



**COUNCILMEMBER TODD GLORIA
CITY OF SAN DIEGO**

M E M O R A N D U M

DATE: October 22, 2015

TO: Council President Lightner
Honorable Members of the Budget & Government Efficiency Committee

FROM: Councilmember Todd Gloria, Budget & Government Efficiency Committee Chair *Todd Gloria*
Councilmember David Alvarez *David Alvarez*

SUBJECT: November 9th Special Budget Committee Meeting to Consider Proposal to Increase General Fund Stability Reserve

On October 7, 2015, the Budget & Government Efficiency (Budget) Committee reviewed a report from the Financial Management Department requesting approval of a proposed Pension Payment Stabilization Reserve Policy. Despite the Budget Committee's concerns with the Mayor's proposal, it agreed to continue the dialogue on the City's reserves and directed staff to research increasing the General Fund Stability Reserve.

The City has paid its pension bill in full and on time for eleven years in a row, and has made substantial contributions directed to eliminating the pension debt. Over the same period of time, the City, its employee unions and the voters have enacted various reforms to reduce retirement benefit costs. The Mayor's proposal gives the impression that the City's pension crisis has returned, and has potential to harm San Diego's reputation and undermine the progress we've made in reforming our pension system.

However, comments provided by rating agencies and the Government Finance Officers Association (GFOA) warrant consideration of increasing the City's General Fund reserves during this period of fiscal health:

- Recent Ratings Update Reports for San Diego indicate increasing our reserves would be viewed favorably- all other factors remaining equal;
- In identifying what could cause our rating to go up, Moody's noted "significant growth in the city reserve position"; and
- The 2009 GFOA policy statement regarding cities' reserve levels calls for maintaining a minimum reserve equal to two months of operating expenditures or operating revenue which equates to an approximate 16.7% reserve for the City of San Diego; and
- Standard & Poor's considers reserves of 8-15% to be "strong" and any amount over 15% to be "very strong".

As requested by the Budget Committee in their adopted motion, the Independent Budget Analyst has researched and developed an alternative for committee consideration which would increase the City's Stability Reserve. After reviewing this alternative, we are recommending the committee approve this concept and direct staff to draft the respective amendments to the City Council Reserve Policy.

We believe this is a more prudent proposal that balances the many needs of the City while continuing to pay all of our pension costs. Additionally, the proposal utilizes the City Council's existing strong reserve policy as designed to mitigate financial and service delivery risk due to unanticipated critical expenditures. It is important to note that the Stabilization Reserve is currently available for unanticipated pension Actuarially Determined Contribution (ADC) cost increases.

The alternative proposal includes the following key components, and would:

- Increase the City's General Fund Reserve from 14% to 16% with an 8% Emergency Reserve and an 8% Stability Reserve for a total reserve of \$181.4 million (a stronger reserve than the Mayor's proposal);
- Based on latest fund balance estimates, transfer \$22.7 million of excess equity to the General Fund Reserve, leaving \$7.9 million in fund balance for operational fluctuations;
- Include language in the Reserve Policy to clarify that unanticipated changes in annual ADC payments are an eligible use of the Stability Reserve in order to avoid service reductions; and
- Strengthen the replenishment language in City Council Reserve Policy for the Mayor to prepare a plan for replenishment of the fund within one year from reserve action (current language states that he will do so "as promptly as conditions warrant").

This proposal will be docketed at a Special Budget Committee Meeting on November 9, 2015 from 10:30 am to 12:00 noon for consideration and possible action. We respectfully ask for a full analysis of this alternate concept from both the IBA and the Mayor's Office at the hearing.

cc: Honorable Mayor Kevin Faulconer
Andrea Tevlin, Independent Budget Analyst
Mary Lewis, Chief Financial Officer
Tracy McCraner, Director, Financial Management
Brian Pepin, Director of Council Affairs