



THE CITY OF
SAN FERNANDO



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SAN FERNANDO

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT (“CAFR”)
FOR THE YEAR ENDING JUNE 30, 2016**

FEBRUARY 21, 2017

PRESENTED BY:

SONIA GARCIA

INTERIM FINANCE DIRECTOR



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ANNUAL AUDIT REQUIREMENT

Annual audit by independent certified public accountants is required by City Code.

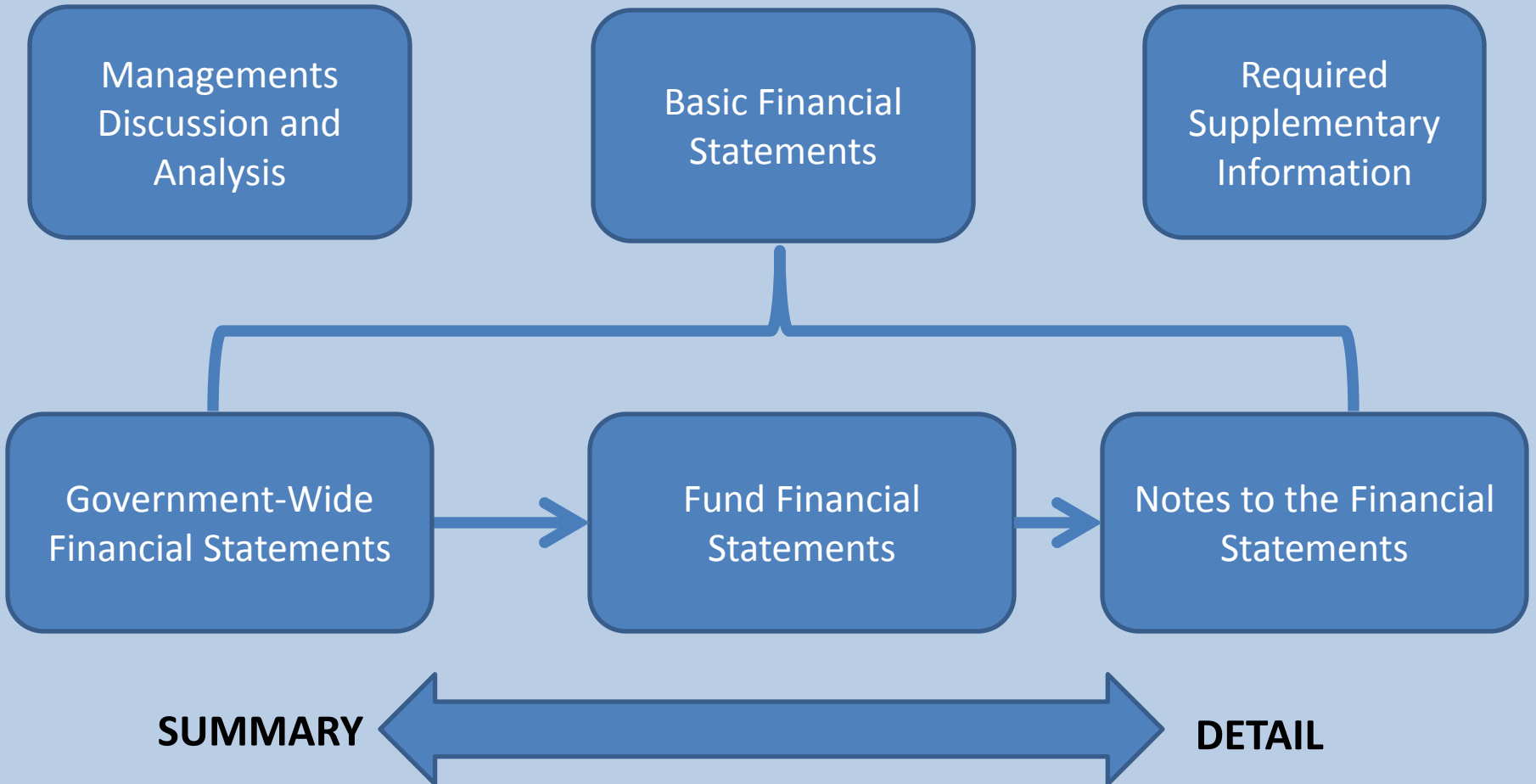
- Financial statements prepared in accordance with Generally Accepted Accounting Principles (“GAAP”) as promulgated by Governmental Accounting Standards Board (“GASB”).
- Audit conducted by Van Lant & Fankhanel, LLP.

GFOA Excellence in Financial Reporting Award.

- Awarded to the City consistently for the last 27 years.
- Received award for June 30, 2015 CAFR.



STRUCTURE OF CAFR

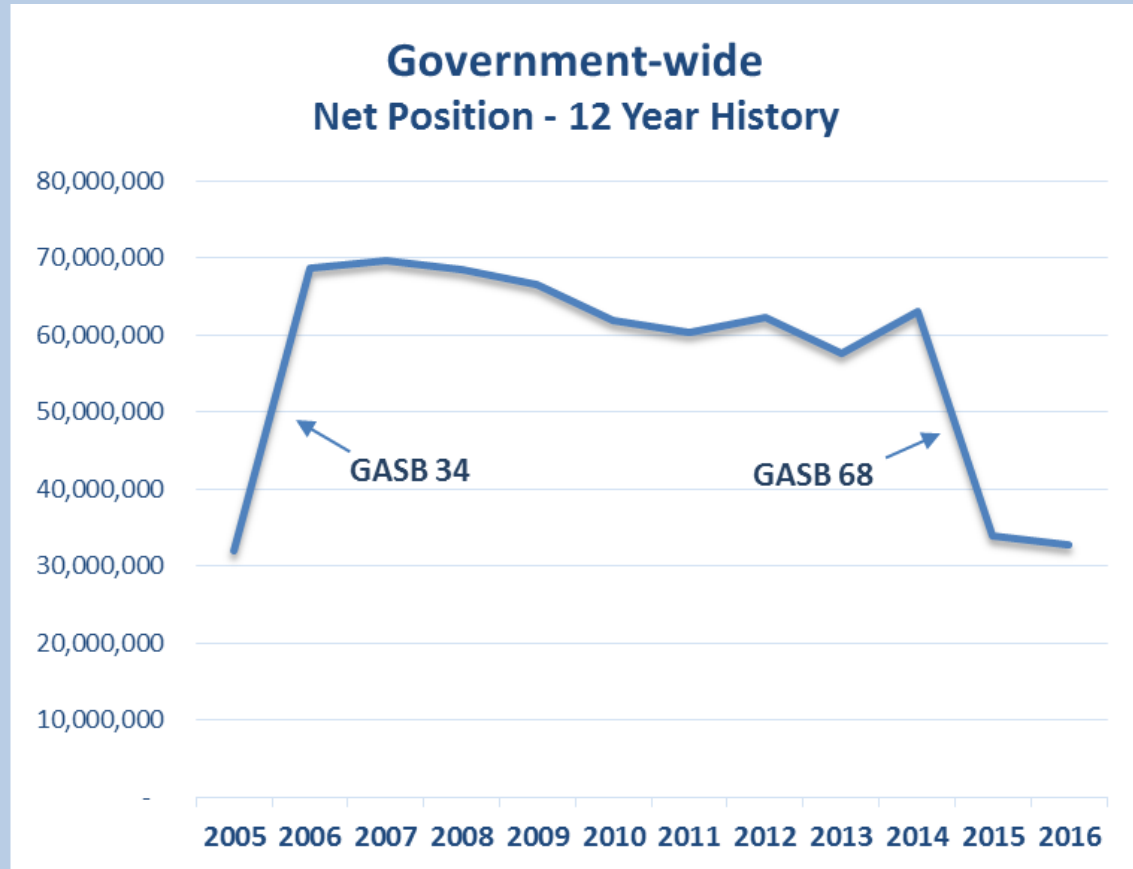




GOVERNMENT-WIDE FINANCIALS

Net Position: Total assets minus total liabilities

- Over time, serves as an indicator of overall financial health.
- Net position decreased by \$1.3 million due primarily to an increase in Net Pension Liability.



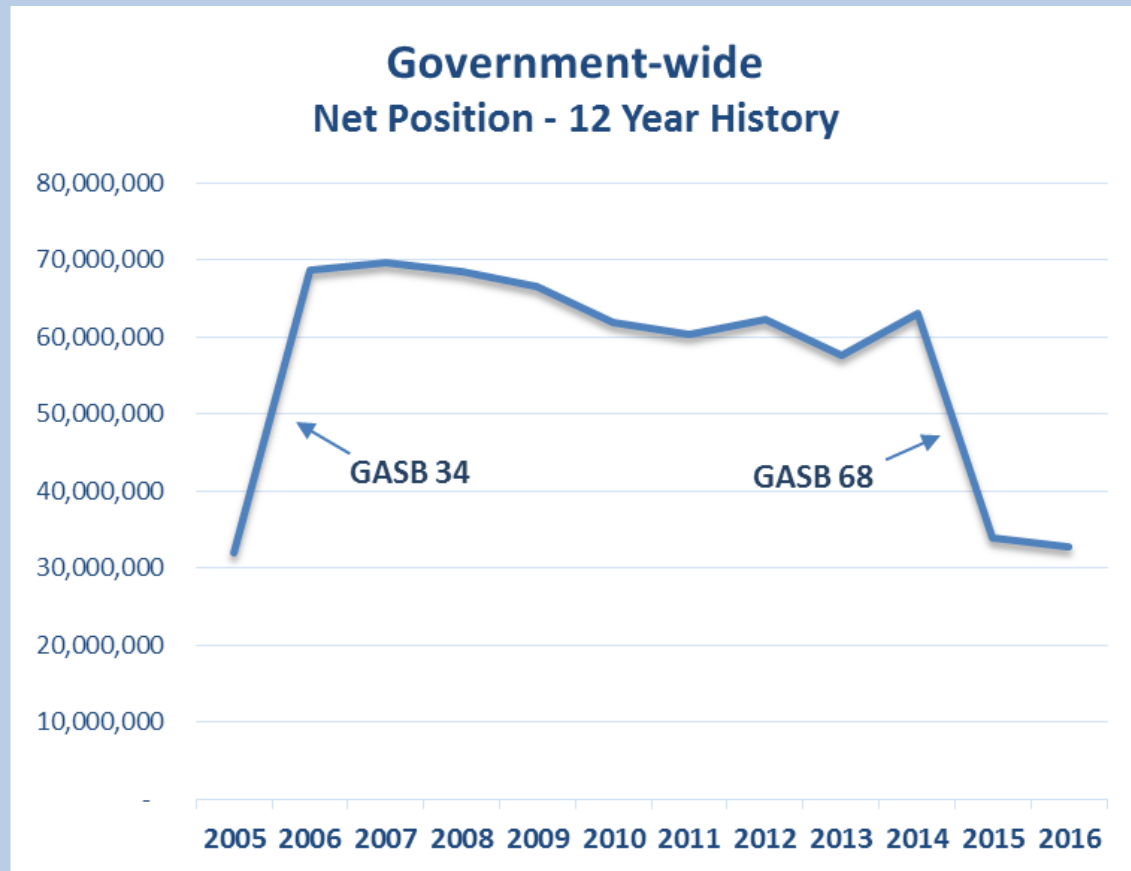


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GOVERNMENT-WIDE FINANCIALS

Over the last 12 years, GASB Pronouncements have had significant impact on Net Position.

- GASB 34 increased reporting of assets.
- GASB 68 increased reporting of liabilities.





NET PENSION LIABILITY

Similar to most cities throughout the U.S., San Fernando's largest liability is employee pensions.

- The City's full pension liability as of June 30, 2016 was \$29.7 million, which is an increase of \$2.9 million from June 30, 2015.
 - The increase is primarily related to CalPERS investment rate of return not meeting projections.
 - Total Miscellaneous Liability: \$15.6 million.
 - Total Safety Liability: \$14.1 million.



NET PENSION LIABILITY

Retirement Tax

- Unlike most cities, San Fernando has a dedicated funding stream for Pension costs.
- The Tax can only be used to fund annual costs and pay down long-term CalPERS obligations.
- **AB 107** has redirected Pension Tax revenue to the city that was formerly given to the Successor Agency. The Pension Tax fund collected additional revenue primarily from commercial properties in former Project Areas.



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OTHER POST EMPLOYMENT BENEFITS

OPEB (Retiree Health Care) liability continues to grow as the City continues to “pay-as-you go.”

Beginning Liability:	\$10,916,264
2016 Required Contribution:	\$3,040,000
2016 Contribution:	(\$897,250)
Ending Liability:	\$13,059,014

Through labor negotiations the City eliminated RHC for new employees, which will help limit the City’s liability.

The City should begin setting aside funds in a Trust account to pre-fund this liability.



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GASB STATEMENT NO. 74 & 75

For Fiscal Year 2017-18 GASB Statement No. 74 & 75 will require new accounting and financial reporting for governments that provide and finance Other Pension Employee Benefits (OPEB) to their employees.

This new reporting will require the City to record the full OPEB liabilities directly onto the balance sheet. Currently, OPEB liabilities are only reported as footnotes to the CAFR.

In the year of implementation, this reporting requirement will have a significant impact on the City's net position.



GOVERNMENTAL FUND FINANCIALS

The City maintains 25 individual governmental funds.

Balance for all Governmental Funds increased from \$8.7 million to \$13 million.

- A total increase of \$4.3 million was due to the fund balance increase of both the Retirement Tax Fund and Measure R Fund.

Fund Balances	2015	2016
Non-spendable	\$371,547	\$329,717
Restricted	12,970,716	16,579,665
Unassigned	(4,572,094)	(3,833,489)
TOTAL	\$8,770,169	\$13,075,893



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GOVERNMENTAL FUND FINANCIALS

How did the Fund Balance increase while Net Position decreased?

- Government-wide reporting provides information on current and long term obligations, including capital assets and long-term liabilities – Useful in assessing the City’s overall financial health.
- Governmental Fund reporting provides information on near term inflow, outflows and balances of spendable resources – Useful in assessing the City’s ability to meet short term requirements.



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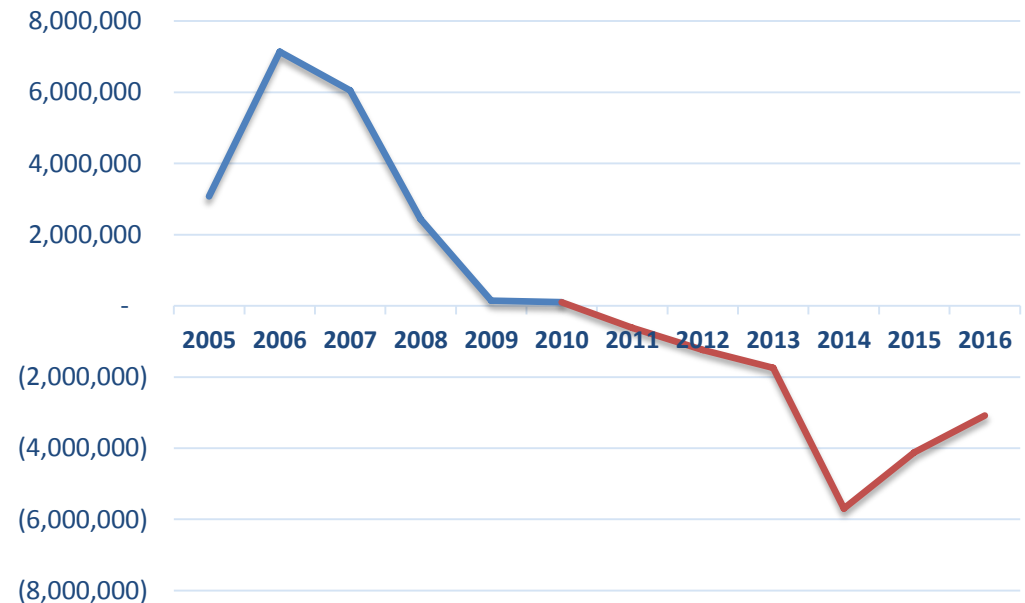
GENERAL FUND

\$1 million total deficit reduction; from (\$4.1 million) to (\$3.1 million)

A Closer Look...

Operating Revenues:	\$16,009,156
Operating Expenses:	<u>(\$16,511,479)</u>
Operating (Deficit):	(\$502,323)
One-time Revenues:*	\$2,312,987
One-time Expenses:**	<u>(\$777,142)</u>
One-time Surplus:	\$1,535,845
Total Surplus:	\$1,033,798

**General Fund
Net Position - 12 Year History**



*Measure A - \$2.2 M; Transfer from Pavement Mgmt. Fund - \$100,000

**Capital Outlay - \$281,542k for Brand Blvd. & Pipe Screen Installation Projects; Equip. Repl. - \$70k; Self Ins. - \$165k; One-time Enhancements - \$260,600



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GENERAL FUND HIGHLIGHTS

Revenue Highlights:

- Strong Measure A revenue
- Residual property tax revenue from RDA dissolution
- Steady growth in sales tax revenue
- Overall improved economic activity

Expenditure Highlights:

- Separated Self Insurance assets/liabilities from General Fund to begin building reserve.
- Reduced Retirement and Las Palmas loans by \$250,000.



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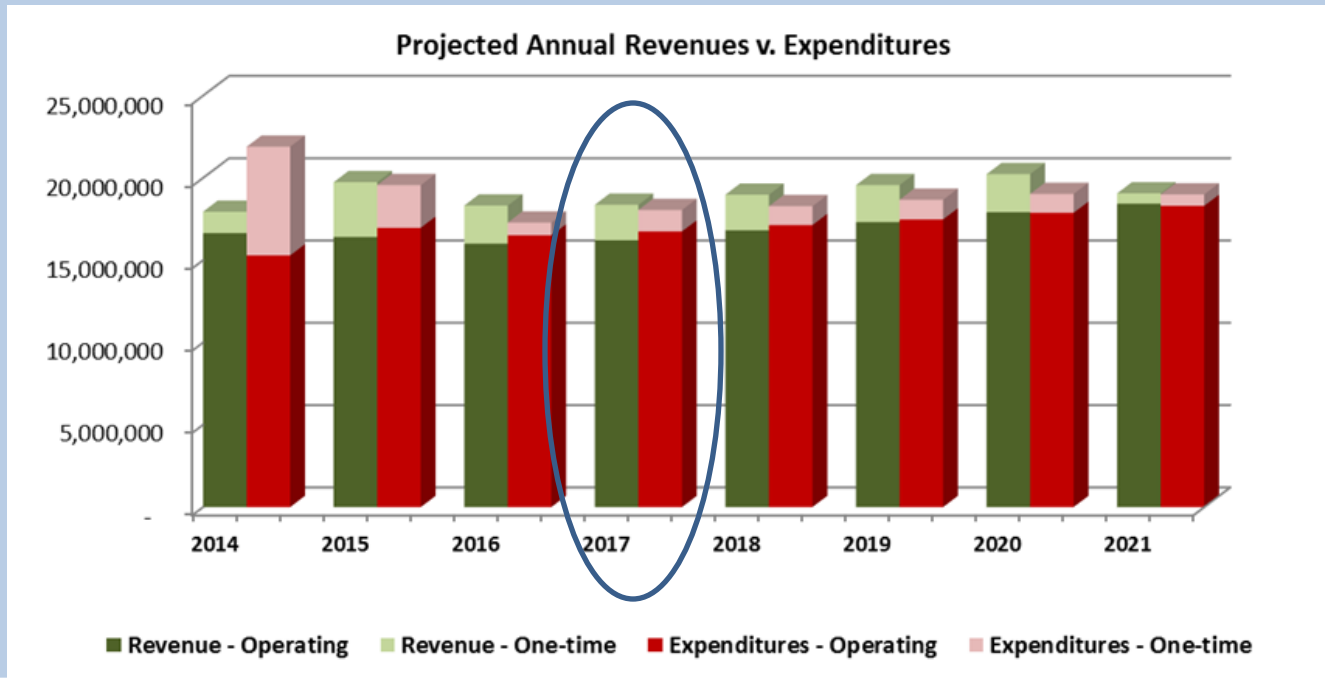
GENERAL FUND FORECAST

Key Revenue Assumptions:

Ongoing Increases:	One-time Increases:
2018 – 4%	2018 – 3%
2019 – 3%	2019 – 3%
2020 – 3.5%	2020 – 3%
2021 – 3%	2021 – (73%)

Key Expenditure Assumptions:

Personnel Increases:	O&M Increases:
2018 – 2%	2018 – 0%
2019 – 2%	2019 – 2%
2020 – 2.3%	2020 – 2%
2021 – 2.3%	2021 – 0%

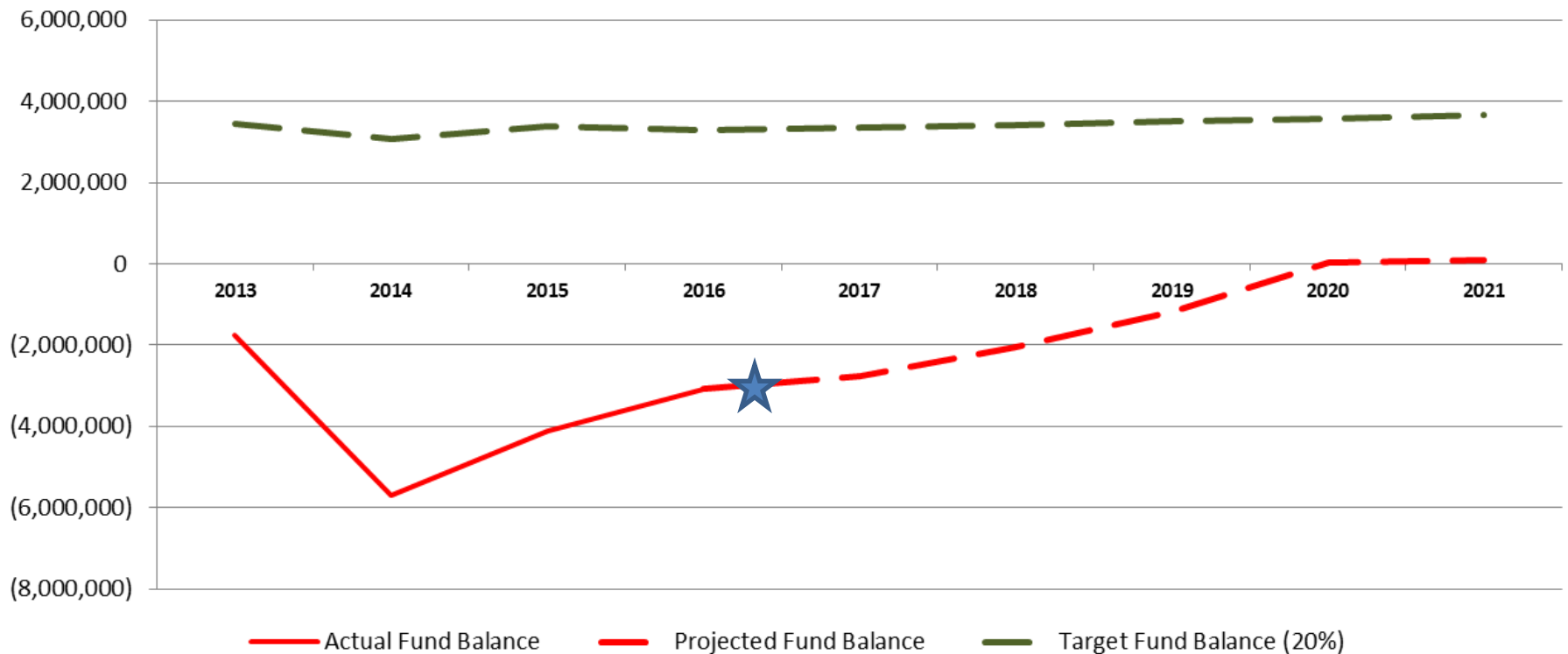




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GENERAL FUND FORECAST

Projected Fund Balance





DEFICIT REDUCTION PLAN

Staff has worked with City Council to implement a multi-year plan to eliminate the General Fund deficit.

Over last few years the City has:

- Renegotiated the Fire Services contract with LAFD to reduce the annual cost without reducing service (saved more than \$500,000/year).
- Transferred operational and financial responsibility of the Pool to the County of Los Angeles (saved more than \$500,000/year).
- Retired debt from the outstanding California Housing Financing Agency (CHFA) and Section 108 Loans (saved more than \$125,000/year).



DEFICIT REDUCTION PLAN

Staff has worked with City Council to implement a multi-year plan to eliminate the General Fund deficit.

Over last few years the City has:

- Developed a five-year General Fund projection of revenues and expenditures (improve long term decision making).
- Adopted a Development Agreement Ordinance to increase economic development efforts.
- Sold surplus land and used the land sale proceeds to reduce the City's deficit (\$1 million in proceeds).
- Restructured future retiree health benefits to decrease the City's OPEB liability (significant long-term savings).



DEFICIT REDUCTION PLAN

Staff has worked with City Council to implement a multi-year plan to eliminate the General Fund deficit.

Over last few years the City has:

- Updated user fees, development fees, cost allocation calculations to ensure an appropriate cost recovery for the City services.
- Re-established reserves for the Self Insurance and Equipment Replacement Funds; and
- Updated the City's long term financial planning policies, including budget, purchasing, debt management, grant management, investment, and reserve policies, with an emphasis on creating long term fiscal sustainability.



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DEFICIT REDUCTION PLAN

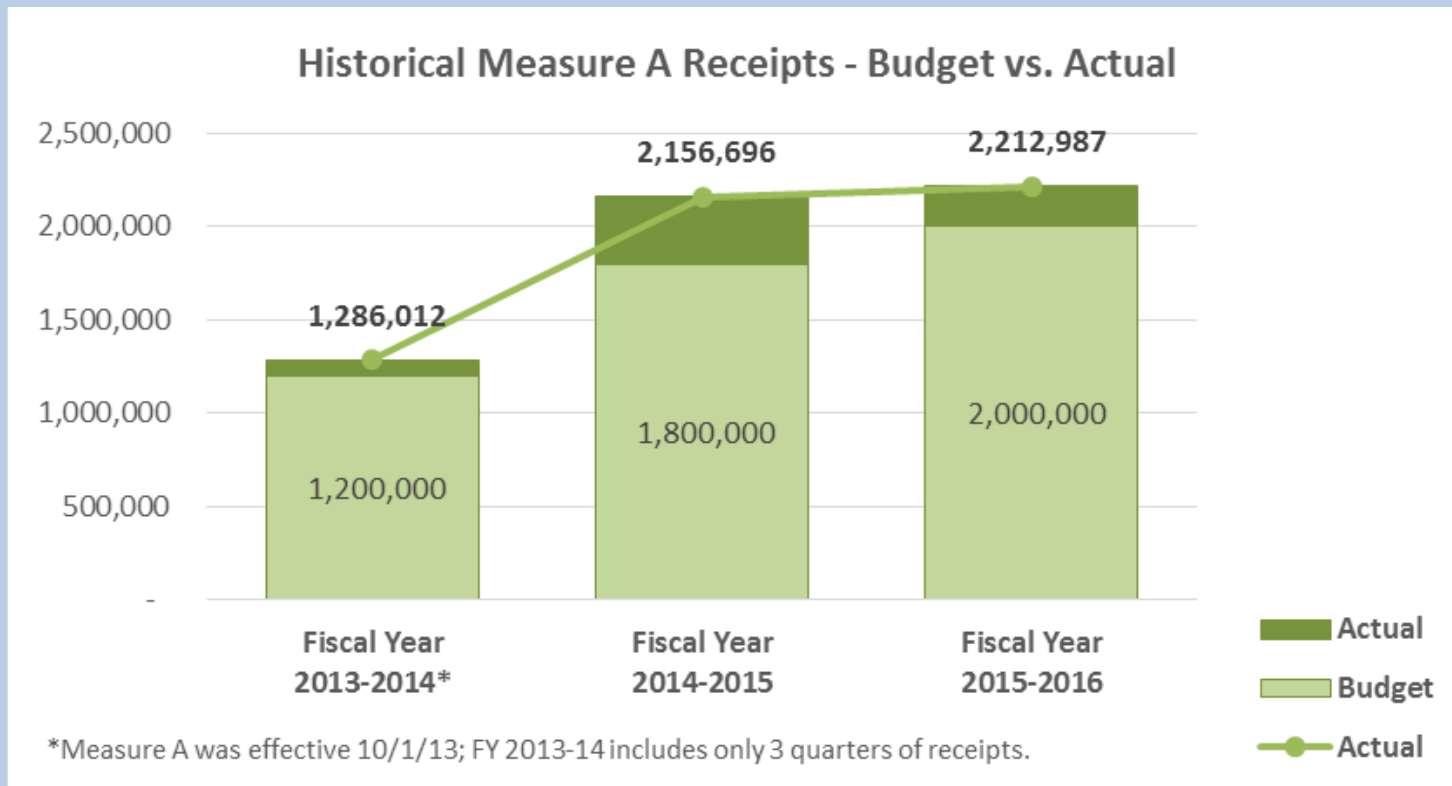
FY 2016-2017 Budget includes one-time funding for the following items:

- Continue to repay internal debt (\$300,000).
- Replace Mobile Data Terminals (\$120,000).
- Re-establish Self Insurance Fund reserve (\$320,000).
- Re-establish Equipment Replacement Fund (\$80,000).
- Establish Facility Capital Replacement Funds (\$50,000).
- Further reduce General Fund deficit (\$535,000).



MEASURE A

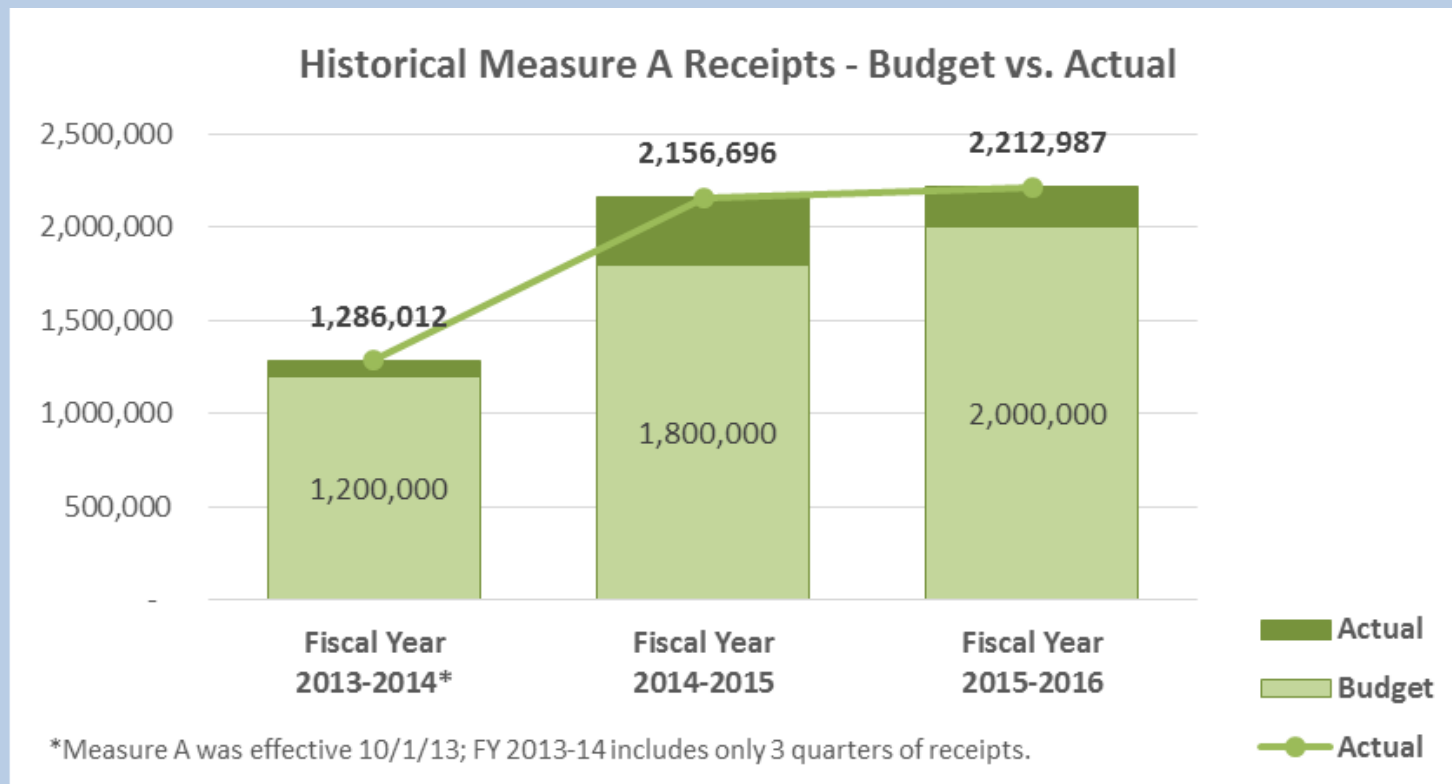
- Has been invaluable in keeping the City solvent.
- Since October 2013, has generated \$5,655,695 in additional revenue.





MEASURE A

- Will sunset in October 2020 right when the City is projected to start emerging from the deficit, which could potentially put the City back on unsteady financial ground.





MEASURE A

- **Council may want to consider asking voters to extend Measure A to get San Fernando on strong financial ground and ensure:**
 - Regular street maintenance and resurfacing.
 - Regular tree trimming and street sweeping.
 - A high level of public safety services.
 - Meaningful community programs.



CONCLUSION

This year's audited financials once again present mixed signals:

- The ongoing General Fund deficit decreased by \$1 million; but it continues to have a large deficit fund balance of **(\$3.1 million)**.
- The General Fund one-time expenditure and revenues realized an overall surplus; but there is a current operating deficit of approximately **(\$500,000)**.
- Despite Council action over the last few years to reduce long-term liabilities, the total City-wide “net worth” decreased by \$1.3 million. This is due to an increase in net pension liability as a result of CalPER's lower than projected investment returns.
- Deficit reduction will continue to be slow and steady as the City works to balance the need to reduce the deficit with the need to replace equipment and infrastructure, address deferred maintenance, and set-aside funds to offset future liabilities.



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QUESTIONS?