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AGENDA REPORT

TO: HENRY L. GARDNER
INTERIM CITY ADMINISTRATOR

FROM: Sarah T. Schlenk
Interim Budget Director

SUBJECT: Supplemental Report Rainy Day Policy -
Other Models

DATE: July 17, 2014

City Administrator
Approval

Date

7/17/14

COUNCIL DISTRICT: City-Wide

RECOMMENDATION

Staff requests that the Finance and Management Committee receive and accept this informational report to inform the Committee on deliberations relative to creation of a Rainy Day Fund policy. The acceptance of this report does not create any policy or compel any action.

BASIS FOR SUPPLEMENTAL REPORT

At the July 8, 2014 Finance and Management Committee, the Committee requested a report back on Rainy Day Fund models that also includes information on models that preserve public services by preventing service cuts. The purpose of this report is to provide a response to the Committee's requests.

BACKGROUND

The purpose of a Rainy Day Fund policy, also referred to as a Budget Stabilization Policy, is to reduce the impact of economic fluctuations on the provision of services by a governmental entity. Rainy Day policies differ from traditional reserve policies, which are designed to ensure healthy cash flow and to provide funding in the case of a natural disaster (earthquake, flood, etc.) or similar calamity. Typically, Rainy Day Fund policies address this by reserving revenues during periods of economic growth, and allowing those revenues to be used during periods of economic downturn or stagnation.

ANALYSIS

Detailed below are various examples of Rainy Day Fund policies that are currently being utilized by other California cities. The information provided does not represent a comprehensive analysis of existing Rainy Day Fund models, but rather a sampling of known methodologies

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currently being deployed. Each city identified in this report utilizes a different methodology for calculating contributions to their Rainy Day Fund. See Table 1 below for a summary of surveyed Cities and their Rainy Day Fund methodologies.

During the preparation of this report, the cities of Sacramento, San Diego, and Long Beach were reviewed and were found to have reserve funds, but not Rainy Day Fund policies. States and cities outside of California were also reviewed, but were not included in this report due to non-comparable revenue sources and varying State laws. The cities of Mission Viejo and Concord were identified to have Rainy Day Funds, but no contribution methodology could be identified and as a result, both cities were omitted from this report.

Table 1: Summary of Surveyed Cities

City	Reserve Fund	Rainy Day Fund	Rainy Day Fund Policy established by Charter or City Policy	Rainy Day Fund Allocation Methodology
Long Beach	X		N/A	N/A
San Diego	X		N/A	N/A
Sacramento	X		N/A	N/A
Mission Viejo	X	X	City Policy	Undefined
Concord	X	X	City Policy	Undefined
Los Angeles	X	X	City Policy	Revenue growth in excess of 3.4% in seven revenue categories
Pittsburg (CA)	X	X	City Policy	\$2.0 million dollars or 5% of the general fund operating expenses
San Francisco	X	X	Charter	Revenue growth in excess of 5% (Rainy Day Reserve). 75% of excess Real Property Transfer Tax and unassigned fund balance (Budget Stabilization Reserve)
San Jose	X	X	City Policy	Percentage of ending fund balance
Sunnyvale	X	X	City Policy	15% of projected revenues for the first two years of the 20-year planning period

When developing a Rainy Day Fund policy for the City of Oakland, the City should consider a policy that incorporates best practices, but also takes into account the City's financial policies and unique financial composition.

City of Los Angeles

Policy Name: Budget Stabilization Fund (Ordinance 182928)

Purpose: To provide a method to prevent overspending during prosperous years and to provide resources to help maintain service levels during lean years.

Description: The amount of each such deposit in the adopted budget for any given year shall be determined by calculating the anticipated growth in excess of 3.4 percent (3.4%) over the revenue in the prior fiscal year's adopted budget from the following seven general fund tax revenue sources:

1. Property Tax
2. Utility Users' Tax
3. Business Tax
4. Sales Tax
5. Transient Occupancy Tax
6. Documentary Transfer Tax
7. Parking Users' Tax

The amount of the new budget appropriation to the Budget Stabilization Fund ("BSF") shall be the difference between the anticipated combined revenue growth of the seven general fund tax revenue sources listed above and the combined value of these sources with an assumed 3.4 percent growth. When tax revenue source are anticipated to fall short of 3.4 percent, the Council may choose not to make a contribution. The BSF does not have a maximum balance amount level or a minimum balance threshold.

The amount of the transfer from the BSF in any year shall be limited to 25 percent of the available balance in the BSF unless a fiscal emergency for the City has been declared or if the BSF funding policy is suspended by the City Council and Mayor based on findings that it is in the best interest of the City to suspend the policy. In the event the combined Reserve Fund and BSF exceed 15 percent of the General Fund budget, the City may elect to use the surplus for one-time uses that include, but are not limited to, capital projects, infrastructure repairs, debt repayment, settlements, and equipment purchases.

City of Pittsburg (CA)

Policy Name: Budget Stabilization Fund (Ordinance 12-1363)

Purpose: Provide the City with a cushion to help absorb costs during economic downturns and/or budget shortfalls.

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Description: The minimum funding level within the BSF shall be no less than \$2.0 million or five percent (5%) of the City's General Fund operating expenses, whichever is greater. However, the City Council shall, on a best efforts basis, take such steps as necessary to achieve the minimum BSF level during the budget process each year through Fiscal Year 2017-18. Afterward, the minimum funding levels will become mandatory as defined by this ordinance.

The target maximum funding level for the BSF shall be no more than \$7.5 million dollars or twenty-five percent (25%) of the annual City's General Fund operating expenses, whichever is greater. Additional deposits into the BSF shall include:

1. One-time General Fund revenues and/or projected recurring revenues that exceed eight percent (8%) or more from the previous fiscal year shall be deposited into the BSF; and
2. Fiscal year-end General Fund surpluses shall also be deposited into the BSF.

Appropriations from the BSF require a majority vote of the City Council, and may be made in order to balance the General Fund budget.

City and County of San Francisco

Policy Name: Rainy Day Reserve, also known as Economic Stabilization Reserve (Charter Section 9.113.5)

Purpose: To support the City General Fund and San Francisco Unified School District operating budgets in years when revenues decline.

Description: If the Controller projects that total General Fund revenues for the upcoming budget year will exceed total General Fund revenues for the current year by more than five percent, the budget shall allocate the anticipated General Fund revenues in excess of that five percent growth (the excess revenues) as follows:

1. 50% of the excess revenues to the Reserve (Rainy Day Reserve);
2. 25% of the excess revenues to capital and other one-time expenditures (Rainy Day One-Time Reserve); and,
3. 25% of the excess revenues to any lawful governmental purpose.

Total monies in the Reserve may not exceed 10 percent of actual total general fund revenues. The budget shall allocate excess revenues that would otherwise be allocated to the Reserve above the 10 percent cap, instead to capital and other one-time expenditures. If the Controller projects that total General Fund revenues for the upcoming budget year will be less than the current year's total General Fund revenues, or the highest of any other previous year's total General Fund revenues, the budget may appropriate up to 50 percent of the current balance in the Reserve, but no more than the shortfall in total General Fund revenues, for any lawful governmental purpose in the upcoming budget year.

Policy Name: Budget Stabilization Reserve (Administrative Code Section 10.60(c))

Purpose: To augment the City's Rainy Day Reserve in order to mitigate the negative effects of significant economic downturns.

Description: The Budget Stabilization Reserve Fund is funded with 75% of (a) Real Property Transfer Tax proceeds in excess of the average annual actual receipts for the prior five fiscal years, adjusted for tax rate increases; and (b) unassigned General Fund balances beyond those appropriated as a source in the subsequent year's budget. Any uses of the Reserve will require a budget year deposit of an equal amount to maintain required funding levels.

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 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.

City of San Jose

Policy Name: Budget Stabilization Reserve, previously known as the Economic Uncertainty Reserve (City Council Policy 1-18, Operating Budget and Capital Improvement Program)

Purpose: Temporarily address fluctuations in revenue associated with economic conditions as well as other unforeseen and unbudgeted revenue and expenditure changes that cannot be rebalanced within existing budgeted resources in any given year in order to protect against reducing service levels.

Description: In the annual budget, and in subsequent reports, there will be a presentation on fund balances and their anticipated uses. The first increment of any General Fund "Ending Fund Balance" identified in the City Manager's Annual Report shall be split 50% for unmet/deferred infrastructure/maintenance needs and 50% to offset any projected deficit for the following fiscal year. If the projected deficit is less than the amount allocated for this purpose, the remaining 50% funds shall be allocated for the following uses:

1. Budget Stabilization Reserve;
2. Unmet/deferred infrastructure and maintenance needs; and
3. Other one-time urgent funding needs.

No specific policy for the withdrawal of funds from the Budget Stabilization Reserve is included in the City of San Jose's financial policies.

City of Sunnyvale


Policy Name: Budget Stabilization Fund (Council Policy, 7.1E Reserve Policies)

Purpose: To keep the city from adding unsustainable services during good times to ensure that the city would be able to take a measured and reasoned response to a fiscal crisis, instead of being forced to take immediate action before the scope of the problem was fully understood.

Description: The Budget Stabilization Fund will be a minimum of 15% of projected revenues for the first two years of the 20-year planning period, which is prepared as part of the budget each fiscal year. Beyond year-two, there will be no set maximum or minimum for the Budget Stabilization Fund.

No specific policy for the withdrawal of funds from the Budget Stabilization Fund is included in the City of Sunnyvale's financial policies.

Respectfully submitted,



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