



THE CITY OF SAN DIEGO

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**OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

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**Date Issued:** March 2, 2017

**IBA Report Number:** 17-09

**Budget and Government Efficiency Committee Date:** March 8, 2017

**Item Number:** TBD

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## **IBA Proposed Revision to the Reserve Policy**

### **OVERVIEW AND DISCUSSION**

At the Budget and Government Efficiency (B&GE) Committee meeting on February 2, 2017, the Committee reviewed revisions to the City's Reserve Policy presented by the Financial Management Department (FM). The proposal called for extending the time period for increasing the City's General Fund Reserve goal from 14% to 16.7%, by an end-date of FY 2021 to FY 2025. The City Council approved the General Fund Reserve goal increase to 16.7% in April of 2016 in order to line up with Government Finance Officers Association (GFOA) best practices. The proposed change would be implemented by maintaining the Council's goal but funding smaller annual reserve increases of 0.25% rather than 0.5% through FY 2025. This change is one of several mitigation actions being considered by the Mayor to address the FY 2018 budget deficit, currently projected in the range of \$47 million - \$67 million depending on various funding decisions.

At the B&GE Committee meeting, the Independent Budget Analyst (IBA) verbally supported the proposed Reserve Policy revisions as a mitigation measure to help address the deficit the City is currently facing. To emphasize the importance of achieving the City's new General Fund Reserve goal, the IBA discussed adding language that addresses the possible reevaluation and potential acceleration of the Reserve funding schedule in the event of future budget surpluses. The Committee voted unanimously to forward to the City Council, FM's proposed policy revisions for extending the schedule to achieve the General Fund Reserve goal and made no further revisions.

The proposed Reserve Policy revisions were considered and approved by the full City Council on February 16, 2017. For Council background, our Office issued IBA Report 17-03: "Proposed Reserve Policy Revisions," which discussed contextual issues for Council consideration and stated our support for the proposed revisions. The IBA also noted in the report that Council may want to consider adding language that addresses the potential for reevaluating and accelerating the schedule in budget surplus years. Individual Councilmembers expressed some interest in this but,

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due to specific language not being available, this portion of the discussion was returned to the B&GE Committee for further review.

As a follow-up to the February 16, 2017 City Council meeting, the IBA requested feedback from FM, the Chief Financial Officer, and the Mayor's Office, on the language our Office drafted to capture this concept in the policy. The draft language shown below incorporates FM input:

The Mayor and/or City Council may reevaluate the funding schedule for achieving the General Fund Reserve goal of 16.7% in budget surplus years to accelerate reserve contributions to achieve the reserve goal in a shorter time period.

While this authority currently exists for both the Mayor and the City Council, this language serves to send a message within the policy about the priority the City places on achieving and maintaining our General Fund Reserve goals.

## CONCLUSION

The IBA recommends Committee approve incorporating the proposed language into the City's Reserve Policy and forwarding this recommendation to the City Council. Attached for your review is a section from the Reserve Policy which reflects the recent changes to the reserve funding schedule as adopted by Council on February 16, 2017. We have also indicated on the attachment how the IBA-proposed language could be incorporated into the policy, if the Committee chooses to do so.



Andrea Tevlin  
Independent Budget Analyst

Attachments: 1. IBA Proposed Addition to Council Policy 100-20, City Reserve Policy

## **IBA Proposed Addition to Council Policy 100-20, City Reserve Policy**

(Addition in Underline Format)

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 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 revenues<sup>1</sup>. 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 2025, as set forth in the following schedule:

<b><i>Target Date</i></b>	<b><i>Emergency Reserve Target %</i></b>	<b><i>Stability Reserve Target %</i></b>	<b><i>Total General Fund Reserve Target %</i></b>
June 30, 2016	8.0%	6.5%	14.5%
June 30, 2017	8.0%	6.75%	14.75%
June 30, 2018	8.0%	7.00%	15.00%
June 30, 2019	8.0%	7.25%	15.25%
June 30, 2020	8.0%	7.50%	15.50%
June 30, 2021	8.0%	7.75%	15.75%
June 30, 2022	8.0%	8.0%	16.0%
June 30, 2023	8.0%	8.25%	16.25%
June 30, 2024	8.0%	8.5%	16.5%
June 30, 2025	8.0%	8.7%	16.7%

The Mayor and/or City Council may reevaluate the funding schedule for achieving the General Fund Reserve goal of 16.7% in budget surplus years to accelerate reserve contributions to achieve the reserve goal in a shorter time period.

<sup>1</sup> 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.