

GENERAL FUND BALANCING ANALYSIS

2026 Proposed Budget Policy Considerations

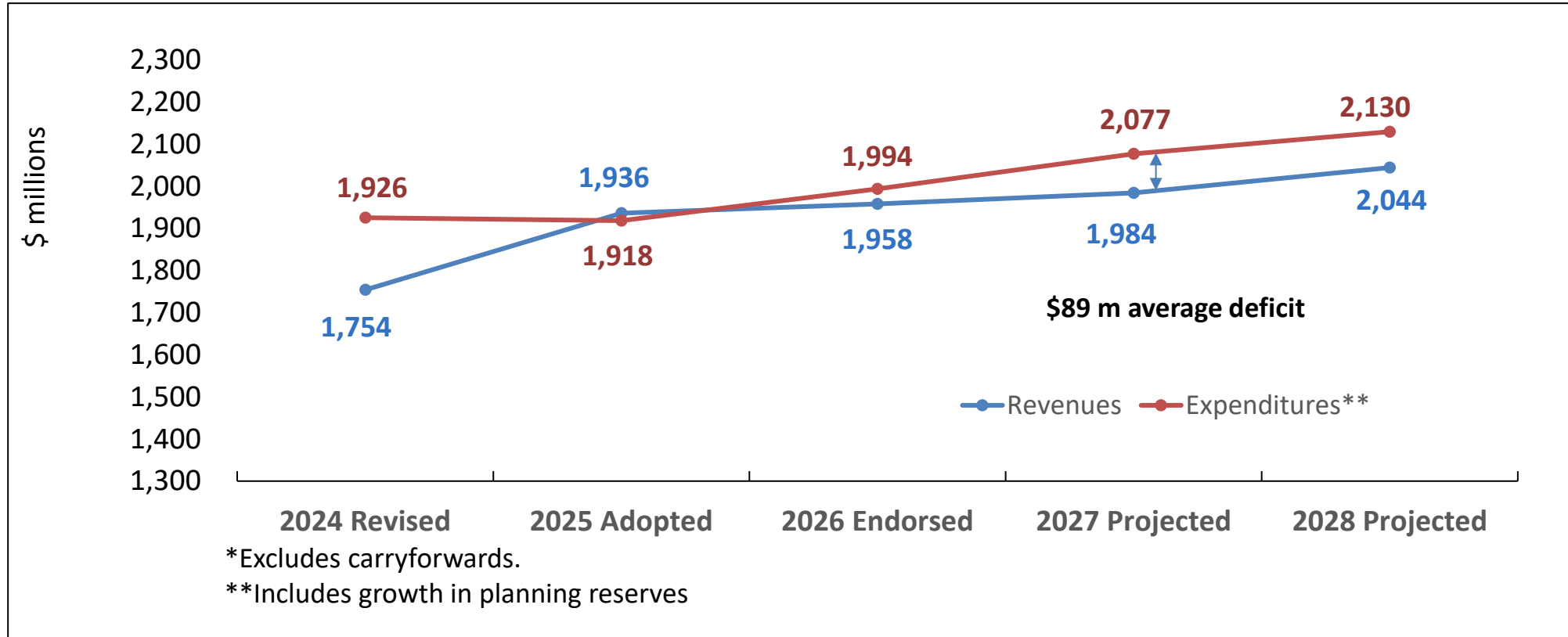
Select Budget Committee | October 15, 2025

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Objectives:

1. Revisit 2025 Adopted/ 2026 Endorsed Budget and the long-term \$89 million average deficit projected at that time
2. Review 2025 revised GF revenue and appropriation changes, actual and proposed
3. Review 2026 Proposed GF revenue and appropriation changes, relative to the 2026 Endorsed, and their impact on GF balancing status
4. Review the 2026 Proposed Budget's \$125 million average projected GF deficit
5. Review the funding status of the City's primary fiscal reserves
6. Review the JumpStart Fund considering the August payroll expense tax forecast decrease

November 2024: Projected 2027-2028 GF Deficit



Key takeaway: The GF financial plan published with the 2025 Adopted/2026 Revised Budget projected a \$89 million average deficit in 2027 and beyond.

Summary of Changes to 2025 Budget

Amounts in \$000,000s	2025 Impact
2025 Adopted Ending Fund Balance	\$123
1. 2024 Year End Reconciliation	\$135
2. Approved & Automatic Carryforwards/Supplementals	
Revenues	\$16
Expenditures	(\$140)
<i>Subtotal - Approved Supplementals/Carryforwards</i>	(\$124)
3. August Revenue Forecast (excluding double-counts)	\$11
4. Proposed Budget Legislation	
Revenues	\$5
Expenditures	(\$22)
<i>Subtotal - Proposed Budget Legislation</i>	(\$17)
5. Higher Underspend Assumption	\$13
2025 Revised Ending Fund Balance	\$141
Increase in 2025 ending balance compared to 2025 Adopted Budget	<u>\$18</u>

Key takeaway: Approved and proposed GF changes, and higher underspend, would increase 2025 ending/2026 beginning fund balance by \$18 million, which represents one-time resources used in the Mayor's 2026 Proposed Budget.

2026 Proposed GF Budget Balancing Analysis Framework

- 2026 Endorsed Budget is the starting point.

Amounts in \$000,000s	Fund Balance	Revenues	Total Resources	Expenditures ^{1/}	Planning Reserves	Total Uses	Balance
2026 Endorsed	\$123	\$1,958	\$2,081	\$1,920	\$161	\$2,081	\$0
1/Reduced by \$10 million to account for Executive underspend.							

- **Step 1:** From this starting point, add the increase to 2025 ending balance (see previous slide), the August revenue forecast impact, and baseline, technical, and planning reserve changes to see baseline balancing status
- **Step 2:** Next, review the impact of the new revenue proposals and related spending on GF balance.
- **Step 3:** Then factor in the Mayor's net new spending proposals (new spending above reductions and revenue-backed adds).

Step 1: August Forecast, Baseline, and Technical Changes

- Baseline and technical changes, such as adjustments for revised inflation and central costs changes, decrease 2026 spending by \$5 million
- 2026 planning reserves increase by \$2 million
- August forecast decreased 2026 GF revenues by \$6.8 million, relative to the Endorsed Budget. Worth noting that baseline revenue growth (2.2 percent) is lower than inflation (2.8 percent)
- Total baseline, technical planning reserves and forecast changes reduce balance by \$4 million
- When added to higher starting balance due to 2025 Revised Budget changes described previously, the baseline GF balance, prior to proposed changes, is a positive \$13.7 million

Key takeaway: Adding in higher starting balance, and revenue , baseline and technical changes increased the baseline 2026 GF balance increased from \$0.0 to a positive \$13.7 million before Mayor's proposed changes. However, this does not include the impact of payroll expense tax shortfall, which is covered as part of revenue proposals.

Step 2: Revenue Proposals: Summary of Balancing Impact

Amounts in \$1,000,000s	Revenues	Expenditures ^{1/}	Balancing Impact	Cumulative Balance Impact
2026 Proposed Starting Balance				\$140.9
2026 Proposed Baseline	\$1,950.6	\$2,077.8	(\$127.2)	\$13.7
Miscellaneous Operating Revenues	(\$1.6)	\$0	(\$1.6)	\$12.1
Reduce Payroll Expense Tax Transfer To GF	(\$75.5)	\$0	(\$75.5)	(\$63.4)
GF Expenditure Shifts to FEPP Levy	\$0	(\$27.6)	\$27.6	(\$35.8)
Business and Occupation Tax Restructure	\$81	\$28.8	\$52.2	\$16.4
Public Safety Sales Tax	\$38.9	\$23.7	\$15.2	\$32
2026 Proposed Revised Balance Including New Revenues				\$32
1/Reduced by \$10 million to account for Executive underspend, which is not part of the appropriation. Includes \$163.2 million for planning reserves.				

Key takeaway: Net balance of \$32 million after all baseline and technical changes and revenue proposals, which is used to fund net new GF adds.

Business & Occupations Tax Restructure

Amounts in \$1,000,000s		Expenditures		
Department/Office	Description	One-time	Ongoing	Total
FAS	Resource Needs for Implementing B&O Tax Changes	\$0	\$1.2	\$1.2
HSD	Rental Assistance Funding	\$0	\$4	\$4
HSD	B&O Backed Reserve for Federal Impact Shelter Supports and Emergency Housing	\$9.4	\$0	\$9.4
HSD	Funding for Food Banks	\$3	\$0	\$3
HSD	Funding for Meal Programs	\$1	\$0	\$1
OIRA	Immigration Emerging Need Response	\$0.3	\$0	\$0.3
OIRA	Immigration Legal Services, Workforce Opportunities, and Safety Programs	\$3.7	\$0	\$3.7
OSE	Expand Fresh Bucks Eligibility and Benefit Amount	\$6.3	\$0	\$0
Total New GF Spending Supported B&O Tax Increase		\$23.6	\$5.2	\$28.8
1/Does not include \$1 million of one-time 2025 funding in FAS and Seattle IT for initial implementation costs, nor \$200,000 in the Information Technology Fund for ongoing support costs.				

Key takeaway: \$28.8 million of GF federal response adds funded by B&O tax restructure, mostly on a one-time basis. Remainder backfills GF spending.

Policy Consideration

1. Business & Occupation Tax Federal Backfill Funding One-time Status

New appropriations for federal backfill/federal response supported by the business and occupations tax restructure are funded on a one-time basis in the 2026 Proposed Budget, and are included as a ‘federal funding backfill reserve’ in unappropriated planning reserves beginning in 2027.

Options:

- A. Submit a cost-neutral budget amendment to shift one or all the one-time spending allocations to ‘ongoing’ status in the 2026 Proposed Budget, and provide guidance to adjust/remove the ‘federal funding backfill reserve’ from future financial projections accordingly.
- B. No Change

Step 3: Net New Spending Proposals

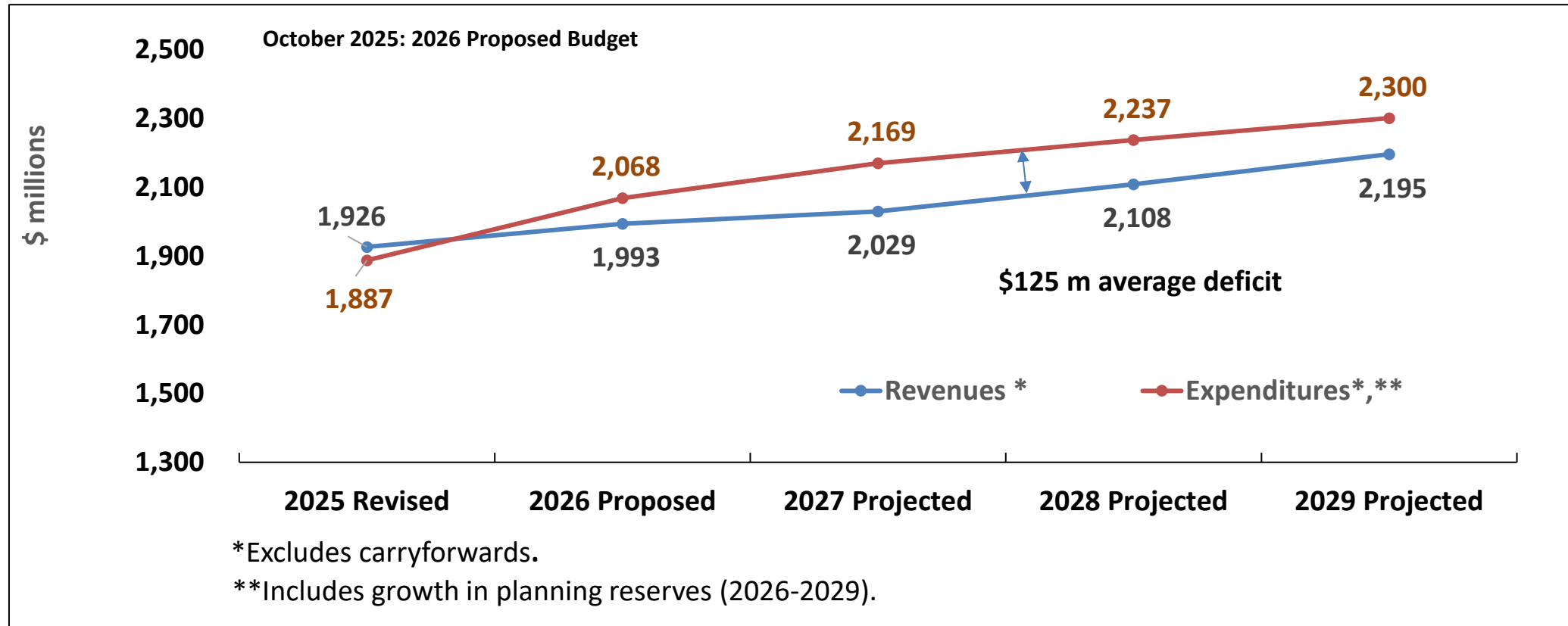
- The \$32 million of net GF balance after all previously described changes to the 2026 Endorsed Budget were available to be allocated to additional, new policy-related expenditure changes in 2026 Proposed GF Budget.
- The Mayor has then also proposed \$41 million of reductions. When added to the \$32 million, this provides \$73 million in resources that are directed towards new spending.

Amounts in \$1,000,000s	2026 Proposed		
	One-time	Ongoing	Total
Expenditure Decreases	(\$9)	(\$32)	(\$41)
Expenditure Increases	\$14	\$59	\$73
Net Appropriation Change	\$4	\$28	\$32

- Important to note that the net ongoing change from these adds, meaning the increase in spending that continues in future years, is \$28 million.
- These items are listed in Attachment A to GF Balancing memo, with noteworthy changes described in the Central Staff Policy Considerations memos.

Key takeaway: A total appropriation increase of \$73 million is only partially offset by \$41 million. The net impact is \$32 million of new spending, of, \$28 million is ongoing.

October 2025: Projected 2027-2029 GF Deficit



Key takeaway: Due to increase in ongoing spending above ongoing revenues, projected deficit increases to \$140 million in 2027, and \$125 million on average through 2029.

GF Financial Plan Considerations

1. For first time, outyear projection beginning in 2027 include a \$10 million underspend assumption, which reduces the projected deficit in each year, building on recent change in budget practice
2. Beginning in 2027 and continuing in future years, a portion of growth in planning reserves is for enhanced future services rather than purely funding 2026 Proposed Budget decisions. Specifically, the planning reserves include amounts needed to build an additional 150 shelter beds as part of a multi-year proposal.

Pattern of Use of Underspend in the Budget

Amounts in \$1,000,000	Assumption	Actual ^{1/}	Variance
2021 Revised GF	-	\$49	\$49
2022 Revised	\$20	\$46	\$26
2023 Revised	\$10	\$35	\$25
2024 Revised ^{2/}	\$24	\$65	\$41
2025 Revised	\$23	-	
2026 Proposed	\$10	-	
1/Net of carryforwards.			
2/Includes the impact of an Executive hiring freeze, which would serve to increase underspend above 'normal' expectations.			

- Practice of using assumed underspends in budget began in 2021, during COVID -19 pandemic.
- Though underspend is in some ways 'natural', from vacancy savings and good financial stewardship, in the event of a downturn actual cuts will need to be identified.
- An underspend assumption is relied on in the budget and now future projections, and yet a higher deficit is still being projected, perhaps a warning sign.
- Ultimately, Mayor controls spending, and appropriations for Council priorities could be underspent to meet assumption.

Key takeaway: Underspend assumptions started in 2022, and now are in every budget, Mayor controls spending, meaning Council priorities could be part of underspend in a downturn.

Policy Consideration

2. Use of underspend assumptions in the budget and longer-term financial planning.

Use of underspend assumption in budget could lead to Executive not spending on Council priorities. Further, change in practice regarding the use of underspend in future projections may weaken the usefulness of long-term financial planning.

Options:

- A. Statement of Legislative Intent to convene a Central Staff, CBO, and City Finance workgroup to develop recommendations for formal policies on the use of underspend assumptions in the budget and financial plan, based on best practice research and risk analysis.
- B. No change.

Projected 2027 Deficit Considerations

Large projected deficits remain in the GF financial plan despite:

- An expanded transfer of payroll expense tax revenues from the JumpStart Fund,
- Budget shifts of \$28 million of programs out of the GF to the expanded FEPP levy;
- Business and occupations tax restructure, which provides a projected \$81 million of new revenue in 2026;
- New public safety tax, which generates approximately \$39 million of new sales tax revenue in 2026; and,
- Use of underspends in both current budgets and now future year projections.

Having employed these tools without reducing the deficit, few options remain to respond to future fiscal challenges, both in terms of a future shortfalls and responding to the impact of the revenue forecast to be presented on October 20.

Key takeaway: Significant revenue and expenditure measures have been used to maintain GF balance since 2019, yet deficit projections persist. This leaves few clear options other than budget cuts to restore balance. And these cuts will need to be deeper should the economy or forecast turn downward.

Fiscal Reserves

- Emergency Fund: For unanticipated expenses; fully funded to \$87.7 million in 2026 Proposed Budget.
- Revenue Stabilizations Fund (RSF): can be used to support city operations and activities to unanticipated shortfalls in GF revenues. Maximum balance is 5% of GF taxes
- SMC 5.80.020 requires the budget to include a deposit from the GF to the RSF equal to 0.5 percent of forecasted General Fund tax revenues until the maximum balance is achieved. For 2026, that 0.5 percent amounts to \$7.7 million.
- However, as shown in the table below, the 2026 Proposed GF budget does not include the full amount of the required transfer.

Amounts in \$1,000,000s	2025 Revised Ending Balance	2026 GF Transfer	2026 Ending Balance	% of Policy Maximum
SMC 5.080.200 Required	\$68.2	\$7.7	\$75.9	98%
2026 Proposed Budget	\$68.2	\$3.1	\$71.3	92%
Difference	\$0	(\$4.7)	(\$4.7)	(6%)

Policy Consideration

3. Adjust revenue stabilization fund transfer to policy levels

The 2026 Proposed GF Budget underfunds the transfer from the GF to the RSF by \$4.7 million, which leaves the proposed RSF ending balance below statutory requirements.

Options:

- A. Cut \$4.7 million of proposed GF spending and increase the transfer from the GF to the RSF by a like amount, to meet statutory requirements.
- B. Increase the 2026 Proposed Budget underspend by \$4.7 million
- C. Propose budget legislation to amend SMC 5.080.020 to lower the RSF funding requirement in the Revenue Stabilization Fund policy.
- D. No change

JumpStart Fund

JSF Spending in the Endorse 2026 Budget

- 2026 Endorsed Budget appropriated \$504 million from the JSF, using \$41 million of fund balance, and \$463 million of forecast payroll expense tax revenues.
- \$265 million (52 percent) was a transfer to the GF for revenue backfill, and the remainder was for programs and services funded in the JSF as guided by ORD 127155.

Changes in JSF Spending in Proposed 2026 Budget

- The August forecast reduced the 2026 payroll expense tax forecast by \$78 million, forcing a reduction JSF appropriations.
- The 2026 Proposed budget decreases the transfer to GF by \$76 million, preserving 2026 Endorsed JSF spending levels. This is possible because of the combination of one-time and on-going resources that have been added to the GF.
- The JSF financial plan includes \$9.7 million as an initial contribution to restore the Payroll Expense Tax Revenue Stabilization Account (PETRSA). This is to be followed by three subsequent annual contributions to bring the total to 10% of PET revenues within four years, consistent with adopted policy. However, this contribution is only shown in the Funds' financial plan, it is not a formal appropriation. SMC 5.38.105.C indicates the reserve should be part of proposed budget

Policy Consideration

4. Appropriate JumpStart Fund PETRSA 2026 contribution

The 2026 Proposed GF Budget does not include an appropriation to the PETRSA pursuant to ORD 127155 but includes \$9.7 million in unappropriated amounts for this purpose in the JSF Financial Plan submitted with the 2026 Proposed Budget.

Options:

- A. Add a \$9.7 million Finance General appropriation from the JSF labeled “JumpStart Fund Revenue Stabilization Account” to the 2026 Proposed Budget, offset by instruction to remove a like amount from the 2026 Proposed JSF Financial Plan.
- B. Submit budget legislation to amend SMC 5.38.105 to indicate that the JSFRSA balance may be maintained as an unappropriated amount in the JSF financial plan submitted with the budget.
- C. No change

Questions?