



SEATTLE CITY COUNCIL
CENTRAL STAFF

General Fund Financial Planning

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FINANCE AND HOUSING COMMITTEE

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Outline

- 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
- Prior and current versions of the GF six-year financial plan
- Optional measures identified to enhance sustainability of the GF

Defining terms and acronyms

Terms:

- **Ongoing:** A revenue or expenditure that is assumed to be added to future year's budgets at either the same amount or with some amount of assumed growth.
- **One-time:** A revenue or expenditure that is for a discrete purpose or activity, with a defined beginning and an end
- **Growth Assumptions:** Annual percentage rates that are applied to ongoing expenditures and revenues to determine whether they grow, decline, or stay the same in future years.
- **Operating Surplus or Deficit:** If annual revenues are greater than or lower than annual expenditures. This is the principal measure of a fund's financial sustainability
- **Reserves:** Unappropriated balances, reflected in the financial plan
- **Fund Balance:** This measures the level of one-time resources in a fund after accounting for all actual and projected operations.

Acronyms:

GF = General Fund

FP = 6YR Financial Plan

YE = Year-end

CBO = City Budget Office

OERF = Office of Economic and Revenue Forecasts

Background

What is a Financial Plan?

Planning document that:

- applies a set of assumptions to project future revenues and expenditures
- reveals how economic trends impact both growth in budgets and revenues
- identifies future financial challenges and opportunities.

Why do a Financial Plan?

- To center longer-term financial sustainability considerations in near-term budget choices.
- To consider how the underlying economic basis upon which decisions are made will change in the future.

GF Six-Year FP Review

2020 Adopted Budget GF Financial Plan

<i>Amounts in \$1,000s</i>	2020 Adopted	2021 Projected	2022 Projected	2023 Projected
Starting 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)
Reserves	(59,660)	(59,660)	(59,660)	(59,660)
Ending Unreserved Fund Balance	13	(41,700)	(79,814)	(116,268)

*For purposes of these tables, 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.

Key takeaway: The 2020 GF FP 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, and the 2023 YE unreserved fund balance was projected to be **(\$116 m)**.

2022 Adopted Budget GF Financial Plan

<i>Amounts in \$1,000s</i>	2020 Actuals ^{1/}	2021 Revised	2022 Adopted	2023 Projected	2024 Projected	2025 Projected
Starting Balance	122,741	53,394	8,098	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	(1,461,262)	(1,764,233)	(1,585,297)	(1,645,140)	(1,679,752)	(1,710,550)
Operating Surplus (Deficit)	(83,180)	(45,295)	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)	(13,542)	2,575	(144,052)	(290,461)	(409,869)

^{1/}Expenditures row includes a \$13.9 million balance sheet adjustment.

Key takeaway: The 2022 Adopted GF FP projected \$146m operating deficits in 2023 and 2024 , and a negative unreserved fund balance at 2024 YE of **(\$290 m)**.

2022 Revised Budget GF FP (April 2022)

Changes & Assumptions In the Revised FP

2021:

- Reflects 2021 year-end actual revenues and expenditures and adjusts the budgetary and reserved balance, as provided by CBO, including:
 - Actual revenues \$33.5 million above revised estimates
 - Actual expenditures \$231.7 million below revised estimates.
 - Net automatic and proposed carryforwards of \$144.5 million reduces balance
- Ending 2021 unreserved balance of \$120 million

2022:

- 50% of ending balance (~\$55 million) to Revenue Stabilization Fund (Ordinance 123743)
- Updated inflation/growth estimates and revenue forecasts applied to 2022-2026

GF Six-Year FP Review

2022 Revised Budget GF FP (April 2022) – Reserves

<i>Amounts in \$1,000s</i>	2022 Adopted	2023 Projected	2024 Projected	2025 Projected	Total
Emergency Fund	10,000	10,000	10,000	10,000	40,000
Revenue Stabilization Fund	15,400	15,400	15,400	15,400	61,200
Total	25,400	25,400	25,400	25,400	101,200

- Using 50% of 2021 ending unreserved balance to fully replenish Revenue Stabilization Fund in 2022 increases fiscal resiliency and reduces ongoing expenditures in the plan by approximately \$12 million per year.
- \$55.7 m transfer to RSF in 2022 mid-year supplemental is assumed in the revised financial plan

GF Six-Year FP Review

2022 Revised Budget GF FP (April 2022) - Inflation

	2023	2024	2025	2026*
2022 Adopted Budget	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.

CBO/OERF Regional Economic Model	2022	
2022 Adopted Budget	3.2%	– Inflation largely affects labor, IT, facilities and fleet costs
April 2022 Forecast	7.0%	– Inflationary impacts to revenues and expenditures are not equivalent
Variance	3.8%	

Key takeaway: Large inflationary increase this year, followed by more moderate projected increases in 2023 through 2024.

2022 Revised Budget GF Financial Plan (April 2022)

<i>Amounts in \$1,000s</i>	2022 Adopted	2022 Revised	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Starting Balance	8,099	273,327	175,116	57,889	(49,230)	(118,495)
Revenues	1,645,866	1,708,670	1,525,719	1,568,507	1,639,317	1,703,982
Expenditures ^{1/}	(1,585,297)	(1,806,881)	(1,642,946)	(1,675,626)	(1,708,582)	(1,741,695)
Operating Surplus (Deficit)	60,569	(98,211)	(117,227)	(107,119)	(69,266)	(37,713)
Ending Budgetary Fund Balance	68,668	175,116	57,889	(49,230)	(118,495)	(156,208)
Planning Reserves	(66,093)	(93,043)	(93,043)	(93,043)	(93,043)	(93,043)
Ending Unreserved Fund Balance	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.

Key takeaway: After applying new assumptions and forecasts, projected operating deficit in 2023 declines to \$117m vs. \$146m, and projected unreserved fund balance improves to (\$142 m) at end of 2024 vs (\$290 m).

GF Budget Financial Planning Options

Strategies to consider to address the projected GF deficit

Long-term structural strategies

- ‘Right-sizing’ GF budgets and reducing expenditures
- Alternative forecast assumptions (optimistic or pessimistic)
- Permanent changes to restricted fund policies

Shorter-term strategies

- Temporary changes to restricted fund policies, use of fund balance

Note: The 2022 revised GF financial plan, and scenarios presented in the subsequent slides, do not include funding to support new or expanded programs or services in 2023 and beyond.

GF Budget Financial Planning Options

GF Financial Plan Assuming 3% Expenditure Reduction

<i>Amounts in \$1,000s</i>	2022 Revised	2023 Projected	2024 Projected	2025 Projected	2026 Projected
Operating Surplus (Deficit)	(98,211)	(117,227)	(107,119)	(69,266)	(37,713)
3% Reduction in Expenditures		49,288	50,269	51,257	52,251
Revised Operating 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)

Key takeaway: Applying an ongoing 3% expenditure reduction in 2023 would reduce the operating deficits ~\$50m per year, and unreserved fund balance at 2024 YE improves to **(\$43 m)**.

GF Budget Financial Planning Options

GF Financial Plan Assuming Optimistic Forecast (15% prob)

<i>Amounts in \$1,000s</i>	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 Operating 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)

Key takeaway: Using the optimistic forecast (15% probability) would reduce the operating deficits to **(\$82 m)** & **(\$71 m)** in 2023 and 2024, respectively, and would increase the unreserved fund balance at 2024 YE to **(\$57 m)**.

However, unless the economic forecast changes meaningfully, given the probability noted above, there is significant risk in making this assumption as it would increase the likelihood that annual revenues would not meet or exceed budget expectations. Assuming the optimistic (or pessimistic) scenario is not recommended at this time and is presented for discussion purposes only.

GF Budget Financial Planning Options

GF Financial Plan Assuming Pessimistic Forecast (35% prob)

<i>Amounts in \$1,000s</i>	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 Operating 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)

Key takeaway: Using the pessimistic forecast (35% probability) would increase the operating deficits to \$173 m & \$192 m in 2023 and 2024, respectively, and would increase the unreserved fund balance at 2024 YE to **(\$315 m)**.

Based on current economic forecasts, the pessimistic forecast is a more likely scenario than the optimistic (the baseline scenario that the Forecast Council approved in April continues to be the most likely scenario). Assuming the optimistic (or pessimistic) scenario is not recommended at this time and is presented for discussion purposes only.

GF Budget Financial Planning Options

Short-term / Temporary to Bridge Gap

<i>Amounts in \$1,000s</i>	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 Measure	-	70,000	70,000	70,000	70,000
Temporary Measures	-	48,000	48,000	-	-
Revised Operating 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

Key takeaway: Since the projected operating deficit declines in the future, targeted temporary measures, including reducing GF support to (and/or) from other restricted funds, could complement a smaller long-term structural change.

Long-term strategies could include some combination of reduction in ongoing expenditures, changes to restricted fund policies, or new revenues.

Short-term / Temporary to Bridge Gap – Option 2

<i>Amounts in \$1,000s</i>	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 Measure	-		65,000	65,000	65,000
Temporary Measures	-	48,000	48,000	-	-
Revised Operating Surplus (Deficit)	(98,211)	(69,227)	5,881	(4,266)	27,287
Revised Ending Unreserved Fund Balance	82,074	12,846	18,728	14,462	41,749

Key takeaway: Since the projected operating deficit declines in the future, combining use of fund balance with targeted temporary measures, including reducing GF support to (and/or) from other restricted funds, could complement a smaller long-term structural change.

Long-term strategies could include some combination of reduction in ongoing expenditures, changes to restricted fund policies, or new revenues.

Next Steps

August:

- Second economic and revenue forecast update from OERF and CBO

September:

- Mayor's Proposed 2023-2034 Budget transmitted to City Council

November:

- Third economic and revenue forecast update during City Council's budget deliberations

Building from the GF financial planning framework discussed today, Central Staff will provide updates at each stage in the process.

Questions?