

From: Council President's Office – Finance and Budget Team

Date: 9/6/2016

Re: Budget Reserve Policies and Legal Mandates of Comparable Cities

Philadelphia, PA: In 2011, voters approved an amendment to the City Charter creating a Budget Stabilization Reserve Fund, which allows an amount not to exceed 5% of General Fund Budget to be placed in the Fund. A deposit to the Reserve Fund in an amount equal to .75% of unrestricted General Fund revenues (for that year) is triggered when the projected fund balance level exceeds 3% of the General Fund Budget. To date, such a deposit has not been triggered.

There are a number of other major cities maintain budget reserve initiatives, which range from legal mandates to non-binding internal policies and goals. **Comparable cities that have stronger than average credit ratings (with the exception of Detroit) and higher than average reserve levels also tend to have more robust legal mandate requirements, or stronger internal policies.** Our research found that Atlanta, Georgia has the healthiest reserve mandate; the unassigned fund balance level must equal 15%-20% of the General Fund Budget. Atlanta also holds an Aa1 Moody's credit rating, one step above Philadelphia.

The **chart** below lists other cities' reserve policies, including legal mandates, internal policies, and non-binding goals:

Mandated by Charter or State/Federal Law

- **Atlanta, GA (Aa1)** Unassigned fund balance minimum of 15-20% of the General Fund (GF).
- **Detroit, MI (B2)** State law requires minimum of 5% of GF (fund balance and Budget Reserve Fund combined).
- **Los Angeles, CA (Aa2)** Reserve Fund minimum 5% of GF (incl. emergency fund at minimum 2.75% of GF). Additional stabilization fund (deposits from tax revenue exceeding 3.4% growth).
- **San Francisco, CA (Aa1)** General Fund reserve minimum of 2% of GF. Additional Rainy Day and Budget Stabilization Reserve Funds not to exceed 10% of GF, no minimum.
- **Philadelphia, PA: (A2)** Budget Stabilization Reserve Fund max. of 5% of GF. Annual contribution of 0.75% of unrestricted GF revenues triggered when projected fund balance exceeds 3% of GF.
- **Washington, DC: (Aa1)** Congress requires emergency and contingency cash reserves at combined 6% of GF, less Debt Service. Additional Fiscal Stabilization Reserve at minimum of 2.34% of GF (Council).

Mandated by Ordinance

- **Boston, MA (Aaa)** Rainy Day Fund of not less than 2.5% of GF (excluding the public school district).
- **Cleveland, OH (A1)** Rainy Day Fund of 2-5% of GF.
- **Dallas, TX (Aa2)** Unassigned fund balance minimum 5% of GF Expenditures (includes Contingency Reserve between .5 - 1% of GF and Emergency Reserve; also has a Risk Reserve Fund).
- **Miami, FL (Aa3)** Unassigned reserve of 10% of GF (includes \$5M Contingency).
- **Houston, TX (Aa3)** Reserve of 5% of Adopted Budget less Debt Service; 7.5% preferred level. Rainy Day Fund of not less than \$20M.

Internal Policies / Goals but No Mandate

- **Baltimore, MD (Aa2)** Goal of 8% of GF.
- **Chicago, IL (Ba1)** 10% of unassigned fund balance transferred to Rainy Day Fund annually (executive order).
- **Milwaukee, WI (Aa3)** Goal of Stabilization Fund with 5% of GF. Additional Debt Service-Only Fund.
- **New York, NY (Aa2)** Goal of 12%-16% of annual adjusted Operating Budget.
- **Phoenix, AZ (Aa1)** Goal of 5% of GF. Internal policy of fund balance equal to 6-9 months of Debt Service.
- **San Diego, CA (Aa2)** Internal policy of 16.7% of GF 3-year avg (Emergency and Stabilization Funds split evenly).
- **Tampa, FL (Aa1)** Goal of 20% of GF.