# Performance Audit of the City's Financial Condition as of Fiscal Year 2020

## Why OCA Did This Study

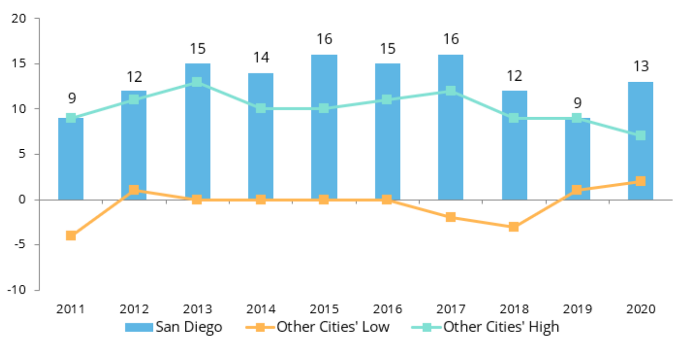
Financial condition refers to a government's ability to maintain existing service levels, withstand local and regional economic disruptions, and meet the demands of natural growth, decline, and change. Financial condition must be continually monitored and regularly evaluated to help ensure the City's decisions are fully informed and financially responsible.

To objectively assess and report the City of San Diego's financial condition, we used a well-regarded modified 10-point test that includes both short- and long-term aspects of financial well-being and relies on audited financial data published in cities' Annual Comprehensive Financial Reports. For context, the ratios are tracked for multiple years and compared to other cities similar in population and government type. In our test, we compared San Diego with Los Angeles, CA; Phoenix, AZ; San Antonio, TX; Seattle, WA; San Jose, CA; and Austin, TX.

## What OCA Found

The City of San Diego's financial ratios show positive financial health from Fiscal Year (FY) 2011 through FY2020 compared to benchmark cities. The City's financial condition has been top of class for the last ten years when compared to the six other cities in our test.

San Diego's 10-Point Test Score Compared to Other Cities

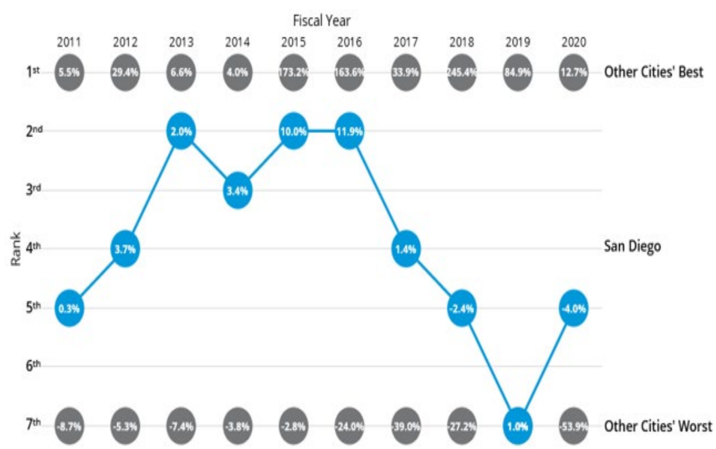



While the ten-year trend from FY2011 to FY2020 is positive for all of the City's financial ratios, especially in Liquidity, Solvency, and all three debt ratios, we are seeing average results in the areas of Financial Performance and Net Change in Capital Assets Value.

In addition, when we looked at each ratio over a 16 year period from FY2005 to FY2020 we noticed some negative trends for San Diego. The ratios we would like to bring to City Management's attention are:

**Ratio 3** – The Financial Performance Ratio measures the rate at which City resources are growing or declining. This ratio demonstrates how well the City was able to pay expenses with revenues from that year. A negative percentage demonstrates diminished financial performance, which indicates the City is in a worse position to face future financial challenges. In FY2020, the City's ratio fell to a negative 4%. This indicates City Management should focus on both controlling annual expenses as well as monitoring annual revenues. There were financial impacts due to COVID-19 as tourism revenue, charges for services, and developer contributions and fees declined, but these losses were somewhat offset by operating grant and property tax increases.

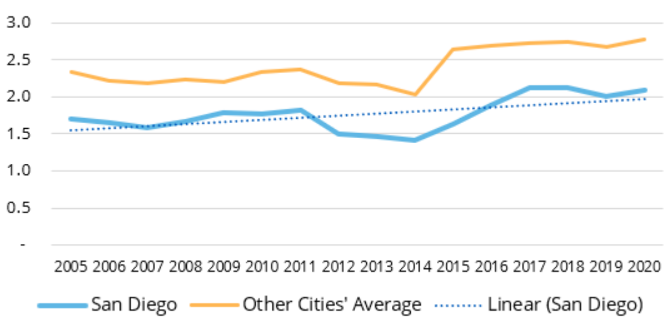
**San Diego Ratio 3 Ranking Compared to Benchmark Cities**



**Ratio 4** – The Solvency Ratio is an indicator of the City's overall capacity for repaying or otherwise satisfying all its outstanding obligations based on annual revenue. San Diego and the other benchmark cities on average have experienced similar negative trends over the course of the sixteen-year period. San Diego seems to have stabilized since FY2017 but is still in a negative trend.

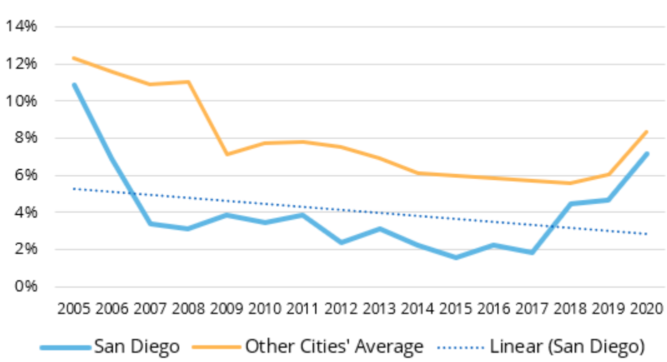
**Solvency Long-Term Trend (FY2005–FY2020)**

(Lower is better)




**Ratio 5 –** The Primary Government Revenues Ratio measures the flexibility of the City's revenues. Intergovernmental aid is revenue generated from other government entities and includes grants. San Diego's reliance on intergovernmental aid significantly decreased in the first two years of the sixteen-year period and continued to decrease until FY2017. However, after FY2017, the City saw a trend reversal in its reliance on intergovernmental aid as more grants and other governmental funds were received, including CARES Act funds. Due to COVID-19, all cities are experiencing a similar trend.

**Primary Government Revenues Long-Term Trend (FY2005-FY2020)** (Lower is Better)




**Ratio 10** – This ratio measures the change of the net value of capital assets. A high ratio suggests a government is keeping pace, on average, with the aging of its capital assets and replenishing them. A positive percentage change suggests the capital assets are being replenished; a negative number suggests they are being depleted. Net Change in Capital Assets Value is trending in a positive direction over the ten-year review period, but it remains one of the City's lowest ranking metrics along with Financial Performance. One-time spikes due to the addition of large capital projects can be anticipated, but long-term under-performance in this metric can be an indication that the City is under investing in its infrastructure when compared with other cities.

San Diego Ratio 10 Ranking Compared to Benchmark Cities


**City of San Diego Chief Financial Officer Remarks Related to the City's Scores**

The City Auditor's performance audit highlights continued and sustained strength in the City's financial condition, even after considering the effects of the COVID-19 pandemic on the City's finances. The City's financial indicators continue to outperform comparative cities, with San Diego being the highest overall ranked among the six cities included in this report. (Further CFO remarks on page 15 of report and the management response)

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