THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: February 28, 2014 **IBA Report Number:** 14-10

City Council Docket Date: March 3, 2014

Item Number: TBD

Review of FY 2014 Mid-Year Budget Monitoring Report

OVERVIEW

The FY 2014 Mid-Year Budget Monitoring Report (Mid-Year Report) was issued on February 21, 2014 and describes the current status of revenues and expenditures, and their year-end projections, based on actual (unaudited) data from July through December 2013. The Office of the IBA reviewed the financial information compiled in the Mid-Year Report and compared this to the City Comptroller's Charter 39 Financial Performance Report for Period 6, dated February 12, 2013, and the First Quarter Budget Monitoring Report (First Quarter Report) as presented to City Council on December 9, 2013.

The Mid-Year Report reflects projected increased revenues of $4.0 million and a decrease in expenditures of $6.3 million from the First Quarter Report, for a net positive impact on the General Fund projected surplus of $10.3 million. The increase in projected revenues is due primarily to growth in departmental revenues in the Police and Fire-Rescue Departments, while projected year-end expenditures have decreased due primarily to savings in salaries & wages and contract expenditures. The First Quarter Report projected total General Fund revenues to exceed expenditures by $40.5 million, which has been subsequently revised upwards to a $50.8 million budgetary surplus based on these projected increases in revenues and decreases in expenditures in the Mid-Year Report.

The Mid-Year Report requests City Council to approve the following General Fund items:

- Appropriate $17.9 million in major revenue growth above FY 2014 Adopted Budget levels to provide necessary funding for unanticipated Citywide elections, Fire-Rescue, Park and Recreation, Police, and Public Works – Engineering and Capital Projects Departments expenditures.

- Utilization of $22.9 million of the revised $50.8 million projected General Fund budgetary surplus to fund specific expenditures during FY 2014.

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- Maintaining a 1.3 percent or $14.1 million "buffer" above the recently adopted City Reserve Policy minimum General Fund reserve level of 14.0 percent to account for any potential variations in projections as proposed by the Chief Financial Officer (CFO).

These items requested in the Mid-Year Report were first heard at the February 26, 2014 Committee on Budget and Government Efficiency and this report reflects updated information based on requests to the Office of the IBA in addition to further information to answer other questions raised by Committee Members. This report outlines:

- A review of General Fund revenues and expenditures, including additional information on departmental and Citywide items;
- The resulting impact on the projected surplus for FY 2014;
- A review of each proposed utilization of the projected surplus, totaling $22.9 million;
- What the Council's options are for potentially modifying this proposed surplus utilization based on Ordinance 20084 (Mid-Year Ordinance);
- The impact on General Fund reserves, based on the recently Council adopted City Reserve Policy, from utilizing the surplus as proposed;
- The impact from maintaining a General Fund reserve "buffer" as proposed by the CFO.

FISCAL/POLICY DISCUSSION

General Fund Revenues

General Fund revenues have increased from both the FY 2014 Adopted Budget and First Quarter Report. Total General Fund revenue is projected to exceed the FY 2014 Adopted Budget by $62.4 million and the First Quarter Report by $4.0 million. As noted in the Mid-Year Report, the large increase in projected year-end revenues in FY 2014 is primarily attributable to an increase in property tax revenue based on distributions due to the dissolution of the City's Redevelopment Agency (RDA). Property tax revenue has continued to increase since the First Quarter Report, though it has been offset by a decrease in sales tax revenue. As noted previously, departmental and other revenues have also increased from the First Quarter Report due to the following, among others:

- $1.5 million increase in Police Department revenues, which is primarily due to an increase in parking citation revenues, among others;
- $1.0 million increase in Fire-Rescue Department revenues, which is primarily due to an increase in prior year reimbursements from the Airport Authority and Combustible Explosives and Dangerous Materials (CEDMAT) inspection fee revenue, among others;

- $0.5 million increase in City Treasurer primarily due to additional rental unit and business tax revenues;

- $1.8 million in additional actual revenue received above projections by the City due to the dissolution of the San Diego Data Processing Corporation;

- $0.6 million in General Fund interest revenue projections.

These increases in departmental and other revenues from the First Quarter Report were offset by a decrease of $0.5 million in Park and Recreation Department revenue, $0.6 million in Library Department revenue, and the elimination of a $1.0 million projected reimbursement for expenses incurred in FY 2013 for the Convention Center Phase III Expansion project, among others. The following table outlines changes in projected year-end revenue for both major revenues and departmental / other revenues from the FY 2014 Adopted Budget and First Quarter Report as compared to projections included in the Mid-Year Report.

Revenue Source *(in millions)*	FY 2014 Adopted Budget	FY 2014 1st Qtr Report Projection	FY 2014 Mid Year Projection	Variance - Adopted Budget to Mid Year	Variance - 1 Qtr Report to Mid Year
Property Tax	$ 408.0	$ 454.0	$ 457.9	$ 49.9	$ 3.9
Sales Tax	248.1	248.5	243.9	(4.2)	(4.6)
Transient Occupancy Tax	87.9	87.6	86.8	(1.1)	(0.8)
Franchise Fees	67.0	67.2	68.6	1.6	1.4
Departmental & Other Revenue	392.0	404.1	408.2	16.2	4.1
TOTAL GENERAL FUND REVENUE	**$ 1,203.0**	**$ 1,261.4**	**$ 1,265.4**	**$ 62.4**	**$ 4.0**

Major General Fund Revenues

Our Office believes that major revenue projections included in the Mid-Year Report are appropriate based on revenue distributions to date and the current economic forecast. However, sales and transient occupancy taxes have shown some softening as compared to projections included in the First Quarter Report. This has led to a decrease in the projected growth for the remainder of the fiscal year for sales tax revenue in the Mid-Year Report and may necessitate a reduction in the transient occupancy tax growth rate for the remainder of the fiscal year if the current revenue trends were to continue. We discuss this sales tax adjustment and the suitability of the projected growth rate for the remainder of the fiscal year in addition to transient occupancy tax in the following sections.

In total, major revenue (property tax, sales tax, transient occupancy tax, and franchise fees) is projected to exceed the Adopted Budget by $46.2 million, but has remained flat since the First Quarter Report. Major revenue projections have remained flat since the First Quarter Report due to projected increases in property tax and franchise fees that are fully offset by projected aforementioned decreases in transient occupancy and sales taxes. Departmental and other revenue sources have increased $16.2 million from the Adopted Budget, and their year-end revenue projections have increased $4.1 million from the First Quarter Report.

The following revenue sections outline major General Fund revenues and any additional departmental revenue items of note.

Property Tax

The $457.9 million property tax revenue projection in the Mid-Year Report is comprised of four separate sources of projected year-end revenue: 1) the City's 1.0 percent property tax revenue of $299.3 million; 2) the Motor Vehicle License Fee (MVLF) Backfill of $108.4 million; 3) the Residual Property Tax Trust Fund (RPTTF) pass-through payment of $4.3 million; and 4) RPTTF residual property tax payment of $45.9 million. These projections included in the Mid-Year Report compare to the FY 2014 Adopted Budget and the First Quarter Report as follows:

Property Revenue Source *(in millions)*	FY 2014 Adopted Budget	FY 2014 1st Qtr Report Projection	FY 2014 Mid Year Projection	Variance - Adopted Budget to Mid Year	Variance - 1 Qtr Report to Mid Year
1.0% Property Tax	$ 290.4	$ 298.1	$ 299.3	$ 8.9	$ 1.2
MVLF Backfill	106.4	108.4	108.4	2.0	-
RPTTF Tax Sharing Pass-Through	3.0	3.4	4.3	1.3	0.9
RPTTF Residual	8.2	44.0	45.9	37.7	1.9
TOTAL PROPERTY TAX REVENUE	**$ 408.0**	**$ 453.9**	**$ 457.9**	**$ 49.9**	**$ 3.9**

– 1.0 Percent Property Tax Revenue

The First Quarter Report included a projection of $298.1 million for the 1.0 percent property tax revenue, which has subsequently increased $1.2 million to $299.3 million in the Mid-Year Report due to a reported increase in total property tax revenue receivables from the San Diego County Assessor's Office. As noted in our review of the First Quarter Report (IBA 13-53), the Chief of Assessment Services with the County of San Diego noted that a significant number of temporary property tax reductions granted to homeowners during the recent recession were eliminated in FY 2014 due to the economic recovery and associated growth of the San Diego housing market. The elimination of these temporary reductions has continued to positively impact FY 2014 property tax projections.

– MVLF Backfill

As noted in the Mid-Year Report, the increase in revenue from the FY 2014 Adopted Budget for the MVLF Backfill was due to the City being notified by the County of San Diego in August, 2013 that the actual payment to be distributed during FY 2014 would be $2.0 million higher than original projections. This distribution has not changed since the First Quarter Report.

– Redevelopment Property Tax Trust Fund (RPTTF)

RPTTF distributions account for $39.0 million of the increase in Property Tax revenue in FY 2014, as shown below. It is important to note that this includes total ongoing annual revenue of $15.3 million ($4.3 million for Tax Sharing Pass-through Payments and $11.0 million for residual distributions). Ongoing RPTTF revenue for FY 2014 includes actual distributions from Recognized Obligation Payment Schedule (ROPS) 5 in January 2014 and projected distributions from ROPS 6 which will occur in June 2014. We agree with Successor Agency staff and Financial Management that residual amounts are difficult to estimate because they are based on many factors. For example, since residual distributions are funds left over after all tax sharing payments and enforceable obligations are paid, the State Department of Finance's (DOF) approval or denial of enforceable obligations on each ROPS can impact the residual amounts.

millions of $	Adopted Budget	1st Qtr Projection	Mid-Year Projection	Variance
Ongoing RPTTF				
Tax Sharing Pass-through Payment	$ 3.0	$ 3.4	$ 4.3	$ 1.3
Residual Distributions	8.2	9.2	11.0	$ 2.8
Subtotal Ongoing RPTTF	**11.2**	**12.6**	**15.3**	**$ 4.1**
One Time RPTTF - Non-housing DDR Payment	-	34.8	34.9	$ 34.9
Total RPTTF	**$ 11.2**	**$ 47.4**	**$ 50.2**	**$ 39.0**

As noted in the Mid-Year Report, the City also received $34.9 million in one-time funds from the Non-housing Due Diligence Review (DDR) Payment. This represents the City's 21.0 percent share of the $167.3 million payment the Successor made to the County Auditor and Controller in November 2013 for distribution to local taxing entities. Since the reserves of the former RDA have been swept by the DDR process, it is unlikely the City will receive other large one-time distributions. The $34.9 million was offset by $21.1 million that the City loaned to the Successor Agency as part of the Clawback of payments made for certain agreements between the City and the former RDA that have been disallowed by the DOF. For example, this included $11.3 million in debt service for Petco Park improvements and $2.0 million for Convention Center Phase II debt service. Several of the clawed back payments are currently being litigated in Sacramento.

Sales Tax

The Mid-Year Report notes that sales tax receipts in FY 2014 continue to increase, but that the rate of that increase is slowing. While actual receipts demonstrate continued growth, that growth remains below the 5.5 percent rate assumed throughout the year in the FY 2014 Adopted Budget. The Mid-Year Report recommends reducing the projected growth rate for sales tax receipts to 4.5 percent for the remaining two quarters in FY 2014, which will decrease total projected sales tax revenue for FY 2014 from $248.1 million to $243.9 million.

We believe this adjustment to be a prudent one; the first two quarters of FY 2014 have shown a year-over-year increase in taxable sales of 3.4 percent. The City's sales-tax consultant MuniServices previously estimated an overall annual increase of 5.2 percent in taxable sales in the San Diego region, and UCLA Anderson projected an annual across the state of 4.0 percent. As noted in the Mid-Year Report, information on actual sales performance over the holiday period will be available in March, and will provide a more accurate picture of total expected sales tax receipts. While overall economic trends, including unemployment rates and overall economic activity have been positive, a shorter than average holiday shopping period may have impacted taxable sales over the most recent quarter. Should the growth rate need to be adjusted further, an increase or decrease of 1 percent in growth represents roughly $1.2 million in sales tax receipts for the remainder of the fiscal year.

Finally, in our review of the First Quarter Report, we noted that $2.2 million of a $61.5 million reimbursement from the Sales and Use Tax Compensation Fund (the "triple flip") would not be received in FY 2014, and that it is anticipated to be recouped in FY 2015. The Mid-Year Report has been updated to reflect that delay in reimbursement.

Transient Occupancy Tax (TOT)

Projections for TOT revenue continue to lag slightly behind projections included in the FY 2014 Adopted Budget. Year-end revenue for the 5.5 cent portion of TOT revenue is projected to total $86.8 million in the Mid-Year Report, which is $1.1 million lower than projections included in the FY 2014 Adopted Budget and $0.8 million lower than projections included in the First Quarter Report. Year-to-date growth through the first six months of FY 2014 was 5.0 percent compared to the comparable period in FY 2013.

Projections included for TOT revenue in the Mid-Year Report are based on these actual revenue distributions combined with a projected 6.0 percent growth in revenue the remaining six months of FY 2014. Reducing the projected growth rate for the remaining six months of FY 2014 to 5.0 percent to match actual growth for the first six months would only reduce the year-end projected revenue for the 5.5 cent TOT revenue portion by approximately $400,000[1]. Based on this small variance and the potential for timing differences in TOT revenue distributions, we do not recommend reducing the TOT growth rate for the remainder of the year. However, Financial Management, in combination with the IBA, should closely monitor TOT distributions in upcoming months and adjust the year-end growth projection if necessary in the FY 2014 Year-End Budget Monitoring Report.

Franchise Fees

The Mid-Year Report projects a slight surplus to overall General Fund Franchise Fee revenue. Expected revenue from cable franchise fees has decreased from the FY 2014 Adopted Budget and from the First Quarter Report, partly due to a significant decrease in the most recent payments made by the City's cable franchises. Nationally, cable franchises have reported growth in broadband internet subscription revenue, though some market analysts predict this growth may be offset by consumers who shift viewing from cable sources to online web-based sources. Cable franchise fees should continue to be monitored, with projections adjusted accordingly upon receipt of more recent franchise payments.

The decrease in expected revenue from cable franchise fees is made up by increased projected franchise fees from SDG&E. The Mid-Year Report notes increased energy consumption and natural gas sales; the increased projection is supported by received SDG&E payments and by increased economic activity throughout the City.

General Fund Franchise Fees *(in millions)*	FY 2014 Adopted Budget	FY 2014 1st Qtr Report Projection	FY 2014 Mid Year Projection	Variance - Adopted Budget to Mid Year	Variance - 1 Qtr Report to Mid Year
Cable	$ 19.4	$ 19.4	$ 17.2	$ (2.3)	$ (2.3)
SDG&E	35.6	35.6	39.0	3.5	3.5
Environmental Services	12.0	12.2	12.3	0.3	0.1
TOTAL GF FRANCHISE FEES	**$ 67.0**	**$ 67.2**	**$ 68.6**	**$ 1.5**	**$ 1.3**

[1] Reducing the TOT growth rate to 5.0 percent for the remainder of FY 2014 as compared to the 6.0 percent included in the Mid-Year Report would reduce total 10.5 cent TOT revenue by approximate $750,000.

Departmental and Other Revenues

Police Department

– Police Parking Citation Revenue

A review in FY 2012 indicated that the formula used to divide budgeted parking citation revenue between the Police and Transportation and Storm Water departments was not in alignment with actual receipts. Historically, revenue had been overestimated for Police and underestimated for Transportation and Storm Water. Beginning in FY 2013, a new formula was instituted in order to right-size the split of revenues based on the issuing department. Revenue estimates under this formula were further adjusted in FY 2014 by increasing Police parking citation revenue by $619,000 based on FY 2013 trends. The FY 2014 Mid-Year Report projects an additional increase in citation revenue of $1 million, for a total year-end projection of $14,155,235.

– AB 109 Disbursements

The Police Department received approximately $819,000 in unbudgeted revenue related to Assembly Bill 109 (AB 109) Public Safety Realignment. The Department plans to use approximately $500,000 of these funds on overtime, with the remainder to be used for various equipment items. Overtime related to AB 109 is primarily attributed to officers monitoring parolees.

Public Works – Contracts

FY 2014 is the first year that revenue is included in the budget for Public Works – Contracts Division to charge other departments for the services it provides, similarly to E&CP. Budgeted revenue targets were about $1.1 million or 50.0 percent of budgeted expenditures, since the positions are not fully reimbursable. Revenue estimates were based on the contracts to be executed in FY 2014 rather than historical data since none existed. The Mid-Year Report projects that revenue is $122,144 or 11.6 percent under budget due to staff charges not being accurately allocated. Staff indicated that management is working to correct this issue and may reduce the revenue projection in the FY 2015 Budget. Revenue estimates will likely improve in future years once Contracts staff have a history of actual revenue to serve as a basis for calculations.

General Services – Facilities Division

The FY 2014 Adopted Budget include $3.9 million in revenue for Facilities Division, since it charges non-General Fund departments for the services it provides. Revenue is projected to be under budget by $200,000 or 4.6 percent due to the Division performing less reimbursable work. This has enabled the Division to focus on conducting more preventative maintenance and addressing the significant backlog of work order requests. This focus, in combination with the additional 9.00 staff that were included in the FY 2014, has resulted in an increase in scheduled preventative maintenance from 13.0 percent to 25.0 percent of Facilities' total workload. Additionally, Facilities Division staff indicated that crews have substantially reduced the backlog of work order requests. For example, one crew reduced the backlog from 250 to 50 work order requests.

General Fund Expenses

General Fund expenses projected in the Mid-Year Report have increased $11.5 million from the FY 2014 Adopted Budget, which is a decrease of $6.4 million since the First Quarter Report projected year-end expenditures. As previously outlined in the First Quarter Report, the increase in projected year-end expenditures in FY 2014 above the Adopted Budget is primarily due to unanticipated elections costs and increases in Fire-Rescue and Police Department salary and wages costs. The Mid-Year Report has further refined these costs that were included in the First Quarter Report based on updated projections and actual incurred election costs. Based on these updated projections and an increase in projected vacancy savings, among others, the increase in expenditures above the Adopted Budget was reduced to $11.5 million. Items that have contributed to the $6.4 million in projected expenditure reductions from the First Quarter Report include the following:

- $3.9 million increase in salary savings across multiple City departments due primarily to vacancies;

- $1.5 million savings due to Mayoral election costs savings as compared to original estimates;

- $1.1 million reduction in Transportation and Storm Water expenditures due to delay in awarding contracts, among others;

- $0.8 million reduction in corporate master lease rents due to actual savings from the new negotiated lease for City office space in the Executive Plaza.

These savings in departmental and other expenditures from the First Quarter Report were offset by an increase of $3.2 million in Police Department expenditures due primarily to a continued increase in overtime expenditures and changes in fringe. The following table outlines changes in projected year-end expenditures for major expenditure categories from the FY 2014 Adopted Budget and First Quarter Report as compared to projections included in the Mid-Year Report.

Expenditure Source *(in millions)*	FY 2014 Adopted Budget	FY 2014 1st Qtr Report Projection	FY 2014 Mid Year Projection	Variance - Adopted Budget to Mid Year	Variance - 1 Qtr Report to Mid Year
Personnel Expenditures	$ 515.9	$ 522.2	$ 519.7	$ 3.8	$ (2.5)
Fringe Benefits	370.5	371.2	371.1	0.6	(0.1)
Contracts	163.3	175.3	170.9	7.6	(4.4)
Energy & Utilities	38.7	38.3	37.1	(1.6)	(1.2)
Information Technology	29.8	30.1	30.8	1.0	0.7
Supplies	24.2	26.6	27.3	3.1	0.7
Other Expenditures	83.1	79.7	80.1	(3.0)	0.4
TOTAL GENERAL FUND EXPENDITURES	**$ 1,225.5**	**$ 1,243.4**	**$ 1,237.0**	**$ 11.5**	**$ (6.3)**

City-Wide Expenditure Issues

Departmental Vacancies

The Mid-Year Report indicates that vacancies are having a significant effect on the year-end projections for the General Fund. It also notes that savings are being accrued in the salaried wages accounts due to higher vacancies than assumed in the budget. The Mid-Year Report shows approximately 174 General Fund vacancies beyond what were accounted for in the FY 2014 Adopted Budget; and there is $12.0 million in salary savings projected for FY 2014. The Mid-Year Report continues to raise concerns regarding the length of time for the hiring process, which includes both Personnel Department and hiring department responsibilities. Additionally, whether the current excess vacant positions have been vacant for a long time needs to be further explored. If these positions have been vacant for a long time, the City should evaluate whether these positions should be eliminated if they are not needed to maintain service levels.

The annual budget is prepared with the intention of providing service levels through budgeted staffing levels. The high level of actual vacancies above the budgeted level is a continuing area of concern. If the City were to fill all of its funded positions, the salary savings of $12.0 million would be reduced, and actual expenditures would increase accordingly. Note that any increased expenditures could be partially offset by decreased overtime expenditures and hourly wages, but the impact of filling all positions as budgeted would be significant.

Savings garnered through the high level of vacancies are more than offset by other personnel expenditures, including pay in lieu of annual leave and overtime, masking the full cost of these expenditure categories. Overtime projected for FY 2014 exceeds the budget by $9.6 million, and pay in lieu of annual leave is projected to be $5.8 million over-budget. Over the past five fiscal years (including the FY 2014 projection), pay in lieu of annual leave expenditures have averaged approximately $7.1 million and been over-budget by approximately $5.2 million – far exceeding the budgets for those years, which averaged $1.9 million.

We understand that pay in lieu of annual leave is a difficult expenditure type to forecast. However, we recommend that the City examine potential methodologies for estimating pay in lieu, so that a more accurate budget for those expenditures can be established. Pay-in-lieu should not repeatedly be paid with funds budgeted for other purposes. Similarly, overtime should also be right-sized as much as possible, acknowledging that Fire-Rescue uses overtime as part of its constant staffing model, and overtime may be needed to mitigate the effects of unanticipated vacancies Citywide.

Tree Trimming

The City's efforts to award contracts for various City departments responsible for tree services, such as Park & Recreation, have been ongoing since 2011. These services were initially anticipated to be procured through a Citywide tree services contract that was to be managed by Park & Recreation. However, after a series of issues arose in the fall of 2012, the proposed contract award was cancelled by Purchasing & Contracting. Since that time, the solicitation for tree services has been split into five parts (parks, streets, Maintenance Assessment Districts, golf, and Citywide/other) and converted it into a Request for Proposal (RFP) rather than a bid. The contract for Maintenance Assessment Districts was awarded in January 2014, and the RFP process is underway for streets, parks, and golf. Purchasing & Contracting is assessing alternatives to the RFP process for the Citywide/other portion.

Until the contracts are awarded, Park & Recreation and Transportation & Storm Water (TSW) still have the need for interim tree services. TSW's Street Division is completing right of way tree trimming using in-house crews until the new contract is awarded, potentially in March 2014. Street Division staff indicated that this has not impacted the Division's service levels, since crews that primarily perform emergency tree trimming also perform urgent and other trimming as time allows. Park & Recreation has been utilizing the remainder of the capacity of the sole source contract and also has requested smaller, under $50,000 contracts for critical tree needs during the interim period.

Development Services – Community Plan Updates

Development Services is projecting a surplus of $0.9 million for Community Plan Updates (CPU) which is half of the total FY 2014 Adopted Budget. As noted in the Mid-Year Report, the surplus was reported in the First Quarter Report due to unanticipated program delays related to the traffic modeling queue; challenges projecting the start of Environmental Impact Reports which represent a large portion of CPU costs; and unclear California Environmental Quality Act (CEQ) requirements. Staff are currently working on streamlining measures and reforms to address these issues. For example, to alleviate the traffic modeling queue, staff are planning to reduce the scope of traffic studies where a full study is not required and also have developed a memorandum of understanding with SANDAG to utilize some of their traffic modeling capacity as appropriate.

Many of the community plans are considered to be significantly out of date. Updating Community Plans and the related Public Facilities Financing Plans (PFFP) is important because, among other things, they identify needed infrastructure and facilities based on the community's vision and policies in the General Plan. It will be important to support needed streamlining and reforms going forward to ensure CPUs and PFFPs can be completed as efficiently and effectively as possible.

<u>Departmental Items</u>

Police Department

– Police Overtime

The Police Department is projected to exceed budgeted overtime expenditures by $4.5 million, which is offset by $4.2 million in salary savings. However, overall personnel expenditures in the department are projected to exceed budget by $4.2 million, due largely to over budget expenditures in pay-in-lieu and fringe benefits.

– Police Helicopter Maintenance and Fuel Expenditures

The Mid-Year Report notes that the Police Department has raised concerns about the long-term ability of Seized Assets Funds to support helicopter maintenance. The department has similar concerns about the sustainability of using one-time SAFE funds to support ongoing helicopter fuel expenses beyond FY 2014. The Mid-Year Report indicates that both Seized Asset Funds and SAFE funds are sufficient to cover projected helicopter maintenance and fuel costs in FY 2014.

The department has indicated it will request approximately $2.5 million in air support maintenance expenditures from the General Fund in FY 2015. Helicopter fuel expenditures of approximately $800,000 would continue to be supported by Seized Asset Funds. Although the department deems Seized Asset Funds to be sufficient for this purpose, it is nonetheless an unstable source of revenue. Due to the potential volatility of Seized Asset Funds, we support moving both maintenance and fuel costs for Police air support to the General Fund as resources allow.

Fire-Rescue Department

– Fire-Rescue Overtime

The Fire-Rescue Department is projected to exceed budgeted overtime expenditures by $4.1 million, which is partially offset by $2.6 million in salary savings. In general, the department's constant staffing model intends for over-budget overtime to be counterbalanced by savings in salary and fringe costs related to vacancies. The department continues to face challenges in achieving this balance, although it is making progress compared to previous budget years.

– Fire Recruit Graduate Decrease

The Mid-Year Report notes that 11 fewer Fire Recruits graduated from the October 2013 fire academy than previously anticipated. Of the 11 recruits that did not complete the academy, eight did so as a result of either experiencing an injury or failing written exams. The remaining three had special circumstances that prevented them from graduating with the class. However, all three have been approved to attend the July 2014 academy and are anticipated to complete training at that time.

Public Works – General Services

The Division is projecting non-personnel expenditures to be slightly over budget due to the increase costs for Maintenance, Repair, and Operation Contracts or MROs. Our office has reported on the increase in the cost of supplies for the Facilities Division due to issues with MROs for several years, most recently in our review of the FY 2014 First Quarter Report. Facilities Division has been paying high price mark ups for supplies and purchases under MRO agreements, since the MRO vendors do not directly sell many of the supplies and equipment necessary for Facilities operations. Facilities is utilizing purchase orders for companies outside of the MRO, but the Municipal Code limits the amount to $50,000 Citywide, so there are still challenges for the Division.

The Purchasing and Contracting Department Director is anticipated to bring forward Municipal Code changes to the Committee on Budget and Government Efficiency in March 2014 to aid in streamlining requisition of items and contracts in the City. These measures potentially may address the ongoing issues with MROs, which is very important to ensure that Facilities and other City departments are able to obtain needed supplies and equipment at the most economical price.

Public Works – Engineering & Capital Projects

A $1.7 million increase in expenditures for E&CP is required for unbudgeted costs associated with the move from 600 B Street to 525 B Street and over budget personnel expenditures. The adjustment includes about $1.2 million in additional relocation expenses for new cubicle furniture and extensive IT improvements to the network and communications infrastructure, not anticipated in the FY 2014 Adopted Budget, that were charged directly to the Public Works

Department. Over budget personnel expenditures are due to unanticipated overtime costs relating to the move as well as increases in fringe and pay-in-lieu.

Transportation & Storm Water – Street Division

Street Division has filled 32.00 FTE positions thus far in FY 2014 including 26.00 positions for the sidewalk condition assessment, but currently has 19.00 FTE vacancies over budget. As reported in the Mid-Year Report, some of these vacancies will remain open while the Department identifies new efficiencies as an alternative to the Street and Sidewalk Maintenance managed competition. The City is not implementing the winning employee proposal due to a conflict between the Managed Competition Scope of Work and the regional approach to filling potholes recommended in a March 2013 City Auditor report. TSW has assessed other approaches to increasing efficiency, analyzed the potential savings, and identified several alternatives for the Mayor-elect's evaluation. One of these alternatives will be proposed as part of the FY 2015 Budget. The Division is looking forward to filling the remaining vacancies upon approval of the proposed efficiencies plan, particularly because the level of vacancies is reducing the Division's capacity to perform work and accurately record performance data.

Status of General Fund Reserve & Excess Equity

On February 10, 2014, the City Council reviewed and approved proposed amendments to the City's Reserve Policy. These amendments increased the General Fund reserve target from 8 percent to 14 percent of the most recent three year average of annual audited General Fund operating revenues. The new 14 percent target is comprised of an 8 percent Emergency Reserve (to sustain General Fund operations in the event of a public emergency) and a 6 percent Stability Reserve (to mitigate extraordinary financial and service delivery risk due to unexpected revenue shortfalls in an economic downturn or from unanticipated one-time expenditures). Unrestricted fund balance not assigned to these reserves that is available for budgeting and appropriation for one-time expenditures is defined as excess equity.

As defined, excess equity either serves as a non-recurring source of revenue or as a financial cushion above the 14 percent reserve target, or both. The Reserve Policy does not stipulate how much, if any, excess equity should be appropriated for expenditure. To the extent excess equity is not appropriated, funds are then available should 1) actual revenues be lower than projected or 2) expenditures be higher than expected. If excess equity is not appropriated and subsequently not needed to cover unexpected revenue/expenditure variances in the current year, then it carries forward into the next fiscal year where it can again be considered for a variety of budgetary purposes (one-time priority expenditures, funding to meet reserve requirements, etc.).

When appropriated, excess equity is to be used primarily for unanticipated circumstances such as a General Fund revenue shortfall affecting programs included in the current year budget or for one-time priority expenditures. In keeping with the Mid-Year Budget Authority Ordinance, the amended Reserve Policy provides that recommendations for the use of excess equity may only be brought forward by the Mayor. The City Council must then approve or amend the Mayor's recommended use of surplus as outlined in the Mid-Year Report. In the event the Mayor does not recommend using all of the projected excess equity, the Council can only approve or amend the portion that has been recommended for appropriation by the Mayor.

The Mid-Year Report forecasts approximately $37.0 million of excess equity. The CFO initially proposed appropriating $20.9 million for critical one-time expenditures and leaving approximately $16.1 million (1.5 percent of the three year average of audited annual General

Fund revenue) un-appropriated "to account for variances in projected financial activity through the end of the fiscal year as a buffer to maintain the 14.0 percent General Fund reserve target." In a memorandum to the Council dated February 25, 2014, the CFO recommends that the appropriation of excess equity be increased by $2.0 million (from $20.9 million to $22.9 million) to purchase body worn cameras for the Police Department. This proposed change reduces un-appropriated excess equity from $16.1 million to $14.1 million (or 1.3 percent of the three year average of audited annual General Fund revenue).

The following table shows the calculation of the projected General Fund Reserve balance and excess equity above the minimum reserve policy target:

	Estimate	% of GF Operating Revenues*
FY 2013 Ending GF Fund Reserve Balance	**$ 179.5**	**16.8%**
Loan to City Successor Agency for Non-Housing DDR "Clawback"	(21.1)	
FY 2014 GF Mid-Year Projected Surplus	28.4	
FY 2014 GF Projected Reserve Balance	**$ 186.8**	**17.5%**
14.0% Minimum Reserve Per Policy	$ 149.8	14.0%
"Excess Equity" Above Policy Minimum	37.0	
Mid-Year Proposed Use of "Excess Equity"	(22.9)	
Remaining "Excess Equity"	**$ 14.1**	**1.3%**

*Operating revenues are derived from the most recent three year average of audited operating revenues, as prescribed by the City's Reserve Policy.

It is important to note that there is no requirement or best practice for the use of excess equity as defined in the City's Reserve Policy. Now that a healthy 14.0 percent General Fund Reserve has been established and funded, the Mayor is proposing to appropriate $22.9 million of $37.0 million in projected excess equity for high priority one-time expenditures. The recommended amount of un-appropriated excess equity, if any, should be expected to vary from one fiscal year to the next based on a number of factors (confidence or uncertainty about forecasted financial activity, the need for critical one-time expenditures, the amount of excess equity, etc.).

The IBA believes the decision to leave $14.1 million (1.3 percent) un-appropriated in FY 2014 to account for potential variances in financial activity is a conservative practice that is reasonable at this time given the rationale provided by the CFO. However, we recommend that the use of excess equity and the concept of establishing a buffer in addition to the 14.0 percent reserve be discussed further and clarified in the Reserve Policy. The CFO plans to return to the Committee on Budget and Government Efficiency in March 2014 with proposed revisions to reserve policies for Enterprise Funds. We recommend Council request the CFO address the excess equity / buffer issue at this time and propose language in the Reserve Policy that would clarify this issue.

Proposed Utilization of Mid-Year Surplus

At the February 26, 2014 Committee on Budget and Government Efficiency, Committee Members requested that the Office of the IBA further review each of the $22.9 million in proposed utilization of the projected surplus, including whether funding for individual proposals can be fully utilized in FY 2014, or if they may potentially be deferred if immediate funding was not required. The following table illustrates each proposed utilization of the projected surplus, whether deferring these items to FY 2015 may be possible in part or in whole, and if any item would require on-going funding that should be allocated in FY 2015 Budget if Council were to approve the use of the projected surplus. Explanations are provided in the project descriptions which follow the table.

Recommended Use of FY 2014 Surplus	Funding Requested	2015 Ongoing Costs	2015 One-Time Costs	Can Funding Be Delayed to FY15 [1]
Public Liability Pay-Go	$ 10,100,000	$ -	$ -	N
Public Liability Reserve Contribution	3,200,000	-	-	Y
South Chollas Landfill	3,000,000	-	2,700,000	N
Police Body Worn Cameras	2,000,000	100,000-500,000	-	P [2]
North Embarcadero Visionary Plan	1,250,000	-	-	N
Long-Term Disability Reserve Contribution	1,200,000			Y
Neighborhood Parking Protection Ordinance	664,970	814,280	-	P [3]
Skyline Temporary Fire Station	420,000	2,200,000	-	N
City Attorney Budget Restoration	300,000	300,000	-	Y
City Website IT Update	258,000	-	-	P [4]
Lifeguard Services Vehicle Outfitting	200,000	-	-	N
Additional 9 Police Recruits	182,000	763,000	-	N
Kumeyaay Campground	71,250	140,000	-	N
Mission Trails Visitor Center	60,000	-	-	N
NEOGOV Personnel Department	8,000	-	-	N
Total Funding Requested/On-Going Costs	$ 22,914,220			

1) "Y" = Yes, the funding requested could be delayed to FY 2015 since funding will likely not be fully utilized in FY 2014 and / or there is no specific benefit to gain by prefunding the item in FY 2014.
"N" = No, the funding can be utilized now and / or is necessary to be expended now, or is a small amount for a worthwhile project.
"P" = Partial funding could be allocated in FY 2014 and a portion could potentially be deferred to FY 2015.
2) Funding needed for FY 2014 for Police cameras is yet to be determined and depends upon specific implementation plans, an RFP process, and meet and confer.
3) An alternative funding allocation to consider is $153,000 in FY 2014 for signage and permitting system and $511,970 in FY 2015 for Police Enforcement Officers.
4) An alternative funding allocation to consider is $150,000 for consultant costs in FY 2014 and $108,000 for implementation in FY 2015.

The individual recommended uses for $22.9 million of the $50.8 million surplus in the Mid-Year Report are as follows:

1.) Public Liability Pay-Go - $10,100,000

The Public Liability fund expenditures are estimated to be in excess of the FY 2014 Adopted Budget by $10.1 million. This is largely due to completed and anticipated payouts related to several large claims, as well as a significant increase in insurance premiums that was unknown at the time of the budget. Funding of $10.1 million for these expenditures has been included as part of the Mid-Year Report recommendations for use of excess equity.

Although there is no guarantee of the outcome at year end, the estimated $10.1 million in expenditures is reasonable based on the most current information. If the $10.1 million were not funded, and the anticipated expenditures came to fruition as expected, the City would not meet its Public Liability target reserve balance for FY 2014.

2.) Public Liability and Long-Term Disability Reserve Contributions - $4,400,000

The Mid-Year Report recommends the prefunding of the FY 2015 reserve contributions for the following: $3.2 million for Public Liability and $1.2 million for Long-Term Disability (LTD). There is no requirement that these expenditures be funded in FY 2014 and no specific benefit is gained by doing so. Funding for these contributions could alternatively be accomplished as part of the FY 2015 Proposed Budget, which will be released on April 15, 2014.

Alternatively, during the discussion of the Reserves Policy at the Committee on Budget and Government Efficiency on January 29, 2014, some Committee interest was expressed for potentially prefunding the reserves for the Public Liability and Long-Term Disability Funds utilizing the remaining excess equity of $14.0 million (the $14.0 million figure assumes approval of the proposed Mid-Year excess equity expenditures). This action together with the prefunding proposal recommended in the Mid-Year Report would eliminate the need for further LTD contributions through FY 2016 and Public Liability contributions through FY 2019 – for which Reserve Policy requirements are shown in the table below.

Note that this option would entail utilizing $14.0 million of the $14.1 million in remaining excess equity, which would leave only $0.1 million in excess equity for variances in FY 2014 projections or any needed FY 2015 General Fund reserve contributions due to increased revenues. We would recommend not prefunding the additional $14.0 million in contributions and keeping the remaining $14.1 million in excess equity as a buffer.

General Fund Contributions (in Millions)	Public Liability Reserve Contributions	Long-Term Disability Reserve Contributions	Total Reserve Contributions
FY 2015 Prefunded with Recommended Use of Excess Equity	3.2	1.2	$ 4.4
Additional Contributions Needed Per Reserve Policy			
FY 2016	3.2	1.2	$ 4.4
FY 2017	3.2	-	$ 3.2
FY 2018	3.2	-	$ 3.2
FY 2019	3.2	-	$ 3.2
Total Additional Contributions Needed Per Reserve Policy	12.8	1.2	$ 14.0

3.) South Chollas Landfill Improvement - $3,000,000

The City has been issued a Notice of Violation by the Regional Water Quality Control Board (RWQCB) and the Local Enforcement Agency (LEA) related to ponded water and poor surface drainage at the South Chollas Landfill. The City has submitted a Corrective Plan to the RWQCB and the LEA to address the violations. Within the Corrective Plan are the proposed landfill improvements as a long term solution to preventing future violations. A cost allocation plan based upon the amount of utilized space and number of employees of multiple City departments/funds within the South Chollas Landfill area was developed by an engineering consultant and discussed with the impacted City departments.

The total projected cost for the landfill improvements is approximately $11.5 million. The allocations of costs per City Fund are as follows: General Fund - $5.7 million, Public Utilities Water Utility Operating Fund - $2.8 million, Refuse Disposal Fund - $1.3 million, and the Fleet Services Operating Fund - $1.7 million. The Mid-Year Report recommends allocating $3.0 million of the identified excess equity to partially fund the General Fund contribution related to the landfill improvements. The City is conducting a further review of the construction cost estimates and funding allocations.

Although a priority project due to the regulatory issues, these improvements were not originally planned to be addressed by the impacted departments until the FY 2015 Proposed Budget. Based upon the original plan of full funding being allocated in the FY 2015 Budget, the construction contract for the landfill improvements is anticipated to be awarded in Fall 2014. Should $3.0 million in excess equity be allocated toward these improvements, it is anticipated that the planned improvements can be partitioned into separate projects to allow for the initiation of the improvements in FY 2014. The remaining balance of $2.7 million of the General Fund contribution would need to be considered for the FY 2015 Proposed Budget, as well as a total of $5.8 million from three Enterprise Funds.

4.) Police Body-Worn Cameras - $2,000,000

An update to the Mid-Year Report issued February 25, 2014, includes a recommendation to expend $2.0 million of projected excess equity on body worn cameras for the Police Department. Such cameras are used by police officers to record and document their encounters with the public. Recordings are stored for later use as evidence in court or for other departmental needs such as training.

At the January 2014 meeting of the Public Safety and Livable Neighborhoods Committee, the Police Chief expressed the department's desire to purchase 100 body worn cameras at a cost of $165,000 to $200,000 in FY 2015. He further explained that in order to have a fully effective program, the department would need 900 body worn cameras for the Patrol Division at a cost of $2.0 million. The department is currently field testing cameras with ten officers on all three shifts out of Central Division.

We note that the department may not be able to fully expend $2.0 million in FY 2014. Such a purchase would likely require a Request for Proposals process that, even if expedited, would last several months. The proposed body worn camera program would also require a meet and confer process. Since it may not be feasible to spend $2.0 million on a camera program fully within FY 2014, the Council may wish to consider alternatives such as setting aside a portion of funds to support the initial phases of the program. Ongoing costs to support the program in future years will likely depend on technical specifications of the proposals received in the RFP process.

5.) North Embarcadero Visionary Plan (Phase One) - $1,250,000

The North Embarcadero Visionary Plan (NEVP) is intended to redevelop downtown San Diego's western waterfront. Due to the large scale, the project is being implemented in three phases with each phase estimated at about $30 million. Phase 1 includes a wide esplanade and waterfront promenade with groves of jacaranda trees and public art, which is the first phase of a linear public park that will eventually run the entire 1.2 mile length of the North Embarcadero. Construction of Phase 1 was budgeted at about $28.6 million.

Per the Joint Powers Authority (JPA)—which includes the City, former Redevelopment Agency (RDA) and Port Authority—all phase I project costs are to be shared 50/50 between the former RDA and the Port Authority. Since redevelopment agencies were dissolved in February 2012, the Successor Agency is now responsible for enforceable obligations of the former RDA. Dissolution laws require that all enforceable obligations be approved by the Oversight Board and the State Department of Finance (DOF) on an approved Recognized Obligation Payment Schedule (ROPS). The DOF initially denied NEVP as an enforceable obligation on ROPS 3; however, the project was reinstated and the Successor Agency is utilizing excess bond proceeds and Redevelopment Property Tax Trust Fund (RPTTF) monies to fund its share of the project.

Construction of NEVP Phase I is projected to be over budget by about $2.5 million. Per the JPA —the Port Authority and the Successor Agency are each responsible for half or $1.25 million. Successor Agency staff have included an additional $1.25 million on ROPS 6 to cover these over budget costs; however, the distribution of RPTTF is not made until June and cannot be spent until July 2014. We agree with the staff request that the City's General Fund provide a loan of $1.25 million to cover this cost in the interim. However, it is important to note that the Successor Agency's portion of this and any future cost overruns could become the responsibility of the General Fund if the DOF denies it as an enforceable obligation. The JPA has discussed other supplemental funding alternatives, such as the sale of personalized pavers and street furniture. In addition, the property currently requires remediation for lead contamination, and Civic San Diego and the Port Authority are discussing potential contributions from adjacent property owners who will benefit from the improvements. In order for this project to move forward and not be delayed, it is critical for the City to commit funding in FY 2014. Finally, it will be important to identify funding sources for future phases of NEVP.

6.) Neighborhood Parking Protection Ordinance - $664,970

On July 23, 2013, the City Council approved the Neighborhood Parking Protection Ordinance as a more effective tool to address the parking of oversized, non-motorized, or recreational vehicles within the City of San Diego. The implementation of the ordinance will require the collaboration of several departments including the Police Department, the City Treasurer's Department, and the Transportation and Storm Water Department. The Mid-Year Report recommends the allocation of $664,970 of excess equity to initiate the first steps of implementing the ordinance.

These first steps include: acquiring and installing 257 signs to identify the parking restrictions and penalties; adding 10.00 staff (8.00 Police Investigative Service Officers to the Police Department and 2.00 Public Information Clerks to the City Treasurer's Department) to enforce and administer the ordinance; and upgrading the City Treasurer's Department permit system to allow for the purchasing of the daily parking passes. The proposed allocation will address $203,570 in ongoing costs (staff, supplies, and permit system maintenance) and $461,400 in one-time costs (signs, police vehicles, police camera system, and permit system). No corresponding revenue is anticipated for this program in FY 2014 as the program may not be actively enforced until FY 2015.

The proposed allocation for the ongoing costs is to cover three (3) months of service. A full year of service is projected to add approximately $815,000 in ongoing costs and approximately $2.9 million in annual revenue. Any additional one-time set up costs and/or adjustments to revenue projections are anticipated to be addressed in the FY 2014 Year-End Report or the FY 2015 Budget.

We note that the Mid-Year Report recommends allocating $511,970 in funding to the Police Department to allow for the hiring of additional enforcement staff and procuring the necessary equipment to facilitate the enforcement of this program. As the proposed classification of enforcement officer (PISO) is a newly created hybrid position, created to better utilize the functionality of these positions, these positions may require additional time to be filled beyond the normal hiring process. Only one PISO position is included in the FY 2014 Budget. Additionally, an enforcement grace period is anticipated following the installation of the program signage, further extending the need for enforcement personnel.

Funding of $153,000 for the Transportation and Storm Water Department (signs) and the City Treasurer's Department (permitting system and administrative staff) could be used in FY 2014 to initiate the program. It is more likely that funding of $511,970 for the PISO's will not be needed until FY 2015.

Questions regarding Coastal Commission approvals were recently raised at the Committee on Budget and Government Efficiency. Development Services Department staff have informed us that Coastal Commission staff verbally indicated that they feel a Coastal Development Permit is not needed. However, the City has requested and is awaiting a written determination on this matter.

7.) Skyline Temporary Fire Station - $420,000

The Mid-Year Report includes a recommendation to expend $420,000 of projected excess equity on demolition, site preparation, and related costs to begin construction of the Skyline Drive Temporary Fire Station. The temporary station is not expected to incur operational costs until FY 2015. The Fire-Rescue department has indicated it will request personnel expenditures related to staffing the temporary station in the FY 2015 Budget. Previous reports from the department identified ongoing annual costs for the station of $2.2 million for personnel and related non-personnel expenditures for a four person crew on three shifts for a total of 12.0 FTEs. The department has identified an existing fire apparatus to be used at the temporary station. This is a critical public safety need as identified in the Citygate Report and should move forward in FY 2014.

8.) City Attorney Office Budget Restoration - $300,000

The Mid-Year Report includes a recommendation to use $300,000 of projected excess equity to restore the Office of the City Attorney's expenditures budget. The department's expenditures are projected to be on-budget at year-end and this expenditure could be deferred to FY 2015.

9.) City Website IT Updates - $258,000

As discussed in the Mid-Year Report, the one-time use of $258,000 (General Fund portion) will fund an update of the City's website. These updates are consistent with needs anticipated by the Department of Information Technology (IT), and the recent Performance Audit of IT Web Services released in December 2013 reaffirmed the priority of this project. Allocating some funding to initiate the upgrade of the City's website, which is a priority for Council Members and management, would allow this project to get underway in FY 2014.

The Department of IT estimates the total cost of the project to be $450,000 (General Fund and non-General Fund). Approximately $150,000 will be used for a consultant which will evaluate the current website, apply best practices, and create a new design. The remaining funds will support the implementation of this new Citywide website design. The Department expects to issue an RFP for the consultant and potentially award a contract in the current fiscal year, however, funding may not be fully expended in FY 2014.

10.) Lifeguard Services Vehicle Outfitting - $200,000

The Mid-Year Report includes a recommendation to utilize $200,000 of projected excess equity to outfit 34 new Lifeguard trucks with necessary equipment. The 34 new trucks will be provided by Toyota in exchange for 34 older trucks as part of the two-year renewal of the corporate sponsorship agreement between the City and Toyota. The $200,000 cost is associated with removing gear from the old trucks, installing it on the new trucks, and replacing equipment that has exceeded its lifespan. Delivery of the trucks is anticipated in March 2014.

11.) Additional 9 Police Recruits - $182,000

The Mid-Year Report includes a recommendation to use $182,000 of projected excess equity to increase the size of the May 2014 police academy by 9 Police Recruit positions, for a total of 43 recruits. The expansion of the May academy would assist the department in meeting its hiring goals as outlined in the Council-approved Police Department Five-Year Plan. This action is also consistent with the Council Budget Priorities for FY 2015. We note, however, that growing the May 2014 academy by 9 recruits will incur ongoing personnel costs in FY 2015. The department estimates that the total annual personnel expense for 9 recruits, including fringe, would be approximately $763,000. These costs will need to be accommodated either by increasing salary expenditures or by decreasing salary savings due to vacancies. This expenditure will accelerate Officer hiring and help to address retention issues, and therefore should be funded in FY 2014.

12.) Kumeyaay Campground - $71,250

Due to budget actions in FY 2012 and FY 2013, a staffing reorganization was undertaken for the Kumeyaay Campgrounds within the Mission Trails Regional Park that effectively eliminated overnight camping at the campgrounds. These actions converted the campgrounds to a day-only facility, with Visitor Center hours of 9:00 a.m. to 5:00 p.m. The proposed allocation of $71,250 in excess equity would provide funding for two additional staff (1.0 Park Ranger and 0.5 Center Director), one additional vehicle, and miscellaneous supplies.

Of the proposed allocation, $35,250 will address ongoing costs (staff and supplies) and $36,000 will address one-time costs (vehicle). Based on the current Park and Recreation fee schedule, this program is anticipated to generate $10,000 in revenue in FY 2014.

The proposed allocation for the ongoing costs and projected revenue is to cover three (3) months of service. A full year of service is projected to add $140,000 in ongoing costs and $40,000 in annual revenue. This could be delayed to FY 2015; however, it is not a large expenditure and this service restoration has been discussed for the past year.

13.) Mission Trails Visitor Center - $60,000

Through a study conducted by an outside consultant, the Mission Trails Visitor Center was identified as an opportunity for the installation of energy efficiency improvements to save energy and potentially reduce future energy costs. The proposed project may lead to Leadership in Energy and Environmental Design (LEED) opportunities for the facility. The Visitor Center will serve as an excellent educational tool for visitors to learn more about energy conservation and energy efficiency that can be implemented in businesses and homes. The proposed allocation is for $60,000 to address one-time costs. This is a worthwhile project for a relatively low, one-time cost.

14.) NEOGOV Personnel Department - $8,000

In IBA report 13-30, which was released in July 2013, we indicated that the Personnel Department was interested in exploring utilization of NEOGOV's online hiring manager portal, which would allow online access and workflow processing for hiring departments. Ultimately, this has the potential to create efficiencies over the current paper-based processing methods – which include transferring files and information to and from hiring departments externally from the NEOGOV database.

At the July 24, 2013 Rules & Economic Development Committee meeting (now Economic Development and Intergovernmental Relations Committee), it was requested that the Personnel Director determine what it would take to acquire a consultant to help optimize the use of NEOGOV, including the online hiring manager portal. Additionally, we requested that Personnel provide a cost estimate for software changes for more efficient tracking of hiring timeframes in NEOGOV. Funding of $8,000 for these endeavors has been included as part of the Mid-Year Report recommendations for use of excess equity. We support funding for this work, and would note that the cost for additional programming or consulting work would be determined after recommendations are made by the consultants. Also, the Personnel Department Director has indicated to us that the NEOGOV consultants are scheduled to meet with the Department at the end of February. For a very small cost we can begin addressing improvements to NEOGOV that should result in a more efficient hiring process, therefore this item should not be delayed.

The Personnel Department has indicated that staffing increases are necessary in order to continue to make improvements and keep up with the increased workload it has experienced. In an April 17, 2013 memorandum from the Personnel Director to Council Member Lightner, the Director requested nine new positions for this purpose. The City Council can review these position requests during the upcoming FY 2015 Budget process once the Personnel Department's needs and priorities are clarified.

As outlined in the previous table, a portion of the $22.9 million in proposed utilization of the projected Mid-Year Report surplus may potentially be deferred to FY 2015 based on the Office of the IBA's review. If Council should so desire, any fund deferred to FY 2015 could be utilized to accomplish other priority items utilizing authority granted in the Mid-Year Ordinance. These deferred items could then potentially be funded in the FY 2015 Budget.

Mid-Year Ordinance / Council Authority

Ordinance-20084 ("Mid-Year Ordinance") amended the municipal code regarding mid-year budget adjustments and reporting significant reductions in City services or programs. The Mid-Year Ordinance requires the Mayor to report any deficit or surplus in the General Fund projection to the City Council and recommend solutions for addressing the deficit or surplus. In the case of a surplus, such as projected for the current year, the ordinance then specifies:

- The Mayor may recommend budgeting all, none, or any portion of any projection surplus.
- The City Council may approve the Mayor's recommendation or modify such recommendation in whole or part.
- The City Council may budget and appropriate up to the total amount recommended by the Mayor; or, if the Mayor recommends budgeting less than $5 million of the projection surplus amount, the City Council may only increase the adopted General Fund budget by up to $5 million or not more than 50 percent of any projection surplus, whichever total dollar amount is less.

Of the identified $50.8 million budgetary surplus, the Mayor has proposed utilizing $22.9 million in FY 2014 for the projects that are detailed in the preceding section, with the remaining $27.9 million to be held in the General Fund reserve. Based on the identified budget surplus and recommended use, Council options are as follows:

1.) Accept the Interim Mayor's $22.9 million of budget recommendations in full;
2.) Modify the Mayor's recommendations as desired for any amount less than or up to $22.9 million.

CONCLUSION

The Office of the IBA has reviewed the Mid-Year Report and believe that projections included in the Report are appropriate, though continued close monitoring is needed on sales tax and transient occupancy tax. Based on projected year-end operating results, we support the approval of the $17.9 million in appropriation requests to allow for sufficient funding for critical City departments.

Based on Committee Member requests at the February 26, 2014 Committee on Budget and Government Efficiency, we have identified a portion of the $22.9 million in requested spending of the projected year-end surplus that could be delayed to FY 2015 and redirected to other priority areas if the Council should desire utilizing their authority as outlined in the Mid-Year Ordinance. However, the items that are requested to be funded in the Mid-Year Report are worthwhile and justifiable for funding, but may not in all cases require an immediate need for resources.

Finally, with the Council's approval of the revised City Reserve Policy on February 10, 2014, the City's General Fund reserve was established at 14.0 percent. In the Mid-Year Report, the CFO recommended maintaining a 1.3 percent "buffer" above this recently established minimum reserve to further safeguard the 14.0 percent reserve. While we support this for FY 2014, we recommend this concept of establishing a "buffer" be discussed further and clarified in the Reserve Policy before the end of the fiscal year at the Committee on Government and Budget Efficiency.

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