OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2022 Year-End Financial Performance Report

OVERVIEW

The FY 2022 Year-End Financial Performance Report (Year-End Performance Report) was issued on October 12, 2022 and presented to the Budget and Government Efficiency Committee on October 19, 2022. The Year-End Performance Report compares revenue and expenditure projections reported in the FY 2022 Third Quarter Budget Monitoring Report to unaudited actual revenue and expenditure activity for July 1, 2021 through June 30, 2022.

Our Office's review of the Year-End Performance Report highlights the changes in General Fund revenues and expenditures, reviews the status of the General Fund Reserve and Excess Equity, provides additional context and updates on those items, and offers a review of homelessness expenditures. We note that changes in overall revenues and expenditures are significant, with General Fund revenues coming in $31.3 million above Third Quarter Report projections, and General Fund expenditures $4.0 million under Third Quarter Report projections. The result is a $35.3 million increase to Excess Equity for FY 2022, which we discuss in the Excess Equity section of this report, as well as the Next Steps and Additional Considerations section of this report.

FISCAL/POLICY DISCUSSION

GENERAL FUND REVENUES

Total General Fund revenue in the Year-End Performance Report is $1.81 billion, an increase of $31.3 million over Third Quarter projections, reflecting a continued rebound in the City's revenue sources most impacted by the COVID-19 pandemic – sales tax, Transient Occupancy Tax (TOT), and departmental revenues. As a comparison, the FY 2020 Adopted Budget – the City's last pre-pandemic projection for a full fiscal year - projected $1.55 billion in General Fund Revenue. The $1.81 billion revenue in the Year-End Performance Report does include $100 million in American Rescue Plan Act (ARPA) funding. After removing ARPA funds used to balance the budget in FY

2022, there is still a nearly $160 million increase in General Fund revenue as compared to FY 2020.

General Fund Revenue Projections by Quarter *($ in millions)*							
	Adopted Budget	First Quarter Projection	Mid-Year Projection	Third-Quarter Projection	Year-End Performance	Variance: Adopted to Year-End	Variance: Third Quarter to Year-End
Property Tax	$ 672.2	$ 662.0	$ 658.5	$ 660.1	$ 663.1	$ (9.1)	$ 3.0
Sales Tax	320.8	331.8	341.1	362.4	375.6	54.8	13.2
Transient Occupancy Tax	95.5	113.0	119.9	128.1	136.5	41.0	8.4
Franchise Fees	78.3	78.3	86.2	90.0	89.8	11.5	(0.2)
Other Major Revenues	111.0	111.0	103.2	99.7	93.3	(17.7)	(6.4)
Subtotal Major Revenues	***1277.8***	***1296.1***	***1308.9***	***1340.3***	***$ 1,358.3***	***80.5***	***18.0***
Departmental Revenues	***316.4***	***316.4***	***334.8***	***337.3***	***350.5***	***34.1***	***13.2***
American Rescue Plan Act	***149.3***	***149.3***	***120.4***	***100.0***	***100.0***	***(49.3)***	***-***
Total	**$ 1,743.5**	**$ 1,761.8**	**$ 1,764.2**	**$ 1,777.6**	**$ 1,808.9**	**$ 65.3**	**$ 31.3**

NOTE: Table may not total due to rounding.

As shown in the table above, projections for both sales tax and TOT significantly increased in each of the three quarterly updates, outpacing the positive trend that was already anticipated. Of note, we see a decrease of $49.3 million in American Rescue Plan Act (ARPA) funds as compared to the Adopted Budget. This reflects a reduced reliance on federal ARPA funds (anticipated to be $149.3 million in the Adopted Budget, then reduced to $100 million at Mid-Year) as a result of the increase in sales tax and TOT revenue.

Significant General Fund revenues are further discussed below.

Property Taxes

Property tax revenue increased by $3.0 million from the Third Quarter Report, mostly due to increases in the 1.0% base property tax receipts due to higher than anticipated collections from the sale of new property and new construction. Overall, however, property tax collections ended the year $9.1 million below the FY 2022 Adopted Budget, mostly due to the fact that the allowable growth on the assessed value of properties not otherwise sold, transferred, or improved could only increase by 1% in FY 2022, as opposed to the maximum 2% allowed, per Proposition 13. This impacted all property tax categories, and was not part of the projections utilized for the Adopted Budget. The 1% increase for FY 2022 is due to the fact that the Consumer Price Index (CPI) growth rate from October 2019 to October 2020 was only 1%. This is not anticipated to impact FY 2023 since the CPI inflation rate in October 2021 was well above the 2% maximum.

Sales Taxes

Sales tax revenue increased by $13.2 million from the Third Quarter Report, and $54.8 million from the Adopted Budget, driven by continued strong consumer spending as well as persistent inflation in consumer items. We note that of the $13.2 million increase over the Third Quarter Report, $6.8 million has already been included in the FY 2023 Adopted Budget as part of the Council's adoption of IBA's recommended modifications to the Proposed FY 2023 Budget. Although sales tax revenue experienced robust growth in FY 2022 as compared to the prior year, the FY 2023 Adopted Budget assumes a slower growth rate as we expect inflation to begin to come down as the Federal Reserve continues to increase interest rates.

Transient Occupancy Taxes

Similar to sales tax, General Fund Transient Occupancy Tax (TOT) revenue, or hotel tax revenue, far surpassed what was projected in the Adopted Budget, by $41.0 million, or 43%. TOT revenue increased by $8.4 million from the Third Quarter Report. We note that FY 2022 unaudited actuals for General Fund TOT revenue of $136.5 million has surpassed actual General Fund TOT revenue received in 2019 of $131.3 million, prior to the pandemic. Although the recovery of TOT has been stronger than expected, unaudited actuals for FY 2022 remains below the projected growth trends in place prior to the pandemic of an estimated $145.7 million for FY 2022.

Franchise Fees

Franchise fee revenue decreased by $0.2 million from the Third Quarter Report, mostly due to the continued decline in cable franchise revenues. Overall, the unaudited actuals were $11.5 million higher than the Adopted Budget mainly due to an accounting change that accounted for the minimum bid proceeds from the SDG&E franchise agreement being accounted for as Franchise Fees, with a corresponding decrease in the Other Major Revenues category. There was also an increase in the base franchise fee payments of $4.0 million, based off of the SDG&E clean-up payment for fees due from calendar year 2021. This increase has already been included in the FY 2023 Adopted Budget.

Federal American Rescue Plan Act (ARPA)

ARPA was signed into law on March 11, 2021, providing the City with a total of $299.7 million. ARPA funds must be used by December 2024 (FY 2025) and are available to provide government services and replace a significant portion of revenue lost due to the COVID-19 pandemic. The Year-End Performance Report reported that $100.0 million in ARPA funds were utilized in FY 2022 – unchanged from the Third Quarter Report projection.

With $100.0 million of ARPA used in FY 2022 and $147.6 million budgeted for FY 2023, there is an estimated $52.1 million available for use in FY 2024. ARPA is a one-time funding source, and should generally be used for one-time expenditures to achieve a structurally balanced budget. We note that the FY 2023 Adopted Budget is not structurally balanced as $38.2 million in one-time resources are being used to support ongoing expenditures; as ongoing General Fund revenues grow, moving forward it would be prudent to phase out use of one-time ARPA funds to support ongoing expenditures.

GENERAL FUND EXPENDITURES

The Year-End Performance Report shows unaudited actual General Fund expenditures of $1.76 billion, which is $16.7 million higher than the FY 2022 Adopted Budget (a negative expenditure variance). This variance is 1.0% of the Adopted Budget, as shown in the following table. Note that our expenditure variance review below uses the Adopted Budget as a base for comparison, whereas the Department of Finance uses the current budget as a base in its Year-End Performance Report. Therefore, the figures in our tables are different from the variances reflected in the Department of Finance's Report.

FY 2022 General Fund Expenditures *($ in millions)*						
	Adopted Budget	**Third Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3d Qtr to Year-End**	**Variance: Adopted to Year-End**	***Variance %: Adopted to Year-End***
Salaries and Wages	$ 680.9	$ 691.3	$ 688.3	$ 3.0	$ (7.5)	*(1.1%)*
Fringe Benefits	533.4	530.8	529.9	0.9	3.5	*0.7%*
Non-Personnel Expenditures (NPE)	529.3	542.1	542.0	0.1	(12.7)	*(2.4%)*
Total General Fund Expenditures	**$ 1,743.5**	**$ 1,764.2**	**$ 1,760.2**	**$ 4.0**	**$ (16.7)**	***(1.0%)***

Notes: Table may not total due to rounding.
Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

Some of the most significant variances to the FY 2022 Adopted Budget are highlighted in the following sections, including expenditure increases that are partially offset with expenditure decreases.

Some of the largest expenditure increases from the Adopted Budget include:

- $31.7 million in additional overtime, largely related to the Fire-Rescue and Police Departments, as discussed later
- $19.4 million for additional transfers to the Public Liability Fund for previously unanticipated claims
- $8.5 million in additional transfers to the Parks Improvement Funds
- $4.8 million in additional energy and utilities spending, primarily due to increased electricity and fuel costs
- $4.4 million in additional termination pay and vacation pay-in-lieu expenditures

The higher spending levels listed above are partially offset with decreased spending, including:

- $30.9 million in salary savings, primarily due to vacancy savings
- $8.3 million in reduced contract spending for Homelessness Strategies and Solutions Department primarily due to delays in executing agreements for shelter sites, shifting the commitment of one-time emergency funding into the next fiscal year, as well as intake suspension during the pandemic and delayed invoice payments into the next fiscal year for contractual services
- $6.9 million in information technology savings, due to issues with the supply chain and resulting delays in purchases, as well as the transition to new managed service providers which delayed planned assessments and projects to FY 2023

- $3.5 million in fringe savings, primarily due to savings from flexible benefits plan largely resulting from increased vacancies

Personnel Expenditures

The following table compares the FY 2022 unaudited actuals to the Adopted Budget for various salaries and wages categories. The second column from the right shows that total salaries and wages expenditures net to $7.5 million more than what was included in the FY 2022 Adopted Budget (shown as a negative spending variance).

FY 2022 Salaries and Wages Expenditures - General Fund *($ in millions)*						
	Adopted Budget	**Third Quarter Projection**	**Year-End Unaudited Actuals**	**Variance: 3d Qtr to Year-End**	**Variance: Adopted to Year-End**	***Variance %: Adopted to Year-End***
Salaries	$ 546.7	$ 520.5	$ 515.7	$ 4.8	$ 30.9	*5.7%*
Special Pay	43.9	47.5	47.5	(0.0)	(3.6)	*(8.2%)*
Overtime	67.8	97.8	99.5	(1.8)	(31.7)	*(46.7%)*
Hourly	13.3	12.0	12.0	0.0	1.3	*9.9%*
Vacation Pay in Lieu/Termination Pay	9.1	13.6	13.6	0.0	(4.4)	*(48.3%)*
Total Salaries and Wages	**$ 680.9**	**$ 691.3**	**$ 688.3**	**$ 3.0**	**$ (7.5)**	***(1.1%)***

Notes: Table may not total due to rounding.
Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

There is $30.9 million in net salary savings, primarily due to delays in hiring and a higher vacancy level than anticipated in the Adopted Budget. This $30.9 million savings is offset by overages in other personnel expenditures categories, including overtime, special pay, and pay-in-lieu/termination pay.

The most significant overage, $31.7 million in overtime, is largely related to the Fire-Rescue, Police, and Parks and Recreation Departments – $17.9 million, $10.2 million, and $1.2 million, respectively. Overtime is addressed in more detail in a following section.

Departmental Variances

As previously mentioned, total salaries and wages expenditures net to $7.5 million more than what was included in the FY 2022 Adopted Budget. This overage includes all salaries and wages types (salaries, special pay, overtime, hourly, pay-in-lieu, and termination costs). The $7.5 million overage includes departments with salaries and wages overages, which are partially offset by departments with savings.

Departments with the largest salaries and wages overages include:

- $11.7 million[1] – Fire-Rescue (largely overtime overage, partially offset with salary savings)

[1] Includes mid-year appropriation adjustments which reallocated $7.4 million in personnel expenditures originally budgeted in Citywide Program Expenditures for anticipated salary increases to the Fire-Rescue ($2.4 million) and Police ($4.9 million) Departments as a result of labor negotiations.

- $6.8 million[2] – Police (largely overtime and termination pay overage, partially offset with hourly wage savings)
- $2.4 million – City Attorney (largely salary and termination pay overage)

Departments with the highest salaries and wages savings include:

- $3.3 million – Parks and Recreation (largely salary and hourly wage savings, partially offset with overtime overage)
- $1.3 million – Transportation (largely salary and hourly wage savings, partially offset with overtime overage)
- $1.0 million – Library (largely salary savings, partially offset with hourly wage overage)
- $897,000 – Facilities Services (largely salary savings)
- $595,000 – Stormwater (largely salary savings, partially offset with overtime overage)
- $555,000 – City Treasurer (largely salary savings)
- $469,000 – Economic Development (largely salary savings)
- $455,000 – Environmental Services (largely salary savings, partially offset with overtime overage)
- $439,000 – Planning (largely salary savings)
- $413,000 – Development Services (largely salary savings)
- $360,000 – Commission on Police Practices (largely salary savings, about half its salaries and wages budget)
- $357,000 – City Clerk (largely salary savings)

Overtime

The salaries and wages category with the largest FY 2022 projected overage is overtime, netting to an over-budget total of $31.7 million. Of this amount, $17.9 million is within the Fire-Rescue Department and $10.2 million is in the Police Department. The next largest overtime overages are $1.2 million in Parks and Recreation, $994,000 in Stormwater, $598,000 in Environmental Services, and $562,000 in Transportation. The Fire-Rescue and Police Departments together comprise 92% of total General Fund overtime costs. These two departments' overtime expenditures are discussed briefly below.

Fire-Rescue Overtime

At FY 2022 year-end, actual Fire-Rescue overtime expenditures totaled $50.7 million and exceeded budgeted amounts in the Adopted Budget by $17.9 million. This is $1.2 million more than the year-end projection at the time of the Third Quarter Report.

Of the $17.9 million overtime overage in FY 2022, $5.5 million is offset by reimbursements ($524,000[3]) and projected net savings in salary and special pay (approximately $5.0 million), resulting in a net General Fund impact of about $12.4 million.

[2] See footnote 1 on previous page.

[3] Fire-Rescue indicated that it anticipates receiving an additional $1.2 million in COVID-19 related reimbursements for activities that occurred in FY 2021. While this reimbursement was previously anticipated to be received in FY 2022, it is now expected in FY 2023. We included FY 2021 reimbursable overage amounts as an offset. component to overtime overages in our review of the FY 2021 Year-End Financial Performance Report (IBA Report #21-24).

For a more detailed break-down of the $17.9 million overtime overage, the Fire-Rescue Department provided the following components:

- $14.7 million – constant staffing for essential fire suppression posts
- $1.1 million – other divisional overtime, largely for lifeguard services and dispatcher vacancies
- $960,000 – required continuing education and fire recruit exams
- $942,000 – strike team deployments (of which $524,000 in reimbursable revenue was received in FY 2022)
- $233,000 – fire academies, which have been impacted by COVID-19

Historical information on Fire-Rescue overtime expenditures is provided in the table below.

Fire-Rescue Overtime – Historical Budget vs. Actuals *($ in millions)*									
	FY 2014	**FY 2015**	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**	**FY 2022**
Actual	$ 29.7	$ 31.5	$ 31.8	$ 32.5	$ 45.4	$ 45.2	$ 41.1	$ 51.3	$ 50.7
Budget	23.7	26.7	29.9	30.2	32.8	38.1	36.6	33.3	32.8
Overage	**$ 6.0**	**$ 4.8**	**$ 1.9**	**$ 2.3**	**$ 12.5**	**$ 7.0**	**$ 4.5**	**$ 18.0**	**$ 17.9**

NOTES: Table may not total due to rounding.
FY 2014 through FY 2022 Actual amounts are based on unaudited actuals.

The Fire-Rescue Department indicates that contributing factors for increased overtime levels over the years include general salary increases; a Local 145 Memorandum of Understanding (MOU) change beginning in FY 2018 that allows leave time (non-productive time) to count towards the threshold above which overtime is earned; increases in strike team deployments and weather-related events; and higher vacancies yielding more constant-staffing overtime (related vacancy savings partially offsets certain overtime for constant-staffing). Note that strike team deployment overtime is reimbursable and therefore will not have an impact on the General Fund. Reimbursements are most commonly received from the California Office of Emergency Services (CalOES) followed by the Federal Emergency Management Agency (FEMA).

For FY 2021 and FY 2022 there was also increased backfill overtime for COVID-related absences (which includes increased absences for industrial leave) and for personnel pulled from operations to perform reimbursable COVID-19 activities, including the City's FY 2021 vaccination operations.

Police Overtime

The FY 2022 Adopted Budget for Police Department overtime, at $30.7 million, was reduced by $7.4 million from FY 2021. Of this reduction, $4.0 million represented budget mitigation actions, including reductions of $2.0 million to extension of shift overtime, $1.0 million to Neighborhood Policing overtime, and $1.0 million to Clean SD overtime. As we discussed in IBA Report 22-13 "IBA Review of the FY 2022 Third Quarter Budget Monitoring Report," the saving intended to be garnered from these reductions were not realized, with the Police Department citing a rise in violent crime and increased 911 call volumes necessitating increased patrol staffing requirements. At the time of the Third Quarter Report, the FY 2022 year-end projection for Police overtime was $10.4 million over the budgeted level set by the Adopted Budget. At FY 2022 year-end, actual

Police overtime expenditures totaled $40.9 million, exceeding budget by $10.2 million which is a slight improvement since the Third Quarter projection.

We note that the FY 2023 Adopted Budget increased the Police Department's overtime budget by $5.6 million, to $36.3 million in total (all General Fund), in part to restore FY 2022 budget reductions; however, given that actual overtime expenditures in FY 2022 were $10.2 million over budget, the department's overtime budget in FY 2023 may still be insufficient. More information will be known when the FY 2023 First Quarter Budget Monitoring Report is released on November 10, 2022.

Historical information on Police overtime expenditures is provided in the table below.

Police Overtime - Historical Budget vs. Actuals *($ in millions)*

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019 [1]	FY 2020 [2]	FY 2021 [3]	FY 2022
Actual	$ 17.8	$ 23.1	$ 25.0	$ 26.0	$ 29.7	$ 31.9	$ 44.8	$ 37.2	$ 40.9
Budget	11.8	11.1	18.0	21.0	26.3	24.6	35.9	38.1	30.7
Overage/ (Savings)	**$ 6.0**	**$ 12.0**	**$ 7.0**	**$ 5.0**	**$ 3.4**	**$ 7.4**	**$ 8.9**	**$ (0.9)**	**$ 10.2**

NOTES: Table may not total due to rounding.

FY 2014 through FY 2022 Actual amounts are based on unaudited actuals.

[1] The $31.9 million FY 2019 actual amount includes approximately $29.3 million of General Fund and $2.7 million of Seized Assets Fund (SAF) expenditures.

[2] The $44.8 million FY 2020 actual amount includes $41.4 million and $3.4 million for the General Fund and SAF, respectively; and the $35.9 million budget amount includes $32.1 million and $3.9 million for the General Fund and SAF, respectively.

[3] The $37.2 million FY 2021 actual amount includes $32.9 million and $4.3 million for the General Fund and SAF, respectively; and the $38.1 million budget amount include $33.7 million and $4.4 million for the General Fund and SAF, respectively.

Non-Personnel Expenditures or Department/Program Issues

Homelessness Strategies

The Year-End Performance Report reflects $8.6 million in savings from a variety of fund sources (predominately the General Fund) in the Homelessness Strategies and Solutions Department, relative to the FY 2022 Adopted Budget. Two main factors contributed to such notable savings: (1) ramp-up time needed to establish new programs and (2) impacts from the pandemic. The Department notes that developing and establishing new programs, particularly standing up new shelters, require significant time for planning and preparation. In FY 2022, the Department only spent $2.8 million from the $10.0 million in one-time funding budgeted largely for additional emergency shelter beds. Most of the savings associated with long ramp-up times for new emergency shelter beds ($5.4 million) were reallocated in the FY 2023 Adopted Budget when additional shelter capacity is expected to be online. Savings also came from the Homelessness Response Center ($530,000) due to time needed to ramp up the redesigned program. Regarding pandemic impacts, shelters experienced pandemic-related staffing shortages and reduced capacity, which reduced operating costs (approximately $6.7 million). There was also an influx of federal COVID-19 rental assistance disbursed through the Housing Stability Assistance Program which dampened demand for rental assistance from the City's Flexible Spending Program, resulting in $670,000 in savings.

Additionally, we would like to highlight two other programs.

Update on Facility on Palm Avenue

During the pandemic, the City used a rehabilitated facility on Palm Avenue owned by the City as a short-term family shelter. In FY 2022, the family shelter program at the facility ended earlier than anticipated, resulting in a savings of $342,000. Because this facility was vacated early, the Department is currently using the site for senior bridge housing on a short-term basis. The facility will eventually be used to operate a redesigned San Diego Misdemeanants At Risk Track (SMART) Program, the program for which the Palm Avenue facility was acquired.

Rapid Rehousing

We mentioned in our review of the Third Quarter report that the City's Rapid Rehousing Programs were projected to underspend by $500,000 from a General Fund budget of $1.0 million. In addition to General Fund, $1.3 million was budgeted in federal grant funds. Although the Department reports that the full $1.0 million budgeted from the General Fund was ultimately expended, we note that $561,000 for the Rapid Rehousing Programs was left unspent from grant funds due to a lack of available rental units.

GENERAL FUND RESERVE AND EXCESS EQUITY

General Fund Reserve

The City's Reserve Policy goal for the General Fund Reserve is to reach 16.7% of operating revenues, which is to be phased-in through FY 2025.[4] To realize this phase-in, over the past several years, the Policy's Reserve target percentage has increased by 0.25% annually. For example, the Reserve Policy's General Fund target increased from 15.5% of operating revenues in FY 2020 to 15.75% in FY 2021 and to 16.0% in FY 2022.

However, as a result of declining revenues due to the COVID-19 pandemic, neither the FY 2021 nor FY 2022 Adopted Budgets included a General Fund Reserve contribution. Thus, the FY 2021 and projected FY 2022 Reserve levels remain at the FY 2020 balance of $205.6 million, as shown in the third row of the following table. The fourth row shows that, in the absence of a Reserve contribution, the FY 2021 Reserve was $8.2 million below the Reserve Policy target; and the FY 2022 Reserve is projected to be $14.8 million below the Reserve Policy target.

General Fund Reserve Policy vs Reserve Balance *($ in millions)*			
	FY 2020	**FY 2021**	**FY 2022**
Reserve Policy Target Percent	***15.5%***	***15.75%***	***16%***
Reserve Policy Target [1]	$ 205.6	$ 213.8	$ 220.4
Reserve Balance (FY 2020 and FY 2021) / Reserve Projection (FY 2022)	$ 205.6	$ 205.6	$ 205.6
Difference: Amount Reserve Balance Is Below the Policy Target	**$ -**	**$ (8.2)**	**$ (14.8)**
Reserve Balance as Percent of Operating Revenues	***15.5%***	***15.1%***	***14.9%***

Note: Table may not total due to rounding.

[1]The Reserve Policy targets are based on the average of the prior three years' actual operating revenues.

[4] The City's Reserve Policy is delineated in Council Policy 100-20.

As General Fund revenues recover from pandemic related declines, the City should revisit its reserve contributions and policy to bring reserve levels into accordance with set reserve target levels.

Excess Equity

Excess Equity, as described in the Reserve Policy, is "Unassigned Fund Balance that is not otherwise designated as General Fund Reserves and is available for appropriation". FY 2022 year-end Excess Equity is $69.1[5] million, based on the Fiscal Year 2022 Year End Financial Performance Report. This amount is $35.3 million higher than projected in the Third Quarter Budget Monitoring Report, largely due to increased sales tax, TOT, and departmental revenue.

NEXT STEPS AND ADDITIONAL CONSIDERATIONS

The $69.1 million Excess Equity amount is subject to change as projections are updated during FY 2023. Excess Equity can be used as a one-time resource. Its use could be requested during FY 2023, for example as part of the Mid-Year Budget Monitoring Report which is scheduled to be released February 3, 2023. It could also be utilized as a resource for the FY 2024 budget. Ultimately, any proposed use of Excess Equity will require Council's approval; and should the Mayor propose any changes to the FY 2023 Budget at mid-year, Council will have the opportunity to either approve or amend those proposals during its review in February.

While the Excess Equity amount reported in the Year-End Performance Report is ultimately a positive, there are one-time funding priorities that need to be analyzed and addressed. Examples of one-time uses would be to fully fund the General Fund Reserve to its target policy level, or to increase the Pension Payment Stabilization Reserve balance. There are also programmatic one-time uses that could be considered. We note that Excess Equity has been largely held aside for any potential unanticipated Proposition B unwinding costs.[6] We anticipate knowing more about Proposition B unwinding costs after the Mid-Year Budget Monitoring Report is released. However, due to the complexity of the issues and the fact that certain aspects of the negotiations process are still ongoing, the impact will likely not be fully known at that time.

Further context on the City's finances for the current fiscal year, as well as in future fiscal years, will be included in the First Quarter Budget Monitoring Report and the Mayor's FY 2024-2028 Five Year Financial Outlook, both of which are due to be released on November 10, 2022.

CONCLUSION

The Office of the IBA's review of the FY 2022 Year-End Performance Report documents the changes to General Fund revenues, expenditures, and Excess Equity since the Third Quarter Budget Monitoring Report projections, and provides a high-level summary of year-end expenditure variances as compared to the FY 2022 Adopted Budget. We present this information in order to provide another tool for evaluating City expenditures for FY 2022 and to help guide

[5] The Fiscal Year 2022 Year End Financial Performance Report shows ending Excess Equity of $75.3 million; however, the report also notes that $6.2 million of this amount has already been anticipated as a resource in the FY 2023 Adopted Budget.

[6] See the Unwinding Proposition B section of our Recommended City Council Modifications to the Mayor's Proposed FY 2023 Budget and Review of the May Revision (IBA report 22-15) for additional information.

Council's discussions around future budget decisions. Additional information is anticipated to come in the FY 2023 First Quarter Budget Monitoring Report and the Mayor's FY 2024-2028 Five-Year Financial Outlook, both of which are scheduled to be released November 10, 2022.

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