

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

City Council

Item S503

November 1, 2022



Office of the Independent Budget Analyst



Overview

IBA Report Covers:

- Changes in General Fund Revenues
 - Revenues: \$31.3 million above Third Quarter Report projections
 - Federal American Rescue Plan Act (ARPA) funding
- Changes in General Fund Expenditures
 - Expenditures: \$4.0 million under Third Quarter Report projections
 - Citywide expenditures with significant variances from Adopted Budget
 - Homeless Expenditures
- General Fund Reserve and Excess Equity

General Fund Revenue

Continued Rebound in the City's Revenue Sources

- Exceed FY 2020 Adopted Budget revenue– the last pre-pandemic projection
- Reduced reliance on American Rescue Plan Act (ARPA) funds

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

NOTE: Table may not total due to rounding.

General Fund Revenue

Property Tax and Sales Tax

- Property Tax Revenue
 - \$3.0M increase from Third Quarter; \$9.1M under Adopted Budget
 - Adopted Budget variance due to lower than projected allowable growth in assessed values under Proposition 13
- Sales Tax Revenue
 - \$13.2M increase from Third Quarter; \$54.8M above Adopted Budget
 - Continued strong consumer spending as well as persistent inflation in consumer items

General Fund Revenue

Transient Occupancy Tax and Franchise Fees

- Transient Occupancy Tax Revenue
 - \$8.4M increase from Third Quarter; \$41.0M above Adopted Budget
 - Remain below the projected growth trends in place prior to the pandemic
- Franchise Fee Revenue
 - \$0.2M decrease from Third Quarter; \$11.5M above Adopted Budget
 - Adopted Budget variance due to increased collections from SDG&E franchise fees and a change in minimum bid accounting

General Fund Expenditures

Expenditures \$4.0M below Third Quarter Projections, \$16.7M above Adopted Budget

- Salaries and Wages Expenditures - \$7.5M higher than Adopted Budget
- NPE Expenditures - \$12.7M below Adopted Budget

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

Notes: Table may not total due to rounding.

Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

General Fund Expenditures

Fire-Rescue and Police Overtime Overages

- Account for 92% of total General Fund overtime costs
- Fire-Rescue
 - \$17.9M over Adopted Budget (\$1.2 million increase from Third Quarter Projection)
- Police
 - \$10.2M over Adopted Budget (\$0.2 million decrease from Third Quarter Projection)

Non-Personnel Expenditures

Homelessness Strategies

- \$8.6M savings (mainly General Fund) largely due to:
 - (1) ramp-up time needed to establish new programs
 - (2) impacts from the pandemic
- Update on Facility on Palm Avenue
 - \$342,000 savings due to family shelter program at a rehabilitated facility on Palm Avenue ending earlier than anticipated
 - Currently used for short-term senior bridge housing Facility; eventually to be used for San Diego Misdemeanants At Risk Track (SMART) Program
- Rapid Rehousing
 - \$561,000 grant funds unspent due to a lack of available rental units

General Fund Reserve/Excess Equity

Reserves still at FY 2020 levels

- Absent additional contributions, FY 22 Reserve projected at \$14.8M below target

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

Note: Table may not total due to rounding.

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

- FY 2022 year-end Excess Equity projected to be \$69.1M, which is \$35.3M higher than Third Quarter projection

Conclusion

- Year-End Performance Report is largely positive
 - Variances are large, but positive
- Continued economic impacts should be kept in mind
- Additional information expected in November release of Five-Year Financial Outlook and First Quarter Budget Monitoring Report