

Beth Goldberg/Ben Noble/jp/bdn  
CBO Rainy Day Fund Policies ORD  
Sept 16, 2011  
Version #5

**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, RSA balances are currently low relative to target balances; and

WHEREAS, new economic realities means 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 balances 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 budget process 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 balances 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 absolute 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;

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. Effective October 1, 2011, Subsection 5.80.020 B of the Seattle Municipal  
16 Code, last 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 suspended or eliminated due to  
21 unanticipated shortfalls in General Fund resources. Expenditures from the Revenue Stabilization  
22 Account shall require an ordinance ~~(( passed by two-thirds vote unless state law requires a higher~~  
23 ~~super majority vote of the City Council)).~~ An assessment of the City's long-term financial  
24 outlook should be considered when making decisions about how much to withdraw from the  
25 Revenue Stabilization Account, including a projection of how Revenue Stabilization Account  
26

resources are expected to be used and at least partially replenished over the following four years.

1  
2 The Revenue Stabilization Account shall be funded by (1) transfers by ordinance, ~~((and))~~(2)  
3 automatic transfer of 0.25 percent of General Subfund tax revenues forecasted for 2012 and the  
4 automatic transfer of 0.50 percent of forecasted General Subfund tax revenue for each year  
5 thereafter, and (3) ~~((to the extent described in this section. U))~~upon completion of fiscal year  
6 accounting, automatic transfer of 50 percent of the ending General Subfund fund balance less  
7 encumbrances, carryforwards, and planned reserve amounts ~~((tax revenues collected during the~~  
8 closed fiscal year which are))that is in excess of the latest revised estimate of the unreserved  
9 ending fund balance ~~((tax revenues-))~~for that closed fiscal year (as published in the current  
10 ~~((fiscal year))~~adopted budget for that previous fiscal year~~((shall automatically be deposited to~~  
11 the Revenue Stabilization Account)). Such deposit shall occur at that time the City completes its  
12 accounting for the closed fiscal year.  
13  
14

15 At no time shall the balance of the Revenue Stabilization Account exceed 5~~((-))~~ percent  
16 of the ~~((amount of tax revenues received by the City during the fiscal year prior to the closed~~  
17 fiscal year))forecasted tax revenue for the current fiscal year. For purposes of this paragraph, the  
18 phrase "tax revenues" means all tax revenues deposited into the General Subfund, including but  
19 not limited to, tax revenue from the regular property tax levy, business and occupation tax, utility  
20 business taxes, the portion of admissions tax not dedicated to the Arts Account, leasehold excise  
21 tax, gambling taxes, and sales and use taxes.  
22

23 Automatic transfers of funds into the Revenue Stabilization Account as required by this  
24 section shall be made only to the extent that the fund balance for the Revenue Stabilization  
25 Account does not exceed 5 percent of the amount of tax revenues forecast for the current for the  
26

1 current fiscal year and the automatic transfer of any amount that would result in such an excess  
2 shall be suspended. When the Revenue Stabilization Account balance reaches 5 percent of  
3 forecast tax revenues, and automatic transfers are suspended, the newly available funding shall  
4 be used to address one-time expenditures, such as investments in asset preservation, or to reduce  
5 long-term outstanding General Subfund obligations, such as General Subfund supported debt and  
6 pension obligations.

7  
8 The transfer of 0.50% of General Subfund Revenues and 50% of unanticipated General  
9 Subfund year-end balances that are described above shall be temporarily suspended when  
10 revenue forecasts underlying the adopted budget anticipate a nominal decline in General Fund  
11 revenues, as compared to the adopted budget for the fiscal year immediately prior. Contributions  
12 shall remain suspended until positive revenue growth is forecast. In the first year during which  
13 revenue growth is again forecast, the automated contribution of tax revenues shall be limited to  
14 0.25 percent, followed by contributions of 0.50 percent in each year thereafter, unless the City  
15 again forecasts a nominal decline in tax revenues or the value of the Revenue Stabilization  
16 Account reaches 5 percent of forecasted tax revenues.

17  
18 The transfer of 0.50 percent of General Subfund Revenues and 50 percent of  
19 unanticipated General Subfund year-end balances that are described above shall also be  
20 temporarily suspended in years when a withdrawal from the Revenue Stabilization Fund is  
21 authorized in the adopted budget. If the amount of the withdrawal is less than the otherwise  
22 prescribed contribution, the difference will be transferred into the Revenue Stabilization Fund.  
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1 Section 2. Policy 10 of the Financial Policies for the City of Seattle Cumulative Reserve  
2 Subfund of the General Fund, adopted by the City Council and Mayor under Section 1 of  
3 Resolution 31083, and attached as Exhibit A thereto, is superseded by this ordinance.

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

7  
8 Passed by the City Council the \_\_\_\_ day of \_\_\_\_\_, 2011, and  
9 signed by me in open session in authentication of its passage this  
10 \_\_\_\_ day of \_\_\_\_\_, 2011.

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12 \_\_\_\_\_  
13 President \_\_\_\_\_ of the City Council

14  
15 Approved by me this \_\_\_\_ day of \_\_\_\_\_, 2011.

16  
17 \_\_\_\_\_  
18 Michael McGinn, Mayor

19  
20 Filed by me this \_\_\_\_ day of \_\_\_\_\_, 2011.

21  
22 \_\_\_\_\_  
23 Monica Martinez Simmons, City Clerk

24 (Seal)