



THE CITY OF SAN DIEGO
REPORT TO THE CITY COUNCIL

DATE ISSUED: October 17, 2007 REPORT NO:07-163
ATTENTION: Council President and City Council
October 22, 2007
SUBJECT: City Reserve Policy
REFERENCE: City Reserve Policy Memorandum

REQUESTED ACTION:

1. Approve the City Reserve Policy.
2. Establish the Appropriated Reserve Department 602 in the General Fund and appropriate \$7,000,000 from the General Fund Unallocated Reserve to Department 602 to establish a General Fund Appropriated Reserve for Fiscal Year 2008.

STAFF RECOMMENDATION:

Approve the requested actions.

SUMMARY:

1. City Reserve Policy

One of the indicators 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. The specific goals of the City Reserve Policy (Policy) are threefold: to insure that all decisions made by City's officials are made with the preservation of the City's fiscal health in mind; to protect the City's assets from economic turbulence and emergencies while avoiding reactive decision-making; restore San Diego's financial standing in the bond community by ensuring the City meets all of its short-term and long-term obligations.

The City Reserve Policy recommends that an Appropriated Reserve and an Emergency Reserve be established for the General Fund. The Emergency Reserve would only be used for qualifying emergencies as declared by the Mayor and/or the City Council and funds could only be accessed by two-thirds vote of the City Council. This Reserve may be a component of the City Charter Section 91 requirement to establish and fund a General Reserve Fund. Staff will return to the City Council at a later date once the requirements of Charter Section 91 are clear.

The City Reserve Policy includes a General Fund Appropriated Reserve. The purpose the Appropriated Reserve is to fund operational needs that are not anticipated during the development of the annual budget. Staff recommends that a General Fund Appropriated Reserve be established and funded for unanticipated needs in Fiscal Year 2008 with an appropriation of \$7,000,000 from the General Fund Unallocated Reserve. This amount represents a suggested appropriation of \$10 million less those amounts already transferred from the Unallocated Reserve during Fiscal Year 2008. Starting in Fiscal Year 2009 and in subsequent years, the General Fund Appropriated Reserve would be budgeted annually during the annual budget process. There would 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 unallocated fund balance (the Unallocated Reserve) which may then be re-appropriated in the subsequent fiscal year. Any expenditure of funds from this Appropriated Reserve will be made based upon the recommendation of the Mayor or the City Council and approval by a majority of the City Council by way of resolution.

From time to time there may be accumulated funds in the General Fund Unallocated Reserve which exceed the percentage required under the City Reserve Policy. These "excess" funds may be available for the City Council to appropriate consistent with the City Charter requirements and the Municipal Code.

In addition to the General Fund Emergency and Appropriated Reserves, this Policy addresses the reserves that other City funds may establish during the budget process as a contingency for unanticipated, non-emergency needs that are identified during the year. These appropriated 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.

2. Establish an Appropriated Reserve for Fiscal Year 2008

Staff recommends the establishment of the General Fund Appropriated Reserve Department 602 and requests an appropriation of \$7,000,000 from the General Fund Unallocated Reserve for Fiscal Year 2008. This amount is based upon an estimated appropriated reserve requirement of \$10,000,000 for Fiscal Year 2008 less the \$3,000,000 appropriated to date by City Council for unanticipated needs from the General Fund Unallocated Reserve.

FISCAL CONSIDERATIONS:

The amount of \$7,000,000 to establish the General Fund Appropriated Reserve will be appropriated from the General Fund Unallocated Reserve, reducing the General Fund Unallocated Reserve. Information on the current status of the General Fund Unallocated Reserve and the effect of this action on the General Fund Reserve is attached to this Report.

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

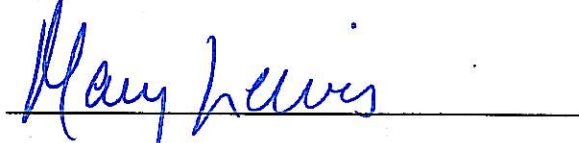
1. The Budget and Finance Committee reviewed the City Reserve Policy on July 11, 2007, July 25, 2007 and September 26, 2007. Revisions presented by the Office of the Independent Budget Analyst and Committee Members have been incorporated. The Committee has recommended forwarding the proposed City Reserve Policy to the full Council for approval.

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

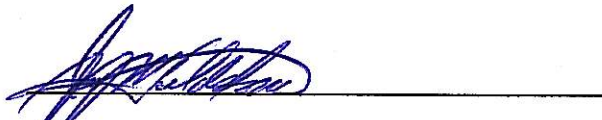
None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

None.



Mary J. Lewis
Director
Financial Management Department



Jay M. Goldstone
Chief Operating Officer

Attachments: