

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

CURRENT

SUBJECT: RESERVE POLICY
POLICY NO.: 100-20
EFFECTIVE DATE: December 15, 2011

BACKGROUND:

One of the key attributes of a financially stable organization is appropriate reserves. Adequate 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 City's other financial policies, the City's Reserve Policy serves as an important tool to guide the use of City resources in meeting the City's financial commitments and provides a framework for addressing unexpected future events in a fiscally prudent manner.

PURPOSE:

The City's Reserve Policy documents the City's approach to establishing and maintaining adequate 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;
- 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 Fund 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 rendering of the City's general services.

City Charter Section 91 requires the City to create and maintain a "General Reserve Fund" to meet the cash obligations of the City for four months, or other necessary period 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. The City Attorney's opinion concerning Charter Section 91, dated September 27, 2007, states "To the extent that the City has cash on hand to cover four months of the fiscal year prior to the receipt of taxes, the charter provision would be satisfied by funding the General Reserve Fund at a fiscally prudent level of 5% to 15%." The cash on hand requirement is met through the City's pooled investment fund and the issuance of Tax and Revenue Anticipation Notes. In conformance with the Charter, the City established the Emergency Reserve, a component of General Fund Reserves as described in Sections 1.1 and 1.2 below.

General Fund Reserves

General Fund Reserves include the Emergency Reserve, the Appropriated Reserve, and the Unassigned General Fund Balance. The target level for General Fund Reserves is 8% of annual General Fund revenues. The City expects the General Fund Reserves to be at 8% in fiscal year 2012.

The City shall establish a target to restore any funds withdrawn from the General Fund Reserves that result in a year-end reserve balance below the established policy level in the subsequent budget year.

While the General Fund Reserves include the Appropriated Reserve and Unassigned General Fund Balance, these reserves will only be included in the General Fund Reserve calculation until the Emergency Reserve achieves the 8% goal. After the targeted General Fund Emergency Reserve level is achieved, the Appropriated Reserve and the remaining Unassigned Fund Balance will be excluded from the calculation of the General Fund Reserves level for Charter Section 91 purposes; however, the Appropriated Reserve and remaining Unassigned General Fund balance will be considered as additional reserves. (See Section 1.2 - Emergency Reserve for additional information).

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Emergency Reserve

An Emergency Reserve is to be maintained for the purpose of sustaining General Fund operations in the case of a natural disaster or unforeseen catastrophic event caused by human activity, such as a terrorist attack. The Emergency Reserve will not be accessed to meet operating shortfalls or to fund new programs or personnel. This reserve may be expended only in the event of a public emergency, as determined by a two-thirds vote of the City Council, when such expenditures are necessary to ensure the safety, lives, and property of the City and its inhabitants.

The Emergency Reserve target level will be 8% of annual General Fund revenues. Until the City reaches the 8% Emergency Reserve target level, the balance in the Emergency Reserve will be combined with the balances in the Appropriated Reserve and Unassigned General Fund Balance to calculate the General Fund Reserves level. However, at no time will the balance in the Emergency Reserve fall below 5%, unless such requirement is specifically waived through an action of the City Council due to an unforeseen emergency requiring the use of the Emergency Reserve.

Appropriated Reserve

An Appropriated Reserve may be maintained for the purpose of paying for unanticipated operational needs that arise during the fiscal year, but which were not anticipated during the budget process. Funds appropriated to this reserve will be identified and appropriated to a single account within the General Fund annual budget. There will be no maximum or minimum amount appropriated to this Reserve in any given year. Any funds that are not expended in a given fiscal year will revert back to the General Fund Unassigned Fund Balance and may then be re-appropriated in the subsequent year, consistent with the Reserve Policy. Recommendations to use these funds would be brought forward by the Mayor and would require approval by a majority of the City Council.

Unassigned General Fund Balance

The General Fund Unassigned Fund Balance includes all amounts not restricted, committed, or assigned for a certain purpose. Unassigned amounts are available for any governmental purpose and can be appropriated in the event of an unanticipated requirement for additional funds where the Emergency Reserve would not be appropriate. Should the funds in the Appropriated Reserve be exhausted in a fiscal year, the Unassigned General Fund balance may be used. Recommendations to appropriate funds from the Unassigned General Fund balance will be initiated by the Mayor and will require approval by a majority of the City Council.

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Development Services 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.

Appropriated Reserve

The Appropriated Reserve is intended to provide financial stability during economic downturns. The reserve may be used to meet current expenditures following an unanticipated decline in workload resulting in decreased revenues. The Department Director will be responsible for approving the use of the reserve for unanticipated operating expenses.

The target reserve level for the Appropriated Reserve is 7% of operating expenses. The 7% target is expected to be reached by fiscal year 2016 according to the following schedule:

Development Services Fund
Appropriated Reserve Targets

<i>Target Date</i>	<i>Target (% of Operating Expenses)</i>
June 30, 2012	3.00%
June 30, 2013	3.50%
June 30, 2014	4.50%
June 30, 2015	5.75%
June 30, 2016	7.00%

Risk Management Reserve Policy:

The Risk Management Public Liability, Workers’ Compensation, and Long Term Disability Funds are intended to provide funding sources for certain claims made against the City. The Public Liability Fund supports 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.

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Public Liability Fund Reserve

The City will maintain Dedicated 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 \$119.6 million, based on fiscal years 2008 through 2010.

In fiscal year 2011, the estimated balance for this reserve was \$17.1 million (unaudited). The target is to reach the 50% reserve level by fiscal year 2019, which requires that approximately \$6.1 million be contributed annually from the General Fund to the Public Liability Fund Reserve as set forth in the following schedule:

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 Liability⁽¹⁾</i>
June 30, 2012	-- ⁽²⁾	\$17.1	14%
June 30, 2013	\$6.1	\$23.2	19%
June 30, 2014	\$6.1	\$29.3	24%
June 30, 2015	\$6.1	\$35.4	30%
June 30, 2016	\$6.1	\$41.5	35%
June 30, 2017	\$6.1	\$47.6	40%
June 30, 2018	\$6.1	\$53.7	45%
June 30, 2019	\$6.1	\$59.8	50%

⁽¹⁾ Based on the average value of the annual actuarial liability for the three fiscal years 2008 through 2010, or \$119.6 million.

⁽²⁾ Reserve contribution was suspended for fiscal year 2012.

The General Fund contribution to the Public Liability Fund Reserve will be reassessed every two years 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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Workers' Compensation Fund Reserve

The City will maintain Dedicated Reserves equal to 50% 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 \$151.9 million, based on the fiscal years 2009 through 2011. In fiscal year 2011, the estimated balance for this reserve was \$34.3 million (unaudited). The target is to reach the 50% reserve level by fiscal year 2019, which requires that approximately \$5.9 million be contributed annually to the Workers' Compensation Reserve 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 Liability⁽¹⁾</i>
June 30, 2012	-- ⁽²⁾	\$34.3	23%
June 30, 2013	\$5.9	\$40.3	27%
June 30, 2014	\$5.9	\$46.2	30%
June 30, 2015	\$5.9	\$52.2	34%
June 30, 2016	\$5.9	\$58.1	38%
June 30, 2017	\$5.9	\$64.1	42%
June 30, 2018	\$5.9	\$70.0	46%
June 30, 2019	\$5.9	\$76.0	50%

⁽¹⁾ Based on the average value of the annual actuarial liability for the three fiscal years 2009 through 2011, or \$151.9 million.

⁽²⁾ Reserve contribution was suspended for fiscal year 2012.

The contribution to the Workers' Compensation Fund Reserve will be reassessed every two years 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 2011, the estimated balance in the Long-Term Disability (LTD) Fund was \$7.5 million (unaudited). The reserve target for this fund is \$12.0 million and is expected to be achieved by fiscal year 2014 as recommended in the Long-Term Disability Actuarial Report, dated September 21, 2009. The City will increase the reserve by a minimum of \$0.61 million in fiscal year 2012 and a minimum of \$1.9 million annually thereafter to achieve the reserve target of \$12.0 million by fiscal year 2014, as shown in the schedule below. The City is evaluating 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

<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 Liability⁽¹⁾</i>
June 30, 2012	\$0.61	\$8.11	68%
June 30, 2013	\$1.94	\$10.06	84%
June 30, 2014	\$1.94	\$12.00	100%

¹⁾ Total Outstanding Balance as reflected in the Long-Term Disability Actuarial Report, dated September 21, 2009.

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.

Appropriated Reserve

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

The reserve is budgeted at \$3.5 million annually with the intent to maintain the reserve balance at the same level for future years based on historical requirements. An annual review of this level will be conducted by the Department to determine adequate funding levels.

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Operating Reserve

The 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. This reserve is based on the annual operating budget for the fiscal year (less the water purchase budget and the Appropriated Reserve) and 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 Fund revenues.

In fiscal year 2011, the estimated balance for this reserve was \$29.9 million (unaudited), which covers approximately 65 days of operations. The schedule below provides target funding levels to increase the reserve to a 70-day reserve by fiscal year 2013:

Operating Reserve Targets

<i>Target Date</i>	<i>Projected Reserve Balance (In Millions)</i>	<i>Days of Operation</i>
June 30, 2012	\$30.4	65
June 30, 2013	\$32.7	70

Use of the funds is restricted to emergency situations resulting from loss of revenue and the reserve must be replenished by the next fiscal year. The Chief Operating Officer and/or Chief Financial Officer will have the authority to approve expenditures from the Operating Reserve.

Capital Reserve

The Capital Reserve is intended for unanticipated capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. City Council approval is required to draw from the reserve for a CIP project. An exception exists if an unforeseen emergency condition arises resulting in the need to immediately repair or replace an existing asset; in this case, approval from the Chief Financial Officer or the Chief Operating Officer is required to draw from the reserve.

Rate Stabilization Reserve

This policy will serve to keep a stable balance in this reserve, \$20.5 million as of June 30, 2011 (unaudited), in order to maintain the legal covenant ratios in accordance with the respective bond installment purchase agreements.

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Use of the funds is limited only for the operation and maintenance of the water system to maintain the required legal coverage ratios at a minimum of 1.2x. If the reserve is drawn to support the system's legal coverage level at 1.2x, it will be replenished to the previous levels at the earliest opportunity. Deposits into the reserve are made from current system revenues.

The utilization of this Reserve during the course of the fiscal year may be used based upon the recommendation of the Department and approval of the Chief Financial Officer.

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). The reserve may be funded by any lawful source. City Council action is required in order to appropriate these reserves.

Dedicated Reserve from Efficiency and Savings (DRES)

This reserve was established in fiscal year 2008 to protect and preserve savings from efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvement Program (CIP) or operations and maintenance of the water and wastewater systems. The savings will be used to accelerate water CIP schedules, which will minimize future City rate increases. Annual savings not required to comply with established policies or legal documents will be transferred into the DRES based on the department's approved procedures. The Independent Rates Oversight Committee (IROC) oversees the DRES and its use in accordance with the approved guidelines. In order to use the funds in the DRES reserve items are brought before IROC for support and then to Council for approval.

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.

Appropriated Reserve

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

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The reserve is budgeted at \$3.5 million annually with the intent to maintain the reserve balance at the same level for future years based on historical requirements. An annual review of this level will be conducted by the Department to determine adequate funding levels.

Operating Reserve

This reserve is intended to be used in the event of a catastrophe that prevents the utility from operating in its normal course of business. This reserve is calculated based on the annual operating budget (less any appropriated reserves) for the fiscal year. Use of the funds is restricted to emergency situations resulting from loss of revenue and the reserve must be replenished by the next fiscal year. During fiscal year 2011, the balance for this reserve included

approximately \$33.9 million (unaudited) for 55 days of operations for the Wastewater fund. In addition, the Participating Agencies in fiscal year 2011 provided approximately \$4.2 million (unaudited) for their proportionate share of the Metropolitan Sewer System which will be adjusted annually.

The schedule below provides the proposed Wastewater Fund reserve balances, excluding the Participating Agencies share, for upcoming fiscal years to bring this reserve to a 70-day reserve by fiscal year 2013:

Operating Reserve Targets

<i><u>Target Date</u></i>	<i><u>Projected Reserve Balance (In Millions)</u></i>	<i><u>Days of Operation</u></i>
June 30, 2012	\$35.2	60
June 30, 2013	\$41.1	70

Use of the funds is restricted to emergency situations resulting from loss of revenue and the reserve must be replenished by the next fiscal year. The Chief Operating Officer and/or Chief Financial Officer will have the authority to approve expenditures from the Operating Reserve.

Capital Reserve

The Capital Reserve is intended for unanticipated capital needs. The reserve is budgeted annually at \$5.0 million in the Capital Improvements Budget. City Council approval is required to use the reserve for a CIP project. An exception exists if an unforeseen emergency condition arises resulting in the need to immediately repair or replace an existing asset; in this case, approval from the Chief Financial Officer or the Chief Operating Officer is required to use the reserve.

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Rate Stabilization Reserve

This policy will serve to keep a stable balance in this reserve, \$21.3 million as of June 30, 2011 (unaudited), in order to maintain the legal covenant ratios in accordance with the respective bond Installment Purchase Agreements. Use of the funds is limited only for the operation and maintenance of the sewer system in the context of maintaining the required legal coverage ratios at a minimum of 1.2x. If the reserve is drawn to support the system's legal coverage level at 1.2x, it will be replenished to the previous levels at the earliest opportunity. Deposits into the reserve are made from current system revenues.

The utilization of this Reserve during the course of the fiscal year may be used based upon the recommendation of the Department and approval of the Chief Financial Officer.

Dedicated Reserve from Efficiency and Savings (DRES)

This reserve was established in fiscal year 2008 to protect and preserve savings from efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvement Program (CIP) or operations and maintenance of the water and wastewater systems. The savings will be used to accelerate wastewater CIP schedules, which will minimize future City rate increases. Annual savings not required to comply with established policies or legal documents will be transferred into the DRES based on the department's approved procedures. The Independent Rates Oversight Committee (IROC) oversees the DRES and its use in accordance with the approved guidelines. In order to use the funds in the DRES reserve items are brought before IROC for support and then to Council for approval.

Refuse Disposal & 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 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.

Appropriated Reserves

The Appropriated Reserves act as a contingency for unanticipated, non-emergency needs that are identified during the fiscal year. These reserves may only be drawn upon to support operational needs when there are unanticipated operating expenses or unanticipated revenue shortfalls caused by an economic slowdown or recession. The Appropriated Reserves may also be used for one-time, high priority programs or activities.

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The Department Director will be responsible for approving the use of the reserve. City Council action will be required to approve the use of the reserve for unanticipated capital needs.

The Appropriated Reserves target level is 15% of operating revenues, which equates to reserve balances of approximately \$4.6 million for the Refuse Disposal Fund and \$2.4 million for the Recycling Fund based on fiscal year 2010 revenues. The Refuse Disposal Fund reserve is budgeted at \$920,000 annually and the Recycling Fund is budgeted at \$480,000 annually with the intent to achieve the target level by fiscal year 2015. An annual review of this level will be conducted by the Department to determine adequate funding levels.

In fiscal year 2011, the estimated balance was \$920,000 (unaudited) for the Refuse Disposal Fund Reserve and \$480,000 (unaudited) for the Recycling Fund 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, 2012	\$920,000	\$1,840,000	6.00%
June 30, 2013	\$920,000	\$2,760,000	9.00%
June 30, 2014	\$920,000	\$3,680,000	12.00%
June 30, 2015	\$920,000	\$4,600,000	15.00%

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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, 2012	\$480,000	\$960,000	6.00%
June 30, 2013	\$480,000	\$1,440,000	9.00%
June 30, 2014	\$480,000	\$1,920,000	12.00%
June 30, 2015	\$480,000	\$2,400,000	15.00%

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 will be accompanied by a current status report of the affected reserve fund and impacts on the future reserve levels. Reserve 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. The proposed plan will be presented to the Budget and Finance Committee and the City Council as part of the subsequent fiscal year budget.

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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 Finance Committee. After the Budget and Finance 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 Finance 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:

Appropriated Reserves

In addition to Emergency Reserves or Operating Reserves, certain funds may maintain reserves that may be appropriated by City Council and set aside during the budget process as a contingency for unanticipated, non-emergency needs that are identified during the fiscal year. These reserves may only be drawn upon to fund unexpected expenditures (such as a spike in energy prices or materials costs) and revenue shortfalls due to an unexpected economic slowdown or recession. The Appropriated Reserve may also be used for one-time, high priority programs or activities.

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In the case of Enterprise Funds, the reserves may be used to support operations due to unanticipated revenue shortfalls. Recommendations to use Appropriated Reserves will be made by the Mayor and will require approval by a majority of the City Council, with the exception of the Enterprise Funds.

Capital Reserves

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

Dedicated Reserves

Dedicated Reserves are similar to Appropriated Reserves, but are set aside for specific purposes for non-capital projects or activities that require multiple year funding. Dedicated Reserves may also be established for special one-time purchases or major activities that have been approved by the City Council. Use of the reserves is restricted to the identified purpose(s). City Council will review the Dedicated Reserves biennially during the budget process and such reserves will be carried over to future fiscal years until the project or activity is completed or closed, as authorized by the City Council.

Dedicated Reserve from Efficiency and Savings

A Dedicated Reserve from Efficiency and Savings (“DRES”) for both the Water and the Sewer Fund is established to protect and preserve savings found by increasing efficiencies, changing priorities or other actions related to reducing costs of the Capital Improvements Program (CIP) or operations and maintenance of either system. The DRES will track funds that can be used for accelerating CIP project schedules and will help offset future rate increases.

Emergency Reserves

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.

General Fund Reserves

General Fund Reserves include the General Fund Emergency Reserve, the General Fund Appropriated Reserve, and the Unassigned General Fund balance. For the purpose of the Reserve Policy and when referring to the General Fund Emergency Reserve, the term “Emergency Reserve” is used synonymously with “Working Capital.”

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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.

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.

Unassigned General Fund Balance

Unassigned General Fund balance constitutes the difference between the assets and liabilities of a fund and are available for any governmental purpose. A positive fund balance indicates that the assets of the General Fund exceed its liabilities.

Working Capital

Working Capital is current assets (cash or equity in pooled cash and liquid investments and receivables less than 60 days) minus current liabilities (payables) and encumbrances and other restrictions. Working Capital does not include long-term assets such as 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