

File No. 141037

Committee Item No. 6

Board Item No. 5

COMMITTEE/BOARD OF SUPERVISORS
AGENDA PACKET CONTENTS LIST

Committee: Budget & Finance Committee

Date December 3, 2014

Board of Supervisors Meeting

Date 12/16/14

Cmte Board

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Completed by: Linda Wong Date November 26, 2014
Completed by: L.W. Date 12/4/14

[Administrative Code – Financial Policy Regarding General Reserve Fund]

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Ordinance amending the Administrative Code to revise the binding financial policy under Charter Section 9.120 regarding a general reserve and required funding levels, and to update provisions regarding the Rainy Day Reserve Fund.

NOTE: Unchanged Code text and uncodified text are in plain Arial font. Additions to Codes are in *single-underline italics Times New Roman font*. Deletions to Codes are in *strikethrough italics Times New Roman font*. Board amendment additions are in double-underlined Arial font. Board amendment deletions are in ~~strikethrough Arial font~~. Asterisks (* * * *) indicate the omission of unchanged Code subsections or parts of tables.

Be it ordained by the People of the City and County of San Francisco:

Section 1. Binding Financial Policy. This ordinance is a financial policy adopted under Charter Section 9.120. As such, it must be adopted as an ordinance approved by the Mayor and passed by a two-thirds' vote of the Board of Supervisors. The City may not adopt a budget that the Controller determines is inconsistent with any of the provisions of this ordinance. Upon a two-thirds' vote, the Board of Supervisors by resolution may suspend, in whole or in part, this ordinance for the succeeding fiscal year.

Section 2. The Administrative Code is hereby amended by revising Section 10.60, to read as follows:

SEC. 10.60. RESERVE POLICIES.

(a) **Rainy Day Reserves Reserve.** To enable the public to find all City reserve policies in one place, this ordinance includes a summary of the Charter-mandated Rainy Day Reserves

1 *Reserve*. This summary is intended only for convenience and does not modify or supersede
2 the Charter provisions.

3 The City maintains City and School "Rainy Day Reserves a "Rainy Day" or economic
4 stabilization reserve under Charter Section 9.113.5. In any year when the Controller projects
5 that total General Fund revenues for the upcoming budget year are going to be more than 5
6 percent higher than the General Fund revenues for the current year, the City automatically
7 deposits one-half of the "excess revenues," meaning the revenues above and beyond the
8 current year plus 5 percent growth, in the Rainy Day Reserves Reserve. Seventy-five percent
9 (75%) of the excess revenues subject to deposit are deposited to the City Rainy Day Reserve and the
10 remaining 25 percent (25%) are deposited to the School Rainy Day Reserve. The total amount of
11 money in the City Rainy Day Reserve may not exceed 10 percent of the City's actual total
12 General Fund revenues.

13 The City may spend money from the City Rainy Day Reserve for any lawful
14 governmental purpose, but only in years when the Controller projects that total General Fund
15 revenues for the upcoming year will be less than the current year's total General Fund
16 revenues, i.e., years when the City expects to take in less money than it had taken in for the
17 current year. In those years, the City may spend up to half the money in the Rainy Day
18 Reserve, but no more than is necessary to bring the City's total available General Fund
19 revenues up to the level of the current year. If the City made an appropriation from the City
20 Reserve in the current year and in the immediately preceding budget year, the City is not required to
21 make deposits to the Rainy Day Reserves in the upcoming year.

22 The San Francisco Unified School District City may *also* spend up to 50 ~~25~~ percent of the
23 balance of the School Rainy Day Reserve ~~to help the School District~~ in years when certain
24 conditions are met.

1 (b) **General Reserve.** In addition to the Rainy Day Reserve, the City budget shall
2 include a General Reserve. The General Reserve is intended to address revenue
3 weaknesses, expenditure overages, or other programmatic goals not anticipated during the
4 annual budget process. The Mayor and the Board of Supervisors may, at any time following
5 adoption of the annual budget, appropriate monies from the General Reserve for any lawful
6 governmental purpose through passage of a supplemental appropriation ordinance *by a simple*
7 *majority vote.*

8 For purposes of this Section, "regular General Fund revenues" shall mean total
9 General Fund sources less budgeted fund balances, budgeted uses of reserves, and net
10 transfers, as determined by the Controller. The City shall increase the required funding level of the
11 General Reserve to 3 percent of budgeted regular General Fund revenues by fiscal year 2020-2021
12 2019-2020, according to the following schedule: The City shall fund the General Reserve at no less
13 than two percent of budgeted regular General Fund revenues no later than fiscal year 2016-2017
14 according to the following schedule:

15 1. The General Reserve shall be no less than \$25 million in the budget for fiscal
16 year 2010-11;

17 2. The General Reserve shall be no less than \$25 million in the budget for fiscal
18 year 2011-12;

19 3. The General Reserve shall be no less than 1.00 ~~1.0~~ percent of budgeted
20 regular General Fund revenues in fiscal year 2012-13;

21 4. The General Reserve shall be no less than 1.25 percent of budgeted regular
22 General Fund revenues in the budget for fiscal year 2013-14;

23 5. The General Reserve shall be no less than 1.50 ~~1.5~~ percent of budgeted
24 regular General Fund revenues in the budget for fiscal year 2014-15;

1 6. The General Reserve shall be no less than 1.75 percent of budgeted regular
2 General Fund revenues in the budget for fiscal year 2015-16; *and*,

3 7. The General Reserve shall be no less than 2.00 ~~2.0~~ percent of budgeted
4 regular General Fund revenues in the budget for fiscal year 2016-17; *and in the budget for each*
5 *fiscal year thereafter.*

6 8. The General Reserve shall be no less than 2.25 ~~2.33~~ percent of budgeted regular
7 General Fund revenues in the budget for fiscal year 2017-18;

8 9. The General Reserve shall be no less than 2.50 ~~2.66~~ percent of budgeted regular
9 General Fund revenues in the budget for fiscal year 2018-19; and,

10 10. The General Reserve shall be no less than 2.75 ~~3.00~~ percent of budgeted regular
11 General Fund revenues in the budget for fiscal year 2019-20; and,

12 11. The General Reserve shall be no less than 3.00 percent of the budgeted
13 regular General Fund revenues in the budget for fiscal year 2020-21 and in the budget for each
14 fiscal year thereafter.

15 During any fiscal year in which a withdrawal from the City Rainy Day Reserve is appropriated,
16 the required level of the General Reserve Fund shall be reduced to 1.50 percent of budgeted regular
17 General Fund revenues in the budget for that fiscal year. The City shall increase the required funding
18 level of the General Reserve to 3 percent of budgeted regular General Fund revenues in the five fiscal
19 years following such a reduction, according to the following schedule:

20 1. In the first fiscal year following the reduction, the General Reserve shall be no less
21 than 1.75 percent of budgeted regular General Fund revenues in the budget for that fiscal year;

22 2. In the second fiscal year following the reduction, the General Reserve shall be no
23 less than 2.00 percent of budgeted regular General Fund revenues in the budget for that fiscal year;

24 3. In the third fiscal year following the reduction, the General Reserve shall be no less
25 than 2.25 ~~2.33~~ percent of budgeted regular General Fund revenues in the budget for that fiscal year;

1 4. In the fourth fiscal year following the reduction, the General Reserve shall be no less
2 than ~~2.50~~ 2.66 percent of budgeted regular General Fund revenues in the budget for that fiscal year;

3 and,

4 5. In the fifth fiscal year following the reduction, the General Reserve shall be no less
5 than ~~2.75~~ 3.00 percent of budgeted regular General Fund revenues in the budget for that fiscal year;

6 and,

7 6. In the sixth fiscal year following the reduction, the General Reserve shall be
8 no less than 3.00 percent of budgeted regular General Fund revenues in the budget for that
9 fiscal year and in the budget for each fiscal year thereafter.

10 Year-end balances in the General Reserve shall be carried forward to subsequent
11 years. When necessary, the City shall appropriate sufficient funds to the General Reserve in
12 the Annual Appropriation Ordinance to restore the fund balance to the level this ordinance
13 requires.

14 The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote, may
15 temporarily suspend the provisions of this subsection (b) for the current or upcoming budget year. The
16 Board of Supervisors may suspend these provisions following a natural disaster that causes the Mayor
17 or the Governor to declare a state of emergency, or for any other purpose.

18 (c) **Budget Stabilization Reserve.** The City shall establish a Budget Stabilization
19 Reserve to augment the City Rainy Day Reserve that the City maintains under Charter
20 Section 9.113.5, and to further mitigate the negative effects of significant economic
21 downturns. The Controller shall deposit funds to the Budget Stabilization Reserve as required
22 under this Section.

23 The City may withdraw funds from the Budget Stabilization Reserve when the
24 Controller projects that budgeted regular General Fund revenues for the upcoming budget
25 year will be less than the current year's regular General Fund revenues, or less than the

1 highest of any of the prior four fiscal years' regular General Fund revenues plus two percent,
2 for each intervening year. If the Controller determines that either condition is met, the City
3 may withdraw funds from the Budget Stabilization Reserve according to the following
4 guidelines:

5 1. The City may not withdraw funds from the Budget Stabilization Reserve in
6 any given year until it has withdrawn the maximum amount that the Controller determines is
7 allowable from the City Rainy Day Reserve.

8 2. The City may not withdraw funds from the Budget Stabilization Reserve in
9 any given year in an amount exceeding the remaining shortfall in General Fund regular
10 revenues, as defined above, after any withdrawals from the City Rainy Day Reserve *for the*
11 *benefit of the City.*

12 3. If the Controller determines that a withdrawal trigger for the Budget
13 Stabilization Reserve was not met in the current fiscal year, but projects that it will be met for
14 the upcoming fiscal year, the City may withdraw from the Budget Stabilization Reserve up to
15 30 percent of the combined value of the Budget Stabilization Reserve and *the City* Rainy Day
16 Reserve less monies withdrawn from the City Rainy Day Reserve for any lawful governmental
17 purpose in the upcoming budget year.

18 4. If the Controller determines that a withdrawal trigger for the Budget
19 Stabilization Reserve was met in the current fiscal year and projects that it will also be met for
20 the upcoming fiscal year, the City may withdraw from the Budget Stabilization Reserve up to
21 50 percent of the combined value of the Budget Stabilization Reserve and City Rainy Day
22 Reserve less monies withdrawn from the City Rainy Day Reserve for any lawful governmental
23 purpose in the upcoming budget year.

24 5. If the Controller determines that the withdrawal trigger for the Budget
25 Stabilization Reserve was met in the current and prior fiscal year as well as the upcoming

1 fiscal year, the Board may withdraw up to the full balance of the Budget Stabilization Reserve
2 for any lawful governmental purpose in the upcoming budget year.

3 In order to fund the Budget Stabilization Reserve, the Controller shall deposit 75
4 percent of the following revenue sources to the Budget Stabilization Reserve:

5 1. Real Property Transfer Tax proceeds in excess of the average annual actual
6 receipts level for the prior five fiscal years, adjusted for any transfer tax rate increases
7 adopted by the voters during the prior five year period; and

8 2. Ending unassigned General Fund balances in a given fiscal year as reported
9 in the City's most recent independent annual audit beyond those appropriated as a source in
10 the subsequent year's budget.

11 At the conclusion of the fiscal year, the Controller shall revise, if necessary, the balance
12 in the Budget Stabilization Reserve to reflect year-end actual revenue receipts, as stated in
13 the City's most recent independent annual audit.

14 There shall be no minimum fund balance for the Budget Stabilization Reserve.
15 Notwithstanding the above, the Controller shall not make deposit to the Budget Stabilization
16 Reserve, including deposits from the revenue sources identified above, if the combined fund
17 balances of the Budget Stabilization Reserve and the City Rainy Day Reserve equal or
18 exceed 10 percent of actual regular General Fund revenues, as stated in the City's most
19 recent independent annual audit. If the combined fund balances of the Budget Stabilization
20 Reserve and the City Rainy Day Reserve equal 10 percent of actual regular General Fund
21 revenues, the Controller shall make deposits equivalent to the amount that would otherwise
22 have been deposited to the Budget Stabilization Reserve to a non-recurring expenditure
23 reserve. The Mayor and the Board of Supervisors may appropriate funds from this non-
24 recurring expenditure reserve through the annual budget or through passage of a
25

1 supplemental appropriation for infrastructure expenditures, for the development of affordable
2 housing, for prepayment of future debts or liabilities, or for other non-recurring expenditures.

3 The Controller shall not make deposits to the Budget Stabilization Reserve in years in
4 which the Controller determines that the City is eligible to make withdrawals from the Budget
5 Stabilization Reserve.

6 In the event that monies are deposited into the Rainy Day *Reserves Reserve* for any
7 given year, any amount which would otherwise be deposited into the Budget Stabilization
8 Reserve shall be reduced by the amount of the deposit to the Rainy Day *Reserves Reserve*.


9 The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote,
10 may temporarily suspend the provisions of this subsection (c) for the current or upcoming
11 budget year. The Board of Supervisors may suspend these provisions following a natural
12 disaster that has caused the Mayor or the Governor to declare an emergency, or for any other
13 purpose. Following such a suspension, the City may appropriate funds from the Budget
14 Stabilization Reserve for non-recurring expenditures, for infrastructure expenditures, for
15 development of affordable housing, for prepayment of future debts or liabilities, for annual
16 operating costs, or for any other lawful governmental purpose.

17 (d) **Annual Reporting on Reserves.** The Controller shall submit to the Mayor and the
18 Board of Supervisors an annual report on the status of the General Reserve, the Rainy Day
19 *Reserves Reserve*, and the Budget Stabilization Reserve.

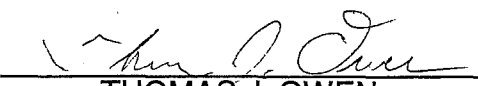
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21 Section 3. Effective Date. This ordinance shall become effective 30 days after
22 enactment. Enactment occurs when the Mayor signs the ordinance, the Mayor returns the
23 ordinance unsigned or does not sign the ordinance within ten days of receiving it, or the Board
24 of Supervisors overrides the Mayor's veto of the ordinance.

1 Section 4. Scope of Ordinance. In enacting this ordinance, the Board of Supervisors
2 intends to amend only those words, phrases, paragraphs, subsections, sections, articles,
3 numbers, punctuation marks, charts, diagrams, or any other constituent parts of the Municipal
4 Code that are explicitly shown in this ordinance as additions, deletions, Board amendment
5 additions, and Board amendment deletions in accordance with the "Note" that appears under
6 the official title of the ordinance.

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9 RECOMMENDED BY:

10 
11 _____
12 BEN ROSENFELD
13 Controller

14
15 APPROVED AS TO FORM:
16 DENNIS J. HERRERA, City Attorney

17
18 By: 
19 _____
20 THOMAS J. OWEN
21 Deputy City Attorney

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LEGISLATIVE DIGEST

[Administrative Code - Financial Policy Regarding General Reserve Fund]

Ordinance amending the Administrative Code to revise the binding financial policy under Charter Section 9.120 regarding a general reserve and required funding levels, and to update provisions regarding the Rainy Day Reserve Fund.

Existing Law

General Reserves. The City maintains a General Reserve to save money to offset revenue weaknesses, expenditure overages, or other programmatic goals not anticipated during the annual budget process. The City currently sets aside 1.5 percent of General Fund revenues for the General Reserve; that amount is set to increase annually to 2 percent in fiscal year 2016-17 and thereafter.

Rainy Day Reserves. Charter Section 9.113.5 establishes a Rainy Day Reserve to collect money when the City receives greater-than-usual revenues, for use in years when the City experiences a revenue shortfall. The Charter specifies how the reserve is to be funded and when money may be spent from the reserve. Administrative Code Section 10.60(a) includes a description of the Rainy Day Reserve so that the public may find all the City's reserve policies in one place, but the terms of the Charter control over the Administrative Code.

Amendments to Current Law

General Reserves. The proposed ordinance would amend the Administrative Code to increase funding for the General Reserve to 3 percent of General Fund revenues by fiscal year 2019-20 and thereafter. The proposal would add a provision reducing the funding level to 1.5 percent in years in which the City withdraws funds from the City Rainy Day Reserve; the funding level would gradually increase back to 3 percent over the five fiscal years following the reduction.

Rainy Day Reserves. Proposition C, adopted at the November 2014 election, divided the existing Rainy Day Reserve into a City Rainy Day Reserve and a School Rainy Day Reserve, and made other changes in how the two reserves are funded and spent. The proposed ordinance would make conforming changes in the description of the Rainy Day Reserve in Administrative Code Section 10.60 (a).

Background Information

Proposition A, adopted by the voters in November 2009, added Section 9.120 to the City Charter. Section 9.120 requires the Controller to propose, and the Mayor and the Board of Supervisors to adopt, long-range financial policies for the City. The policies must be in the form of ordinances approved by the Mayor and passed by a two-thirds' vote of the Board of Supervisors. The proposal would be such an ordinance.

The City may not adopt a budget that the Controller determines is inconsistent with any of the provisions of such an ordinance. Upon a two-thirds' vote, the Board of Supervisors by resolution may suspend, in whole or in part, a financial policy ordinance, including the proposal, for the succeeding fiscal year.

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Item 6
File 14-1037

Departments:
Controller's Office
San Francisco Unified School District (SFUSD)

EXECUTIVE SUMMARY

Legislative Objectives

- The proposed ordinance would amend Section 10.60 of the City's Administrative Code to update provisions regarding the City's Rainy Day Reserve Fund and revise the binding financial policies and required funding levels regarding the City's General Reserve.

Key Points

- Proposition C, approved by San Francisco voters on November 4, 2014, divided the existing Rainy Day Reserve into a: (1) City Rainy Day Reserve and (2) School Rainy Day Reserve. Proposition C requires that 50% of the balance in the Rainy Day Reserve be transferred to the School Reserve and that 75% of future deposits go to the City Reserve and 25% go to the School Reserve. Withdrawals from the City Reserve would remain the same as under the current provisions. In accordance with Proposition C, the SFUSD could withdraw up to 50% of the funds in the School Reserve in the years when the SFUSD anticipates collecting less revenue per student and significant SFUSD employee layoffs. The proposed ordinance would amend the Administrative Code to comply with provisions in Proposition C.
- For FY 2014-15, the General Reserve is required to be budgeted at no less than 1.5% of budgeted regular General Fund revenues. Currently, Section 10.60(b) specifies that the General Reserve must be funded at no less than 2% of budgeted regular General Fund revenues by FY 2016-17. Under the proposed ordinance, the General Reserve would be required to be funded at no less than 3% of budgeted regular General Fund revenues by FY 2019-20 and thereafter and provide more flexible replenishment requirements.

Fiscal Impact

- Since FY 2003-04, the City has deposited \$118.23 million into the Rainy Day Reserve, withdrawn \$34.14 million and transferred \$78.94 million to the SFUSD. The current unaudited balance in the Rainy Day Economic Stabilization Reserve is \$60.30 million. In accordance with Proposition C, \$24.6 million would be transferred to the School Reserve, leaving \$24.6 million in the City Reserve.
- The proposed ordinance would result in an increased contribution to the General Reserve of approximately \$14 million in FY 2017-18, \$28 million in FY 2018-19 and \$42 million in FY 2019-20.

Recommendations

- Amend page 4, line 13 that currently specifies the required level of the General **Fund** shall be reduced to 1.50 percent to specify the required level of the General **Reserve** shall be reduced to 1.50 percent.
- Given that San Francisco voters approved Proposition C on November 4, 2014, approve the proposed provisions addressing the Rainy Day Reserves, which are consistent with language in Proposition C.
- Approval of the provisions in the proposed ordinance to increase the City's General Reserve from 2% to 3%, in periods of sustained economic growth and allow a reduction in the General Reserve to 1.5% during economic downturns is a policy decision for the Board of Supervisors.

MANDATE STATEMENT AND BACKGROUND**Rainy Day Reserve**

Charter Section 9.113.5 established a Rainy Day Reserve¹ to set-aside funds when the City collects greater-than-usual revenues (when projected General Fund annual revenues are more than 5% above the current fiscal year). These Rainy Day Reserve monies are then available for use in years when the City experiences revenue shortfalls. Administrative Code Section 10.60 summarizes all of the City's Reserve Policies, including the Rainy Day Reserve, which specifies 50% of the excess revenues (above the 5%) can be deposited into the Rainy Day Reserve; however, total monies in the Rainy Day Reserve and Budget Stabilization Reserve may not exceed 10% of regular General Fund revenues. Currently, the City may expend the Rainy Day Reserve when (a) revenue collections are less than the previous year for San Francisco Unified School District (SFUSD) operations, or (b) SFUSD collects less revenue per student than the previous year requiring significant layoffs, such that up to 25% of the Rainy Day Reserve can be provided to the SFUSD.

Proposition C, recently approved by San Francisco voters on November 4, 2014, (a) extended the Children's Fund and the related Property Tax set-aside through 2041, (b) extended the Public Education Enrichment Fund for universal preschool, (c) created a new Council to advise the City and SFUSD, and (d) divided the existing Rainy Day Reserve into two accounts: (1) City Rainy Day Reserve (City Reserve) and (2) School Rainy Day Reserve (School Reserve).

Regarding the changes to the Rainy Day Reserve, Proposition C requires that 50% of the balance in the Rainy Day Reserve be transferred to the School Reserve. In addition, 25% of the City's future Rainy Day Reserve deposits would go to the School Reserve and 75% would go to the City Reserve. The SFUSD could then withdraw up to 50% of the funds in the School Reserve in the years when the SFUSD anticipates collecting less revenue per student than in the previous fiscal year and requires significant SFUSD employee layoffs. In addition, the SFUSD Board could, by a two-thirds vote, override this 50% limit and withdraw any amount in the School Reserve in any year.

General Reserve

Administrative Code Section 10.60(b) specifies that the City's budget shall include a General Reserve to address revenue weaknesses, expenditure overages or other programmatic goals not anticipated during the annual budget process. The Mayor and the Board of Supervisors may appropriate monies from the General Reserve, following adoption of the annual budget, at any time for any lawful governmental purpose by approving a supplemental appropriation ordinance. Year-end balances in the General Reserve are carried forward to subsequent years, and when necessary, the City is required to appropriate sufficient funds to the General Reserve

¹ There are two accounts within the Rainy Day Reserve: the Rainy Day Economic Stabilization Reserve and the Rainy Day One Time Reserve. This report only addresses the Rainy Day Economic Stabilization Reserve, which was amended by Proposition C. The Rainy Day One-Time Reserve is only for one-time expenses by the City.

in the Annual Appropriation Ordinance to restore the General Reserve to the level specified in this Section of the Code.

For FY 2014-15, the General Reserve is required to be budgeted at no less than 1.5% of budgeted regular General Fund revenues. In addition, Section 10.60(b) specifies that the General Reserve must be funded at no less than 2% of budgeted regular General Fund revenues no later than FY 2016-17, as summarized in Table 1 below.

General City Requirements

Charter Section 9.120 provides that the Controller shall propose and the City shall adopt long-range financial policies that are consistent with generally recognized principles of public finance, including addressing (1) creation and maintenance of adequate reserves; (2) use of volatile revenues; (3) issuance of debt; and (4) institution of extraordinary financial and budgetary measures to facilitate the City's recovery from physical calamities. The City shall adopt such financial policies as ordinances which shall be codified in the City's Administrative Code, upon approval by the Mayor and the Board of Supervisors by a two-thirds' vote. Charter Section 9.120(c) also allows the Board of Supervisors by resolution with a two-thirds vote to suspend, in whole or in part, any ordinance, containing these policies for the succeeding fiscal year.

Charter Section 2.105 authorizes all legislative acts by written ordinance or resolution, subject to majority vote of the members of the Board of Supervisors.

DETAILS OF PROPOSED LEGISLATION

The proposed ordinance would amend Section 10.60 of the City's Administrative Code to update provisions regarding the City's Rainy Day Reserve Fund and revise the binding financial policies and required funding levels regarding the City's General Reserve.

Rainy Day Reserves

The proposed ordinance would amend Section 10.60(a) of the City's Administrative Code to comply with the new provisions approved by San Francisco voters in Proposition C on November 4, 2014. Specifically, there would be both a City Rainy Day Reserve (City Reserve) and a School Rainy Day Reserve (School Reserve). Under the new provisions, 75% of the future deposits would go to the City Reserve and the remaining 25% would be deposited to the School Reserve.

The provisions for the City to expend funds from the City Reserve will remain the same, such that if the Controller projects total General Fund revenues for the upcoming budget year will be less than the current year's total General Fund revenues, up to 50% of the balance in the City Reserve may be appropriated in the budget, but no more than the shortfall in General Fund revenues. New provisions specify that if the City made an appropriation from the City Rainy

Day Reserve in the current year and the immediately preceding budget year, the City would not be required to make deposits to the Rainy Day Reserves in the upcoming year.

Currently, the City may expend up to 25% of the existing total Rainy Day Reserve to help the SFUSD in years when certain conditions are met. These appropriations are currently subject to approval by the Mayor and the Board of Supervisors. Under the proposed provisions, the SFUSD would be able to expend 50% from the new School Reserve in years when those same conditions are met, however these withdrawals would no longer be subject to appropriation approval by the Mayor and the Board of Supervisors. Instead, such withdrawals would be under the authority of the SFUSD School Board.

General Reserves

The proposed ordinance would specifically:

- Increase the required funding of the General Reserve to three percent of budgeted regular General Fund revenues by FY 2019-20. As shown in Table 1 below, currently the General Reserve is required to increase to 2.0% of General Fund revenues by FY 2016-17 and remain at this 2.0% level each fiscal year thereafter. Under the proposed ordinance, the General Reserve would still be required to increase to 2.0% by FY 2016-17, but then would be required to continue increasing to 3.0% of General Fund revenues by FY 2019-20, as summarized in Table 1 below. Each fiscal year after FY 2019-20, the General Reserve would be required to be funded at no less than 3.0% of General Fund revenues for that fiscal year.

Table 1: Current and Proposed General Fund Reserve Requirements

Fiscal Year	Current General Reserve Requirements (No less than)	Proposed General Reserve Requirements (No less than)	Increase
FY 2010-11	\$25 million	\$25 million	\$0
FY 2011-12	25 million	25 million	0
FY 2012-13	1.00% of General Fund	1.00% of General Fund	0
FY 2013-14	1.25% of General Fund	1.25% of General Fund	0
FY 2014-15	1.50% of General Fund	1.50% of General Fund	0
FY 2015-16	1.75% of General Fund	1.75% of General Fund	0
FY 2016-17	2.00% of General Fund	2.00% of General Fund	0
FY 2017-18	2.00% of General Fund	2.33% of General Fund	.33%
FY 2018-19	2.00% of General Fund	2.66% of General Fund	.66%
FY 2019-20	2.00% of General Fund	3.00% of General Fund	1.00%
Thereafter	2.00% of General Fund	3.00% of General Fund	1.00%

- During any fiscal year that a withdrawal from the City’s Rainy Day Reserve is appropriated, the required level of the General Reserve would be reduced to 1.5% of budgeted General Fund revenues for that fiscal year. Under the proposed ordinance, the City would be allowed to increase funding levels into the General Reserve over the following five fiscal years, after such a reduction, to return to the required 3.0%, as summarized in Table 2 below.

Table 2: Required General Fund Reserve Contributions if Rainy Day Reserve Appropriations

Fiscal Year	Proposed General Reserve Requirements (No less than)
Rainy Day Reserve Appropriation	1.50% of General Fund
First Fiscal Year After	1.75% of General Fund
Second Fiscal Year After	2.00% of General Fund
Third Fiscal Year After	2.33% of General Fund
Fourth Fiscal Year After	2.66% of General Fund
Fifth Fiscal Year After	3.00% of General Fund

- Allow the Board of Supervisors, by resolution adopted by two-thirds, to temporarily suspend these General Reserve provisions for the current or upcoming budget year, following a natural disaster that causes the Mayor or Governor to declare a state of emergency or for any other purpose.

The Controller’s Office is recommending these amendments to the General Reserve to help the City weather economic downturns and provide additional flexibility for replenishing the General Reserve over several years.

FISCAL IMPACT

Rainy Day Reserves

As shown in Table 3 below, based on information provided by the Controller’s Office, since FY 2003-04 when the Rainy Day Reserve was established, the City has deposited \$118.23 million into the Reserve and withdrawn \$34.14 million only in FY 2009-10, to offset revenue losses from the 2008 financial crises. In addition, over the last 11 years the City has transferred \$78.93 million to the SFUSD from this Rainy Day Reserve to offset declining per pupil revenues. The current unaudited balance in the Rainy Day Economic Stabilization Reserve is \$60.30 million, as shown in Table 3 below.

The FY 2014-15 budget appropriated a transfer of \$11.08 million to the SFUSD from the Rainy Day Reserve. In accordance with Proposition C, 50% of the remaining balance of \$49.22 million (\$60.3 million less \$11.08 million) or \$24.6 million would be transferred to the School Reserve in January 2015. This would leave a balance of \$24.6 million in the City Reserve.

Table 3: Rainy Day Reserve Fund Since FY 2003-04 (Millions)

Rainy Day Economic Stabilization Reserve	City Deposits (Withdrawals)	School District (Withdrawals)	Balance
FY 2003-04	-	-	\$55.14
FY 2004-05	-	(\$7.00)	48.14
FY 2005-06	\$49.77	-	97.91
FY 2006-07	19.65	-	117.76
FY 2007-08	-	-	117.76
FY 2008-09	-	(19.26)	98.30
FY 2009-10	(34.14)	(24.57)	39.59
FY 2010-11	-	(6.14)	33.45
FY 2011-12	6.02	(8.36)	31.11
FY 2012-13	-	(7.77)	23.34
FY 2013-14	42.79	(5.83)	60.30
Total	\$84.09	(\$78.93)	

Under the proposed ordinance, the same requirements for deposits would be in effect such that 50% of excess revenues (above the 5%) can be deposited into the Rainy Day Reserve; however, the City would now allocate 25% of such future deposits to the School Reserve, and allocate 75% to the City's Reserve. The Controller's Office does not project either future deposits or withdrawals from this Rainy Day Reserve. However, the deposits into the City's Reserve would be available for use by the City in the next economic downturn, subject to appropriation approval by the Board of Supervisors.

General Reserve

The amount of the General Reserve is currently \$58 million, or 1.5% of the City's \$3.89 billion FY 2014-15 General Fund budget. As shown in Table 1 above, the General Reserve is proposed to increase to 2.0% of the General Fund budget by FY 2016-17 under both the existing and proposed provisions.

However, under the proposed ordinance, the General Reserve would continue to increase annually beginning in FY 2017-18 from 2.0% to 2.33% and annually thereafter through FY 2019-20 to 3.0%. Assuming there is no downturn in the economy, the Controller's Office estimates the increase in the General Reserve requirement from 2.0% to 2.33% of General Fund revenues in FY 2017-18 would require an increased contribution of approximately \$14 million. In subsequent years, as the required percentage level of General Reserve increases, the required contributions will increase similarly resulting in an estimated increased contribution to the General Reserve of approximately \$28 million in FY 2018-19 and approximately \$42 million in FY 2019-20.

RECOMMENDATIONS

1. Amend page 4, line 13 that currently specifies the required level of the General *Fund* shall be reduced to 1.50 percent to specify the required level of the General *Reserve* shall be reduced to 1.50 percent.
2. Given that San Francisco voters approved Proposition C on November 4, 2014, approve the proposed provisions addressing the Rainy Day Reserves, which are consistent with language in Proposition C.
3. Approval of the provisions in the proposed ordinance to increase the City's General Reserve from 2% to 3%, in periods of sustained economic growth and allow a reduction in the General Reserve to 1.5% during economic downturns is a policy decision for the Board of Supervisors.

BOARD of SUPERVISORS



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MEMORANDUM

TO: Ben Rosenfield, City Controller, Office of the Controller
Richard Carranza, Superintendent, San Francisco Unified School District

FROM: Linda Wong, Assistant Clerk, Budget and Finance Committee, Board of Supervisors

DATE: October 21, 2014

SUBJECT: LEGISLATION INTRODUCED

The Board of Supervisors' Budget and Finance Committee has received the following proposed legislation, introduced by Mayor Lee on October 7, 2014:

File No. 141037

Ordinance amending the Administrative Code to revise the binding financial policy under Charter, Section 9.120, regarding a general reserve and required funding levels, and to update provisions regarding the Rainy Day Reserve Fund.

If you have any additional comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Monique Zmuda, Office of the Controller
Chris Armentrout, San Francisco Unified School District
Jamila Brooks, San Francisco Unified School District

OFFICE OF THE MAYOR
SAN FRANCISCO



EDWIN M. LEE
MAYOR

TO: Angela Calvillo, Clerk of the Board of Supervisors
FROM: *EW* Mayor Edwin M. Lee *NW*
RE: Administrative Code – Financial Policy Regarding General Reserve Fund
DATE: October 7, 2014

Attached for introduction to the Board of Supervisors is an ordinance amending the Administrative Code to revise the binding financial policy under Charter Section 9.120 regarding a general reserve and required funding levels, and to update provisions regarding the Rainy Day Reserve Fund.

Please note this item is co-sponsored by Supervisors Chiu and Farrell.

Should you have any questions, please contact Nicole Wheaton (415) 554-7940.

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