



Seattle City Budget Office

June 25, 2019

The Honorable Bruce A. Harrell, President
Seattle City Council
Seattle City Hall, 2nd Floor

Dear Council President Harrell:

As the City Council considers Council Bills 119402 and 119551 that would establish financial policies for the Short-term Rental Tax (STR) and Sweetened Beverage Tax (SBT) revenues, I wanted to highlight some concerns I have with binding future Mayor and Councils to proscribed spending priorities.

As part of last fall's budget process, Council approved funding appropriations for 2019 and 2020 that relied on using approximately \$9.4 million of these revenues to support existing General Fund commitments. This new funding approach and an additional reallocation of REET revenues allowed the City to significantly expand its ongoing investments in homeless services. The Mayor proposed and Council approved this budgeting approach because we are facing an unprecedented crisis that has led to a formally declared State of Emergency. Further, Council's approval came in the wake of a robust policy debate last spring about establishing an entirely new funding source, the employee hours tax, to support increased homeless investments and other related priorities. This debate ultimately ended without approval of a new funding source and led directly to the proposal to use a portion of SBT and STR tax revenues to partially address these same needs.

The proposed bills would each establish financial policies that could preclude the use of these revenues to support existing programs and would instead dedicate them to new program spending. While the desire to reserve these funds for these purposes is understandable, the implications for the future may not have been given sufficient attention. The City will have another downturn at some point in the future and it may not be in the best interest of future Councils to bind the uses of these revenues.

For example, the proposed legislation and amendments for STR tax revenues in 2020 and beyond could directly threaten \$3.3 million in HSD programs currently supported by the revenue stream, including the operational costs of permanent supportive housing. Presumably, Council does not intend to eliminate this portion of the City's annual investment in permanent supportive housing, but to date there has been no discussion of what cuts Council does support to offset the funding redirection implied by the policy. At least one version of the proposed STR policies also precludes using that revenue stream for the management of the EDI program in 2020 and beyond, which will push those costs onto the General Fund.

Given that the revenue forecast has not changed significantly since Council's action to formally endorse the 2020 budget, some reductions will likely be needed elsewhere. As now being discussed, the policy proposals imbedded in Council Bills 119402 and 119551 are only half measures. At least one, and perhaps both, would redirect funding without answering the question of what must be cut to make this redirection possible. Last fall, when Council considered these very same proposals and had to grapple in

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full measure with the implications of not using the funding as proposed, acceptable cuts were not identified. The policy challenge associated with identifying such cuts still remains.

At the same time that one Council committee is considering this legislation, another is debating Council Bill 119542 that would create a new increased and ongoing funding commitment for 2020 and beyond. This bill, which seeks to guarantee wage increases for those providing direct human services, including support to those experiencing homeless. With one potential action Council would redirect resources now being used to support those experiencing homeless toward new City programs, and with another it seeks to increase the funding dedicated to these same services.

These actions represent an unresolved set of conflicting funding priorities. Such conflicts are best resolved through the budget process itself, when the tradeoffs are real and tangible. For this reason, Council would be better served by delaying action on these issues until the fall budget process, or by taking the time now to determine what priorities the Council is willing to sacrifice to pursue these funding proposals.

Thank you for taking the time to consider my concerns.

Sincerely,

Ben Noble
City Budget Director