

# FINANCIAL PERFORMANCE REPORT FISCAL YEAR 2008

PERIOD 3



Department of Finance  
City Comptroller's Office  
09/21/07

## ***Performance at a Glance***

General Fund Revenues  
General Fund Expenditures  
Water Department Revenues  
Water Department Expenses  
Sewer Funds Revenue  
Sewer Funds Expenses

	<i>Period Performance</i>	<i>Year-to-Date Performance</i>	<i>See Page Number</i>
General Fund Revenues	▼	▼	5
General Fund Expenditures	▲	▲	7
Water Department Revenues	▲	▲	10
Water Department Expenses	▲	▲	10
Sewer Funds Revenue	▲	▲	10
Sewer Funds Expenses	▲	▲	10

## ***Purpose and Scope***

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This report is designed to provide city management with the financial information necessary to assess the current financial position of the City of San Diego. Information is also provided to assist in the evaluation of departmental performance. However, we note that the analysis of budgetary performance, and the review of the achievement of departmental objectives, is traditionally the role of the Financial Management division of the Department of Finance.

The General Fund is the primary focus of this report, although other budgeted funds are also included. However, it does not contain the operating results of numerous special revenue funds, debt service funds, or fiduciary funds; the results of component units; or capital project funds.

The attached statements were not prepared in accordance with Generally Accepted Accounting Principles (GAAP) for external financial reporting. Financial information contained in this report is unaudited, and should not be used as the basis of investment decisions. Likewise, this report is not a replacement for the City of San Diego's Comprehensive Annual Financial Report (CAFR). The CAFR, as well as other financial reports, can be accessed via the internet at: <http://www.sandiego.gov/auditor/reports/index.shtml>.

This report contains significant changes from previous versions in both reporting perspective and format. One of the most notable changes is the focus on year-over-year performance. In both the body of this report and its supporting schedules the primary analysis tool is a comparison of current year activity against the previous year's activity. This provides a variance of two definite values, rather than between one definite value and an estimate. Over the course of the year we feel this approach will provide a meaningful basis of assessing performance.

Comparisons against departmental estimates, also referred to as Period-to-Date Budgets, continue to be vitally important. However, they are more useful as a predictor of future activity. We include them in the supporting schedules for the General Fund as an informational item. In the General Fund Revenue and General Fund Expenditure sections of this report we also include a summary table of the top five variances between departmental period-to-date estimates and actual balances.

## General Fund Summary

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This section of the report explains the relationship between General Fund revenues and expenditures. Since there are separate sections of the report dedicated to a thorough analysis of each, this section contains only summary data. Additional information on revenues is contained in the General Fund Revenues section of this report (see page 5). Similarly, additional information on expenditures is contained in the General Fund Expenditures section (see page 7).

General Fund revenues through Period 3 of Fiscal Year 2008 totaled \$61.8 million. This is \$11.6 million less than the \$73.4 million received through Period 3 of Fiscal Year 2007.

Expenditures for the General Fund totaled \$243.5 million during the same period. This is \$26.2 million more than the \$217.4 million incurred through Period 3 of Fiscal Year 2007. This amount, along with \$26.8 million of encumbrances, exceeds revenue by \$208.6 million. This relationship is demonstrated on the table below, as well as more thoroughly in the General Fund Summary table on page 4.

<b>General Fund Status Summary</b>			
	Adopted Budget	Revised Budget	Year-to-Date Actuals
Total General Fund Revenues	\$ 1,111,439,952	\$ 1,111,439,952	\$ 61,778,827
Total General Fund Expenditures	\$ 1,111,439,952	\$ 1,111,439,952	243,542,202
	-	-	(181,763,375)
Total General Fund Encumbrances			26,828,541
<b>Net Impact</b>			<b><u>\$ (208,591,916)</u></b>

The trend of expenditures exceeding revenues is a regular occurrence early in the fiscal year. It will continue until the first major Property Tax receipts are received, which is anticipated to occur in Period 6. As of Period 3, the General Fund revenue budget and General Fund expenditure budget contain no revisions, and remain in balance. As adjustments occur, they will be detailed in a budget reconciliation in future editions of this report.

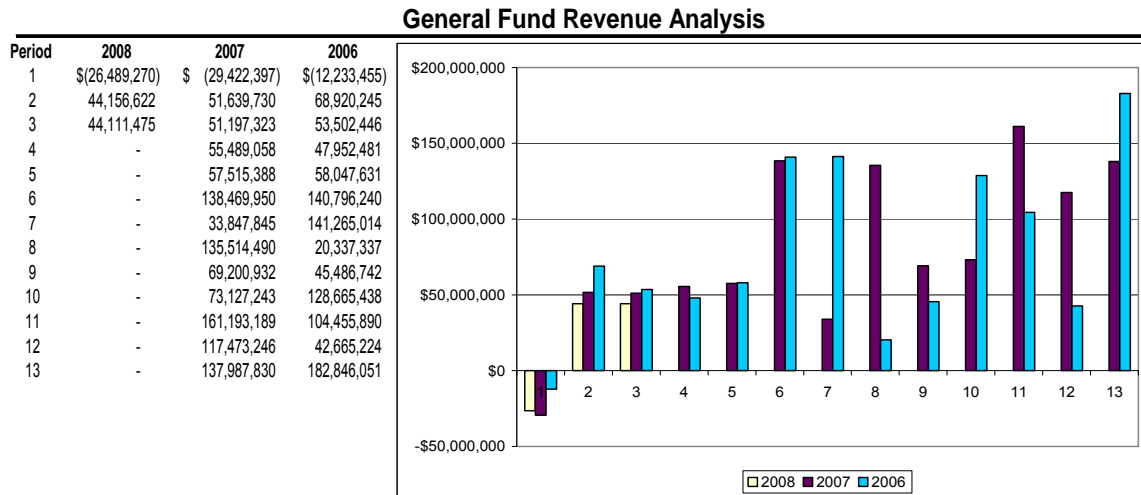
### General Fund Summary

	Adopted Budget	Revised Budget	Current Year-to- Date Actuals	% of Revised Budget	CY/PY Variance	Prior Year-to- Date Actuals	FY07 Year-End Totals	% of FY07 Year- End Total
<b>Revenues</b>								
Property Tax	\$ 385,688,853	\$ 385,688,853	\$ 8,665,085	2%	\$ 281,294	\$ 8,383,791	\$ 360,400,407	2%
Safety Sales Tax	8,401,528	8,401,528	1,408,585	17%	(36,885)	1,445,470	7,940,313	18%
Sales Tax	239,485,958	239,485,958	(345,554)	-	(15,476,559)	15,131,005	169,235,625	9%
General Fund TOT	85,184,936	85,184,936	11,973,234	14%	12,283,014	(309,780)	137,308,655	-
Property Transfer Taxes	7,570,860	7,570,860	1,131,103	15%	389,794	741,309	9,307,713	8%
Licenses and Permits	34,456,484	34,456,484	6,800,636	20%	859,352	5,941,284	8,827,395	67%
Fines and Forfeitures	34,769,264	34,769,264	3,904,420	11%	35,328	3,869,092	6,233,062	62%
Interest & Dividends	10,437,122	10,437,122	1,823,165	17%	1,209,223	613,942	10,151,728	6%
Franchises	69,585,776	69,585,776	51,137	-	28,478	22,659	280,683	8%
Rents & Concessions	38,405,313	38,405,313	5,557,869	14%	(448,745)	6,006,614	4,214,465	143%
Motor Vehicle License Fees	7,938,333	7,938,333	1,717,304	22%	(1,182,774)	2,900,078	8,101,184	36%
Revenues For Other Agencies	7,203,056	7,203,056	679,457	9%	(736,155)	1,415,612	11,644,797	12%
Charges for Current Services	28,850,177	28,850,177	8,597,516	30%	1,746,123	6,851,393	32,308,468	21%
Services and Transfers	151,243,445	151,243,445	9,113,659	6%	(10,718,814)	19,832,473	135,963,520	15%
Miscellaneous Revenues	2,218,847	2,218,847	701,211	32%	131,496	569,715	151,315,812	-
<b>Total General Fund Revenue</b>	<b>\$ 1,111,439,952</b>	<b>\$ 1,111,439,952</b>	<b>\$ 61,778,827</b>	<b>6%</b>	<b>\$ (11,635,830)</b>	<b>\$ 73,414,657</b>	<b>\$ 1,053,233,827</b>	<b>7%</b>
<b>Expenditures</b>								
Personnel Services	\$ 499,264,122	\$ 499,191,888	\$ 111,381,031	22%	\$ 1,087,211	\$ 110,293,820	\$ 461,211,470	24%
<b>Total PE</b>	<b>499,264,122</b>	<b>499,191,888</b>	<b>111,381,031</b>	<b>22%</b>	<b>1,087,211</b>	<b>110,293,820</b>	<b>461,211,470</b>	<b>24%</b>
Fringe Benefits	271,654,326	271,645,420	60,370,869	22%	1,659,577	58,711,292	254,201,849	23%
Supplies / Services	266,940,178	266,851,370	57,306,634	21%	22,550,620	34,756,014	195,302,910	18%
Data Processing	37,164,439	37,189,493	8,887,753	24%	1,953,412	6,934,341	29,328,720	24%
Energy	25,655,302	25,791,406	5,375,771	21%	(219,432)	5,595,203	29,425,581	19%
Outlay	10,761,585	10,770,375	220,144	2%	(843,790)	1,063,934	13,195,796	8%
<b>Total NPE</b>	<b>612,175,830</b>	<b>612,248,064</b>	<b>132,161,171</b>	<b>22%</b>	<b>25,100,387</b>	<b>107,060,784</b>	<b>521,454,856</b>	<b>21%</b>
<b>Total General Fund Expenditures</b>	<b>\$ 1,111,439,952</b>	<b>\$ 1,111,439,952</b>	<b>\$ 243,542,202</b>	<b>22%</b>	<b>\$ 26,187,598</b>	<b>\$ 217,354,604</b>	<b>\$ 982,666,326</b>	<b>22%</b>
<b>General Fund Encumbrances</b>			26,828,541		(3,944,765)	30,773,306	28,636,895	
<b>Net Impact</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (208,591,916)</b>		<b>\$ (33,878,663)</b>	<b>\$ (174,713,253)</b>	<b>\$ 41,930,606</b>	

## GENERAL FUND REVENUES

As stated in the General Fund Summary section of this report, General Fund revenues totaled \$61.8 million through Period 3 of Fiscal Year 2008. This is \$11.6 million less than the \$73.4 million received through Period 3 of Fiscal Year 2007. The individual revenue categories contributing to this change are discussed below.

Revenue balances in the early periods are usually lower than the amounts anticipated in later periods. (This is demonstrated in the General Fund Revenue Analysis below.) It is typical for a municipality's major revenue streams to occur late in the fiscal year. The timing of these revenues makes the issuance of Tax and Revenue Anticipation Notes (TRANS) an attractive financial strategy. These notes allow a city to perform services throughout the year, rather than timing them to coincide with actual receipts.



Much of the revenue received in the first sixty days of the fiscal year relates to the previous year. In Period 1 the Comptroller's Office records the full 60 days worth of revenue as the previous year's revenue. Since only 30 days worth has actually been received through that time, the result is a negative balance in Period 1 as indicated in the analysis above.

As of Period 3 Fiscal Year 2008, General Fund Sales Tax receipts totaled \$-345,554. When compared to Period 3 of last fiscal year of (\$15.1 million) the result is a \$15.5 million decrease. This is due to timing differences related to an apportionment received in Period 3 Fiscal Year 2007 that was not received until Period 4 Fiscal Year 2008.

Transient Occupancy Tax (TOT) revenue totaled \$12.0 million as of Period 3 Fiscal Year 2008. This is \$12.3 million more than the \$-309,780 for the same period in Fiscal Year 2007. While the City as a whole had received the full amount of TOT revenue as of Period 3 Fiscal Year 2007, the processing of the allocation to the General Fund was delayed. Future editions of this report will

contain more meaningful year-to-year results as the Fiscal Year 2007 balances reflect the resolution of the delay. Despite the increase from last fiscal year, this category is \$6.9 million less than the period-to-date budget.

Fines and Forfeiture revenue totaled \$3.9 million, which is only \$35,328 more than what was received through Period 3 Fiscal Year 2007. While this year-to-year change is not significant, the category as a whole is \$3.6 million less than period-to-date estimates. The majority of this variance is in Parking Citations which has received \$3.0 million less than estimated.

Interest and Dividend revenue is up \$1.2 million from Fiscal Year 2007, and the category totals \$1.8 million. This is primarily due to increased investment performance this fiscal year, as well as a larger investment pool.

Rents and Concessions revenue totaled \$5.6 million in Period 3 of Fiscal Year 2008. This is only \$448,745 less than what was received through this point in Fiscal Year 2007. However, it is \$3.3 million less than the period-to-date budget, which does appear to correctly capture the timing of revenue receipt.

Revenue from Services and Transfers totaled \$9.1 million as of Period 3 Fiscal Year 2008; this is \$10.7 million lower than what was received as of Period 3 last fiscal year. This change is related to timing differences of budgeted transfers to the General Fund, and is also the reason that revenue in this category is lower than period-to-date budgets by \$22.3 million.

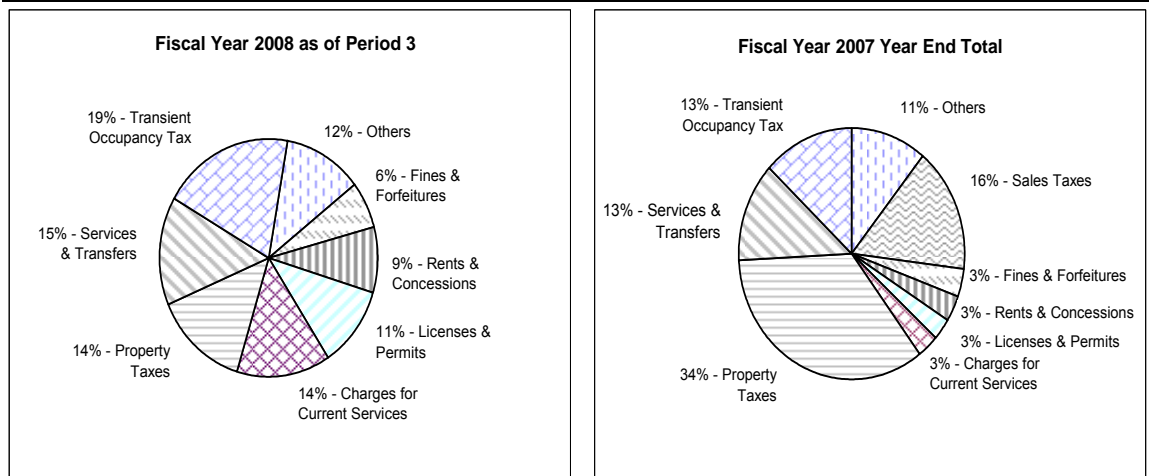
The following table shows how the actual receipt of revenue compares to period-to-date estimates. It contains the categories with the five largest variances, as well as the General Fund total.

#### General Fund Revenue Variance Analysis

	PTD Budget	FY08 Actuals	Favorable / (Unfavorable) Variance	% Variance
Services & Transfers	\$ 31,380,185	\$ 9,113,659	\$ (22,266,526)	-71%
General Fund Sales Taxes	15,266,934	(345,554)	(15,612,488)	-102%
General Fund TOT	18,853,063	11,973,234	(6,879,829)	-36%
Fines & Forfeitures	7,540,040	3,904,420	(3,635,620)	-48%
Rents & Concessions	8,830,699	5,557,869	(3,272,830)	-37%
Remaining Revenue Categories	29,712,048	31,575,199	1,863,151	6%
<b>Total General Fund Revenues</b>	<b><u>\$ 111,582,969</u></b>	<b><u>\$ 61,778,827</u></b>	<b><u>\$ (49,804,142)</u></b>	<b><u>-45%</u></b>

The charts on the following page illustrate how General Fund revenues are broken down by revenue category. One demonstrates Fiscal Year 2008 revenues received through Period 3, and the other illustrates Fiscal Year 2007 totals. This distribution is not consistent throughout the year and is included only to demonstrate the weight each category carries at a specific point in time.

### General Fund Revenue by Category



Additional details of General Fund revenues can be found on Schedule 1- General Fund Revenue Status Report.

### GENERAL FUND EXPENDITURES

General Fund expenditures totaled \$243.5 million through Period 3 of Fiscal Year 2008. This is \$26.1 million more than the \$217.4 million incurred through Period 3 of Fiscal Year 2007.

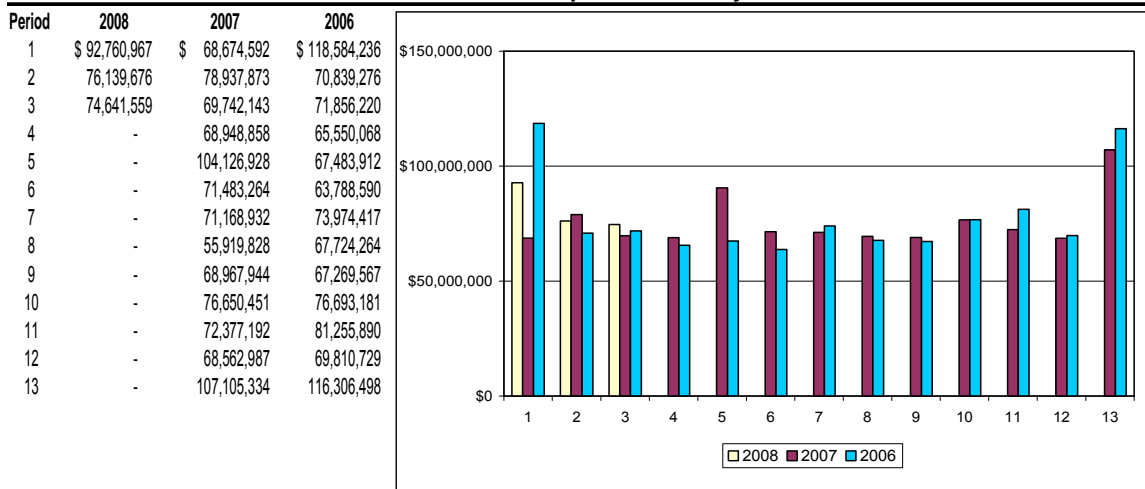
The majority of this difference is the Supplies and Services expenditure category. Expenditures in this category are \$22.6 million higher than this point last year. The majority of this is due to a larger budgeted transfer to the Public Liability Fund from the Citywide Programs department than Fiscal Year 2007. Additional expenditure category detail can be found in the table below and on the General Fund Summary table on page 4.

#### General Fund Expenditures by Category

	Revised Budget	FY08 YTD Actuals	FY07 YTD Actuals	FY07/FY08 Change	% Change
Personnel Services	\$ 499,191,888	\$ 111,381,031	\$ 110,293,820	\$ 1,087,211	1%
Fringe Benefits	271,645,420	60,370,869	58,711,292	1,659,577	3%
Supplies / Services	266,851,370	57,306,634	34,756,014	22,550,620	65%
Data Processing	37,189,493	8,887,753	6,934,341	1,953,412	28%
Energy	25,791,406	5,375,771	5,595,203	(219,432)	-4%
Outlay	10,770,375	220,144	1,063,934	(843,790)	-79%
<b>Total Expenditures</b>	<b>\$ 1,111,439,952</b>	<b>\$ 243,542,202</b>	<b>\$ 217,354,604</b>	<b>\$ 26,187,598</b>	<b>12%</b>

As one can see in the following exhibit, expenditures occur more regularly during the course of the year than the receipt of revenues.

### General Fund Expenditure Analysis



Citywide Program expenditures totaled \$22.0 million through Period 3 of Fiscal Year 2008. This is \$8.5 million higher than the \$13.5 million incurred through this point in Fiscal Year 2007. The primary cause of this increase is a larger budgeted transfer to the Public Liability Fund in Fiscal Year 2008. In Fiscal Year 2007 this initial transfer was \$10.0 million, while Fiscal Year 2008's budgeted transfer totaled \$18.0 million. This is also discussed in the Public Liability section on page 12.

Expenditures for the Office of the Chief Information Officer totaled \$8.0 million. This is \$6.6 million higher than the \$1.4 million incurred through Period 3 of Fiscal Year 2007. This is primarily due to increased centralization of data processing costs; these are offset by decreases in data processing expenditures in other General Fund departments.

Park and Recreation expenditures totaled \$18.4 million as of Period 3. This is a \$1.5 million increase from the \$16.9 million incurred through Period 3 of Fiscal Year 2007. The majority of this increase is in the Supplies and Services expenditure category, and is related to restructuring.

The Police Department incurred expenditures totaling \$82.0 million through Period 3 of Fiscal Year 2008. This is \$2.8 million higher than the \$79.3 million incurred through the same point last year. The majority of this increase is in the Supplies and Services category. Despite this increase, the department's expenditures are \$4.5 million less than the period-to-date estimate.

San Diego Fire and Rescue expenditures totaled \$45.4 million as of Period 3. This marks a \$4.1 million increase from this point in Fiscal Year 2007 when expenditures totaled \$41.3 million, and yields an unfavorable variance of \$1.6 million when compared to estimates. Most of this increase is in the Supplies and Services expenditure category.



The General Services department has incurred \$13.0 million of expenditures through Period 3 Fiscal Year 2008. This is only \$217,523 more than Period 3 of Fiscal Year 2007, but yields a favorable variance of \$5.1 million when compared to period-to-date estimates. This variance falls significantly once the department's \$4.8 million of encumbrances are taken into account.

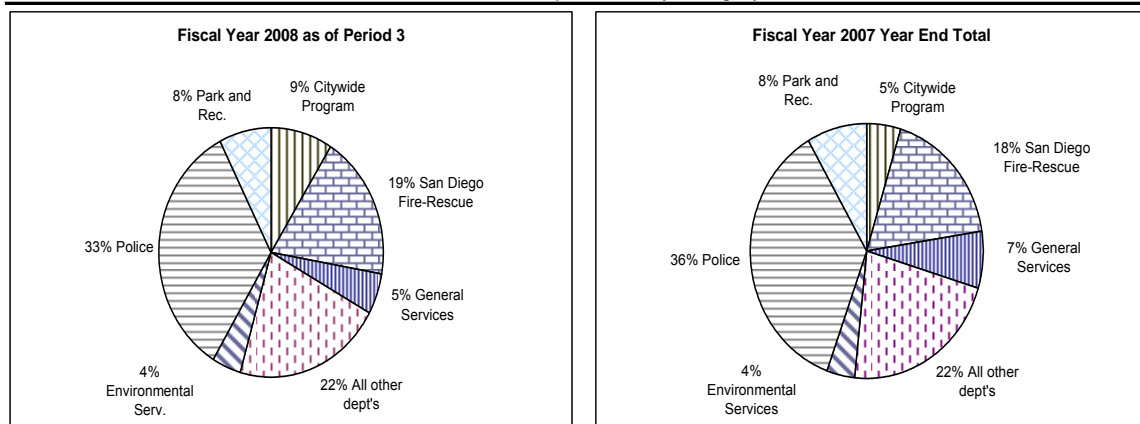
The following table shows how actual expenditures compare to period-to-date estimates. It contains the departments with the five largest variances.

**General Fund Expenditure Variance Analysis**

	PTD Budget	FY08 Actuals	Favorable / (Unfavorable) Variance	% Variance
General Services	\$ 18,059,650	\$ 12,989,590	\$ 5,070,060	28%
Police	86,574,250	82,049,148	4,525,102	5%
San Diego Fire-Rescue	43,739,490	45,376,199	(1,636,709)	-4%
Engineering and Capital Projects	8,281,703	7,313,517	968,186	12%
City Treasurer	3,102,482	2,429,978	672,504	22%
Remaining Departments	96,099,607	93,383,770	2,715,837	3%
<b>Total General Fund Expenditures</b>	<b>\$ 255,857,182</b>	<b>\$ 243,542,202</b>	<b>\$ 12,314,980</b>	<b>5%</b>

The charts below illustrate how General Fund expenditures are broken down by department. One demonstrates Fiscal Year 2008 expenditures through Period 3, and the other illustrates Fiscal Year 2007 totals. Because there are many departments in the General Fund, we focus on only the departments with the largest expenditures. This exhibit is included as an approximation of the types of programs on which the General Fund budget is spent.

**General Fund Expenditure by Category**



Additional details of General Fund expenditure can be found on Schedule 2-General Fund Expenditure Status Report.

## ***Other Budgeted Funds***

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### **WATER DEPARTMENT**

For Period 3 Fiscal Year 2008, the Water Department realized total revenues of \$84.2 million. Compared to last fiscal year's Period 3 total of \$74.6 million, the result is a \$9.6 million increase. This is due to an increase in the water rates, as well as increased water demand.

For the same period, Water Department operating expenses totaled \$65.9 million. Compared to Period 3 of last fiscal year, when operating expenses totaled \$61.6 million, the result is an increase of \$4.3 million. As the table below indicates, revenues have exceeded expenses by \$18.4 million through Period 3. Once operation related encumbrances are taken into account, the difference is \$10.8 million.

The Water Department Fund's adopted revenue budget (\$462.2 million) exceeds the adopted operating expense budget (\$357.0 million) by \$105.2 million. The difference is due to the effect of the excluding CIP related activity from expense totals, as well as the use of fund equity to finance appropriations.

	<b>Water Department Fund</b>		
	Original	Revised	Year-to-Date
	<u>Adopted Budget</u>	<u>Budget</u>	<u>Actuals</u>
Total Revenues	\$ 462,174,462	\$ 462,174,462	\$ 84,218,137
Total Operating Expenses	356,966,131	356,997,572	65,852,814
	<u>\$ 105,208,331</u>	<u>\$ 105,176,890</u>	<u>18,365,323</u>
Operating Encumbrances			7,522,267
<b>Net Impact</b>			<b><u><u>\$ 10,843,056</u></u></b>

### **SEWER FUNDS**

For Period 3 Fiscal Year 2008, the Sewer Funds realized total revenues of \$99.0 million. As of the same point in Fiscal Year 2007, Sewer Funds had realized total revenues of \$75.8 million; this represents an increase of \$23.2 million.

The Sewer Funds incurred operating expenses of \$39.0 million as of Period 3 Fiscal Year 2008. Last year's Period 3 operating expenses totaled \$38.0 million, resulting in a \$1.0 million increase. As the table below indicates, revenues have exceeded expenses by \$59.9 million through Period 3, but once operating encumbrances are considered, the difference falls to \$31.5 million.

The Sewer Funds' adopted operating expense budget (\$369.8 million) exceeds the adopted revenue budget (\$354.0 million) by \$15.7 million. The Sewer Funds are required to include in its annual budget a contingency reserve to enhance its bond creditworthiness profile. This year's contingency reserve was budgeted at

\$31.7 million which is the primary cause of the difference between revenue and expense budgets.

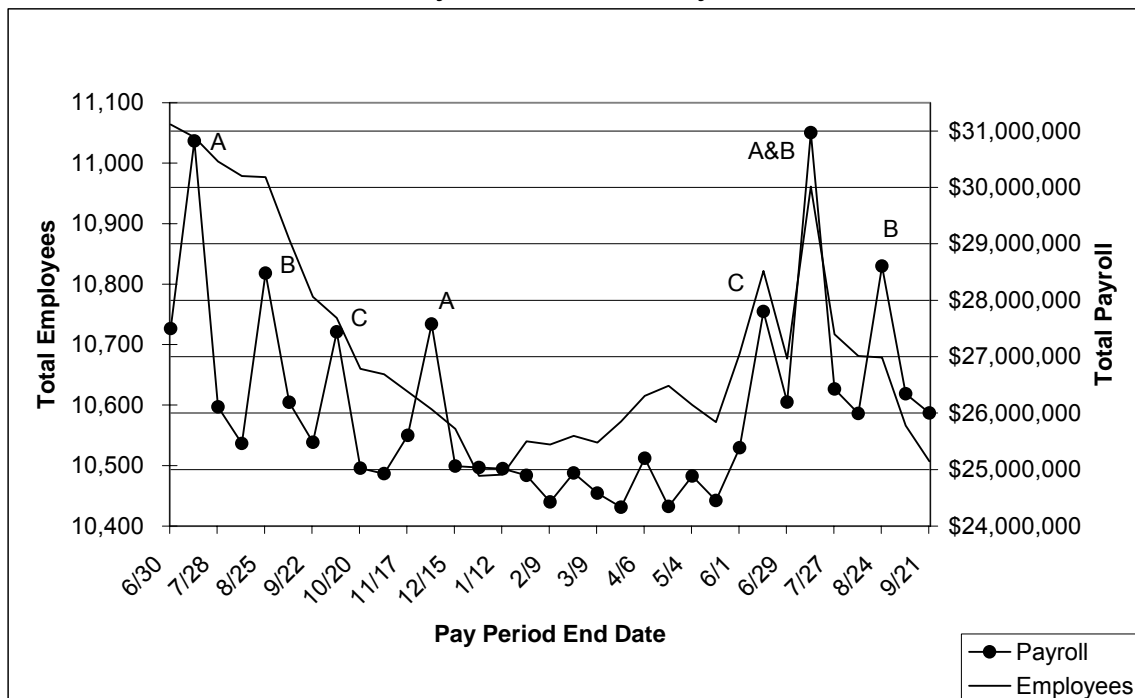
<b>Sewer Funds</b>			
	Original Adopted Budget	Revised Budget	Year-to-Date Actuals
Total Revenues	\$ 354,030,423	\$ 354,030,423	\$ 98,991,053
Total Operating Expenses	369,767,582	369,767,582	39,045,520
	<u>\$ (15,737,159)</u>	<u>\$ (15,737,159)</u>	<u>59,945,533</u>
Operating Encumbrances			28,401,198
<b>Net Impact</b>			<b><u>\$ 31,544,335</u></b>

### **Additional Items of Interest**

#### **SUMMARY OF PAYROLL ACTIVITY**

One of the significant functions of the City Comptroller's Office is the distribution of the City of San Diego's bi-weekly payroll. The graph below represents the trend of total number of employees and total dollar amount of bi-weekly pay over the past several months. While non-recurring activity, such as larger terminal payouts and the cashing out of accumulated annual leave, may distort individual distributions, the trends described below are a reasonable indicator of City staffing levels and payroll obligations.

**Payroll Trend Analysis**



- A) These spikes in payroll related expenditures are from the cash pay out of unused flexible benefits.
- B) This spike in payroll related expenditures represents the payment of annual uniform allowances.
- C) This spike in payroll related expenditures is from Bid-to-Goal expenses for Sewer Funds.

The following table provides selected payroll related statistics for the first full pay period in Fiscal Year 2008, as well as the most recent. The number of employees and the total payroll amount is higher than normal for pay period ended July 13 (PPE 07/13/07) because of the payment of the flexible benefits cash option, which includes both active employees and recently terminated employees.

Through Period 3 Fiscal Year 2008 Accrued Comp Time balance continues to grow, but Accrued Annual Leave balances have decreased. The primary cause of the drop in the Annual Leave balance seems to be due to an increase of payments in lieu of annual leave. While a percentage of employees regularly “cash out” annual leave each pay period, many appear to have waited for the first of the fiscal year.

#### Summary of Significant Payroll Statistics

	PPE 07/13/07	PPE 09/21/07	Increase / (Decrease)
Total Payroll	\$ 30,969,622	\$ 26,001,129	\$ (4,968,493)
Accrued Comp Time	\$ 4,615,489	\$ 4,905,551	\$ 290,062
Accrued Annual Leave	\$ 84,763,366	\$ 83,463,861	\$ (1,299,505)
Accrued Old Sick Leave	\$ 769,672	\$ 710,734	\$ (58,938)
Total Employees	10,961	10,507	(454)

#### SUMMARY OF CURRENT YEAR PUBLIC LIABILITY

As of Period 3 the Public Liability Fund has received revenues totaling \$13.1 million. Of this amount, \$13.0 million was a budgeted transfer from the General Fund’s Citywide Program department. An additional \$5.0 million was also transferred to the Public Liability Reserve Fund. The nature of the functions of the Public Liability Fund does not lend itself to a year-to-year analysis because of the number of large, non-recurring transactions. However, for the purpose of perspective, by the end of Period 3 Fiscal Year 2007 the Public Liability Fund had received \$10.0 million in revenue from the General Fund.

Public Liability expenditures totaled \$7.4 million as of Period 3, which is a \$2.9 million increase from this point in Fiscal Year 2007 when expenditures totaled \$4.5 million. The largest contributor to the Fiscal Year 2008 expenditure balance is \$4.1 million for the City’s insurance premiums for general liability, property, and other insurance policies. Claims related costs totaled \$1.3 million, while other legal costs totaled \$2.0 million. The table on the following page details these expenditures, as well as currently encumbered commitments.

**Current Year Public Liability Summary**

<b>Action</b>	<b>Expenditure</b>	<b>Encumbrances</b>
<b>Insurance Premiums</b>	\$ 4,067,317	\$ -
<b>Claim Costs</b>	1,289,197	1,063,611
<b>Legal Services</b>		
Sheppard Mullin Richter & Hampton - Financial Investigations	117,829	26,746
Latham & Watkins - SDPOA v. Aguirre, Marcus Abbe v. City of SD	1,095,184	1,804,816
Latham & Watkins - McGuigan v. City of SD	236,048	38,952
Latham & Watkins - De La Fuente	292,222	952,778
Latham & Watkins - La Jolla Alta Master Council	4,310	245,690
Werner & Perlman - SDPOA v. Aguirre	63,828	251,172
Sandler, Lasry, Laube, Byer & Valdez - La Jolla Alta Master Council	83,380	41,620
Other legal services	96,934	962,639
<b>Operating Expenditures</b>	19,326	-
<b>Totals</b>	<u>\$ 7,365,575</u>	<u>\$ 5,388,024</u>