The City of San Diego

Staff Report

DATE ISSUED:	10/05/2017	
TO:	City Council	
FROM:	Financial Management	
SUBJECT:	Fiscal Year 2017 Year-End Financial Performance Report	
Primary Contact:	Vanessa Montenegro	Phone: (619) 236-6371
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Council District(s):	Citywide	

OVERVIEW:

The Fiscal Year 2017 Year-End Financial Performance Report (FY 2017 Performance Report) estimates the General Fund unaudited actual revenues to be as projected in the Fiscal Year 2017 Year-End Budget Monitoring Report (FY 2017 Year-End Report) and General Fund unaudited actual expenditures to vary slightly from projections by 1.0%.

PROPOSED ACTIONS:

This is an informational item only.

DISCUSSION OF ITEM:

The General Fund revenue is expected to end the fiscal year at $1,345.4 million, which is as projected during the FY 2017 Year-End Report. However, there are variances throughout various revenue categories which will be detailed later in this report. Overall, there is a 0.0% variance from the FY 2017 Year-End Report projections and the unaudited actual revenues for the General Fund.

The General Fund expenditures are expected to end the fiscal year at $1,320.8 million; this is $13.8 million below the year-end projection of $1,334.6 million. The $13.8 million is primarily attributed to lower than projected personnel costs of $11.0 million which is comprised of $4.4 million in salaries and wages and $6.6 million in fringe benefit expenditures. The Fiscal Year 2017 budgeted increase to the General Fund Stability Reserve of $7.6 million, an increase of 0.25%, occurred as projected. This increased total General Fund Reserves to 14.75% in keeping with the Fiscal Year 2017 General Fund Reserve Policy target.

In summary, total General Fund unaudited expenditures are $13.8 million lower than the FY 2017 Year-End Report. This contributes to a $17.1 million projected ending fund balance (excess equity) in

Fiscal Year 2017. The actuals included in this report are the most current data available at the time of publication and are subject to change as a result of the completion of the audit of the City of San Diego's Comprehensive Annual Financial Report (CAFR). Any potential use of fund balance will be presented during the Fiscal Year 2018 Mid-Year Budget Monitoring Report.

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.

Environmental Impact:
This activity is not a project and, therefore, not subject to CEQA per CEQA Guideline Section 15060(c)(3).

Equal Opportunity Contracting Information (if applicable):
N/A

Previous Council and/or Committee Actions:
This item will be heard by the Budget & Government Efficiency Committee prior to full City Council.

Key Stakeholders and Community Outreach Efforts:
N/A

Tracy McCraner	Rolando Charvel
Department Director	Chief Financial Officer

Attachment:
1. Fiscal Year 2017 Year-End Financial Performance Report

Fiscal Year 2017
Year-End
Financial Performance Report
October 2017

Financial Management

signature on file
Scott Chadwick
Chief Operating Officer

signature on file
Rolando Charvel
Chief Financial Officer

signature on file
Tracy McCraner
Financial Management Director

signature on file
Vanessa Montenegro
Budget Coordinator

INTRODUCTION

Financial Management (FM) and the Office of the City Comptroller have created the Fiscal Year 2017 Year-End Financial Performance Report (FY 2017 Performance Report) to accompany the June 2017 Charter 39 Report. The FY 2017 Performance Report is intended to provide City Council and the public a detailed comparison of actual (unaudited) revenue and expenditure activity compared to the Fiscal Year 2017 year-end projections, included in the FY 2017 Year-End Budget Monitoring Report (FY 2017 Year-End Report), #17-027 dated May 16, 2017. The FY 2017 Performance Report combined with the June 2017 Charter 39 Report presents a comprehensive analysis of the General Fund activity for the fiscal year ending June 30, 2017.

The FY 2017 Performance Report compares General Fund Fiscal Year 2017 year-end projections, for both revenues and expenditures to the Fiscal Year 2017 unaudited actuals as of October 5, 2017. It also includes financial schedules prepared by the Office of the City Comptroller comparing Fiscal Year 2017 unaudited actual revenue and expenditures against the Fiscal Year 2017 budget for the General Fund and other budgeted funds in accordance with Section 39 of the City Charter (See Fiscal Year 2017 Year-End Charter 39 Supporting Schedules, Attachment II).

The FY 2017 Performance Report focuses on significant variances between year-end projections and unaudited actual revenues and expenditures for General Fund departments and includes the following:

- Variance analysis of the major General Fund revenues and significant variances in departmental revenue
- Discussion of significant variances by expenditure category
- Update on the General Fund's Reserves and excess equity
- Update on 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 Fiscal Year 2017 Year-End Financial Performance Report (FY 2017 Performance Report) estimates the General Fund unaudited actual revenues to be as projected in the Fiscal Year 2017 Year-End Budget Monitoring Report (FY 2017 Year-End Report), or a 0.0% variance. General Fund unaudited actual expenditures are expected to vary by $13.8 million, or 1.0% from the year-end projection. The $13.8 million is primarily due to lower than projected personnel costs of $11.0 million, comprised of $4.4 million in salaries and wages and $6.6 million in fringe benefit expenditures.

Summary of FY 2017 Year-End Performance - General Fund

Table 1 *in millions*

Revenue/Expenditures	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
FY 2017 Activity				
Revenue	$ 1,345.4	$ 1,345.4	$ 0.0	0.0%
Appropriated Use of Fund Balance (Excess Equity)	*8.0*	*8.0*	-	N/A
Total Resources	**1,353.4**	**1,353.4**	**0.0**	N/A
Expenditures[1]	**1,334.6**	**1,320.8**	**(13.8)**	-1.0%
Net of Year-End Performance	**$ 18.8**	**$ 32.6**	**$ 13.8**	

[1]FY 2017 Year-End Report included total projected expenditures of $1342.2 million, which included the FY 2017 Stability Reserve contribution of $7.6 million to reach the target. The $7.6 million is removed from the FY 2017 Year-End Projections column to reflect the actual activity of $1334.6 million, for comparability purposes since the funding of the reserve is not recognized as an expenditure in the CAFR. The FY 2017 budgeted Stability Reserve Contribution will not be recognized as an expense and will close to fund balance as part of the year-end financial accounting process.

The General Fund total resources, including appropriated fund balance and Fiscal Year 2017 unaudited revenue, are expected to end the fiscal year at $1,353.4 million, as projected in the FY 2017 Year-End Report. However, there are variances between revenue categories which will be discussed later in this report.

The General Fund unaudited expenditures are expected to end the fiscal year at $1,320.8 million which represents lower than projected actuals of $13.8 million from the year-end projection. The actual expenditures primarily resulted from lower than projected personnel costs of $11.0 million, comprised of $4.4 million in salaries and wages and $6.6 million in fringe benefit expenditures. Salary expenditures are lower by $2.2 million compared to the FY 2017 Year-End Report due to a slightly higher number of vacant positions at year-end over those that were projected in the year-end projections. Additionally, overtime expenditures are lower than projections by $1.4 million in the Fire-Rescue Department as a result of achieving full staffing for firefighter personnel. Although overtime cost reductions were anticipated by Fire-Rescue, there were no historical expenditure trends to adequately assess the impact of full staffing on the department's overtime costs. The Fiscal Year 2017 data can now be used for future budget monitoring report projections during Fiscal Year 2018.

Fringe benefit expenditures are lower by $6.6 million since the FY 2017 Year-End Report due to differences in budgeting for the Retirement Actuarially Determined Contribution (ADC) and actual accounting of the ADC expenditures on a modified-accrual basis. The actual cash payment made to San Diego City Employees Retirement System (SDCERs) on July 1, 2016 for Fiscal Year 2017 General Fund was $191.2 million as budgeted and projected in the FY 2017 Year-End Report. The variance between projections and actual results from the difference in cash basis and modified accrual basis of accounting.

Non-personnel expenditures are lower than projected by $2.8 million. The $2.8 million variance is primarily attributed to lower information technology expenditures primarily in the Police and Fire-Rescue Departments, and reduced energy expenses for traffic signals and street lights in the Transportation and Storm Water Department of $800,000 due to a decrease in the customer rate charged by San Diego Gas and Electric (SDG&E).

In summary, General Fund revenues have resulted as projected and General Fund expenditures are $13.8 million lower than the FY 2017 Year-End Report. This expenditure savings contributes to a $17.1 million projected ending fund balance above reserves (excess equity) for Fiscal Year 2017. The unaudited actuals included in this report are the most current data available at the time of publication and are subject to change as a result of the completion of the CAFR audit. A detailed summary of General Fund variances by revenue and expenditure categories are included in this report.

Tables may not foot due to rounding.

GENERAL FUND REVENUE

General Fund revenues are expected at $1,345.4 million in Fiscal Year 2017, which is as projected in the FY 2017 Year-End Report. Actual major General Fund revenues are slightly higher than projected by $400,000, offset by $320,000 in lower actual General Fund departmental revenues over the Fiscal Year 2017 year-end projections.

FY 2017 General Fund Revenue Performance

Table 2 *in millions*

Revenue Category	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Major General Fund Revenues	$ 1,061.6	$ 1,062.0	$ 0.4	0.0%
Departmental Revenue	283.8	283.4	(0.3)	-0.1%
Total	**$ 1,345.4**	**$ 1,345.4**	**$ 0.0**	**0.0%**

MAJOR GENERAL FUND REVENUES

As reflected in Table 3: FY 2017 Major General Fund Revenue Performance, the City's major General Fund revenues are expected to end the fiscal year as projected in the FY 2017 Year-End Report, with actual revenue slightly higher by $400,000, or 0.0% from the year-end projections.

FY 2017 Major General Fund Revenue Performance

Table 3 *in millions*

Revenue Category	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Property Tax	$ 506.2	$ 506.2	$ 0.0	0.0%
Sales Tax	274.1	271.5	(2.6)	-0.9%
Transient Occupancy Tax	114.5	116.9	2.3	2.0%
Franchise Fees	70.9	70.3	(0.6)	-0.9%
Property Transfer Tax	9.8	9.5	(0.3)	-3.0%
Miscellaneous Revenue	86.1	87.6	1.5	1.7%
Total	**$ 1,061.6**	**$ 1,062.0**	**$ 0.4**	**0.0%**

Property Tax

Property tax revenue is expected at $506.2 million in Fiscal Year 2017 which is as projected in the FY 2017 Year-End Report.

Sales Tax

Sales tax revenue is expected at $271.5 million in Fiscal Year 2017, representing actual revenue lower by $2.6 million, or 0.9% from the year-end projections. The City receives monthly sales tax advances from the State based on the Board of Equalization's (BOE) estimate of sales tax growth. A "clean-up" payment, which reconciles the monthly advances with actual sales tax

Tables may not foot due to rounding.

receipts, is distributed at the end of each quarter. The State lowered its growth projections and made additional adjustments to the City's monthly advances thereby lowering the monthly sales tax advanced in the final months of Fiscal Year 2017. The quarterly "clean-up" payment received in September reflecting the actual sales tax received will be recognized as Fiscal Year 2018 sales tax revenue.

Transient Occupancy Tax

The General Fund Transient Occupancy Tax (TOT) revenue is expected at $116.9 million in Fiscal Year 2017 representing actual revenue higher by $2.3 million, or 2.0% from the year-end projections. This is primarily due to stronger than expected TOT growth in the fourth quarter as a result of higher occupancy and an increase in the average daily room rates, especially in the downtown area. The actual growth rate for Fiscal Year 2017 was 8.6% for overall TOT.

Franchise Fees

Franchise fees revenue is expected at $70.3 million in Fiscal Year 2017. This represents lower than projected revenue of $600,000, or 0.9% from the year-end projection primarily due to continued weakness in cable television revenues.

Property Transfer Tax

Property transfer tax revenue is expected at $9.5 million in Fiscal Year 2017. This represents lower than projected revenue of $300,000, or 3.0% from the year-end projection.

Miscellaneous Revenue

Miscellaneous revenue is expected at $87.6 million in Fiscal Year 2017. This represents actual revenue $1.5 million, or 1.7% higher from the year-end projection primarily due to higher than anticipated interest earnings.

DEPARTMENTAL REVENUE

General Fund departmental revenues are expected at $283.4 million in Fiscal Year 2017. Actual revenues are lower than projected by $320,000, or 0.1%. The following section discusses departmental revenues that contributed to the variance from year-end projections.

FY 2017 Significant General Fund Revenue Performance by Department

Table 4 *in millions*

Department	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Economic Development	$ 7.7	$ 6.5	$ (1.2)	-15.5%
Real Estate Assets	52.5	54.1	1.6	3.1%
All Other General Fund Departments	223.5	222.8	(0.8)	-0.3%
Total	**$ 283.8**	**$ 283.4**	**$ (0.3)**	**-0.1%**

Economic Development

The Economic Development Department revenue is expected at $6.5 million in Fiscal Year 2017. Actual revenues are lower than projected by $1.2 million, or 15.5% primarily due to $890,000 in reimbursements from Civic San Diego and $310,000 primarily associated to lower than anticipated project management activities for the HOME Investment Partnership Program and the Foreign Trade Zone Program.

Real Estate Assets

The revenue in the Real Estate Assets Department is expected at $54.1 million in Fiscal Year 2017. Actual revenue is $1.6 million, or 3.1% higher from the year-end projection primarily due to the receipt of funds from the RV Park in DeAnza Cove that is applicable to the Mission Bay ordinance. This reflects the accounting change for the recreational vehicle (RV) park revenue in accordance with the City Attorney's opinion dated November 2, 2016.

Tables may not foot due to rounding.

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). Subsequently, in February 2017 amendments to the Reserve Policy were approved by City Council which 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 (budgetary basis). The Fiscal Year 2017 funding target for the Stability Reserve increased from 6.5% to 6.75%.

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 Fiscal Year 2016 audited ending budgetary fund balance is $192.4 million, or 16.3% of the three-year average of Fiscal Year 2014 through Fiscal Year 2016 audited General Fund operating revenues. The current Fiscal Year 2017 unaudited actuals lower than projected expenditures of $13.8 million since the FY 2017 Year-End Report, contributing to the Fiscal Year 2017 projected ending fund balance of $17.1 million.

FY 2017 General Fund Balances and Reserve Estimates

Table 5 *in millions*

Description	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Revenue %
FY 2016 Audited Ending Fund Balance	**$ 192.4**	**$ 192.4**	**16.3%**
FY 2017 Projected Ending Activity:			
Revenue	1,345.4	1,345.4	
Expenditures[1]	1,334.6	1,320.8	
	10.8	24.6	
FY 2017 Projected Ending Fund Balance	**$ 203.2**	**$ 217.0**	**18.4%**
Emergency Reserve Total	94.3	94.3	8.0%
Beginning Stability Reserve	71.9	71.9	6.50%
FY 2017 Stability Reserve Contribution	7.6	7.6	0.25%
Stability Reserve Total	79.5	79.5	6.75%
FY 2017 Required Reserve Level[2]	**$ 173.8**	**$ 173.8**	**14.75%**
FY 2017 Adjustments:			
Adjustment for Low Flow Diversion Capacity Charges	3.0		
FY 2017 Remaining Excess Equity	**$ 26.4**	**$ 43.2**	**3.7%**
FY 2018 Proposed & May Revision Use of Fund Balance (Excess Equity)	22.4	22.4	
FY 2018 Adopted Budget Use of Fund Balance (Excess Equity)		3.8	
FY 2017 Projected Ending Fund Balance (Excess Equity)	**$ 4.0**	**$ 17.1**	**1.4%**

[1]FY 2017 Year-End Report included total projected expenditures of $1342.2 million, which included the FY 2017 Stability Reserve contribution of $7.6 million to reach the target. The $7.6 million is removed from the FY 2017 Year-End Projections column to reflect the actual activity of $1334.6 million, for comparability purposes since the funding of the reserve is not recognized as an expenditure in the CAFR. The FY 2017 budgeted Stability Reserve Contribution will not be recognized as an expense and will close to fund balance as part of the year-end financial accounting process.

[2] Based on FY 2014 through FY 2016 audited operating revenues in accordance with the City's Reserve Policy (CP 100-20).

The Fiscal Year 2017 required General Fund reserve of 14.75% is comprised of an 8.0% Emergency Reserve and a 6.75% 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 Fiscal Year 2017 funding target for the Stability reserve increased from 6.5% to 6.75%, or $7.6 million. The Fiscal Year 2017 budget included the increased reserve contribution of $7.6 million. The Fiscal Year 2017 General Fund reserve target of 14.75% has been met.

Based on the Fiscal Year 2017 unaudited actuals, the Fiscal Year 2017 projected ending budgetary fund balance over reserves (excess equity) is $17.1 million. The Fiscal Year 2017 net projected activity is partially offset with $26.1 million budgeted use of fund balance included in the Fiscal Year 2018 budget. These one-time uses include, but are not limited to: pre-funding the General Fund Reserves for both the Fiscal Year 2018 target of 15.0% and Fiscal Year 2019 target of 15.25%; police recruitment and retention efforts; and one-time funding for the Penny for the Arts program.

In summary, the year-end results project $17.1 million in the Fiscal Year 2017 projected ending fund balance above reserves (excess equity). The Fiscal Year 2017 ending fund balance will be final upon the completion of the CAFR audit. The Fiscal Year 2018 Mid-Year Budget Monitoring Report will provide recommendations on appropriation of funds, including the potential use of fund balance for priority critical needs.

GENERAL FUND EXPENDITURES

The General Fund expenditures are expected to end the fiscal year at $1,320.8 million, which represents actual expenditures lower by $13.8 million from the year-end projection. The $13.8 million is primarily lower than projected personnel costs of $11.0 million comprised of $4.4 million in salaries and wages and $6.6 million in fringe benefit expenditures. The following section includes detailed variance explanations by category.

PERSONNEL EXPENDITURES

The General Fund personnel expenditures are expected at $905.5 million in Fiscal Year 2017 for salaries and wages and fringe benefits. Actuals are lower by $11.0 million, or 1.2% from the year-end projection.

FY 2017 General Fund Personnel Expenditures Performance

Table 6 *in millions*

Expenditure Category	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Salaries and Wages	$ 540.8	$ 536.4	$ 4.4	0.8%
Fringe Benefits	375.7	369.1	6.6	1.8%
Total	**$ 916.6**	**$ 905.5**	**$ 11.0**	**1.2%**

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.

FY 2017 General Fund Salaries and Wages Performance

Table 7 *in millions*

Salaries and Wages Expenditure Category	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Salaries	$ 447.5	$ 445.3	$ 2.2	0.5%
Overtime	65.4	64.0	1.4	2.1%
Hourly	14.0	14.2	(0.1)	-0.9%
Pay-in-Lieu of Annual Leave	10.0	9.2	0.9	8.8%
Termination Pay	3.9	3.8	0.1	2.6%
Total	**$ 540.8**	**$ 536.4**	**$ 4.4**	**0.8%**

Tables may not foot due to rounding.

Salaries and wages expenditures are expected at $536.4 million in Fiscal Year 2017. This represents a lower than projected expenditure of $4.4 million, or 0.8% primarily due to the following:

- $2.2 million lower than projected salaries in various General Fund Departments, primarily including:
  - $340,000 in the Police Department associated to a higher than projected attrition and a decrease in the number of Police Recruits in the 112th Academy.
  - $300,000 in the Fire-Rescue Department primarily associated to positions not filled as anticipated by fiscal year-end.
  - $280,000 in the Park and Recreation Department.
  - $240,000 in the Office of the City Attorney.
  - $220,000 in the Transportation and Storm Water Department.
- $1.4 million lower than projected overtime primarily in the Fire-Rescue Department of $1.2 million, as a result of the following:
  - $610,000 associated to achieving close to full staffing at the firefighter ranks.
  - $400,000 associated to lower than anticipated backfill overtime for leave time taken.
  - $400,000 associated to a decrease in training and special events
- $890,000 lower than projected pay-in-lieu of annual leave primarily in the Fire-Rescue Department of $760,000.

The Fire-Rescue Department comprises more than half of the total General Fund salaries and wages expenditure variance. The Fire-Rescue Department achieved full staffing as projected by fiscal year-end, resulting in a corresponding lower than projected overtime of $610,000. While full staffing had been achieved by year-end, the fiscal savings attributed to overtime will not be evident until next fiscal year. As such, the estimated savings will be provided by Financial Management as part of the update of public safety overtime in the Fiscal Year 2018 First Quarter Budget Monitoring Report.

Fringe Benefits

Fringe benefit expenditures are expected at $369.1 million in Fiscal Year 2017. Actual fringe benefits are lower by $6.6 million, or 1.8% from the year-end projection. The variance of $6.6 million is primarily due to lower than projected fixed fringe of $7.5 million, partially offset by higher than projected variable fringe of $870,000.

FY 2017 General Fund Fringe Benefits Performance

Table 8 *in millions*

Fringe Benefits Expenditure Category	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Fixed	$ 264.1	$ 256.6	$ 7.5	2.8%
Variable	111.6	112.5	(0.9)	-0.8%
Total	**$ 375.7**	**$ 369.1**	**$ 6.6**	**1.8%**

Fixed Fringe is expected at $256.6 million in Fiscal Year 2017. This is lower than projected fixed fringe expenditures of $7.5 million, or 2.8%. 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). Fixed fringe benefit expenditures are lower by $7.5 million compared to the FY 2017 Year-End Report primarily due to differences in budgeting for the Retirement Actuarially Determined Contribution (ADC) and actual accounting of the ADC expenditures on a modified-accrual basis. The actual cash payment made to San Diego City Employees Retirement System (SDCERs) on July 1, 2016 for Fiscal Year 2017 was $191.2 million as budgeted and projected in the FY 2017 Year-End Report. The variance between projections and actuals is attributed to a difference in cash basis and modified accrual basis of accounting.

Variable Fringe is expected at $112.5 million in Fiscal Year 2017. This is higher by $870,000, or 0.8% from the 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 higher Flexible Benefits of $1.3 million from the year-end projections. These expenditures were partially offset by a lower than projected Supplemental Pension Savings Plan (SPSP) expenditures of $760,000. SPSP expenditures will end lower than projected in overtime expenditures primarily in the Fire-Rescue Department. In general, SPSP expenditures shortfall of projections correlates to overtime expenditures over-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 Supplemental Pension Savings Plan – Hourly (SPSP-H).

NON-PERSONNEL EXPENDITURES

The General Fund non-personnel expenditures are expected at $415.3 million in Fiscal Year 2017. Actuals are lower by $2.8 million, or less than 1.0% 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.

FY 2017 General Fund Non-Personnel Expenditure Performance

Table 9 *in millions*

Expenditure Category	FY 2017 Year-End Projection	FY 2017 Unaudited Actuals	Variance	Variance %
Supplies	$ 37.6	$ 37.2	$ 0.3	0.9%
Contracts	247.6	240.2	7.4	3.0%
Information Technology	27.8	26.8	1.0	3.7%
Energy and Utilities	43.3	42.2	1.1	2.5%
Other	5.1	5.0	0.1	2.6%
Transfers Out[1]	50.1	52.5	(2.5)	-5.0%
Capital Expenditures	3.0	2.1	1.0	31.3%
Debt	3.6	9.3	(5.7)	-160.5%
Total	**$ 418.0**	**$ 415.3**	**$ 2.8**	**0.7%**

[1]FY 2017 Year-End Report included total projected Transfers Out expenditures of $57.7 million, which included the FY 2017 Stability Reserve contribution of $7.6 million to reach the target. The $7.6 million is removed from the FY 2017 Year-End Projections column to reflect the actual activity of $50.1 million, for comparability purposes since the funding of the reserve is not recognized as an expenditure in the CAFR. The FY 2017 budgeted Stability Reserve Contribution will not be recognized as an expense and will close to fund balance as part of the year-end financial accounting process.

Supplies

The supplies category is expected at $37.2 million in Fiscal Year 2017. Actuals are lower by $340,000, or 0.9% from the year-end projection. The actual expenditures are lower than the year-end projections primarily due to the following:

- $640,000 in the Transportation and Storm Water Department due to $390,000 in asphalt material expenditures transferred to street repair capital improvement program projects and $250,000 in storm drain pipe fitting and aggregates due to less than anticipated storm drain system component failures.

The lower actuals noted above are partially offset by higher than projected actuals of $500,000 in the Police Department due to ergonomic supplies, costs associated with uniform allowance, and miscellaneous operating supplies.

Contracts

The contracts category is expected at $240.2 million in Fiscal Year 2017. Actuals are lower by $7.4 million, or 3.0% from the year-end projection. The actual expenditures are lower than the year-end projections primarily due to the following factors:

- $9.3 million in the Citywide Program Expenditures Department primarily due to $6.5 million in lease expenditures for the 101 Ash building and the Civic Center Plaza

building, reclassified from the contracts category to debt expense; $2.8 million for the contribution to Public Liability Operating Fund, reclassified from the contracts category to the transfers out category. Additionally, there is a decrease of $1.0 million due to less than anticipated special consulting services.
- $770,000 in the Economic Development Department due to less than anticipated Civic San Diego project management activities.
- $740,000 in the Park and Recreation Department due to delays in outdoor court resurfacing, equipment installation and landscape maintenance.

The lower actuals noted above are partially offset by the following higher than projected expenditures:
- $1.7 million in new vehicle purchases reclassified from other categories, including: $850,000 in the Park and Recreation Department, reclassified from the capital expenditures category, $620,000 in the Public Works – General Services Department that were reclassified from the transfers out category and $200,000 in the Police Department reclassified from the capital expenditures category.
- $1.3 million in the Transportation and Storm Water Department primarily due to a $520,000 unanticipated payment determined by the State to fund the Harbor Drive Pedestrian Bridge project and $300,000 for the concrete sidewalk slicing contract.
- $870,000 in Maintenance Assessment Districts (MADs) Fund reimbursement payment reclassified from the transfers out category to the contracts category.
- $220,000 in the Police Department due to vehicle towing services.

Information Technology
The information technology category is expected at $26.8 million in Fiscal Year 2017. Actuals are lower by $1.0 million, or 3.7% from the year-end projections. The actual expenditures are lower than the year-end projections primarily due to the following factors:
- $540,000 in the Fire-Rescue Department primarily due to the delayed implementation of the replacement Fire Records Management System (FireRMS) and the deferral of software licenses renewals and computer hardware equipment.
- $270,000 in the Police Department primarily due to the deferral of software acquisition and updates, and a decrease in phone usage at local tolls.

These lower actuals noted above are offset with higher than projected expenditures in the Performance and Analytics Department of $290,000 for the 311 Get It Done (311 Customer Experience) System reclassified from the capital expenditures category to the information technology category.

Energy and Utilities
The energy and utilities category is expected at $42.2 million in Fiscal Year 2017. Actuals are lower by $1.1 million, or 2.5% from the year-end projections mostly attributed to $800,000 in the Transportation and Storm Water Department primarily due to reduced San Diego Gas & Electric (SDG&E) energy rates for traffic signals and street lights.

Other
The other category is expected at $5.0 million in Fiscal Year 2017, similar to the year-end projection. There were no significant variances within this category identified.

Transfers Out

The transfers out category is expected at $52.5 million in Fiscal Year 2017. Actuals are higher by $2.5 million, or 5.0% from the year-end projections. The FY 2017 Year-End Report included total projected transfers out expenditures of $57.7 million, which included the FY 2017 Stability Reserve contribution of $7.6 million to reach the target. The $7.6 million is removed from the FY 2017 year-end projections for comparability purposes since the funding of the reserve is not recognized as an expenditure in the CAFR and will be reported as part of fund balance at the end of the fiscal year.

Actual expenditures are lower by $2.5 million in transfers out primarily due to the reclassification of $2.8 million in the Citywide Program Expenditures Department for the contribution in Public Liability Reserve transfer from the contracts category to the transfers out category.

This is partially offset with the following higher than projected expenditures:

- $830,000 in the Park and Recreation Department due to a reclassification of the Maintenance Assessment Districts (MADs) General Fund reimbursement from the transfers out category to the contracts category.
- $620,000 in the Public Works – General Services Department for new vehicle purchases that were reclassified from the transfers out category to the contracts category.

Capital Expenditures

The capital expenditures category is expected at $2.1 million in Fiscal Year 2017. Actuals are lower by $950,000, or 31.3% from the year-end projections. This is primarily due to the following factors:

- $850,000 in the Park and Recreation Department associated with fleet vehicle and equipment purchase expenditures reclassified from the capital expenditures category to the contracts category.
- $290,000 in the Performance and Analytics Department primarily associated with expenditures for the 311 Get It Done (311 Customer Experience) System, reclassified from the capital expenditures category to the information technology category.

This is offset with higher than projected capital expenditures in the Fire-Rescue Department of $470,000 due to the purchase of thermal imaging cameras, which were reclassified from the capital expenditures category to the contracts category.

Debt

The debt category is expected at $9.3 million in Fiscal Year 2017. Actuals are higher by $5.7 million, or 160.5% from the year-end projections. This is primarily due to $6.5 million in the Citywide Program Expenditures Department associated with lease expenditures for the 101 Ash Building and the Civic Center Plaza Building, reclassified from the contracts category to the debt category. This is offset with lower than projected debt expenditures in the Police Department of $270,000 due to the deferral of principal payments associated with the financing of the Computer Aided Dispatch (CAD).

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 10: FY 2017 Risk Management Liability 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 2014, 2015 and 2016 actuarial valuations. Additional detail is included in the following section.

FY 2017 Risk Management Liability Reserves

Table 10 *in millions*

Description	Fund Name	Reserve Type	Target	Fiscal Year 2017 Ending Balance
Risk Management	Long-Term Disability Fund	Liability Reserve	$ 11.0	$ 18.2
	Public Liability Fund	Liability Reserve	33.6	33.6
	Workers' Compensation Fund	Liability Reserve	28.2	54.1

Long-Term Disability Reserve

The Long-Term Disability reserve provides non-industrially disabled City employees with income and flexible benefits coverage. The Fiscal Year 2017 reserve goal is $11.0 million or 100.0% of the average actuarial liability for the three most recent fiscal years. The Long-Term Disability Fund Fiscal Year 2017 current ending fund balance is $18.2 million or 165.0% of the goal. The Fiscal Year 2018 Adopted Budget includes the use of $2.1 million, of which $1.4 million is the General Fund portion, of fund balance in excess of the reserve goal. The remaining funds held in reserve in excess of the policy goal are being held to support the funding of the Death and Disability benefit being negotiated with recognized labor organizations.

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. The current ending fund balance of the Public Liability Fund Reserve is approximately $33.6 million or 43.0% of the three year average of the annual actuarial liability, which meets the Fiscal Year 2017 Public Liability Fund Reserve target.

Workers' Compensation Reserve

The Workers' Compensation reserve provides funding for medical and disability costs for injuries and illnesses occurring in the workplace. On February 21, 2017, amendments to the Reserve Policy were approved by City Council to reduce the Workers' Compensation Reserve target from 25.0% to 12.0% of the three-year average of outstanding actuarial liabilities. As a result, the Workers' Compensation Reserve Fund Fiscal Year 2017 policy goal is 12.0% of the most recent three year average of the annual actuarial liability, or $28.2 million. This amount is approximately one year of operating cash for the Workers' Compensation program. The current projected ending fund balance of the Workers' Compensation Reserve is approximately $54.1 million or 22.0% of the three year average.

The Fiscal Year 2018 Adopted Budget recommends the use of $14.7 million of the excess Workers' Compensation reserves for the following:

- $7.0 million to fully fund the General Fund Reserve to the Fiscal Year 2018 policy target level of 15.0%.
- $3.1 million to fully fund the Public Liability Fund Reserve to the Fiscal Year 2018 policy target level of 47.0%.
- $4.6 million reduction in workers' compensation operating expenses.

The remaining excess Workers' Compensation reserves will be used to support workers' compensation operating expenses through Fiscal Year 2020.

CONCLUSION

The FY 2017 Performance Report estimates the General Fund unaudited actuals will minimally vary from projections included in the FY 2017 Year-End Report. General Fund revenues are expected to end the fiscal year as projected by fiscal year-end with a 0.0% variance.

General Fund actual expenditures are lower than projected by $13.8 million, or 1.0 %. The $13.8 million is primarily attributed to lower than projected personnel costs of $11.0 million which represents $4.4 million in salaries and wages and $6.6 million in fringe benefit expenditures. The Fiscal Year 2017 budgeted increase to the General Fund Stability Reserve of $7.6 million, an increase of 0.25%, occurred as projected. This increased total General Fund Reserves to 14.75% in keeping with the Fiscal Year 2017 General Fund Reserve Policy target.

Fringe benefit expenditures are lower than projected by $6.6 million due to differences in budgeting for the Retirement Actuarially Determined Contribution (ADC) and actual accounting of the ADC expenditures on a modified-accrual basis. The actual cash payment made to San Diego City Employees Retirement System (SDCERs) on July 1, 2016 for Fiscal Year 2017 was $191.2 as budgeted and projected in the FY 2017 Year-End Report. The variance between projections and actuals is attributed to the difference in cash basis and modified accrual basis of accounting.

Non-personnel expenditures are lower than projected by $2.8 million compared to the FY 2017 Year-End Report for various information technology expenditures primarily in the Fire-Rescue and Police Departments. In addition, there are $800,000 lower than projected expenditures in the Transportation and Storm Water Department due to reduced SDG&E energy rates paid for traffic signals and street lights due to a decrease in the customer rate charged by SDG&E.

In summary, total General Fund unaudited expenditures are $13.8 million lower than the FY 2017 Year-End Report. This contributes to a $17.1 million projected ending fund balance (excess equity) in Fiscal Year 2017. The Fiscal Year 2017 activity and fund balance will be finalized upon the completion of the City of San Diego’s CAFR audit.

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

I. Fiscal Year 2017 Year-End Budget Monitoring Report, #17-027
II. Fiscal Year 2017 Year-End Charter 39 Supporting Schedules
III. General Fund Revenue Comparison
IV. General Fund Expenditure Comparison