

RESOLUTION NUMBER R- 303941

DATE OF FINAL PASSAGE JUL 29 2008

A RESOLUTION APPROVING AMENDMENTS TO THE CITY
OF SAN DIEGO'S RESERVE POLICY

WHEREAS, on November 13, 2007, the City Council adopted Ordinance No. O-19679
[City Reserve Policy] to ensure that the City establishes and maintains prudent reserves; and

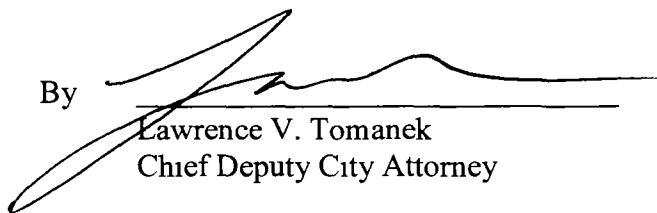
WHEREAS, staff recommends revisions to the City Reserve Policy and said report is
attached hereto as Exhibit A; NOW, THEREFORE,

BE IT RESOLVED by the Council of the City of San Diego, as follows:

1. The City Reserve Policy - Revised, as of July 2, 2008, is hereby accepted and approved.

APPROVED: MICHAEL J. AGUIRRE, City Attorney

By



Lawrence V. Tomanek
Chief Deputy City Attorney

LVT:ca
07/17/08
Aud. Cert. N/A
Or.Dept: FM
R-2009-98

I hereby certify that the foregoing Ordinance was passed by the Council of the City of San Diego, at this meeting of JUL 21 2008.

ELIZABETH S. MALAND
City Clerk

By Jana Richardson
Deputy City Clerk

Approved: 7-29-08
(date)

JSL
JERRY SANDERS, Mayor

Vetoed: _____
(date)

JERRY SANDERS, Mayor



THE CITY OF SAN DIEGO
MAYOR JERRY SANDERS

M E M O R A N D U M

DATE : July 2, 2008
TO: Budget and Finance Committee
FROM: Mary Lewis, Chief Financial Officer
SUBJECT: City Reserve Policy - Revised

INTRODUCTION

The following represents a comprehensive reserve policy for the major funds of the City of San Diego and recommends a phased approach in setting reserve levels.

One of the key components of a financially stable organization is the establishment and maintenance of appropriate reserves and the adoption of a prudent reserve policy. While the City of San Diego has a reserve objective, it does not have a clearly delineated policy to govern decision-making and fiscal actions by its officials. This is essential, especially as the City works to restore its financial standing in the bond community.

OBJECTIVES

- A. Establish sound formal fiscal reserve policies. These policies will be the foundation for ensuring that strong fiscal management and policies guide future City decisions.
- B. Build adequate reserves. This action will provide the City with resources to help stabilize the organization and will position it during economic downturns or large-scale emergencies. In addition, it is critical to minimize the potential for reactive decision-making which often leads to poor choices and unpleasant consequences.
- C. Guide the City toward meeting its short-term and long-term obligations and to ensure that the City maintains the highest credit rating possible.

BACKGROUND

City Charter Section 91 stipulates that the City maintain a "General Reserve Fund" to meet the cash obligations of the City for four months or prior to the collection of taxes. The fund may only be expended in an emergency, requiring a two-thirds vote by the City Council. On September 27, 2007, the City Attorney's Office issued an opinion on City Charter Section 91 that states: "To the extent that the City has cash on hand to cover four months of the fiscal year prior to the receipt of taxes, the charter provision would be satisfied by funding at a

fiscally prudent level of 5% to 15%." A separate fund, the General Reserve Fund, described in this policy as the "Emergency Reserves" will be established and funded. In addition to emergency reserves, the operating cash needs of the General Fund will continue to be met through the liquidity portfolio established by the City Treasurer's Investment Policy, which is approved by City Council.

The Investment Policy stipulates that the City's pooled investment fund shall be comprised of a core and liquidity portfolio. The liquidity portfolio is designed to ensure that the projected expenditures and related demands for cash can be met over a six month period. Cash flows are calculated and monitored to determine the required amount of operating cash. The liquidity portfolio established by the Investment Policy meets and exceeds the City Charter Section 91 which requires the City to have an available source of cash in order to meet the legal demands against the City for the first four months of each fiscal year prior to the collection of taxes. The City has historically borrowed funds (Tax Revenue Anticipation Notes) at the beginning of each fiscal year to ensure that there is sufficient cash prior to the receipt of property tax.

On October 15, 2002, the City Council adopted the General Fund Reserve Policy which established and maintained a General Fund Reserve level that is sufficient to address unforeseen contingencies such as natural disasters, catastrophic occurrences, or excessive liabilities or judgments against the City. The Reserve Policy specified that the General Fund Reserve should be set at a minimum of 3% of annual General Fund revenues with a goal of *establishing the General Fund Reserve at 5% of annual General Fund revenues by fiscal year 2014*. Considering the recommendations of the rating agencies (Standard and Poor's, Moody's, and Fitch Ratings) and the need to demonstrate the ability to weather fluctuations in revenue and unforeseen expenditure pressures, reserves greater than 5% need to be established through a defined policy.

The reserve policy recommends that the City establish and maintain appropriate reserves for the City's major funds. Adequate reserve levels would allow the City to withstand short-term revenue and expenditure swings which can result in short-term decisions with negative long-term implications, mitigate the impact of economic downturns that result in reduced municipal revenues from the State, respond to the budgetary affects of natural disasters or other catastrophic events, excessive liabilities or legal judgments against the City, reduce the amount of Tax Revenue Anticipation Notes (TRAN) borrowing each year, and demonstrate the desire to restore its financial standing and gain creditworthiness of bond rating agencies and the financial community.

Mitigate Effects of Economic Volatility and Uncertainty

Being inadequately prepared for swings in revenues or unexpected expenditures can lead to short-term decisions with negative long-term implications. Economic downturns, even if they do not directly affect the City, can cause other agencies to reduce local revenues. During the early 1990's, the country went through a recession and the State of California reduced municipal revenues to balance its own budget. There were similar results during the economic impacts that followed the events of September 11, 2001, which not only impacted revenues as travel and consumer spending decreased, but also led to increased costs for needed security and safety responses to a new potential threat to the country and the City. Since the City had no significant reserves to draw upon, it faced unanticipated fiscal pressures that led to

reductions in services, deferred maintenance, and poor decision-making. Adequate reserves will not eliminate the effect of such events, but will help mitigate the severity short-term revenue and expenditure swings have on the City. Adequate reserves are an essential part of an emergency or disaster plan.

The Government Finance Officers Association (GFOA) Recommendations

GFOA recommends that "governments establish a formal policy on the level of unreserved fund balance that should be maintained in the general fund. GFOA also encourages the adoption of similar policies for other types of governmental funds. Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unreserved fund balance, if it is inconsistent with that policy GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues..."¹ In establishing a policy governing the level of emergency reserves in the General Fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., a higher level of unreserved fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of unreserved fund balance needed in the general fund, just as deficits in other funds may require that a higher level of unreserved fund balance be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e., governments may wish to maintain higher levels of unreserved fund balance to compensate for any portion of unreserved fund balance already designated for a specific purpose).

Obtain High-Quality Rating from Rating Agencies

Rating agencies consider fund balance and reserve policy as a critical component of strong municipal management. In particular, the rating agencies look for a reserve policy which is a clearly delineated fiscal plan that includes a fund balance target level and the instances in which reserves may be used; the reserve levels that are clearly linked to the government's cash flow needs and the historic volatility of revenues and expenditures throughout economic cycles; and management historically adhering to the reserve policy. As noted by Moody's Investment Services, "Municipalities need to consider whether to govern their reserves through formal policy or through targeted levels. Most lending institutions tend to favor formal reserve policies because they minimize political considerations of adequate reserve levels. Some lending institutions are comfortable relying on municipality's long-term

¹ "Appropriate Level of Unreserved Fund Balance in the General Fund" (2002). Government Finance Officers Association

adherence to more informal policies, or targets, but informal policies have been associated with uneven long-term financial performance."²

DEFINITIONS

Working Capital

For the purpose of this policy and when speaking of the core Emergency Reserves, the term "Reserves" is being used synonymously with "Working Capital." Working Capital is defined as current assets (cash or equity in pooled cash and liquid investments and receivables (less than 60 days) minus current liabilities (payables) and encumbrances and other restrictions. Working Capital does not include long-term assets such as some longer term investments, loans receivable, fixed assets, inventory, and equipment.

General Fund Reserves

General Fund Reserves include the Emergency Reserves, the Appropriated Reserves and the Unappropriated Reserves, or fund balance.

Emergency Reserves

Each fund will maintain an Emergency Reserve which by definition would only be used for qualifying emergencies as declared by the Mayor and/or the City Council and ultimately approved by the City Council. Approval by at least two-thirds of the City Council would be required to access the funds. The amount of the reserve for the General Fund would be calculated as a percentage of projected General Fund revenues for the subsequent fiscal year. Any incremental dollars needed to be set aside would be built into that budget. For Enterprise and Special Revenue Funds, the reserve amount would be based on a number of days of operation; for Internal Service Funds, the reserve amount would be based upon the needs and nature of the fund.

At least up to the established reserve level during any fiscal year, Emergency Reserves are only to be used in the case of a natural disaster or unforeseen catastrophic events caused by human activity such as terrorist attacks. Emergency Reserves would not be accessed to meet operating shortfalls or to fund new programs or personnel.

Appropriated Reserves

In addition to the Emergency Reserves, certain funds may maintain reserves that would be set aside during the budget process as a contingency for unanticipated, non-emergency needs that are identified during the year. These reserves would only be drawn upon to fund unexpected expenditures or, in the case of Enterprise Funds, support operations due to unanticipated revenue shortfalls. Recommendations to use these funds would be brought forward by the Mayor or the City Council and would require approval by a majority of the City Council.

The Appropriated Reserve could be used to alleviate unanticipated expenditure (such as a spike in energy prices or materials cost), revenue shortfalls due to an unexpected economic slowdown or recession or to be used for one-time, high priority programs/activities.

² "Fiscal Management/Reserves Are Essential to Fiscal Health" John Incorvaia, Moody's Investment Services

Unappropriated Reserves

Also referred to as fund balance or unallocated reserve, the Unappropriated Reserve is defined as the difference between the assets and liabilities of a fund. A positive fund balance indicates that the City's assets exceed its liabilities.

Capital Reserves

Capital Reserves (or Capital Improvement Program (CIP) Reserves) are intended to provide funding for unanticipated capital expenses. The use of these funds will require the City Council action.

Dedicated Reserves

Dedicated Reserves would be similar to Appropriated Reserves, but would be a set aside for specific purposes by the City Council during the budget process for non-capital projects or activities that take multiple years to fund. (Capital project funding allocated by City Council carries over from year to year until the project is completed or closed.) These dedicated reserves are restricted funds that shall only be used for the identified purpose(s). City Council may review the dedicated reserves annually during the budget process and carryover the funds to future fiscal years. These types of reserves could also be used for special one-time purchases or major activities that have been approved by the City Council.

Dedicated Reserve from Efficiency and Savings

A Dedicated Reserve from Efficiency and Savings (DRES), one for the Water Fund and one for the Metropolitan Wastewater Fund (which is currently in place), will be used to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvements Program (CIP) or operations and maintenance of either system. The DRES will track funds that can be used for accelerating CIP project schedules and will help offset the need for any future rate increases. Please refer to **Attachment I** for more detailed information.

Operating Reserves

The Operating Reserve in Enterprise Funds such as Water and Wastewater is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. Use of the funds is restricted to emergency situations resulting from loss of revenue and must be replenished no later than the subsequent fiscal year. The Chief Operating Officer and/or Chief Financial Officer would have the authority to approve spending.

Rate Stabilization Reserves

The Rate Stabilization Reserves would be set aside to provide a source of funds to mitigate future rate increases in Enterprise Funds such as Water and Wastewater Enterprise Funds. Funds may be deposited into the reserve periodically during the fiscal year but usually at the end of the fiscal year. The funds would be used exclusively for the operation and maintenance of the water or wastewater systems.

GENERAL FUND RESERVE POLICY

The General Fund is used to account for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the rendering of general services by the City.

General Fund Reserve

The General Fund Reserve shall be set at a minimum of 8% of annual General Fund revenues. The City shall reach this level no later than fiscal year 2012 according to the following schedule:

6.0% by June 30, 2008
6.5% by June 30, 2009
7.0% by June 30, 2010
7.5% by June 30, 2011
8.0% by June 30, 2012

Emergency Reserve

An Emergency Reserve is to be maintained for the purpose of sustaining General Fund operations at the time of qualifying emergencies as declared by the Mayor and/or the City Council and ultimately approved by the City Council. Until the City reaches a reserve level in excess of 8% of annual General Fund revenues, for purposes of calculating the City's General Fund Reserve level, the City shall combine the balance in the Emergency Reserve with the balances in the Appropriated and the Unappropriated Reserves in order to achieve the reserve balance percentages as outlined above. At no time during this period, however, shall the balance in the General Fund Emergency Reserve fall below 5% unless specifically waived by the City Council because of an unforeseen emergency as defined in this Policy.

Appropriated Reserve

An Appropriated Reserve may be maintained with the purpose of paying for unanticipated operational needs that arise during the fiscal year but not anticipated during the budget process. Funds appropriated to this Reserve will be identified and appropriated to a single account within the General Fund annual budget. There shall be no maximum or minimum amount appropriated to this Reserve in any given year. Any funds that are not expended in a given fiscal year will revert back to the General Fund's Unappropriated Reserve and may then be re-appropriated in the subsequent year, consistent with this Policy.

Unappropriated Reserve

An Unappropriated Reserve is maintained to support General Fund operations in the event of unanticipated requirement for additional appropriations where the use of the Emergency Reserves would not be appropriate. Should the funds in the Appropriated Reserve be exhausted in a fiscal year, the Unappropriated Reserve may be used. Recommendations to appropriate these funds would be brought forward by the Mayor or the City Council and would require approval by a majority of the City Council.

While funds in the Appropriated and Unappropriated Reserves are combined when describing the City's overall financial condition, these reserves shall only be considered in addition to the Emergency Reserve and not as a replacement for a fully funded 8% Emergency Reserve (except as noted above on a temporary basis). Until fiscal year 2012, the Mayor will include an amount each year in the recommended operating budget to fund the Appropriated Reserve. Any expenditure of funds from this Reserve will be made based upon the recommendation of the Mayor or the City Council and approval by a majority of the City Council with the exception of the Appropriated Reserves of the Water and Wastewater Funds.

DEVELOPMENT SERVICES FUND RESERVE POLICY

Due to its uniqueness, the Development Services Department currently has three separate types of reserves. It is recommended that until a more in depth review of this fund can be completed, the current reserve policies should be continued.

The City shall maintain existing Development Services Fund balance designations and funding targets:

• **Operating Reserve**

The goal for the Development Services Fund is a 7% Operating Reserve. It is anticipated that the reserve balance will reach 7% by fiscal year 2013.

3.5% by June 30, 2009
4.0% by June 30, 2010
5.0% by June 30, 2011
6.0% by June 30, 2012
7.0% by June 30, 2013

• **Subdivision Account Liability**

Dedicated Reserves for Subdivision Account Liability will be maintained for the purpose of mitigating occasional short-term funding deficits on individual project accounts. In addition, a *Work-in-Progress Liability Reserve* will be maintained for the purpose of paying for expenses in which fees have already been collected. Neither Liability Reserves will have a maximum or minimum funding amount.

• **Work-in-Progress Liability (Unearned Revenue)**

This type of reserve is comprised of building permit fees that are collected in advance of the work being performed at the time a permit is issued. The Work-in-Progress Liability Reserve is the portion of the fees collected but not yet earned and covers the costs associated with inspecting the work as it is being completed. This reserve is in place so that, if all departmental revenues were not realized, funds would exist to pay inspectors to complete inspections for which fees have already been collected.

RISK MANAGEMENT RESERVE POLICY

Public Liability Fund

The City shall maintain Dedicated Reserves equal to but not less than 50% of the value of the outstanding claims. This level recognizes that not all claims will become due and payable at one point in time, yet there may be more than one large claim that could require an immediate payment.

A reserve amount of 50% shall be achieved no later than fiscal year 2014 based on the following schedule:

5% by June 30, 2008
10% by June 30, 2009
15% by June 30, 2010
25% by June 30, 2011
35% by June 30, 2012
45% by June 30, 2013
50% by June 30, 2014

Workers' Compensation Fund Reserve Policy

The City shall maintain Dedicated Reserves equal to but not less than 50% of the value of the outstanding claims.

Workers' Compensation Fund is a citywide fund that addresses workers' compensation claims for all departments and all funds. In addition, there are citywide rates charged in order to properly fund current year and future liabilities. The City implemented a funding strategy that adds \$2 million annually towards the reserve each year.

A reserve amount of 50% shall be achieved no later than fiscal year 2014 based on the following schedule:

12% by June 30, 2008
15% by June 30, 2009
22% by June 30, 2010
30% by June 30, 2011
35% by June 30, 2012
42% by June 30, 2013
50% by June 30, 2014

Long-Term Disability Fund Reserve Policy

Currently, the balance in the Long-Term Disability (LTD) Fund is estimated at approximately \$3.0 million. The reserve level in this fund shall be established to equal \$12 million by fiscal year 2012 as recommended in the Long-Term Disability Actuarial report. The City shall increase the reserve by a minimum of \$2.25 million in fiscal year 2009 and a minimum of \$2.25 million annually thereafter to achieve the reserve target of \$12 million by fiscal year 2012. A study will be undertaken to determine the feasibility for purchasing an insurance policy to cover this benefit as an alternative to the current practice of self-insurance.

WATER ENTERPRISE FUND RESERVE POLICY

Appropriated Reserve

This reserve is budgeted annually at the discretion of the Water Department to provide for unanticipated needs that may arise during the course of the year. If this Reserve is used to cover unanticipated operating expenses, only the Department Director's approval is required; however, if used for unanticipated capital needs, City Council action is required.

Operating Reserve

This reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. This reserve is calculated based on the annual operating budget for the fiscal year (less water purchases and the Appropriated Reserve) which represents the amount necessary to provide for a certain number of days of operations in the event of a major disruption to the Water Fund revenues. Use of the funds is restricted to emergency situations resulting from loss of revenue and must be replenished during the fiscal year. The fiscal year 2008 budget for this reserve includes approximately \$23.1 million for 50 days of operations. The schedule below provides the proposed reserve balances for upcoming fiscal years with the plan to bring this reserve to a 70-day reserve by fiscal year 2013:

	<u>(Days of Operations)</u>
FY 2009 – \$27.2 million	(55)
FY 2010 – \$31.9 million	(60)
FY 2011 – \$36.8 million	(65)
FY 2012 – \$38.1 million	(70)
FY 2013 – \$40.0 million	(70)

Capital Reserve

This reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget (CIP). The reserve is intended for unanticipated capital needs. Use of these funds for a CIP project other than the original project designation (project transfer) requires City Council action.

Rate Stabilization Reserve

Historically, this reserve is an unbudgeted amount. It is proposed that this policy will serve to keep a stable balance of \$20.5 million in this reserve in order to mitigate future rate increases. Deposits into the reserve are made from current system revenues. Use of the funds is to be limited only for the operation and maintenance of the water system.

The utilization of this Reserve during the course of the fiscal year does not require City Council action but may be used based upon the recommendation of the Department and approval of the Chief Financial Officer.

Secondary Purchase Reserve

Historically, this reserve is an unbudgeted amount. The proposed policy calls for the size of the reserve to equal 6% of the annual water purchase budget. The reserve may be funded by any lawful source. Withdrawal from the reserves will be necessary for the purchase of water should a major drought or emergency occur that diminishes the City's normal supply. The City Council action is required in order to appropriate these reserves into a program.

Dedicated Reserve from Efficiency and Savings (DRES)

Beginning in fiscal year 2008, two reserves, one for the Water Fund and one for the Metropolitan Wastewater Fund (which is currently in place), will be used to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvements Program (CIP) or operations and maintenance of either system. The DRES will track funds that can be used for accelerating CIP project schedules and will help offset the need for any future rate increases. At the end of each fiscal year, any savings not required for compliance with established reserve policies will be

transferred into this reserve. At the end of four years, any funds transferred into this reserve and not used for capital improvements will be used to lower future rates for the water and wastewater systems.

WASTEWATER ENTERPRISE FUND RESERVE POLICY

Appropriated Reserve

The Appropriated Reserve is budgeted annually for unanticipated expenditures. It may be used to fund either operating or capital needs. If this reserve is used to cover unanticipated operating expenses, the Department Director's approval is required; however, if used for unanticipated capital needs, City Council action is required.

Current reserve levels are budgeted at \$3.3 million with intent to keep the reserve balance at the same level for future years based on historical requirements. An annual review of this level should be undertaken to determine adequate funding levels.

Operating Reserve

This reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. This Reserve is calculated based on the annual operating budget for the fiscal year. The Fiscal Year 2008 Budget for this reserve includes approximately \$31.6 million. The schedule below provides the proposed reserve balances for upcoming fiscal years with the plan to bring this reserve to a 70-day reserve by fiscal year 2013.

	<u>(Days of Operations)</u>
FY 2009 – \$31.6 million	(50)
FY 2010 – \$31.7 million	(50)
FY 2011 – \$35.9 million	(55)
FY 2012 – \$40.1 million	(60)
FY 2013 – \$48.1 million	(70)

Capital Reserve

The CIP Reserve is budgeted as a separate CIP Reserve at a level of \$5.0 million. Use of this reserve may only be used for capital costs. The City Council action is required for any withdrawal from the reserve.

Rate Stabilization Fund

This reserve is identical in rationale with the Rate Stabilization for the Water Fund: a source of funds used to mitigate future rate increases. It is expected that this reserve will reach \$13.3 million in fiscal year 2008. This reserve will be maintained at a level of 20% of system revenues less operating and non-operating expenses. The following are projected dollar targets to be achieved each year and will be adjusted based on 20% of actual revenues (less operating and non-operating expenses):

FY 2009 — \$19.3 million
FY 2010 — \$20.3 million
FY 2011 and beyond — maintain \$20.3 million

The utilization of this reserve during the course of the fiscal year does not require City Council action but may be used based upon the recommendation of the Department and approval of the Chief Financial Officer.

Dedicated Reserve from Efficiency and Savings (DRES)

Beginning in fiscal year 2008, two reserves, one for the Water Fund and one for the Metropolitan Wastewater Fund (which is currently in place), will be used to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvements Program (CIP) or operations and maintenance of either system. The DRES will track funds that can be used for accelerating CIP project schedules and will help offset the need for any future rate increases. At the end of each fiscal year, any savings not required for compliance with established reserve policies will be transferred into this reserve. At the end of four years, any funds transferred into this reserve and not used for capital improvements will be used to lower future rates for the water and wastewater systems.

AUTHORITY

Fiscal Reserve Policy

It is recommended that as a matter of policy, any changes, additions, deletions to the Fiscal Reserve Policy must be brought forward to the Budget and Finance Committee for review followed by a presentation to the City Council for formal action.

Quarterly status reports will be provided to the Budget and Finance Committee and the City Council. In addition, any requests for the use of reserves will be accompanied by current status report of the affected reserve fund.

Deviations from the Policy

No deviations from the Fiscal Reserve Policy will be allowed except as recommended by the Mayor or the City Council, and approved by the City Council. This would include increasing or decreasing the basis of emergency reserves, expenditures from reserves for anything other than the intended use of said reserve, and expenditures from any fund balances above the stated basis of the emergency reserves. If one is requested, it must be first presented to the Chief Financial Officer for review of the fiscal impact and to determine its appropriateness. The Chief Financial Officer will then bring the request to the Chief Operating Officer and the Mayor with a recommendation followed by a presentation to the Budget and Finance Committee. After the Budget and Finance Committee review, the item will be presented to the City Council for action.

Reserve Expenditures

Unless specified above, the authority to make expenditures from all reserves for all funds shall lie with the Mayor and City Council. Either the Mayor or the City Council may make recommendations for expenditures either through the budget process for dedicated or replacement reserves, or in the case of emergency or appropriated reserve expenditures, at regular or special City Council meetings.

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Replenishment of Reserves

Should a particular reserve fall below the anticipated reserve level as stated in this Policy, the Mayor will bring forward a plan as part of the subsequent fiscal year budget to the Budget and Finance Committee and ultimately the City Council to replenish said reserve in a reasonable timeframe.

EFFECTIVE DATE

The Reserve Policy shall be effective upon Council Approval.

CONCLUSION

The fiscal impact of this policy is to provide for adequate cash balances to ensure that the City meets its cash flow obligations, maximizes earnings on investments, minimizes borrowing costs and maintains the highest credit rating on its bonds.

The Reserve Policy shall serve as a cornerstone for other budgetary and financial decisions. The Policy should be reviewed and discussed no less frequent than every two years. This review would examine the effectiveness of the current policy and would make recommendations for any modifications which may be prudent. This will ensure that the policy remains current with general accounting and finance best practices as well as any regulatory or standards changes that may emerge over time.

The key factor of the reserve policy is to develop the fiscal disciplines that should be strictly followed. Sound fiscal management practices will be required to ensure that reserves are maintained and properly used.

Respectfully submitted,



Mary Lewis
Chief Financial Officer

CC: Honorable Mayor Jerry Sanders
Members of the City Council
Jay M. Goldstone, Chief Operating Officer
Nader Tirandazi, Financial Management Director
Andrea Tevlin, Independent Budget Analyst
Greg Levin, City Comptroller

Dedicated Reserve from Efficiencies and Savings

Purpose:

The City will establish a means to identify, track and secure year-to-year budget savings that occur in the Water and Wastewater Departments (Funds). These savings will be specifically identified in the City's general ledger and can be audited. This policy will remain in effect for a period no less than the duration of the fiscal year 2007 four-year rate case. The savings will be used for water and wastewater capital projects, respectively or to minimize future rate increases.

A. The Establishment of Dedicated Reserves:

1. The City will establish a Reserve Account within the respective Water and Wastewater Funds entitled "Dedicated Reserves from Efficiencies and Savings" (Reserve).
2. A semi-annual report will be issued to the Independent Rates Oversight Committee (IROC) which identifies any transfers to or from this Reserve during the prior.
3. At the end of each fiscal year, any savings not required to comply with established policies or legal documents will be transferred into the Reserve.
4. At the end of the four years, any funds transferred into this Reserve and not used for capital improvements will be used to lower future rates.
5. Nothing in this policy will interfere in any way with any contractual or legal obligations entered into by the Departments, including but not limited to any rate covenants in any bond indenture.

B. Capital Improvements (CIP):

1. CIP projects to be funded as part of the rate case will be monitored on a project by project basis.
2. At the point in time when the construction contract is awarded, should the projected project cost be larger than anticipated, the budget will be amended and a funding source identified. To the extent there are funds in the Reserve, the funding will be transferred from the Reserve.
3. Quarterly, a project savings report will be prepared and presented to the IROC. Any savings identified will be transferred to the Reserve.

C. Operations and Maintenance (O&M):

1. The operations and maintenance budgets as presented in the 2007-08 budget case will be monitored on a line item basis and financial results will be reported to the IROC on a quarterly basis.

At the end of the fiscal year, any O&M savings will be transferred to the Reserve.