

PICA Analysis of FY2023 Annual Financial Report

Key Takeaways

- At \$982M, the FY2023 fund balance is about \$300M more than in the PICA-approved FY24-28 Five-Year Plan.
- Collecting \$109.8 million more in revenue from other governments and spending \$93 million less on personal services than expected account for majority of change from Q4.
- FY2023 fund balance sits at 16.2% of revenues, approaching the GFOA recommendation of 16.7%.
- Since FY2013, AFR fund balances have come in, on average, 277% higher than anticipated in the Adopted Budget and 62% higher than Q4 projections.

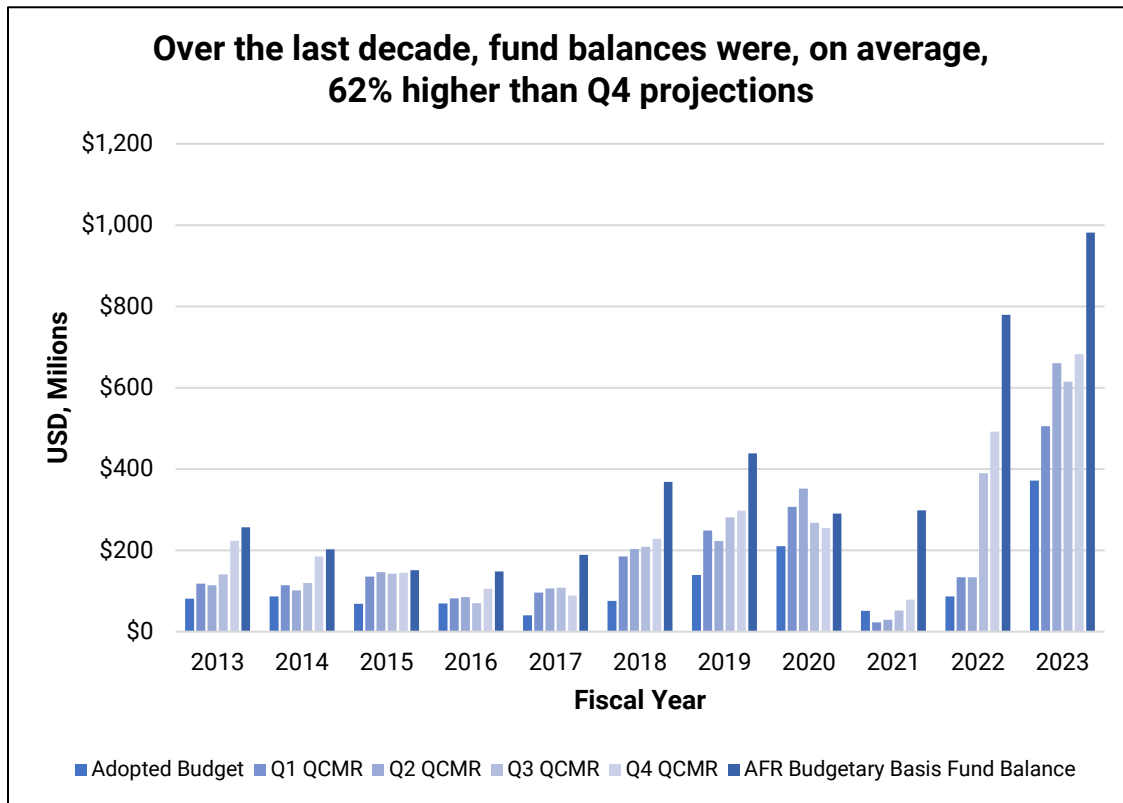
What is the AFR?

The Annual Financial Report (AFR) is published by the Director of Finance within 120 days of the close of the fiscal year on June 30. The report details the City's revenue, expenditures, and fund balances for all funds in the 2023 fiscal year. It also includes information on the City's investments, risk management, pension and benefit funding, and debt administration. The figures reported are preliminary and, though unlikely, could change after an independent audit is completed by the Controller's Office, after which the Annual Comprehensive Financial Report will be published in February.

Fund Balance

The AFR reports a FY2023 fund balance of \$981.6 million on a budgetary basis. At 16.2% of revenues, this figure approaches the GFOA recommendation that fund balances hold at least 16.7% of revenues. The FY2023 fund balance is \$609.7 million (164%) higher than what was projected in the FY2023 Adopted Budget and \$299.1 million higher than the most recent quarterly projection of \$682.5 million in Q4. The differences from Q4 projections can be attributed in large part to both a \$109.8 million increase in revenue from other governments and spending \$93 million less than anticipated on personal services (payroll and benefits).

Analysis of AFRs over the past decade demonstrates a pattern of ending fund balances much higher than Adopted Budgets and quarterly projections. In the last ten years, the fund balances reported in AFRs were, on average, 62% higher than in Q4 QCMRs.



Revenues

Combined with locally generated non-tax revenue, revenue from other governments, and other revenue, the City's total revenue for FY2023 is \$6.047 billion, a 2% increase from last quarter's full-year projections. Tax revenue for FY2023 totaled \$4.154 billion, \$12 million less than anticipated in the most recent QCMR. Notably, the City collected \$109.8 million more in revenue from other governments and \$35.3 million more in locally generated non-tax revenue than expected last quarter, in part from increased interest earnings.

Expenditures

FY2023 expenditures totaled \$5.918 billion, or \$73.7 million (1%) less than anticipated in the Q4 QCMR. Compared to fourth quarter projections for the full year, the City spent \$93 million and \$38.4 million less on personal services and purchase of services, respectively, and spent \$65.1 million more on payments to other funds in the form of a contribution to the Budget Stabilization Reserve.

Risks

Revenue increases and underspending may be one-time occurrences, and if so, should not be relied upon for recurring budget changes. Though it is early in the fiscal year, Realty Transfer Tax collections have dropped significantly, with the City collecting 75.2% of what was expected year-to-date. The expiration of federal ARPA funds at the end of 2024 poses a risk to the stability of the fund balance, which is projected to drop starting in FY2025 and has an ending fund balance of \$86.6 million in FY2028. Labor union

contracts are also set to expire at the end of FY2024 and the negotiation of new contracts could result in costs beyond those included in the Five-Year Plan.