

FINANCIAL POLICIES FOR THE CITY OF SEATTLE CUMULATIVE RESERVE SUBFUND OF THE GENERAL FUND

Introduction

The Cumulative Reserve Subfund of the General Fund is comprised of two accounts, the Capital Projects Account and the Revenue Stabilization Account. The Capital Projects Account is used to pay debt service on the City's Capital Facilities Bonds and is the primary resource for asset preservation funding for non-utility departments other than Seattle Department of Transportation. The Revenue Stabilization Account (also called the Rainy Day Fund) is intended to cushion the City from sudden unanticipated shortfalls in revenue due to economic downturns in order to avoid or mitigate mid-year expenditure reductions.

Fund Structure

Policy 1. Subfund Accounts. The Cumulative Reserve Subfund shall be comprised of two (2) accounts: the Capital Projects Account, with its several sub-accounts, and the Revenue Stabilization Account. [Ord 119761]

Policy 2. Capital Projects Account Subaccounts. The Capital Projects Account shall be comprised of several subaccounts, including but not limited to the Real Estate Excise Tax I Subaccount; the Real Estate Excise Tax II Subaccount; the South Lake Union Property Proceeds Subaccount; and the Unrestricted Subaccount. [Ord 120411] The Asset Preservation Subaccount Fleets and Facilities Subaccount [Ord 121642] and Street Vacation Subaccount [Ord 121661] are also subaccounts of the Capital Projects Account. [Updates policy adopted in Resolution 30379, Exhibit C-2.]

Expenditures

Policy 3. Purposes of Subfund. There is hereby established under authority of RCW 35.21.070, as a subfund of the General Fund, a cumulative reserve fund for several different municipal purposes as well as certain specific municipal purposes as follows:

- a) The making of any public improvement, including but not limited to the construction, alteration, renovation or repair of City buildings; the establishment, widening and extending of streets and highways; and the construction and repair of sewers;
- b) Investigations and studies in connection with any public improvement;
- c) The acquisition of real property;
- d) The purchase of supplies, material or equipment as specified in the ordinance making an appropriation therefore;
- e) Civil defense;

- f) The provision of low-income housing;
- g) The provision of reserves for revenue stabilization for future operations;
- h) Short-term loans for capital projects to meet cash-flow requirements, provided that a source of repayment is identified and that a schedule and term of repayment are specified;
- i) The financing of capital projects specified in the capital facilities element of the City's Comprehensive Plan and housing relocation assistance, as authorized by Chapter 82.64 RCW;
- j) The matching of federal or state funds for any of the foregoing or any other municipal purpose the nature of which shall be specified in the appropriating ordinance.

The subfund shall be known as the Cumulative Reserve Subfund.
[Ord 117977]

Policy 4. Revenue Stabilization Account expenditures. The Revenue Stabilization Account shall be used for revenue stabilization for future City operations. Expenditures from the Revenue Stabilization Account shall require an ordinance passed by two-thirds vote unless state law requires a higher supermajority vote of the City Council. [Ord 119761]

Policy 5. Capital Projects Account expenditures. Expenditures from the Capital Projects Account shall require an ordinance adopted by a majority of the members of the City Council. [Ord 119761]

- a) Real Estate Excise Tax I Subaccount expenditures. The Real Estate Excise Tax I Subaccount shall be expended only for the purposes and capital projects contemplated by RCW 82.46.010. [Ord 119761] RCW 82.46.010 requires that expenditures from this subaccount be limited to financing capital projects specified in a capital facilities plan element of a comprehensive plan and housing relocation assistance, except for (a) revenues pledged to debt retirement prior to April 30, 1992, which may be used for that purpose until the original debt is retired, or (b) revenues committed prior to April 30, 1992 to a project, which may be used for that purpose until the project is completed. "Capital project" is defined in RCW 82.46.010(6) to mean those public works projects of a local government for planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems, parks, recreational facilities, law enforcement facilities, fire protection facilities, trails, libraries, administrative and/or judicial facilities, river and/or waterway flood control projects (for jurisdictions that had expended funds from this tax prior to June 11, 1992 for such purpose), and housing projects (until December 31, 1995 and only for those jurisdictions that had expended funds from this tax prior to June 11, 1992 for this purpose).

- b) Real Estate Excise Tax II Subaccount expenditures. The Real Estate Excise Tax II Subaccount shall be used solely for the purposes and capital projects contemplated by RCW 82.46.035. [Ord 119761] RCW 82.46.035 requires that expenditures from this subaccount be limited to financing capital projects specified in a capital facilities plan element of a comprehensive plan, except for (a) revenues pledged to debt retirement prior to March 1, 1992, which may be used for that purpose until the original debt is retired, or (b) revenues committed prior to March 1, 1992 to a project, which may be used for that purpose until the project is completed. "Capital project" is defined in RCW 82.46.035(5) to mean those public works projects of a local government for:
- i. Planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of streets, roads, highways, sidewalks, street and road lighting systems, traffic signals, bridges, domestic water systems, storm and sanitary sewer systems;
 - ii. Planning, construction, reconstruction, repair, rehabilitation, or improvement of parks; and
 - iii. Until January 1, 2026, planning, acquisition, construction, reconstruction, repair, replacement, rehabilitation, or improvement of facilities for those experiencing homelessness and affordable housing projects. [Revised Policy]
- c) Asset Preservation Subaccount Fleets and Facilities expenditures. Expenditures from the Asset Preservation Subaccount Fleets and Facilities are governed by the financial policies endorsed by Resolution 30812.
- d) South Lake Union Property Proceeds Subaccount expenditures. Expenditures from the South Lake Union Property Proceeds Subaccount shall be used for the purposes described in Sections 1 through 6 of Resolution 30334, including transaction costs, the Fairview-Valley Corridor realignment project, legal reserves, affordable housing, and other South Lake Union transportation projects.
- e) Street Vacation Subaccount expenditures. Expenditures from the Street Vacation Subaccount shall be dedicated to the acquisition, improvement, and development of public open space or transportation capital projects. [Ord 121661]
- f) Unrestricted Subaccount expenditures. Expenditures from the Unrestricted Subaccount shall be for asset preservation, facility improvements that do not expand capacity (though they may expand utilization), and planning and development of new or expanded capital infrastructure.

Policy 6. Capital Projects Account Spending Priorities

- a) The City shall estimate the average amount of annual funding required to preserve existing assets owned by City departments other than Transportation and the utilities. Until and unless the City develops a method for estimating this annual target based wholly or in part on actual facility conditions and service requirements, the target shall begin at \$47 million in 2008 and shall be adjusted for the effects of inflation on the buying power of the dollar. Beginning in

2009, a combination of Capital Projects Account revenue and other resources at least equal to 65% of the target shall be allocated for asset preservation (formerly known as "major maintenance" as defined by Resolution 30365) for facilities owned by City departments other than Transportation and the utilities. [Res. 31848]

- b) Beginning in 2009, at least \$5 million in Capital Projects Account revenue shall be allocated for asset preservation in the Seattle Department of Transportation. This amount shall be adjusted for the effects of inflation on the buying power of the dollar. [Res. 31083]
- c) Capital Projects Account revenue shall be used to pay:
 - i. Current year expenses for capital projects determined valid under 5(a) or 5(b) above. [Res. 31848]
 - ii. Debt service on bonds issued in support of Public Safety Facilities and repair or replacement of the West Seattle Bridge. [Revised Policy]
 - iii. Payment of remaining debt service, as of January 1, 2020, on bonds issued prior to 2020 for capital projects valid under policy 5(a) and 5(b). [Revised Policy]
 - iv. New debt services for any bonds issued for capital projects determined valid under policy 5(a) and 5(b) from January 1, 2021 to December 31, 2022. [Revised Policy]
- d) The average annual debt service over the six-year CIP period, as a percentage of the annual REET revenue forecast, may not exceed 30% for the six-year CIP period and may not exceed 50% of any one year of the six-year REET forecast. [Revised Policy]
- e) If the Capital Projects Account does not have sufficient funding to meet the requirements of Policy 6a and Policy 6b above and Policy 12 below, the City shall consider the use of General Subfund to eliminate the funding shortfall. With or without the addition of any General Subfund support, if the total available funding remains insufficient for Policy 6a and Policy 6b, funding for these two policies shall be reduced proportionately. [Res. 31083]
- f) Beginning in 2010, the annual adopted budget shall state the difference between (i) the budget for asset preservation for departments other than Transportation and the utilities and (ii) both the annual average amount required for asset preservation defined by Policy 6a (known as the target) and the minimum funding requirement of Policy 6a. In subsequent years the annual adopted budget shall state the cumulative differences since 2010. [Res. 31083]

Policy 7. Use of Real Estate Excise Tax revenues for future Debt Service. Except for projects described in Policy 6c above, no new debt service for new facilities shall be charged to Real Estate Excise Tax revenues. [Revised Policy]

Policy 8. Use of Real Estate Excise Tax revenues for future Levy matches. Beginning in 2009 and except for transportation projects described in Policy 6b above, the City shall not pass

legislation committing Real Estate Excise Tax revenue to partial funding of voter-approved projects or levy programs. [Res. 31083]

Policy 9. Use of Real Estate Excise Tax revenues above revenue forecast. In keeping with the City's commitment to maintaining its existing infrastructure, the highest priority use for any revenues received above forecast will be enhanced asset preservation. [Res. 31083]

Revenues/Fund Balances

Policy 10. Revenues to, and fund balance of, the Revenue Stabilization Account. The Revenue Stabilization Account shall be funded by (1) transfers by ordinance, and (2) automatic transfer of tax revenues to the extent described in this section. Upon completion of fiscal year accounting, tax revenues collected during the closed fiscal year which are in excess of the latest revised estimate of tax revenues for that closed fiscal year (as published in the current fiscal year adopted budget) shall automatically be deposited to the Revenue Stabilization Account. Such deposit shall occur at that time the City completes its accounting for the fiscal year. At no time shall the balance of the Revenue Stabilization Account exceed two and one-half (2.5) percent of the amount of tax revenues received by the City during the fiscal year prior to the closed fiscal year. For purposes of this paragraph, the phrase "tax revenues" means all tax revenues deposited into the General Subfund, including but not limited to, tax revenue from the regular property tax levy, business and occupation tax, utility business taxes, admissions tax, leasehold excise tax, gambling taxes, and sales and use taxes. [Ord 119761]

Policy 11. Revenues to, and fund balance of, the Capital Projects Account

- a) Revenues into REET I Subaccount. The Real Estate Excise Tax I Subaccount shall be comprised of the first one-quarter (1/4) of one (1) percent excise tax on real estate sales collected on or after May 1, 1992. [Ord 119761]
- b) Revenues into REET II Subaccount. The Real Estate Excise Tax II Subaccount shall be comprised of the second one-quarter (1/4) of one (1) percent excise tax on real estate sales collected on or after May 1, 1992. [Ord 119761]
- c) Revenues to Asset Preservation Fleets and Facilities Subaccount. The Asset Preservation Fleets and Facilities Subaccount shall, unless provided otherwise by ordinance, be comprised of revenues from space rent charges levied by the Fleets and Facilities Department on occupants of the facilities it manages, operates, or maintains, investment earnings attributable to the Subaccount, and other fund sources approved through the City's annual budget process or by other ordinance. [Ord 121642]
- d) Revenues to Street Vacation Subaccount. One-half of the revenue received by the City as compensation for areas vacated pursuant to Seattle Municipal Code Section 15.62.090 shall be deposited into the Street Vacation Subaccount. [Ord 121661]
- e) Revenues to the South Lake Union Property Proceeds Subaccount. The South Lake Union Property Proceeds Subaccount shall, unless provided otherwise by ordinance, be comprised

of revenues from sales of certain surplus City property located adjacent to South Lake Union, investment earnings attributable to the Subaccount, and other revenues identified through ordinance. [Ord 120411]

- f) Revenues into the Unrestricted Subaccount. The Unrestricted Subaccount shall, unless provided otherwise by ordinance, be comprised of revenues from sales of surplus City property net of sale proceeds deposited into the South Lake Union Property Proceeds Subaccount, transfers of General Fund balances, investment earnings attributable to the Capital Projects Account of the Cumulative Reserve Subfund net of investment earnings attributable to the South Lake Union Property Proceeds Subaccount and the Asset Preservation Subaccount Fleets and Facilities, and other unrestricted contributions to the Cumulative Reserve Subfund. [Ord 120411]

Policy 12. Ending Fund Balance for REET I and REET II Subaccounts. In order to guard against revenue fluctuations, the City intends to maintain at least a total \$5 million ending fund balance for the REET I and REET II subaccounts of the Cumulative Reserve Subfund. [Res. 31083]

Policy 13. Interest payments on loans. It is the City's general policy that the Cumulative Reserve Subfund charge interest on any loan to another City fund or subfund. Loans made for a period of more than 90 (ninety) days will be approved by ordinance, and interest charges established via ordinance.