File No. 100248

Committee Item No. 2
Board Item No. 20

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee BUDGET AND FINANCE Date 4/7/10

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Completed by: Gail Johnson Date 4/2/10
Completed by: [illegible] Date 4/8/10

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FILE NO. 100248 ORDINANCE NO.

[Creation of General Reserve and Budget Stabilization Reserve.]

Ordinance amending the San Francisco Administrative Code by adding Section 10.60, to adopt a binding financial policy under Charter Section 9.120 creating a General Reserve and a Budget Stabilization Reserve and providing rules for deposits to and withdrawals from such funds.

NOTE: Additions are *single-underline italics Times New Roman*; deletions are ~~*strike-through italics Times New Roman*~~. Board amendment additions are double-underlined; Board amendment deletions are ~~strikethrough normal~~.

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 San Francisco Administrative Code is hereby amended by adding Section 10.60, to read as follows:

CHAPTER 10: FINANCE, TAXATION, AND OTHER FISCAL MATTERS

ARTICLE X. FINANCIAL POLICIES

SEC. 10.60. RESERVE POLICIES.

*(a) **Rainy Day 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 Reserve. This summary is intended only for convenience and does not modify or supersede the Charter provisions.*

The City maintains a "Rainy Day" or economic stabilization reserve under Charter Section 9.113.5. In any year when the Controller projects that total General Fund revenues for the upcoming budget year are going to be more than 5 percent higher than the General Fund revenues for the current year, the City automatically deposits one-half of the "excess revenues," meaning the revenues above and beyond the current year plus 5 percent growth, in the Rainy Day Reserve. The total amount of money in the Rainy Day Reserve may not exceed 10 percent of the City's actual total General Fund revenues.

The City may spend money from the Rainy Day Reserve for any lawful governmental purpose, but only in years when the Controller projects that total General Fund revenues for the upcoming year will be less than the current year's total General Fund revenues, i.e., years when the City expects to take in less money than it had taken in for the current year. In those years, the City may spend up to half the money in the Rainy Day Reserve, but no more than is necessary to bring the City's total available General Fund revenues up to the level of the current year. The City may also spend up to 25 percent of the balance of the Rainy Day Reserve to help the School District in years when certain conditions are met.

*(b) **General Reserve.** In addition to the Rainy Day Reserve, the City budget shall include a General Reserve. The General Reserve is intended 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, at any time following adoption of the annual budget, appropriate monies from the General Reserve for any lawful governmental purpose through passage of a supplemental appropriation ordinance by a simple majority vote.*

For purposes of this Section, "regular General Fund revenues" shall mean total General Fund sources less budgeted fund balances, budgeted uses of reserves, and net transfers, as determined by the Controller. The City shall fund the General Reserve at no less than two percent of budgeted regular General Fund revenues no later than fiscal year 2016-2017 ~~2015-2016~~*, according to the following schedule:*

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

2. The General Reserve shall be no less than $25 million ~~1.0 percent of budgeted regular General Fund revenues~~ *in the budget for fiscal year 2011-12;*

3. The General Reserve shall be no less than 1.0 ~~1.25~~ *percent of budgeted regular General Fund revenues in fiscal year 2012-13;*

4. The General Reserve shall be no less than 1.25 ~~1.5~~ *percent of budgeted regular General Fund revenues in the budget for fiscal year 2013-14;*

5. The General Reserve shall be no less than 1.5 ~~1.75~~ *percent of budgeted regular General Fund revenues in the budget for fiscal year 2014-15;* ~~and,~~

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

7 ~~6~~*. The General Reserve shall be no less than 2.0 percent of budgeted regular General Fund revenues in the budget for fiscal year* 2016-17 ~~2015-16~~ *and in the budget for each fiscal year thereafter.*

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

(c) ***Budget Stabilization Reserve.*** *The City shall establish a Budget Stabilization Reserve to augment the Rainy Day Reserve that the City maintains under Charter Section 9.113.5, and to further*

mitigate the negative effects of significant economic downturns. The Controller shall deposit funds to the Budget Stabilization Reserve as required under this Section.

The City may withdraw funds from the Budget Stabilization Reserve when the Controller projects that budgeted regular General Fund revenues for the upcoming budget year will be less than the current year's regular General Fund revenues, or less than the highest of any of the prior four fiscal years' regular General Fund revenues plus two percent, for each intervening year. If the Controller determines that either condition is met, the City may withdraw funds from the Budget Stabilization Reserve according to the following guidelines:

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

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

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

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

5. If the Controller determines that the withdrawal trigger for the Budget Stabilization Reserve was met in the current and prior fiscal year as well as the upcoming fiscal year, the Board may withdraw up to the full balance of the Budget Stabilization Reserve for any lawful governmental purpose in the upcoming budget year.

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

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

2. Revenues from the sale of land or other fixed assets to the extent the transfer to the Budget Stabilization Reserve does not violate the Charter, state or federal law, and the Controller determines it does not conflict with any previously-adopted City policies affecting such sales; and,

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

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

There shall be no minimum fund balance for the Budget Stabilization Reserve. Notwithstanding the above, the Controller shall not make deposit to the Budget Stabilization Reserve, including deposits from the revenue sources identified above, if the combined fund balances of the Budget Stabilization

Reserve and the Rainy Day Reserve equal or exceed 10 percent of actual regular General Fund revenues, as stated in the City's most recent independent annual audit.

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

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

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

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

RECOMMENDED:	APPROVED AS TO FORM:
	DENNIS J. HERRERA, City Attorney
(See File for Signature)	By:
BEN ROSENFIELD	THOMAS J. OWEN
Controller	Deputy City Attorney

FILE NO. 100248

LEGISLATIVE DIGEST
(As amended in committee, dated 4/7/2010)

[Creation of General Reserve and Budget Stabilization Reserve.]

Ordinance amending the San Francisco Administrative Code by adding Section 10.60, to adopt a binding financial policy under Charter Section 9.120 creating a General Reserve and a Budget Stabilization Reserve and providing rules for deposits to and withdrawals from such funds.

Existing Law

The City maintains a "Rainy Day" or economic stabilization reserve under Charter Section 9.113.5. In any year when the Controller projects that total General Fund revenues for the upcoming budget year are going to be more than 5 percent higher than the General Fund revenues for the current year, the City automatically deposits one-half of the "excess revenues," meaning the revenues above and beyond the current year plus 5 percent growth, in the Rainy Day Reserve. The total amount of money in the Rainy Day Reserve may not exceed 10 percent of the City's actual total General Fund revenues.

The City may spend money from the Rainy Day Reserve for any lawful governmental purpose, but only in years when the Controller projects that total General Fund revenues for the upcoming year will be less than the current year's total General Fund revenues, i.e., years when the City expects to take in less money than it had taken in for the current year. In those years, the City may spend up to half the money in the Rainy Day Reserve, but no more than is necessary to bring the City's total available General Fund revenues up to the level of the current year. The City may also spend up to 25 percent of the balance of the Rainy Day Reserve to help the School District in years when certain conditions are met.

Amendments to Current Law

The proposal is an ordinance that would amend the Administrative Code to create two more reserve funds for the City.

First, the proposal would create a "General Reserve." The General Reserve is intended 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, at any time following adoption of the annual budget, appropriate monies from the General Reserve for any lawful governmental purpose through passage of a supplemental appropriation ordinance by a simple majority vote.

The City would fund the General Reserve at no less than two percent of budgeted regular General Fund revenues by fiscal year 2016-2017, according to the following schedule:

- $25 million in fiscal years 2010-11 and 2011-12;
- 1.0 percent of budgeted regular General Fund revenues in fiscal year 2012-13;
- 1.25 percent in fiscal year 2013-14;
- 1.5 percent in fiscal year 2014-15;
- 1.75 percent in fiscal year 2015-16; and,
- 2.0 percent in fiscal year 2016-17 and each fiscal year thereafter.

Year-end balances in the General Reserve would be carried forward to subsequent years, and the City would have to appropriate additional funds to the General Reserve whenever expenditures from the Reserve caused the fund balance to drop below the amounts laid out above.

The second reserve created by the proposal would be a "Budget Stabilization Reserve" to augment the Rainy Day Reserve and further mitigate the negative effects of significant economic downturns.

The City could withdraw funds from the Budget Stabilization Reserve whenever the Controller projected that budgeted regular General Fund revenues for the upcoming budget year will be less than the current year's regular General Fund revenues, or less than the highest of any of the prior four fiscal years' regular General Fund revenues plus two percent, for each intervening year.

If the Controller determines that either condition was met, the City could withdraw funds from the Budget Stabilization Reserve according to the following guidelines:

1. The City could not withdraw funds from the Budget Stabilization Reserve in any given year until it had withdrawn the maximum amount allowable from the Rainy Day Reserve.
2. The City could not withdraw funds from the Budget Stabilization Reserve in any given year in an amount exceeding the remaining shortfall in General Fund regular revenues, after any withdrawals from the Rainy Day Reserve for the benefit of the City.

3. If the Controller determined that a withdrawal trigger for the Budget Stabilization Reserve was not met in the current fiscal year, but projects that it would be met for the upcoming fiscal year, the City could withdraw from the Budget Stabilization Reserve up to 30 percent of the combined value of the Budget Stabilization Reserve and Rainy Day Reserve less monies withdrawn from the Rainy Day Reserve for any lawful governmental purpose in the upcoming budget year.

4. If the Controller determined that a withdrawal trigger for the Budget Stabilization Reserve was met in the current fiscal year and projected that it would also be met for the upcoming fiscal year, the City could withdraw from the Budget Stabilization Reserve up to 50 percent of the combined value of the Budget Stabilization Reserve and Rainy Day Reserve less monies withdrawn from the Rainy Day Reserve for any lawful governmental purpose in the upcoming budget year.

5. If the Controller determined that the withdrawal trigger for the Budget Stabilization Reserve was met in the current and prior fiscal year as well as the upcoming fiscal year, the Board could withdraw up to the full balance of the Budget Stabilization Reserve for any lawful governmental purpose in the upcoming budget year.

The City would fund the Budget Stabilization Reserve by depositing 75 percent of the following revenue sources to the Reserve:

1. Real Property Transfer Tax proceeds in excess of the average annual actual receipts level for the prior five fiscal years, adjusted for any transfer tax rate increases during the prior five years;

2. Revenues from the sale of land or other fixed assets to the extent allowed by law and previously-adopted City policies affecting such sales; and,

3. Ending unassigned General Fund balances in a given fiscal year, beyond those appropriated as a source in the subsequent year's budget.

There would be no minimum fund balance for the Budget Stabilization Reserve. But the City would not make deposits to the Budget Stabilization Reserve in years in which the combined fund balances of the Budget Stabilization Reserve and the Rainy Day Reserve equal or exceed 10 percent of actual regular General Fund revenues. And the City would not make deposits to the Budget Stabilization Reserve in years in which the Controller determines that the City is eligible to make withdrawals from the Reserve.

In years in which the City put money into the Rainy Day Reserve, the City's contribution to the Budget Stabilization Reserve would be reduced by the same amount.

The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote, could temporarily suspend the requirements of the Budget Stabilization Reserve for that year or the following budget year.

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.

City and County of San Francisco

Office of the Controller

Controller's Proposed Financial Polices

March 1, 2010

Executive Summary

Proposition A, adopted by the voters in November 2009, requires the City to adopt a host of changes to the way the City plans for its budget. The measure shifts the City to a two-year budget cycle, requires the City to develop and adopt a five-year financial plan, and requires the adoption of the majority of labor agreements in advance of the approval of the City's annual budget.

Further, Proposition A requires the Controller to annually recommend financial policies to the Mayor and Board of Supervisors for their consideration. These policies become law if adopted by the Mayor and the Board of Supervisors by a 2/3rds vote. Subsequent budgets must then be consistent with these policies. These policies, once adopted, can only be suspended for a given fiscal year by a 2/3rds vote of the Board.

This report summarizes the initial set of the Controller's recommended financial policies, largely focused on the maintenance of reserves adequate for the City to better weather economic downturns.

The proposed policies, if adopted, would increase the size of the General Reserve to better absorb revenue shortfalls and expenditure overages that occur after the adoption of the annual budget. Additionally, these policies propose the creation of a Budget Stabilization Reserve to complement the City's Rainy Day Reserve. A portion of volatile revenues, such as extraordinary transfer tax receipts, would be deposited to this reserve and can be drawn during periods of declining revenue.

For illustration, if these policies had been in place in 2004, the City would have entered the current recession with approximately $93 million in addition to the Rainy Day Reserve that would have been available to offset budget deficits during the current and upcoming budget years.

More specifically, this proposed policy would:

1. Codify current practice of maintaining an annual **General Reserve** for current year fiscal pressures not anticipated during the budget process. The size of this reserve would equal $25 million in FY 2010-11, which has been the City's practice in recent years, and would gradually rise to a level of 2% of general fund revenues ($56 million in current dollars) by FY 2015-2016.

2. Create a new **Budget Stabilization Reserve** to augment the existing Rainy Day Reserve to help the City mitigate the impact of multi-year revenue downturns. The Budget Stabilization Reserve would be funded through the dedication of 75% of volatile revenues to the reserve, including Real Property Transfer Tax receipts in excess of the five-year annual average, funds from the sale of assets, and year-end unassigned general fund balances beyond the amount assumed as a source in the subsequent year's budget. The maximum size of the combined value of the Budget Stabilization Reserve and the Rainy Day Reserve is 10% of general fund revenues. The Budget Stabilization Reserve would be used to provide resources over the course of at least three years when revenues have declined during an economic downturn, through a formula that takes into account the combined balances in the Rainy Day Reserve and the Budget Stabilization Reserve.

The City needs to rebuild its general fund reserves because they have been depleted to unprecedented low levels and are unlikely to be replenished soon under current guidelines. The Rainy Day Reserve has helped both the City and the San Francisco Unified School District maintain services during the first part of this most recent severe economic downturn. However, withdrawals from the Rainy Day Reserve have caused it to be depleted from its high point of over $117 million during FY 2007-08 to a low of about $6 million after next fiscal year. The Charter only requires deposits into the Rainy Day Reserve when revenues increase by more than 5% from the prior year—a standard we do not expect to meet over the next several years. Without new reserve policies, the City would be left with almost no resources in reserve for the next economic downturn.

This has two potential negative consequences. First, the lack of a stabilization reserve will mean that the Mayor and Board will be forced to make more sudden and drastic cuts in services when the next downturn occurs. Second, if the City does not have a plan to rebuild reserves, financial markets are likely to downgrade the City's bond ratings, which could substantially increase the City's costs on any future issuances of debt, reducing the amount of important capital improvements projects that the City can afford.

This report provides information that puts our proposed reserve policies into context. Section 1 summarizes the Controller's proposed reserve policy in further detail. Section 2 illustrates how the proposed policy might have worked in recent history, and how it would operatate under a variety potential future scenarios. Section 3 surveys existing reserve policies followed by other municipalities along with recommendations of the Government Finance Officers Association and factors considered by credit rating agencies. Lastly, the proposed legislation creating these policies is attached to this report.

Section 1: Proposed Reserve Policy

Proposed Policy

The Controller's proposed reserve policy proposes a new reserve, the Budget Stabilization Reserve, to augment the existing Rainy Day Reserve. In addition, the proposed policy grows the current General Reserve to two percent of regular general fund revenues. Table 1 summarizes the purpose, size, and conditions for deposits to and withdrawals from the three reserves.

Table 1. Comparison of Proposed Reserves

	General Reserve	Rainy Day Reserve	Budget Stabilization Reserve
Purpose	To mitigate the impacts of discretionary revenue shortfalls, expenditure pressures, and/or program changes that were not anticipated in the annual budget process.	To mitigate the negative effects of significant economic downturns.	To augment the Rainy Day Reserve in order to better mitigate the negative effects of significant economic downturns.
Size	Minimum of 2% of regular General Fund revenues.	Maximum of 10% of regular General Fund revenues.	Maximum of 10% of regular General Fund revenues for the combined value of Budget Stabilization and Rainy Day Reserves.
Withdrawal Requirements; Maximum Withdrawal	Majority vote of the Board of Supervisors.	Budgeted revenues for upcoming fiscal year must be less than current fiscal year or any other prior peak plus two percent for each intervening year; City may withdraw lesser of 50% of reserve balance or revenue shortfall.	Budgeted revenues for upcoming fiscal year must be less than current fiscal year or prior peak within last four fiscal years (plus 2% for each intervening year). City must first withdraw maximum from Rainy Day. Maximum withdrawal of 30% of the combined value of the Budget Stabilization & Rainy Day in first year of downturn; 50% of combined value in second year; and remaining Budget Stabilization balance in third year.
Deposits	Proposed policy will increase current $25 million General Reserve by 0.25% of regular General Fund revenues every year beginning in FY 2011-12 until the 2% target is reached in FY 2015-16. Minimum balance must be restored at the beginning of each fiscal year.	If upcoming budget year revenues are projected to exceed current year revenues by more than 5%, 50% of excess revenues shall be allocated to Rainy Day Reserve for Economic Stabilization.	75% of: 1) real property transfer taxes in excess of the prior 5-year average, 2) revenues from the sale of assets, excluding land and structures, 3) unassigned general fund balances not assumed in the subsequent year's budget, less any deposits to Rainy Day Reserve. No deposits required in years when City is eligible to withdraw from the Reserve or when combined value of Budget Stabilization and Rainy Day Reserves exceeds 10% of regular General Fund revenues.

Purpose

The Controller's proposed policy maintains the General Reserve as a resource to mitigate revenue shortfalls or expenditure outlays not anticipated during the budget process. The reserve may be accessed during a fiscal year but may not be assumed as a source in the budget. The Rainy Day and Budget Stabilization Reserves are intended to mitigate fiscal problems that are multi-year in nature. They are therefore assumed as a source in the budget when withdrawal requirements are met. Maintaining separate reserves that serve these distinct purposes ensures that adequate funds are available to address a variety of budget shortfall situations that typically occur during an economic downturn.

Size

Under the Controller's proposed reserve policy, the General Reserve balance, which has historically equaled $25 million, would gradually increase to a target of two percent of regular general fund revenues by FY 2015-2016. Two percent of FY 2009-2010 regular general fund revenues represents $56 million. Doubling the size of the current General Reserve will help ensure the City is more adequately prepared to address unanticipated fiscal problems that arise throughout the fiscal year.

There is no minimum funding level required for the Rainy Day Reserve, and it has never reached the cap of 10 percent of total general fund revenues established in Charter Section 9.113. At its peak in FY 2006-2007, the Reserve totaled $118 million, or 4.7 percent of budgeted regular general fund revenues.

Under the Controller's proposed policy, deposits to the Budget Stabilization Reserve would be suspended once the combined value of the Budget Stabilization and Rainy Day Reserves equals 10 percent of regular general fund revenues. The models discussed later in the report demonstrate how a fully funded reserve of this magnitude would significantly mitigate the effects of prolonged economic downturns.

Withdrawal Requirements

A withdrawal from the General Reserve requires majority approval by the Board of Supervisors through the supplemental appropriation ordinance process, and funds may be used for any lawful governmental purpose. The Board may choose to appropriate up to the entire General Reserve in any given fiscal year. However, the balance must be restored to the minimum required level at the start of the subsequent fiscal year.

Funds may be withdrawn from the Rainy Day Reserve if projected general fund revenues for the upcoming budget year are less than the current year's revenues or the highest of any prior fiscal year's revenues, plus two percent for each intervening year. When the withdrawal trigger is met, the City may withdraw up to 50 percent of the Reserve balance, provided the amount withdrawn does not exceed the revenue shortfall.

Withdrawal requirements for the proposed Budget Stabilization Reserve are slightly more restrictive than those for the Rainy Day Reserve. The Budget Stabilization Reserve is intended to supplement the Rainy Day Reserve. Therefore, withdrawals may not be made until the City has taken the maximum withdrawal allowed from the Rainy Day Reserve. Funds may be withdrawn if projected general fund revenues for the upcoming budget year are less than the current year's revenues or the highest of the prior four fiscal years' revenues, plus two percent for each intervening year. When this trigger is met in the budget year, the City may withdraw up to 30 percent of the combined value of the Rainy Day and Budget Stabilization Reserves, provided that the amount does not exceed the revenue shortfall. If the withdrawal trigger is also met in the following year, the City may withdraw up to 50 percent of the combined value of the Rainy Day and Budget Stabilization Reserves. Finally, in the third year of an economic downturn, the City may withdraw the remaining balance of the Budget Stabilization Reserve.

Funding & Replenishment

The Controller's proposed policy would increase the current General Reserve to two percent of regular general fund revenues by FY 2015-2016. In FY 2010-2011, the Reserve would be funded at $25 million, consistent with current practice. In FY 2011-2012, the Reserve would increase to one percent of regular general fund revenues and increase by 0.25% of regular general fund revenues each year thereafter. If the Mayor and Board choose to withdraw funds from the General Reserve, they must restore the balance to the minimum required level at the start of the subsequent budget year.

There is no minimum funding level required for the Rainy Day Reserve, however the maximum size is set at 10 percent of regular general fund revenues per Charter Section 9.113. When revenue growth over the prior year exceeds five percent, 50% of revenues above the threshold are allocated to the Reserve. The calculation of required deposits to the Rainy Day Reserve does not include any new revenues generated during the fiscal year as a result of ordinances or Charter changes passed by the Board of Supervisors or voters to increase revenue, such as revenue from legal settlements or sales of land approved by the Board and revenue resulting from increased tax rates.

There is no minimum funding level for the proposed Budget Stabilization Reserve. In years when the withdrawal trigger is not met, 75% of the following revenue sources would be deposited into the Reserve, less any amount deposited into the Rainy Day Reserve.

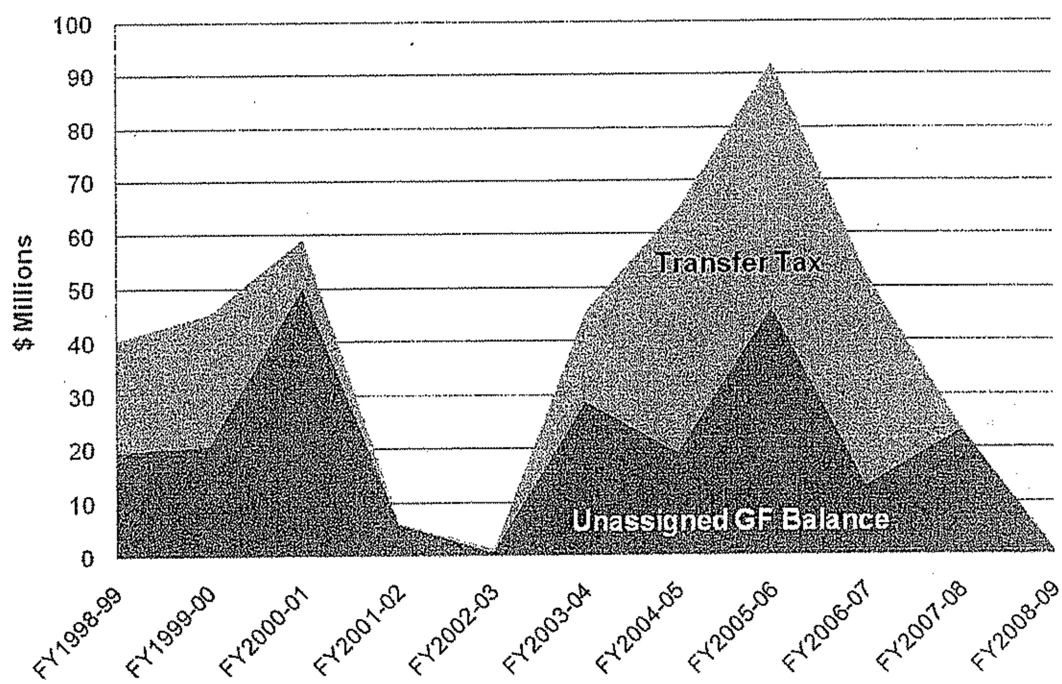
1. Real Property Transfer Taxes that exceed the average for the prior five years;
2. Revenues from the sale of assets, excluding land and structures; and
3. Ending unassigned general fund balances not already assumed in the subsequent year's budget.

Table 2 below shows the total value of these proposed sources between FY 1998-1999 and FY 2008-2009, and Figure 1 illustrates their volatility over time.

Table 2. Volatile Revenue Sources, FY 1998-1999 through FY 2008-2009

($ millions)	FY1998-99	FY1999-00	FY2000-01	FY2001-02	FY2002-03	FY2003-04	FY2004-05	FY2005-06	FY2006-07	FY2007-08	FY2008-09
Unassigned General Fund Balances Not Assumed in Budget	19.5	20.7	50.2	6.1	0.8	28.7	19.2	46.1	13.0	23.4	1.0
Real Property Transfer Tax >5-Year Average	20.8	24.6	9.1	-	-	16.9	45.5	46.1	39.5	-	-
Sale of Assets, Excluding Land & Structures	-	-	-	-	0.5	-	-	-	-	-	-
Total	**40.3**	**45.3**	**59.4**	**6.1**	**1.3**	**45.6**	**64.6**	**92.3**	**52.5**	**23.4**	**1.0**
75% of Total	**30.2**	**34.0**	**44.5**	**4.6**	**1.0**	**34.2**	**48.5**	**69.2**	**39.4**	**17.5**	**0.7**

Figure 1. Total Volatile Revenue Sources



Given the proposed cap on the combined values of the Rainy Day and Budget Stabilization Reserves of ten percent of regular general fund revenues, no deposits would be made to the Budget Stabilization Reserve once this cap is reached.

Section 2: Proposed Policy in Varying Financial Conditions

This section presents the application of the current and proposed policies in a variety of different financial conditions, including both shorter-term and longer-term economic downturns.

Scenario One: Status Quo

Currently, San Francisco maintains both a General Reserve and Rainy Day Reserve to mitigate unanticipated fiscal problems. The size of the General Reserve has historically equaled $25 million, although no target size has ever been formally articulated in a policy. Twenty-five million dollars represents 0.9 percent of FY 2009-2010 regular general fund revenues.

The Rainy Day Reserve, implemented in FY 2003-2004, was created to constrain spending during periods of extraordinary revenue growth in order to mitigate city service reductions during periods of revenue decline. The Rainy Day Reserve for Economic Stabilization, which was initially funded with $55 million from the City's cash reserve, grew to a high of $118 million at the end of FY 2007-2008. School District withdrawals of $19 million and $25 million in FY 2008-2009 and FY 2009-2010, respectively, and the City's withdrawal of $49 million in FY 2009-2010, have reduced the Rainy Day balance to less than $25 million, an 80 percent decline over a two-year period. The Reserve's current balance equals 0.9 percent of regular general fund revenues.

Figure 2. Year-End Balances of Reserves as a Percent of Regular General Fund Budgeted Revenues

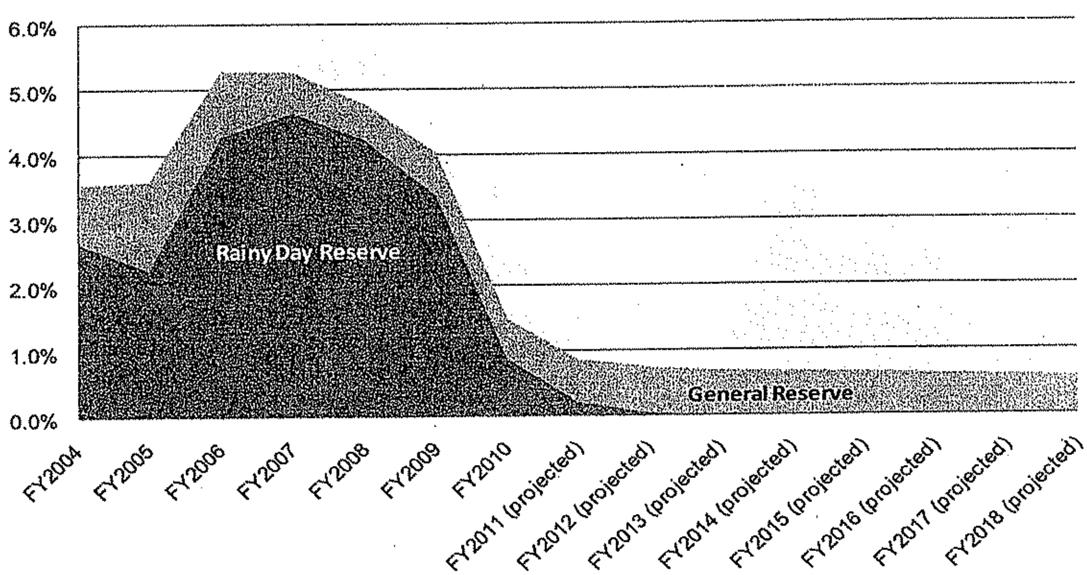


Figure 2 depicts the year-end balances of the General and Rainy Day Reserves through FY 2017-2018 if the Controller's proposed reserve policy is not adopted. It includes the following assumptions:

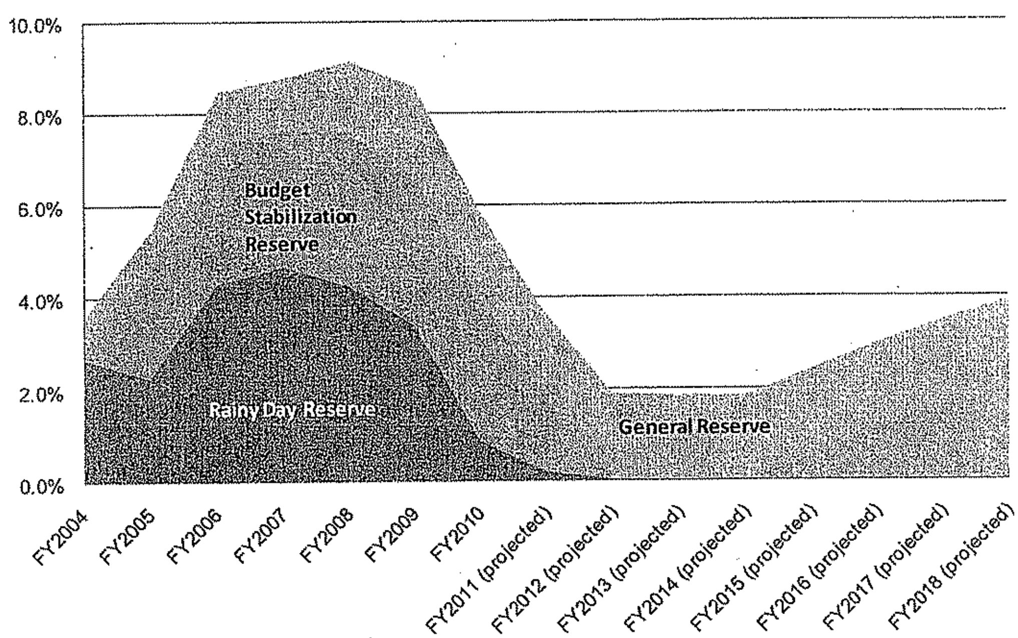
- Revenue growth between FY 2012-2013 and FY 2017-2018 is 2.5 percent per year;
- The General Reserve starting balance is $25 million in fiscal years 2010-2011 through 2017-2018;
- Withdrawals from the General Reserve between FY 2009-2010 and FY 2017-2018 are estimated using a 10-year moving average of prior withdrawals from the General Reserve between FY 1999-00 and FY 2008-09.

Figure 2 displays the year-end balances of the General and Rainy Day Reserves as a percent of regular general fund revenues through FY 2017-2018. The Controller currently projects that the City is unlikely to experience the extraordinary property and business tax growth of the last decade in the next 5 to 10 years. The model shows no deposits into the Rainy Day Reserve after FY 2006-2007 because revenue growth fails to exceed 5 percent. With no deposits, the balance falls to $100,000, or zero percent of regular general fund revenues in FY 2017-2018.

This model illustrates that adequate funds will not be available in the near future to mitigate the negative effects of multi-year economic downturns. While the Rainy Day Reserve grows rapidly during periods of strong revenue growth, it fails to grow during periods of moderate revenue growth. Furthermore, the Rainy Day Reserve is depleted rapidly during an economic downturn. When the City and School District are both eligible to withdraw, up to 75 percent of the Reserve may be withdrawn in a given fiscal year, leaving minimal funds available for the second and third year of a prolonged downturn.

Scenario Two: Proposed Reserve Policy Implemented with Rainy Day Reserve in FY 2003-2004

Figure 3. Year-End Reserve Balances as a Percent of Regular General Fund Budgeted Revenues



This scenario projects reserve balances had the Controller's proposed reserve policy been adopted at the same time as the Rainy Day Reserve in FY 2003-2004. The model projects to FY 2017-2018 using assumptions similar to those in scenario one:

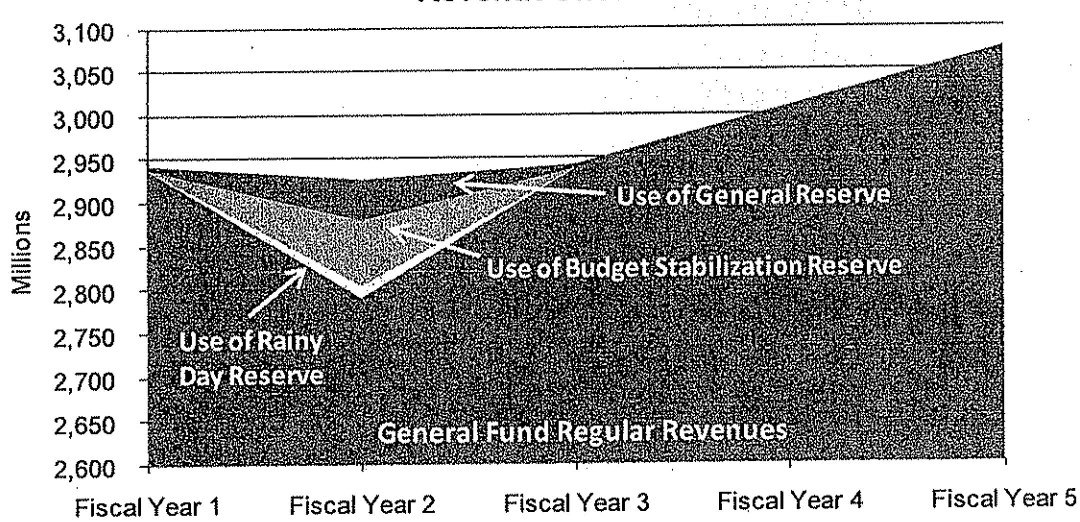
- Revenue growth between FY 2012-2013 and FY 2017-2018 of 2.5 percent per year;
- Withdrawals from the General Reserve between FY 2009-2010 and FY 2017-2018 are estimated using a 10-year rolling average of prior withdrawals from the General Reserve.

Figure 3 shows the year-end balances for the General Reserve, Budget Stabilization Reserve, and Rainy Day Reserve during this period. The previous section highlighted that deposits into the Rainy Day Reserve rely on levels of revenue growth that the City is not projected to experience for some time. The Budget Stabilization Reserve, on the other hand, is funded automatically through volatile revenues, and grows even in periods of moderate overall revenue growth, ensuring adequate funds are available to alleviate some portion of multi-year budget shortfalls. Fiscal years 2014-2015 through 2017-2018 in Figure 3 highlight this advantage. As the City rebounds from the prolonged economic downturn, the Budget Stabilization reserve would begin to be restored even while the Rainy Day Reserve remains depleted.

Also, the proposed Budget Stabilization Reserve would provide greater ability to smooth the effects of a multi-year downturn than the Rainy Day Reserve provides alone. As noted above, up to 75% of the Rainy Day Reserve balance may be withdrawn in a single fiscal year. The Controller's proposed reserve policy addresses this limitation by ratcheting up the withdrawals permitted from the Budget Stabilization Reserve over a three-year period: up to 30% of the combined value of the Rainy Day and Budget Stabilization Reserves in the first year of downturn, 50% of the combined value in the second year, and the remaining Budget Stabilization balance in the third year.

Scenario Three: A Future One-Year Economic Downturn

Figure 4. Use of Reserves in Response to One-Year Revenue Shortfall



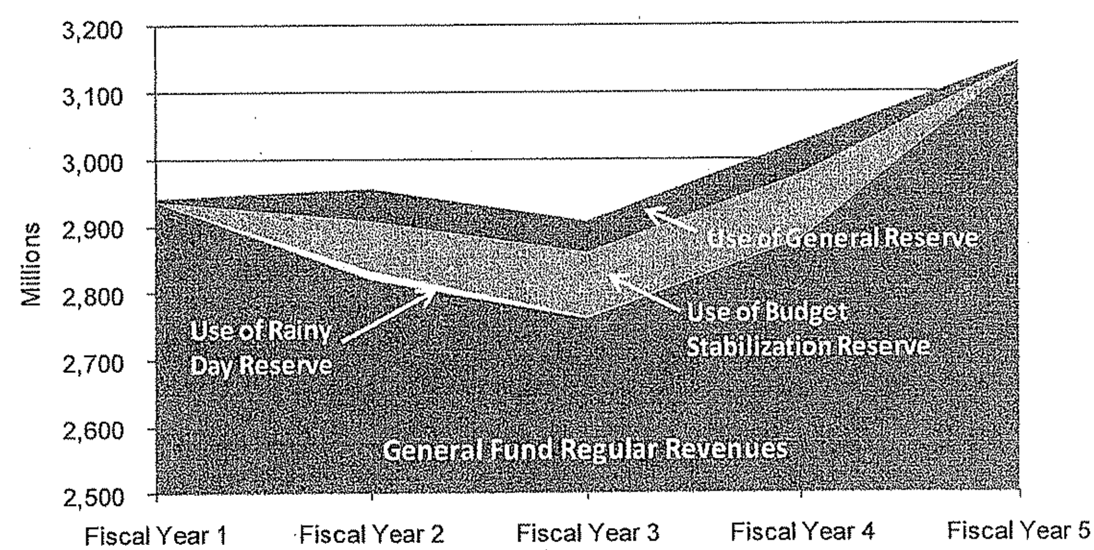
Scenario Three models a hypothetical scenario to evaluate how the Controller's proposed reserve policy would smooth an unlikely, sharp one-year decline in revenue. The model assumes:

- The Rainy Day Reserve balance equals $25 million. There are no deposits to the Reserve because General Fund revenue growth is assumed to be 2.5 percent per year.
- The General Reserve is fully funded at two percent of regular general fund revenues at the beginning of the downturn, and the combined value of the budget Stabilization and Rainy Day Reserve equals its 10 percent maximum.
- Revenues in Fiscal Year 1 equal the inflation-adjusted average for the FY 2003-2004 through FY 2009-2010 period (in 2010 dollars).
- Revenues in Fiscal Year 2 are assumed to decline by five percent, and 75 percent of volatile revenues are assumed to equal $0.6 million.
- Revenue growth in the recovery period equals the average inflation rate since FY 2003-2004 (2.2 percent).

As demonstrated by Figure 4, sufficiently funded reserves ensure that revenues available for appropriation will remain relatively stable even in the face of a significant one-time general fund revenue decline. In this scenario, the City has access to $144 million in reserve funds to offset a one-year revenue decline of $147 million. [1] However, had current reserve policies been in place, the City would only have access to $25 million from the General Reserve and $12.5 million from the Rainy Day Reserve, leaving a $109 million budget gap to solve.

Scenario Four: A Future Multi-Year Economic Downturn

Figure 5. Use of Reserves in Response to Multi-Year Revenue Shortfall



This model illustrates how the Controller's proposed reserve policy would address a prolonged economic downturn, and assumes:

- The Rainy Day Reserve balance equals $25 million. There are no deposits to the Reserve because General Fund revenue growth is assumed to be 2.5 percent per year.
- The General Reserve is fully funded at two percent of regular general fund revenues at the beginning of the downturn, and the combined value of the Budget Stabilization and Rainy Day Reserve equals its 10 percent maximum.
- Relative to revenues in Fiscal Year 1, revenues decline four percent in Fiscal Year 2, six percent in Fiscal Year 3, and two percent in Fiscal Year 4.
- Revenues are estimated to equal Fiscal Year 1 revenues plus inflation for each intervening year in Fiscal Year 5.
- 75 percent of volatile revenues are assumed to equal 0.6 million, 0.4 million, and 0.6 million in Fiscal Year 2, 3, and 4, respectively.

Figure 5 illustrates how the proposed reserves would help address shortfalls in a prolonged revenue decline. In particular, Figure 5 highlights the benefits of having withdrawal requirements for the Budget Stabilization Reserve that spread withdrawals of reserve funds over three fiscal years. Setting the withdrawal in the first year of the downturn at 30 percent of the combined value of the Rainy Day and Budget Stabilization Reserves ensures that adequate funds are available for the second year of a downturn, which is typically the worst.

While utilization of the Controller's proposed reserves does not entirely correct for the decline in revenues over this period, the shortfall is considerably alleviated. Under this hypothetical scenario, the City is able to withdraw $88 million from the Budget Stabilization and Rainy Day Reserves in fiscal year 2, $100 million in fiscal year 3, and $97 million in fiscal year 4. If these proposed policies were not in place, however, the City could only withdraw $13 million from the Rainy Day Reserve in fiscal year 2, $3 million in fiscal year 3, and $1 million in fiscal year 4.

Section 3: Research on Reserve Policies and Practices

This section presents the results of our research on the reserve policies and practices of the following groups:

1. **The Government Finance Officers Association (GFOA)**, which recommends that governments establish formal policies to maintain unrestricted general fund balances of no less than two months of regular operating revenues or expenditures, depending on various risk factors, such as liquidity and volatility of revenues and expenditures.

2. **Credit rating agencies**, which scrutinize reserve policies and balances as key indicators of a city's ability to address uncertainties and service its debt. Low reserve levels and reliance on volatile sources to fund regular operating costs can pull down ratings. Adoption of and adherence to reserve policies are effective ways of improving credit ratings.

3. **Peer jurisdictions,** whose reserve policies differ in size, structure, funding, and withdrawal requirements. Required reserve (or fund balance) levels range from 3 to 12.5 percent of general revenues, with 5 out of 8 jurisdictions with articulated targets requiring reserves greater than or equal to 7 percent. Some jurisdictions maintain one reserve for all purposes, while others have established separate reserves for within-year and multi-year fiscal problems. Withdrawal requirements range from a declaration of a fiscal emergency to quantitative evidence of a downturn. Not all reserve policies articulate deposit or replenishment requirements, and those that do differ significantly in the rigidity of those requirements. A number of jurisdictions at least partially fund their reserves with one-time or volatile revenue sources.

Government Finance Officers Association Recommendations

Purpose

The Government Finance Officers Association (GFOA) is the national association that provides leadership, guidance, and best practices recommendations to cities and counties throughout the United States and Canada. GFOA recommends establishing a formal policy that maintains an adequate unrestricted general fund balance level (or reserve) in order to mitigate current and future risks due to revenue shortfalls and unanticipated expenditures, ensure stable tax rates, contribute to sound long-term financial planning, and maintain or improve credit ratings.

The GFOA recommends that any reserve policy should address the following areas:[2]

- Appropriate size of reserve;
- Allocating financial resources to reserve; and
- Circumstances for utilizing reserve funds.

Size

The GFOA recommends "general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures."[3] A reserve covering two months of operating revenues equals roughly 17 percent of regular general fund revenues, or $475 million in FY 2009-2010.

Currently, the combined value of the City's Rainy Day Reserve for Economic Stabilization ($24.6 million) and General Reserve ($25 million) equals only 1.8 percent of regular general fund revenues. Among peer jurisdictions surveyed that had formally established reserves and policies, all require reserves exceeding the size of San Francisco's reserves (see "Peer Jurisdictions Policies and Practices" below).

According to the GFOA, the appropriate size of a reserve is a function of the following factors:[4]

- The predictability of revenues and the volatility of expenditures;
- Perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- Potential drain upon general fund resources from other funds as well as the availability of resources in other funds;
- Liquidity; and
- Commitments and assignments by the government for a specific purpose.

As in many other California cities, San Francisco uses a number of volatile revenue sources to balance its budget, including property transfer tax and prior year fund balance. Furthermore, the City is susceptible to revenue shortfalls resulting from natural disasters and state budget cuts. These factors suggest that a higher reserve level is appropriate. These upward pressures on reserve size are offset by the jurisdiction's size, combined city and county status, above average socioeconomic profile, and diversity of revenues.[5] Table 3 displays the relative size of San Francisco's revenue sources (as a percent of total revenues) compared to the averages for all cities and counties in California.

Table 3. FY 2008-2009 Sources of Revenue, All Funds

	San Francisco Budget		California Average	
	$ millions	% of Total	City	County
Charges for Services	$ 1,906	29%	37%	10%
Federal & State	1,154	18%	9%	49%
Property Tax	1,296	20%	7%	18%
Other Local Taxes	606	9%	26%	3%
Business Taxes	395	6%	2%	0%
Rents & Concessions	372	6%	0%	0%
Other Financing Sources	261	4%	7%	1%
Fines & Forfeitures	115	2%	1%	2%
Other Revenues	84	1%	7%	13%
Interest & Investment	57	1%	3%	2%
Licenses, Permits & Franchises	40	1%	2%	1%
Recoveries	13	0%	0%	0%
Total Revenues	**$ 6,301**	**96%**	**100%**	**100%**
PY Fund Balance	198	3%	0%	0%
PY Reserve	33	1%	0%	0%
Total Sources	**$ 6,531**	**100%**	**100%**	**100%**

Source: Controller's Office Budget Improvement Project

The combined value of reserves under the Controller's proposed policy would be capped at 12 percent of regular General Fund revenues, still less than the size recommended by GFOA. The City can afford to maintain a reserve less than the GFOA target due to its revenue diversity and other strengths because the reserve will still be large enough to mitigate the negative effects of revenue and expenditure volatility as well as significant one-time outlays.

One-Time Revenue Recommendations

In our research on reserve policies, we found that GFOA, credit rating agencies, and peer jurisdictions often include a discussion of one-time and volatile revenues, because reserves are frequently funded at least partially by these sources. GFOA recommends that a jurisdiction "adopt a policy(s) discouraging the use of one-time revenues for ongoing expenditures."[6] Since jurisdictions cannot rely on one-time revenues in future budget cycles, key services may be disrupted if one-time revenues used to fund a program do not recur in subsequent fiscal years.[7] To avoid this disruption, recurring revenues should be used to fund recurring programs.

The National Advisory Council on State and Local Budgeting (Council), an organization consisting of experts from the GFOA, other government organizations, academia, labor, and industry, warns that one-time revenues should be explicitly defined in any financial policy regarding the appropriate use of one-time revenues.[8]

The Council lists the following as examples of one-time revenues[9]:

- Infrequent sales of government assets;
- Bond refunding savings;
- Infrequent revenues from development; and
- Grants (three-year grants can also be considered one-time as they are non-recurring in nature).

The Council notes that highly volatile revenue sources can also be identified as one-time revenues; however, jurisdictions may consider writing a separate policy for these revenues. Jurisdictions should analyze the normal degree of volatility for every major unpredictable revenue source and then decide on a course of action if revenues are substantially higher or lower than projected.[10]

The Controller's proposed reserve policy addresses some of these concerns by allocating 75 percent of some volatile sources to the Budget Stabilization Reserve. Specific sources covered by the Controller's proposed policy include real property transfer taxes exceeding the prior 5-year average, revenues from the sale of assets exclusing land and structures, and ending unassigned general fund balances not assumed in the subsequent budget.

Credit Rating Agency Input

Credit rating agency reports regularly cite San Francisco's below-average reserves as a concern. For example, Moody's Investors Service (Moody's) noted San Francisco's "clear and increasing weakness in the city's reserve position relative to its Aa2-rated peers" in its September 2009 rating report.[11] San Francisco has maintained a favorable credit rating in spite of smaller reserve levels largely due to three strengths. Moody's,[12] Standard & Poor's[13] and FitchRatings[14] all cited the City's consistency in making mid-year expenditure adjustments when necessary as a key ratings driver. Furthermore, as previously mentioned, the City benefits from a diverse revenue base and an above average socioeconomic profile.

However, credit rating agencies have recently expressed concerns moving forward. Moody's, for example, cited moderate structural imbalances, a strong commitment to social services despite volatile state funding, large unfunded retiree health care liability, and weak reserves as key challenges for the City in its report released February 24, 2010.[15] Moody's warned that "failure to rebuild reserves during the economic recovery expected to begin in late 2010 would put downward pressure on the city's long-term ratings."[16]

Although it maintained the City's AA rating, FitchRatings recently took action to downgrade the City's outlook from "stable" to "negative," citing projected low reserves as a key reason.[17] Fitch also expressed concern over the city's use of one-time solutions to solve structural imbalances.[18] The Controller's proposed reserve policy would address both of these concerns by increasing reserve levels primarily through the use of volatile revenue sources. Allocating the majority of volatile revenues to the Budget Stabilization Reserve will prevent the City from depending on unreliable sources to balance the budget. Fitch's report notes that the Proposition

A financial policies (multi-year budgeting, financial forecasting, and reserve policies) "could provide credit strength in the future."[19]

Finally, FitchRatings and Moody's have expressed concern over the School District's access to the Rainy Day Reserve. FitchRating's February 2010 report cited the School District's continued use of the Rainy Day Reserve "as a notable weakening of what previously had been cited as a strength of the city's rating."[20]

Reserve & One-Time Revenue Policy Recommendations

FitchRatings has published several reports on recommended financial policies. FitchRatings identifies the inclusion of an automatic funding mechanism and the articulation of clear restrictions on use as the two strongest credit features of a fund balance (or reserve) policy.[21] Furthermore, FitchRatings repeatedly underscores the importance of adhering to the reserve policy adopted as well as articulating a plan to restore funds after a withdrawal.[22] Finally, FitchRatings considers the use of nonrecurring revenue to fund recurring expenses a credit concern[23] and recommends using nonrecurring revenues to fund one-time or discretionary projects that will not lead to further spending pressure in the future.[24]

The Controller's proposed reserve policy incorporates nearly all of GFOA and credit rating agency recommendations. The Budget Stabilization Reserve is automatically funded through a portion of volatile revenues. Beyond serving as an automatic funding source, the use of these revenues as a funding source for reserves also reduces the City's reliance on uncertain revenues in balancing its budget. Finally, as recommended, the policy includes a replenishment plan for both the General and Budget Stabilization Reserves.

Conclusion

San Francisco's weak reserve levels have, up to this point, been offset by other key strengths. However, as structural imbalances grow, current reserves are further depleted, and the City maintains its commitment to backfill state budget cuts, the City may face downward pressure on its credit ratings. Adopting the Controller's proposed reserve policy will help offset downward pressure on credit ratings and may even improve the City's credit rating, which in turn will reduce the cost of borrowing.

Peer Jurisdiction Policies and Practices

Summary

We analyzed the reserve policies of the following peer jurisdictions: Anaheim, Boston, Chicago, Fresno, Honolulu, Los Angeles, Oakland, Philadelphia, Portland, Sacramento, San Diego, and San Jose. Table 4 below compares key characteristics of these cities. Entities were included for the following reasons:

- All of the California cities included in this study were also included in the Controller's Budget Improvement Project analysis in March 2009.
- Moody's often compares San Francisco to Chicago, Boston and Philadelphia.

- Honolulu was included as it is a combined city and county of similar size.
- Portland's reserve policies have been recognized by GFOA as a best practice model for other cities.

Table 4. Peer Jurisdiction Characteristics

City	Current Senior Most Bond Rating	Population (2008)	FY 2009-10 Budget (All Funds, $billions)	Unreserved General Fund Balance as a % of Revenues (2008)
Anaheim	Aa2 (GO)	335,288	$ 1.32	14.4
Boston	Aa1 (GO)	609,023	2.39	34.1
Chicago	Aa3 (GO)	2,853,114	8.51	-
Fresno*	A1 (GO)	476,050	1.19	13.2
Honolulu	Aa2 (GO)	905,034	1.81	9.1
Los Angeles	Aa2 (GO)	3,833,995	6.88	9.3
Oakland	A1 (GO)	404,155	1.03	22.0
Philadelphia	Baa1 (GO)	1,447,395	7.35	(0.7)
Portland	Aa1 (limited tax GO)	557,706	3.31	23.2
Sacramento	Aa3 (Issuer Rating)	463,794	0.87	21.1
San Diego*	A2 (GO)	1,279,329	2.94	8.8
San Francisco*	**Aa2 (GO)**	**808,976**	**6.59**	**5.2**
San Jose	Aa1 (GO)	948,279	2.97	31.2

*Unreserved as a % of Revenues are from FY2007.

Source: Current Senior Most Bond Rating and Unreserved General Fund Balances as a Percent of Revenues from Moody's Investors Services Database; Population data from U.S. Census Bureau; and FY2009-10 Budget data from cities' adopted budgets.

Table 5 summarizes the following key attributes of their reserve policies:

- **Purpose.** The majority of jurisdictions in this sample maintain one reserve for all purposes. However, similar to the Controller's proposed reserve policy, Los Angeles, Portland and San Diego maintain separate reserves to mitigate within-year and multi-year fiscal problems. Maintaining separate reserves for distinct purposes is consistent with new GFOA research on maintaining financial stability.[25]
- **Size.** Jurisdictions' reserves vary in size. While Fresno, Los Angeles, and San Jose have adopted reserve targets less than or equal to 5 percent of general fund revenues, Anaheim, Boston, Oakland, Portland, and San Diego all have adopted targets exceeding 7 percent of general fund revenues.
- **Deposits.** Other jurisdictions including Honolulu, Los Angeles, Oakland, and San Jose at least partially fund their reserves using one-time or volatile revenue sources. Not all jurisdictions articulate how reserve funds will be replenished after utilization. Among those that do, some articulate a specific replenishment plan to restore the reserve to its minimum level (Los Angeles), while others simply specify a timeline (Portland).
- **Withdrawal requirements.** Jurisdictions vary greatly in the strictness of their withdrawal requirements. While Oakland and Fresno require the declaration of a "fiscal emergency" by the city council to withdraw funds, Honolulu and Portland require quantitative

evidence, including slow revenue growth or high unemployment rates, before withdrawals may be made.

Restrictions on Volatile Revenues in Peer Jurisdictions

Although they are not included in Table 5, Los Angeles, Oakland, and San Jose have implemented policies restricting the use of one-time revenues for recurring expenses. These cities restrict the use of all one-time revenue sources. The Controller's proposed reserve policy only restricts the use of 75 percent of major volatile revenue sources. In addition, Honolulu, Los Angeles, Oakland, and San Jose at least partially fund their reserves using one-time or volatile revenue sources, as is proposed by the Controller's reserve policy. Los Angeles uses unencumbered balances as a source of funding, Oakland diverts excess real property transfer tax to its reserve, San Jose allows revenues from revenue spikes, budget savings, and the sale of property to be deposited into its reserve, and Honolulu's City Council may vote to deposit excess unreserved fund balance and revenues from property sales into their reserve.

Table 5. Reserve Policies of Peer Jurisdictions

City	Reserve Name	Purpose	Size	Withdrawal Requirements	Deposits	FY 2009-10 Reserve Balance: $ millions	FY 2009-10 Reserve Balance: % of target
San Francisco (current policy)	General Reserve	None specified	None specified ($25 million historically)	Majority vote of Board of Supervisors	None specified	25.0	0.9% of regular General Fund revenues
	Rainy Day Reserve	Significant economic downturns	Maximum of 10% of regular General Fund revenues	Projected revenues for upcoming year must be less than current year or the highest of any other fiscal year's revenues plus 2% for each intervening year	50% of excess revenues if projected revenues exceed current year revenues by 5% or more	24.6	0.9% of regular General Fund revenues
Anaheim	General Fund Unrestricted Fund Balance	None specified	7-10% of General Fund expenditures	None specified	N/A	28.2	11% of General Fund expenditures
Boston	General Fund Reserve	Extraordinary & Unforeseen Circumstances	2.5% of preceding year's appropriations for all City departments (excluding schools)	Written documentation explaining why transfer is necessary; approval from Mayor & City Council.	None specified	27.5	2.8% of prior year City Department appropriations
	Undesignated General Fund Balance	Fixed costs (e.g. pension contributions) or extraordinary, nonrecurring events	10% of General Fund operating expenditures	Actual revenues exceed budgeted amounts & encumbrances are less than appropriations	N/A	550.3 (FY2008-09)	24.5% of General Fund operating expenditures
Chicago	Skyway mid- and long-term reserve	None specified	None specified	None specified	None specified	550.0	17.3% of total General Fund revenues
	Parking meter mid- and long-term reserve	None specified	None specified	None specified	None specified	180.0	5.7% of total General Fund revenues
	Budget Stabilization Fund	None specified	None specified	None specified	None specified	-	-
Fresno	General Fund Emergency Reserve	Natural disasters, significant declines in GF revenues	5% of General Fund appropriations	Declaration of fiscal emergency by Mayor, ratified by City Council	Add funds as necessary to reach or exceed 5% target	17.0	7.5% of General Fund appropriations

City	Reserve Name	Purpose	Size	Withdrawal Requirements	Deposits	FY 2009-10 Reserve Balance $ millions	FY 2009-10 Reserve Balance % of target
Honolulu	Fiscal Stability Fund	Economic & revenue downturns; emergency situations	None specified	A trigger relating to unemployment, revenues, property value, expenditures, unfunded mandates, or natural disaster must be met	Deposits subject to Council approval; possible sources are unbudgeted unreserved fund balance & property sales	26.8	1.9% of total General Fund revenues
Los Angeles	Contingency Reserve Fund	Within fiscal year unanticipated expenses or revenue shortfalls	2.25% of total General Fund revenues	Majority vote by City Council	If funds removed total less than 1% of GF revenues, reserve must be fully restored in following FY; if funds removed total more than 1%, funds shall be replenished 1% per FY until replenished	122.5	2.8% of total General Fund revenues
	Emergency Reserve Fund	Significant economic downturn; natural disaster	Minimum of 2.75% of total General Fund revenues	Mayor must determine that no other viable sources of funds are available		121.0	2.79% of total General Fund revenues
Oakland	General Purpose Fund Reserve	Unusual, unanticipated and seemingly insurmountable events of hardship	7.5% of General Purpose Fund expenditures	A declaration of a fiscal emergency must be approved by a majority of City Council	City Administrator shall present strategy to restore reserve balance	9.8	2.3% of General Fund expenditures
Philadelphia	General Fund Balance	None specified	None specified	None specified	None specified	85.3	2.2% of total General Fund revenues
Portland	Emergency Reserve Fund	Within fiscal year unanticipated expenditures or revenue fluctuations	Minimum of 5% of General Fund operating revenues	Unanticipated event would result in negative ending GF balance; Declaration of emergency by Council ordinance	Must begin to restore funds within 24 months of withdrawal	64.7	15.5% of General Fund operating revenues
	Countercyclical Reserve Fund	Slow revenue growth during recession	Minimum of 5% of General Fund operating revenues	Revenue growth, unemployment rate, property tax delinquency rate, & business license revenue growth triggers			

City	Reserve Name	Purpose	Size	Withdrawal Requirements	Deposits	FY 2009-10 Reserve Balance $ millions	FY 2009-10 Reserve Balance % of target
Sacramento	Economic Uncertainty Reserve	None specified	No formal policy; in practice, maintain reserve equal to 10% of GF revenues	None specified	None specified	10.5	2.8% of General Fund revenues
San Diego	Emergency Reserve	Qualifying emergencies	**Target:** Emergency Reserve must equal 8% of GF Revenues	Declaration of emergency approved by two-thirds of City Council	None specified	75.4	6.7% of General Fund revenues
	Appropriated Reserve	Within fiscal year unexpected operational needs	**Phase-in:** combined value must equal 8% of GF Revenues by the end of FY2011-12.	Approval by majority of City Council			
	Unappropriated Reserve						
San Jose	General Fund Contingency Reserve	Unexpected circumstances including GF shortfall	3% of operating budget	Approval by two-thirds of City Council	None specified	30.7	3.1% of General Fund expenditures
	Emergency Reserve Fund	Known but unspecified expenses	None specified	Not specified	None specified	3.4	0.5% of General Fund expenditures
	Economic Uncertainty Reserve Fund	Public emergency that threatens lives, property or welfare of residents	None specified	Not specified	Financed through sale of surplus city properties	4.5	0.3% of General Fund expenditures

Specific Reserve Policies of Other Jurisdictions

Anaheim

The City of Anaheim's reserve policy requires the City to maintain "a minimum unreserved fund balance in the General Fund of between 7% and 10% of General Fund budgeted expenditures."[26] The City's policy does not articulate circumstances for withdrawal or a strategy to restore funds once they have been utilized. Anaheim's unrestricted General Fund balance at the end of FY09-10 is projected to be $28.2 million, or 11% of General Fund expenditures (12.3% of General Fund operating revenues).[27]

Anaheim has successfully maintained a General Fund unrestricted fund balance between 7 and 10 percent of General Fund expenditures in each of the last five fiscal years despite regularly utilizing their reserve. Anaheim withdrew $3 million from their General Fund unrestricted reserve in FY 2006-2007,[28] $8.1 million in FY 2007-2008,[29] $3.2 million in FY2008-09,[30] and $12.2 million in FY 2009-2010 to help balance their budget.[31]

Boston

Boston maintains a General Fund Reserve equal to a minimum of 2.5 percent of the preceding year's appropriations for all City departments excluding the School Department.[32] The reserve is intended "to provide for extraordinary and unforeseen expenditures."[33] Any transfers from the reserve require written documentation explaining why the transfer is necessary and approval from the Mayor and City Council.[34] Since its establishment in 1986, this reserve has not yet been utilized by the City.[35] Boston's General Fund Reserve has exceeded 2.5 percent of prior year City Department appropriations in each of the last five fiscal years: 2.8% in FY 2009-2010, 2.9% in FY 2008-2009, 3.0% in FY 2007-2008, 3.1% in FY 2006-2007, and 3.0% in FY 2005-2006.[36]

To mitigate current and future risks such as revenue shortfalls and unanticipated expenditures, Boston established a Fund Balance Policy for the General Fund.[37] Specifically, funds may be used to offset certain fixed costs such as pension contributions and postemployment health benefits or to fund "extraordinary and nonrecurring events as determined and certified by the City Auditor."[38] The policy requires that the City maintain a General Fund balance that is 10 percent or higher than the current fiscal year's General Fund operating expenditures.[39] Funds may be appropriated if actual revenues exceed budgeted amounts *and* encumbrances are less than appropriations.[40] The undesignated budgetary fund balance must remain between 5 and 10 percent of budgetary operating expenditures.[41]

Over the past few fiscal years, the Boston has maintained an undesignated general fund balance that significantly exceeds its 10% target: 24.5% in FY 2008-2009, 25.3% in FY 2007-2008, 23.9% in FY 2006-2007, 22.1% in FY 2005-2006.[42]

Chicago

In 2005, Chicago created a $500 million long-term reserve and $375 million mid-term reserve funded with revenue from the leasing of the Chicago Skyway.[43] In 2009, the City established a $400 million long-term reserve, $325 million mid-term reserve, and $320 million Budget Stabilization Fund with revenue from a long-term concession of parking meter operations.[44] No target level or replenishment requirements exist for these reserves. Chicago's Comprehensive Annual Financial Report briefly addresses withdrawal requirements, stating that mid-term reserves are subject to appropriation and long-term reserves are legally restricted.[45]

In FY2008-09, $75 million and $70 million in interest were transferred to the General Fund from the Skyway and Parking Meter reserves, respectively.[46] In addition, $217.6 million was transferred from the Parking Meter Budget Stabilization Fund to help balance the budget.[47] In FY 2009-2010, the City withdrew $270 million, including interest, from the long-term parking meter reserve fund, along with $150 million from the mid-term parking meter reserve fund.[48] Furthermore, $75 million in interest from the Skyway reserves and the remaining balance of the Budget Stabilization Fund ($102.4 million) was transferred to the General Fund budget.[49]

The City depleted the Budget Stabilization Fund by transferring the remaining balance of $102.4 million to the General Fund.[50] Seven hundred and thirty million in mid- and long-term reserves remain after the passage of the FY 2009-2010 budget, or 23 percent of total General Fund revenues.[51]

Fresno

Fresno's most recent reserve policy, established in January 2004, requires that its General Fund Emergency Reserve equal 5 percent of General Fund appropriations.[52] Funds may only be withdrawn after the City Council ratifies a fiscal emergency declared by the Mayor. The policy defines a fiscal emergency as "a natural catastrophe; an immediate threat to health and public safety; or a significant decline in General Fund revenues, which in the opinion of the City Manager, impairs his/her ability to administer the Council adopted budget."[53] The City's policy does not articulate a specific plan to replenish the reserve, however, it does state that funds will be added as necessary so that the reserve equals or exceeds the five percent target.[54]

Fresno has achieved the minimum 5 percent balance in every fiscal year since the reserve policy was adopted in 2004.[55] In FY 2009-2010, their General Fund Emergency Reserve equaled $17 million dollars, or 7.5 percent of General Fund appropriations.[56] In spite of the economic downturn, no withdrawals were made from the reserve to balance the FY 2009-2010 budget.[57]

Honolulu

The City and County of Honolulu currently maintains a Fiscal Stability Fund that is "designated for economic and revenue downturns and emergency situations."[58] Honolulu's policy does not articulate a target level for the reserve. However, the policy does include withdrawal requirements that articulate economic, revenue, and emergency triggers.

To withdraw funds, one or more of the following conditions must be met:[59]

- The unemployment rate increases by more than two percent within three fiscal quarters;
- The total value of net taxable real property declines by two percent or more from the preceding fiscal year;
- General fund and highway fund revenues decline by two percent or more from the preceding fiscal year;
- Transient accommodation tax revenues declines by five percent or more from the preceding fiscal year;
- Nondiscretionary expenditures increase by more than five percent of the preceding fiscal year's revenues;
- The Governor of Hawaii or the President of the United States declares that a state of emergency exists within the City and County of Honolulu as a result of a natural disaster; or
- Unfunded mandates are enacted by the state or federal government and imposed after the enactment of the fiscal year budget.

Deposits into the Fiscal Stability Fund, aside from interest earned, are subject to Council approval. Possible sources of deposits include excess unreserved fund balance, revenue from the conveyance of city property designated for deposit by the Council, and any other funds identified by the Council for deposit into the reserve.[60]

No withdrawals have been made from the Fiscal Stability Fund since it was established in June of 2007.[61] The ending balance in FY 2009-2010 was $26.8 million, or 1.9 percent of the City's total General Fund revenues.[62]

Los Angeles

Los Angeles has maintained both a Contingency and Emergency Reserve Fund since 1998. The 1998 policy mandated that the combined Reserve Fund equal a minimum of 2 percent of total General Fund revenues.[63] In 2005, the City Council revised its policy to gradually increase the target to 5 percent of General Fund revenues.[64] Two percent was to be allocated to the Emergency Reserve and the remaining 3 percent to the Contingency Reserve. In 2007, the Council raised the target for the Emergency Reserve to 2.75 percent of General Fund revenues.[65] The total target remains equal to 5 percent of General Fund revenues.

The Contingency Reserve Fund is intended for use when the city experiences "unanticipated expenses or revenue shortfalls impacting programs already approved in conjunction with the current year budget."[66] The Reserve may not be used to fund new programs or positions not included in the current year budget.[67] A majority (or super-majority in the event of a mayoral veto) of the City Council must approve any withdrawals.[68]

The Emergency Reserve may be used when the Mayor, with confirmation from the Council, declares an "urgent economic necessity."[69] The emergency may be caused by either a significant economic downturn or natural disaster.[70] Before withdrawing funds, the Mayor must make "a determination that no other viable sources of funds are available."[71]

Despite having two separate reserves, Los Angeles' budget shows only one Reserve Fund. Two and three-quarters percent of General Fund revenues are allocated to the Emergency Reserve, with any remaining balance in the General Fund allocated to the Contingency Reserve.

Unencumbered balances are a consistent source of funding for the City's Reserve Fund. The City's charter specifies that, at the end of the fiscal year, "all surplus money remaining in each fund over and above the amount of outstanding demands and liabilities payable out of the fund to the Reserve Fund," with only a few exceptions.[72]

If funds totaling one percent or less of General Fund revenues are withdrawn from the Reserve Fund, the balance must be restored to its 5 percent level in the subsequent fiscal year.[73] If funds removed from the Reserve Fund exceed one percent of General Fund revenues, the City will restore the Reserve Fund to its five percent level one percentage point per fiscal year.[74]

At the time the 2005 policy was adopted, the Reserve Fund totaled 3.1 percent of General Fund revenues, 1.9 percentage points below the new minimum percentage requirement.[75] The policy provided little guidance on phasing in the new target, only suggesting "a targeted annual increase should be established to increase the Reserve Fund Balance to five percent within ten years."[76] The Reserve Fund reached the 5 percent target in FY2009-10, with the Emergency Reserve totaling 2.79 percent of General Fund revenues and the Contingency Reserve equaling 2.82 percent of General Fund revenues. Over the past five fiscal years, funds were withdrawn from the Reserve Fund in FY 2005-2006 ($295.3 million), FY 2006-2007 ($231.3 million) and FY 2007-2008 ($85.8 million).[77]

The Reserve Fund may face problems heading into FY 2010-2011. Due to lower than anticipated prior year unencumbered General Fund appropriations[78] and a higher than anticipated transfer of Reserve funds to balance the budget upon closing the City's general ledger[79], the Reserve Fund is only expected to equal 3.5 percent of General Fund revenues. Furthermore, the budgeted appropriation of $46.8 million from the General Fund to the Reserve Fund is unlikely to occur due to budgetary shortfalls.[80]

In addition to a reserve policy, Los Angeles has adopted a financial policy regarding the use of one-time revenues which states: To the extent possible, current operations will be funded by current revenues. The use of unencumbered prior year balances in all funds shall be scrutinized and carefully limited to be used primarily for one-time expenditures. One-time revenues will only be used for one-time expenditures. The City will avoid using temporary revenues to fund ongoing programs or services.[81]

Oakland

Oakland's reserve policy requires that the City maintain a General Purpose Fund Reserve equal to 7.5 percent of budgeted General Purpose Fund appropriations.[82] The purpose of the reserve is to "fund unusual, unanticipated and seemingly insurmountable events of hardship of the City."[83] Rather than establish withdrawal triggers, Oakland allows funds to be withdrawn when a "fiscal emergency" is declared. Either the Mayor, with majority City Council approval, or a majority vote of the City Council is sufficient to declare a fiscal emergency.[84] Oakland's reserve policy includes no specific guidelines for restoring reserve funds after a withdrawal. The policy simply states, "If in any fiscal year the General Purpose Fund Reserve Policy is not met, the City Administrator shall present to Council a strategy to meet the General Purpose Fund Reserve policy."[85]

Oakland revised its reserve policy in June 2009, however, the target level of the General Purpose Fund reserve was not changed. The new policy inserted the language above concerning how a fiscal emergency can be declared. In addition, the following line was added about annually revisiting the target level: "Each year, the City Administrator shall determine whether the 7.5% reserve level requires adjustment, and recommend any changes to the City Council."[86]

The City has not reached its reserve target of 7.5 percent of budgeted General Purpose Fund appropriations since FY 2006-2007. The reserve equaled 5.5% of budgeted General Purpose Fund expenditures in FY 2007-2008, 2% in FY 2008-2009, and 2.3% in FY 2009-2010.[87] This reflects consistent withdrawals from the reserve without a commitment to restore funds. The city approved a $1.6 million withdrawal from the reserve in both FY 2005-2006 and FY 2006-2007.[88] Furthermore, $6.97 million and $6.4 million were budgeted for withdrawal in FY 2007-2008 and FY 2008-2009, respectively.[89] The General Purpose Fund Reserve is projected to equal only $9.8 million at the end of FY 2010-2011.[90]

Oakland's City Council has adopted a one-time revenue policy in addition to its reserve policy. According to the policy, one-time revenues such as sales of property and proceeds from the refinancing of debt may not be used for recurring expenses.[91] Instead, 50 percent must be allocated to pay off negative fund balances in the Internal Service Fund, and the remaining 50 percent must be allocated to negative fund balances in other funds. Furthermore, any Real Estate Transfer Tax exceeding $40 million must be used to replenish the General Purpose Fund Reserve until the target is reached. Remaining funds will be set aside to reduce Police and Fire Retirement System liability, establish a trust for the Other Post-Employment Retirement Benefits, and replenish the Capital Improvements Reserve Fund.[92] This policy may be temporarily suspended with a majority vote of the City Council.

Philadelphia

Philadelphia has never had a formal reserve policy[93] and its General Fund balance has been very volatile, ranging from -1.5 percent of total General Fund revenues in FY 2008-2009 (-$60 million) to 8.2 percent in FY 2006-2007 ($297.9 million).[94] At the end of FY 2009-2010, the Fund Balance is projected to be $85.3 million, or 2.2 percent of total General Fund revenues.[95]

Portland

The National Advisory Council on State and Local Budgeting (NACSLB) recognizes Portland's reserve fund policy as a best practice. Portland has two General Fund reserves, each with a minimum requirement of 5 percent of General Fund operating revenues.[96] The overall goal for both reserve funds combined is 10 percent of General Fund revenues less any short-term borrowing receipts, and intrafund and grant revenues.[97] Funds exceeding the 10 percent target may be transferred out of the General Fund Reserve to fund one-time General Fund appropriations.[98]

The first reserve is an emergency reserve "available to address one-time emergencies and unanticipated expenditure requirements or to offset unanticipated revenue fluctuations occurring within a fiscal year."[99] The fund can only be accessed when an unanticipated event would result in a negative ending General Fund balance.[100] In addition, the Council must declare an emergency by ordinance and the General Fund's budgeted contingency must be exhausted. After withdrawal, the Council must begin to restore funds within 24 months.[101]

The second reserve is a counter cyclical reserve, which may be used to "maintain current General Fund services and programs or transition expenditure growth to match slower revenue growth during the first 18 to 24 months of a recession."[102] To access this reserve, basic revenue growth must be below 3 percent for two consecutive quarters, or forecasted to be below 3 percent for the next fiscal year.[103] In addition, the unemployment rate must be higher than 6.5 percent for two consecutive quarters (or forecasted to exceed 6.5 percent for the next fiscal year), the property tax delinquency rate must exceed 8 percent, *or* business license revenue growth must be below 5.5 percent for two consecutive quarters (or forecasted to be lower than 5.5 percent for the next fiscal year).[104] The City must begin to restore funds within 24 months of a withdrawal.[105]

Portland has met its target of 10 percent of General Fund operating revenues in each of the past five fiscal years. In fact, the City's General Reserve Fund has exceeded 10 percent of *total* General Fund sources over the past five fiscal years. The Reserve Fund totaled $49 million in FY 2005-2006, $50.7 million in FY 2006-2007, $58.3 in FY 2007-2008, $68.8 in FY 2008-2009, and $64.7 in FY 2009-2010.[106] The City has consistently transferred funds from the General Fund to the General Reserve Fund to maintain the 10 percent target. It has not utilized the General Reserve Fund during the current economic downturn. Funds totaling $5.5 million were transferred to the General Fund in FY 2009-2010; however, these funds were in excess of the 10 percent target.[107]

Sacramento

The City of Sacramento first established its Reserve for Economic Uncertainty in FY 1983-1984, however, the city does not have a formal reserve policy.[108] Instead, "each year the City Council establishes a General Fund reserve based on the availability of funds."[109] Leyne Milstein, the Finance Director for Sacramento, states that as a matter of practice the City attempts to maintain a reserve at 10 percent of General Fund revenues.[110]

Sacramento has never reached this informal 10 percent target over the past five fiscal years. The Economic Uncertainty Reserve totaled 8.4% of General Fund revenues in FY 2005-2006, 7.8% in FY 2006-2007, 6.4% in FY 2007-2008, 2.6% in FY 2008-2009, and 2.8% in FY 2009-2010.[111] Withdrawals of $4.5 million in FY 2007-2008[112] and $15 million in FY 2009-2010[113] have significantly reduced the Reserve's resources. At the end of FY 2009-2010, the Reserve is projected to equal only $10.5 million.[114] While the city refrained from further drawing down the reserve in FY 2009-2010, there are currently no plans to restore funds.

San Diego

Prior to July 2008, San Diego only maintained an Unappropriated General Fund Reserve intended to "fund major General Fund emergencies."[115] However, San Diego's revised reserve policy now requires the maintenance of three General Fund Reserves: an Emergency Reserve, an Appropriated Reserve, and an Unappropriated Reserve. The Emergency Reserve is "to be maintained for the purpose of sustaining General Fund operations at the time of qualifying emergencies as declared by the Mayor and/or the City Council and ultimately approved by the Council."[116] Funds may not be withdrawn from the Emergency Reserve unless there is two-thirds approval from the City Council.[117] The Appropriated Reserve is intended to pay for unexpected operational needs that arise during the fiscal year but are *not anticipated during the budget process*.[118] A withdrawal only requires majority approval.[119] Finally, the Unappropriated Reserve may be accessed, with majority approval, when the Appropriated Reserve has been exhausted.[120]

The City's revised reserve policy mandates that the Emergency Reserve equal eight percent of annual General Fund revenues.[121] No minimum or maximum are articulated for the Appropriated and Unappropriated Reserves.[122] Furthermore, San Diego's policy does not specify how reserves will be replenished once utilized.

San Diego's policy includes a five-year phase-in plan to gradually raise the combined value of the Emergency, Appropriated, and Unappropriated Reserves to eight percent from six percent.[123] The policy mandates that the City contribute 0.5 percent of General Fund revenues to the Reserve Fund in each of five fiscal years.[124] During this time, the Emergency Reserve may not drop below five percent of General Fund revenues unless there is a qualifying emergency.[125]

The phase-in schedule included in San Diego's policy mandates that the General Fund Reserves equal 6.5% of General Fund revenues at the end of FY 2008-2009 and 7% of General Fund revenues at the end of FY 2009-2010.[126] The General Fund Reserves equaled exactly 6.5% of revenues in FY 2008-2009; however, the General Fund Reserves equaled only 6.7% of General Fund revenues in FY 2009-2010 ($75.4 million).[127]

San Jose

San Jose maintains a General Fund Contingency Reserve equal to a minimum of three percent of its operating budget to be used in the event of unexpected circumstances, including a General Fund revenue shortfall.[128] A withdrawal from this fund requires approval by two thirds of the City Council. Each year, the size of the Contingency Reserve is evaluated. If the amount in the Reserve exceeds the level of funds "necessary to respond to reasonable calculations of risk," excess funds may be used for one-time expenses.[129]

San Jose has three other reserve funds: a Cash (or earmarked) Reserve Fund for known but unspecified expenses; an Emergency Reserve Fund for use during "any public emergency involving or threatening the lives, property or welfare of the people of the City or property of the City"[130]; and an Economic Uncertainty Reserve financed through the sale of surplus City properties.[131] The City Council is charged with determining an "adequate" level for these three reserves. San Jose's policy does not articulate how funds would be restored after utilization.

The Contingency Reserve has hovered around 3 percent of General Fund expenditures over the past five fiscal years (3.1% in FY 2009-2010, 2.9% in FY 2008-2009, 2.8% in FY 2007-2008, 2.8% in FY 2006-2007, and 2.9% in FY 2005-2006).[132] The Emergency Reserve and Economic

Uncertainty Reserve are significantly smaller than the Contingency Reserve. While the Contingency Reserve was $30.7 million in FY 2009-2010, the Emergency Reserve and Economic Uncertainty Reserve totaled $3.4 and $4.5 million, respectively.[133]

San Jose has also adopted the following policy restricting the use of one-time revenues: "Once the General Fund budget is brought into structural balance, one-time resources (e.g., revenue spikes, budget savings, sale of property, and similar nonrecurring revenue) shall not be used for current or new ongoing operating expenses. Examples of appropriate uses of one-time resources include rebuilding the Economic Uncertainty Reserve, early retirement of debt, capital expenditures that will not incur significant operating and maintenance costs, and other nonrecurring expenditures. One time funding for ongoing operating expenses to maintain valuable existing programs may be approved by a majority vote of the Council."[134]

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[39] Boston 2009 Comprehensive Annual Financial Report, pg. 12. The 10% target is calculated using GAAP accounting; however, the amount of fund balance available for appropriation is calculated using the statutory basis of accounting.

[40] Boston 2009 Comprehensive Annual Financial Report, pg. 12.

[41] Boston 2009 Comprehensive Annual Financial Report, pg. 12.

[42] Boston 2009 Comprehensive Annual Financial Report, pg. 120.

[43] City of Chicago 2010 Budget Overview and Revenue Estimates. http://egov.cityofchicago.org:80/webportal/COCWebPortal/COC_EDITORIAL/2010BudgetOverviewandRevenueEstimates.pdf, pg. 65.

[44] City of Chicago 2010 Budget Overview and Revenue Estimates, pg. 65.

[45] 2008 Chicago Comprehensive Annual Financial Report. http://egov.cityofchicago.org:80/webportal/COCWebPortal/COC_EDITORIAL/CAFR2008.pdf, pg. 48.

[46] City of Chicago 2010 Budget Overview and Revenue Estimates, pg. 65.

[47] City of Chicago 2010 Budget Overview and Revenue Estimates, pg. 66.

[48] City of Chicago 2010 Budget Ordinance, http://egov.cityofchicago.org:80/webportal/COCWebPortal/COC_EDITORIAL/2010BudgetOrdinance.pdf, pg. 17.

[49] City of Chicago 2010 Budget Ordinance, pg. 17.

[50] City of Chicago 2010 Budget Overview and Revenue Estimates, pg. 66.

[51] City of Chicago 2010 Budget Overview and Revenue Estimates, pg. 65.

[52] City of Fresno 2008 CAFR, http://www.fresno.gov/NR/rdonlyres/D2899DE2-3101-4EE4-AAEF-8443054255D9/13143/CAFRPrint.pdf, pg., xiii.

[53] City of Fresno 2008 CAFR, pg. 5.

[54] City of Fresno 2008 CAFR, pg. 5.

[55] FY05-FY10 Adopted Budgets, http://www.fresno.gov/Government/DepartmentDirectory/Finance/Budget/PreviousYears.htm.

[56] City of Fresno 2009-10 Adopted Budget, pg. 28, http://www.fresno.gov/NR/rdonlyres/1C21D332-4EB6-458C-A2E3-D0F3C09ADD8F/15863/FY2009_2010AdoptedBudget1.pdf.

[57] City of Fresno 2009-10 Adopted Budget, pg. 9.

[58] Section 2: Chapter 6, Article 56, Reserve for Fiscal Stability Fund, http://www.honolulu.gov/refs/roh/6.htm.

[59] Section 2: Chapter 6, Article 56, Reserve for Fiscal Stability Fund.

[60] Section 2: Chapter 6, Article 56, Reserve for Fiscal Stability Fund.

[61] Email correspondence with Robert Morita, Honolulu Department of Budget and Fiscal Services. The Fiscal Stability Fund was predated by the Special Reserve Fund, which was established in 1998.

[62] Email correspondence with Robert Morita, Honolulu Department of Budget and Fiscal Services.

[63] Los Angeles FY2009-10 Adopted Budget, pg. 12, http://controller.lacity.org/abu1/AdoptedBudget2009-10.pdf.

[64] Los Angeles FY2009-10 Adopted Budget, pg. 12.

[65] Los Angeles FY2009-10 Adopted Budget, pg. 12.

[66] Los Angeles 2005 Financial Policies, http://cao.lacity.org/Debt_Mgmt/FinancialPolicies.pdf.

[67] Los Angeles 2005 Financial Policies.

[68] Los Angeles 2005 Financial Policies.

[69] Los Angeles 2005 Financial Policies.

[70] Los Angeles 2005 Financial Policies.

[71] Los Angeles 2005 Financial Policies.

[72] Los Angeles City Charter. http://www.amlegal.com/nxt/gateway.dll?f=template&fn=default.htm&vid=amlegal:laac_ca.

[73] Los Angeles 2005 Financial Policies.

[74] Los Angeles 2005 Financial Policies.

[75] Los Angeles 2005 Financial Policies.

[76] Los Angeles 2005 Financial Policies.

[77] Los Angeles Adopted Budgets FY05-06 (pg. 273), FY06-07 (pg. 274), and FY07-08 (pg. 279).

[78] Los Angeles Preliminary Financial Report for FY09, http://ens.lacity.org/ctr/financial/ctrfinancial18262471_09142009.pdf, pg. ii.

[79] FY09 Los Angeles Preliminary Financial Report, pg. v.

[80] FY09 Los Angeles Preliminary Financial Report, pg. i.

[81] Los Angeles Financial Policies, http://cao.lacity.org/Debt_Mgmt/FinancialPolicies.pdf, pg. 3.

[82] Oakland City Council Ordinance No. 12946, http://clerkwebsvr1.oaklandnet.com/attachments/22766.pdf.

[83] Oakland City Council Ordinance No. 12946.

[84] Oakland City Council Ordinance No. 12946.

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[86] Oakland City Council Ordinance No. 12946.

[87] Oakland Adopted Budgets, http://www.oaklandnet.com/budgetoffice/Policy%20Budget.htm.

[88] Oakland Adopted FY05-07 Budget, pg. D-41.

[89] Oakland Adopted FY07-09 Budget, pg. D-36.

[90] Oakland Adopted FY09-11 Budget, pg. D-24.

[91] Oakland City Council Ordinance No. 12946.

[92] Oakland City Council Ordinance No. 12946.

[93] Email correspondence with Rob Dubow, Director of Finance for the City of Philadelphia.

[94] Philadelphia FY06-FY10 Adopted Budgets, http://www.phila.gov/finance/Budget.html.

[95] Philadelphia FY09-10 Adopted Budget, http://www.phila.gov/finance/pdfs/Budget_FY10.pdf.

[96] Portland Reserve Funds Policy, http://www.portlandonline.com/auditor/index.cfm?c=47787&a=200842.

[97] Portland Reserve Funds Policy.

[98] Portland Adopted FY09-10 Budget, http://www.portlandonline.com/omf/index.cfm?c=50325&a=245916, pg. 6.

[99] Portland Reserve Funds Policy.

[100] Portland Reserve Funds Policy.

[101] Portland Reserve Funds Policy.

[102] Portland Reserve Funds Policy.

[103] Portland Reserve Funds Policy. Basic revenue growth is defined as the sum of General Fund property tax, business license, utility license/franchise fees, cigarette and liquor taxes, transient lodging taxes, and interest income.

[104] Portland Reserve Funds Policy.

[105] Portland Reserve Funds Policy.

[106] Portland FY06-FY10 Adopted Budgets, http://www.portlandonline.com/omf/index.cfm?c=26048.

[107] Portland FY09-10 Adopted Budge, pg. 6.

[108] Sacramento FY09-10 Adopted Budget, http://www.cityofsacramento.org/finance/budget/documents/26-NonDeptFY10A.pdf, pg. 255.

[109] Sacramento FY09-10 Adopted Budget, http://cityofsacramento.org/finance/budget/documents/02-OverviewFY10A.pdf, pg. 57.

[110] Interview with Leyne Milstein, January 11, 2010.

[111] Sacramento FY06-FY10 Adopted Budgets, http://www.cityofsacramento.org/finance/budget/approved-budget.cfm#FY8.

[112] Sacramento FY07-08 Adopted Budget, http://www.cityofsacramento.org/finance/budget/documents/26_Non-Dept.pdf, pg. 341.

[113] Sacramento FY08-09 Adopted Budget, http://www.cityofsacramento.org/finance/budget/documents/26-NonDeptFY10A.pdf, pg. 245.

[114] Sacramento FY09-10 Adopted Budget, pg. 255.

[115] San Diego FY06-07 Annual Budget, http://www.sandiego.gov/fm/annual/pdf/fy07/schedules.pdf, pg. 114.

[116] San Diego Reserve Policy, http://www.sandiego.gov/fm/pdf/reserve_policy_revised.pdf, pg. 6.

[117] San Diego Reserve Policy, pg. 4.

[118] San Diego Reserve Policy, pg. 6.

[119] San Diego Reserve Policy, pg. 4.

[120] San Diego Reserve Policy, pg. 6.

[121] San Diego Reserve Policy, pg. 6.

[122] San Diego Reserve Policy, pg. 6.

[123] Note that the policy requires the Emergency Reserve to equal 8%, not the combined value of all three reserves to equal 8 percent. Therefore, even if San Diego follows the phase-in plan, they will still have to contribute additional funds to the Emergency Reserve to meet the 8% target.

[124] San Diego Reserve Policy, pg. 6.

[125] San Diego Reserve Policy, pg. 6.

[126] San Diego Reserve Policy, pg. 6.

[127] San Diego FY10 Annual Budget, http://www.sandiego.gov/fm/annual/pdf/fy10/10v1financialsummaryandschedules.pdf, pg. 130.

[128] San Jose FY09-10 Budget Policies. http://www.sanjoseca.gov/budget/FY0910/07AdoptedOperating/06.aBudgetPolicies.pdf, pg. V-2.

[129] San Jose General Fund Structural Deficit Elimination Plan. http://www.sanjoseca.gov/budget/FY0809/GFStructuralDeficitEliminationPlan112008.pdf, pg. 26.

[130] San Jose City Charter. http://www.sanjoseca.gov/clerk/Charter.htm.

[131] San Jose FY09-10 Budget Policies.

[132] San Jose FY06-FY10 Budgets, http://www.sanjoseca.gov/budget/archive.asp.

[133] San Jose FY10 Adopted Budget, http://www.sanjoseca.gov/budget/FY0910/09-10AdoptedOperating.asp.

[134] San Jose FY08-09 Adopted Budget, http://www.sanjoseca.gov/budget/FY0809/GFStructuralDeficitEliminationPlan112008.pdf, pg. 25.