THE CITY OF SAN DIEGO

REPORT TO THE CITY COUNCIL

DATE ISSUED: September 17, 2012 REPORT NO: 12-115

ATTENTION: Budget and Finance Committee, Agenda of September 26, 2012

SUBJECT: Fiscal Year 2012 General Fund Ending Balance and Public Liability Fund

REFERENCE: Fiscal Year 2012 Year-End Budget Monitoring Report, #12-068
Fiscal Year 2012 Mid-Year Budget Monitoring Report, #12-018
Fiscal Year 2012 First Quarter Budget Monitoring Report, #11-154

REQUESTED ACTION: Accept the report.

STAFF RECOMMENDATION: Accept the report.

SUMMARY:
This report presents the Fiscal Year 2012 ending balance for the General Fund using unaudited actuals through the end of the fiscal year and a discussion of the Public Liability Fund. The report also presents year-end expenditures and revenues that vary from the projections presented in the Fiscal Year 2012 Year-End Budget Monitoring Report #12-068 (Year-End Report), which contributed to an increase in the General Fund ending balance.

The following table provides the fund balance history of the General Fund for Fiscal Year 2012. The table displays fund balances at various points in the fiscal year and the corresponding reserve level percentage each balance represents.

Fund Balance Summary of the General Fund *(in millions)*

FY 2012 Beginning Fund Balance	$113.9	10.1%	(8% Target = $90.1)
Projected Year-End Surplus	$ 17.8		
FY 2012 Year-End Projected Fund Balance	$131.7	11.6%	(8% Target = $91.0)
Changes From Year-End Report			
RDA-Property Tax (RPTTF Residual/Pass-Through)	$ 4.9		
RDA-Property Tax (City Portion of TIF Refund)	18.7		
Decreased Departmental Expenditures/Encumbrances	9.9		
Other Revenue	1.0		
Additional Surplus - Unaudited	$ 34.4		
FY 2012 Fund Balance - Unaudited	$ 166.1	14.0%	(8% Target = $95.1)
FY 2013 Budgeted Use of Fund Balance	$ (12.8)		
FY 2013 Beginning Fund Balance - Unaudited	$ 153.4	13.3%	(8% Target = $92.1)

Fiscal Year 2012 Fund Balance History

The Fiscal Year 2012 beginning balance was $113.9 million, representing 10.1 percent of the revenues in the Fiscal Year 2012 Adopted Budget. The Year-End Report projected an additional $17.8 million to be contributed to reserves by the end of the fiscal year. This projected $17.8 million surplus was a net of $5.0 million in modest service restorations funded by the projected surplus presented in the Fiscal Year 2012 Mid-Year Budget Monitoring Report. $12.8 million of the $17.8 million projected surplus was re-budgeted and included in the Fiscal Year 2013 Adopted Budget (discussed below). The remaining $5.0 million was recommended to be set-aside in reserves to mitigate the potential impacts resulting from the State's determination regarding the former Redevelopment Agency enforceable obligations. The result was a projected Fiscal Year 2012 ending balance of $131.7 million, or 11.6 percent of Fiscal Year 2012 projected revenues. Based on unaudited actual revenue and expenditures at year-end, the Fiscal Year 2012 ending balance is $166.1 million. This is an increase of $34.4 million from the $131.7 million projected in the Year-End Report.

Contributing to the $34.4 million increase from the Year-End Report is a combination of an increase of $24.5 million in revenues and a reduction of $9.9 million in departmental expenditures. The increase in revenues is primarily the result of $23.6 million in property tax revenues redirected to the City following the dissolution of Redevelopment Agencies, and an additional $1.0 million from miscellaneous departmental revenue receipts. This additional funding resulted in increased major revenues for Fiscal Year 2012, thereby increasing the General Fund ending balance. Of the $9.9 million in reduced departmental expenditures, $8.5 million is due to unspent encumbrances that will increase the Fiscal Year 2012 ending balance. These encumbrances will be charged to the Fiscal Year 2013 budget. The remaining $1.4 million in reduced expenditures is due to higher levels of retirements and vacancies than projected in the Year-End Report. After adjusting for the revenue and expenditure changes, the projected Fiscal Year 2012 General Fund ending fund balance becomes $166.1 million.

Budgeted Use of Fund Balance

The Fiscal Year 2013 Adopted Budget includes the budgeted use of $12.8 million of the $166.1 million Fiscal Year 2012 General Fund ending balance, reducing the available ending balance to $153.4 million. The $12.8 million is budgeted as follows: $8.3 million for deferred capital projects, $1.5 million for Council Community Projects, Programs and Services, $1.4 million for Kinder Morgan litigation, $0.9 for community plan updates and $0.8 million in the General Fund Appropriated Reserve.

Application of 2007 Wild Fire SettlementFunds

Earlier this year, the City received $27 million in a settlement for the damages caused by the 2007 wild fires. Because these funds are one-time in nature, these funds have been deposited into the Public Liability Fund and will provide long-term budgetary relief for future City budgets. The City Council has adopted a Reserve Policy (Policy) which also applies to the Public Liability Fund (Fund). With respect to the Fund, the Policy states that "The City will maintain Dedicated Reserves equal to 50% of the value of outstanding public liability claims." This reserve level recognizes that not all claims will be due and payable at one point in time and that not all claims will be awarded, yet there may be more than one large claim that could require an immediate payment. Based upon financial information as of June 30, 2012, the balance in the Public Liability Reserve is $17.1 million, while the 50% target is $59.8 million, a shortfall of $42.7 million.

The current Reserve Policy calls for seven equal annual contributions of $6.1 million into the Fund, beginning with the Fiscal Year 2013 Budget and continuing through Fiscal Year 2019. By depositing the additional $27 million into the Fund, the Fund's balance would be increased to $44.1 million and the remaining funding required to achieve the Fund's Policy target would be decreased to $15.7 million. The Fiscal Year 2013 Budget approved by the Council includes the required $6.1 million contribution. With the addition of the $27 million, this would bring the balance in the Fund to $50.2 million and would reduce the balance required to meet the Policy target to $9.6 million. Should the City decide to fund the remaining $9.6 million over the remaining six fiscal years called for in the Policy, the annual required budget would be $1.6 million through Fiscal Year 2019 instead of the current $6.1 million. This would generate a true annual General Fund budgetary savings of $4.5 million through Fiscal Year 2019, which could be used for ongoing services beginning in Fiscal Year 2014.

In addition, with the uncertainty of the overall fiscal recovery, the sluggish SDCERS' returns which will impact next year's pension payment, and the change in administrations, banking these savings demonstrates the City's continued commitment to responsible budgeting and fiscal reform.

This $27 million settlement is recorded in the Public Liability Fund and is not part of the General Fund Reserve figures included in this report.

Conclusion

While the increased fund balance in the General Fund is a very positive beginning to Fiscal Year 2013, caution must be taken before using these additional resources as several uncertainties remain ahead. The City's retirement ARC could increase significantly in Fiscal Year 2014 and beyond as a result of reduced investment gains experienced through June of 2012, and the potential short-term impact of the passage of Proposition B on June 6, 2012. Further, the full impact of the RDA dissolution has yet to be finalized. In particular, the $13.8 million in PETCO Park/Convention Center Phase II expansion debt service may yet fall to the General Fund. Also, although some modest service restorations were accomplished in Fiscal Year 2012 and in the Fiscal Year 2013 Budget, service levels remain below their pre-recession levels in many areas. Finally, additional sworn staffing in the Police Department, implementation of the Citygate recommendations in the Fire-Rescue Department, and continued increases in deferred capital/maintenance have all been identified as priorities for future available funding.

Holding the additional Fiscal Year 2012 ending fund balance in reserve, and applying the 2007 Wild Fire Settlement to reduce future Public Liability reserve contributions, would put the City in the strongest position to address the uncertainties ahead and provide resources to fund future priorities.

FISCAL CONSIDERATIONS: Included in Summary.

PREVIOUS COUNCIL and/or COMMITTEE ACTION: None

COMMUNITY PARTICIPATION AND PUBLIC OUTREACH EFFORTS: None

KEY STAKEHOLDERS AND PROJECTED IMPACTS: None

Signature on file
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