



Finance Committee

Discussion of Proposal to Revise the Operating Budget Policy to Include a Budget Stabilization Reserve

Agenda Date: 10/17/2018
Agenda Item Number: 6.B
File Number: 18-0991

Type: discussion **Version:** 1 **Status:** Filed

Title

Discussion of Proposal to Revise the Operating Budget Policy to Include a Budget Stabilization Reserve

Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Move to revise the Operating Budget Policy to Include a Budget Stabilization Reserve and forward to full Council for consideration as part of the budget process

Report

Issue:

Whether to revise the Operating Budget Policy to include a Budget Stabilization Reserve and forward to full Council for consideration as part of the budget process

Staff Contact:

Debbie Sullivan, Administrative Services Director, 360.753.8499

Presenter(s):

Debbie Sullivan, Administrative Services Director, 360.753.8499

Background and Analysis:

During the Great Recession, the City experienced severe cuts in service to the community. Overall the recession cost \$6 million; 60 employees were laid off; and it took more than nine years to recover.

Over the past several years, the City has benefitted from a strong local and regional economy that has provided sufficient revenues to support key programs and services. Several local revenue indicators suggest that the local economy is beginning to weaken. Sales tax is below projections for 2018, private utility taxes have flattened out and cable TV tax is rapidly declining. Certain expenses such as medical insurance continue to outpace revenues. The City will likely have a budget deficit in the next two to three years.

Staff will present and discuss with Finance Committee a recommendation to revise our existing Operating Budget Policy which was originally written in 1985.

As a best practice, the Governmental Finance Officers Association (GFOA) now recommends establishing a stabilization policy to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls. Referenced as a budget stabilization policy, the objective of the policy is to address temporary cash flow shortages resulting from unanticipated economic downturns.

GFOA recommends setting a minimum target of approximately two months of operating revenues or expenditures; for Olympia that translates to between \$10 and \$11 million.

The City of Olympia's Financial Management Policies approved in 1985, include a General Fund fund balance policy equal to 10 percent of revenues for the current year. For 2018, the 10 percent equates to \$7.8 million.

Staff will discuss the following, along with the financial impacts with Finance Committee:

1. Clarify the use for the original 10 percent fund balance reserve to address non-economic emergencies. This component would be identified as the Emergency Fund Balance Reserve; and
2. Establish a second component of the reserve policy specifically dedicated to sustaining service levels during an economic downturn. This would be identified as the Budget Stabilization Reserve and would have a goal of reserving an additional 5 - 10 percent of General Fund revenues. This new reserve component could be funded with 10 percent, 15 percent, or 20 percent of unanticipated revenue and unspent budget at the end of each year.
3. At no time, would the combined totals of the two fund reserve components exceed 20 percent or two months of budgeted General Fund revenues, whichever is greater. Use of the reserves would require an action by Council and draws from the reserve would be accompanied by cost-savings measures.

Neighborhood/Community Interests (if known):

N/A

Options:

1. Approve staff recommendation based on feedback and forward to full Council for consideration as part of the budget process. This increases the reserve to be consistent with Financial Management Best Practices and clarifies how the reserve can be used.
2. Modify staff recommendation based on feedback and forward to full Council for consideration as part of the budget process.
3. Modify staff recommendation based on feedback and return to Finance Committee for further discussion.
4. Do not recommend a revision to the existing Operating Budget Policy.

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Financial Impact:

Will be calculated based on Finance Committees recommendation

Attachments:

None