

Special Report

City Financial Reserves Special Request

July 2023



Cities maintain financial reserve funds for use in unexpected circumstances. Austin has two general fund reserves which together must be at least 14% of general fund requirements. The best practice minimum level of general fund reserves is 16.7%, or two months of regular general fund expenditures.

We reviewed the general fund reserve policies for four Texas peer cities and three cities outside of Texas. Three cities require the size of their general fund reserves to be at or above the best practice minimum. The cities we reviewed with reserve level goals near the recommended minimum may be motivated to save now to mitigate future risk or appeal to bond rating agencies among other factors. The cities we reviewed with reserve policies lower than 16.7% may have alternate sources of funding for emergency situations or wish to prioritize spending on resident services.

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Cover: [Aerial view of downtown Austin by RoschetzkyIstockPhoto](#)

Objective

The objective of this special request was to answer Council Member questions regarding City financial reserve levels. We were asked to assess how financial reserve levels compared across peer cities. We reviewed the following:

- General fund reserve policies across peer cities in Texas and outside of Texas, ensuring cities outside of Texas have a bond rating equal to or higher than the City of Austin
- Key priorities, emergencies, or other context that affected general fund reserve levels
- Best practice recommendations used by peer cities to make decisions about general fund reserve levels
- Peer cities' general fund spending profiles

Background

Cities maintain financial reserve funds to use for unexpected circumstances. This might be a natural disaster, an unexpected revenue shortfall, or any other economic emergency that would leave a city in need of additional funds. General fund reserves are often measured as a proportion of the general fund for a given fiscal year.

The Government Finance Officers Association (GFOA) prescribes best practices to governments about many financial topics including financial reserves. The GFOA broadly recommends that cities maintain reserve levels of at least two months of total general fund expenditures, which would be approximately 16.7% of a city's general fund.

Starting in fiscal year 2021, the City of Austin's general fund reserve policy calls for reserves to be at 14% of general fund requirements, up from 12% in previous years. Currently, Austin has both an Emergency Fund that provides 6% of general fund reserves and a Budget Stabilization Fund that provides 8% of general fund reserves. The City is considering a policy change to raise its goal for combined general fund reserve levels to be 17%, which would exceed the GFOA's recommended minimum. City of Austin staff cite an internal assessment of risks, particularly the possibility for a future downturn in sales tax revenue, as reason to increase the reserves now while the local economy is strong.

What We Learned

Summary

Cities maintain financial reserve funds for use in unexpected circumstances. Austin has two general fund reserves which together must be at least 14% of general fund requirements. The best practice minimum level of general fund reserves is 16.7%, or two months of regular general fund expenditures.

We reviewed the general fund reserve policies for four Texas peer cities and three cities outside of Texas. Three cities require the size of their general fund reserves to be at or above the best practice minimum. The cities we reviewed with reserve level goals near the recommended minimum may be motivated to save now to mitigate future risk or appeal to bond rating agencies among other factors. The cities we reviewed with reserve policies lower than 16.7% may have alternate sources of funding for emergency situations or wish to prioritize spending on resident services.

General Fund Reserve Policies Across Peer Cities

Reserve level requirements across peer cities

We assessed the reserve policies of seven peer cities, four inside of Texas and three outside of Texas. Four out of seven peer cities have higher reserve goals than Austin's (14%) as of 2023.

Exhibit 1: FY2023 Reserve level requirements across peer cities

City	FY23 Reserve Level Requirements
City and County of Denver, CO	20.0%
City of Dallas, TX	13.7% to 19.2% ¹
City of Fort Worth, TX	16.7%
City of San Antonio, TX	15.0% ²
City of Austin, TX	14.0%
City of Seattle, WA	8.0% ³
City of Houston, TX	7.5% ⁴
City of Phoenix, AZ	5.0%

Source: Audit team analysis of peer city reserve policies, June 2023

¹ Dallas measures its reserves in days, and their policy is to have a minimum of 50 days to a maximum of 70 days or 13.7% to 19.2%. For fiscal year 2023, Dallas' actual reserves were 65.95 days or about 18%.

² San Antonio also has a contingency fund that is not to exceed \$1 million.

³ Seattle has a revenue stabilization fund that cannot exceed 5% of the general fund tax revenues forecast and an emergency fund that is measured at 37.5 cents per \$1000 of assessed property value in the city. For fiscal year 2023, the amount appropriated for the emergency fund was \$50.2 million, or 3.13% of the general fund.

⁴ Houston also has a budget stabilization fund which is either 1% of the general fund or \$20 million, whichever is greater. Houston's FY23 adopted budget fund balance was 13.2%, which is above the City's minimum of 7.5%.

Four out of seven peer cities we surveyed - Denver, Fort Worth, Dallas, and Phoenix - have been increasing their reserve level minimums over the past five years. The reserve level minimums of the remaining peer cities - Houston, San Antonio, and Seattle - have remained the same for the past five years. None of the peer cities we reviewed have moved to decrease their reserve level minimums over the past five years.

Structure of peer cities' reserve funds

Austin's general fund reserves are separated into an Emergency Reserve Fund and a Budget Stabilization Fund, with each fund having different parameters. The Emergency Reserve Fund is used to provide temporary financing for unexpected, emergency needs. The Budget Stabilization Fund is used to provide financial stability for the general fund during economic downturns. The seven peer cities we reviewed structure their general fund reserves in a variety of different ways with varying specifications.

Exhibit 2: FY2023 Reserve Fund Composition Across Peer Cities

City	FY23 General Fund Reserve Composition
City of Austin, TX	<ul style="list-style-type: none"> Maintains an Emergency Reserve Fund (8%) and Budget Stabilization Fund (6%) Overall reserve minimum of 14%
City of Dallas, TX	<ul style="list-style-type: none"> Maintains an Emergency Fund and Contingency Fund Overall reserve level should be at least 50 days of general fund operating expenditures and not to exceed 70 days, or 13.7-19.2%. Dallas' FY23 actual reserve level was 65.95 days (~18%).
City of Fort Worth, TX	<ul style="list-style-type: none"> Maintains an Unassigned Fund minimum of 16.7%, increasing to 25% in FY2024
City of Houston, TX	<ul style="list-style-type: none"> Maintains an Unassigned Fund (at least 7.5%) and a Budget Stabilization Fund which is the greater of 1% of general fund spending or \$20 million Overall reserve minimum of just over 7.5%
City of San Antonio, TX	<ul style="list-style-type: none"> Maintains a General Fund Ending Balance (15%) and a \$1 million Contingency Fund Overall reserve minimum of just over 15%
City and County of Denver, CO	<ul style="list-style-type: none"> Maintains a Contingency Fund (2%), an Unassigned Fund (15%), and a Tax-Payer Bill of Rights (TABOR) fund (3%) The TABOR Fund is a state mandated emergency reserve. Overall reserve level of 20%
City of Phoenix, AZ	<ul style="list-style-type: none"> Maintains a Contingency Fund with the goal of increasing to 5%
City of Seattle, WA	<ul style="list-style-type: none"> Maintains a Revenue Stabilization Fund (5%) and an Emergency Fund calculated as 37.5 cents per \$1000 of assessed property value in the city (~3%) Overall reserve minimum of about 8%

Source: Audit team analysis of peer city reserve policies, June 2023

Factors That Affect Reserve Levels

Due to the complex nature of each city's unique circumstances, there are several important factors to evaluate reserve policies. The GFOA recommends that cities tailor their reserves above the minimum amount to account for local context.

Cities Below the GFOA Recommended Minimum

Four peer cities—San Antonio, Houston, Phoenix, and Seattle—have reserve levels below the GFOA recommended minimum of 16.7% of total general fund appropriations. Staff from some cities we were able to contact were aware that they were running a reserve level below the GFOA recommended minimum and had rationale behind their decision.

As reasons for having a reserve level lower than the recommended minimum, budget staff from the City of Seattle cited using additional revenue from a new payroll tax initiative that was more successful than expected to backfill the general fund as well as reliance on federal emergency aid for the natural disasters the city faces, namely wildfires. City of Seattle staff said that if they have higher levels of reserve funding, they may not receive as much federal emergency aid during natural disasters. Staff from the City of Phoenix, the peer city with the lowest reserve level we surveyed at below 5%, said they want to prioritize spending on residents. However, they are currently working to increase their reserve level to 5% in the next two years. We were unable to speak with staff from Houston or San Antonio during our research for this project.

Cities at or Above the GFOA Recommended Minimum

Three peer cities—Denver, Dallas, and Fort Worth—have reserve levels at or above the GFOA recommended minimum of 16.7%. Fort Worth reported planning to increase their reserve levels to 25% by fiscal year 2024. In fiscal year 2022, Dallas increased their reserve levels from a minimum of 40 days to a range of a minimum of 50 days to a maximum of 70 days, and Dallas' actual reserve level for fiscal years 2023 was 65.95 days or 18%. Denver and Fort Worth reported that their high reserve levels were viewed favorably by bond rating agencies.

Other Factors

The COVID-19 pandemic affected cities financially. At least three out of seven peer cities that we reviewed - Denver, Houston, and Seattle - used their reserves as a result of the pandemic. Dallas staff reported that the COVID-19 pandemic did not have an effect on their reserves. Fort Worth staff reported that in theory, their unassigned fund balanced was increased because of the pandemic as certain eligible expenses were transferred out of the general fund due to increased federal funding. Phoenix staff reported that the pandemic underscored how unforeseen events can happen and affect revenue.

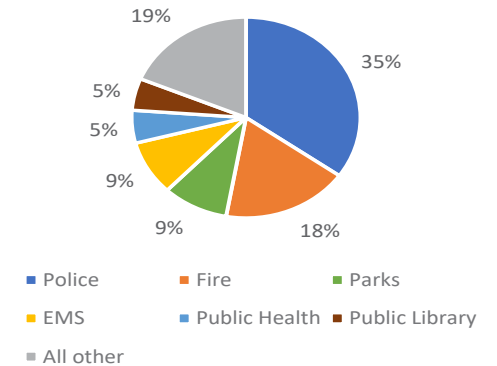
Additionally, each peer city we analyzed uses different reserve compositions and has different budgetary priorities. To better understand the varying contexts across the cities we reviewed, we created financial profiles for each peer city, including population, bond ratings, reserve policy information, and general fund spending trends. See Appendix.

Appendix - City General Fund Spending Profiles

City of Austin, TX

Population: 974,447	General Fund Spending and Bond Rating Overview					
Reserve Policies: <ul style="list-style-type: none"> Maintains an Emergency Reserve Fund (8%) and Budget Stabilization Fund (6%) Overall reserve minimum of 14% 		FY2019	FY2020	FY2021	FY2022	FY2023
	General Fund	\$1.030 B	\$1.089 B	\$1.091 B	\$1.170 B	\$1.277 B
	Police	40.5%	39.9%	38.0%	37.9%	34.8%
	Fire	19.3%	18.4%	19.7%	18.7%	18.0%
	Parks	8.9%	9.0%	9.3%	9.1%	9.3%
	EMS	8.6%	8.5%	9.3%	9.0%	8.8%
	Public Health	4.3%	4.2%	4.7%	5.1%	5.3%
	Public Library	5.1%	5.0%	5.4%	5.2%	5.1%
	All Other	13.4%	14.8%	13.5%	15.0%	18.7%
	Bond Ratings	Fitch: AAA	AAA	AA+	AA+	N/A
	Moody's: Aaa	Aa1	Aa1	Aa1	N/A	
	S&P: AAA	AAA	AAA	AAA	N/A	

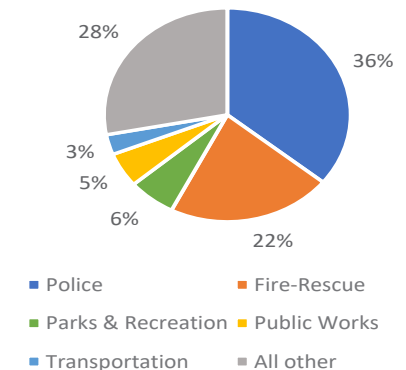
City of Austin FY23 General Fund



City of Dallas, TX

Population: 1,299,544	General Fund Spending and Bond Rating Overview					
Reserve Policies: <ul style="list-style-type: none"> Maintains an Emergency Fund and Contingency Fund Overall reserve level should be at least 50 days of general fund operating expenditures and not to exceed 70 days, or 13.7-19.2%. Dallas' FY23 actual reserve level was 65.95 days (~18%). 		FY2019	FY2020	FY2021	FY2022	FY2023
	General Fund	\$1.369 B	\$1.429 B	\$1.437 B	\$1.560 B	\$1.707 B
	Police	35.6%	36.2%	35.7%	36.3%	35.9%
	Fire-Rescue	21.5%	22.4%	22.0%	21.6%	21.6%
	Parks & Recreation	7.2%	6.5%	6.6%	6.5%	6.3%
	Public Works	5.5%	5.5%	5.3%	5.2%	5.2%
	Transportation	3.4%	3.1%	3.0%	2.9%	3.0%
	All Other	26.7%	26.3%	27.4%	27.5%	28.0%
	Bond Ratings	Fitch: AA	AA	AA	AA	N/A
		Moody's: A1	A1	A1	A1	N/A
	S&P: AA-	AA-	AA-	AA-	N/A	

City of Dallas FY23 General Fund

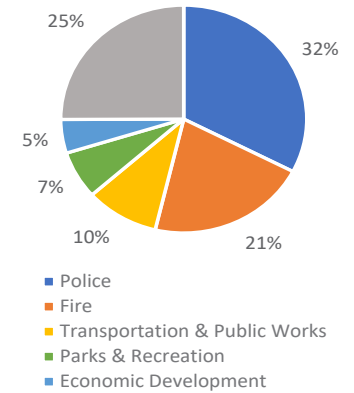


Appendix - City General Fund Spending Profiles

City of Fort Worth, TX

Population: 956,709	General Fund Spending and Bond Rating Overview						
Reserve Policies: <ul style="list-style-type: none"> Maintains an Unassigned Fund minimum of 16.7%, increasing to 25% in FY2024 		FY2019	FY2020	FY2021	FY2022	FY2023	
	General Fund	\$731 M	\$772 M	\$782 M	\$832 M	\$915 M	
	Police	34.7%	34.6%	34.9%	34.0%	32.6%	
	Fire	20.5%	20.8%	21.6%	21.0%	21.1%	
	Transportation & Public Works	8.4%	9.0%	8.6%	8.5%	9.7%	
	Parks & Recreation	6.9%	6.9%	7.0%	6.7%	6.8%	
	Economic Development	3.0%	3.5%	3.7%	5.0%	4.8%	
	All Other	26.4%	25.2%	24.2%	24.8%	25.1%	
	Bond Ratings	Fitch: AA+	AA	AA	AA	AA	N/A
		Moody's: Aa3	Aa3	Aa3	Aa3	Aa3	N/A
S&P: AA		AA	AA	AA	AA	N/A	

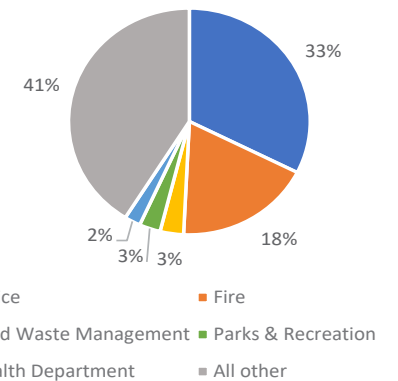
City of Fort Worth FY23 General Fund



City of Houston, TX

Population: 2,302,878	General Fund Spending and Bond Rating Overview						
Reserve Policies: <ul style="list-style-type: none"> Maintains an Unassigned Fund (at least 7.5%) and a Budget Stabilization Fund which is the greater of 1% of general fund spending or \$20 million Overall reserve minimum of just over 7.5% 		FY2019	FY2020	FY2021	FY2022	FY2023	
	General Fund	\$2.671 B	\$2.717 B	\$2.683 B	\$2.816 B	\$3.049 B	
	Police	32.6%	33.1%	34.7%	33.9%	32.4%	
	Fire	18.8%	18.7%	19.0%	19.0%	18.3%	
	Solid Waste Management	3.0%	3.1%	3.3%	3.2%	3.1%	
	Parks & Recreation	2.9%	2.9%	2.5%	2.4%	2.8%	
	Health Department	2.1%	2.2%	2.3%	2.1%	2.2%	
	All Other	40.6%	40.0%	38.2%	39.4%	41.1%	
	Bond Ratings	Fitch: AA	AA	AA	AA	AA	N/A
		Moody's: Aa3	Aa3	Aa3	Aa3	Aa3	N/A
S&P: AA		AA	AA	AA	AA	N/A	

City of Houston FY23 General Fund

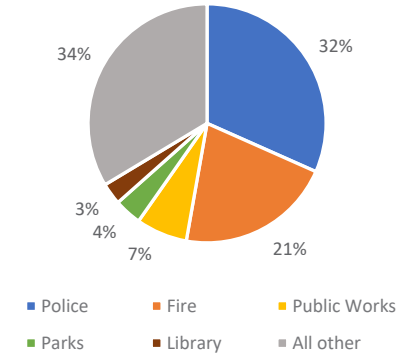


Appendix - City General Fund Spending Profiles

City of San Antonio, TX

Population: 1,472,909		General Fund Spending and Bond Rating Overview				
Reserve Policies:		FY2019	FY2020	FY2021	FY2022	FY2023
<ul style="list-style-type: none"> Maintains a General Fund Ending Balance (15%) and a \$1 million Contingency Fund Overall reserve minimum of just over 15% 	General Fund	\$1.330 B	\$1.367 B	\$1.379 B	\$1.484 B	\$1.674 B
	Police	34.3%	35.0%	35.3%	33.8%	31.6%
	Fire	24.2%	23.7%	23.4%	22.9%	21.2%
	Public Works (FY23-21)/ Transportation (FY20-19)	9.8%	8.3%	7.2%	7.0%	7%
	Parks and Recreation	4.0%	3.8%	3.6%	3.6%	2.7%
	Library	3.2%	3.1%	3.1%	3.0%	2.9%
	All Other	24.6%	26.0%	27.4%	29.7%	33.6%
	Bond Ratings	Fitch: AA+	AA+	AA+	AA+	N/A
	Moody's: Aaa	Aaa	Aaa	Aaa	N/A	
	S&P: AAA	AAA	AAA	AAA	N/A	

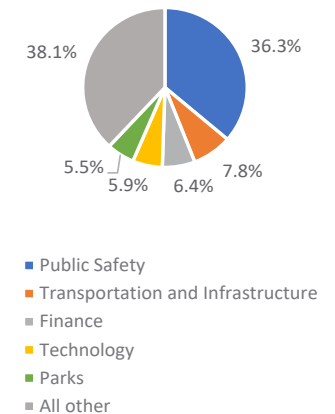
City of San Antonio FY23 General Fund



City and County of Denver, CO

Population: 713,252		General Fund Spending and Bond Rating Overview				
Reserve Policies:		FY2019	FY2020	FY2021	FY2022	FY2023
<ul style="list-style-type: none"> Maintains a Contingency Fund (2%), an Unassigned Fund (15%), and a Tax-Payer Bill of Rights (TABOR) fund (3%) The TABOR Fund is a state mandated emergency reserve. Overall reserve level of 20% 	General Fund	\$1.478 B	\$1.362 B	\$1.289 B	\$1.517 B	\$1.684 B
	Public Safety	38.75%	43.17%	41.25%	37.41%	36.3%
	Transportation & Infrastructure	9.94%	10.98%	9.94%	9.21%	7.8%
	Finance	6.65%	7.30%	7.37%	6.67%	6.4%
	Technology	5.13%	5.92%	5.87%	5.75%	5.9%
	Parks	5.27%	5.89%	5.94%	5.50%	5.5%
	All Other	34.27%	26.74%	29.63%	35.45%	38.1%
	Bond Ratings	Fitch: AAA	AAA	AAA	AAA	AAA
	Moody's: Aaa	Aaa	Aaa	Aaa	Aaa	N/A
	S&P: AAA	AAA	AAA	AAA	AAA	N/A

City & County of Denver FY23 General Fund

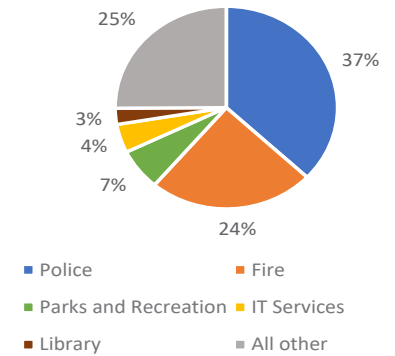


Appendix - City General Fund Spending Profiles

City of Phoenix, AZ

Population: 1,644,409	General Fund Spending and Bond Rating Overview						
Reserve Policies: <ul style="list-style-type: none"> Maintains a Contingency Fund with the goal of increasing to 5% 		FY2019	FY2020	FY2021	FY2022	FY2023	
	General Fund	\$1.310 B	\$1.393 B	\$1.425 B	\$1.607 B	\$1.779 B	
	Police	41.69%	40.64%	41.5%	38.0%	37.1%	
	Fire	23.55%	24.78%	24.7%	24.2%	24.1%	
	Parks and Recreation	7.13%	7.28%	7.1%	6.7%	6.6%	
	IT Services	2.87%	3.26%	3.7%	3.7%	4.6%	
	Library	2.88%	2.85%	2.9%	2.7%	2.6%	
	All Other	21.88%	21.19%	20.1%	24.6%	25.1%	
	Bond Ratings	Fitch: AAA	AAA	AAA	AAA	AAA	N/A
		Moody's: Aa1	Aa1	Aa1	Aa1	Aa1	N/A
S&P: AA+		AA+	AA+	AA+	AA+	N/A	

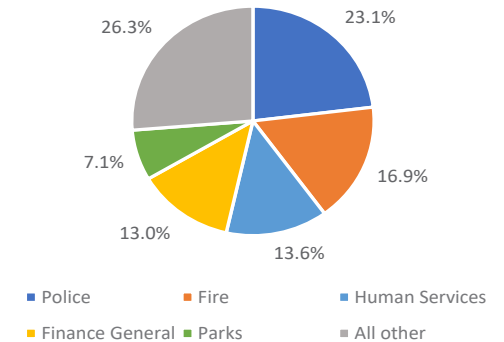
City of Phoenix FY23 General Fund



City of Seattle, WA

Population: 749,256	General Fund Spending and Bond Rating Overview						
Reserve Policies: <ul style="list-style-type: none"> Maintains a Revenue Stabilization Fund (5%) and an Emergency Fund calculated as 37.5 cents per \$1000 of assessed property value in the city (~3%) Overall reserve minimum of about 8% 		FY2019	FY2020	FY2021	FY2022	FY2023	
	General Fund	\$1.365 B	\$1.502 B	\$1.607 B	\$1.585 B	\$1.606B	
	Police	29.18%	27.10%	22.45%	22.29%	23.11%	
	Fire	16.07%	14.91%	15.51%	16.85%	16.89%	
	Human Services	9.03%	9.45%	10.89%	12.49%	13.69%	
	Finance General	5.71%	8.51%	12.96%	6.13%	12.45%	
	Parks and Recreation	7.39%	7.03%	10.52%	6.93%	7.27%	
	All Other	32.61%	33.01%	27.66%	35.31%	26.59%	
	Bond Ratings	Fitch: AAA	AAA	AAA	AAA	AAA	N/A
		Moody's: Aaa	Aaa	Aaa	Aaa	Aaa	N/A
S&P: AAA		AAA	AAA	AAA	AAA	N/A	

City of Seattle FY23 General Fund



Why We Did This Report

This report responds to a request from Council Member Alison Alter and Council Member Leslie Pool about peer cities' general fund reserve policies.

Scope

The scope included general fund reserve policies and general fund spending information for the City of Austin and seven peer cities, both in and out of Texas. We selected peer cities outside of Texas that have a similar population size to Austin and an equal or greater bond rating. Data was collected from Fiscal Year 2019 through Fiscal Year 2023.

Methodology

To complete this project, we performed the following steps:

- Interviewed City of Austin Financial Services Department staff
- Collected information about financial best practices from the Government Financial Officers Association
- Identified peer cities inside and outside of Texas
- Reviewed budget documents from peer cities and gathered relevant data
- Conducted interviews with financial staff from peer cities
- Created profiles of General Fund spending and financial reserve policies for all peer cities
- Analyzed financial reserve policies and trends across cities

Project Type

Special request projects conducted by the Office of the City Auditor are considered non-audit projects under Government Auditing Standards and are conducted in accordance with the ethics and general standards.

The Office of the City Auditor was created by the Austin City Charter as an independent office reporting to City Council to help establish accountability and improve City services. Special requests are designed to answer specific questions to assist Council in decision-making. We do not draw conclusions or make recommendations in these reports.

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