

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.

The 2022 Adopted Budget initiated the five-year rebuilding cycle for reserve funds used during the COVID pandemic by contributing \$10 million to the EMF. Between 2023 and 2026 a total of \$44 million has been transferred to replenish the Emergency Fund within the five-year cycle. The 2027 Proposed Budget assumes a contribution of \$4.7 million and \$2.7 million in 2028 to maintain the reserve's target balance¹ of \$95.1 million.

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.

The RSF was fully replenished during 2022 utilizing a better than anticipated ending balance from 2021. Since 2023, the budget has funded the incremental amount necessary to maintain the RSF at the statutory cap. The 2027 Proposed Budget includes \$4.1 million in contribution to the RSF and \$4.1 million in 2028, respectively, bringing the total RSF reserves to \$86.2 million at the end of the biennium.

¹ 2028 anticipated target balance calculated using CPI-U 12 Months Ending June from the August 2026 Revenue Forecast.