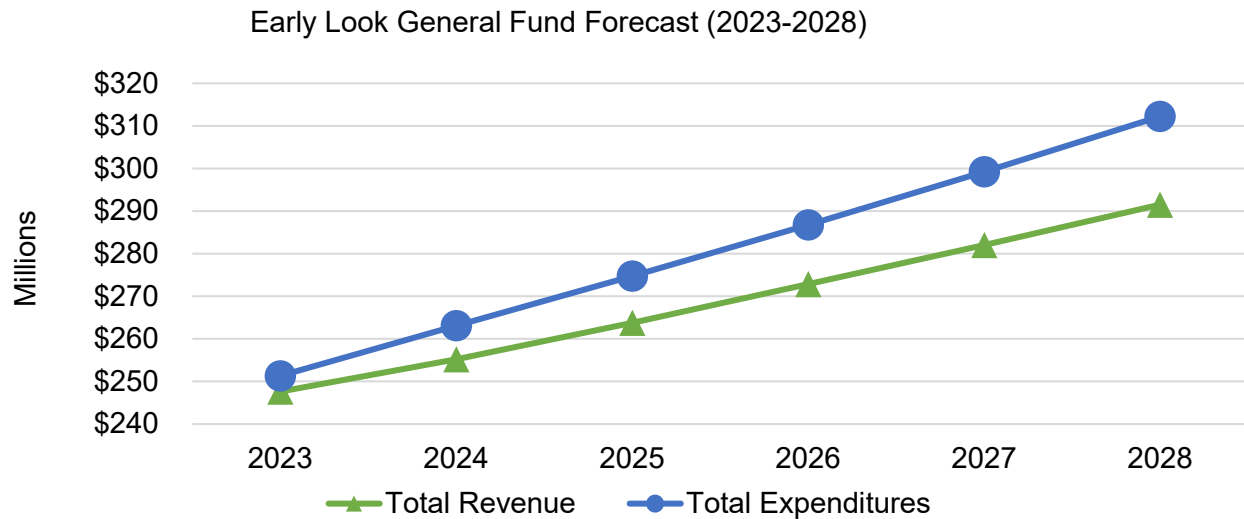


## 2023-2028 General Fund Forecast Early Look

The General Fund forecast early look continues to forecast that expenditures will outstrip revenues for the foreseeable future. The 2021 year-end books have not yet closed as of this writing, and figures can and will change as that work completes in mid-March. Staff currently estimates the 2023 variance between expenditures and revenues to be approximately \$3 million. As Council adopts balanced budgets with ongoing actions, the out-year gap will reduce. For instance, if the 2023 budget is balanced with ongoing expenditure reductions or revenues increases, the then 2024 gap would be \$3 million less. Major assumptions are detailed below.



### **Assumptions:**

**Revenues:** The 2023-2028 General Fund forecast projects strong revenue growth in the near term as the economy continues to return from the impacts of COVID-19 before growth moderates to pre-pandemic trends. This growth return is similar to other jurisdictions including the State of Washington. This assessment includes the following:

- Continued strong construction development matching 2021 historic highs for permit volume and valuation. Robust development activity, particularly in Downtown and BelRed will continue to provide strong one-time revenues to sales and Business & Occupation (B&O) tax streams.
- In addition, Business & Occupation (B&O) tax will continue to perform well primarily due to increased business activities.
- Inflation provides for additional growth in tax receipts for many of the City's major revenue streams that rely on transaction values and gross receipts. The notable exception is property taxes which are allowed to grow by 1 percent plus new construction annually under current tax structures.

**Expenditures:** The 2023-2028 General Fund forecast projects continued funding for existing services and adjustments for the following:

- Starting with the 2018 Mid-Biennium, the City's forecast includes a modest assumption of annual growth in total expenditures for an increase in demand for services based on

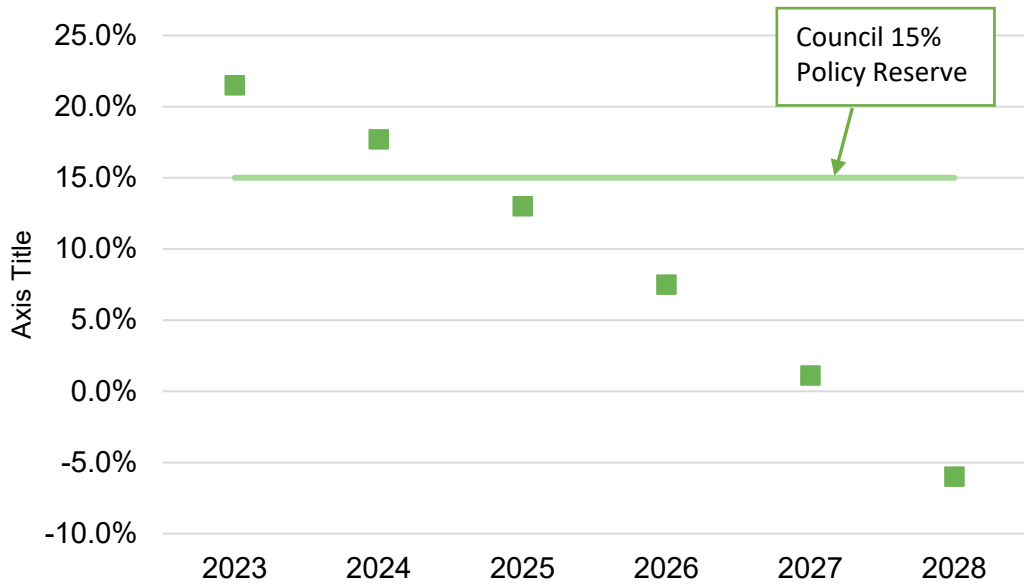
the continued limited urbanization of the city. This assumption is modest and does not reflect the extreme growth seen today.

- Additionally, the forecast assumes new costs for the Fire Station 10 phased opening including a portion of the 13 new staff as well as one-time and ongoing equipment, apparatus and, facilities costs. Of the 13 personnel needed, 7 Fire personnel were included in the 2021-2022 Adopted Budget and the remaining 6 are forecasted to be included in the 2023-2024 budget process to ensure that Fire Station 10 has a full complement of personnel as it serves the City.
- Additional expenditures for maintaining new infrastructure assets for known projects in the capital pipeline.
- Includes cost containment made in the 2021-2022 budget ongoing throughout the forecast.
- Inflation is estimated using information from the King County Office of Economic and Financial Analysis, the Washington State Economic and Revenue Council, IHS Markit and, the City’s prior recession history. In analyzing these sources, the City anticipates that inflation will be as follows:

<b>2023</b>	<b>2024</b>	<b>2025</b>	<b>2026</b>	<b>2027</b>	<b>2028</b>
5.00%	3.70%	2.67%	2.56%	2.62%	2.69%

**Reserves:** The 2023-2028 General Fund forecast anticipates continued decline of reserves throughout the 6-year window placing the General Fund reserves below the Council’s 15 percent reserve policy during or about 2025. As has been the forecast for some time, 2023 is forecasted for expenditures to exceed revenues. In comparison to historical forecasts, the last pre-pandemic forecast (Mid-Biennium 2019-2020) showed expenditures exceeding revenues in 2022 to account for the then-planned full opening of Fire Station 10. With the phased opening of Fire Station 10 and many of the costs shifting to 2023, expenditures have been projected to outstrip revenues in that year. The same 2019-2020 Mid-biennium forecast also assumed that in 2024 the General Fund would fall below Council’s 15% fund balance policy The post-pandemic forecast also pushes out falling below policy by one year to 2025. This is an early look forecast, and can and will change as the year continues, with the largest unknown the rate of inflation for 2023.

**General Fund Forecast Reserves (2021-2028)**



**Risks:** The following are a list of potential major risks to this early look forecast but, is not exhaustive of all potential challenges to the assumptions above:

- The impact of worldwide events, such as COVID-19, supply chain issues, geopolitical instability, inflationary pressures, and consumer confidence.
- Inflation continues to be at a decades-long high in a relatively low interest rate environment. The impact of Federal Reserve rate increases to inflation and other market forces is less certain.
- Changes state or regional legislation.

**Change in General Fund Revenue Overview**

The City’s mix of revenue consists of property tax, sales tax, business and occupation (B&O) tax, utility tax, and miscellaneous revenues. Within the last category are user fees, state-shared revenues, contract fees, grants, among many others.

The chart below depicts the change in revenue mix from 2018 to the forecasted 2023. In 2018 the City’s most economically impacted revenues (sales tax and B&O tax) made up approximately 40% of the general fund overall revenue mix, by 2023 that percentage is anticipated to grow to 46%. The impact of that growth is twofold, first – the increase supports a growing economy, the second is that with greater reliance on the most economically sensitive revenues, in the event of a recession or a cooling off in construction, the challenge to balance the budget will be greater. Of note, property tax in 2023 is estimated at 17% if total revenues, historically it has been around 20% + depending on the year. The City’s most economically volatile revenue streams, sales tax and business & occupation (B&O) tax historically have grown around 5 percent annually. With inflation estimated at 5 percent, the growth of the sales tax and B&O tax do not counterbalance the lack of growth in property tax.

**Proportion Of General Fund Revenues  
by Category  
2023**

