

#5
CB 117256

Beth Goldberg/Ben Noble/jp/bdn
CBO Rainy Day Fund Policies ORD
Nov 8, 2011
Version #8

ORDINANCE _____

1
2 AN ORDINANCE relating to the Revenue Stabilization Account of the Cumulative Reserve
3 Subfund; revising policies regarding deposits into the Subfund; amending Seattle
4 Municipal Code Subsection 5.80.020 B in connection therewith; and superseding a
portion of Resolution 31083.

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

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

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

12 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

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

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

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

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

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

23 WHEREAS, changing the funding mechanism for the RSA from relying on surplus revenue to
24 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.

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

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

23 7. In the first year during which positive revenue growth is again forecast, the automatic
24 transfer of tax revenues described in subsection 5.80.020.B.2.b shall be limited to 0.25 percent,
25 followed by an automatic transfer of 0.50 percent in each year thereafter, unless the City again
26 followed by an automatic transfer of 0.50 percent in each year thereafter, unless the City again



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.

18
19
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)



FISCAL NOTE FOR NON-CAPITAL PROJECTS

Department:	Contact Person/Phone:	CBO Analyst/Phone:
City Budget Office	Beth Goldberg / 233-7115 Ben Noble / 684-8160	Hall Walker / 233-7065

Legislation Title: 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.

Summary of the Legislation: This legislation would update the Revenue Stabilization Account (aka the Rainy Day Fund) policies to allow the City to replenish the Revenue Stabilization Account in a timely manner in order to ensure that the City has adequate resources to transition into periods of unexpected revenue shortfalls.

Background: The City first established the Revenue Stabilization Account (RSA) in 1999 to provide the City's General Subfund with a cushion in the event of unexpected shortfalls in revenue. The existence of such a fund allows time for the City to adjust its operations to the revenue shortfalls and potentially avoid disruption to City services that could result from mid-year budget reductions. In addition, the bond rating agencies look favorably on jurisdictions with healthy rainy day funds and robust rainy day fund policies. High bond ratings result in lower borrowing costs to the City, including City-run utilities.

Current policies provides two mechanisms to fund the RSA – by ordinance or when actual revenues for the closed fiscal exceed that last available revenue forecast for the closed fiscal year. These policies allowed the City to aggressively fund the RSA in the period between 2005 and 2008, when the RSA reached a total value of \$30.6 million, or 4% of General Subfund tax revenues. Then, in 2009 and as part of the 2010 Adopted Budget, as the impacts of the Great Recession took hold, the City made aggressive use of the RSA to ease into the new financial reality, lowering the value of the fund to \$10.5 million, or 1.4% of tax revenues. In the 2011 Adopted Budget, the City made a modest increase of in the size of the RSA, bringing the total value to \$11.2 million, or 1.5% of tax revenue. Despite these efforts, the value of the RSA remains well below the target fund level of 5% of tax revenues and there is real concern that the current policies do not provide the City with sufficient mechanisms to ensure that the RSA is replenished prior to the next downturn in revenues. This concern stems from the fact that revenue growth in future years is forecast to be more modest compared to past post-recessionary periods. Average annual tax revenue growth through 2014 is projected at 3.4%, which is significantly below the rates seen in the post-recessionary period of 1995 – 2000 (7.9%) and in the post-recessionary period of 2003 – 2007 (6.3%). This suggests that revenue growth alone will not be sufficient to replenish the RSA.



To ensure that the City has sufficient mechanisms to fund the RSA, this legislation proposes the following changes:

- Replace the current excess revenue mechanism with one that would automatically direct 50% of unanticipated excess fund balance to the Rainy Day Fund;
- Create a new policy that would sweep a percentage of forecasted tax revenues (0.25% for 2012 and 0.50% each year thereafter) at the outset of the budget process to the Rainy Day Fund;
- Establish a policy to suspend the funding mechanisms when a tax revenue declines;
- Establish language that requires the evaluation of out-year financial projections when developing plans to spend down the Rainy Day Fund; and
- Maintain existing policies that set the maximum funding level at 5% of tax revenue and that allow for contributions by ordinance.

In its review and consideration of this legislation, the City Council made a number of amendments to further clarify the purposes of the Revenue Stabilization Account and the conditions under which transfers will be made into and out of the Account. These amendments implemented the following changes:

- Clarified that the Account can be used to fund activities that would otherwise be suspended or eliminated due to a shortfall in revenues;
- Eliminated the 2/3 vote required to transfer funds out of the Account (a simple majority will now be sufficient);
- Established that if the Account reaches its maximum balance, the funding that otherwise would have been transferred into the Account should be used to pay for existing obligations needs, rather than new programs;
- Established 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%.

X This legislation has financial implications.

Appropriations:

Fund Name and Number	Department	Budget Control Level*	2011 Appropriation	2012 Anticipated Appropriation
00100 General Fund	Finance General	Appropriation to General Fund Subfunds and Special Funds	\$0	\$1,950,000
TOTAL				

*See budget book to obtain the appropriate Budget Control Level for your department.



Appropriations Notes: No appropriations in 2011. Appropriations for 2012 will be included in the 2012 Budget. In 2013 and subsequent years, amount is expected to increase to approximately \$4,000,000 annually, based on current forecasts.

Appropriation amounts will vary with future updates to the revenue forecast and actual year-end experience.

Other Implications:

- a) **Does the legislation have indirect financial implications, or long-term implications?**
Adoption of these policies could help protect City services and allow the City time to transition into time of unexpected shortfalls in revenues.
- b) **What is the financial cost of not implementing the legislation?**
Not implementing this legislation could leave the City's General Subfund vulnerable to service disruptions in times of unexpected shortfalls in revenues that occur from time-to-time as the City would not have sufficient mechanisms to replenish the RSA. In addition, the absence of a well-funded RSA overtime could result in negative reactions by the bond rating agencies and potentially higher borrowing costs for the City and its utilities.
- c) **Does this legislation affect any departments besides the originating department?**
No.
- d) **What are the possible alternatives to the legislation that could achieve the same or similar objectives?** None.
- e) **Is a public hearing required for this legislation?** No.
(If yes, what public hearing(s) have been held to date, and/or what public hearing(s) are planned for the future?)
- f) **Is publication of notice with *The Daily Journal of Commerce* and/or *The Seattle Times* required for this legislation?** No.
- g) **Does this legislation affect a piece of property?** No
- h) **Other Issues:** None.

List attachments to the fiscal note below: None.





City of Seattle
Office of the Mayor

August 2, 2011

Honorable Richard Conlin
President
Seattle City Council
City Hall, 2nd Floor

Dear Council President Conlin:

I am please to transmit the attached proposed Council Bill that would update the City's General Subfund Revenue Stabilization Account (aka Rainy Day Fund), amend Seattle Municipal Code 5.80.020 B, and supersede Policy 10 of the Financial Policies for the City of Seattle Cumulative Reserve Subfund of the General Fund that was adopted under Section 1 of Resolution 31083. Updating these policies is essential if the City intends on having sufficient mechanisms to replenish the Revenue Stabilization Account following the Great Recession. The Revenue Stabilization Account is an important tool in helping the City weather unexpected shortfalls in revenues and helps protect important City services. The policy changes I am proposing in this Council Bill are reflective of information that my budget director, Beth Goldberg, presented to the Council Special Budget Committee on July 18, 2011.

The City first established the Revenue Stabilization Account (RSA) in 1999 to provide the City's General Subfund with a cushion in the event of unexpected shortfalls in revenue. The existence of such a fund allows time for the City to adjust its operations to the revenue shortfalls and potentially avoid disruption to City services that could result from mid-year budget reductions. In addition, the bond rating agencies look favorably on jurisdictions with healthy rainy day funds and robust rainy day fund policies. High bond ratings result in lower borrowing costs to the City, including City-run utilities.

Current policies provides two mechanisms to fund the RSA – by ordinance or when actual revenues for the closed fiscal exceed that last available revenue forecast for the closed fiscal year. These policies allowed the City to aggressively fund the RSA in the period between 2005 and 2008, when the RSA reached a total value of \$30.6 million, or 4% of General Subfund tax revenues. Then, in 2009 and as part of the 2010 Adopted Budget, as the impacts of the Great Recession took hold, the City made aggressive use of the RSA to ease into the new financial reality, lowering the value of the fund to \$10.5 million, or 1.4% of tax revenues. In the 2011 Adopted Budget, the City made a modest increase of in the size of the RSA, bringing the total value to \$11.2 million, or 1.5% of tax revenue. Despite these efforts, the value of the RSA remains well below the target fund level of 5% of tax revenues and there is real concern that the current policies do not provide the City with sufficient mechanisms to ensure that the RSA is replenished prior to the next downturn in revenues. This concern stems from the fact that revenue growth in future years is forecast to be more modest compared to past post-recessionary periods. Average annual tax revenue growth through 2014 is projected at 3.4%, which is significantly below the rates seen in the post-recessionary period of 1995 – 2000 (7.9%) and in the post-recessionary period of 2003 – 2007 (6.3%). This suggests that revenue growth alone will not be sufficient to replenish the RSA.

Michael McGinn, Mayor
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To ensure that the City has sufficient mechanisms to fund the RSA, this legislation:

- Replaces the current excess revenue mechanism with one that would automatically direct 50% of unanticipated excess fund balance to the Rainy Day Fund
- Creates a new policy that would sweep a percentage of forecasted tax revenues (0.25% for 2012 and 0.50% each year thereafter) at the outset of the budget process to the Rainy Day Fund
- Establishes a policy to suspend the funding mechanisms when absolute tax revenue growth is negative
- Establishes language that requires the evaluation of out-year financial projections when developing plans to spend down the Rainy Day Fund
- Maintains existing policies that set the maximum funding level at 5% of tax revenue and that allow for contributions by ordinance

The Revenue Stabilization Account has served the City well. The policy enhancements proposed in this legislation are important to ensuring that it continues to serve the City well as we look to the future. Thank you for your consideration of this legislation. Should you have questions, please contact Beth Goldberg, Director, City Budget Office at 233-7115.

Sincerely,



Michael McGinn
Mayor of Seattle

cc: Honorable Members of the Seattle City Council

