

May 4, 2022

MEMORANDUM

To: Finance & Housing Committee
From: Tom Mikesell, Analyst
Subject: General Fund Financial Planning

On May 4, 2022, the Finance & Housing Committee will receive a briefing on General Fund (GF) financial planning. This presentation will cover:

- Background on multi-year financial planning and projections, including the role that the regular review of financial plans can play in financial sustainability analysis before, during, and after the budget process;
- A review of prior and current versions of the GF six-year financial plan, showing the impacts of recent economic updates, other financial adjustments, and pending decisions on the 2021 carryforward legislation and Revenue Stabilization Fund replenishment; and
- Looking ahead to the Fall 2022 budget process, a discussion of optional measures identified to enhance sustainability of the GF and /or provide for balance the near-term pending identification of longer-term solutions.

As will be discussed in this memorandum, since at least 2019, future GF expenditures have been projected to outpace GF revenues. This projected imbalance has become more pronounced in recent years, as the revenue challenges from the pandemic have been met with one-time funding solutions. Providing more consistent and ongoing review of the financial plan for the GF will help inform short- and long-term strategies to address this structural budget issue.

Background

Why do a Financial Plan?

[The Revised Code of Washington \(RCW\) 35.32A](#) requires a balanced budget. However, this requirement only applies to the year being budgeted, at the time that the budget is being first adopted, and furthermore is silent on future years. However, decisions made in the current year's budget have lasting implications for future years. Furthermore, the underlying economic conditions upon which those initial budget decisions were made will change in the future.

The way cities enhance fiscal sustainability of current-year budget decisions is using medium-term financial plans. These plans apply a set of publicly available assumptions to City expenditure and revenue data to project future revenues and expenditures and identify future financial challenges and opportunities. The result is a projection of the sustainability of current budget decisions.

This approach allows policymakers to center longer-term financial sustainability considerations in near-term budget choices. Typically, these plans are first considered prior to significant budget decisions. Then, as budget alternatives are being considered, they can be informed with an analysis of the effect on future year sustainability. Finally, after the budget is adopted, the financial plan memorializes the projections and provides a basis for comparisons as projections are revised.

Rather than a one-off, ad-hoc process, periodically reviewing the financial plan is optimal when it is a regular exercise embedded in the budget process, as it reveals how economic trends impact both growth in budgets and revenues. In some ways, the regular process of future financial planning is as important as the plans that are produced.

Historical Practice

The City Budget Office (CBO) currently prepares six-year financial plan for all City funds. However, rather than using the plan as a guide for financial sustainability discussions, the plans are included in an appendix to the budget book and the assumptions used to generate these plans are not disclosed. Historically the plans have not been used in public budget presentations or discussions about the City's budget.

As a first step towards bringing medium-term financial planning to the forefront in the City's budget decisions, the remainder of this memorandum will cover a high-level review of the City's GF financial plan, including both a look at the plan produced with the 2020 Adopted budget, prior to the COVID-19 pandemic, and a review of the latest plan, updated with the latest baseline revenue and expenditure information currently available.

GF Six-Year Financial Plan Review

As the council embarks on a more regular review of the financial plans to place longer-term financial sustainability considerations in near-term budget choices, it is important to keep in mind that financial planning is an ongoing and dynamic process. The information presented in the plan is a point-in-time forecast based on available data versus a guarantee of future outcomes.

Definitions

A review of a governmental multi-year financial plan traditionally relies on a set of important terms, including the following:

- Ongoing: A revenue or expenditure that, once approved, is assumed to be added to future year's budgets at either the same amount or with some amount of assumed growth. The amount in the future can grow, decline, or remain the same; the key element is that once approved it will part of the financial program going forward. By way of examples, the salary and benefit payments for a regular, full-time position are generally considered to be ongoing expenses. An example of an ongoing revenue would be regular property taxes, which are collected on an annual basis.
- One-time: A revenue or expenditure that is for a discrete purpose or activity, with a defined beginning and an end. A one-time revenue would include proceeds from a property sale, while an example of a one-time expenditure is the construction cost of a capital project (for example, a bridge).
- Growth Assumptions: These are the annual percentage rates that are applied to ongoing expenditures and revenues to account for the ways they grow, decline, or stay the same in future years. These assumptions can be based on some economic projection, for example population growth, inflation, income growth, etc., or they can be based on past trends.
- Operating Surplus (Deficit): This measures whether annual revenues are greater than annual expenditures (operating surplus) or lower than annual expenditures (operating deficit). This is the principal measure of a fund's financial sustainability.
- Planning Reserves: Amounts of unappropriated balances reflected in the financial plan by the Executive, primarily to reflect the estimated cost of labor agreements that are under negotiation, but to also include carryforwards, and potential legal and other obligations that may potentially become expenditures in the future.
- Fund Balance: This measures the level one-time resources in a fund after accounting for all actual and projected operations. There are two types discussed in this financial planning context, including:
 - Budgetary Fund Balance: The financial status of the fund comparing City Council's legally adopted budget decisions with available fund balances and anticipated revenues.
 - Unreserved Fund Balance: The remaining fund balance after accounting for automatic and proposed carryforwards and Executive-managed planning reserves that have not formally been adopted by the City Council.

Before discussing the financial plans, it is important to note that in most cases the underlying assumptions 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.

It is also important to highlight that these plans only provide projections based on the costs to continue ongoing appropriations in the adopted budget in each scenario. In other words, one-time budget adds are not included in future years. Further, new and expanded programs are not added. As such, any new costs for programs that are not part of the adopted budget would be additive to the financial plans' projections.

2020 Adopted Budget GF Financial Plan

Passed by the City Council on November 25, 2019, [Ordinance 126000](#) approved a \$6.5 billion City budget for 2020, of which \$1.5 billion was for programs and services funded from the GF. Early in 2020, the City Budget Office published the [2020 Adopted Budget book](#), which memorialized and described the funding decisions in Ordinance 126000, and also included, on page 665, a six-year financial plan for the GF, covering the six year financial program from 2018 actuals to 2023 projected revenues and expenditures.

While the 2020 GF budget was balanced according to RCW 35.32A.060, beginning in 2020 and continuing in future years, the financial plan projected a deficit from City GF operations. Put another way, the projected annual revenues were lower than the projected annual expenditures. Using data from the 2020 Adopted Budget book financial plan¹, Table 1 shows this trend in the projected change in balance from operations in the "Operating Surplus (Deficit)" row, highlighted in blue.

Table 1. 2020 Adopted GF Budget Financial Plan

Amounts in \$1,000s	2020 Adopted	2021 Projected	2022 Projected	2023 Projected
Starting Budgetary Fund Balance	\$79,017	\$59,673	\$17,960	(\$20,154)
Revenues	\$1,482,686	\$1,464,667	\$1,510,029	\$1,555,797
Expenditures*	\$(1,502,030)	\$(1,506,380)	\$(1,548,143)	\$(1,592,251)
Operating Surplus (Deficit)	(\$19,344)	(\$41,713)	(\$38,114)	(\$36,454)
Ending Budgetary Fund Balance	\$59,673	\$17,960	(\$20,154)	(\$56,608)
Planning Reserves	(\$59,660)	(\$59,660)	(\$59,660)	(\$59,660)
Ending Unreserved Fund Balance	\$13	(\$41,700)	(\$79,814)	(\$116,268)
*For purposes of this table, beginning in 2021, the annual increase in 'Reserves' is shown as an expenditure, since these amounts in the financial plan represent projected expenditures, most notably in labor costs, that are intended to be budgeted in future years, but are not yet part of the budget due to legal or other considerations.				

As shown in *Table 1*, the 2020 Adopted Budget GF financial plan projected that, beginning in 2021 and continuing through 2023, ongoing GF operating expenditures were projected to outpace GF operating revenues by roughly \$39 million per year.

¹ <https://www.seattle.gov/city-budget-office/budget-archives/2020-adopted-budget>, 'Fund and Funding Source Financial Plans', page 665

Due to the economic and public health impacts from the Covid-19 pandemic which started in March 2020 and led to large negative impacts to revenues and increases to expenditures, the accuracy of these projections was never assessed. However, they reveal the projected underlying unsustainability of the GF at that point in time and provide a foundation against which to assess recent GF financial projections.

2022 Adopted GF Budget Financial Plan

Passed by the City Council on November 22, 2021, [Ordinance 126490](#) approved a total balanced City budget of \$6.5 billion, of which \$1.59 billion was for programs and services funded from the GF. Table 2 shows the fiscal parameters of the 2022 Adopted GF Budget, including the 2022 beginning balance, operating revenues, operating expenditures, operating surplus, reserves, and ending unreserved fund balance for the GF.

Table 2. 2022 Adopted GF Budget

Amounts in \$1,000s	2022 Adopted Budget
Beginning Budgetary Fund Balance	\$8,098
Operating Revenues	\$1,645,866
Operating Expenditures	(\$1,585,297)
Operating Surplus (Deficit)	\$60,569
Ending Budgetary Fund Balance	\$68,668
Planning Reserves	(\$66,093)
Ending Unreserved Fund Balance ¹	\$2,575
¹ Ending Unreserved balance includes \$2.3 million of Fiscal Year 2021 UASI grant revenues accepted in ORD 126469, the 2021 Year-end Grant Acceptance Ordinance, that are restricted for future appropriation according to the terms of the grant.	

As noted in the table, of the \$2.6 million ending unreserved fund balance, \$2.3 million is revenue from the Urban Areas Security Initiative (UASI) grants that were accepted in Ordinance 126494, the 2021 Year-end grant acceptance ordinance, but not allocated in 2021 pending additional information about the programs to be funded. Passed by the City Council on March 29, 2022, [Ordinance 126556](#) appropriated these grants in 2022.

Also, it is worth noting that the \$66 million in the Planning Reserves row includes amounts that are intended to be budgeted in future years but are not yet part of the budget due to legal or other planning considerations.

In April of this year, CBO published the [2022 Adopted Budget book](#), that memorialized and described the funding decisions in Ordinance 126490, and also included, on page 760, a six-year financial plan for the GF, covering the six year financial program from 2018 actuals to 2025 projected revenues and expenditures. As summarized in Table 3, that financial plan projected a operating deficit in the GF of approximately \$146 million in 2023 and 2024, and slightly improving in 2025 to \$119 million.

Table 3. 2022 Adopted GF Budget Financial Plan²

Amounts in \$1,000s	2022 Adopted	2023 Projected	2024 Projected	2025 Projected
Starting Budgetary Balance	\$8,098	\$68,668	(\$77,959)	(\$224,368)
Revenues	\$1,645,866	\$1,498,514	\$1,533,343	\$1,591,142
Expenditures	(\$1,585,297)	(\$1,645,140)	(\$1,679,752)	(\$1,710,550)
Operating Surplus (Deficit)	\$60,569	(\$146,627)	(\$146,409)	(\$119,409)
Ending Budgetary Fund Balance	\$68,668	(\$77,959)	(\$224,368)	(\$343,777)
Planning Reserves	(\$66,093)	(\$66,093)	(\$66,093)	(\$66,093)
Ending Unreserved Fund Balance	\$2,575	(\$144,052)	(\$290,461)	(\$409,869)

This is largely due to three factors, including:

- Pre-pandemic Financial Sustainability: As described in the 2020 Adopted Budget GF Financial Plan section and detailed in Table 1, the pre-pandemic GF financial plan indicated, on average, a pre-existing \$39 million annual deficit.
- Use of One-time Revenues: the 2022 Adopted budget includes the use of one-time revenue sources to balance, including \$85 million of payroll expense tax revenues from the JumpStart Fund, which pursuant to [Ordinance 126393](#)- passed by the City Council on July 19 2021, are allowed to be transferred to the GF in any year that other revenues to the GF are projected to be lower than \$1.510 billion, (the amount of GF revenues anticipated in 2021 according to the pre-pandemic GF six year financial plan produced with the 2020 Adopted Budget), and \$66.3 million of Coronavirus Local Fiscal Recovery funds.
- Revenues Below Pre-Pandemic Trends: The GF financial projections included with the 2022 Adopted Budget indicate some City revenues remain below pre-pandemic projections for 2022 and beyond.

This six-year GF financial plan was based on the Fall 2021 economic and revenue forecasts from CBO. Further, to show a plan to replenish the City’s Fiscal Reserves to the levels required by the City’s fiscal policies after approved uses in recent years, it also included assumptions about planned transfers to the Emergency Fund (EF) and the Revenue Stabilization Fund (RSF), as shown in Table 4.

Table 4. Financial Plan Assumed Transfers to Fiscal Reserves

Amounts in \$1,000s	2022 Adopted	2023 Projected	2024 Projected	2025 Projected	Total
EF	\$10,000	\$10,000	\$10,000	\$10,000	\$40,000
RSF	\$15,400	\$15,400	\$15,400	\$15,400	\$61,200
Total	\$25,400	\$25,000	\$25,000	\$25,000	\$100,000

² A six-year display, including 2020 Actual and 2021 Revised Budget columns, is included in ‘Attachment 1. Expanded six-year GF Financial Plans’.

Based on these assumed transfers, at the end of 2025 the EF and RSF balances would be \$73.7 million and \$67.2 million, respectively, which in total would be 93 percent of the policy levels stated in the City’s fiscal policies. This is shown in Table 5.

Table 5. Fiscal Reserves Current and Projected Funding Status

Amounts in \$1,000s	2021 Ending Balance	Assumed Transfers to Reserves: 2022-2025	2025 Projected Ending Balance	2025 Projected Policy Level	% of Policy
EF	\$33,659	\$40,000	\$73,659	\$79,831	93%
RSF	\$6,042	\$61,200	\$67,242	\$70,416	97%
Total	\$39,701	\$100,000	\$139,701	\$150,247	93%

2022 Revised GF Budget Financial Plan

This section of this memorandum will review updates to financial actuals and assumptions and conclude with a 2022 Revised six-year GF financial plan, including new estimates of operating surplus/deficits, and ending fund balances.

Updates to 2021 Actuals

Since the passage of the 2022 Budget, a final assessment of 2021 revenues and expenditures has been completed by the Department of Finance and Administrative Services and CBO. This update materially impacts the one-time resources available in 2022.

- 2021 revenues and expenditures: As shown in Tables 2 and 3, when the 2022 Budget was adopted, it started from an assumed beginning budgetary fund balance (beginning balance) of approximately \$8 million. This beginning balance estimate was based on revised estimates of 2021 revenue and expenditure activity developed by CBO, as updated based on City Council amendments to [Ordinance 126470](#), the 2021 year-end supplemental budget ordinance. Based on actual 2021 revenues and expenditures, the 2021 ending budgetary fund balance (ending balance, which is the same thing as the 2022 beginning balance) increases to \$273.3 million, as shown in the blue shaded row in Table 6.

Table 6. 2021 Revenues and Expenditures –Actuals to Revised

Amounts in \$1,000s	2021 Revised	2021 Actuals	Variance
Starting Budgetary Balance	\$53,394	\$53,394	-
Revenues	\$1,718,938	\$1,752,450	\$33,512
Expenditures	(\$1,764,233)	(\$1,532,517)	\$231,716
Operating Surplus (Deficit)	(\$45,296)	\$219,933	\$265,229
Ending Budgetary Fund Balance	\$8,099	\$273,327	\$265,229
Planning Reserves	(\$21,641)	(\$166,153)	(\$144,512)
Ending Unreserved Fund Balance	(\$13,542)	\$107,174	\$120,716

In addition to the sizable increase in budgetary fund balance, there are other amounts in Table 6 that are specifically important from a financial planning perspective, including:

- **2021 Increases to Reserves:** The amount being held in reserves increased by \$144.5 million. This increase in reserves is to account for \$182 million of unspent 2021 appropriations, offset by \$37.3 million of associated grant revenues that have not yet been received, but are planned to be spent in 2022:
 - **Automatic carryforwards** totaling \$96.7 million that reflect encumbrances and other appropriations that do not require legislative action to continue in the budget until fully spent or abandoned, such as grants, capital budgets, and other appropriations adopted with non-lapsing provisions. As mentioned, there is also \$37.3 million of grant revenue associated with these appropriations that has not yet been received and which will also be added to the 2022 Revised Budget revenues.
 - **Proposed legislated carryforwards** totaling \$85.3 million, reflecting unspent amounts from 2021 that require City Council authorization to be added to the 2022 Revised Budget. CB 120316, scheduled for discussion and possible vote at the May 18th Finance & Housing Committee, would formally reappropriate those amounts, of which \$27 million is for Participatory Budgeting, \$36 million is for the Equitable Development Initiative, and \$8 million is for emergency rental assistance. For the purposes of the updated financial plan, this full amount is assumed to be legislated in 2022.
 - **2021 Expenditure Variance:** After accounting for the proposed carryforward amounts previously discussed, there is a 2021 GF underspend of approximately \$49 million, which is 3.15 percent of the 2021 Revised GF budget, adjusted for carryforwards, as shown in the bottom row of Table 7:

Table 7. 2021 GF Budget Underspend

Amounts in \$1,000s	Total
2021 Revised Budget Expenditures	(\$1,764,233)
2021 Actual Expenditures	(\$1,532,517)
Variance	\$231,716
Less: 2021 Appropriation Carryforwards	(\$181,997)
Adjusted 2021 GF Underspend	\$49,934
2021 Adjusted Revised Budget	(\$1,582,451)
<i>2021 Underspend Percentage</i>	<i>3.15%</i>

- **Ending Unreserved Fund Balance:** As shown in Table 6, the 2021 unreserved fund balance increased by \$120 million. [Ordinance 123743](#), the fiscal policy for the RSF, requires that 50 percent of unplanned unreserved GF fund balance at year-end be deposited into the RSF. Based on CBO estimates, implementing this provision from Ordinance 123743 would deposit \$55.7 million to the RSF in 2022. This would fully fund the RSF to its policy level in 2022 and would reduce

the projected transfers to the RSF in future years from \$15 million per year, as shown in Table 4, to approximately \$2.8 million per year. This action would require legislative authorization, but for the purposes of the plan is assumed to be approved in 2022.

Updates to Assumptions

Since the passage of the 2022 Budget, new projections of economic growth have been developed. These projections provide the foundation for updates to GF revenue growth projections and potential cost increases.

- 2022 through 2026 Revenue Forecast: At its April 20, 2022, meeting, the Finance & Housing Committee received an updated economic and revenue forecast from the [Office of Economic and Revenue Forecasts \(OERF\)](#) and the [CBO](#). Relying on the baseline economic scenario, as recommended by the OERF Director and endorsed by the Forecast Council, these updated projections indicated an additional \$25 million of GF revenue in 2022.

In addition, the update provided the first of six specific revenue projections for 2023-2024³, indicating total forecasted GF revenues of \$1.525 billion and \$1.568 billion in 2023 and 2024, respectively. Table 8 compares the April 2022 revenue forecast projections with the amounts included in the 2022 Adopted Budget, which were based on November 2021 projections.

Table 8. GF Revenue Forecast Comparisons

Amounts in \$1,000s	2022 Revised*	2023 Projected	2024 Projected	2025 Projected**
November 2021	\$1,645,866	\$1,498,514	\$1,533,343	\$1,591,142
April 2022	\$1,708,670	\$1,525,719	\$1,568,507	\$1,639,317
Variance	\$62,804	\$27,205	\$35,164	\$48,175
<p>* The 2022 Revised forecast number in the April 2022 row includes \$37.3 million of expected, but not yet received grant revenues associated with 2021 automatic carryforwards. This amount was not included in the April 2022 revenue forecast update but, according to CBO, is revenue that is expected in 2022.</p> <p>**While the forecast presentation only formally covered 2022 through 2024, projections for 2025 and 2026 were provided to CBO and Central Staff for the purposes of developing the GF financial plan. 2025 is included to compare with the prior financial plan</p>				

³ Economic and revenue updates are delivered in April, August, and November of each year.

- 2022 through 2026 Inflation Update

Noting several global causes, the OERF presentation also highlighted a large near-term increase in consumer inflation, followed by elevated inflation projections in future years compared to the prior model. As noted during the OERF presentation, these inflation increases could lead to higher current and projected City costs that offset some of the revenue increase.

It is important to clarify that, while inflation impacts both revenues and expenditures, it is not the only growth factor. Put another way, it is not so easy to say that, solely because of inflation increasing by one percent, both City revenues and expenditures increase by one percent. Other considerations, including but not limited to employment and population trends, wage growth, business sector composition, and consumer preferences will impact revenue growth, and each will be differentially impacted by inflationary forces. On the expenditure side, inflation will impact growth projections differently as well. For example, CPI inflation is only explicitly assumed to impact internal services, including information technology, facilities, fleet, and administration costs in future years. Labor contract increases in the planning reserves are not disclosed due to contracts under negotiation. While these represent the bulk of the budget, there are some items, such as professional services contracts and transfers, that are policy-focused and not explicitly grown in the model.

Table 9 compares the inflation estimates, based on the Consumer Price Index for Urban Consumers (CPI-U) in the Seattle Metropolitan Statistical Area, used in the 2022 GF Adopted Budget financial plan with the recent update from the OERF.

Table 9. CPI-U Inflation Projection Comparisons⁴

	2023	2024	2025	2026*
2022 Adopted Plan	3.0%	4.0%	2.3%	n/a
April 2022 Forecast	3.8%	2.7%	2.3%	2.4%
Variance	0.8%	1.3%	0%	n/a
*The 2022 Adopted Budget six-year financial plan only includes projections through 2025.				

As shown in the table, 2023 and 2024 are showing moderate increases in price growth, with inflation returning to pre-pandemic trends in 2025.

⁴ Does not include the additional 1% growth factor that is also added to both the 2022 adopted and revised financial plans.

It is important to note that the largest revision to inflation is in 2022, as shown in Table 10:

Table 10. Changes to CPI-U in CBO/OERF Regional Economic Model

CBO/OERF Regional Economic Model	2022
August 2021	3.2%
April 2022	7.0%
Variance	3.8%

Since the starting point for expenditure growth projections in the financial plan is the 2022 Revised Budget (adjusted for ongoing appropriation changes and one-time spending), which does not include this inflation increase, the projected increases in future years would be potentially understated without accounting for it in some way.

CBO’s 2023-2024 ‘baseline’ process with departments, which will incorporate this type of change through an assessment of current year operations, is underway. This is the stage in the budget process where current-year operational costs and efficiencies can be analyzed and included as baseline and technical budget requests in the Mayor’s 2023-2024 Proposed Budget. While it is likely that consumer price inflation will have an impact in current year costs, it is also possible that operational efficiencies, such as recalculated facilities costs from employee alternative work arrangements and lower travel costs from enhanced online communication capabilities, can offset some of the impact.

Lacking information from the baseline process, but to acknowledge that there will likely be an impact, the revised financial plan for the GF assumes an additional 3.8 percent inflation growth, added to the 2023 CPI-U estimate used in the financial plan model, bringing the revised 2023 inflation assumption to 8.6 percent. It is worth noting that this is primarily intended to adjust the projections for uncertainty about the baseline process, and not directive as to what the future cost growth ‘should’ be.

As a final note, the 2022 Adopted and Revised models include an additional 1 percent per year for all inflated administrative expenditure categories. This additional factor provides an added level of buffer for uncertain projections and is approximately consistent with the metropolitan area population growth projections of 0.9 percent per year from the baseline regional economic forecast model.

- Reserves
Finally, to account for contingent factors CBO is analyzing, they have increased the level of planning reserves by approximately \$27 million in 2022, to a total reserve of \$93 million. This is a one-time adjustment based on an initial estimate of potential future costs and is included to be consistent with CBO’s planning assumptions.

The 2022 Revised GF Budget Financial Plan, incorporating the 2021 actual budgetary data and revised revenue, cost growth and reserves assumptions, is shown in Table 10⁵. As show in the table, these changes result in a lower projected deficit and a smaller negative unreserved GF fund balance in all years of the plan, as compared to the 2022 Adopted Budget’s financial plan.

Table 10. 2022 Revised GF Budget Financial Plan

Amounts in \$1,000s	2022 Revised ¹	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Starting Budgetary Balance	\$273,327	\$175,116	\$57,889	(\$49,230)	(\$118,495)
Revenues	\$1,708,670	\$1,525,719	\$1,568,507	\$1,639,317	\$1,703,982
Expenditures	\$1,806,881	\$1,642,946	\$1,675,626	\$1,708,582	\$1,741,695
Operating Surplus (Deficit)	(\$98,211)	(\$117,227)	(\$107,119)	(\$69,266)	(\$37,713)
Ending Budgetary Fund Balance	\$175,116	\$57,889	(\$49,230)	(\$118,495)	(\$156,208)
Planning Reserves	(\$93,043)	(\$93,043)	(\$93,043)	(\$93,043)	(\$93,043)
Ending Unreserved Fund Balance	\$82,074	(\$35,154)	(\$142,272)	(\$211,538)	(\$249,251)

¹ 2022 Revised Expenditures include \$221 m of one-time carryforward and reserve replenishments items added through proposed supplementals. These are fully funded through carryforward 2021 fund balance and \$37 m of anticipated grants.

GF Budget Financial Planning Options

Based on the previously discussed assumptions, the GF Budget faces a projected \$115 million operating deficit in 2023, though the deficit decreases in future years of the forecast. Further, after accounting for \$93 million in planning reserves, the unreserved fund balance would decline to (\$247) million by 2026. While it is encouraging that these adjustments result in an improvement in the underlying financial condition of the GF, assuming the previously discussed economic assumptions are accurate, some combination of corrective measures will be required.

Before discussing possible balancing options, it is important to reiterate that the financial planning projections only assume funding for the ongoing GF appropriations in the 2022 Adopted GF budget. Items added on a one-time basis in 2022, shown in Attachment 2, are not assumed to continue in 2023 and beyond. Further, in future years, there is no explicit provision for new and expanded programs from the GF.

The following are some alternative assumptions and policy actions, which alone or in combination can alleviate some or all of the projected operating deficit and accumulated negative unreserved balance. These can generally be categorized as long-term/structural, or short-term strategies, with varying impacts on the deficit and unreserved fund balance.

⁵ A six-year display, including 2021 Actual and 2022 Adopted Budget columns, is included in ‘Attachment 1. Expanded Six-year GF Financial Plans’.

Long-term/ Structural: These options involve structural funding changes to revenues and/or expenditures, with the combined effect of reducing the annual operating deficit and improving the ending unreserved fund balance, including:

- **‘Right-sizing’ GF budgets** to better align actual expenditures with appropriations and/or reductions in services. As shown in Table 7, 2021 actual expenditures were approximately three percent below appropriations. As shown in Table 11, a three percent annualized reduction in cost would reduce ongoing expenditures by approximately \$49 million per year and would improve the unreserved ending fund balance projection by \$203 million. This would impact services to the extent that reductions are not due to natural efficiency savings.

Table 11. GF Financial Plan Assuming a 3% Expenditure Reduction

Amounts in \$1,000s	2022 Revised	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Operating Surplus (Deficit)	(\$98,211)	(\$117,227)	(\$107,119)	(\$69,266)	(\$37,713)
Reduce Expenditures (3%)		\$49,288	\$50,269	\$51,257	\$52,251
Revised Surplus (Deficit)	(\$98,211)	(\$67,939)	(\$56,850)	(\$18,008)	\$14,538
Revised Ending Unreserved Fund Balance	\$82,074	\$14,135	(\$42,715)	(\$60,723)	(\$46,185)

- **Use the optimistic revenue forecast** for the budget, with the assumption that return to work and improving tourism will lead to revenue results that outperform the baseline forecast. Though the probability assigned to this forecast is only 15 percent, relying on this forecast scenario would add an additional \$35 million to the annual revenue projections in 2023 and 2024, with small increases thereafter. As shown in Table 11, this would decrease the ongoing deficit by \$35-39 million per year million per year and would improve the 2026 projected unreserved ending fund balance projection \$161 million. However, unless there is a change in upcoming economic forecasts, given the probability noted, there is significant risk in making this assumption as it would increase the likelihood that annual revenues would not meet or exceed budget expectations.⁶

⁶ On April 8, 2022, the Office of Economic and Revenue Forecasts recommended, and the Forecast Council affirmed, using the baseline scenario; that becomes the official forecast at this point in time per Chapter 3.44 of the Seattle Municipal Code (SMC). How the optimistic or pessimistic forecast would change the projections in the GF is an important planning exercise, illustrating how positive or negative future economic conditions could impact the City’s GF. This is not a recommendation at this time to deviate from the Forecast Council’s decision, however, it is worth noting that, per Section 3.44.010 of the SMC, the Mayor may in proposed budgets, or the City Council may in adopting budgets, deviate from the official forecasts.

Table 12. GF Financial Plan Assuming Optimistic Revenue Forecast Scenario

Amounts in \$1,000s	2022 Revised	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Operating Surplus (Deficit)	(\$98,211)	(\$117,227)	(\$107,119)	(\$69,266)	(\$37,713)
Optimistic Revenue Forecast	\$14,533	\$35,080	\$35,731	\$39,190	\$37,086
Revised Surplus (Deficit)	(\$83,678)	(\$82,147)	(\$71,388)	(\$30,075)	(\$626)
Revised Ending Unreserved Fund Balance	\$96,607	\$14,460	(\$56,928)	(\$87,003)	(\$87,630)

- As noted, the probability of this scenario is 15 percent, in contrast to the pessimistic scenario probability of 35 percent (the baseline revenue probability assumption in the financial plan is 50 percent). For purposes of comparison, using the pessimistic scenario would increase the annual deficit in each year from 2022 through 2026, and decreases the unreserved fund balance projection by \$387 million by 2026. Compared to the baseline, this would increase the likelihood that unnecessary budget reductions are made.

Table 13. GF Financial Plan Assuming Pessimistic Revenue Forecast Scenario

Amounts in \$1,000s	2022 Revised	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Operating Surplus (Deficit)	(\$98,211)	(\$117,227)	(\$107,119)	(\$69,266)	(\$37,713)
Pessimistic Revenue Forecast	(\$31,633)	(\$56,504)	(\$85,306)	(\$103,028)	(\$111,107)
Revised Surplus (Deficit)	(\$129,844)	(\$173,732)	(\$192,424)	(\$172,294)	(\$148,820)
Revised Ending Unreserved Fund Balance	\$50,440	(\$123,291)	(\$315,715)	(\$488,009)	(\$636,829)

- Permanently change restricted fund policies** to provide either an ongoing annual contribution to the GF or reduce the annual contribution to other funds from the GF, with an offsetting reduction to the service capacity of the impacted fund(s). This could include, for example, changes the spending categories or allowed transfer to the GF included in the fund policies for the Short-term Rental Fund or the JumpStart Fund, or changing the policies that guide replenishing the fiscal reserves (the RSF and the EMF).

Short-term/Temporary: These options involve one-time funding changes to bridge the gap in 2023 and 2024 allowing for the identification of longer-term structural solutions, such as a new progressive revenue source and/or improvement in the economic situation.

- Temporarily change restricted fund policies** to provide either temporary support to the GF or reduction to the annual contribution to other funds from the GF, with an offsetting temporary reduction to the service capacity of the impacted fund(s). This strategy would best be employed in an approach that recognizes that the projected operating deficit improves substantially in 2025 and 2026, as shown in Table 14.

Table 14. GF Financial Plan Assuming Mix of Structural and Temporary Measures

Amounts in \$1,000s	2022 Revised	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Operating Surplus (Deficit)	(\$98,211)	(\$117,227)	(\$107,119)	(\$69,266)	(\$37,713)
Long-term/ Structural Measures	-	\$70,000	\$70,000	\$70,000	\$70,000
Temporary Measures	-	\$48,000	\$48,000	-	-
Revised Surplus (Deficit)	(\$98,211)	\$773	\$10,881	\$734	\$32,287
Revised Ending Unreserved Fund Balance	\$82,074	\$82,846	\$93,728	\$94,462	\$126,749

Next Steps

This review of the GF financial plan is intended to provide information on the GF balancing situation as the economy emerges from the pandemic, and for context as committee members deliberate on appropriations bills and engage with the Executive on fiscal policy issues. In August, the Finance & Housing Committee will receive the second economic and revenue forecast update from OERF and CBO, followed by the Mayor’s Proposed 2023-2034 Budget in September. A final revenue update will be provided during the Council’s budget deliberations, which will establish the final fiscal parameters for the 2023-2024 Budget. Using the GF financial planning framework established in this memorandum, Central Staff will provide updates at each stage in the process.

Attachments:

1. Expanded Six-year GF Financial Plans
2. 2022 Adopted Budget One-time Appropriations

cc: Aly Pennucci, Deputy Director

Attachment 1. Expanded Six-year GF Financial Plans

Expanded Table 3. 2022 Adopted Budget GF Financial Plan Six-year Display (2020 Actual to 2025 Projected)

Amounts in \$1,000s	2020 Actual	2021 Revised	2022 Adopted	2023 Projected	2024 Projected	2025 Projected
Starting Budgetary Balance	\$122,741	\$53,394	\$8,099	\$68,668	(\$77,959)	(\$224,368)
Revenues	\$1,378,082	\$1,718,938	\$1,645,866	\$1,498,514	\$1,533,343	\$1,591,142
Expenditures ¹	(\$1,447,429)	(\$1,764,233)	(\$1,585,297)	(\$1,645,140)	(\$1,679,752)	(\$1,710,550)
Operating Surplus (Deficit)	(\$69,347)	(\$45,296)	\$60,569	(\$146,627)	(\$146,409)	(\$119,409)
Ending Budgetary Fund Balance	\$53,394	\$8,099	\$68,668	(\$77,959)	(\$224,368)	(\$343,777)
Planning Reserves	(\$65,613)	(\$21,641)	(\$66,093)	(\$66,093)	(\$66,093)	(\$66,093)
Ending Unreserved Fund Balance	(\$12,219)	\$1	\$2,575	(\$144,052)	(\$290,461)	(\$409,869)

¹2020 expenditures include a \$13.8 million balance sheet adjustment.

Expanded Table 10. 2022 Revised GF Financial Plan Six-year Display (2021 Actual to 2026 Projected)

Amounts in \$1,000s	2021 Actual	2022 Adopted	2022 Revised ¹	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Starting Budgetary Balance	\$53,394	\$8,099	\$273,327	\$175,116	\$57,889	(\$49,230)	(\$118,495)
Revenues	\$1,752,450	\$1,645,866	\$1,708,670	\$1,525,719	\$1,568,507	\$1,639,317	\$1,703,982
Expenditures	(\$1,527,333)	(\$1,585,297)	(\$1,806,881)	(\$1,642,946)	(\$1,675,626)	(\$1,708,582)	(\$1,741,695)
Operating Surplus (Deficit)	\$219,933	\$60,569	(\$98,211)	(\$117,227)	(\$107,119)	(\$69,266)	(\$37,713)
Ending Budgetary Fund Balance	\$273,327	\$68,668	\$175,116	\$57,889	(\$49,230)	(\$118,495)	(\$156,208)
Planning Reserves	(\$21,426)	(\$66,093)	(\$93,043)	(\$93,043)	(\$93,043)	(\$93,043)	(\$93,043)
Ending Unreserved Fund Balance	\$107,885	\$2,575	\$82,074	(\$35,154)	(\$142,272)	(\$211,538)	(\$249,251)

¹ 2022 Revised Expenditures include \$221 m of one-time carryforward and reserve replenishments items added through proposed supplementals. These are fully funded through carryforward 2021 fund balance and \$37 m of anticipated grants.

Attachment 2. 2022 Adopted Budget One-time Appropriations

Budget Action	2022 One-Time Appropriation
ARTS-003-B-002-2022 - Rescind ARTS-003-B-001, add \$1 million GF to ARTS for organizations that did not qualify for Shuttered Venue Operators Grant funding	1,000,000
ARTS-004-B-001 - Add \$50,000 GF to ARTS to fund restoration and repainting of a community mural at N 63rd St. under Aurora Ave. and locating a free graffiti wall	\$50,000
ARTS-CLFR3 - Individual Artist Relief and Workforce Development	\$1,500,000
CBO-010-B-001 - Errata Corrections to the Proposed Budget and CIP	\$1,343,442
CEN-920 - General Fund Support	\$1,200,000
CSCC-002-B-001 - Add \$400,000 GF and two Strategic Advisor 2 positions to the CSCC to develop an implementation plan and response protocols for contracted low-acuity 9-1-1 emergency response	\$400,000
CSCC-102 - Fund a Technical and Operational Study for 911 Center	\$150,000
DEEL-001-B-001 - Add \$375,000 GF to DEEL for programming for Black girls and young women and Black queer and transgender youth	\$375,000
DEEL-006-A-001 - Add \$500,000 GF to DEEL to expand mental health services in schools	\$500,000
DEEL-901 - ECEAP Budget Adjustments	\$0
DON-001 - Health Care Reconciliation - Leadership & Administration	\$0
DON-001-B-001 - Add \$800,000 GF to DON to support planning for the Chinatown/International District	\$800,000
DON-003 - Expenditure to Revenue Reconciliation	(\$140,057)
DON-003-B-001 - Add \$200,000 GF in DON for a Guaranteed Basic Income Program and impose a proviso	\$200,000
DON-004 - Health Care Reconciliation - Community Building BSL	\$0
DON-005 - Other budget neutral baseline accounts clean up	\$0
DON-006 - True up of retirement accounts	\$34,430
DON-105 - Provide Resources For Redistricting	\$275,000
DON-901 - Centralize Budget for Language Access for Certain Programs in DON	\$0
ERF-101 - Office Setup and Operations	\$24,000
FAS-001-A-001 - Add \$200,000 in FAS for study of public-safety staffing on waterways	\$200,000
FAS-005-C-001 - Add \$110,000 GF to FAS and \$250,000 GF and 1.0 FTE senior grants and contracts specialist to HSD for a Victim Compensation Fund and community-based organizational support	\$195,000
FAS-2022-103 - Temporarily Defund Vacant Tax Positions	(\$766,014)
FAS-2022-110 - American Medical Response Study	\$25,000
FAS-2022-208 - 2027 Funding for Ongoing Program	\$0
FG-001-D-001-2022 - Rescind FG-001-C-001, restore JumpStart Fund expenditures to the amounts and purposes proscribed in Ordinance 126393, reallocate one-time federal Coronavirus Local Recovery Fund resources for GF Revenue replacement, acknowledge 2021 carryforward to support community-led investments, and imposes two provisos	\$7,762,218
FG-003 - Restore General Fund Support to Library	(\$700,000)
FG-003-A-001-2022 - Add \$620,000 (multiple funds) to FG Reserves to fund a Juneteenth holiday	\$500,000
FG-005-B-001 - Add \$1 million GF to FG Reserves for two permanent public toilets, and add \$400,000 GF to SPU for temporary portable toilets	\$1,400,000
FG-007-A-001 - Recognize CBO November Forecast Update	\$2,112,075
FG-110 - Human Services Department Finance Support Reserve	\$600,000
FG-900 - Finance General Appropriations to Special Funds	(\$3,758,284)
HOM-005-C-001-2022 - Add \$675,000 Emergency Solutions Grant COVID funding, \$225,000 GF ongoing, and \$500,000 GF in one-time funding to HSD to create and operate new safe parking lots	\$500,000
HOM-008-A-001-2022 - Add \$100,000 GF in one-time funding to HSD to expand homelessness day center services	\$100,000
HOM-016-A-001-2022 - Add \$380,000 GF in one-time funding to HSD for improvements and expansion of a tiny house village	\$380,000
HSD-001-C-001 - Add \$5.6 million GF to HSD for one-time appreciation pay for service providers and for capacity building and impose provisos	\$5,600,000
HSD-002-B-001 - Add \$600,000 GF to HSD for a comparable worth analysis of human services jobs	\$600,000
HSD-005-C-001 - Add \$5.1 million to HSD to sustain 2021 levels of food and nutrition program funding, add 1.0 FTE Senior Grants and Contracts Specialist (term-limited), and impose a proviso	\$3,344,457
HSD-007-A-001-2022 - Add \$200,000 GF to HSD for hybrid meal delivery program for seniors	\$200,000
HSD-014-B-001 - Add \$1.0 million GF to HSD for a senior center and clinic	\$1,000,000
HSD-016-A-001 - Add \$250,000 GF to HSD for the expansion of a community facility in Lake City	\$250,000

Attachment 2. 2022 Adopted Budget One-time Appropriations

Budget Action	2022 One-Time Appropriation
HSD-025-C-001 - Add \$50,000 GF to HSD to contract with an organization to survey national best practices on interrupting gun violence	\$50,000
HSD-027-A-001 - Add \$100k to HSD to expand a fresh produce program serving the Central District	\$100,000
HSD-050-C-001 - Add \$500,000 GF in one-time funding to HSD to expand behavioral health services	\$500,000
HSD-055-A-001 - Add \$500,000 GF in one-time funding to HSD for a community health center addressing health disparities in the BIPOC community	\$500,000
HSD-056-A-001 - Add \$200,000 GF to HSD for a survey to inform the design of a new behavioral health facility	\$200,000
HSD-057-A-001 - Add \$100,000 GF to HSD for a new health clinic in the Lake City neighborhood	\$100,000
HSD-119 - Regional Peacekeepers Collective	\$1,500,000
ITD-001-B-001 - Add \$250,000 GF to ITD for a Digital Navigators Program	\$250,000
ITD-002-A-001 - Add \$300,000 GF to ITD for the Technology Matching Fund	\$300,000
ITD-005-A-001 - Add \$300,000 GF to ITD for Multi-factor Authentication	\$300,000
LAW-104A - Fully Staff Current Pre-File Diversion Program	\$2,000
LAW-105 - Electronic Discovery Staffing	\$4,000
LAW-106 - Civil Division Attorney Staffing	\$6,000
LAW-108 - Fund Human Resources Manager	\$2,000
OCR-002-A-001 - Add \$120,000 GF to OCR for a domestic violence (DV) community expert and stakeholder workgroup	\$120,000
OED-001 - Health Care Technical Adjustment	\$0
OED-006-A-001-2022 - Add \$300,000 GF to OED to support economic opportunities for refugee and immigrant women	\$300,000
OED-104 - Permit Fee Reform Racial Equity Toolkit	\$50,000
OED-CLFR7 - Maritime Workforce Development	\$500,000
OEM-001-A-001 - Add \$100,000 GF to OEM for a community climate resilience plan	\$100,000
OEO-943 - Space Sublease Costs	\$49,200
OH-006-A-002 - Add \$200,000 GF to OH for the Home for Good Program	\$200,000
OH-007-B-002 - Add \$250,000 GF to OH for pre-development costs for an affordable housing project at North Seattle College	\$250,000
OH-100-GND - Single Family Oil Heat Conversion	(\$123,461)
OH-102 - Fine Revenue for Multifamily Electrification	\$61,500
OH-104 - Transportation Network Company Tax Revenue Authority	\$1,300,000
OH-CLFR3 - Workforce Development; Affordable Housing and Homeless Service Providers	\$750,000
OIG-100 - Staffing Surveillance Ordinance Requirements	\$20,000
OIG-101 - Additional Investigator for OPA Oversight	\$10,000
OIRA-CLFR1 - Re-employment Pathways for Immigrants and Refugees	\$250,000
OPCD-001-B-001 - Add \$545,000 GF and 1.0 FTE Strategic Advisor 1 to OPCD for the Comprehensive Plan update and impose a proviso	\$545,000
OPCD-006-B-001 - Add \$180,000 GF to OPCD for Duwamish sustainability projects	\$180,000
OPCD-100 - Comprehensive Plan Major Update – Phase 2	\$220,000
OPCD-101 - Regional Growth Center Subarea Planning	\$150,000
OPCD-108 - Equitable Zoning Outreach	\$25,300
OSE-CLFR22-1 - Clean Energy Pre-Apprenticeship Scholarships	\$1,000,000
OSE-DVP22-1 - Duwamish Valley Business Relief and Response	\$75,000
OSE-DVP22-2 - Greening Industrial Properties in the Duwamish Valley	\$300,000
SCL-001-B-001 - Add \$160,00 GF to SCL for installation of new streetlights an impose a proviso	\$160,000
SDCI-007-C-001 - Add \$145,000 GF to SDCI for consultant support for a rental market study	\$144,814
SDCI-010-A-001 - Add \$1.5 million GF and 1.5 FTE Code Compliance Analysts to SDCI to implement the economic displacement relocation assistance ordinance	\$1,273,520
SDCI-109 - Unreinforced Masonry (URM) Program	\$101,156
SDHR-900 - Move Budget from Temporary Placeholder to Official Project	\$987,291
SDOT-112 - TNC Tax Funding for ReSET O&M Programs	\$150,000
SDOT-150 - Planning and Street Use Reductions	\$575,399
SDOT-151 - Transit and Mobility Reductions	(\$1,078,114)
SDOT-152 - Transportation Operations Reductions	(\$2,056,703)
SDOT-154 - Program Reductions	(\$300,506)
SDOT-202 - CIP Adjustment	\$1
SDOT-209 - TNC Tax Funding for ReSET Capital Programs	\$400,000

Attachment 2. 2022 Adopted Budget One-time Appropriations

Budget Action	2022 One-Time Appropriation
SDOT-210 - Center City Connector Project Development Update	\$2,400,000
SDOT-901-A-003-2022 - Rescind SDOT-901-A-002-2022, add \$2.4 million REET II Capital Fund and cut \$2.4 million GF in SDOT to make GF available for other budget priorities	(\$2,385,992)
SFD-001-A-002 - Add \$1.5M GF to SFD for 20 additional firefighter recruits	\$1,466,000
SFD-104 - Triage Team Response Program	\$2,150,000
SFD-302 - Safety and Training IT System Upgrade	\$318,000
SFD-303 - Fire Incident Reporting IT System Upgrade	\$499,000
SMC-005 - MCIS License Costs	\$42,289
SMC-104 - RSJI Training and Leadership Development	\$168,000
SMC-106 - MCIS 2.0 Support - Sunset Positions	\$0
SPD-100 - Office of Police Accountability Video Analyst	\$5,000
SPD-101 - Reduction for Community Safety Investments	(\$3,650,000)
SPD-102 - Technology Investments	\$0
SPD-103 - Community Service Officer Expansion	(\$116,274)
SPD-104 - Hiring and Retention Incentives	\$0
SPD-903 - Adjustment for One-Time Budget Changes	\$0
SPL-001-A-001 - Add \$99,000 GF to SPL for hotspot devices	\$99,000
SPL-002-A-002 - Add \$1.7 million GF to the SPL to provide air conditioning as a climate adaptation measure in the Northeast and Southwest Branch Libraries	\$1,742,730
SPR-002-A-002 - Add \$171,000 to SPR to fund an after-school program for resettled children who are predominately low-income living at or near Magnuson Park	\$171,000
SPR-007-A-002 - Add \$188,000 GF to SPR to support community involvement in the Garfield Super Block Project	\$188,000
SPR-199 - Rise Above	\$200,000
Grand Total	\$41,056,417