Avenue.



# Investing in Workers (1 of 2)

- **Classification Compensation (Class/Comp) Program (\$1.1M GF):** Program ensures fair and equitable compensation to employees for work performed. The industry standard for updates to job classifications and compensation is every 3-5 years. This program has not been reviewed since the 1990s. Funds are for a two-year comprehensive review, ultimately to inform the scope, process, timeline, and estimated costs for an update to the system.
- **Open Labor Contracts (\$TBD):** The majority of the City's labor contracts are currently up for renewal, which adds considerable uncertainty to the overall budget planning process. Reserves are maintained for this purpose, however, the exact details around the future settlements remain in negotiation. [Seattle Municipal Code](#) 4.04.120 E requires the City to maintain confidentiality toward ongoing negotiations.



# Investing in Workers (2 of 2)

- **Human Services Contract Inflation (\$2.6M, GF)**
  - The City of Seattle is the only government entity in our state with a mandate in code ([Seattle Municipal Code \(SMC\) Section 3.20.060](#)) to provide inflationary increases at CPI-W (a government measure of local inflation) to human service provider contracts.
  - In 2023 Adopted and 2024 Endorsed Budgets, base contracts were inflated at 7.6% and 6.7%, respectively.
  - Updated 2024 CPI-W (12-months ending in June) is 7.5%.
  - Increment above 2024 Endorsed is \$2.6M for a total increase of \$15.8M over 2023.
- **Human Service Provider Pay and Childcare Supports (\$7.4M, Payroll Expense Tax):**
  - The City Council added \$600K to HSD's 2022 Budget for a wage equity study. In 2023, the University of Washington completed the study and Council adopted Resolution 32094, stating Council intent to consider increases to HSD-administered contracts in addition to inflationary adjustments required under the SMC.
  - In response to the study, Mayor Harrell is providing 2% (\$4.3M) to support increasing pay for human service providers.
  - Proposed budget also adds \$2.9M to support one-time retention bonuses for child care workers.
  - Funding comes from Payroll Expense Tax – Exceptions, paid for by reducing the payroll tax transfer to support general fund operating expenses.
- **Taken together, investments in Human Service Providers are \$23.2M above 2023 Adopted Budget, \$10M above 2024 Endorsed levels.**



# Furthering Economic Recovery (1 of 2)

Future of Seattle Economy Strategic Pillar	Economic Revitalization Reserve Investments in Proposed Budget Adjustments
Investing in Talent and Building our Workforce	\$2.8 million
Supporting Small Business and Women and Minority Owned Business Enterprises	\$2.6 million
Investing in Neighborhood Business Districts	\$2.9 million
Growing Businesses and Key Industries	\$250k
Other	\$2.6 million
<b>Total</b>	<b>\$11.1 million</b>

- **Several investments are cross-cutting between Strategic Pillars, this table shows primary pillar.**
- Of the investments above, \$4.7 million supports the Mayor’s Downtown Activation Plan.
- Additional investments from other funding sources, totaling \$3.9 million, also support the Mayor’s Downtown Activation Plan.



# Furthering Economic Recovery (2 of 2)

- **Activation of King Street Station and Downtown Core (\$1M, Ad Tax, one-time):** hosting cultural space, education, and artistic expression events for individual and organization participation. ARTS will focus on developing a larger, more visible footprint in and around King Street Station with a calendar of programming activities such as markets, outdoor events, and concerts. ARTS will work with OED on ways to bring more art, including murals, performance art, festivals, and temporary public art into the Downtown Core.
- **Extending Hope Corps (\$1M, Ad Tax, one-time):** Hope Corps is a grant program designed to connect under- and unemployed workers in creative industries with career opportunities. ARTS estimates that this budget will support 50-70 creative projects in 2024.
- **Inflation for ARTS grant programs (\$257k, Ad Tax, ongoing):** provides as ongoing inflationary adjustment which allows ARTS to increase grant awards to reflect increased costs.
- **Arts and Cultural Grant Programs (\$650k, Ad Tax, one-time):** funding is designed to support arts and cultural institutions who have not yet fully recovered from pandemic-caused economic pressures and who are facing the loss of federal funding.



# General Fund Fiscal Reserve Funds

	Emergency Fund	Revenue Stabilization Fund
<b>Uses</b>	For certain unanticipated expenses, including costs related to storms or other natural disasters.	AKA “Rainy Day.” For sudden, unanticipated shortfall in revenue due to economic downturn or other factors.
<b>Minimum Balance/Limit</b>	Minimum: Set at \$60M (2017); adjusts with CPI Limit: 37.5 cents per \$1,000 of Assessed Value	Annual Contribution: 0.5% of General Fund tax receipts Limit: 5% of GF tax revenue
<b>Most recent use</b>	-\$33M during COVID-19	-\$54.7M during COVID-19
<b>Replenishment Policy</b>	Within 5 years of use	Within 5 years of use; refilled in 2022
<b>2023 Adopted and 2024 Endorsed Replenishment Plan</b>	2023-2024: +\$13M 2025-2026: +\$30M	2023: \$3.6M 2024: \$1.7M
<b>Proposed 2023 and 2024 Adjustments</b>	2023-2024: +\$17M (\$30M total) 2025-2026: +\$13.7M	2024: +\$2.3M (\$4M total)
<b>Fund Balance after 2024</b>	\$73.7M	\$67.6M (At limit)
<b>Target Fund Balance</b>	\$87 million by the end of 2026	At limit



# Thank you!

For full detail, see the Mayor's 2023-2024 Proposed Mid-Biennial Budget Adjustments.



# 2023-2024 Proposed Mid-Biennial Budget Adjustments

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September 27, 2023

City Budget Office



City of Seattle