

2012 Seattle City Council Green Sheet

Ready for Notebook

Tab	Action	Option	Version
3	1	A	2

Budget Action Title: C.B. 117256 - revising "Rainy Day Fund" policies: Amend via substitution per previous Budget Committee discussions and then pass as amended.

Councilmembers: Budget Committee

Staff Analyst: Ben Noble

Council Bill or Resolution: C.B. 117256 (tab #10 in gray notebook)

Date		Total	SB	BH	SC	TR	JG	NL	RC	TB	MO
	Yes										
	No										
	Abstain										
	Absent										

Budget Action description:

C.B. 117256 would revise current City policies regarding deposits into the Revenue Stabilization Account (AKA "Rainy Day Fund"). This green sheet would amend the C.B. by substituting Version 8 (attached) for the original bill referred to the Budget Committee.

Under existing policies, funds are transferred to the Account in two ways:

1. Year-end General Subfund revenues that exceed the final forecast, which is prepared in early November, are automatically transferred into the Account; and
2. An ordinance, typically the budget ordinance or a quarterly supplemental, authorizes such a transfer.

Given that current and anticipated economic conditions are unlikely to produce patterns of revenue growth that will lead to significant under-forecasts, the Executive, in consultation with Council staff, has proposed to modify the existing policies to provide a more systematic mechanism for rebuilding the balance in the Revenue Stabilization Account (which currently stands at \$11.2 million). In particular, the new policies would:

1. Direct a fixed percentage of General Subfund tax revenues into the Account as part of the base budget -> 0.25% for 2012, stepping up to 0.50% for 2013 and beyond;
2. Shift 50% of unanticipated General Subfund year-end balances to the Account;
3. Maintain existing policies that (i) set a maximum funding level for the Account at 5% of total GSF tax revenue, and (ii) allow for additional "voluntary" contributions by ordinance; and

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4. Call for an evaluation of out-year financial projections before the City spends down any balance in the Account.

In 2012, these policies would require a \$1.95 million transfer to the Account. The Mayor's proposed budget includes funding for this transfer. In 2013, the revised policies will call for roughly \$4 million to be transferred to the Account.

The proposed amendments, which have been previously discussed by the Budget Committee, would:

- Clarify that the Account can be used to fund activities that would otherwise be suspended or eliminated due to a shortfall in revenues;
- Eliminate the 2/3 vote required to transfer funds out of the Account;
- Establish that if the Account reaches its maximum balance, the funding that otherwise would have been transferred into the Account should be used for one-time needs, rather than new on-going programs;
- Suspend contributions to the fund in years when General Subfund revenues decline, and
- Establish that in the year following a withdrawal from the Account, the transfer of General Subfund tax revenues will be set at 0.25% of tax revenues, rather than the full 0.50%.

The amending language is included in the attached version of the ordinance (Version 8), which is designed to substitute for the version that was proposed by the Executive and referred to the Budget Committee.

ORDINANCE _____

AN ORDINANCE relating to the Revenue Stabilization Account of the Cumulative Reserve Subfund; revising policies regarding deposits into the Subfund; amending Seattle Municipal Code Subsection 5.80.020 B in connection therewith; and superseding a portion of Resolution 31083.

WHEREAS, the City's revenue sources are susceptible to sudden unanticipated shortfalls due to a number of factors, including economic downturns, changes in state law governing City revenue, and legal judgments; and

WHEREAS, sudden downward adjustments to City spending plans mid-way through a fiscal year in response to unanticipated revenue shortfalls can result in significant disruptions to essential City services and operations; and

WHEREAS, RCW 35.21.070 and Seattle Municipal Code 5.80.010 establish that the Cumulative Reserve Subfund (CRS) may serve as financial reserve to help stabilize revenues; and

WHEREAS, the Revenue Stabilization Account (RSA) of the CRS was established to support essential City operations during unanticipated shortfalls in the City's revenues; and

WHEREAS, the RSA was heavily relied upon during 2009 and 2010 to ease the financial impact of the Great Recession of 2008; and

WHEREAS, the RSA balance is currently low relative to the target for the Account; and

WHEREAS, new economic realities mean that future revenue growth is likely to be subdued relative to recoveries from past recessions and as a result existing policies for the replenishment of the RSA will not be sufficient to restore the balance in a timely way; and

WHEREAS, it is a priority of City leaders to replenish the RSA in order to better position the City to weather future economic downturns; and

WHEREAS, requiring an automatic transfer of tax revenues at the outset of each year provides a predictable and proactive method of filling the RSA; and

WHEREAS, changing the funding mechanism for the RSA from relying on surplus revenue to relying on surplus fund balance in the General Subfund increases the likelihood of providing adequate resources to the RSA in this new economic climate; and

1 WHEREAS, suspending contributions to the RSA when nominal tax revenue growth is negative
2 acknowledges that the City would likely be relying on the RSA in this type of situation;
3 and

4 WHEREAS, evaluating out-year financial forecasts is important in determining how much is
5 appropriate to draw down the RSA at any time in order to ensure a sustainable path for
6 the City; and

7 WHEREAS, the funding mechanisms for the RSA have not been adjusted since the RSA was
8 first established in 1999 and are currently stated in Policy 10 of the Financial Policies for
9 the City of Seattle Cumulative Reserve Subfund of the General Fund, adopted by the City
10 Council and Mayor under Section 1 of Resolution 31083; and

11 WHEREAS, it is appropriate to supersede Policy 10 of the Financial Policies for the City of
12 Seattle Cumulative Reserve Subfund of the General Fund to effectuate the changing of
13 the funding mechanism for the RSA; NOW THEREFORE,

14 **BE IT ORDAINED BY THE CITY OF SEATTLE AS FOLLOWS:**

15 Section 1. Subsection 5.80.020.B of the Seattle Municipal Code, which section was last
16 amended by Ordinance 123361, is amended as follows:

17 **5.80.020 Structure of subfund.**

18 * * *

19 B. The Revenue Stabilization Account shall be used for revenue stabilization for future
20 City operations and to fund activities that would otherwise be reduced in scope, suspended or
21 eliminated due to unanticipated shortfalls in General Subfund revenues. Transfers into and
22 expenditures from the Revenue Stabilization Account shall occur as follows:

23 1. Expenditures from the Revenue Stabilization Account shall require an ordinance((
24 passed by two-thirds vote unless state law requires a higher super majority vote of the City
25 Council)). An assessment of the City's long-term financial outlook should be considered when
26

1 making decisions about how much to expend from the Revenue Stabilization Account, including
2 a projection of how Revenue Stabilization Account resources are expected to be used and at least
3 partially replenished over the following four years.

4 2. The Revenue Stabilization Account shall be funded by (a) ~~((1))~~ transfers by
5 ordinance, ~~((and))~~(b) ~~((2))~~ automatic transfer of 0.25 percent of General Subfund tax revenues
6 forecast for 2012 and the automatic transfer of 0.50 percent of forecast General Subfund tax
7 revenues for each year thereafter, and (c) ~~((to the extent described in this section. U))~~ upon
8 completion of fiscal year accounting, automatic transfer of 50 percent of the ending General
9 Subfund fund balance, less encumbrances, carryforwards as authorized by ordinance or state law,
10 and planned reserve amounts reflected in the adopted budget, ~~((tax revenues collected during the~~
11 closed fiscal year which are)) that is in excess of the latest revised estimate of the unreserved
12 ending fund balance ~~((tax revenues))~~ for that closed fiscal year (as published in the ~~((current~~
13 fiscal year)) adopted budget ~~((shall automatically be deposited to the Revenue Stabilization~~
14 Account)). ~~((Such deposit))~~ A transfer as described in subsection 5.80.020.B.2.c shall occur at
15 that time the City completes its accounting for the closed fiscal year. ~~((At no time shall the~~
16 balance of the Revenue Stabilization Account exceed 5 percent of the amount of tax revenues
17 received by the City during the fiscal year prior to the closed fiscal year.))

18 3. For purposes of this subsection 5.80.020.B ~~((this paragraph))~~, the phrase "tax
19 revenues" means all tax revenues deposited into the General Subfund, including but not limited
20 to, tax revenue from the regular property tax levy, business and occupation tax, utility business
21 taxes, the portion of admissions tax not dedicated to the Arts Account, leasehold excise tax,
22 gambling taxes, and sales and use taxes.

1 4. At no time shall the balance of the Revenue Stabilization Account exceed 5 percent of
2 the General Subfund tax revenues forecast underlying the adopted budget for the current fiscal
3 year. Automatic transfers of funds into the Revenue Stabilization Account as required by
4 subsection 5.80.020.B.2 shall be made only to the extent that the fund balance for the Revenue
5 Stabilization Account does not exceed 5 percent of the tax revenues forecast for the current fiscal
6 year, and the automatic transfer of any amount that would result in such an excess shall be
7 suspended.

8 5. When the Revenue Stabilization Account balance reaches 5 percent of forecast tax
9 revenues, and automatic transfers are suspended, the amount that would have been automatically
10 transferred into the Revenue Stabilization Account had the Revenue Stabilization Account not
11 reached its maximum-allowed fund balance should be used to pay for existing obligations rather
12 than to fund new programs.

13 6. The transfer of 0.50 percent of General Subfund tax revenues and 50 percent of
14 General Subfund year-end balances that is described in subsection 5.80.020.B.2 shall be
15 temporarily suspended when revenue forecasts underlying the adopted budget anticipate a
16 nominal decline in General Subfund revenues, as compared to the revenue forecasts underlying
17 the adopted budget for the fiscal year immediately prior. Automatic transfers shall remain
18 suspended until positive revenue growth is reflected in the revenue forecasts underlying the
19 adopted budget.

20 7. In the first year during which positive revenue growth is again forecast, the automatic
21 transfer of tax revenues described in subsection 5.80.020.B.2.b shall be limited to 0.25 percent,
22 followed by an automatic transfer of 0.50 percent in each year thereafter, unless the City again
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1 forecasts a nominal decline in General Subfund tax revenues or the value of the Revenue

2 Stabilization Account reaches 5 percent of forecast tax revenues.

3 8. The automatic transfer of 0.25 percent or 0.50 percent of General Subfund tax
4 revenues that is described in subsections 5.80.020.B.2.b and 5.80.020.B.7 shall also be
5 temporarily suspended in any year that an expenditure from the Revenue Stabilization Account is
6 authorized in the adopted budget.

7
8 Section 2. Policy 10 of the Financial Policies for the City of Seattle Cumulative Reserve
9 Subfund of the General Fund, adopted by the City Council and Mayor under Section 1 of
10 Resolution 31083, and attached as Exhibit A thereto, is superseded by this ordinance.

11 Section 3. This ordinance shall take effect and be in force 30 days after its approval by
12 the Mayor, but if not approved and returned by the Mayor within ten days after presentation, it
13 shall take effect as provided by Seattle Municipal Code Section 1.04.020.

14
15 Passed by the City Council the ____ day of _____, 2011, and
16 signed by me in open session in authentication of its passage this
17 ____ day of _____, 2011.

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20 _____
21 President _____ of the City Council

22
23 Approved by me this ____ day of _____, 2011.

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25 _____
26 Michael McGinn, Mayor

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Filed by me this ____ day of _____, 2011.

Monica Martinez Simmons, City Clerk

(Seal)