



SEATTLE CITY COUNCIL  
**CENTRAL STAFF**

# General Fund Financial Plan Update

*August 2022*

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FINANCE AND HOUSING COMMITTEE  
AUGUST 17, 2022

# Outline

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Review update of the General Fund (GF) Financial Plan using:

- Updated GF revenue projections for 2022 through 2026 based on the August 8, 2022, revenue forecast
- Updated GF expenditure projections based on:
  - Supplemental budget legislation that amended the 2022 Adopted GF budget, passed since the May presentation on the GF financial plan
  - 2023 and 2024 baseline budget projections and revised growth assumptions for the GF provided by the City Budget Office (CBO); and,
  - Updated estimates from CBO of non-appropriated ‘planning reserves’ in 2022 that are not factored into growth estimate

## Caveats (1/2)

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- The underlying assumptions, baseline data, and methodologies used in Central Staff's work products are consistent with the approach developed by CBO.
  - The plan is 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.
- The updated plan that will be discussed to serves as the starting point from which the Mayor must prepare a proposed balanced budget for the 2023-2024 biennium.

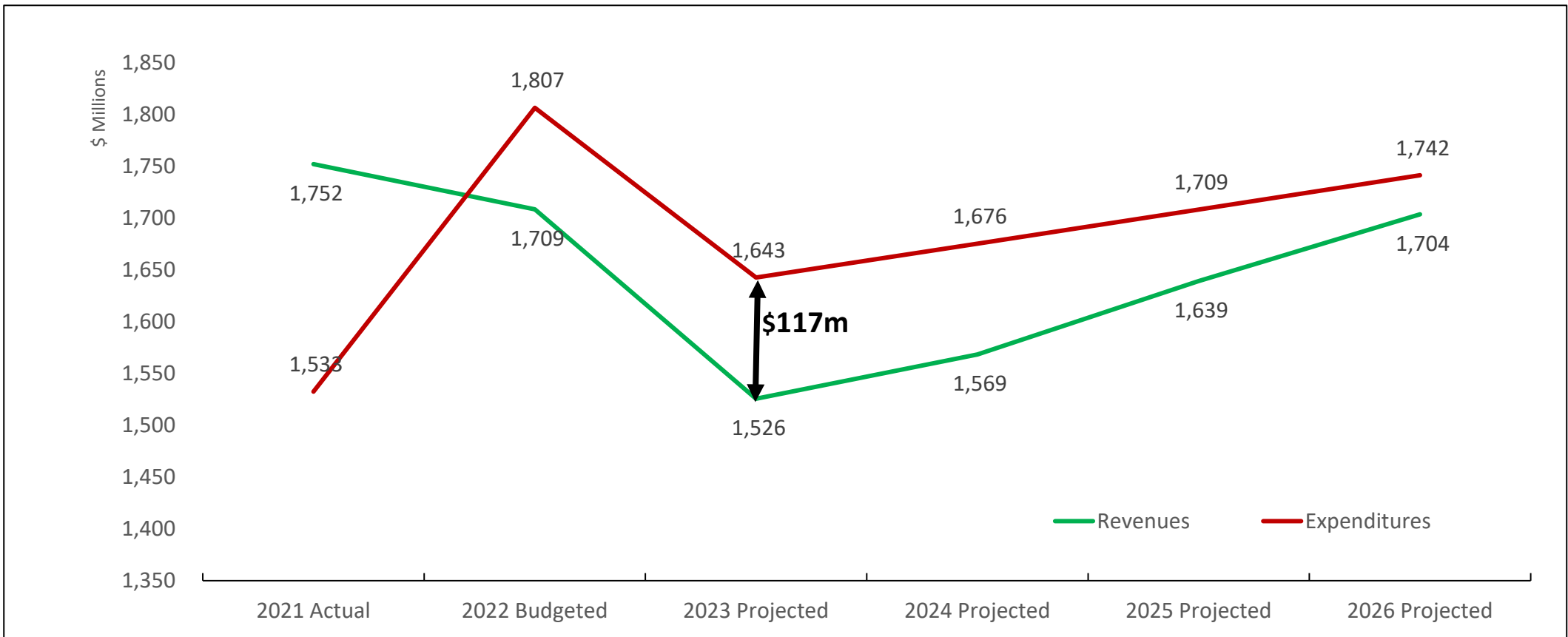
## Caveats (2/2)

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- These expenditure numbers in 2023 and beyond do not include one-time expenditures included in the 2022 Adopted Budget, proposals to cut and/or enhance services in the future, or any assumptions about 2022 underspend (that is, actual spending coming in below budget) or revenue collections above forecast.
  - Expect the proposed budget will include some of those changes and changes to modify existing City policies to reprioritize use of other city resources
- That proposal will then serve as the starting point for the Council as they prepare to adopt a balanced budget. All elements of the GF budget are subject to review and revision by the City Council.

# Where we were:

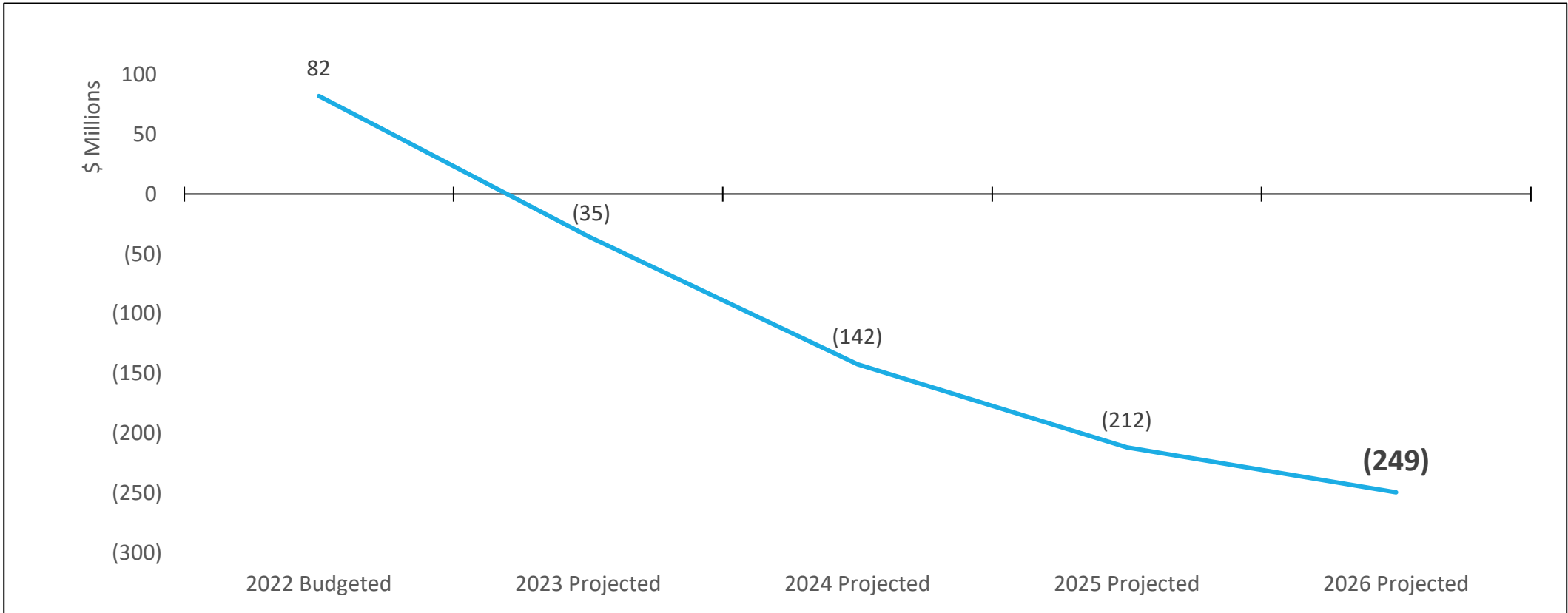
## May 4: Projected GF Operating Gap



**Key Takeaway:** The May 4<sup>th</sup> plan projected a \$117 million GF operating gap between revenues and expenditures in 2023, though the deficit decreased in future years of the forecast.

## Where we were:

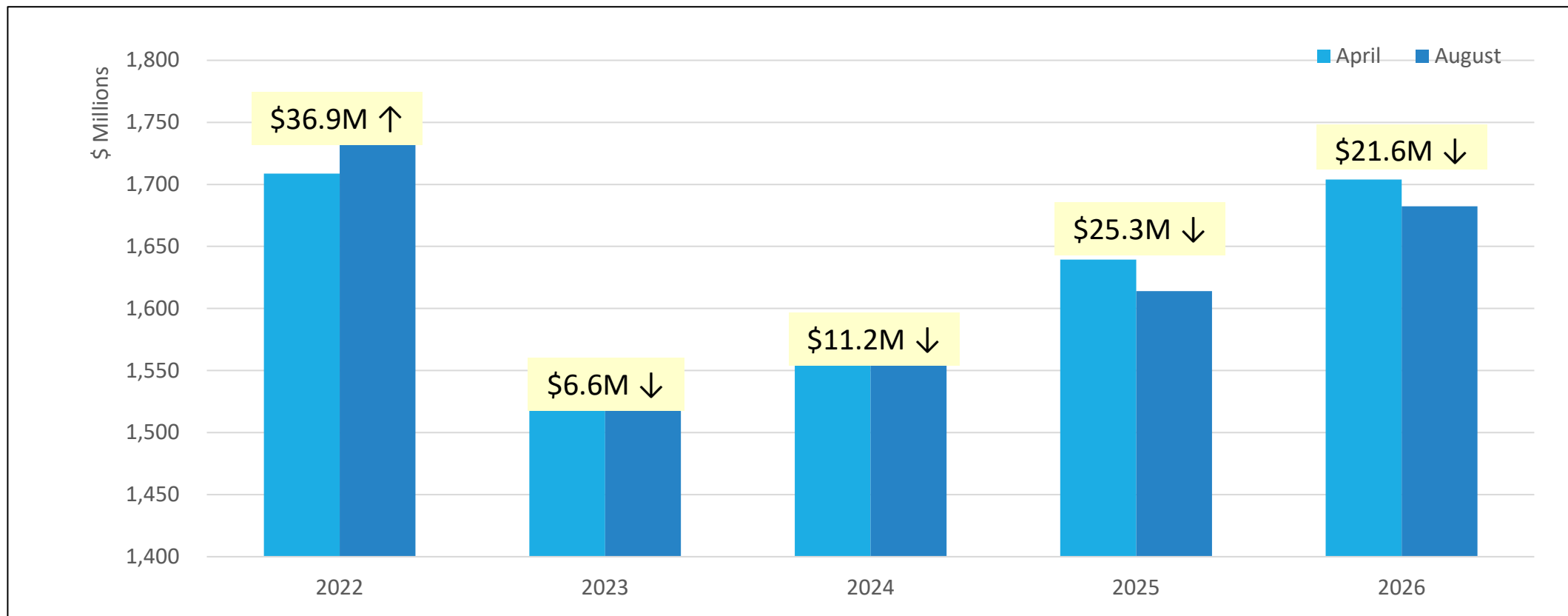
# May 4: Projected GF Ending Unreserved Fund Balance



**Key Takeaway:** Unreserved ending fund balance declining to (\$249) million by 2026 in May 2022.

*Where we are now vs where we were:*

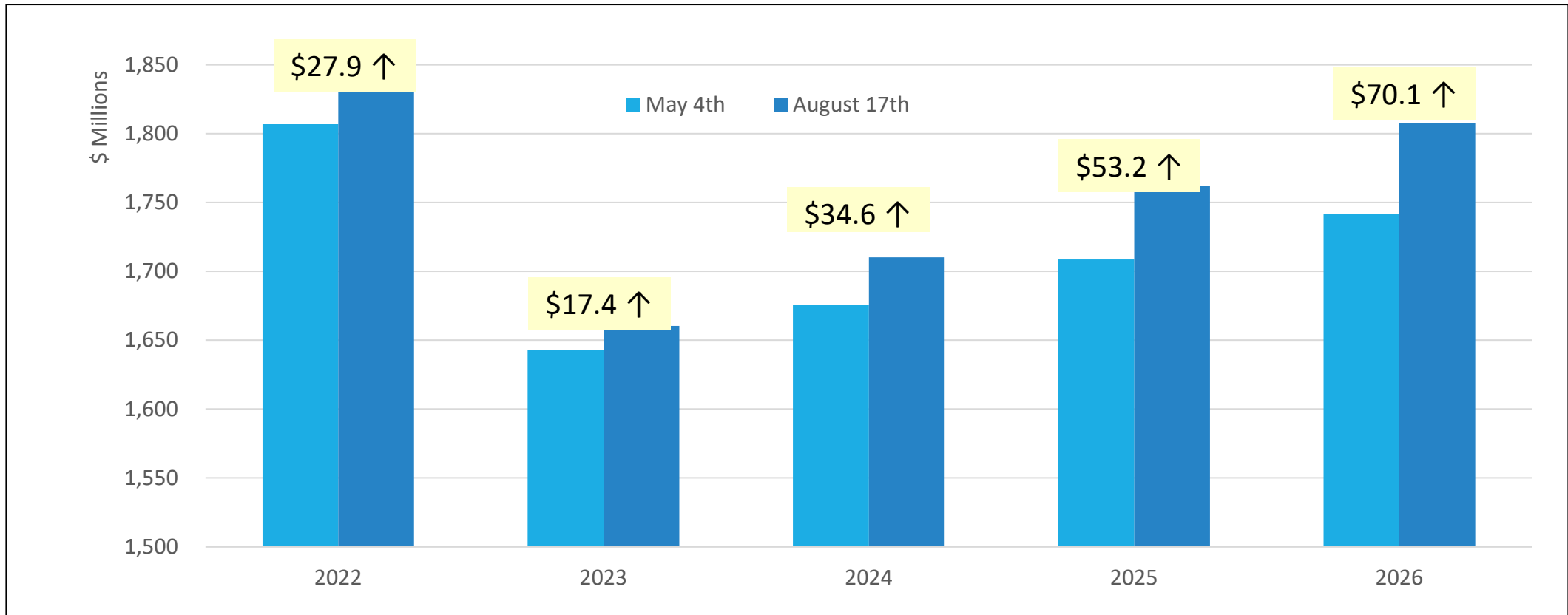
## OERF/CBO August to April GF forecast comparison



**Key Takeaway:** In 2022, \$37 million increase in GF revenues, the net result of \$42 million of late payments of 2021 payroll expense tax liabilities. For 2023 and future years, due largely to deterioration in future economic projections, a GF forecast downgrade of \$7 million in 2023 building to a \$22 million reduction by 2026.

*Where we are now vs where we were:*

## August to May GF baseline expenditures projection



**Key Takeaway:** In 2022, \$28 million increase in GF expenditures, due to approved supplemental budget legislation. For 2023 and future years, increases range from \$17 million in 2023 to \$70 million in 2026, and are largely due to human services provider contract inflation, which was not included in the May plan, and revised planning reserve assumptions.



## Where we are now - GF FP Review

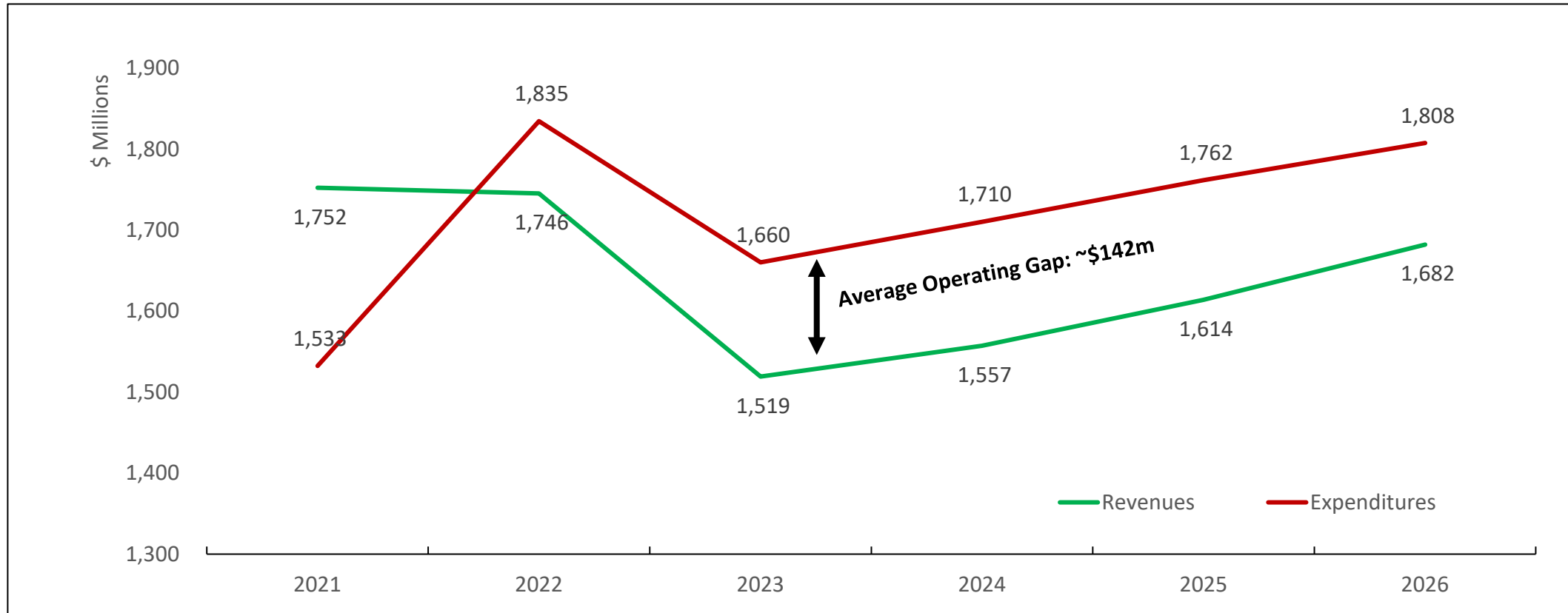
# 2022 Revised Budget GF Financial Plan (August 2022)

Amounts in \$1,000s	2022 Adopted	2022 Revised (May)	2022 Revised (August)	2023 Projected	2024 Projected	2025 Projected	2026 Projected
<b>Starting Balance</b>	\$8,099	\$273,327	\$273,327	\$184,197	\$42,933	(\$109,982)	(\$257,830)
<b>Revenues</b>	\$1,645,866	\$1,708,670	\$1,745,610	\$1,519,120	\$1,557,310	\$1,613,970	\$1,682,370
<b>Expenditures</b>	(\$1,585,297)	(\$1,806,881)	\$1,834,740	\$1,660,385	\$1,710,224	\$1,761,818	\$1,807,663
<b>Operating Surplus (Deficit)</b>	\$60,569	(\$98,211)	(\$89,129)	(\$141,265)	(\$152,914)	(\$147,848)	(\$125,293)
<b>Ending Budgetary Fund Balance</b>	\$68,668	\$175,116	\$184,197	\$42,933	(\$109,982)	(\$257,30)	(\$383,123)
<b>Planning Reserves</b>	(\$66,093)	(\$93,043)	(\$60,383)	(\$60,383)	(\$60,383)	(\$60,383)	(\$60,383)
<b>Ending Unreserved Fund Balance</b>	\$2,575	\$82,074	\$123,814	(\$17,450)	(\$170,365)	(\$318,212)	(\$443,505)

Key takeaway: After applying new assumptions and forecasts, projected operating deficit in 2023 increases to **(\$141m)** vs. **(\$117m)** (May projection), and projected unreserved fund balance decreases **(\$170m)** at end of 2024 vs **(\$142m)** (May projection).

Where we are now:

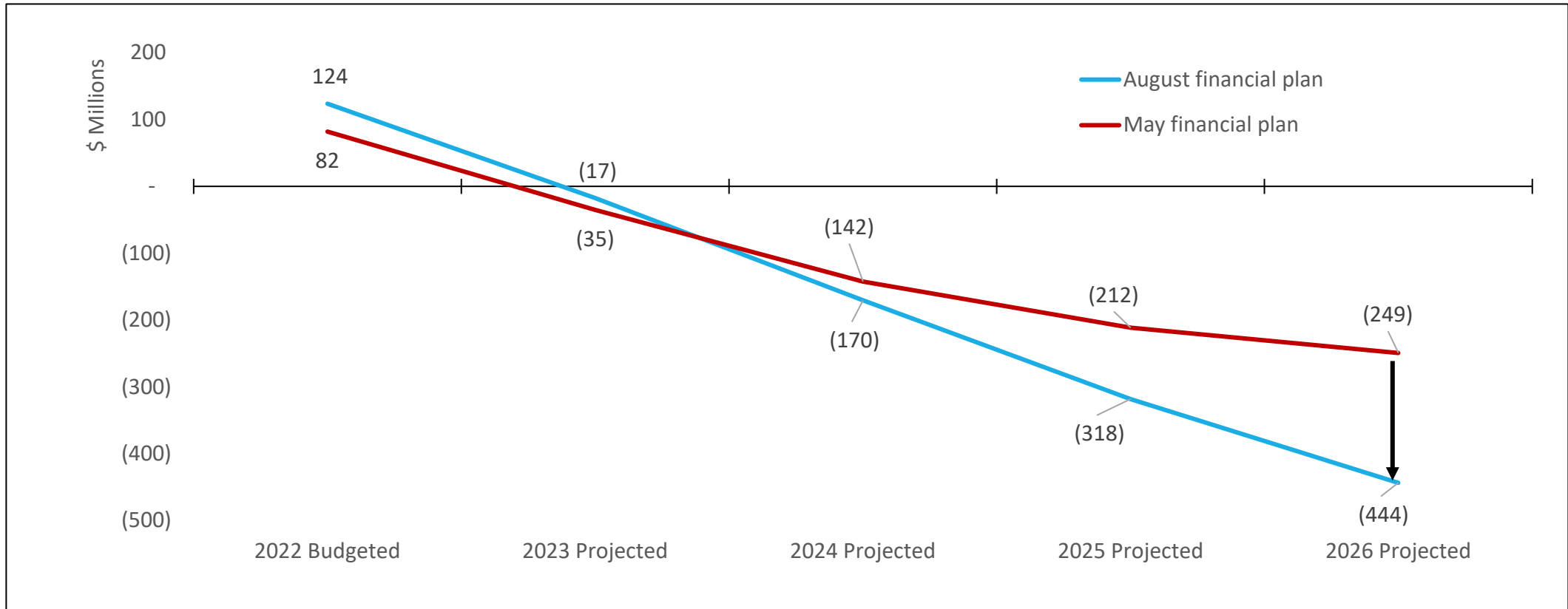
## August 2022: Projected GF Operating Gap



**Key Takeaway:** Projected operating deficit increases to \$141 million and \$152 million in 2023 and 2024, respectively. In 2025 and 2026, the projected widened compared to the May financial plan, leading to an average operating gap of approximately \$142 million through 2026.

*Where we are now:*

# August 2022: Unreserved ending fund balance



**Key Takeaway:** Projected ending unreserve fund balance declining to (\$444) million by 2026.

# Key Takeaways & Balancing Considerations (1/2)

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- The projected annual operating deficit in the GF has worsened.
- While the ending unreserved fund balance for 2023 has improved, that is due to changes in the revenue forecast that increased the amount of one-time fund balance available for use in 2023. This is not reflecting an improvement to the long-term structural imbalance in the General Fund.
- Though the magnitude of the challenge has increased over the long-term, the general approaches presented to the Finance & Housing Committee on May 4, 2022, including new revenues, reducing and right sizing of expenditures, and changes to restricted fund policies, over both a long-term and temporary basis, still apply.

# Key Takeaways & Balancing Considerations (2/2)

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- The executive is still making decisions to include in their proposed balanced budget. Those decision will result in changes to the financial plan (an updated plan will be transmitted with the proposed budget).
- Both the Mayor and the Council are faced with preparing a balanced budget at a time when there is a projected long-term operating deficit in the GF, increasing costs to maintain core city services, increased risk of further declines in city revenues in the future, as well as a need to respond to the city's growing population and increasing needs in the community.

# CBO: Current Work Underway

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- From a technical perspective, CBO now has the inputs we need to produce and deliver the Mayor's 2023-2024 Proposed Budget; however, we are closely monitoring the forecast and available revenues.
- **Current work underway:**
  - Review of vacant positions
  - Consideration of spending reductions and increases
  - Explore progressive revenue options (longer-term)
- **Alignment on priorities and goals:**
  - continue to provide existing services while avoiding layoffs in the City family;
  - focusing on our most vulnerable community members, particularly recovering from the pandemic and resulting economic conditions; and
  - continued investment in housing, addressing homelessness, and public safety.

## CBO: Summary of Challenges to Meet (1/2)

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- Pandemic-related behaviors continue to negatively affect many City revenues and now general economic conditions may lead to slowing revenue growth.
- Forecasters face extremely mixed signals currently and consequently are uncertain (50% baseline/45% pessimistic probabilities) what will happen to economic growth over the next biennium.
- We will be living forecast to forecast until direction becomes clear, suggesting budget planning reserves might be appropriate for managing the uncertainty.
- Year-over-year CPI growth has exceeded 5% since June 2021, affecting both City revenues and expenditures. Forecasts suggest it will take 12-18 months to fall back to the 2% - 3% range.

## CBO: Summary of Challenges to Meet (2/2)

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- Rising prices boost percentage-based taxes such as sales tax, but many City revenues do not automatically move with price changes (e.g., property taxes), even as high general price inflation puts continuous pressure on buying power and budgets for wages/commodities.
- Ultimately, high inflation conditions will result in structural deficits in the General Fund and other funds, even as we contend with existing balancing challenges. New progressive revenue not readily available.
- This updated financial plan is the starting point, but assumes zero growth in expenses and no continuation of any one-time items from 2022.
- Labor contract negotiations with City unions are ongoing.



# Next Steps

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- The Mayor will transmit his Proposed 2023-2034 Budget on September 27<sup>th</sup>.
- The Council then considers that proposal and plans to take final action to adopted a balanced budget for 2023 and endorse a balanced budget for 2024 on November 22<sup>nd</sup>.
- This is the final review of the GF financial plan before the budget transmittal.
- The 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 continued with this memorandum, Central Staff will provide updates at each stage in the process.