

# Fiscal Reserves

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## Department Overview

The State of Washington permits the City to maintain two financial reserves for general government spending. Under the authority of RCW 35.32A.060, the City maintains a financial reserve called the Emergency Subfund (ESF) of the General Fund. This subfund is the principal reserve for the City and is available to pay for unanticipated expenses that occur during the fiscal year. State law limits the amount of money the City can set aside in this reserve to 37.5 cents per \$1,000 of assessed value of property within the City.

Under the authority of RCW 35.21.070, the City maintains a second financial reserve called the Revenue Stabilization Account (RSA) of the Cumulative Reserve Subfund (aka the Rainy Day Reserve). The purpose of the RSA is to have resources available to maintain City spending in the event of a sudden, unanticipated shortfall in revenue due to economic downturns or other factors. City code limits the amount set aside in this reserve to five percent of General Subfund tax receipts. This reserve is funded annually with an amount equivalent to 0.5% of General Subfund taxes, in addition to 50% of any unplanned fund balance in the General Subfund remaining at the close of the prior fiscal year, with some limited exceptions (Ordinance 123743).

## Budget Overview

The 2013 Adopted and 2014 Endorsed budgets protect the City's fiscal reserves and embraces strong and prudent financial management practices. This is a cornerstone principle of developing the 2013 Adopted and 2014 Endorsed budgets, and critically important to ensure the City is financially well-prepared to address emerging issues. In the context of a sluggish economic recovery, fully-funding reserves becomes even more important as it is uncertain when the next downturn might occur.

### Fully Funding the Emergency Subfund

The 2013 Adopted and 2014 Endorsed budgets fully fund the Emergency Subfund at the maximum statutory-authorized level of 37.5 cents per \$1,000 of assessed value of property in the city. For 2013, the fund will total \$43.4 million, a drop of \$565,000 from 2012 levels. This decline is due to a projected decline in assessed

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values relative to 2012, which in turn lowers the maximum amount that the City can hold in reserve. Current projections anticipate that assessed value will begin to increase in 2014, allowing the City to increase its contributions to meet the statutory cap. The 2014 Endorsed Budget funds the reserve to that maximum level in 2014, an increase of \$890,000 to \$44.2 million.

### Success of Rainy Day Funding Enhancements

Significant RSA funding enhancements were proposed by the Mayor and adopted by the City Council in 2011. These recommendations arose from concern that the previous policies did not provide the City with sufficient mechanisms to ensure that the RSA would be replenished prior to the next downturn in revenues. Those previous policies funded the RSA when actual revenues exceeded the most recent forecast for the closed fiscal year and were successful in building up the RSA to a maximum of \$30 million between 2005 and 2008. Aggressive use of the RSA in 2009 and 2010 in the midst of the Great Recession lowered the size of the account to \$10.5 million. Given no proactive approach to funding the RSA at that time, it was uncertain if the RSA would be built up, or how long it would take to reach target levels.

To ensure that the City has sufficient mechanisms to fund the RSA, the Mayor proposed and the Council adopted a series of changes to funding policies that included a proactive approach to funding the RSA. Two key changes include an annual deposit of 0.5% of General Fund tax revenue directly into the RSA and an automatic sweeping of 50% of any unplanned ending fund balance in the General Fund at the close of the prior fiscal year, whether due to stronger-than-anticipated revenues or lower-than-anticipated expenditures.

These policies, enhancing the City's commitment to prudent fiscal management, led to a doubling of the amount of reserves in the RSA by the end of 2012 relative to levels at the beginning of 2011. The current estimated balance for the RSA at the end of 2012 is \$21.7 million.

### Historic High of Rainy Day Fund Level Achieved

In addition, the proactive nature of these new policies will add an additional \$8.3 million to the RSA over the 2013-2014 biennium, resulting in a return to the peak RSA funding level of \$30 million by the end of 2014, a level last achieved by the City prior to the Great Recession. This significant achievement highlights the City's commitment to adhering to strong and sound financial management policies, despite fiscal pressures on the General Fund resulting from a down economy and emerging issues, as has been the unfortunate circumstance over the last few years.

Additional information regarding the changes to the Rainy Day Fund policies adopted in Ordinance 123743 can be found here: <http://www.seattle.gov/financedepartment/documents/RainyDayFundPresentation-FINAL.pdf>

### City Council Changes to Proposed Budget

There were no changes made to the 2013-2014 Proposed Budget.

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### Incremental Budget Changes

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	2013		2014	
	Budget	FTE	Budget	FTE
<b>Proposed Technical Changes</b>				
Adjusting Fund Balance to Legal Limit	\$ 564,535	0.00	\$ 0	0.00
<b>Total Incremental Changes</b>	<b>\$ 564,535</b>	<b>0.00</b>	<b>\$ 0</b>	<b>0.00</b>
<b>2013 Adopted/2014 Endorsed Budget</b>	<b>\$ 564,535</b>	<b>0.00</b>	<b>\$ 0</b>	<b>0.00</b>

### Descriptions of Incremental Budget Changes

#### Proposed Technical Changes

#### **Adjusting Fund Balance to Legal Limit - \$564,535**

The fund balance level of the Emergency Subfund is legally limited to 37.5 cents per \$1,000 of assessed property value. Due to a projected decline in assessed property valuations in 2013 relative to 2012, the existing fund balance in 2012 exceeds the limit amount for 2013 and needs to be decreased. This change represents the excess fund balance in the Emergency Subfund in 2013, which will be transferred to the General Subfund. For 2014, property valuations are projected to increase and contributions to the Emergency Subfund will be made in order to maintain the fund at the maximum statutory-authorized level. The 2014 contribution from the General Fund to the Emergency Subfund is estimated to be \$890,000.

### City Council Provisos

There are no Council provisos.

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### Expenditure Overview

Appropriations	Summit Code	2011 Actual	2012 Adopted	2013 Adopted	2014 Endorsed
Emergency Expenditures Budget Control Level	AE000	1,382,343	0	564,535	0
<b>Department Total</b>		<b>1,382,343</b>	<b>0</b>	<b>564,535</b>	<b>0</b>
<b>Department Full-time Equivalents Total*</b>		<b>0.00</b>	<b>0.00</b>	<b>0.00</b>	<b>0.00</b>

\* FTE totals are provided for information purposes only. Changes in FTEs resulting from City Council or Personnel Director actions outside of the budget process may not be detailed here.

### Revenue Overview

#### 2013 Estimated Revenues

Summit Code	Source	2011 Actual	2012 Adopted	2013 Adopted	2014 Endorsed
587001	General Fund Support - RSA	1,500,000	1,950,000	4,058,000	4,226,000
587001	General Fund Support - ESF	80	385,000	0	888,810
	<b>Total General Fund Support</b>	<b>1,500,080</b>	<b>2,335,000</b>	<b>4,058,000</b>	<b>5,114,810</b>
	<b>Total Revenues</b>	<b>1,500,080</b>	<b>2,335,000</b>	<b>4,058,000</b>	<b>5,114,810</b>
379100	Use of / (Contribution to) Fund Balance - RSA	-1,500,000	-1,950,000	-4,058,000	-4,226,000
379100	Use of / (Contribution to) Fund Balance - ESF	1,400,263	-385,000	564,535	-888,810
	<b>Total Fund Balance</b>	<b>-99,737</b>	<b>-2,335,000</b>	<b>-3,493,465</b>	<b>-5,114,810</b>
	<b>Total Resources</b>	<b>1,400,343</b>	<b>0</b>	<b>564,535</b>	<b>0</b>

### Appropriations By Budget Control Level (BCL) and Program

#### Emergency Expenditures Budget Control Level

The purpose of the Emergency Expenditures Budget Control Level is to provide resources to pay unanticipated expenses as described in state law (RCW 35.32A.060).

Program Expenditures	2011 Actual	2012 Adopted	2013 Adopted	2014 Endorsed
Emergency Expenditures Program	1,382,343	0	564,535	0
<b>Total</b>	<b>1,382,343</b>	<b>0</b>	<b>564,535</b>	<b>0</b>

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### **Fiscal Reserves Fund Table**

#### **Emergency Subfund (00185)**

	2011 Actuals	2012 Adopted	2012 Revised	2013 Adopted	2014 Endorsed
<b>Beginning Fund Balance</b>	<b>45,501,426</b>	<b>43,921,219</b>	<b>44,101,163</b>	<b>44,101,163</b>	<b>43,536,628</b>
Accounting and Technical Adjustments	0	0	0	0	0
Plus: Actual and Estimated Revenues	80	385,000	0	0	888,810
Less: Actual and Budgeted Expenditures	1,382,343	0	0	564,535	0
Less: Capital Improvements	18,000	0	0	0	0
<b>Ending Fund Balance</b>	<b>44,101,163</b>	<b>44,306,219</b>	<b>44,101,163</b>	<b>43,536,628</b>	<b>44,425,438</b>
Continuing Appropriations	178,000		178,000	178,000	178,000
<b>Total Reserves</b>	<b>178,000</b>		<b>178,000</b>	<b>178,000</b>	<b>178,000</b>
<b>Ending Unreserved Fund Balance</b>	<b>43,923,163</b>	<b>44,306,219</b>	<b>43,923,163</b>	<b>43,358,628</b>	<b>44,247,438</b>

#### **Cumulative Reserve Subfund, Revenue Stabilization Account (00166)**

	2011 Actuals	2012 Adopted	2012 Revised	2013 Adopted	2014 Endorsed
<b>Beginning Fund Balance</b>	<b>10,469,000</b>	<b>11,219,000</b>	<b>11,969,000</b>	<b>21,683,951</b>	<b>25,741,951</b>
Accounting and Technical Adjustments	0	0	0	0	0
Plus: Actual and Estimated Revenues	1,500,000	1,950,000	9,714,951	4,058,000	4,226,000
<b>Ending Fund Balance</b>	<b>11,969,000</b>	<b>13,169,000</b>	<b>21,683,951</b>	<b>25,741,951</b>	<b>29,967,951</b>
<b>Ending Unreserved Fund Balance</b>	<b>11,969,000</b>	<b>13,169,000</b>	<b>21,683,951</b>	<b>25,741,951</b>	<b>29,967,951</b>