

**COUNCIL POLICY  
CITY OF CHULA VISTA**

**SUBJECT: Citywide Reserve Policy – Fiscal Health Plan**

**POLICY  
NUMBER**

220-03

**EFFECTIVE  
DATE**

05/28/24

**PAGE**

1 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

**BACKGROUND:**

Public entities accumulate and maintain adequate reserves to help ensure both financial stability and the ability to provide core services during difficult times. Sufficient reserves create financial stability resulting in increased credit quality and allow the public entity to better weather downturns in the economy and the impacts of negative events, both major and minor. The establishment of prudent financial reserves is important to ensure the long-term fiscal health of the City.

The Government Finance Officers Association (GFOA), an international organization that promotes the professional financial management of governments for the public interest, recommends that governments formally adopt reserve policies that govern the amount of resources to be held in reserve and conditions under which reserves can be used. GFOA recognizes that each government's situation is unique, and the reserve policies should be developed based upon its own specific circumstances.

**PURPOSE:**

The purpose of this policy is to establish a citywide reserve policy for:

- Establishing reserves, reserve levels, and methodology for calculating reserves for the General Fund and other funds
- Use of reserves and the process of replenishment of any used reserves

**POLICY:**

**General Fund Reserve Policy**

The City's General Fund is the primary operating fund of the City and source of funding for core services such as police, fire, public works, and recreation. The General Fund is used to account for the general operations of the City. It is used to account for all financial resources, except those required to be accounted for in another fund.

The General Fund Reserve policy is established to ensure that the City's finances are managed in a manner which will (1) continue to provide for the delivery of quality services, (2) maintain and enhance service delivery as the community grows in accordance with the General Plan, (3) minimize or eliminate the need to raise taxes and fees because of temporary revenue shortfalls, and (4) establish the reserves necessary to meet known and unknown future obligations and ability to respond to unexpected opportunities.

Fiscal stability is an important factor in operating a City. Establishing certain financial reserves protects the City against unexpected interruptions in revenues, vulnerability to Federal or State actions, adverse economic conditions, unpredictable one-time costs, and exposure to natural disasters and emergencies.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	2 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

There are additional benefits to establishing a minimum General Fund reserve. Credit rating agencies carefully monitor levels of reserves in a government's General Fund to evaluate a government's continued creditworthiness. A higher credit rating results in savings to the taxpayer when the City issues debt or participates in short-term borrowing. Finally, reserve levels are a crucial consideration in long-term financial planning.

GFOA recommends maintaining a minimum reserves in the General Fund of no less than 5% to 15% of general fund operating revenues, or no less than one to two months of regular general fund operating expenditures. A government's particular situation may require reserve levels in the general fund significantly in excess of these recommended minimum levels. Cities with higher reserve levels are better positioned to protect public services during economic downturns. GFOA recommends that in establishing a policy governing the level of reserves in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of reserves may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- The availability of resources in other funds as well as the potential drain upon general fund resources from other funds (i.e., the availability of resources in other funds may reduce the amount of reserves needed in the general fund, just as deficits in other funds may require that a higher level of reserves be maintained in the general fund).
- Liquidity (i.e., a disparity between when financial resources become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e., governments may wish to maintain higher levels of reserves to compensate for any portion of fund balance already designated for a specific purpose).

This policy establishes three (3) distinct General Fund Reserves:

1. General Fund Operating Reserve – minimum 15%
2. Economic Contingency Reserve – minimum 5%
3. Catastrophic Event Reserve – minimum 3%

The total recommended minimum reserve level for the three categories combined is 23%.

**General Fund Operating Reserve**

The General Fund Operating Reserve represents unrestricted resources available for appropriations by the City Council to address extraordinary needs of an emergency nature.

The City shall maintain General Fund Operating Reserve levels of no less than 15% of the annual operating expenditure budget. This level of reserves represents approximately 1.8 months of General Fund operating expenditures. The reserves may be used to provide temporary financing for unanticipated extraordinary needs of an emergency nature, such as major storm drain repairs, litigation or settlement costs or an unexpected liability created by Federal or State legislative action.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	3 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

If funds are appropriated (spent) from the operating reserves due to unanticipated needs, the funds should be replenished in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the General Fund Operating Reserve to be deeply reduced, the City Manager and Finance Director shall provide the City Council with a plan to incrementally replenish the reserves to the minimum 15% level.

Authorized use (mid-year appropriations) of the General Fund Operating Reserve will require approval by four/fifths (4/5) vote of the City Council.

**Economic Contingency Reserve**

The Economic Contingency Reserve represents funds available for appropriation by the City Council to mitigate service impacts during a significant downturn in the economy which impacts City revenues such as sales tax, property tax, and transient occupancy tax.

The City shall maintain General Fund Economic Contingency Reserve levels of no less than 5% of the annual operating expenditure budget to provide for unexpected financial impacts related to a significant economic slowdown.

Funds may be appropriated from the Economic Contingency Reserves only after the City Manager and the Finance Director have prepared an analysis providing sufficient evidence that the remaining reserves are adequate to offset potential downturns in revenue sources and provide sufficient cash balance for the daily financial needs of the City for the remainder of the fiscal year. Once the analysis has been presented to the City Council, action to appropriate from the reserves will require a declaration that a fiscal emergency or extraordinary need exists and approval by four/fifths (4/5) vote of the City Council.

If the Economic Contingency Reserves should ever drop below the minimum reserve level, the City Manager and Finance Director will develop a plan to replenish the reserves. The plan will be included in the adoption of the City's annual operating budget and Long-Term Financial Plan.

**Catastrophic Event Reserve**

The Catastrophic Event Reserve represents funds available for appropriation by the City Council to fund unanticipated expenses related to a major natural disaster in the City.

The City shall maintain a General Fund Catastrophic Event Reserve level of no less than 3% of the annual operating expenditure budget to fund unanticipated expenses related to an "emergency" as defined in the City of Chula Vista Municipal Code, Chapter 2.14, Section 2.14.020. These funds are associated with the City's Emergency Organization Department and Disaster Council. In the event that the City Council proclaims a local emergency, the Catastrophic Event Reserve can be utilized to fund response and recovery costs until reimbursements from federal and/or state agencies can be recovered.

Authorized use of the Catastrophic Event Reserve will require a Proclamation of a Local Emergency by the City

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	4 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

Council or Director of Emergency Services. In addition, authorized use (mid-year appropriations) of the Catastrophic Event Reserves will require approval by four/fifths (4/5) vote of the City Council.

If the Catastrophic Event Reserve should ever drop below the minimum reserve level, the City Manager and Finance Director will develop a plan to replenish the reserves. The plan will be included in the adoption of the City's annual operating budget and Long-Term Financial Plan.

**Calculation of General Fund Reserves**

The General Fund Reserve levels will be calculated using the prior year's Adopted General Fund budgeted operating expenditures including transfers out related to debt service payments and reoccurring operating obligations. The General Fund Reserve levels will be calculated at the close of each fiscal year. The Finance Department shall provide a comprehensive reserve fund status report annually to the City Council along with the Annual Comprehensive Financial Report. Reserve levels will be evaluated annually in conjunction with the development of the City's Long-Term Financial Plan and annual operating budget to ensure minimum reserve levels are maintained. There is no maximum reserve level as any additional reserves would provide a greater level of fiscal security.

**Pension, Bond Call, and OPEB Reserve Fund Policy**

The City provides its permanent employees with a defined benefit pension through the California Public Employees' Retirement System (CalPERS). The City, like most CalPERS participating agencies, continues to see significant increases in pension costs due to current and retired employees living longer, lower than anticipated investment returns by CalPERS, and CalPERS policies. In response to continued increases in pension cost, the City issued \$350 million of Pension Obligation Bonds (POB) in February 2021 to refinance & restructure its CalPERS Unfunded Actuarial Liability (UAL). At the time of issuance, the POB resulted in the conversion of a 7.0% UAL interest debt with CalPERS to 2.54% interest debt on the POB.

The City utilized the restructuring to achieve several objectives including:

- Developing a more manageable repayment schedule for this large pension liability will enhance budget predictability and enhance City's ability to maintain service levels.
- Prioritizing projected savings towards reserves to mitigate future impacts from pension increases.

At the time of issuance, the City's POBs were projected to result in over \$175 million of interest rate savings. Despite these significant savings and best efforts to manage pension costs, the City continues to see increases in pension costs, specifically in the UAL, resulting in higher contributions to CalPERS and burden on the General Fund, the City's primary operating fund. As of June 30, 2022, the total Miscellaneous plan UAL was \$44 million and the total Safety plan UAL was \$41 million.

The City also provides certain Other Post-Employment Benefits (OPEB) in the form of subsidized health care rates for tier 1 retirees. The City budgets the implied subsidy amounts on an annual basis. As of June 30, 2023, the total OPEB liability for the City is \$27.7 million.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	5 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

The Pension Reserve Fund, Bond Call Fund, and OPEB Reserve Fund are established to ensure the City has adequate reserves to fund future pension and OPEB liabilities.

This policy establishes three (3) distinct reserves:

1. Pension Reserve Fund – minimum 15%
2. Bond Call Fund
3. OPEB Reserve Fund

**Pension Reserve Fund**

The Pension Reserve Funds represent restricted fund balance and are established in the form of an irrevocable Section 115 Trust (Trust). Pension Reserve Fund funds are deposited in a Trust, and in accordance with IRS regulations, may only be withdrawn and used for the following purposes: (1) City’s annual UAL payment to CalPERS, (2) City’s annual normal cost payment to CalPERS, (3) reimbursement to the City for prior-year and current-year payments to CalPERS, and (4) Additional Discretionary Payments to CalPERS.

The City shall maintain a Pension Reserve Fund level of no less than 15% of the prior year’s Adopted General Fund budgeted operating expenditures to fund allowable pension costs.

Authorized use (mid-year appropriations) of the Pension Reserve Fund will require approval by four/fifths (4/5) vote of the City Council. If the Pension Reserve Fund should ever drop below the minimum reserve level due to a withdrawal from the Trust, the City Manager and Finance Director will develop a plan to replenish the reserves. The plan will be included in the adoption of the City’s Long-Term Financial Plan and annual operating budget. If the Pension Reserve Fund should ever drop below the minimum reserve level due to short-term investment losses in the Trust, the City Manager and Finance Director will not be required to replenish the reserve.

**Bond Call Fund and OPEB Reserve Fund**

The Bond Call Fund represents funds available for appropriation by the City Council to be used to pay any outstanding debt prior to maturity that results in net annual savings. These funds will allow the City to accumulate funds to eliminate debt early. For example, beginning in June 2031, the POBs are eligible to be called, saving on interest costs and reducing future POB debt service payments. Authorized use (mid-year appropriations) of Bond Call Fund will require approval by four/fifths (4/5) vote of the City Council.

OPEB Reserve Funds represent funds available for appropriation by the City Council to provide funding for the City’s outstanding OPEB liability. OPEB Reserve Fund will be funded up to 75% of the outstanding OPEB liability in the most recent annual actuarial valuation, to ensure there are adequate reserves to fund this liability in future years. Authorized use (mid-year appropriations) of OPEB Reserve Funds will require approval by four/fifths (4/5) vote of the City Council.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

SUBJECT: Citywide Reserve Policy – Fiscal Health Plan	POLICY NUMBER	EFFECTIVE DATE	PAGE
	220-03	05/28/24	6 of 14
ADOPTED BY: Resolution No. 18358	DATED: 07/09/96		
AMENDED BY: Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)			

***Funding the General Fund, Pension, Bond Call Fund, and OPEB Reserve Fund***

With the issuance of POBs, the City shall budget a minimum of 75% of the net annual savings (POB Net Savings) (determined at bond issuance for years 1-10<sup>1</sup>) for bond fiscal years 3 through 10 as follows:

1. City's annual UAL payment to CalPERS
2. Maintain the Pension Reserve Fund reserve level of 15%
3. Additional Discretionary Payment (ADP) to reach a pension funding level of up to 95% for each plan
4. 75% of all remaining POB Net Savings will be deposited to the Bond Call Fund
5. 25% of all remaining POB Net Savings will be deposited to the OPEB Reserve Fund. Once 75% funding of outstanding OPEB liability is achieved, all remaining POB Net Savings will be deposited into the Bond Call Fund.

<sup>1</sup>In years 1 and 2 all POB Net Savings were placed in the Pension Reserve Fund.

*Additional Discretionary Payment (ADP)* represents additional payments to CalPERS which would serve to reduce the City's UAL resulting in ongoing savings in pension costs and reduction in future required contributions. CalPERS allows participating agencies to make ADP at any time and in any amount.

Surplus Funds available after closing the General Fund shall be allocated as follows:

1. Carried forward to maintain up to the following fiscal year's minimum reserve level for all three General Fund Reserves and Pension Reserve Fund (Section 115 Trust), in the funding order of General Fund Operating Reserve, Economic Contingency Reserve, Catastrophic Event Reserve, and Pension Reserve Fund
2. 75% of all remaining Surplus Funds will be deposited to the Bond Call Fund
3. 25% of all remaining Surplus Funds will be deposited to the OPEB Reserve Fund. Once 75% funding of outstanding OPEB liability is achieved, all remaining Surplus Funds will be deposited into the Bond Call Fund.
4. Should the OPEB Reserve Fund and Bond Call Fund be fully funded then any Surplus Funds will be added to the General Fund Operating Reserve.

*Surplus Funds* will be calculated at the close of each fiscal year and represent excess fund balance that is not otherwise designated and is available for appropriation. Special consideration shall be made by the City Manager and Finance Director each fiscal year when determining Surplus Funds to ensure any General Fund supported funds such as Workers Compensation and Public Liability Funds maintain adequate fund balances.

**Calculation of Pension, Bond Call, and OPEB Reserve Fund Reserves**

The Pension, Bond Call, and OPEB Reserve levels will be calculated using the prior year's Adopted General Fund budgeted operating expenditures including transfers out related to debt service payments and reoccurring operating obligations. The Pension, Bond Call, and OPEB Reserve levels will be calculated at the close of each fiscal year. The Finance Department shall provide a comprehensive reserve fund status report, including five-year reserve fund balance projections, annually to the City Council along with the Annual Comprehensive

**COUNCIL POLICY  
CITY OF CHULA VISTA**

**SUBJECT:** Citywide Reserve Policy – Fiscal Health Plan

**POLICY  
NUMBER**

220-03

**EFFECTIVE  
DATE**

05/28/24

**PAGE**

7 of 14

**ADOPTED BY:** Resolution No. 18358

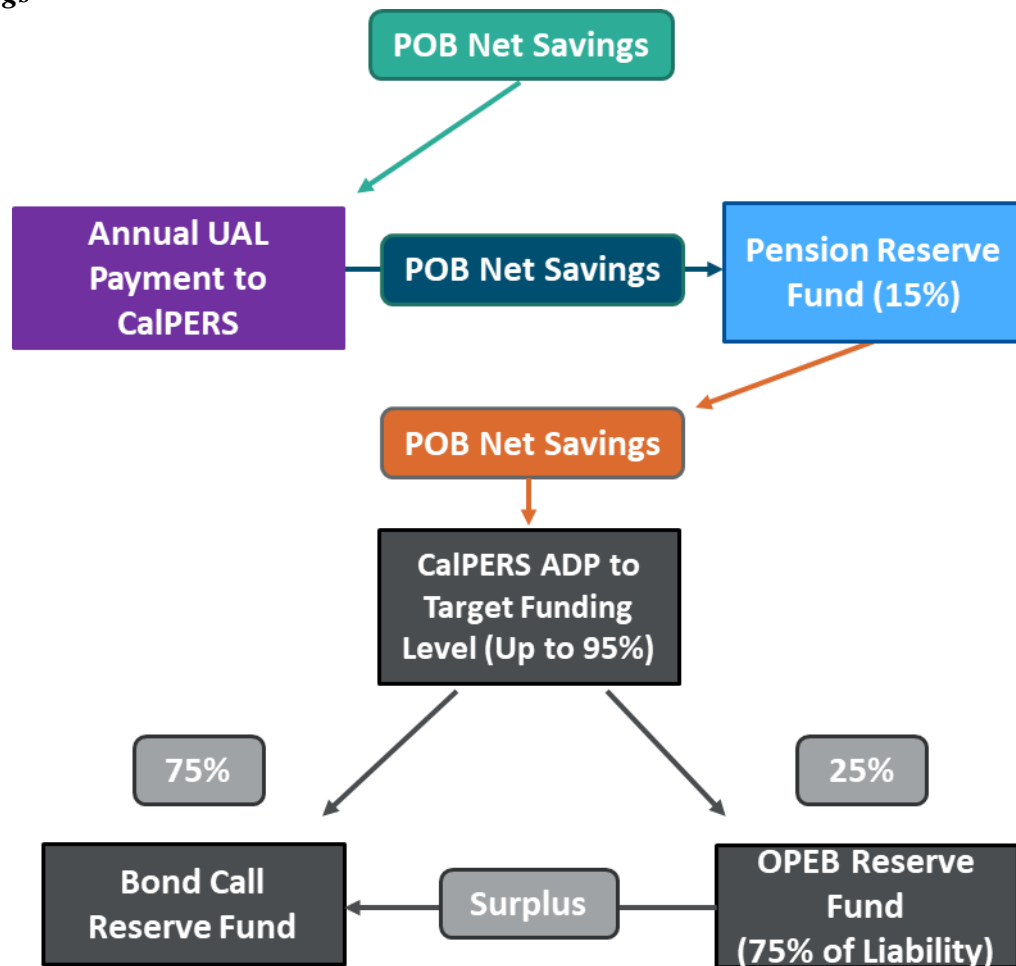
**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

Financial Report. Reserve levels will be evaluated annually in conjunction with the development of the City's Long-Term Financial Plan and annual operating budget to ensure minimum reserve levels are maintained. There is no maximum reserve level as any additional reserves would provide a greater level of fiscal security.

Below is a graphical representation of the funding of the General Fund, Pension, Bond Call Fund, and OPEB Reserve Fund for the POB Net Savings and Surplus Funds:

***POB Net Savings***



**COUNCIL POLICY  
CITY OF CHULA VISTA**

**SUBJECT:** Citywide Reserve Policy – Fiscal Health Plan

**POLICY  
NUMBER**

220-03

**EFFECTIVE  
DATE**

05/28/24

**PAGE**

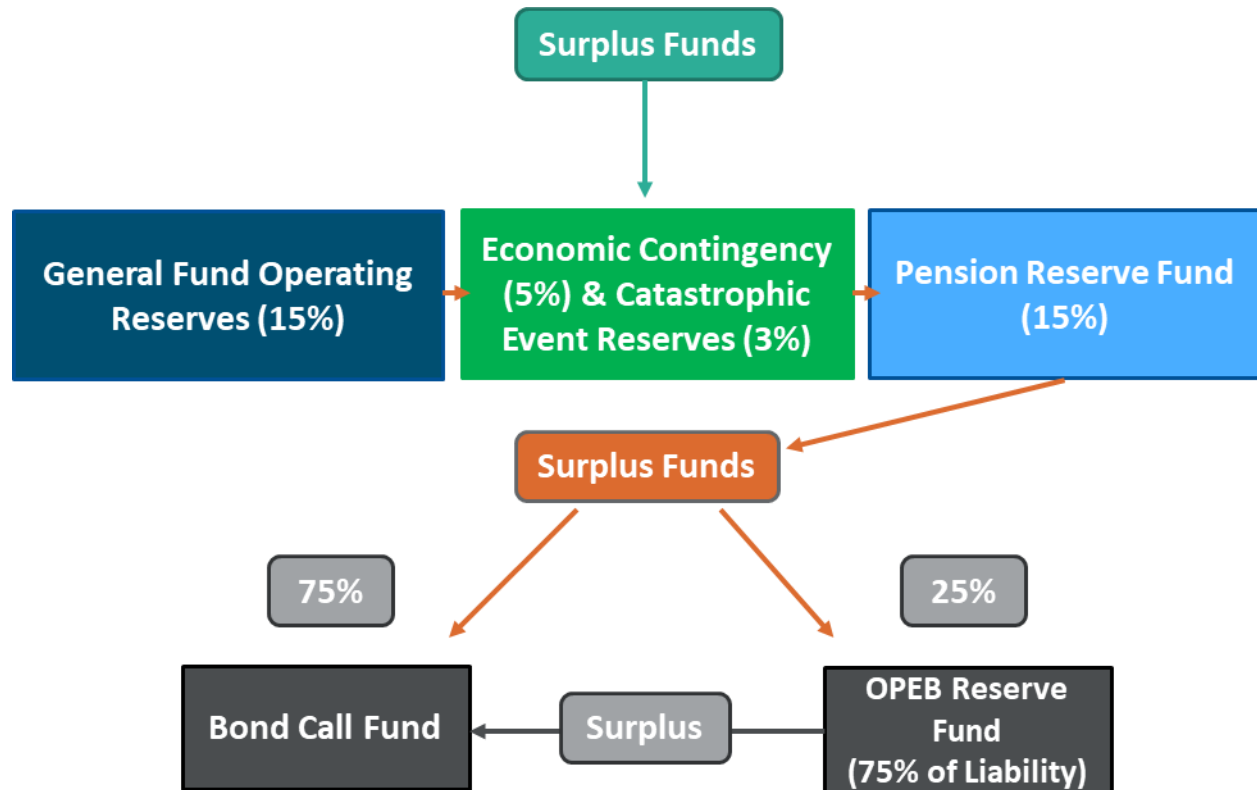
8 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

***Surplus Funds***



**Sewer Service Revenue Fund Reserve Policy**

The City's Sewer Enterprise Funds account for specific services funded directly by fees and charges users of the City's sewer system. These funds are intended to be self-supporting as well as restricted and cannot be used for other City services. They account for revenues and expenses related to the City's sewer programs, including maintenance and expansion of the City's conveyance system and payment of San Diego Metro wastewater treatment costs.

The Sewer Service Revenue Fund accounts for revenue collected from monthly sewer service charges for all properties that are connected to the City's sewer system. These funds can only be used for sewer related operations and maintenance. The primary use of these funds is payment for the City's annual San Diego Metropolitan Sewer Capacity and to fund maintenance and operational costs associated with the sewer collection system.

The GFOA recommends enterprise funds maintain minimum reserve balances. A government's particular situation may require levels of reserves significantly in excess of their recommended minimum levels. Cities with higher reserve levels are better positioned to protect public services during economic downturns.



**COUNCIL POLICY  
CITY OF CHULA VISTA**

**SUBJECT: Citywide Reserve Policy – Fiscal Health Plan**

**POLICY  
NUMBER**

220-03

**EFFECTIVE  
DATE**

05/28/24

**PAGE**

9 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

GFOA recommends that in establishing a policy governing the level of reserves or working capital in enterprise funds, a government should consider a variety of factors, including but not limited to the following:

- The predictability of its revenues and the volatility of its expenditures (i.e. higher levels of reserves may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).
- Liquidity (i.e. a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained).
- Designations (i.e. governments may wish to maintain higher levels of reserves to compensate for any portion of available fund balance already designated for a specific purpose).

This policy establishes four (4) distinct Sewer Service Revenue Fund Reserves:

1. Working Capital and Rate Stabilization Reserve
2. Emergency Reserve
3. Vehicle Replacement Reserve

**Working Capital and Rate Stabilization Reserve**

Working Capital and Rate Stabilization reserves in the Sewer Service Revenue Fund will be restricted to maintaining and operating the wastewater collection system and paying treatment charges to City of San Diego Metropolitan Wastewater (“Metro”). The reserve will be funded from revenues accumulated in the Sewer Service Revenue Fund. It is intended to accommodate any natural variability in revenues and expenditures, including potential disruptions of cash flows due to varied billing methodology, short-term fluctuations and annual cycles. The reserve will also assist in addressing shortfalls which may occur due to unanticipated cost increases in labor or energy and other consumption based goods and services, such as wastewater treatment services provided by Metro. The reserves represent unrestricted resources available for appropriation by the City Council addressing unforeseen needs for sewer services.

The Working Capital and Rate Stabilization Reserves will assist the City in addressing the following items:

- Rate Stabilization – the reserves will allow the City the flexibility to “smooth” rates and phase increases in over multiple years, which is prudent given the potential variability in the City’s payments to Metro.
- Revenue Collection Fluctuations - the reserves will be used to protect the City from natural fluctuations in revenue and expenditure cycles which is prudent given that the City bills customers at different points in time but incurs expenses continuously throughout the year.
- Rates of delinquencies – delays in collection of outstanding revenues.
- Payroll cycles – the timing of a fixed cash requirement for payroll, as related to the timing of revenue cycles.
- Unanticipated expenses - expenses whose characteristics make accurate estimation difficult, such as increases in wastewater treatment services provided by the City of San Diego, energy costs, labor benefits and other consumption based goods and services.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	10 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

The City shall maintain a Sewer Revenue reserve equivalent to 90 days of operating expenditures and a Rate Stabilization reserve equivalent to 90 days of operating expenditures for a minimum combined total of 180 days and a maximum reserve balance of 125% of the minimum balance.

If funds are appropriated from the Sewer Revenue Working Capital and Rate Stabilization Reserves, the funds should be replenished in the budget process during subsequent fiscal years to the minimum reserve balance. If the magnitude of the event caused the Sewer Revenue Working Capital and a Stabilization Reserves to be less than 30 days of the operating and maintenance budget, the Finance Director shall provide the City Council with a plan to incrementally replenish the reserves to the 180 days minimum reserve balance.

**Emergency Reserve**

The Sewer Service Revenue Fund Emergency Reserve is necessary to secure funding for insurance deductibles, unforeseen liabilities/litigation and settlement costs related to the City's wastewater system.

The City shall maintain a minimum Sewer Service Revenue Fund Emergency Reserve target level of 5% of the operating and maintenance budget and a maximum reserve balance of 125% of the minimum balance. If funds are appropriated from the Sewer Revenue Emergency Reserves due to unanticipated needs, the Finance Director shall provide the City Council with a plan to incrementally replenish the reserves to the minimum reserve balance.

**Vehicle Replacement Reserve**

The Sewer Service Revenue Fund Vehicle Replacement Reserves represents monies set aside to fund the replacement of aging vehicles. The allocation is funded from revenues accumulated in the Sewer Service Revenue Fund.

The City shall maintain a minimum Sewer Service Fund Vehicle Replacement Reserve target of 2% of the operating and maintenance budget. This reserve will ensure that vehicles utilized for sewer operations are replaced as scheduled and available to deploy as needed.

To achieve a minimum impact to cost of services and rates, funds will be included in the proposed budget on an annual basis as identified in the City's Vehicle Replacement schedule. The cost of replacing all the vehicles will be averaged over the lifespan of the existing fleet. This will generate a more normalized cost of services by evenly distributing revenue requirements on a year-to-year basis offsetting temporary cash flow deficiencies and avoid significant increases in rates charges to customers in the years the replacement cost are incurred

**Measure A Fund Reserve Policy**

On June 15, 2018, Chula Vista voters approved Measure A Sales and Use Tax, a one-half (½) cent Public Safety General Transactions and Use Tax (Sales Tax) in the City of Chula Vista. The Measure A Fund Reserve Policy is established to avoid any impacts to the General Fund due to temporary sales tax revenue shortfalls, and to establish the reserves necessary to meet known and unknown future obligations for the City's Police and Fire Departments.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	11 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

This policy establishes a Measure A Fund Economic Contingency Reserve.

**Measure A Fund Economic Contingency Reserve**

The City shall maintain a Measure A Fund Economic Contingency Reserve levels of no less than 60 days (approximately 16% of the annual operating budget) of operations to provide for unexpected financial impacts related to a significant economic slowdown. If funds are appropriated (spent) from the operating reserves due to unanticipated needs, the funds should be replenished by that department in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the Measure A Fund Economic Contingency Reserve to be deeply reduced, the City Manager and Finance Director shall provide the City Council with a plan to incrementally replenish the reserves to the minimum level.

Authorized use (mid-year appropriations) of the Measure A Economic Contingency Reserve will require approval by a (4/5) vote of the City Council.

**Calculation of Measure A Fund Economic Contingency Reserves**

The Measure A Fund Economic Contingency Reserve levels will be calculated using the prior year's Adopted Measure A Fund budgeted operating expenditures. The reserve level is defined as the number of days of operation in its normal course of business and shall be calculated based on the annual operating budget for the fiscal year, less any budgeted debt service. Reserves will be evaluated annually in conjunction with the development of the Annual Budget process. There is no maximum reserve level as any reserves above the required minimum would provide a greater level of fiscal security in the case of an unexpected economic slowdown. Any reserves above the required minimum could also be used to support public safety, consistent with the Measure A Public Safety Expenditure Plan through the application of Measure A sales tax revenues that will ensure the best return on investment in terms of staffing improvements for the improved deployment of resources and include the used of these non-recurring funds for one-time essential public safety purchases (i.e., capital, consulting, software, etc.)

**Ambulance Transport System Enterprise Fund Reserve Policy**

On May 12, 2020, City Council approved Chula Vista Council Resolution No. 2020-102 directing the Fire Department to provide exclusive Emergency Medical Ambulance Transport Services (ATS) within the City of Chula Vista, the City of Imperial Beach, and the Bonita Sunnyside Fire Protection district. In the resolution were revenue projections that included both a base rate and ancillary fees multiplied by the volume of transports to reach projected FY2022 revenues. The resolution adopted a rate of \$2,800 as the "Base Cost of Service". In addition, Resolution No. 2020-103 authorized a purchase agreement with Republic EVS for purchase of 13 ambulances; Resolution No. 2020-104 authorized a purchase agreement with Stryker Medical for gurney systems; Resolution No. 2020-105 authorized a sole source purchase agreement with Zoll Medical Corporation for cardiac monitors and auto pulse systems; and Resolution No. 2020-106 authorized a sole source purchase agreement with Motorola Solutions. These resolutions resulted in loan agreements in the amount of \$4,493,100 with Banc of America Public Capital Corp, and an interfund loan in the amount of \$4,881,710 from the Measure A available fund balance. These loans are being utilized to provide funding for all capital purchases and start-up costs associated with the Ambulance Transport Program. The interfund loan from Measure A was agreed to be repaid

**COUNCIL POLICY  
CITY OF CHULA VISTA**

<b>SUBJECT: Citywide Reserve Policy – Fiscal Health Plan</b>	<b>POLICY NUMBER</b>	<b>EFFECTIVE DATE</b>	<b>PAGE</b>
	220-03	05/28/24	12 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

within the first five (5) full years of operation of the ATS program at an interest rate equal to the City's pooled investment rate of return, which was approximately 2.2% at the time the interfund loan was approved by City Council. The loan from Banc of America Public Capital Corp is repaid in semiannual payments with an annual interest rate of 1.00%.

This policy establishes a formal ATS Enterprise Fund Reserve Policy. The fund reserve policy is to provide guidance to City Council and staff in making financial decisions and aid in ensuring fiscal responsibility of the ATS Enterprise Fund. This policy establishes reserves that will position the Transport program to be able to weather significant economic downturns and more effectively manage uncertainties. Sufficient reserves create the financial stability necessary to meet debt obligations of the ATS Enterprise Fund, reduce the risk of impacting the General Fund, and support continuous provision of emergency services to our residents.

This policy establishes four (4) distinct ATS Enterprise Fund Reserves:

1. Debt Obligation Reserve – Minimum 1-year current debt obligation
2. Operating Reserve – Minimum 180 days operating expenses
3. Capital Replacement Reserve - Minimum \$4 million in capital replacement reserve
4. Liability Insurance Reserve - Minimum \$1 million liability insurance reserve

**Debt Obligation Reserve**

The ATS Enterprise Fund will maintain a fund balance reserve equal to one fiscal year's debt obligation. This reserve is to ensure debt obligations are met to keep the City in good credit standing. In fiscal years with no current debt obligations, the debt obligation reserve will be used to bring other reserve balances to their stated policy levels. If all reserves have achieved minimum levels and no debt obligations exist, this reserve will be no longer be required and any funds will be release for other use at the discretion of the Fire Department.

If funds are appropriated (spent) from the Debt Obligation Reserve due to unanticipated needs, the funds should be replenished in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the Debt Obligation Reserve to be deeply reduced, the City Manager, Fire Chief and Finance Director shall provide the City Council with a plan to incrementally replenish the reserve to the minimum one-year debt obligation level. The provided plan will align with the budget process or quarterly monitoring report, whichever occurs first.

**Operating Reserve**

An Operating Reserve represents unrestricted resources available for appropriations by City Council to address extraordinary needs of an emergency nature. The ATS Enterprise Fund will maintain an Operating Reserve of no less than 180 days of operating expenses. This will be calculated using the following fiscal year's adopted expense budget (excluding debt service and transfers-out), with the maximum reserve amount of twelve months of operating expenses. The Fire Department reserves the right to maintain reserve balances at their discretion within the minimum and maximum thresholds of 180 days and up to twelve months of operating expenses.

**COUNCIL POLICY  
CITY OF CHULA VISTA**

**SUBJECT: Citywide Reserve Policy – Fiscal Health Plan**

**POLICY  
NUMBER**

220-03

**EFFECTIVE  
DATE**

05/28/24

**PAGE**

13 of 14

**ADOPTED BY:** Resolution No. 18358

**DATED:** 07/09/96

**AMENDED BY:** Resolution Nos. 2009-264 (11/05/2009); 2020-254 (11/03/2020); 2024-XXX (05/28/24)

If funds are appropriated (spent) from the Operating Reserve due to unanticipated needs, the funds should be replenished in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the Operating Reserve to be deeply reduced, the City Manager, Fire Chief and Finance Director shall provide the City Council with a plan to replenish the reserves to the minimum operating balance.

**Capital Reserve**

The ATS Enterprise Fund will maintain four million dollars in reserves specified for various capital equipment replacement, as needed. This reserve is to ensure funds are available for various capital purchase needs as they arise. This reserve is also being created to provide relief from the need to obtain debt-based funding for capital or equipment needs. The Fire Department will reassess the need for capital reserve needs every three (3) years and incorporate necessary adjustments into the budget process to ensure reserve goals are met in a manner that are balanced with other budgetary priorities.

If funds are appropriated from the Capital Reserve due to anticipated or unanticipated needs, the funds should be replenished in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the Capital Reserve to be deeply reduced, the City Manager, Fire Chief and Finance Director shall provide the City Council with a plan to replenishment the reserves to the minimum balance. The provided plan will align with the budget process or quarterly monitoring report, whichever occurs first.

**Liability Insurance Reserves**

The ATS Enterprise Fund will maintain one million dollars in reserves specified for meeting liability insurance needs as they arise. This reserve is to ensure claims can be addressed and fulfilled as they arise. The Fire Department will reassess the need for liability insurance reserve needs every three (3) years and incorporate necessary adjustments into the budget process to ensure reserve goals are met in a manner that are balanced with other budgetary priorities.

If funds are appropriated from the Liability Insurance Reserve due to anticipated or unanticipated needs, the funds should be replenished in the budget process during the subsequent fiscal year to maintain the minimum reserve balance. If the magnitude of the event caused the Liability Insurance Reserve Reserves to be deeply reduced, the City Manager, Fire Chief and Finance Director shall provide the City Council with a plan to replenish the reserves to the minimum balance. The provided plan will align with the budget process or quarterly monitoring report, whichever occurs first.

**Establishment of Reserves**

The ATS Enterprise Fund program is currently in its third year of operation. To establish the reserves outlined above, until reserves are fully funded, all revenues in excess of expenses (surplus) at year end will be used to fund reserves. In determining the surplus, expenses will include any discretionary Measure A loan payment.

These reserves will be established as an equal 25% allocation to each reserve category of excess revenue at year end, after any discretionary Measure A loan payment.

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The funding waterfall will be evaluated periodically and may be revised by the Finance Director in consultation with the Fire Chief.