

# TulStat

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Cash Reserves  
April 6, 2018



CITY OF  
**Tulsa**  
*A New Kind of Energy™*

# Feedback from 2/9/18 Cash Reserves TuIStat Meeting

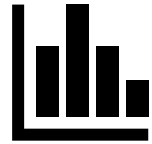
TuIStat Cash Reserves 2/9/18



# 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

## "Rainy Day Fund"

### Emergency Operating Reserve

Goal: 10% of General Fund =  
*\$26.9 million*  
Currently *\$17 Million*

No Deposit Policy

Can be used for:

1. Responding to Disasters

Can not be used for:

1. New programs
2. Wage increases
3. New personnel costs

### Economic Stabilization Reserve

Cap/Goal: Cannot exceed 30% of  
General Fund = *\$80.7 million*  
Currently *\$2 million*

Deposit Policy: 50% of excess of a  
4% increase in general fund  
automatically deposited in  
Economic Stabilization Reserve

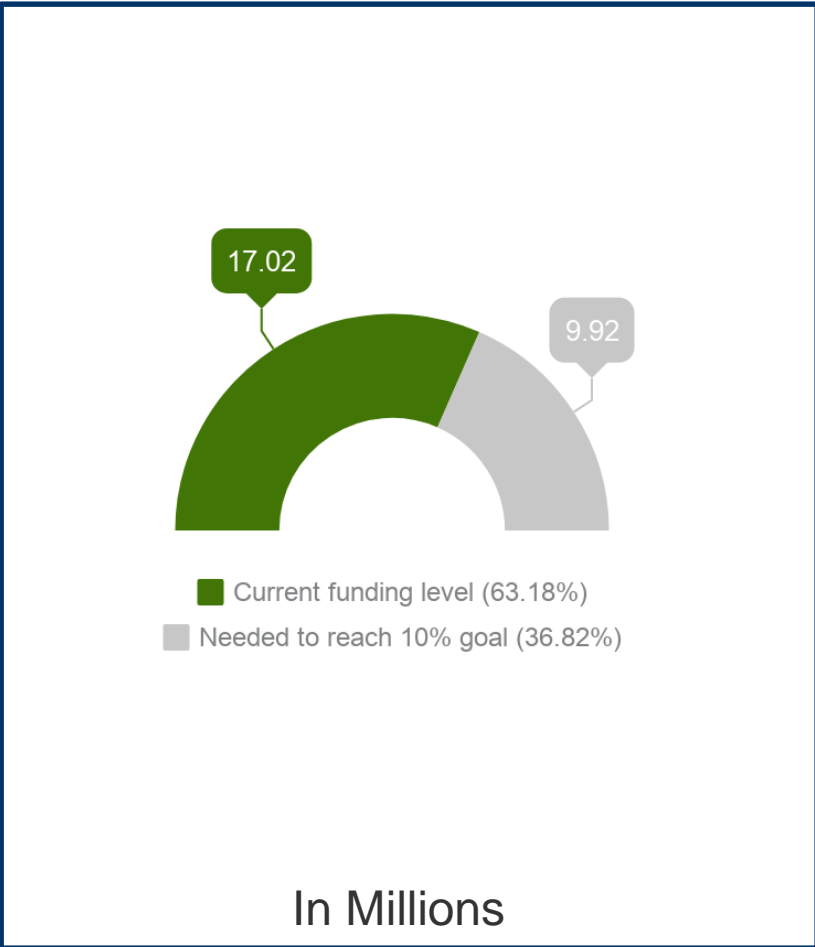
Can be used when:

1. General Fund revenues will be  
less than current budget year,  
OR
2. Less than any other previous  
year's General Fund Revenues

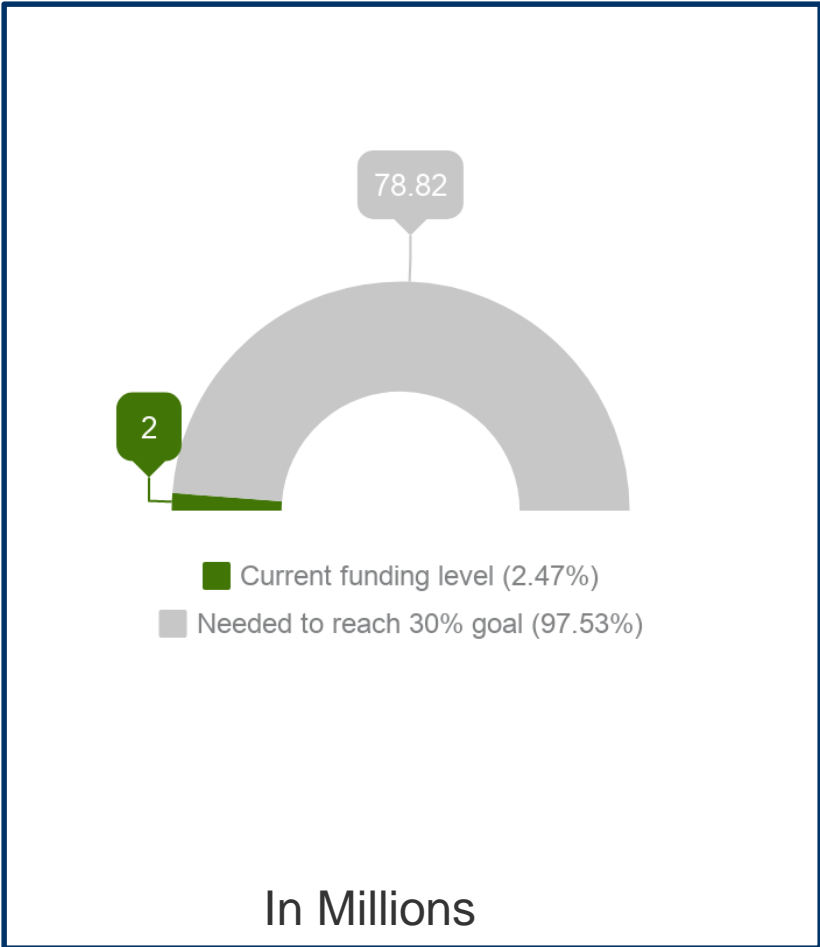


# Reserve Funds

Emergency Operating Reserve



Economic Stabilization Reserve



# 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

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



# 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  $\frac{3}{4}$  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  $\frac{1}{4}$  **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.



# Los Angeles, California

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:

Property Tax	Utility Users Tax	Business Tax	Sales Tax
Transient Occupancy Tax	Documentary Tax	Parking User Tax	

*\* 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 ( ex: 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

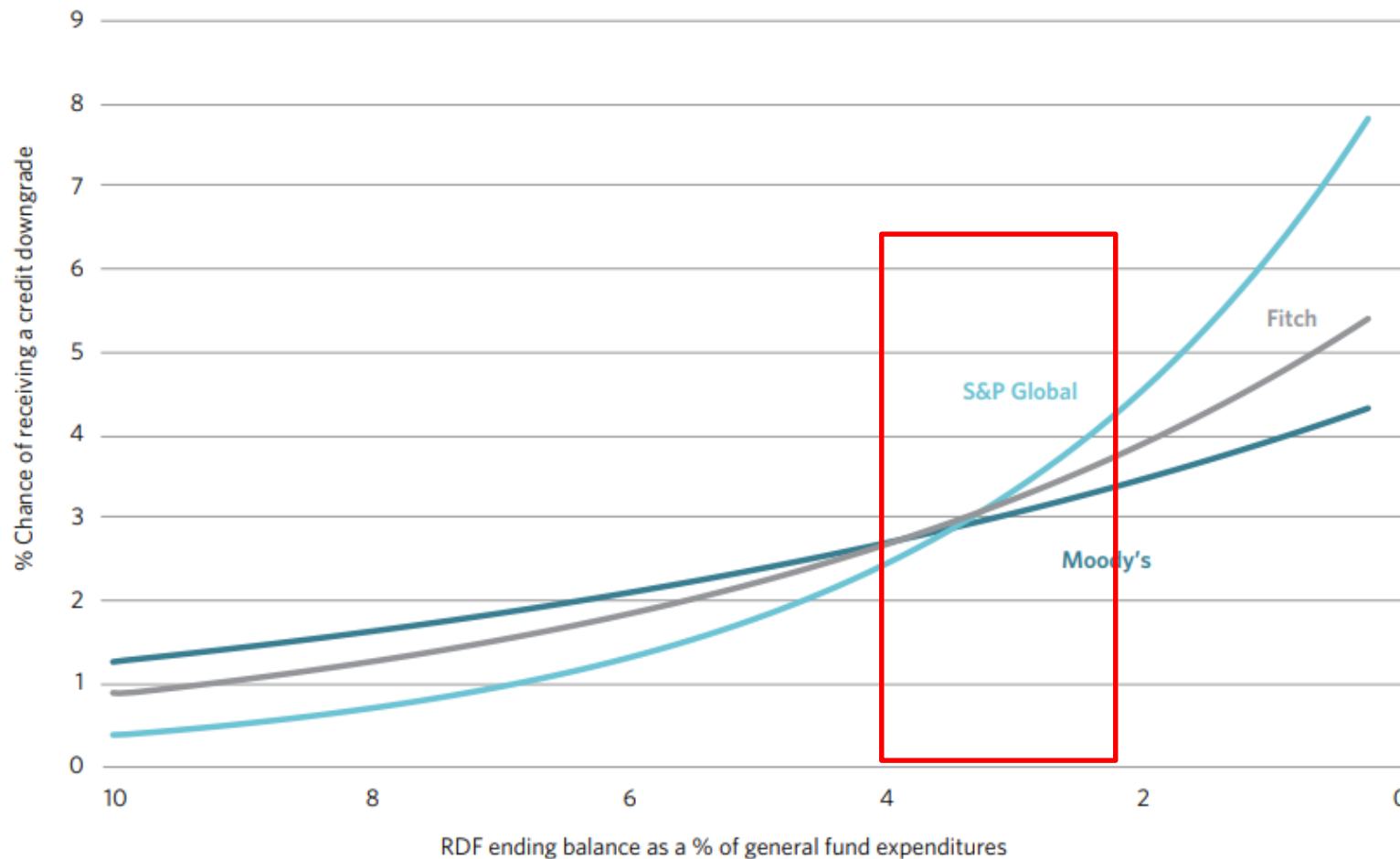




# Credit Rating Effect – A study by Pew Charitable Trusts

[https://www.brookings.edu/wp-content/uploads/2017/04/pew\\_full.pdf](https://www.brookings.edu/wp-content/uploads/2017/04/pew_full.pdf)

Figure 3  
Rainy Day Fund Ending Balance Only Scenario



Takeaway:

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

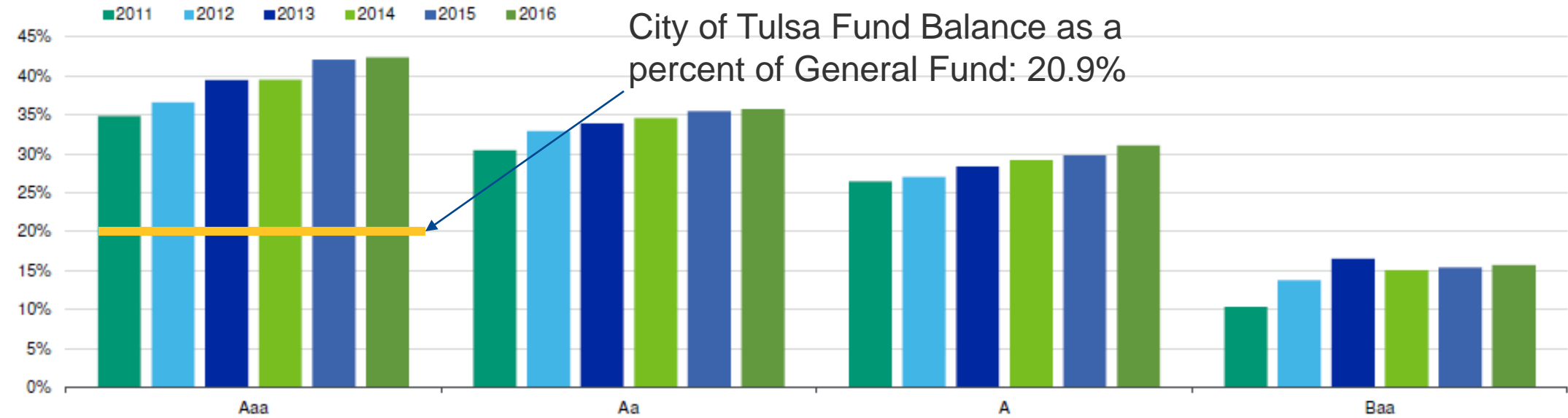
Economic Stabilization Reserve (Rainy Day Fund) = \$2 million  
General Fund - \$267 million

**RDF / GF = 0.7%**



# How are Credit Ratings and Reserves Related?

Exhibit 3  
 Cities: Operating reserves continue to grow, especially for credits with higher ratings  
 Median reserve level for cities by rating category



Source: Moody's Investors Service

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

	0.5/10th	1/10th	2/10th
<b>FY19</b>	\$ 4,000,000	\$ -	\$ -
<b>FY20</b>	\$ 8,000,000	\$ -	\$ -
<b>FY21*</b>	\$ 12,000,000	\$ -	\$ -
<b>FY22**</b>	\$ 16,000,000	\$ 8,000,000	\$ 16,000,000
<b>FY23</b>	\$ 20,000,000	\$ 16,000,000	\$ 32,000,000
<b>FY24</b>	\$ 24,000,000	\$ 24,000,000	\$ 48,000,000
<b>FY25</b>	\$ 28,000,000	\$ 32,000,000	\$ 64,000,000
<b>FY26***</b>	\$ 32,000,000	\$ 40,000,000	\$ 80,000,000

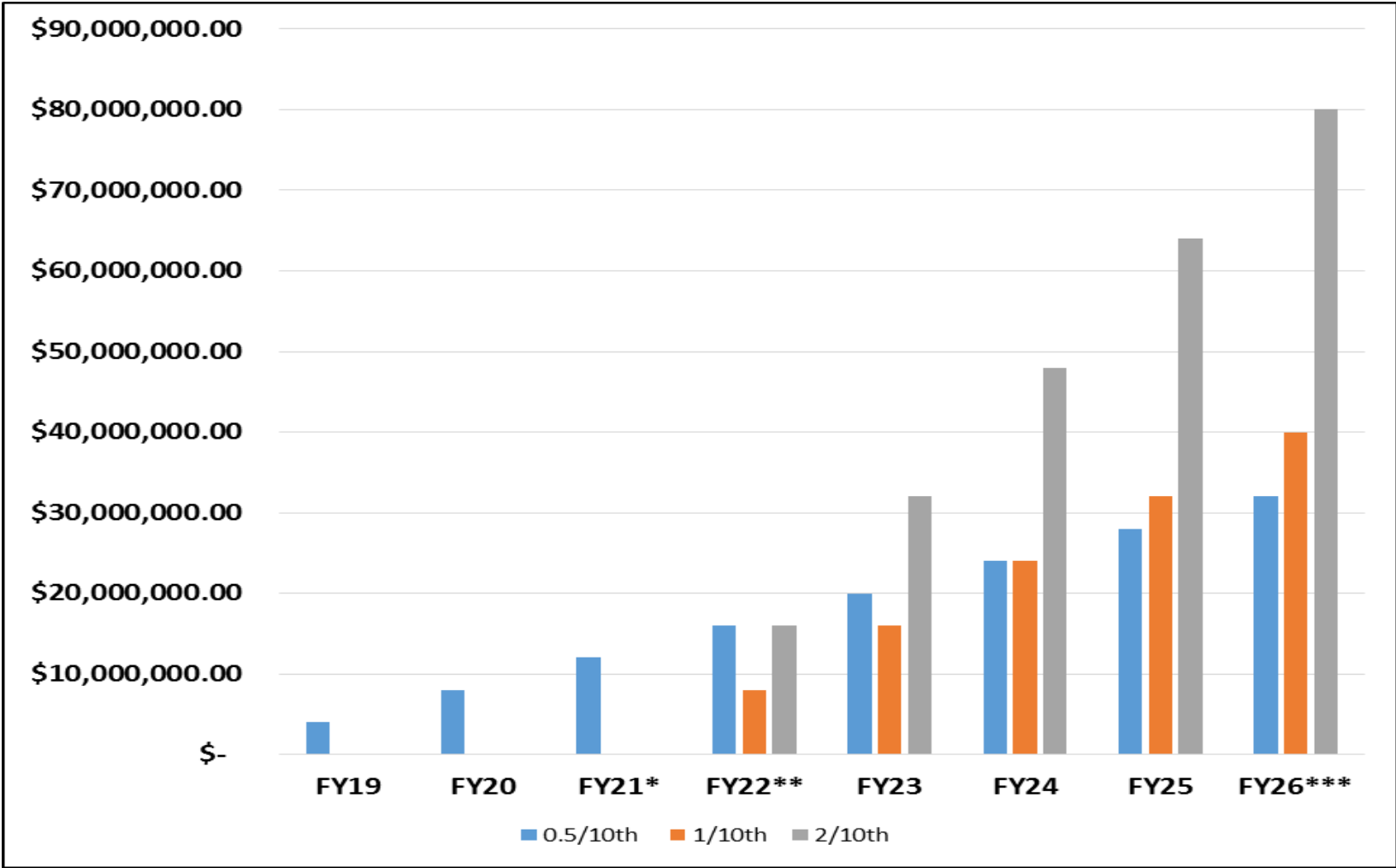
Notes: \* Existing 3rd Penny Expires

\*\* Presume collection of renewed 3rd Penny

\*\*\* If presumed collection of 0.5% of renewed 3rd Penny starts FY22 - \$20,000,00.00.



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## Next Steps

- Is more information needed to provide guidance on a policy direction?
- If not, what is the policy direction?



# Action Plan



Before the next meeting on \_\_\_\_\_ I will...

Task	Responsible Party

