



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: March 7, 2016 REPORT NO: 16-027

ATTENTION: Honorable Council President Sherri Lightner and Members of the City Council

SUBJECT: Revision to the City of San Diego Reserve Policy

REFERENCE: City Council Reserve Policy – Revised July 17, 2014

REQUESTED ACTION: 1) Amend and supersede Council Policy #100-20 entitled “Reserve Policy” in its entirety.
2) Authorize the Chief Financial Officer to establish an interest-bearing fund for a Pension Payment Stabilization Reserve.
3) Authorize an increase in expenditure appropriations of \$20.8 million according to the allocation schedule to transfer to the Pension Payment Stabilization Reserve Fund.
4) Authorize an increase in expenditure appropriations by \$3.0 million in the General Fund to transfer to the Public Liability Reserve.
5) Authorize the increase in expenditure appropriations by \$3.0 million citywide to transfer to the Workers’ Compensation Reserve.
General Fund allocations to the reserves will be funded with Excess Equity. All non-general fund contributions will be allocated from their respective fund balances.

STAFF RECOMMENDATION: Approve the requested item.

SUMMARY:

The City maintains reserves to effectively manage economic downturns, the consequences of actions taken by outside agencies (e.g. the State or the County) that may reduce the City’s revenue, and address unexpected emergencies or unanticipated liabilities. Council Policy #100-20 entitled “Reserve Policy” documents the City’s approach to establishing and maintaining strong reserves across City operations. The City periodically reviews the Reserve Policy to determine if changes are necessary to ensure the policy continues to support the City’s fiscal priorities. The current Reserve Policy was last updated on July 17, 2014.

On January 25, 2016, the City Council heard two companion proposals to update the City’s Reserve Policy and increase the City’s reserves. The first item recommended the establishment of a Pension Payment Stabilization Reserve (Pension Reserve), a new reserve to mitigate service delivery risk due to unanticipated increases in the annual pension payment. The companion item recommended increasing the City’s General Fund Stability Reserve from 6% to 8% of operating revenues. Upon considering the proposals, City Council requested staff to create the new Pension Reserve defined earlier, increase the General Fund Reserve to achieve the 16.7% target which is two months of operating cash reserves, and return to Council with the revised Council Policy 100-20 including proposed appropriate funding levels for reserves as part of the Mayor’s Fiscal Year 2017 budget.

To implement this City Council request, staff recommends that the City Council amend the Reserve Policy to incorporate the requested changes to the General Fund Reserve and the Pension Reserve outlined in this report. Staff requests that the City Council authorize the Chief Financial Officer to establish an interest-bearing fund to hold the contributions to the Pension Reserve. Staff propose no changes to the current reserve targets and goals for the Risk Management reserves (Public Liability, Workers' Compensation, and the Long-Term Disability Reserves), and we include updated contribution amounts in this report that will be needed to achieve these reserve goals. The Reserve Policy is updated throughout to remove older contribution information and to show the reserve target percentages. This includes updates to the Risk Management Reserves as well as the Enterprise Fund Reserves. A ~~strikeout~~ and clean copy of the revised Reserve Policy is provided as **Attachments 1 & 2**.

Staff recommends that the City Council approve the action to transfer or assign projected Excess Equity to fund the additional contribution to the Stability Reserve, create the citywide Pension Reserve, and fund the Workers' Compensation and Public Liability Reserves to policy targets. Excess Equity is defined in the Reserve Policy as Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation.

As of the Fiscal Year 2016 Mid-Year Budget Monitoring Report (Mid-Year Report), the City currently projects there will be approximately \$33.7 million in Excess Equity available for appropriation. Using Excess Equity to fund higher reserve levels is consistent with the City's budget policy to use one-time resources for one-time uses, such as funding reserves. All non-general funds contributing to the reserves will appropriate from the respective fund balances or absorb the contribution amount in current budgets. A summary of the projected reserve contributions is provided in **Attachment 3**.

General Fund Reserve

The policy revision updates for the General Fund Reserve is to increase the target level of the total General Fund Reserves by 2.7%, or 14% to 16.7%, of a three-year average of audited General Fund operating revenues. The Emergency Reserve remains at the current target level of 8% and the Stability Reserve increases 2.7% from its current target of 6% to 8.7%. To smooth the impact of funding a higher Stability Reserve target, the increase is recommended to be phased in over five years according to the annual reserve targets in **Table 1**.

Table 1: General Fund Reserve Target Contributions

| <i>Target Date</i> | <i>Target Contribution (In Millions)</i> | <i>Projected Reserve Balance (In Millions)</i> | <i>Total General Fund Reserve Target %¹</i> |
|--------------------|--|--|--|
| June 30, 2016 | \$ 5.7 | \$ 164.7 | 14.5% |
| June 30, 2017 | \$ 7.6 | \$ 172.3 | 14.75% |
| June 30, 2018 | \$ 8.3 | \$ 180.6 | 15.25% |
| June 30, 2019 | \$ 12.5 | \$ 193.1 | 15.75% |
| June 30, 2020 | \$ 13.1 | \$ 206.1 | 16.25% |
| June 30, 2021 | \$ 13.7 | \$ 219.9 | 16.7% |

¹ Based on a rolling three-year average of projected annual General Fund operating revenues projected in the FY 2017-2021 Five-Year Financial Outlook.

To reach the 16.7% target by the end of Fiscal Year 2021, it is estimated that the City will need to contribute \$60.8 million to the General Fund Reserves. This is comprised of an estimated increase of \$35.5 million representing the increase of 2.7% in the Reserve Policy as well as an estimated \$25.3 million to fund the original 14.0% reserve by Fiscal Year 2021 related to projected growth in the three-year average of General Fund operating revenues (see **Attachment 3**). General Fund operating revenue growth projections are taken from the most recent Five-Year Financial Outlook.

In order to increase the General Fund Reserve Target by 0.5% in Fiscal Year 2016, \$5.7 million in Excess Equity will be recommended to be assigned to begin funding the Stability Reserve in Fiscal Year 2016. In Fiscal Year 2017, the reserve target increases by an additional 0.25% or \$7.6 million. The target contribution is higher in Fiscal Year 2017 despite a smaller increase in the target percent as a result of projected growth in General Fund operating revenues. From Fiscal Year 2018-2021, the schedule continues to increase the target percent by 0.5% each year until the total 16.7% target is achieved in Fiscal Year 2021. Projected contributions to the Stability Reserve needed to reach the target reserve level are summarized by fiscal year in **Attachment 3**.

In addition to the increase in the reserve target, the revised Reserve Policy also clarifies and updates the language in the General Fund Reserve as follows:

- The Stability Reserve may be used as a one-time funding source for critical capital or operating needs.
- In the event that reserves are reduced below the established policy, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the Stability Reserve balance to the policy level.
- Excess Equity may be used to fund the Pension Reserve.
- The relationship between the General Fund Reserve and Excess Equity and the fund balance categories reported in the General Fund's audited financial statements has been revised to reflect recent accounting changes.

Pension Payment Stabilization Reserve

The policy revision adds a new reserve called the Pension Payment Stabilization Reserve (Pension Reserve) to the Reserve Policy. The proposed Pension Reserve follows the same structure that was presented in Report to the City Council No. 15-085: Revision to the City of San Diego Reserve Policy – Pension Payment Stabilization Reserve Policy:

- The City will maintain a Pension Reserve to mitigate service delivery risk due to unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC).
- The Pension Reserve target will be equal to 8% of the most recent three year average of the ADC as reported in the Actuarial Valuation Report (Report) produced by the San Diego City Employees' Retirement System's (SDCERS) actuary.
- The Pension Reserve will be used to supplement unexpected increases in the ADC payment, defined as the difference between the total change in the ADC and the expected change in the ADC as provided in the *Change in ADC Table* of the Report in years where the ADC has increased year over year.
- Recommendations to appropriate from the Pension Reserve may be brought forward by the Mayor in the annual budget process, subject to approval by the majority of the City Council.

- During the adoption of the annual budget, the City Council may propose the use of the Pension Reserve consistent with the Pension Reserve Policy and the City Charter.
- In the event of the Pension Reserve being reduced below the target amount, the Mayor will prepare a plan to replenish the balance within one year of the reserve action.

The average value of the three most recent ADC valuations, dated June 30, 2013 through the preliminary results for June 30, 2015, is \$259.9 million. With a Pension Payment Stabilization Reserve target of 8% of the average of the most recent three years of ADC, the City would contribute \$20.8 million to the Pension Reserve to meet the expected target reserve level in Fiscal Year 2016. Using the Fiscal Year 2016 Adopted Budget allocation schedule (**Attachment 4**), the prorated General Fund contribution would be \$16.0 million, or 77.1% of the total amount. City Council is requested to authorize the Chief Financial Officer to establish an interest-bearing fund to hold the contributions to the Pension Reserve.

Table 2: Pension Payment Stabilization Reserve Targets

| <i>Target Date</i> | <i>Target Contribution (In Millions)</i> | <i>Prorated General Fund Contribution (In Millions)¹</i> | <i>Prorated Non-General Fund Contribution (In Millions)¹</i> | <i>Total Projected Reserve Balance (In Millions)</i> | <i>Balance as a Percentage of the ADC Valuation²</i> |
|--------------------|--|---|---|--|---|
| June 30, 2016 | \$ 20.8 | \$ 16.0 | \$ 4.8 | \$ 20.8 | 8.0% |

¹ Prorated based on the latest full-time equivalent position allocation schedule

² Based on the most recent three-year average of the Actuarially Determined Contribution as reported in the Actuarial Valuation Reports

According to the preliminary results of June 30, 2015 actuarial valuation, the projected ADC in Fiscal Year 2017 is \$261.1 million. This represents an increase of \$13.0 million compared to the expected Fiscal Year 2017 ADC of \$248.1 million projected in the Actuarial Valuation Report dated June 30, 2014. During the Fiscal Year 2017 budget approval process, the City Council would have the authority to propose the use of up to \$13.0 million of the Pension Reserve consistent with the Pension Reserve Policy and the budget authority of the Mayor and Council as outlined in the City Charter.

Risk Management Reserves

The funding targets and goals for the Risk Management Reserves are unchanged from the current Reserve Policy. However, the detailed information regarding funding amounts has been revised throughout to remove outdated information from previous fiscal years. In order for the Reserve Policy to remain accurate and relevant between Reserve Policy updates, projected dollar amounts of target reserve contributions and projected reserve balances have been removed from all reserve target tables in the Reserve Policy. Because the reserve targets are based off of actuarial liability valuations that are updated on an annual basis, the dollar amounts included in the Reserve Policy at the time of adoption become out of date. The reserve target percentages are the policy funding targets and goals that remain constant between Reserve Policy updates and will continue to be included in the Reserve Policy.

The current projected dollar amounts for all reserve target contributions are included as **Attachment 3: Reserve Calculations**. Financial Management will continue to provide updated target dollar amounts for the reserves through the Quarterly Budget Monitoring Reports.

Public Liability Fund Reserve

As of the Mid-Year Report, the Public Liability Reserve was projected to be funded at \$28.7 million, or 31% of the total outstanding actuarial liability of \$91.8 million, by year-end. This projection includes the City Council-approved appropriation of \$5.8 million from the Mid-Year Report.

After the Mid-Year Report was released, the City received a \$5.0 million insurance reimbursement as a result of the De La Fuente negotiated settlement. This amount was deposited into the Public Liability Reserve, increasing the projected funding level to \$33.7 million, or 37% of the total outstanding actuarial liability, by year-end.

To fund the Public Liability Reserve to the current reserve target for Fiscal Year 2016 of 40% of total outstanding actuarial liability, the City would need to contribute an additional \$3.0 million from the General Fund in Fiscal Year 2016 with projected ending Excess Equity. This contribution would continue the City's plan to fund the Public Liability Reserve to the 50% target level by Fiscal Year 2019.

Table 3: Public Liability Fund Reserve Targets

| <i>Target Date</i> | <i>Target Contribution (In Millions)</i> | <i>Projected Reserve Balance (In Millions)</i> | <i>Balance as a Percentage of Total Outstanding Actuarial Liability¹</i> |
|--------------------|--|--|---|
| June 30, 2016 | \$ 3.0 | \$ 36.7 | 40% |
| June 30, 2017 | \$ 2.8 | \$ 39.5 | 43% |
| June 30, 2018 | \$ 3.7 | \$ 43.2 | 47% |
| June 30, 2019 | \$ 2.8 | \$ 45.9 | 50% |

1 Based on the average value of the annual actuarial liability for the three Fiscal Years 2013 through 2015, or \$91.8 million.

The Reserve Policy revision also clarifies that the Public Liability Reserve contribution will be reassessed annually rather than every two years. This is consistent with current practice where the Public Liability Reserve is monitored as part of the Quarterly Budget Monitoring process and any required contribution to meet policy targets is added as a year-end budgetary action.

Workers' Compensation Fund Reserve

As of the Mid-Year Report, the Workers' Compensation Reserve was projected to be funded at \$51.5 million, or 23.6% of the total outstanding actuarial liability of \$218.1 million, by the end of Fiscal Year 2016. This amount includes the increased contribution of \$3.1 million in Fiscal Year 2016 outlined in the Mid-Year Report.

To increase the reserve balance to the target of 25% of the three year average of outstanding actuarial liability, the City will need to contribute an additional \$3.0 million in Fiscal Year 2016. The contribution to the reserve would be prorated by fund, and the General Fund would contribute \$2.5 million of the total amount with Excess Equity. The remaining \$0.5 million contribution from the non-general funds will be absorbed in current budgets without additional appropriation action.

Table 4: Workers' Compensation Fund Reserve Targets

| <i>Target Date</i> | <i>Target Contribution (In Millions)</i> | <i>Prorated General Fund Contribution (In Millions)</i> | <i>Projected Reserve Balance (In Millions)</i> | <i>Balance as a Percentage of Total Outstanding Actuarial Liability¹</i> |
|--------------------|--|---|--|---|
| June 30, 2016 | \$3.0 | \$2.5 | \$ 54.5 | 25% |

1 Based on the average value of the annual actuarial liability for the three Fiscal Years 2013 through 2015, or \$218.1 million.

In addition to updating the reserve target contribution, the revision also clarifies that the Workers' Compensation Reserve will be reassessed annually rather than every two years. This is consistent with current practice where the Workers' Compensation Reserve is analyzed and reported to Council as part of the Quarterly Budget Monitoring process.

Long-Term Disability Fund Reserve

The Long-Term Disability Fund Reserve initially reached the target of 100% of total outstanding actuarial liability in Fiscal Year 2015. As of the Mid-Year Report, the reserve was projected to be funded at \$18.4 million, or 123% of the total outstanding actuarial liability of \$14.9 million, by year-end. No additional contributions are needed to fund this reserve in Fiscal Year 2016.

Table 5: Long-Term Disability Fund Reserve Targets

| <i>Target Date</i> | <i>Target Contribution (In Millions)</i> | <i>Projected Reserve Balance (In Millions)</i> | <i>Balance as a Percentage of Total Outstanding Actuarial Liability¹</i> |
|--------------------|--|--|---|
| June 30, 2016 | \$0.0 | \$18.4 | 123% |

1 Based on the average value of the annual actuarial liability for the three Fiscal Years 2013 through 2015, or \$14.9 million.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal #1: Provide high quality public service

Objective 1: Promote a customer-focused culture that prizes accessible, consistent, and predictable delivery of services

Goal # 3: Create and Sustain a Resilient and Economically Prosperous City

FISCAL CONSIDERATIONS:

In order to reach the target funding levels for Fiscal Year 2016 under the revised reserve policy, a total of \$32.5 million will be contributed to the various reserves. Of this total amount, \$27.2 million will be contributed from the General Fund from Excess Equity.

Authorization to increase Fiscal Year 2016 General Fund expenditure appropriations are requested in the amount of \$16.0 million for the Pension Reserve, \$3.0 million for the Public Liability Reserve, and \$2.5 million in the Workers' Compensation Reserve. \$4.8 million in non-general fund expenditure appropriations from fund balance are requested for the Pension Reserve according to the fund allocation schedule provided in **Attachment 4**. Contributions to the Pension Reserve will be deposited in a new interest-bearing fund called the Pension Payment Stabilization Reserve Fund. The \$0.5 million contributions to the

Workers' Compensation Reserve from the non-general funds will be absorbed in current budgets.

No expenditure appropriation authorization is required to increase the General Fund Reserve by \$5.7 million. If the action is approved, \$5.7 million in Excess Equity (General Fund unassigned fund balance) will be designated as part of the Stability Reserve. The \$5.7 million previously categorized as Excess Equity in the Mid-Year Report will be reclassified as in the Stability Reserve, meeting the target of 6.5% in Fiscal Year 2016.

By Fiscal Year 2021, the City is projected to increase the General Fund Reserve, Pension Reserve, and Risk Management Reserves by \$96.9 million. Of this total amount, \$91.6 million will be contributed from the General Fund. A summary of the contributions by reserve is provided in **Attachment 3**.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS: Council approved the Reserve Policy as Ordinance No. O-19679 on November 20, 2007, and approved revisions as Resolution No. R-303941 on July 29, 2008. The most current revision was approved by City Council on July 17, 2014 (Resolution No. R-309101).

Recommendations to update the Reserve Policy were heard at City Council as two companion items on January 25, 2016. Staff was requested to create a Pension Reserve, develop a plan to increase the General Fund Reserve to 16.7%, and return to Council with the revised Council Policy 100-20 including proposed appropriate funding levels for reserves as part of the Mayor's Fiscal Year 2017 budget.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:

None.

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

None.

Signature on file

Signature on file

Originating Department

Deputy Chief/Chief Operating Officer

Attachment(s):

1. Revised Council Policy #100-20, Clean
2. Revised Council Policy #100-20, Redline
3. Reserve Calculations
4. Pension Payment Stabilization Reserve Allocation Schedule

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

PROPOSED

SUBJECT: RESERVE POLICY

POLICY NO.: 100-20

EFFECTIVE DATE: July 17, 2014

BACKGROUND:

A key attribute of a financially stable organization is appropriate reserves. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the organization. In concert with the budgetary and fiscal policies adopted by the City Council, including “Structural Budget Deficit Elimination Guiding Principles” (R-305615), “City Council Budget Policy 000-02” and the “Mid-Year Budget Authority Ordinance” (O-20084), the City’s Reserve Policy serves as the policy framework to deploy City resources to meet the City’s financial commitments and address unexpected future events in a fiscally prudent manner.

PURPOSE:

The City’s Reserve Policy documents the City’s approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, risk management and enterprise operations. The policy is designed to:

- Identify City operations and functions for which reserves should be established and maintained, considering risks to the operation from unexpected events and the availability of other resources to address such events, and the volatility of expenditures and revenues of the operation;
- Establish target reserve levels and the methodology for calculating reserve levels;
- Provide a time-frame for meeting reserve targets, using a phased approach where necessary so that reserve goals are balanced appropriately with current budget availability; and
- Establish criteria for the use of reserves and the process to replenish reserves.

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RESERVE POLICY:

General Fund Reserve Policy:

The General Fund¹ is the main operating fund that pays for general services provided by the City, such as public safety, parks, and library services. The General Fund accounts for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the delivery of the City's general services.

The General Fund Reserve Policy incorporates the requirements of the City Charter and is consistent with the City Council policies regarding the use of one-time and ongoing sources of revenue to fund City services.

The City's General Fund Reserves shall be comprised of two separate Reserves. These Reserves will be considered together when calculating the total General Fund Reserve balance.

Emergency Reserve

An Emergency Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City's residents and their property. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Emergency Reserve balance to the policy level.

Stability Reserve

A Stability Reserve will be maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not to serve as an alternative funding source for new programs. The Stability Reserve may be used as a source of one-time funding for critical capital or operating needs.

Recommendations to appropriate from the Stability Reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan no later

¹ For the purpose of this policy, the General Fund is the operational fund as presented in the City's annual budget document. Financial statements prepared on a GAAP basis include this fund, as well as other funds that do not meet the criteria to be classified as special revenue, capital project, or debt service funds, pursuant to Government Accounting Standards Board (GASB) Statement No. 54.

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than one year from the reserve action to replenish the Stability Reserve balance to the policy level.

General Fund Reserve Calculation and Measurement

Total General Fund Reserves consist of the total of the Emergency Reserve and the Stability Reserve. The target level for total General Fund Reserves shall be 16.7% of the most recent three-year average of annual audited General Fund operating revenues¹. The Emergency Reserve shall be set at a target level of 8%, and the Stability Reserve shall be set at a target level of 8.7%. The overall policy goal is to reach the 16.7% reserve level by fiscal year 2021, as set forth in the following schedule:

| <i>Target Date</i> | <i>Emergency Reserve Target %</i> | <i>Stability Reserve Target %</i> | <i>Total General Fund Reserve Target %</i> |
|--------------------|-----------------------------------|-----------------------------------|--|
| June 30, 2016 | 8.0% | 6.5% | 14.5% |
| June 30, 2017 | 8.0% | 6.75% | 14.75% |
| June 30, 2018 | 8.0% | 7.25% | 15.25% |
| June 30, 2019 | 8.0% | 7.75% | 15.75% |
| June 30, 2020 | 8.0% | 8.25% | 16.25% |
| June 30, 2021 | 8.0% | 8.7% | 16.7% |

Excess Equity

Excess Equity is Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation. Excess Equity most commonly results from a non-recurring source of revenue. Consistent with City Council Budget Policy (Policy No. 000-02) and the use of one-time and ongoing revenues, Excess Equity will be appropriated primarily for unanticipated circumstances, such as a General Fund revenue shortfall affecting programs included in the current year budget or for one-time priority expenditures. Recommendations for the use of Excess Equity may be brought forward by the Mayor and will require approval by a majority of the City Council.

The Quarterly Budget Monitoring Reports provide an estimate of Excess Equity based on the projected activity from operations during the fiscal year; however, Unassigned Fund Balance is not determined until the City closes its books as of June 30. In the May Revision of the annual budget, the Mayor may propose to budget a transfer or designate any projected Excess Equity to fund the General Fund Reserves, Pension Payment Stabilization Reserve, Risk Management

¹ For purposes of this policy, target reserve balances are based on operating revenues as presented in the General Fund Budgetary Schedule of Revenues, Expenditures and Changes in Fund Balance in the Required Supplementary Information section of the Comprehensive Annual Financial Report. These revenues are from recurring revenue sources that support operations, and exclude other financing sources.

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Reserves or for a priority one-time capital need. The transfer or designation ~~would occur after~~ the fiscal year close is completed and the budgeted Excess Equity amount is determined to be available in fund balance above the 16.7% General Fund reserves.

City Charter

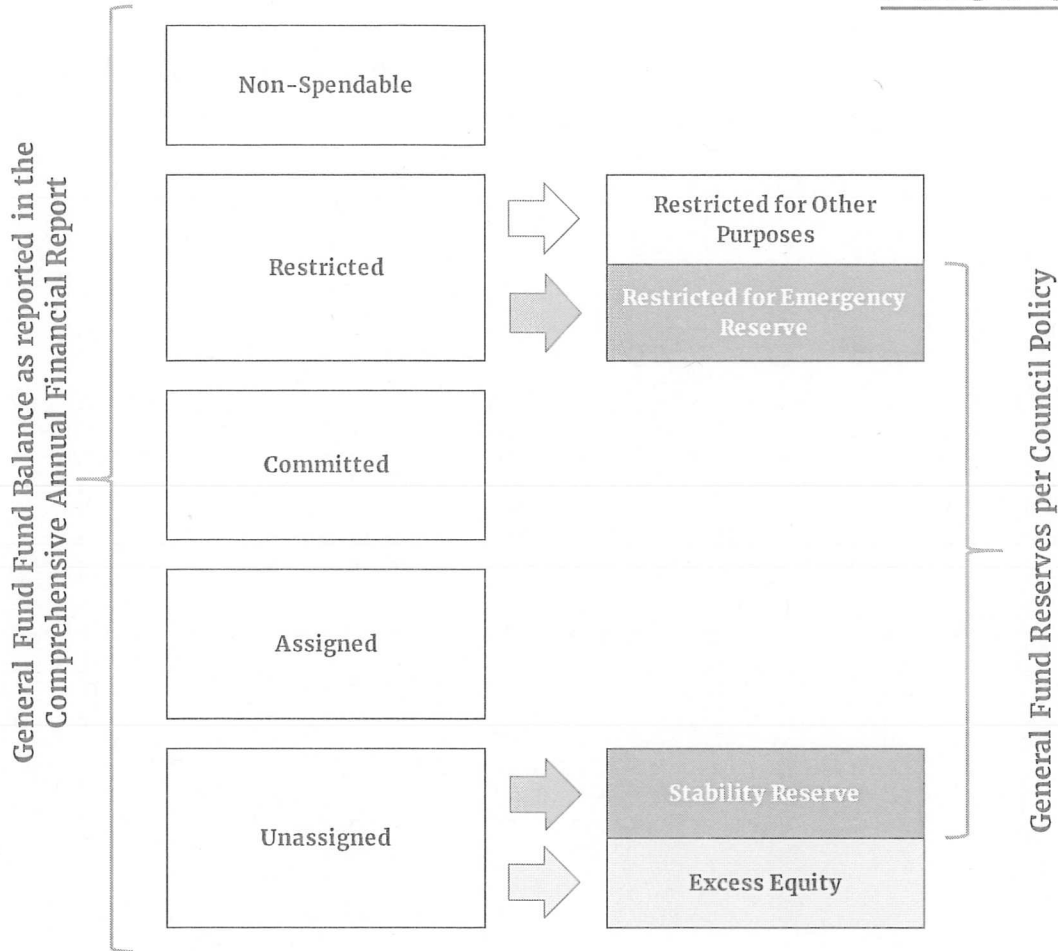
City Charter Section 91 requires the City to create and maintain a “General Reserve Fund” to meet the cash obligations of the City for the first four months, or other necessary periods of each fiscal year prior to the collection of taxes. It further stipulates the fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council. This requirement is met through the City’s pooled investment fund and when necessary cash borrowing through the sale of Tax and Revenue Anticipation Notes.

Accounting

Total General Fund Reserves will be based on audited General Fund Revenues (budgetary basis). The Emergency Reserve is reported in the General Fund’s Balance Sheet as Restricted Fund Balance. The sum of the Stability Reserve and Excess Equity shall equal Unassigned Fund Balance.

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Pension Payment Stabilization Reserve Policy:

A Pension Payment Stabilization Reserve (Pension Reserve) will be maintained to mitigate service delivery risk due to the unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC).

The Pension Reserve shall only be used to supplement unexpected increases in the ADC payment as calculated in the most recent Actuarial Valuation Report (Report) produced by the San Diego City Employees' Retirement System's (SDCERS) actuary. The unexpected increase is defined as the difference between the total change in the ADC and the expected change in the ADC as provided in the *Change in ADC Table* of the Report.

Increases in the ADC are caused by several factors, such as 1) system earnings in the prior fiscal year that are lower than the assumed actuarial rate (discount rate); 2) changes in actuarial

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assumptions approved by the SDCERS Board, including a reduction in the discount rate, and 3) other significant liability experience losses.

The purpose of the Pension Reserve will be to provide a source of funding for the ADC when these conditions occur and the ADC has increased year over year.

Budgeting the Pension Reserve

Recommendations to appropriate from the Pension Reserve may be brought forward by the Mayor in the annual budget process and will require approval by a majority of the City Council. The budgeting of an amount from the Pension Reserve as described by this policy will be based on the current fiscal conditions of the City for a supplemental source of funds to pay the ADC. During the adoption of the annual budget, the City Council has the authority to propose the use of the Pension Reserve consistent with the Pension Reserve Policy and the City Charter. In the event the Pension Reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan no later than one year from the reserve action to replenish the Pension Reserve balance to the policy level.

Pension Reserve Calculation and Measurement

The City will fund and maintain a Pension Reserve equal to 8% of the most recent three year average of the ADC as reported in the Actuarial Valuation Reports by fiscal year 2016. The reserve amount for the General Fund shall be prorated based on the most recently adopted budget allocation.

Risk Management Reserve Policy:

The Public Liability, Workers' Compensation, and Long-Term Disability Funds provide funding sources for certain claims made against the City. The Public Liability Fund is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, inverse condemnation, false arrest, and errors and omissions. The Workers' Compensation Fund is a citywide fund that covers medical and disability costs for industrial injury claims, while the Long-Term Disability Fund provides non-industrially disabled City employees with income and flexible benefits coverage. For purposes of this policy, cash on hand is used to identify the projected reserve balance.

Public Liability Fund Reserve

The City will maintain reserves equal to 50% of the value of outstanding public liability claims. This reserve level recognizes that not all claims will be due and payable at one point in time and that not all claims will be awarded, yet there may be more than one large claim that could require an immediate payment. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding public liability claims for purposes of calculating the reserve level. The policy goal is to reach the 50% reserve level by fiscal year 2019 through General Fund contributions to the

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Public Liability Fund Reserve to meet the annual targets as set forth in the following schedule:

Public Liability Fund Reserves Targets

| <i>Target Date</i> | <i>Target %</i> |
|--------------------|-----------------|
| June 30, 2016 | 40% |
| June 30, 2017 | 43% |
| June 30, 2018 | 47% |
| June 30, 2019 | 50% |

The General Fund contribution to the Public Liability Fund Reserve will be reassessed annually and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

Workers' Compensation Fund Reserve

The City will maintain reserves equal to 25% of the value of the outstanding claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level.

The contribution to the Workers' Compensation Fund Reserve will be reassessed annually and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

Long-Term Disability Fund Reserve

The City will maintain reserves equal to 100% of the value of outstanding claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level. The target reserve balance will be maintained to support the feasibility of purchasing an insurance policy to cover this benefit as an alternative to the current practice of self-insurance.

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

PROPOSED

Development Services Enterprise Fund Reserve Policy:

The Development Services Fund accounts for the City's development review and inspection services, which are funded directly by fees and charges paid by Development Services' customers. The fund is intended to be self-supporting.

Operating Reserve

The Operating Reserve is intended to provide financial stability during economic cycles and provide business continuity when significant natural or manmade disasters occur. The reserve may be used to meet current expenditures following an unanticipated decline in workload resulting in decreased revenues.

The use of funds is for unanticipated emergency situations resulting from loss of revenue and would include major incidents such as an earthquake or wild fires. Revenue generating work, such as permitting or land use may be interrupted; however, downsizing staff may not be prudent as construction will commence or increase once damage assessments are completed. The reserve is not intended to maintain staffing levels during lengthy economic recession; and based on forecasted activity it may be used to maintain core services during relatively short downturn periods. The reserve will be replenished to previous levels at the earliest opportunity after revenues have improved and stabilized to cover on-going operating expenses. The Chief Financial Officer/Chief Operating Officer will be responsible for approving the use of the reserve for unanticipated operating expenses.

The reserve is based on annual operating budget expenditures for the fiscal year. The target reserve level for the operating reserve is 7% - 15% of operating expenses, or a target of 60 days of operating reserves once the 15% is obtained. Expenditures in Development Services are a better indicator of operational needs to use as a basis to develop a reserve that supports continuity of business. Revenues can be significantly impacted by changes in the economy and could potentially cause too much volatility in the reserve levels from year to year. The 7% target reserve is expected to be reached by Fiscal Year 2016, and the maximum reserve level of 15% by Fiscal Year 2022. The target reserve amount will be assessed on an annual basis using the most recent three years of audited actual expenditures.

CITY OF SAN DIEGO, CALIFORNIA
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PROPOSED

Development Services Fund Reserve Targets

| Target Date | Target (% of Operating Expenses) |
|---------------|--|
| June 30, 2016 | 7.00% |
| June 30, 2017 | 8.25% |
| June 30, 2018 | 9.50% |
| June 30, 2019 | 10.75% |
| June 30, 2020 | 12.00% |
| June 30, 2021 | 13.50% |
| June 30, 2022 | 15.00% |

Water Enterprise Fund Reserve Policy:

The Water Enterprise Fund accounts for specific services funded directly by fees and charges to City water customers. The fund is intended to be self-supporting.

Emergency Operating Reserve

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve level is defined as the number of days of operation the reserve could support in the event of a major disruption to the Water system, and shall be calculated based on the annual operating budget for the fiscal year, less the budgeted operating contingency and the budget for water purchases and debt service (including State Revolving Fund loan repayments). The Emergency Operating Reserve target shall be equivalent to 70 days of operations. This reserve level of 70 days recognizes that the Water Enterprise Fund has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs.

Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

Emergency Capital Reserve

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required.

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PROPOSED

Rate Stabilization Fund (RSF) Reserve

This fund was established and is maintained pursuant to the legal bond documents for the outstanding water system revenue bonds.¹ Transfers in and out of this fund serve as a revolving mechanism to mitigate significant fluctuations in the water rates for the system operations and maintain stable debt service coverage ratios for the outstanding water revenue bonds. The permitted uses of the RSF are limited to the operations and maintenance costs of the water system.

This policy establishes a baseline target for the RSF in an amount equal to 5% of the prior fiscal year water system total operating revenue.² The funding level in the RSF can go up or down depending on the year-to-year changes in the Water Fund's operating revenues and expenditures. The RSF will be treated as a coverage stabilization tool enabling transfers into and out of the RSF, as necessary by the Chief Financial Officer, upon recommendation of the Public Utilities Department. Transfers may be made into the RSF, increasing the balance above the 5% baseline if the water system has excess net system revenues³ in any given fiscal year. In contrast, if the water system is anticipated to experience weak net system revenues in any given fiscal year, funds can be drawn down from the RSF to provide necessary revenue to cover current year operations and maintenance costs.

If the RSF goes below the baseline amount of 5% of the prior fiscal year water system total operating revenue, it will be replenished to the target level from any surplus net system revenue in the next fiscal year or in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustments.

Secondary Purchase Reserve

This reserve is established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate these reserves.

Any request to utilize the Secondary Purchase Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

¹ Section 6.08 of the Amended and Restated Master Installment Purchase Agreement ("Water MIPA") dated January 1, 2009.

² Total Operating Revenue as reported in the CAFR - Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets.

³ Operating system revenues less operating system expenses, as defined in the Water MIPA.

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Sewer Enterprise Fund Reserve Policy:

The Sewer Enterprise Fund accounts for specific services funded directly by fees and charges to City sewer customers. The fund is intended to be self-supporting.

Emergency Operating Reserve

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve level is defined as the number of days of operation the reserve could support in the event of a major disruption to Sewer system, and shall be calculated based on the annual operating budget for the fiscal year, less the budgeted operating contingency and the budget for debt service (including State Revolving Fund loan repayments). The Emergency Operating Reserve target shall be equivalent to 70 days of operations. Any reserves provided by the Participating Agencies for their proportionate share of the Metropolitan Sewer System shall count toward the 70 day target. This reserve level target of 70 days recognizes that the Sewer Enterprise Fund has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs.

Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

Emergency Capital Reserve

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required.

Rate Stabilization Fund (RSF) Reserve

This fund was established and is maintained pursuant to the legal bond documents for the outstanding wastewater system revenue bonds.¹ Transfers in and out of this fund serve as a revolving mechanism to significant potential fluctuations in the wastewater rates for the system operations and maintain stable debt service coverage ratios for the outstanding wastewater revenue bonds. The permitted uses of the RSF are limited to the operations and maintenance costs of the wastewater system.

¹ Section 6.08 of the Master Installment Purchase Agreement ("Wastewater MIPA") dated September 1, 1993.

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This policy establishes a baseline target for the RSF in an amount equal to 5% of the prior fiscal year wastewater system total operating revenue.¹ The funding level in the RSF can go up or down depending on the year to year changes in the Wastewater Fund's operating revenues and expenditures. The RSF will be treated as a coverage stabilization tool enabling transfers into and out of the RSF, as necessary by the Chief Financial Officer, upon recommendation of the Public Utilities Department.

Transfers may be made into the RSF, increasing the balance above the 5% baseline, if the wastewater system has excess net system revenues² in any given fiscal year. In contrast, if the wastewater system is anticipated to experience weak net system revenues in any given fiscal year, funds can be drawn down from the RSF to provide necessary revenue to cover current year operations and maintenance costs.

If the RSF goes below the baseline amount of 5% of the prior fiscal year wastewater system total operating revenue, it will be replenished to the target level from any surplus net system revenue in the next fiscal year or in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustments.

Refuse Disposal and Recycling Enterprise Funds Reserve Policy:

The Refuse Disposal Enterprise Fund was established to separate tipping fee revenues from the General Fund. The tip fees support active and inactive landfill operations, solid waste code enforcement, commercial and industrial recycling programs, community cleanups and abatements, and collection and maintenance of street litter containers in business districts and are levied on landfill users, including the City of San Diego.

The Recycling Enterprise Fund and Assembly Bill (AB) 939 Fee were established as a result of the Integrated Waste Management Act of 1989. AB 939 authorized local jurisdictions to impose fees based on the types or amounts of solid waste generated to be used to pay actual costs incurred in preparing, adopting, and implementing integrated waste management plans.

Operating Reserve

The Operating Reserve is intended to be used in the event that the enterprise fund requires additional resources to operate in its normal course of business. This reserve may be drawn upon to fund unanticipated emergency expenditures, one-time high priority programs, or revenue shortfalls due to an unexpected economic slowdown or recession. The Chief Operating Officer and/or Chief Financial Officer will have authority to approve expenditures and the reserve must be replenished no later than the subsequent fiscal year.

¹ Total Operating Revenue as reported in the CAFR - Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets.

² Operating system revenues less operating system expenses, as defined in the Wastewater MIPA.

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The Operating Reserve target level is 15% of operating revenues for both the Refuse Disposal and the Recycling Funds, which equates to approximately two months of operations. Revenues reflect the business cycle and are an indicator of operational needs; therefore revenues are the basis to develop a policy reserve to support business continuity. The Environmental Services and Financial Management departments will conduct an annual review of the Operating Reserve amounts to maintain policy funding levels.

Golf Course Enterprise Fund Reserve Policy:

The City has operated a municipal golf program since 1915. Today, the Golf Division operates three City golf complexes: Balboa Park Golf Course 18-hole and 9-hole courses; Mission Bay 18-hole executive golf course; and Torrey Pines 18-hole North Course and 18-hole South Course. The Golf Course Fund was established in 1991 and operates in a manner similar to a private sector enterprise where the cost of providing services is recovered through user charges. A primary goal of the Golf Course Fund (Fund) is to ensure that the City operated golf courses are financially self-sufficient and that they do not require financial support from the City's General Fund.

The City will maintain reserves equal to 12% of the most recent three year average of annual audited operating revenues¹, with the intent to maintain the reserve balance at the same level for future years based on historical requirements. The 12% reserve level aligns with GFOA best practices, which recommends enterprise funds maintain a working capital reserve equivalent to a minimum of 45 days, or 12%. This lower level of reserve funding recognizes that the Golf Course Enterprise Fund does not provide essential City services, such as those provided by the Water and Sewer Funds, and has greater flexibility to adjust its operational expenditures during emergencies, as well as having the flexibility to stop operations without impacting public health or safety. The Fund does not require reserves for continuity of business or emergency situations. The reserve is established to ensure financial stability or for one-time large investments in infrastructure or large maintenance efforts. The Park and Recreation Department will conduct an annual review of the reserve funds to determine adequate funding levels and alignment with the Golf Business Plan.

Recommendations to appropriate from the reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the reserve balance to the policy level.

¹ Target reserve balances are based on operating revenues as presented in the Budgetary Schedule of Revenues, Expenditures and Changes in Fund Balance in the Required Supplementary Information section of the Comprehensive Annual Financial Report. These revenues are from recurring revenue sources that support operations, and exclude other financing sources.

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The Golf Course Fund Reserve will be reassessed every two years and funding requirements will be incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

COMPLIANCE WITH RESERVE POLICY:

Reserve Targets

The Reserve Policy is based on either percentage targets or days of operation; all associated dollar figures represent estimated/projected targets based on either the percentage target or days of operation target set by the Reserve Policy.

Reporting Use of Reserve Funds

Any requests for the use of reserves and/or Excess Equity will be accompanied by a current status report of the affected reserve fund and impacts on the future reserve levels. Reserve and Excess Equity status updates will be presented as part of the required Quarterly Budget Monitoring Reports.

Reserve Expenditures

Unless specified otherwise in the Reserve Policy, expenditures from any reserve will require a recommendation of the Mayor and City Council action to appropriate the funds. The Mayor may recommend reserve expenditures through the budget process or at regular or special City Council meetings for City Council consideration and approval.

Replenishment of Reserves

Should a particular reserve fall below the targeted reserve level set forth in the Reserve Policy, the Mayor will develop a plan to replenish the reserve in a reasonable timeframe, unless as otherwise required by this Policy. The proposed plan will be presented to the Budget and Government Efficiency Committee and the City Council as part of the subsequent fiscal year budget.

Deviations from the Reserve Policy

No deviations from the Reserve Policy will be allowed except as recommended by the Mayor and approved by the City Council. Proposed exceptions to the Reserve Policy will be presented first to the Chief Financial Officer and/or Chief Operating Officer, and then to the Budget and Government Efficiency Committee. After the Budget and Government Efficiency Committee review and recommendation, the proposed exception will be presented to the City Council for action.

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Updates to Reserve Policy

Any changes, additions, or deletions to the Reserve Policy will be brought forward to the Budget and Government Efficiency Committee for review followed by a presentation to the City Council for formal action.

The Reserve Policy will be reviewed at least biennially and discussed if changes are necessary to ensure the policy is effective, and remains current with general accounting and financial best practice standards, as well as any regulatory changes that may occur over time.

CONCLUSION:

Maintaining, regularly updating, and adhering to an appropriately constructed reserve policy is a good business practice recognized by the Government Finance Officers Association, and is among the factors considered by credit rating agencies and the investment community when assessing the credit-worthiness of an organization. The City recognizes that the Reserve Policy is a cornerstone of the organization's fiscal health. As such, a biennial review of the Reserve Policy will be performed and any changes to the Reserve Policy will be brought forward for City Council consideration and approval.

GLOSSARY:

Emergency Capital Reserve

The Emergency Capital Reserve is intended to be used for emergency capital needs. If the reserve is used to fund unforeseen emergency conditions, approval from the Chief Financial Officer or the Chief Operating Officer is required.

Emergency Operating Reserves

The Operating Reserve for an Enterprise Fund, such as the Water Utility or the Wastewater Utility, is intended to be used should a catastrophe occur that prevents the utility from operating according to its normal course of business. Use of the reserve is restricted to emergency situations resulting in loss of revenue and the reserve must be replenished in accordance with the timeframe established in the respective policies. The Chief Operating Officer and/or Chief Financial Officer will have the authority to approve expenditures from the reserve.

Emergency Reserve

Certain funds, such as the General Fund, will maintain an Emergency Reserve which may only be used for qualifying emergencies, such as a natural disaster, terrorist attack, or other unforeseen catastrophic event caused by human activity. The Emergency Reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the City Council.

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Stability Reserve

Stability Reserve provides budgetary stabilization and does not serve as an alternative funding source for new programs.

Excess Equity

Excess Equity is Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation. Excess Equity most commonly results from a non-recurring source of revenue.

Rate Stabilization Reserves

The purpose of Rate Stabilization Reserves is to ensure that legal requirements relating to annual debt service coverage, as set forth in bond indenture agreements, are fulfilled. This type of reserve is more typical for Enterprise Fund financings. The reserve targets are calculated based on the legal requirements outlined in the applicable bond financing documents, and maintained throughout the term of the bonds.

Secondary Purchase Reserve

This reserve is established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply.

Working Capital

Working Capital is current assets (cash or equity in pooled cash and liquid investments and receivables less than 60 days for governmental funds, 90 days for enterprise funds) minus current liabilities (payables) and encumbrances and other restrictions. Working Capital does not include long-term assets such as certain longer term investments, loans receivable, fixed assets, inventory, and equipment. For the purpose of the Reserve Policy and when referring to the General Fund Emergency Reserve, the term "Working Capital" is used synonymously with "Emergency Reserve."

HISTORY:

General Fund Reserve Level Council Policy
Adopted by Resolution R-297182 - 10/15/2002
Amended by Resolution R-307154 - 12/15/2011
Amended by Resolution R-308740 - 02/26/2014
Amended by Resolution R-309101 - 07/17/2014

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICYPROPOSED

SUBJECT: RESERVE POLICY

POLICY NO.: 100-20

EFFECTIVE DATE: July 17, 2014

BACKGROUND:

A key attribute of a financially stable organization is appropriate reserves. Strong reserves position an organization to weather significant economic downturns more effectively, manage the consequences of outside agency actions that may result in revenue reductions, and address unexpected emergencies, such as natural disasters, catastrophic events caused by human activity, or excessive liabilities or legal judgments against the organization. In concert with the budgetary and fiscal policies adopted by the City Council, including “Structural Budget Deficit Elimination Guiding Principles” (R-305615), “City Council Budget Policy 000-02” and the “Mid-Year Budget Authority Ordinance” (O-20084), the City’s Reserve Policy serves as the policy framework to deploy City resources to meet the City’s financial commitments and address unexpected future events in a fiscally prudent manner.

PURPOSE:

The City’s Reserve Policy documents the City’s approach to establishing and maintaining strong reserves across the spectrum of City operations, including General Fund, risk management and enterprise operations. The policy is designed to:

- Identify City operations and functions for which reserves should be established and maintained, considering risks to the operation from unexpected events and the availability of other resources to address such events, and the volatility of expenditures and revenues of the operation;
- Establish target reserve levels and the methodology for calculating reserve levels;
- Provide a time-frame for meeting reserve targets, using a phased approach where necessary so that reserve goals are balanced appropriately with current budget availability; and
- Establish criteria for the use of reserves and the process to replenish reserves.

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RESERVE POLICY:

General Fund Reserve Policy:

The General Fund¹ is the main operating fund that pays for general services provided by the City, such as public safety, parks, and library services. The General Fund accounts for all general revenues of the City not specifically levied or collected for other City funds and for expenditures related to the delivery of the City's general services.

The General Fund Reserve Policy incorporates the requirements of the City Charter and is consistent with the City Council policies regarding the use of one-time and ongoing sources of revenue to fund City services.

The City's General Fund Reserves shall be comprised of two separate Reserves. These Reserves will be considered together when calculating the total General Fund Reserve balance.

Emergency Reserve

An Emergency Reserve will be maintained for the purpose of sustaining General Fund operations in the case of a public emergency such as a natural disaster or other unforeseen catastrophic event. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only if an event is determined to be a public emergency by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety of the City's residents and their property. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the Emergency Reserve balance to the policy level.

Stability Reserve

A Stability Reserve will be maintained to mitigate financial and service delivery risk due to unexpected revenue shortfalls or unanticipated critical expenditures. The purpose of this reserve is to provide budgetary stabilization and not to serve as an alternative funding source for new programs. The Stability Reserve may be used as a source of one-time funding for critical capital or operating needs. ~~This reserve may also be used to mitigate service delivery risk due to unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC), and will serve as a funding source if the ADC unexpectedly increases year-over-year as calculated in the most recent Actuarial Valuation Report produced by the San Diego City Employees' Retirement System's actuary. An unexpected ADC increase is defined as the~~

¹ For the purpose of this policy, the General Fund is the operational fund as presented in the City's annual budget document. Financial statements prepared on a GAAP basis include ~~these~~ this funds, as well as other funds that do not meet the criteria to be classified as special revenue, capital project, or debt service funds, pursuant to Government Accounting Standards Board (GASB) Statement No. 54.

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~~difference between the total change in the ADC and the expected change in the ADC as provided in the *Change in the ADC Table* of the Report.~~

Recommendations to appropriate from the Stability Reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as ~~promptly as conditions warrant~~ no later than one year from the reserve action to replenish the Stability Reserve balance to the policy level.

General Fund Reserve Calculation and Measurement

Total General Fund Reserves consist of the total of the Emergency Reserve and the Stability Reserve. The target level for total General Fund Reserves shall be ~~4~~16.7% of the most recent three-year average of annual audited General Fund operating revenues¹. The Emergency Reserve shall be set at a target level of 8%, and the Stability Reserve shall be set at a target level of ~~6~~8.7%. The overall policy goal is to reach the 16.7% reserve level by fiscal year 2021, as set forth in the following schedule:

| <i>Target Date</i> | <i>Emergency Reserve Target %</i> | <i>Stability Reserve Target %</i> | <i>Total General Fund Reserve Target %</i> |
|----------------------|-----------------------------------|-----------------------------------|--|
| <u>June 30, 2016</u> | <u>8.0%</u> | <u>6.5%</u> | <u>14.5%</u> |
| <u>June 30, 2017</u> | <u>8.0%</u> | <u>6.75%</u> | <u>14.75%</u> |
| <u>June 30, 2018</u> | <u>8.0%</u> | <u>7.25%</u> | <u>15.25%</u> |
| <u>June 30, 2019</u> | <u>8.0%</u> | <u>7.75%</u> | <u>15.75%</u> |
| <u>June 30, 2020</u> | <u>8.0%</u> | <u>8.25%</u> | <u>16.25%</u> |
| <u>June 30, 2021</u> | <u>8.0%</u> | <u>8.7%</u> | <u>16.7%</u> |

Excess Equity

~~Excess Equity is spendable and unrestricted~~Unassigned Fund Balance that is not otherwise assigned to ~~designated as~~ General Fund Reserves and is available for appropriation. Excess Equity is most commonly a ~~results from~~ non-recurring source of revenue. Consistent with City Council Budget Policy (Policy No. 000-02) and the use of one-time and ongoing revenues, Excess Equity will be appropriated primarily for unanticipated circumstances, such as a General Fund revenue shortfall affecting programs included in the current year budget or for one-time

¹ For purposes of this policy, target reserve balances are based on operating revenues as presented in the General Fund Budgetary Schedule of Revenues, Expenditures and Changes in Fund Balance in the Required Supplementary Information section of the Comprehensive Annual Financial Report. These revenues are from recurring revenue sources that support operations, and exclude other financing sources.

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priority expenditures. Recommendations for the use of Excess Equity may be brought forward by the Mayor and will require approval by a majority of the City Council.

The Quarterly Budget Monitoring Reports provide an estimate of Excess Equity based on the projected activity from operations during the fiscal year; however, ~~unrestricted Unassigned Fund Balance~~ is not determined until the City closes its books as of June 30. In the May Revision of the annual budget, the Mayor may propose to budget a transfer or designate any projected ~~Excess Equity as a contingency~~ to fund the General Fund Reserves, Pension Payment Stabilization Reserve, Risk Management Reserves or for a priority one-time capital need. The transfer or designation would occur after the fiscal year close is completed and the budgeted Excess Equity amount is determined to be available in fund balance above the 416.7% General Fund reserves.

City Charter

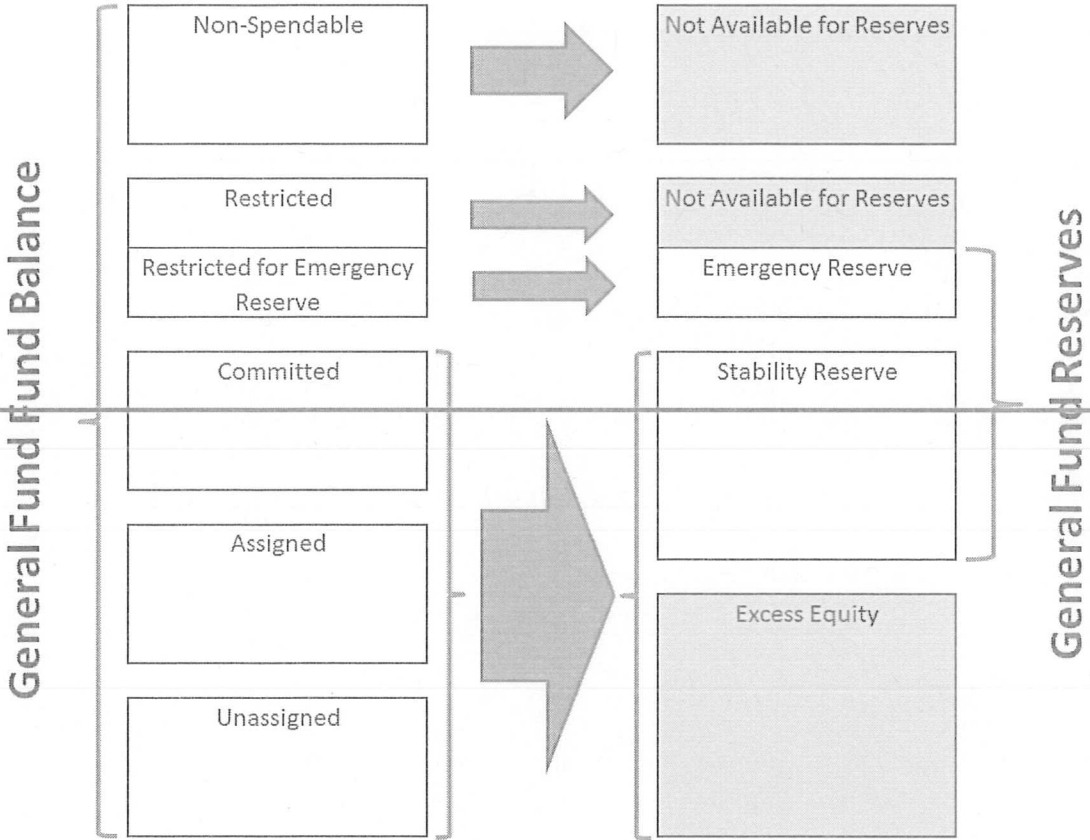
City Charter Section 91 requires the City to create and maintain a “General Reserve Fund” to meet the cash obligations of the City for the first four months, or other necessary periods of each fiscal year prior to the collection of taxes. It further stipulates the fund may be expended only in the event of a public emergency by the affirmative vote of two-thirds of the City Council. This requirement is met through the City’s pooled investment fund and when necessary cash borrowing through the sale of Tax and Revenue Anticipation Notes.

Summary Accounting

Total General Fund Reserves will be based on audited General Fund Revenues (budgetary basis), ~~and reconciled to, the General Fund fund balance.~~ The sum of the Emergency Reserve is reported in the General Fund’s Balance Sheet as Restricted Fund Balance. ~~The sum of the Stability Reserve, and amounts determined to be Excess Equity shall equal the sum of unrestricted Unassigned Fund Balance and amounts restricted for the purpose of maintaining the Emergency Reserve.~~

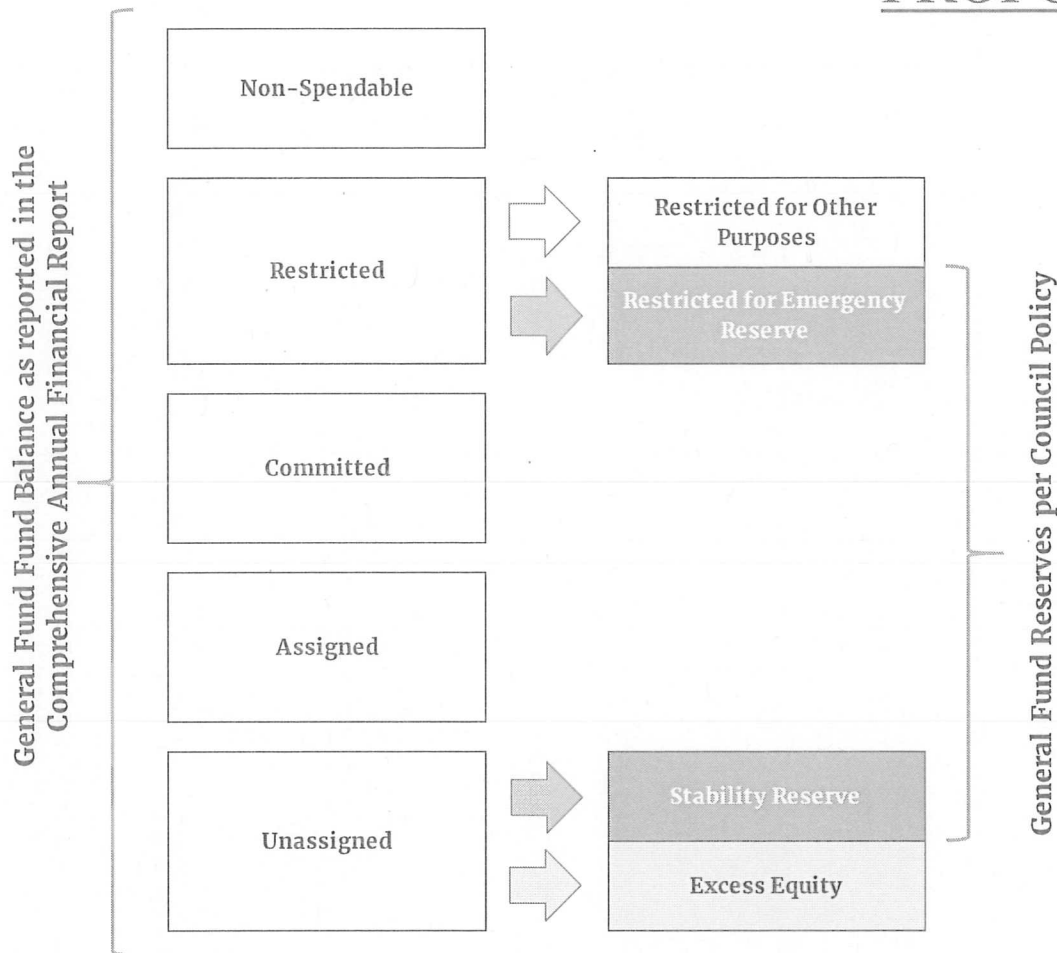
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Pension Payment Stabilization Reserve Policy:

A Pension Payment Stabilization Reserve (Pension Reserve) will be maintained to mitigate service delivery risk due to the unanticipated increases in the annual pension payment, the Actuarially Determined Contribution (ADC).

The Pension Reserve shall only be used to supplement unexpected increases in the ADC payment as calculated in the most recent Actuarial Valuation Report (Report) produced by the San Diego City Employees' Retirement System's (SDCERS) actuary. The unexpected increase is defined as the difference between the total change in the ADC and the expected change in the ADC as provided in the *Change in ADC Table* of the Report.

Increases in the ADC are caused by several factors, such as 1) system earnings in the prior fiscal year that are lower than the assumed actuarial rate (discount rate); 2) changes in

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actuarial assumptions approved by the SDCERS Board, including a reduction in the discount rate; and 3) other significant liability experience losses.

The purpose of the Pension Reserve will be to provide a source of funding for the ADC when these conditions occur and the ADC has increased year over year.

Budgeting the Pension Reserve

Recommendations to appropriate from the Pension Reserve may be brought forward by the Mayor in the annual budget process and will require approval by a majority of the City Council. The budgeting of an amount from the Pension Reserve as described by this policy will be based on the current fiscal conditions of the City for a supplemental source of funds to pay the ADC. During the adoption of the annual budget, the City Council has the authority to propose the use of the Pension Reserve consistent with the Pension Reserve Policy and the City Charter. In the event the Pension Reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan no later than one year from the reserve action as promptly as conditions warrant to replenish the Pension Reserve balance to the policy level.

Pension Reserve Calculation and Measurement

The City will fund and maintain a Pension Reserve equal to 8% of the most recent three year average of the ADC as reported in the Actuarial Valuation Reports by fiscal year 2016. The reserve amount for the General Fund shall be prorated based on the most recently adopted budget allocation.

Risk Management Reserve Policy:

The Public Liability, Workers' Compensation, and Long-Term Disability Funds provide funding sources for certain claims made against the City. The Public Liability Fund is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, inverse condemnation, false arrest, and errors and omissions. -The Workers' Compensation Fund is a citywide fund that covers medical and disability costs for industrial injury claims, while the Long-Term Disability Fund provides non-industrially disabled City employees with income and flexible benefits coverage. For purposes of this policy, cash on hand is used to identify the projected reserve balance.

Public Liability Fund Reserve

The City will maintain reserves equal to 50% of the value of outstanding public liability claims. This reserve level recognizes that not all claims will be due and payable at one point in time and that not all claims will be awarded, yet there may be more than one large claim that could require an immediate payment. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding public liability claims for purposes of calculating the reserve level. ~~The average value of the annual actuarial liability is \$96.5 million, based on fiscal years 2011 through 2013.~~

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The ~~target-policy goal~~ is to reach the 50% reserve level by fiscal year 2019 ~~through General Fund contributions to the Public Liability Fund Reserve to meet the annual targets as~~, which requires that approximately \$3.2 million be contributed annually from the General Fund to the Public Liability Fund Reserve as set forth in the following schedule:

Public Liability Fund Reserves Targets

| <i>Target Date</i> | <i>Target %</i> |
|--------------------|-----------------|
| June 30, 2016 | 40% |
| June 30, 2017 | 43% |
| June 30, 2018 | 47% |
| June 30, 2019 | 50% |

The General Fund contribution to the Public Liability Fund Reserve will be reassessed ~~every two years~~ annually and incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

Workers' Compensation Fund Reserve

The City will maintain reserves equal to 25% of the value of the outstanding claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level. The average value of the annual actuarial liability is \$172.2 million, based on the fiscal years 2011 through 2013. The target will be reached in fiscal year 2014 as set forth in the following schedule:

Workers' Compensation Fund Reserve Targets

| <i>Target Date</i> | <i>Target Contribution (In Millions)</i> | <i>Projected Reserve Balance (In Millions)</i> | <i>Balance as a Percentage of Total Outstanding Actuarial Liability¹</i> |
|--------------------|--|--|---|
| June 30, 2013 | \$7.9 | \$ 39.8 ² | 23% |
| June 30, 2014 | \$3.2 | \$ 43.0 | 25% |

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COUNCIL POLICY

PROPOSED

¹ ~~Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013,~~
~~or \$172.2 million.~~

² ~~Actual audited amount.~~

The contribution to the Workers' Compensation Fund Reserve will be reassessed ~~every two~~
~~years~~annually and incorporated into the budget process in order to ensure that the targeted goal
is met in a manner that is balanced with other budget priorities.

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Long-Term Disability Fund Reserve

~~In fiscal year 2013, the balance in the Long-Term Disability (LTD) Fund was \$11.9 million. The City will maintain reserves equal to 100% of the value of outstanding claims. A smoothing methodology using the annual actuarial liability valuations for the three most recent fiscal years will be used to determine the value of outstanding claims for purposes of calculating the reserve level. The reserve target for this fund is \$17 million and is expected to be achieved by fiscal year 2016. The City will contribute approximately \$1.6 million in fiscal years 2015 and 2016, as shown in the schedule below. The target reserve balance will be maintained to support the feasibility of purchasing an insurance policy to cover this benefit as an alternative to the current practice of self-insurance.~~

Long-Term Disability Fund Reserve Targets

| Target Date | Target Contribution (In Millions) | Projected Reserve Balance (In Millions) | Balance as a Percentage of Total Outstanding Actuarial Liability [†] |
|---------------|--------------------------------------|--|--|
| June 30, 2013 | \$ 3.8 | \$11.9 ² | 70% |
| June 30, 2014 | \$1.9 | \$ 13.8 | 81% |
| June 30, 2015 | \$1.6 | \$15.4 | 91% |
| June 30, 2016 | \$1.6 | \$17.0 | 100% |

~~Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013, or \$17 million.~~

~~Actual audited amount.~~

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Development Services Enterprise Fund Reserve Policy:

The Development Services Fund accounts for the City's development review and inspection services, which are funded directly by fees and charges paid by Development Services' customers. The fund is intended to be self-supporting.

Operating Reserve

The Operating Reserve is intended to provide financial stability during economic cycles and provide business continuity when significant natural or manmade disasters occur. The reserve may be used to meet current expenditures following an unanticipated decline in workload resulting in decreased revenues.

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The use of funds is for unanticipated emergency situations resulting from loss of revenue and would include major incidents such as an earthquake or wild fires. Revenue generating work, such as permitting or land use may be interrupted; however, downsizing staff may not be prudent as construction will commence or increase once damage assessments are completed. The reserve is not intended to maintain staffing levels during lengthy economic recession; and based on forecasted activity it may be used to maintain core services during relatively short downturn periods. The reserve will be replenished to previous levels at the earliest opportunity after revenues have improved and stabilized to cover on-going operating expenses. The Chief Financial Officer/Chief Operating Officer will be responsible for approving the use of the reserve for unanticipated operating expenses.

The reserve is based on annual operating budget expenditures for the fiscal year. The target reserve level for the operating reserve is 7% - 15% of operating expenses, or a target of 60 days of operating reserves once the 15% is obtained. Expenditures in Development Services are a better indicator of operational needs to use as a basis to develop a reserve that supports continuity of business. Revenues can be significantly impacted by changes in the economy and could potentially cause too much volatility in the reserve levels from year to year. The 7% target reserve is expected to be reached by Fiscal Year 2016, and the maximum reserve level of 15% by Fiscal Year 2022. The target reserve amount will be assessed on an annual basis using the most recent three years of audited actual expenditures.

Development Services Fund Reserve Targets

| Target Date | Target (% of Operating Expenses) |
|--------------------|---|
| June 30, 2014 | 4.50% |
| June 30, 2015 | 5.75% |
| June 30, 2016 | 7.00% |
| June 30, 2017 | 8.25% |
| June 30, 2018 | 9.50% |
| June 30, 2019 | 10.75% |
| June 30, 2020 | 12.00% |
| June 30, 2021 | 13.50% |
| June 30, 2022 | 15.00% |

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PROPOSED

Water Enterprise Fund Reserve Policy:

The Water Enterprise Fund accounts for specific services funded directly by fees and charges to City water customers. The fund is intended to be self-supporting.

Emergency Operating Reserve

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve level is defined as the number of days of operation the reserve could support in the event of a major disruption to the Water system, and shall be calculated based on the annual operating budget for the fiscal year, less the budgeted operating contingency and the budget for water purchases and debt service (including State Revolving Fund loan repayments). The Emergency Operating Reserve target shall be equivalent to 70 days of operations. This reserve level of 70 days recognizes that the Water Enterprise Fund has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs.

Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

Emergency Capital Reserve

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required.

Rate Stabilization Fund (RSF) Reserve

This fund was established and is maintained pursuant to the legal bond documents for the outstanding water system revenue bonds.¹² Transfers in and out of this fund serve as a revolving mechanism to mitigate significant fluctuations in the water rates for the system operations and maintain stable debt service coverage ratios for the outstanding water revenue bonds. The permitted uses of the RSF are limited to the operations and maintenance costs of the water system.

¹²Section 6.08 of the Amended and Restated Master Installment Purchase Agreement ("Water MIPA") dated January 1, 2009.

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This policy establishes a baseline target for the RSF in an amount equal to 5% of the prior fiscal year water system total operating revenue.² The funding level in the RSF can go up or down depending on the year-to-year changes in the Water Fund's operating revenues and expenditures. The RSF will be treated as a coverage stabilization tool enabling transfers into and out of the RSF, as necessary by the Chief Financial Officer, upon recommendation of the Public Utilities Department. Transfers may be made into the RSF, increasing the balance above the 5% baseline if the water system has excess net system revenues³-in any given fiscal year. In contrast, if the water system is anticipated to experience weak net system revenues in any given fiscal year, funds can be drawn down from the RSF to provide necessary revenue to cover current year operations and maintenance costs.

If the RSF goes below the baseline amount of 5% of the prior fiscal year water system total operating revenue, it will be replenished to the target level from any surplus net system revenue in the next fiscal year or in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustments.

Secondary Purchase Reserve

This reserve is established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply. The size of the reserve is equal to 6% of the annual water purchase budget (including commodity charge and fixed costs). City Council action is required in order to appropriate these reserves.

Any request to utilize the Secondary Purchase Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

Sewer Enterprise Fund Reserve Policy:

The Sewer Enterprise Fund accounts for specific services funded directly by fees and charges to City sewer customers. The fund is intended to be self-supporting.

Emergency Operating Reserve

The Emergency Operating Reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. The reserve level is defined

² Section 6.08 of the Amended and Restated Master Installment Purchase Agreement ("Water MIPA") dated January 1, 2009.

¹⁻² Total Operating Revenue as reported in the CAFR - Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets.

³ Operating system revenues less operating system expenses, as defined in the Water MIPA.

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as the number of days of operation the reserve could support in the event of a major disruption to Sewer system, and shall be calculated based on the annual operating budget for the fiscal year, less the budgeted operating contingency and the budget for debt service (including State Revolving Fund loan repayments). The Emergency Operating Reserve target shall be equivalent to 70 days of operations. Any reserves provided by the Participating Agencies for their proportionate share of the Metropolitan Sewer System shall count toward the 70 day target. This reserve level target of 70 days recognizes that the Sewer Enterprise Fund has a large diversified customer base, a steady and reliable demand for services, and other reserves available for specific needs.

Use of the Emergency Operating Reserve is restricted to emergency situations, and City Council approval is required to appropriate these reserves. Any request to utilize the Emergency Operating Reserve will include a plan and timeline for replenishment, which may be in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustment.

Emergency Capital Reserve

The Emergency Capital Reserve is intended to be used for emergency capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. If the reserve is used to fund unforeseen emergency conditions resulting in the need to immediately repair or replace existing assets, approval from the Chief Financial Officer or the Chief Operating Officer is required.

Rate Stabilization Fund (RSF) Reserve

This fund was established and is maintained pursuant to the legal bond documents for the outstanding wastewater system revenue bonds.¹ Transfers in and out of this fund serve as a revolving mechanism to significant potential fluctuations in the wastewater rates for the system operations and maintain stable debt service coverage ratios for the outstanding wastewater revenue bonds. The permitted uses of the RSF are limited to the operations and maintenance costs of the wastewater system.

This policy establishes a baseline target for the RSF in an amount equal to 5% of the prior fiscal year wastewater system total operating revenue.¹ –The funding level in the RSF can go up or down depending on the year to year changes in the Wastewater Fund’s operating revenues and expenditures. The RSF will be treated as a coverage stabilization tool enabling transfers into and out of the RSF, as necessary by the Chief Financial Officer, upon recommendation of the Public Utilities Department.

¹ Section 6.08 of the Master Installment Purchase Agreement (“Wastewater MIPA”) dated September 1, 1993.

² ~~F~~Total Operating Revenue as reported in the CAFR - Proprietary Funds Statement of Revenues, Expenses, and Changes in Fund Net Assets.

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Transfers may be made into the RSF, increasing the balance above the 5% baseline, if the wastewater system has excess net system revenues² in any given fiscal year. In contrast, if the wastewater system is anticipated to experience weak net system revenues in any given fiscal year, funds can be drawn down from the RSF to provide necessary revenue to cover current year operations and maintenance costs.

If the RSF goes below the baseline amount of 5% of the prior fiscal year wastewater system total operating revenue, it will be replenished to the target level from any surplus net system revenue in the next fiscal year or in conjunction with the City Council authorization of a future Cost of Service Study and rate adjustments.

Refuse Disposal and Recycling Enterprise Funds Reserve Policy:

The Refuse Disposal Enterprise Fund was established to separate tipping fee revenues from the General Fund. The tip fees support active and inactive landfill operations, solid waste code enforcement, commercial and industrial recycling programs, community cleanups and abatements, and collection and maintenance of street litter containers in business districts and are levied on landfill users, including the City of San Diego.

The Recycling Enterprise Fund and Assembly Bill (AB) 939 Fee were established as a result of the Integrated Waste Management Act of 1989. AB 939 authorized local jurisdictions to impose fees based on the types or amounts of solid waste generated to be used to pay actual costs incurred in preparing, adopting, and implementing integrated waste management plans.

Operating Reserve

The Operating Reserve is intended to be used in the event that the enterprise fund ~~is prevented from operating~~ requires additional resources to operate in its normal course of business. This reserve may be drawn upon to fund unanticipated emergency expenditures, one-time high priority programs, or revenue shortfalls due to an unexpected economic slowdown or recession. The Chief Operating Officer and/or Chief Financial Officer will have authority to approve expenditures and the reserve must be replenished no later than the subsequent fiscal year.

² -Operating system revenues less operating system expenses, as defined in the Wastewater MIPA.

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The Operating Reserve target level is 15% of operating revenues for both the Refuse Disposal and the Recycling Funds, which equates to approximately two months of operations and reserve balances of approximately \$4.6 million for the Refuse Disposal Fund and \$2.4 million for the Recycling Fund. Revenues are more reflective of reflect the business cycle and a better are an indicator of operational needs; therefore revenues to use as a are the basis to develop a policy reserve to supporting continuity of business continuity. The Environmental Services and Financial Management departments will conduct The Environmental Services Department (ESD) has been allocating \$920,000 annually to the Refuse Disposal Fund Operating Reserve and \$480,000 annually to the Recycling Fund Operating Reserve since Fiscal Year 2011 with the intent to achieve the target levels by Fiscal Year 2015. An annual review of this level will be conducted by the Department the Operating Reserve amounts to determine maintain adequate policy funding levels.

In Fiscal Year 2013, the estimated balance was \$2,760,000 (unaudited) for the Refuse Disposal Fund Operating Reserve and \$1,440,000 (unaudited) for the Recycling Fund Operating Reserve. The targeted reserve levels are projected to be achieved by Fiscal Year 2015 based on the following schedules:

Refuse Disposal Fund Reserve Targets

| <i>Target Date</i> | <i>Refuse Disposal Fund Target Contribution</i> | <i>Projected Reserve Balance</i> | <i>Target (% of Operating Revenues)</i> |
|--------------------|---|----------------------------------|---|
| June 30, 2014 | \$920,000 | \$3,680,000 | 12.00% |
| June 30, 2015 | \$920,000 | \$4,600,000 | 15.00% |

Recycling Fund Reserve Targets

| <i>Target Date</i> | <i>Recycling Fund Target Contribution</i> | <i>Projected Reserve Balance</i> | <i>Target (% of Operating Revenues)</i> |
|--------------------|---|----------------------------------|---|
| June 30, 2014 | \$480,000 | \$1,920,000 | 12.00% |
| June 30, 2015 | \$480,000 | \$2,400,000 | 15.00% |

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Golf Course Enterprise Fund Reserve Policy:

The City has operated a municipal golf program since 1915. Today, the Golf Division operates three City golf complexes: Balboa Park Golf Course 18-hole and 9-hole courses; Mission Bay 18-hole executive golf course; and Torrey Pines 18-hole North Course and 18-hole South Course. The Golf Course Fund was established in 1991 and operates in a manner similar to a private sector enterprise where the cost of providing services is recovered through user charges. A primary goal of the Golf Course Fund (Fund) is to ensure that the City operated golf courses are financially self-sufficient and that they do not require financial support from the City's General Fund.

The City will maintain reserves equal to 12% of the most recent three year average of annual audited operating revenues¹, with the intent to maintain the reserve balance at the same level for future years based on historical requirements. The 12% reserve level ~~is in alignment~~ aligns with GFOA best practices, which recommends enterprise funds maintain a working capital reserve equivalent to a minimum of 45 days, or 12%. This lower level of reserve funding recognizes that the Golf Course Enterprise Fund does not provide essential City services, such as those provided by the Water and Sewer Funds, and has greater flexibility to adjust its operational expenditures ~~in times of~~ during emergencies, as well as having the flexibility to stop operations ~~altogether~~ without impacting public health or safety. The Fund does not require reserves for continuity of business or emergency situations. The reserve is established to ensure financial stability or for one-time large investments in infrastructure or large maintenance efforts. ~~An~~ The Park and Recreation Department will conduct an annual review of ~~this level will be conducted by the Department~~ reserve funds to determine adequate funding levels and alignment with the Golf Business Plan.

Recommendations to appropriate from the reserve will be brought forward by the Mayor and will require approval by a majority of the City Council. In the event this reserve is reduced below the amount established by this policy, the Mayor shall prepare a plan as promptly as conditions warrant to replenish the reserve balance to the policy level.

~~Based on the Fiscal Years 2010 through 2013, the average fund balance is \$16.4 million or 94% of the most recent three year average of annual audited operating revenues.~~ The Golf Course Fund Reserve will be reassessed every two years and funding requirements will be incorporated into the budget process in order to ensure that the targeted goal is met in a manner that is balanced with other budget priorities.

¹ Target reserve balances are based on operating revenues as presented in the Budgetary Schedule of Revenues, Expenditures and Changes in Fund Balance in the Required Supplementary Information section of the Comprehensive Annual Financial Report. These revenues are from recurring revenue sources that support operations, and exclude other financing sources.

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PROPOSED

COMPLIANCE WITH RESERVE POLICY:

Reserve Targets

The Reserve Policy is based on either percentage targets or days of operation; all associated dollar figures represent estimated/projected targets based on either the percentage target or days of operation target set by the Reserve Policy.

Reporting Use of Reserve Funds

Any requests for the use of reserves and/or Excess Equity will be accompanied by a current status report of the affected reserve fund and impacts on the future reserve levels. Reserve and Excess Equity status updates will be presented as part of the required Quarterly Budget Monitoring Reports.

Reserve Expenditures

Unless specified otherwise in the Reserve Policy, expenditures from any reserve will require a recommendation of the Mayor and City Council action to appropriate the funds. The Mayor may recommend reserve expenditures through the budget process or at regular or special City Council meetings for City Council consideration and approval.

Replenishment of Reserves

Should a particular reserve fall below the targeted reserve level set forth in the Reserve Policy, the Mayor will develop a plan to replenish the reserve in a reasonable time-frame, unless as otherwise required by this Policy. The proposed plan will be presented to the Budget and Government Efficiency Committee and the City Council as part of the subsequent fiscal year budget.

Deviations from the Reserve Policy

No deviations from the Reserve Policy will be allowed except as recommended by the Mayor and approved by the City Council. Proposed exceptions to the Reserve Policy will be presented first to the Chief Financial Officer and/or Chief Operating Officer, and then to the Budget and Government Efficiency Committee. After the Budget and Government Efficiency Committee review and recommendation, the proposed exception will be presented to the City Council for action.

Updates to Reserve Policy

Any changes, additions, or deletions to the Reserve Policy will be brought forward to the Budget and Government Efficiency Committee for review followed by a presentation to the City Council for formal action.

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The Reserve Policy will be reviewed at least biennially and discussed if changes are necessary to ensure the policy is effective, and remains current with general accounting and financial best practice standards, as well as any regulatory changes that may occur over time.

CONCLUSION:

Maintaining, regularly updating, and adhering to an appropriately constructed reserve policy is a good business practice recognized by the Government Finance Officers Association, and is among the factors considered by credit rating agencies and the investment community when assessing the credit-worthiness of an organization. The City recognizes that the Reserve Policy is a cornerstone of the organization's fiscal health. As such, a biennial review of the Reserve Policy will be performed and any changes to the Reserve Policy will be brought forward for City Council consideration and approval.

GLOSSARY:

Emergency Capital Reserve

The Emergency Capital Reserve is intended to be used for emergency capital needs. If the reserve is used to fund unforeseen emergency conditions, approval from the Chief Financial Officer or the Chief Operating Officer is required.

Emergency Operating Reserves

The Operating Reserve for an Enterprise Fund, such as the Water Utility or the Wastewater Utility, is intended to be used should a catastrophe occur that prevents the utility from operating according to its normal course of business. Use of the reserve is restricted to emergency situations resulting in loss of revenue and the reserve must be replenished in accordance with the timeframe established in the respective policies. The Chief Operating Officer and/or Chief Financial Officer will have the authority to approve expenditures from the reserve.

Emergency Reserve

Certain funds, such as the General Fund, will maintain an Emergency Reserve which may only be used for qualifying emergencies, such as a natural disaster, terrorist attack, or other unforeseen catastrophic event caused by human activity. The Emergency Reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the City Council.

Stability Reserve

Stability Reserve provides budgetary stabilization and does not serve as an alternative funding source for new programs.

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Excess Equity

Excess Equity is spendable and unrestricted fund balance Unassigned Fund Balance that is not otherwise assigned to designated as General Fund Reserves and is available for appropriation. Excess Equity is most commonly ~~a~~ results from a non-recurring source of revenue.

Rate Stabilization Reserves

The purpose of Rate Stabilization Reserves is to ensure that legal requirements relating to annual debt service coverage, as set forth in bond indenture agreements, are fulfilled. This type of reserve is more typical for Enterprise Fund financings. The reserve targets are calculated based on the legal requirements outlined in the applicable bond financing documents, and maintained throughout the term of the bonds.

Secondary Purchase Reserve

This reserve is established to purchase additional water supply in case of a major drought or unforeseen emergency that diminishes the City's normal supply.

Working Capital

Working Capital is current assets (cash or equity in pooled cash and liquid investments and receivables less than 60 days for governmental funds, 90 days for enterprise funds) minus current liabilities (payables) and encumbrances and other restrictions. Working Capital does not include long-term assets such as certain longer term investments, loans receivable, fixed assets, inventory, and equipment. For the purpose of the Reserve Policy and when referring to the General Fund Emergency Reserve, the term "Working Capital" is used synonymously with "Emergency Reserve."

HISTORY:

General Fund Reserve Level Council Policy
 Adopted by Resolution R-297182 - 10/15/2002
 Amended by Resolution R-307154 - 12/15/2011
 Amended by Resolution R-308740 - 02/26/2014
 Amended by Resolution R-309101 - 07/17/2014

Reserve Calculations

Total Estimated Contributions to Reserves (\$ millions)

| Fiscal Year | GF Reserve | Pension Reserve | Public Liability ¹ | Workers' Comp ² | Long-Term Disab. | Total |
|--------------|----------------|-----------------|-------------------------------|----------------------------|------------------|----------------|
| FY16 | \$ 5.7 | \$ 20.8 | \$ 3.0 | \$ 3.0 | \$ - | \$ 32.5 |
| FY17 | \$ 7.6 | \$ - | \$ 2.8 | \$ - | \$ - | \$ 10.4 |
| FY18 | \$ 8.3 | \$ - | \$ 3.7 | \$ - | \$ - | \$ 12.0 |
| FY19 | \$ 12.5 | \$ - | \$ 2.8 | \$ - | \$ - | \$ 15.3 |
| FY20 | \$ 13.1 | \$ - | \$ - | \$ - | \$ - | \$ 13.1 |
| FY21 | \$ 13.7 | \$ - | \$ - | \$ - | \$ - | \$ 13.7 |
| Total | \$ 60.8 | \$ 20.8 | \$ 12.3 | \$ 3.0 | \$ - | \$ 96.9 |

Estimated General Fund Contributions to Reserves (\$ millions)

| Fiscal Year | GF Reserve | Pension Reserve | Public Liability ¹ | Workers' Comp ² | Long-Term Disab. | Total |
|--------------|----------------|-----------------|-------------------------------|----------------------------|------------------|----------------|
| FY16 | \$ 5.7 | \$ 16.0 | \$ 3.0 | \$ 2.5 | \$ - | \$ 27.2 |
| FY17 | \$ 7.6 | \$ - | \$ 2.8 | \$ - | \$ - | \$ 10.4 |
| FY18 | \$ 8.3 | \$ - | \$ 3.7 | \$ - | \$ - | \$ 12.0 |
| FY19 | \$ 12.5 | \$ - | \$ 2.8 | \$ - | \$ - | \$ 15.3 |
| FY20 | \$ 13.1 | \$ - | \$ - | \$ - | \$ - | \$ 13.1 |
| FY21 | \$ 13.7 | \$ - | \$ - | \$ - | \$ - | \$ 13.7 |
| Total | \$ 60.8 | \$ 16.0 | \$ 12.3 | \$ 2.5 | \$ - | \$ 91.6 |

General Fund Operating Revenues (\$ millions)

| Fiscal Year | Revenue | 3-Yr. Average |
|-------------------|----------|---------------|
| FY13 | \$ 1,092 | N/A |
| FY14 | \$ 1,172 | N/A |
| FY15 | \$ 1,145 | \$ 1,136 |
| FY16 ³ | \$ 1,188 | \$ 1,168 |
| FY17 ³ | \$ 1,219 | \$ 1,184 |
| FY18 ³ | \$ 1,270 | \$ 1,226 |
| FY19 ³ | \$ 1,317 | \$ 1,269 |
| FY20 ³ | \$ 1,364 | \$ 1,317 |

1. The FY 2016 contribution to the Public Liability Reserve is in addition to the \$5.8 million added as part of the Council approval of the FY 2016 Mid-Year Monitoring Report
 2. The FY 2016 contribution to the Workers' Compensation Reserve is in addition to the \$3.1 million added as part of the Council approval of the FY 2016 Mid-Year Monitoring Report
 3. General Fund operating revenue estimates for FY 2016 to FY 2020 are taken from the most recent 5-Year Financial Outlook

| Pension Payment Stabilization Reserve Allocation | | | | | | |
|--|---------------------------------|-----------------------|-------------|-----------------|---------------|------------|
| Fund | Fund Name | Allocation Percentage | Cost Center | Commitment Item | Cost Per Fund | |
| 100000 | General Fund | 77.1% | 9912001222 | 516027 | 16,019,163 | |
| 700011 | Water Utility Operating Fund | 7.15% | 2000000001 | 516027 | 1,487,358 | |
| 700001 | Metropolitan Sewer Utility Fund | 4.35% | 2000000001 | 516027 | 903,776 | |
| 700036 | Development Services Fund | 4.21% | 1611000012 | 516027 | 875,949 | |
| 700000 | Municipal Sewer Revenue Fund | 3.80% | 2000000001 | 516027 | 789,685 | |
| 700039 | Refuse Disposal Fund | 1.20% | 2115120001 | 516027 | 250,232 | |
| 700043 | Golf Course Fund | 0.88% | 1714160011 | 516027 | 182,015 | |
| 700048 | Recycling Fund | 0.78% | 2115130001 | 516027 | 161,539 | |
| 700033 | Airports Fund | 0.18% | 2111000001 | 516027 | 37,590 | |
| 700039 | Refuse Disposal Fund | 0.13% | 2115000001 | 516027 | 26,551 | |
| 700048 | Recycling Fund | 0.09% | 2115000001 | 516027 | 18,736 | |
| 700039 | Refuse Disposal Fund | 0.07% | 2115130001 | 516027 | 14,047 | |
| 700048 | Recycling Fund | 0.06% | 2115120001 | 516027 | 12,899 | |
| 700048 | Recycling Fund | 0.05% | 2115110001 | 516027 | 9,793 | |
| | | | | | 100.00% | 20,789,333 |