SEATTLE CITY COUNCIL
CENTRAL STAFF

May 17, 2023

**MEMORANDUM**

**To:** Finance & Housing Committee
**From:** Tom Mikesell, Analyst
**Subject:** General Fund Financial Planning

On May 17, 2023, the Finance & Housing Committee will receive a briefing on key updates to the General Fund (GF) financial status. Starting from the financial plan published in the 2023 Adopted/2024 Endorsed budget book, this presentation will update the GF financial planning projections with new information, including:

- Revised estimates of the 2023 beginning fund balance, based on actual 2022 revenues and expenditures;
- Updated GF revenue projections for 2023 through 2026 based on the April 10, 2023, revenue forecast presented by the Office of Economic and Revenue Forecasts (OERF) and the City Budget Office (CBO) to the Forecast Council;
- Updated expenditure projections based on approved and pending legislation for 2023;
- Revised growth projections based on inflation estimates provided by OERF and estimates of emerging expenditure needs from CBO.

This review of the GF financial plan is intended to provide information on the GF balancing situation as economic conditions continue to be uncertain, and for context as committee members deliberate on appropriations bills and engage with the Executive on fiscal policy issues. Based on this update, it is estimated that additional GF resources are available, totaling $31.8 million in 2023. Notwithstanding this short-term availability of GF resources, based on the revised expenditures projections, the long-term sustainability of the GF is worse in this update, with the average operating GF deficit in 2025 and 2026 increasing from $212 million per year, to $224 million per year.

Further, this short-term GF amount is net of a planned $38 million reduction to the transfer from the JumpStart Fund (JSF) to the GF in 2023, as part of the Executive's measures to balance revenue shortfalls in the JSF. This amount is slightly higher than the amount calculated pursuant to Ordinance (ORD) 126719, which provides for a $33 million reduction based on better than expected 2022 year-end GF financial results. In either case, due to projected revenue shortfalls in the JSF based on updated forecasts, this reduction is beneficial to the JSF, though additional balancing measures will be necessary to ensure the integrity of the biennial budget passed last fall. These reductions measures will have implications for the JSF's ability to support equity investments at levels envisioned when the tax was passed in 2020.

*Caveats:*

*It is important to note that the underlying assumptions, baseline data and methodologies used for the figures in this memorandum are consistent with the approach developed by CBO. Put another way, these plans are 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. Further, all elements of the GF budget are subject to review and revision by the City Council. The portrayal of these plans is not intended to indicate that the underlying budget decisions embedded within cannot be changed during the budget process, but rather that the projections are estimates of the future cost of continuing ongoing 2024 endorsed budget programs into the future.*

**Background**

2023 Adopted/2024 Endorsed Budget - GF Financial Plan

Passed by the City Council in 1992, Resolution (RES) 28885, established the current process for deliberating on, and passing, a two-year City budget plan. In accordance with RES 28885, on November 29, 2023, the City Council passed ORD 126725 and RES 32072, which approved a two year financial plan for 2023 and 2024, respectively. This two-year budget plan includes a 2023 Adopted City budget of $7.4 billion, of which $1.6 billion was for programs and services funded from the GF, and a 2024 Endorsed City budget totaling $7.38 billion, of which $1.65 billion is GF. Table 1 shows the fiscal parameters of the two-year GF budget plan, including the 2022 beginning balance, operating revenues, operating expenditures, reserves, and ending unreserved fund balance. Put another way, this table represents the parameters used to balance the 2023 Adopted and 2024 Endorsed Budgets.

*Table 1. 2023 Adopted/2024 Endorsed GF Budget*

| Amounts in $1,000s | 2022 Revised Budget | 2023 Adopted Budget | 2024 Endorsed Budget |
|---|---|---|---|
| Beginning Budgetary Fund Balance | $273,327 | $193,616 | $210,898 |
| Operating Revenues | $1,765,677 | $1,623,449 | $1,634,509 |
| Operating Expenditures | ($1,845,389) | ($1,606,167) | ($1,651,357) |
| Ending Budgetary Fund Balance | $193,616 | $210,898 | $194,049 |
| Planning Reserves [1/] | ($38,008) | ($103,364) | ($194,049) |
| Ending Unreserved Fund Balance | $155,608 | $107,534 | $0 |
| 1/ Includes $10 million underspend assumption in 2023 and 2024. | | | |

As shown in the table, a $107.5 million unreserved fund balance in 2023 carries into 2024 to arrive at a zero ending unreserved fund balance at the end of 2024, representing a balanced budget. The 'Planning Reserves' row includes amounts that are likely intended to be budgeted in future years but are not yet part of the budget due to legal or other planning considerations as determined by the Executive. Since these amounts are not appropriated in the budget, in Table 1 they are shown 'below the line' (i.e., not part of expenditures), consistent with the biennial budget.

In February of this year, CBO published the 2023 Adopted / 2024 Endorsed Budget book, that memorialized and described the funding decisions in ORD 127625 and RES 32072 , and also included, on page 717, a financial plan for the GF, covering revenues and expenditures from 2021 actuals through 2026. In the budget book, the financial plan is organized with the Planning Reserve assumptions shown 'below the line'. Like past presentations, which restructured the CBO-developed plan into a format that clearly demonstrates the annual operating gap, Table 2, below, adds growth in non-appropriated planning reserves above the 2022 level to the 'Expenditures' row.

With this adjustment it is possible to see, as summarized in the *Surplus (Deficit)* row of Table 2 below, that the financial plan projected an average ongoing deficit in the GF of approximately $212 million in 2025 and 2026.

*Table 2. 2023 Adopted/2024 Endorsed GF Budget Financial Plan*[1]

| **Amounts in $1,000s** | **2022 Adopted** | **2023 Projected** | **2024 Projected** | **2025 Projected** | **2026 Projected** |
|---|---|---|---|---|---|
| Starting Budgetary Balance | $273,327 | $193,616 | $145,542 | $38,008 | ($181,178) |
| Revenues | $1,765,677 | $1,623,449 | $1,634,509 | $1,596,179 | $1,655,535 |
| Expenditures | $1,845,389 | $1,671,523 | $1,742,043 | $1,815,364 | $1,861,009 |
| **Surplus (Deficit)** | **($79,711)** | **($48,074)** | **($107,534)** | **($219,185)** | **($205,474)** |
| Ending Budgetary Fund Balance | $193,616 | $145,542 | $38,008 | ($181,178) | ($386,652) |
| Planning Reserves | ($38,008) | ($38,008) | ($38,008) | ($38,008) | ($38,008) |
| Ending Unreserved Fund Balance | $155,608 | $107,534 | $0 | ($219,185) | ($424,659) |

This is largely due to three factors, originally cited in the May 4, 2022 GF financial planning staff memo, including:

- Pre-pandemic Financial Sustainability: The 2020 Adopted Budget GF Financial Plan, published in Fall of 2019 indicated, on average, a pre-existing $39 million annual deficit.

  Use of One-time Revenues: The 2022 Adopted budget included the use of one-time revenue sources to balance, including $85 million of payroll expense tax revenues from the JSF, which pursuant to ORD 126393, passed by the City Council on July 19, 2021, are allowed to be transferred to the GF in any year that other revenues to the GF are projected to be lower than $1.51 billion, (the amount of GF revenues anticipated in 2021 according to the pre-pandemic GF six year financial plan produced with the 2020 Adopted Budget), and $66.3 million of Coronavirus Local Fiscal Recovery (CLFR) funds.

  While the use of CLFR funds to balance was discontinued due to the winding-down of the federal program, the temporary use of JSF revenues to cover GF operating deficits was continued into the current biennial budget through passage of ORD 126719. As provided in

[1] To facilitate a functional display of the gap between ongoing revenue and expenditure projections, given the City's practice of leaving potential expenditures in unbudgeted, reserve status, the growth in planning reserves above the 2022 base level of $38 million is shown in the 'Expenditure' row.

Section 1 of ORD 126719, the permissible temporary use of JSF revenues to resolve GF deficits in 2023 and 2024 is as follows:

- 'Up to $29,406,172 million of unappropriated 2022 revenues, up to $71,162,008 of 2023 projected revenues, and up to $84,053,126 of projected 2024 revenues may be transferred into the General Fund if necessary to support the programs and services funded by the General Fund in the 2023 Adopted and 2024 Endorsed Budget that are in excess of available General Fund revenues.'

For 2023 and 2024, $100.6 million and $84.1 million are transferred from the JSF to resolve GF deficits in each year, respectively. ORD 126719 included provisions to reduce the JSF transfer if GF finances improved compared to earlier projections. This and other JSF balancing measures are discussed in greater detail later in the memo.

- Revenues Below Pre-Pandemic Trends: Despite continued recovery from COVID-19's economic impacts, and the influence of rapid inflation, the GF financial projections included with the 2023 Adopted Budget indicated some City revenues remain below pre-pandemic projections, including court fines and parking fees.

**2023 Revised GF Budget Financial Plan**

This section reviews updates to financial actuals, revenue forecasts and assumptions and concludes with a 2023 Revised GF financial plan through 2026, including new estimates of operating surplus/deficits, and ending fund balances.

Updates to 2022 Actuals

Since the passage of the 2023 Budget, a final assessment of 2022 revenues and expenditures has been completed by the Department of Finance and Administrative Services (FAS), OERF and CBO. This update materially impacts the one-time resources available in 2023, as discussed below.

- 2022 revenues and expenditures: As shown in Tables 1 and 2, when the 2023 Budget was adopted, it started from an assumed beginning budgetary fund balance (beginning balance) of approximately $193 million. This beginning balance estimate was based on revised estimates of 2022 revenue and expenditure activity developed by CBO, as updated based on City Council amendments to ORD 126706, the 2022 Year-end Supplemental Budget Ordinance. Based on actual 2022 revenues and expenditures, the 2022 ending budgetary fund balance (which is the same thing as the 2023 beginning fund balance) increases to $361.1 million, as shown in the blue shaded row in Table 3.

*Table 3. 2022 Revenues and Expenditures –Actuals to Revised*

| **Amounts in $1,000s** | **2022 Revised** | **2022 Actuals** | **Variance** |
|---|---|---|---|
| Starting Budgetary Balance | $273,327 | $273,327 | - |
| Revenues | $1,765,677 | $1,742,178 | ($23,499) |
| Expenditures | $1,845,389 | $1,653,828 | $191,561 |
| Surplus (Deficit) | ($79,711) | $88,350 | $168,061 |
| **Ending Budgetary Fund Balance** | **$193,616** | **$361,677** | **$168,061** |
| Reserves | ($38,008) | ($38,008) | $0 |
| Reserves for Carryforward 1/ | $0 | ($134,065) | ($134,065) |
| Ending Unreserved Fund Balance | $155,608 | $189,604 | $33,997 |
| 1/ Net of $31.3 million of grant and service contract revenues to support carryforward appropriations, have not yet been received and are added to the 2023 revised forecast. | | | |

In addition to the sizable increase in budgetary fund balance, there are other amounts in Table 3 that are specifically important from a financial planning perspective, including:

- 2022 Increases to Reserves: As shown in the 'Variance' column of the 'Reserves for Carryforward' row of Table 3, the amount being held in reserves increased by $134.1 million to account for unspent 2022 appropriations that are carried forward into 2023 to support their originally intended purpose. This amount is net of $31.3 million of grant and service contract revenues that are expected but have not yet been received and were included in the April revenue forecast update (discussed in greater detail below). The carryforward amount includes:
    - **Automatic carryforwards** totaling $105.8 million that reflect encumbrances and other appropriations that do not require legislative action to continue in the budget until fully spent or abandoned, such as grants, service contracts, capital budgets, and other appropriations adopted with non-lapsing provisions. As mentioned, there is also $31.3 million of grant revenue associated with these appropriations that has not yet been received and which was included in 2023 in the April revenue forecast.
    - **Proposed legislated carryforwards** totaling $59.7 million, reflecting unspent amounts from 2022 that require City Council authorization to be added to the 2023 Revised Budget. CB 120573, scheduled for discussion and possible vote at the May 17th Finance & Housing Committee, would formally reappropriate those amounts, of which $27 million is for Participatory Budgeting, $22 million is for the Equitable Development Initiative, and $3.2 million is for the Strategic Investment Fund. For the purposes of the updated financial plan, this full amount is assumed to be legislated in 2023.
    - **2022 Expenditure Variance/Calculation of Underspend:** After accounting for the proposed carryforward amounts discussed above, as well as the portion of carryforwards for grants revenues that have not yet been received, there was a 2022 GF underspend of approximately $57.5 million, which is 3.4 percent of the 2022 Revised GF budget, adjusted for carryforwards, as shown in the bottom row of Table 4:

*Table 4. 2022 GF Budget Underspend*

| **Amounts in $1,000s** | |
|---|---|
| 2022 Revised Budget Expenditures | $1,845,389 |
| 2022 Actual Expenditures | $1,653,828 |
| Variance (Budget - Actuals) | $191,561 |
| Less: 2022 Appropriation Carryforwards[1/] | ($134,065) |
| **Adjusted 2022 GF Underspend** | **$57,496** |
| 2022 Adjusted Revised Budget [2/] | $1,711,324 |
| *2022 Underspend Percentage* | *3.4%* |

*1/ Net of $31.3 million of grant and service contract revenues to support carryforward appropriations, have not yet been received and are added to the 2023 revised forecast.*
*2/Net of carryforwards.*

Several factors bear consideration when considering this underspend result, including:

- The percentage and amount is similar to the 2021 underspend result as discussed in the May 4, 2022, GF Financial Plan memorandum, which reported a 2021 underspend of approximately $50 million, or 3.15% of the 2021 revised budget;
- The result is approximately $37.5 million higher than the 2022 underspend assumption that was deployed in balancing the 2023-2024 Budget;
- The result is approximately $47 million higher than the annual underspend assumptions included for 2023 and 2024 in balancing the budget; and,
- A portion of the 2022 underspend consists of approximately $20 million of administrative expenditure holds that the Executive put into place early in 2022, many of which represented Council adds to the 2022 budget.

- **Ending Unreserved Fund Balance:** As shown in Table 3, the 2022 unreserved fund balance increased by $34 million, after accounting for grant revenues that have been added to the 2023 forecast. ORD 126719, the funds flexibility ordinance cited in the prior section, requires that at the end of 2022, 2023 and 2024, the amount of the JSF transfer to the GF be reduced by 100 percent of the amount of unplanned unreserved GF fund balance at year-end. Implementing this provision from ORD 126719 would reduce the transfer from the JSF to the GF by $34 million in 2023. This action would require legislative authorization, but for the purposes of the plan is assumed to be approved in 2023.

  The information shared by CBO includes an administrative reduction to the 2023 transfer of $38.7 million. This higher amount is part of a set of administrative measures to balance the JSF, based on the April 2023 revised payroll expenses tax revenue projections. While this amount is higher than the amount calculated pursuant to ORD 126719, not legislating the transfer reduction would provide greater flexibility for the Executive at the potential cost of losing transparency on uses of the JSF for GF revenue backfill. An option for the Council to consider is to legislate the reduction to the transfer, albeit at the higher amount provided by CBO. Alternatively, the Council could not legislate the change and defer to the administrative approach offered by the Executive. This is discussed further in the 'Equity Analysis' section, below.

Updates to Assumptions

Since the passage of the 2023 Adopted/2024 Endorsed Budget, new projections of economic growth have been developed. These projections provide the foundation for updates to GF revenue growth projections and potential cost increases.

- 2022 through 2026 Revenue Forecast: At its April 10, 2023, meeting, the Forecast Council received an updated economic and revenue forecast from the OERF and the CBO. A condensed version of this presentation will be provided at the May 17, 2023, meeting of the Finance & Housing Committee. Relying on the baseline economic scenario, as recommended by the OERF Director, and endorsed by the Forecast Council, this update provided the fourth of six specific revenue projections for 2023-2024[2], indicating total revised forecasted GF revenues of $1.697 billion and $1.66 billion in 2023 and 2024, respectively. Table 5 compares the April 2023 revenue forecast projections with the amounts included in the 2023 Adopted/ 2024 Endorsed Budget, which were based on November 2022 projections.

*Table 5. GF Revenue Forecast Comparisons*

| Amounts in $1,000s | 2022 Actual | 2023 Projected* | 2024 Projected | 2025 Projected** | 2026 Projected** |
|---|---|---|---|---|---|
| November 2022 | $1,765,677 | $1,623,449 | $1,634,509 | $1,596,179 | $1,655,537 |
| April 2023 | $1,742,178 | $1,697,935 | $1,660,295 | $1,604,281 | $1,648,434 |
| Variance | ($23,499) | $74,486 | $25,786 | $8,102 | ($7,103) |

*The 2023 Projected number in the April 2023 row includes $31.3 million expected, but not yet received grant revenues associated with 2022 automatic carryforwards.
**While the forecast presentation only formally covered 2022 through 2024, projections for 2025 and 2026 were provided to CBO and Central Staff for the purposes of developing the GF financial plan.

- Inflation Update
  The OERF presentation also included an update on consumer inflation, which remains high. As has received much attention in OERF and CBO presentations, inflation increases could lead to higher current and projected City costs that offset some of the revenue increase.

  It is important to clarify that while inflation impacts both revenues and expenditures, it is not the only growth factor. Put another way, it is not so easy to say that, solely because of inflation increasing by one percent, both City revenues and expenditures increase by one percent. Other considerations, including but not limited to employment and population trends, wage growth, business sector composition, and consumer preferences, will impact revenue growth, and each will be differentially impacted by inflationary forces.

  On the expenditure side, inflation will impact growth projections differently as well. For example, Consumer Price Index (CPI) inflation is only explicitly assumed to impact internal services, including information technology, facilities, fleet, administration costs, and human services provider contract cost growth in future years. Labor contract increases in the planning reserves are not disclosed due to contracts under negotiation. While these

[2] Economic and revenue updates are generally delivered in April, August, and November of each year.

represent the bulk of the budget, there are some items, such as professional services contracts and transfers, that are policy-focused and not explicitly grown in the model. Table 6 compares the inflation estimates, based on CPI for Urban Consumers (CPI-U) in the Seattle Metropolitan Statistical Area, from August 2022 with the recent April update from the OERF.

*Table 6. CPI-U 12 months ending June Inflation Projection Comparisons*

| | 2023 | 2024 | 2025 | 2026 |
|---|---:|---:|---:|---:|
| August 2022 | 6.8% | 4.2% | 2.9% | 2.9% |
| April 2023 | 7.9% | 4.7% | 3.0% | 2.5% |
| Variance | 1.1% | 0.5% | 0.1% | (0.4%) |

As shown in the table, 2023 and 2024 are increasing by 1.1 percent and 0.5 percent, respectively, compared to last year's projections, with smaller variances thereafter. The April 2023 rates for 2025 and 2026 are deployed in the financial plan to capture the variance in those years. However, since the starting point for expenditure growth projections in the financial plan is the ongoing portion of the 2024 Endorsed Budget, which has already been developed using slightly lower inflation growth figures, the expenditure projections would be potentially understated without accounting for it in some way. To attempt to accommodate the near-term increase, expenditure categories are inflated by an additional 1.6 percent in the revised financial plan presented in this memo.

*Table 7. Changes to CPI-U in CBO/OERF Regional Economic Model*

| CBO/OERF Regional Economic Model - April | Percent |
|---|---:|
| 2023 Variance from August | 1.1% |
| 2024 Variance from August | 0.5% |
| Variance added to 2024 | 1.6% |

This is primarily intended to adjust the projections for uncertainty about the baseline process, and not directive as to what the future cost growth 'should' be. CBO's 2024 central cost process with departments, which will incorporate this type of change through an assessment of current year operations, is underway. This is the stage in the budget process where current-year operational costs and efficiencies, and the impacts of market forces such as inflation, can be analyzed and included as baseline and technical budget requests in the Mayor's proposed adjustments to the 2024 Endorsed Budget. The purpose of inflating the expenditure assumptions in this exercise is to illustrate how the assumptions used to balance the 2024 Endorsed Budget may change and, at this stage, indicate that additional resources would be needed to support the expenditures included in the 2024 Endorsed.

While it is likely that CPI inflation will impact expenditures, it is also possible that operational efficiencies, such as recalculated facilities costs from employee alternative work arrangements and lower travel costs from enhanced online communication capabilities, can offset some of the impact. Further, analysis of prior year underspend may be instructive.

The nascent fiscal monitoring program recently initiated by CBO and the Office of Finance may be instructive in this effort in future years.

- Other adjustments: In addition, a set of technical and other adjustments, informed by CBO, have been incorporated, including:
    - Ordinance 126791 – CBO First Quarter Grant Acceptance and Appropriations: The first comprehensive legislation transmitted by the Executive in 2023, authorizing City departments to accept and appropriate the expenditure of $30.2 million from external funding sources. Of this amount, $7 million is GF;
    - Six Fund Rebates: A $606,000 rebate to select City funds for internal service charges allocated to these funds in 2022 that were in excess of the actual costs for services rendered. This is shown as a reduction to 2023 internal charge revenue to the GF;
    - FAS Year End Supplemental coding error: A $1.6 million expenditure increase to accommodate a capital appropriation added in the 2022 year end supplemental which should have been eligible for automatic carryforward, but was not assigned a capital project identification number; and,
    - To account for contingent factors CBO is analyzing, they have increased the level of planning reserves by approximately $4 million in 2023. This is a one-time adjustment based on an initial estimate of potential future costs and is included to be consistent with CBO's planning assumptions.

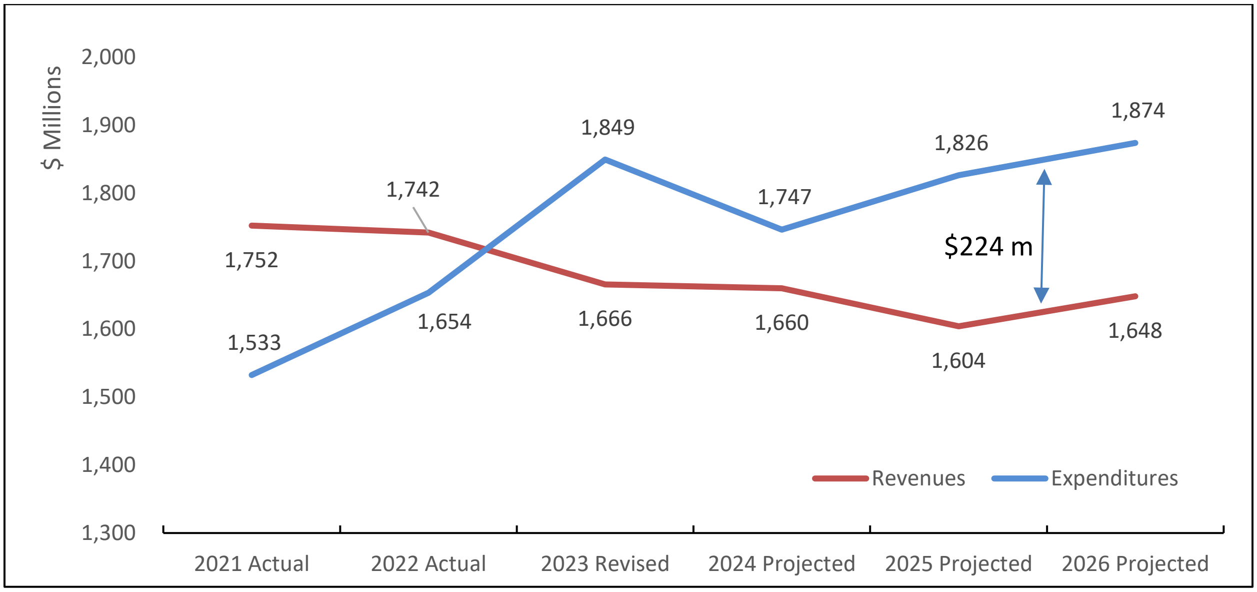
The 2023 Revised GF Budget Financial Plan, incorporating the 2022 actual budgetary data and revised revenue, cost growth and reserves assumptions described above, is shown in Table 8.

*Table 8. 2023 Revised GF Budget Financial Plan*

| Amounts in $1,000s | 2022 Revised [1/] | 2023 Revised | 2024 Projected | 2025 Projected | 2026 Projected |
|---|---|---|---|---|---|
| Starting Budgetary Balance | $273,327 | $361,106 | $177,369 | $90,964 | ($131,176) |
| Revenues | $1,742,178 | $1,655,748 | $1,660,295 | $1,604,281 | $1,648,434 |
| Expenditures | $1,653,828 | $1,849,485 | $1,746,699 | $1,826,422 | $1,874,127 |
| **Surplus (Deficit)** | **$88,350** | **($183,737)** | **($86,404)** | **($222,141)** | **($225,693)** |
| Ending Budgetary Fund Balance | $361,106 | $177,369 | $90,964 | ($131,176) | ($356,870) |
| Planning Reserves | ($38,008) | ($38,008) | ($38,008) | ($38,008) | ($38,008) |
| Reserves for Carryforwards | ($134,065) | $0 | $0 | $0 | $0 |
| Ending Unreserved Fund Balance | $189,034 | $139,361 | $52,957 | ($169,184) | ($349,877) |
| 1/ 2023 Revised Expenditures include $165 m of one-time carryforward added through automatic processes and proposed supplementals. These are fully funded through carryforward 2022 fund balance and $31 m of anticipated grants and service contract revenues. | | | | | |

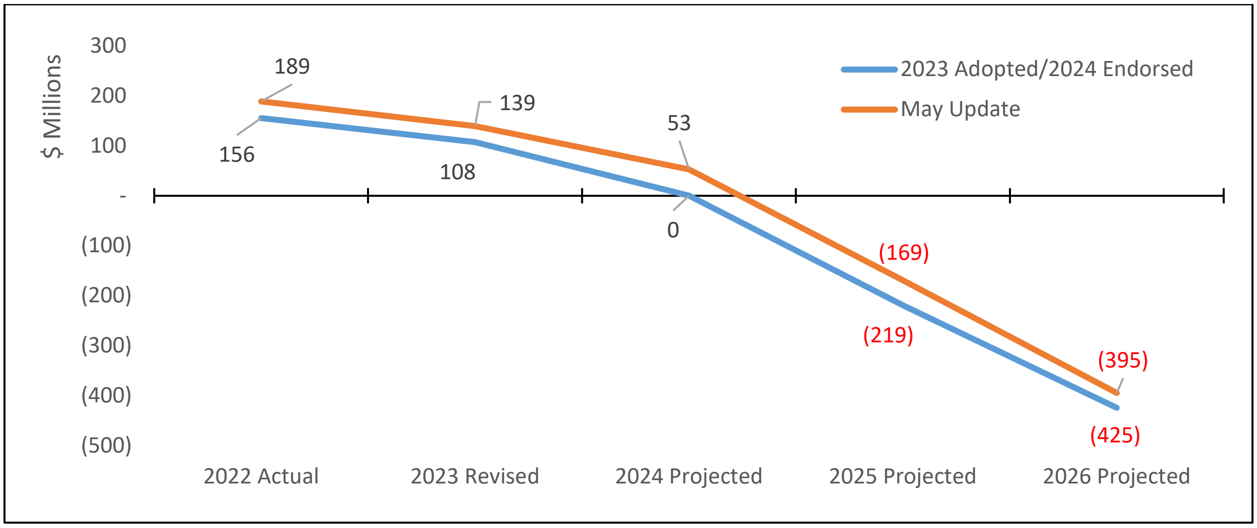
As shown in Table 8, these changes result in a higher projected deficit in 2025 and 2026, primarily due to the inflationary increases in expenditures outpacing revenue projections for the future year. As shown graphically in Figure 1, below, the projected deficit in 2025 and 2026 has widened compared to the 2023 Adopted /2024 Endorsed Budget's financial plan, leading to an average operating gap of approximately $224 million in 2025 and 2026.

*Figure 1. May 17th GF financial plan operating gap*




However, given the near-term improvement in the revenue forecast, even after allowing for the reduction to the JSF transfer to the GF in 2023, the ending unreserved fund balance (the figure that ultimately determines whether the budget is balanced) improved from $107.5 million in the 2023 Adopted Budget, to $139.4 million in the May financial plan. This improvement is due entirely to a larger 2023 beginning fund balance caused by the 2022 revenue forecast and planning reserves change discussed above. In future years, the projected ending unreserved balances are marginally higher compared with the adopted budget financial plan, due to the overall lower revenue forecast in the outyears and higher expenditure projections, driven largely by inflation, described above. Figure 2 shows the changes in the projected ending unreserved fund balance from 2022 through 2026.

*Figure 2. May financial plan: Unreserved ending fund balance improving to ($395) million by 2026.*




As shown in the graph, the ending unreserved fund balance improves by about $31.8 m in 2023, and carries through each year of the plan, raising the unreserved ending fund balance at the end of the 2026 projection to ($395) million. This result, however, requires that this 2023 amount remains unspent, which may be difficult as near-term cost pressures increase.

**JumpStart Fund Analysis**

As discussed above, the April OERF/CBO revenue forecast update delivered moderately good news with regards to GF revenues. Even after accounting for potential cost increases from inflation and emerging needs, the net financial result is positive. In contrast, the forecast for payroll tax revenues deposited in the JSF was negative. Compared to the 2023 Adopted/ 2024 Endorsed Budget, OERF projects payroll expense tax revenues from 2022 through 2024 to be lower based on the April forecast, as shown in Table 9.

*Table 9. Jump Start Fund Payroll Expense Tax Revenue Forecast Comparisons*

| Amounts in $1,000s | 2022 Actual | 2023 Projected | 2024 Projected |
|---|---:|---:|---:|
| November 2022 | $279,642 | $294,118 | $311,466 |
| April 2023 | $253,060 | $263,261 | $279,742 |
| Variance | ($26,582) | ($30,857) | ($31,724) |

Given this revenue downgrade, and the JSF's temporary financial support of the GF, which as shown above received a revenue upgrade, this memorandum includes an analysis of the integrity of the two-year budget for the JSF, considering the forecast and year-end 2022 financial activity. Table 10, below, summarizes the JSF 2023 Adopted /2024 Endorsed Budget, including the 2023 beginning budgetary fund balance, operating revenues, operating expenditures, reserves, and unreserved fund balance at the end of the 2024 Endorsed Budget.

*Table 10. 2023 Adopted/2024 Endorsed Jump Start Fund Budget*

| **Amounts in $1,000s** | **2022 Revised Budget** | **2023 Adopted Budget** | **2024 Endorsed Budget** |
|---|---|---|---|
| Beginning Budgetary Fund Balance | - | $44,142 | $16,841 |
| Operating Revenues | $279,642 | $294,118 | $311,466 |
| Operating Expenditures | $235,500 | $321,418 | $309,269 |
| Ending Budgetary Fund Balance | $44,142 | $16,841 | $19,038 |
| **Reserves** | | | |
| *Revenue Stabilization Reserve* | - | ($14,706) | ($31,147) |
| *Planning Reserve* | - | ($36) | ($102) |
| *Administration Reserve* | - | ($2,000) | ($4,000) |
| Total Reserves | - | ($16,742) | ($35,249) |
| Ending Unreserved Fund Balance | $44,142 | $99,514 | ($16,211) |

As shown in the table, largely due to the gradual building of unappropriated reserves, the fund has a negative unreserved balance at the end of 2024. Notably, the JSF financial plan on page 744 of the 2023 Adopted/ 2024 Endorsed Budget book, this negative unreserved fund balance resolves to a positive balance beginning in 2025.

A revised biennial budget view can be derived by incorporating 2023 and 2024 revenue forecast variance, discussed above, with 2022-year end results. These 2022 results impact the beginning 2023 fund balance and carryforward appropriations, and include:

- The 2022 negative revenue variance, totaling ($26.6) million as noted above;
- 2022 expenditure underspend totaling $107 million; and,
- 2023 carryforward appropriations totaling $101.3 million, of which $46.2 million is automatic carryforward, and $55.1 million is legislated carryforward appropriation requested in CB 120573.

Table 11 updates the JSF 2023-2024 biennial budget view to include these adjustments.

*Table 11. 2023 Adopted/2024 Endorsed JSF Budget - Revised*

| **Amounts in $1,000s** | **2022 Actual** | **2023 Adopted Budget** | **2024 Endorsed Budget** |
|---|---|---|---|
| Beginning Budgetary Fund Balance | - | $124,762 | ($78,589) |
| Operating Revenues | $253,060 | $263,261 | $279,742 |
| Operating Expenditures | $128,298 | $422,751 | $309,269 |
| **Ending Budgetary Fund Balance** | **$124,762** | **($34,728)** | **($64,255)** |
| **Reserves** | | | |
| *Revenue Stabilization Reserve* | - | ($14,706) | ($31,147) |
| *Planning Reserve* | - | ($36) | ($102) |
| *Administration Reserve* | - | ($2,000) | ($4,000) |
| Total Reserves | - | ($16,742) | ($35,249) |
| Ending Unreserved Fund Balance | $124,762 | ($51,470) | ($99,504) |

As shown in the table in the row highlighted in blue, after including all known adjustments, the 2023 and 2024 ending budgetary fund balances would be negative, estimated at ($34.7) million and ($64.3) million, respectively. Under state law, this would not represent a balanced budget for the fund in either year. Further, after accounting for reserves, the ending unreserved fund balances in 2023 and 2024 would be ($51.5) million and ($99.5) million respectively.

As discussed earlier, under provisions of ORD 126719 the 2023 Adopted/ 2024 Endorsed Budgets include temporary revenue backfill transfers from the JSF to the GF, totaling $100.6 million in 2023 and $84.1 million in 2024. As also discussed earlier in this memorandum, ORD-126719 provides for a $34 million reduction to the 2023 transfer, based on favorable 2022 year-end GF results. Also, the GF financial plan information provided by CBO suggests that the Executive intends to administratively reduce the 2023 transfer from the JSF to the GF by ($38.7) million. Finally, informal discussions with Executive staff indicate additional proposals to administratively underspend some elements of the 2023 Adopted JSF budget, including:

- Office of Economic Development: $2.2 million, which is 14% of the $15.6 million appropriation;
- Office of Housing: $9 million, which is 6% of the $142.3 million appropriation;
- Office of Planning and Community Development: $1.3 million, which is 6% of the $21.2 million appropriation; and,
- Office of Sustainability and Environment: $1.3 million, which is 8% of the $17.5 million appropriation.

Finally, to keep the JSF in balance, the Executive is considering reducing the reserve to $0 in 2024. At this time there are no other formal or informal proposals for adjustments to the 2024 Endorsed budget, though recent budget guidance from CBO to departments with payroll-tax backed spending requests proposals to reduce by 15 percent appropriations that are backed by JSF in the 2024 Endorsed budget. This is a planning exercise to provide options to the Executive as they prepare proposed adjustments to the 2024 Endorsed Budget and at this time, the Executive is not anticipating that they will not need a full 15 percent reduction to keep the JSF in balance in 2024.

While the 2023 administrative measures and 2024 reserve reduction are not formal legislative proposals, and those plans may change if other assumptions change (e.g., the August Revenue Forecast update) the impact on the biennial JSF budget if they are implemented in full measure is shown in Table 13. It is worth noting that Table 12 includes the $38.7 million reduction in the JSF transfer to GF in 2023, based on the Executive's intended administrative reduction.

*Table 12. 2023 Revised/2024 Endorsed JSF Budget – Including 2023 Reductions*

| Amounts in $1,000s | 2022 Actual | 2023 Revised Budget | 2024 Endorsed Budget |
|---|---:|---:|---:|
| Beginning Budgetary Fund Balance | - | $124,762 | $17,743 |
| Operating Revenues | $253,060 | $263,261 | $279,742 |
| Operating Expenditures | $128,298 | $466,612 | $309,269 |
| **Administrative Transfer Reduction** | **$0** | **($38,671)** | **$0** |
| **Administrative Underspends** | **$0** | **($13,800)** | **$0** |
| Revised Operating Expenditures | $128,298 | $374,954 | $309,269 |
| Ending Budgetary Fund Balance | $124,762 | $17,743 | ($11,784) |
| **Reserves Total** | **-** | **($16,742)** | **$0** |
| Ending Unreserved Fund Balance | $124,762 | $1,001 | ($11,784) |

As shown in the table, implementing these measures would still not balance the two-year JSF budget by the end of 2024. Applying the higher transfer reduction intended by the Executive would bring 2023 into balance, though 2024 would still show a negative ending balance. It is estimated that the 15 percent reduction proposals for 2024 solicited by CBO in the department budget instructions would generate $46.4 million in reductions, which would resolve the projected negative 2024 year-end unreserved fund balance, though as noted above, it is not known which, if any of these proposals would be included in the Mayor's proposed adjustments to the 2024 Endorsed Budget.

As an option, the Council could formally adopt one or more of the 2023 administrative adjustments in the midyear supplemental budget ordinance. This would have the benefit of formalizing legislative intent and, in the case of the transfer to the GF, making transparent the resource support to the GF from the JSF. A minor tradeoff would be the additional administrative complexity of adjusting the general ledger through budget journal entries in Citywide Accounting, though this impact is likely not significant. In addition, economic conditions likely will continue to change, and the City will receive additional changes to the assumptions that impact the 2023 Adopted and 2024 Endorsed Budgets in August when OERF and CBO present the second of three annual economic and revenue forecasts to the Forecast Council. With that in mind, the Committee could consider only legislating a mid-year change that reduces the JSF transfer to the GF and consider legislating other changes as part of the Year-end Supplemental Budget ORD later in the year.

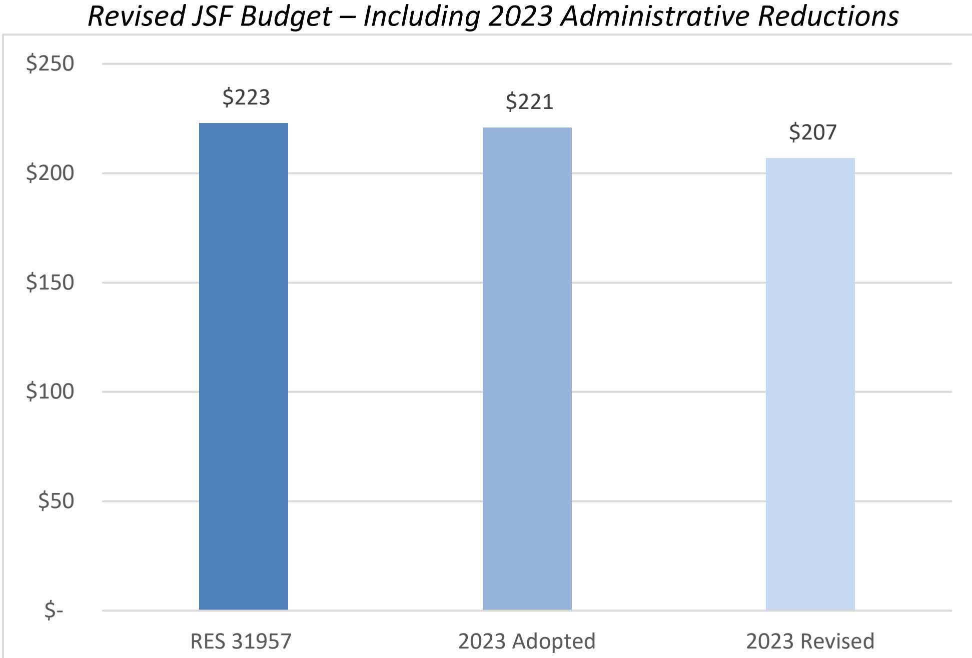
**Equity Analysis**

The Council and Mayor's unanimous adoption of ORD 126799, which codifies the City's commitment to racial justice and social equity, invites, if not requires, an analysis of the equity implications of balancing GF deficits with JSF monies at the detriment of equity investments characterized in a series of spending plan legislation since its original deliberation and adoption in the summer of 2020. The progressive nature of the JSF is by design: as adopted, the payroll expense tax is levied on compensation expense levels above $174,337, paid by businesses in the city with payrolls above $8,135,746. Funds received from the tax are in turn focused on affordable housing, environmental, equitable development, and economic revitalization investments. There is likely no other fund in the City treasury with these characteristics.

Passed by the City Council in July 2020 by ORD 126108 the payroll expense tax was estimated to generate $214 million for 2021, its first year. Building from that original estimate, RES 31957,the spending plan that accompanied the deliberative discussion of the tax, assigned moderate growth projections of two percent per year.

Figure 3 compares the levels of equity investments, based on the original Central Staff revenue projection, with the levels remaining for those purposes in the 2023 revised budget, after accounting for the Executive's administrative reductions.

*Figure 3. Comparison of JSF Equity Investments in RES 31957 with 2023 Adopted and 2023 Revised JSF Budget – Including 2023 Administrative Reductions*



The 2023 Adopted and 2024 Endorsed budgets retained spending levels from the JumpStart fund about equal to what was contemplated when the tax was passed in 2020. (The 2023 Adopted / 2024 Endorsed amounts were about $2 million below the levels assumed in 2020; during the fall 2022 budget deliberations these numbers were discussed in general rounded terms). As shown in the chart, the level of investments after accounting for the Executive's administrative reductions is approximately $16 million below what was contemplated when the tax was passed. If you assume that the JSF spending plan in the 2024 budget is reduced to account for the negative unreserved ending fund balance of $11.8 million, the 2024 spending would be below what was assumed when the tax was passed by a similar amount. This is a more significant deviation from the spending plan compared to what was adopted and endorsed by the Council last fall.

This inability to support the original equity investments of the payroll expense tax in the biennial budget may become more pronounced if future revenue forecast updates indicate further diminishment of revenues to the JSF. This is not to diminish the importance of other elements of the biennial budget, but rather to make transparent the implicit trade-offs in funding decisions ahead of the fall budget process.

**Next Steps**

In August, the Finance & Housing Committee will receive the second economic and revenue forecast update from OERF and CBO, followed by the Mayor's 2024 Proposed Mid-biennial Budget Adjustments in September. A final revenue update will be provided during the Council's budget deliberations, which will establish the final fiscal parameters for the 2024 Budget. Using the GF financial planning framework established in this memorandum, Central Staff will provide updates at each stage in the process.

cc: Esther Handy, Director
Aly Pennucci, Deputy Director