



November 12, 2015

Council President Tim Burgess  
600 4<sup>th</sup> Ave, Floor 2  
Seattle, WA 98104

Dear Council President Burgess,

I am writing to express strong concerns regarding Council Bill 118561, which would suspend this year's required deposit into the City's Revenue Stabilization Account (RSA), also known as the "Rainy Day Fund." I do not support weakening existing City financial policies that are codified in the Seattle Municipal Code in order to address short-term budget pressures, as this sets a poor precedent regarding the City's willingness to honor its financial commitments.

I am concerned with this legislation for the following reasons:

**A fully funded RSA is critical for future economic downturns**

As described in the attached document provided by the City Budget Office (CBO), the RSA provides an important financial reserve that can protect the City from future downturns in revenue. In fact, the City's General Fund revenues are particularly susceptible to a downturn now because revenue growth is currently being driven by construction, a historically volatile sector.

The recent experience of the Great Recession provides direct evidence of the RSA's value. In 2009 and 2010, withdrawals from the RSA of a combined \$20 million helped mitigate the impact of decline in General Fund revenue. Nonetheless, significant budget reductions were imposed during this period, including on human services investments.

This year's required deposit will bring the RSA's balance to \$47.5 million. While this figure may seem large, in the context of the City's \$1.1 billion General Fund, it actually represents a rather modest reserve. Translated into personal terms, it represents a savings account with a balance of less than 5 percent of the General Fund's annual income.

When the last recession hit, annual General Fund tax revenues fell by 4.3 percent (more than \$35 million) in inflation-adjusted terms, then took four years to return to pre-recession levels when measured in these same terms. Even a fully funded RSA cannot completely protect the City from another prolonged episode of revenue loss and economic stagnation, but it can help limit the negative impacts on City services.

**Existing City financial policies should not be weakened to address short-term budget pressures**

The current financial policies that govern the Rainy Day Fund were adopted by Ordinance 123743 and codified under SMC 5.80.020(B). They have been developed over time, after serious consideration of the best ways to protect the City's long-term financial health. Weakening these policies to address short-term budget pressures now would set a poor precedent for how the City allocates resources in the future, especially in a weaker economy.

The City is experiencing a time of nearly unprecedented growth. This is precisely when the City should be maintaining strong financial policies that allow us to fully rebuild our financial reserves rather than diminish it. Many budget pressures will undoubtedly face the City in future years, but we must continue to take a comprehensive view of our long-term financial picture.

**Our homelessness response should not come at the expense of the RSA**

Some have argued that funds intended for the RSA should be dedicated toward homelessness services, specifically additional shelter bed funding. This would be in addition to:

- Over \$40 million in base annual funding for homelessness provided by the City;
- An extra \$1.5 million in homelessness services in the proposed 2016 Budget; and
- An additional \$5 million in emergency spending for homelessness services unanimously approved by the City Council last week.

The recent \$5 million investment, developed in cooperation with the City Council, includes a planned \$900,000 investment in 100 additional shelter beds over the next year. This is in addition to 100 new shelter beds expected to open in the very near future at the City's new Queen Anne shelter, plus an additional 100 shelter beds expected to be provided by the County as part of their commitment to addressing homelessness in the region. This \$5 million appropriation is also offset with a new funding source, and thus maintains a commitment to protecting and growing the City's reserves.

Overall, the City of Seattle currently funds over 1,600 shelter beds, with the additional beds mentioned above coming online very shortly. While we are adding capacity to our shelter system, we also need to continue our efforts to reduce the length of stay that families and individuals are experiencing in our shelters. The answer is not to simply build more shelter beds – we must increase the capacity of our existing system by connecting people to the services they need to be moved out of emergency shelter and into permanent housing. Far too many adults and children are being served by a mat on the floor without connection to these needed services.



To be clear, my commitment to addressing homelessness in our City is unwavering. In addition to increasing the City's investments in homelessness by 7 percent in my last two budgets, I have directed the Human Services Department to implement a number of new efforts that will support and improve our existing service system. We need to ensure that our providers have the support and capacity they need to connect people with a range of services that will create a more sustainable path to permanent housing. This is also why the new \$5 million investment includes funding for behavioral and mental health treatment, addiction treatment, flexible funding and rapid rehousing to meet individual needs, in addition to funding new shelter beds.

**Additional resources are available for Council priorities.**

Significant resources are available to address Council's 2016 Budget priorities. The revenue update provided by CBO to Budget Committee Chair Licata last week provided more than \$8.5 million in net new resources, and an additional \$3 million had been held in reserve in my proposed 2016 Budget, specifically for Council additions. In addition, Council Central Staff have identified a number of other resources that add to the total funding available to Council. In this context, Council can fund its priorities and still make the required contribution to the Rainy Day Fund – this is not an either/or proposition.

Thank you for your attention to this matter.

Sincerely,



Edward B. Murray  
Mayor, City of Seattle

### **Attachment: Seattle's Fiscal Reserves – A Brief Explanation**

The City has adopted by both ordinance and resolution a series of financial policies that are designed to protect the City's long-term financial health. These policies, for example, prescribe what types of projects that can be financed with debt, and limit the total amount of debt that can be borne by the City at any given time. As described below, these policies also establish reserves that are designed to help protect the City from unanticipated costs and unexpected shortfalls in revenue.

The State of Washington permits the City to maintain two financial general government reserves to draw upon in the event of certain unanticipated expenditure or revenue pressures. Under the authority of RCW 35.32A.060, the City maintains the Emergency Subfund (ESF) of the General Fund. The ESF is the principal reserve for the City to draw upon when certain unanticipated expenses occur outside the normal budget process. 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. The City's financial policies dictate that the reserve be fully funded at this level. Consistent with these policies, the 2016 proposed budget includes a \$5.1 million transfer into the fund that brings its balance to the current legal maximum of \$59.3 million

Under the authority of RCW 35.21.070, the City maintains a second financial reserve called the Revenue Stabilization Account (RSA), also known as the Rainy Day Fund. The RSA 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.

Each year, the City's budget is balanced against a forecast of revenues anticipated in the following year. If actual revenues fall short of this forecast, the City must reduce its spending or call upon the RSA to "cushion" the impact and mitigate potential spending cuts. This is exactly what happened during 2009 and 2010 as the "Great Recession" significantly reduced City revenues. At the time the recession hit, the RSA held a balance of approximately \$30 million. Withdrawals of \$9 million in 2009 and \$11 million in 2010 reduced the balance to about \$10 million.

The RSA was first established in 1999 and codified in Seattle Municipal Code (SMC) Section 5.80.020 by Ordinance 119761. At that time the account's maximum balance was limited to 2.5% of the tax revenues flowing into the General Fund. Contributions to the account were voluntary, but the existence of the RSA provided a "savings account" which the City could use to protect itself from unanticipated revenue declines. In 2007, the SMC was amended to increase the maximum allowable balance in the RSA to 5% of tax revenues, where it remains today. The increase was enacted to ensure that the City "would be in a better position, should it face a sudden economic downturn or revenue shortfall." The SMC was further amended in 2011 to establish mandatory mechanisms that require deposits in the RSA. The goal of these changes was to ensure that the RSA's balance was quickly restored after having been drawn down in the recession. The Council is proposing to suspend a policy that would otherwise require such a mandatory deposit.



The changes adopted in 2011 have facilitated the rebuilding of RSA from a low of roughly \$10 million in 2010 to the proposed 2016 level of \$47.5 million, the maximum allowed under the current policies. Until it is drawn down again, future contributions to the fund will be driven largely by growth in General Fund tax revenues. The maximum allowable RSA balance will increase as revenues increase because the limit is set as percentage (5%) of these revenues.

The tables below, from the City's Budget Book summarize the recent pattern of deposits into the two reserves.

#### **Fiscal Reserves Fund Table**

##### **Revenue Stabilization Account (00166)**

	<b>2014 Actuals</b>	<b>2015 Adopted</b>	<b>2015 Revised</b>	<b>2016 Endorsed</b>	<b>2016 Proposed</b>
<b>Beginning Fund Balance</b>	<b>30,396,725</b>	<b>41,412,783</b>	<b>41,412,783</b>	<b>44,749,783</b>	<b>45,223,304</b>
Accounting and Technical Adjustments	0	0	0	0	0
Plus: Actual and Estimated Revenues	11,016,058	3,337,000	3,810,521	0	2,223,941
<b>Ending Fund Balance</b>	<b>41,412,783</b>	<b>44,749,783</b>	<b>45,223,304</b>	<b>44,749,783</b>	<b>47,447,245</b>
<b>Ending Unreserved Fund Balance</b>	<b>41,412,783</b>	<b>44,749,783</b>	<b>45,223,304</b>	<b>44,749,783</b>	<b>47,447,245</b>

##### **Emergency Subfund (00185)**

	<b>2014 Actuals</b>	<b>2015 Adopted</b>	<b>2015 Revised</b>	<b>2016 Endorsed</b>	<b>2016 Proposed</b>
<b>Beginning Fund Balance</b>	<b>42,059,705</b>	<b>48,546,526</b>	<b>48,546,526</b>	<b>53,005,066</b>	<b>54,192,724</b>
Accounting and Technical Adjustments	0	0	0	0	0
Plus: Actual and Estimated Revenues	6,486,821	4,458,540	5,646,198	3,604,344	5,148,309
<b>Ending Fund Balance</b>	<b>48,546,526</b>	<b>53,005,066</b>	<b>54,192,724</b>	<b>56,609,410</b>	<b>59,341,033</b>
<b>Ending Unreserved Fund Balance</b>	<b>48,546,526</b>	<b>53,005,066</b>	<b>54,192,724</b>	<b>56,609,410</b>	<b>59,341,033</b>