



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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FY 2015 First Quarter Budget Monitoring

OVERVIEW

The Financial Management Director issued the Fiscal Year 2015 First Quarter Budget Monitoring Report (First Quarter Report) on November 14, 2014. The First Quarter Report describes the current status of revenues and expenditures and their year-end projections based on actual (unaudited) data from July 2014 through September 2014.

The First Quarter Report provides detail on a small increase in both General Fund revenues and expenditures. This small revenue variance is due to an increase in year-end projections for transient occupancy tax and sales tax, which were offset by modest declines in projected revenues from property taxes and from General Fund department operations. The minor overall expenditures variance is due to an increase in personnel expenditures, which are partially offset by departmental non-personnel expenditure savings. Based on these minor increases in revenues and expenditures, the projected net variance for General Fund performance is currently negligible as compared to the FY 2015 Adopted Budget.

The First Quarter Report provides a thorough review of General Fund year-end projections for both revenue and expenditures and provides a great deal of detail on major revenues, departmental operations, and other policy items. The purpose of this report is to provide clarification or additional information for items outlined in the First Quarter Report. As a supplement to this report, our office has issued report number 14-46 "IBA First Quarter Update on Policy Issues and Programmatic Budgetary Items". This report presents a matrix, which provides an update on policy issues that members of the City Council identified during the FY 2015 budget process as ongoing priorities to monitor. A separate matrix reviews the status of budgetary items that were funded or planned to be implemented in the current fiscal year.

FISCAL/POLICY DISCUSSION

General Fund Revenues

General Fund projected revenues increased by approximately \$2.4 million from the Adopted Budget, or 0.2 percent, primarily due to a \$2.5 million increase in major revenues. As shown in the table below, year-end projections for sales tax revenue, the 5.5 cent portion of the transient occupancy tax, and franchise fees increased by a combined \$4.3 million from the FY 2015 Adopted Budget. This was partially offset by a decline in the year-end property tax revenue projection.

Non-departmental revenues increased marginally due to a larger than anticipated reimbursement from State and Federal sources for previously expended funds on disaster recovery services, which was offset partially by the elimination of budgeted reimbursements from the Convention Center due to the court's invalidation of the Convention Center Financing District. Total departmental revenues are currently reported to be on target to finish FY 2015 at Adopted Budget levels; however, this is based on numerous variations in departmental operations that net to budgeted levels.

<i>\$ in millions</i>	Adopted Budget	1stQ Projection	Variance
Major Revenues			
Property Tax	\$ 445.4	\$ 443.7	\$ (1.8)
Sales Tax	257.1	259.1	2.0
Transient Occupancy Tax	92.3	94.2	1.9
Franchise Fees	70.7	71.1	0.4
Sub-Total	865.5	868.1	2.5
Non-Departmental Revenues			
OHS Disaster Recovery	\$ 2.2	\$ 3.9	\$ 1.7
Convention Center Reimbursement	1.5	-	(1.5)
Other	67.7	68.1	0.4
Sub-Total	71.4	72.0	0.7
Departmental Revenues			
Communications	\$ 1.6	\$ 0.2	\$ (1.4)
Economic Development	8.6	6.4	(2.2)
Fire-Rescue	27.0	28.6	1.5
Police	44.6	45.7	1.1
Real Estate Assets	45.1	43.9	(1.2)
Transportation Storm Water	48.2	49.4	1.1
Other	76.5	76.8	0.3
Sub-Total	251.7	250.9	(0.8)
TOTAL GENERAL FUND	\$ 1,188.6	\$ 1,191.0	\$ 2.4

Major General Fund Revenues

Our office has reviewed the year-end projections for property tax, sales tax, transient occupancy tax, and franchise fees included in the First Quarter Report. The information included in the First Quarter Report for these revenue sources provide excellent details of the small changes in revenue projections due to the change in redevelopment property tax trust fund distributions (property tax) and increases in consumer (sales tax) and tourism spending (transient occupancy tax) above budgeted levels.

We believe the projections included in the First Quarter Report are appropriate based on revenue distributions to date and current economic information.

Other Non-Departmental Revenue Variances

- Reimbursement from Convention Center Phase III Expansion Bonds

In October 2011, City Council approved a \$1.0 million transfer from reserves to the Convention Center Phase III expansion capital improvement project to initiate schematic designs; and subsequently, in May 2014, City Council approved an additional \$0.5 million transfer to the Phase III expansion project from the General Fund to geotechnical analysis and traffic studies. This \$1.5 million was advanced from the General Fund due to anticipated cost savings that would have been achieved for the expansion of the Convention Center due to earlier completion of these analyses. The General Fund was to be fully reimbursed for these advanced funds when bonds were issued to begin the construct the expansion, which was projected to be in FY 2015. Based on this anticipated timing, revenue from the reimbursement was included in the Adopted Budget.

However, in August 2014, the Convention Center Financing District (the funding mechanism for the issuance of the Convention Center expansion bonds) was invalidated by the State of California Fourth District Court of Appeals. The City did not appeal this decision and the \$1.5 million anticipated reimbursement has been eliminated from year-end projections.

- Office of Homeland Security Reimbursements

The Office of Homeland Security typically receives reimbursements for disaster recovery work performed by City departments in prior fiscal years, such as funds received from the Federal Emergency Management Agency (FEMA) and the Governor's Office of Emergency Services (Cal OES) for the City's response to wildfires. Disaster recovery reimbursements in FY 2015 are projected to exceed budget by approximately \$1.7 million due to higher than anticipated reimbursements for work performed by Transportation and Storm Water in FY 2014 related to the Tijuana River Valley cleanup.

Departmental Revenues

- AB 109 Disbursements

The Police Department received approximately \$1.1 million in unbudgeted revenue related to Assembly Bill 109 (AB 109) Public Safety Realignment. These revenues reimburse overtime costs related to officers monitoring out-of-custody offenders. A more detailed discussion of Police Department overtime expenditures is included in the Departmental Expenditures section of this report.

General Fund Expenditures

General Fund expenditures projected in the First Quarter Report have increased \$2.5 million from the FY 2015 Adopted Budget primarily due to increases in salaries and wages and fringe expenditures, with partially offsetting decreases in other expenditures. Further information on variances between the Adopted Budget and projections are included in the following table.

Although the First Quarter Report “Current Budget” figures match the Adopted Budget figures in total, adjustments have been made among departmental budgets and expenditure categories. These adjustments cause differences between the variance amounts reported in the First Quarter Report and variances shown in the following table. Major differences between the Adopted Budget and the Current Budget include the following:

- \$3.2 million increase in Police Department salaries and wages, which is offset by Police Department net decreases of \$2.2 million in supplies and \$1.0 million in capital expenditures. The \$3.2 million increase in salaries and wages relates to the negotiated Police Officer’s Association (POA) holiday pay side letter agreement, which has been estimated to increase overtime pay related to holidays by \$3.2 million. This \$3.2 million was originally included in the supplies category of the FY 2015 Adopted Budget, necessitating a \$3.2 million transfer of budget from supplies. Offsetting this decrease in supplies budget is an increase of \$1.0 million for body-worn cameras, as budget for the cameras had been included in the capital expenditures category in the Adopted Budget.
- \$2.3 million increase in Economic Development’s contracts budget category, which is offset with a corresponding decrease in Economic Development’s transfers out category. This \$2.3 million largely relates to the budget for the winter shelters and other services in support of the homeless.

The following table compares the Adopted Budget to the First Quarter Report projections, by expenditure category.

<i>\$ in millions</i>	Adopted Budget		1stQ Projection		Variance
Personnel Expenditures					
Salaries & Wages	\$	493.4	\$	497.1	\$ 3.7
Fixed Fringe		249.7		255.3	5.6
Variable Fringe		90.2		90.2	-
Sub-Total	\$	833.3	\$	842.6	9.3
Non-Personnel Expenditures					
Contracts	\$	173.7	\$	174.2	\$ 0.5
Energy & Utilities		40.5		39.8	(0.7)
Information Technology		25.9		26.6	0.7
Supplies		27.0		25.1	(1.9)
Other		102.0		96.6	(5.4)
Sub-Total	\$	369.1	\$	362.3	(6.8)
TOTAL GENERAL FUND	\$	1,202.4	\$	1,205.0	\$ 2.5

Variances from the Adopted Budget to the First Quarter Report projection include the following:

- \$7.0 million in Police Department salary savings primarily due to vacancies. Salary savings are largely offset by \$6.9 million in increased overtime, including \$1.1 million related to AB 109 activities. Additionally, increased overtime includes the \$3.2 million estimate for increased holiday overtime pay related to the POA side letter agreement discussed previously.
- \$1.4 million in Communications Department salary savings largely due to the delay in implementation of the departmental restructure. Also, \$1.3 million in Transportation & Storm Water salary savings due to vacancies.
- \$1.0 million increase in Fire-Rescue Department overtime related to strike team deployments, as well as \$1.6 million due to increased staffing levels for fire academies.
- \$1.9 million increase in termination pay, largely due to increases in the Police and Fire-Rescue Departments.
- \$1.6 million increase in pay in lieu of annual leave spread over various departments.
- \$5.1 and \$3.2 million increases in fringe for the Fire-Rescue and Police Departments, respectively. These increases are partially offset by decreases in other departments for an overall General Fund fringe increase of \$5.6 million – which is due to increased Workers’ Compensation (WC) and Long-Term Disability (LTD) costs, as well as the reallocation of fixed fringe costs based on updated citywide staffing configurations. The increases in WC and LTD costs are largely related to updated reserve target amounts.

Additional information on reserve target amounts is included in the Risk Management Reserves section of our review of the Five-Year Outlook (IBA Report 14-46).

- \$2.2 million net decrease in Police Department supplies, related to transfer of \$3.2 million in budget from supplies to overtime, as previously discussed. The \$3.2 million decrease was offset by a \$1.0 million budget transfer from the capital expenditures category for body-worn cameras, as budget for the cameras had been included in the capital expenditures category in the Adopted Budget.
- Decreases in the other expenditures category include the following:
 - \$2.3 million in Economic Development’s transfers out, largely due to moving the budget for the winter shelters and other services in support of the homeless to the contracts category.
 - \$1.2 million in Citywide Program Expenditures transfers out due to the decline in Mission Bay lease revenues to be transferred to the Park Improvements Funds.
 - \$1.0 million in Police Department capital expenditures, as discussed in the Police Department supplies item above.
 - \$0.7 million in Park and Recreation transfers out related to Maintenance Assessment Districts.

Other notable budget variances can be found in the First Quarter Report produced by the Financial Management Department. Additional expenditure information is included in the next section of this report.

City-Wide General Fund Expenditures

Departmental Vacancies

Attachment V to the First Quarter Report shows a status of vacancies as of October 1, 2014. The First Quarter Report indicates that, as of November 12, 2014, approximately 63 percent of outstanding vacant positions that existed at April 30, 2014 have been filled. Also, the First Quarter Report states that 78 percent of positions which were added to the FY 2015 Budget are anticipated to be filled by the end of calendar year 2014. Of the approximate 547 vacancies on the October vacancy listing:

- There are about 29 which are indicated as filled as of the First Quarter Report;
- Approximately 258 are listed as to be filled by the end of calendar year 2014; and
- Approximately 188 are listed as to be filled by January or February of 2015.

Thus, the total on the vacancy listing that are anticipated to be filled by February 2015 is 475. We look forward to the updated vacancy report (which Financial Management had indicated would be prepared for December 2014 and released in January or February 2015) for further analysis on the status of filling these positions in the timeframes indicated.

Note that vacancies are constantly changing, and the October listing is one snapshot in time. The following table shows a summary of that snapshot by department for the General Fund.

**FY 2015 General Fund Vacancy Comparison:
Budgeted Vacancies to October 2014 Actuals**

Department	Budgeted Vacancies	October Actuals	Difference
Police	124.0	225.0	101.0
Transportation & Storm Water	21.0	56.0	35.0
City Council	-	14.0	14.0
Planning	-	14.0	14.0
Public Works - General Services	5.0	16.0	11.0
Fire-Rescue	81.0	89.0	8.0
City Attorney	14.5	21.0	6.5
Development Services	3.0	8.0	5.0
Personnel	1.0	5.0	4.0
Communications	-	4.0	4.0
Purchasing & Contracting	2.0	5.0	3.0
Real Estate Assets	1.0	3.0	2.0
Public Works - Contracting	1.0	3.0	2.0
City Treasurer	5.0	6.8	1.8
Economic Development	2.5	4.0	1.5
Library	18.5	20.0	1.5
Park & Recreation	33.5	34.8	1.3
Council Administration	-	1.0	1.0
Performance and Analytics	-	1.0	1.0
Human Resources	-	1.0	1.0
Neighborhood Services	-	1.0	1.0
Infrastructure/Public Works	-	1.0	1.0
Environmental Services	6.4	6.8	0.5
City Clerk	1.0	1.0	-
Office of the Mayor	1.0	1.0	-
City Comptroller	4.0	4.0	-
Debt Management	1.0	-	(1.0)
Financial Management	2.0	1.0	(1.0)
TOTAL	328.4	547.3	219.0

As part of the normal budget cycle, positions that become vacant during the year are anticipated to generate vacancy savings. Vacancy savings has been estimated in the budget for normal turnover, including leaves of absence and incidence of newly hired employees that fill vacancies at lower salaries than budgeted. However, currently projected salary savings is approximately \$8.8 million in excess of the amount in the Adopted Budget, \$7.0 million of which is related to the Police Department.

The savings garnered through a higher level of vacancies is more than offset by other personnel expenditures, including termination pay, pay in lieu of annual leave and overtime. Overtime projected for FY 2015 exceeds the budget by approximately \$8.8 million (\$6.9 million for the Police Department); and termination pay and pay in lieu of annual leave is projected to be \$3.5 million over budget. Although termination pay and pay in lieu of annual leave are difficult expenditure types to forecast, these areas should continue to be monitored and be right-sized as much as possible, as should all salary accounts, including budgeting for a more realistic hire date. For example, it should be carefully considered whether it is reasonable to anticipate that

new positions added to a budget will be filled for the full fiscal year. If not, the budget should reflect only partial year funding, as appropriate.

- Police Department

The Police Department has the highest number of vacancies in excess of budgeted vacancies. The First Quarter Report notes that the Police Department has 124.0 budgeted vacancies and 225.0 vacant positions, based on the October 1, 2014 vacancy report. However, subsequent to the vacancy report, the 102nd Police Academy began on October 24, 2014 which added 39 recruits. This addition in staff has been offset by attrition, which continues to exceed FY 2015 budget assumptions at a rate of approximately 11 sworn departures per month. As of November 17, 2014, the Department had a total of 196.0 vacant positions.

The Police Department is experiencing a high number of vacancies in excess of budget, which has contributed to \$7.0 million in salary savings as mentioned earlier. Based on our review of Department staffing levels, these vacancies are primarily sworn rather than civilian. Our review also suggests that the expanded police academies in FY 2015 will not significantly improve staffing levels as long as attrition remains higher than assumed in the FY 2015 Adopted Budget; and the City is contributing increased resources on expanded police academies that are not yielding an increase in staffing capacity. This will hinder the Department's ability to meet the staffing goals identified in its Five-Year Plan.

- Other Departments

Other departments with a high number of vacancies as of October 1, 2014 include Transportation and Storm Water (T&SW), Planning and Public Works–General Services. T&SW has 35 vacancies in excess of its budgeted 21 vacancies, for a total of 56 vacancies. This is primarily due to implementation of the Fleet MEGO. 21 positions were due to be cut as a result of managed competition, however the alternative proposal which is currently being implemented reinstated those positions, leading to additional vacancies. T&SW indicates that it expects to fill all of its vacancies by the end of FY 2015 with the exception of 2.0 limited Junior Civil Engineers, for which limited status is set to expire in December 2014.

The Planning Department has 14 vacancies, with zero budgeted vacancies; and General Services has 11 vacancies in excess of its budgeted five vacancies, for a total of 16 vacancies. Delays in hiring have affected these departments. According to the October 2014 vacancy listing attached to the First Quarter Report, vacancies for these two departments are anticipated to be filled by the end of calendar year 2014 or early 2015. Since vacancy data for the First Quarter Report was compiled, the Planning Department has already filled six of the 14 vacancies.

Departmental Expenditures

Fire-Rescue Department

- Overtime

The Fire-Rescue Department is projected to exceed budgeted overtime expenditures by approximately \$1.0 million, for a total of \$27.7 million. This expenditure is offset by a \$1.0 million increase in revenue from reimbursements for strike team deployments that took place in previous fiscal years. The Department has indicated that the current year increase in overtime is due primarily to strike team deployments during the Banner, Eiler, French, Boles, King, and Happy Camp Complex fires.

- Salaries and Wages

The Fire-Rescue Department is projected to exceed its budgeted salaries during the fiscal year by \$1.6 million. The increase is due largely to the addition of two fire academies in FY 2015, for a total of three academies throughout the fiscal year. The FY 2015 Adopted Budget included approximately \$1.1 million in additional funding for costs related to running the academies, but did not add resources to support the additional new hires brought on as a result. The Department is assessing the impact of increased staffing levels on budgeted salaries, as well as the potential impact on overtime related to constant staffing, and anticipates completing its analysis during the first quarter of CY 2015.

Police Department

- Overtime

The Police Department is projected to exceed budgeted overtime expenditures by \$6.9 million, including \$1.1 million related to Assembly Bill 109 (AB 109) Public Safety Realignment activities. The Department has received \$1.1 million in unbudgeted revenue from the State as reimbursement for this AB 109-related overtime, which is used to support the monitoring of out-of-custody offenders. Additionally, increased overtime includes the \$3.2 million estimate for increased holiday overtime pay related to the POA side letter agreement discussed previously.

- Body Worn Cameras

The First Quarter Report notes that the Police Department has purchased approximately 600 of the 1,000 body worn cameras it plans to acquire by FY 2016. The 600 cameras and related equipment were purchased using a combined total of \$2.0 million in funding from both the FY 2014 and FY 2015 budgets. During the FY 2015 budget process, an additional \$140,000 was included for necessary bandwidth improvements to the Department's IT infrastructure. The Department has indicated that purchase orders were opened for bandwidth expansion and subscription costs and that work is underway to complete the improvements.

- 9-1-1 Call Manager System Upgrades

The Police Department is projected to exceed its current budget for non-personnel expenditures by approximately \$2.0 million - \$1.6 million of this amount is attributed to expenses related to upgrading the City's 9-1-1 call manager system. The Department has indicated that the upgrade is needed to support the full functionality of a future replacement CAD system. This project, along with other public safety communications projects, was approved by the Public Safety & Livable Neighborhoods Committee on November 13, 2014. The \$1.6 million increased Police Department General Fund impact will be reimbursed by the State of California 9-1-1 Branch as part of a regular cycle upgrade in December 2017.

Civic San Diego

The First Quarter Budget Monitoring Report notes that Civic San Diego's (Civic) General Fund expenditures are expected to be \$1.8 million under budget. Civic staff indicates that this projection may be inaccurate, as the amount of funding included in the FY 2015 adopted budget may have been above the amount it could spend, and the projections of expenditures \$1.8 million under budget were based on only two months of bills. The First Quarter report does note that Civic submitted additional billing information that was not reflected in the projections. Civic and Financial Management staff have indicated that a forecast based on additional billing information would result in Civic's non-personnel expenditures being under budget by \$800,000 by year-end. Financial Management staff has also indicated that it continues to review Civic's General Fund budget, and that revisions to Civic's budget may be incorporated into the Mid-Year Budget Monitoring Report.

As spending on Civic projects is ultimately dependent upon Department of Finance approval of proposed projects, which is outside of the City's control, it is difficult to accurately project future expenditures, and it may be appropriate to adjust Civic's budget with updated information in the Mid-Year Report.

We also note that Civic's budget includes expenditures to support development of a public-private investment fund of \$50-100 million for investment in transit-oriented development in the City's low-income, underserved neighborhoods such as Encanto. The request for proposal (RFP) for an investment advisor was released on November 21st; an advisor is expected to be selected early in 2015.

The budget also includes \$75,000 for adaptive reuse of the former Downtown Main Library to become an active and vibrant neighborhood center. Civic staff report that they have been participating in a working group and are in the process of preparing an RFP for reuse of the library, which is anticipated to be released in 2015.

Finally, the First Quarter report shows a \$400,000 increase in the General Services Department due to unbudgeted expenditures for the installation of the Portland Loos in downtown. Responsibility for installation of the loos was transferred to the City earlier this year; the General Services Department notes that unanticipated installation issues has resulted in the need for a corresponding \$400,000 increase in General Fund capital expenditures for the loos.

Planning Department

The FY 2015 Adopted Budget included \$20,500 for Community Planning Group (CPG) Support (\$500 each for the City’s 41 CPGs). Since the adoption of the budget, a newly recognized CPG was formed in Barrio Logan, bringing the number of CPGs to 42. Guidelines for the appropriate use of CPG support funds, including eligible expenses for reimbursement and an invoice template, were provided to all CPG officers. Upon receipt of invoices and original receipts, Planning Department staff review and approve or deny all payments. The first invoice of this type is currently being processed by staff and is for a nominal amount. The FY 2015 Adopted Budget included approximately \$87,000 for an additional Clerical Assistant 2 position for administrative support related to this program.

General Fund Reserves

The First Quarter Report provides a breakdown of the current total General Fund reserve balance, how much of this reserve balance is required to be utilized for the City’s emergency and stabilization reserves, and the resulting projected excess equity after these requirements are met. Additionally, the report briefly outlines that the City’s required emergency and stabilization reserve amounts are anticipated to increase in upcoming months.

The City’s updated Reserve Policy requires that the combined emergency and stabilization reserves equal 14 percent of the last three fiscal years of audited total General Fund operating revenues. Currently, FY 2014 audited General Fund revenues have not been determined, and the current reserve requirement of \$149.8 represents 14 percent of the average of FY 2011-2013 General Fund audited revenues, as shown in the following table. Utilizing **unaudited** FY 2014 revenues¹, the 14 percent reserve requirement of the average General Fund revenues from FY 2012-2014 would increase the required reserve by approximately \$7.6 million, to \$157.4 million.

<i>\$ in millions</i>	Current Reserve Requirement	Updated Estimated Reserve Requirement
FY 2014 Unaudited Revenues		\$ 1,171.7
FY 2013 Audited Revenues	\$ 1,092.0	1,092.0
FY 2012 Audited Revenues	1,108.4	1,108.4
FY 2011 Audited Revenues	1,010.4	
3 Year Average Revenues	\$ 1,070.3	\$ 1,124.0
14% of Average Revenues	\$ 149.8	\$ 157.4

The estimated FY 2015 beginning reserve balance is \$181.2 million; however, approximately \$14.0 million of this reserve is projected to be utilized in FY 2015 General Fund operations and \$1.0 million through re-budgeting of City Council Community Projects, Programs, and Services (CPPS) in FY 2016, leaving \$166.2 million in reserves. As can be seen in the table below, there is \$16.4 million in projected excess equity based on the current reserve requirement of \$149.8

¹ The City’s Comprehensive Annual Financial Report (CAFR), which is the source for each fiscal year’s audited figures, is typically brought forward for City Council review and approval in the first quarter of the calendar year.

million. Based on the updated estimated reserve requirement of \$157.4 million, excess equity is reduced to \$8.8 million.

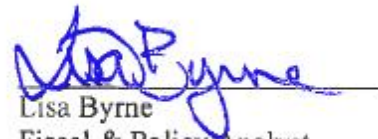
<i>\$ in millions</i>	Excess Equity Based on Current Reserve Requirement	Excess Equity Based on Updated Estimated Reserve Requirement
Estimated Beginning FY 2015 Total Reserve Balance	\$ 181.2	
Budgeted Use of Reserves in FY 2015	(14.0)	
Projected CPPS Re-Budgeted in FY 2016	(1.0)	
Year-End FY 2015 Reserve Estimate	\$ 166.2	\$ 166.2
Current Reserve Requirement	\$ 149.8	
Updated Estimated Reserve Requirement (Unaudited)		\$ 157.4
EXCESS EQUITY ESTIMATE	\$ 16.4	\$ 8.8

CONCLUSION


In summary, the First Quarter Budget Monitoring Report provides a thorough overview of projected FY 2015 General Fund operations. Overall General Fund operating projections are currently near Adopted Budget levels, though these projections will be further refined in February in the FY 2015 Mid-Year Budget Monitoring Report.



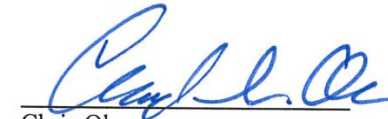
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