

May 12, 2022

MEMORANDUM

To: Finance & Housing Committee
From: Tom Mikesell, Analyst
Subject: Council Bill 120316 – 2021 Carryforwards & Council Bill 120317 - 2021 Exceptions

On Wednesday, May 18, 2022, the Finance & Housing Committee will discuss and possibly vote on [Council Bill \(CB\) 120316](#) and [CB 120317](#). CB 120316 would appropriate in 2022, a portion of select department's unspent 2021 appropriations, and CB 120317 would retroactively provide additional 2021 expenditure authority for department spending above approved 2021 levels.

This memo provides (1) background on the budget adjustment process and describes all approved adjustments since January 1 of this year; (2) describes the CBs and highlights notable increases proposed in the legislation; (3) describes next steps; and (4) based on benchmarking practices at the next four largest first-class Washington cities, identifies one policy issue for the Committee's consideration.

Background - Budget Adjustment Process

The following describes how spending authority in the adopted budget is modified during the year with a combination of unspent appropriations from prior years, and new 'emergency' funding requests during the current year.

I. Adopted Budget

Pursuant to [RCW 35.32A.050](#), in late November of every year the City Council passes an ordinance that establishes the City's budget for the upcoming year, covering the period from January 1 through December 31. This ordinance is the 'Adopted Budget' for the fiscal year and sets spending levels for the next year's operations and provides one year's worth of investments in the City's six-year capital improvement program. Passed by the City Council on November 23, 2021, [Ordinance 126490](#) authorized a 2022 Adopted Budget from all sources of \$7.1 billion.

II. Automatic Carryforward

Consistent with the provisions in [RCW 35.32A.080](#), most unspent annual operating budget appropriations expire, or 'lapse', at the end of the year, while capital appropriations continue into future years until they are either spent, or formally abandoned by ordinance. In addition, if explicitly authorized in ordinance, operating budget appropriations can also be 'non-lapsing' and continue until spent or abandoned. This is common in the instance of grants, for which non-lapsing spending authority is necessary until the grant is fully expended or the appropriation is abandoned. Finally, to cover promises to pay for services provided by outside vendors per a contract or purchase order, amounts can be encumbered and carry into the next year.

According to City financial data, at the end of 2021 there is a total of \$1.9 Billion of unspent prior-year budget authority that has been automatically added to the 2022 Budget. As noted, this largely represents prior year capital projects funding, grant-backed spending, other spending authorized by legislation to continue beyond the first year, and carryforwards for encumbrances. Since these appropriations were adopted with non-lapsing provisions in prior years or are otherwise encumbered to satisfy external obligations, no further Council authorization is necessary for this budget authority to continue until completely spent. Table 1 show, for funds with significant automatic carryforward, by fund and type (capital and operating), the amount of prior years’ budget authority that is added to the 2022 Adopted Budget. This spending authority is largely backed by revenues that have already been deposited in the City treasury, although in some cases, particularly in instances involving grants accepted late in 2021, the cash has not yet been received.

Table 1¹. Funds with Significant Automatic Carryforward

Fund	Carryforward Type (\$ millions) ^{1/}		
	Capital	Operating	Total
Transportation Fund	\$361.21	\$2.70	\$363.92
Light Fund	\$251.24	\$44.89	\$296.13
Drainage and Wastewater Fund	\$135.20	\$0.89	\$136.09
Housing Program Support Fund	-	\$100.69	\$100.69
General Fund	\$1.92	\$94.75	\$96.67
All Others	\$514.28	\$396.32	\$910.60
Total:	\$1,263.86	\$640.23	\$1,904.09

1/ Delineated by BCL type in PeopleSoft 9.2.

As shown in the table, two thirds of this automatic carryforward spending authority is in capital project budgets.

III. Supplementals

After the Adopted Budget is passed, as provided by [RCW 35.32A.060](#), it may be modified during the following year by way of ‘supplemental’ spending legislation, which allows the Council, with a three-fourths approval threshold, to appropriate:

“from the emergency fund, or other designated funds, an amount sufficient to meet the actual necessary expenditures of the city for which insufficient or no appropriations have been made due to causes which could not reasonably have been foreseen at the time of the making of the budget”²

¹ Data from Citywide Financial Pivot Report as of 4/5/2022.

² RCW 35.32.A.060.

The approval threshold for supplemental budget legislation is two-thirds of the Council if the new spending is necessary to address a specific emergency, including those:

- Caused by fire, flood, explosion, storm, earthquake, epidemic, riot, insurrection, act of God, act of the public enemy or any other such happening that could not have been anticipated; or
- For the immediate preservation of order or public health or for the restoration to a condition of usefulness of public property the usefulness of which has been destroyed by accident; or
- In settlement of approved claims for personal injuries or property damages, exclusive of claims arising from the operation of a public utility owned by the city; or
- To meet mandatory expenditures required by laws enacted since the last budget was adopted.³

If the new spending accompanies the addition of new grant revenue, or if the new spending is fully offset by an equivalent reduction elsewhere in the budget, and total appropriation authority is not increased, the approval threshold is a simple majority. Supplemental appropriation legislation can either be ‘standalone’ and add funding for a single discrete City program, or more ‘comprehensive’, increasing several City departments and funds in a single bill.

As of May 9, 2022, the City Council has passed **four standalone** supplemental bills that revise appropriations, including:

- [Ordinance 126538 – CBO 2022 Seattle Rescue Plan 4](#): Accepted and appropriated in 2022 \$1.7 million of federal American Rescue Plan Act grants awarded to the Office of Housing and the Office of Arts and Culture, for Low Income Home Energy Assistance and the Hope Corps programs, respectively. Also, reallocated within the budget, select Coronavirus Local Fiscal Recovery (CLFR) appropriations, to shift from General Fund (GF) revenue replacement to direct-CLFR funding of programs.
- [Ordinance 126549 – SPD Standalone Grants](#): Accepted and appropriated from the GF \$1.3 million of federal funds awarded by the United States Department of Justice to the Seattle Police Department (SPD) to continue the work of the Northwest Regional Internet Crimes Against Children Task Force to address technology-facilitated child exploitation, and to continue work of the Human Trafficking Task Force.
- [Ordinance 126556 – SPD UASI Grants](#): Appropriated from the GF \$2.3 million of federal Urban Areas Security Initiative grants that were accepted in [Ordinance 126469](#), the 2021 Year-end Grant Acceptance legislation. The grant funds are for program management and sustainment; citizen preparedness and outreach; contract analysts; equipment and

³ Ibid.

training to respond to acts of terrorism; and mass care shelter planning with the Human Services Department as described in a [March 8, 2022 Central Staff memo](#).

- [Council Bill 126572 – SDOT 2022 Grant Acceptance](#): Accepted and appropriated from the Transportation Fund \$25.8 million of grants funds awarded to the Seattle Department of Transportation (SDOT) from a combination of agencies, including the United States Department of Transportation (\$20 million), the Port of Seattle (\$5.5 million), and the State Transportation Improvement Board (\$250,000). These funds are allocated for specific projects in the SDOT Mobility Capital program.

Comprehensive supplemental budget legislation that revises several City departments budgets takes one of two forms, as follows:

- **Annual Carryforward**: Typically the first comprehensive supplemental legislation introduced in a year, this bill requests that a portion of select department’s unspent prior year budget be reappropriated in the current year to continue/complete a discrete program or project for which the funding was originally provided, but which could not be fully completed for reasons that vary specific to the request. Distinct from the automatic carryforward, the budget authority for each requested item has lapsed at the end of the prior fiscal year – each carryforward request essentially asks that the budget authority given in the prior year be reapproved for the current year. This bill is produced through a periodic submittal and review process covering all departments that is centrally managed by the City Budget Office (CBO).
- **Supplementals**: Received at regular intervals during the year, these supplemental budget requests form the bulk of City departments’ requests for additional spending authority. Together with requests to spend dollars generated through year-end fund reconciliation and revenue forecast updates, these bills provide spending authority for grant revenues that are described and detailed in accompanying grant acceptance bills. These bills are produced through a periodic submittal and review process covering all departments that is centrally managed by CBO. There is no minimum nor maximum requirement for the number of supplemental bills. In 2021 there were two bills of this type: a mid-year adjustment, and a year-end adjustment submitted and passed during the fall budget process. The Chair of the Finance and Housing Committee has been clear that her expectation is to consider no more than two comprehensive supplemental budget bills annually (the midyear supplemental and the year-end supplemental).

IV. Exceptions

The final type of budget adjustment legislation is the exceptions ordinance. Typically introduced several months after the fiscal year end, this bill provides retroactive budget authority to the prior-year’s budget for spending that has exceeded the revised budget after all automatic and legislated appropriation increases.

Table 2 summarizes at a high level the City’s 2022 Revised Budget, starting from the Adopted Budget and accounting for all automatic and legislated changes to date.

Table 2. 2022 Revised Budget-to-Date

Fund	(a)	(b)	(c)	(d) = a+b+c	d/a
	2022 Adopted	Auto Carryforward	Standalone Bills	2022 Revised	% Increase
General	\$1,585 M	\$96.7 M	(\$0.7 M)	\$1,681 M	6%
All Other	\$5,558 M	\$1,807 M	\$27.5 M	\$7,393 M	33%
Total:	\$7,143 M	\$1,904 M	\$26.8 M	\$9,074 M	27%

As shown in the table, automatic and legislated increases to date result in a 27 percent increase compared to the 2022 Adopted Budget. The bulk of this is automatic carryforward authority from prior years, and as shown in Table 1, much of this automatic carryforward is for ongoing capital projects. This information is shown at the department level in Attachment 1 to this memo.

CB 120316 – 2021 Carryforward

CB 120316, the 2021 Carryforward bill, requests approval for a total 2022 budget increase of \$127.7 million from several City funds. As described in this memo, these carryforward increases are intended to support activities that were budgeted, but not completed, in 2021. Attachment 1 to this memo shows each department’s aggregate carryforward request as a percentage of the Revised Budget.

As shown in Attachment 1 select department’s total carryforward requests represent significant percentages compared to their 2022 Revised budget, as follows:

- **Office of Planning and Community Development:** A \$37.9 million (95 percent) increase across several funds, \$36.5 million of which is GF, for Equitable Development Initiative (EDI) awards to that have not yet been contracted. According to the Executive, the contracting process for these long-term projects often take multiple years and do not always get contracted within the year of the associated EDI Request for Proposals.
- **Office of Arts and Culture:** A \$5.7 million (14 percent) GF increase to implement Strategic Investment Fund (SIF) allocations that were awarded in 2021. For reference, the SIF was first budgeted in 2020 using \$30 million of Mercer Megablock sales proceeds, and this one-time allocation of funds, which had not been spent in 2020, was reappropriated in the 2021 budget. Allocations from the SIF are intended to support strategic land and real estate acquisitions in areas at high risk of displacement or in areas of low access to opportunity that present unique opportunities.

- **Finance General:** A \$34.9 million (eight percent) increase across several funds, \$27.2 million of which is a GF appropriation to continue the Participatory Budgeting program approved by the City Council in the 2021 budget. Other notable amounts include \$5.1 million in the 2021 Multipurpose LTGO Bond Fund to allow for billing of projects against bond proceeds received to support them in 2021, and \$2 million in the Unrestricted Cumulative Reserve Fund to continue funds originally added in the 2020 budget for a partnership between the City and King County to create a 40-60 bed, comprehensive place-based treatment center at the “West Wing” of the King County Correctional Facility.
- **Department of Education and Early Learning:** A \$7.6 million (four percent) GF increase for several uses, the largest of which is \$5.4 million for 2021-22 school year contracts with Public Health Seattle King County for School Based Health, Seattle Public Schools for Culturally Specific and Responsive programming, and tow community- based organizations for Opportunities and Access programming. This funding also supports MOAs with HSD for Homelessness programming through the YWCA and Parks and Recreation for Sports and Transportation programming through Seattle Public Schools. These funds were not encumbered at the end of 2021.

Other notable items include:

- **Rental Assistance:** A \$8 million GF increase to the Office of Housing for rental assistance. The contract with United Way, who will administer the rental assistance awards, had not been completed by the end of 2021.
- **Community Safety Capacity Building Administration:** A \$1.4 million GF increase to the Human Services Department for administration of Community Safety Capacity Building funds, which were appropriated in 2021 to provide administration support for contracts resulting from the 2021 Community Safety RFP, which may extend through 2023.

These and all other requested items are described in in Attachment A to the summary and fiscal note submitted by the Executive. The bill requires approval by three quarters of the City Council to pass.

CB 120317 – 2021 Exceptions Ordinance

CB 120317, the 2021 Exceptions bill, requests approval for a total 2021 budget increase of \$13.3 million. These appropriations increases are intended to resolve instances where departments overspent their revised 2021 Budget allocations. Notable requests include:

- **Seattle Department of Human Resources Budget Exception:** A \$6.5 million increase from the Health Care Fund due to unanticipated claims activity.
- **Seattle Department of Transportation Budget Exceptions:** Increases of \$5.2 million and \$1.6 million from the Transportation Fund and the Move Seattle Levy Fund, respectively, due to unanticipated expenses for emergency response, pothole repair, and operations

support including rubble hauling and maintenance operations, the transportation operations center, signs and markings, and traffic signals.

These and all other requested items are described in in [Attachment A](#) to the summary and fiscal note submitted by the Executive. The bill requires approval by three-fourths of the City Council to pass.

For historical context, Table 3 shows a five-year history of past budget exception ordinances by department and includes CB 120371 for comparison.

Table 3. Five-year Exception Ordinance History by Department

Amounts in \$1,000s	2017	2018	2019	2020	2021
	O-125619	O-125893	O-126127	O-126471	CB 120317
Office of Housing	-	-	-	\$6,575	-
Seattle Department of Transportation	\$2,168	\$1,063	\$8,794	\$9,441	\$6,774
Seattle Parks & Recreation	-	-	-	\$455	-
Seattle Public Utilities	-	-	-	\$13,588	-
Seattle City Retirement System	\$1,981	-	\$882		-
Seattle Department of Human Resources	-	\$95	\$3,433	-	\$6,542
Human Services Department	\$1,155	-	\$864	-	-
Seattle Police Department	-	\$199	-	-	-
Finance and Administrative Services	-	\$12,136	-	-	-
Total	\$5,304	\$13,493	\$13,972	\$30,059	\$13,316

As shown in the table, the total amount of budget exceptions, and the departments requesting retroactive budget authority, has varied over the years.

For context about peer practices, staff contacted finance officers at the next four largest first-class cities in Washington, by population, including Vancouver, Spokane, Everett, and Tacoma. Based on information provided by finance staff, none of the peer cities that were contacted provide for retroactive budget adjustments after the fiscal year is completed.

In making these comparisons, it is worth noting that the legal level of budgetary control may be different at these cities, which impacts both the scope of budgetary constraints being applied and the ease of fiscal administration within those constraints. As an example, the City of Tacoma passes budget appropriations at the fund level, which is a broader level of fiscal control in comparison to the Budget Control Level format used in Seattle’s budget. The Budget Control Level, which is a combination of a fund and departmental program (Budget Summary Level), is a more focused level of fiscal constraint, which can require management of different funds with specific restrictions in the context of a sub-department level program. This is explored further in the Issue Identification section, below.

Budget Development - Next Steps

Based on information to date, and recent practice, there will likely be additional proposed standalone and comprehensive supplemental appropriations bills, as follows:

1. Currently anticipated standalone bills could include:

- *2022 AWI and Holiday Appropriations:* Would appropriate \$32.7 million from several City funds to:
 - Provide funding for 2022 annual wage increases for certain represented and unrepresented City employees; and
 - Provide funding for newly authorized City holidays (Juneteenth and Indigenous People's Day).

These appropriations provide funding for prior approved legislation.

2. Additional comprehensive appropriation bills could include:

- *Mid-year Supplemental:* Typically introduced in June, would represent the second comprehensive supplemental appropriations bill, and is distinct from the carryforward bill in that a grant acceptance bill typically accompanies it.
- *Year-end Supplemental:* Introduced during the deliberative process for the next year's budget bill, which runs from October through the budget bill's final passage in late November, this bill would represent the second comprehensive, citywide budget increase request from the Executive, and is accompanied by a grant acceptance bill. Considering this bill during the fall budget process allows the City Council to consider the full picture of the City's finances while deliberating on the 2023-2024 Budget.

Issue Identification

The annual exception bill has become a regularly anticipated mechanism to address budget overages after the year has been complete. While the overages are generally small in the context of a \$7.1 billion annual budget, each represents a retroactive adjustment to the budget, requiring additional action after the year had ended.

In the interest of exploring opportunities for a process that makes all budget decisions for a budget year before the year has ended, staff would highlight some potential options to reduce or eliminate future budget exceptions:

- a. Regular Transparent Budget Monitoring: One mechanism that can be employed to provide advance notification of areas where spending may exceed budget authority, to inform budget adjustments during the year rather than after the year has concluded, is consistent and transparent budget monitoring and reporting. These can take the form of periodic financial management reports that measure actual spending against budgets, after adjusting for historical spending patterns, and identify areas of budget pressure, or potential savings through underspend. At the May 4, 2022 Finance and Housing Committee meeting, the City Budget Director indicated that discussions were beginning

with the City Finance Director to leverage the City's financial and budget systems for enhanced budget monitoring.

- b. Establishment of contingency appropriations in select departments: Another possible mechanism is to review past budget to actual variances and add contingent amounts to areas where flexibility may be necessary. The goal would be to plan for the original budget amount, and only rely on the contingent appropriation in exceptional cases. The City already employs this practice for certain departments; for example, the Seattle Department of Construction and Inspection's annual budget typically includes contingent budget authority should permit volumes increase. The trade-off would be reduced fiscal control.
- c. Revise budget transfer restrictions between Budget Control Levels: Currently, [Seattle Municipal Code 5.08.020](#) provides for the City Budget Director to authorize transfers between Budget Control Levels within a department, up to aggregate annual maximum of \$500,000. This provides some opportunity to mitigate potential budget exceptions, in cases where sufficient excess budget authority exists elsewhere in a department's BCL structure, and the exception is below the maximum threshold. This transfer authority could be expanded in some way to retain the intended fiscal constraint applied by the BCL structure but allow the Executive to address budget exceptions within existing budgets, rather than through retroactive requests for additional appropriation authority. The trade-off would be reduced fiscal control.

As noted, CBO is in initial stages of establishing enhanced budget monitoring. Central Staff will engage in this process to identify opportunities to enhance its usefulness for the City Council.

Attachments:

1. 2022 Budget Adjustments through May 9, 2022.

cc: Aly Pennucci, Deputy Director

Attachment 1. 2022 Budget Adjustments Through 5/9/22

Department	2022 Adopted Budget	Automatic Carryforward	Approved Supplementals as of 5/9/22	Revised Budget	CB 120316	CB120316 % Increase to Revised Budget
Civil Service Commissions	601,557	-	-	601,557	115,000	19%
Community Safety and Communications Center	22,161,206	19,755	-	22,180,961	379,126	2%
Department of Education and Early Learning	121,421,165	58,619,801	-	180,040,966	7,596,586	4%
Department of Neighborhoods	21,304,710	5,981,803	-	27,286,513	387,000	1%
Seattle Parks and Recreation	287,707,724	173,922,834	-	461,630,558	1,020,000	0%
Employees' Retirement System	8,685,358	64,447	-	8,749,805	839,496	10%
Ethics and Elections Commission	2,165,663	50,141	-	2,215,804	-	0%
Executive (City Budget Office)	11,435,925	226,496	-	11,662,421	-	0%
Executive (Office for Civil Rights)	7,764,185	1,408,131	-	9,172,315	-	0%
Executive (Office of Arts and Culture)	21,466,416	8,374,323	500,000	30,340,739	5,674,320	19%
Executive (Office of Economic Development)	26,428,480	31,554,813	-	57,983,293	-	0%
Office of Emergency Management	3,181,159	3,425,861	-	6,607,021	-	0%
Executive (Office of Housing)	208,423,856	269,954,510	1,213,575	479,591,941	8,000,000	2%
Executive (Office of Immigrant and Refugee Affairs)	5,010,065	2,368,695	-	7,378,760	78,086	1%
Executive (Office of Intergovernmental Relations)	3,059,062	100,504	-	3,159,566	-	0%
Executive (Office of Labor Standards)	12,130,660	704,140	-	12,834,800	-	0%
Executive (Office of Planning and Community Development)	32,157,266	7,841,941	-	39,999,207	37,874,559	95%
Executive (Office of Sustainability and Environment)	17,923,483	810,808	-	18,734,291	-	0%
Community Police Commission	1,871,363	-	-	1,871,363	-	0%
Executive (Office of the Mayor)	7,638,274	81,127	-	7,719,401	20,000	0%
Department of Finance and Administrative Services	379,330,471	73,348,185	-	452,678,655	10,040,016	2%
Finance General	423,500,789	1,402,814	(4,344,457)	420,559,146	34,852,513	8%
Firefighter's Pension	21,921,588	-	-	21,921,588	-	0%
Human Services Department	308,448,143	94,743,175	-	403,191,318	2,920,092	1%
Law Department	38,659,829	963,538	-	39,623,367	-	0%
Legislative Department	19,910,165	479,800	-	20,389,965	-	0%
Office of Hearing Examiner	1,078,071	-	-	1,078,071	-	0%
Office of Inspector General for Public Safety	3,722,713	-	-	3,722,713	-	0%
Office of the City Auditor	2,141,681	929,642	-	3,071,323	-	0%
Executive (Office of the Employee Ombud)	1,092,079	40,320	-	1,132,399	-	0%
Police Relief and Pension	26,680,278	-	-	26,680,278	-	0%
Seattle Center	52,077,555	27,948,363	-	80,025,918	-	0%
Seattle City Light	1,465,689,673	296,128,739	-	1,761,818,412	6,688,190	0%
Seattle Department of Construction and Inspections	111,996,889	1,135,446	-	113,132,335	912,142	1%
Seattle Department of Human Resources	370,808,964	213,218	-	371,022,182	2,834,545	1%
Seattle Department of Transportation	731,167,618	492,558,292	25,747,000	1,249,472,910	4,242,260	0%
Seattle Fire Department	267,182,037	8,938,007	-	276,120,043	127,616	0%
Seattle Information Technology Department	283,661,119	68,219,692	-	351,880,811	1,369,501	0%
Seattle Municipal Court	40,001,139	30,882	-	40,032,021	-	0%
Seattle Police Department	355,487,009	19,380,760	3,648,845	378,516,614	260,000	0%
Seattle Public Library	97,094,502	18,209,879	-	115,304,382	1,090,650	1%
Seattle Public Utilities	1,318,642,613	233,907,858	-	1,552,550,471	407,150	0%
Office of Economic and Revenue Forecasts	634,919	-	-	634,919	-	0%
Total	7,143,467,423	1,904,088,741	26,764,963	9,074,321,127	127,728,848	1%