



SEATTLE CITY COUNCIL
CENTRAL STAFF

General Fund Financial Plan Update

TOM MIKESELL, ANALYST & ALY PENNUCCI, DEPUTY DIRECTOR
FINANCE AND HOUSING COMMITTEE
MAY 17, 2023

Outline

Review update of the General Fund (GF) Financial Plan using:

- Updated estimates of the 2022 ending fund balance
- Updated GF revenue and expenditure projections for 2023 through 2026

Review JumpStart (JSF) biennial budget impacts from:

- Reduced payroll expense tax revenue projections
- Executive administrative balancing measures

Identify Equity Considerations

Caveats

- *Underlying assumptions, baseline data and methodologies used for the figures in this memorandum are consistent with the approach developed by CBO. Put another way, these plans are not engineered by Central Staff using independent methods and research, but rather represent a recasting and transparent discussion of work that is already performed by CBO.*
- *Further, all elements of the GF budget are subject to review and revision by the City Council. The portrayal of these plans is not intended to indicate that the underlying budget decisions embedded within cannot be changed during the budget process, but rather that the projections are estimates of the future cost of continuing ongoing 2024 endorsed budget programs into the future.*

Where we were:

2023 Adopted /2024 Endorsed GF Budget/Financial Plan (p.2-4)

| <i>Amounts in \$1,000s</i> | 2022 Revised | 2023 Adopted | 2024 Endorsed | 2025 Projected | 2026 Projected |
|---------------------------------------|-------------------------|-------------------------|--------------------------|---------------------------|---------------------------|
| Starting Balance | 273,327 | 193,616 | 145,542 | 38,008 | (181,178) |
| Revenues | 1,765,677 | 1,623,449 | 1,634,509 | 1,596,179 | 1,655,535 |
| Expenditures | 1,845,389 | 1,671,523 | 1,742,043 | 1,815,364 | 1,861,009 |
| Operating Surplus (Deficit) | (79,711) | (48,074) | (107,534) | (219,185) | (205,474) |
| Ending Budgetary Fund Balance | 193,616 | 145,542 | 38,008 | (181,178) | (386,652) |
| Planning Reserves | (38,008) | (38,008) | (38,008) | (38,008) | (38,008) |
| Ending Unreserved Fund Balance | 155,608 | 107,534 | 0 | (219,185) | (424,659) |

Key takeaway: Starting from a \$273 million fund balance, the two-year GF budget balanced to a \$0 ending unreserved fund balance at end of 2024. Projected (\$212) million average operating deficit in 2025 and 2026, and a projected unreserved fund balance of (\$425m) at end of 2024.

Updates:

2022 Ending Balance Higher Than Projected (p.4-5)

2022 ending budgetary fund balance improves by \$168 million due to:

- Revenues \$23.5 million below revised estimate, due to \$31 million of unreceived grants that are added to 2023 forecast
- Expenditures \$191.6 million below revised budget,

2022 unreserved ending fund balance improves by \$34 million after accounting for \$134 million reserve for carryforwards, including:

- Automatic carryforwards of \$105.8 million, net of \$31.3 million of uncollected grant revenue
- Legislated carryforwards totaling \$59.7 million in CB 12057

Key takeaway: 2022 budgetary ending balance increased by \$168m. After accounting for reserves for carryforwards, ending unreserved fund balance improves by \$34 million.

Updates:

2022 Underspend and Additional Balance (p.6)

2022 underspend of \$57.5 million (3.4 percent of revised budget):

- 2021 underspend (\$50 million, 3.15 percent)
- \$20 million for 2022 assumed in balanced budget
- \$10 million underspend assumed for 2023 and 2024

Unanticipated additional 2022 unreserved ending fund balance was \$34 million:

- ORD 126719: reduce JSF transfer to the GF by the amount of unplanned unreserved GF fund balance at year-end
- Executive administrative intent to reduce 2023 transfer by \$38.7 million

Key takeaway: 2022 underspend of \$57.5 million, higher than assumed; unexpected year-end GF balance could reduce JSF transfer to GF by \$34 million per ORD 126719, though Executive intent is to reduce transfer by \$38.7 million.

Updates:

Updates to Assumptions (p.7-9)

OERF/CBO April Revenue Forecast:

- Near term revenue improvement, lower in 2026

OERF Inflation Update:

- Slightly higher near-term inflation affects all years in forecast
- Additional adjustment to 2024 base to account for higher inflation than assumed in 2024 Endorsed budget

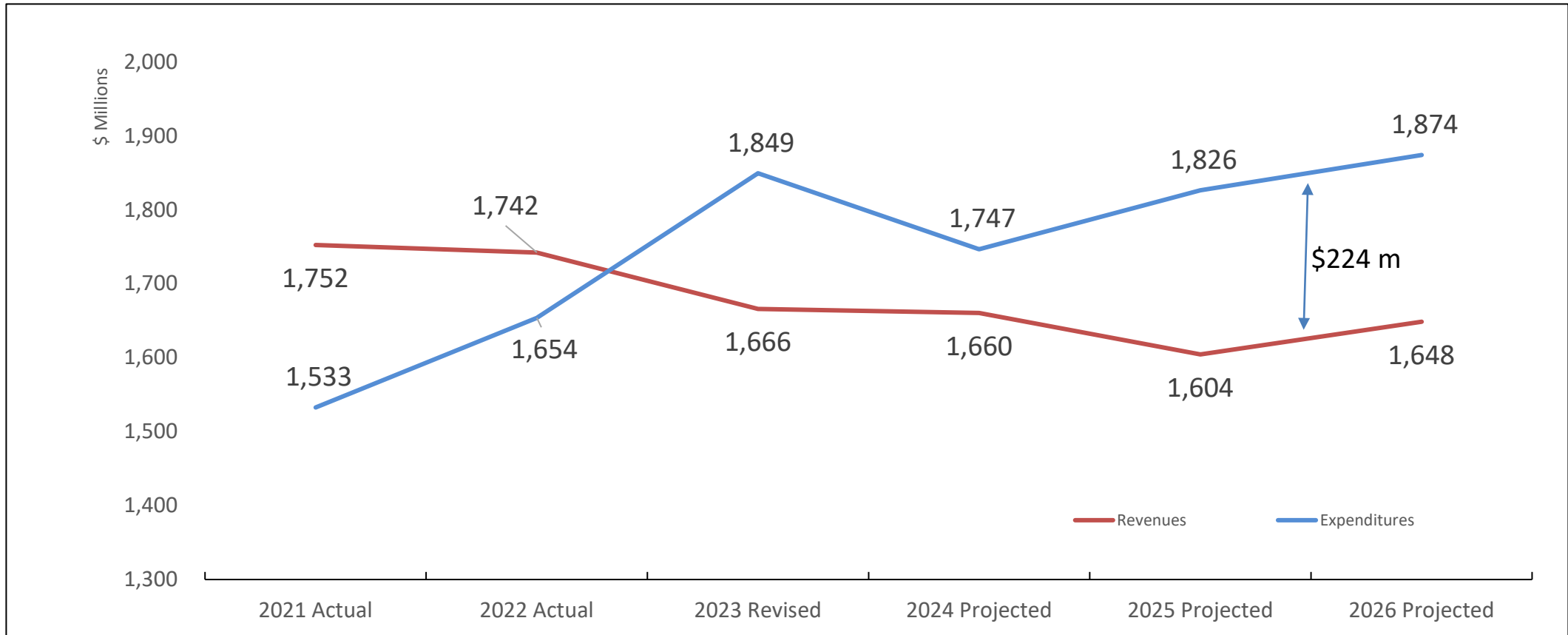
Other Adjustments:

- CB 126791 – First Quarter grant acceptance
- Technical Adjustments
- CBO contingent factors

Key takeaway: Higher revenues in the near term, though little to no growth over long term; based on emerging data, revised inflation and other factors increase projected costs.

Where we are now:

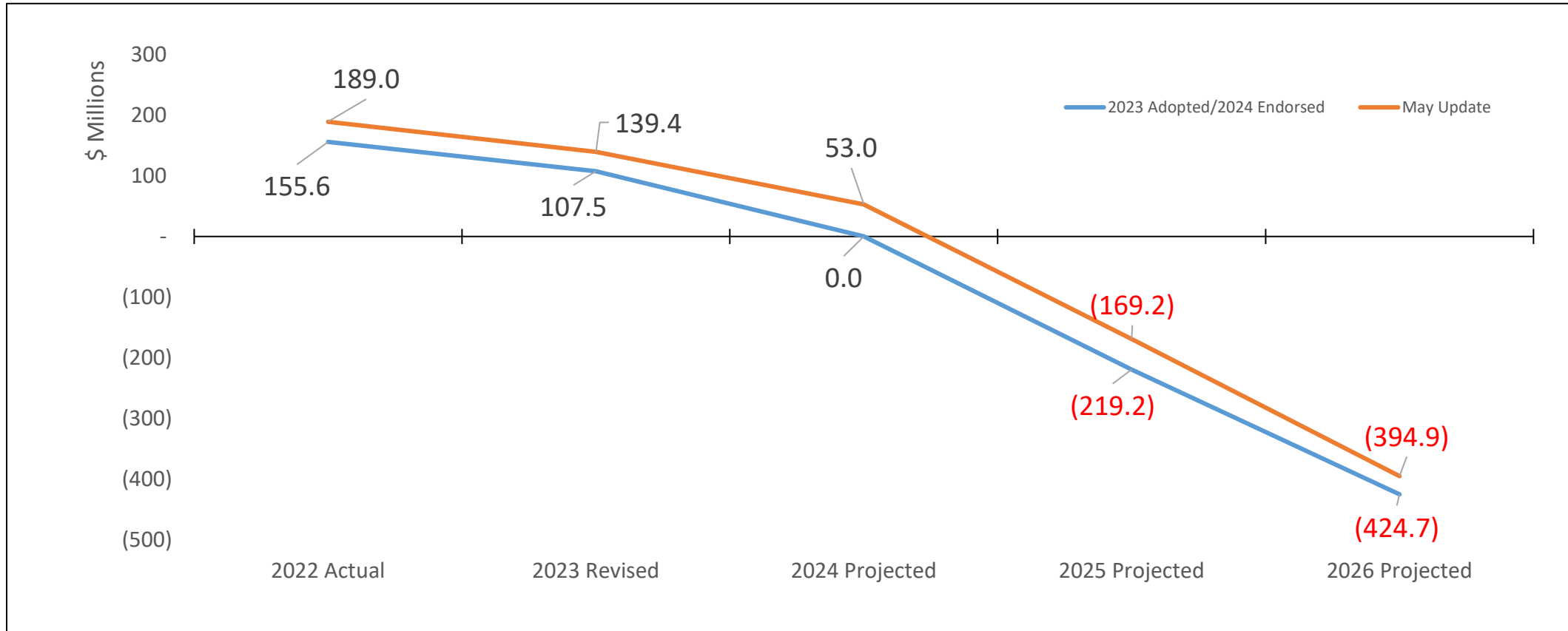
May 2023: Projected GF Operating Gap (p.9-10)



Key Takeaway: Projected operating deficit increases from \$212 million to \$224 million on average in 2025 and 2026.

Where we are now:

May 2023: Unreserved ending fund balance (p.10-11)



Key Takeaway: Projected 2023 ending unreserved balance improves to \$107.5 million, which is \$31.8 million higher than 2023 adopted budget assumption. Projected 2026 ending balance improves to **(\$394.9)** million, though this would require that additional current year resources remain unspent.

GF Key Takeaways

- Due to higher-than-expected 2022 ending balances, about \$31.8 million of additional unreserved balance in 2023
- However, due to projected ongoing expenditure growth outpacing projected ongoing revenues, the projected annual operating deficit in 2025 and 2026 in the GF has worsened.
- Projections will change as new data becomes available.
- The Executive continues to work on revisions to the 2024 Endorsed budget, which will inform changes to the financial plan presented in August (an updated plan, including all proposed revisions, will be transmitted with the Mayor's Proposed revisions to the 2024 Endorsed Budget).

2023 Adopted /2024 Endorsed JumpStart Fund (JSF) Budget

(p.12)

| <i>Amounts in \$1,000s</i> | 2022 Revised | 2023 Adopted | 2024 Endorsed |
|---------------------------------------|-------------------------|-------------------------|--------------------------|
| Starting Balance | - | 44,142 | 16,841 |
| Revenues | 279,642 | 294,118 | 311,466 |
| Expenditures | 235,500 | 321,418 | 309,269 |
| Ending Budgetary Fund Balance | 44,142 | 16,841 | 19,038 |
| Reserves | | | |
| Revenue Stabilization Reserve | | (14,706) | (31,147) |
| Planning Reserve | | (36) | (102) |
| Administration Reserve | | (2,000) | (4,000) |
| Total Reserves | | (16,742) | (35,249) |
| Ending Unreserved Fund Balance | 44,142 | 99,514 | (16,211) |

Key Takeaway: The JSF two year budget, has a positive budgetary balance at the end of 2024.

Updates to assumptions:

Jump Start Fund Revised Assumptions (p.11-13)

OERF/CBO April Revenue Forecast:

- Forecast for payroll expense tax downgraded \$28 million on average in 2022 through 2024.

2022 Actuals:

- 2022 expenditure underspend totaling \$107 million, of which \$101.3 million is for 2023 carryforward appropriations, including:
 - \$46.2 million for automatic carryforward, and \$55.1 million carryforward requested in CB 120573

After applying these changes:

- 2023 and 2024 ending budgetary fund balances would be **(\$34.7)** million and **(\$64.3)** million, respectively
- After accounting for reserves, the ending unreserved fund balances in 2023 and 2024 would be **(\$51.5)** million and **(\$99.5)** million respectively

Key Takeaway: Financial position in JSF two-year budget worsened after revenue forecast downgrade of about \$28 million per year; the budget would be unbalanced as a result.

JSF Executive Administrative Balancing Measures (p.13-14)

Reduce JSF transfer to GF by \$38.7 million in 2023

Underspend select 2023 department appropriations, totaling ~\$14 million:

- Office of Economic Development: \$2.2 million
- Office of Housing: \$9 million
- Office of Planning and Community Development: \$1.3 million;
- Office of Sustainability and Environment: \$1.3 million

Executive intends to do this administratively, though one or all measures could be legislated, either in mid-year supplemental or in year-end supplemental.

Reduce 2024 Reserves to \$0

CBO budget instructions requested 15% reduction proposals for 2024, which in total would generate \$46.4 million. Not known which, if any, of these proposals would be included in the Mayor's proposed adjustments to the 2024 Endorsed Budget

JSF Budget: Including Administrative Measures (p.14)

| <i>Amounts in \$1,000s</i> | 2022 Revised | 2023 Revised | 2024 Revised |
|--|-------------------------|-------------------------|-------------------------|
| Starting Balance | - | 124,762 | 17,743 |
| Revenues | 253,060 | 263,261 | 279,742 |
| Expenditures | 128,298 | 466,612 | 309,269 |
| Administrative Transfer Reduction | 0 | (38,671) | 0 |
| Administrative Underspends | 0 | (13,800) | 0 |
| Revised Operating Expenditures | 128,298 | 374,954 | 309,269 |
| Ending Budgetary Fund Balance | 124,762 | 17,743 | (11,784) |
| Reserves Total | 0 | (16,742) | 0 |
| Ending Unreserved Fund Balance | 124,762 | 1,001 | (11,784) |

Key Takeaway: After applying 2023 administrative measures, 2023 revised budget would be balanced, though 2024 would be about \$12 m out of balance (not including any additional reductions that may be included in Mayor's proposed 2024 budget adjustments).

Equity Analysis (p.15-16)

- ORD 126799 codifies the City’s commitment to racial justice and social equity
 - the equity implications of balancing GF deficits with JSF monies at the detriment of equity investments characterized in a series of spending plan legislation since summer of 2020.
 - JSF structure:
 - the payroll expense tax is levied on compensation expense levels above \$174,337, paid by businesses in the city with payrolls above \$8,135,746.
 - Expenditures focused on affordable housing, environmental, equitable development, and economic revitalization investments.

After applying 2023 administrative measures, 2023 revised budget would be \$16 million lower than spending plan amounts envisioned in RES 31857 (based on original tax collection estimates)

Next Steps

- August: Revised department expenditure estimates and OERF/CBO revenue forecast
- September: Mayor’s proposed adjustments to 2023 Revised and 2024 Endorsed Budgets
- Budget Deliberation: Final OERF/CBO forecast for the year, and Council amendments
- Using the framework continued in this memorandum, Central Staff will provide GF financial plan updates at each stage in the process