

**Overview and Initial Issues Identification
OFFICE OF ECONOMIC DEVELOPMENT (OED)**

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Expenditures/Revenues

	2014 Endorsed Budget	2014 Proposed Budget	% Change Endorsed to Proposed
Expenditures by BCL			
OED	6,230,000	7,139,000	14.6%
Community Development Block Grant (CDBG)	1,209,000	1,529,000	26.5%
Total Expenditures	\$7,439,000	\$8,668,000	16.5%
Total FTEs	22.5	24.5	8.9%
Revenues			
General Subfund (GSF)	6,230,000	7,139,000	14.6%
Other Revenue Sources (CDBG)	1,209,000	1,529,000	26.5%
Total Revenues	\$7,439,000	\$8,668,000	16.5%

Introduction:

The 2014 Proposed Budget for OED is nearly \$8.7 million and reflects a 16.5% increase (about \$1.2 million) from the 2014 Endorsed Budget. This increase is largely due to the proposed appropriations for the programs listed below and described in greater detail in the “Identified Issues” section of this memorandum:

- 1) Chinatown/International District (ID) and Little Saigon business district support – \$875,000; and
- 2) Startup sector support (Startup Seattle) – \$151,000.

OED’s two primary revenue sources are GSF and CDBG. The Department’s CDBG allocation has declined significantly in recent years due to the planned ramp-down of City investments in the Rainier Valley Community Development Fund (RVCDF). In 2002, the City agreed to provide RVCDF with \$35 million in CDBG support over ten years to help mitigate the impacts of Link Light Rail construction on southeast Seattle neighborhoods and businesses. The City fulfilled this obligation in 2013 and, as a result, OED’s 2014 Proposed Budget does not include any CDBG support for RVCDF. However, OED’s 2014 Proposed Budget does reflect a 26.5% increase (\$320,000) in CDBG funding over the 2014 Endorsed Budget. This increase is intended to help fund façade improvement projects in the Chinatown/ID and Little Saigon business districts (see p.2 for more detail).

Requests for two new, full-time positions (2.0 FTE) are also included in OED’s 2014 Proposed Budget: a Strategic Advisor 1 to manage the new Startup Seattle initiative and a Community Development Specialist to help coordinate the Department’s existing Only in Seattle program. The addition of the Community Development Specialist would be

budget-neutral as OED's proposal calls for bringing in-house a contract position it currently funds at a separate non-profit. OED's current FTE count is 22.5; the proposed new positions would bring that total up to 24.5.

No legislation or capital projects are associated with OED's 2014 budget proposal.

Identified Issues:

Central Staff have identified the following elements of OED's 2014 Proposed Budget for further review by Councilmembers:

1) Economic and Community Development Support for Chinatown/ID and Little Saigon – \$875,000

The 2014 Proposed Budget for OED includes \$875,000 to support economic and community development efforts in Chinatown/ID and Little Saigon. The spending plan for those funds is as follows:

- \$320,00 in one-time CDBG funding for small business façade improvement projects;
- \$260,000 GSF for commercial district place-making investments, including retail recruitment, neighborhood marketing and promotional activities, technical assistance to local business owners, and streetscape improvements. An additional \$200,000 GSF would be annually set aside for this same purpose in 2015 through 2018; and
- \$295,000 GSF to support a study that would evaluate the feasibility of expanding Legacy House, a low-income senior housing facility located at 8th Avenue South and South Lane Street that serves a multi-Asian clientele. Legacy House is co-located with an International Community Health Services (ICHS) clinic that would also be expanded.

Analysis of this proposal is broken up into two parts below: Part A discusses the \$580,000 in combined GSF and CDBG resources that is proposed to support façade improvements and other place-making investments in the Chinatown/ID and Little Saigon business districts; and Part B focuses on the proposed use of \$295,000 GSF to support a feasibility study for Legacy House and ICHS.

Part A: Business District Support – \$580,000

Of the \$875,000 that would be allocated for economic and community development activities in Chinatown/ID and Little Saigon in 2014, \$580,000 would be used to fund a variety of place-making investments and physical improvements that are consistent with types of projects OED supports in neighborhood commercial districts throughout the City as part of its Only in Seattle initiative. An additional \$200,000 GSF is proposed to be annually set aside for these same purposes in 2015 through 2018. Although other individual neighborhoods have received business district support from OED without having to go through a competitive process (e.g., \$500,000 to Capitol Hill in 2006 for the Broadway Action Agenda and a total of \$300,000 to South Park between

2010 and 2013 to help market and enhance its commercial district in the wake of the South Park Bridge closure), the level of funding that would be provided to Chinatown/ID and Little Saigon surpasses what has previously been provided.

There is no question that unmet economic development needs exist in Chinatown/ID and Little Saigon; what is unclear is how those needs compare to the challenges facing other Seattle business districts. According to OED, the Chinatown/ID and Little Saigon business districts were selected to receive \$580,000 in dedicated 2014 funding, and additional funding in subsequent years, due the potential negative impacts several large City projects could have on their economic vitality over the next few years. Those projects include the redevelopment of Yesler Terrace, streetcar construction along South Jackson Street, and new Building Code regulations that will likely require the owners of the many unreinforced masonry buildings located in Chinatown/ID and Little Saigon to make substantial upgrades to their properties.

Options (not all are mutually exclusive):

- a) Amend the 2014 Proposed Budget to eliminate or reduce funding for Chinatown/ID and Little Saigon business district support.
- b) Place a proviso on the \$580,000 proposed for place-making and façade improvement projects in Chinatown/ID and Little Saigon and direct OED to allow other neighborhood business districts to apply for the funds via a competitive process. Once the competitive process is complete, the Council would lift the proviso in order to allow OED to distribute the funds to the selected business districts.
- c) Approve funding for Chinatown/ID and Little Saigon business district support as requested in the 2014 Proposed Budget.

Part B: Feasibility Study for Legacy House and ICHS – \$295,000

The remaining \$295,000 GSF proposed for economic and community development activities in Chinatown/ID and Little Saigon would be used to fund a study that would evaluate the feasibility of expanding Legacy House and ICHS onto a neighboring property. The Seattle Office of Housing (OH) generally manages all City contracts and projects related to the development of affordable housing, including income-restricted senior housing. Thus, the proposal to appropriate \$295,000 GSF to OED to fund a feasibility study for Legacy House is inconsistent with standard City practices. Additionally, \$295,000 is more than the feasibility studies developed for affordable housing projects comparable in size and complexity to Legacy House usually cost. It is unclear whether the high expected cost is due to Legacy House's co-location with ICHS or some other factor(s). It is also unusual for GSF to be used as the sole funding source for such a study. More commonly, planning analyses of this sort are at least partially financed with zero- or very-low-interest predevelopment loan funds that are made available to nonprofits by organizations like Impact Capital.

Councilmembers should also be aware that the background information provided by OED suggests a successful future expansion of Legacy House may be dependent on

the availability of Housing Levy funds, which are managed by OH. Already, the existing pipeline of proposed affordable housing projects within Seattle is generating a level of demand for Housing Levy dollars that far exceeds the amount of resources available. For all of these reasons, Councilmembers may want to consider making OH, rather than OED, responsible for administering any 2014 funding associated with expansion planning for Legacy House.

Options (not all are mutually exclusive):

- a) Amend the 2014 Proposed Budget to eliminate or reduce funding for a feasibility study for Legacy House and ICBS.
- b) Place a proviso on the funding for Legacy House and ICBS until OED provides, and the Council has had an opportunity to review, a more detailed funding proposal for the feasibility study.
- c) Transfer the \$295,000 GSF for Legacy House and ICBS to OH and proviso the funds until OH provides, and the Council has had an opportunity to review, a more detailed funding proposal for the feasibility study.
- d) Approve funding for Legacy House and ICBS as requested in the 2014 Proposed Budget.

2) Startup Seattle – \$151,000

OED's 2014 budget proposal includes \$151,000 GSF for Startup Seattle, a new initiative that would support the growth of early-stage technology companies (startups) located within the City. Startup Seattle is an outgrowth of the Mayor's Startup Industry Roundtable, which was established in May 2012. The primary goals of Startup Seattle are described by OED as follows:

- Increase the number of Seattle startup firms and the number of individuals employed by those firms by 10% per year;
- Increase venture capital investments in Seattle startup firms;
- Secure Seattle's standing as one of the top-ranked cities in the world to launch a startup; and
- Create opportunities for underrepresented high school youth to learn about and play a role in the startup sector.

OED provided the Council's Committee on Economic Resiliency and Regional Relations with a briefing on its vision for the Startup Seattle initiative on July 2, 2013.

Earlier this year, OED officially launched Startup Seattle by using some of its existing resources to acquire and begin managing StartupSeattle.com. Over the next several months, OED plans to expand the content of the website and turn it into an information clearinghouse that would serve existing Seattle startup firms as well as early-stage

technology companies that are considering locating here. The proposed 2014 funding for Startup Seattle would be used to 1) hire a new Strategic Advisor 1 to manage the initiative (\$126,000); and 2) cover various Startup Seattle program costs, including, but not limited to, website maintenance and marketing materials (\$25,000).

The new Strategic Advisor 1 that would be hired to staff Startup Seattle would serve as the City's official liaison to the startup community, manage StartupSeattle.com, and help create opportunities for underrepresented youth to participate in the startup sector by forging connections between existing youth development organizations and technology firms. The new hire would also be responsible for tracking and developing annual reports on the following program outcomes:

- Impact of startup sector growth on the City's Business and Operations (B&O) Tax revenues;
- Number of new startup firms established;
- Number of new jobs created in startup sector;
- Number of individuals engaged in Startup Seattle outreach or training events; and
- Seattle's rankings on lists of cities and regions considered good places to launch a startup firm.

An advisory group comprised of technology industry leaders would also be convened to support and provide oversight of the Startup Seattle initiative.

Startup Seattle is proposed as an ongoing program, which, if approved by the Council for implementation in 2014, would become part of OED's baseline budget in 2015 and beyond. Councilmembers should also be aware that providing funding for Startup Seattle would set a precedent and could result in representatives from other sectors (e.g., life sciences, global health, maritime industries, manufacturing) approaching OED with requests for dedicated staff support.

Options:

- a) Amend the 2014 Proposed Budget to eliminate or reduce funding for Startup Seattle.
- b) Approve funding for Startup Seattle as requested in the 2014 Proposed Budget.

Potential Issues Under Assessment:

Council staff are also reviewing the following emerging issues related to OED's budget:

1) HUD Section 108 Loan Program

Council staff are examining OED's HUD Section 108 loan program to ensure existing staff and programmatic resources are being efficiently and effectively deployed. OED's Section 108 portfolio currently includes 12 loans with a total value of \$27 million. One

of those loans (provided to Alpha Cine, a film processing company) recently defaulted, which will require the City to pay HUD about \$1.3 million over the next 15 years.

2) Business Assistance Services for Restaurants

The 2013 Adopted Budget for OED included \$75,000 GSF, added by the Council, to support an interagency effort to streamline restaurant permitting processes across City, King County, and Washington State agencies. The Council recently received a request for \$130,000 that would be used to provide continued support to this initiative in 2014. Council staff are currently reviewing this request.

Other Changes that Do Not Warrant Analysis as “Issues”:

The following elements of OED’s 2014 budget proposal may also be of interest to Councilmembers:

1) Only in Seattle Funding Transfer – Budget Neutral

The 2013 Adopted and 2014 Endorsed budgets include \$500,000 GSF per year to support streetscape improvement projects in neighborhood business districts that have on-street paid parking. This funding program was established after local business owners expressed concern to OED that the presence of on-street paid parking made it more challenging for them to attract and retain customers. OED administers the program as part of its ongoing Only in Seattle neighborhood business district support initiative; however, the \$500,000 GSF in annual program funding is actually appropriated to Finance General. The 2014 Proposed Budget would transfer to OED \$250,000 of the Only in Seattle streetscape improvement funding that is currently appropriated to Finance General. OED would then use those resources to support Only in Seattle projects and programs that it currently funds with CDBG. In exchange, OED would dedicate \$250,000 of its 2014 CDBG allocation to funding streetscape improvement projects in neighborhood commercial districts with on-street paid parking.

According to OED, recent changes to HUD’s CDBG reporting requirements have made it more challenging for the City to use that resource to fund some of its ongoing, non-capital programs. In contrast, capital projects remain a straightforward way to use CDBG funds and are subject to more streamlined reporting criteria. Thus, the proposed GSF transfer would provide OED with the ability to more efficiently deploy some of its resources without impacting the overall level of funding available to support its programs.

Although the proposed funding transfer would increase OED’s departmental budget by \$250,000, it is technically budget neutral as it would reduce appropriation authority in Finance General by the same amount. Still, Councilmembers should be aware that it would increase the amount of GSF support included in OED’s baseline budget at least until the Only in Seattle streetscape improvement program for commercial districts with paid on-street parking is discontinued.

2) Only in Seattle Program Staffing – Budget Neutral

OED currently provides Impact Capital, a nonprofit investor in community development projects and programs, with about \$95,000 in annual CDBG support to fund a contract

position associated with Only in Seattle. In exchange, Impact Capital directs some of its own resources to the Only in Seattle program. However, the value of Impact Capital's contributions to Only in Seattle have decreased over time. In 2009 (the year OED developed the business district revitalization program that became Only in Seattle), Impact Capital contributed \$190,000 to the initiative. By 2013 that figure had dropped to \$124,000, and OED expects it could decline further as Impact Capital continues to focus most of its efforts on community development lending activities. In contrast, annual City funding for Only in Seattle has climbed from about \$800,000 in 2009 to more than \$1.5 million in 2013.

Starting in 2014, OED is proposing to retain within its own operating budget the \$95,000 it annually provides to Impact Capital. OED would use the money to fund a new, full time Community Development Specialist position to help administer the Only in Seattle program. This would bring OED's total staff support for Only in Seattle to 3.0 FTE. OED believes replacing an off-site contract position with a permanent in-house staff member will result in increased program efficiency and improved staff coordination.

Although this proposed staffing change is budget neutral, fully funding any ongoing staff positions with CDBG resources could, over time, place additional stress on what is already a very constrained resource. The value of the City's annual CDBG allocations has declined by 35% over the last decade, dropping from \$14.8 million in 2004 to \$9.6 million in 2013.