City Fiscal Reserve Funds

The State of Washington permits the City to maintain two financial reserves to draw upon in the event of certain unanticipated expenditure or revenue pressures.

Emergency Fund

Under the authority of RCW 35.32A.060, the City maintains the Emergency Fund (EMF) of the General Fund. The EMF is the principal reserve for the City to draw upon when certain unanticipated expenses occur during the fiscal year. Eligible expenses include costs related to storms or other natural disasters. 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.

Prior to 2017, the City's practice was to fully fund the emergency reserve to this maximum limit. In 2017, the City modified the existing financial policies for the EMF to establish a minimum balance of $60 million, and to adjust that target balance each year with the rate of inflation. This policy struck a balance between ensuring that resources will be available to address unanticipated expenditures and making resources available to address current needs. In 2022, the City updated its financial policies to define a process for rebuilding the EMF reserve following a significant drawdown of funds, requiring that the EMF be replenished to its target balance within a period of five years.

During the COVID-19 pandemic and related economic downturn, the City withdrew $31.3 million from the EMF over two years, reducing the reserve balance to $33.7 million at the end of 2021. The 2022 Adopted Budget initiated the five-year rebuilding cycle by contributing $10 million to the EMF; the 2023 Adopted and 2024 Endorsed budget makes annual contributions of $6.5 million, rebuilding the reserve to $56.7 million over the biennium. Contributions of $15 million in 2025 and 2026 would rebuild the fund to a projected target balance[1] of $86.7 million within the prescribed five-year timespan.

Revenue Stabilization Fund

Under the authority of RCW 35.21.070, the City maintains a second financial reserve called the Revenue Stabilization Fund (RSF), also known as the Rainy Day Fund. The RSF provides resources for the City to draw upon to maintain City services in the event of a sudden, unanticipated shortfall in revenue due to economic downturns or other factors. City code limits the balance of this reserve to five percent of General Fund tax receipts. Ordinance 123743 requires the City to deposit an amount equivalent to 0.5% of General Fund tax revenues into the RSF, with some limited exceptions. In addition, City policy requires the deposit of 50% of any unplanned year-end fund balance in the General Fund into the RSF. The RSF has a fund balance cap equal to five percent of total annual General Fund tax revenue.

In 2011, following the Great Recession of 2009 and 2010, the City adopted significant RSF funding enhancements via Ordinance 123743, including the required annual deposit of 0.5% of General Fund tax revenues into the RSF. The new policies facilitated the rebuilding of this reserve fund from a low of $10.5 million in 2010 to $60.8 million by 2020. Additionally, the policies specified that contributions to the fund are suspended when tax revenues decline and are reduced to 0.25% in the following year.

During the COVID-19 pandemic and related economic downturn, the City withdrew $54.7 million from the RSF, reducing the reserve balance to $6.0 million at the end of 2021. The 2022 Adopted Budget called for a $15.4 million contribution to the RSF as part of a multi-year strategy to rebuild the fund

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[1] 2026 anticipated target balance calculated using CPI-U 12 Months Ending June from the August 2022 Revenue Forecast.

balance to 5% of total annual General Fund tax revenue. However, the 2021 year-end fund balance in the General Fund generated a $55.7 million mid-year deposit, which funded the RSF to its cap. Therefore, 2023 Adopted and 2024 Endorsed budget makes the maximum contributions of $3.6 million in 2023 and $1.7 million in 2024 to reach an ending fund balance of $67 million.