



CITY OF TUKWILA ADMINISTRATIVE MANUAL

Index: 300-15

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TITLE: RESERVE POLICY

1.0 PURPOSE:

To establish a Reserve Policy for the City which is capable of addressing the various types (categories) of the City's operating and restricted use funds. The objectives of this Policy are to (i) provide a clear understanding of the goals and objectives of reserve establishment, (ii) offer guidance and limitations regarding the establishment, use and replenishment of City reserves, and (iii) establish a process for periodic reporting and review of City reserves.

2.0 ORGANIZATION AFFECTED:

All City funds.

3.0 REFERENCES:

4.0 GENERAL FUND RESERVE POLICY:

The General Fund is used to account for all general revenues of the City not specifically levied or collected for other City funds, and for expenditures related to providing general services by the City. For the purpose of this policy and as it applies to the General Fund only, the City will establish a Contingency Reserve Fund with a minimum balance of 8% of annual General Fund revenues. At no time, however, shall the balance in the Contingency Reserve Fund fall below 4% unless specifically waived by the City Council because of an unforeseen emergency.

The Contingency Reserve Fund shall initially be set at a minimum of 4% of annual General Fund revenues. The City shall reach the targeted minimum of 8% no later than fiscal year 2014 according to the following schedule:

2% by December 31, 2011
4% by December 31, 2012
6% by December 31, 2013
8% by December 31, 2014

4.1 If actual expenditures in the General Fund are less than budgeted expenditures, and the General Fund does not end the year at a deficit, at least 25% of the difference between budgeted and actual expenditures will revert to the Contingency Reserve Fund and may then be re-appropriated in a subsequent year at the discretion of the City Council.

4.2 The City will annually direct a minimum of 25% of sales tax receipts from new construction (NAICS Industry Classification Code 23) to the Contingency

Reserve Fund.

- 4.3 Use of Contingency Reserve Fund - To the extent that there is an imbalance in the General Fund between revenues and budgeted expenditures, City Council and administration will strive to address the imbalance first with revenue increases, expenditure reductions, or a combination of the two.

Use of the Contingency Reserve Fund is a one-time, non-recurring funding source. If an imbalance in the General Fund occurs that can not be addressed with additional revenues or expenditure reductions, a multi-year plan shall be developed to address the imbalance concurrently with the planned reserve draw down of the Contingency Fund. The implementation of the replenishment plan will be done in accordance with the guidelines below (see "Replenishment of Reserves"). A planned draw down of the fund's reserves should: a) not exceed 50% of the balance in the Contingency Reserve Fund, and b) not reduce the reserve below 4% of annual General Fund revenues.

- 4.4 Replenishment of Reserves - The following criteria will be used to restore the Contingency Reserve Fund based upon the remaining fund balance compared to the minimum reserve guideline:
1. If the reserves are drawn down by 25-50% of reserve fund balance, then a budgetary plan shall be implemented to return the reserve level to between 75% and 100% of the minimum balance over a 5 to 7 year period.
 2. If the reserves are drawn down by 10-25% of reserve fund balance, then the budgetary plan to restore the reserve shall be structured over a 3 to 5 year period.
 3. If the reserves are drawn down by 0-10% of reserve fund balance, then a solution to replenish to at least the minimum shall be structured over a 1 to 3 year period.
- 4.5 Annual Status Reporting and Periodic Review - Annually, after presentation of the City's Comprehensive Annual Financial Report, the Finance Director will prepare and present an updated Reserve Level Status report by July 1st of the following year.

At least every five years, the Mayor, based on advice from the Finance Director, will ask the City Council to reaffirm or revise this policy, including the percentages established herein.

5.0 RISK MANAGEMENT RESERVE POLICY:

- 5.1. The City shall maintain a Risk Management Reserve Fund dedicated to mitigation of the risk of loss arising from potential claims against the City for general liability purposes as well as claims resulting from natural disasters such as flooding and earthquakes.
- 5.2. The Risk Management Reserve Fund shall be set initially at a minimum of 4%

of annual General Fund revenues. The City shall reach the targeted minimum of 8% no later than fiscal year 2014 according to the following schedule:

- 2% by December 31, 2011
- 4% by December 31, 2012
- 6% by December 31, 2013
- 8% by December 31, 2014

- 5.3. Legal claims expenses incurred below the City's insurance deductible amounts will be paid for out of the Risk Management Reserve Fund. Uninsured legal claim expenses will also be deducted from the Risk Management Reserve Fund.
- 5.4. Use of the Risk Management Reserve Fund - A draw down of the fund's reserves should: a) not exceed 50% of the balance in the Risk Management Reserve Fund, and b) not reduce the reserve below 4% of annual General Fund revenues.
- 5.5. Replenishment of Reserves - The following criteria will be used to restore the Risk Management Reserve Fund based upon the remaining fund balance compared to the minimum reserve guideline:
1. If the reserves are drawn down by 25-50% of reserve fund balance, then a budgetary plan shall be implemented to return the reserve level to between 75% and 100% of the minimum balance over a 5 to 7 year period.
 2. If the reserves are drawn down by 10-25% of reserve fund balance, then the budgetary plan to restore the reserve shall be structured over a 3 to 5 year period.
 3. If the reserves are drawn down by 0-10% of reserve fund balance, then a solution to replenish to at least the minimum shall be structured over a 1 to 3 year period.
- 5.6. The City Council may, at their discretion and as necessary, transfer funds between the Contingency Reserve Fund and the Risk Management Reserve Fund. Once the two reserve funds are fully funded up to the minimum levels as established within this policy, at no time will the combined balances of both funds decline below 8% of annual General Fund revenues.

6.0 REVENUE STABILIZATION FUND POLICY:

- 6.1. The City shall maintain a Revenue Stabilization Fund dedicated to mitigating the impact of unanticipated revenue declines.
- 6.2. The City shall appropriate, on an annual basis, a transfer of 1% of General Fund revenue to the Revenue Stabilization Fund beginning with the 2011-2012 biennial budget. The Revenue Stabilization Fund will not be utilized by

the City unless actual General Fund revenue is 5% or more below budgeted revenue after six months through any given calendar year. At no point will the balance in the Revenue Stabilization Fund decline by more than 50%, unless actual General Fund revenue is more than 20% below budgeted revenue.

- 6.3. In addition to the annual 1% appropriation, the City will transfer a minimum of 25% of the excess of any actual property tax or sales tax collections above the respective budgeted amounts. Such transfer shall take place by March 31st of the following fiscal year.
- 6.4. Replenishment of Reserves - The following criteria will be used to restore the Revenue Stabilization Fund based upon the remaining fund balance compared to the minimum reserve guideline:
1. If the reserves are drawn down by 25-50% of reserve fund balance, then a budgetary plan shall be implemented to return the reserve level to between 75% and 100% of the minimum balance over a 5 to 7 year period.
 2. If the reserves are drawn down by 10-25% of reserve fund balance, then the budgetary plan to restore the reserve shall be structured over a 3 to 5 year period.
 3. If the reserves are drawn down by 0-10% of reserve fund balance, then a solution to replenish to at least the minimum shall be structured over a 1 to 3 year period.
- 6.5. If the accumulated balance in the Revenue Stabilization Fund exceeds 10% of annual General Fund revenues, such excess shall be transferred to the Contingency Reserve Fund.

7.0 ENTERPRISE FUND RESERVE POLICY:

- 7.1. The City shall maintain an adequate fund balance in each of the City's enterprise funds to provide funding for capital expenses, unanticipated revenue declines, and any other unbudgeted expense. The policy applies to the following funds:
1. Water Fund
 2. Sewer Fund
 3. Surface Water Fund
 4. Foster Golf Course Fund
- 7.2. The City shall incorporate into its customer rate structure funding for the establishment and maintenance of a Working Capital Reserve Fund. The reserve balance shall be no less than 20% of the previous year operating and capital expenses. The City shall reach the targeted minimum of 20% no later than fiscal year 2014 according to the following schedule:

5% by December 31, 2011
 10% by December 31, 2012
 15% by December 31, 2013
 20% by December 31, 2014

- 7.3. Use of the Working Capital Reserve Fund - A draw down of the fund's reserves should: a) not exceed 50% of the balance in the Working Capital Reserve Fund, and b) not reduce the reserve below 10% of annual operating and capital expenditures within each fund.
- 7.4. Replenishment of Reserves - The following criteria will be used to restore the Working Capital Reserve Fund based upon the remaining fund balance compared to the minimum reserve guideline:
 - 1. If the reserves are drawn down by 25-50% of reserve fund balance, then a budgetary plan shall be implemented to return the reserve level to between 75% and 100% of the minimum balance over a 5 to 7 year period.
 - 2. If the reserves are drawn down by 10-25% of reserve fund balance, then the budgetary plan to restore the reserve shall be structured over a 3 to 5 year period.
 - 3. If the reserves are drawn down by 0-10% of reserve fund balance, then a solution to replenish to at least the minimum shall be structured over a 1 to 3 year period.
- 7.5. The Working Capital Reserve fund shall be maintained within each of the Enterprise Funds, but shall be separate from the accumulated fund balance within each fund.

Title:
RESERVE POLICY

Initiating Department:
Finance Department

Effective Date:
12/11/09

Supersedes:
N/A

Mayor's Office Approval Signature:

**SUMMARY OF
Ordinance No. 2266**

City of Tukwila, Washington

On December 7, 2009 the City Council of the City of Tukwila, Washington, adopted Ordinance No. 2266, the main points of which are summarized by its title as follows:

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, ESTABLISHING NEW REGULATIONS REGARDING CITY CASH RESERVES, TO BE CODIFIED AT TUKWILA MUNICIPAL CODE CHAPTER 3.34, "RESERVE POLICY"; PROVIDING FOR SEVERABILITY; AND ESTABLISHING AN EFFECTIVE DATE.

The full text of this ordinance will be mailed upon request.

Approved by the City Council at a Regular Meeting thereof on December 7, 2009.



Christy O'Flaherty, CMC, City Clerk

Published Seattle Times: December 10, 2009.



City of Tukwila

Washington

Ordinance No. 2266

AN ORDINANCE OF THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, ESTABLISHING NEW REGULATIONS REGARDING CITY CASH RESERVES, TO BE CODIFIED AT TUKWILA MUNICIPAL CODE CHAPTER 3.34, "RESERVE POLICY"; PROVIDING FOR SEVERABILITY; AND ESTABLISHING AN EFFECTIVE DATE.

WHEREAS, the City Council recognizes that the City of Tukwila is in need of a reserve policy that provides resources for unplanned expenses, to offset unexpected revenue declines and to improve the long-term financial condition of the City; and

WHEREAS, the City Council recognizes establishing such a reserve policy has a direct effect upon the bond rating of the City, which could result in future decreased borrowing costs; and

WHEREAS, the City Council has determined it is in the best interest of its citizens and businesses to provide long-term financial stability, reduce reliance upon one-time cost savings, to address unplanned economic challenges that might face the City in the future;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, HEREBY ORDAINS AS FOLLOWS:

Section 1. Regulations Established. Tukwila Municipal Code Chapter 3.34, "Reserve Policy," is hereby created to read as follows:

3.34 Reserve Policy

City Administrative Policy No. 300-15, "Reserve Policy," attached to this ordinance as "Exhibit A," is hereby adopted and incorporated into this chapter by reference as if fully set forth herein. The Finance Director is required to maintain the administrative reserve policy. Changes to the policy require approval by the City Council Finance and Safety Committee.

Section 2. Severability. If any section, subsection, paragraph, sentence, clause or phrase of this ordinance or its application to any person or situation should be held to be invalid or unconstitutional for any reason by a court of competent jurisdiction, such invalidity or unconstitutionality shall not affect the validity or constitutionality of the remaining portions of this ordinance or its application to any other person or situation.

Section 3. Effective Date. This ordinance or a summary thereof shall be published in the official newspaper of the City, and shall take effect and be in full force and effect five days after passage and publication as provided by law.

PASSED BY THE CITY COUNCIL OF THE CITY OF TUKWILA, WASHINGTON, at a Regular Meeting thereof this 7TH day of December, 2009.

ATTEST/AUTHENTICATED:

Christy O'Flaherty
Christy O'Flaherty, CMC

Jim Haggerton
Jim Haggerton, Mayor

APPROVED AS TO FORM BY:

[Signature]
Office of the City Attorney

Filed with the City Clerk: 12-2-09
Passed by the City Council: 12-7-09
Published: 12-10-09
Effective Date: 12-15-09
Ordinance Number: 2266

Attachment: Exhibit A - Reserve Policy 300-15