



TO: Elizabeth Pauli, City Manager
FROM: Katie Johnston, Budget Officer, Office of Management and Budget
Andrew Cherullo, Finance Director, Department of Finance
COPY: City Council and City Clerk
SUBJECT: **Resolution - Reserve Policy**
DATE: **October 1, 2021**

SUMMARY AND PURPOSE:

A resolution authorizing adoption of a revised reserve policy. The updated policy clarifies the process and use of reserves and sets the following reserve levels: a General Fund reserve at a minimum of 16.7% of General Fund expenditure, an Emergency reserve at a target of 5% of the General Fund Expenditure, and a Contingency reserve at a target of 5% of the General Fund Expenditure.

BACKGROUND:

The City’s current policy lacks a clear structure and does not adequately reflect the City’s financial risks from a revenue or expense perspective. The lack of clear structure is due to limited definitions for use of reserves and the use of ranges to set reserve targets rather than specific levels. The current reserve level target is set between 10-20%, which is a lower minimum than the Government Finance Officers Association best practices and lower than most of the reserve policies of comparison jurisdictions in Washington State. The Government Finance Officers Association (GFOA) best practices recommend a minimum of 2 months of General Fund expenditures (approximately 16.7%). While the current policy outlines the voting practice, there is no clear language on what triggers the vote due to the range of reserve level. Moreover, the current policy does not address the process to replenish the reserve once used.

The Finance Department and the Office of Management and Budget recommends the attached policy updates based on an analysis of the current policy compared to best practices, comparable jurisdictions and a review of the level of risk faced by the General Fund. The General Fund is the main operating fund that pays for general services provided by the City. It accounts for all general revenues of the City and for expenditures related to the rendering of the City’s general services. Several of the City’s General Fund the revenue streams are volatile and subject to economic down turn and/or reductions. Similarly, unexpected or emergency events may draw significant resources from the General Fund. Furthermore, the General Fund supports other funds of the City.

COMMUNITY ENGAGEMENT/ CUSTOMER RESEARCH:

Research was done by staff by collecting, comparing, and analyzing others Washington States Cities current reserve policies as well as recommendations from GFOA best practices in elaborating a reserve policy. Findings of the research were shared at the Government Performance and Finance Committee and at Study Session.

2025 STRATEGIC PRIORITIES:

Equity and Accessibility:

An equity lens has been considered while developing the reserve policy. The Contingency reserve sub-fund, for instance, prioritizes projects that address equity and support the needs of vulnerable community members.



ALTERNATIVES:

Alternatively the City Council may choose either to modify or not approve the General Fund Policy.

STAFF/SPONSOR RECOMMENDATION:

Staff recommends that the City Council approve the updated reserve policy to clarify the definition and process of using reserves, and three levels of reserves for the General Fund (General Fund, Emergency, and Contingency).

FISCAL IMPACT: Currently, the General Fund position is \$20 million above 16.7% reserve. The General Fund Reserve recommendation establishing a 16.7% minimum can be funded fully with the existing General Fund Reserve. The Emergency and Contingency reserves could be funded fully or in part through the General Fund’s current positive position of \$20M above the 16.7% reserve and positive revenue trends. The fiscal impact of this recommendation will be determined during the mid-biennial modification process.

Fund Number & Name	CURRENTLY FUNDED	Total Amount
General Fund Reserve (16.7% G.F Expenses)	Yes	\$43,000,000
Emergency Reserve (5% G.F Expense)	No	Up to \$13,000,000
Contingency Reserve (5% G.F Expense)	No	Up to \$13,000,000
TOTAL		\$68,000,000

What Funding is being used to support the expense?

General Fund

Are the expenditures and revenues planned and budgeted in this biennium’s current budget?

NO, PLEASE EXPLAIN BELOW

This is a resolution. If approved, it will be budgeted as part of the mid biennium modification.

Are there financial costs or other impacts of not implementing the legislation?

YES

Maintaining insufficient reserves may expose the City to risk and unanticipated future expenses in economic downturns and/or limit the City ability to respond to Emergencies events.

Will the legislation have an ongoing/recurring fiscal impact?

YES

The reserves should be replenished when used and/or adjusted to the General Fund expenditure.

Will the legislation change the City’s FTE/personnel counts?

No

Please enter Explanation.

ATTACHMENTS:

Reserve Policy