

2025-2026 Proposed Budget Summary

Introduction

Mayor Bruce A. Harrell's 2025-2026 Proposed Budget is balanced and makes strategic investments in the future of Seattle within a context of continuing economic challenges stemming from high inflation and slowed growth. The proposed budget invests in actions to address our City's most urgent needs, get the basics right, and focus on our responsibilities. This budget aims to support our most vulnerable community members, and it makes investments in the Mayor's key priority areas: public safety, housing and homelessness, health, and thriving communities. These investments require greater financial flexibility and accountability as discussed below.

The City operates on a modified-biennial budget cycle, and this year the Mayor is proposing two one-year spending proposals. The proposed budget for 2025 includes approximately \$8.3 billion in appropriations overall, including \$1.9 billion in General Fund and \$520 million in JumpStart Payroll Expense Tax (payroll tax).

In the 2024 Adopted Budget, the City's General Fund – the most flexible funding source – estimated a looming projected 2025 deficit of \$251 million or about 15 percent. The projected deficit was due to a number of factors, including General Fund revenues growing slower than the rate of growth for general government costs, the end of significant one-time federal Covid relief grants, and a plan to begin using all of the Payroll Expense Tax revenues to pay for restricted purposes rather than for ongoing general government purposes.

Each year since enacting the payroll tax in 2020, the City has balanced the General Fund using a “temporary” allocation of payroll tax revenues. Each of these decisions was made for a one-year period, with the assumption that the payroll tax would no longer be used for this purpose in the following year.

The proposed budget reflects the hard choices made by the Mayor to meet the City's legal obligation to adopt a balanced budget.

- The Mayor took immediate steps to save costs, examined City services and spending holistically, favored maintaining core municipal functions over other functions, and prioritized public-facing services over internal administrative functions.
- The proposed budget makes reductions to spending, including targeted layoffs of City employees as needed to achieve a balanced budget.
- Finally, proposed structural changes to the payroll tax will allow the City to use existing revenues more flexibly. The approach is consistent with City spending commitments when it enacted the payroll tax. Actual revenues and forecasts of future payroll tax revenues are both significantly higher than earlier forecasts. The City can avoid making additional reductions to critical municipal services for those who live, work, and visit Seattle by making the “extra” payroll tax revenues available to the General Fund. The proposed budget also creates and funds a new reserve that will provide policy makers better options to respond to future changes in the inherently volatile payroll tax.

Even though it was a difficult budget year, the proposed budget was able to preserve critical public-facing programs and investments.

- We maintained public safety services the City Charter identifies as the City government’s primary obligation (police, fire, and emergency medical services).
- Overall City spending on affordable housing investments is higher than in 2024 or any other year in Seattle’s history; and overall spending on the Equitable Development Initiative also increases to the highest level ever.
- The proposed budget includes funding that avoids closing approximately 300 shelter beds at risk of closure since funding was with one-time sources such as federal Covid relief (which is no longer available).
- Similarly, there are no reductions in libraries hours, no reductions in community center hours, no reductions to community service center hours or services, no reductions to support for senior centers, and no reductions to core parks services.
- The proposed budget maintains longstanding financial policies related to General Fund reserves (Emergency Fund and Revenue Stabilization Fund) and fully funds all reserve payment obligations.

Economy and Revenue

Despite the Federal Reserve keeping interest rates high, the U.S. economy showed notable resilience and growth in the first half of 2024. Since then, the labor market has cooled, with Seattle’s employment growth, unfortunately, trailing the nation. The regional forecast projects growth of only 0.7% in 2024, down from 1.9% expected in March. At the same time, inflation has shown more satisfactory progress towards the Federal Reserve’s 2% inflation target. Paired with signs of slowing employment growth, economic forecasters now anticipate rate cuts by the Federal Reserve through the end of 2024 and beyond.

Most of the uncertainty and downside economic risks for the nation and the Puget Sound region are now tied to the path of the labor market rather than inflation. Employment growth in Seattle has been mixed with gains in some sectors largely offset by declines in the trade (tech) and information sectors. Moreover, the City continues to struggle under reduced demand for office space and elevated vacancy rates, which are affecting economic and revenue growth in the City. Current high interest rates, employees’ slow return to the office, and slowing employment growth have led to uncertainty surrounding construction and real estate activity. However, like the nation, the regional economy is still likely to avoid a recession as there is currently no expectation of overall net job loss and employment is expected to grow modestly even as hiring slows.

Despite the uncertainties, the economy and the City’s General Fund revenues are projected to grow throughout the 2025-2026 biennium, though at a slower pace than previously anticipated. The City’s August forecast projects Property, Sales and Business & Occupations tax growth for 2024 compared to 2023 actuals received at 0.7% compared to 1.1% in the April forecast. General Fund revenues without grants and internal transfers are projected to increase 1.8%, 2.3% and 4.3% year-over-year in 2024, 2025 and 2026 respectively, which is good news given falling inflation and the low likelihood of recession. More good news is that Payroll Expense tax revenues are anticipated to increase significantly year-over-year across the biennium at 28%, 6% and 5 % for 2024, 2025 and 2026 respectively. And even with the uncertain situation related to commercial building valuations due to high vacancy rates, Real Estate

Excise taxes are expected to grow from their recent low of \$47.9 million in 2023, steadily to about \$80 million in 2026.

Actions to Balance the General Fund

The Mayor took several important steps to fulfill the City's legal obligation to arrive at a balanced budget. These included early actions in 2024, a proposal to amend the payroll tax fund policies, and difficult decisions about how to reduce General Fund expenditures.

Early Actions:

Mayor Harrell took actions in early 2024 to maintain a balanced budget for the current year as well as to address the projected 2025-2026 General Fund deficit. These measures included instituting a hiring freeze on most non-public safety, civilian positions. The hiring freeze will continue through the end of 2024 and is estimated to save a total of \$75 million (\$19 million General Fund and \$56 million from other funds). The Mayor also worked cooperatively with the City's labor partners to right-size the balances in internally managed health care funds; this saved an estimated \$53.3 million (\$22.3 million General Fund and \$31.0 million other funds).

Reductions, Restructures, and Layoffs

In order to address the projected deficit, the Mayor's team examined all City spending with an eye to maintaining core services. Whenever possible, the proposed budget minimized reductions to direct services to the public. One strategy used in the proposed budget is reductions in several City grant programs that are inherently scalable while investing in areas with opportunities to leverage external grants.

Another cost saving strategy was to reduce programs and then right-sizing staffing accordingly. An example of leveraging external partnerships is seen with the Heavy-Duty Electric Truck incentives pilot in the Office of Sustainability and Environment. The pilot, launched in 2023 in the Duwamish Valley, will fund point of sale rebates for new electric trucks, buses, or vans. The goal is to incentivize deployment of electric heavy-duty vehicles while addressing cost barriers and reducing harmful diesel pollution in highly exposed communities. The pilot led to new engagement and investment from other Port of Seattle-affiliated organizations, and we expect that external partners will scale up the program with state and federal resources. Of the original \$1 million in ongoing allocation for this program, OSE will retain \$100,000 for ongoing transportation electrification policy and planning.

The proposed budget reduces (but preserves) a number of City grant programs. Those include reductions to the Neighborhood Matching Fund in the Department of Neighborhoods, the Business Outreach Education Fund and the Community Outreach Education Fund in the Office of Labor Standards, the Technology Matching Fund in the Seattle Information Technology Department, and Community Alternatives to Incarceration & Policing in the Office for Civil Rights.

The significant structural deficit in the General Fund meant that it was simply not possible to avoid reducing some programs. Those reductions resulted in proposed layoffs of some City workers. To minimize reductions that affect core services for the public, the proposed budget includes reductions to some internal services to City departments.

The proposed budget eliminates funding for 159 authorized positions. Due in part to the Mayor’s 2024 hiring freeze, more than half of those positions were not filled. However, the position reductions include 76 proposed layoffs. Nearly two-thirds (48 of 76) are in internal services departments (Seattle Information Technology Department, Human Resources Department, and the Department of Finance and Administrative Services); the work of internal service departments primarily supports the City’s “behind the scenes” business functions rather than providing services directly to the public. The next largest tranche (17 of 76) is in the Seattle Department of Construction and Inspections; there is less permit review work (and less permit fee revenues) due to a declining number of permits and changes in permitting requirements (e.g., eliminating design review for affordable housing).

In addition, the proposed budget for the Seattle Department Transportation (SDOT) assumes no ongoing revenues from a new transportation levy that will be decided on by voters in November 2024. Funding levels in the proposed budget for 2025 and 2026 are reflective of current law and expiration of the Levy to Move Seattle at the end of this year. With fewer financial resources available, SDOT’s proposed budget focuses on capital project delivery for existing work and commitments made in the levy. Less funding is available for maintenance and preservation of assets (roads, bridges, transit, pedestrian and bike facilities), and the proposed budget defers investments in innovations and system enhancements. Passage of a new levy would require major adjustments to the proposed budget that may include the restoration of programs or projects with reduced funding in this budget. If voters approve a new transportation levy in November 2024, the Executive intends to prepare a package of changes for Council to consider as amendments that could be included in the City’s adopted budget.

Payroll Tax Amendments

The proposed budget makes changes to the payroll tax that allow the City to fund its core functions and Charter responsibilities. Specifically, the proposed budget uses payroll tax to support critical General Fund obligations (like police, parks, fire, transportation, etc.), adds new payroll tax funding for youth mental health investments and youth violence interventions, and maintains consistent allocations for the original payroll tax spending categories. The proposed budget also eliminates the rigid percentages for allocating the payroll tax revenues. Finally, the changes create and fund a new reserve to blunt the impact of potential future downturns in payroll tax revenues.

When the City enacted the payroll tax, it was projected to result in \$219 million of new revenues; and it committed to spend those funds on five categories: \$136 million (62 percent) on affordable housing; \$33 million (15 percent) on economic development; \$20 million (9 percent) on the Equitable Development Initiative; \$20 million on Green New Deal investments; and \$11 million on administration of the tax.

The proposed budget spends \$520 million of payroll tax revenues in 2025. This is more than the projected forecast for 2025 of \$430 million in revenue because it also includes an additional \$90 million in one-time payroll tax revenues. Compared to the original forecast, proposed payroll tax spending is more than double the \$219 million that the City originally anticipated spending. The proposed budget increases the spending on all of the prescribed initiatives compared to this benchmark, and it uses the unanticipated ongoing and one-time payroll expense tax revenues in more flexible ways.

The proposed budget includes using the payroll tax on a broader number of priorities, including \$287 million to support General Fund spending. This leaves \$233.25 million for the original spending categories (an increase over the \$219 million from the original spending plan). The proposed budget

dedicates \$19.25 million for youth mental health and youth violence interventions (coupled with an additional \$12.5 million in the base budget of the Human Services Department for the same purposes) and then allocates the remaining \$214 million using the same percentages as the original spend plan. As described earlier, the proposed budget includes additional funding from other sources to increase overall investments in affordable housing and the Equitable Development Initiative to historically high levels.

The proposed budget also creates an important new reserve that allow the City to address inherent volatility in the payroll expense tax. Specifically, it establishes and funds an approximately \$40 million reserve that the City can tap in the event that payroll tax revenues slip below current forecasts. Tax revenues have been volatile in the few years. As noted by the Office of Economic and Revenue Forecasts, payroll tax revenues are heavily influenced by fluctuations in the stock market (since the payroll base is tied to stock performance); and volatility also naturally applies to any tax paid by a relatively small number of taxpayers.

Unanticipated or Significant Cost Pressures

Citywide Central Costs

A key component of the annual budget process is to assess the cost of providing services internally to City departments such as Information Technology, fleet and fuel, facility maintenance, financial services/payroll, and human resources. Costs to provide these services are recouped through chargebacks to other City departments. In 2025, these costs are projected to increase by \$23 million for all funds (\$21 million for the General Fund; and \$2 million, net, for other funds). These increases include Citywide costs for enterprise software licenses, cybersecurity, fleet replacement and maintenance, as well as anticipated fuel and utility costs.

Judgment and Claims

The City continues to face rising costs associated with civil claims and litigation, driven by several extraordinary, high-cost cases and a nationwide trend of increasingly expensive settlements and judgments. The increase of \$10 million General Fund in the 2025 Proposed Budget over 2024 Adopted Budget levels reflects the need to meet these higher-than-anticipated expenses.

Labor Contracts

In 2023 and 2024, the City ratified multi-year labor agreements with the Coalition of City Unions, the Seattle Police Officers Guild, and other labor partners. A large share of the City's General Fund budget is spent on labor (about 53% percent). These labor agreements therefore increased the City's cost of doing business. Nonetheless, it was critically important to get a fair labor deal for City employees. Municipal governments across the country are facing a worker shortage. It was important both to the Mayor and to Councilmembers that the City continues to provide crucial services; both the Mayor and Councilmembers also recognize that this cannot happen without work that is done by the hardworking City of Seattle employees. Our approach continues to be rooted in our values that every worker deserves a living wage and our gratitude for City employees and the service they provide to Seattle neighbors.

Mayoral Priorities

The proposed budget balanced resources in order to make new investments in four of the Mayor's priority spending areas: public safety, housing and homelessness, health, and thriving communities. The proposed budget makes significant new investments in each of these categories.

Public safety

The multi-department Unified Care Team (UCT) brings together more than a dozen City departments and partners for a coordinated, strategic, and data-driven approach to ensuring Seattle's public spaces, sidewalks, and streets remain open and accessible to all. Until this year, the UCT was funded only on weekdays. The proposed budget includes funding to expand the UCT's work to seven days a week with weekend work focused on "hot spots."

The proposed budget provides ongoing funding for programs that were started in 2024, including:

- Continued Seattle Police Department emphasis patrols where crime is concentrated to ensure that the region's center of commerce, culture, and tourism continues to be as safe and inviting as possible.
- Funding both for additional firefighter recruits and additional paramedic trainees in 2025 and 2026 to allow the Seattle Fire Department to address significant vacancies.
- The first full year of the Community Assisted Response and Engagement (CARE) Department's expanded CARE Response Teams, allowing these teams to be deployed to neighborhoods throughout the city.
- The first full year of increased pedestrian-level lighting to continue investments begun in 2024 to enhance public safety.
- Funding to pay for jail and other services related to the agreement between the City and the South Correctional Entity (SCORE). The City Council authorized that agreement by passing Ordinance [127065](#) in August 2024.

Consistent with recently enacted State laws and as provided for in negotiated labor agreements with the Seattle Police Officers Guild and the Seattle Police Management Association, the proposed budget significantly expands roles for civilians. New civilians include:

- Two existing Parking Enforcement Officers will increase the Seattle Police Department's capacity for reviewing automated traffic cameras (which will be expanded to 18 new locations around Seattle Schools). This will more than double the number of enforcement cameras in operation, bringing 37 new cameras online by the start of the 2025 school year. This expansion is intended to increase safety around Seattle schools and net revenue after expenses will be used to fund investments like sidewalks and crosswalks.
- Fourteen new investigative support staff over the biennium to assist Seattle Police Department detectives with homicide, robbery, sexual assault, and gun crime investigations by processing court filings, case files, and other urgent materials.
- Twenty-one new positions added over 2025-2026 in the Real Time Crime Center and additional CCTV cameras at specific locations that will upgrade the capabilities of the Real Time Crime

Center, triage and coordinate emergency responses, and support criminal case investigations as part of the Technology Assisted Crime Prevention Pilot Project.

Finally, the proposed budget includes funding for interventions and support for victims of human trafficking, such as providing appropriate community-based support resources and advocates for resource navigation.

Housing and Homelessness

The Office of Housing's overall proposed budget for housing of \$342 million provides the most funding for affordable housing in Seattle's history. A small reduction in support from payroll expense tax investments is more than offset by increases in other funding sources. The proposed budget increases the Office of Housing budget by \$3 million from 2024, continuing the City's investments in multifamily lending, homeownership supports, home repair and weatherization programs, asset management, and departmental administrative costs.

The proposed budget avoids all pending closures of shelter beds. Approximately 300 beds would have closed if not for new ongoing funding in the Human Services Department that backfilled one-time federal funding that stopped being available in 2024.

Health

The proposed budget includes funding for the Seattle Fire Department to expand its Mobile Integrated Health Program with the goal of increasing service delivery, expanding operational hours, and adding new lines of capacity for the team. The Seattle Fire Department will add a new Post Overdose Team (H99) to conduct patient follow up and recovery system navigation in 2025 and a new Health One unit in 2026.

Funding in the Department of Education and Early Learning (DEEL) and Seattle Parks and Recreation (SPR) continues and expands the Mayor's Youth Mental Health Investment Strategy that was implemented in 2024. This initiative includes the integration of school-based mental health counselors and culturally specific programming provided by community-based organizations. The effort is part of a broader, multi-faceted City-wide strategy aimed at addressing youth mental health needs. This strategy ensures that services are culturally responsive, community-focused, evidence-based, and guided by the needs of youth and their families.

Similarly, the proposed budget continues funding in the Human Services Department for the expansion of violence intervention programs from 2024. Collectively, and from a variety of funding sources, the City is spending significantly more than \$20 million for youth mental health and violence interventions.

The proposed budget provides ongoing funding to the Human Services Department to continue the Third Avenue / We Deliver Care pilot project to continue addressing public safety concerns along Third Avenue in the downtown core. One-time funding for the pilot project had been slated to end in 2024.

Thriving communities

The Equitable Development Initiative (EDI) continues to be an important and growing program within the Office for Planning and Community Development, serving as a key inclusive growth strategy for marginalized communities in Seattle most at risk of physical and cultural displacement. The proposed budget increases funding for EDI grants and program implementation in 2025.

The Office of Arts and Culture will continue to fund community grants for organizations and artists at the same level as in the past, complementing the County's new Doors Open funding.

The proposed budget maintains the City-imposed restriction requiring that Admissions Tax revenues be used only for arts-related investments. However, a proposed policy change would allow the Admissions Tax to support expenditures in other departments besides the Office of Arts and Culture. Accordingly, Seattle Center will shift approximately \$1 million from the General Fund to be funded with Admissions Tax revenue, specifically for the Northwest Folklife Festival, cultural administration staffing, and to fully support Festàl. Admissions Tax revenue will also fund the annual Winterfest celebration, which allows Seattle Center to redirect earned revenues to other revenue-generating purposes. SPR will shift about \$880,000 in expenses to be funded by Admissions Tax revenues to continue support for the Arts in Parks, the Teen Performing Arts , and the downtown buskers programs.

The proposed budget maintains funding for the successful Downtown Activation Plan (DAP) that began in 2023. A recent evaluation of the DAP program determined that 93 percent of the DAP activities are either complete or substantially underway. In 2025, new one-time funding is added for:

- Public space activations, public space improvements, and a centralized DAP communications strategy;
- Improvements at Westlake Park;
- Arts activations and installations;
- Supplemental services including litter removal, alley cleaning, graffiti removal, a safe walk service, and outreach to businesses; and
- Initiatives in South Downtown including adding residential capacity as well as other development in the neighborhood.

Finally, the proposed budget includes funding to stand up a new Tree Nursery program in the Seattle Public Utilities (SPU). The proposed budget adds \$680,000 (\$388,000 General Fund and \$292,000 other funds) and 1.0 FTE to SPU to establish and maintain a publicly owned tree nursery with the initial capacity of 500 trees. This effort supports Seattle's tree canopy, equity, climate resilience, and stormwater management goals.