



# RESERVE POLICY

Government Performance and Finance Committee  
June 15, 2021

2021-2022  
**TACOMA**  
OPERATING & CAPITAL  
**BUDGET**

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## AGENDA

- COT Current Reserve Policy
- GFOA Reserve Policy Best Practices
- Comparable Cities Reserve Levels
- COT Reserve Policy Considerations
- Next Steps

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## CITY OF TACOMA - CURRENT RESERVE POLICY

- General Fund Reserves: 10% to 20% of projected annual expenditures
- The first 5% to 10% : To fund one-time emergencies, unanticipated expenditure requirements, offset unanticipated revenue fluctuations occurring within a fiscal year.
- The next 10% to 15% of reserves: Counter-cyclical reserve is to maintain General Fund current service level programs, transition expenditure growth to match slower revenue growth during the first 12-18 months of a recession
- Use of the reserves require super-majority (majority plus one of voting members) approval by the City Council.

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## GFOA - RESERVE POLICY BEST PRACTICES

Scope and Purpose	<ul style="list-style-type: none"> <li>- Clearly define scope and purpose</li> <li>- Consider interdependence between funds that would drain resources from the G.F</li> <li>- Types of reserves to be included: Contingency Reserves, Rainy Day Funds, Emergency Reserves, Current and Future Capital Needs Reserve, Liability Reserves</li> </ul>
Appropriate Fund Balance Level	<ul style="list-style-type: none"> <li>- Minimum Reserve Level: no less than 60 days or 2 months (about 16.5%-16.7%) of operating expenditures for the General Fund</li> <li>- Questions to Consider: Is your jurisdiction dependent on cyclical or volatile revenue sources? Are you vulnerable to natural disasters such as earthquakes, wildfires, landslides, or flooding? Will lenders, credit agencies, and others be evaluating your fund balance levels...?</li> </ul>
Use and replenishment of funds	<ul style="list-style-type: none"> <li>- Clearly defined when is it raining, what is the trigger for a contingency, and what counts as an emergency?</li> <li>- Strategy for repayment (resources potentially to be used, one-time revenues, or other considerations) and define the time period)</li> </ul> <p>Revenue sources that would typically be looked to for replenishment of a fund balance include nonrecurring revenues, budget (year-end) surpluses, and excess resources in other funds (if legally permissible and there is a defensible rationale)</p>

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## COMPARABLE CITIES RESERVE LEVELS

City	General Fund Reserve/ Emergency Reserve	Notes
Spokane	10% 3.5% 1%	Contingency Reserve: 10% of the current year budgeted G.F expenditures Revenue Reserve Stabilization Account (RSA): 3.5% of the current year budgeted G.F Revenues + positive G.F variance at year end Strategic Reserve Account: 1% of the current year budgeted G.F expenditure
Everett	20%	The Fund Balance target is to be maintained at 20% of Operating Revenues. Surplus Funds may be transferred to a Capital Reserve, Long Term Obligation, or Debt Service Fund, or may be used to restore the target fund balance.
Bellevue	15%	
Burien	20%	In addition to Capital Partnership Reserve (currently \$2 million)
Issaquah	15 - 20%	The unassigned fund balance of the general fund may never fall below 15% of operating expenditures unless authorized by the City Council.
Puyallup	15%	Funds in excess of 15% are transferred to Budget Stability Reserve Fund for capital projects or debt
Seattle	Minimum of \$60M	In addition to a Reserve Stabilization Account or "Rainy Day Fund": Annual contribution of .5% forecasted tax revenues + 50% excess of G.F balance. A cap equal to 5% of total tax revenues.

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## CITY OF TACOMA RESERVE POLICY

	Considerations	Current Policy
Scope and Purpose	Interdependence between funds, example of current COVID impacts to enterprise funds. Additionally, the City has legal risks and Deferred Maintenance and Capital Needs not well recognized in current policies.	Lack of clarity on structure Current policy outlines uses, but is not specific.
Fund Balance Level	Property Tax and Utility Taxes are typically stable while Sales and Business and Occupation Taxes are cyclical. Risk is high on expense side due to risk of earthquakes, landslides, and winter storms. Along with increased legal risk and risk from deferred infrastructure work.	Policy is primarily focused on economic cycles and does not appear to actively take into account other risk factors (for example - no emergency use provisions or capital allowances) Minimum is low and policy relies on ranges
Use of and Replenishment of Funds	Year End surpluses due to savings and non-recurring revenues have historically been a good mechanism to build reserves	While policy outlines voting practice, no clear trigger for vote given the ranges in the policy No replenishment language No clear current definition of an emergency

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## POTENTIAL UPDATES

- Increase the City's General Fund reserve threshold to 15% - 20%
- Add an Economic Stabilization Account
- Define appropriate uses
- Clearly define how the reserve will be replenished and timeline
- Maintain the Super-majority requirement (majority plus one of voting members) approval by the City Council and clarify when the votes are required

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## NEXT STEPS

- GPFC on August 17
- Study Session in September
- Approved by Council in October
- Sub-Funds created and appropriated at Modification

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## 2020 FUND BALANCE

	2020	2021	2022
Beginning Unreserved Fund Balance	70,115,277	85,354,328	76,895,064
Revenues	256,596,014	242,759,931	249,083,102
Expenses	(241,356,963)	(246,946,913)	(261,978,134)
Potential REA		(4,272,282)	(317,667)
Ending Cash	85,354,328	76,895,064	63,682,365
Reserves (16.7%)	40,306,613	41,240,134	43,750,348
Cash Beyond Reserves	45,047,715	35,654,930	19,932,017
		5%	13,098,906.70



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	Considerations	Current Policy	Recommended Changes
Scope and Purpose	Interdependence between funds, example of current COVID impacts to enterprise funds. Additionally, the City has legal risks and Deferred Maintenance and Capital Needs not well recognized in current policies.	Lack of clarity on structure  Current policy outlines uses but is not specific.	Set Reserve - Set minimum reserve for operational cash flow, and catastrophes – 15% or 16.7%  Create Stabilization Account minimum of 5% of General Fund for Economic Cycles and Emergencies (Alternatively we could do Revenue Stabilization and Emergencies Account, and/or Capital Account)
Fund Balance Level	Property Tax and Utility Taxes are typically stable while Sales and Business and Occupation Taxes are cyclical.  Risk is high on expense side due to risk of earthquakes, landslides, and winter storms. Along with increased legal risk and risk from deferred infrastructure work.	Policy is primarily focused on economic cycles and does not appear to actively take into account other risk factors (for example - no emergency use provisions)  Minimum is low and policy relies on ranges which adds to lack of clarity	Place balance in Sub-Funds for both Reserve and Stabilization Account to add clarity for appropriation and use process.
Use of and Replenishment of Funds	Year End surpluses due to savings and non-recurring revenues have historically been a good mechanism to build reserves	While policy outlines voting practice, no clear trigger for vote given the levels outlined in the policy  No replenishment language  No clear current definition of an emergency	Minimum of 50% of Year End balance beyond Reappropriation goes to Stabilization Fund (must replenish to 5% within two years)  Require Council Super Majority to Use Stabilization Reserve and Super Majority Plus State of Emergency for
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