



Finance Committee

Funding Recommendation for Risk-Based Analysis of Reserve Levels Study

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Title

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Recommended Action

Committee Recommendation:

Not referred to a committee.

City Manager Recommendation:

Move to recommend using \$29,000 of the Budget Stabilization Reserve to fund a Risk-Based Analysis of Reserve Levels Study and forward to the full City Council for consideration.

Report

Issue:

Whether to recommend funding a Risk-Based Analysis of Reserve Levels Study using the Budget Stabilization Reserve

Staff Contact:

Debbie Sullivan, Administrative Services Director, 360.753.8499

Presenter(s):

Debbie Sullivan, Administrative Services Director, 360.753.8499

Background and Analysis:

In 2019, as part of a one-time accounting adjustment, City Council approved Finance Committee's recommendation to dedicate \$7.8 million to a budget stabilization reserve. The next step is to update the City's Financial Policies to reflect this new reserve fund, establish target levels, and define the conditions under which they can be used.

Staff will discuss with Finance Committee a recommendation to use \$29,000 of the Budget Stabilization Reserve to hire the Government Finance Officers Association (GFOA) to assess the appropriate level of reserve funds and recommend updated language to the City's Financial Management Policies.

GFOA is the leading association for public sector finance professionals; and, they specialize in local government financial management with a particular emphasis on budgeting and financial policies. Their Research and Consulting Center provides local governments with comprehensive analytical and advisory services and research.

GFOA will conduct a risk-based reserve analysis to recommend the appropriate level of reserve funds the City should maintain. The risk analysis relies on historical experiences, the experience of other cities, and third-party experts (i.e. Geological Survey for earthquakes). Once they examine the risk factors, GFOA uses "Probability Management" to calculate the amount of risk the City wants to cover with reserves.

Using the results of the analysis GFOA will:

1. Develop and document a target range of reserves based on the analysis;
2. Recommend updates to our Financial Policies; and
3. Recommend alternatives to reserves to mitigate risk (i.e. insurance or borrowing).

City Council approved dedicating 10 percent of General Fund end-of-year savings annually to the Budget Stabilization Reserve. Staff recommends using \$29,000 of the 2019 Budget Stabilization allocation to fund this study.

Neighborhood/Community Interests (if known):

Calculating the appropriate level of reserves can help reduce the risk of needing to cut programs or services during an economic downturn or unforeseen emergency.

Options:

1. Approve staff recommendation to fund a Risk-Based Analysis of Reserve Levels' Study using the Budget Stabilization Reserve and forward recommendation to Council for approval.
2. Direct staff to find another source of funding for the Risk-Based Analysis of Reserve Levels Study. The study will be delayed until 2021.
3. Provide staff with direction and return with an alternative approach.

Financial Impact:

Funding is available through the Budget Stabilization Reserve.

Attachments:

None