



THE CITY OF SAN DIEGO

## Report to the City Council

DATE ISSUED: September 26, 2016 REPORT NO: 16-080

ATTENTION: Budget and Government Efficiency Committee  
Agenda of October 5, 2016

SUBJECT: Fiscal Year 2016 Year-End Financial Performance Report

REFERENCE: Fiscal Year 2016 Year-End Budget Monitoring Report, # 16-051

**REQUESTED ACTION:**

Accept the report on the Fiscal Year 2016 Year-End General Fund performance.

**STAFF RECOMMENDATION:**

Accept the report.

**EXECUTIVE SUMMARY OF ITEM BACKGROUND:**

The FY 2016 Year-End Performance Report estimates the General Fund un-audited actuals to vary from projections included in the Fiscal Year 2016 Year-End Budget Monitoring Report (FY 2016 Year-End Report) by 1.0% for revenues and 1.2% for expenditures.

The General Fund revenue is expected to end the fiscal year at \$1,299.0 million, which represents a \$13.4 million increase from the year-end projection. The \$13.4 million revenue increase is primarily attributed to receiving an unanticipated \$9.4 million one-time reimbursement from the settlement of the Kinder Morgan litigation and a \$3.1 million increase in the Real Estate Assets Department for rent and concession revenue.

Council appropriated a \$22.8 million increase in the use of fund balance (excess equity) as recommended in the FY 2016 Year-End Report for the following reserve contributions and other priority projects:

- \$16.0 million for the Pension Payment Stabilization reserve contribution
- \$5.5 million total to meet the Public Liability and Workers' Compensation reserve targets
- \$0.7 million for the replacement of synthetic turf at Pershing Middle School
- \$0.5 million for the Bay Terrace (Tooma Park) Community Park
- \$0.1 million for asbestos abatement treatment and roof replacement located at Fire Station #6

This \$22.8 million is in addition to the budgeted use of excess equity of \$6.2 million as approved in the FY 2016 Adopted budget. Including both the increase in revenue and excess equity, total General Fund resources have increased \$36.2 million from the FY 2016 Year-End Report resulting in \$1,328.0 million in total resources.

The General Fund expenditures are expected to end the fiscal year at \$1,303.8 million, which represents a net increase of \$15.8 million from the year-end projection. This includes an

expenditure increase of \$22.8 million for reserve contributions and other priority projects listed above approved by Council as recommended in the FY 2016 Year-End Report. This increase is offset with decreased expenditures of \$7.0 million as compared to the General Fund department projections included in the FY 2016 Year-End Report. The decreased expenditures are primarily in the Transportation and Storm Water Department and information technology expenditures citywide.

In summary, total General Fund resources are greater than total General Fund expenditures by \$24.1 million. This represents a \$20.5 million positive variance from the FY 2016 Year-End Report. The un-audited actuals included in this report are the most current data available at the time of publication and is subject to change as a result of the completion of the City of San Diego's Comprehensive Annual Financial Report (CAFR). A detailed summary of the variances by General Fund revenue and expenditure categories are included in this report.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal # 1: Provide high quality public service

Objective # 2: Improve external and internal coordination and communication

Goal # 3: Create and sustain a resilient and economically prosperous City

FISCAL CONSIDERATIONS:

None, this is an information report only.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

N/A

PREVIOUS COUNCIL and/or COMMITTEE ACTION:

N/A

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS:

N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

N/A

*signature on file* \_\_\_\_\_

Originating Department

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Deputy Chief/Chief Operating Officer

Attachment(s):

1. Fiscal Year 2016 Year-End Financial Performance Report, #16-080
2. Fiscal Year 2016 Year-End Budget Monitoring Report, # 16-051
3. Fiscal Year 2016 Year-End Charter 39 Supporting Schedules

# Fiscal Year 2016 Year-End Financial Performance Report September 2016



## Financial Management

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\_\_\_\_\_  
Scott Chadwick  
Chief Operating Officer

*signature on file*

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Mary Lewis  
Chief Financial Officer

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Tracy McCraner  
Financial Management Director

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Vanessa Montenegro  
Budget Coordinator

## INTRODUCTION

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Financial Management and the Office of the City Comptroller has created a Fiscal Year 2016 Year-End Financial Performance Report (FY 2016 Performance Report) to accompany the June, 2016 Charter 39 Report. The FY 2016 Performance Report is intended to provide City Council and the public a detailed comparison of actual (un-audited) revenue and expenditure activity compared to the Fiscal Year 2016 year-end projections. The FY 2016 Performance Report combined with the June 2016 Charter 39 Report presents a comprehensive analysis of the General Fund activity for the fiscal year ending June 30, 2016.

The FY 2016 Performance Report compares General Fund Fiscal Year 2016 year-end projections, for both revenues and expenditures, included in the Fiscal Year 2016 Year-End Budget Monitoring Report (FY 2016 Year-End Report), report #16-051 dated May 19, 2016 to the Fiscal Year 2016 un-audited actuals as of September 26, 2016. It also includes financial schedules prepared by the Comptroller's Office comparing Fiscal Year 2016 un-audited actual revenue and expenditures against the Fiscal Year 2016 budget for the General Fund and other budgeted funds in accordance with Charter Section 39 (See Fiscal Year 2016 Year-End Charter 39 Supporting Schedules, Attachment II).

The FY 2016 Performance Report focuses on significant variances between year-end projections and un-audited actual revenues and expenditures for General Fund departments and includes the following:

- Discussion of significant variances by revenue and expenditure category
- Variance analysis of the major General Fund revenues and significant variances in departmental revenue
- Update of the General Fund's Reserves and excess equity
- Update of the Risk Management Reserves

Financial Management produced this report in collaboration with the Office of the City Comptroller and other General Fund departments. The data included in this report is the most current information available at the time of publication and is subject to change as a result of the completion of the City of San Diego's Comprehensive Annual Financial Report (CAFR).

# GENERAL FUND

## OVERVIEW

The FY 2016 Year-End Performance Report estimates the General Fund un-audited actuals to vary from projections included in the Fiscal Year 2016 Year-End Budget Monitoring Report (FY 2016 Year-End Report) by 1.0% for revenues and 1.2% for expenditures.

Summary of FY 2016 Year-End Performance - General Fund				
<i>Table 1</i>	<i>in millions</i>			
Revenue/Expenditures	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Variance	Variance %
FY 2016 Activity				
Revenue	\$ 1,285.5	\$ 1,299.0	\$ 13.4	1.0%
Appropriated Use of Fund Balance (Excess Equity) <sup>1</sup>	6.2	29.0	22.8	N/A
<b>Total Resources</b>	<b>1,291.7</b>	<b>1,328.0</b>	<b>36.2</b>	N/A
Expenditures	1,288.0	1,303.8 <sup>2</sup>	15.8	1.2%
<b>Net of Year-End Performance</b>	<b>\$ 3.7</b>	<b>\$ 24.2</b>	<b>\$ 20.4</b>	

<sup>1</sup>The Use of Excess Equity includes the \$6.2 million included in the FY 2016 Adopted Budget and the appropriation increase of \$22.8 million as approved in the FY 2016 Year-End Budget Monitoring Report, #16-051.

<sup>2</sup>The FY 2016 un-audited expenditure actuals includes \$22.8 million in appropriations approved in the FY 2016 Year-End Budget Monitoring Report, #16-051.

The General Fund revenue is expected to end the fiscal year at \$1,299.0 million, which represents a \$13.4 million increase from the year-end projection. The \$13.4 million revenue increase is primarily attributed to receiving an unanticipated \$9.4 million one-time reimbursement from the settlement of the Kinder Morgan litigation and a \$3.1 million increase in the Real Estate Assets Department for rent and concession revenue.

Council appropriated a \$22.8 million increase in the use of fund balance (excess equity) as recommended in the FY 2016 Year-End Report for the following reserve contributions and other priority projects:

- \$16.0 million for the Pension Payment Stabilization reserve contribution
- \$5.5 million total to meet the Public Liability and Workers' Compensation reserve targets
- \$0.7 million for the replacement of synthetic turf at Pershing Middle School
- \$0.5 million for the Bay Terrace (Tooma Park) Community Park
- \$0.1 million for asbestos abatement treatment and roof replacement located at Fire Station #6

This \$22.8 million is in addition to the budgeted use of excess equity of \$6.2 million as approved in the FY 2016 Adopted budget. Including both the increase in revenue and excess equity, total General Fund resources have increased \$36.2 million from the FY 2016 Year-End Report resulting in \$1,328.0 million in total resources.

The General Fund expenditures are expected to end the fiscal year at \$1,303.8 million, which represents a net increase of \$15.8 million from the year-end projection. This includes an expenditure increase of \$22.8 million for reserve contributions and other priority projects listed above approved by Council as recommended in the FY 2016 Year-End Report. This increase is offset with decreased expenditures of \$7.0 million as compared to the General Fund department projections included in the FY 2016 Year-End Report. The decreased expenditures are primarily in the Transportation and Storm Water Department and information technology expenditures citywide.

In summary, total General Fund resources are greater than total General Fund expenditures by \$24.2 million. This represents a \$20.4 million positive variance from the FY 2016 Year-End Report. The un-audited actuals included in this report are the most current data available at the time of publication and is subject to change as a result of the completion of the City of San Diego's Comprehensive Annual Financial Report (CAFR). A detailed summary of the variances by General Fund revenue and expenditure categories are included in this report.

## GENERAL FUND REVENUE

General Fund revenues are expected to be \$1,299.0 million in Fiscal Year 2016 due to an increase of \$13.4 million, or 1.0% from the year-end projections. The \$13.4 million represents an increase of \$8.7 million in major General Fund revenues and a \$4.8 million increase in General Fund departmental revenues over the Fiscal Year 2016 year-end projections.

FY 2016 General Fund Revenue Performance				
<i>Table 2</i>	<i>in millions</i>			
Revenue Category	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Variance	Variance %
Major General Fund Revenues	\$ 1,017.3	\$ 1,026.0	\$ 8.7	0.9%
Departmental Revenue	268.2	273.0	4.8	1.8%
<b>Total</b>	<b>\$ 1,285.5</b>	<b>\$ 1,299.0</b>	<b>\$ 13.4</b>	<b>1.0%</b>

## MAJOR GENERAL FUND REVENUES

As reflected in Table 3: FY 2016 Major General Fund Revenue Performance, the City's major revenues reflect an \$8.7 million, or 0.9% increase from the year-end projections. The primary contributor to the increase is \$9.4 million in settlement funds from the resolution of the Kinder Morgan litigation and reported in the miscellaneous Revenue category below. This one-time increase is offset with a decrease of \$5.1 million in sales tax revenue primarily due to a decline in sales tax receipts in the general retail/consumer goods sector.

FY 2016 Major General Fund Revenue Performance				
<i>Table 3</i>	<i>in millions</i>			
Revenue Category	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Variance	Variance %
Property Tax	\$ 470.9	\$ 471.3	\$ 0.4	0.1%
Sales Tax	280.8	275.7	(5.1)	-1.8%
Transient Occupancy Tax	106.9	107.7	0.8	0.7%
Franchise Fees	80.0	80.4	0.5	0.6%
Property Transfer Tax	9.3	10.5	1.2	12.8%
Miscellaneous Revenue	69.5	80.4	11.0	15.8%
<b>Total</b>	<b>\$ 1,017.3</b>	<b>\$ 1,026.0</b>	<b>\$ 8.8</b>	<b>0.9%</b>

### Property Tax

Property tax revenue is expected to be \$471.3 million in Fiscal Year 2016. This is an increase of \$400,000, or 0.1% from the year-end projections. This is the result of an increase in the Redevelopment Property Tax Trust Fund (RPTTF) residual payments. The RPTTF residual payments increased \$400,000 from the year-end projection due to the Department of Finance upholding their determination to deny \$3.6 million in project management costs which results in an increase in residual RPTTF distributions to the City. The potential for the increase in RPTTF residual payments, if the Successor Agency's appeal of denial of project management costs is upheld, is identified in the FY 2016 Year-End Report.

### **Sales Tax**

Sales tax revenue is expected to be \$275.7 million in Fiscal Year 2016. This represents a \$5.1 million, or 1.8% decrease from the year-end projections primarily due to a decline in year-over-year spending in the general retail market. This decrease is primarily attributed to consumer spending preferences toward on-line shopping and a less than strong performance in auto sales as was anticipated. The year-end projection for sales tax revenue reflected a deficit of \$5.0 million based upon the most recent economic information and revenue distributions to the City during the month of April 2016. However, the City experienced a significant decline in the projection for sales tax receipts during the fourth quarter of Fiscal Year 2016. This significant decline resulted in an additional deficit of \$5.1 million from the year-end projections and reflects an actual growth rate of 1.9% when compared to the projected growth of 4.0% for the same quarter.

### **Transient Occupancy Tax**

The General Fund Transient Occupancy Tax (TOT) revenue is expected to be \$107.7 million in Fiscal Year 2016 representing an increase of \$770,000, or 0.7% from the year-end projections. As a result of an increase in overnight visitors throughout Fiscal Year 2016, the year-end projection growth rate was increased from 6.0% to 8.0% for the fourth quarter of the fiscal year due to the strong economic indicators at that time. The actual growth rate for Fiscal Year 2016 was 8.7% for overall TOT.

### **Franchise Fees**

Franchise fees revenue is expected to be \$80.4 million in Fiscal Year 2016. This represents an increase of \$490,000, or 0.6% from the year-end projection primarily due to higher refuse collection franchise fee revenue as a result of an increase in tonnage received at the City-owned landfill.

### **Property Transfer Tax**

Property transfer tax revenue is expected to be \$10.5 million in Fiscal Year 2016. This represents an increase of \$1.2 million, or 12.8% from the year-end projection. Property transfer tax is levied on the sale of all real estate property and is highly reflective of the activity in the housing market. This makes property transfer tax revenues generally more volatile to market changes than the 1.0% property tax levy. The County of San Diego collects \$1.10 per \$1,000 of the sale price when any real property is sold. The City is credited \$0.55 per \$1,000 against the County's charge, giving both the County and City each \$0.55 per \$1,000 of the sale price. The funds are collected by the County upon a sale of real property within the City limits and transferred to the City on a monthly basis. According to the San Diego Association of Realtors, the number of listed homes sold in August 2016 was 2,124, a decrease of 2.0% from August 2015. The August 2016 median home prices in San Diego County has grown to \$570,000, an increase of 6% from the August 2015 median home price of \$540,000.

### **Miscellaneous Revenue**

Miscellaneous revenue is expected to be \$80.4 million in Fiscal Year 2016. This represents a \$11.0 million, or 15.8% increase from the year-end projection primarily due to the settlement of the Kinder Morgan litigation. The General Fund's portion of the settlement totaled \$9.4 million, this \$9.4 million in revenue was offset with a \$2.0 million expenditure to reimburse the City's outside attorneys for litigation costs incurred during the settlement for a net \$7.4 million increase to the General Fund.



## DEPARTMENTAL REVENUE

General Fund departmental revenues are expected to be \$273.0 million in Fiscal Year 2016. This represents an increase of \$4.8 million, or 1.8% from the year-end projections. The following section identifies significant departmental revenues that contribute to the variance from year-end projections.

Department	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Variance	Variance %
Fire-Rescue	29.5	30.2	0.7	2.2%
Real Estate Assets	45.9	49.0	3.1	6.8%
Transportation & Storm Water	54.8	55.9	1.1	2.0%
All Other General Fund Departments	138.0	137.9	(0.1)	-0.1%
<b>Total</b>	<b>\$ 268.2</b>	<b>\$ 273.0</b>	<b>\$ 4.8</b>	<b>1.8%</b>

### Fire-Rescue Department

The revenue in the Fire-Rescue Department is expected at \$30.2 million in Fiscal Year 2016. This is an increase of \$650,000, or 2.2% from the year-end projections primarily due to revenues received this fiscal year for services provided to other agencies in the past several fiscal years.

### Real Estate Assets Department

The Real Estate Assets Department revenue is expected at \$49.0 million in Fiscal Year 2016. This is an increase of \$3.1 million, or 6.8% from the year-end projection primarily due the following factors:

- \$1.6 million increase in rents and concession revenue primarily due to higher income from telecommunication lease agreements and increased rent from City owned property in the Midway District.
- \$1.0 million increase in lease and rents from hotels in Mission Bay Park due to the continued growth in regional tourism and higher than anticipated receipts from Sea World. This increased revenue has an offsetting increase in expenditures associated with the transfer to the Mission Bay Reserve Fund.
- \$590,000 increase in Pueblo Land revenue due to higher rental income than anticipated during the development of the year-end projection.

### Transportation and Storm Water Department

The Transportation and Storm Water Department revenue is expected at \$55.9 million in Fiscal Year 2016. This is an increase of \$1.1 million, or 2.0% from the year-end projection primarily due to unanticipated revenue of \$650,000 originating from a refund for overcharges of landfill costs as a result of the FEMA audit on the 2010 winter storms. There is also an additional \$310,000 due to increased revenue for street sweeping activity.

## GENERAL FUND EXPENDITURES

The General Fund expenditures are expected to end the fiscal year at \$1,303.8 million, which represents a net increase of \$15.8 million from the year-end projection. This includes an expenditure increase of \$22.8 million as appropriated from fund balance for reserve contributions and other priority projects approved by Council as recommended in the FY 2016 Year-End Report. This increase in appropriated fund balance is offset with decreased expenditures of \$7.0 million as compared to the General Fund department projections included in the FY 2016 Year-End Report. The decreased expenditures are primarily in the Transportation and Storm Water Department and information technology expenditures citywide. The following section includes detailed variance explanations by category.

### PERSONNEL EXPENDITURES

Personnel expenditures are expected to be \$881.3 million in Fiscal Year 2016 for salaries and wages and fringe benefits. This is an increase of \$3.7 million, or 0.4% over the year-end projections.

FY 2016 General Fund Personnel Expenditures Performance				
<i>Table 5</i>				<i>in millions</i>
Expenditure Category	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Variance	Variance %
Salaries and Wages	\$ 517.9	\$ 518.3	\$ (0.4)	-0.1%
Fringe Benefits	359.6	363.0	(3.4)	-0.9%
<b>Total</b>	<b>\$ 877.5</b>	<b>\$ 881.3</b>	<b>\$ (3.7)</b>	<b>-0.4%</b>

### Salaries and Wages

The salaries and wages category is comprised of five distinct types of wages: salaries, overtime, hourly wages, pay-in-lieu of annual leave and termination pay. Salary expenditures include compensation paid at the employee's base rate of pay for standard-hour employees. Overtime expenditures include compensation at one and one-half times the employee's base rate of pay. Hourly wages include compensation paid at the employee's base rate of pay for non-standard hour employees. Pay-in-lieu of annual leave and termination pay represent compensation in-lieu of taking leave. Termination pay distinguishes the expense incurred upon an employee's separation from the City.

<b>FY 2016 General Fund Salaries and Wages Performance</b>				
<i>Table 6</i>	<i>in millions</i>			
<b>Salaries and Wages Expenditure Category</b>	<b>FY 2016 Year-End Projection</b>	<b>FY 2016 Un-audited Actuals</b>	<b>Variance</b>	<b>Variance %</b>
Salaries	\$ 433.0	\$ 430.4	\$ 2.6	0.6%
Overtime	59.7	62.1	(2.4)	-4.1%
Hourly	14.5	14.3	0.2	1.3%
Pay-in-Lieu of Annual Leave	7.0	8.0	(1.0)	-14.0%
Termination Pay	3.8	3.6	0.2	5.7%
<b>Total</b>	<b>\$ 517.9</b>	<b>\$ 518.3</b>	<b>\$ (0.4)</b>	<b>-0.1%</b>

Salaries and wages expenditures are expected to be \$518.3 million in Fiscal Year 2016. This is an increase of \$360,000, or 0.1% from the year-end projections. Primarily due to an increase in overtime of \$2.4 million. The following provides detail of the increases in overtime:

- The Fire-Rescue Department’s overtime increased by \$1.1 million from the year-end projection primarily as a result of June strike team deployments to support other fire agencies. Reimbursements for these deployments is expected in Fiscal Year 2017.
- The Police Department had an increase of \$970,000 due to additional staffing needs for presidential candidate visits to the City, additional support needed in the Communications Division and due to special events held at the stadium. The special events related overtime is partially offset with additional revenue.

The increased overtime expenditures are partially offset by a decrease in un-audited salary actuals of \$2.6 million from the year-end projection, primarily due to salary savings from higher than anticipated vacancies.

### Fringe Benefits

Fringe benefit expenditures are expected to be \$363.0 million in Fiscal Year 2016. This is an increase of \$3.4 million, or 0.9% from the year-end projection. The variance of \$3.4 million is due to fixed fringe un-audited actuals increase of \$4.3 million, partially offset by a decrease of \$870,000 in variable fringe un-audited actuals.

<b>FY 2016 General Fund Fringe Benefits Performance</b>				
<i>Table 7</i>	<i>in millions</i>			
<b>Fringe Benefits Expenditure Category</b>	<b>FY 2016 Year-End Projection</b>	<b>FY 2016 Actuals</b>	<b>Variance</b>	<b>Variance %</b>
Fixed	\$ 260.8	\$ 265.1	\$ (4.3)	-1.6%
Variable	98.8	97.9	0.9	0.9%
<b>Total</b>	<b>\$ 359.6</b>	<b>\$ 363.0</b>	<b>\$ (3.4)</b>	<b>-0.9%</b>

Fixed fringe benefit expenditures include the Actuarially Determined Contribution (ADC) to the San Diego City Employees' Retirement System (SDCERS) as well as contributions for Workers' Compensation, Long-Term Disability (LTD), Other Post-Employment Benefits (OPEB), Unemployment Insurance and Risk Management Administration (RMA). The fixed fringe variance is due to an increase of \$2.8 million in Workers' Compensation expenditures

primarily due to a transfer needed to meet the Workers' Compensation Reserve policy target, as approved through the use of excess equity in the FY 2016 Year-End Report. In addition, the allocation of OPEB and ADC costs to the General Fund increased by \$390,000 and \$1.3 million respectively. Fixed fringe costs are annual liabilities the City is obligated to pay regardless of current employee count or salary amounts. Collection rates are adjusted periodically throughout the fiscal year to ensure that the required obligations are appropriately funded by the contributing departments and funds, which can result in the amount allocated between the General Fund and non-general funds varying from year-end projections.

Variable fringe costs are driven by actual payroll activity and are affected by attrition, new hires and vacancies. The variance in variable fringe is primarily due to a decrease of \$1.2 million in Flexible Benefits from the year-end projections as a result of higher than anticipated vacancies. These expenditures were partially offset by Medicare and Supplemental Pension Savings Plan (SPSP) expenditures ending higher than projected by \$120,000 and \$90,000, respectively. Medicare and SPSP expenditures will end higher than anticipated due to increased overtime expenditures primarily in the Fire-Rescue Department. In general, SPSP expenditures exceeding projections correlates to overtime expenditures exceeding projections for post Prop B employees due to the requirement to include all pay, including overtime, in the City's match to the interim defined contribution plan (SPSP-H).

## NON-PERSONNEL EXPENDITURES

The General Fund non-personnel expenditures are expected to be \$422.5 million in Fiscal Year 2016. This represents an increase of \$12.0 million, or 2.9% from the year-end projections. The following section discusses the variances for non-personnel expenditures by category, highlighting only the significant variances within each group. These variances include both the appropriation increases approved in the FY 2016 Year-End Report and the offsetting expenditure savings.

FY 2016 Year-End Non-Personnel Expenditure Performance - General Fund				
<i>Table 8</i>				<i>in millions</i>
Expenditure Category	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Variance	Variance %
Supplies	\$ 31.7	\$ 32.1	\$ (0.4)	-1.3%
Contracts	224.3	229.3	(5.0)	-2.2%
Information Technology	25.7	24.2	1.5	6.0%
Energy and Utilities	37.8	37.9	(0.2)	-0.4%
Other	5.1	5.1	0.0	0.1%
Transfers Out	78.2	85.7	(7.5)	-9.5%
Capital Expenditures	4.1	2.2	1.8	44.9%
Debt	3.6	5.9	(2.3)	-64.5%
<b>Total</b>	<b>\$ 410.5</b>	<b>\$ 422.5</b>	<b>\$ (12.0)</b>	<b>-2.9%</b>

### Supplies

The supplies category is expected at \$32.1 million in Fiscal Year 2016. This is an increase of \$410,000, or 1.3% from the year-end projection. The variance is primarily in the Police Department due to additional expenditures in ammunition, and miscellaneous operating supplies which exceeded the Department’s initial projection.

### Contracts

The contracts category is expected to be \$229.3 million in Fiscal Year 2016. This is an increase of \$5.0 million, or 2.2% from the year-end projection. The variance between the year-end projections and un-audited actuals is primarily due to the following factors:

- \$6.7 million increase in the Citywide Program Expenditures Department mainly due to the reclassification of an \$8.9 million contribution to the Public Liability Operating Fund and the Public Liability Reserve Fund from the transfers out category to the contracts category. These amounts are partially offset by a \$3.2 million decrease in contracts as a result of projected expenses for rent payments between the City of San Diego and Civic Center Plaza being reclassified to the debt expenditures category as a result of a lease to own agreement.
- \$1.9 million increase in the Police Department due to \$1.2 million in vehicle purchases reclassified to the contracts category resulting in an offsetting decrease in the capital expenditures category. Additionally, there is an increase of \$740,000 in Fleet Vehicle usages fees as a result of an increase in active vehicles within the Department.
- \$1.5 million increase in the Economic Development Department mainly due to more work being performed by Civic San Diego and San Diego Housing Commission than

projected. The increase is partially offset by reimbursable revenue through Successor Agency revenues.

The over budget projections noted above are partially offset by the following factors:

- \$3.8 million decrease in the Transportation and Storm Water Department due to expenditures for emergency storm water contract work occurring later than projected.
- \$600,000 decrease in the Water Department primarily attributed to a change in project billing from General Fund reservoir work to chargeable reservoir project work in the Water Utility Operating Fund.
- \$350,000 decrease in the Real Estate Assets Department due to delays in office space relocation of several General Fund departments.

### **Information Technology**

The information technology category is expected to be \$24.2 million in Fiscal Year 2016. This is a decrease of \$1.5 million, or 6.0% from the year-end projections. The decrease is primarily due to the following factors:

- \$320,000 decrease in the Purchasing and Contracting Department due to expenditures being realized in the Department of Information Technology as part of the Purchase to Pay (P2P) Overhaul Project.
- \$280,000 decrease in the Police Department mainly due to rewrites of internal applications in lieu of replacement.
- \$260,000 decrease in the Fire-Rescue Department mainly due to the deferral of computer hardware purchases. The Fire-Rescue Department is currently evaluating a more cost effective mobile hardware platform.

### **Energy and Utilities**

The energy and utilities category is expected at \$37.9 million in Fiscal Year 2016, similar to the year-end projection. Savings realized in Fleet fuel, electrical services and water and sewer savings were close to the projections included in the FY 2016 Year-End Report. There were no significant variances within this category identified.

### **Other**

The other category is expected at \$5.1 million in Fiscal Year 2016, similar to the year-end projection. There were no significant variances within this category identified.

### **Transfers Out**

The transfers out category is expected to be \$85.7 million in Fiscal Year 2016. This is an increase of \$7.5 million, or 9.5% from the year-end projections. The increase is primarily due to the following factors:

- \$8.8 million increase in the Citywide Program Expenditures Department for the City's \$16.0 million contribution to the Pension Stabilization Reserve Fund, as approved in the FY 2016 Year-End Report with the use of excess equity, partially offset with the reclassification of \$8.9 million for the contribution to the Public Liability Operating Fund and Public Liability Reserve Fund reclassified from the transfers out category to the contracts category.
- \$520,000 increase in the Transportation and Storm Water Department due to the reclassification of a California Energy Commission (CEC) loan payment from the debt category to the transfers out category.

The increases mentioned above are offset by the following factors:

- \$1.8 million decrease in the Police Department related to the Computer Aided Dispatch Capital Improvements Project (CAD project). The decrease is due to the determination that an additional \$1.9 million in expenditures are capital lease-eligible expenses and thereby eligible to be charged to the capital project fund and not expensed in the General Fund. The terms of the lease agreement were reached after the development of the year-end projections.
- \$270,000 net decrease in the Parks and Recreation Department due to an \$857,000 reclassification of a Maintenance Assessment Districts (MADS) General Fund reimbursement from the transfers out category to the contracts category. This decrease was offset by an increase of \$500,000 in expenditures for the Bay Terrace (Tooma Park) Community Center Capital Improvement Project to fund the design phase of the project as approved in the FY 2016 Year-End Report with the use of excess equity.

### **Capital Expenditures**

The capital expenditures category is expected to be \$2.2 million in Fiscal Year 2016. This is a decrease of \$1.8 million, or 44.9% from the year-end projections. The variance includes decreases of \$490,000 in the Park and Recreation Department and \$1.3 million in the Police Department for the purchase of vehicles and equipment, that was reclassified in the contracts category rather than capital expenditures as projected in the FY 2016 Year-End Report. The decrease is offset by an increase in the contracts category.

### **Debt**

The debt category is expected to be \$5.9 million in Fiscal Year 2016. This is an increase of \$2.3 million, or 64.5% from the year-end projections. The variance is primarily due to an increase of \$3.2 million in the Citywide Program Expenditures Department due to the reclassification of lease payments between the City of San Diego and Civic Center Plaza from the contracts category to the debt category. This increase is partially offset by a \$510,000 decrease in the Transportation and Storm Water Department due to the reclassification of loan payments to the California Energy Commission (CEC) from the debt category to the transfers out category.

## GENERAL FUND RESERVES

The City's Reserve Policy (Council Policy 100-20) documents the City's approach to establishing and maintaining strong reserves across City operations. On April 12, 2016, amendments to the City's Reserve Policy were approved by the City Council to increase the General Fund Reserves and to establish a Pension Payment Stabilization reserve (Pension Reserve).

The current General Fund reserve of 14.5% is comprised of an 8.0% Emergency Reserve and a 6.5% Stability Reserve. The amendments to the Reserve Policy approved on April 12, 2016 included increasing the Stability reserve by 2.7% over a five-year period, or from 6.0% to 8.7%, of a three-year average of audited General Fund operating revenues. The increase to the Stability reserve will be phased in through Fiscal Year 2021 with the first phase being an increase from 6.0% to 6.5% as of June 30, 2016. The increase to the Stability Reserve in Fiscal Year 2016 was funded through the use of fund balance (excess equity) as approved by Council in the FY 2016 Year-End Report and is reflected in Table 9: FY 2016 General Fund Reserve Estimate Comparison.

<b>FY 2016 General Fund Balances and Reserve Estimates</b>			
<i>Table 9</i>	<i>in millions</i>		
Description	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Revenue %
<b>FY 2015 Audited Ending Fund Balance<sup>1</sup></b>	<b>\$ 196.5</b>	<b>\$ 196.5</b>	<b>17.3%</b>
FY 2016 Projected Ending Activity			
Revenue	1,285.5	1,299.0	
Expenditures	1,288.0	1,303.8 <sup>2</sup>	
FY 2016 Projected Use of Excess Equity	22.8	-	
Adjustment for Low-Flow Diversion Capacity Charges	1.0	1.0	
<b>FY 2016 Projected Ending Fund Balance</b>	<b>\$ 172.2</b>	<b>\$ 192.7</b>	
Emergency Reserve	90.9	90.9	8.0%
Stability Reserve	68.2	68.2	6.0%
Stability Reserve Increase (6.5% target)	5.7	5.7	0.5%
<b>FY 2016 Required Reserve Level<sup>3</sup></b>	<b>\$ 164.7</b>	<b>\$ 164.7</b>	<b>14.5%</b>
FY 2017 Budgeted Use of Excess Equity	5.5	8.0	
<b>FY 2016 Projected Ending Fund Balance (Excess Equity)</b>	<b>\$ 2.0</b>	<b>\$ 20.0</b>	

<sup>1</sup> Based on FY 2012 through FY 2014 audited operating revenues in accordance with the City's Reserve Policy (CP 100-20).

<sup>2</sup> The FY 2016 un-audited expenditure actuals includes \$22.8 million in appropriations approved in the FY 2016 Year-End Budget Monitoring Report, #16-051.

<sup>3</sup> Based on FY 2013 through FY 2015 audited operating revenues in accordance with the City's Reserve Policy (CP 100-20).



### Fiscal Year 2016 General Fund Reserve Projections

The following section details the projected reserves and excess equity for the General Fund in accordance with the City's Reserve Policy. It also takes into account the expected activity for this fiscal year.

The audited Fiscal Year 2015 ending fund balance is \$196.5 million, or 17.3% of the three-year average of Fiscal Year 2013 through Fiscal Year 2015 audited General Fund operating revenues. The \$196.5 million in ending Fiscal Year 2015 fund balance includes a \$5.1 million reduction for the obligation to pay Public Utilities Department (PUD) low-flow diversion capacity charges due from the Transportation and Storm Water (TSW) Department. Generally Accepted Accounting Principles (GAAP) require full recognition of the amount owed to PUD, \$5.1 million, as a use of fund balance reported in the CAFR. This accounting standard is different than for budgetary expenditures; \$1.0 million will be transferred each year for the next five years per mutual agreement between TSW and PUD. This difference between accounting and budgetary basis will be adjusted each year in the fund balance reconciliation of the CAFR.

<b>FY 2016 General Fund Balances and Reserve Estimates</b>			
<i>Table 10</i>	<i>in millions</i>		
Description	FY 2016 Year-End Projection	FY 2016 Un-audited Actuals	Revenue %
<b>FY 2015 Audited Ending Fund Balance<sup>1</sup></b>	<b>\$ 196.5</b>	<b>\$ 196.5</b>	<b>17.3%</b>
FY 2016 Projected Ending Activity			
Revenue	1,285.5	1,299.0	
Expenditures	1,288.0	1,303.8 <sup>2</sup>	
FY 2016 Projected Use of Excess Equity	22.8	-	
Adjustment for Low-Flow Diversion Capacity Charges	1.0	1.0	
<b>FY 2016 Projected Ending Fund Balance</b>	<b>\$ 172.2</b>	<b>\$ 192.7</b>	
Emergency Reserve	90.9	90.9	8.0%
Stability Reserve	68.2	68.2	6.0%
Stability Reserve Increase (6.5% target)	5.7	5.7	0.5%
<b>FY 2016 Required Reserve Level<sup>3</sup></b>	<b>\$ 164.7</b>	<b>\$ 164.7</b>	<b>14.5%</b>
FY 2017 Budgeted Use of Excess Equity	5.5	8.0	
<b>FY 2016 Projected Ending Fund Balance (Excess Equity)</b>	<b>\$ 2.0</b>	<b>\$ 20.0</b>	

<sup>1</sup> Based on FY 2012 through FY 2014 audited operating revenues in accordance with the City's Reserve Policy (CP 100-20).

<sup>2</sup>The FY 2016 un-audited expenditure actuals includes \$22.8 million in appropriations approved in the FY 2016 Year-End Budget Monitoring Report, #16-051.

<sup>3</sup> Based on FY 2013 through FY 2015 audited operating revenues in accordance with the City's Reserve Policy (CP 100-20).

Table 10: FY 2016 General Fund Reserve Estimates Comparison contains the FY 2016 Year-End Projection, which includes the \$22.8 million appropriation increase as approved by Council as recommended in the FY 2016 Year-End Report, a 0.5% increase to the Stability Reserve to meet the policy target and the reserved allocation for the FY 2017 May Revision Proposed Use of Excess Equity of \$5.5 million. Per the FY 2016 Year-End Report, the FY 2016 projected remaining fund balance (excess equity) was projected at \$2.0 million and is budgeted to be

expended in Fiscal Year 2017 as recommended by the IBA and approved by Council during the May revision to the FY 2017 Budget process.

Based on the Fiscal Year 2016 un-audited actuals, the Fiscal Year 2016 projected ending fund balance (excess equity) is \$20.0 million, this results in an increase of \$18.0 million from the FY 2016 Year-End Report. The variance is attributed to the net projected activity of \$20.4 million from the year-end projections as a result of an unanticipated increase in revenue of \$13.4 million and an increase of expenditures of \$15.8 million. The net projected activity is offset with the appropriation increase of \$22.8 million as approved in the FY 2016 Year-End Report. The FY 2016 Year-End Report included the approval of an appropriation increase of \$22.8 million through the use of fund balance (excess equity). However, expenditures came in lower than anticipated by fiscal year-end as a result of additional savings realized in various General Fund departments, as detailed in this report. The total Fiscal Year 2017 budgeted use of excess equity included in the FY 2017 Adopted Budget is \$8.0 million. This is an increase of \$2.5 million from the FY 2016 Year-End Report, attributed to \$2.0 million recommended by the IBA and approved by Council to be expended in Fiscal Year 2017 and an adjustment of \$500,000 in fringe benefit expenditures as calculated during the finalization of the FY 2017 Adopted Budget.

In summary, the year end results project \$20.0 million in the Fiscal Year 2016 projected ending fund balance (excess equity).

## RISK MANAGEMENT RESERVES

The Long-Term Disability, Public Liability and Workers' Compensation Funds provide funding sources for certain claims made against the City. The City's Reserve Policy (CP 100-20) sets the required reserve level target for each fund as shown below in Table 11: FY 2016 Risk Management Reserves. All Risk Management reserves are based on the average value of the annual actuarial liability for the three most recent fiscal years. The reserve targets for the Long-Term Disability, Public Liability and Workers' Compensation Funds are based on the Fiscal Year 2015 actuarial valuations. Updated reserve targets incorporating FY 2016 actuarial valuations will be presented in the FY 2017 Mid-Year Budget Monitoring Report.

FY 2016 Risk Management Reserves					
Table 11					<i>in millions</i>
Description	Fund Name	Reserve Type	Target	Fiscal Year 2016 Ending Balance	
Risk Management	Long-Term Disability Fund	Liability Reserve	\$ 14.9	\$	18.6
	Public Liability Fund	Liability Reserve	36.7		36.7
	Workers' Compensation Fund	Liability Reserve	54.5		54.5

### Long-Term Disability Reserve

The Long-Term Disability reserve provides non-industrially disabled City employees with income and flexible benefits coverage. The Long-Term Disability Fund Fiscal Year 2016 ending balance is \$18.6 million exceeding the FY 2016 Long-Term Disability reserve target. It should be noted that \$900,000 citywide, of which \$610,000 is the General Fund portion, of the Long-Term Disability Reserve was reallocated to the contributing funds to support one-time expenses in the FY 2017 Adopted Budget.

### Public Liability Reserve

The Public Liability reserve is funded by the General Fund to support claims arising from real or alleged acts on the part of the City, including claims for bodily injury, property damage, and errors and omissions. As projected in the FY 2016 Year-End Report, the Public Liability Fund Fiscal Year 2016 ending balance is \$36.7 million and meets the Fiscal Year 2016 funding target of 40% per the Reserve Policy. The Council approved a contribution of \$3.0 million through the use of excess equity to fund the Public Liability Reserve to the Fiscal Year 2016 policy target as recommended in the FY 2016 Year-End Report.

### Workers' Compensation Reserve

The Workers' Compensation reserve provides funding for medical and disability costs for injuries and illnesses occurring in the workplace. The Workers' Compensation Fund Fiscal Year 2016 ending balance is \$54.5 million and meets the funded 25.0% target per the Reserve Policy. The Council approved a contribution of \$2.5 million through the use of excess equity to fund the Workers' Compensation Reserve to the Fiscal Year 2016 policy target as recommended in the FY 2016 Year-End Report.

## CONCLUSION

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The FY 2016 Year-End Performance Report estimates the General Fund un-audited actuals will minimally vary from projections included in the FY 2016 Year-End Report by 1.0% for revenues and 1.2% for expenditures. The General Fund anticipates a positive variance of \$24.2 million by fiscal year close. This is a \$20.4 million increase from the initial projection included in the FY 2016 Year-End Report as a result of an increase in revenues of \$13.4 million and a net increase in expenditures of \$15.8 million. The increase in revenue includes a one-time revenue reimbursement as a result of a settlement of the Kinder Morgan litigation, as well as additional revenue not anticipated in the Real Estate Assets Department from rents and concessions. The expenditures increased as expected based on the approved use of excess equity from the FY 2016 Year-End Report, offset with additional savings in various other General Fund expenditures. The end result includes an additional \$20.0 million in the FY 2016 projected ending excess equity. This is an increase from the amount projected in the FY 2016 Year-End Report. Financial Management and the Office of the City Comptroller will continue to monitor the City's actual revenue and expenditures and will provide any significant changes in subsequent budget monitoring reports.

## ATTACHMENTS

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- I. Fiscal Year 2016 Year-End Budget Monitoring Report, Report #16-051
- II. Fiscal Year 2016 Year-End Charter 39 Supporting Schedules
- III. General Fund Revenue Comparison
- IV. General Fund Expenditure Comparison