



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Avenue, Kirkland, WA 98033 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager
From: Tracey Dunlap, Director of Finance and Administration
Date: October 10, 2011
Subject: RESERVE REPLENISHMENT PRINCIPLES

RECOMMENDATION:

Council approves a resolution describing the reserve replenishment principles, for incorporation into the reserve fiscal policies during the next update (for 2013-2014 budget).

BACKGROUND DISCUSSION:

At the October 4 Council Study Session, a review of reserve policies and associated recommendations were presented. Based on that discussion, staff recommends proceeding with a two-prong approach to updating the reserve policies:

- Approve the reserve replenishment principles at this time to provide guidance in reserve planning for the mid-biennium budget update, as presented in Exhibit 1. Since it will be some time before the City approaches the target level, replenishment strategies can be put in place while alternate approaches to revising the targets are evaluated.
- Consider revisions to reserve targets during the first quarter of 2012, prior to initiation of the 2013-2014 budget development process. Staff will prepare options for reserve targets based on Council feedback and revisions will be approved by separate resolution during the first quarter. These revisions will then be formalized in the fiscal policies as part of the adoption of the 2013-2014 budget in late 2012.

RESOLUTION R-4900

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND
ESTABLISHING RESERVE REPLENISHMENT PRINCIPLES.

WHEREAS, reserves are an integral part of the City's financial planning strategy and provide a tangible external measure of financial strength; and

WHEREAS, maintaining reserves is a best practice in government financial management and the Government Finance Officers Association (GFOA) has published best practice guidelines, including "Replenishing Fund Balance in the General Fund"; and

WHEREAS, the economic downturn that began in 2008 resulted in the planned use of over \$4 million dollars in reserves to help smooth the transition to lower revenue and service levels; and

WHEREAS, revenues appear to be stabilizing and the 2011-2012 budget was balanced without the use of reserves, however, the continued discussion of the process for replenishing those uses needs to be a priority;

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The City Manager is hereby authorized and directed to implement the Reserve Replenishment Principles as outlined in the attached "Exhibit 1" dated October 18, 2011.

Section 2. The City Manager is further authorized and directed to incorporate the Reserve Replenishment Principles as outlined in attached "Exhibit 1" into the reserve fiscal policies during the next update for the 2013-2014 budget.

Section 3. The City Manager is further authorized and directed to provide updated reserve targets for Council review and adoption by April 30, 2012, for incorporation into the reserve fiscal policies for the 2013-2014 budget.

Passed by majority vote of the Kirkland City Council in open meeting this ____ day of _____, 2011.

Signed in authentication thereof this ____ day of _____, 2011.

MAYOR

Attest:

City Clerk

Exhibit 1: Reserve Replenishment Principles – October 18, 2011

Reserve replenishments occur in two ways during periods of economic recovery:

- Planned - A specific amount is included in the adopted budget, and
- Unplanned - Ending fund balances are higher than budgeted, either due to higher than budgeted revenues or under-expenditures.

Planned amounts are included as part of the adopted budget. **Planned replenishments toward 80% of the target level shall be set to at least 1% of the General Fund adopted budget.**

Unplanned amounts available at the end of each biennium (if any) should help replenish to target faster. A high percentage (up to all) uncommitted funds available at the end of a biennium should be used for reserve replenishment until reserves meet 80% of target and the revenue stabilization reserve is at 100% of target. Some or all of those unplanned funds may be used in place of planned (budgeted) amounts in the following biennium to the extent it meets or exceeds the 1% budgeted amount.

Once reserves reach 80% of target and revenue stabilization reserve is at 100%, funds may be used to meet other one time or on-going needs. Additional funds should be used to fund a variety of needs, based on the following process:

- Set 50% of available cash toward reserves until they are at 100% of target. The remaining 50% shall be available for one or more of the following needs, depending on the nature of the funds available (one-time or on-going) and in the following order of priority (see flowchart on the following page):
 - Fund liabilities related to sinking funds for public safety and information technology equipment,
 - Maintain current service levels,
 - Fund one-time projects or studies,
 - Increase funding for capital purposes,
 - Restore previous program service reductions,
 - Potential program/service enhancements.

In terms of priority for replenishing the individual reserves, the following guidelines shall be used:

- If the Council Special Projects reserve is below target, replenish to target at the start of each biennium.
- If the revenue stabilization reserve is below target, prioritize replenishing the reserve.
- To the extent cash is from volatile revenues above budgeted amounts, those funds should be applied to revenue stabilization reserve first.
- If unplanned funds are available because planned reserve uses did not occur, those funds should be returned to the source reserve.
- The source of uncommitted funds should be taken into consideration (for example, interest earnings over budget could be applied to the capital contingency, since they are one of the designated sources for this reserve).
- The degree to which an individual reserve is below target (for example, the reserve that is furthest from its target level on a percentage basis might receive a larger share of the funds).

Decisions on how replenishments are allocated to specific reserves will be based on where available funds came from and on each reserve's status at the time the decision is made.

The replenishment policy will provide a mechanism whereby Council may take action to suspend replenishment policies if it was found that special conditions existed warranting such action.

Decision Making Process for Unplanned Fund Balances if Reserves are Greater Than 80% of Target

