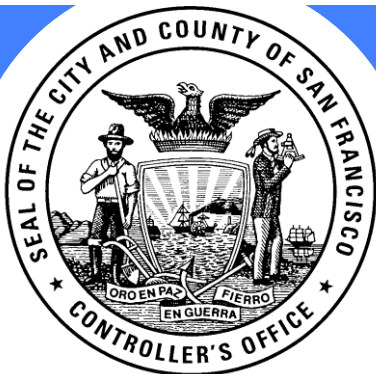


General Fund Reserves



CITY & COUNTY OF SAN FRANCISCO

Office of the Controller

May 11, 2022

The City maintains General Fund reserves to guard against four general risks:

- 1) To help bridge multi-year budget losses resulting from recessions.
- 2) To address unanticipated short-term issues that arise after the budget's adoption.
- 3) To dedicate certain one-time savings for one-time uses and not ongoing purposes.
- 4) To help mitigate specific risks identified by the Mayor and Board.

Other enterprise & special funds maintain unique reserves to manage their risks.

Economic Stabilization Reserves guard against recession revenue losses:

1) City Rainy Day Reserve (Current balance = \$114.5M):

Purpose is to capture above average revenue growth to smooth shortfalls in downturns. Adopted by voter-approved Charter measure in 2003.

Deposits: 50% of strong revenue growth, with 75% of deposits for the City reserve & 25% for a School District reserve. Additional 25% of this growth dedicated to one-time purposes.

Withdrawals: Drawn to offset revenue losses versus the prior year. Annual withdrawals capped to allow use over the duration of a typical recession.

Suspension: No suspension permitted – Charter measure.

Economic Stabilization Reserves guard against recession revenue losses:

2) Budget Stabilization Reserve (Current balance = \$265.8M)

Augments the Rainy Day Reserve and helps further mitigate effects of significant economic downturns. Proposed by the Controller & adopted by the Board in 2010.

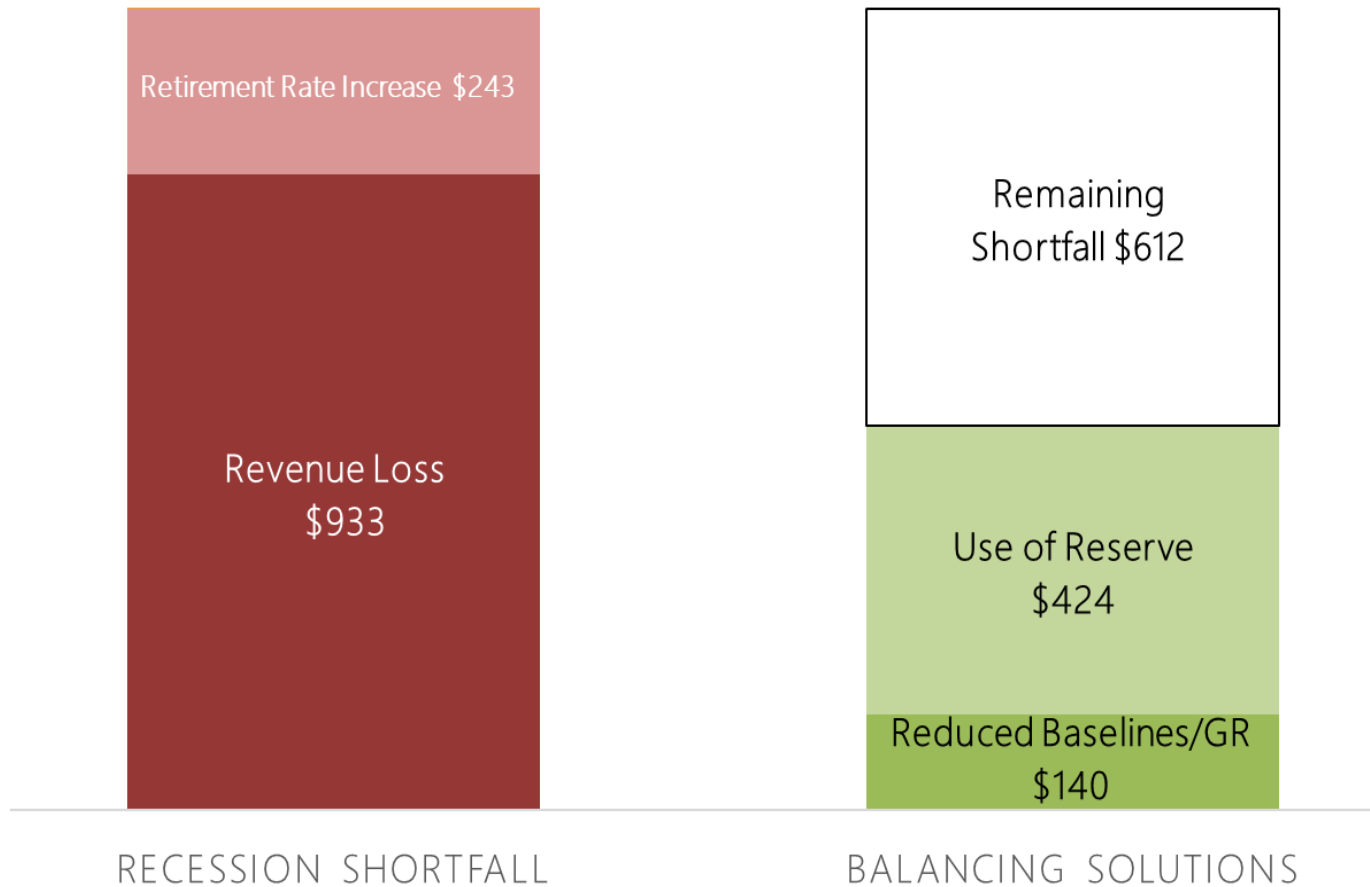
Deposits: 50% of largest one-time sources (above trend transfer tax, unbudgeted prior year fund balance). Additional 25% of this growth dedicated to one-time purposes (Rainy Day – Budget Stabilization Reserve).

Withdrawals: Drawn to offset revenue losses versus the prior year.

Suspension: May be suspended by a 2/3rds vote of the Board.

Combined balance of Rainy Day and Budget Stabilization Reserves capped at 10% of General Fund revenue (current balance = 6.6%). Any required deposits above this cap flow to the respective one-time reserves.

Economic Stabilization Reserves guard against recession revenue losses:



The General Reserve guards against needs not anticipated in the budget:

3) General Reserve (Current balance = \$43.8M)

Purpose is to absorb short-term costs or revenue losses not anticipated in the annual budget adoption. Proposed by the Controller & approved by the Board in 2010.

Deposits: Required to be maintained at levels between 1.5%-3.0% of annual revenues at the time of the budget's adoption.

Withdrawals: Can be used for any unanticipated need, such as cost overruns or mid-year revenue losses. Reserve withdrawals must be replenished in subsequent budget.

Suspension: May be suspended by a 2/3rds vote of the Board.

Several reserves are designed to match one-time savings and uses:

4) Rainy Day One-Time Reserve (Current balance = \$0M)

25% of significant overall revenue growth dedicated for one-time spending. Established by voter-adopted Charter amendment; may not be suspended.

5) Budget Stabilization One-Time Reserve (Current balance = \$54.8M)

25% of identified one-time revenues dedicated for one-time spending. Proposed by Controller & Adopted by Board. May be suspended by a 2/3rds vote of the Board.

6) Budget Savings Incentive Fund (Current balance = \$0M)

25% of department net expenditure savings retained for one-time purposes that enhance department operations. Suspended during recessions. Adopted by the Board via ordinance; may be suspended or altered by subsequent ordinance.

The Board & Mayor establish reserves for other specific risks:

Established through the budget ordinance to address risks identified by the Mayor and Board, which change over time. Established by ordinance & may be amended by subsequent ordinance.

Reserve	Current Balance (\$M)	Purpose
7) Federal & State Revenue Reserve	\$ 81.3	Established to manage revenue shortfalls related to reimbursement disallowances from the Federal Emergency Management Agency (FEMA) and other state and federal agencies. Current balance = 12.4% of projected FEMA revenues.
8) Fiscal Cliff Reserve	\$ 229.8	Established to manage projected budget shortfalls following the spend down of federal and state stimulus funds and other one-time sources. Current balance = approximate projected shortfalls for FY24-25 & FY25-26 (before labor contract costs).
9) Public Health Revenue Reserve	\$ 113.3	Established to manage volatility in public health federal and state revenue sources and grants. Current balance = 10% of select DPH revenues. Laguna Honda revenue risk.
10) Free City College Reserve	\$ 5.3	Established to manage risks in the Free City College Program. Current balance = 31.3% of annual spending.

The Board & Mayor establish reserves for other specific risks:

Reserve	Current Balance (\$M)	Purpose
11) Mission Bay Transportation Improvement Fund	\$ 1.0	Established to pay for services and capital improvements to address transportation and other community needs in connection with events at the arena.
12) Hotel Tax Loss Contingency Reserve	\$ 3.5	Established to ensure continuity in funding for arts programming, should there be unanticipated fluctuations in hotel tax as the City's economy recovers from the economic effects of the COVID public health emergency. Current balance = 12% of dedicated allocations.

Reserve Levels by Type Pre-Pandemic vs. Current (\$M)

	FY18-19	FY21-22	Change
Economic stabilization reserves	\$588	\$380	(\$208)
General reserve	\$127	\$44	(\$83)
One-time purpose reserves	\$220	\$55	(\$165)
Other risk reserves	\$431	\$439	\$7
Total	\$1,367	\$918	(\$450) -33%

Reporting & Updates

The Controller’s Office reports the City’s reserve in six regular financial reports published throughout the City’s fiscal year. Each of these reports highlights the projected reserve balances and provides information on the mechanics of each reserve.

	FY 2020-21	FY 2021-22			FY 2022-23		
	Ending Balance	Deposit	Use	Projected Balance	Deposit	Use	Projected Balance
General Reserve	\$ 78.3	3.1	(9.4)	\$ 72.1	34.6	-	\$ 106.6
Rainy Day Economic Stabilization City Reserve	114.5	-	(0.0)	114.5	-	-	114.5
Budget Stabilization Reserve	265.8	-	-	265.8	-	-	265.8
Economic Stabilization Reserves	380.3	-	(0.0)	380.3	-	-	380.3
<i>Percent of General Fund Revenues</i>	<i>6.7%</i>			<i>6.5%</i>			<i>6.2%</i>
Rainy Day Economic Stabilization SFUSD Reserve	1.0	-	-	1.0	-	-	1.0
Budget Stabilization Reserve - One Time Reserve	54.8	-	-	54.8	-	-	54.8
COVID Response and Economic Loss Reserve	113.5	-	(99.5)	14.0	-	(14.0)	-
Federal and State Emergency Grant Disallowance Reserve	100.0	-	(18.7)	81.3	-	-	81.3
Fiscal Cliff Reserve	293.9	-	(64.2)	229.8	-	-	229.8
Business Tax Stabilization Reserve	149.0	-	(149.0)	-	-	-	-
Gross Receipts Tax Prepayment Reserve	26.0	-	(26.0)	-	-	-	-
Public Health Management Reserve	104.1	9.2	-	113.3	-	-	113.3
Free City College Reserve	6.3	-	(1.0)	5.3	-	-	5.3
Mission Bay Transportation Improvement Fund	1.0	-	-	1.0	-	-	1.0
Urgent Needs Reserve	6.5	-	(6.5)	0.0	-	-	0.0
Hotel Tax Loss Contingency Reserve	6.0	2.5	(5.0)	3.5	-	-	3.5
Other Reserves	862.2	11.7	(369.9)	504.0	-	(14.0)	490.0
Litigation Reserve	-	10.8	(10.8)	-	11.0	(11.0)	-
Technical Adjustments Reserve	-	2.5	(2.5)	-	2.5	(2.5)	-
Salary and Benefits Reserve	5.1	42.3	(47.4)	-	43.7	(43.7)	-
Annual Operating Reserves	5.1	55.6	(60.7)	-	57.2	(57.2)	-
TOTAL, General Fund Reserves	1,325.9	70.4	(439.9)	956.4	91.8	(71.2)	977.0

Summary table from the Controller’s Six Month Report (February 2022) for illustration. Reported balances not current projections.

Questions or Comments?

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Appendix: Other General Fund Reserves

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The City maintains several other reserves not detailed in this presentation that are maintained per accounting & budgetary standards, summarized below.

Reserve	Balance (\$M)	Purpose
Litigation Reserve	\$ 66.2	Estimated General Fund liability that may result from claims and litigation pending against the City.
MOU Reserve	\$ 41.4	Budgeted reserve to account for costs attributable to MOUs not included in department budgets.
Audit Reserve	\$ 37.4	Reserve account maintained to offset losses from audits and other disallowances during the course of the year.