TulStat

Cash Reserves
April 6, 2018
Feedback from 2/9/18 Cash Reserves TulStat Meeting

TulStat Cash Reserves 2/9/18

- Good use of time: 100%
- Action steps: 100%
- Collaborative discussion: 100%
- Data presented to understand problem: 100%
- Clear way to measure success: 73%
- Problem clearly stated: 100%
- Meeting Purpose communicated: 100%
The Process

1. Problem Definition and Context
2. Measurement Framework
3. Defining Success
4. Possible Solutions
5. Action Plan
Today’s Process

• Revisit Problem Statement
• What is incremental progress?
• Where we are today
• Overview of other States/Cities approaches
• Reserves and Credit Rating
• A possible plan for temporary sales tax
Defining the Problem

What is the right-sized problem?

We do not have a systematic way to *consistently* fill reserve funds to mitigate unexpected expense and revenue fluctuations.
# Tulsa’s Reserve Funds

<table>
<thead>
<tr>
<th>Emergency Operating Reserve</th>
<th>Economic Stabilization Reserve</th>
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</table>
| **Goal:** 10% of General Fund = $26.9 million  
*Currently $17 Million* | **Cap/Goal:** Cannot exceed 30% of General Fund  
= $80.7 million  
*Currently $2 million* |
| **No Deposit Policy** | **Deposit Policy:** 50% of excess of a 4% increase in general fund automatically deposited in Economic Stabilization Reserve |
| **Can be used for:**  
1. Responding to Disasters | **Can be used when:**  
1. General Fund revenues will be less than current budget year, OR  
2. Less than any other previous year’s General Fund Revenues |
| **Can *not* be used for:**  
1. New programs  
2. Wage increases  
3. New personnel costs |
Reserve Funds

Emergency Operating Reserve

17.02

9.92

Current funding level (63.18%)
Needed to reach 10% goal (36.82%)

Economic Stabilization Reserve

78.82

2

Current funding level (2.47%)
Needed to reach 30% goal (97.53%)

In Millions

In Millions
Measuring Success

How can we measure ultimate success?

1. The Emergency Operations Reserve is funded at 10% of the General Fund Budget. *Currently at 6.3%*

2. The Economic Stabilization Reserve is funded at 30% of the General Fund. *Currently at 2.47%*

How can we measure incremental progress?

1. Emergency Operations Reserve is funded at an additional 0.25% to 0.5% annually.

2. Economic Stabilization Reserve (?)
Pew Recommendations to State Policy Makers

1. Design rainy day funds with **clear, objective goals** that policymakers can refer to regardless of changes in governors, legislatures, and business cycles.

2. Structure rainy day funds to be **in line with the economy**, so that deposits, withdrawals, and savings targets are informed by the state’s revenue volatility and the business cycle.

3. Base the decision to tap rainy day funds on the **state’s fiscal situation**, withdrawing money as appropriate.
## Summary of Municipal Rainy Day Fund Deposits

<table>
<thead>
<tr>
<th>City/State</th>
<th>Mechanism</th>
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<tbody>
<tr>
<td>Yukon, OK</td>
<td>0.25% Sales Tax dedicated to reserves</td>
</tr>
<tr>
<td>Los Angeles</td>
<td>Any revenue <em>growth</em> beyond 3.4% deposited in reserve fund</td>
</tr>
<tr>
<td>North Carolina</td>
<td>15% of revenue <em>growth</em> dedicated to reserves</td>
</tr>
<tr>
<td>Oklahoma</td>
<td>Any revenue beyond <em>projected</em> revenue go to reserves</td>
</tr>
</tbody>
</table>
Yukon, Oklahoma

Situation:
Population of 21,043 located in central Oklahoma. Ice storm ate up reserve fund in 2002. Stale Economy with no significant increases in Tax revenue. In 2003 the city faced severe impacts of lacking rainy day fund.

Impacts:
• Infrastructure projects neglected
• Stagnant city employee wages across the board, forcing employees to work but not being paid a living wage.
• City forced to implement furloughs earlier that year.
• Yukon Police and Fire employees leaving Yukon for other opportunities with better pay/benefits.
Yukon, Oklahoma (2)

*Police and Fire* tried to push for a “Public Service Tax” but this did not gain the support of other non-union city employees.

**Action Steps Taken:**

- Union and non-union employees came together and drafted ordinance dividing a ¾ penny sales tax to pay city employees a competitive salaries/lower turnover rates. Requested vote for 2004. (Passed by 64%)

- City manager and council tackled declining reserve fund by proposing an additional ¼ *penny tax specifically for the reserve fund*, to increase it from 6% to 25%. (Passed by 52%)

- Council passed resolution unanimously, set to public vote. City employees held meetings for questions about the proposed ordinance. The news media ran multiple stories about this community issue and about the new sales tax issues.
The City of Los Angeles did an in depth study of how every state funded their state-level reserve fund to determine what to do.

**Action Steps Taken**

- City would make an initial $500k deposit into the reserve fund
- The reserve fund would receive deposits from the combined revenue growth greater than 3.4% of the following resources:

<table>
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<tr>
<th>Property Tax</th>
<th>Utility Users Tax</th>
<th>Business Tax</th>
<th>Sales Tax</th>
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<tbody>
<tr>
<td>Transient Occupancy Tax</td>
<td>Documentary Tax</td>
<td>Parking User Tax</td>
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*When the condition of revenue growth greater than 3.4% is met the amount of the deposit will be the difference between the anticipated growth and the growth at 3.4%*
Oklahoma Rainy Day Fund

Deposits

Any General Revenue Fund collections over 100% of the estimated amount must be deposited into the Rainy Day Fund until the Fund reaches the maximum amount, or cap, specified by the Constitution.

* The current cap is 15% of the current revenue estimate for the General Revenue Fund.
Volatility Focused States

• **Maryland:** legislation in place saves above-average collections of non-withholding tax receipts (e.g. income received through capital gains and dividends) are deposited in the state’s Revenue Stabilization Account. Reasoning: Non-withholding income is a very volatile portion of Maryland’s personal income tax. Allocating excess levels promotes year-to-year budget stability.

• **North Carolina:** State allocates 15% of projected revenue growth to a Savings Reserve Account at the start of the fiscal year, establishing “a practice of predictable savings and ensuring that deposits are largest when revenue growth is highest.”.

• **North Dakota:** Law established to deposit oil and gas production tax revenue “in excess of $400 million but less than $475 million” into rainy day fund. This cushions the impact of the booms and busts impacts of severance tax collections on the state budget.
“Recession Proof” Disclaimer
Takeaway:

A range of less than 2-4% Rainy Day Fund Balance comes with increased risk of credit downgrade.

Economic Stabilization Reserve (Rainy Day Fund) = $2 million
General Fund - $267 million

\[
\text{RDF / GF} = 0.7\%
\]
How are Credit Ratings and Reserves Related?

City of Tulsa Fund Balance as a percent of General Fund: 20.9%

GAAP Based Fund Balance - $56 million
General Fund - $267 million
Fund Balance is 20.9% of General Fund
## Temporary Sales Tax to Build Reserves

Figures based on $0.01

<table>
<thead>
<tr>
<th></th>
<th>0.5/10th</th>
<th>1/10th</th>
<th>2/10th</th>
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<tbody>
<tr>
<td>FY19</td>
<td>$4,000,000</td>
<td>$</td>
<td>$</td>
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<tr>
<td>FY20</td>
<td>$8,000,000</td>
<td>$</td>
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<tr>
<td>FY21*</td>
<td>$12,000,000</td>
<td>$</td>
<td>$</td>
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<tr>
<td>FY22**</td>
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<td>$16,000,000</td>
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<td>FY23</td>
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<td>FY24</td>
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<td>FY25</td>
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<td>$32,000,000</td>
<td>$64,000,000</td>
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<tr>
<td>FY26***</td>
<td>$32,000,000</td>
<td>$40,000,000</td>
<td>$80,000,000</td>
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Notes:  
* Existing 3rd Penny Expires  
** Presume collection of renewed 3rd Penny  
*** If presumed collection of 0.5% of renewed 3rd Penny starts FY22 - $20,000,000.00.
Temporary Sales Tax to Build Reserves

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Next Steps

• Is more information needed to provide guidance on a policy direction?

• If not, what is the policy direction?
Before the next meeting on __________ I will…

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<th>Task</th>
<th>Responsible Party</th>
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