

CITY OF SAN DIEGO, CALIFORNIA
COUNCIL POLICY

SUBJECT: RESERVE POLICY
POLICY NO.: 100-20
EFFECTIVE DATE:

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 and risk management 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.

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 serve as an alternative funding source for new programs. 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 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 14% of the most recent three

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 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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year average of annual audited General Fund operating revenues². 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%.

Excess Equity

Excess Equity is spendable and unrestricted fund balance that is not otherwise assigned to General Fund Reserves and is available for appropriation. Excess Equity is most commonly 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.

City Charter

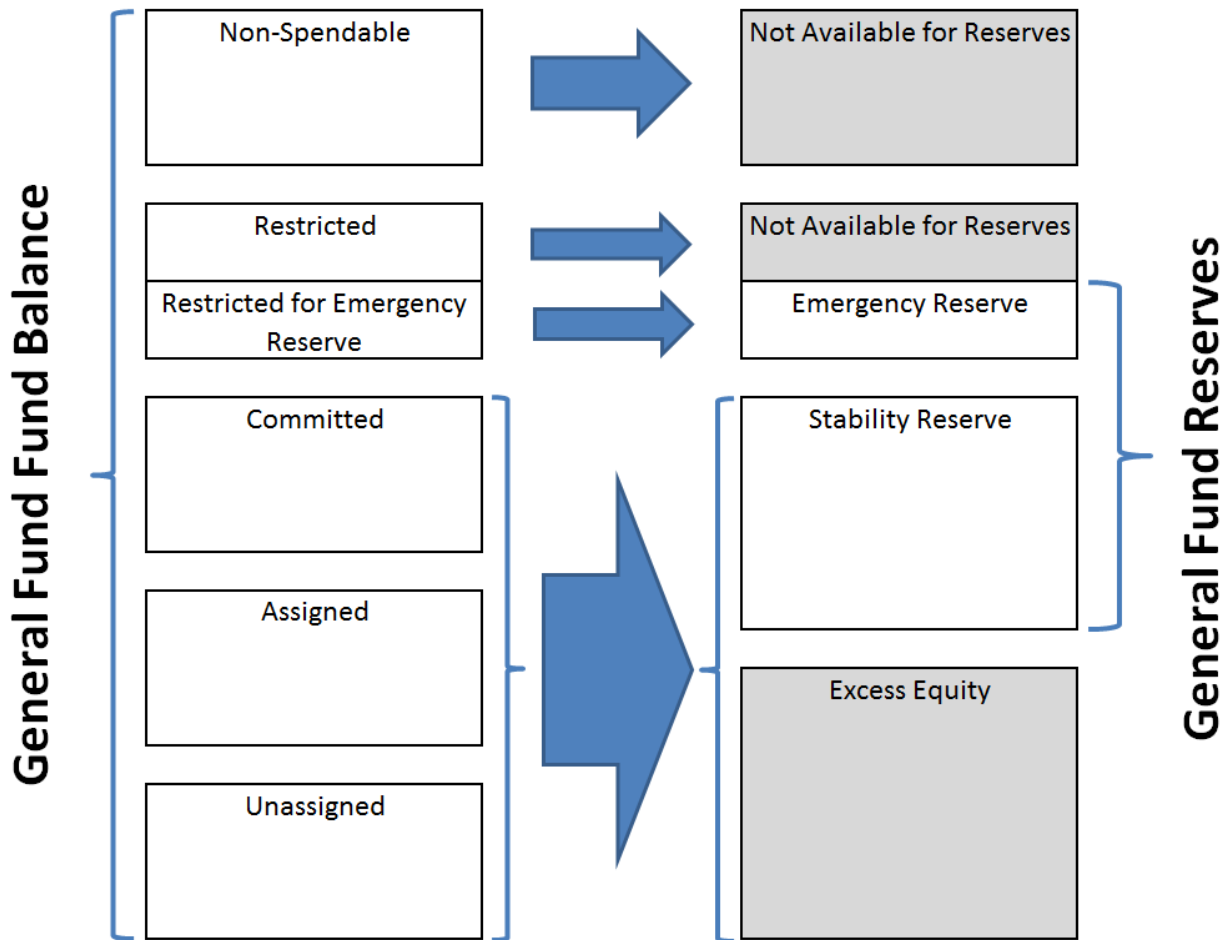
City Charter Section 91 requires the City to create and maintain a “General Reserve Fund” to meet the cash obligations of the City for the first four months, or other necessary periods of each fiscal year prior to the collection of taxes. It further stipulates the fund may be expended only in the event 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

Total General Fund Reserves will be based on, and reconciled to, the General Fund fund balance. The sum of the Emergency Reserve, Stability Reserve, and amounts determined to be Excess Equity shall equal the sum of unrestricted fund balance and amounts restricted for the purpose of maintaining the Emergency Reserve.

² 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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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

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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. The target is to reach the 50% reserve level by fiscal year 2019, 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 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	\$ 33.1 ²	\$ 50.2 ³	52%
June 30, 2014	(\$18.0) ⁴	\$ 32.2	33%
June 30, 2015	\$ 3.2	\$ 35.4	37%
June 30, 2016	\$ 3.2	\$ 38.6	40%
June 30, 2017	\$ 3.2	\$ 41.8	43%
June 30, 2018	\$ 3.2	\$ 45.0	47%
June 30, 2019	\$ 3.2	\$ 48.3	50%

¹ Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013, or \$96.5 million.

² In addition to the transfer in for the annual reserve contribution of \$6.1 million, includes a transfer in of \$27 million related to the SDG&E settlement.

³ Actual audited amount.

⁴ Includes a transfer out of \$16.3 million SDG&E settlement distribution to the General Fund and Enterprise Funds; a transfer in of \$4.7 million claim recovery; a transfer out of \$6.5 million related to the San Diego Bay Clean Up; and a transfer in of \$0.1 million for the annual reserve contribution

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.

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:

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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%

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 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

In fiscal year 2013, the balance in the Long-Term Disability (LTD) Fund was \$11.9 million. 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

<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	\$ 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%

¹ Based on the average value of the annual actuarial liability for the three fiscal years 2011 through 2013, or \$17 million.

² Actual audited amount.