

MEMORANDUM

Date: July 28, 2025

To: Council President Sara Nelson
Chair, Governance, Accountability, & Economic Development Committee

From: Dan Eder, City Budget Director

Copy: Dan Strauss, Chair, Finance, Native Communities & Tribal Governments Committee
Jeremy Racca, Chief of Staff/General Counsel, Mayor's Office

Subject: Response to SLI CBO-003S-A (Underspend, Fiscal Monitoring, and Grants)

Statement of Legislative Intent (SLI) CBO-003S-A-2 requested that the City Budget Office (CBO) report on three different areas concerning past budget underspend and grants:

1. Report on historical underspend from 2018 through 2023 organized by fund and department
2. Report on Year-to-Date (YTD) budget vs actual performance through the second quarter (Q2) as memorialized in Resolution 32116.
3. Searchable and sortable database of outstanding City contracts and grants (exclusive of EDI awards) as of December 31, 2024, encompassing the three departments with the largest portfolio of grants to non-profit providers.

Background

The SLI requests information about underspend generally. Underspend can be calculated as an initial figure ("Initial Underspend" is the Revised Budget less Actual Expenditures). However, most of each year's Initial Underspend is committed to specific projects or programs and is therefore not available to pay for new spending or to reduce budget deficits.

Two particular categories cause the Payroll Expense Tax Fund to show large annual underspend due to the way that the City budgets: affordable housing projects in the Office of Housing (OH) and Equitable Development Initiative (EDI) projects in the Office of Planning and Community Development (OPCD). In both cases, the City budgets all the funding in the year we commit to specific future projects planned by partner organizations; and because City awards are often "the first dollar in" partner organizations often need several years to fully fund a project and break ground.

The committed budget for these projects roll over from one year to the next, but because they are projects ultimately constructed and operated by community partner organizations, the City does not have direct control over the timeline. Those committed funds must remain in the City's budget so that the resources exist to complete the projects when the partner organization is ready; otherwise, the City

is making commitments without having identified the funding that will be available when it is needed. Carrying the committed budget amounts forward annually reaffirms that shared commitment with our community partners.

This response uses the term “Net Underspend” to refer to the relatively small amount of amount that remains after removing the various categories of prior commitments (or “Total Carryforward”).

Historically, the City has not requested departments completely spend their annual budgets as it is not a preferred practice and can incentivize unnecessary spending for the sake of showing a perfectly aligned budget, as portrayed in an episode of *The Office* called [*The Surplus*](#).

Between 2018 and 2023, the Net Underspend for the General Fund (GF) averaged about \$36 million or 2.1% of Revised Budget annually; and the Net Underspend for the Payroll Expense Tax (PET) Fund averaged about \$4 million annually or about 2.1% of the Revised Budget. Uncommitted Net Underspend funds lapse and become available resources for the following year’s budget. During this time period, the total average annual underspend that lapsed into the combined GF/PET Fund was \$40 million.

1. Historical Underspend from 2018-2023

“This Statement of Legislative Intent (SLI) would request that the City Budget Office (CBO) provide a report on historical underspend from 2018 through 2023, organized by fund and department. The report should analyze and identify the specific reasons for the underspend, and where appropriate (e.g. affordable housing), identify reforms and process improvements to expend appropriations more expeditiously.”

2018-2023 encompasses six years during which the City organization underwent both growth as well as seismic change because of the COVID-19 public health emergency and its impacts. This analysis presents historical underspend for the General Fund, Payroll Expense Tax Fund (from its initial year in 2021), and select other funds.

General Fund

In the General Fund, Revised Budget vs Actuals (“Initial Underspend” excluding impact of carryforwards) averaged 9.9% of underspend (or \$168 million), annually, over the six-year window. Of this amount, labor accounted for approximately 23% of the underspend (\$38 million) with much of the remaining balance being carried-forward either through auto-carryforward authority or legislative action. Net Underspend averaged 2.1% between 2018-2023. The table below summarizes these findings:

Year	Revised Budget	Actual Expenditure	Budget - Actual	Initial Underspend %	Labor as % of Initial Underspend	Total Carryforward	Net Underspend (after CF)	Net Underspend as %
2023	1,833,690,339	1,621,965,555	211,724,785	11.5%	18.7%	176,318,495	35,406,290	1.9%
2022	1,866,240,718	1,653,442,090	212,798,628	11.4%	27.6%	166,873,841	45,924,787	2.5%
2021	1,760,765,579	1,529,924,866	230,840,713	13.1%	21.0%	182,269,862	48,570,851	2.8%
2020	1,613,851,364	1,461,261,838	152,589,526	9.5%	17.5%	109,762,976	42,826,551	2.7%
2019	1,496,849,531	1,380,544,183	116,305,348	7.8%	34.2%	93,694,141	22,611,207	1.5%
2018	1,460,217,870	1,374,436,421	85,781,449	5.9%	18.5%	66,756,829	19,024,620	1.3%
6-Yr Average	1,671,935,900	1,503,595,825	168,340,075	9.9%	22.90%	132,612,691	35,727,384	2.1%

Both underspend and carryforwards peaked in 2021 from a combination of factors including the City receiving its share of the Coronavirus Local Relief Funds (CLFR) which were used to offset the revenue impacts of the pandemic and the carry-forward of funds budgeted for the Participatory Budgeting program (\$27 million) which would continue to impact carryforward amounts over this period inside Finance General.

Within the individual General Fund departments between 2018 and 2023, one department consistently had the most underspend each year: Office of Planning & Community Development (OPCD), reflecting the balances accruing for the Equitable Development Initiative which were approximately \$20 million at the end of 2023.

To reflect the normal underspend which occurs during routine operations, the General Fund's financial plan has included an underspend assumption of between \$10 and 20 million. (As mentioned above, the average GF underspend from 2018-2023 was \$36 million, so an assumption of \$10 to \$20 million is backed up by historical data.) Other measures enacted by the Executive to reduce spending, such as a hiring freeze, were not enacted until 2024 and do not impact the data reported above.

A. Payroll Expense Tax Fund

The Payroll Expense Tax (also known as the JumpStart Payroll Expense Tax or PET) was enacted by City Council in 2020 with the first collection year in 2021. Per the enacting legislation, revenue received in 2021 was deposited into the General Fund with the subsequent years to be deposited into a stand-alone fund.

During the analysis period (2018-2023) use of the PET revenue was allocated according to the legislated spend plan:

- 62% Housing
- 15% Economic Revitalization
- 9% EDI
- 9% Green New Deal
- 5% Administration/Evaluation

Over 70% of PET funds were allocated to programs with long-term project commitments (OH's Affordable Housing program and OPCD's EDI program) as mentioned above. Initial underspend (budget minus actuals) for the fund has been over 40% each year with 45% and 57% underspend in 2022 and

2023 respectively, due to the committed funds for Housing and EDI projects. These funds were carried forward resulting in a Net Underspend of 0.8% and 1.7% for those years.

B. Other Funds

A general observation of this analysis: Citywide, of the underspend that is carried-forward, a majority relates to the capital budget which has auto-carryforward authority. Over the 2018-2023 window, the City experienced record inflation levels, a concrete workers' strike, and other external factors which affected construction prices as well as the timeline for delivering capital projects. Annually, projects in the capital budget are analyzed/re-assessed as part of year-end, and when necessary, adjusted/abandoned through supplemental legislation.

As of December 31, 2023, there was \$1.8 billion in carry-forward funds in the City's financial system. Of this amount, just over \$1 billion resides in capital funds including:

- City Light: \$301 million
- SDOT funds: \$235 million
- REET Funds (multiple depts): \$135 million
- Seattle Public Utilities: \$134 million
- Waterfront: \$98 million

Grants has been another area of historical underspend in the budget. Although grants captured in the budget are revenue-backed and do not directly impact balancing, their underspend can skew the year-end picture, particularly if a grant was budgeted and then not received. CBO has collaborated with Council Central Staff to expand the opportunities for grants to be accepted and appropriated outside the budget process (including a Q1 Acceptance and Appropriation) which enables grants to be appropriated when they are received rather than assumed in the budget and then subsequently abandoned.

CBO has also implemented [policies](#) governing which grants can be included in the budget process to limit these abandonments, requiring those grants be limited to formula-based/entitlement grants with a proven track record and those which support existing programs. The goal of these policies is to eliminate the variability of receiving competitive grants and focus on those grants which the City receives annually and can count on receiving again such as CDBG, HOME, etc.

The full detail of budget vs actual by fund/department is included as **Attachment A**.

2. Current-Year Budget versus Actual Performance through Q2

"This SLI would also request that CBO and Central Staff collaborate on a process that uses information from the twice-yearly budget-to-actual reports requested of CBO and the Office of City Finance in Resolution 32116, and other budget monitoring systems used by the Executive, to demonstrate the need for additional appropriations in comprehensive supplemental budget requests, including the annual carryforward legislation, the mid-year supplemental budget legislation, and the year-end supplemental budget legislation. This process should analyze budget savings during the year to streamline requests for additional appropriations."

The City formalized its Fiscal Monitoring Program in 2023. The program utilizes quarterly meetings between department fiscal teams, CBO, and the Office of City Finance (OCF) to review four key areas of fiscal performance:

- Transactions/Postings
- Cash Balances
- Grants Management
- Budget vs Actual

The overarching goal of the program is to identify fiscal challenges early with the goal of avoiding budget exceptions or other year-end issues. The program currently utilizes a [PowerBI based platform](#) which is populated with quarterly data and analyzed using a straight-line approach.

Beginning in 2025, the program began piloting department-driven expenditure plans to replace the straight-line proration in four departments: Seattle Center, Department of Neighborhoods, Seattle Municipal Court, and Seattle Public Utilities. These expenditure plans are intended to be more precise than straight-line budgets and eliminate timing issues and other variances caused by seasonality which limit the ability to get an accurate picture of the City's financial position during the year.

Attachment B includes budget vs actual data for 2025 through Q2 (June 30, 2025) both for the standard straight-line reporting for all departments as well as reporting for the 4 pilot depts using the department-specific expenditure plans.

Q2 reviews with Department/CBO/OCF teams will continue through mid-August with a final Q2 report with variance narratives to be provided as part of pre-budget question responses.

3. Analysis of outstanding City contracts and grants

“Finally, this SLI would request that CBO develop a searchable and sortable database of outstanding City contracts and grants (exclusive of EDI awards) as of December 31, 2024, encompassing the three departments with the largest portfolio of grants to non-profit providers. At a minimum, this database must include: (1) the contracting/granting City agency; (2) the date the item was originated; (3) the amount of the item; (4) the name of the receiving organization; (5) the contract/grant deliverables; and (6) any performance measures listed in the contract/grant.”

Methodology

Currently, there is not a centrally managed database from which the information requested in the SLI could be easily extracted in the format requested. This required creating a methodology for identifying and collecting responsive data for the SLI.

To select responsive departments, CBO looked at the total budget available for external contracting overall across the City and workload that was highly dependent on service providers and non-profits in the 2024 Budget. The Office of Housing, Human Services Department, and Department of Education and Early Learning had the highest total budget and largest portfolio of grants to non-profit providers among all City departments.

For responsive data, CBO worked with Council Central Staff to determine the definition of “city contracts and grants.” It was agreed that this term referred to City resources (including grants or funds received

from other entities) that are paid to non-profit and for-profit entities, or individuals to provide City Services on the city's behalf or for some other public benefit as outlined in a signed granting or service contract. The focus is on City services and public benefits provided externally, not to the City Department.

Mutually agreed to include in this process:

- Construction-related service contracts/grants
- Contracts with and grants to non-profit entities for capacity building/training
- Contracts with and grants to other governments (King County, State of Washington, etc) and schools and school districts. Some of these may be non-competitive.
- Contracts/grant award encumbrances that have remaining balances but departments are not carrying budget forward, regardless of whether they will or will not spend down the balance.
- Contracts/grant awards that are funded by outside grants or service contract revenue.

Excluded from review:

- Contracts for general purchase of goods and blanket city contracts
- Contracts for Department leases and utilities
- Contracts for City staff related to travel, licensing, training, subscriptions, legal services
- Loans to outside housing developers Contracts in these accounts:

Account	Description
531030	Supplies-Office Supplies
532010	Equipment
532020	Equipment-Software Purchases
541070	Services-Space Rent
541370	Services-Collection Agency
541560	Services-Loan Payments
543030	Maintenance-Grounds

Data for this analysis was generated from an encumbrance file provided by the Office of City Finance that CBO uses annually to determine budget carryforward for open contract obligations. Encumbrances may represent only a single year of activity for a contract or multiple years of expected activity. This data includes available encumbrance balances as of December 31, 2024 as well as additional department information related to this request.

CBO and CCS agreed to only review and include encumbrances with a remaining budget balance of \$5,000 or above at the end of 2024, which is CBO's threshold for budget carryforward.

The encumbrance report provided some of the key information requested in this SLI:

- the contracting/granting City agency
- the remaining encumbered balance
- vendor short names
- in some cases, the original contract number

Data Context

The data file included as **Attachment C** should be viewed within the context certain department-specific considerations noted below.

Department of Education and Early Learning (DEEL)

There are two main reasons for DEEL's remaining encumbrance balances: 1) DEEL programs and services generally follow a school year calendar (Sept-June) so it is common to have balances which are carried forward and used for the remaining months of the school year and 2) DEEL works with large organizations that are slow to bill, often leaving encumbrance balances.

Human Services Department (HSD)

HSD administers over 370 contracts annually for community-based human services programs. Some of HSD's contracts operate with a contract period spanning more than one year based on programmatic needs or the period of performance of the grant funding in the contract.

Of the 115 contracts listed in this report that had a balance at the end of 2024, 52 contracts continued into 2025. Another 28 contracts included grants with periods of performance that cross the fiscal year or have a multi-year period of performance where funding will be spent in subsequent years. Less than 1% or 5 contract purchase orders remained open in at the end of 2024 to accommodate late invoicing from community-based organizations. The remaining 8% or 30 contracts had delays in 2024 from a combination of factors including but not limited to: program implementation delays (which is typical with new or expanded services) or procurement process timing delays, staffing capacity or hiring delays that impacted the ability fully utilize contract funds by the end of the fiscal year.

Office of Housing (OH)

The majority of OH contracts listed in this exercise relate to agency supports programming (e.g., Operating, Maintenance and Services subsidies, Resident Services subsidies, and Workforce Stabilization subsidies). The periods of performance for agency supports contracts generally align with the calendar year, however, to ensure continuity of service these contracts often carry over between years.

Of note, more than half of the revised balanced remaining on these contracts as of December 31, 2024 (see column L) was spent down in the beginning of 2025 (see updated contract balances in column M).

Other Considerations

Data presented in this analysis is a point-in-time perspective using data from the Office of City Finance and FAS-Procurement. It may be incomplete and or change day to day as payments are processed, contracts are amended, new RFPs and contracts are implemented, or other updates are made (vendor name changes, mergers, or dissolution). While our snapshot was as of Dec 31st, accruals and other accounting year-end activities adjusted the actual remaining balance in the final product.

ATTACHMENTS

Attachment A: 2018-2023 Underspend by Department and Fund

Attachment B: Budget vs Actual report through 2025 Q2

Attachment C: Grant and Service Contract Data