



THE CITY OF
SAN FERNANDO



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SAN FERNANDO

**COMPREHENSIVE ANNUAL
FINANCIAL REPORT (“CAFR”)
FOR THE YEAR ENDING JUNE 30, 2017**

MARCH 5, 2018

PRESENTED BY:

NICK KIMBALL

DEPUTY CITY MANAGER/DIRECTOR OF FINANCE



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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.

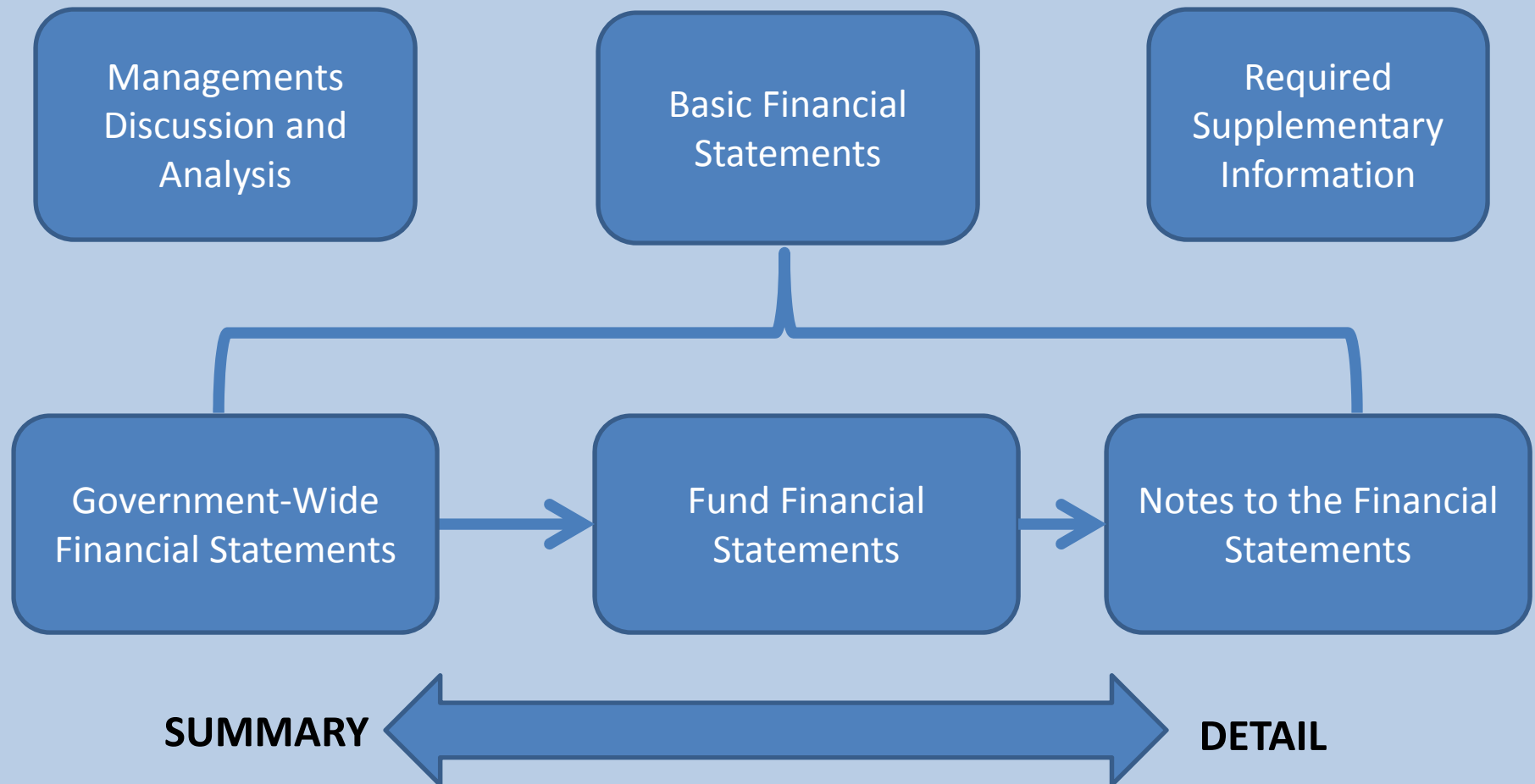
GFOA Excellence in Financial Reporting Award.

- Awarded to the City consistently for the last 28 years.
- Received award for June 30, 2016 CAFR.
- Submitted June 30, 2017 CAFR for Award Consideration.



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STRUCTURE OF CAFR



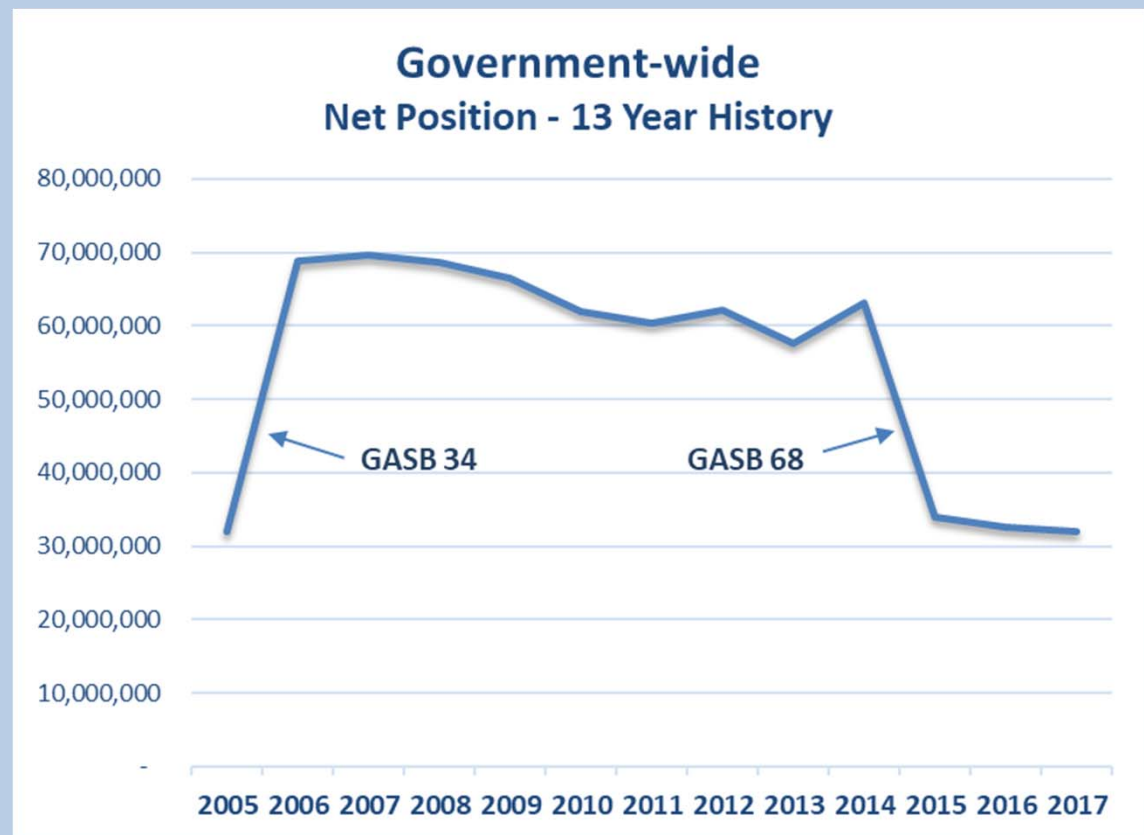


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GOVERNMENT-WIDE FINANCIALS

Net Position: Total assets minus total liabilities

- Over time, serves as an indicator of overall financial health.
- Net position decreased by \$586,215 (1.8%) to \$32,064,934.
- Total assets increased by \$3 million.
- PERS and OPEB liabilities increased by more than \$9.5 million.



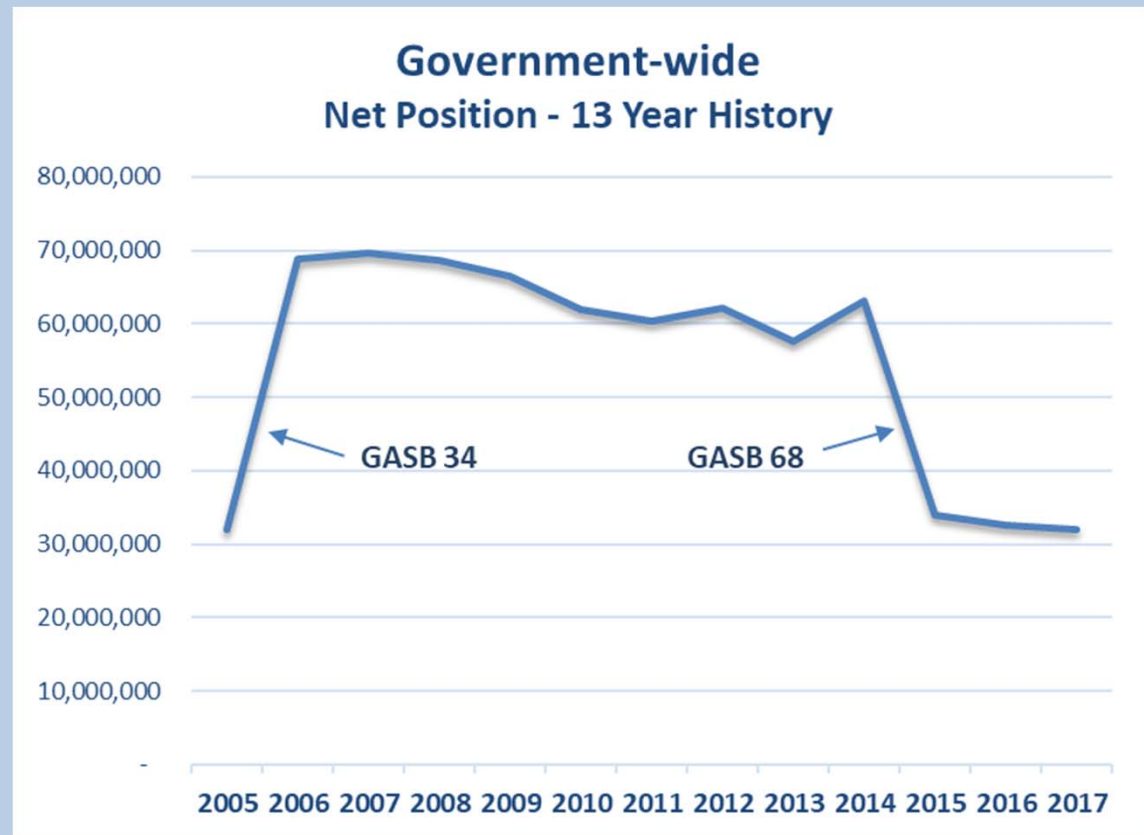


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GOVERNMENT-WIDE FINANCIALS

Over the last 13 years, GASB Pronouncements have had significant impact on Net Position.

- GASB 34 increased reporting of assets.
- GASB 68 increased reporting of Pension liabilities.
- GASB 74, which requires reporting long-term OPEB liability, will significantly decrease Net Position on 2018 financials.





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NET PENSION LIABILITY

The City's net pension liability as of June 30, 2017 was \$36 million, which is an increase of \$6.2 million from June 30, 2016 (Note 7).

- The increase is primarily related to CalPERS investment rate of return not meeting projections.
- Total Miscellaneous Liability: \$18.6 million.
- Total Safety Liability: \$17.4 million.
- CALPERS is phasing in decreases in the discount rate (i.e. expect rate of investment returns) from the current rate of 7.65% to 7.00% by 2020.
- Beginning in 2019, CALPERS will amortize actuarial gains and losses over 20 years rather than 30 years.
- Both of these actions will serve to improve the pension program's overall financial health, however, it will increase the City's long-term net pension liability.



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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.
- The City will be exploring options to establish a Section 115 Trust. Funds deposited in this type of Trust can only be used to pay the City's pension costs. This would allow the City to take advantage of increased investment options to increase the long term rate of return.



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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” (Note 8)

Beginning Liability:	\$13,059,014
2017 Required Contribution:	\$3,204,000
2016 Contribution:	(\$869,068)
Ending Liability:	\$15,393,946

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

The City will be exploring options to establish a Section 115 OPEB Trust. Funds deposited in this type of Trust can only be used to pay the City’s OPEB costs and will allow the City to take advantage of increased investment options and an increased discount rate to reduce long term 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.



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GOVERNMENTAL FUND FINANCIALS

The City maintains 25 individual governmental funds.

Balance for all Governmental Funds increased from \$13.1 million to \$15.8 million.

- The net increase was due to a decrease in the General Fund deficit and increase the Retirement Tax Fund and Housing Fund balances.

Fund Balances	2016	2017
Non-spendable	\$329,717	\$66,703
Restricted	16,579,665	17,728,008
Unassigned	(3,833,489)	(2,022,176)
TOTAL	\$13,075,893	\$15,772,535



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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.



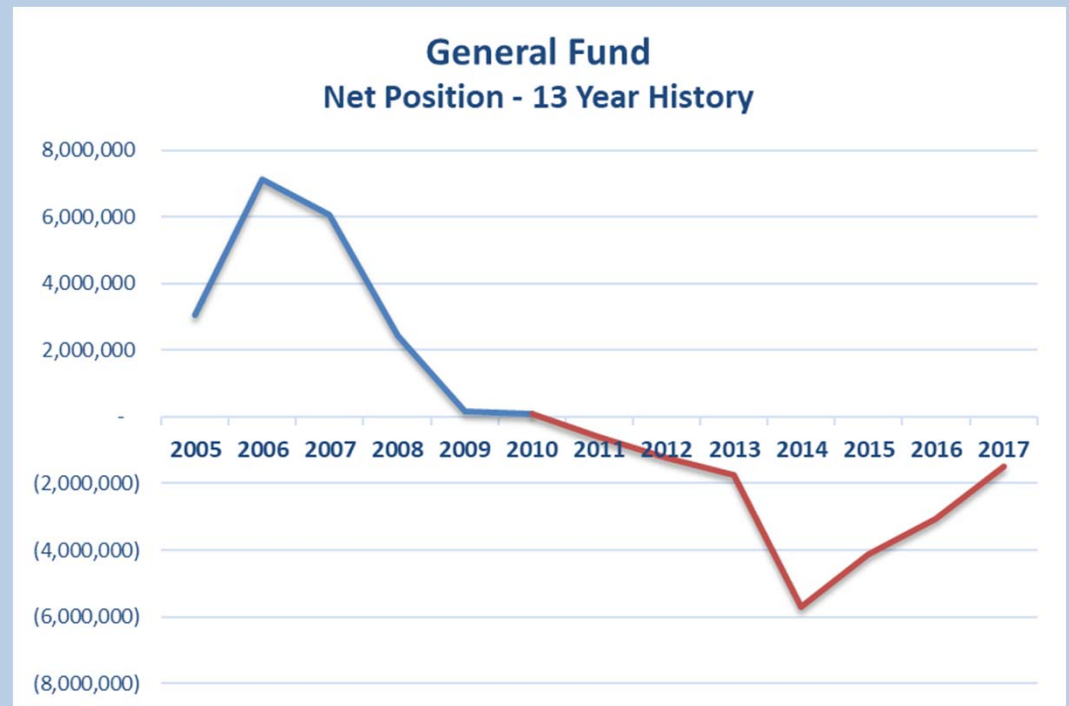
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GENERAL FUND

\$1.6 million total deficit reduction; from **(\$3.1 million) to **(\$1.5 million)****

A Closer Look...

Operating Revenues:	\$16,623,903
Operating Expenses:	(\$16,746,990)
Operating (Deficit):	(\$123,087)
One-time Revenues:*	\$2,504,130
One-time Expenses:**	(\$775,885)
One-time Surplus:	\$1,728,245
Total Surplus:	\$1,605,158



*Measure A - \$2.5 M

**Capital Outlay - \$154,635; Equip. Repl. - \$40k; Self Ins. - \$320k; One-time Enhancements - \$261,250



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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:

- Salary savings due to vacancies in a number of department head and public safety positions.
- Reduced Retirement and Las Palmas loans by \$250,000.



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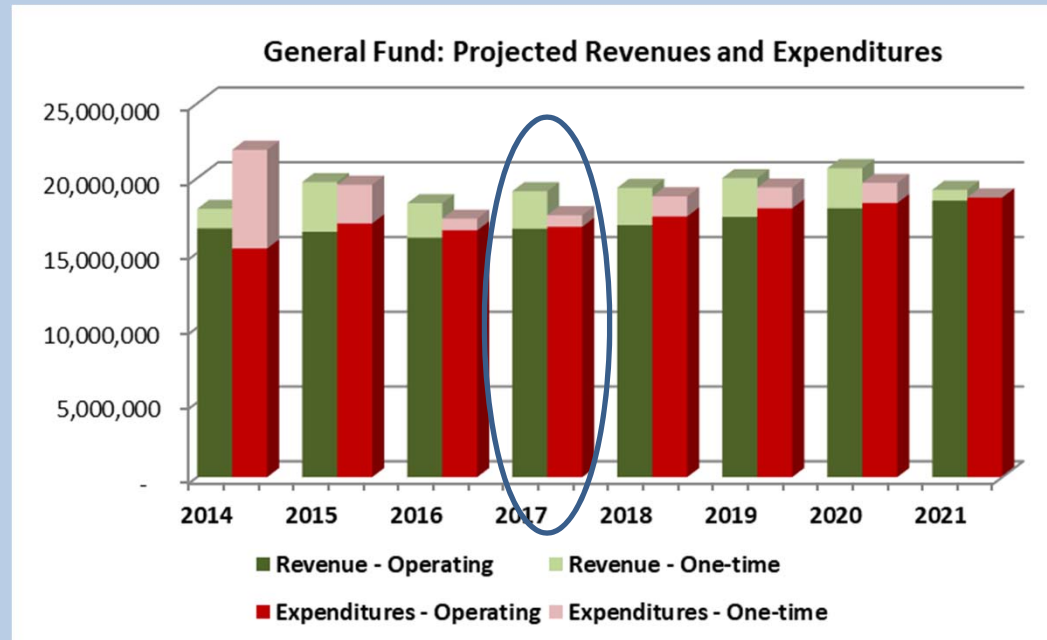
GENERAL FUND FORECAST

Key Revenue Assumptions:

Ongoing Increases:	One-time Increases:
2018 – 1.4%	2018 – 0%
2019 – 3.3%	2019 – 3.8%
2020 – 3.3%	2020 – 3.2%
2021 – 2.9%	2021 – (73.3%)
2022 – 2.8%	2022 – (100%)

Key Expenditure Assumptions:

Personnel Increases:	O&M Increases:
2018 – 1%	2018 – 9%
2019 – 2.5%	2019 – 5%
2020 – 2.5%	2020 – 1%
2021 – 2.5%	2021 – 1%
2022 – 2.5%	2022 – 1%

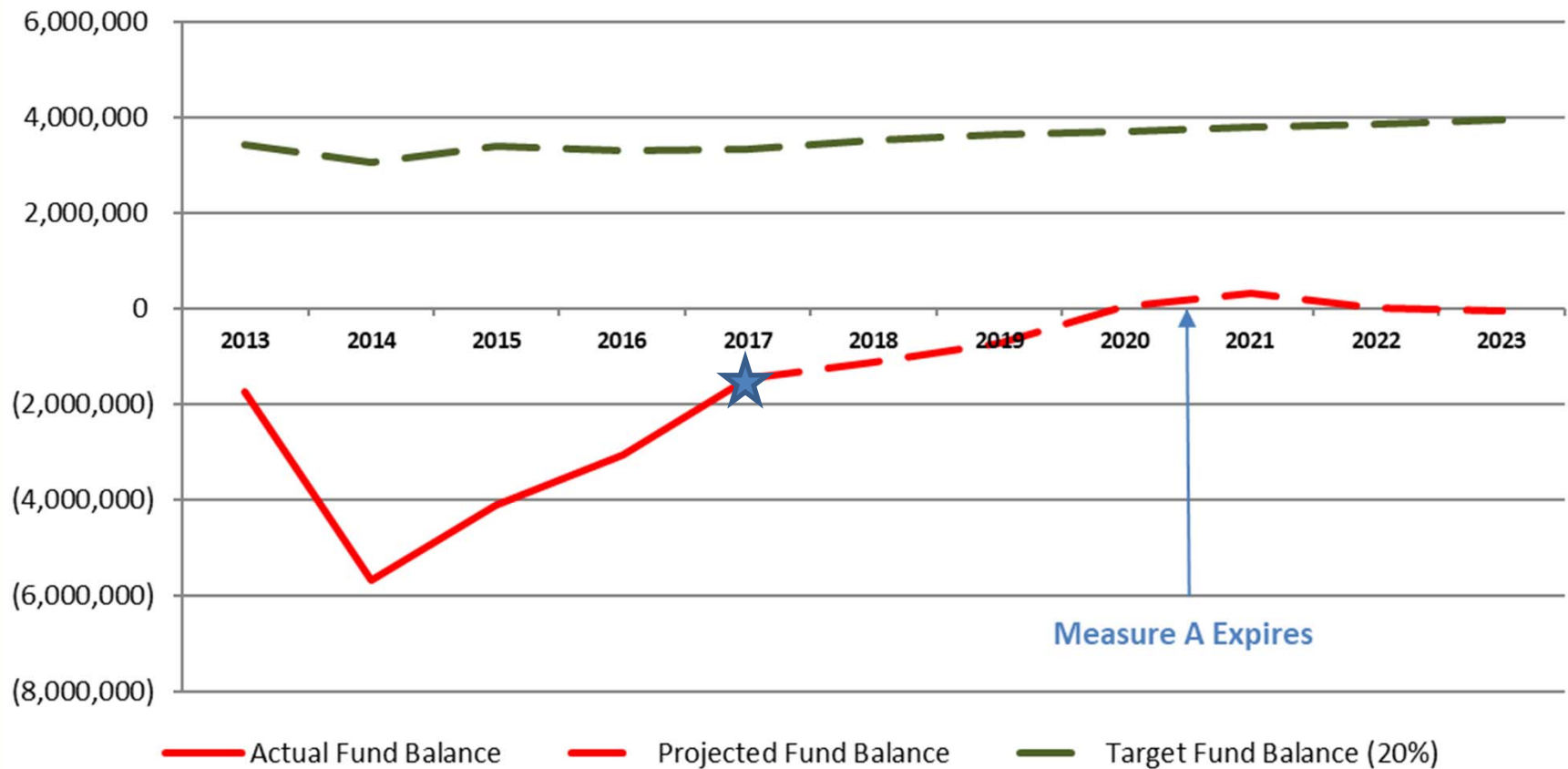




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GENERAL FUND FORECAST

General Fund: Projected Fund Balance





DEFICIT REDUCTION PLAN

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

Since passage of Measure A, the City has:

- Renegotiated the Fire Services contract with LAFD (saved more than \$500,000/year).
- Transferred pool operations to LA County (saved more than \$500,000/year)
- Restructured future retiree health benefits to decrease the City's liability (significant long-term savings)



DEFICIT REDUCTION PLAN (CONT.)

- Sold surplus land to reduce the City's deficit (\$1 million in proceeds)
- Developed a five-year General Fund projection to improve long term decision making
- Adopted a Development Agreement Ordinance to increase economic development tools and diversify the tax base
- Updating user fees, development fees and cost allocation plan (more than \$500,000 per year in projected ongoing revenue)
- Continue to explore opportunities to partner with private sector firms to provide efficient, quality services



DEFICIT REDUCTION PLAN (CONT.)

FY 2017-2018 Budget includes funding for the following one-time deficit reduction and enhancement items:

- Continue to repay internal debt (\$300,000)
- Continue to accumulate Self Insurance, Equipment Maintenance, and Facility Maintenance reserves (\$486,000)
- Further reduce General Fund deficit (\$685,900)
- Additional Street Maintenance Resources (\$70,000)
- Additional Public Safety Resources (\$80,000)



CONCLUSION

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

- The ongoing General Fund deficit decreased by \$1.6 million; but it continues to have a large deficit fund balance of **(\$1.5 million)**.
- A significant portion of the surplus in FY 2016-2017 was due to vacant department head and public safety positions, which is unsustainable.
- Despite Council action over the last few years to reduce long-term liabilities, the total City-wide "net worth" decreased by \$600,000. 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?