



RESERVE POLICY

Study Session
September 21, 2021

2021-2022
TACOMA
OPERATING & CAPITAL
BUDGET

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AGENDA

- City of Tacoma Current Reserve Policy
- Best Practices and Research
- Proposed Changes to the Reserve Policy
- 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"> - Clearly define scope and purpose - Consider interdependence between funds that would drain resources from the G.F - Types of reserves to be included: Contingency Reserves, Rainy Day Funds, Emergency Reserves, Current and Future Capital Needs Reserve, Liability Reserves
Appropriate Fund Balance Level	<ul style="list-style-type: none"> - Minimum Reserve Level: no less than 60 days or 2 months (about 16.5%-16.7%) of operating expenditures for the General Fund - 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...?
Use and replenishment of funds	<ul style="list-style-type: none"> - Clearly defined when is it raining, what is the trigger for a contingency, and what counts as an emergency? - Strategy for repayment (resources potentially to be used, one-time revenues, or other considerations) and define the time period) <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.
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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RESERVE RECOMMENDATIONS

Creation of 3 reserve sub-funds:

- **General Fund Reserve** (at 16.7% of General Fund expenditures or 2 months of General Fund expenditures - GFOA best practice)
- **Emergency Reserve** (target of 5% of General Fund expenditures)
- **Contingency Reserve** (target of 5% of General Fund expenditures)

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GENERAL FUND RESERVE

- Set the minimum level for the General Fund Reserve at 16.7% of General Fund expenditures to respond to catastrophic events
- Use of this reserve requires Super Majority Plus one vote of the City Council
- No more than 1/3 of the required minimum amount shall be expended within any single year.
- Replenish within 2 years when the reserve fall below its required minimum

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EMERGENCY RESERVE

- Establish an Emergency Reserve Fund with a target of 5% of the General Fund expenditures.
- Use of this reserve is to respond to economic cycles or downturns, adverse weather conditions, other emergencies that could not have been predicted in addition to catastrophic events
- Requires Super Majority vote of the City Council members present at the meeting for which the proposed use is voted

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CONTINGENCY RESERVE

- Establish a Contingency Reserve with a target of 5% of the General Fund expenditures.
- Use of this fund shall be limited to one-time expenditures such as:
 - Identified deferred maintenance needs, specific capital projects that may otherwise not be accomplished through other funding sources, legal judgments or settlements, unanticipated expenditures, other such one-time uses as may be determined in addition to Emergency or catastrophic events.*
- Requires majority vote of City Council members present at the meeting for which the proposed used is voted
- Focus should be given to projects that have high equity impacts and support the needs of vulnerable residents

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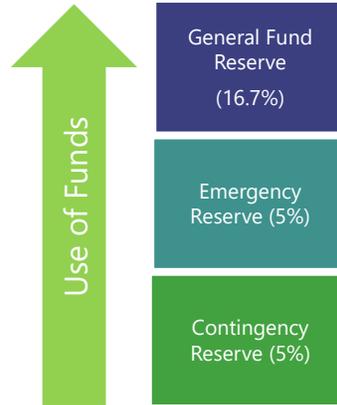


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USE OF GENERAL FUND RESERVES

1. Funds shall first be drawn from the Contingency Reserve until there are no longer any remaining funds.
2. Next, funds may be drawn from the Emergency Reserve until there are no longer any remaining funds available.
3. If additional funding is still required, funds may be withdrawn from the General Fund Reserve.

All funding withdraws must meet the use and voting requirements previously discussed.



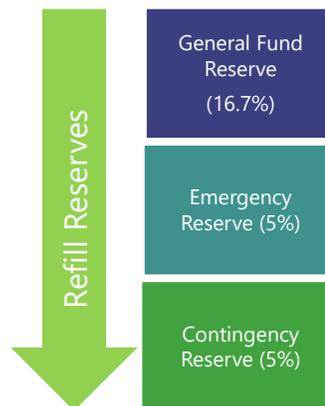
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REPLENISHMENT OF RESERVES SUB-FUNDS

1. General Fund Reserve will first be refilled to its minimum required level (16.7%)
2. Next, the Emergency Reserve would be refilled up to its 5% target level.
3. The Contingency Reserve would be the last reserve to replenish up to its 5% target level.

Funding of the Reserves will be done using excess revenues or savings accumulated in the General Fund.



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INITIAL FUNDING OF RESERVES

- General Fund Position
 - Positive positions at the end of 2020 (\$20M in One-time funding above 16.7% reserve)
 - Additional resources available at Modification due to updated revenue projections (\$16M in reprojected revenues)
 - ARPA and positive General Fund position has provided funding for immediate needs
- 5% of General Fund Annual Expenses is \$13M in 2022
- Based on today's policy discussion, staff will bring forward funding approach



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NEXT STEPS

- Government Performance and Finance Committee – August 17 ✓
- Study Session Discussion – September 21 ✓
- Resolution to Update Policy – October



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