

July 8, 2021

MEMORANDUM

To: Governance and Education Committee
From: Aly Pennucci, Policy and Budget Manager, and Tom Mikesell, Analyst
Subject: CB 120124 - Legislation creating an Office of Economic and Revenue Forecasts

On July 13, 2021, the Governance and Education Committee (Committee) will discuss and may vote on Council Bill (CB) 120124. The proposed legislation would establish a new Office of Economic and Revenue Forecasts (ERFO) that is independent of the Executive and Legislative branches of City government, and updates certain financial reporting required by code. Similar to functions of the King County Office of Economic and Financial Analysis and the Washington State Economic and Revenue Forecast Council, the ERFO would provide independent forecasts and economic analyses. This legislation would implement the policy intent of the Council Budget Action (CBA) [FG-001-A-003](#), included in the 2021 Adopted Budget through.

This memorandum:

1. Provides background information on the City's current process for economic and revenue forecasting, and compares that to the forecasting processes used by the State of Washington and King County;
2. Describes CB 120124;
3. Highlights policy considerations for the Committee's deliberations; and
4. Outlines next steps.

Background

City of Seattle Forecasting

The State budget act that provides the basis for the City's budget process ([35.32A RCW](#)) requires that the City's annual spending cannot exceed reasonably anticipated annual revenues. The City's revenue forecast therefore establishes the funding available for spending proposals made by the Mayor and the City Council for each of the City's many funds. Encompassing the City's General Fund and other key general government revenue sources, it provides:

- The projection of total revenues for the coming budget year; and,
- The trends in income, population, construction, and other economic variables that drive the revenue estimates.

Staffing, Methods and Forecast Output

The Seattle Municipal Code ([SMC 3.39.035](#)) authorizes the Director of Finance in the Department of Finance and Administrative Services (FAS) to provide economic and revenue forecasts, “in coordination with the City Budget Office.” The Director of Finance is permitted by law, with approval of the Director of FAS, to delegate this authority to any other qualified City employee. In practice, the City’s revenue forecast is currently produced by analysts and economists in the City Budget Office (CBO) and FAS and then presented to the Mayor and City Council by the CBO Director and their staff. These economists use national and local economic data to update a model of the regional economy, which generates the economic inputs for their revenue forecasts. These economic input variables are fed into a series of forecasting questions to generate projections of City revenues. The forecast output is presented to the City Council as a ‘best guess’ of the amount of expected revenues given the available economic data.

Forecast Timing

The current General Fund financial policy included in [Resolution 30379](#) states “(t)he Department of Finance will provide the Council with revenue forecasts for general government revenues at least twice a year and will, through the budget document, provide an annual written report on General Subfund Revenues.”¹ In practice, the CBO Director delivers forecast information to the Select Budget Committee three times a year, as follows:

- April/May: The summer forecast is the first of the year and is presented as a standalone agenda item at a special meeting of the Council’s Select Budget Committee or in the Finance Committee;
- Late September:² The first fall forecast is typically presented with the Mayor’s Proposed Budget. All revenues from this forecast are fully programmed in the Mayor’s budget proposal; and
- Late October/Early November: Typically presented through an email to the Budget Chair and the Director of City Council Central Staff, this forecast is timed to closely precede the introduction of the Council’s Initial Balancing Package to the Select Budget Committee. Any newly identified revenue surpluses or deficits must be addressed in the Balancing Package.

Until its formal delivery at each of the above times, the forecast information is solely maintained within the Executive branch. The City Council does not formally approve the forecast.

¹Legislation that is pending introduction would amend the language in Resolution 30379 to update the language to reflect the ‘General Fund’ instead of the ‘General Subfund’ and would replace the Department of Finance with the City Budget Office as the responsible department. If this legislation is passed, additional changes to reflect the new office will be proposed.

² Note: in 2021 this forecast was transmitted to the Council in late August.

Economic and Revenue Forecast Advisory Committee

Established in [SMC Chapter 3.82](#) of the Seattle Municipal Code in 2014 through [Ordinance 124635](#), the Economic and Revenue Forecast Advisory Committee (Committee) was created to inform “City decision-makers of the assumptions and risks concerning the economic and revenue forecasts, and promoting internal consistency, where appropriate, across City forecasts.” The Committee is chaired by the CBO Director, and includes two members from the Legislative Branch and four members from the Executive branch.

The Committee was created to provide advice on the forecasts to the Mayor and City Council, as well as the department staff that develop the forecasts. The authorizing ordinance did not provide for a schedule of when the Committee shall meet, or a mechanism for a formal vote to accept or revise forecasts. Based on information from the CBO Office, the Committee has met one time in the five years since it was created.

Peer Comparisons

For purposes of comparison, the following table summarizes at a high level the forecasting processes used by the State of Washington and King County, the two largest general purpose governments in the state, with the City’s current practice. Appendix 1 to this memo provides additional details on the processes used by the State of Washington and King County.

Organization	Responsible Branch of Government	Who Presents Forecast	Forecast Frequency in Law?	Alternative Scenarios Provided?	Forecast Subject to Vote?	Economic Forecast Provided
City of Seattle	Executive	City Budget Director	Yes; at least 2x a year	No*	No	Yes
King County	Independent	Chief Economist	Yes; 2x a year	No	Yes	Yes
State of Washington	Independent	Forecast Council Executive Director	Yes; 4x a year	Yes	Yes	Yes

*In April and June of 2020, the CBO did present alternative scenarios.

CB 120124

Background

The 2021 Adopted Budget includes two measures to serve as the starting point for forming an independent forecast office like the Washington State Economic and Revenue Forecast Council and the King County Office of Economic and Financial Analysis, which provide economic and revenue forecasts for the Washington State and King County governments, respectively.

Added to the budget through CBA [FG-001-A-003](#), these measures included \$150,000 reserved in Finance General to fund the new office's start-up costs in 2021, and a \$330,000 proviso on CBO's 2021 appropriation that releases when an ordinance establishing an independent forecast office is created. If CB 120124 is passed by the Council, supplemental budget actions will be necessary to create positions for the new office and transfer funds.

Process

Since January, representatives from CBO, FAS and legislative staff have held bi-weekly meetings to discuss the parameters of the new office, and the make-up and responsibility of a new Forecast Council that would consider and vote on forecasts, including:

- Makeup of the new Forecast Council that considers the forecast;
- Staffing levels and funding requirements for the new office;
- Scope of responsibility for the new office;
- Timing of forecasts during the year; and
- Related legal and procedural issues.

Bill Summary

Forecast Council

The proposed legislation would create a new Forecast Council which is comprised of the City Council President, the councilmember who serves as the Chair of the Finance Committee, the Mayor, and the Finance Director, with alternative representation allowed for each elected official on the Forecast Council. The Forecast Council would be responsible for:

- Selecting and recommending removal of the Director of the ERFO;
- Approving the annual work plan for the Office; and
- Providing oversight and approval of forecasts produced by the ERFO staff.

The ERFO Director will present three forecast scenarios (pessimistic, baseline, and optimistic) to the Forecast Council, and the ERFO Director will also make a recommendation on which should serve as the basis for the official forecast for that period. If any member of the Forecast Council disagrees with that recommendation, they can call for a vote to approve an alternate; if no vote is called for the recommendation of the ERFO Director stands as the official Forecast Council forecast. Though the forecast coming out of this process would generally be considered the official forecast, state law provides for the Mayor and the City Council to propose reasonable alternatives. The proposed legislation would require that if the Mayor or the Council chose to rely on an alternate forecast for any budget decisions that deviates from the Forecast Council forecast, the change must be described in writing and transmitted to the other branch.

Meetings of the Forecast Council would be held in public, and at a minimum would take place concurrent with forecast updates, however the number of meetings during the year would be determined by the Forecast Council. The Forecast Council would be responsible for hiring a Director for the new office; the Director would hire personnel to staff the Forecast Council.

Economic and Revenue Forecasting Office

The ERFO would be responsible for: (1) staffing the Forecast Council; (2) performing economic and revenue forecasts; (3) conducting special studies at the request of the Forecast Council; and (4) providing ad hoc analytical support on economic and revenue estimation for legislative and executive staff consistent with the work program.

The ERFO would provide a revenue forecast for about 70 percent of general governmental revenue sources. CBO would separately forecast the remaining 30 percent of revenues. The rationale for this split is that the revenues that would be the responsibility of the ERFO are most heavily dependent on the regional economy and are based on econometric modelling performed by the lead CBO forecaster, who would transfer to the new office, whereas the revenues remaining with CBO are more dependent on departmental service metrics, which align with the budget work by CBO staff. There is cross-over work between forecasting and other budgetary work that complicates a clear-cut quantification of forecast duties.

CBO would retain 2.0 FTE positions that currently support the forecasting work as well as other fiscal policy and budget matters (one manager and one economist). In total, 1.0 FTE would be transferred from CBO to the ERFO, 0.5 FTE that is currently supports CBO's work but is paid for by FAS would now support the ERFO, and two new FTEs would be created for the new ERFO. It is anticipated that CBO will request additional funding, through future budget appropriation bills, for an economist position to backfill the 0.5 FTE position that would transfer to the ERFO, if approved, and to restore other healthcare economist work. These resources would continue to support the 30 percent of the forecasting work that would remain within CBO.

The new ERFO would consist of 3.5 FTE, including:

- 1.0 FTE: New Director position;
- 1.0 FTE: New Data Analyst position;
- 1.0 FTE: Lead Economist transferred from CBO; and.
- 0.5 FTE: Economist position shared with FAS (transferred from CBO).

The new office will require about \$660,000 of ongoing General Fund (GF) support; about \$170,000 of this is a transfer of existing resources from CBO; the remaining \$490,000 will require ongoing GF resources. The specific staffing model and budget authority is not part of CB 120124 and will take form, should this legislation pass, through a supplemental budget adjustment in 2021, and the 2022 proposed budget deliberations.

The proposed legislation co-locates the ERFO with the City Finance Division in FAS and provides that the office would receive administrative support from FAS. This will reduce the administrative costs of establishing a new office.

Financial Reporting

The City Auditor is responsible for creating a financial condition report biennially. The proposed legislation transfers that responsibility to FAS and the new ERFO and updates other reporting requirements from FAS.

Policy Considerations

Why consider modifying the City's structure related to economic and revenue forecasts?

Creating a new office to provide independent forecasts and economic analyses is intended to increase transparency in the process, create a level playing field between both branches of government, enhance the City's work related to forecasts and other economic analysis, and creates consistency with other government entities. Doing so does come with some tradeoffs; primarily, moving this function to a new office and enhancing the work related to forecasts does come with some increased costs compared to the status quo. The policy choice before the Council essentially is, "Do these changes justify the additional costs?". Below staff has provided more discussion on the policy intent for the Committee's consideration as well as information on the estimated increased costs associated with establishing the new office.

Transparency

An open, consensus forecast process would remove any real or perceived concerns about whether revenue forecasts are being used as a political tool to either boost or constrain expenditures or gain a strategic advantage.

In addition, the new office focused primarily on forecasting would be better positioned to provide greater transparency on:

- How the prior year's forecast compared to actual revenue collections; and
- How the current year's revenue performance compared to the forecast for the current year, which identifies additional revenues or shortfalls.

Race and Social Justice Initiatives (RSJI): While there are not direct race and social justice impacts of this proposal identified by staff, as a key input into the City's budget processes, a more transparent forecasting process is one step towards providing more access to data that informs key decisions. A key component of achieving the RSJI goal of ending institutionalized racism is the examination of City policies, projects, initiatives, and budget decisions. The City's Budget lays out priorities in terms of policies and programs; an open process gives both branches, as well as the public and advocates, the opportunity to gain access to the information needed to help evaluate budget proposals based on the facts before decisions are made.

Level the Playing Field

Both branches would be working from a common starting point and there would be certainty about delivery of good or bad economic information based on policy discussion at the Council. Currently, until formal delivery of the forecast, the forecast information is solely maintained within the Executive branch (e.g., The changes in the forecasted amount of revenues are sometimes presented to the Council simultaneously with new spending proposals from the Executive or the need for reductions. This can impact not just the annual budget process, but also supplemental budget requests.). Any difference between when data is first known and publicly communicated represents an opportunity to form a strategy and communicate policy proposals for using new resources.

Enhancement

The ERFO could provide regular economic and revenue monitoring reports, further educating the public and City Council about performance of the City's tax revenue portfolio and provide more detailed information for the public, enhancing transparency in the process. Both the County and the State provide regularly updated information on their websites for public review that could serve as a model for the ERFO (see examples [here](#)). Currently economic trends are discussed at a high level at the April forecast and the forecast presented with the budget. More regular reporting, showing budget to actual performance for all tax categories on perhaps a quarterly basis, would bridge these forecast presentations. Given the competing demands on CBO's staffs time for forecasting and other budgetary work, resources are limited to provide that level of public reporting.

In addition, both branches would have confidential access to the expertise in the forecasting unit to assist in other economic analysis, such as providing impartial analysis of tax proposals that one branch wants to pursue. The ERFO could provide a confidential analytical resource (during the deliberative process) to inform tax estimates while they are being developed. It would be incumbent on an independent office to provide an updated estimate for any new tax as part of the forecast. As an example, while building rates for the the payroll expense tax, a confidential forecasting office could have been consulted to fine tune rates and potentially capture unaccounted tax base.

Consistency with other government entities

Both the state and county have forecasting processes that rely on an independent office – the table presented previously summarizes the key elements of Seattle's forecasting process compared to the processes used by the County and the State.

Increased Costs

Creating an independent office will require some additional one-time (about \$32,000) and ongoing costs for two new positions and some non-labor costs (in total, about \$490,000 annually of new funding will be needed). This includes hiring a director for the new office,

adding an analyst position, and other administrative costs (note that, as proposed, the ERFO will be co-located with the City Finance Division and receive some administrative support from FAS). However, to achieve the policy goals described above, additional resources would be necessary even if the forecasting function were to remain within the executive branch (e.g., given competing demands on the CBO staff who support the forecasting work as well as other fiscal policy work, it is unlikely that more detailed and regular reporting, and other enhancements, could be achieved without additional resources). Further, some of the goals may not be achievable if the forecasting function remains within one branch (e.g., leveling the playing field).

Next Steps

If the Committee votes to recommend passage of CB 120124 on July 13, the City Council could consider the legislation at its July 19 meeting. If the bill is passed, amendments to the midyear supplemental budget ordinance, that is scheduled for discussion in the Finance and Housing Committee on July 20, 2021, will be required. At minimum, this will include creating a new position for the ERFO Director and could include creating a new budget summary level (BSL) for the ERFO and transferring funds from Finance General to the new BSL. Until the Director is hired, and the office is staffed, CBO will continue to produce the revenue forecasts in 2021.

Appendices:

1. Peer Comparison (pg. 9)
2. Appendix 2: Summary table of CB 120124 (pg. 11)

cc: Dan Eder, Interim Director

Appendix 1: Peer Comparison

For purposes of comparison, the following section describes the forecasting processes used by the State of Washington and King County, the two largest general purpose governments in the state.

State of Washington

Forecasting Process - Background

Established in 1984 through [Laws 1984, Chapter 138](#), the [Economic and Revenue Forecast Council](#) (ERFC) is a nonpartisan, independent agency that produces economic and revenue forecasts for the Executive and Legislative branches of Washington state government. The ERFC includes two members appointed by the Governor and four members from the State Legislature (representing members of the two largest political caucuses in the House and the Senate).

By affirmative vote of five of its members, the ERFC hires an Executive Director who employs professional forecasting staff to prepare economic and revenue forecasts. On specific dates which are described below, the staff provides three scenarios for review by the ERFC: an official forecast reflecting baseline economic assumptions, and two unofficial forecasts reflecting pessimistic and optimistic views of future economic conditions. By affirmative vote of four of its members, the ERFC approves an official forecast according to specific legal deadlines. Otherwise, the Executive Director transmits the forecast to the Governor and Legislature as if it were otherwise approved, with the same effect as if it had been approved.

Forecast Frequency and Timing

[RCW 82.33.020](#) requires the Forecast Council's Executive Director to submit quarterly economic and revenue forecasts to the Forecast Council, with the statutory date varying between even numbered and odd-numbered years as follows:

- Even years: November 20th, February 20th, June 27th, and September 27th
- Odd years: November 20th, March 20th, June 27th, and September 27th

The sequences vary with the long and short state legislative sessions, which occur in odd and even numbered years, respectively.

Other Information

1. Work program approved by forecast council
2. The unit conducts other studies as requested
3. Produces a website of economic data, past forecasts

King County

Forecasting Process - Background

Created through a [Charter amendment in 2008](#)³, the King County Forecast Council adopts official county economic and revenue forecasts that are the starting point for the executive budget. The Forecast Council includes four members: The King County Executive, a second member from the executive branch with budget and finance expertise, and two members of the King County Council, which are appointed annually by the Council Chair. By unanimous vote, the Forecast Council appoints a Chief Economist who employs professional forecasting staff to prepare county economic and revenue forecasts. By a majority vote, the Forecast Council either adopts or revises the forecasts. If a vote is not taken within 15 days from the date the Chief Economist transmits the forecast, the forecast is considered adopted as transmitted.

Forecast Frequency and Timing

[Section 425.40](#) of the King County Charter requires the Chief Economist to provide two economic and revenue forecasts during the year. Due March 1st, the first is a preliminary forecast used as the starting point for preparing the Executive's proposed budget, including forming the status quo budget and providing direction for department budget proposals. To be presented at least 170 days prior to the end of the year, the second forecast is the basis for the Executive's proposed budget for King County Council deliberation. Each year, a majority vote of the Forecast Council can approve alternative dates for receiving the forecast.

³ Placed on the 2008 ballot by King County [Ordinance 16207](#), which the King County Council approved on July 14, 2008.

Appendix 2: Summary table of CB 120124

Category	Proposal in CB 120124
A. Organizational Structure	Independent from both branches; oversight provided by the Forecast Council.
B. Governance	<p>A. Forecast Council (FC)</p> <p>i. Membership: Mayor, Director of Finance, Council President, and Chair of the Finance Committee. The positions held by elected officials can send a designee.</p> <p>ii. Responsible for: selecting and recommending removal of Director; Establishing annual work plan; Oversight and approval of forecasts</p>
C. Functions	<p>A. Primarily economic and revenue forecast; other economic studies and analysis based on the workplan and staff capacity.</p> <p>B. Timing of forecasts: Spring, Summer, Fall</p> <p>C. Publishing regular reports (see examples)</p>
D. Director / Chief Economist	<p>A. 1 FTE: Exec 1 position</p> <p>B. Term: Initial through 2022; 5 years thereafter (County: 5 years; State: 3 years)</p> <p>C. Who hires/fires: Forecast Council</p>
E. Other Staffing	<p>A. Other Positions:</p> <ul style="list-style-type: none"> • 1 FTE: Economist / forecast lead (SA II, transferred from CBO) • 0.5 FTE: Forecast backup (SA II) – FAS shared position • 1 FTE: Data Analyst (new position)