



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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# Review of the FY 2016 Year-End Financial Performance Report

## OVERVIEW

The FY 2016 Year-End Financial Performance Report (Year-End Performance Report) was issued on September 26, 2016 and presented to the Budget and Government Efficiency Committee (B&GE) on October 5, 2016. The Year-End Performance Report compares General Fund revenue and expenditure projections reported in the FY 2016 Year-End Budget Monitoring Report (Year-End Monitoring Report) to actual (unaudited) data included in the Office of the City Comptroller's Financial Performance Report from July 1, 2015 through June 30, 2016.

The Year-End Performance Report reflects increased General Fund revenues of approximately \$13.5 million over projections in the Year-End Monitoring Report, as well as an increase in General fund expenditures over projections of \$15.8 million. This expenditure increase is due primarily to the use of Excess Equity approved by the City Council during their review of the Year-End Monitoring Report<sup>1</sup>. Not all of the Excess Equity approved to be appropriated was expended, however, and when combined with the increased revenues the ending Excess Equity estimate for FY 2016 has increased from \$2.0 million to \$20.0 million.

The Year-End Performance Report provides details for General Fund bottom-line year-end variances from the projections included in the Year-End Monitoring Report, but limits the analysis to FY 2016. The purpose of our review is to provide clarification or additional information for items outlined in the Year-End Performance Report, as well as an analysis of citywide expenditures with significant variances from the Adopted Budget in fiscal years 2015 and 2016. Our review includes:

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<sup>1</sup> The use of \$22.8 million in Excess Equity was approved by the City Council as part of the actions associated with the Year-End Monitoring Report, and was not reflected in the year-end projections.

- A categorization of major General Fund revenues that mirrors the description in the Proposed and Adopted Budget documents, but differs from the categorization included in Financial Management’s quarterly monitoring reports and Year-End Performance Report;
- A discussion of the variance of FY 2016 year-end expenditures from the FY 2016 Adopted Budget;
- A discussion of FY 2016 and FY 2015 personnel expenditure changes, including Police Department overtime;
- A brief analysis of some citywide expenditures with significant variances from the Adopted Budget in fiscal years 2016 and 2015; and
- An overview of the City’s General Fund Reserve and Excess Equity.

We present this review in order to provide additional information that may be used as context during the review of upcoming FY 2018 budget documents: the Mayor’s FY 2018-2022 Five-Year Financial Outlook and the FY 2018 Proposed Budget.

Finally, we note that our review compares unaudited actual expenditures and revenues to the FY 2016 Adopted Budget as opposed to variances of actual expenditures and revenues from year-end projections as discussed in the Year-End Performance Report. Comparing actual expenditures and revenues to the Adopted Budget provides insight into those areas of the budget that have varied significantly from actual expenditures.

## FISCAL/POLICY DISCUSSION

The Year-End Performance Report reflects a variance from the year-end projections discussed in the Year-End Monitoring Report: an increase of \$13.5 million in General Fund revenues and \$15.8 million in General Fund expenditures. The increase in General Fund revenues over the FY 2016 Adopted Budget is approximately \$17.1 million, and the increase in General Fund expenditures over the Adopted Budget is \$15.7 million. Significant changes in year-end revenue and expenditure projections from the FY 2016 Adopted Budget and the projections in the Year-End Monitoring Report are discussed in the following sections. Department-level expenditure and revenue variances from the FY 2016 Adopted Budget are listed in Attachment 1 of this Report.

### **General Fund Revenues**

FY 2016 General Fund revenues are expected to be approximately \$1.30 billion at fiscal year-end, \$17.1 million or 1.3% over the FY 2016 Adopted Budget, and \$13.5 million or 1% over the projections reported in the Year-End Monitoring Report. The positive variance in General Fund revenues from the FY 2016 Adopted Budget is primarily due to small increases in all major General Fund revenues, except for sales tax, and ‘other’ General Fund revenues<sup>2</sup> as displayed in the following table.

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<sup>2</sup> The category of ‘other General Fund revenues’ includes miscellaneous General Fund revenues, including unexpected one-time revenues, and department revenues. Department revenues were \$286,000 over-budget at year-end due primarily to unexpected increases in revenue in the Fire-Rescue and Real Estate Assets departments. Miscellaneous General Fund revenues is comprised of unexpected or increased revenue amounts in various revenue categories including motor vehicle license fees, refuse collection business tax, transfers in, and other revenue, and came in approximately \$17.0 million over-budget at year-end.

FY 2016 Year-End General Fund Revenue					
(\$ in millions)	Adopted Budget	Year-End Projection	Un-Audited Actuals	Variance: Budget to Actuals	Variance: Projection to Actuals
Property Tax	\$470.1	\$470.9	\$471.3	\$1.3	\$0.4
Property Transfer Tax	8.4	9.3	10.5	2.1	1.2
Sales Tax	285.8	280.8	275.7	(10.1)	(5.1)
Transient Occupancy Tax	102.2	106.9	107.7	5.5	0.8
Major Franchise Fees	79.4	80.0	80.4	1.1	0.5
<b>Sub-Total Major General Fund Revenues</b>	<b>\$945.8</b>	<b>\$947.9</b>	<b>\$945.6</b>	<b>\$(0.2)</b>	<b>\$(2.3)</b>
Other General Fund Revenue	336.1	337.6	353.4	17.3	15.7
<b>Total General Fund Revenues</b>	<b>\$1,281.9</b>	<b>\$1,285.5</b>	<b>\$1,299.0</b>	<b>\$17.1</b>	<b>\$13.5</b>

Note: Table may not total due to rounding.

The combined major General Fund revenues (property tax including property transfer tax, sales tax, transient occupancy tax (TOT), and major franchise fees) are expected to be slightly under the FY 2016 Adopted Budget amount as well as under the projections reported in the Year-End Monitoring Report. These reductions are due to declining sales tax receipts that are partially mitigated by an increase in other major General Fund revenues, most significantly the increase in TOT, as discussed in the following sections.

While overall *major* General Fund revenues are expected to be slightly reduced from the FY 2016 Adopted Budget and the year-end projections in the Year-End Monitoring Report, there is an expected increase in *total* FY 2016 General Fund revenues. This year-end increase in General Fund revenues comes from a number of miscellaneous one-time revenues received by the City such as the \$9.4 million General Fund portion of the Kinder Morgan lawsuit settlement, as well as an overall increase in General Fund department revenue. Additional details about the overall increase in General Fund miscellaneous and department revenue is discussed in detail in the Year-End Performance Report.

**Sales Tax**

The Year-End Performance Report notes that sales tax revenue received in FY 2016 totaled \$275.7 million, down \$5.1 million from year-end projections of \$280.8 million, largely due to lower-than-anticipated sales of automobiles and consumer goods. Projections in the Year-End Monitoring Report for sales tax were themselves down from the \$285.8 million in sales tax receipts that were forecast in the FY 2016 Adopted Budget.

Sales tax revenue should be closely monitored going forward, as growth in taxable sales in San Diego is softening at increasing rates. The FY 2016 Adopted Budget projected that sales tax revenue would grow by 4% over FY 2015 receipts. Actual annual growth in sales tax receipts in FY 2016 was only 0.7%, with year-over-year quarterly growth declining in each quarter, as shown in the table below:

FY 2016 Actual Year-over-Year Growth in Sales Tax			
1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2.6%	1.8%	1.0%	-2.8%

A portion of the difference between the 4% growth rate increase projected in the FY 2016 Adopted Budget, and the lower growth rates that the City experienced, is due to lower-than-anticipated fuel prices in early quarters. However, the continued decline in growth of taxable sales—and the decline in overall taxable sales in the 4th quarter—is concerning.

The FY 2017 Adopted Budget assumed that taxable sales in San Diego in FY 2017 would grow by 3.5%. Given the declining growth rates shown above, it would be prudent to reevaluate the 3.5% growth rate when the Council considers the FY 2017 First Quarter Budget Monitoring report later this year. Additionally, Council should anticipate that actual sales tax receipts in FY 2017 will likely be lower than projected in the FY 2017 Adopted Budget, as the sales tax projections for FY 2017 were based on higher FY 2016 sales tax revenues than the City actually received.

### **Transient Occupancy Tax**

TOT revenues are expected to be approximately \$107.7 million at fiscal year-end, a \$5.5 million or 5.4% increase over the FY 2016 Adopted Budget, and \$765,000 or 0.7% over the increased projection reported in the Year-End Monitoring Report. The slight increase in TOT over the projection included in the Year-End Monitoring Report was realized even though the TOT growth rate had been increased from 6% to 8% in February. The TOT growth rate has been set back at 6% for FY 2017, reflecting the projections of the Tourism Marketing District and the positive but declining forecast for TOT in the most recent Five-Year Financial Outlook.

### **General Fund Expenditures**

The Year-End Performance Report reviews the variance of the General Fund’s unaudited actual expenditures from the year-end projections reported in the Year-End Monitoring Report. Our Report provides a comparison of General Fund expenditures to the FY 2016 Adopted Budget, reviews personnel expenditure changes from FY 2015 to FY 2016 including a discussion of Police Department overtime, and reviews select citywide non-personnel budget and expenditure changes from FY 2015 to FY 2016.

### **FY 2016 Adopted Budget Versus Actual Expenditures**

General Fund year-end expenditures (actual unaudited) for FY 2016 are \$15.7 million higher than the FY 2016 Adopted Budget. Large components of this variance include \$22.8 million in increased appropriations approved by City Council during the year-end budget monitoring process, which are partially offset by under-budget expenditures, including \$9.2 million in the Energy & Utilities expense category. The \$22.8 million appropriations increase included \$2.5 million for the Workers’ Compensation Reserve and \$20.3 million for non-personnel expenditures: \$16.0 million for the Pension Payment Stabilization Reserve, \$3.0 million for the Public Liability Reserve, and \$1.3 million for various CIP projects. Other variances are discussed in the following sections.

A breakdown of variances between the FY 2016 Adopted Budget and year-end actual expenditures (as well as variances between the Year-End Monitoring Report projections and actual expenditures) is included in the following table.

FY 2016 General Fund Expenditures					
(\$ in millions)	Adopted Budget	Year-End Projection	Year-End Actuals	Variance: Adopted to Actuals	Variance: Projection to Actuals
Salaries & Wages	\$ 522.4	\$ 517.9	\$ 518.3	\$ 4.2	\$ (0.4)
Fringe Benefits	356.3	359.6	363.0	(6.8)	(3.5)
<b>Sub-Total: Personnel Expenditures</b>	<b>\$ 878.7</b>	<b>\$ 877.5</b>	<b>\$ 881.3</b>	<b>\$ (2.6)</b>	<b>\$ (3.8)</b>
Supplies	\$ 28.7	\$ 31.7	\$ 32.1	\$ (3.4)	\$ (0.4)
Contracts	220.3	224.3	229.3	(9.0)	(5.0)
Information Technology	26.8	25.7	24.2	2.7	1.5
Energy & Utilities	47.1	37.8	37.9	9.2	(0.2)
Other Expenditures	86.4	91.0	98.9	(12.5)	(7.9)
<b>Sub-Total: Non-Personnel Expenditures</b>	<b>\$ 409.4</b>	<b>\$ 410.5</b>	<b>\$ 422.5</b>	<b>\$ (13.1)</b>	<b>\$ (11.9)</b>
<b>Total General Fund Expenditures</b>	<b>\$ 1,288.0</b>	<b>\$ 1,288.0</b>	<b>\$ 1,303.8</b>	<b>\$ (15.7)</b>	<b>\$ (15.8)</b>

Note: Table may not total due to rounding.

### FY 2016 Adopted Budget Versus Actuals – Salaries & Wages

Salaries & Wages for FY 2016 year-end are \$4.2 million lower than the Adopted Budget. A number of under-budget and offsetting over-budget components net to this \$4.2 million under-budget Salaries & Wages amount. The largest components are discussed in the paragraphs below.

Salaries (the largest component of the Salaries & Wages category) are under-budget at year-end by \$20.3 million.<sup>3</sup> This is up from the \$17.7 million projected in the Year-End Monitoring Report. The largest under-budget salaries include:

- Police Department - \$7.4 million (up from the \$6.9 million projected in the Year-End Monitoring Report)
- Transportation & Storm Water (TSW) Department - \$3.3 million (up from the \$2.9 million projected in the Year-End Monitoring Report)
- Fire-Rescue - \$1.9 million (up from the \$1.2 projected in the Year-End Monitoring Report)
- Park & Recreation Department - \$1.3 million (up from the \$1.1 million projected in the Year-End Monitoring Report)

The salary savings described above is partly offset by the following over-budget salary and wage expenditures:

- \$11.9 million in Overtime, including \$7.0 million, \$2.1 million, and \$1.8 million for the Police, TSW, and Fire-Rescue departments, respectively
- Overages of \$2.8 million in Pay-in-Lieu of Annual Leave (Vacation Pay-in-Lieu) and \$1.1 million in Termination Pay, spread over a number of departments

Vacation Pay-in-Lieu is an area we have discussed in prior reports. Over the past five completed fiscal years (FY 2012 through FY 2016), Vacation Pay-in-Lieu expenditures have averaged

<sup>3</sup> The \$20.3 million amount for under-budget Salaries is net of \$1.6 million in over-budget Special Pays. The total under-budget amount for “regular” Salaries is \$21.9 million.

approximately \$7.3 million and been over-budget. For FY 2016, Vacation Pay-in-Lieu expenditures totaled \$8.0 million, \$2.8 million over-budget.

Although Vacation Pay-in-Lieu is a difficult expenditure type to budget and forecast, we recommend that Financial Management examine potential methodologies for estimating it, so that a more accurate budget for those expenditures can be established.<sup>4</sup>

### **FY 2016 Adopted Budget Versus Actuals – Fringe Benefits**

The net \$6.8 million in over-budget Fringe Benefits also includes offsetting components, some of which are listed below.

- Over-budget Fringe expenditures, due in part to the following:
  - \$7.6 million increase in Workers' Compensation costs due to increases in operating costs and increased reserve needs
  - \$1.0 million increase in Medicare costs, largely due to overtime overages
- Under-budget Fringe expenditures include \$3.7 million in flexible benefits, largely related to higher vacancies than expected

### **FY 2016 Adopted Budget Versus Actuals – Non-Personnel Expenditures**

Total non-personnel expenditures (NPE) are \$13.1 million higher than the FY 2016 Adopted Budget. Various increases in expenditures and offsetting under-budget amounts net to this \$13.1 million. Larger expenditure increases include the following:

- Increased NPE appropriations of \$20.3 million approved by Council as part of the year-end budget monitoring process (including \$16.0 million for the Pension Payment Stabilization Reserve contribution, \$3.0 million for the Public Liability Reserve contribution, and \$1.3 million for transfers to CIP projects identified in the Year-End Monitoring Report)
- \$4.4 million for increased Public Liability operational needs and an additional \$5.8 million for the Public Liability Reserve (of which \$3.3 million was a Council-approved appropriations increase during the mid-year budget monitoring process)
- \$3.4 million in over-budget Supplies (the largest variances include \$1.4 million for TSW, largely related to recent winter storms, and \$1.4 million for Police)

Some under-budget expenditures offsetting NPE increases include the following:

- \$9.2 million in under-budget expenditures in the Energy & Utilities category (that includes electrical, water, and fuel expenditures) across departments, including \$4.6 million for Park & Recreation, \$1.9 million for Police, and \$1.2 million for Fire-Rescue
- \$2.7 million in under-budget Information Technology expenditures across departments, including \$1.0 million for Purchasing & Contracting

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<sup>4</sup> Although there was an increase to the FY 2017 budget for Vacation Pay-in-Lieu with respect to the recent labor agreement with the Fire Fighter's employee organization (International Association of Fire Fighters, Local 145), there was no adjustment with respect to the historical overages discussed above.

- \$5.2 million in under-budget Police CAD project expenditures, as the project is now being financed instead of cash-funded

A discussion of notable variances since the Year-End Monitoring Report can be found in the Year-End Performance Report.

### Personnel Expenditure Changes from FY 2015 to FY 2016

From FY 2015 to FY 2016, General Fund personnel expenditures increased by \$37.0 million, or 4.4%, as shown in the following table.

<b>General Fund Personnel Expenditures (\$ in millions)</b>				
<b>Personnel Expenditures Type</b>	<b>FY 2015 Actuals</b>	<b>FY 2016 Actuals</b>	<b>2015 to 2016 Change</b>	<b>% Change</b>
Salaries	\$ 385.8	\$ 400.8	\$ 14.9	3.9%
Special Pays	29.0	29.6	0.6	2.0%
Overtime	58.5	62.1	3.6	6.2%
Hourly Wages	14.3	14.3	0.0	0.1%
Vacation Pay-in-Lieu	6.6	8.0	1.4	20.7%
Termination Pay	4.3	3.6	(0.7)	-16.2%
<b>Total Salaries and Wages</b>	<b>\$ 498.4</b>	<b>\$ 518.3</b>	<b>\$ 19.8</b>	<b>4.0%</b>
Total Fringe Benefits	345.9	363.0	17.1	5.0%
<b>Total Personnel Expenditures</b>	<b>\$ 844.3</b>	<b>\$ 881.3</b>	<b>\$ 37.0</b>	<b>4.4%</b>

Note: Table may not total due to rounding.

Significant changes in personnel expenditures from FY 2015 to FY 2016 are discussed in the sections that follow.

### FY 2015 to FY 2016 Actual Expenditures Changes – Salaries

Salaries (not including Special Pays) increased by \$14.9 million, or 3.9%. The departments with the largest increases include the following:

<b>General Fund Salaries Expenditures</b>			
<b>(\$ in millions)</b>	<b>FY 2015 Actuals</b>	<b>FY 2016 Actuals</b>	<b>Change</b>
Transportation & Storm Water	\$ 21.2	\$ 24.3	\$ 3.1
Police	163.0	165.2	2.2
Fire-Rescue	67.7	69.9	2.2
Park & Recreation	26.8	28.3	1.5
City Attorney's Office	\$ 24.8	\$ 26.0	\$ 1.2

For General Fund Salaries, not all newly budgeted positions in FY 2016 were filled as planned, which generated vacancy savings above what was budgeted. Vacancy savings for FY 2016 totals

approximately \$43.4 million, including \$21.5 million in budgeted savings and \$21.9 million in excess savings.<sup>5</sup> For comparison, FY 2015 excess vacancy savings was \$19.1 million.

Excess vacancy savings for FY 2016 offsets other salary and wage categories that are over-budget.<sup>6</sup> The over-budget amount for such salary and wage categories (those other than “salaries”) is \$17.8 million in FY 2016, including \$11.9 million in Overtime. The \$21.9 million excess vacancy savings offsets the \$17.8 million in overages, with all salary and wage categories netting to an under-budget amount of \$4.2 million.

A large part of the excess vacancy savings has to do with a slower rate of filling new positions than anticipated in the FY 2016 Adopted Budget. Additionally, a large number of the new FY 2016 positions were filled through promotions and transfers, trading one vacancy for another. Further, there were 466 non-hourly position retirements, resignations, and other terminations from July 1, 2015 through June 30, 2016.

However, as discussed in detail in IBA Report #16-13 (“FY 2016 Year-End Budget Adjustments and Year-End Budget Monitoring Report”), when considering the FY 2016 position additions there was actually a downward trend in the number of vacant positions during FY 2016. This occurred as the Personnel Department, City management, and the hiring departments made a concerted effort to improve the hiring process. The onset of FY 2017 produced new vacancies with the addition of 222.58 non-hourly full-time equivalent positions (FTEs) to the budget.

**FY 2015 to FY 2016 Actual Expenditures Changes – Overtime**

Overtime increased from FY 2015 to FY 2016 by \$3.6 million, or 6.2%. The departments with the largest increases include the following:

<b>General Fund Overtime Expenditures</b>			
<i>(\$ in millions)</i>	<b>FY 2015 Actuals</b>	<b>FY 2016 Actuals</b>	<b>Change</b>
Police	\$ 23.1	\$ 25.0	\$ 1.9
Transportation & Storm Water	\$ 2.0	\$ 3.1	\$ 1.1

TSW Overtime for FY 2016 is largely related to channel clearing activities. The Police Department’s overtime increased by \$1.9 million from FY 2015 to FY 2016, and it has continued to exceed budgeted levels in recent years as discussed in the “Police Overtime” section below.

<sup>5</sup> For purposes of this analysis, FY 2016 projected salary savings of \$43.4 million is assumed to be attributable to vacancy savings. There are other types of salary savings that are not related to vacancies, including voluntary furlough and the 3.2% salary reductions for Deferred Retirement Option Plan (DROP) participants in the Deputy City Attorneys Association (DCAA) and San Diego Police Officers Association (POA). These other types of salary savings were projected to be \$1.5 million in the FY 2016 Adopted Budget, as compared to the vacancy savings of \$21.5 million. Although these other types of salary savings can vary, given the relative size of the budget, the variance is assumed to be zero for the purposes of this analysis.

<sup>6</sup> The condition where excess vacancy savings covers over-budget amounts in other salaries and wages (or vice versa) can be a natural occurrence in a dynamic organization. For example, in a constant staffing model such as for fire suppression, overtime may be needed when the existing staffing levels are insufficient to meet required staffing levels. With increases in vacancies there may be times when more overtime is needed than was originally expected.



**FY 2015 to FY 2016 Actual Expenditures Changes – Fringe Benefits**

Fringe benefits increased from FY 2015 to FY 2016 by \$17.1 million, or 5%. The largest increases include the following:

- \$7.6 million in Workers’ Compensation – \$5.1 million for increased reserves requirements and \$2.5 million for operations
- \$11.4 million in Flexible Benefits, largely due to increases per agreements with the City’s employee organizations
- \$2.3 million in SPSP-H contributions, largely due to more employees becoming members of the Proposition B defined contribution plan
- \$1.2 million for Risk Management Administration, largely due to fund balance utilization in FY 2015 that was not available to offset expenditures in FY 2016
- \$1.2 million for Retiree Health Benefits, as the amount per the 15-year MOU with the labor organizations increased for FY 2016

The increases listed above are partially offset by the following decreases:

- \$4.5 million in contributions to the defined benefit pension, partly due to the FY 2016 Actuarially Determined Contribution (ADC) payment being based on a year that included investment experience gains
- \$2.4 million for Long-Term Disability, largely due to reserve payments in FY 2015 that were not made in FY 2016

**Police Department Overtime**

The Police Department’s overtime expenditures in FY 2016 were approximately \$25.0 million. The Year-End Performance Report notes this is an increase of \$1.0 million over the Year-End Projection. For greater context, however, we note that the \$25.0 million overtime expenditure represents a \$7.0 million increase over the FY 2016 Adopted Budget. The Police Department’s projected overtime expenditures increased multiple times during the FY 2016 budget monitoring process, as described in the following table.

<b>Police Overtime – FY 2016 Projections vs. Actuals (\$ in millions)</b>				
<b>Adopted Budget</b>	<b>First Quarter Projection</b>	<b>Mid-Year Projection</b>	<b>Year-End Projection</b>	<b>Actuals</b>
\$18.0	\$23.0	\$24.0	\$24.0	\$25.0

In our Office’s review of the FY 2016 First Quarter Budget Monitoring Report (First Quarter Report), we noted that the Department’s projected \$5.0 million increase in overtime expenditures was attributed to \$3.0 million of extension-of-shift overtime<sup>7</sup>, \$1.4 million of grant and task force related overtime, and \$600,000 of unbudgeted overtime related to AB 109 public safety realignment activities. At mid-year, our Office noted that the overtime projection had increased by an additional \$1.0 million. That increase was due to continued expansion of extension-of-shift

<sup>7</sup> The Police Department has attributed the need for extension-of-shift overtime to a number of factors, including training new officers, increased neighborhood policing efforts, calls taking longer to resolve, and issues related to understaffing.

activities, while overtime related to grants, task forces, and AB 109 remained unchanged. At year-end, actual expenditures for Police overtime increased by an additional \$1.0 million for a total of \$25.0 million. The Police Department has indicated that the year-end increase was due primarily to presidential candidate visits, special events, and staffing requirements in the Communications Division.

For additional context, we have analyzed Police overtime expenditures in recent years, as shown in the table below. Over the past five years, Police overtime expenditures have increased significantly and have exceeded budget.

<b>Police Overtime – Historical Budget vs. Actuals (\$ in millions)</b>		
<b>Fiscal Year</b>	<b>Adopted Budget</b>	<b>Actuals</b>
2017	\$21.0	N/A
2016	\$18.0	\$25.0
2015	\$11.1	\$23.1
2014	\$11.8	\$17.8
2013	\$17.1	\$19.7
2012	\$17.1	\$19.3

As stated previously, Police overtime expenditures in FY 2016 exceeded budget by \$7.0 million (or 39%). Of this amount, \$4.0 million was due to extension-of-shift overtime, \$2.0 million was related to grant/task force activity (which may be partially reimbursed), and \$1.0 million was the result of activities that are likely unique to FY 2016 and may be one-time occurrences.

The FY 2017 Adopted Budget included an additional \$3.0 million for Police overtime. In our review of the FY 2017 Proposed Budget, we noted that the additional \$3.0 million was a step in the right direction, but did not completely address the overtime expenditure issue. Police overtime expenditures will require continued close monitoring beginning with the FY 2017 First Quarter Budget Monitoring Report, which is expected to be released on November 9, 2016. Looking ahead to FY 2018, Financial Management noted at the Budget and Government Efficiency Committee meeting on October 5, 2016, that it will conduct a zero-based review of Police overtime expenditures during the FY 2018 budget process.

### Citywide Expenditures

The Year-End Monitoring Report included analyses of FY 2016 citywide fuel costs, as well as an update on the City’s water usage and conservation efforts. Additionally, the Year-End Performance Report notes that General Fund savings realized in Fleet fuel, and water and sewer savings, were close to the year-end projections included in the Year-End Monitoring Report. However, there was no discussion of whether those variances existed in the prior year, or how ongoing variances may affect future City budgets.

This section provides FY 2016 and FY 2015 data for those citywide expenses that have significantly varied from the Adopted Budget in both fiscal years, and includes a brief explanation of these citywide expenses.

## Electricity Expenses

Electricity expenses are incorporated into City department budgets based upon projected usage for each department for the upcoming fiscal year.

CITYWIDE ELECTRICITY EXPENSES (\$ in millions)						
Fund	FY 2015 Budget	FY 2015 Actual	FY 2015 Variance	FY 2016 Budget	FY 2016 Actual	FY 2016 Variance
All Funds	\$36.7	\$38.7	\$(2.0)	\$47.8	\$28.6	\$19.2
General Fund	\$10.3	\$10.5	\$(0.2)	\$13.1	\$11.2	\$2.0

Actual electricity expenses for the General Fund came in under-budget by approximately \$2.0 million in FY 2016 and slightly exceeded budget by approximately \$203,000 in FY 2015. In FY 2016, projections for citywide funds (primarily funds related to the Public Utilities Department) were impacted by billing issues which contributed to the significant variance of approximately \$19.2 million in actual expenditures compared to budget. City staff has identified these billing issues and has worked with San Diego Gas & Electric to resolve the issues for FY 2017.

## Fleet Vehicle Usage and Replacement

Fleet vehicle maintenance and replacement charges are levied onto those departments that use City vehicles, and covers the costs to maintain and eventually replace those vehicles at the end of their useful lives. Actual maintenance expenditures for the General Fund exceeded the FY 2016 Adopted Budget by approximately \$1.1 million, although they were under-budget by \$963,000 in FY 2015.

FLEET VEHICLE MAINTENANCE AND REPLACEMENT (\$ in millions)						
Description	FY 2015 Budget	FY 2015 Actual	FY 2015 Variance	FY 2016 Budget	FY 2016 Actual	FY 2016 Variance
Replacement - All Funds	\$22.2	\$20.7	\$1.5	\$17.9	\$15.9	\$2.0
Maintenance - All Funds	\$32.4	\$31.4	\$1.0	\$34.1	\$35.2	\$(1.1)
Replacement - General Fund	\$13.1	\$13.1	\$0.0	\$8.3	\$8.4	\$(0.1)
Maintenance - General Fund	\$23.9	\$22.9	\$1.0	\$25.2	\$26.3	\$(1.1)

The City's fleet grew in FY 2016 as a result of departments working with Fleet Department staff to evaluate City vehicle needs, and to balance the costs of replacing vehicles with the costs to maintain them. In FY 2017 the budget for the replacement or purchase of vehicles for the General Fund nearly doubles from FY 2016 to \$14.0 million, while the FY 2017 budget of \$26.9 million for vehicle maintenance is similar to actual FY 2016 expenditures.

## Fuel

City departments are charged for the fuel that they use during the year, but the budget that is set for them is based upon the actual expenditures from two years prior (meaning that departments' FY 2017 fuel budget is based upon their actual FY 2015 expenditures).

<b>CITYWIDE FUEL EXPENSES (\$ in millions)</b>						
<b>Fund</b>	<b>FY 2015 Budget</b>	<b>FY 2015 Actual</b>	<b>FY 2015 Variance</b>	<b>FY 2016 Budget</b>	<b>FY 2016 Actual</b>	<b>FY 2016 Variance</b>
All Funds	\$14.4	\$10.9	\$3.5	\$13.7	\$8.9	\$4.8
General Fund	\$10.3	\$7.9	\$2.4	\$9.7	\$6.5	\$3.2

General Fund fuel expenditures were significantly lower than budget in both FY 2016 (a \$3.2 million positive variance) and FY 2015 (a \$2.4 million positive variance), largely due to lower-than-expected gas prices. The General Fund budget in FY 2017 has decreased from the FY 2016 budget to approximately \$8.6 million.

### **Rent Expenses**

The City leases a number of facilities, the cost of which is included in department budgets. Actual rent expenditures came in significantly under-budget in fiscal years 2016 and 2015, including a positive variance of \$6.4 million in the General Fund in FY 2016 and a \$1.1 million positive variance in the General Fund in FY 2015.

<b>CITYWIDE RENT EXPENSES (\$ in millions)</b>						
<b>Fund</b>	<b>FY 2015 Budget</b>	<b>FY 2015 Actual</b>	<b>FY 2015 Variance</b>	<b>FY 2016 Budget</b>	<b>FY 2016 Actual</b>	<b>FY 2016 Variance</b>
All Funds	\$15.0	\$14.3	\$0.7	\$17.1	\$11.7	\$5.4
General Fund	\$9.5	\$8.4	\$1.1	\$12.1	\$5.8	\$6.4

The \$6.4 million General Fund variance in FY 2016 is largely due to \$4.4 million of expenses for Civic Center Plaza originally classified as rent expenses, being reclassified into capital and operating expenses. An additional \$1.2 million paid out for the Lowe's settlement was classified as a rent expense, but that amount was later reimbursed by the City's public liability fund.

### **Water Services**

As discussed in the Year-End Monitoring Report, City departments worked to meet the State-mandated reduction in water consumption in FY 2016. Actual expenditures by City departments on water for City buildings, offices, and landscapes were significantly under-budget in both fiscal years 2016 and 2015. The General Fund was approximately \$3.4 million under-budget in FY 2016 and \$1.3 million under-budget in FY 2015.

<b>CITYWIDE EXPENSES FOR WATER SERVICES (\$ in millions)</b>						
<b>Fund</b>	<b>FY 2015 Budget</b>	<b>FY 2015 Actual</b>	<b>FY 2015 Variance</b>	<b>FY 2016 Budget</b>	<b>FY 2016 Actual</b>	<b>FY 2016 Variance</b>
All Funds	\$21.9	\$20.3	\$1.6	\$22.7	\$18.4	\$4.3
General Fund	\$11.8	\$10.5	\$1.3	\$12.0	\$8.5	\$3.4

For FY 2017, the Public Utilities Department reduced the citywide and General Fund water budgets closer to FY 2015 levels, for a water budget of \$21.3 million citywide and \$10.7 million for the General Fund. This change reflects the reduced water usage from City departments due to ongoing conservation efforts, offset by the recent rate increase.

**Status of General Fund Reserve and Excess Equity**

The FY 2016 beginning General Fund reserve balance is \$196.5 million, as shown in the following table. Two adjustments reduce this General Fund Reserve for year-end:

- \$4.8 million reduction for the FY 2016 year-end use of Excess Equity for General Fund operations (much less than the budgeted use of Excess Equity for FY 2016, which totaled \$29.0 million: \$6.2 million in the Adopted Budget and \$22.8 million approved by City Council as part of the year-end budget monitoring process)
- \$1.0 million addition to adjust for a FY 2015 accrual of capacity charges (to avoid double-counting the \$1.0 million expenditure occurring in FY 2016)

<b>FY 2016 Year-End Excess Equity Estimate (\$ in millions)</b>	
Beginning FY 2016 Reserve Balance	\$ 196.5
FY 2016 Use of Excess Equity per Year-End Financial Performance Report	(4.8)
Adjustment for FY 2015 Accrued Low Flow Diversion Capacity Charges	<u>1.0</u>
Year-End FY 2016 Reserve Estimate	192.7
FY 2016 14.5% Reserve Requirement	(164.7)
FY 2017 Budgeted Use of Excess Equity	<u>(8.0)</u>
<b>FY 2016 Year-End Excess Equity Estimate</b>	<b>\$ 20.0</b>

Adjusting the beginning reserve for the impacts described above leaves \$192.7 million in FY 2016 estimated year-end reserve. Subsequently subtracting both the FY 2016 General Fund Reserve requirement and the FY 2017 budgeted use of Excess Equity leaves a remaining Excess Equity balance of \$20.0 million for the fiscal year-end.

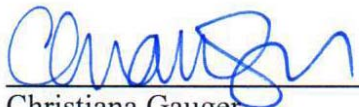
**CONCLUSION**

The Office of the IBA’s review of the FY 2016 Year-End Performance Report agrees with the presentation of the year-end variances from the projections included in the Year-End Monitoring Report. We also provide a number of other items for Council’s consideration:

- A categorization of major General Fund revenues that mirrors the description in the Proposed and Adopted Budget documents but differs from the categorization included in Financial Management’s quarterly monitoring reports and Year-End Financial Performance Report;
- A discussion of the variance of FY 2016 year-end expenditures from the Adopted Budget;

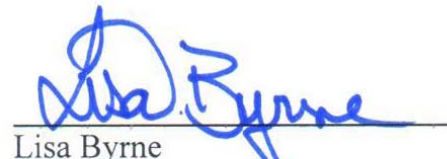
- A discussion of personnel expenditure changes from FY 2015 to FY 2016, including Police Department overtime expenditures;
- A brief analysis of citywide expenditures with significant variances from the Adopted Budget in fiscal years 2016 and 2015; and
- An overview of the City’s General Fund Reserve and Excess Equity.

We present this information in order to provide an extra tool for evaluating the Mayor’s Five-Year Financial Outlook scheduled to be released next month, and the FY 2018 Proposed Budget that will be developed through the first quarter of the upcoming calendar year.


  
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Attachment: 1. General Fund Revenues and Expenditures – FY 2015 and FY 2016

## General Fund Revenues - FY 2015 and FY 2016

Department	Adopted Budget FY 2015	Actual Un-Audited Revenues FY 2015	Difference	% Difference	Adopted Budget FY 2016	Actual Un-Audited Revenues FY 2016	Difference	% Difference
<b>Major General Fund and Other Revenues*</b>	<b>\$ 936,894,850</b>	<b>\$ 962,143,306</b>	<b>\$ 25,248,456</b>	<b>2.7%</b>	<b>\$ 1,009,201,506</b>	<b>\$ 1,026,007,663</b>	<b>\$ 16,806,157</b>	<b>1.7%</b>
Council District 2	-	-	-	0.0%	-	82	82	100.0%
Council District 5	-	1,366	1,366	100.0%	-	-	-	0.0%
Council Administration	-	606	606	100.0%	-	953	953	100.0%
City Clerk	42,404	97,832	55,428	130.7%	69,575	175,218	105,643	151.8%
City Attorney	3,256,169	4,296,206	1,040,037	31.9%	4,056,165	4,131,734	75,569	1.9%
Personnel	6,000	10,913	4,913	81.9%	1,000	7,070	6,070	607.0%
Ethics Commission	-	94,949	94,949	100.0%	-	9,050	9,050	100.0%
Office of the City Auditor	-	390	390	100.0%	-	5,258	5,258	100.0%
Assistant Chief Operating Officer	450,000	245,114	(204,886)	-45.5%	370,000	339,917	(30,083)	-8.1%
Performance & Analytics	-	-	-	0.0%	-	750	750	100.0%
Human Resources	-	393	393	100.0%	-	5,306	5,306	100.0%
Economic Development	8,566,363	6,801,256	(1,765,107)	-20.6%	7,470,912	5,597,495	(1,873,417)	-25.1%
Office of the Mayor	308,400	348,953	40,553	13.1%	328,245	358,376	30,131	9.2%
Communications	1,565,333	305,985	(1,259,348)	-80.5%	1,565,333	771,345	(793,988)	-50.7%
City Comptroller	2,468,547	2,386,629	(81,918)	-3.3%	2,772,259	2,068,997	(703,262)	-25.4%
Debt Management	683,645	932,179	248,534	36.4%	711,645	1,042,146	330,501	46.4%
Financial Management	5,000	329	(4,671)	-93.4%	-	847	847	100.0%
Purchasing & Contracting	1,607,856	1,196,528	(411,328)	-25.6%	1,550,772	1,297,199	(253,573)	-16.4%
City Treasurer	18,296,151	19,326,022	1,029,871	5.6%	19,297,104	19,892,145	595,041	3.1%
Neighborhood Services	-	3,078	3,078	100.0%	-	89	89	100.0%
Development Services	629,824	848,610	218,786	34.7%	596,269	767,215	170,946	28.7%
Real Estate Assets	45,129,495	46,253,369	1,123,874	2.5%	45,437,930	48,970,799	3,532,869	7.8%
Planning	3,831,968	3,995,853	163,885	4.3%	3,841,766	4,109,725	267,959	7.0%
Library	4,125,753	4,434,677	308,924	7.5%	4,175,753	4,880,942	705,189	16.9%
Park & Recreation	32,708,616	33,429,254	720,638	2.2%	35,504,155	35,354,233	(149,922)	-0.4%
Fire-Rescue	27,034,577	31,633,569	4,598,992	17.0%	26,792,214	30,172,422	3,380,208	12.6%
Police	44,570,440	45,121,168	550,728	1.2%	51,618,318	49,421,722	(2,196,596)	-4.3%
Office of Homeland Security	930,957	947,042	16,085	1.7%	1,280,029	936,222	(343,807)	-26.9%
Water	940,000	1,153,316	213,316	22.7%	940,000	883,563	(56,438)	-6.0%
Infrastructure/Public Works	123,135	21,445	(101,690)	-82.6%	209,997	34,634	(175,363)	-83.5%
General Services	3,881,596	2,871,053	(1,010,543)	-26.0%	3,673,786	3,320,546	(353,240)	-9.6%
Environmental Services	1,194,714	1,550,330	355,616	29.8%	2,241,946	1,455,402	(786,544)	-35.1%
Transportation & Storm Water	48,245,274	49,718,287	1,473,013	3.1%	57,053,300	55,911,685	(1,141,615)	-2.0%
Public Works - Contracts	1,053,393	1,054,493	1,100	0.1%	1,117,530	1,038,918	(78,612)	-7.0%
<b>Sub-Total Department Revenues:</b>	<b>\$ 251,655,610</b>	<b>\$ 259,081,194</b>	<b>\$ 7,425,584</b>	<b>3.0%</b>	<b>\$ 272,676,003</b>	<b>\$ 272,962,005</b>	<b>\$ 286,002</b>	<b>0.1%</b>
<b>Total:</b>	<b>\$ 1,188,550,460</b>	<b>\$ 1,221,224,500</b>	<b>\$ 32,674,040</b>	<b>2.7%</b>	<b>\$ 1,281,877,509</b>	<b>\$ 1,298,969,668</b>	<b>\$ 17,092,159</b>	<b>1.3%</b>

Note: FY 2015 mid-year adjustments appropriated \$9.0 million in projected increased General Fund revenues to fund projected over-budget General Fund expenditures. In FY 2016, \$3.3 million in General Fund revenues were appropriated at the mid-year and \$22.8 million was appropriated from Excess Equity.

\*Details on major and other General Fund revenues are included in the General Fund Revenues section of this Report and the FY 2016 Year-End Financial Performance Report.

## General Fund Expenditures - FY 2015 and FY 2016

Department	Adopted Budget	Actual Un-Audited			Adopted Budget	Actual Un-Audited		
	FY 2015	Expenditures FY 2015*	Difference	% Difference	FY 2016	Expenditures FY 2016	Difference	% Difference
Office of the COO	924,312	928,878	(4,566)	-0.5%	1,043,163	1,061,556	(18,393)	-1.8%
Council District 1	1,115,208	958,092	157,116	14.1%	1,144,494	1,033,319	111,175	9.7%
Council District 2	1,443,955	1,301,456	142,499	9.9%	1,187,117	1,041,328	145,789	12.3%
Council District 3	1,497,439	1,381,403	116,036	7.7%	1,303,286	1,189,666	113,620	8.7%
Council District 4	1,036,089	964,068	72,021	7.0%	1,129,357	880,009	249,348	22.1%
Council District 5	1,394,321	1,086,009	308,312	22.1%	1,267,904	1,118,982	148,922	11.7%
Council District 6	1,226,467	922,605	303,862	24.8%	1,262,715	1,035,462	227,253	18.0%
Council District 7	1,218,449	1,123,790	94,659	7.8%	1,221,922	1,023,959	197,963	16.2%
Council District 8	1,293,137	1,183,403	109,734	8.5%	1,185,008	1,055,288	129,720	10.9%
Council District 9	1,305,527	1,132,093	173,434	13.3%	1,174,494	1,064,868	109,626	9.3%
Council Administration	2,122,912	1,851,392	271,520	12.8%	2,059,166	2,140,693	(81,527)	-4.0%
City Clerk	5,341,256	5,227,732	113,524	2.1%	5,396,136	5,211,807	184,329	3.4%
Independent Budget Analyst	1,733,699	1,791,311	(57,612)	-3.3%	1,833,176	1,816,162	17,014	0.9%
City Attorney	45,902,055	45,574,207	327,848	0.7%	46,709,688	47,435,178	(725,490)	-1.6%
Personnel	7,106,828	7,249,336	(142,508)	-2.0%	7,434,136	7,809,435	(375,299)	-5.0%
Ethics Commission	991,862	943,065	48,797	4.9%	1,047,777	1,130,743	(82,966)	-7.9%
Office of the City Auditor	3,575,202	3,173,768	401,434	11.2%	3,717,660	3,290,407	427,253	11.5%
Assistant Chief Operating Officer	1,116,966	1,080,563	36,403	3.3%	1,805,479	1,604,987	200,492	11.1%
Performance & Analytics	1,437,206	1,290,145	147,061	10.2%	1,968,094	1,832,292	135,802	6.9%
Human Resources	3,129,024	3,077,522	51,502	1.6%	3,268,272	3,282,020	(13,748)	-0.4%
Information Technology	500,000	416,273	83,727	16.7%	500,000	477,724	22,276	4.5%
Economic Development	14,088,718	11,814,804	2,273,914	16.1%	13,823,681	12,184,065	1,639,616	11.9%
Internal Operations	388,217	413,650	(25,433)	-6.6%	396,361	403,373	(7,012)	-1.8%
Office of the Mayor	4,265,207	4,141,293	123,914	2.9%	4,305,649	4,245,074	60,575	1.4%
Communications	3,444,543	1,597,527	1,847,016	53.6%	3,563,052	3,351,586	211,466	5.9%
Chief Financial Officer	566,161	499,628	66,533	11.8%	580,839	509,297	71,542	12.3%
City Comptroller	10,735,280	11,039,437	(304,157)	-2.8%	11,111,938	11,199,504	(87,566)	-0.8%
Debt Management	2,448,214	2,523,633	(75,419)	-3.1%	2,758,828	2,461,384	297,444	10.8%
Financial Management	4,109,395	3,951,573	157,822	3.8%	4,394,566	3,991,517	403,049	9.2%
Purchasing & Contracting	6,291,735	5,443,909	847,826	13.5%	7,612,535	5,883,497	1,729,038	22.7%
City Treasurer	15,455,696	14,790,744	664,952	4.3%	16,259,232	14,956,188	1,303,044	8.0%
Neighborhood Services	970,898	804,644	166,254	17.1%	857,024	894,246	(37,222)	-4.3%
Development Services	7,011,989	6,686,441	325,548	4.6%	6,991,059	6,239,068	751,991	10.8%
Real Estate Assets	4,669,197	4,232,044	437,153	9.4%	6,181,599	4,922,310	1,259,289	20.4%
Planning	9,325,617	8,020,203	1,305,414	14.0%	10,323,118	9,849,195	473,923	4.6%
Library	45,498,448	46,013,709	(515,261)	-1.1%	49,315,373	47,147,390	2,167,983	4.4%
Park & Recreation	97,970,148	97,938,814	31,334	0.0%	105,599,710	101,293,601	4,306,109	4.1%
Fire-Rescue	218,533,401	227,076,867	(8,543,466)	-3.9%	229,258,665	235,636,392	(6,377,727)	-2.8%
Police	419,459,222	424,969,419	(5,510,197)	-1.3%	435,501,139	432,941,254	2,559,885	0.6%
Office of Homeland Security	2,018,755	2,042,339	(23,584)	-1.2%	2,333,408	2,143,601	189,807	8.1%
Water	2,005,200	2,117,584	(112,384)	-5.6%	2,549,736	1,991,740	557,996	21.9%
Infrastructure/Public Works	1,543,754	1,066,036	477,718	30.9%	1,105,896	859,577	246,319	22.3%
General Services	17,745,338	17,482,566	262,772	1.5%	26,507,783	25,059,539	1,448,244	5.5%
Environmental Services	35,164,939	33,873,375	1,291,564	3.7%	36,627,831	36,011,857	615,974	1.7%
Transportation & Storm Water	104,094,587	103,752,758	341,829	0.3%	130,652,333	130,188,433	463,900	0.4%
Public Works - Contracts	2,111,792	1,892,822	218,970	10.4%	2,158,822	1,879,356	279,466	12.9%
Citywide Expenses	87,094,071	86,447,937	646,134	0.7%	89,609,808	120,996,245	(31,386,437)	-35.0%
<b>Total:</b>	<b>\$ 1,202,422,436</b>	<b>\$ 1,203,290,865</b>	<b>\$ (868,429)</b>	<b>-0.1%</b>	<b>\$ 1,288,039,029</b>	<b>\$ 1,303,775,174</b>	<b>\$ (15,736,145)</b>	<b>-1.2%</b>

Note: FY 2015 mid-year adjustments appropriated \$9.0 million in projected increased General Fund revenues to fund projected over-budget General Fund expenditures. In FY 2016, \$3.3 million in General Fund revenues were appropriated at the mid-year and \$22.8 million was appropriated from Excess Equity.

\*Total FY 2015 Actual Expenditures \$35,005.35 higher than the expenditures reported in the Financial Performance Report Fiscal Year 2016, due to the timing of postings.