The City of

SAN DIEGO

FISCAL YEAR 2018
YEAR-END FINANCIAL PERFORMANCE REPORT

Kevin L. Faulconer
Mayor

Kris Michell
Chief Operating Officer

Rolando Charvel
Chief Financial Officer

Tracy McCraner
Director and City Comptroller

Jose Mendoza
Budget Coordinator

OCTOBER 2018

INTRODUCTION

The Fiscal Year 2018 Year-End Financial Performance Report (FY 2018 Performance Report) provides the City Council and the public with a detailed comparison of actual (unaudited) revenue and expenditure activity compared to the Fiscal Year 2018 year-end projections, included in the FY 2018 Year-End Budget Monitoring Report (Year-End Report), Attachment I.

The FY 2018 Performance Report is an informational item, and it includes the following:

- Variance analysis of the major General Fund revenues and significant variances in departmental revenue
- Discussion of General Fund expenditure variances by category
- Discussion of General Fund initiative variances
- Updates on General Fund and Risk Management Reserves
- Justifications for significant variances in non-General Funds

The FY 2018 Performance Report also includes the June 2018 Charter 39 Report, Attachment II. The Charter 39 Report compares Fiscal Year 2018 unaudited actual revenue and expenditures against the Fiscal Year 2018 budget for General Fund and non-General Funds in accordance with Section 39 of the City Charter.

These reports are financial management tools, which provide analysis on significant variances and reflect the City's commitment to fiscal discipline and transparency.

The Department of Finance produces this report in collaboration with various departments. The data included in this report is the most current information available at the time of publication and is subject to change upon the completion of the City of San Diego's Comprehensive Annual Financial Report (CAFR).

The FY 2018 Performance Report provides details of the surplus from year-end projections, and illustrates the successful financial policies and fiscally prudent approach undertaken by Mayor Faulconer, the City Council, and City departments.

GENERAL FUND

OVERVIEW

The FY 2018 Performance Report estimates General Fund unaudited actual revenues and expenditures to vary by less than 0.5% from the FY 2018 Year-End Report projections. General Fund unaudited actual revenues are expected to increase by $4.5 million, or 0.3%, from the year-end projection. General Fund unaudited actual expenditures are expected to decrease by $6.8 million, or 0.5%, from the year-end projection. As a result, the Fiscal Year 2018 net projected activity is expected at $16.1 million, an $11.3 million increase from the year-end projection.

Summary of FY 2018 General Fund Year-End Performance

Table 1 *in millions*

Revenue/Expenditures	Year-End Projection	Unaudited Actuals	Variance	Variance %
Resources				
Revenue	$ 1,421.1	$ 1,425.6	$ 4.5	0.3%
Budgeted Use of Excess Equity	*8.7*	*8.7*	-	
Total Resources	**1,429.8**	**1,434.3**	**4.5**	**0.3%**
Total Expenditures[1]	**1,425.0**	**1,418.2**	**6.8**	**0.5%**
Net Projected Activity	**$ 4.8**	**$ 16.1**	**$ 11.3**	

[1]FY 2018 Year-End Report included total projected expenditures of $1,442.9 million, which included the reserve contributions of $17.8 million. The $17.8 million is composed of the FY 2018 Reserve Contribution of $7.5 million to reach the target of 15.0% and prefunding of the FY 2019 Reserve Contribution of $10.3 million to reach the target of 15.25%. The $17.8 million is removed from the Year-End Projection column to reflect the actual activity of $1,425.0 million, for comparability purposes since the funding of the reserves are not recognized as an expenditure in the CAFR. The Reserve Contributions 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 unaudited resources are expected to end the fiscal year at $1,434.3 million which represents an increase above projected revenues of $4.5 million. This increase is primarily attributed to the following: $2.1 million in property tax revenues, and $3.0 million in the Fire-Rescue Department associated to reimbursements for strike team deployments and lifeguard services. Additional detail on these variances will be discussed in the General Fund Revenues section of this report.

The General Fund unaudited expenditures are expected to end the fiscal year at $1,418.2 which represents a $6.8 million decrease from projected expenditures in the Year End Report. This decrease is attributed to the following: $3.4 million in lower personnel costs primarily associated to a higher vacancy rate than was projected in the Fire-Rescue and Police departments; and $3.4 million in lower non-personnel expenditures related to savings in information technology in the Fire-Rescue and Police departments, and contractual services in the Real Estate Assets and Transportation and Storm Water departments. Additional details on these variances will be discussed in the General Fund Expenditures section of this report.

The Fiscal Year 2018 ending fund balance is projected to be $10.8 million above required reserve levels (excess equity). This is the combined result of $6.8 million in expenditure savings, $4.5 million in additional revenue received, and less the $530,000 additional required contribution to the General Fund FY 2019 Reserves to maintain the 15.25% reserve target for FY 2019. The unaudited actuals included in this report are based on the most current data available at the time of publication and are subject to change upon the completion of the CAFR.

A detailed summary of General Fund variances by revenue and expenditure categories are included in this report.

GENERAL FUND REVENUE

General Fund revenues are expected at $1,425.6 million in Fiscal Year 2018, which is $4.5 million, or 0.3% higher than projected in the FY 2018 Year-End Report. This $4.5 million variance is attributed to a $1.1 million variance in major General Fund revenues and $3.4 million variance in additional departmental revenue.

FY 2018 General Fund Revenue Performance

Table 2 *in millions*

Revenue Category	Year-End Projection	Unaudited Actuals	Variance	Variance %
Major General Fund Revenues	$ 1,128.2	$ 1,129.3	$ 1.1	0.1%
Departmental Revenue	292.9	296.3	3.4	1.2%
Total	**$ 1,421.1**	**$ 1,425.6**	**$ 4.5**	**0.3%**

MAJOR GENERAL FUND REVENUES

As reflected in Table 3: FY 2018 Major General Fund Revenue Performance, the City's major General Fund revenues are expected to end the fiscal year at $1,129.3 million, or 0.1% higher than the Year-End Report.

FY 2018 Major General Fund Revenue Performance

Table 3 *in millions*

Revenue Category	Year-End Projection	Unaudited Actuals	Variance	Variance %
Property Tax	$ 533.3	$ 535.5	$ 2.1	0.4%
Sales Tax	276.4	272.9	(3.5)	-1.3%
Transient Occupancy Tax	121.9	121.9	(0.0)	0.0%
Franchise Fees	77.7	78.4	0.6	0.8%
Property Transfer Tax	10.6	10.7	0.1	1.3%
Miscellaneous Revenue	108.3	110.0	1.7	1.6%
Total	**$ 1,128.2**	**$ 1,129.3**	**$ 1.1**	**0.1%**

Property Tax

Property tax revenue is expected at $535.5 million in Fiscal Year 2018 which is $2.1 million, or 0.4%, higher than projected. This is primarily attributed to fewer than anticipated reductions in property tax bills from corrections and appeals, which resulted in an increase in revenue collected.

Sales Tax

Sales tax revenue is expected at $272.9 million in Fiscal Year 2018, representing a decrease in revenue of $3.5 million, or 1.3% from the year-end projection. In late Fiscal Year 2018, the California Department of Tax and Fee Administration (CDTFA) implemented a new sales tax reporting software system and modified the schedule of sales tax distributions to the City. These changes were not known when the FY 2018 Year-End Monitoring Report was released and therefore were not included in the projections.

While the distribution schedule change discussed above should have provided additional one-time revenue in Fiscal Year 2018, unforeseen complications with the software update impeded the CDTFA's ability to process a significant amount of sales tax returns. These complications delayed distribution of sales tax to all cities and resulted in lower unaudited actual receipts when compared to the projections in the Year End Report. The State will be distributing these revenues in October 2018, which is beyond the City's 60-day accrual policy and will be recognized as a one-time revenue in Fiscal Year 2019.

Currently, the amount of remaining sales tax to be distributed is expected to be approximately $10.0 million, which is expected to be one-time revenue. The City's sales tax consultant, Avenu Insights & Analytics (formerly known as MuniServices), is working to develop a reconciliation of all sales taxes during those periods. The Department of Finance and Avenu will continue to closely monitor the CDTFA for any additional issues, and the Department of Finance will provide quarterly updates in the City's sales tax projections to City Council.

Transient Occupancy Tax

The General Fund transient occupancy tax (TOT) revenue is expected at $121.9 million in Fiscal Year 2018 which is aligned with projections in the Year End Report. However, the TOT special revenue fund is projecting TOT revenue slightly under budget due to lower than expected tourist activity. This revenue shortfall in the TOT fund results in a reduced reimbursement to General Fund departmental revenue, discussed later in this section, for eligible parks and recreation and lifeguard expenditures. Also see the Non-General Funds section of this report for more details.

Franchise Fees

Franchise fee revenue is expected at $78.4 million in Fiscal Year 2018, representing an increase of $620,000, or 0.8% from the year-end projection. An approved change in the refuse collection franchise fee calculation has increased the assessable tonnage and therefore increased the franchise fee revenue by $780,000. This increase is partially offset with a continued decline in cable television revenues, actual receipts are anticipated to be lower than year-end projections by $210,000.

Property Transfer Tax

Property Transfer Tax revenue is expected at $10.7 million in Fiscal Year 2018, representing a slight increase of $130,000, or 1.3% of projected revenue due to higher than anticipated property sales.

Miscellaneous Revenue

Miscellaneous revenue is expected at $110.0 million in Fiscal Year 2018, which represents an increase of $1.7 million, or 1.6% from the year-end projection. This is primarily a result of higher than projected interest earnings of $1.3 million due to rising investment earnings rates, the recognition of $730,000 in revenue from escheated funds, and $540,000 in reimbursements from the 2016 winter storms. These increases are offset by lower than projected TOT 1-Cent transfer of $590,000 from the Transient Occupancy Tax Fund as discussed above.

Departmental Revenue

General Fund departmental revenues are expected at $296.3 million in Fiscal Year 2018. This represents an increase of $3.4 million, or 1.2% from year-end projections. This section discusses departmental revenues in further detail.

FY 2018 Significant General Fund Revenue Performance by Department

Table 4 *in millions*

Department	Year-End Projection	Unaudited Actuals	Variance	Variance %
City Treasurer	$ 22.6	$ 23.3	$ 0.7	3.1%
Fire-Rescue	43.9	46.9	3.0	6.8%
Parks and Recreation	44.2	43.6	(0.6)	-1.3%
Real Estate Assets	50.4	51.7	1.2	2.4%
Transportation & Stormwater	56.2	55.3	(0.9)	-1.7%
All Other Departments	126.0	127.2	1.2	1.0%
Total	**$ 292.9**	**$ 296.3**	**$ 3.4**	**1.2%**

Office of the City Treasurer

The Office of the City Treasurer expects revenue at $23.3 million in Fiscal Year 2018. This is an increase of $700,000, or 3.1% from the year-end projection primarily attributed to additional recreational cannabis business tax received in the last three months of the fiscal year and associated penalties.

Fire-Rescue

The revenue in the Fire-Rescue Department is expected at $46.9 million in Fiscal Year 2018. Actual revenue increased by $3.0 million, or 6.8% from the year-end projection primarily due to the following:

- $890,000 in TOT reimbursements for lifeguard services.
- $870,000 in reimbursements from the California Office of Emergency Services (CalOES) associated to CalFire Strike team deployments.
- $570,000 associated to Dispatch contract revenue for services provided to the City of Chula Vista.
- $330,000 associated to services provided to the Airport Authority.
- $240,000 associated to ambulance fuel reimbursements.

Parks and Recreation

The Parks and Recreation Department expects revenue at $43.6 million in Fiscal Year 2018. Actual revenue is $600,000, or 1.3% lower from the year-end projection primarily due to a decrease in TOT reimbursements for the Open Space division as discussed in the TOT revenue section above.

Real Estate Assets

The revenue in the Real Estate Assets Department is expected at $51.7 million in Fiscal Year 2018. Actual revenue is $1.2 million, or 2.4% higher from the year-end projection primarily due to increases in leases and rents from hotels in Mission Bay Park due to growth in regional tourism, and higher than anticipated receipts from Sea World.

Transportation and Storm Water

The Transportation and Storm Water Department expects revenue at $55.3 million in Fiscal Year 2018. This is a decrease of $940,000, or 1.7% from the year-end projection. This variance is primarily attributed to less than anticipated reimbursable maintenance work performed in parking districts and within the vicinity of parking meters.

GENERAL FUND EXPENDITURES

The General Fund expenditures are expected to end the fiscal year at $1,418.2 million, which is $6.8 million, or 0.5% less than the year-end projection. This variance is primarily attributed to lower than projected personnel expenditures of $3.4 million and lower than projected non-personnel expenditures of $3.4 million. The following section includes detailed variance explanations by expenditure category.

PERSONNEL EXPENDITURES

General Fund personnel expenditures are expected at $993.1 million in Fiscal Year 2018 for salaries and wages, and fringe benefits. Actuals are lower by $3.4 million, or 0.3% from the year-end projection.

FY 2018 General Fund Personnel Expenditures Performance

Table 5 *in millions*

Expenditure Category	Year-End Projection	Unaudited Actuals	Variance	Variance %
Salaries and Wages	$ 554.6	$ 551.9	$ 2.8	0.5%
Fringe Benefits	441.8	441.2	0.6	0.1%
Total	**$ 996.5**	**$ 993.1**	**$ 3.4**	**0.3%**

Salaries and Wages

The salaries and wages category consist of five distinct types of wages: salaries and special pays, overtime, hourly wages, pay-in-lieu of annual leave, and termination pay. Salary expenditures include compensation paid at the employee's rate of pay for standard-hour employees. Overtime expenditures include compensation at an employee's standard rate of pay plus the appropriate overtime premium. Hourly wages include compensation paid at the employee's 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 2018 General Fund Salaries and Wages Performance

Table 6 *in millions*

Salaries and Wages Category	Year-End Projection	Unaudited Actuals	Variance	Variance %
Salaries	$ 450.3	$ 445.9	$ 4.4	1.0%
Overtime	78.4	79.5	(1.2)	-1.5%
Hourly	13.3	13.7	(0.4)	-2.8%
Pay-in-Lieu of Annual Leave	9.1	8.9	0.2	2.1%
Termination Pay	3.6	3.9	(0.3)	-8.6%
Total	**$ 554.6**	**$ 551.9**	**$ 2.8**	**0.5%**

Salaries and wages expenditures are expected at $551.9 million in Fiscal Year 2018. This represents a lower than projected expenditure of $2.8 million, or 0.5%, primarily due to the following:

- $4.4 million lower than projected in salaries in various General Fund Departments, including:

- $2.0 million in the Fire-Rescue Department primarily associated to the following:
    - $1.3 million as a result of the department having higher than projected attrition for Fire-Fighters than what was projected in the Year-End Report. The Department saw a net loss of 22.00 Full Time Equivalent (FTE) fire-fighters.
    - $360,000 decrease in salaries associated to the reclassification of non-productive time as overtime (i.e. reclassification of annual leave from salaries to overtime as a result of Appendix D); this reduction is shown as a corresponding increase in the overtime category.
    - $340,000 primarily associated to administrative and support staff positions not being filled as projected.
- $640,000 in the Police Department associated to higher attrition than projected for sworn personnel during the last quarter of the fiscal year.
- $460,000 in the Transportation and Storm Water Department as a result of additional unexpected vacancies occurring since the Year-End Report.
- $320,000 in the Parks and Recreation Department as a result of delays in filling vacant positions and the use of hourly staff for after hour operations at facilities citywide. This decrease is partially offset with an increase in hourly wages that is noted below.
- $200,000 in the Library Department associated to higher than projected vacancies and delays in filling vacant positions. This decrease is offset with an increase in hourly wages to minimize service level impacts.
- $230,000 in the Office of the City Attorney as a result of 11.00 FTEs not being filled as projected during the Year-End Report.

* $1.2 million higher than projected in overtime primarily due to the following:
    - $1.7 million increase in the Police Department as a result of higher than anticipated Extension of Shift to maintain staffing levels. This increase is a result of additional vacancies and is partially offset with vacancy savings in salaries discussed above.
    - $480,000 decrease in the Fire-Rescue Department associated to less than projected annual leave taken.
* $380,000 higher than projected in hourly wages primarily due to the following:
    - $210,000 in the Library Department associated to allowing hourly staff to work additional hours to minimize service level impacts as a result of the delayed hiring of full time positions. This increase is offset with a decrease in salaries.
    - $190,000 in the Parks and Recreation Department as a result of hourly staff filling in for vacant positions and for after hour operations. This increase is partially offset by revenue from after hour operations.

Fringe Benefits

Fringe benefit expenditures are expected at $441.2 million in Fiscal Year 2018. Actual fringe benefits are lower by $640,000, or 0.1% from the year-end projection. The variance of $640,000 is primarily due to lower than projected variable fringe of $2.9 million, partially offset by higher than projected fixed fringe of $2.2 million.

FY 2018 General Fund Fringe Benefits Performance								
Table 7								*in millions*
Fringe Benefits Category		**Year-End Projection**		**Unaudited Actuals**		**Variance**		**Variance %**
Fixed	$	308.7	$	310.8	$	(2.2)		-0.7%
Variable		133.2		130.4		2.9		2.2%
Total	**$**	**441.9**	**$**	**441.2**	**$**	**0.6**		**0.1%**

Fixed Fringe is expected at $310.8 million in Fiscal Year 2018. This is higher than projected fixed fringe expenditures by $2.2 million, or 0.7%. Fixed fringe benefit expenditures include the Actuarially Determined Contribution (ADC) to the San Diego City Employees' Retirement System (SDCERS) as well as contributions for Workers' Compensation, Long-Term Disability (LTD), Other Post-Employment Benefits (OPEB), Unemployment Insurance and Risk Management Administration (RMA). The allocation of ADC and Workers' Compensation costs to the General Fund, from the non-General Funds, increased by $1.3 million and $1.0 million, respectively. Fixed fringe costs are annual liabilities the City is obligated to pay regardless of current employee count or salary amounts. Collection rates are adjusted periodically throughout the fiscal year to ensure that the required obligations are appropriately funded by the contributing departments and funds, which can result in the amount allocated between the General Fund and non-General Funds to vary throughout the fiscal year. The total amount of the ADC and Workers' Compensation is a fixed amount, but the allocation between funds will be reconciled throughout the year to reflect the most current status of filled positions.

Variable Fringe is expected at $130.4 million in Fiscal Year 2018. This is lower by $2.9 million, or 2.2% from the year-end projections. Variable fringe costs are driven by actual payroll activity and are impacted by attrition, new hires, and vacancies. The decrease in variable fringe is primarily due to lower flexible benefit spending of $2.3 million associated to higher than anticipated vacancies, and $990,000 in Supplemental Pension Savings Plan (SPSP) compared to the year-end projections.

Non-Personnel Expenditures

General Fund non-personnel expenditures are expected at $425.1 million in Fiscal Year 2018. Actuals are lower by $3.4 million, or 0.8% from the year-end projection. The following section discusses the variances for non-personnel expenditures by category, highlighting only the significant variances within each group.

FY 2018 General Fund Non-Personnel Expenditure Performance							
Table 8							*in millions*
Expenditure Category		**Year-End Projection**		**Unaudited Actuals**		**Variance**	**Variance %**
Supplies		35.0		33.5		1.5	4.3%
Contracts		249.6		232.4		17.1	6.9%
Information Technology		31.3		28.9		2.3	7.5%
Energy and Utilities		45.0		47.0		(2.0)	-4.4%
Other		5.2		5.1		0.1	2.2%
Transfers Out[1]		57.3		62.9		(5.6)	-9.8%
Capital Expenditures		1.0		2.0		(1.0)	-91.3%
Debt		4.2		13.3		(9.0)	-212.9%
Total	**$**	**428.6**	**$**	**425.1**	**$**	**3.4**	**0.8%**

[1]FY 2018 Year-End Report included total projected Transfers Out expenditures of $75.1 million, which included the reserve contributions of $17.8 million. The $17.8 million is composed of the FY 2018 Reserve Contribution of $7.5 million to reach the target of 15.0% and prefunding of the FY 2019 Reserve Contribution of $10.3 million to reach the target of 15.25%. The $17.8 million is removed from the Year-End Projection column to reflect the actual transfers out projection of $57.3 million for comparability purposes since the funding of the reserves are not recognized as an expenditure in the CAFR. The Reserve contributions 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 $33.5 million in Fiscal Year 2018. Actuals are lower by $1.5 million, or 4.3% from the year-end projection. The actuals are lower than the year-end projections primarily due to the following:

- $530,000 in the Transportation and Storm Water Department primarily associated to the in-house repair of Interceptor pump stations which will be repaired in Fiscal Year 2019, and expenditures associated to electrical and sign materials, and safety and other maintenance supplies which was an intentional effort by the department to curtail all non-essential expenditures in keeping with the Chief Operating Officer's request to do so.
- $250,000 in the Parks and Recreation Department associated to conservative spending on supplies and equipment to help offset overages in water consumption expenditures.
- $210,000 decrease in the Public Works – General Services Department associated to a change in the scope of Mingei Museum repairs from maintenance to capital improvements. It was determined that the museum will need a roof replacement and tower repair, thus the need to capitalize the project.

Contracts

Contracts is expected at $232.4 million at fiscal year-end. Actual expenditures are $17.1 million, or 6.9% lower than the year-end projection due to the following:

- $13.8 million in the Citywide Program Expenditures Department primarily due to $10.8 million in expenditures that were projected in contracts but posted in other categories, including: $9.8 million in lease expenditures for the 101 Ash building and the Civic Center Plaza building, and $960,000 related to bridge shelter expenditures which were reclassified to debt and capital expenditures, respectively. Actual savings include $1.6 million in fleet usage fees and $1.0 million for Citywide elections.
- $2.7 million in expenditures projected in contracts in the Real Estate Assets Department, Economic Development Department, and Office of the City Treasurer that

posted in the transfers out category, including: $2.1 million in tenant improvements for the 101 Ash St. building; $330,000 for information technology enhancements related to the Small Business Enhancement Program (SBEP); and $240,000 associated to the Centralized Payment Processing Solution and Delinquent Accounts Replacement System, respectively.

- $300,000 in the Transportation and Storm Water Department, primarily due to the purchase of equipment for street maintenance, which is being debt financed instead of cash purchased.
- $280,000 in the Police Department, primarily attributable to a lower than projected rent payment to the County of San Diego for County detention facilities.
- $260,000 in the City Attorney's Office primarily due to lower than anticipated expenditures for tuition reimbursement and professional development for Deputy City Attorneys.
- $250,000 in Public Works—General Services associated to a change in the scope of Mingei Museum repairs from maintenance to capital improvements.

The lower actuals noted above are partially offset by $1.8 million in higher than projected expenditures in the Fire-Rescue Department, which are primarily due to Air operations support billings, additional fleet purchases, and associated increases in fleet usage and assignment costs.

Information Technology

The information technology category is expected at $28.9 million in Fiscal Year 2018. Actuals are lower by $2.3 million, or 7.5%, from the year-end projection. This variance is primarily due to the following:

- $510,000 in savings from the Police Department primarily due to $350,000 in professional services and enhancements for the new CAD system and application testing for the AB 953 system, and $170,000 in computer and data maintenance and support.
- $460,0000 in the Fire-Rescue Department associated to the purchase of mobile data computers that are more cost-effective, and savings in software maintenance costs for the Interra application due to grant funding.
- $250,000 in the Department of Information Technology associated with rescheduling personal computer replacements as a result of redirecting departmental and vendor resources to assist with the Executive Complex relocation.
- $240,000 in the Environmental Services Department primarily due to rescheduled purchases of annual licensing expenses and cancellation of legacy systems enhancements that will be phased out by the 311 CRM software license.
- $230,000 in the Library Department primarily due to the deferral of software acquisitions and updates, and equipment maintenance.
- $200,000 in the Transportation and Storm Water Department associated to savings in consultant services, and the deferral of software license and equipment maintenance.

Energy and Utilities

The energy and utilities category is expected at $47.0 million in Fiscal Year 2018. Actuals are higher by $2.0 million, or 4.4%, from the year end projection primarily due to the following:

- $1.0 million in the Parks and Recreation Department due to increased water consumption to address stressed turf conditions related to warmer weather patterns.

- $510,000 in the Transportation and Storm Water Department primarily due to higher traffic signal expenditures associated to electricity rate increases, and higher than anticipated fuel expenditures.
- $450,000 associated with a change in cellular and data service providers to improve coverage and support field data collection in the Fire-Rescue and Transportation and Storm Water Departments in the amount of $350,000 and $100,000, respectively.

These increases are partially offset with a decrease of $200,000 in the Library Department associated to converting four branches to solar energy, reducing sprinkler usage, and temporary branch closures due to maintenance and improvements. The conversion of four branch libraries to solar energy is part of the first phase of a larger citywide effort to install solar photovoltaic energy generation systems at 25 City sites.

Other

Other expenditures are expected to end the year at $5.1 million, which is as projected.

Transfers Out

The transfers out category is expected at $62.9 million in Fiscal Year 2018. Actuals are higher by $5.6 million, or 9.8%, from the year-end projection primarily due to the following:

- $2.9 million in the Citywide Program Expenditures Department for the annual transfer to the Regional Park Improvement Fund and Mission Bay Improvement Fund from Mission Bay Park lessees due to higher than anticipated revenue.
- $2.7 million in expenditures that were projected in the contracts category.

Capital Expenditures

The capital expenditures category is expected to end the year at $2.0 million. Actuals are higher than the year-end projection by $960,000, or 91.3%, primarily due to a reclassification of $820,000 associated to the Bridge Shelters, which is offset with a decrease in the contracts category.

Debt

The debt category is expected at $13.3 million in Fiscal Year 2018. Actuals are higher by $9.0 million, or 212.9%, than the year-end projection. This is primarily due to $9.8 million in the Citywide Program Expenditures Department associated with the reclassification of lease expenditures from the contracts category for 101 Ash and Civic Center Plaza. This increase is offset by lower than projected debt in the Fire-Rescue Department of $630,000 associated to the delayed receipt of the Self Contained Breathing Apparatus (SCBA) and related equipment.

CITYWIDE INITIATIVES

During Fiscal Year 2018, the City of San Diego responded to significant events that exceeded the Fiscal Year 2018 Adopted Budget. This section will briefly discuss variances between year-end projections and unaudited actuals associated to Bridge Shelters/Homelessness related services, and Hepatitis A.

FY 2018 General Fund Citywide Initiatives

Table 9

Initiative	Year-End Projection	Unaudited Actuals	Variance
Bridge Shelters/Homelessness			
Regular Working Time	120,000	190,000	(70,000)
Overtime	-	90,000	(90,000)
Non-Personnel Expenditures	3,040,000	3,030,000	10,000
Total Bridge Shelters/Homelessness	**$ 3,160,000**	**$ 3,310,000**	**$ (150,000)**
Hepatitis A Efforts			
Regular Working Time	1,320,000	1,400,000	(80,000)
Overtime	650,000	690,000	(40,000)
Non-Personnel Expenditures	2,010,000	1,830,000	180,000
Total Hepatitis A Efforts	**$ 3,970,000**	**$ 3,920,000** *	**$ 60,000**
Total	**$ 7,130,000**	**$ 7,230,000**	**$ (90,000)**

Bridge Shelters/Homelessness related expenditures are expected at $3.3 million at fiscal year-end. This is an increase of $150,000 from the year-end projection primarily due to the following:

- $140,000 increase in regular working time and overtime expenditures in the Police Department associated to increased homeless outreach efforts by the Neighborhood Policing Division in the downtown area, and around the new Transitional Storage Center that was not projected in the Year-End Report.
- $10,000 decrease primarily attributed to savings in the Economic Development Department associated to the Safe Parking Program.

Expenditures associated to Hepatitis A efforts are expected at $3.9 million at fiscal year-end, or a decrease of $60,000 from the year-end projection. This reduction is attributed to a $180,000 decrease in as-needed services from Clean Harbors and fewer second round vaccinations than projected. Partially offsetting this reduction were $120,000 in Police Department personnel expenditures, which were categorized as San Diego Riverbed cleanup expenditures in the Year-End Report.

At the end of July, the County was informed that its request for funding under the California Disaster Assistance Act was denied. The City is not anticipated to receive funding to offset these expenditures since the City was included in the County's request.

* Updated 10.16.2018 Tracy McCraner

GENERAL FUND BALANCES AND RESERVES

The City's Reserve Policy (Council Policy 100-20) documents the City's approach to establishing and maintaining strong reserves across City operations. The following section discusses the General Fund FY 2018 Projected Ending Fund Balance and reserve estimates and considers the Fiscal Year 2018 unaudited actuals. All General Fund reserve target goals are based on a percentage of the three-year average of General Fund Operating Revenues for the most recent fiscal years as reported in the City of San Diego's Comprehensive Annual Financial Report (CAFR), currently Fiscal Years 2015 through 2017.

FISCAL YEAR 2018 GENERAL FUND BALANCES AND RESERVES

Table 10: FY 2018 General Fund Balances and Reserve Estimates displays the General Fund activity, reserve levels, use of excess equity, and estimated ending fund balance.

FY 2018 General Fund Balances and Reserve Estimates

Table 10 *in millions*

Description	Year-End Projection	Unaudited Actuals	Revenue %
FY 2017 Audited Ending Fund Balance	**$ 218.2**	**$ 218.2**	**18.0%**
FY 2018 Activity:			
Resources			
Revenue	1,421.1	1,425.6	
Use of Fund Balance (Excess Equity)	8.7	8.7	
Total Resources	**1,429.8**	**1,434.3**	
Total Expenditures[1]	**1,425.0**	**1,418.2**	
Net Projected Activity	4.8	16.1	
FY 2018 Ending Fund Balance	**$ 214.3**	**$ 225.6**	**18.7%**
Emergency Reserve Total	**96.7**	**96.7**	**8.0%**
Beginning Stability Reserve	81.6	81.6	6.75%
FY 2018 Stability Reserve Increase	3.0	3.0	0.25%
Stability Reserve Total	**84.6**	**84.6**	**7.0%**
FY 2018 Required Reserve Level[2]	**$ 181.3**	**$ 181.3**	**15.0%**
Prefunding of the FY19 Reserve Contribution	10.3	10.8	0.25%
FY 2018 Remaining Excess Equity less Reserves	**$ 22.7**	**$ 33.5**	**2.8%**
FY 2019 Use of Fund Balance adjustments:			
Proposed Budget & May Revision	20.9	20.9	
City Council & IBA Revisions to the Budget	1.8	1.8	
FY 2018 Ending Fund Balance (Excess Equity)	**$ 0.0**	**$ 10.8**	**0.9%**

[1]FY 2018 Year-End Report included total projected expenditures of $1442.9 million, which included the reserve contributions of $17.8 million. The $17.8 million is composed of the FY 2018 Reserve Contribution of $7.5 million to reach the target of 15.0% and prefunding of the FY 2019 Reserve Contribution of $10.3 million to reach the target of 15.25%. The $17.8 million is removed from the Year-End Projection column to reflect the actual activity of $1425.0 million, for comparability purposes since the funding of the reserves are not recognized as an expenditure in the CAFR. The Reserve Contributions 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 2015 through FY 2017 operating revenues as reported in the CAFR in accordance with the City's Reserve Policy (CP 100-20).

Overview

The Fiscal Year 2018 projected ending fund balance in excess of required reserves (excess equity) is $10.8 million, or 0.9%, of operating revenues after taking into account the following:

- $218.2 million Fiscal Year 2017 ending fund balance as reported in the CAFR.

- $8.7 million Fiscal Year 2018 budgeted use of fund balance for eligible one-time uses.
- $16.1 million in net projected activity for Fiscal Year 2018.
- $181.3 million, or 15.0%, required Fiscal Year 2018 Reserve Level.
- $10.8 million, or 0.25%, to prefund the Fiscal Year 2019 Reserve Contribution.
- $20.9 million use of fund balance in Fiscal Year 2019, including $12.3 million in the Fiscal Year 2019 Proposed Budget for eligible one-time uses, and $8.6 million in the Fiscal Year 2019 May Revision.
- $1.8 million Fiscal Year 2019 Adopted Budget use of fund balance.

Fiscal Year 2018 Projected Ending Fund Balance

As reported in the CAFR, the FY 2017 ending (FY 2018 beginning) fund balance is $218.2 million, or 18.0%, of the three-year average of General Fund Operating Revenues for Fiscal Year 2015 through Fiscal Year 2017.

The Fiscal Year 2018 net projected activity, or resources less expenditures, for the General Fund is expected at $16.1 million, or an increase of $11.3 million from the Year-End Report. As a result of this activity, the FY 2018 Ending Fund Balance is expected at $225.6 million, or 18.7% of the three-year operating revenue average, before making required reserve contributions to adhere to reserve levels as outlined in the Reserve Policy.

The Fiscal Year 2018 projected activity excludes the budgeted Fiscal Year 2018 General Fund reserve contributions as they will close to fund balance instead of being recognized as an expenditure as part of the year-end financial accounting process. The projected reserve contributions in the Year-End Report include the following: $7.5 million to reach the reserve target of 15.0% for Fiscal Year 2018, and $10.8 million, as adjusted for the FY 2017 CAFR audit, to prefund the Fiscal Year 2019 reserve contribution target of 15.25%.

Currently, the breakdown of the 15.0% General Fund reserve level is comprised of an 8.0% Emergency Reserve and a 7.0% Stability Reserve. Amendments to the Reserve Policy approved by the City Council in February 2017 include increasing the Stability Reserve by 1.7% over an eight-year period, or from 7.0% to 8.7% by Fiscal Year 2025, of a three-year average of General Fund Operating Revenues as reported in the CAFR. In Fiscal Year 2019, the Stability Reserve target is scheduled to increase from 7.0% to 7.25% which in turn increases the total General Fund reserve level to 15.25% by fiscal year 2019 year-end. It is important to note that as General Fund Operating Revenues increase, the contribution amounts also increase, even if the percentages remain constant. This relationship exists because the reserve contribution amount is a product of the General Fund operating revenues.

The FY 2018 Reserve Contribution based on the 15.0% reserve level of the Fiscal Year 2015 through 2017 three-year average of General Fund Operating Revenues as reported in the CAFR is $7.5 million. As displayed in Table 10: FY 2018 General Fund Balances and Reserve Estimates, the $7.5 million reserve increase is included as part of the Fiscal Year 2018 required reserve level. The total required reserve for Fiscal Year 2018 is $181.3 million and the projected FY 2019 reserve contribution is $10.8 million. The FY 2019 reserve contribution increased by $530,000 as a result of an increase in General Fund Operating Revenues from the year-end projection. The FY 2018 Remaining Excess Equity, less Fiscal Year 2018 and Fiscal Year 2019 reserve levels, is $33.5 million, or an increase of $10.8 million from the Year-End Report.

The Fiscal Year 2019 Proposed Budget proposed using $12.3 million of projected excess equity, following the Year-End Report, and the Fiscal Year 2019 May Revision proposed using an additional $8.6 million of excess equity for eligible one-time uses. Lastly, the City Council approved the Independent Budget Analyst's recommended use of the remaining $1.8 million, for a total of $22.7 million of excess equity for eligible one-time uses. The projected available fund balance in excess of reserves (excess equity) is now projected to be $10.8 million primarily as a result of the variances discussed in the General Fund section of this report and the increase in the pre-funding of the FY 2019 reserve contribution.

Pension Payment Stabilization Reserve

The Pension Payment Stabilization Reserve (Pension Reserve) was established per the City's Reserve Policy to mitigate any unanticipated increases in the annual pension payment, also known as the Actuarially Determined Contribution (ADC). In November 2018, the City Council approved revisions to the City's Budget Policies and Reserve Policy to allow the use of the Pension Reserve for any increase in the annual pension payment as calculated in the most recent Actuarial Valuation Report produced by the San Diego City Employees' Retirement System's (SDCERS) actuary.

The Fiscal Year 2018 Adopted Budget included full utilization of the Pension Reserve to minimize the impact from the significant increase in the City's ADC pension payment. Of the total $20.0 million used, $16.2 million was the General Fund's portion. Per the City's Reserve Policy, use of the reserve requires the Mayor to prepare a plan to replenish the balance to policy levels. At the time of publication, the Fiscal Year 2019-2023 Five-Year Financial Outlook Report included a plan to replenish the Pension Reserve on an incremental basis of 20.0% to achieve the full reserve target by Fiscal Year 2023. The Fiscal Year 2019 Adopted Budget included $3.6 million, or 20.0%, of the Pension Reserve for the General Fund and $1.2 million, or 20.0% of the Pension Reserve for the Enterprise funds.

Non-General Funds

This section will discuss non-General Funds with variances of greater than $1.0 million between the Year-End Report and unaudited actuals for revenues or expenditures.

Fleet Operating Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 52.9	$ 50.8	$ (2.1)	-3.9%
Personnel Expenditures	21.2	20.8	0.4	2.0%
Non-Personnel Expenditures	33.8	31.9	1.9	5.6%
Expenditures	55.0	52.7	2.3	4.2%
Net Year-End Projection	**$ (2.1)**	**$ (1.9)**	**$ 0.2**	

Revenue:
Revenue in the Fleet Operating Fund is expected at $50.8 million at fiscal year-end. This is a decrease of $2.1 million, or 3.9% from the year-end projection primarily due to revenues associated to usage fees. In the Year-End Report, the department projected an increase in expenditures associated to auto parts and building improvements that was not realized, thus eliminating the need to increase usage fees. This revenue shortfall is offset with expenditure savings discussed next.

Expenditures:
Personnel expenditures in the Fleet Operating Fund are expected at $20.8 million at fiscal year-end. This is a decrease of $420,000, or 2.0% from the year-end projection primarily due to positions not being filled as projected and decreases in overtime and fringe benefits.

Non-personnel expenditures are expected at $31.9 million in Fiscal Year 2018. This is a decrease of $1.9 million, or 5.6% from the year-end projection. This resulted primarily from the following:

- $1.1 million in contracts associated to building maintenance projects that were deferred until Fiscal Year 2019, and fewer than anticipated auto parts purchases.
- $600,000 in information technology costs associated with consultant services, computer software/network improvements for the Fleet Focus vehicle database, and the fuel management system.
- $270,000 in rent and design costs for the Othello facility.
- $240,000 associated to residual budget for the GPS service system.

These decreases are offset with an increase of $300,000 associated with higher than projected fuel expenditures resulting from increased consumption and price fluctuations.

Golf Course Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 22.3	$ 23.9	$ 1.6	7.1%
Personnel Expenditures	7.9	8.0	(0.1)	-1.3%
Non-Personnel Expenditures	10.2	10.0	0.2	1.9%
Expenditures	18.0	17.9	0.1	0.5%
Net Year-End Projection	**$ 4.3**	**$ 6.0**	**$ 1.7**	

Revenue:
Revenue in the Golf Course Fund is expected at $23.9 million at fiscal year-end. This is an increase of $1.6 million, or 7.1% from the year-end projection primarily due to the following:

- $1.6 million increase in golf course usage and concession revenue as a result of improved golf course conditions, and an increase in the number of playable days. Overall, the City's golf courses saw a 22.2% increase in the number of rounds played this fiscal year when compared to Fiscal Year 2017.

Expenditures:
Expenditures in the Golf Course Fund are similar to projections in the Year-End Report.

OneSD Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 26.3	$ 26.3	$ 0.1	0.2%
Personnel Expenditures	4.8	4.8	0.0	0.7%
Non-Personnel Expenditures	22.0	20.2	1.8	8.0%
Expenditures	26.8	25.0	1.8	6.7%
Net Year-End Projection	**$ (0.6)**	**$ 1.3**	**$ 1.9**	

Revenue:
Revenue in the OneSD Fund is as projected in the Year-End Report.

Expenditures:
Expenditures in the OneSD Fund are expected at $25.0 million at fiscal year-end. This is a decrease of $1.8 million, or 8.0% from the year-end projection primarily due to consultant services associated to the following:

- $1.1 million from a delay in staff augmentation primarily associated to application development and support for SAP modules, and Ariba.
- $200,000 for OpenText projects not completed.
- $270,000 decrease in as needed services to support SuccessFactors and the Public Budget Formulation system.

PETCO Park Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 16.5	$ 16.7	$ 0.2	1.2%
Personnel Expenditures	0.1	0.1	0.0	11.0%
Non-Personnel Expenditures	17.4	16.3	1.1	6.3%
Expenditures	17.5	16.4	1.1	6.3%
Net Year-End Projection	**$ (1.0)**	**$ 0.3**	**$ 1.3**	

Revenue:
Revenue in the PETCO Park Fund is expected at $16.7 million at fiscal year-end, an increase of $200,000, or 1.2% from projection primarily associated to increased revenues for special events.

Expenditures:
Expenditures in the PETCO Park Fund are expected at $16.4 million in Fiscal Year 2018, a decrease of $1.1 million, or 6.3%, from the Year-End Report primarily due to the following:

- $730,000 associated to a payment to the Padres that is anticipated to occur in Fiscal Year 2019 as a result of the Padres changing their fiscal year end.
- $320,000 primarily associated to lower costs for police services than projected.

Recycling Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 24.2	$ 29.7	$ 5.5	22.5%
Personnel Expenditures	10.3	10.0	0.3	2.5%
Non-Personnel Expenditures	12.3	11.8	0.5	3.8%
Expenditures	22.5	21.8	0.7	3.2%
Net Year-End Projection	**$ 1.7**	**$ 7.9**	**$ 6.2**	

Revenue:
Revenue in the Recycling Fund is expected at $29.7 million at fiscal year-end. This is an increase of $5.5 million, or 22.5%, from the year-end projection primarily due to the following:

- $2.2 million associated to unclaimed construction and demolition deposits.
- $2.0 million in additional AB939 fees from Franchise Haulers. This increase is associated to 100,000 additional tons paying the AB939 fees as a result of a recent agreement change.
- $640,000 associated to liquidated damages from Franchise Haulers that are not meeting the minimum diversion requirements.
- $520,000 associated to increased profits in the fourth quarter for Sycamore Canyon Franchise Fees.
- $280,000 associated to the City receiving reimbursements from the Natural Gas Vehicle Replacement Program.

Expenditures:
Personnel expenditures in the Recycling Fund are expected at $10.0 million in Fiscal Year 2018. This is a $250,000 decrease from the Year-End Report primarily due to a decrease in fringe and unanticipated vacancies, which are partially offset by additional overtime expenditures.

Non-personnel expenditures for the Recycling Fund are expected at $11.8 million at fiscal year-end. This is a $460,000 decrease from the year-end projection primarily due to a $300,000 decrease in contracts associated to the rescheduled implementation of the recycling outreach and education program, and $160,000 decrease in usage fees as a result of fewer expenditures in the Fleet Operating Fund.

Refuse Disposal Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 34.0	$ 36.0	$ 2.0	5.9%
Personnel Expenditures	15.0	14.7	0.2	1.4%
Non-Personnel Expenditures	20.8	19.5	1.3	6.3%
Expenditures	35.8	34.3	1.5	4.2%
Net Year-End Projection	**$ (1.8)**	**$ 1.7**	**$ 3.5**	

Revenue:
Refuse Disposal Fund revenues are expected at $36.0 million at fiscal year-end. This is an increase of $2.0 million, or 5.9%, primarily due to the following:

- $780,000 associated to an increase in the number of loads at the Miramar Landfill from the year-end projection associated to an increase in construction.
- $600,000 associated to a fee increase for the Clean Fill Dirt Program and an increase in loads received.
- $280,000 associated to an increase in reimbursable requests for services related to waste abatements.
- $250,000 as a result of an increase in interest earnings.

Expenditures:
Personnel expenditures in the Refuse Disposal Fund are expected at $14.7 million in Fiscal Year 2018, a decrease of $210,000, or 1.4% from the Year-End Report. This decrease is primarily due to an unanticipated increase in vacancies, which is partially offset by an increase in overtime expenditures.

Non-personnel expenditures for the Refuse Disposal Fund are expected at $19.5 million at fiscal year-end. This is a $1.3 million decrease, or 6.3% from the year-end projection primarily due to the following:

- $500,000 associated to not needing the reserve transfer because of the use of fund balance.
- $470,000 associated to a delay in the implementation of Public Works projects for landfill consultants.
- $320,000 associated to the postponement of the AMCS application replacement project, and lower than anticipated costs for red-dye diesel.

Sewer Utility Funds

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 398.5	$ 402.8	$ 4.3	1.1%
Personnel Expenditures	90.6	88.9	1.7	1.9%
Non-Personnel Expenditures	255.7	239.5	16.2	6.3%
Expenditures	346.4	328.4	17.9	5.2%
Net Year-End Projection	**$ 52.2**	**$ 74.4**	**$ 22.2**	

Revenue:
Sewer Utility Funds revenue is expected at $402.8 million in Fiscal Year 2018. Actual revenues are higher than projected by $4.3 million, or 1.1% primarily due to the following:

- $2.7 million in additional sewer capacity fee revenue from increased building permit activity from large scale multi-family and commercial projects.
- $980,000 in unanticipated revenue received from the Diamond Environmental litigation award for the illegal dumping of wastewater.
- $790,000 in more than anticipated interest earnings on pooled investments.

Expenditures:
Sewer Utility Funds expenditures are expected at $328.4 million in Fiscal Year 2018. Actual expenditures are lower than projected by $17.9 million, or 5.2% due to the following factors:

- $6.5 million decrease due to a combination of lower than anticipated expenditures for various as-needed professional service contracts, less than anticipated work on condition assessments, and wastewater treatment plant improvement projects that are scheduled for Fiscal Year 2019.
- $2.9 million decrease due to a Fiscal Year 2016 true-up payment to the Participating Agencies, which is now expected to be paid in Fiscal Year 2019.
- $1.9 million decrease due to rescheduled implementation of various information technology projects.
- $1.7 million decrease in personnel expenditures and fringe benefits primarily due to vacancies being filled later than anticipated.
- $1.6 million decrease anticipated capital purchases, such as generators, boat engines, mooring systems, and vehicles.
- $1.5 million decrease due to purchasing fewer chemicals, pumps, machine parts, and safety supplies than anticipated, in keeping with the Chief Operating Officer's request to curtail non-essential expenditures.
- $1.5 million decrease in energy and utilities due to consuming less water and energy at various wastewater facilities than anticipated.

Transient Occupancy Tax Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 115.1	$ 114.2	$ (0.9)	-0.8%
Personnel Expenditures	1.4	1.4	(0.0)	-0.1%
Non-Personnel Expenditures	115.8	114.7	1.2	1.0%
Expenditures	117.2	116.1	1.2	1.0%
Net Year-End Projection	**$ (2.1)**	**$ (1.8)**	**$ 0.3**	

Revenue:
Revenue is expected at $114.2 million at fiscal year-end, a decrease of $880,000 from the year-end projection associated to lower than expected tourist activity.

Expenditures:
Expenditures are expected at $116.1 million at fiscal year-end. This is a $1.2 million decrease from projection primarily due to $590,000 in the Discretionary 1 cent transfer to support General Fund operations, and $530,000 decrease in reimbursements to the General Fund for safety and maintenance of visitor related facilities associated to less TOT revenue.

Underground Surcharge Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 67.9	$ 62.1	$ (5.8)	-8.5%
Personnel Expenditures	1.5	1.5	(0.0)	-0.1%
Non-Personnel Expenditures	25.2	28.2	(3.0)	-11.7%
Expenditures	26.7	29.6	(3.0)	-11.1%
Net Year-End Projection	**$ 41.2**	**$ 32.5**	**$ (8.7)**	

Revenue:
Underground Surcharge Fund revenue is expected at $62.1 million in Fiscal Year 2018. Actuals are lower by $5.8 million, or 8.5% from the year-end projection primarily attributed to:

- $5.0 million surcharge revenue received from SDG&E that was projected in the operating fund but received in the respective CIP fund.
- $960,000 in reimbursements from SDG&E for Rule 20A underground projects due to delayed vendor invoices.

Expenditures:
Personnel expenditures are as projected in the Year-End Report.

Non-personnel expenditures are expected at $28.2 million at fiscal year-end. Actual non-personnel expenditures are higher by $3.0 million, or 11.7% from the year-end projection primarily due to an increase in underground utility work in the last quarter of the fiscal year, and an increase in associated costs.

Water Utility Operating Fund

in millions

Rev/PE/NPE	Year-End Projection	UnAudited Actuals	Variance	Variance %
Revenue	$ 719.2	$ 739.9	$ 20.7	2.9%
Personnel Expenditures	79.4	77.9	1.5	1.9%
Non-Personnel Expenditures	396.2	409.6	(13.4)	-3.4%
Expenditures	475.6	487.5	(11.9)	-2.5%
Net Year-End Projection	**$ 243.6**	**$ 252.4**	**$ 8.8**	

Revenue
Revenue in the Water Utility Operating Fund is anticipated to end the year at $739.9 million. Actual revenues are higher than the year-end projection by $20.7 million, or 2.9%, primarily due to the following:

- $36.1 million increase in water sale revenue as a result of increased water consumption.
- $4.9 million in additional water capacity fee revenue from increased building permit activity from large scale multi-family and commercial projects.
- $1.8 million due to more than anticipated interest earnings on pooled investments.

This increase in revenue is primarily offset by the following:

- $19.9 million decrease in commercial paper financing proceeds. The Public Utilities Department (PUD) anticipated issuing a Fiscal Year 2017 supplemental commercial paper reimbursement package to ensure that all possible Fiscal Year 2017 expenditures were reimbursed. After further review of PUD's cash position and an updated department financing plan, the Fiscal Year 2017 supplemental commercial paper reimbursement package was not issued.
- $2.5 million decrease in State Revolving Financing (SRF) loan and grant reimbursements that will now be received in FY 2019 for a pump station construction project.

Expenditures
Personnel expenditures in the Water Utilities Operating Fund are expected to end the year at $77.9 million. Actual personnel expenditures are lower by $1.5 million, or 1.9%, than the year-end projection primarily due to a $1.0 million decrease in fringe benefits, and vacancies being filled later than anticipated.

Non-personnel expenditures for the Water Utility Operating Fund are expected to end the year at $409.6 million. Actuals are higher than projected at year-end by $13.4 million, or 3.4%, primarily due to a $15.0 million increase in water purchases from the County Water Authority. This increase is partially offset by a $1.5 million decrease due to issuing less commercial paper than expected, which resulted in less interest owed.

RISK MANAGEMENT RESERVES

The Long-Term Disability, Public Liability, and Workers' Compensation Funds provide funding sources for certain claims made against the City. The City's Reserve Policy (CP 100-20) sets the required reserve level target for each fund as shown below in Table 11: FY 2018 Risk Management Liability Reserves. All Risk Management reserves goals are based on the average value of the annual actuarial liability (AVAAL) for the three most recent fiscal years, currently Fiscal Years 2015 through 2017. Additional details on each reserve are included below.

FY 2018 Risk Management Liability Reserves

Table 11 *in millions*

Description	Fund Name	Reserve Type	FY 2018 Target	Ending Balance
Risk Management	Long-Term Disability Fund	Liability Reserve	$ 5.5	$ 15.6
	Public Liability Fund	Liability Reserve	32.6	34.7
	Workers' Compensation Fund	Liability Reserve	30.0	40.8

LONG-TERM DISABILITY RESERVE

The Long-Term Disability (LTD) Reserve provides non-industrially disabled City employees with income and flexible benefits coverage. For Fiscal Year 2018, the City's Reserve Policy requires that the LTD reserve equal $5.5 million, or 100.0% of the AVAAL for the three most recent years. The Long-Term Disability Fund Fiscal Year 2018 ending fund balance is $15.6 million, or 283.4% of the goal. This is as projected during the Year-End Report.

The City is developing a long-term death and disability benefit plan for employees hired on or after July 20, 2012. Funding of the plan is subject to labor negotiations. It is anticipated that the funding needed to initially establish the plan will be paid for from excess equity in the LTD fund, while future contributions would come from the City and employees. The remaining excess equity in the LTD Fund will be used for rate relief for all operating departments in future fiscal years as outlined in the FY 2019-2023 Five Year Financial Outlook.

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. For Fiscal Year 2018, the City's Reserve Policy requires that the Public Liability Fund Reserve equal 47.0% of the AVAAL for the three most recent years, or $32.6 million. The ending fund balance of the Public Liability Fund Reserve is approximately $34.7 million or 50.0% of the three-year average of the annual actuarial liability. The current fund balance pre-funds the Fiscal Year 2019 target of 50.0%. Due to the available fund balance in the Public Liability Reserve and the lower average AVAAL, the General Fund did not need to transfer funds to the Public Liability Reserve Fund as projected in the Year-End Report. This savings was used to partially offset other expenditures projected in public safety overtime.

WORKERS' COMPENSATION RESERVE

The Workers' Compensation reserve provides funding for medical and disability costs for injuries and illnesses occurring in the workplace. The Workers' Compensation Reserve target is 12.0% of the AVAAL for the three most recent years, or $30.0 million. This amount is approximately one year of operating cash for the Workers' Compensation program.

In Fiscal Year 2018, the Workers' Compensation Reserve transferred $1.9 million of excess equity to non-General Funds and $10.1 million of excess equity to the General Fund for a total use of fund balance of $12.0 million. As a result, the ending fund balance of the Workers' Compensation Reserve is $40.8 million, or 16.3% of the AVAAL for the three most recent years. The remaining excess Workers' Compensation reserves will be used to support the workers' compensation plan by offsetting workers' compensation expenditures through Fiscal Year 2020 as discussed in the Five-Year Outlook. The fund balance is as projected during the Year-End Report.

CONCLUSION

The FY 2018 Performance Report provides the City Council and the public with a detailed comparison of actual (unaudited) revenue and expenditure activity compared to the Fiscal Year 2018 year-end projections, included in the FY 2018 Year-End Report. General Fund revenues and expenditures are expected at less than 0.5% from the projections detailed in the Year-End Report. The General Fund is projected to end the fiscal year with a net projected activity, or excess equity, of $16.1 million, an increase of $11.3 million from the Year-End Report. As a result, this will increase the excess equity, fund balance in excess of required reserve levels, to $10.8 million after making an increased $530,000 contribution to the General Fund stability reserve in keeping with the General Fund Reserve Policy. This projected excess equity will be final upon the completion of the Fiscal Year 2018 CAFR in December 2018. The Department of Finance will be reporting to City Council quarterly in November 2018 and in January 2019 through the release of the First Quarter and the Mid-Year Budget Monitoring reports with any significant changes as is discussed in the Budget Policy and Reserve Policy.

ATTACHMENTS

I. Fiscal Year 2018 Year-End Budget Monitoring Report
II. Fiscal Year 2018 Charter 39 Report - Period Ending June 30, 2018
III. General Fund Revenues Comparison
IV. General Fund Expenditures Comparison
V. Non-General Fund Comparison