

From: Council President's Office - Budget Team

Date: 9/2/16 (Updated on 4/7/17)

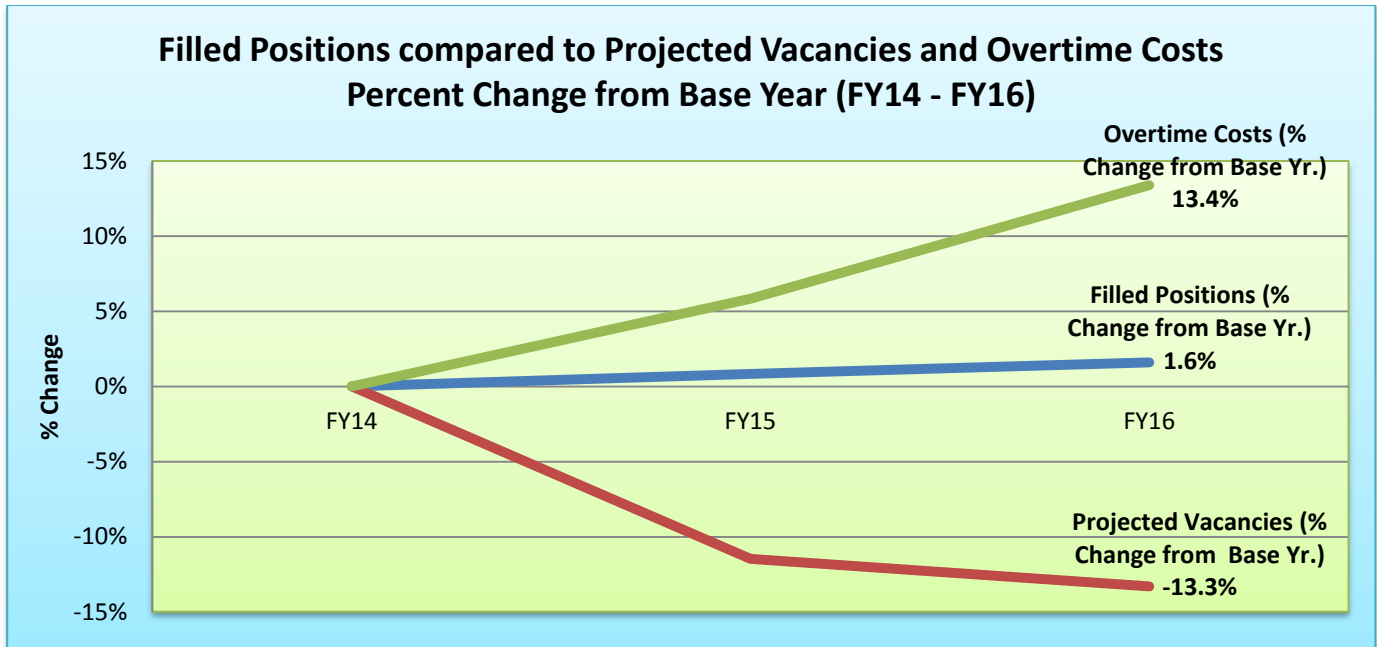
RE: Historical Trend Analysis - City Financial Projections – General Fund (FY11 – FY16)

Historical Trend Analysis – Summary

The following analysis takes a historical look at the accuracy of the City's Financial Projections, specifically focusing on projections at three different snapshots of time over the course of a fiscal year. Starting with FY11, we focused on Revenue, Expenditure, and Fund Balance projections. We have concluded that the City overall is quite accurate, on average, as it relates to their Revenue and Expenditure projections, hovering around a 1% margin of error. With that said, there appears to be a pattern of **under-projecting spending, which has averaged approximately \$49 million over the past six fiscal years**, when comparing Actual Expenditures to Third Quarter projections for each relevant fiscal year. It also appears that the **City collects, on average, approximately \$61 million more annually than what is projected at the beginning of the fiscal year, for each of the past 6 fiscal years**. Revenue projections are adjusted throughout the fiscal year, to close this gap to about negative \$5 million. In other words, the City appears to be relatively *conservative* in its Revenue projections at the time that the Budget is adopted by Council (with the exception of FY11), and moderately *optimistic* with regards to its expected Expenditure projections (also with the exception of FY11). When taking into account both Revenue and Expenditure projections over the past six fiscal years, **the ending Fund Balance has respectively been under-projected, on average, by approximately \$53 million from the end of the Third Quarter until the end of each Fiscal Year, and \$76 million from when the Budget is first adopted until the end of each Fiscal Year**. Keep in mind, however, that the City has not exceeded the recommended 7% of Fund Balance reserves level (7% of Total General Fund Expenditures) since FY07. To put these numbers in perspective, the total General Fund Operating Budget is approximately \$4.17 billion for FY16, which means the City would have to reserve approximately \$300 million in its Fund Balance to achieve its recommended 7% target and approximately \$700 million to achieve the recommended target set by the Government Finance Officers Association (GFOA).

This analysis also takes a more specific look at both Overtime Budgets and Vacancy projections over the past three fiscal years, because personnel expenses represent approximately two-thirds of all annual costs to the City's Budget (including benefits and pension costs). While Overtime costs have consistently increased by approximately \$10 million per year since FY14 (\$20 million in total), filled positions have increased by 338 (1.6%) and vacancies have declined by 13% over the same time period. This is counterintuitive: if service delivery remains constant, the increase of filled positions and the decline of vacancy rates should lead to less reliance on overtime. **The chart** that follows graphs the percent changes in each of these categories, compared to base year FY14.

Chart 1:



One possible explanation for the above occurrence may be the increase in events and conventions held by the City, including the Papal Visit and the Democratic National Convention. The majority of the Overtime Spend is attributable to the Police Department, followed by the Fire Department and Prisons Department; Police and Fire likely increased their patrolling during these events.

The **two tables below**, however, still show that Overtime is continuing to increase as a percentage of overall Employee Compensation, whether benefits costs are included or excluded. In FY14, Overtime accounted for 10.4% of Employee Compensation (not including benefits); in FY16 Overtime is projected to account for approximately 11% of Employee Compensation. Overtime costs are rising faster than other personnel costs.

Table 1a:

Employee Compensation (not including Benefits) and Overtime	FY14	FY15	FY16
Employee Compensation	\$1,450,615,000	\$1,508,678,000	\$1,565,674,000
Overtime	\$151,506,720	\$160,340,939	\$171,784,636
Overtime as a % of Employee Compensation	10.4%	10.6%	11.0%

Table 1b:

Total Employee Compensation and Overtime	FY14	FY15	FY16
Employee Compensation (including Benefits)	\$2,644,706,000	\$2,608,220,000	\$2,744,300,000
Overtime	\$151,506,720	\$160,340,939	\$171,784,636
Overtime as a % of Employee Compensation	5.7%	6.1%	6.3%

Revenues

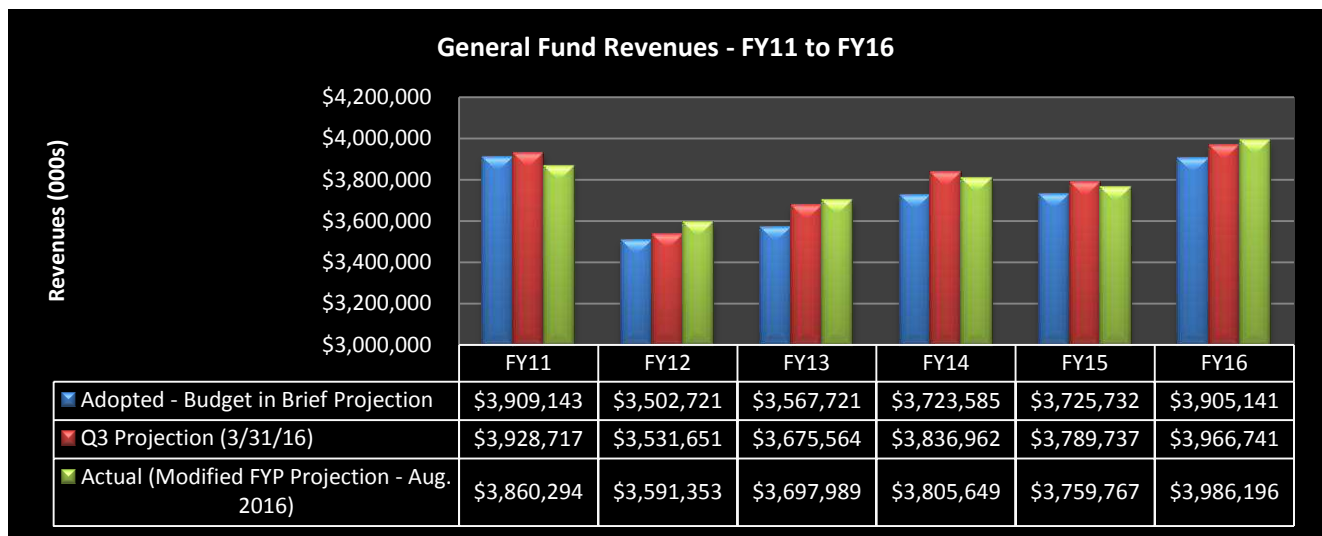
Total Revenue amounts have been under-projected by approximately \$61 million, on average, within the last six fiscal years when comparing Actual revenues to predictions made when the Budget was first adopted. **If you look at the past five fiscal years only, however, the average annual under-projected amount increases to slightly above \$81 million when comparing these two time periods.** As the year progresses, the gap projections become more accurate. As stated earlier, this likely represents a conservative approach to projecting revenues at the beginning of the fiscal year. As the year progresses, adjustments to revenue projections are made, and on average have come within .1% of the Actual revenue collected. Keep in mind that the 1.6% swing between the Actual minus the beginning of the year projection averages and Actual minus the Third Quarter projection averages does equate to approximately \$57 million, since the amount of total Revenue collected ranged from \$3.6 billion to almost \$4 billion within this time frame.

Table 2:

Revenues - Comparing Budget in Brief to Q3 Managers Report to Modified FYP and Actual Revenues Collected							
Amounts in Thousands	FY11	FY12	FY13	FY14	FY15	FY16	
Adopted - Budget in Brief Projection	\$ 3,909,143	\$ 3,502,721	\$ 3,567,721	\$ 3,723,585	\$ 3,725,732	\$ 3,905,141	
Q3 Projection (3/31/16)	\$ 3,928,717	\$ 3,531,651	\$ 3,675,564	\$ 3,836,962	\$ 3,789,737	\$ 3,966,741	
Actual (Modified FYP Projection - Aug. 2016)	\$ 3,860,294	\$ 3,591,353	\$ 3,697,989	\$ 3,805,649	\$ 3,759,767	\$ 3,986,196	Avg.
Difference: Actual (or Modified FYP) minus Q3	\$ (68,423)	\$ 59,702	\$ 22,425	\$ (31,313)	\$ (29,970)	\$ 19,455	\$ (4,687)
% Difference	-1.74%	1.69%	0.61%	-0.82%	-0.79%	0.49%	-0.09%
Difference: Actual (or Modified FYP) minus Adopted	\$ (48,849)	\$ 88,632	\$ 130,268	\$ 82,064	\$ 34,035	\$ 81,055	\$ 61,201
% Difference	-1.25%	2.53%	3.65%	2.20%	0.91%	2.08%	1.69%

*Please note that \$700M was included in the original FY15 - Budget in Brief projection - for the potential sale of PGW. We removed this amount from this projection for the purposes of this analysis.

Chart 2



Expenditures

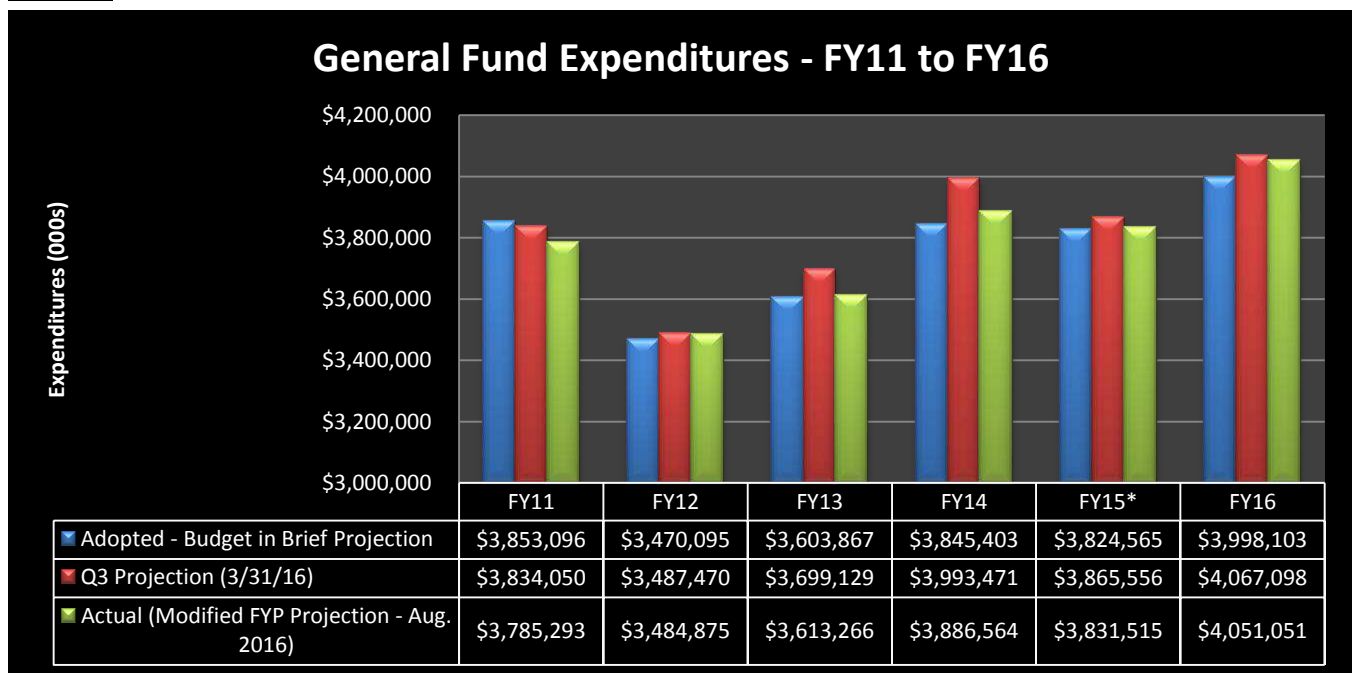
Total Expenditures tell an opposite story, having been over-projected by approximately \$49 million (-1.27%), on average, within each of the last six fiscal years, when comparing Actual expenditures to end of third quarter projections. At the beginning of each relevant fiscal year, the predictions actually seem to be more accurate. This is significant because, at the end of the Third Quarter, the City will increase its projected Expenditure amount but not actually spend the increased amount. Though the City does end up spending more money than originally planned at year end, it is on average only approximately \$9.5 million more than original projections; furthermore, there is an approximate \$40 million spread (or 1%) between original expenditure projections and projections made at the end of the third quarter. **As previously stated, Revenue projections become more accurate as the year goes on (under-projected by about \$5 million on average), however, the Expenditure projections become more inaccurate (over-projected by \$49 million on average); thus the net effect is that the third quarter projection of the year end fund balance is usually understated.**

Table 3:

Expenditures - Comparing Budget in Brief to Q3 Managers Report to Modified FYP and Actual Expenditures						
Amounts in Thousands	FY11	FY12	FY13	FY14	FY15*	FY16
Adopted - Budget in Brief Projection	\$ 3,853,096	\$ 3,470,095	\$ 3,603,867	\$ 3,845,403	\$ 3,824,565	\$ 3,998,103
Q3 Projection (3/31/16)	\$ 3,834,050	\$ 3,487,470	\$ 3,699,129	\$ 3,993,471	\$ 3,865,556	\$ 4,067,098
Actual (Modified FYP Projection - Aug. 2016)	\$ 3,785,293	\$ 3,484,875	\$ 3,613,266	\$ 3,886,564	\$ 3,831,515	\$ 4,051,051
Difference: Actual (or Modified FYP) minus Q3	\$ (48,757)	\$ (2,595)	\$ (85,863)	\$ (106,907)	\$ (34,041)	\$ (16,047)
% Difference	-1.27%	-0.07%	-2.32%	-2.68%	-0.88%	-0.39%
Difference: Actual (or Modified FYP) minus Adopted	\$ (67,803)	\$ 14,780	\$ 9,399	\$ 41,161	\$ 6,950	\$ 52,948
% Difference	-1.76%	0.43%	0.26%	1.07%	0.18%	1.32%
						Avg.
						\$ (49,035)
						-1.27%
						\$ 9,573
						0.25%

*Please note that \$700M was included in the original FY15 - Budget in Brief projection - for the potential sale of PGW. We removed this amount from this projection for the purposes of this analysis.

Chart 3:



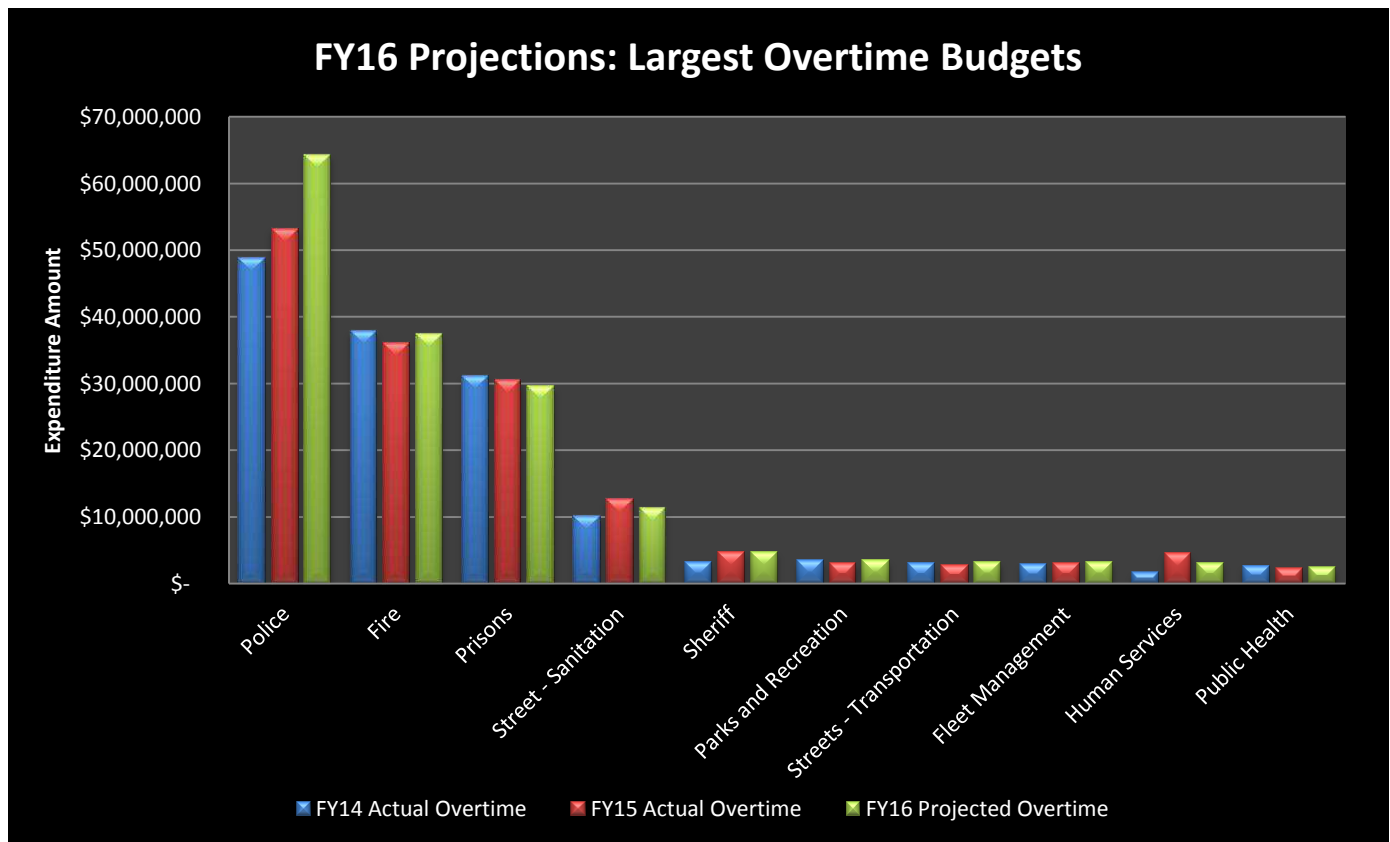
Overtime Analysis – FY14 through FY16

In FY16, Overtime Expenditures are expected to exceed \$171 million, which is 13% higher (or \$20.3 million) than Overtime Expenditures in FY14. The most substantial increase is expected in the Police Department, which is expected to spend almost 33% more (or \$15.6 million more) in Overtime Costs in FY16 over FY14. This Department combined with the Fire and Prisons Departments, represent over \$131 million in Overtime Costs, or 76% of all Departmental Overtime Costs projected for the General Fund in FY16. Some of the recent Overtime from this fiscal year for Police is likely due to increased patrols, which were needed to cover major City events and conventions.

Table 4:

Overtime Costs	FY14	FY15	FY16
Total	\$151,506,720	\$160,340,939	\$171,784,636
\$\$ Change	\$0	\$8,834,219	\$11,443,697
% Change	-	5.8%	7%

A chart (**Chart 4**) detailing the top 10 largest Overtime Budgets is below:



Vacancy Analysis – FY14 through FY16

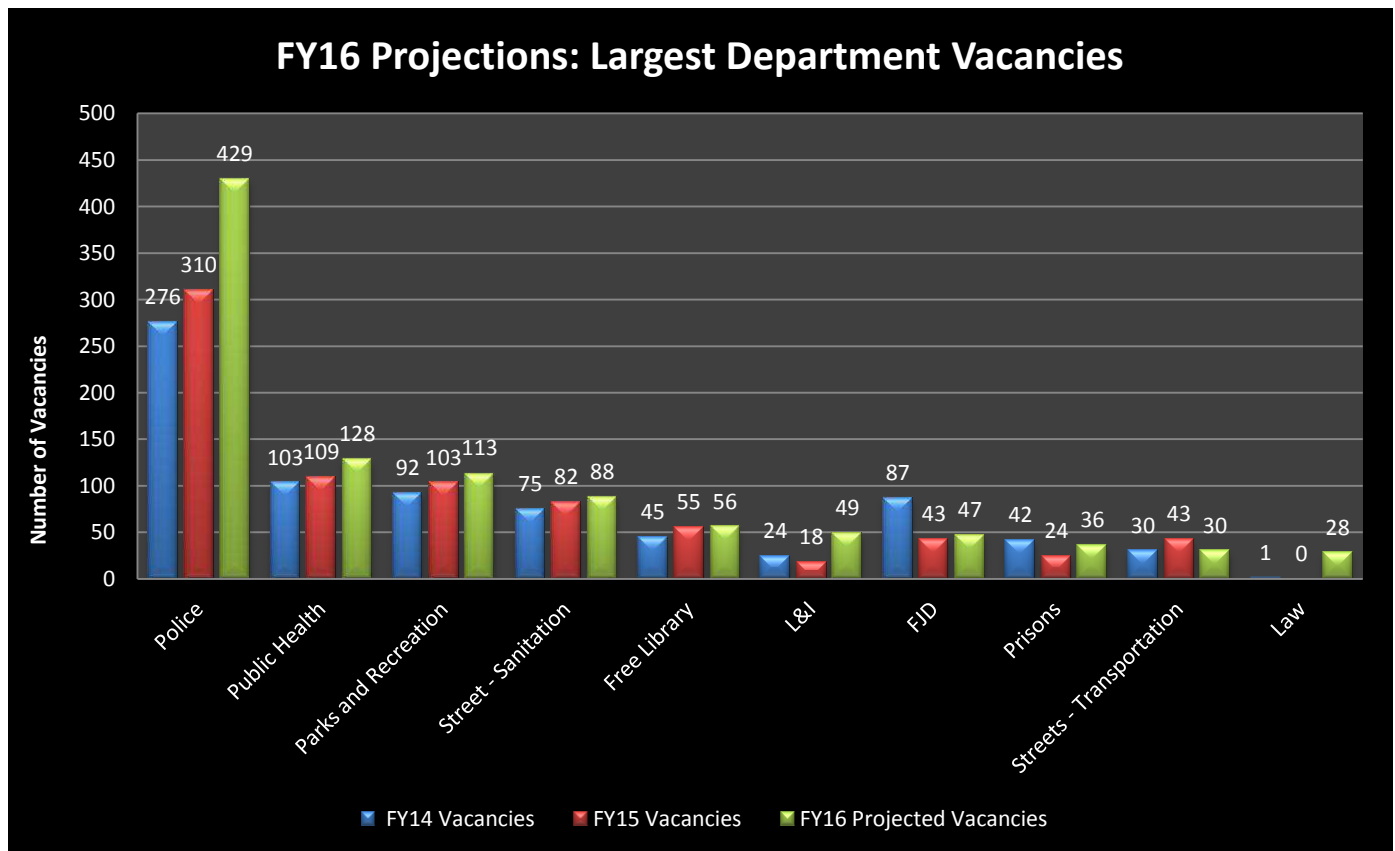
The total number of projected vacant positions for the close of FY16 is **1,126**. The Police Department combined with the Department of Public Health and the Department of Parks and Recreation, account for 60% of the projected unfilled positions for FY16, or 670 unfilled positions in total.

It is important to note, however, that the total number of projected vacancies has decreased by 172 positions since FY14, or 13%. The average number of vacant positions per department is projected to be 21.7 at the close of FY16, which is approximately 3.3 fewer vacant positions, on average, since FY14. The 2 graphs that follow below give more detail on projected vacancies since FY14.

Table 5:

Projected Vacancies	FY14	FY15	FY16
Total	1,298	1,149	1,126
Average	25.0	22.1	21.7
% Change	-	-11.5%	-2.0%

A chart (**Chart 5**) detailing the top 10 largest Department Vacancies is below:



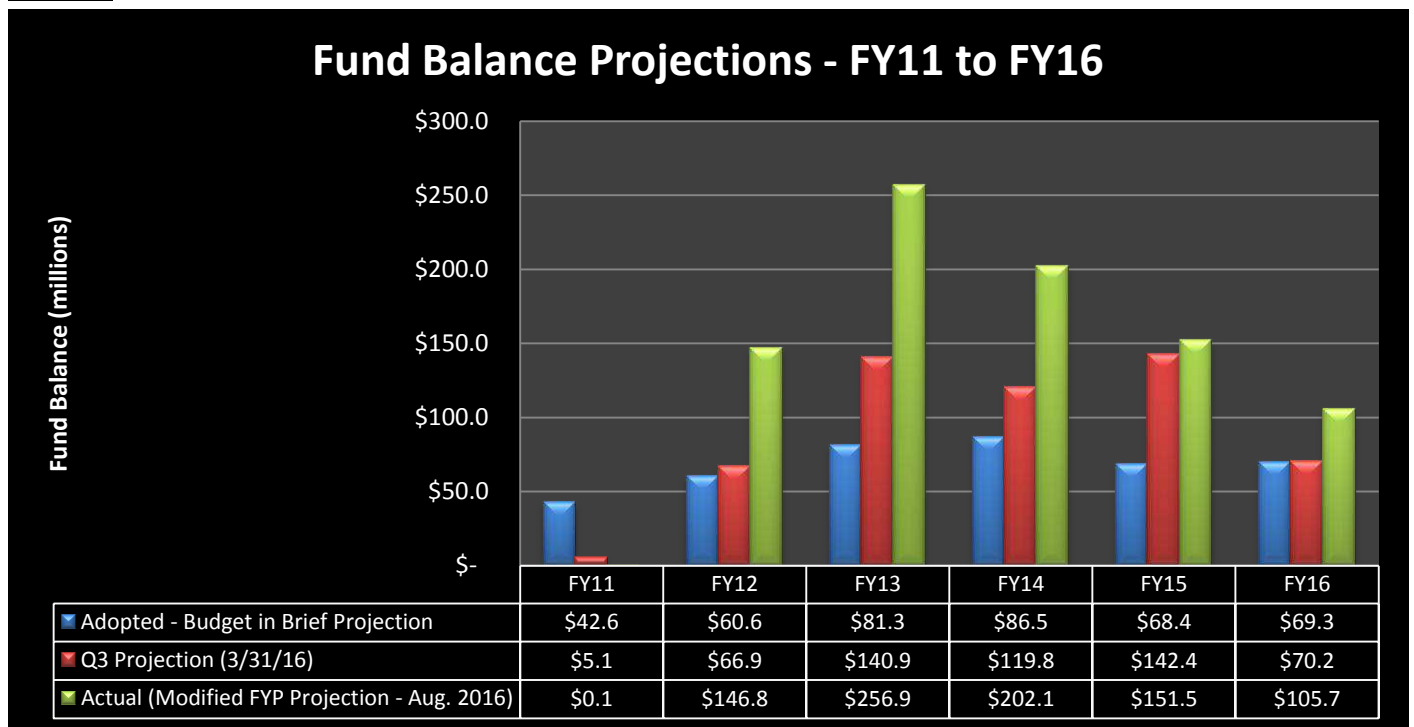
Fund Balance

As stated earlier in this analysis, Actual fund balance amounts have been *under-* projected by an average of approximately \$53 million from Third Quarter projections and approximately \$76 million from Adopted Budget projections. Revenue projections have been more *under-*stated over the past 6 fiscal years (especially when looking at projections made at the beginning of the fiscal year) and Expenditure projections have been more *over-*stated (especially when looking at projections adjusted upward at the end of the Third Quarter of the fiscal year), leading to a more conservative overall approach to projecting fund balance levels. Even with the more conservative approach to budgeting, the City still has yet to achieve the ideal fund balance levels recommended by both the City’s internal policy (7% of Expenditures) or the GFOA’s guideline (16.7% of Expenditures, or two months of spending).

Table 6:

Fund Balance Comparison - Comparing Budget in Brief to Q3 Managers Report to Modified FYP and Actual Fund Balances							
Amounts in Millions	FY11	FY12	FY13	FY14	FY15	FY16	
Adopted - Budget in Brief Projection	\$ 42.6	\$ 60.6	\$ 81.3	\$ 86.5	\$ 68.4	\$ 69.3	
Q3 Projection (3/31/16)	\$ 5.1	\$ 66.9	\$ 140.9	\$ 119.8	\$ 142.4	\$ 70.2	
Actual (Modified FYP Projection - Aug. 2016)	\$ 0.1	\$ 146.8	\$ 256.9	\$ 202.1	\$ 151.5	\$ 105.7	Avg.
Difference: Actual (or Modified FYP) minus Q3	\$ (5.0)	\$ 79.8	\$ 116.0	\$ 82.4	\$ 9.1	\$ 35.5	\$ 53.0
% Difference	-98.21%	119.29%	82.31%	68.75%	6.41%	50.59%	38.19%
Difference: Actual (or Modified FYP) minus Adopted	\$ (42.5)	\$ 86.2	\$ 175.6	\$ 115.6	\$ 83.2	\$ 36.3	\$ 75.7
% Difference	-99.78%	142.25%	215.90%	133.65%	121.64%	52.43%	94.35%

Chart 6:



Conclusion

The above analysis illustrates the major historical trends in both spending and revenue collection. Even with the conservative approach taken to budgeting, the City still needs to focus on increasing the size of the Fund Balance, which can only be accomplished by either increasing revenue or reducing costs. Given the size of the City's General Fund, while a \$76 million may seem like a large additional bump to the fund balance, it still is far below recommended reserve levels set by both the City and the GFOA.