







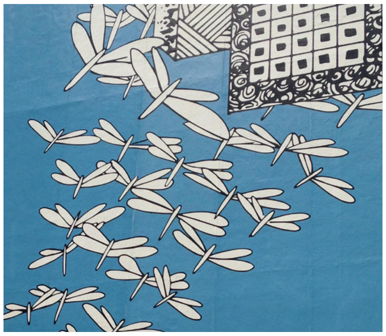
Review of the Fiscal Year 2018 Proposed Budget

Analysis by the
Office of the
Independent Budget Analyst

Report 17-16

ANDREA TEVLIN
Independent Budget Analyst
April 28, 2017






The City of
SAN DIEGO

Page Intentionally Left Blank

Table of Contents

Table of Contents

Overview: IBA Review and Analysis of the Mayor's FY 2018 Proposed Budget

SIGNIFICANT CONTRIBUTORS TO THE FY 2018 $81 MILLION DEFICIT

The Mayor released a balanced FY 2018 Proposed Budget to the City Council and the public on Thursday, April 13th, ahead of the April 15th Charter requirement. Last November, the Mayor projected a $36.9 million deficit for FY 2018 when he released his FY 2018-2022 Financial Outlook. The actual funding shortfall for FY 2018 has increased by $44.1 million, from $36.9 million to $81.0 million, after recognizing a number of critical funding needs.

"The actual funding shortfall for FY 2018 has increased by $44.1 million, from $36.9 million to $81.0 million, after recognizing a number of critical funding needs."

The following expenditures identified since the Outlook contribute to the increased FY 2018 deficit:

$8.4 Million—The additional $8.4 million increase to the City's **Annual Defined Contribution (ADC) pension payment** since the Outlook results in a total General Fund ADC increase of $45.2 million over the FY 2017 ADC. This significant increase to the ADC is largely attributable to incorporating new mortality assumptions into the City's annual pension payments. Updated actuarial studies show a changing demographic of retirees living longer. The $8.4 million increase since the Outlook is a result of applying the new assumptions to updated pension membership data during the completion of the FY 2016 actuarial valuation.

$10.3 Million—Increased personnel costs related to **Public Safety overtime** and decreased **Fire-Rescue vacancy savings.**

$10.4 Million—Contributions to meet reserve goals for FY 2018 include $3.1 million for the Public Liability reserve and $7.3 million to cover increased Public Liability claims and insurance costs.

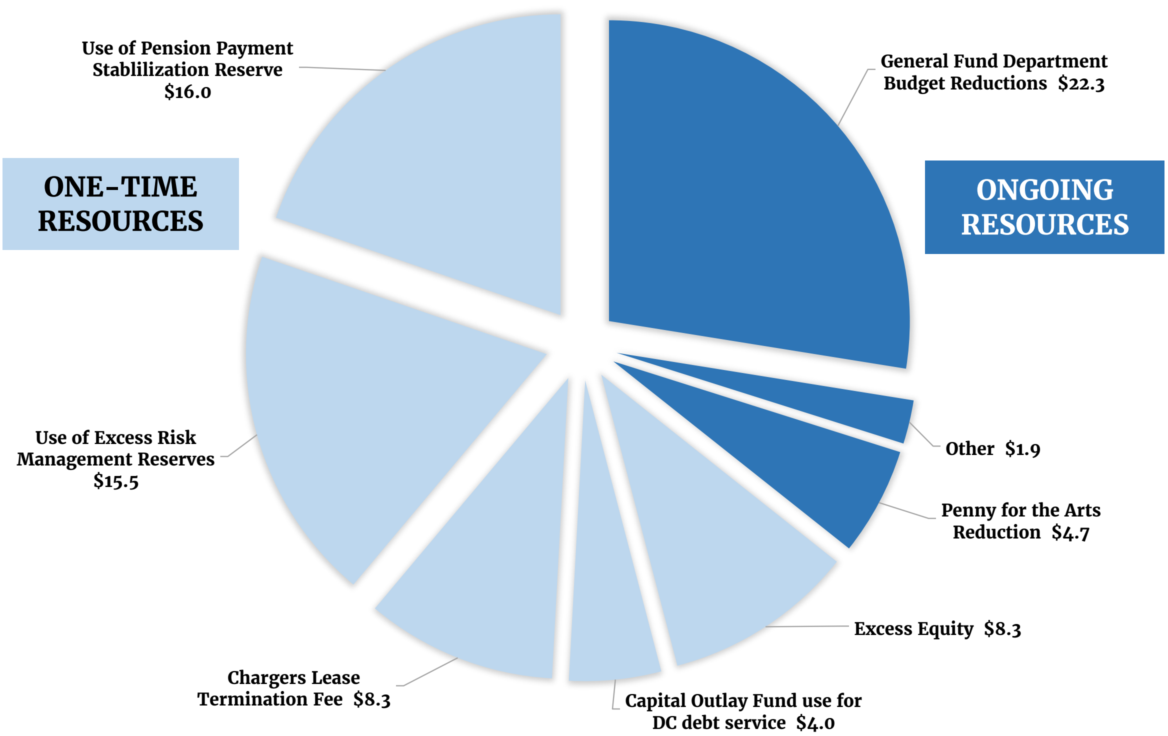
$5.0 Million—In April the Mayor proposed calling a **Special Election in November 2017** to ask voters to increase the City's Transient Occupancy Tax rate to expand the Convention Center, provide new resources to pave and repair City streets, and implement solutions for assisting the City's homeless population. Costs could be significantly higher if the Soccer City citizens' initiative is also placed on the ballot.

$10.0 Million—In the November Outlook the Mayor discussed the potential need to fund a number of **critical expenditures** in 12 programmatic areas. However, these costs were not included in Outlook projections. These new items, now funded in the budget, include but are not limited to Fire-Rescue staff and operating costs for new Bayside Station, new Fire-Rescue self-contained breathing apparatus and APX portable radios, Earned Sick Leave and Minimum Wage enforcement, operating costs for new Park and Recreation facilities, and Police civilian positions. Further details can be found in the Department Reviews section of this report.

As noted in our review of the Outlook, critical items identified as likely to require funding during the Outlook period (notably the upcoming fiscal year) should be included in Outlook projections to have a clearer picture of the upcoming budget conditions.

Overview: IBA Review and Analysis of the Mayor's FY 2018 Proposed Budget

GENERAL FUND MITIGATION ACTIONS: $81.0 MILLION



HOW THE MAYOR BALANCED THE FY 2018 PROPOSED BUDGET

Major mitigation actions and existing resources that were used to balance the budget include:

$16.0 Million Use of Reserve (One-Time)—With a significant amount of the deficit attributable to increases in the annual pension payment, the **Pension Payment Stabilization Reserve** has been fully applied to the deficit. Per the City's reserve policy, the Mayor is required to develop a replenishment plan for this reserve within one year. The CFO has indicated that this plan will be addressed as part of the FY 2019-2023 Financial Outlook which will be issued in November 2017.

$15.5 Million in Risk Management Reserves (One-Time) has been used to address required contributions to the General Fund Reserve, the Public Liability Reserve and Workers Compensation and Long-Term Disability operating expenses. This mitigating action frees up a like amount of General Funds for other purposes while maintaining Worker's Compensation Reserves at policy levels.

$4.0 Million from the Capital Outlay Fund (One-Time) has been used to pay debt service on DC2 lease revenue bonds on a one-time basis for FY 2018. The Capital Outlay Fund generates revenue through the sale of City-owned land, and expenditures from this fund are limited to capital project costs or debt service on capital financings. This action frees up $4.0 million in General Funds for other purposes. $1.2 million remains in this fund which could be used for capital expenditures or debt service only.

$4.7 Million has been reduced from the Penny for the Arts Budget (Ongoing) reducing it from $15.1 to $10.4 million, a decrease of 31.3%. This funding has been redirected to provide support for General Fund expenditures related to safety and maintenance of visitor-related services. However, this reduction to Arts will impact funding for numerous arts and cultural programs. The Mayor has proposed this as an ongoing reduction. Funding for either maintaining or increasing this program in FY 2018 was a top budget priority for a majority of the Council in the Council's FY 2018 Budget Priorities Resolution.

$8.3 Million of the $12.6 million Charger's lease termination payment (One-Time) is proposed for funding $3.5 million of the $5.0 million TOT Special Election costs, and another $4.8 million is to be used for QUALCOMM debt service for FY 2018. The Mayor proposes reserving the remaining $4.3 million from this one-time payment for FY 2019 debt service. Alternatively, the remaining $4.3 million could be used by the Council for priority one-time revisions to the budget.

$8.3 Million of Excess Equity (One-Time) was used to balance the budget. At this time, excess equity is projected to be $11.0 million at FY 2017 year-end. After using $8.3 million in the Proposed Budget, $2.7 would remain based on current projections, which is available to the Council for priority one-time revisions.

$22.3 Million in Departmental Non-Personnel and Personnel Expenditure Reductions (Ongoing) were made to City operations, programs and services out of an approximate $45.0 million submitted. This includes but is not limited to Library programming, park maintenance, code enforcement, storm water TMDL studies and pollutant monitoring, storm water consulting services, tree trimming, Lifeguard vessel replacement fund, and flood control channel maintenance. In the department sections of this report we discuss the major reductions made to each department and review them for potential service impacts.

The Table on page 19 lists position and expenditure reductions by department.

HOW THE MAYOR'S PROPOSAL LINES UP WITH CITY COUNCIL'S BUDGET PRIORITIES RESOLUTION

COMPARISON OF COUNCIL FY 2018 BUDGET PRIORITIES RESOLUTION TO MAYOR'S FY 2018 PROPOSED BUDGET (Y=Yes, N=No, P=Partial Funding)		
GENERAL FUND BUDGET PRIORITIES (FIVE OR MORE COUNCILMEMBER MENTIONS)	FUNDED/ UTILIZED IN FY 2018 BUDGET	NOTES
Public Safety		
Police Officer Recruitment and Retention	P	The FY 2018 Proposed Budget continues to fund ongoing support for expanded Police academies and increased compensation (pursuant to the previously negotiated POA MOU). Funding is also included for an updated Police compensation survey in FY 2018. Councilmember priority requests to survey current officers and engage an outside firm to develop a recruitment strategy are not funded. The Police recruitment budget remains unchanged at $50,000.
Police Department Technology	P	The FY 2018 Proposed Budget fully funds the Police Department's new CAD system. However, no funding is included for AB 953 implementation due to the fact that data collection requirements have not been finalized by the State of California.
Operations Resources for the Fire-Rescue Department	Y	The FY 2018 Proposed Budget fully funds operational expenses for new facilities and equipment replacement, and maintains current service levels.
Police Chief Recruitment	N	No funding for a nationwide search for a new Police Chief in preparation for the planned retirement of the Chief of Police in calendar year 2018 due to DROP.
Other Majority Operations and Maintenance Expenditure Items		
Penny for the Arts Blueprint (Blueprint) Funding Increase	N	The FY 2018 Proposed Budget reduces Blueprint funding from the FY 2017 Council-approved level of 7% of TOT to 4.5% of TOT, a reduction of $4.7 million.
Connect2Careers Program	P	Approximately $500,000 remains budgeted in the Economic Development Department budget to support this program, but this program was not expanded in FY 2018.
Compliance with the Earned Sick Leave and Minimum Wage Ordinance	Y	The FY 2018 Proposed Budget includes $148,000 in additional expenditures for Earned Sick Leave and Minimum Wage Ordinance enforcement. This funding is expected to close a gap between what was budgeted in FY 2017, and the projected costs of the program.
Climate Action Plan (CAP)	Y	The Proposed Budget includes multiple projects across several departments which support the City's CAP. Resources totally approximately $128 million included in the Proposed Budget to provide direct and indirect support for CAP.
Neighborhood Services		
Code Enforcement	N	The Proposed Budget includes the reduction of 2.00 Code Enforcement Officers from the Code Enforcement Division of the Development Services Department.

COMPARISON OF COUNCIL FY 2018 BUDGET PRIORITIES RESOLUTION TO MAYOR'S FY 2018 PROPOSED BUDGET (Y=Yes, N=No, P=Partial Funding)		
GENERAL FUND BUDGET PRIORITIES (FIVE OR MORE COUNCILMEMBER MENTIONS)	**FUNDED/ UTILIZED IN FY 2018 BUDGET**	**NOTES**
Neighborhood Services (continued)		
Programs for the Homeless	P	The FY 2018 Proposed Budget maintains level funding for: - Homeless Services ($2.3 million is budgeted in Economic Development for Interim Housing & Services, Connections Housing, the Serial Inebriate Program (SIP), Transitional Storage Center, and 24/7 Restroom Access) - Police personnel for SIP, the Homeless Outreach Team (HOT), and Psychiatric Emergency Response Team (PERT) The Proposed Budget also includes the addition of: - $2.8 million in CDBG Reinvestment Initiative program income for homeless facility rehabilitation and/or acquisition, which may be used to support the San Diego Misdemeanants At-Risk Track (SMART) pilot program, and the rehabilitation of the Neil Good Day Center - 1.00 Program Manager position in the Office of the City Attorney to support the SMART program
Funding Sources		
Use of Chargers' Lease Termination Payment	Y	The Mayor's FY 2018 Proposed Budget includes the following allocation for the $12.6 million Chargers lease payment: - $4.8 million for the FY 2018 debt service on Qualcomm Stadium bonds - $3.5 million for November 2017 special election costs - $4.3 million towards the FY 2019 debt service payment for Qualcomm Stadium Our Office notes that Council could consider using the $4.3 million allocated for the FY 2019 debt service payment as a resource for a one-time expenditure in FY 2018.
Use of City Reserves	Y	$16.0 million from the Pension Payment Stabilization Reserve for the unanticipated ADC increases $14.7 million Workers' Compensation (WC) Reserve: - $7.0 million for General Fund Reserve contribution - $3.1 million for Public Liability Reserve contribution - $4.0 million use of WC Reserve for FY 2018 operating costs $1.4 million use of Long-Term Disability Reserve for FY 2018 operating costs $8.3 million for budgeted use of Excess Equity
Commercial Paper Program/Deferred Capital Bonds	Y	The CFO plans to bring a General Fund Commercial Paper Borrowing Program to the Council for review and approval in the fall. If Council approves the Program, new borrowing for General Fund capital projects could begin in January 2018 or sooner. As commercial paper notes are issued and rolled over for very short terms (almost always less than 270 days and often much shorter depending on market conditions), notes will be issued and interest could become due in FY 2018. The FY 2018 Proposed Budget includes $500,000 which is comprised of $300,000 for Commercial Paper Borrowing Program start-up costs and approximately $200,000 for interest payments on up to $60 million commercial paper notes that could be issued in FY 2018.

PROPOSED BUDGET SIGNIFICANT EXPENDITURE INCREASES

The table on page 20 lists significant expenditure and position increases to the FY 2018 Proposed Budget by department. Details on these items are discussed in the department budget review sections.

PROPOSED BUDGET REDUCTIONS THAT COULD IMPACT SERVICE LEVELS

Mayoral press announcements, fact sheets, and power point presentations on the Proposed Budget did not address reductions made to the budget including those to key City services such as Park and Recreation, Library, Lifeguards, Code Enforcement, and Storm Water. This section focuses on selected budget reductions that could potentially have service or operational impacts. While the Mayor focused on recommending reductions that result in little to no service level impacts, the upcoming public hearings provide Council an opportunity to discuss these reductions further with department heads and understand if there are any potential service or operational impacts.

These and other reductions proposed to balance the budget are discussed in greater detail in the department budget review sections.

Penny for the Arts

Reduce Funding/$4.7 Million—This reduction represents an ongoing 31.3% reduction to the Penny for the Arts Program from $15.1 million to $10.4 million. The budgets and programs of numerous arts and cultural organizations could be impacted by this reduction (the list of organizations potentially impacted can be found in the Special Promotional Programs Department Review of this report). Growing the TOT percent for Arts funding has been a top Council priority since adoption of the Blueprint in 2012. For FY 2017 the Council added $1.2 million to this program as an ongoing expenditure during final budget decisions.

Park and Recreation

Reduce Citywide Park Maintenance/6.00 FTE/ $385,000—The budget reduces 6.00 FTE parks maintenance positions including four Grounds Maintenance Workers, one Pesticide Applicator and one Light Equipment Operator. This reduction is expected to result in less frequent mowing, sweeping, and pesticide application at parks and athletic fields citywide.

Reduce Habitat Restoration Services/ $186,000—Reducing this contract is expected to result in less frequent removal of non-native plants, habitat restoration and maintenance. This represents a 30% reduction to the habit restoration budget.

Reduce Tree Trimming and Pool Maintenance/$268,000—These contractual reduc-

PENNY FOR THE ARTS - BLUEPRINT GOAL: 9.52% OF TOT			
	FY 2017 ADOPTED	FY 2018 PROPOSED	CHANGE
Transient Occupancy Tax Projection (10.5 cents)	216,347,429	231,021,481	14,674,052
Percent of TOT Funding in Budget	7.00%	4.50%	-2.50%
Penny for the Arts Blueprint Goal ($, based on goal of 9.52%)	20,596,275	21,993,245	1,396,970
Penny for the Arts Budgeted Funding ($, based on percent of TOT funding)	15,139,850	10,395,967	(4,743,883)
Variance in Budgeted Funding from the Blueprint Goal ($)	**$ (5,456,425)**	**$ (11,597,278)**	**$ (6,140,853)**

tions will delay projects identified as not being safety-related. Specifically it will limit the Department's ability to trim trees over 70 feet as special equipment and in-house staff are not available. The pool maintenance reduction will impact maintenance needs such as re-plastering.

Library

Eliminate Library Programming/$500,000—Library Programming funding is proposed for elimination in the budget. Last year the Library Foundation, the Friends of the Library, and Board of Library Commissioners collectively identified as a top priority the need for a permanent funding source for programming as a way to increase consistent Library services to all communities. $500,000 in funding for ongoing Library programming was added to the FY 2017 budget by the City Council during final budget revisions. Two new Librarian positions were also funded in FY 2017 to research, gather community input, and develop and support appropriate programming for each community. These two positions remain in the budget.

Prior to this funding, all Library programs were being paid for through grants and donations (with the exception of the After-School Homework Program) which can lead to inequities between the branches. A Performance Audit issued by the City Auditor in FY 2016 identified the need for a more equitable distribution of programming across the Library system. This funding was intended to help address this issue.

The Library Director has stated there is no impact to this reduction as new programs developed this year will continue to be used in the future.

Eliminate Non-Standard Hourly Personnel/20.26 FTE/$710,000—The reduction of these positions will not impact service hours but will impact certain daily activities such as re-shelving of books and assisting library patrons. The reduction has been balanced throughout the system.

Personnel

Reduce Associate Personnel Analyst/ $71,000—This action eliminates one of four Associate Personnel Analysts which could impact hiring schedules and increase the time it takes to complete classification and compensation studies. From the FY 2013 budget to the FY 2018 Proposed Budget, 1300 new FTE positions have been funded in the budget. The City Council added a new Associate Personnel Analyst position in final revisions to the FY 2017 budget to provide additional support with the increased workload, this action would eliminate the position.

Budgeted Citywide FTEs		
FY 2013	FY 2018	Increase
10,119.42	11,412.03	1,292.61

Purchasing and Contracting

Reduce Senior Management Analyst/ $86,000—The department indicates this position, which was originally funded for Living Wage Ordinance support, has been consolidated with other activities, and savings from this reduction will be used to support the Earned Sick Leave and Minimum Wage Ordinance in the Treasurer's Office.

Transportation and Storm Water

Reduce Broad Leaf Tree Trimming Services/ $882,000—This action reduces the broadleaf tree trimming budget and is projected to reduce the number of trees trimmed by nearly 50%—from 25,000 to 12,000 per year.

Reduce Storm Water Permit Compliance Efforts/$885,000—This will reduce funding for TMDL studies and pollutant monitoring, as well as 80% of the City's storm water education and outreach efforts which are part of storm water permit compliance. No impacts are discussed in the budget.

Reduce Master Maintenance Program/ $340,000—This represents a 30% reduction to this program which assists in identifying flood control channels that require maintenance services. No impacts are discussed in the budget.

Fire-Rescue

Reduce Lifeguard Vessel Replacement Program/$437,000 in FY 2018 and $437,000 in fund balance—This reduction depletes the Vessel Replacement Program fund balance and eliminates ongoing contributions. This fund was established in FY 2016 to plan ahead for replacing vessels at the end of their service life.

Development Services

Reduce Code Compliance Officers/2.00 FTE/ $203,000—This reduction is expected to delay the investigation of "low level" code violations such as noise disturbances, portable signs, front yard storage, and parking in the front yard. The department has indicated that an "alternative compliance program" will be implemented for these violations. Given the community demand for these services, these positions may need to be restored in the future.

Public Works – General Services Branch – Facilities Division

Reduce Facility Maintenance Vacant Positions/5.00 FTE/$278,000—Our Office recognizes the Division's challenges in hiring skilled trade professionals. However, we emphasize the importance of ongoing maintenance and repair because when it deferred, it raises risks to public health and safety, increases the maintenance and capital backlog, and ultimately increases the cost of repairs.

> ***"While the FY 2018 Proposed Budget is balanced, we are heading into the new fiscal year recognizing that, based on what we know today, we are likely facing a similar deficit situation for FY 2019."***

LOOKING TO FY 2019 AND A FUTURE DEFICIT

While the FY 2018 Proposed Budget is balanced, we are heading into the new fiscal year recognizing that, based on what we know today, we are likely facing a similar deficit situation for FY 2019. A number of financial conditions will contribute to FY 2019 being another difficult budget year, with the City possibly facing a double-digit deficit that could require more reductions, operational efficiencies, and/ or new revenue sources in order to balance the budget. Discussed below are some of the factors that could create or exacerbate a FY 2019 deficit.

Factors That Could Impact an FY 2019 Deficit

1. The impact of incorporating new mortality assumptions into the City's annual pension payments will continue into the future. **The ADC is projected to increase an average of $4 million (GF portion $3.0 million) annually through 2025.** Payments are projected to decline beginning in 2026,

followed by significant decreases in 2029 and beyond. Lower than expected investment returns or changes to economic assumptions including reductions to the discount rate would negatively impact these projections. A 0.25% reduction to the discount rate could increase the ADC by around $14.0 million annually ($10.0 million General Fund).

2. One-time resources have been used to meet **FY 2018 General Fund** and **Public Liability Fund reserve goals** and **Worker's Compensation** operating costs. A one-time installment of $8.8 million has also been used to address FY 2018 **debt service payments**.

3. The following items reflect **new ongoing costs** projected for FY 2019:

- Staffing for new park and recreation facilities—$3.0 M
- Full-year operational funding of Bayside Fire Station—$635,000 above partial-year funding included in FY 2018
- Staffing for a new branch library coming on line—$1.5 M
- Possible implementation of a 311 customer service center delayed in FY 2018—up to $3.4M

4. **$2.0 million of New Central Library annual operating costs** will become the responsibility of the City in FY 2019. In addition to the significant donations raised by the Library community for construction of the library, sufficient donations were also raised to cover $2.0 million for the first five years of operating costs which ends next fiscal year.

5. **The FY 2019 impact of negotiated compensation agreements** with all of the City's employee organizations is estimated to be a $16.0 million increase for the General Fund. POA and DCAA also have negotiation reopeners in their contracts for FY 2019.

6. On March 16, 2017, the President released his FY 2018 Budget Blueprint which included **elimination of both the Community Development Block Grant (CDBG) program and the HOME Investment Partnerships program**. These programs support the homeless, community and economic development projects as well as affordable housing development and first time home buyer programs. The City is estimated to receive $10.4 million in CDBG funding and $3.9 million for HOME Investment Partnerships in FY 2018. Should these two programs be eliminated or dramatically cut, the City may need to seek out other resources such as program income affiliated with the Reinvestment Initiative.

Factors That Could Help Mitigate a FY 2019 Deficit

1. **Sales tax revenue projections**—The FY 2018-2022 Financial Outlook projected FY 2019 Sales Tax receipts at $275.9 million. Since the release of the Five Year Outlook, sales tax projections have grown, and the amount of sale tax receipts projected in the FY 2018 Proposed Budget ($276.9 million) already exceeds amounts projected for the Five Year Outlook. Sales tax revenues may further increase beyond these amounts, helping to offset the deficit projected for FY 2019.

2. Voter approval of a **proposed TOT tax increase at a November 2017 Special Election** would generate new ongoing revenue

to expand the Convention Center, fund solutions to address the homeless population and provide additional resources for street repair and construction. This new revenue could potentially also be a funding source for the City's annual $3.4 million contribution to existing Convention Center operational costs.

3. **New State Gas Tax revenue** is projected to provide the City with roughly $319.0 million over ten years for street repair and construction, starting in year FY 2018. This could free up General Funds in the future for the operating budget after meeting streets maintenance of effort and funding requirements.

4. FY 2019 will be the **first full year of tax collections for recreational marijuana**, potentially doubling the $2.4 million projected for FY 2018, for a total of $4.8 million annually beginning if FY 2019. Other factors that could increase Cannabis Business Tax revenue include allowing cultivation and changing the tax rate, both of which may be implemented by ordinance by the Council.

5. **User fees**—As outlined in Council Policy 100-05, a comprehensive update of the City's user fees occurs every three years in order to determine if new fees should be added, current fee levels adjusted, or existing fees should be eliminated. The next comprehensive user fee analysis is scheduled to occur in FY 2018 for implementation in FY 2019. The last comprehensive user fee analysis occurred in FY 2015 and resulted in a budgeted increase in revenue to the General Fund of $881,000 in FY 2016.

While we are concerned about the potential deficit facing us in FY 2019, the City has the tools, policies, principles and oversight in place to avoid a structural budget deficit. In 2009 the Council and the Mayor, working with the CFO and IBA, embarked on a year-long process for developing and adopting a Structural Budget Deficit Elimination Plan which included eleven guiding principles for eliminating the City's structural budget deficit and preventing it from occurring in the future. With Council adoption of this Plan in 2010, and Mayors, Councils and City financial staff adhering to its principles and policies, the City has since consistently balanced its budget structurally. This plan is relevant today and adherence to it will be continuously monitored.

Proposed ZBB Policy and Implementation Being Considered for FY 2019

A proposal initiated by Councilmembers Cate and Sherman to zero-base budget review several departments each year beginning in FY 2019, could be beneficial in providing Council with a comprehensive programmatic review of participating departments' budgets. On October 5, 2016 the Budget and Government Efficiency Committee voted unanimously for Financial Management to work with the IBA and return to Committee to present a Council Policy on an annual ZBB review process to be put into place for the Council's review of the FY 2019 Proposed Budget. Financial Management, IBA, and D6 and D7 Council staff are currently considering options for implementing an effective and efficient process.

CITY COUNCIL AUTHORITY FOR MAKING REVISIONS TO THE PROPOSED BUDGET

While the Mayor develops and presents the Proposed Budget to the City Council and the public each year, the Council has authority to either approve the budget as submitted or modify the Mayor's proposal in whole or in part. The Council may increase or decrease any item provided the budget remains structurally balanced. Ongoing expenditures should be funded with ongoing resources, one-time resources should be used only for one-time items. The Mayor can approve, veto or modify any line item approved by the Council. The Council can override the Mayor's veto with a two-thirds vote of the members.

> *"The Council may increase or decrease any item provided the budget remains structurally balanced."*

The Independent Budget Analyst provides a comprehensive analysis of the Mayor's Proposed Budget for the City Council and the public, reviewing revenues and expenditures, consistency with Council and community funding priorities, identifying service level impacts to the community, application of City budget policies and best budget practices, and potential impacts on future years. The City Council as the Budget Review Committee holds a series of public budget hearings over several weeks to gather input from the community, and to review and discuss all aspects of the budget with the Mayor, the CFO, department heads, and the IBA.

While the Mayor considers the Council's Budget Priorities Resolution as he prepares the budget, the Council has the authority to suggest a set of revisions to the budget based on feedback from the community, new information, discussions with departments, consideration of the IBA's review and familiarity with their community's priorities, provided they are balanced with appropriate resources.

POTENTIAL RESOURCES AVAILABLE FOR FINAL COUNCIL BUDGET DECISIONS

We have provided below several potential resources for Council to consider as the process gets closer to final Council budget decisions. Note that estimates could change based on new information. Also, the Mayor may rely on some of these resources for the May Revise which will be issued prior to your final decisions. Some sources are dedicated to specific purposes such as streets, others may not be available or confirmed until FY 2018. Several of these resources could also be used to replenish the Pension Stabilization Reserve, fund small capital projects or reserve funding to help mitigate a potential deficit in FY 2019.

Potential for Updated Sales Tax Revenue—$TBD One-Time and Ongoing

The Proposed Budget assumes that actual taxable sales will increase by 3% in the fourth quarter of FY 2017, and 2.5% throughout FY 2018. In the event fourth quarter receipts come in above projections, the FY 2017 excess equity available to be used in FY 2018 as a one-time revenue source would be increased, and the base on which FY 2018's ongoing sales tax projections are built would be increased as well.

Further, an increase in the FY 2018 growth rate to 3.0%, if merited, would increase projected sales tax revenues by $1.3 million. We will be receiving a fourth quarter update from the City's sales tax consultant on May 2, 2017 which will provide additional information for potential consideration of a sales tax revenue increase for FY 2018. We will update the Council on this matter when we have completed our review.

Excess Equity—$2.7 M One-Time

Excess equity is currently projected at $11.0 million. The Mayor has proposed to utilize $8.3 million in the Proposed Budget, which could leave $2.7 million of one-time funding available for other purposes as determined by Council. This figure could increase or decrease before year-end and will be updated in the May Revise.

Capital Outlay Fund—$1.2 M One-Time

The Mayor utilized $4.0 million of the Capital Outlay Fund to fund a portion of FY 2018 DC2 debt service payments. $1.2 million remains in the fund which can be utilized for capital projects or additional debt service payments. If used for debt service, this action would free up $1.2 million in General Funds for other one-time purposes.

Charger's Lease Termination Payment—$4.3 M One-Time

$4.3 million from the termination payment remains after utilizing $8.3 million in the budget for the TOT Special Election costs and the FY 2018 debt service payment for Qualcomm. While the Mayor proposes reserving this for the FY 2019 debt service payment, this one-time $4.3 million could alternatively be considered by Council for the other one-time priorities.

New State Gas Tax Revenue for Streets—$TBD Ongoing

Early projections indicate the City could receive a total of $319 million for street construction and repair over a 10-year period. Council will have input in identifying street funding priorities. This level of new State funding for streets could allow for future capital resources such as lease revenue bonds/commercial paper to be focused on other critical needs such as sidewalks, parks and fire stations.

Commercial Paper Issuance for Capital Projects—Up to $60 M Issuance Planned for FY 2018

The Proposed Budget includes $500,000 to cover start-up costs and interest expense for a General Fund Commercial Paper Borrowing Program expected to be presented to the Council in the fall. Interest expense of $200,000 has been budgeted to support up to $60 million commercial paper borrowing issuance in the second half of FY 2018. The Mayor and Council will work to identify the priority capital projects to be funded with the proceeds of commercial paper borrowing. New funding sources for streets-particularly State Gas Tax revenues and new TOT funding if approved by the voters in November- could allow for other critical capital needs to be the focus of this debt issuance.

Defund New General Fund Positions included in FY 2018 Proposed Budget—$5-6 M Ongoing

The costs related to the addition of 60.06 new FTE positions in FY 2018 are estimated at roughly $5-6 million for FY 2018. This action would eliminate new positions for a number of important services and programs including but not limited to the Bayside Fire Station which opens in FY 2018, the SMART (misdemeanant at-risk) program in the City Attorney's Office, Earned Sick Leave and Minimum Wage Ordinance support, San Pasqual Valley Fast Response Squad, additional Fire dispatchers, park operations and maintenance staff for new facilities coming on line in FY 2018, and additional civilian positions in Police.

Alternative Budget Reductions—TBD

We have reviewed the 3.5% reductions submitted by departments that were not take to balance the budget proposal. While the Chief Operating Officer requested that reduction submissions steer away to the extent possible, from those that impact core services, several departments submitted core service cuts in order to achieve the 3.5% requirement. In the list of the 3.5% reductions that we reviewed, we found no other viable, non-core reductions that we recommend considering. Alternatively, Council could identify other areas of the budget during the hearings for potential reduction, and request the Mayor or our office to research their feasibility and/or potential impacts prior to final budget decisions.

Examples of proposed reductions to core services that were submitted by departments but not taken include:

- Eliminate Sunday operating hours at 11 libraries—$1.6 M
- Reduce weekly recreation center hours from 60 to 45 hours at 17 sites—$338,000
- Eliminate 12 Firefighter positions at Skyline Temporary Fire Station—$1.9 M
- Eliminate 62 Police Officer II positions—$6.4 M
- Eliminate 8 Police Sergeants—$1.8 M
- Reduce technical service funding for community plan updates—$306,000
- Reduce General Fund support for street maintenance—$450,000
- Reduce brush management—$155,000

STATUS OF PERFORMANCE MEASURES

The FY 2018 Proposed Budget includes updated data for key performance indicators (KPIs) that were included in the FY 2017 Adopted Budget.[1] KPIs were updated by City departments in FY 2017 in order to better align department measures with the City's strategic plan which had been introduced in FY 2015. In our Office's review of the FY 2017 Proposed Budget we noted that a number of departments had removed KPIs, in some cases replacing them with measures that had no related data as they were a completely new measure for the department. Performance & Analytics Department (P&A) staff worked with Mayoral departments to provide some additional data (where possible) for the new measures, and also added back 14 KPIs from FY 2016 that Councilmembers and our Office had considered to be useful measures to review. All of these KPIs have been included in the FY 2018 Proposed Budget. P&A also includes a selection of

1. Performance & Analytics Department staff indicated that some department-requested changes to FY 2017 performance measures are included in the FY 2018 Proposed Budget, including the removal of about 15 KPIs included in FY 2017.

KPIs on a public performance dashboard and are increasing the number of KPIs published each year, as noted in a P&A KPI. In FY 2017 the Department set a target of 19% of KPIs published on the dashboard and increased that target to 40% for FY 2018. P&A is estimating they will exceed their FY 2017 target and that 20% of KPIs will be on the dashboard in FY 2017.

In our review of the Mayor's FY 2018 Proposed Budget we have highlighted some department KPIs that we think may be of particular interest to the City Council or to the public, and we include discussions in changes to KPI metrics where appropriate. Departments will be including a selection of their KPIs to the Budget Review Committee as part of their proposed budget presentations that begin May 3. Councilmembers are encouraged to ask questions about, or comment on, any department performance measures at that time, whether or not the measures are included in the Proposed Budget. Council can also request that new measures be added.

OTHER ISSUES RELEVANT TO FY 2018

Police Officer Recruitment and Retention

For the past several years, the Police Department has faced significant and persistent challenges related to sworn police officer recruitment and retention, which are expected to continue in FY 2018 and beyond. As of April 24, 2017, the Police Department had 1,832 filled sworn positions out of 2,039 budgeted positions. As shown in the table below, despite the addition of significant resources to increase compensation and expand police academies, the Department's staffing levels have not improved over the past five years. The current staffing level of 1,832 police officers is unchanged from FY 2013, while the gap between budgeted and filled positions has increased over the same period from 137.5 to 207 vacant positions.

Police Sworn Positions – Budget vs. Actual

Fiscal Year	Budgeted Positions	Actual Filled Positions*	Variance
FY 2017	2,039.00	1,832.00	(207.00)
FY 2016	2,036.00	1,850.00	(186.00)
FY 2015	2,013.00	1,832.00	(181.00)
FY 2014	1,977.67	1,837.00	(140.67)
FY 2013	1,969.50	1,832.00	(137.50)

*Actual figures are as of July 1 of each fiscal year except for FY 2017, for which current figures as of April 24, 2017, are shown.

In the City Council's budget priority memoranda for FY 2018, the item that received the greatest number of mentions was support for police officer recruitment and retention. While the FY 2018 Proposed Budget fully funds expanded academies and previously negotiated compensation increases, it does not increase funding for recruitment or marketing. The Department's current recruitment budget of $50,000 remains unchanged in FY 2018. Additionally, the FY 2018 Proposed Budget removes $4.0 million in one-time expenditures added in FY 2017 to increase police officer non-pensionable compensation.

Police recruitment and retention will be one of the most significant challenges to the City in FY 2018. The Human Resources Department has issued a request for proposals for an updated compensation study for police officers, which is funded in the FY 2018 Proposed Budget. The results of the study will inform negotiations related to the POA's labor agreement reopener, which is expected in FY 2019. In the meantime, other new resources or approaches may be required to preserve police officer staffing levels in the coming fiscal year.

Plans to Finance the Backlog of General Fund Capital Projects Needs

The Five-Year Financial Outlook issued in November 2016 presented a plan to issue three $90 million deferred capital bonds at 18-month intervals. The bonds were projected to be issued in FY 2018, FY 2020, and FY 2021, for a cumulative total of $270 million. The timing for the issuance of these bonds has been pushed back more than once as staff has endeavored to spend down proceeds from previous bond issues and also use other sources of cash available for General Fund capital project needs. Staff informs the IBA that the City currently has approximately $85 million of available cash/bond proceeds to spend before it will require additional borrowed funds.

The Five-Year Capital Outlook issued in January 2017 reiterated the plan to issue $270 million of long-term bonds for General Fund capital projects over the five-year period from FY 2018 through FY 2022; however, it also mentioned the CFO's intention to develop a commercial paper borrowing program for the General Fund noting that the timing for issuing long-term bonds would be revaluated every fiscal year during the budget development process and may be further adjusted. Commercial paper is a short-term financing method that would allow the City to borrow the amount of funds needed for projects at any given time as opposed to borrowing a larger amount than immediately needed using long-term bonds. Unless the City opts to pursue a variable rate borrowing program to finance long-term capital assets, the commercial paper will eventually need to be refinanced, or replaced, with long-term bonds.

The CFO plans to bring a General Fund Commercial Paper Borrowing Program to the Council for review and approval in the fall. If Council approves the Program, new borrowing for General Fund capital projects could begin in January 2018 or sooner. As commercial paper notes are issued and rolled over for very short terms (almost always less than 270 days and often much shorter depending on market conditions), notes will be issued and interest could become due in FY 2018. The FY 2018 Proposed Budget includes $500,000 which is comprised of $300,000 for Commercial Paper Borrowing Program start-up costs and approximately $200,000 for interest payments on up to $60 million commercial paper notes that could be issued in FY 2018.

> ***"The CFO plans to bring a General Fund Commercial Paper Borrowing Program to the Council for review and approval in the fall."***

Street Improvements Funding

In recent bond issuances the Mayor has proposed and the Council has approved using a significant amount of the funding to finance street improvements in order to maintain an OCI of 70. Most of the FY 2018 Infrastructure Fund ($15.3 million of the $18.1 million) has also been allocated to street repairs in the Mayor's Proposed Budget. As noted earlier in this report, street repairs will now also unexpectedly be the beneficiary of new State Gas Tax revenue ($319 million over 10 years). Additionally, if voters were to approve the TOT tax increase proposal that is currently being contemplated for the fall, additional ongoing revenue would also be dedicated for street repairs (projected to be more than $150 million over the first 10 years). Given the potential magnitude of new funds dedicated to street repairs, the IBA recommends the Council consider using future commercial paper/bond financing to address other critical unfunded capital projects such as sidewalks, parks and fire stations.

Storm Water Permit Requirements and Funding Challenges

The City continues to face significant costs for storm water permit compliance requirements. Projected expenditures necessary to comply with permit requirements through FY 2040 total $3.1 billion. Storm Water capital needs in FY 2018 alone total $85.6 million; capital costs through FY 2022 total $438.8 million. The City lacks a dedicated source of revenue sufficient to meet these expenditure needs. While the City is moving forward with its commercial paper program, and continues to have access to lease revenue bonds to support capital needs, these revenue sources are not enough to fill the storm water funding gap, and payments on commercial paper and lease-revenue debt are ultimately borne by the City's General Fund.

> *"Given the potential magnitude of new funds dedicated to street repairs, the IBA recommends the Council consider using future commercial paper/bond financing to address other critical unfunded capital projects such as sidewalks, parks and fire stations."*

Transportation & Storm Water staff have led commendable and successful efforts to reduce compliance costs—initial compliance costs through FY 2040 were estimated at $3.9 billion, but modification to permit requirements have reduced that amount to $3.1 billion today—but even with these reductions, the expenditures necessary for storm water permit compliance are high, and the City is not currently trending towards compliance with permit deadlines that begin hitting in FY 2020 and FY 2021. As penalties for not fulfilling storm water permit requirements are high—up to $10,000 per day per violation—addressing the storm water funding gap will become increasingly important in the near future.

Next Steps in the Process

The Office of the IBA appreciates the timely responses from City departments and agencies to our questions over the past two weeks. We look forward to working with the City Council, the Mayor, CFO, Financial Management, City departments, and our residents to ensure that the City's budget is structurally balanced, is responsible and responsive to our diverse communities, and maintains the City's excellent and efficient services and programs. Throughout the City Council budget process we are available to support the City Council, Council staff, and members of the public including answering questions, discussing our report findings, researching issues and attending hearings or other meetings in the community.

May 3-4, 8-9 (with May 5 and 10 available for additional budget hearings if the Committee requires additional time for review): Budget Review Committee hears "IBA Review of the FY 2018 Proposed Budget" and holds public hearings on City departments, functions, and agency budget proposals

May 15: City Council holds evening hearing to receive further input from the public

May 18: Budget Review Committee reviews the Mayor's May Revise and Year-End Budget Monitoring Report for consideration in final budget decisions

May 22: City Councilmembers issue final budget modification priority memoranda, including recommendations for potential budget revisions, to the Office of the IBA

June 1: Office of the IBA issues final report on recommended revisions to the Mayor's FY 2018 Proposed Budget including the May Revise, based on input from City Council memoranda and feedback, public comment, and independent analysis

June 5: City Council makes final FY 2018 budget decisions and takes action on any FY 2018 budget revisions

June 26: City Council introduces and adopts the FY 2018 Appropriation Ordinance

Lisa Byrne
Fiscal & Policy Analyst

Christiana Gauger
Fiscal & Policy Analyst

Jillian Kissee
Fiscal & Policy Analyst

Charles E. Modica, Jr.
Fiscal & Policy Analyst

Chris Ojeda
Fiscal & Policy Analyst

Chris Olsen
Fiscal & Policy Analyst

Trisha Tacke
Research Analyst

Jeff Kawar
Deputy Director

Andrea Tevlin
Independent Budget Analyst

GENERAL FUND DEPARTMENT BUDGET REDUCTIONS INCLUDED IN THE FY 2018 PROPOSED BUDGET				
Department	FY 2017 Expenditure Budget	FTE Reduced	Total Reduction ($)	Reduction as a % of FY 2017 Budget
City Attorney	49,829,116	6.37	930,708	1.9%
City Auditor	3,882,383	-	110,191	2.8%
City Clerk	5,674,036	-	20,000	0.4%
City Comptroller	11,451,570	3.00	302,693	2.6%
City Treasurer[1]	16,252,880	1.00	155,728	1.0%
Citywide Program Expenditures	109,701,751	-	1,150,000	1.0%
Communications	3,872,945	2.50	168,277	4.3%
Debt Management	3,163,539	-	12,717	0.4%
Department of Information Technology	500,000	-	17,500	3.5%
Development Services	7,486,410	3.00	491,718	6.6%
Economic Development	15,007,531	-	525,264	3.5%
Environmental Services	39,878,568	-	1,407,434	3.5%
Financial Management	4,344,165	1.00	152,468	3.5%
Fire-Rescue	236,780,295	-	3,780,331	1.6%
Human Resources	3,884,667	1.00	137,546	3.5%
Infrastructure/Public Works	993,599	-	2,350	0.2%
Internal Operations	418,119	-	34,776	8.3%
Library	51,659,669	20.26	1,449,382	2.8%
Office of Homeland Security	2,691,122	1.00	188,020	7.0%
Office of the Assistant Chief Operating Officer	1,945,935	-	68,108	3.5%
Office of the Chief Financial Officer	587,064	-	20,547	3.5%
Office of the Chief Operating Officer	1,089,482	-	16,000	1.5%
Office of the Mayor	4,471,120	1.00	187,221	4.2%
Park & Recreation	108,316,555	7.00	1,487,450	1.4%
Performance & Analytics	2,934,639	-	130,000	4.4%
Personnel	8,355,058	1.00	70,943	0.8%
Planning	10,533,102	1.00	54,962	0.5%
Police	438,789,263	-	3,530,000	0.8%
Public Utilities	2,577,246	-	90,204	3.5%
Public Works-Contracts	2,302,721	-	80,595	3.5%
Public Works-General Services	24,137,017	5.00	845,997	3.5%
Purchasing & Contracting	6,573,616	3.00	230,473	3.5%
Real Estate Assets	8,034,505	2.00	297,119	3.7%
Transportation & Storm Water	131,430,013	-	4,150,051	3.2%
Total Reductions		**59.13**	**$ 22,296,773**	

[1]The City Treasurer Department met the 3.5% reduction goal by proposing reductions from its non-revenue generating programs, as per the COO's direction. This table reflects the reduction as a percent of the Department's entire budget, including revenue-generating programs.

GENERAL FUND SIGNIFICANT BUDGET ADDITIONS IN THE FY 2018 PROPOSED BUDGET			
Department	**Addition Description**	**FTE**	**Total Expense**
City Attorney	SMART Program Manager	1.00	139,126
City Comptroller	Addition and Reclassification of Accountants	1.75	180,730
City Treasurer	Earned Sick Leave and Minimum Wage Ordinance	4.00	148,285
	Cannabis Business Tax Collection	-	250,000
	Short-Term Rental Compliance Audit Support	5.00	461,777
Citywide Program Expenditures	Support for a Special Election	-	2,326,417
	Commercial Paper Debt Service	-	500,000
	Animal Services Contract	-	999,968
	Public Liability Expenditures	-	4,627,665
	Transfer to the Infrastructure Fund	-	18,052,066
Debt Management	Formation of the Otay Mesa Enhanced Infrastructure District	-	145,000
Development Services	Nuisance Abatement Fund Support	-	250,000
Economic Development	CDBG Reinvestment Initiative	6.00	583,146
	Successor Agency Support	1.00	137,669
Fire-Rescue	Fire-Rescue Overtime	-	2,676,305
	SPSP-H and Medicare Contributions	-	1,215,707
	Self-Contained Breathing Apparatus	-	1,067,500
	Bayside Fire Station	7.00	864,694
	San Pasqual Valley Fast Response Squad	6.00	789,382
	Emergency Command and Data Center Staffing	5.00	367,199
	Portable Radio Replacement	-	242,000
Human Resources	Sexual Harassment Prevention Training	-	40,000
	Centralization of human resources functions	3.00	376,214
Library	Central Library Security Services	-	377,746
	Library Printing Services	-	202,000
	Central Library Parking Contract	-	113,096
Park & Recreation	Support for New Facilities and Park Maintenance	5.31	655,826
	Vernal Pool Habitat Conservation Plan Support	1.00	123,206
	Lease Payment for Carmel Mountain Ranch FIT Athletic Pool	-	90,000
	Brush Management Contract Increase	-	39,412
Planning	Regulatory Reform and Process Improvement Initiatives	2.00	256,571
	Evaluating Transit Priority Area Parking Standards	-	250,000
	Workforce Housing Density Bonus Program	-	250,000
	Parks Master Plan	-	400,000
Police	Zero-Based Overtime Budget	-	2,223,946
	Position Additions	9.00	899,923
	Property Room Move	-	150,000
Public Works-General Services	Horton Plaza Park Security	-	150,000
	IAM Training and Supplies	-	27,617
Purchasing & Contracting	Administrative Appeal Hearing Program	1.00	136,518
Real Estate Assets	Office Improvements and Relocation, 101 Ash Street	-	2,100,000
	De Anza Mobile Home Park	-	600,000
Transportation & Storm Water	Low Flow Diversion Program Transfer	-	2,021,184
	Regional Water Quality Control Board Penalty and Supplemental Environmental Projects	-	640,000
	Trench Cut/Excavation Fee Transfer	-	500,000

Expenditure Overview

Mayor's FY 2018 Proposed Adjustments

General Fund expenditures are increasing by $70.9 million—from the $1.34 billion FY 2017 Adopted Budget to the $1.41 billion FY 2018 Proposed Budget. Personnel expenditures (PE) are increasing by $73.2 million and non-personnel expenditures (NPE) are decreasing by $2.3 million. Major changes in personnel expenditures (PE) are presented on the next page. Additional details are discussed in the Department Review sections of this report.

SUMMARY OF GENERAL FUND EXPENDITURE CHANGES				
Description *(dollars in millions)*	**FTE**	**PE**	**NPE**	**Total Changes**
FY 2017 Adopted Budget	7,530.69	$ 911.5	$ 426.5	$ 1,338.0
Highlights of Budget Changes				
PE Changes (See Next Page for Listing)	(10.25)	73.2	-	73.2
Transfer to Infrastructure Fund - Proposition H	-	-	18.1	18.1
Corporate Master Lease Rent	-	-	9.1	9.1
Public Liability Operating Expenses - Claims and Insurance	-	-	4.3	4.3
Help Desk and Voice and Data Networks Costs	-	-	3.5	3.5
Citywide Elections Increase	-	-	2.3	2.3
Real Estate Assets - 101 Ash Street Office Relocation Expenses	-	-	2.1	2.1
Transportation & Storm Water - Low Flow Diversion Payment to Public Utilities	-	-	2.0	2.0
Fire-Rescue - Self-Contained Breathing Apparatus Equipment	-	-	1.1	1.1
Animal Services Contract - County of San Diego	-	-	1.0	1.0
Planning Department - Citywide Parks Master Plan; Transit Priority Area Parking Study and EIR; Workforce Housing Density Bonus Program	-	-	0.9	0.9
Real Estate Assets - Property Management Services at Former De Anza Mobile Home Park	-	-	0.6	0.6
Deferred Capital Debt Service - Commercial Paper	-	-	0.5	0.5
Public Liability Reserve Transfer Increase	-	-	0.3	0.3
Economic Development - Reduction of Civic San Diego and Small Business Enhancement Program Budgets	-	-	(0.3)	(0.3)
Fire-Rescue - Reduction of Lifeguard Vessel Replacement Plan Expenditures	-	-	(0.4)	(0.4)
Library Program Reduction	-	-	(0.5)	(0.5)
Landscaping Services Reduction - Various Departments	-	-	(0.5)	(0.5)
General Fund Reserve Transfer Decrease	-	-	(0.6)	(0.6)
Environmental Svcs - Continuation of City's Refuse Disposal Tipping Fee Discount	-	-	(0.6)	(0.6)
Fire-Rescue Reduction of 1 Fire Academy and Academy Recruit Level (NPE Only)	-	-	(0.6)	(0.6)
Environmental Services - Reduce Transfer to Refuse Disposal Fund for Illegal Dumping Abatement Services	-	-	(0.8)	(0.8)
Transportation & Storm Water - Reduction of Tree Trimming Expenditures	-	-	(0.9)	(0.9)
Transportation & Storm Water - Reduction of Storm Water Consulting Services	-	-	(2.3)	(2.3)
Transfer of Budget to Successor Agency/Civic SD Fund	-	-	(3.3)	(3.3)
Decrease to Energy & Utilities (e.g. Fuel, Electric Services, Water)	-	-	(3.9)	(3.9)
Reallocation of Deferred Capital Debt Service Budgeted to the Capital Outlay Fund	-	-	(4.0)	(4.0)
FY 2017 One-Time Removals Not Included Elsewhere	-	-	(24.9)	(24.9)
Other Adjustments	-	-	(4.6)	(4.6)
FY 2018 Proposed Budget	**7,520.44**	**$ 984.6**	**$ 424.2**	**$1,408.8**
Difference from 2017 to 2018	*(10.25)*	*$ 73.2*	*$ (2.3)*	*$ 70.9*

Personnel Expenditures (PE)

Major changes in General Fund PE is shown in the following table. The $73.2 million increase is largely due to $45.2 million for the Actuarially Determined Contribution (ADC) pension payment, $16.6 million for flexible benefits increases, $4.9 million in safety over-

SUMMARY OF GENERAL FUND PERSONNEL EXPENDITURE (PE) CHANGES				
Description *(dollars in millions)*	**FTE**	**Salaries & Wages**	**Fringe Benefits**	**Total PE Changes**
FY 2017 Adopted Budget	7,530.69	$ 534.5	$ 376.9	$ 911.5
FTE Changes				
City Attorney - 1.00 FTE Program Manager for the SMART Program	1.00	0.1	0.0	0.1
City Comptroller - 0.25 FTE Principal Accountant; 1.00 FTE Accountant 3; and 0.50 FTE Accountant 4	1.75	0.1	0.0	0.2
City Treasurer - 4.00 FTE for Earned Sick Leave and Minimum Wage Ordinance and 5.00 FTE for Revenue Audits	9.00	0.7	0.3	0.9
Economic Development - 6.00 FTE for Reinvestment Initiative; 1.00 FTE for Successor Agency	7.00	0.5	0.2	0.7
Fire-Rescue - 7.00 FTE for Bayside Fire Station; 6.00 FTE for San Pasqual Fast Response Squad; 5.00 FTE for fire dispatchers; and 1.00 Transfer of Analyst from Fire/EMS Transport Fund	19.00	1.2	0.7	1.9
Human Resources - 3.00 Transfers from Public Utilities for Human Resources Functions Consolidation	3.00	0.2	0.2	0.4
Office of the Chief Operating Officer - 1.00 FTE Transfer from Qualcomm Stadium Operating Fund	1.00	0.1	0.1	0.2
Park & Recreation - 5.31 FTE for Parks and 1.00 FTE for Vernal Pool Habitat Conservation Plan	6.31	0.2	0.2	0.4
Planning Department - 2.00 FTE for the Environment and Policy Analysis Division	2.00	0.2	0.1	0.3
Police - 2.00 FTE Print Examiner Aides; 1.00 FTE for Property Room and Communications Support; 5.00 Civilians and 1.00 Sworn for Operations Support	9.00	0.5	0.4	0.9
Purchasing & Contracting - 1.00 FTE for City's Administrative Appeals Hearing Program Support	1.00	0.1	0.0	0.1
Departmental Reductions to Standard Hour (Non-Hourly) FTEs	(39.80)	(2.2)	(1.4)	(3.6)
Adjustment for Zero-Based Hourly FTE Review	(10.25)	(0.2)	(0.0)	(0.2)
Library Reductions to Hourly FTEs	(20.26)	(0.6)	(0.1)	(0.7)
Subtotal - FTE Changes	**(10.25)**	**1.0**	**0.7**	**1.7**
Other Changes				
Adjustment to Remove Fringe Included in FTE Changes Above	-	-	(0.7)	(0.7)
Fire-Rescue Vacancy Savings Decrease (An Increase to Salaries Expenditures)	-	3.9	-	3.9
Fire-Rescue Overtime Increase	-	2.7	-	2.7
Police Overtime Increase	-	2.2	-	2.2
Actuarially Determined Contribution (ADC) Pension Payment Increase	-	-	45.2	45.2
Flexible Benefits Increase - Includes Effects of Agreements With the City's Employee Organizations	-	-	16.6	16.6
Supplemental Pension Savings Plan Increase	-	-	1.9	1.9
Retiree Health/Other Post-Employment Benefits (OPEB) Increase	-	-	0.9	0.9
Workers' Compensation Decrease	-	-	(2.4)	(2.4)
Long-Term Disability Decrease	-	-	(1.4)	(1.4)
Other Adjustments	-	2.1	0.4	2.5
FY 2018 Proposed Budget	**7,520.44**	**$ 546.4**	**$ 438.2**	**$ 984.6**
Difference from 2017 to 2018	*(10.25)*	*$ 11.9*	*$ 61.3*	*$ 73.2*

Overtime Comparison: Prior Years' Actuals, FY 2017 Projection and FY 2018 Proposed Budget					
Department *(dollars in millions)*	**FY 2015 Actual**	**FY 2016 Actual**	**FY 2017 Projection**	**FY 2018 Proposed**	**Decrease from FY17 to FY18**
Fire-Rescue	$ 31.5	$ 31.8	$ 33.6	$ 32.8	$ (0.8)
Police	23.1	25.0	26.0	23.2	(2.8)
Transportation & Storm Water	2.0	3.1	2.6	1.1	(1.6)
Other Departments	1.8	2.2	2.3	1.3	(1.0)
Total	**$ 58.5**	**$ 62.1**	**$ 64.5**	**$ 58.4**	**$ (6.1)**

Note: Table may not total due to rounding.

time, and $3.9 million in increased Fire-Rescue Department salaries from the removal of $3.9 million in vacancy savings.

There are 60.06 standard hour (non-hourly) FTEs added to the budget which are listed in the table on the previous page. Additionally, 39.80 standard hour and 30.51 hourly FTEs are reduced in the budget, yielding a net 10.25 FTE reduction. A list of the reductions (as well as additions) is included in Attachment A to Volume 1 of the FY 2018 Proposed Budget.

Salaries and Wages

Salaries and wages are increasing by a net $11.9 million from the FY 2017 Adopted Budget. Some of the more significant increases include:

- $4.1 million increase for 60.06 additional standard hour (non-hourly) FTEs in various departments (These increases are partially offset by the removal of 39.80 standard hour FTEs and $2.2 million.)
- $3.9 million increase in Fire-Rescue salaries as stated above
- $2.7 million increase in Fire-Rescue overtime
- $2.2 million increase in Police Department overtime
- $852,000 decrease for hourly FTEs, including $644,000 for 20.26 FTEs in the Library Department

<u>Overtime and Vacancy Savings</u>

Overtime increases of $4.9 million for Fire-Rescue and Police constitute 41% of the net salaries and wages increases. However, we have some concern as to whether the FY 2018 Proposed Budget overtime levels are adequate when comparing to prior years' actuals and the most recent FY 2017 projection—shown in the table above.

For Police, an historically offsetting spending category has been vacancy savings. The FY 2017 Mid-Year projection shows vacancy savings for Police is $2.7 million higher than budgeted. It is possible that there will be excess vacancy savings

[1] The condition where excess vacancy savings covers over-budget amounts in other salaries and wages (or vice versa) can be a natural occurrence in a dynamic organization. For example, in a constant staffing model such as for fire suppression, overtime may be needed when the existing staffing levels are insufficient to meet required staffing levels. With increases in vacancies there may be times when more overtime is needed than was originally expected.

in FY 2018 that will offset potential excess overtime.[1]

There are also other departments that have excess vacancy savings in the FY 2017 Mid-Year projections. However, the scope of excess vacancy savings is less than in FY 2016 and FY 2015. In both years, actual vacancy savings was double what was budgeted. As a mitigation in FY 2017, budgeted vacancy savings was increased by about $9 million.

For the FY 2018 Proposed Budget, vacancy savings has been decreased by a net $3.7 million, largely due to the Fire-Rescue adjustment mentioned earlier. As the City's budget continues to be refined over the years, budgets for the various salaries and wages categories, including overtime and vacancy savings, have become more in line with actual activity.

There may still be some room for adjustment to vacancy savings and the other salaries and wages categories; and the FY 2018 increases in overtime for Police and Fire-Rescue help to refine the budget even more. We will continue to monitor salaries and wages spending as FY 2017 draws to a close, and in FY 2018 as well.

Vacation Pay-in-Lieu

Vacation pay-in-lieu is an area we have discussed in prior reports. Over the past five completed fiscal years (FY 2012 through FY 2016), vacation pay-in-lieu expenditures have averaged approximately $7.3 million and been over-budget. For FY 2016, vacation pay-in-lieu expenditures totaled $8.0 million, $2.8 million over-budget.

In FY 2017 the budget increased by $2.1 million for vacation pay-in-lieu with respect to the most recent labor agreement with the Fire Fighter's employee organization (International Association of Fire Fighters, Local 145). However, there was no adjustment with respect to the historical overages discussed above. The Mid-Year projection shows vacation pay-in-lieu again being over-budget (by $2.3 million).

Although vacation pay-in-lieu is a difficult expenditure type to budget and forecast, we recommend that Financial Management examine potential methodologies for estimating it, so that a more accurate budget for those expenditures can be established.

Compensation Increases: Agreements With Employee Organizations

The following table shows estimated impacts based on the most recent multi-year agreements with the City's employee organizations, which totals about $15.9 million for FY 2018. Increases to employee compensation due to the labor agreements include those to flexible benefits; overtime for Firefighters; and special pays (for Police Dispatchers in FY 2018). Salaries are increased in FY 2019 and again in FY 2020.

Multi-Year Agreements with the City's Employee Organizations
(dollars in millions)

Compensation Increase/(Decrease)	FY 2018	FY 2019	FY 2020
Salaries	$ -	$ 16.0	$ 31.4
Special Pays	0.7	2.3	2.3
Overtime - Firefighters	1.6	1.6	1.6
Flexible Benefits	13.7	12.1	10.1
Uniform Allowance	(0.1)	(0.2)	(0.3)
TOTAL	**$ 15.9**	**$ 31.8**	**$ 45.0**

Note: Table may not total due to rounding.

Some additional compensation increases related to the labor agreements are not included in the table on the previous page:

- $2.7 million for Fire-Rescue overtime for behavioral changes in the use of annual leave (causing backfilling of absent Firefighters at the overtime rate)
- $818,000 for increased overtime costs related to the Fair Labor Standards Act (FLSA) requirement that cashed-out flexible benefits credits be included in the calculation of overtime

Fringe Benefits

Fringe Benefits are increasing by $61.3 million. The largest increases include:

- $45.2 million for the Actuarially Determined Contribution (ADC) pension payment
- $16.6 million for flexible benefits increases (This includes the effects of agreements with the City's employee organizations.)
- $1.9 million for Supplemental Pension Savings Plan (SPSP) increases—primarily due to increasing numbers of employees entering the SPSP-H interim defined contribution plan (for employees hired after implementation of Proposition B), with $987,000 related to SPSP-H contributions for post-Proposition B Firefighters' overtime

These increases are partially offset with the following decreases:

- $2.4 million in decreased Workers' Compensation (WC) budget—increased WC costs are offset with a $4.0 million reduction that will be covered by WC fund balance (yielding the net reduction of $2.4 million)
- $1.4 million in decreased Long-Term Disability (LTD) budget, as the cost will be covered by fund balance

The City's budgeting system provides a relatively precise allocation of the ADC, and other fringe benefits, among employees and their respective departments. For example, the ADC budget distribution is based on actual filled positions and is calculated based on percentages of salaries, from information contained in the pension system's actuarial valuation.

Non-Personnel Expenditures (NPE)

NPE changes are highlighted on the table on the first page of this section. For additional discussion, see the Department Reviews Sections of this report, as well as Volume 1 of the FY 2018 Proposed Budget.

Revenue Overview

The FY 2018 Proposed Budget for the General Fund includes approximately $1.40 billion in revenues, an increase of $70.6 million or 5.3% over the FY 2017 Adopted Budget. The four major General Fund revenues: property tax, sales tax, transient occupancy tax (TOT), and franchise fees, total $1.00 billion or 71.7% of all General Fund revenues. In FY 2018, major General Fund revenues increased $33.6 million or 3.5% over FY 2017.

This section provides a brief overview of the economic outlook included in the Proposed Budget, a discussion of each of the City's four major General Fund revenues, and the possible fiscal impact of Measure N, passed by voters on November 8, 2016, which established a Cannabis Business Tax on non-medical cannabis businesses in the City of San Diego.

Economic Outlook

The FY 2018 Proposed Budget includes major General Fund revenue projections based on a positive, albeit slowing, economic forecast that encompasses a number of factors including: an increase in the county's median home price, low unemployment levels, high levels of consumer confidence, and ongoing increases in the Index of Leading Economic Indicators for San Diego County as of March 2017. Risks to San Diego's economy could include uncertainty associated with expected increases in interest rates, potential federal policies, and the sustainability of the current period of economic expansion. Major General Fund revenue growth in the FY 2018 Proposed Budget is similar to the budget projections included in the FY 2018-2022 Five-Year Financial Outlook (Outlook), with the exception of franchise fee revenues.

Overall, our Office believes that the major General Fund revenue projections included in the FY 2018 Proposed Budget are appropriate based on FY 2017 year-end revenue projections and the current economic forecast, with the possible exception of sales tax. A more detailed discussion of each of the City's four major General Fund revenues follows in the sections below.

Property Tax

Increases in property tax revenue reflect increases in the assessed value of real property. As property values continue to

SUMMARY OF GENERAL FUND REVENUES *($ in millions)*

	FY 2017 ADOPTED	FY 2017 MID-YEAR PROJECTED YEAR-END	FY 2018 PROPOSED	CHANGE, ADOPTED/ PROPOSED	CHANGE, PROJECTED/ PROPOSED
Major General Fund Revenues	$970.7	$961.3	$1004.2	$33.6	$42.9
Property Tax	502.0	503.3	530.5	28.5	27.2
Sales Tax	272.8	271.5	276.9	4.1	5.4
Transient Occupancy Tax	113.3	112.5	121.0	7.7	8.5
Franchise Fees	82.6	74.1	75.8	(6.8)	1.7
Property Transfer Tax	9.6	9.8	10.1	0.5	0.3
Other General Fund Revenue	349.7	368.3	386.3	36.5	17.9
Total Revenue	**$1,330.0**	**$1,339.4**	**$1,400.6**	**$70.6**	**$61.1**

increase in San Diego, property tax revenue increases as well; conversely, if the number of properties sold slows so will the associated growth in revenue.

In the FY 2018 Proposed Budget, property tax is budgeted at approximately $530.5 million, a $28.5 million or 5.7% increase over FY 2017. The FY 2018 Proposed Budget notes that the property tax growth rate for base property tax, as well as the revenue received by the City in-lieu of the motor vehicle license fee, is 5% over the increased year-end property tax revenue projection reported in the FY 2017 Mid-Year Budget Monitoring Report (Mid-Year Report). Our Office believes these projections to be appropriate for FY 2018. We note that the Outlook projected a 5% property tax growth rate for FY 2018, with gradually reducing rates of growth through FY 2022.

Property Transfer Tax

Property transfer tax is revenue that the City receives from the sale of real property, reflecting both sale prices and the number of properties sold. The FY 2018 Proposed Budget assumes positive growth in property transfer tax revenue based on the assumption of continued growth in property value.

The FY 2018 Proposed Budget includes a revenue projection of $10.1 million for property transfer tax, an increase of $498,000 or 5.2% over the FY 2017 Adopted Budget, and a $269,000 or 2.7% increase over the year-end projection reported in the Mid-Year Report.

Sales Tax

FY 2017 sales tax receipts are currently projected at $274.1 million. The FY 2018 Proposed Budget for sales tax revenue is $276.9 million. This represents an approximately $2.8 million or 1.0% increase over currently projected year-end sales tax receipts, and a $4.1 million or 1.5% increase from the FY 2017 Adopted Budget.

Sales tax revenue is highly sensitive to economic conditions, including job growth, consumer spending, and business investment. The overall economy in the San Diego region has continued to grow, and taxable sales have largely tracked that overall economic growth. While growth in taxable sales in FY 2016 slowed compared to prior years, actual sales tax growth through the first three quarters of FY 2017 has totaled 4.9%, and exceeded the FY 2017 Adopted Budget's projected growth rate of 3.5%. The Proposed Budget's growth rate of 2.5% is below the growth experienced to date in FY 2017, but above the growth rate of 1.1% that was last forecast by MuniServices, the City's sales tax consultant. We believe the 2.5% growth rate included in the Proposed Budget is appropriately conservative, though adjustments could be merited should actual receipts in FY 2017's 4th quarter deviate from current projections.

Potential Adjustments to FY 2018 Projected Receipts

In calculating FY 2018 sales tax revenue, the Proposed Budget uses actual receipts from the first three quarters of FY 2017 adjusted to remove any one-time anomalies, as well as projected receipts for the fourth quarter that assume 3% growth for that quarter over FY 2016.

Actual growth to date in FY 2017 sales tax receipts totals 4.9%. If the final quarter of the FY 2017 base year on which the FY 2018 budget is built were to use this 4.9% growth rate instead of the 3.0% growth rate assumed in the year-end projections, sales tax projected to be generated in FY

2018 would increase by $1.2 million to $278.1 million, and $1.1 million in additional FY 2017 sales tax revenue would be added to excess equity at the end of FY 2017.

Also, as noted above, the Proposed Budget assumes that actual taxable sales will increase by 2.5% throughout FY 2018. If sales tax receipts continue to come in above projections, consideration could be given to increasing the growth rate to 3%, which would increase projected FY 2018 sales tax revenues by $1.3 million to $278.2 million, assuming current projections for FY 2017.

The City's sales tax consultant is scheduled to provide an update on actual fourth quarter receipts on May 2, 2017. Given the potential that those actual receipts could have a significant impact on sales tax receipts in the Proposed Budget, our Office will issue a memo to Council on May 2 to be used during the Budget Review Committee's budget hearings if actual fourth quarter receipts deviate significantly from their current projections.

Transient Occupancy Tax

TOT is revenue that is generated from a 10.5 cents per dollar levy on taxable rent, where rent is charged for a stay of less than one month. The General Fund is allocated 5.5 cents of the 10.5 cent rate per the San Diego Municipal Code. In FY 2018, the City's 10.5 cent allocation is projected to be approximately $231.0 million, and the 5.5 cent General Fund portion is projected to be $121.0 million, an increase of $7.7 million or 6.8% over the FY 2017 Adopted Budget. The projected FY 2018 TOT revenue is also an increase of $8.5 million or 7.6% over the Mid-Year Report.

Since the Mid-Year Report was published, Financial Management has revised the year-end projection for TOT based on updated receipts. The FY 2018 Proposed Budget reflects a $12.5 million or 5.7% increase over the revised TOT year-end projection of $218.6 million. This 5.7% growth rate is what was projected for TOT in the Outlook, and our Office believes this projection to be appropriate for FY 2018.

Franchise Fees

The FY 2018 Proposed Budget projects General Fund franchise fees to total $75.8 million. This is a decrease of $6.8 million or 8.1% from the FY 2017 Adopted Budget.

FY 2017 Franchise Fees are currently projected to be $74.1 million at year-end, $8.5 million below the projections that were included in the Adopted Budget. Franchise fees in the FY 2018 Proposed Budget are $1.7 million, or 2.4% above current FY 2017 year-end projections.

Franchise fee revenue is derived primarily from three sources: 1) a 3% San Diego Gas & Electric (SDG&E) surcharge on total gross sales; 2) a 5% surcharge on cable television provider subscriptions in the City; and 3) charges to private refuse haulers based on tonnage of refuse disposed. Additional smaller franchise fee revenues are received from other energy, railroad, and towing franchises in the City.

SDG&E

The largest source in General Fund franchise fee revenue is the surcharge on SDG&E, which accounts for $44.5 million or 60% of the General Fund franchise fees included in the FY 2018 Proposed Budget. This amount is 6.9% above current year-end projections for SDG&E.

FY 2017 SDG&E franchise fee revenues have experienced a significant decline, and are expected to come in 15.4% below projections from the FY 2017 Adopted Budget. SDG&E revenues have historically been difficult to accurately forecast, both due to substantial volatility in the energy market and because SDG&E, as a publicly traded company, does not share its financial forecasts for electricity and natural gas rates or sale volumes with the City. Franchise fee revenue received from SDG&E has varied significantly from year-to-year, with a 21.1% increase in franchise fee revenue received from FY 2014 to 2015, and the 12.3% decline expected from FY 2016 receipts to FY 2017. The Proposed Budget used a 2% growth rate for the 2017 calendar year to make its projections.

Cable

The second largest portion of franchise fee revenue is from cable television franchise fees, which total $16.9 million, or 22.2% of General Fund franchise fees in the Proposed Budget. This amount assumes no growth or decline in cable revenues from the year-end projection for FY 2017 receipts.

Growth in cable television franchise fee revenue showed year-over-year declines from FY 2011 to FY 2014. While there was growth in these revenues in FY 2015, they declined in FY 2016 and FY 2017. While a projection of zero growth for FY 2018 is conservative, actual growth should be monitored throughout the year to track whether any additional declines occur.

Refuse Hauling

The third largest portion of franchise fee revenue is derived from refuse hauler and landfill disposal fees. The Proposed Budget includes $12.4 million, or 16.4% of General Fund Franchise Fees, from this source. This is a $110,000 increase over the FY 2017 Adopted Budget.

These revenues are based on total refuse tonnage hauled and disposed of, respectively. Tonnage is directly tied to growth in the residential housing market and general economic activity, as homeowners remodel their homes, purchase new consumer goods, and/or replace older items that are discarded.

Cannabis Tax

The FY 2018 Proposed Budget includes the addition of approximately $2.4 million in new revenue from the City's Cannabis Business Tax (CBT), which was approved by voters as Measure N in November 2016. The CBT is a gross receipts tax, currently set at 5% and increasing to 8% on July 1, 2019. The City Council has the authority to either increase or decrease the CBT by ordinance at any time, subject to a maximum rate of 15%. The CBT applies to all non-medical cannabis businesses that operate or provide services within the City, including retail stores, delivery services, cultivators, and distributors (the CBT applies preemptively to these business categories, even if they do not currently operate in the City).

No non-medical marijuana businesses currently operate legally in the City. Beginning in January 2018, the State of California is expected to issue permits for non-medical marijuana businesses, subject to local regulation. In January 2017, the City Council amended the Land Development Code to create a new use category for Marijuana Outlets, once they become permitted by the State. Generally speaking, Marijuana Outlets will be required to follow similar guidelines previously established for the City's existing Medical Marijuana Consumer Cooperatives. The Council's action in January allowed qualifying Marijuana Outlets to operate as retail stores with limited deliveries. However, regulations regarding cultivation and processing are still due to return to the Council for consideration by October 2017.

Financial Management has indicated that its revenue projection of $2.4 million is based on an analysis of sales tax data from existing Medical Marijuana Consumer Cooperatives. Using this data, 5% of gross receipts from 18 storefronts (assuming all current permitted Medical Marijuana outlets were to provide non-medical sales when they are made legal) would yield $4.8 million in CBT revenue per year. Adjusting for a half-year of collection in FY 2018, the Proposed Budget includes $2.4 million.

Our Office believes the $2.4 million revenue estimate is reasonable but conservative based on two factors: 1) non-medical marijuana businesses remitting CBT to the City may also include cultivation facilities in addition to storefronts, depending on future Council action, and 2) demand for non-medical marijuana may be higher than it is currently for medical marijuana. Additionally, we note the City Council has the authority to change the CBT by ordinance at any time, subject to a maximum rate of 15%, and may do so before the automatic rate increase to 8% set for July 1, 2019.

Assuming no change to Financial Management's CBT assumptions for FY 2018, in FY 2019 the City should expect to see estimated CBT revenue double from $2.4 million to $4.8 million based on a full year of collection. This amount will vary depending on the factors described above.

General Fund Reserve

Reserve Policy Changes and Funding Needs

In April 2016 the City Council updated the City Reserve Policy, increasing the General Fund (GF) Reserve goal from 14% to 16.7% of the previous three-year average of audited General Fund operating revenues. Per the April 2016 Reserve Policy, the new 16.7% Reserve level was to be phased in over six years (beginning in FY 2016 and ending in FY 2021).

As outlined in the City Reserve Policy, the components of the 16.7% GF Reserve include an 8% Emergency Reserve and an 8.7% Stability Reserve – a 2.7% increase to the 6% Stability Reserve from the previous Reserve Policy.

In February 2017, the Council approved a further modification to the GF Reserve policy, keeping the 16.7% policy goal, but extending the time to achieve the goal by four years, to FY 2025. The Reserve target for FY 2018 is 15.00%, which is estimated to be $180.1 million.

Why was the Reserve Policy updated in February 2017?

When the Reserve Policy was set in April 2016, the City was looking at an over $30 million estimate for FY 2016 ending Excess Equity; and projected revenues and expenditures were balanced. Subsequently, in November 2016, the Five-Year Outlook was released, showing projected deficits for FY 2018 and FY 2019.

These projected deficits were due to a number of factors that caused a structural imbalance to the budget, including: an increase in the City's pension payment, increasing costs associated with employee organization agreements, and slowing revenue growth.

Additionally, these deficits only included expenditures for existing service levels, which were designated as "Baseline Expenditures." Expenditures for upcoming critical strategic programs and services that were not part of the FY 2017 Baseline Expenditures, were not included in the Outlook's FY 2018 and FY 2019 projected deficits. In the IBA's review of the Five-Year Outlook (IBA Report #16-43), we incorporated upcoming critical strategic programs that have been planned by the City. After totaling such additional expenditures, the projected deficits increased significantly and extend into FY 2020 and FY 2021.

Estimated Excess Equity

As reflected in the table on the next page, projected Excess Equity for FY 2017 is $11.0 million. This projection is derived by adjusting the FY 2017 beginning Reserve balance of $192.4 million by the following items:

- $8.0 million reduction for the FY 2017 budgeted use of Excess Equity
- $4.2 million reduction for additional use of Excess Equity to support FY 2017 General Fund operations, as projected in the Mid-Year Budget Monitoring Report
- $7.6 million increase for the budgeted General Fund Reserve contribution, as it is also part of the reduction for the $173.8 million reserve requirement shown at the bottom of the table

- $3.0 million reduction to adjust for low-flow diversion capacity charges (to properly reflect a prior year accrual)

Adjusting the $192.4 million beginning Reserve for the items described above leaves $184.8 million in FY 2017 estimated year-end Reserve. Then comparing this estimated year-end Reserve to the $173.8 million Reserve requirement yields projected Excess Equity of $11.0 million for FY 2017.

The FY 2018 Proposed Budget anticipates utilizing $8.3 million of Excess Equity, leaving an estimated $2.7 million.

FY 2017 Year-End Excess Equity Estimate *($ in millions)*	
Beginning FY 2017 Reserve Balance	$ 192.4
FY 2017 Budgeted Use of Excess Equity	(8.0)
FY 2017 Projected Additional Use of Excess Equity per the Mid-Year Report	(4.2)
FY 2017 Budgeted General Fund Reserve Contribution[1]	7.6
Adjustment for FY 2015 Accrued Low Flow Diversion Capacity Charges	(3.0)
FY 2017 Year-End Reserve Estimate	***184.8***
FY 2017 14.75% Reserve Requirement (*includes FY 2017 General Fund Reserve contribution*)[1]	(173.8)
FY 2017 Year-End Excess Equity Estimate[1]	**$ 11.0**

[1]The budgeted General Fund Reserve Contribution is added back, as it is part of the $173.8 million reduction for the FY 2017 14.75% Reserve requirement.

Public Liability Funds

The Public Liability (PL) Funds are supported by transfers from the General Fund's Citywide Program Expenditures budget. PL Funds will be discussed in the PL Operating Fund and PL Reserve Fund sections below.

Public Liability Operating Fund

The FY 2018 Proposed Budget includes $29.5 million to support FY 2018 PL operating expenses, up $4.3 million from the $25.2 million in the FY 2017 Adopted Budget.

For FY 2017, additional resources above the $25.2 million Adopted Budget amount are anticipated to support operating expenditures. FY 2017 claims payouts, expenses, and insurance for the PL Operating Fund are estimated to be $52.5 million. These projected costs are offset with the $25.2 million budgeted and transferred from the General Fund, as well as the following sources:

- $5.9 million mid-year transfer from the PL Reserve for estimated increased claims and settlement payments
- $9.0 million in beginning cash balance
- $1.6 million in insurance reimbursements for prior year claims expenditures
- $11.4 million in estimated additional insurance proceeds

The Public Liability Operating fund can be very volatile and is continually monitored throughout the year.

Public Liability Reserve Fund

The PL Reserve goal is specified in the City Reserve Policy (Council Policy 100-20). The goal is to maintain a balance equal to 50% of the PL actuarial liability—which is based on the most recent three-year average of actuarial liabilities (FY 2014 through FY 2016). Currently, this 50% Reserve policy goal equates to $39.1 million.

The City Reserve's plan to reach the 50% Reserve goal is based on incremental steps.

- Currently, the FY 2017 Reserve target of 43%, or $33.6 million is anticipated to be met with the $2.8 million budgeted General Fund transfer to the PL Reserve.
- Subsequently, the FY 2018 Reserve target of 47% is anticipated to be met with the FY 2018 Proposed Budget's $3.1 million General Fund transfer (assuming the current three-year average of actuarial liabilities).
- Finally, (assuming the current actuarial liability average) the full 50% Reserve goal is anticipated to be achieved with an additional $2.3 million transfer in FY 2019.

Workers' Compensation Fund

Estimated costs for Workers' Compensation (WC) are based on a three-year average of actual annual payments. WC rates are applied to employees' salaries and reflect a blend of claims cost estimates (which are allocated by job classification) and the allocated reserve contribution, as necessary. The estimated costs are distributed accordingly in the budget system and categorized as fringe benefits expenditures.

The $27.7 million budgeted in the FY 2018 Proposed Budget for citywide fringe payments to the WC Fund has decreased by a $2.6 million (from $30.3 million in the FY 2017 Adopted Budget). This reduction is due to the use of $4.6 million of WC fund balance to cover a portion of the WC operating costs, which are estimated to be $32.3 million in FY 2018. No WC Reserve contribution is needed for FY 2018, as the Reserve Policy goal has been met—see the next section for further discussion.

The General Fund portion of the WC budget is decreasing by $2.4 million, from $24.7 million to $22.4 million. The General Fund portion of allocated WC fringe benefits expenditures is 80.8%.

WC Reserve

The WC Reserve goal is specified in the City Reserve Policy (Council Policy 100-20). The goal is to maintain a balance equal to 12% of the WC actuarial liability—which is based on the most recent three-year average of actuarial liabilities (FY 2014 through FY 2016). Currently, this 12% Reserve policy goal equates to $29.9 million.

The 12% funding goal was implemented earlier this year, when it replaced the prior funding goal of 25%. This City Reserve Policy amendment (along with an amendment to the General Fund Reserve policy) was presented by the Financial Management Department and approved by the City Council on February 13, 2017. The new 12% WC Reserve funding goal approximates one year's worth of operating expenses. See Report to Council #17-011 and IBA Report #17-03 for additional background information on the Reserve Policy amendments.

The reduction of the WC Reserve funding requirement from 25% to 12% produced an excess WC Reserve amount totaling $24.4 million. A portion of this excess is planned to be utilized during FY 2018:

- $7.0 million is budgeted as a transfer to the General Fund to cover the General Fund Reserve contribution;
- $3.1 million is budgeted as a transfer to the General Fund to cover the Public Liability Fund Reserve contribution; and
- $4.6 million is being utilized to cover WC operating costs as previously discussed.

After utilization of the WC Reserve in FY 2018 as described above, the estimated excess is over $9.0 million. There may be interest in utilizing all, or a portion of, the WC excess Reserve for one-time needs in FY 2018. However, the Proposed Budget indicates that this remaining balance is planned to be used to support WC operating expenses through FY 2020.

Long-Term Disability Fund

Estimated costs for Long-Term Disability (LTD) are based on a three-year average of actual annual payments combined with an annual reserve contribution, as necessary. A single LTD rate is determined and applied to employees' salaries. Estimated costs are distributed accordingly in the budget system and categorized as Fringe Benefit expenditures.

The FY 2018 Proposed Budget for citywide fringe payments to the LTD Fund has decreased by $2.1 million ($1.4 million for the General Fund) to zero. This reduction is due to the use of LTD fund balance to cover the costs.

LTD Reserve

Per the City Reserve Policy, the LTD target reserve level is 100% of the outstanding actuarial liability for LTD. The $11.0 outstanding liability is based on the average of the annual actuarial liabilities for the three most recent fiscal years (FY 2014 through FY 2016).

Compared to the $17.4 million projected for the FY 2017 LTD Reserve balance, the required $11.0 million Reserve level is projected to be exceeded by $6.4 million. Utilizing $2.1 million of this excess for estimated LTD costs in FY 2018 would bring the excess Reserve to $4.3 million During our review of the Five-Year Outlook, we suggested that the City could consider using a portion of the excess LTD Reserve funds for one-time needs.

We note, however, that the City is currently negotiating with its recognized employee organizations regarding a death and disability benefit for employees who were hired on or after July 20, 2012, and, per the parameters of Proposition B (passed by the voters in June 2012), are not eligible for the defined benefit pension. Excess LTD Reserve amounts have been anticipated as a funding source for the new death and disability benefit.

Other Future Considerations

For future budget cycles, we recommend consideration be given to adjusting the allocation of LTD fringe benefits costs among departments. We suggest allocating LTD fringe costs among departments based upon historical LTD costs associated with each department, or an alternate allocation method, rather than the current method of assigning a single rate to all City employees.

Aligning fringe costs paid by each department with the proportion of LTD costs incurred by each department would allow for more precise cost matching of LTD fringe expenditures.

Other Post-Employment Benefits

Retiree health obligations, or Other Post-Employment Benefits (OPEB), total $62.2 million ($40.9 million for the General Fund) in the FY 2018 Proposed Budget.

Currently, the City provides a defined benefit plan (DB) for employees hired before July 1, 2005. This benefit was restructured for employees retiring on or after April 1, 2012.[1]

In the DB retiree medical plan, vested employees are provided a specific health benefit at retirement. Effective July 1, 2009 the vesting time requirement for the full DB benefit is 20 years.

For employees retiring before the DB retiree health benefit restructure became effective (April 1, 2012), the City has frozen the automatic escalator on the retiree health benefit for POA and AFSCME Local 127 employees retiring on or after July 1, 2009 and before April 1, 2012. The benefit is frozen at $8,883 per year.

Additionally, there are separate defined contribution retiree medical benefits. For General Members, a plan for employees hired on or after July 1, 2009 requires both an employee contribution and City match of 0.25% of an employee's base compensation. The Firefighters' employee organization also negotiated for members a $25 contribution per pay period, which is budgeted in the General Fund at $559,000. The citywide FY 2018 Proposed Budget for these plans totals $983,000 ($785,000 for the General Fund, including the Firefighters' benefit.)

Fiscal Effects of Restructuring the Retiree Health Benefit

The effect of the retiree health benefit restructure of the City's ***defined benefit*** retiree health plans is evident in the most recent actuarial valuation for the City, for the period ending June 30, 2016. The OPEB Unfunded Actuarial Liability (UAL) at June 30, 2016 is $537.8 million, down from $1.1 billion at June 30, 2011.

However, since June 30, 2013, the UAL has increased by $93.7 million—from $444.1 million at June 30, 2013 to $537.8 million at June 30, 2016. One of the main factors for the increase occurred in the FY 2015 valuation, where there was a "change in mortality assumption, which resulted in an increase in the Actuarial Accrued Liability of about 11%," as stated in the valuation. Another notable factor in the UAL increase occurred in the FY 2014 valuation, with adjustments to account for the higher costs associated with non-Medicare participants over the age of 65.

The June 30, 2016 OPEB Annual Required Contribution (ARC) projected for FY 2018 is $48.8 million, as compared to the June 30, 2013 valuation's projected FY 2015 ARC of $38.1 million. The $48.8 million ARC is primarily related to UAL amortization for the defined benefit plan, which is closed to

[1] There are three options associated with the restructured retiree health benefit: Option A is a defined benefit with a full annual allowance (at 20 years of service) equal to $8,883 per year, with a 2% annual escalator beginning FY 2014; Option B is a defined benefit with a full annual allowance (at 20 years of service) equal to $5,500 per year, with no escalator; Option C is a defined contribution plan projected to yield $8,500 annually (with 20 years of service). Options A and B require that employees make nonrefundable contributions.

new participants.

The ARC figure does not reflect the payment components the City plans to make with respect to the restructured retiree health benefits. In addition to the defined benefit retiree health plans, there is also a ***defined contribution*** plan that must be funded.

The table below shows the different retiree health payment components the City estimates it will make through FY 2022 and is based on estimates provided by Buck Consultants. This table reflects the citywide fiscal impact of the newly restructured retiree health benefit, which was $57.8 million through FY 2015, with anticipated annual increases of no more than 2.5% thereafter.

- The first row contains the pay-as-you-go (PAYGO) estimates associated with retiree health benefit payments for eligible retirees under the City's retiree health ***defined benefit*** plans. Note that there is a defined benefit plan for eligible employees retiring before April 1, 2012, as well as the restructured defined benefit options for eligible employees retiring on or after April 1, 2012.
- The second row contains estimated amounts that will either be paid into or withdrawn from the CalPERS OPEB Trust Fund for the City's retiree health benefits. When funds are needed to cover expenses above the City's budgeted retiree health contribution amount, they will be withdrawn from the trust fund (to fund PAYGO). This occurs in FY 2017 through 2022.
- The third row contains estimated City contributions to Health Reimbursement Arrangement (HRA) accounts. These amounts will fund HRA accounts for eligible employees retiring on or after April 1, 2012 who selected the ***defined contribution*** retiree health plan (restructured retiree health benefit Option C).
- The fourth row contains cost estimates for administration payments to SDCERS to manage the retiree health benefit program.
- The fifth row contains estimates for contributions that will be made by employees retiring on or after April 1, 2012 who selected the ***defined benefit*** retiree health plan options (restructured retiree health benefit Options A and B).
- The last row is the sum of the first five rows and equals the total citywide payments to be made each fiscal year.

Annual Required Contribution (ARC)

Despite its name, the City is not required to pay the OPEB ARC, but as of FY 2008 the cumulative difference between the ARCs and the payments made by the City is re-

	OPEB/Retiree Health Forecast *($ in millions)*	**FY 2017 Forecast**	**FY 2018 Forecast**	**FY 2019 Forecast**	**FY 2020 Forecast**	**FY 2021 Forecast**	**FY 2022 Forecast**
1	PAYGO	$ 45.1	$ 46.2	$ 46.8	$ 47.6	$ 48.8	$ 49.1
2	CalPERS Trust Contribution/(Withdrawal)	(12.0)	(12.9)	(9.0)	(11.4)	(16.7)	(7.0)
3	Contribution to HRA Accounts	27.7	28.9	25.9	28.9	34.6	26.1
4	Benefit Administration by SDCERS	0.6	0.6	0.6	0.7	0.7	0.7
5	Less: Employee Contributions	(0.7)	(0.6)	(0.5)	(0.4)	(0.3)	(0.2)
	Total City Contribution	**$ 60.7**	**$ 62.2**	**$ 63.8**	**$ 65.4**	**$ 67.0**	**$ 68.7**

ported as the Net OPEB Liability in the financial statements. The full amount of the unfunded OPEB liability is disclosed in the notes to the financial statements, in accordance with Governmental Accounting Standards Board (GASB) requirements.

New GASB requirements will be in effect for FY 2018 which parallel the recently implemented pension requirements included in the City's FY 2015 and FY 2016 CAFRs (Comprehensive Annual Financial Report). These requirements include incorporating the total OPEB liability less the fair value of assets, or Net OPEB Liability, into the citywide financial statements.

Information regarding the OPEB ARC and Unfunded Actuarial Liability are available in the June 30, 2016 valuation—which was performed by Buck Consultants and provided to the City in September 2016.

Pension

Defined Benefit (DB) Pension—Overview

The FY 2018 Proposed Budget includes $324.5 million for the Actuarially Determined Contribution (ADC), which is the City's defined benefit (DB) pension contribution requirement. This is an increase of $63.4 million from the FY 2017 Adopted Budget amount of $261.1 million.

The General Fund portion of the FY 2018 budgeted payment is $236.4 million—an increase of $45.2 million from the FY 2017 Adopted Budget of $191.2 million. The General Fund portion is 72.8% of the FY 2018 budgeted payment.

The FY 2018 ADC of $324.5 million is based on the FY 2016 actuarial valuation. The valuation shows that the pension system's Unfunded Actuarial Liability (UAL) totals $2.56 billion as of June 30, 2016—up from $2.00 billion.

The City's pension system liabilities as of June 30, 2016 are funded at a rate of 71.6% —a decrease from the 75.6% funding ratio at June 30, 2015. The ADC is 9.1% of total budgeted expenditures for the City and is 16.8% of budgeted expenditures for the General Fund.

The City's budgeting system provides a relatively precise allocation of the ADC, and other fringe benefits, among employees. The ADC budget distribution is based on actual filled positions and is calculated based on percentages of salaries, from information contained in the pension system's actuarial valuation.

Increases to the Defined Benefit ADC

As mentioned above, the FY 2018 ADC of $324.5 million is $63.4 million higher than the FY 2017 ADC. This increase is due to two types of factors:

- Changes to assumptions used in the actuarial valuation for FY 2016
- FY 2016 "experience losses" (the differences between actual results and what was assumed in the FY 2015 valuation)

Effects of the largest experience losses for FY 2016 include:

- A $9.1 million ADC increase, primarily related to a lower than assumed investment return for FY 2016—The FY 2016 investment return of 1.1% was lower than the 7.125% return assumed in the FY 2015 valuation.
- A $5.1 million ADC increase, largely related to pension liability experience losses—The largest contributing factors to this ADC increase were mortality (members living longer than assumed) and salary (promotional increases that were larger than assumed).

Effects of assumption changes for FY 2016 include:

- A $42.4 million increase related to San Diego City Employees Retirement System (SDCERS) Board-approved changes in demographic assumptions—primarily related to mortality.
- A $6.7 million increase related to SDCERS Board-approved changes in economic assumptions—Both the discount rate and long-term wage infla-

tion rate assumptions decreased by 0.125% for the FY 2016 valuation, to 7% and 3.05%, respectively. (Note that the 3.05% long-term wage inflation rate does not apply until after FY 2018, to account for the general salary freezes negotiated with the City's employee organizations.)

Future ADC Considerations

There are a couple of items that could potentially impact the City's most recent estimate for the FY 2019 ADC (most recently projected to be $329.3 million citywide).

- Investment Return: If FY 2017 investment return ends up being either higher or lower than the 7% return assumed in the FY 2016 valuation, there will be an investment experience gain or loss—which would be a factor that decreases or increases the FY 2019 ADC, accordingly. Whatever the FY 2017 investment return ends up being, the preliminary impact will likely be quantifiable by August 2017.

- Reduction of the Discount Rate—The SDCERS Board has previously discussed the possibility of phasing in further reductions to the economic assumptions used in the actuarial valuation. For the discount rate, the contemplated reduction was from 7% to a potential 6.75%. The resulting citywide impact to the ADC for a 0.25% reduction in economic assumptions could be a ballpark figure of $14 million ($10 million for the General Fund). However, it is unknown whether the Board will be interested in approving this type of change. The next Board meeting at which economic assumptions, including the discount rate, are expected to be discussed will be in September 2017.

Pension Impacts of Proposition B

Below is a brief summary of some of the pension effects of Proposition B, which was approved by voters in June 2012.

The following pension changes were negotiated with the City's employee organizations and agreement for an interim defined contribution (DC) plan was reached. This interim plan is anticipated to be in effect until a permanent plan can be negotiated.

Employees hired on or after July 20, 2012, except police officers, are no longer eligible to participate in the DB pension plan. Instead they participate in the Supplemental Pension Savings Plan H (SPSP-H), which was previously for hourly employees but was modified to include these new participants. Both the City and employees contribute 9.2% and 11% of eligible compensation for general members and safety members, respectively.

The FY 2018 proposed SPSP-H budget is $16.2 million citywide. This figure includes amounts for the interim defined contribution plan, as well as hourly workers ($15.4 million and $855,000, respectively). The SPSP-H budget for the interim DC plan has increased by $3.5 million from FY 2017. This increase is primarily due to increasing numbers of employees entering the SPSP-H interim plan, with $987,000 related to SPSP-H contributions for post-Proposition B Firefighters' overtime.

Some terms of the interim DC plan include that employee contributions are mandatory, employees are 100% vested at all times, and the terms of future negotiated disability and death benefits will be retroactive.

Additionally, although new sworn Police Officers continue to be eligible for the defined benefit plan, Proposition B prescribes pension plan changes for new sworn officers hired on or after July 1, 2013. Provisions in Proposition B include a cap on sworn officer pensions: 80% of the average of the highest 36 consecutive months' compensation. This cap is reduced by 3% for each year the employee retires prior to age 55.

Legal Challenge to Proposition B

Proposition B was challenged by four of the City's recognized employee organizations, alleging a violation of the Meyers-Milias-Brown Act (MMBA)—the State law that governs collective bargaining for public agency employers, like the City. On December 29, 2015 the Public Employment Relations Board (PERB)—the State administrative body that enforces the MMBA—decided that the City violated the MMBA by refusing to meet and confer prior to placement of Proposition B on the June 2012 ballot.

On April 11, 2017 the appellate court ruled in favor of the City—concluding that Proposition B, a citizen's initiative, was not subject to meet and confer before the City Council placed it on the ballot. It is anticipated that the City's recognized employee organizations will seek review of the appellate court decision by the California Supreme Court.

Infrastructure & Financing Issues

The following sections provide an overview of funding included for infrastructure in the FY 2018 Proposed Budget, and issues facing the City as it moves forward in tackling its infrastructure needs.

Funding for Infrastructure in FY 2018 Proposed Budget

The FY 2018 Proposed Capital Improvements Program (CIP) Budget reflects continued growth at a proposed funding level of $445.4 million. This is a $24.4 million increase, or 6%, over the FY 2017 Adopted Budget.

In addition to considering the FY 2018 CIP Proposed Budget for approval, Council will also consider approving a list of planned construction contracts for existing projects that are anticipated to move forward with bid and award during FY 2018. The Mayor's CIP contract execution threshold is $30 million, meaning that construction contracts can be awarded without returning to City Council for approval prior to award as long as the project's budget has been approved. The list includes 154 planned contracts, with a total value of $362.6 million.

An additional $303.4 million, listed as anticipated funding, could become available in FY 2018 from sources such as bonds, grants, and facilities benefit assessments. Anticipated funds are not included in the Appropriations Ordinance, as they are either not certain to be received within the fiscal year or they require additional Council approval. Spending limits can be adjusted during the fiscal year through Council action.

The FY 2018 Proposed CIP Budget includes funding for 87 projects, of which six are new to the program. The new projects include the following:

- Building 619 at the Naval Training Center (conversion to a recreation center)
- Chollas Lake Improvements (provides electrical service to the park)
- Downtown Greenways (urban trails in the public right-of-way/expansion of sidewalk width)
- North Park Recreation Center Expansion
- Park Improvements (a new annual allocation)
- Streamview Drive Improvements Phase 2 (sidewalks and traffic circles)

These new projects align broadly to general themes of the City Council budget priorities, specifically with regard to sidewalk and park improvements.

The FY 2018 Proposed CIP Budget indicates that an estimated $4.85 billion will be needed in out years to complete the projects currently in the City's CIP and being proposed, as well as to fund associated ongoing capital expenses. A total of $2.89 billion has already been approved for continuing projects that began in prior years.

Infrastructure Fund

The FY 2018 Proposed Budget also includes $18.1 million related to implementing Charter Section 77.1 which directs certain sources of revenue into a newly established Infrastructure Fund. Allowable uses of these funds include: acquisition of real property, construction, reconstruction, rehabilitation, and repair and maintenance of General Fund infrastructure.

The allocation from the Infrastructure Fund of $18.1 million is a decrease of $3.7 million, or 17%, compared to funding included in the FY 2017 Adopted Budget related to the Mayor's similar commitment of dedicating at least 50% of major revenue growth to infrastructure investments.

Generally, revenue for the fund is calculated based upon 50% of the growth in major revenues; the amount of annual change in sales tax revenue over FY 2016 actual receipts; and the amount by which pension costs are lower as compared to FY 2016 (which is not anticipated to come into effect in the near future).

Proposed allocations for the Infrastructure Fund include:

- $15.3 million for slurry seal maintenance;
- $1.5 million for the modernization of the City Concourse parking garage elevators; and
- $1.2 million for the construction of the Compressed Natural Gas fueling station.

The latter two projects are included in the CIP and the $15.3 million is included in the operating budget for the slurry seal maintenance of the City's streets.

Other qualifying uses of the Infrastructure include, but are not limited to, debt service on future General Fund lease revenue bonds issued and IAM Project implementation costs.

Lease Revenue Bond Funding and Cash Management Improvements

Funding for the CIP comes from a variety of sources and the distribution of projects by asset type largely depends upon the availability of such funding. Sewer and Water Funds constitute 84% of the FY 2018 Proposed CIP Budget, translating to 84% of the funded projects being those of the Public Utilities Department as they relate to wastewater, water, and maintenance of the Department's buildings. Therefore, funding for assets such as streets, facilities, storm drains, and parks compete for limited resources, including the General Fund.

The City has relied upon lease revenue bonds to finance General Fund capital improvements. Since FY 2010, the City has issued four series of long-term lease revenue bonds, referred to as Deferred Capital, or DC bonds totaling $333.3 million. Approximately $28.8 million has yet to be encumbered or expended, but are tied to continuing CIP projects. The table below

UPDATE ON DEFERRED CAPITAL BOND SPENDING (as of April 18, 2017)					
Year Issued	**Bond**	**Total**	**Encumbered**	**Expended**	**Remaining Funds**
FY 09	DC 1	$ 103,300,000	$ -	$ 103,300,000	$ -
FY 12	DC 2	75,000,000	-	75,000,000	-
FY 13	DC 2A	35,000,000	-	35,000,000	-
FY 15	DC3	120,000,000	37,800,000	53,400,000	28,800,000

provides an update on deferred capital bond spending.

The FY 2018 Proposed CIP Budget and the FY 2018-2022 Five-Year Financial Outlook include the intention of additional financing occurring over the Outlook period. The City is also developing a commercial paper program to finance General Fund capital projects. Commercial paper is a short-term financing mechanism that allows the City to borrow when funds are needed for projects instead of issuing the full amount of project costs upfront using long-term bonds.

With the development of a commercial paper program for General Fund capital improvements, the schedule for issuing long-term bond debt will depend on various factors including spending down the remaining funds from DC3 bonds plus other sources of cash available for General Fund capital project needs. Therefore, timing for issuing long-term bonds will be continually evaluated.

The CFO plans to bring a General Fund Commercial Paper Borrowing Program to Council for review and approval in the fall. The FY 2018 Proposed CIP Budget includes debt service for $60 million in commercial paper notes that could be issued in FY 2018.

The Mayor will be working with Council to identify a list of potential projects that will be supported by the commercial paper program.

For more details regarding financing for capital projects, refer to the Overview of the Mayor's Proposed Budget & Discussion of Significant Issues section.

Capacity to Implement Capital Projects

As discussed in more detail in the Public Works - Engineering & Capital Projects (E&CP) section of this report, the FY 2018 Proposed Budget reflects an increase of 68.00 FTE positions and $6.2 million in personnel and non-personnel expenditures to support expansion of the CIP. This is the largest addition of positions in the Proposed Budget. This continues the expansion of the E&CP branch's CIP support that began in FY 2016 with the addition of 104.00 FTE positions in the FY 2016 Adopted Budget. Another 49.50 FTE positions were provided in the FY 2017 Adopted Budget. If the Proposed Budget is adopted, the E&CP branch will have received a total of 221.50 FTE positions specifically for the expansion of the CIP (and about 230 total FTE positions for all purposes) over three years.

The increase in staff is to address the expectation for a significant increase in projects over the next five fiscal years. As noted in the FY 2018—FY 2022 Five Year Capital Outlook, projected capital funding has increased from $2.85 billion to $3.03 billion from the previous Outlook period, FY 2017—FY 2021. This equates to average expenditures of about $605 million per year. The table below shows budget and expenditure trends from FY 2014 to FY 2016. Budget amounts include adjustments made to the adopted budget during the

GROWTH IN THE CAPITAL IMPROVEMENTS PROGRAM BUDGET (dollars in millions)

	Total Budget	Year over Year Change	Actual Expenditures	Year over Year Change
FY 2014	239.5	-	263.2	-
FY 2015	434.2	81%	307.6	17%
FY 2016	497.6	15%	398.3	29%
2014 - 2016 Difference		*108%*		*51%*

[1]Figures are not adjusted for inflation.

fiscal year.

Though the CIP budget has more than doubled since FY 2014, expenditures have increased by about 50%. Through conversations with staff we understand that actual expenditures will rarely equate to budgeted amounts due to various factors such as capital improvement projects spanning multiple years, staffing capacity, and delays in project implementation. However, we anticipate with the additional staff provided in recent years as well as cash management efficiencies, such as phased funding, that actual expenditures will comprise a higher percentage of the total amount budgeted as work capacity increases.

With this expansion in the CIP, it also becomes more important to ensure sufficient planning to avoid project conflicts with the City's right-of-way (e.g., street resurfacing, utilities undergrounding, and water line replacement projects on the same street). The growth of the CIP also underscores the importance of the implementation of asset management initiatives which are further discussed below.

Asset Management

The CIP Outlook provides a high-level overview of the City's capital needs and available funding over a five-year period. As the City continues to implement asset management initiatives, such as condition assessments and the Infrastructure Asset Management (IAM) Project (also discussed in the review of Infrastructure/Public Works Branch in the Other Departments section), there will be impacts on funding, priorities, and needs in future Outlooks.

Condition assessments are a point-in-time snapshot of the condition of a particular asset that contributes to a better understanding of the City's infrastructure needs. Recent condition assessments have been completed for General Fund facilities, Public Utilities Department facilities, developed parks amenities, and streets.

The needs resulting from condition assessments for General Fund facilities will be incorporated in the development of a facilities Asset Management Plan which will also consider projected future operational needs. The Asset Management Plan will contain a more comprehensive assessment of facility needs, which will be incorporated into future CIP Outlooks.

The Public Utilities Department has an ongoing condition assessment program for its asset infrastructure. The Proposed Budget includes $6.5 million in Enterprise Funds for water pipelines, wastewater pipelines, dams, and outlet towers condition assessments.

Continued investment in asset management gives the City the tools to make strategic funding decisions needed to effectively address its infrastructure needs.

Climate Action Plan

In December 2015, the City Council adopted the Climate Action Plan (CAP) for the City of San Diego. The CAP is an organized plan consisting of efforts from multiple City departments to achieve the greenhouse gas reduction goals of 15% by 2020, and 50% by 2035 from the 2010 baseline amounts. The plan leverages existing City programs such as replacement of street lights and street/sidewalk repair, as well as developing new plans and programs such as the Pure Water Program and implementation of the Advance Metering Infrastructure to achieve the CAP goals. These programs will either directly or indirectly provide support to one or more of the CAP strategies.

The CAP is divided into five strategies:

Strategy 1: Water & Energy Efficient Buildings

Goals: Reduce residential building consumption, establish a residential energy conservation ordinance, and reduce water consumption.

Strategy 2: Clean & Renewable Energy

Goals: Achieve 100% renewable energy by 2035, convert City passenger fleet to zero emission, convert municipal packers/vehicles to low emission fuel (CNG).

Strategy 3: Bicycling, Walking, Transit & Land Use

Goals: Increase mass transit, commuter walking, and bicycling; and reduce miles traveled by vehicle.

Strategy 4: Zero Waste

Goals: Divert solid waste from the landfills and capture methane from Wastewater Treatment.

Strategy 5: Climate Resiliency

Goal: Increase urban tree canopy coverage. The FY 2018 Proposed Budget includes approximately $128.1 million in funding across multiple departments for projects directly or indirectly supporting the CAP.

The follow tables show the FY 2018 Proposed Budget supporting the CAP allocated per department; and the amount of the budget allocated to the Department's Operating Budget or Capital Program.

FY 2018 Proposed Budget CAP Funding per Department

Department	Amount (millions)
Economic Development	$0.1
Park and Recreation	$1.6
Transportation and Storm Water	$10.9
Environmental Services	$14.0
Public Utilities	$101.5
Public Works	$0.1
TOTAL	**$128.1**

FY 2018 Proposed Budget CAP Funding Allocation

Project	Amount (millions)
Departments' Operating Budgets	$4.3
Capital Improvement Projects	$123.8
TOTAL	**$128.1**

In review of the funding information for the CAP, it should be noted that the funding allocated to the Public Utilities Department's Pure Water Project, approximately $74.1 million, represents 58% of the allocation toward CAP programs/projects.

PUD's total contribution toward the CAP Strategies is $101.5 million, representing 79% of the total CAP funding in FY 2018.

The funding allocated to each department allows the department to pursue program/projects that benefit the CAP strategies directly such as the Environmental Services Department converting their diesel-fueled trash collection trucks (packers) to CNG fueled vehicles; or indirectly with programs such as the Park and Recreation Department developing a vernal pool conservation plan. The table below shows the funding directly and indirectly supporting the CAP.

FY 2018 Proposed Budget Direct/Indirect Support	
Direct	$46.4
Indirect	$81.7
Total	**$128.1**

Just as the funding for the CAP is allocated across multiple departments, the anticipated programs and projects to be implemented cover the five strategies of the CAP. The following table shows the FY 2018 Proposed Budget funding allocation per CAP strategy.

FY 2018 Proposed Budget CAP Funding per Strategy	
Strategy	**Amount (millions)**
Strategy 1 - Efficient Buildings	$27.6
Strategy 2 - Clean/Renewable Energy	$1.3
Strategy 3 - Transit & Land Use	$10.1
Strategy 4 - Zero Waste	$10.7
Strategy 5 - Climate Resiliency	$78.3
Overarching Implementation	$0.1
TOTAL	**$128.1**

The CAP includes a requirement for an Annual Monitoring Report to provide an updated status on the City's progress toward achieving the set goals. The City's Economic Department presented the 2016 Update to the Environment Committee on December 8, 2016. A copy of the 2016 Update can be found in the Economic Development Department of the City's website for additional information.

From the 2016 Annual Report on the Climate Action Plan, as of the 2015 evaluation, the City has meet the 2020 emissions goal and is continuing its efforts toward the 2035 goals.

San Diego's Greenhouse Gas Emissions	2010	2015	2020	2035
Communitywide greenhouse gas emissions ($MMTCO_2e$)*	12.9	10.8	11.0	6.5

*$MMTCO_2e$ - Million metric tons of carbon dioxide equivalents, a standard unit of measurement for greenhouse gas emissions.

Per Annual 2016 Annual Report Climate Action Plan

A copy of the CAP can be found in the Planning Department on the City's website for additional information related to the CAP.

External Government Policy Changes

State Transportation Funding

Pending State legislation, Senate Bill 1, increases gas and diesel taxes and certain fees to provide funding for various transportation purposes. Among its provisions, the bill establishes a Road Maintenance and Rehabilitation Program which will address deferred maintenance on state highway and local street and road systems.

If enacted, Senate Bill 1 would result in significant revenues to the City as long as the City complies with specified funding requirements. We note that a precise estimate is not available at this time. However, according to preliminary estimates from the State, the City could receive approximately $319 million over 10 years for road maintenance and rehabilitation. This estimate will change as the State updates its revenues in May. Once this occurs, the City will have a better idea of anticipated funding. The first tax increase becomes effective November 1, 2017 therefore the City is expected to receive partial year funding in FY 2018. The first full year of funding would occur in FY 2019.

The bill specifies allowable funding uses for projects that include, but are not limited to, active transportation, pedestrian and bicycle safety, drainage and storm water capture, and traffic control devices. Many of these uses are consistent with Council priorities, including the Climate Action Plan.

In addition, the bill requires cities to fulfill a maintenance of effort requirement for streets and roads that is equivalent to at least the average funding amount between 2009-10 and 2011-12, as specified. Finally, the bill provides flexibility to use funding for transportation priorities not included in the bill if the City has a pavement condition index of at least 80.

These additional gas tax revenues could be used in place of other sources of funds – such as the General Fund, TransNet, Infrastructure Fund, and future commercial paper and bond financing – that were planned to be used for street repair projects, and thereby free up those dollars to be spent on other needs.

Other State Issues

Pending State legislation, Senate Bill 54, prohibits local law enforcement agencies from using its resources for a number of specified immigration enforcement purposes, such as inquiring into or collecting information about an individual's immigration status. The President's Executive Order, Enhancing Public Safety in the Interior of the United States, states that jurisdictions that willfully refuse to comply with federal law are not eligible to receive federal grants. Existing federal law states that a government entity may not prohibit or restrict any government entity from sending information to, or receiving information from the Immigration and Naturalization Service about the immigration status of an individual. U.S. Attorney General Jeff Sessions has said that the Department of Justice will require compliance with federal law as a condition of funding Department of Justice grants to cities. It is unclear how the City's Police Department may be affected if this bill is enacted and the extent to which federal funding from Department of Justice grants are vulnerable.

We also note that the City is sponsoring Assembly Bill 1637 which allows a housing authority to develop and provide financing for mixed-income housing projects, including the issuance of bonds. Our Office will continue to monitor these bills as they proceed through the State legislative process.

Federal Budget Cuts and Initiatives

On March 16, 2017, the President released his 2018 Budget Blueprint. The proposal increases defense spending by $54 billion and makes cuts to other areas of the federal budget. We highlight issues that would have an impact to the City. The release of the budget request is the beginning of the budget and appropriations process. The full federal budget proposal is expected later this spring.

The Blueprint includes the elimination of both the Community Development Block Grant (CDBG) program, and the HOME Investment Partnerships program. Also in March, the President asked Congress to consider a 50% reduction in CDBG funding for the remaining months of the current fiscal year. The City is estimated to receive $10.4 million in CDBG funding, and $3.9 million for HOME to fund a variety of programs in FY 2018. CDBG funding is expected to be used to support homeless programs and projects (including three emergency shelters, and the Day Center), as well as various CIP, Public Services, and Community/Economic Development projects. The HOME program, which is administered by the Housing Commission, allocates its funding for rental housing development and to assist first time homebuyers. Should these two programs be eliminated or dramatically cut, the City may need to seek out other resources in order to continue providing these services (e.g. utilizing the Successor Agency repayments identified in the Reinvestment Initiative).

The Blueprint also expresses the President's intent to modernize infrastructure and indicates that details on the plan are expected in the coming months. Governor Brown's administration submitted a list of 51 high-priority projects to the National Governors Association in February to present to the Trump administration for inclusion in a possible infrastructure initiative. The following three projects affect the San Diego region:

- Strengthen the Otay Mesa Mexican border security with a new port of entry for secure and efficient crossings;
- Construction of three miles of rail in the North Coast I-5 Multimodal Corridor in San Diego and complete 23 miles of new managed lanes; and
- Construction of the Pure Water San Diego Phase 1 Projects to implement advanced water recycling technology.

City Attorney

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Office of the City Attorney is approximately $53.4 million, an increase of $3.5 million or 7.1% from the FY 2017 Adopted Budget. The FY 2018 Proposed Budget includes 355.73 FTE positions, a decrease of 5.37 FTE positions from FY 2017. Budgeted revenue totaling $3.9 million represents a decrease of $250,000.

Significant Budget Expenditure Reductions

The FY 2018 Proposed Budget includes the reduction of 6.37 FTE positions and $904,000 in associated personnel expenditures within the Office of the City Attorney. Of this amount, the reduction of 0.25 FTE is a budget correction to a clerical position and the reduction of 1.17 FTE is the due to reduced funding for hourly positions. The remaining personnel budget reduction of 5.00 FTEs consists of five positions that are currently vacant (one Assistant City Attorney, two Deputy City Attorneys, and two legal support positions), which the Office of the City Attorney proposed to keep vacant in FY 2018 as part of the Office's budget reduction proposal. Instead, the FY 2018 Proposed Budget eliminates these five positions. The Office of the City Attorney has indicated that it would prefer to achieve the budget savings associated with these five positions by leaving them vacant in FY 2018 rather than removing them from the Proposed Budget.

The FY 2018 Proposed Budget also includes the reduction of $25,000 in non-personnel expenditures to support the law library, which was proposed by the Office of the City Attorney as part of its budget reduction proposal. All of the budget reduction proposals offered by the Office of the City Attorney were ultimately included as reductions to the FY 2018 Proposed Budget. The Office of the City Attorney has indicated that if the FY 2018 Budget is adopted as proposed, it will evaluate all service levels and may request that the City Council approve the retention of outside counsel, in an amount yet to be determined, in

SUMMARY OF CITY ATTORNEY BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	361.10	$ 46,139,971	$ 3,689,145	$ 49,829,116	$ 4,159,963
Programmatic Changes					
Addition of SMART Program Manager	1.00	139,126	-	139,126	-
Tuition Reimbursement for Deputy City Attorneys	-	-	75,000	75,000	-
Reduction of Law Library Expenses	-	-	(25,000)	(25,000)	-
Reduction of Support Positions	(2.25)	(134,035)	-	(134,035)	-
Reduction of Deputy City Attorneys	(2.00)	(470,573)	-	(470,573)	-
Reduction of Assistant City Attorney	(1.00)	(224,152)	-	(224,152)	-
Reduction of Successor Agency Revenue	-	-	-	-	(249,667)
Other Changes					
Salary and Benefit Adjustments	-	4,369,636	-	4,369,636	-
Information Technology Adjustment	-	-	217,503	217,503	-
Non-Discretionary Adjustments	-	-	(50,537)	(50,537)	-
Hourly Wages	(1.12)	(75,211)	-	(75,211)	-
Other Adjustments	-	(8,613)	(291,500)	(300,113)	-
FY 2018 Proposed Budget	**355.73**	**$ 49,736,149**	**$ 3,614,611**	**$ 53,350,760**	**$ 3,910,296**
Difference from 2017 to 2018	*(5.37)*	*$ 3,596,178*	*$ (74,534)*	*$ 3,521,644*	*$ (249,667)*

order to maintain service.

Significant Budget Additions

The FY 2018 Proposed Budget includes the addition of 1.00 Program Manager and $139,000 in associated expenditures to support the San Diego Misdemeanant At-Risk Track (SMART) program. Funding for this Program Manager position was requested but not included in the FY 2017 Adopted Budget. The Office of the City Attorney subsequently filled the Program Manager position on an over-budget basis in FY 2017 to perform necessary work for SMART, and the FY 2018 Proposed Budget adds ongoing funding to support the position.

SMART is a program under the Community Justice Initiative (CJI) that seeks to reduce recidivism among chronic low-level misdemeanor offenders with multiple drug and quality-of-life offenses. SMART participants are diverted from jail and prosecution in exchange for agreeing to participate in an individually designed offer that includes supportive housing, drug treatment, and a case manager to arrange wrap-around services. SMART is a collaborative effort of the Office of the City Attorney, the Police Department, the Sheriff's Department, the Office of the Public Defender, the County Behavioral Health Services Department, and several other health and human services organizations.

The Office of the City Attorney has applied jointly with the County for $6.0 million in grant funding from the California Proposition 64 grant program over a three-year term. If awarded, the City's portion of the grant funding for SMART would be $3.0 million, most of which would support service providers who provide treatment and housing. A portion of the funding would be available to offset 50% of the personnel costs of the SMART Program Manager position. The status of the grant application is expected to be announced in June 2017.

Issues for Council Consideration

Unfunded Request for Family Justice Center Expansion

The FY 2018 Proposed Budget does not include funding for a request from the Office of the City Attorney to add 2.00 FTE Deputy City Attorney positions and $280,000 in associated personnel expenditures to increase staffing levels in the Domestic Violence Unit (DV Unit) and expand City Attorney services at the Family Justice Center (FJC). While the FJC is budgeted within the Police Department, Deputy City Attorneys assigned to the DV Unit investigate and prosecute domestic violence cases in collaboration with the San Diego Police Department (cases arise both at the FJC and through other channels).

The Office of the City Attorney has indicated that the DV Unit requires two additional attorneys dedicated to domestic violence cases. The Office reports that since 2014, domestic violence cases reviewed for prosecution have increased by 500 cases or 18% annually. In response to the increased caseload, in FY 2017 the Office reassigned two existing attorneys from the General Trial Unit to the DV Unit (for a total of 12 attorneys working in the DV Unit). The Office of the City Attorney has described this temporary loan of two attorneys as an unsustainable solution to meet the needs of the DV Unit and is therefore requesting that two additional positions be funded and assigned to the DV Unit on an ongoing basis.

On a broader level, the Office of the City Attorney is examining whether the FJC model best serves the needs of victims. Although the FJC is an independent department under the San Diego Municipal Code, it is treated as a division of the Police Department. The FJC was founded in 2002 and was budgeted within the Office of the City Attorney. In 2004, the FJC became a City department. In 2010, the FJC became a unit of the Police Department, where it is currently budgeted. The FY 2018 Proposed Budget for the Police Department includes $785,000 for the FJC, which supports the following 6.00 FTE positions:

- 1.00 Police Lieutenant
- 1.00 Associate Management Analyst
- 2.00 Assistant Management Analysts
- 1.00 Executive Secretary
- 1.00 Clerical Assistant 2

Additionally, approximately $480,000 in annual rent expenses are included in Citywide Program Expenditures budget. The Office of the City Attorney assigns one Deputy City Attorney daily to the FJC using its existing budget. However, as described earlier, a total of 12 Deputy City Attorneys are assigned to the DV Unit overall.

The Office of the City Attorney has indicated to our office that it believes the FJC model could be made more effective by returning the FJC to the Office of the City Attorney or establishing a City/County partnership to expand the FJC's services and reach. Should the City Council wish to explore this possibility, we recommend that the Office of the City Attorney provide detail on its proposal during the Budget Review process or at a future meeting of the appropriate Council Committee. The Office of the IBA would also be available to assist in analyzing potential reorganization proposals depending on Council interest.

City Auditor

Impacts of Mayor's FY 2018 Budget Proposal

As shown in the table below, the FY 2018 Proposed Budget for the Office of the City Auditor is approximately $4.0 million, an increase of $107,000 from the FY 2017 Adopted Budget. The Office has no budgeted revenue. The number of positions remains unchanged from FY 2017, at 22.00 FTEs.

On December 7, 2016 the City Auditor's Office presented the Audit Committee with a recommended approach to the FY 2018 budget. In response to the Chief Operating Officer's request for FY 2018 budget reduction proposals, the City Auditor recommended that his office submit 3% in budget reductions (not including CAFR contract costs). The Audit Committee agreed with the City Auditor's recommendation and directed him to submit his budget with the 3% reductions.

Adjustments between the FY 2017 Adopted Budget and FY 2018 Proposed Budget include $113,000 in decreases to the City Auditor's budget—which is just over the 3% reduction proposed by the Auditor. These reductions are all NPEs under the control of the City Auditor's Office—rather than those that are allocated by servicing departments, such as information technology costs.

The City Auditor's Office should be able to easily accommodate this NPE budget reduction. Over the past several years, actual NPE spending has been several hundred thousand dollars under budget; and FY 2017 projected NPE spending is $194,000 under budget (per the Mid-Year Budget Monitoring projections).

SUMMARY OF CITY AUDITOR BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
FY 2017 Adopted Budget	22.00	$ 3,118,391	$ 763,992	$ 3,882,383	$ -
Budget Changes					
Salary & Wages Adjustments	-	19,617	-	19,617	-
Fringe Increases (Includes Retirement ADC)	-	206,368	-	206,368	-
3% Budget Reduction (Approved by the Audit Committee)	-	-	(112,713)	(112,713)	-
Non-Discretionary Adjustments	-	-	(6,321)	(6,321)	-
FY 2018 Proposed Budget	**22.00**	**$ 3,344,376**	**$ 644,958**	**$ 3,989,334**	**$ -**
Difference from 2017 to 2018	***-***	***$ 225,985***	***$ (119,034)***	***$ 106,951***	***$ -***

City Clerk

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of legal requirements adhered to including state and local mandates	N/A	N/A	89%	91%	92%
Percentage of customer service provided with accurate responses in a curtous and timely manner	N/A	N/A	89%	91%	92%

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Office of the City Clerk totals approximately $5.7 million, which is an increase of approximately $11,000 over the FY 2017 Adopted Budget. The number of FTE positions in the Office is 47.32, an increase of 1.00 FTE from FY 2016.

Significant Budget Reductions

- A decrease of $20,000 for print shop expenditures. Due to various electronic and paperless initiatives, there has been a reduction in printing requirements, which results in reduced printing costs.

Significant Budget Additions

- An increase of 1.00 FTE and $91,000 in expenditures for the addition of a Public Information Specialist. This position is being transferred from the Human Resources Department, and will staff the counter for the City's Citizen Assistance Program, which maintains the City's Citizen Services Directory, schedules the use of the City Administration Building's lobby displays, and administers the Citywide Route Slip Tracking System for responses to public inquiries.

Although the front counter had been staffed with two positions, the City Clerk is only receiving one FTE addition.

SUMMARY OF CITY CLERK BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	46.32	$ 4,515,839	$ 1,158,197	$ 5,674,036	$ 94,582
Programmatic Changes					
Transfer Public Information Specialist from HR	1.00	90,620	-	90,620	-
Reduction in Print Services Expenses	-	-	(20,000)	(20,000)	-
Other Changes					
Non-Discretionary and Information Technology	-	-	(67,364)	(67,364)	-
Salary and Benefits and Hourly Sick Leave	-	(12,287)	-	(12,287)	-
One Time Ajustments, Annualizations, and Other	-	(43)	20,354	20,311	-
FY 2018 Proposed Budget	**47.32**	**$ 4,594,129**	**$ 1,091,187**	**$ 5,685,316**	**$ 94,582**
Difference from 2017 to 2018	*1.00*	*$ 78,290*	*$ (67,010)*	*$ 11,280*	*$ -*

City Comptroller

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 proposed budget for the Office of the City Comptroller is approximately $12.1 million, an increase of $688,000 or 6.0% from the FY 2017 Adopted Budget. The Proposed Budget also includes 86.26 FTEs, which is a decrease of 1.25 FTEs from the previous fiscal year.

Budget Adjustments

Changes in staffing in the Internal Controls, Debt, CIP, Fixed Assets, and Grants sections result in a net reduction of 1.25 FTE positions, and a decrease in expenditures of $122,000, as is outlined in more detail below.

A Principal Accountant who oversees the Internal Controls Section will increase from 0.75 to 1.00 FTE. This 0.25 increase is offset by a reduction of 1.00 Principal Accountant position.

A 0.50 Principal Accountant position in the Debt Section will be reclassified and increased to a 1.00 Accountant 4 position to address workload increases related to revised accounting standards and the upcoming Commercial Paper Program.

The addition of 1.00 Accountant 3 position in the CIP and Fixed Assets section is partially offset by the reduction of 1.0 Administrative Aide 2. Work in this area has increased due to growth in infrastructure spending, and Council and Mayoral actions.

Additionally, 1.00 Account Audit Clerk position in the Grants section will be reduced to help address the projected deficit in FY 2018.

Significant increases in expenditures include an increase in salary, wages, and fringe costs of $838,000.

Revenue Changes

The FY 2018 Proposed Budget includes the removal of $31,000 in one-time revenue,

SUMMARY OF CITY COMPTROLLER BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	87.51	$ 10,611,282	$ 840,288	$ 11,451,570	$ 2,130,926
Programmatic Changes					
Principal Accountant to support Internal Controls section	0.25	35,815	-	35,815	-
Reduction of Principal Accountant in Internal Controls section	(1.00)	(143,262)	-	(143,262)	-
Accountant 4 to support Debt Section (part of reclass)	1.00	107,398	-	107,398	-
Reduction of Principal Accountant in Debt section (part of reclass)	(0.50)	(54,201)	-	(54,201)	-
Accountant 3 to support CIP & Fixed Assets sections	1.00	91,718	-	91,718	-
Reduction of Admin Aide 2 in Fixed Assets section	(1.00)	(67,658)	-	(67,658)	-
Reduction of Account Audit Clerk in Grants section	(1.00)	(91,773)	-	(91,773)	-
Infrastructure Asset Management (IAM) Revenue	-	-	-	-	24,873
Other Changes					
Salary and Benefit Adjustments	-	837,664	-	837,664	-
Removal of FY 2017 One-Time Budget for IAM	-	-	-	-	(30,926)
Non-Discretionary Adjustment	-	-	(33,164)	(33,164)	-
Other Adjustments	-	(281)	5,912	5,631	-
FY 2018 Proposed Budget	**86.26**	**$ 11,326,702**	**$ 813,036**	**$ 12,139,738**	**$ 2,124,873**
Difference from 2017 to 2018	***(1.25)***	***$ 715,420***	***$ (27,252)***	***$ 688,168***	***$ (6,053)***

which was budgeted for the Infrastructure Asset Management (IAM) reimbursement in FY 2017. This decrease is partially offset by the projected reimbursement of $25,000 for IAM in FY 2018.

City Council

Council Offices

Each Council Office has an operating budget (comprised of personnel and non-personnel expenditures) and a budget for Community Projects, Programs and Services (CPPS). The FY 2018 proposed operating and CPPS budgets for the nine City Council district offices total to approximately $12.2 million, a $435,000 or 3.7% increase from the FY 2017 Adopted Budget. This change is due to a $384,000 increase in personnel and fringe costs coupled with a $51,000 increase in CPPS and NPE.

In FY 2018, the proposed combined operating budget for the nine Offices is approximately $11.0 million, a $377,000 or 3.6% increase from the FY 2017 Adopted Budget.

Although each Council Office has the same number of budgeted positions (10.00), annual operating budgets vary in amount. There is a $261,000 difference between the highest and lowest operating budget in the FY 2018 Proposed Budget. This differential is primarily explained by differences in fringe benefits costs for employees that are based on staff hire dates.

Excluding fringe costs (which are more problematic to control and change with staff turnover), there is a $107,000 difference between the highest and lowest Council Office operating budget in the FY 2018 Proposed Budget.

Budget adjustments have been made in recent years to narrow the differences in Council Office operating budgets. In the FY 2017 budget process, some Councilmembers requested additional adjustments be made to establish budget equity for the Council Offices. In response, the IBA provided options in our FY 2017 budget recommendations report (IBA Report #16-11) for the Council to consider if there was sufficient interest to move toward greater budget equity.

CPPS Budget Allocations & Policy

The proposed combined CPPS budget for the nine Offices in FY 2018 is approximately $1.2 million, a $58,000 or 5.1% increase from the FY 2017 Adopted Budget.

City Council Policy 100-06 establishes guidelines for the annual appropriation and expenditure of CPPS funding for each Council district. CPPS funds may be pro-

SUMMARY OF CITY COUNCIL BUDGET CHANGES (OPERATING and CPPS)					
Description	**FTE**	**PE**	**NPE & CPPS**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	90.00	$ 9,046,517	$ 2,675,751	$ 11,722,268	$ -
Programmatic Changes					
Personnel Costs	-	209,013	-	209,013	-
Fringe Benefits (includes Retirement ADC)	-	175,021	-	175,021	-
CPPS - all Council Districts	-	-	58,200	58,200	-
Other NPE Adjustments	-	-	(6,814)	(6,814)	-
FY 2018 Proposed Budget	**90.00**	**$ 9,430,551**	**$ 2,727,137**	**$ 12,157,688**	**$ -**
Difference from 2017 to 2018	*-*	*$ 384,034*	*$ 51,386*	*$ 435,420*	*$ -*

vided to City departments, public agencies, and to non-profit community organizations for one-time community, social, environmental, cultural, or recreational needs which serve a lawful public purpose.

In developing the annual CPPS budget for each district office, unexpended funds from each office's prior year operating budget become the CPPS allocation for that office in the following budget year. Variances in annual CPPS funding between Council offices are therefore explained by the differences in prior year operating budget savings.

Council Administration

The Council Administration Department provides general office management and critical support services for the City Council. The FY 2018 Proposed Budget for Council Administration is approximately $2.6 million, a $92,000 or 3.6% increase over FY 2017. Total FTE positions for the Department remain unchanged at 16.37.

The budget increase is explained by: a $106,000 reduction in personnel costs largely attributable to the removal of $178,000 of termination pay included in last year's budget because three Councilmembers were concluding their terms of office, $193,000 increase in fringe benefits, and a $5,000 increase in NPE.

Issues to Consider

On April 5, 2017, the Rules Committee discussed the format, structure, and scope for a proposed Select Committee on Homelessness. The Rules Committee unanimously forwarded the recommendation to create the Select Committee to the City Council. The item is targeted for discussion at the City Council meeting on May 16th.

One fiscal consideration associated with creating the Select Committee was the need to add 0.50 FTE for a Committee Consultant position to provide consultation and administrative support to the Select Committee Chair. Committee consultants are typically budgeted in the Council Administration Department. The total cost associated with a 0.50 Committee Consultant is estimated to be $66,000.

As it appears likely the City Council will approve the creation of a Select Committee on Homelessness and the associated 0.50 Committee Consultant position, the IBA recommends the associated expense of this position be considered for inclusion into the May Revise.

SUMMARY OF CITY COUNCIL ADMINISTRATION BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	16.37	$ 2,254,934	$ 281,386	$ 2,536,320	$ -
Programmatic Changes					
Personnel Costs	-	(106,119)	-	(106,119)	-
Fringe Benefits (includes Retirement ADC)	-	193,338	-	193,338	-
Other NPE Adjustments	-	-	5,007	5,007	-
FY 2018 Proposed Budget	**16.37**	**$ 2,342,153**	**$ 286,393**	**$ 2,628,546**	**$ -**
Difference from 2017 to 2018	*-*	*$ 87,219*	*$ 5,007*	*$ 92,226*	*$ -*

City Treasurer

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of satisfied customers from lobby surveys[1]	94%	100%	90%	90%	90%

[1]FY 2016 actuals only reflect surveys submitted in the Treasury Operations lobby.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the City Treasurer includes General Fund and Parking Meter Operations Fund revenues and expenditures. The proposed FY 2018 budget for the City Treasurer (all funds) is approximately $26.7 million and includes 133.70 FTE positions. This is an overall increase of approximately $659,000 (or 2.5%), and an increase of 7.32 FTE positions over FY 2017. The table below reflects the net changes from FY 2017 to both funds within the Office. In FY 2018, the Proposed Budget includes an increase of $3.8 million in revenue, which is described in more detail in the General Fund section below.

General Fund

The Proposed Budget for the General Fund component includes $16.4 million and 118.70 FTE positions, an increase of $144,000 (or 0.9%) and 7.32 FTE positions over FY 2017.

Significant Budget Additions

The FY 2018 Proposed Budget for the City Treasurer includes significant revenue and expenditure additions for the three programs detailed below.

<u>Cannabis Business Tax (CBT) Program</u>. The FY 2018 Proposed Budget includes $250,000 in expenditures and $2.4 million in revenue for the new CBT Program. As discussed earlier in this report, the State of California is expected to begin issuing permits in January 2018 for non-medical marijuana businesses. The City Council voted in January to allow qualifying marijuana outlets to operate as retail stores with limited deliveries. However, regulations regarding cultivation and processing are still due to return to the City Council for consideration by October 2017.

The $250,000 included in the Proposed

SUMMARY OF CITY TREASURER BUDGET	FY 2017 BUDGET	FY 2018 PROPOSED	CHANGE
General Fund FTE	111.38	118.70	7.32
Parking Meter Operations Fund FTE	15.00	15.00	-
TOTAL CITY TREASURER FTE	**126.38**	**133.70**	**7.32**
General Fund Expenditures	$ 16,252,880	$ 16,396,530	$ 143,650
Parking Meter Operations Fund Expenditures	9,798,346	10,313,423	515,077
TOTAL CITY TREASURER EXPENDITURES	**$ 26,051,226**	**$ 26,709,953**	**$ 658,727**
General Fund Revenue	19,329,499	23,125,337	3,795,838
Parking Meter Operations Fund Revenue	10,767,852	10,767,852	-
TOTAL CITY TREASURER REVENUE	**$ 30,097,351**	**$ 33,893,189**	**$3,795,838**

Budget for the CBT Program is expected to be used for personnel, banking costs, printing, and other tax collection related costs. If Council votes to regulate other activities, like cultivation and processing, additional staffing may be required. We note that the $250,000 does not include funding for additional audit staff. The Department plans to budget for those additional needs in FY 2019 once regulations are in place and the number of registered businesses is known.

The $2.4 million included in revenue for the CBT Program is discussed in more detail in the General Fund Revenue section of this report. However, we note again that CBT revenues are difficult to project, and depend on a number of factors including: the number of businesses permitted, whether cultivation is allowed, the amount of consumer demand, the actions of neighboring jurisdictions, and the price of non-medical cannabis. Our Office believes the $2.4 million revenue estimate is reasonable, but conservative due to the potential for a higher demand for non-medical marijuana, and the possible inclusion of cultivation and processing in CBT collection.

Earned Sick Leave and Minimum Wage Ordinance. The FY 2018 Proposed Budget includes 4.00 FTE positions, and $148,000 in total expenditures above the $400,000 included in FY 2017 for Earned Sick Leave and Minimum Wage Ordinance enforcement. Currently, three of the four positions are filled. The Department notes it will assess staffing needs as the Program continues to develop in FY 2018. On April 25, 2017, the City Treasurer issued a Summary Report of Activities that outlines the program development, education, and outreach efforts completed by staff in the first seven months of the program. In FY 2018, program goals include increasing employee outreach, improving complaint processes, and developing community partnerships.

For FY 2018, a majority of Councilmembers prioritized fully funding the City's compliance with the Ordinance. The $148,000 in additional expenditures included in the Proposed Budget is expected to close a gap

SUMMARY OF CITY TREASURER GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	111.38	$ 10,718,084	$ 5,534,796	$ 16,252,880	$ 19,329,499
Programmatic Changes					
Cannabis Business Tax Collection NPE and Revenue	-	-	250,000	250,000	2,379,578
Accountant 4, Accountant 2s, and NPE to support Short-Term Rental Compliance	5.00	446,777	15,000	461,777	461,777
Program Manager, Program Coordinators, Associate Management Analyst, and NPE to Support the Earned Sick Leave and Minimum Wage Ordinance	4.00	486,785	(338,500)	148,285	-
Reduction of Account Clerk in Delinquent Accounts section	(1.00)	(59,553)	-	(59,553)	-
Reduction of Management Intern Position	(0.68)	(12,715)	-	(12,715)	-
Other Changes					
IT Adjustments	-	-	(848,972)	(848,972)	-
Non-Discretionary Adjustment	-	-	(85,771)	(85,771)	-
Reduction of Hourly Sick Leave	-	(1,391)	-	(1,391)	-
Reduction of Overtime and NPE	-	(36,000)	(60,175)	(96,175)	-
Other Salary and Benefit Adjustments	-	388,165	-	388,165	-
Revised Revenue	-	-	-	-	954,483
FY 2018 Proposed Budget	**118.70**	**$ 11,930,152**	**$ 4,466,378**	**$ 16,396,530**	**$ 23,125,337**
Difference from 2017 to 2018	*7.32*	*$ 1,212,068*	*$ (1,068,418)*	*$ 143,650*	*$ 3,795,838*

between what was budgeted in FY 2017, and the projected costs of the program.

Our Office notes that the Proposed Budget does not include potential revenue that could be generated by this Program through the assessment of penalties. Potential revenue may be budgeted in FY 2019, based on actual revenue collected in FY 2018.

Revenue Audit positions for Tax Compliance. The FY 2018 Proposed Budget includes $462,000 in PE and non-personnel expenditures (NPE) for the addition of 5.00 FTE positions to perform revenue audits. The City Treasurer indicates that 3.00 FTE positions will work on short-term rental tax compliance, and 2.00 FTE positions will conduct TOT lease and franchise audits to help the program achieve a three-year audit cycle.

The Proposed Budget for the City Treasurer includes $462,000 in budgeted revenue to reimburse the cost of the added expenditures. An additional $2.0 million in TOT revenue generated by the addition of these positions is included in the City's TOT revenue projections discussed in the Revenue section of this report.

Budget Expenditure Reductions

To help mitigate the projected deficit, the City Treasurer offered several reductions including the elimination of 1.00 Account Clerk in the Delinquent Accounts section. The Department plans to request that this be replaced with the reduction of a vacant Public Information Clerk position in the May Revision. Since the reduction of either position could impact lobby and call-center wait times, the Department has set its Key Performance Indicator goal related to lobby customer satisfaction at 90%.

Also in conjunction with expenditure reduction targets, the Proposed Budget includes the reduction of: 1) $96,000 in overtime and NPE; and 2) 0.68 management intern positions.

Parking Meter Operations Fund

The Parking Meter Operations Fund is a special revenue fund that was created in FY 2015 to increase the transparency of parking meter operations and revenue. The proposed budget for the Fund includes $10.3 million and 15.00 FTE positions, a $515,000 (or 5.3%) increase from FY 2017.

Budget Additions

Expenditure additions in the FY 2018 Proposed Budget for the Parking Meter Operations Fund include the addition of $342,000 for 1,000 vehicle detection sensors ($300,000 in one-time costs, and $42,000 for on-going maintenance). The sensors will be located inside the meter

SUMMARY OF PARKING METER OPERATIONS FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	15.00	$ 1,330,920	$ 8,467,426	$ 9,798,346	$ 10,767,852
Programmatic Changes					
Vehicle Detection Sensors	-	-	342,000	342,000	-
Other Changes					
IT Adjustments	-	-	1,519	1,519	-
Non-Discretionary Adjustment	-	-	49,735	49,735	-
Other Salary and Benefit Adjustments	-	121,823	-	121,823	-
FY 2018 Proposed Budget	**15.00**	**$ 1,452,743**	**$ 8,860,680**	**$ 10,313,423**	**$ 10,767,852**
Difference from 2017 to 2018	*-*	*$ 121,823*	*$ 393,254*	*$ 515,077*	*$ -*

dome, and will provide real-time parking utilization data. A pilot of this program has been delayed, but is expected to begin in June 2017. As we noted in our report last year, the data from these sensors could eventually be used to develop a mobile application to direct drivers to available parking. It could also be used by the City to guide enforcement (e.g. sensors could alert officers to occupied spaces that have not been paid for), and determine better rates and hours of enforcement.

Issues for Council Consideration

Revenue

Hospitality Zone enforcement in the Uptown Parking District began on April 3, 2017. In hospitality zones, meters are enforced between 10:00am and 8:00pm, instead of from 8:00am to 6:00pm, in order to increase turnover for surrounding businesses. In April, warnings will be given in the newly impacted area, and full enforcement will begin on May 1, 2017. The City Treasurer expects to begin receiving any additional citation revenue in June. We note that the City Treasurer has not budgeted for changes in revenue in FY 2018 related to enforcement of the new zone, and instead plans to budget for revenue changes in FY 2019 based on actual revenue realized in FY 2018. Given the additional revenue generated by Hospitality Zone enforcement in Downtown, we note the potential for additional revenue from similar enforcement in Uptown.

Citywide Program Expenditures

Mayor's FY 2018 Proposed Adjustments

The Citywide Program Expenditures Department (Citywide) budget is comprised of various programs and activities that provide benefits and services citywide. Programs or activities that are generally not attributable to any one City department are allocated in this budget. The Citywide budget includes only those expenditures that are funded by the General Fund.

Citywide's FY 2018 Proposed Budget totals $140.3 million, an increase of $30.6 million, or 28%, from the FY 2017 Adopted Budget. Significant budget areas of this Department are discussed in the next few pages.

Payments for Contracts and Services

Corporate Master Lease Rent

The City leases various facilities, such as office space and warehouses, from private parties to house some City employees and support the daily operations of the City.

SUMMARY OF "CITYWIDE PROGRAM EXPENDITURES" BUDGET CHANGES			
Budget Changes ***(dollars in millions)***	**FY 2017 Adopted**	**FY 2018 Proposed**	**Change**
Payments for Contracts and Services			
Corporate Master Lease Rent	$ 12.3	$ 21.4	$ 9.1
Citywide Elections	4.2	6.5	2.3
Animal Services Contract with the County of San Diego	9.5	10.5	1.0
Special Consulting Services	2.9	2.4	(0.5)
Transfers to Public Liability Funds			
Transfer to Public Liability Operating Fund for Claims	14.4	17.1	2.7
Transfer to Public Liability Operating Fund for Insurance	10.8	12.4	1.6
Transfer to Public Liability Reserve	2.8	3.1	0.3
Other Significant Expenditures			
Transfer to Infrastructure Fund (Proposition H)	-	18.1	18.1
Deferred Capital Debt Service	21.0	17.5	(3.4)
General Fund Reserve	7.6	7.0	(0.6)
*Additional Expenditures **	24.2	24.2	0.0
FY 2018 Proposed Budget	**$ 109.7**	**$ 140.3**	**$ 30.6**

* The largest FY 2018 Proposed Budget amounts in the "Additional Expenditures" line include:
- $11.2 million for the transfers to the Mission Bay and San Diego Regional Parks Improvements Funds
- $4.5 million for property tax administration expense to San Diego County
- $1.9 million for insurance
- $1.6 million for Public Use Leases
- $1.5 million for the Supplemental COLA pension benefit payments
- $1.5 million for Preservation of Benefits (POB) pension payments

The Citywide Program Expenditures budget amount for corporate master lease rent is increasing by $9.1 million, from $12.3 million in FY 2017 to $21.4 million in the FY 2018 Proposed Budget. This is largely due to new expenses for the 101 Ash Street building.

Citywide Elections

The FY 2018 Proposed Budget for Citywide Elections is increasing from the FY 2017 Adopted Budget by $2.3 million, from $4.2 million to $6.5 million.

The main component of the $6.5 million elections budget is $5.0 million estimated as needed for a November 2017 special election. The anticipated special election would include a proposed ballot measure to increase the Transient Occupancy Tax to fund a convention center expansion, as well as to support homelessness reduction initiatives and street repairs.

Another potential ballot measure for the special election is a citizen's initiative, "San Diego River Park, Soccer City and Qualcomm Stadium Redevelopment Specific Plan ("Specific Plan")," which was filed with the City Clerk on April 24, 2017. If this initiative is presented to the voters in the anticipated special election, it would be a lengthy ballot measure. Accordingly, the estimated $5.0 million special elections budget could more than double if the City is unable to provide ballot materials online—as the large size of this measure would make it expensive to print and mail to the voters.

The remaining portion of the $6.5 million citywide elections budget is $1.5 million to cover the June 2018 Primary Election—including funding for an estimated three ballot measures. The Primary election races will include Council Districts 2, 4, 6, and 8. Run-offs to these elections will occur in the November 2018 General Election if there is more than one candidate in each District race—for which funding would be included in the FY 2019 Budget.

These estimates for ballot proposition costs are preliminary. Actual costs can vary significantly and will depend on the number and length of ballot measures, and the number of items each County jurisdiction places on the ballot. The November 2016 General Election had a large number of local and State ballot measures; and elections costs for FY 2017 are estimated to be $4.4 million. For FY 2018, elections issues and costs will be closely monitored by the City Clerk as information becomes available.

Animal Services Contract

The FY 2018 Animal Services budget is $10.5 million, up $1.0 million from the FY 2017 Adopted Budget.

The City contracts with the County of San Diego to provide "Animal Services" (animal control, shelter, trapping, etc.). This contract with the County is set to expire on June 30, 2018.

The County has been exploring the option to eliminate its Department of Animal services by contracting with a third party. Contingent upon the successful identification of a third party to provide animal services, the Board of Supervisors (on March 14, 2017) authorized moving forward with this course of action.

Also contingent upon the successful identification of a third party to provide animal services, the County may terminate the animal services contract with the City (and other cities to which it provides services). Accordingly, the City of San Diego will explore all options for animal services for the future.

Special Consulting Services

The Special Consulting Services budget is decreasing by $500,000 to $2.4 million, per the following table. The reductions are for legal fees related to Kinder Morgan litigation and other legal services.

SPECIAL CONSULTING SERVICES			
DESCRIPTION	FY 2017 ADOPTED	FY 2018 PROPOSED	CHANGE
Outside Legal Contracts	$ 1,150,000	$ 900,000	$(250,000)
Sales Tax Consultant	650,000	650,000	-
Labor Related Contracts	370,000	376,000	6,000
Buck Consultants	250,000	250,000	-
Contingency	225,000	219,000	(6,000)
Disclosure Counsel	50,000	50,000	-
Kinder Morgan Litigation	250,000	-	(250,000)
TOTAL	**$2,945,000**	**$2,445,000**	**$(500,000)**

Transfers to Public Liability Funds

The FY 2018 Proposed Budget includes $17.1 million and $12.4 million to support the Public Liability Operating Fund's claims and insurance payments, respectively. The FY 2018 Proposed Budget also includes a $3.1 million transfer to the Public Liability Reserve. See the "Public Liability Funds" section of this report (under "Significant Citywide Issues") for more information.

Other Significant Expenditures

Transfer to Infrastructure Fund — Proposition H

The FY 2018 Proposed Budget includes an $18.1 million transfer to the newly established Infrastructure Fund. This is the first year for this transfer from the General Fund.

The Infrastructure Fund has been established in accordance with Charter Section 77.1, which was approved by the voters in June 2016 (as the Proposition H ballot measure). Allowable uses of these funds include: acquisition of real property, construction, reconstruction, rehabilitation, and repair and maintenance of General Fund infrastructure. See the "Infrastructure & Financing Issues" section of this report (under "Significant Citywide Issues") for more information.

Deferred Capital Debt Service

Of the $21.0 million in bond debt service for deferred capital, $4.0 million is budgeted in the Capital Outlay Fund, and $17.0 million is budgeted in General Fund as part of Citywide's Budget. Additionally, $500,000 in estimated commercial paper debt service and start-up costs is budgeted in Citywide, for a total of $17.5 million.

For reference, the $21.0 million in FY 2018 debt service payments for deferred capital bonds are as follows:

- $7.3 million for the $100 million 2010A Refunding issuance (known as "DC1")
- $4.6 million for the $75 million 2012A issuance (known as "DC2")
- $2.2 million for the $35 million 2013A issuance (known as "DC2A")
- $6.9 million for the $120 million 2015 A&B issuance (known as "DC3")

General Fund Reserve

A General Fund Reserve contribution of $7.0 million is budgeted for FY 2018, down from $7.6 million in FY 2017. The decreased contribution is primarily due to recent changes to the City Reserve Policy, which are discussed in the "General Fund Reserve" section of this report (under "Significant Citywide Issues").

Additional Expenditures

The following are additional expenditure items which are included in the Citywide Budget. Because they do not have significant changes, these expenditures are listed in the footnote to the table on the first page of this section.

- Transfers to the Parks Improvement Funds:

  The City Charter sets the threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for any municipal purpose, without restriction, at $20.0 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Parks Improvements Fund and the Mission Bay Park Improvements Fund each year.

  The amount above the $20.0 million threshold to be transferred to the Parks Improvement Funds is budgeted in Citywide at $11.2 million, up from $11.0 million in FY 2017. Revenue from Mission Bay Park rents and concessions is budgeted in the Real Estate Assets Department.

- Public Use Leases:

  The public use lease expenditures are related to the use of parking lots in Las Americas and Imperial Marketplace for the park and ride program. The FY 2018 Proposed Budget for the public use leases is $1.6 million, unchanged from FY 2017.

- Supplemental COLA Pension Benefit Payments:

  In 1999 the Supplemental Cost of Living Adjustment (COLA) benefit was created for certain retirees who retired before July 1, 1982. Those retirees' benefits had dropped below 75% of their original purchasing power. When the benefit was created, $35.0 million was set aside in a special pension reserve that would fund the benefit.

  The reserve was depleted in FY 2014, and since then the City has been making additional payments to SDCERS to fund the benefit. The FY 2018 Proposed Budget in Citywide Program Expenditures for this benefit is $1.5 million, down from $1.6 million in FY 2017. An additional $400,000 is budgeted in the City's non-general funds.

- Preservation of Benefits (POB) Pension Payments:

  The City also makes additional payments to SDCERS to fund any pension payments in excess of IRS limits. The FY 2018 Proposed Budget for POB is $1.5 million, unchanged from FY 2017.

Communications

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 proposed budget for the Communications Department is approximately $3.9 million and includes 31.00 FTE positions. This is an increase of $69,000 (or 1.8%) over, and a decrease of 2.50 FTE positions from, FY 2017. The Department has approximately $968,000 in budgeted revenue in FY 2018, which has not changed from the FY 2017 Adopted Budget.

Expenditure Reductions

Expenditure changes include the reduction of the following positions:

- 1.00 vacant Senior Public Information Officer position
- 1.00 Executive Secretary Position
- 0.50 vacant Management Intern positions

Budget Additions

Last year's Adopted Budget included the transfer of 1.00 Parking Enforcement Officer position from the Police Department to the Communications Department. The intention was to reclassify the position as a Public Information Officer (PIO); however, this position was not able to be reclassified. To correct this, the FY 2018 Proposed Budget includes the transfer of 1.00 Program Manager position from the Police Department, and the return of the Parking Enforcement Officer position to the Police Department.

Issues for Council Consideration

Revenue

Although there are no significant revenue changes proposed in the budget, we would note that in FY 2016, actual revenue for the Department was $771,000, which was $794,000 or 50.7% less than what was budgeted. In FY 2017, in an effort to right-size the Department's budget, the Adopted Budget included $968,000 in revenue. However, at FY 2017 year-end, the Department is projecting revenue of approximately $608,000, which is $360,000 or 37.2% less than the Adopted Budget. The Department anticipates that with more consistent staffing, and a projected increase in work for Enterprise Fund Departments, FY 2018 revenues will be higher than FY 2017 year-end projections.

SUMMARY OF COMMUNICATIONS BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	33.50	$ 3,553,962	$ 318,983	$ 3,872,945	$ 967,604
Programmatic Changes					
Transfer of Program Manager from Police	1.00	143,101	-	143,101	-
Transfer of Parking Enforcement Officer to Police	(1.00)	(64,117)	-	(64,117)	-
Reduction of Senior Public Information Officer	(1.00)	(80,121)	-	(80,121)	-
Reduction of Executive Secretary	(1.00)	(75,184)	-	(75,184)	-
Reduction of Management Intern	(0.50)	(12,972)	-	(12,972)	-
Other Changes					
Salary and Benefit Adjustments	-	168,607	-	168,607	-
Non-Discretionary Adjustment	-	-	(7,550)	(7,550)	-
Other Adjustments	-	(1,547)	(861)	(2,408)	-
FY 2018 Proposed Budget	**31.00**	**$ 3,631,729**	**$ 310,572**	**$ 3,942,301**	**$ 967,604**
Difference from 2017 to 2018	*(2.50)*	*$ 77,767*	*$ (8,411)*	*$ 69,356*	*$ -*

However, if work for General Fund departments continues to increase, the Department may need to reduce its revenue projections accordingly.

Projects of Interest to Council

In FY 2017, the Communications Department began working with the IT Web Team to produce an update to CityNet. The goal of CityNet 2.0 is to make it easier for employees to access information and resources. The content on CityNet has been reviewed, and the new website is under construction. The updated website is projected to launch on June 26, 2017.

The Communications Department will also begin working on the Vision Zero education campaign, which is a strategy to eliminate all traffic fatalities and severe injuries in San Diego. The Department will develop branding, graphics, social media content, materials for an updated website, and conduct media outreach to highlight the City's efforts.

Debt Management

Impacts of Mayor's FY 2018 Proposed Budget

The FY 2018 Proposed Budget for the Debt Management Department is approximately $3.2 million which is unchanged from the FY 2017 Adopted Budget. The Department has 21.00 FTE positions and $736,000 of budgeted revenue.

Additional Funding for Proposed Enhanced Infrastructure Financing District (EIFD) in Otay Mesa

An EIFD is a special district established in accordance with State law that allows for the use of specific property tax increment generated within the district to finance a wide variety of public infrastructure and private facilities.

The Department received a one-time allocation of $150,000 in FY 2017 to hire consultant Keyser Marston & Associates to, in part, analyze the feasibility of the contemplated EIFD and prepare a draft Infrastructure Financing Plan (IFP). In February 2017, the Council approved a Resolution of Intention to form the Otay Mesa EIFD. The Council also adopted a Resolution establishing a Public Financing Authority (PFA) to be comprised of three Councilmembers and two public members appointed by the City Council.

State law requires several additional steps be taken before an EIFD is formed: IFP and CEQA documents must be mailed to each landowner within the proposed EIFD, Council approval of IFP, PFA approval of final IFP, and a public hearing and final decision by the PFA to form the EIFD.

In order to support these required steps and also cover the costs of a possible special EIFD election to consider issuing bonds for infrastructure, the Department is receiving another one-time allocation of $145,000 in the FY 2018 Proposed Budget. Funds advanced by the City could be recovered from subsequent EIFD property tax increment.

Reduction of Budgeted Revenue for Reimbursable Services

The Department is reimbursed for debt-related services it provides to support the work of other departments, agencies, and special districts. Reimbursements are included in the Department's annual budget as budgeted revenue. As the Department expects a reduction in services rendered to the Public Utilities Department, Successor Agency, and Special Districts in FY 2018, budgeted revenue has been reduced accordingly by $175,000.

SUMMARY OF DEBT MANAGEMENT DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	21.00	$ 2,763,631	$ 399,908	$ 3,163,539	$ 910,863
Programmatic Changes					
One-time expenses for proposed Otay Mesa EIFD	-	-	145,000	145,000	-
Other Changes					
Reimbusements for services provided to depts. & districts	-	-	-	-	(174,844)
One-time FY 17 expenses for Otay Mesa EIFD & other	-	-	(165,000)	(165,000)	-
Requested Budget Reduction - Professional Services	-	-	(12,717)	(12,717)	-
Salary & Benefit and Other NPE Adjustments	-	21,746	9,315	31,061	-
FY 2018 Proposed Budget	**21.00**	**$ 2,785,377**	**$ 376,506**	**$ 3,161,883**	**$ 736,019**
Difference from 2017 to 2018	-	*$ 21,746*	*$ (23,402)*	*$ (1,656)*	*$ (174,844)*

Department of Information Technology

The Department of Information Technology (IT) is comprised of both General Fund and non-General Fund components. Non-General Funds in the Department include the GIS Fund, the Information Technology (IT) Fund, the OneSD Support Fund, and the Wireless Communications Technology Fund.

Mayor's FY 2018 Proposed Adjustments

The FY 2018 Proposed Budget for the Department of IT (General Fund and non-General Fund components) is approximately $50.9 million and includes 120.00 FTE positions. This is an increase of $815,000 (or 1.6%) and 2.00 FTEs over FY 2017. The increase is due in large part to expenditures in the GIS, IT, and Wireless Communications Technology Funds, and reductions in the General and OneSD Funds. These changes are described in the following sections. Additionally, the only net increase in FTE positions is reflected in the IT Fund.

The table below reflects the Proposed Budget changes to each of the funds within the Department.

General Fund

The Department of IT oversees the budget for the replacement of personal computers in General Fund departments, and replaces between 12-15% (or approximately 610) of these computers each year. The FY 2018 Proposed Budget for computer replacement is $483,000, which is a reduction of approximately $18,000 or 3.5% from the FY 2017 Adopted Budget. The Department indicates the proposed reduction could result in the replacement of 21 fewer computers in FY 2018. Although the proposed reduction for FY 2018 is small, we note that if the trend continues, computers will be replaced on a schedule of once every 7-8 years, and if the City replaces fewer computers over the next few years that schedule could grow longer.

GIS Fund

The Geographical Information System (GIS) Fund was created to support the management of GIS applications used by departments citywide. The operational cost of these applications is allocated on

SUMMARY OF INFORMATION TECHNOLOGY DEPARTMENT BUDGET						
	FY 2017 FTE	FY 2018 FTE	CHANGE	FY 2017 ADOPTED	FY 2018 PROPOSED	CHANGE
General Fund	-	-	-	$500,000	$482,500	(17,500)
Non-General Fund						
GIS Fund	2.00	2.00	-	1,885,989	2,417,763	531,774
Information Technology Fund	42.00	44.00	2.00	11,751,450	12,080,811	329,361
OneSD Fund	28.00	28.00	-	27,192,597	26,782,250	(410,347)
Wireless Communications Technology Fund	46.00	46.00	-	8,730,105	9,111,617	381,512
TOTAL INFORMATION TECHNOLOGY	**118.00**	**120.00**	**2.00**	**$50,060,141**	**$50,874,941**	**$814,800**

an annual basis to departments that use GIS.

The FY 2018 Proposed Budget for the GIS Fund is approximately $2.4 million. This is an increase of $532,000 or 28.2% from FY 2017, which is largely due to increases in the number of needed GIS licenses. City departments have expanded their uses of GIS and maps for field work, public safety, and in conjunction with the Get It Done pilot project. An increase of $640,000 in projected revenue for FY 2018 reflects a 44.2% increase in charges to other departments for their growing usage of GIS.

The GIS Fund is projected to operate at a deficit of $134,000 in FY 2018 that will be mitigated through the use of fund balance.

Information Technology Fund

The IT Fund supports the operational budget for Department of IT staff who provide a variety of information technology related activities for the City. In order to reimburse the IT Fund for costs incurred, departments who use IT services are assigned a budgetary allocation each year based on their prior-year IT spending.

For the FY 2018 Proposed Budget, the IT Fund is approximately $12.1 million, which is an increase of $329,000 or 2.8% from FY 2017. Additionally, 44.00 FTE positions are included in the Proposed Budget, which is an increase of 2.00 FTEs from FY 2017.

Budget Expenditure Reductions

Expenditure reductions in the IT fund include:

- $192,000 in consulting services contracts following the completion of work on a Network Services RFP
- $144,000 for training, which represents a 56.1% cut to the in-town training budget
- $129,000 in personnel expenditures (PE) due to a department restructure that included the transfer of 1.00 Associate Management Analyst position from the IT Fund to the OneSD fund, and the transfer of 1.00 Program Coor-

SUMMARY OF INFORMATION TECHNOLOGY FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	42.00	$ 5,999,484	$ 5,751,966	$ 11,751,450	$ 10,552,747
Programmatic Changes					
Addition of Cyber Security Program Coordinators	2.00	241,772	5,840	247,612	-
Reduction of In-Town Training Budget	-	-	(144,301)	(144,301)	-
Reduction in Consulting Services Contracts	-	-	(192,000)	(192,000)	-
Other Changes					
Revenue Adjustments	-	-	-	-	789,442
Other Salary and Wages Adjustments	-	756,173	-	756,173	-
Increase in Rent, Including One-Time Office Relocation Costs for Move to 101 Ash Street Building	-	-	714,678	714,678	-
Budget Change to Reflect Web Team Position Reclassifications	-	(14,048)	-	(14,048)	-
Budget Change to Reflect Department Restructure	-	(128,816)	-	(128,816)	-
Removal of FY 2017 One-Time Grant Revenue	-	-	-	-	(140,062)
Removal of FY 2017 Expenditure (Equipment Lease)	-	-	(120,000)	(120,000)	-
Other Non-Personnel Expenditure Adjustments	-	-	(789,937)	(789,937)	-
FY 2018 Proposed Budget	**44.00**	**$ 6,854,565**	**$ 5,226,246**	**$ 12,080,811**	**$ 11,202,127**
Difference from 2017 to 2018	*2.00*	*$ 855,081*	*$ (525,720)*	*$ 329,361*	*$ 649,380*

dinator from the OneSD Fund to the IT Fund

- $120,000 due to the removal of one-time expenses from last year's budget
- $14,000 in PE related to the reclassification of a Web Team position from an Information Systems Analyst 4 to a Program Manager
- $790,000 in other non-personnel expenditure (NPE) reductions, including a reduction of $173,000 for information technology related expenses

Budget Additions

The FY 2018 Proposed IT Fund Budget includes $248,000 in PE and NPE due to the addition of 2.00 new Cyber Security Program Coordinator positions[1]. This work was previously included in the Network Services contract, but will be brought in-house as the City moves to a new contract.

Other additions to the IT Fund include:

- $715,000 due to the relocation of IT Fund staff from the Executive Complex to the 101 Ash Street Building. This includes $534,000 in ongoing expenses for rent, and $181,000 for one-time relocation expenses
- $756,000 in salary, wages, and fringe costs

Revenue Changes

An increase in revenue of approximately $649,000 (or 6.2%) reflects an increase of $789,000 in charges to other departments who use IT services, which is partially offset by a projected reduction of $140,000 for a one-time grant. The IT Fund is projected to operate at a deficit of $879,000 in FY 2018, which will be mitigated through the use of fund balance.

Issues for Council Consideration

Update Regarding the City's IT Sourcing Strategy

Between 2011 and 2012, the City moved to an IT sourcing strategy that resulted in certain IT services being provided by outside vendors. In April 2016, the City Council voted to extend the City's contract with CGI for application development and maintenance services. The City also currently has two contracts with Atos: one for network services, and a second for data center, help desk, and desktop support. On March 21, 2017, the City Council voted to extend the contract for network services by a year and six months to give the City time to issue an RFP, and transition to a new vendor. The RFP is expected to be released in May, and a contract could come before Council in the second quarter of FY 2018. At the same meeting in March, the City Council voted to extend the agreement with Atos for data center, help desk, and desktop support by 13 months. After the contract was initially approved by the City Council in 2012, it took 13 months to modernize equipment and transition services over. The extension approved by the City Council last month would allow Atos to provide five-years of "steady-state" services to the City. The City will evaluate this contract and determine in FY 2018 whether to utilize a two-year renewal option, or issue an RFP. If an RFP is pursued, transition costs may be required in FY 2019.

OneSD Support Fund

The OneSD Support Fund (OneSD) supports staff that manage the City's Enterprise Resource Planning (ERP) systems, or SAP. Revenues for this fund are collected

1. These positions were budgeted as Program Manager positions in the Proposed Budget, but will be submitted to the May Revise for correction.

based on an annual allocation to departments that use SAP, with each department's allocation varying by the types of SAP programs used, the number of full-time equivalent positions in each department, and the department's budget.

None of the Department of IT's three key performance indicators (KPIs) pertain specifically to OneSD, although some of the Division's work may be included in the "Percentage reduction of expenses identified through consolidation and innovation" KPI, as appropriate.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 proposed expenditure budget for OneSD is approximately $26.8 million, a $410,000 or 1.5% decrease from FY 2017. This decrease is due primarily to two reductions in non-personnel expenditures: an $890,000 reduction in information technology expenditures as a result of the removal of one-time FY 2017 implementation costs related to SAP procurement upgrades and content storage management projects, and a $1.2 million reduction in debt service costs. Division reductions are partially offset by a number of expenditure increases: an $139,000 reduction in budgeted vacancy savings and $469,000 in fringe expenditures, $127,000 in other salaries and wages adjustments, and $950,000 in the Division's transfer to the IT Fund.

OneSD's FY 2018 proposed revenue budget is $26.0 million, a $1.2 million or 4.4% decrease from FY 2017. This decrease is due to a $115,000 reduction in revenue charged for OneSD support of the IAM project, a $295,000 reduction in the amount of revenue charged to City departments to recover Division operating expenses, and a $791,000 decrease in revenue due to the use of fund balance.

OneSD Projects in FY 2018

In FY 2018, OneSD staff continue to work on projects initiated in the prior fiscal year including:

- Procurement upgrades, including implementing Ariba (catalogue procurement software) and replacing Planet Bids

SUMMARY OF ONESD SUPPORT FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	28.00	$ 4,030,004	$ 23,162,593	$ 27,192,597	$ 27,192,944
Programmatic Changes					
Change in OneSD Fund Revenue Associated with the IAM Project	-	-	-	-	(115,270)
Other Changes					
Reduction in Staff Training	-	-	(25,000)	(25,000)	-
Reduction in Vacancy Savings	-	139,401	-	139,401	-
Increase in Fringe Expenditures	-	469,165	-	469,165	-
Other Adjustments in Salaries & Wages	-	127,089	-	127,089	-
Increase in IT Services transfer	-	-	950,252	950,252	-
Adjustment in Information Technology Expenditures	-	-	(890,301)	(890,301)	-
Reduction in Debt Service	-	-	(1,167,048)	(1,167,048)	-
Other Non-Personnel Expenditure Adjustments	-	-	(13,905)	(13,905)	-
Reduction in Revenues Charged to Recover Department Expenditures	-	-	-	-	(295,424)
Use of Fund Balance	-	-	-	-	(791,476)
FY 2017 Proposed Budget	**28.00**	**$ 4,765,659**	**$ 22,016,591**	**$ 26,782,250**	**$ 25,990,774**
Difference from 2017 to 2018	-	*$ 735,655*	*$ (1,146,002)*	*$ (410,347)*	*$ (1,202,170)*

- OpenText, a content storage management system
- Automating a number of Personnel actions that are currently processed via paper forms
- The creation and rollout of a number of analytic tools for City staff: dashboards, reports, and training opportunities

OneSD expenditures identified as critical strategic expenditures in the Mayor's FY 2018-2022 Five-Year Financial Outlook have been funded in the FY 2018 Proposed Budget.

Wireless Communications Fund

The Wireless Communications Fund supports the Wireless Technology Services Group of the Department of IT, which manages the service delivery of public safety wireless communications technologies. The FY 2018 Proposed Budget includes approximately $9.1 million and 46.00 FTE positions for the Fund. There is no change in the number of FTE positions, but there is a $382,000 or 4.4% expenditure increase from the FY 2017 Adopted Budget.

Budget Expenditure Reductions

The FY 2018 Proposed Budget includes approximately $679,000 in expenditure reductions for the Wireless Communications Technology Fund. These reductions include the removal of $550,000 in one-time expenses that were included in FY 2017 for the design and construction of the Otay Mountain public safety radio facility, and the installation of equipment at the radio communications site in the San Pasqual Valley. There is an additional $113,000 in proposed cuts to various contracts and services to help mitigate the FY 2018 projected deficit.

Budget Additions

The Proposed Budget includes the addition of $300,000 for a Public Safety Communications Network contract with Nokia. The contract will provide services including technical support, equipment replacement, software and licensing updates, and cyber security and system monitoring for a communications network that supports public safety radio traffic.

Other expenditure increases include $458,000 in salary, wages, and fringe costs, and $302,000 in IT adjustments.

SUMMARY OF WIRELESS COMMUNICATIONS TECHNOLOGY FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	46.00	$ 5,248,803	$ 3,481,302	$ 8,730,105	$ 8,667,773
Programmatic Changes					
Addition of Public Safety Communications Network Contract	-	-	300,000	300,000	-
Infrastructure Asset Management (IAM) Revenue	-	-	-	-	52,212
Other Changes					
Revised Revenue	-	-	-	-	330,658
Removal of FY 2017 One-Time Budget for IAM	-	-	-	-	(150,053)
Other Salary and Wages Adjustments	-	458,057	-	458,057	-
IT Adjustments	-	-	301,992	301,992	-
Removal of FY 2017 One-Time Budget for Facility Design/Construction, & Network Improvements	-	-	(550,000)	(550,000)	-
Other Adjustments	-	-	(128,537)	(128,537)	-
FY 2018 Proposed Budget	**46.00**	**$ 5,706,860**	**$ 3,404,757**	**$ 9,111,617**	**$ 8,900,590**
Difference from 2017 to 2018	-	*$ 458,057*	*$ (76,545)*	*$ 381,512*	*$ 232,817*

Revenue Changes

The revenue for this fund primarily comes from the annual Wireless Communications transfer that is allocated to departments who use these services. Approximately 4.9% of the fund's revenue also comes from external agencies like City schools and the Community College District for the use of the public safety communications systems.

The amount charged to other departments in the FY 2018 Proposed Budget is projected to increase by $331,000 or 4.1%. Other significant revenue changes include the removal of $150,000 in one-time revenue, which was budgeted for the Infrastructure Asset Management (IAM) reimbursement in FY 2017. This is partially offset by the projected reimbursement of $52,000 for IAM in FY 2018.

The Wireless Communications Fund is projected to operate at a deficit of $211,000 in FY 2018, which will be mitigated through the use of fund balance.

Issues for Council Consideration

Expenditure Requests Not Funded

A request of $50,000 for a Bandwidth Assessment Study was requested, but not included in the FY 2018 Proposed Budget. The proposed study would include analyzing the Public Safety Radio Network to identify coverage gaps, and would help determine if additional data and video services can be added to the network. If additional services can be supported, there is a potential for increased revenue through charges to outside agencies. The Department notes that if the request is not funded, it will seek grant funding for it, or will delay the study to a future fiscal year.

Development Services

Impact of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Development Services Department (DSD) includes $79.2 million in expenditures and 545.65 FTE positions. This is an increase of approximately $13.2 million in expenditures and a net reduction of 2.80 FTE positions from the FY 2017 Adopted Budget.

To accommodate the Department's multiple areas of responsibility and funding sources, the department is arranged into seven primary divisions across three individual funds. The analysis of the FY 2018 Proposed Budget in this section is organized by major funds.

General Fund

The FY 2018 Proposed Budget totals approximately $7.7 million, representing an increase of $195,000 over the FY 2017 Adopted Budget. The FY 2018 Proposed Budget includes 67.00 FTE positions, a reduction of 3.00 FTE positions from the FY 2017 Adopted Budget. Revenues are projected to total $596,000, a decrease of $120,000 from the FY 2017 Adopted Budget.

Significant Budget Expenditure Reductions

Reduction of Code Enforcement Officers – The FY 2018 Proposed Budget includes the reduction of 2.00 Code Enforcement Officers and $203,000 in expenses as a part of the Department's efforts to reduce departmental expenditures per the Mayor's request.

After evaluation of the Department and staff functions, the Department identified the reduction of 2.00 Code Enforcement Officer positions as being the least impactful to code enforcement services. The Department stated that the Code Enforcement Officer position only has the ability to investigate lower priority complaints, making these positions the least flexible for assigning investigations as compared

SUMMARY OF DEVELOPMENT SERVICES EXPENDITURE BUDGET CHANGES						
	FY 2017 FTE	FY 2018 FTE	CHANGE	FY 2017 BUDGET	FY 2018 PROPOSED	CHANGE
General Fund						
Code Enforcement	70.00	67.00	(3.00)	$ 7,486,410	$ 7,681,399	$ 194,989
General Fund	*70.00*	*67.00*	**(3.00)**	$ *7,486,410*	$ *7,681,399*	$ *194,989*
Enterprise Fund						
Administration & Support Services	47.00	44.00	(3.00)	$ 14,659,428	$ 22,044,823	$ 7,385,395
Building & Safety	173.40	173.60	0.20	$ 16,993,121	$ 19,562,129	$ 2,569,008
Engineering	87.35	89.70	2.35	$ 10,719,221	$ 11,755,160	$ 1,035,939
Land Development Review	77.35	74.35	(3.00)	$ 7,835,104	$ 8,113,039	$ 277,935
Project Submittal & Management	87.35	91.00	3.65	$ 7,495,407	$ 8,989,627	$ 1,494,220
Enterprise Fund Fund	*472.45*	*472.65*	*0.20*	$ *57,702,281*	$ *70,464,778*	$ *12,762,497*
Local Enforcement Agency Fund						
Solid Waste Local Enforcement Agency	6.00	6.00	-	$ 810,179	$ 1,069,196	$ 259,017
Local Enforcement Agency Fund	*6.00*	*6.00*	-	$ *810,179*	$ *1,069,196*	$ *259,017*
TOTAL DEVELOPMENT SERVICES	*548.45*	*545.65*	**(2.80)**	$ *65,998,870*	$ *79,215,373*	$ *13,216,503*

to Zoning Investigators and Combination Inspectors. The reduction of the Code Enforcement Officer positions will impact the Department's ability to address non-health and safety code violations such as noise complaints, signs, and storage/parking issues. Due to this reduction, these types of violations may persist for a longer duration as the Department staff works to absorb the existing workload.

The Department has indicated that they will continue to monitor the number of cases each field person (investigators/inspectors/enforcement officers) is responsible for and gauge the future need for additional field staff. In the interim, for several identified lower priority complaints, the Department will engage in increased communication of City regulations and options for mediation to the parties involved in the complaints to encourage voluntary compliance with City regulations.

Reduction of Administrative Aide I – The FY 2018 Proposed Budget includes the reduction of 1.00 Administrative Aide 1 position and $69,000 in expenses. This reduction will reduce the Department's resources to track and monitor code violation data and preparation of administrative documents necessary for code enforcement remedies.

Reduction of Accela Project Payment – The FY 2018 Proposed Budget includes the reduction of $200,000 in contractual services for the Accela Project due to the payment of the Accela Project being supported by an allocation within the Debt Management Department. This reduction would eliminate the duplicative budgeting for this project.

Significant Budget Additions

Contribution to Nuisance Abatement Fund – The FY 2018 Proposed Budget includes a one-time contribution of $250,000 to the Nuisance Abatement Fund to support abatement activities throughout the City. Upon determination that a private or public property is a public nuisance, as defined by the Municipal Code, the Department initiates abatement actions which may include repairs, demolition, boarding and securing the property, or other actions.

The cost for the correct actions is anticipate to be recoverable, however cost recovery is through tax liens or results of property auctions. The cost recovery process in not guaranteed and requires initial funding to support the necessary actions. The Department indicates that the expenses for these actions have increased since FY 2016 and additional funding is necessary to ensure appropriate actions

SUMMARY OF DEVELOPMENT SERVICES DEPARTMENT – GENERAL FUND BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	70.00	$ 6,334,798	$ 1,151,612	$ 7,486,410	$ 716,269
Programmatic Changes					
Nuisance Abatement Fund Support	-	-	250,000	250,000	-
Reduction of Code Compliance Officers	(2.00)	(203,124)	-	(203,124)	-
Reduction of Administrative Aide I	(1.00)	(68,760)	-	(68,760)	-
Reduction of Accela Project Payment	-	-	(200,000)	(200,000)	-
Other Changes					
Salaries & Benefits Adjustments	-	529,291	(19,834)	509,457	-
Non-Discretionary Adjustments	-	-	706	706	-
Other Adjustments	-	-	(93,290)	(93,290)	(120,000)
FY 2018 Proposed Budget	**67.00**	**$ 6,592,205**	**$ 1,089,194**	**$ 7,681,399**	**$ 596,269**
Difference from 2017 to 2018	*(3.00)*	*$ 257,407*	*$ (62,418)*	*$ 194,989*	*$ (120,000)*

are able to be performed.

Council Priority Not Addressed

A majority of the Councilmembers' FY 2018 budget priority memoranda recommended additional resources be allocated to code enforcement work. The FY 2018 Proposed Budget does not address this priority and instead reduces 2.00 Code Compliance Officer positions.

Issues to Consider

Reduction of Code Enforcement Personnel

The FY 2018 Proposed Budget includes the reduction of 2.00 Code Enforcement Officers as part of the Mayor's request to reduce Departmental expenses. The FY 2016 Adopted Budget included the addition of nine positions to support the code enforcement of substandard housing codes, medical marijuana, and general code enforcement. The FY 2017 Adopted Budget did not add any additional enforcement positions.

Development Services (Enterprise Fund)

The FY 2018 Proposed Budget is approximately $70.5 million, an increase of approximately $12.8 million and 0.20 FTE positions over the FY 2017 Adopted Budget. Department revenues are projected to be approximately $60.9 million, an increase of approximately $5.6 million over the FY 2017 Adopted Budget.

Significant Budget Additions

Rental Compensation - The Department is anticipated to relocate their operations from their current location in the City Operations Building to the city-owned building at 101 Ash Street in FY 2018. The FY 2018 Proposed Budget includes $4.1 million in expenditures to address the Department's share of rent at the 101 Ash Street Building. This amount is in addition to the rent amount due for the Department's current location. FY 2018 represents an unusual situation in that the Department will be paying rent for two locations.

Relocation Expenses to 101 Ash Street - The FY 2018 Proposed Budget includes approximately $1.4 million for moving costs and additional furniture associated with the Department's anticipated relocation to 101 Ash Street. Any new furniture will abide by the City's Facilities Strategic Plan.

Regional Quality Control Board Penalty - The FY 2018 Proposed Budget includes $1.6

SUMMARY OF DEVELOPMENT SERVICES DEPARTMENT - ENTERPRISE FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	472.45	$ 44,823,525	$ 12,878,756	$ 57,702,281	$ 55,319,734
Programmatic Changes					
Rental Compensation	-	-	4,104,740	4,104,740	-
Relocation to 101 Ash Street	-	-	1,389,892	1,389,892	-
Regional Water Quality Control Board Penalty	-	-	1,597,199	1,597,199	-
Addition of Development Project Manager	0.50	37,405	-	37,405	-
Operating Reserve Requirement	-	-	(600,000)	(600,000)	-
One-Time Reductions and Annualizations	-	-	600,000	600,000	(148,743)
Revised Revenue	-	-	-	-	5,704,819
Other Changes					
Salary & Benefit Adjustments	(0.30)	4,351,101	6,210	4,357,311	-
Non-Discretionary Adjustments	-	-	1,275,950	1,275,950	-
FY 2018 Proposed Budget	**472.65**	**$ 49,212,031**	**$ 21,252,747**	**$ 70,464,778**	**$ 60,875,810**
Difference from 2017 to 2018	***0.20***	***$ 4,388,506***	***$ 8,373,991***	***$ 12,762,497***	***$ 5,556,076***

million in one-time expenses for settlement with the Regional Water Quality Control Board for City infractions related to project inspections and storm water run-off. The FY 2018 amount includes $1.2 million in penalty amounts and $400,000 for supplemental environmental projects.

Addition of Development Project Manager - The FY 2018 Proposed Budget includes the addition of a 0.50 Development Project Manager position and $37,000 in expenses. This position will conduct preliminary reviews, develop timetables, supervise the work of other professional staff, and support the timeliness of project reviews.

Significant Revenue Changes

Revised Revenue - In July 2016, the City Council approved adjustments to the Department's fees and fee structure. The FY 2018 Proposed Budget includes the addition of approximately $4.3 million as a result of implementation of the adjusted fees and an increasing number of building permits being issued by the Department.

Additionally, the Department is anticipated to receive a one-time transfer of $1.4 million in funding from the General Fund ($200,000) and the Civil Penalties fund ($1.2 million) for the Accela financing payment to be incurred by the Enterprise Fund.

Adjustment to Operating Reserve

Operating Reserve Contribution - The FY 2018 Proposed Budget includes a reduction of $600,000 in expenses due to the Department not making a contribution to their Operating Reserve. Due to several large expenses anticipated to occur in FY 2018, operating expenses will exceed revenue, necessitating the short-term usage of the Operating Reserve. The reduction of the contribution to the Reserve will support the reduction of operating expenses in FY 2018.

Local Enforcement Agency Fund

The FY 2018 Proposed Budget is approximately $1.1 million, an increase of approximately $259,000 over the FY 2017 Adopted Budget. There is no change is the number staff from FY 2017. Department revenues are projected to be approximately $786,000, representing no change from FY 2017.

Significant Budget Additions

Rental Compensation - The FY 2018 Proposed Budget includes $213,000 in expenditures to address the Department's share of rent at the 101 Ash Street Building.

SUMMARY OF DEVELOPMENT SERVICES DEPARTMENT - LOCAL ENFORCEMENT AGENCY FUND BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	6.00	$ 599,212	$ 210,967	$ 810,179	$ 786,417
Programmatic Changes					
Rental Compensation	-	-	212,563	212,563	-
Relocation to 101 Ash Street	-	-	71,975	71,975	-
Other Changes					
Salary & Benefit Adjustments	-	(23,268)	-	(23,268)	-
Non-Discretionary Adjustments	-	-	(2,253)	(2,253)	-
FY 2018 Proposed Budget	**6.00**	**$ 575,944**	**$ 493,252**	**$ 1,069,196**	**$ 786,417**
Difference from 2017 to 2018	-	*$ (23,268)*	*$ 282,285*	*$ 259,017*	$ -

Relocation Expenses to 101 Ash Street – In FY 2018, the Department is scheduled to move from their current location into the City-owned building located at 101 Ash Street. The FY 2018 Proposed Budget includes approximately $72,000 for moving costs and additional furniture needed at the new location.

Issues to Consider

Impact of Relocation to 101 Ash Street

The FY 2018 Proposed Budget includes additional rental compensation for the Department. This amount is in addition to the rent amount due for the Department's current location. Although the Department is not yet located in the new building, the City is incurring costs associated with the new building and the new costs are being allocated to the occupying departments. FY 2018 represents an unusual situation in that the Department will be paying rent for two locations.

For the Enterprise Fund, the additional rent expense has caused an imbalance in revenues and expenditures. The projected imbalance in FY 2018 is necessitating the use of the Department's Operating Reserve. Additionally, as the new rent amount will be considerably higher than the current amount, this may require the Department to engage in a new fee study and potentially result in an increase in fees to ensure an appropriate balance of revenues and expenditures going forward.

Service Level Impacts and Performance Measures

The performance measures provided in the table below reflects the Department's efforts to open cases/investigations, measure the Department's ability to identify and communicate needs plan adjustments, and meet established Department deadlines.

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of cases opened upon day of receipt	100%	100%	100%	100%	100%
Percentage of projects completed with less than 3 eligible review cycles[1]	87%	87%	80%	86%	80%
Percentage of projects meeting established department deadlines	85%	88%	80%	93%	80%

1. Each review cycle could be up to 10 days, after which the project is returned to the applicant to address any needed adjustments. Upon completion of the required adjustments, the applicant then delivers the project to DSD to initiate the second review cycle, and so forth. This measure highlights the efficiency of staff in identifying necessary adjustments and communicating the required adjustments to the applicant.

Economic Development

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Total amount of federal funds expended for affordable housing	$4.5M	$14.0M	$6.0M	$14.0M	$19.0M
Percentage growth in the number of small businesses assisted and expanded annually as a result of small and neighborhood business programs.	1,383	1,383	11%	5%	5%
Total amount of funds expended for infrastructure projects and community service	$10.1M	$11.3M	$4.3M	$12.4M	$15.7M

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Economic Development Department is approximately $12.3 million, a reduction of $2.7 million that is largely attributable to the Successor Agency's activities budget being transferred into a special revenue fund. The transfer also results in a $2.5 million reduction of budgeted revenue in FY 2018. The number of FTE positions in the Department is 63.85, an increase of 7.85 FTE positions from FY 2017.

Addition of Staff to Support the Reinvestment Initiative

Following the adoption of Senate Bill 107 in September of 2015, the City was able to reinitiate Successor Agency repayment of $64 million in previously approved debt repayments to the City's CDBG Program over a period of 10 years. In addition to the debt repayment, another repayment was authorized for $151 million (over 15 years) in program income funds related to the Long-Term Miscellaneous CDBG Debt from the City's Successor Agency. Combined, these two debt repayment schedules will result in the City receiving $215 million in CDBG Program Income from the Successor Agency over the next 10-15 years.

The plan to expend this repayment of CDBG Program Income has been named the Reinvestment Initiative by staff. Initial programmatic recommendations for the

SUMMARY OF ECONOMIC DEVELOPMENT DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	56.00	$ 6,077,365	$ 8,930,166	$ 15,007,531	$ 8,141,001
Programmatic Changes					
Addition of staff to support CDBG Reinvestment Initiative	6.00	583,146	-	583,146	583,146
Program Manager to support Successor Agency Activities	1.00	137,669	-	137,669	137,669
Successor Agency activities budget to new CivicSD Fund	-	-	(3,291,751)	(3,291,751)	(3,291,751)
Other Changes					
Proposed Budget Reductions of ($525,264)	-	-	-	-	-
- Supplies and Services	-	-	(61,264)	(61,264)	-
- Reduction of Programmatic Support	-	-	(179,000)	(179,000)	-
- Reduction of NPE in SBEP	-	-	(35,000)	(35,000)	-
- Reduction in funding for CivicSD services	-	-	(250,000)	(250,000)	-
Addition in Hourly FTEs from 4.00 to 4.85	0.85	35,861	-	35,861	87,660
Salary & Benefit and Other NPE Adjustments	-	259,002	112,131	371,133	(62,152)
FY 2018 Proposed Budget	**63.85**	**$ 7,093,043**	**$ 5,225,282**	**$ 12,318,325**	**$ 5,595,573**
Difference from 2017 to 2018	*7.85*	*$ 1,015,678*	*$ (3,704,884)*	*$ (2,689,206)*	*$ (2,545,428)*

expenditure of Reinvestment Initiative funds were approved by the City Council on December 5, 2016.

On April 25, 2017, the Council approved a Substantial Amendment to the FY 2015-2019 Consolidated Plan for the City's HUD Programs (Plan). The FY 2018 Substantial Amendment will allow for reprogrammed funds and general program income to be directed, at the City's discretion, to City CIP, homeless, affordable housing, and other projects fulfilling one or more of the six goals identified in the Plan.

As the City expects to receive a repayment of approximately $17 million in FY 2018, the Reinvestment Initiative identifies approximately $17 million of projects and programs in priority order for FY 2018. The priority order of these projects and programs will determine how Reinvestment Initiative funds would be spent if the City were to receive less HUD entitlement grant revenue than it expects in FY 2018. If that were to happen, Reinvestment Initiative funds could be used to backfill the resulting funding gap for projects and programs that would have otherwise been covered with annual HUD entitlement grant revenue.

The Reinvestment Initiative is expected to result in an investment of approximately $111 million through FY 2022. The funding is expected to be used for additional affordable housing, workforce development, City CIP and sustainability projects. In order to ensure financial and programmatic compliance in accordance with federal regulations, the Department is adding 6.00 FTE positions to support Reinvestment Initiative expenditures.

The new positions include: 1.00 Program Manager, 1.00 Community Development Specialist 4, 1.00 Senior Management Analyst, and 3.00 Community Development Specialist 3s. Personnel expense of $583,000 has been budgeted for these positions along with a matching amount of revenue. Reinvestment Initiative funds will cover the annual cost of the new positions. Annual repayment revenue supporting the Reinvestment Initiative will be included in the Recognized Obligation Payment Schedule (ROPS) developed by the Successor Agency and approved by the State Department of Finance.

Addition of Program Manager for Successor Agency Work Unit

The Department added 1.00 Program Manager position to manage the activities of the Successor Agency work unit. This position was added as an unbudgeted position in FY 2017 and is now being added to the Department's budget in FY 2018. Personnel expense of $138,000 has been budgeted for the position along with a matching amount of revenue (included in the annual ROPS budget) to cover the cost of the position.

Transfer of Successor Agency's Activities Budget to a new Special Fund

The FY 2018 Proposed Budget transfers the Successor Agency's $3.3 million administration, project expenditures and revenue budget from the General Fund to a newly created special revenue fund. The new fund is entitled "Successor Agency Admin & Project—CivicSD Fund". Staff indicates the creation of a new special revenue fund will allow for better transparency in the monitoring of expenses associated with Civic San Diego's work for the City related to redevelopment wind down functions.

The $3.3 million special revenue fund budget is divided between administrative expenses and project management expenses. The administrative portion of the budget reimburses CivicSD for their work to prepare and administer the ROPs, and perform related accounting, budgeting, etc. The project management portion of this budget is for CivicSD's work in support of the Successor Agency's recognized obligations including ROPS projects, Disposition & Developer agreements, Owner Participation Agreements, etc.

In reviewing CivicSD's adopted budget for FY 2018, the IBA notes they have budgeted $2.7 million in Successor Agency reimbursements from the City. We have discussed the discrepancy between CivicSD's $2.7 million adopted Successor Agency budget and the $3.3 million budgeted in the City's special fund with the Financial Management Department. They attribute the discrepancy to budget process timing differences and have indicated they will correct the amount budgeted in the City's special fund to be $2.7 million in the May Revise.

Proposed Budget Reductions

The FY 2018 Proposed Budget includes approximately $525,000 of budget reductions from the Department's FY 2017 budget. These budget reductions are summarized below:

<u>Non-Personnel Expense Items ($61,000)</u>

The Department has strategically reduced various line items of its non-personnel expenditures budget to minimize the impacts to operations.

<u>Program Support ($179,000)</u>

Funding has been reduced for the following organizations and programs: Economic Development Corporation ($25,000); CONNECT2Careers ($25,000) - although this amount of funding is proposed to be added back with Reinvestment Initiative funds; funds to assist targeted businesses with City permitting ($25,000); excess reimbursement funds for the Business Cooperation Program ($50,000); and a reduction of Small Business Enhancement Program (SBEP) funds to provide support to Business Improvement Districts ($54,000).

<u>SBEP Funding ($35,000)</u>

Staff indicates this reduction will be offset by lower than expected annual costs for the 5-year contract to implement Open Counter Software that will help businesses interact with the City to obtain permits and locate their businesses. SBEP funds contributed toward the annual cost and will benefit from the reduction.

<u>Support for CivicSD Programs ($250,000)</u>

In recent years, the Department budgeted funds to support certain CivicSD projects (Transit Oriented Development Fund, re-use of the old main library, and other miscellaneous projects). As these projects are now either underway or discontinued, this funding has been removed from the Department's budget in FY 2018.

It should be noted that the proposed SBEP reductions totaling $89,000 may reduce the annual General Fund appropriation to SBEP below the amount recommended in Council Policy 900-15 (specifies that $20 be appropriated to SBEP for each small business in the City). This may be a policy consideration for the City Council.

Continued Funding for Homeless Services Funded in FY 2017

The FY 2018 Proposed Budget includes the $2.3 million that was appropriated for homeless services in FY 2017. This funding includes the following:

- Interim Housing & Services ($1.5 million)

- Connections Housing ($300,000)
- Serial Inebriate Program ($290,000)
- Transitional Storage Center ($125,000)
- 24/7 Restroom Access ($105,000)

Key Performance Indicators

The Department's budget provides nine performance indicators. We have included three of these key measures at the beginning of this section. These measures show increased funding for affordable housing, assistance for small businesses, and spending for infrastructure projects and community services.

Environmental Services

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Environmental Services Department (ESD) is approximately $106.0 million, an increase of approximately $9.1 million and 10.30 FTE positions over the FY 2017 Adopted Budget. Revenues are projected to total approximately $59.4 million, an increase of $937,000 over the FY 2017 Adopted Budget.

To accommodate the Department's multiple areas of responsibility and funding sources, the Department is divided into five primary divisions across five individual funds. The analysis of the FY 2018 Proposed Budget in this section is organized by the Department's five funds.

General Fund

The FY 2018 Proposed Budget for the General Fund is approximately $39.7 million, a decrease of approximately $158,000 from the FY 2017 Adopted Budget. The FY 2018 Proposed Budget incudes 155.56 FTE positions which represents a reduction of 1.55 FTE positions from the FY 2017 Adopted Budget. Department revenues are projected to total approximately $1.5 million, an increase of $35,000 from the FY 2017 Adopted Budget.

Significant Budget Changes

Delay in Reduction to Tipping Fee Discount – The FY 2016 Adopted Budget included the first year of a three-year phased elimination of a $5/ton tipping fee discount to City forces. Eliminating this discount would increase the cost to the General Fund for landfill usage. The scheduled reduction of the discount included:

- a $2/ton reduction in FY 2016 (approximately $600,000 increase to General Fund);
- a $2/ton reduction in FY 2017 ($600,000); and
- a $1/ton reduction in FY 2018 ($300,000).

The FY 2016 Adopted Budget included the planned $2/ton discount. However the FY 2017 Budget only implemented a $1/ton

ENVIRONMENTAL SERVICES DEPARTMENT FY 2018 PROPOSED BUDGET EXPENDITURES						
Divisions	**General Fund**	**Automated Refuse Container Fund Replacement**	**Energy Conservation Fund**	**Refuse Disposal Fund**	**Recycling Fund**	**TOTAL**
Collection Services	$ 33,981,346	$ 1,100,000	$ -	$ 1,372,901	$ 18,820,559	$ 55,274,806
Disposal & Environmental Protection	2,017,257	-	-	21,925,033	1,829,374	25,771,664
Energy & Sustainability	-	-	3,880,136	-	-	-
Environmental Services	1,664,785	-	-	5,618,690	2,299,804	9,583,279
Waste Reduction	2,057,414	-	-	6,987,344	2,494,998	11,539,756
TOTAL	$ 39,720,802	$ 1,100,000	$ 3,880,136	$ 35,903,968	$ 25,444,735	$ 106,049,641

discount rather than the $2/ton discount as planned. The FY 2018 Proposed Budget defers the remaining $2/ton discount reduction which results in a reduced expenditure of $600,000. The Department indicated that the implementation of the remaining discounts will be evaluated annually.

Illegal Dumping Abatement Program – The Proposed Budget includes savings of $807,000 due to elimination of General Fund support for the Citywide Illegal Dumping Abatement Program. This program is currently fully funded in the Refuse Disposal Fund. The administrative functions of the program will now be solely borne by the Refuse Fund. No service impacts are anticipated.

The FY 2017 Adopted Budget included the transfer of 18.00 FTE positions and $1.5 million in expenditures from the Refuse Disposal Fund to the General Fund to support the field operations for the Citywide Solid Waste Code Enforcement Program. This program includes enforcement of illegal dumping and abatement of transient camps to better align expenses with appropriate programs.

One-Time Reductions – The FY 2018 Proposed Budget includes the reduction of $980,000 in one-time expenditures due to the removal of $900,000 for the General Fund contribution to the Compressed Natural Gas (CNG) Fueling Station, and $80,000 for the additional summer collection service provided to the Mission Beach community. The CNG Fueling Station is being funded through the Infrastructure Fund.

Expenditure Requests not Funded

Additional Sanitation Driver – For the FY 2018 Adopted Budget, the Department requested the addition of 1.00 Sanitation Driver 2 and expenditures of approximately $391,000, with $320,000 being one-time expenditures for one side loading packer. The additional driver and vehicle would have supported the Department's requirement to provide weekly collection service to the growing number of residential households. This request was not funded.

Automated Refuse Container Fund

The FY 2018 Proposed Budget for the Automated Refuse Container Fund is approximately $1.1 million, a decrease of approximately $600,000 from the FY 2017 Adopt-

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT - GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	157.11	$ 15,136,775	$ 24,741,793	$ 39,878,568	$ 1,444,446
Programmatic Changes					
Department Restructure	(1.55)	(170,963)	-	(170,963)	-
Tipping Fee	-	-	(600,000)	(600,000)	-
Illegal Dumping Abatement Program	-	-	(807,434)	(807,434)	-
One-Time Reductions and Annualizations	-	-	(980,000)	(980,000)	-
Revised Revenue	-	-	-	-	35,000
Other Changes					
Salary and Benefit Adjustments	-	860,982	-	860,982	-
Non-Discretionary Adjustments	-	-	1,120,927	1,120,927	-
Other Adjustments	-	-	418,723	418,723	-
FY 2018 Proposed Budget	**155.56**	**$ 15,826,794**	**$ 23,894,009**	**$ 39,720,803**	**$ 1,479,446**
Difference from 2017 to 2018	*(1.55)*	*$ 690,019*	*$ (847,784)*	*$ (157,765)*	*$ 35,000*

ed Budget. Department revenues are projected to total approximately $900,000, representing no change from the FY 2017 Adopted Budget.

Expenditure Reductions

One-Time Reductions – The FY 2018 Proposed Budget includes a reduction of $600,000 in one-time expenditures from FY 2017. The FY 2017 Adopted Budget included $600,000 as an expense for reimbursement to the General Fund for providing the initial funds to establish the Automated Refuse Container Fund.

Energy Conservation Program Fund

The FY 2018 Proposed Budget for the Energy Conservation Fund is approximately $3.9 million, an increase of approximately $547,000 over the FY 2017 Adopted Budget. The number of FTE positions remains the same as FY 2017. Revenues are projected to total approximately $3.2 million, a decrease of $98,000 from the FY 2017 Adopted Budget.

Budget Expenditure Reductions

Reduction of Non-Personnel Expenditures – The FY 2018 Proposed Budget includes the reduction of approximately $117,000 for energy program consultant services on new energy programs, energy efficient equipment, and reimbursement for city services. The Department has indicated that there will be no impact to current services.

One-Time Reductions – The FY 2018 Proposed Budget includes the reduction of approximately $1.0 million for one-time expenditures occurring in FY 2017. The primary drivers of the one-time expenditures were consultant contracts.

Significant Revenue Change

Revised Revenue – The FY 2018 Proposed Budget includes an increase of approximately $918,000 in revenue due to a projected increase in Departmental activities.

Recycling Fund

The FY 2018 Proposed Budget for the Recycling Fund is approximately $25.4 million, an increase of approximately $1.7 million and 3.51 FTE positions over the FY 2017 Adopted Budget. Department revenues are projected to total approximately $22.2 million, an increase of approximately $1.0 million over the FY 2017 Adopted Budget.

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT – ENERGY CONSERVATION FUND BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	17.35	$ 2,122,148	$ 1,210,527	$ 3,332,675	$ 3,333,565
Programmatic Changes					
Reduction of Non-Personnel Expenditures	-	-	(116,644)	(116,644)	-
One-Time Reductions and Annualizations	-	-	-	-	(1,034,117)
Revised Revenue	-	-	-	-	918,229
Other Changes					
Salary and Benefit Adjustments	-	62,475	-	62,475	17,598
Non-Discretionary Adjustments	-	-	8,426	8,426	-
Other Adjustments	-	-	593,204	593,204	-
FY 2018 Proposed Budget	**17.35**	**$ 2,184,623**	**$ 1,695,513**	**$ 3,880,136**	**$ 3,235,275**
Difference from 2017 to 2018	-	*$ 62,475*	*$ 484,986*	*$ 547,461*	*$ (98,290)*

Significant Budget Expenditure Reductions

Operating Reserve Contribution – The FY 2018 Proposed Budget includes the reduction of $480,000 in expenditures due to the annual contribution to the Department's Operating Reserve not being necessary. The Department has sufficient reserve amounts to meet the FY 2018 targets established in the City's Reserve Policy.

Significant Budget Additions

Vehicle Replacement Fund – The FY 2018 Proposed Budget includes $1.3 million in expenditures to provide additional resources for the Vehicle Replacement Fund. This fund supports the additional costs of replacing the aging diesel fueled packers with new CNG packers. As the diesel fueled packers reach the end of their life cycle, the Department is replacing the vehicle with CNG fueled packers to support the reduction of Greenhouse gases. However, the CNG packers cost approximately $50,000 more per vehicle than the diesel fueled vehicles. The Vehicle Replacement Fund is supplementing the funding already included in the base budget for vehicle replacement. The Department anticipates replacing 20 packers in FY 2018.

Addition of Positions to Support the Zero Waste Plan – The FY 2018 Proposed Budget includes the addition of 2.00 Recycling Specialist 2s and approximately $368,000 in expenditures to support the Climate Action Plan. These positions will be responsible for increasing education and outreach efforts for implementing the Zero Waste Plan and supporting waste diversion efforts such as expanding public space recycling at City parks, beaches, and libraries.

Recycling Ordinance Enforcement – The FY 2018 Proposed Budget includes the addition of 2.00 Code Enforcement Officers and $252,000 in expenditures to support the diversion and recycling goals of the Zero Waste Plan. These positions will perform bin inspections, enforce the City's Recycling Ordinance, and ensure the franchise haulers are meeting the established recycling diversion requirements.

Significant Revenue Change

Revised Revenue – The FY 2018 Proposed Budget includes an increase of approximately $1.0 million in revenue. The primary driver of the increase ($900,000) is the continued reallocation of Sycamore Facility Franchise Fees from the General

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT – RECYCLING FUND BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	108.25	$ 9,979,670	$ 13,743,063	$ 23,722,733	$ 21,217,651
Programmatic Changes					
Vehicle Replacement Fund	-	-	1,300,000	1,300,000	-
Addition of Recycling Specialist 2	2.00	158,351	210,000	368,351	-
Recycling Ordinance Enforcement	2.00	121,647	130,000	251,647	-
Department Restructure	(0.29)	(31,843)	-	(31,843)	-
Operating Reserves	-	-	(480,000)	(480,000)	-
One-Time Reductions and Annualizations	-	-	(1,285,000)	(1,285,000)	-
Revised Revenue	-	-	-	-	1,020,000
Other Changes					
Salary and Benefit Adjustments	(0.20)	672,284	-	672,284	-
Non-Discretionary Adjustments	-	-	535,137	535,137	-
Other Adjustments	-	-	391,426	391,426	-
FY 2018 Proposed Budget	**111.76**	**$ 10,900,109**	**$ 14,544,626**	**$ 25,444,735**	**$ 22,237,651**
Difference from 2017 to 2018	***3.51***	***$ 920,439***	***$ 801,563***	***$ 1,722,002***	***$ 1,020,000***

Fund to the Recycling Fund. The City began a five-year phased transfer of the funding in FY 2016. The transfer in FY 2018 represents the third year of the phased reallocation.

Refuse Disposal Fund

The FY 2018 Proposed Budget for the Refuse Disposal Fund is approximately $35.9 million, an increase of approximately $7.6 million and 8.34 FTEs over the FY 2017 Adopted Budget. Department revenues are projected to total approximately $31.5 million, an increase of approximately $230,000 over the FY 2017 Adopted Budget.

Significant Budget Additions

Ridgehaven HVAC Replacement – The FY 2018 Proposed Budget includes approximately $1.5 million in expenditures to replace the 20-year old heating, ventilation, and air conditioning system at the Ridgehaven facility.

Increased Expenses for Landfill Equipment – The FY 2018 Proposed Budget includes approximately $726,000 in expenditures to lease heavy equipment for work at the Miramar Landfill. The lease will be for multiple pieces of equipment (including a hybrid bulldozer) to help the Department achieve the required landfill compaction levels.

In addition to the increase related to the leased equipment, the FY 2018 Proposed Budget includes $305,000 in expenditures to provide maintenance and repair of City-owned and leased construction equipment utilized at Miramar Landfill.

Miramar Landfill Improvements – The FY 2018 Proposed Budget includes $200,000 in expenditures to provide for minor improvements at the Miramar Landfill to ensure regulatory compliance with CA State Water Board mandates. Improvements would include maintenance to storm drains and gas wells to provide adequate

SUMMARY OF ENVIRONMENTAL SERVICES DEPARTMENT - REFUSE DISPOSAL FUND BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	132.60	$ 13,047,890	$ 15,287,170	$ 28,335,060	$ 31,289,624
Programmatic Changes					
Ridgehaven HVAC System Replacement	-	-	1,500,000	1,500,000	-
Contract Services for Leased Equipment	-	-	725,544	725,544	-
Heavy Equipment Repair	-	-	305,000	305,000	-
Gas Wells and Piping Systems	-	-	400,000	400,000	-
Support for Maintenaning Gas Wells	1.00	108,613	-	108,613	-
Addition of Heavy Truck Driver 2	1.00	60,451	183,000	243,451	50,000
Department Restructure	1.84	202,806	-	202,806	-
Miramar Landfill Improvements	-	-	200,000	200,000	-
One-Time Reductions and Annualizations	-	-	1,929,560	1,929,560	-
Revised Revenue	-	-	-	-	180,000
Other Changes					
Salary and Benefit Adjustments	-	900,241	-	900,241	-
Non-Discretionary Adjustments	-	-	29,947	29,947	-
Other Adjustments	4.50	324,065	699,681	1,023,746	-
FY 2018 Proposed Budget	**140.94**	**$ 14,644,066**	**$ 21,259,902**	**$ 35,903,968**	**$ 31,519,624**
Difference from 2017 to 2018	***8.34***	***$ 1,596,176***	***$ 5,972,732***	***$ 7,568,908***	***$ 230,000***

drainage.

Gas Wells and Piping System Maintenance – The FY 2018 Proposed Budget includes $400,000 for maintenance of the gas wells and piping at the Miramar Landfill. The funding will allow the Department to prepare for the maintenance of the gas wells reverting back to the City.

In January 2019, the City will be taking back the ownership and rights to the landfill gas emissions generated at the Miramar Landfill. Currently the operation, maintenance, and rights are managed by a third party. With the gas rights reverting back to the City, the City will re-claim this asset and manage the use of the asset for the best interest of the City. The Department has preliminary considered partnering with the Public Utilities Department to support the energy requirement of the Pure Water Project.

In addition to the maintenance funding, the FY 2018 Proposed Budget includes the addition of 1.00 Associate Civil Engineer and $109,000 in expenditures to support the required maintenance of the gas wells at the Miramar Landfill.

Service Level Impacts and Performance Measures

The performance measures provided in the following table reflect: the Department's progress toward implementing the Zero Waste goals, the number of complaints related to the Collection Services, and the percentage of customers that are satisfied with the current services provided by the Department.

Issues for Council Consideration

Support for Climate Action Plan – The addition of the 2.00 Recycling Specialist 2s and 2.00 Code Compliance Officer positions will support achieving the City's goals within the Climate Action Plan, a top priority of the City Council.

People's Ordinance – In 1919, in response to business practices of the private trash collection company servicing the residents of the City, the City established an ordinance that made the weekly trash collection a municipal responsibility. The City was to assume the collection services and establish a special tax levy to recover the costs for the services. The special tax levy was never implemented. In 1986, the City Council put forth and passed a ballot measure to continue weekly service for no fee to residential homes.

The People's Ordinance establishes the trash collection of single family homes as a responsibility of the City for no fee, but does not include multi-family homes. As a result, City residents that live in multi-family homes normally contract with a third-party collection service and pay for trash collection. This inequity between

Performance Measure	Target 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of programs implemented to achieve the Zero Waste goal of 75% diversion by 2020	N/A	N/A	8%	8%	19%
Collection Services complaint rate (per 10,000 stops)	<0.5%	0.1%	<0.5%	0.1%	<0.5%
Percentage of clients who indicate that they are satisfied with services provided	90%	99%	90%	99%	99%

single family and multi-family homes has been raised numerous times by stakeholders over the years.

The Department has stated that providing collection services to single family homes represents approximately $34 million in ongoing costs for which no revenue is collected. The City is the only large city to continue to provide free trash collection to single family homes.

Should the City wish to re-evaluate free collection service, the Department would be able to develop preliminary fee estimates based upon current and/or desired service levels. Transferring this cost to single family home residents would alleviate the General Fund of approximately $34 million in annual expenditures.

Financial Management

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of departments with actuals within 5% of projections	90%	80%	90%	90%	90%
Percentage variance between major General Fund revenue[1] projections versus year-end actuals	2%	0.4%	2%	0.5%	2%
Percentage of Annual Adopted and Added CIP Budget expended/committed[2]	100%	135%	100%	140%	100%

[1]Major General Fund revenues are property tax, sales tax, transient occupancy tax, and major franchise fees.

[2]Includes expenditure commitment of prior year funds.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Financial Management Department (FM) is approximately $4.4 million, a $27,000 or 0.6% increase over the FY 2017 Adopted Budget. This increase is due primarily to a $180,000 increase in personnel expenditures, offset by reductions of overtime, consulting services, and 1.00 FTE position.

FM reports on five key performance indicators (KPIs) in the FY 2018 Proposed Budget. Three of those KPIs measuring the Department's ability to project year-end expenditures, develop revenue projections, and provide oversight of Capital Improvements Program (CIP) project spending are also included in the table at the top of this page. FM has indicated that FY 2018 reductions to their expenditure budget are not expected to impact their KPIs.

Budget Expenditure Reductions

Along with other General Fund departments, FM submitted budget reductions equal to 3.5% of their FY 2017 operating budget to help address the projected FY 2018 budget deficit. FM submitted three reductions, all of which were incorporated into their FY 2018 budget, for a total reduction of $152,000 in expenditures:

- 1.00 Associate Budget Development Analyst ($97,000)—this position was budgeted in the Department's Fiscal Planning & Analysis section. FM expects that ongoing work performed by this position will be absorbed by other staff members, but work on special projects associated with this position such as a proposed zero-based budgeting program (zbb) or a cash manage-

SUMMARY OF FINANCIAL MANAGEMENT DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	32.00	$ 3,931,706	$ 412,459	$ 4,344,165	$ -
Programmatic Changes					
Reduction of 1.00 Assoicate Budget Development Analyst	(1.00)	(97,468)	-	(97,468)	-
Reduction of Consulting Services	-	-	(30,000)	(30,000)	-
Reduction of Overtime	-	(25,000)	-	(25,000)	-
Other Changes					
Other Non-Personnel Expenditure Adjustments	-	-	190	190	-
Other Salaries & Wages Adjustments	-	179,689	-	179,689	-
FY 2018 Proposed Budget	**31.00**	**$ 3,988,927**	**$382,649**	**$ 4,371,576**	**$ -**
Difference from 2017 to 2018	***(1.00)***	***$ 57,221***	***$ (29,810)***	***$ 27,411***	***$ -***

ment review of Park & Recreation Department CIP projects, may be reduced or delayed.

- Reduction of consulting services by $30,000 associated with SAP's budget module (PBF)—FM expects that this reduction of their consulting services budget from $100,000 in FY 2017 to $70,000 in FY 2018, will not affect their ability to maintain PBF, but upgrades to PBF related to automation of the City's Five-Year Financial Forecast process will be delayed.
- Reduction of overtime by $25,000, from $65,000 in FY 2017 to $40,000 in FY 2018

FM did not request any budget increases for FY 2018.

Other—Zero-Based Budgeting

On October 5, 2016, FM presented their assessment of the FY 2017 zbb pilot process to the Budget and Government Efficiency Committee (B&GE). The Committee voted unanimously to have FM, working with the Office of the IBA, return to B&GE to present a Council Policy on an annual zbb review process that could be enacted ahead of Council's review of the FY 2019 Proposed Budget. Discussions about a zbb Council Policy are ongoing at this time. **Our Office recommends that when the zbb policy comes to Council for consideration, that FM provide an update on the Department's ability to support a zbb program, should it be approved.**

Fire-Rescue

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of 911 calls answered in 15 seconds or less after transfer to Fire dispatch	N/A	N/A	95%	95%	95%
Percentage of Fire-Rescue first responder arrival on emergencies 7:30 minutes from the receipt of the 911 call in Fire dispatch	90%	78%	90%	78%	90%
Percentage of structure fires confined to area or room of origin	80%	68%	80%	71%	80%

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Fire-Rescue Department is approximately $258.2 million for the General Fund, an increase of $21.4 million or 9% from the FY 2017 Budget. The FY 2018 Proposed Budget includes 1,230.65 FTE positions, an increase of 10.12 FTE positions over FY 2017. Budgeted revenue totaling $35.0 million represents an increase of $8.0 million.

Proposed changes to the Fire-Rescue budget include significant program reductions as well as additions, although the reductions are not expected to negatively impact service delivery.

The largest program reduction to the Fire-Rescue budget is a decrease in fire academies from two to one due to the fact that the Department is projected to be fully staffed at the beginning of FY 2018. This and other reductions described in this budget review are not expected to impact public safety service or staffing levels.

The largest program additions to the Fire-Rescue budget include staffing for a new fire station and the City's third Fast Response Squad (FRS), vital life safety equip-

SUMMARY OF FIRE-RESCUE DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	1,220.53	$ 202,546,881	$ 34,233,414	$ 236,780,295	$ 26,989,270
Programmatic Changes					
Self-Contained Breathing Apparatus Replacement	-	-	1,067,500	1,067,500	-
Bayside Fire Station Operations (half-year)	7.00	723,720	140,974	864,694	-
San Pasqual Valley Fast Response Squad	6.00	747,660	41,722	789,382	-
Emergency Command and Data Center Dispatchers	5.00	367,199	-	367,199	-
Portable Radio Replacement	-	-	242,000	242,000	-
Reduction of Advanced Lifeguard Academy	-	(113,350)	-	(113,350)	-
Reduction of Lifeguard Vessel Replacement Fund	-	-	(436,661)	(436,661)	436,661
Adjustments to Administrative Positions	(5.00)	(787,689)	-	(787,689)	-
Reduction of Fire Academies from Two to One	-	(826,945)	(627,746)	(1,454,691)	-
Other Changes					
Salary and Benefit Adjustments	-	22,809,450	-	22,809,450	-
TOT Revenue Transfer	-	-	-	-	9,139,336
Reduction of EMS Fund Revenue Transfer	-	-	-	-	(1,224,314)
Non-Discretionary Adjustments	-	-	1,945,746	1,945,746	-
Hourly Wages	(2.88)	(296,431)	-	(296,431)	-
Other Adjustments	-	(3,231,196)	(393,083)	(3,624,279)	(336,570)
FY 2018 Proposed Budget	**1,230.65**	**$ 221,939,299**	**$ 36,213,866**	**$ 258,153,165**	**$ 35,004,383**
Difference from 2017 to 2018	***10.12***	***$ 19,392,418***	***$ 1,980,452***	***$ 21,372,870***	***$ 8,015,113***

ment for firefighters, and the addition of dispatcher positions. Other additions include increased salaries and overtime to correct for over-budget expenditures identified in the FY 2017 Mid-Year Budget Monitoring Report.

Reduction of Fire Academies from Two to One

The FY 2018 Proposed Budget includes funding for one 24-recruit fire academy in FY 2018, a significant reduction from the two 48-recruit fire academies that were funded in FY 2017. The budgetary impact of this change is an expenditure reduction of approximately $1.5 million. No position reductions are associated with the reduced fire academy as the expenditure only includes costs for running the academy (such as overtime for instructors), not the salaries of the recruits themselves, which are budgeted elsewhere in existing positions.

The Fire-Rescue Department has indicated that it will reach full fire suppression staffing before the end of the current fiscal year and therefore will only require one 24-recruit academy to maintain full staffing in FY 2018. In our review of the FY 2017 Mid-Year Budget Monitoring Report, our office noted that fire suppression positions would likely be fully staffed by current fiscal year-end and we raised further concerns about related over-budget personnel expenditures and the potential for the Department to be overstaffed. At that time, we cautioned against continuing to run multiple expanded fire academies as had been done previously since FY 2015. Our office concurs with the FY 2018 Proposed Budget's reduced fire academies to maintain full staffing.

Reduction of Advanced Lifeguard Academy

The FY 2018 Proposed Budget does not include continuing funding for approximately $113,000 in one-time expenditures that were added in both FY 2016 and FY 2017 to support one Advanced Lifeguard Academy per year. The academy is designed to provide advanced training for current Lifeguard 1 employees to promote within the Department. Fire-Rescue has indicated that its promotional lists are sufficiently filled so as to not require an Advanced Lifeguard Academy in FY 2018.

Reduction of Lifeguard Vessel Replacement Fund

The Lifeguard Vessel Replacement Fund was established in FY 2016 to provide a funding source for the Lifeguard Division's future needs for fire boats, bay patrol boats, and surf rescue boats. The FY 2016 Adopted Budget included $437,000 in ongoing non-personnel expenditures to support the Lifeguard Vessel Replacement Fund. This $437,000 expenditure was continued again in FY 2017.

The FY 2018 Proposed Budget eliminates ongoing funding for the Lifeguard Vessel Replacement Fund by reducing related expenditures by $437,000. Additionally, the FY 2018 Proposed Budget transfers $437,000 in fund balance from the Lifeguard Vessel Replacement Fund (the original FY 2016 contribution) to the General Fund. With regard to the FY 2017 contribution of $437,000, Financial Management has indicated that it has not yet completed this transfer from the General Fund to the Lifeguard Vessel Replacement Fund and is still reviewing the transfer as part of FY 2017 year-end projections. If the transfer does not take place, the Lifeguard Vessel Replacement Fund would have zero fund balance and the $437,000 budgeted for this purpose would fall to Excess Equity in FY 2017 or offset other Department budget overages at year-end.

The Fire-Rescue Department has indicated that the reduction or elimination of the Lifeguard Vessel Replacement Fund will have no service impact on the Lifeguard Division's marine fleet as no large vessels are planned for purchase for several years. When the need for replacement or new vessels arises, the Department plans to finance such purchases using an eligible financial tool such as the City's Equipment and Vehicle Financing Program (EVFP), as has been done in previous years for fire apparatus.

Addition of Bayside Fire Station Operations

The new Bayside Fire Station, located in Little Italy, is anticipated to open in December 2017. The FY 2018 Proposed Budget includes the addition of 7.00 FTE positions and $865,000 in related expenditures to fund fire station operations. Operational expenses include personnel expenditures for firefighters and non-personnel expenditures such as supplies and routine facility repairs. Capital expenses for this facility were funded in prior fiscal years using a variety of sources including Centre City DIF funds and excess redevelopment bond proceeds.

Typically, fire stations are staffed with 12.00 FTE positions consisting of four-person crews working three daily eight-hour shifts. Bayside Fire Station will be fully staffed, 24-hours a day, with full four-person crews. The FY 2018 Proposed Budget includes 7.00 FTE positions rather than 12.00 due to the fact that staffing is pro-rated for approximately half the fiscal year. In FY 2019 and beyond, Bayside Fire Station will require a total of 12.00 FTE positions and approximately $1.5 million in ongoing annual expenditures for operations.

The FY 2018-2022 Five-Year Financial Outlook identified Bayside Fire Station operations as a Critical Strategic Initiative beginning in FY 2018 and continuing in future years. Additionally, a majority of Councilmembers noted support for Bayside Fire Station operations in their Budget Priority Memoranda. The FY 2018 Proposed Budget fully funds operating expenses for all San Diego fire stations, including the new Bayside Fire Station.

Addition of San Pasqual Valley FRS Staffing

A Fast Response Squad (FRS) is a specialized unit deployed by the Fire-Rescue Department using a modified truck staffed by a two-person crew. FRS units are intended to reduce emergency response times in areas that lack fire stations or experience high call volumes. Fire-Rescue currently operates a total of three FRS units located in Encanto, South University City, and San Pasqual Valley. The Encanto and South University City FRS units operate 12 hours per day, while the San Pasqual Valley FRS provides 24-hour service.

The FY 2018 Proposed Budget includes the addition of 6.00 FTE positions and $789,000 in associated expenditures to support the San Pasqual Valley FRS. Associated land, vehicle, and maintenance expenses are paid by the San Diego County Fire Authority. Since being established in FY 2017, this FRS has operated using unbudgeted overtime as funding for the FRS was not included in the FY 2017 Budget. The FY 2018 Proposed Budget fully funds the San Pasqual Valley FRS on an ongoing basis to allow for the continuation of existing service.

Addition of SCBA Replacement

The FY 2018 Proposed Budget includes the addition of approximately $1.1 million in one-time non-personnel expenditures associated with the purchase of Self-Contained Breathing Apparatus (SCBA) equipment. SCBA units are critical life safety devices that deliver breathable air to firefighters in hazardous environments. The Department has indicated that the majority of current SCBA equipment is nearing the end of its serviceable life and therefore full replacement of all SCBA units will be necessary in FY 2018. SCBA replacement was identified as a Critical Strategic Initiative in the FY 2018-2022 Five-Year Financial Outlook but not included in projections.

The overall cost for SCBA replacement is approximately $8.0 million, which will be financed over a five-year term. The $1.1 million expenditure for SCBAs in the FY 2018 Proposed Budget reflects the cost of sales tax and other non-financeable items such as face masks. Additionally, $840,000 in debt service is included in Fire-Rescue's non-discretionary budget for FY 2018 and will continue for five years.

Addition of Portable Radio Replacement

An additional $242,000 in non-personnel expenditures is included in the FY 2018 Proposed Budget to purchase and replace 270 APX portable radios and 40 VHF portable radios for the Fire-Rescue Department. The APX radios, which are needed to maintain communications interoperability with other agencies, were identified as a Critical Strategic Initiative in the FY 2018-2022 Five-Year Financial Outlook for FY 2020-2021 but not included in projections. The VHF radios are intended to enhance the communications capability of the Department's strike teams.

Addition of ECDC Dispatcher Positions

The FY 2018 Proposed Budget adds a total of 5.00 fire dispatcher positions (4.00 Fire Dispatchers and 1.00 Fire Dispatcher Supervisor) and $367,000 in associated personnel expenditures to support the Emergency Command and Data Center (ECDC). The added positions will increase ECDC's daily staffing level to better align with national standards for dispatch centers of similar size and call volume. Expected service improvements include faster call response, better distribution of critical functions on the dispatch floor, and improved employee morale and retention.

TOT Revenue Transfer

An additional $9.1 million in revenue is included in the FY 2018 Proposed Budget as a transfer from the TOT Fund to the Fire-Rescue Department to reimburse the Lifeguard Division for tourism-related safety services. An analysis by the Office of the City Attorney determined that the Lifeguard Division was eligible to receive TOT funding. The $9.1 million reimbursement frees up corresponding General Fund money that otherwise would have been required to support the Lifeguard Division, and allows those funds to be allocated to other needs. The $9.1 million TOT transfer was made possible by changes to expenditures in the Special Promotional Programs Department, which are discussed separately in this Budget Review.

Personnel Expenditure Adjustments

The FY 2018 Proposed Budget includes significant adjustments to Fire-Rescue personnel expenditures to better align budgeted expenditures with historical actuals. As our office noted in our review of the FY 2017 Mid-Year Budget Monitoring Report, the Fire-Rescue Department is projected to exceed its personnel expenditure budget by $14.6 million at year-end (including fringe). Two significant areas included in this amount, salaries and overtime, are discussed below.

The FY 2018 Proposed Budget increases Fire-Rescue salaries by $4.8 million over the FY 2017 budgeted level. At mid-year, FY 2017 expenditures for this category were projected to exceed budget by $2.6 million based on the Department reaching full staffing sooner than expected. Based on our review, we believe the $4.8 million increase in Fire-Rescue salaries will be sufficient to maintain full staffing and support added positions. However, these expenditures will require close monitoring beginning with the FY 2018 First Quarter Budget Monitoring Report.

With regard to overtime, Fire-Rescue is projected to exceed budget by $3.5 million at FY 2017 year-end, primarily due to the implementation of a new Local 145 MOU provision regarding annual leave and unbudgeted expenditures related to the San Pasqual Valley FRS. The FY 2018 Proposed Budget increases Fire-Rescue overtime by a net $2.7 million over the FY 2017 budgeted level, which includes $2.7 million for behavioral changes related to the MOU as well as offsetting increases for FLSA requirements and decreases related to fire academies and paramedic staffing. Based on our review, we believe the net overtime increase will be sufficient as the Department has analyzed behavioral changes related to the MOU and will fund the San Pasqual Valley FRS with budgeted positions rather than overtime in FY 2018. However, as with salaries, Fire-Rescue overtime expenditures will require close monitoring beginning with the FY 2018 First Quarter Budget Monitoring Report.

Issues for Council Consideration

Council Budget Priority Items Addressed

The FY 2018 Proposed Budget for Fire-Rescue fully addresses Council Priority Memoranda items for Fire-Rescue by funding operational expenses for new facilities and equipment replacement, and maintaining current service levels.

Citygate Standards of Response Cover Review

A 2017 Citygate Associates study of Fire-Rescue Department response times identified several geographic service gap areas contributing to performance challenges and offered three recommendations to close those gaps and improve response times. The recommendations included adding a total of 12 new fire stations, three geographic area Battalions, and an unspecified number of peak-hour fire engines, squads, or other flexibly-deployed units to serve the busiest areas of the City at the busiest times of day.

In response to a request by the Public Safety and Livable Neighborhoods Committee, our office prepared **IBA Report 17-15, "Fire-Rescue Standards of Cover Review: Fiscal Impacts and Implementation Scenarios,"** for review by the City Council during the FY 2018 Budget Review Committee hearings. That report provides two high-level implementation scenarios with estimated fiscal impacts. Our report does not recommend any significant program additions related to Citygate in FY 2018. However, the Council may still wish to prioritize funding, as it becomes available, for recommended items in either the Fire-Rescue operating budget or the CIP budget.

Citygate Lifeguard Dispatch and Operations Study

Citygate Associates also released a study in December 2016 recommending several changes to Lifeguard Division dispatch operations, which was heard at the Public Safety and Livable Neighborhoods Committee on April 5, 2017. The Department has indicated it is still analyzing the cost of fully implementing the recommendations for potential funding requests in FY 2019 and beyond. In the short term, however, the FY 2018 Proposed Budget includes approximately $226,000 in Information Technology expenditures to update Lifeguard Mobile Data Tablets and equip vehicles with GPS location tracking capability. This was a key recommendation of the Citygate review of Lifeguard dispatch operations.

Fleet Operations

The Fleet Operations Department provides and maintains the City's fleet of over 4,200 vehicles. Its operations are supported by two internal service funds—the Fleet Services Operating Fund and the Fleet Services Replacement Fund. These funds receive revenue from other City departments, and expenditures are used to furnish and maintain vehicles that are used by those departments.

Prior to FY 2017, Fleet Operations was a division of the Public Works Department. In FY 2017, Fleet Operations was made into a department that operated under the Internal Operations branch of the City, and was included in the Internal Operations section of the FY 2017 Budget. The FY 2018 Proposed Budget moves Fleet Operations out of Internal Operations and into its own department section.

For the purposes of this analysis, expenditures and revenues from both the Operating and Replacement Funds are combined. The table below displays budget changes to the combined Operating and Replacement Funds.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for Fleet Operations includes $96.6 million in expenditures, which is an increase of $10.2 million from the FY 2017 Adopted Budget. Revenues in the Department total $81.2 million, an increase of $1.2 million over FY 2017.

Significant adjustments to expenditures

SUMMARY OF FLEET OPERATIONS DEPARTMENT BUDGET CHANGES*					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	207.00	$ 20,490,356	$ 65,970,912	$ 86,461,268	$ 80,068,330
Programmatic Changes					
Reduction: 1 Mechanical Engineer and 1 Utility Worker	(2.00)	(158,262)	-	(158,262)	-
Othello Fire Repair Facililty	1.00	114,712	6,920,000	7,034,712	-
Additional Vehicle Purchases	-	-	5,284,295	5,284,295	-
Parts Savings from Shortened Vehicle Life Schedule	-	-	(543,654)	(543,654)	-
Reduction in Contracts and Supplies	-	-	(991,729)	(991,729)	-
Removal of 14 Vehicles from Service	-	-	(169,492)	(169,492)	-
Revenue Changes					
Increase in Vehicle Sales and Motive-Assignment Fees	-	-	-	-	2,656,798
Adjustmented Projections based on Historical Revenues	-	-	-	-	2,031,135
Reduced Usage Fee Charges	-	-	-	-	(1,531,740)
Other Changes					
Fuel Cost Adjustments	-	-	(1,991,144)	(1,991,144)	(1,991,144)
Non Discretionary and Information Technology	-	-	2,304,713	2,304,713	-
Salary and Benefit Adjusments	-	955,910	-	955,910	65,317
Reclassification of Position	-	(2,085)	-	(2,085)	-
One Time Adjustments and Annualizations	-	-	(1,525,000)	(1,525,000)	(72,776)
Other Adjustments	-	-	(35,225)	(35,225)	-
FY 2018 Proposed Budget	**206.00**	**$ 21,400,631**	**$ 75,223,676**	**$ 96,624,307**	**$ 81,225,920**
Difference from 2017 to 2018	***(1.00)***	***$ 910,275***	***$ 9,252,764***	***$ 10,163,039***	***$ 1,157,590***

**Note - This is the first year that Fleet Operations has been budgeted as its own department. In FY 2017, Fleet Operations was budgeted as part of the Internal Operations Department. Therefore, FTEs, Expenditures, and Revenues on the top line of this table consist of figures that were included in the Fleet Services Operating and Replacement Funds under the Interal Operations Department in the FY 2017 Adopted Budget.*

are discussed below.

Significant Budget Reductions

- $544,000 in reduced expenditures associated with shortened vehicle life cycles. Fleet Operations plans to replace vehicles at the point when the cost of repair and maintenance is the equivalent to the cost of purchasing a new vehicle. This will reduce expenditures for repairs and maintenance.

- $169,000 in reduced expenditures associated with removing 14 low-usage vehicles that are currently assigned to Fleet Operations. These vehicles may be reassigned to other departments, though reassignment has not yet been determined.

- The elimination of 2.00 FTE positions—one Utility Worker and one Associate Mechanical Engineer—and $158,262 in associated expenditures. Fleet Operations indicates that the responsibilities of these positions will be absorbed by other existing positions.

- $2.0 million in reduced expenditures and revenues associated with lower projected fuel costs.

Significant Budget Additions

- 1.00 FTE position and $7.0 million in additional expenditures for the new Othello Fire Repair facility. The City entered into a lease agreement for this facility in FY 2017, and will use the facility to maintain and repair City fire engines. $3.4 million of these expenditures are being supported by the Fleet Services Replacement Fund, and the remainder are expenditures from the Operating Fund.

- $5.3 million in additional expenditures for the purchase of new vehicles, per the Department's Five-Year Vehicle Replacement Schedule. This amount is partially offset by $2.7 million in increased revenues from vehicle sales and motive assignment fees.

Issues for Council Consideration

Key Performance Indicators

The FY 2018 Proposed Budget includes five Key Performance Indicators (KPIs) for Fleet Operations:

1. Percentage of fleet within designated lifecycle (target: 85%)

2. Number of low or zero-emission vehicles in fleet (target: 100%)

3. Number of OSHA reportable injuries (target: 0)

4. Completion of scheduled preventative maintenance on time (target: 95%)

5. Maintain availability of Priority 1 vehicles (target: 95%)

The Proposed Budget includes no details on whether these goals will be met in FY 2017, and instead states that Fleet Operations was created as a department in FY 2017 and these KPIs were not yet created.

However, the FY 2017 Adopted Budget *did* include two of the KPIs noted above:

- Completion of scheduled preventative maintenance on time (FY 2017 target: 95%)

- Maintain availability of Priority 1 vehicles (FY 2017 target: 90%).

As these two KPIs are not new and were included in last year's adopted budget, Council should request data on the estimated FY 2017 performance for these KPIs.

Fuel Costs

The Proposed Budget includes a reduction in fuel costs and expenditures of $2.0 million. The Proposed Budget was prepared prior to passage of California Senate Bill 1, which increases sales and excise taxes on gasoline and diesel fuel. **Council should inquire into whether and how these increased taxes may impact the City's projected budget for fuel costs.**

Human Resources

Impacts of Mayor's FY 2018 Budget Proposal

The Human Resources Department's FY 2018 Proposed Budget totals approximately $5.6 million, an increase of $1.7 million over FY 2017 Adopted Budget. Revenues have increased from $5,000 to $250,000; and the FY 2018 Proposed Budget includes 32.92 FTE positions, up 7.42 from 25.50 FTE positions in FY 2017.

Personnel Expenditures (PE)

Net FTE changes to the Human Resources Department include:

- Human Resources Functions Consolidation—centralization of human resources activities from other departments
  - 10.00 FTE position additions, including the transfer of 11.00 FTE (from the Fire-Rescue, Library, General Services, and Public Utilities Departments) and the elimination of 1.00 FTE position
  - As part of this consolidation, certain staff will have an increased scope of work, which has resulted in a reclassification of those positions
  - $245,000 in revenue for reimbursements for human resources services to the Public Utilities Department
- Citizen Assistance Program (two employees who work the front counter of the City Administration Building lobby)
  - Reduction of 1.00 Public Information Specialist—The estimated impact is minimal due to citizens' increased use of the Internet for information and other available staff to assist if needed.
  - Transfer of the other 1.00 Citizen Assistance position to the City Clerk

Non-Personnel Expenditures (NPE)

NPE has not increased above the FY 2017 Budget and projected spending level. With the additional 8.00 full-time FTE positions, there may be additional need for NPE budget.

SUMMARY OF HUMAN RESOURCES BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
FY 2017 Adopted Budget	25.50	$ 3,508,572	$ 376,095	$ 3,884,667	$ 5,000
Programmatic Changes					
Human Resources Functions Consolidation	10.00	1,590,242	-	1,590,242	244,901
Reduction of Public Information Specialist	(1.00)	(63,242)	-	(63,242)	-
Transfer Citizen Assistance Program to City Clerk	(1.00)	(90,620)	-	(90,620)	-
Sexual Harassment Prevention Training Program	-	-	40,000	40,000	-
Management Academy Reduction (from 2 to 1)	-	-	(46,807)	(46,807)	-
Other Changes					
Other Salary & Wages Increases	-	24,712	-	24,712	-
Other Fringe Increases (Includes Retirement ADC)	-	281,924	-	281,924	-
Hourly Wages Decrease	(0.58)	(22,468)	-	(22,468)	-
Other Adjustments	-	-	7,296	7,296	-
FY 2018 Proposed Budget	**32.92**	**$ 5,229,120**	**$ 376,584**	**$ 5,605,704**	**$ 249,901**
Difference from 2017 to 2018	***7.42***	***$ 1,720,548***	***$ 489***	***$ 1,721,037***	***$ 244,901***

Library

Impacts of Mayor's FY 2018 Budget Proposed

The FY 2018 Proposed Budget for the Library Department totals approximately $54.1 million, an increase of $2.4 million over the FY 2017 Adopted Budget. The FY 2018 Proposed Budget includes 453.72 FTE positions which represents a reduction of 22.14 FTE positions from the FY 2017 Adopted Budget. Budgeted revenue totaling $4.5 million represents an increase of approximately $107,000 over FY 2017.

Significant Budget Expenditures Reductions

Reduction of Non-Standard Hourly Personnel - In response to the Mayor's Citywide request to reduce departmental expenses, the FY 2018 Proposed Budget includes a reduction of 20.26 FTE positions and approximately $710,000 in expenses in Non-Standard Hourly personnel. Of the proposed 20.26 FTE positions identified for reduction, half of the positions are currently vacant. The vacancies are due to turnover and promotions from within the job classifications.

Per the Department, the reduction of these positions is anticipated to be the least impactful to customer service. These reductions will not impact the current operating hours for any facility within the Library System. However these reductions will impact lower priority duties such as the re-shelving of books. The Department has plans to balance the impacts throughout the Library system.

The Department is currently undertaking a staffing study to determine an appropriate staffing model and staff levels for the library facilities. The study is anticipated to be completed in Fall 2018.

Transfer of Human Resources Functions— As part of the Citywide efforts to increase operational efficiency, the Human Resource functions performed in the Library Department will be centralized to the Human Resources Department. The FY 2018 Proposed Budget includes the transfer of 1.00

SUMMARY OF LIBRARY DEPARTMENT - BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	475.86	$ 36,163,842	$ 15,495,827	$ 51,659,669	$ 4,425,753
Programmatic Changes					
Security Services	-	-	377,746	377,746	-
Printing Services	-	-	202,000	202,000	-
Central Library Parking Contract	-	-	113,096	113,096	156,532
Reduction of Library Programing Funding	-	-	(500,000)	(500,000)	-
Reduction of Non-Stardard Hour Personnel	(20.26)	(710,229)	-	(710,229)	
Human Resources Functions Consolidation	(1.00)	(153,417)	-	(153,417)	-
Reduction in Landscaping and Service Contracts	-	-	(170,636)	(170,636)	-
Revised Revenue	-	-	-	-	(50,000)
Other Changes					
Salary & Benefit Adjustments	(0.88)	3,614,347	-	3,614,347	-
Non-Discretionary /IT Support Adjustments	-	-	(261,129)	(261,129)	-
Other Adjustments	-	-	(71,017)	(71,017)	-
FY 2018 Proposed Budget	**453.72**	**38,914,543**	**15,185,887**	**54,100,430**	**4,532,285**
Difference from 2017 to 2018	***(22.14)***	***$ 2,750,701***	***$ (309,940)***	***$ 2,440,761***	***$ 106,532***

FTE and approximately $153,000 in expenses to the Human Resources Department.

Library Programming - The FY 2018 Proposed Budget includes the reduction of $500,000 in non-personnel expenditures for library programming across the 36 libraries across the City.

During the development of the FY 2017 Adopted Budget, the City Council approved $500,000 in funding for the Department to initiate library programs equitably at all of the City's libraries. In FY 2017, the Department used the funding to initiate five new program categories. These were:

- UCSD Extension—Partnership with the SD Public Library
- Spring into STEAM
- Storytime Kits and DIY Kits and Training
- 1,000 Books Before Kindergarden
- Outreach and marketing materials

The Department has indicated that funding allocated in FY 2017 will be used to continue these programs into FY 2018, however no new programs categories will be developed in FY 2018. The Department anticipates pursuing supplemental funding for the newly initiated programs through partnerships with stakeholders and philanthropic efforts.

Reduction in Landscaping and Service Contracts - The FY 2018 Proposed Budget includes the reduction of approximately $171,000 in non-personnel expenditures for landscaping and service contracts. The primary reductions will be for the service contract for window/power washing at the Central Library ($125,000) and system-wide landscaping (approximately $42,000).

Impacts from the reduced budget could impact the exterior condition of the Central Library and reduced landscaping at library facilities. The reductions will not impact any customer services within any of the library facilities. High priority landscaping needs will still be addressed.

Significant Budget Additions

Security Services Contract - The FY 2018 Proposed Budget includes the addition of approximately $378,000 in expenditures to a citywide security contract to increase the security presence at library facilities. The existing security contract and service levels were established in FY 2014. However, since 2014, the City has been able to incrementally increase operating hours at all the library facilities and have increased the number of special events at the Central Library. The original contract amount has not been adjusted to accommodate these changes.

Library Hours of Operations						
CENTRAL LIBRARY						
SUNDAY	**MONDAY**	**TUESDAY**	**WEDNESDAY**	**THURSDAY**	**FRIDAY**	**SATURDAY**
12 noon - 6:00	9:30 - 7:00	9:30 - 7:00	9:30 - 7:00	9:30 - 7:00	9:30 - 6:00	9:30 - 6:00
BRANCH LIBARIES without Extended Weekend Service (23 branches)						
SUNDAY	**MONDAY**	**TUESDAY**	**WEDNESDAY**	**THURSDAY**	**FRIDAY**	**SATURDAY**
closed	9:30 - 6:00	11:30 - 8:00	11:30 - 8:00	9:30 - 6:00	9:30 - 6:00	9:30-6:00
BRANCH LIBARIES with Extended Weekend Service (13 branches)						
SUNDAY	**MONDAY**	**TUESDAY**	**WEDNESDAY**	**THURSDAY**	**FRIDAY**	**SATURDAY**
12:30 - 5:00	9:30 - 6:00	11:30 - 8:00	11:30 - 8:00	9:30 - 6:00	9:30 - 6:00	9:30-6:00

To date, the City has been able to redistribute budget and security guard hours to address safety needs at the library branches, however this reallocation of budget has reduced funding available for other departments. The proposed funding adjustment would increase the Library Department's contribution to the citywide contract, restore funding available to other City departments, and allow the Library Department to meet the security needs for their facilities.

Central Library Parking Contract – The FY 2018 Proposed Budget includes the addition of approximately $113,000 in expenditures and $157,000 in revenue to address increased activity at the parking garage at the Central Library. Expanded operating hours and increased special events at the Central Library, large events in the surrounding downtown area, and Padre games have resulted in increased usage of the parking garage beyond the original projections. The increased activity requires additional staffing and management from the operating vendor; and allows for additional revenue to the City and better utilization of the parking garage.

Revenue Changes

Reduced Revenue – The FY 2018 Proposed Budget includes the reduction of $50,000 in revenue from FY 2017. The reduced revenue is due to the loss of donations to fund Sunday hours at the Point Loma/Hervey Branch Library. This branch will continue to be open on Sundays, however the Library Department Budget will absorb these costs in FY 2018. This branch library meets the Department's qualifications for Sunday hours, such as being a larger facility and located close to transit opportunities.

Other Budget Adjustments

Salary and Benefit Adjustment – Despite an overall reduction of FTE positions, the FY 2018 Proposed Budget for the Library Department includes an increase of $3.4 million in expenses related to salary and benefits. The primary driver of the increase is due to increased ADC costs.

Issues for Council Consideration

Proposed Expenditure Requests Not Funded

Funding of RFID Security Gates – For the FY 2018 Proposed Budget, the Department requested the addition of $202,000 in expenditures to increase the number of Radio Frequency Identification (RFID) security gates installed at the branch libraries. The Department has identified funding (State of CA Library grant and the Library's Equipment Matching Fund) to install RFID security gates at 13 facilities (priority based on factors such as circulation and number of items marked missing) in FY 2017. The Department has developed a plan to install gates at 25 additional sites over the next two years, however the actual acquisition and installation of these gates will be determined by available funding. This funding request was not included in the FY 2018 Proposed Budget.

Increase in TOT funding – The Department requested an allocation of approximately $256,000 in TOT revenue to reimburse expenses related to the art exhibits and tourism related programs and activities held at the Central Library. Per the Department, since opening 2013, the art gallery at the Central Library has welcomed over 100,000 guests, offered 13 original exhibitions, and featured over 150 San Diego artists. Currently these expenses are addressed through the General Fund. The allocation of TOT revenues would allow the funding to be returned to the General Fund. This funding request was not included in the FY 2018 Proposed Budget.

Issues to Council Consideration

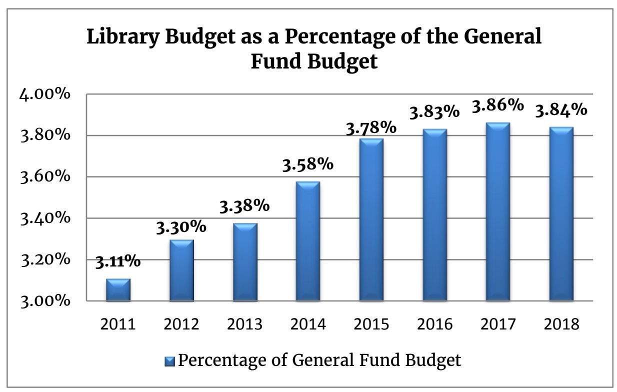
Library Programming - In the FY 2017 Budget, the City Council added funding to develop equitable library programming for the entire library system. The FY 2017 Adopted Budget included $500,000 to establish library programs in each community; and two positions to support community outreach and conduct research as to which programs would be beneficial to each community. The FY 2018 Proposed Budget eliminates the $500,000 in library programing funding.

Reduced Hourly Personnel - The FY 2018 Proposed Budget includes the reduction of 20.26 Non-Standard Hourly FTE positions. Based upon 2,080 work hours per year, the reduction of 20.26 FTE positions results in the loss of approximately 42,100 staffing hours per year. As a result of the proposed reduction of staff and the Department's allocation of resources, the Central Library is anticipated to lose approximately 14,000 staff hours and each branch library is set to lose approximately 790 staff hours in FY 2018.

Expiration of Donations Supporting Central Library Operations -At the opening of the new Central Library in 2013, the San Diego Library Foundation committed to providing $10 million in funding to address the additional operating costs of the new facility over the then Central Library. The $10 million in funding was allocated to the Library Department in increments of $2 million annually for five years, with the initial allocation occurring in FY 2014. FY 2018 is the final year the City will receive the donation for the additional operating expenses.

Library Ordinance - The Library Ordinance requires the Library Department budget to be equal to no less than 6% of the total General Fund expenditure budget. This requirement has been waived every year since FY 2004.

Based on the FY 2018 Proposed Budget, the Library Department Budget of $54.1 million represents approximately 3.84% of the General Fund Budget. The following table illustrates the Library Department Budget as a percentage of the General Fund since FY 2011. An appropriation of 6% of the FY 2017 Proposed General Fund Budget would require a Library budget of approximately $84.5 million, an increase of $30.4 million over the FY 2018 Proposed Budget.



Service Level Impacts and Performance Measures

The performance measures provided in the following table reflect patron attendance at adult and juvenile library programs; show increased usage of the library materials; and show the total number of operating hours targeted by the Department.

Department Review: Library

Performance Measure	Actual FY 2015	Actual FY 2016	Target FY 2017	Estimate FY 2017	Target FY 2018
Annual circulation per capita	4.92	4.92	5.00	5.39	5.00
Annual attendance at adult programs	198,531	198,531	200,000	200,000	205,000
Annual attendance at juvenile programs	310,580	310,580	310,000	310,000	315,000
Number of annual operating hours	79,614	79,614	77,073	87,145	92,209
Total Library hours per week:					
· Central Library	49	49	49	54	54
· Branch libraries[1]	1,564	1,564	1,564	1,770	1,770

1. Figure represents core hours at all branch libraries.

Office of the Assistant COO

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Office of the Assistant Chief Operating Officer (ACOO) is approximately $2.0 million, an increase of $101,000 or 5.2% over the FY 2017 Adopted Budget. The number of budgeted FTE positions and the amount of revenue budgeted for the Department remains unchanged.

Proposed Budget Reductions

The Office has approximately $68,000 of proposed non-personnel expense (NPE) reductions from the FY 2017 Adopted Budget. The proposed reductions include $45,000 of miscellaneous NPE and $23,000 in professional/technical services. These reductions are not expected to hinder the operations of the Office.

Corporate Partnerships & Development Program (CPD)

The CPD develops mutually beneficial business arrangements and seeks philanthropic support from organizations to generate revenue or new resources for the City and, in return, provides marketing benefits and/or recognition to the partners. The Program is also tasked with identifying, coordinating, and assisting with citywide or multi-agency grant and donation opportunities.

The FY 2018 Proposed Budget includes $391,000 of budgeted revenue which is comprised of $350,000 from partnerships and $41,000 from grant reimbursable services provided to other City departments by CPD's Grants Program Manager. The CPD Director projects the City will have received $345,000 in unrestricted revenue from partnerships by the end of FY 2017. Given this projection and conversations with the Director about CPD revenue expectations for the next fiscal year, the IBA believes it is reasonable to budget $350,000 in unrestricted revenue for the General Fund in FY 2018.

It is important to note that in addition to unrestricted General Fund revenue, the CPD develops relationships with corporate partners who contribute in-kind assets and services (lifeguard trucks and maintenance, equipment support for golf tournaments at City courses, etc.) and/or revenue restricted for specific City programs/ services (funding for Golf Agronomy, San Diego Project Heart Beat, Parks and Recreation, Youth Development and Volunteer Programs, etc.). The Director expects the value of these contributions to increase significantly from an estimated $1.5 million in FY 2017 to $1.7 million in FY 2018.

SUMMARY OF OFFICE OF THE ASSISTANT COO BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	12.00	$ 1,699,871	$ 246,064	$ 1,945,935	$ 391,021
Budget Changes					
Proposed Budget Reduction	-	-	(68,108)	(68,108)	-
Salary & Wage Adjustments	-	47,880	-	47,880	-
Fringe Increases (Includes Retirement ADC)	-	116,610	-	116,610	-
Other Adjustments	-	-	4,460	4,460	-
FY 2018 Proposed Budget	**12.00**	**$ 1,864,361**	**$ 182,416**	**$ 2,046,777**	**$ 391,021**
Difference from 2017 to 2018	-	*$ 164,490*	*$ (63,648)*	*$ 100,842*	*$ -*

Office of ADA Compliance & Accessibility: Budgeted ADA Projects in FY 2018 and Transition Plan Project Update

The Office of ADA Compliance & Accessibility (Office) seeks to ensure that every City-operated or funded facility, program, service, and activity is accessible to, and usable by, people with disabilities in accordance with all federal, State, and local codes and laws, including the Americans with Disabilities Act (ADA).

The Office focuses on providing technical assistance to asset managing departments, evaluating/responding to ADA complaints, providing disability awareness training to City employees, and supporting the Accessibility Advisory Board. Effective January 2017, funding responsibility for accessibility shifted to the City's asset managing departments to address needs in new and existing assets.

The Fiscal Year 2018 Proposed Budget includes $2.8 million of Development Impact Fee (DIF) funding for ADA improvements in the Capital Improvement Program. Approximately $1.1 million of the $2.8 million allocation is found on pages 93-94 of Volume 3 of the FY 2018 Proposed Budget. These funds will be used to install curb ramps and audible pedestrian signals within DIF communities. The remaining $1.7 million of the total $2.8 million DIF allocation is for project funding as follows: $1.1 million for curb ramps (page 539), $350,000 for facility upgrades (page 431), and $245,000 for audible pedestrian signals (page 554).

A list of ADA projects that are projected to begin construction in FY 2018 are shown on page 90 of Volume 3 of the FY 2018 Proposed Budget. These projects have funding that was allocated in prior years although some of these projects will receive funds from the FY 2018 DIF allocation.

In addition to DIF funding, proceeds from deferred capital bonds, CDBG, and City land sales may be used for ADA capital improvements. When funding is available, the general criteria for project prioritization are highest public use, locations for which the City has received an official ADA complaint from residents, and the severity of the ADA barrier. Depending on the type of asset (building, curb ramp, sidewalk, audible pedestrian signal, etc.) more detailed criteria may also be applied to determine the overall priority.

All cities are required to have a Transition Plan documenting noncompliant facilities/infrastructure and plans for continued progress towards retrofitting these projects. The City submitted its Transition Plan in 1997. By the end of FY 2018, the Office projects the City will have completed all of the 212 ADA projects identified in the 1997 Transition Plan.

It is important to note that transition plans are considered to be "living documents" and cities are expected to continually assess and remediate accessibility barriers beyond those originally identified. In 2009, the City hired a consultant to identify the next highest priority needs beyond those identified in the 1997 Transition Plan. The consultant identified 182 facilities in need of remediation and staff now considers these projects to be Phase 2 of the Transition Plan. The current status of the 182 Phase 2 projects is as follows: 14 are complete; 30 have at least partial funding and are in various stages of design and construction; 134 remain unfunded; and 4 have been removed from the list because the facilities were closed or demolished and are no longer open to the public.

The Office is also working with the Accessibility Advisory Board to consider the possibility of incorporating "universal design" concepts into City facilities. Universal Design is defined as "the design of products and environments to be usable by all people, to the greatest extent possible, without the need for adaptation or specialized design." An example of this would be to use prefabricated restrooms that are designed to maximize accessibility for all people.

Special Events and Filming

Please refer to the "Special Events and Filming Department" section of this report for details on FY 2018 budget changes. The Director of this Department reports to the ACOO and associated staffing and expense data for the Department are included in the budget of the Office of the ACOO.

Issue to Consider

Last year, a majority of Councilmembers identified ADA projects and improvements as a priority in their FY 2017 budget priority memoranda. The City has made significant progress in addressing identified accessibility barriers in recent years, however, funding is limited and these projects continue to compete with other priority infrastructure needs in the City. **The IBA recommends the City Council, or a Council Committee, request an annual or bi-annual update from the Office of ADA Compliance & Accessibility on the status of projects underway and efforts to address identified needs going forward.** This information would be useful in the broader discussion of the City's overall infrastructure needs and the process for prioritizing projects.

Office of the Mayor

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Office of the Mayor is approximately $4.6 million, an increase of $131,000 or 2.9% over the FY 2017 Adopted Budget. The Office has a reduction of 1.00 FTE position for a total of 28.50 FTE positions. Budgeted revenue remains unchanged at $328,000.

Reduction of 1.00 Mayor Representative 2 Position

The Office is proposing to reduce 1.00 FTE position in FY 2018. The IBA was informed that the position, a Mayor's Representative 2, is currently vacant and the loss of the position will not detrimentally impact the operations of the Office. The total personnel expense reduction associated with this proposed adjustment is $177,000.

Other Proposed Budget Reductions

In addition to the FTE reduction, the Office is reducing its non-personnel expenditures (NPE) by approximately $11,000 in the categories of transportation allowance and capital expense. Staff indicates this reduction will have a minimal impact on Office operations.

Combining these reductions, the total proposed budget reduction for the Office in FY 2018 is approximately $187,000.

Increases in Personnel Expense

Excluding the FTE reduction, the Office has increased salary and benefit adjustments of approximately $316,000 in FY 2018. These adjustments include additional salary of $137,000 and additional fringe benefits of $179,000.

SUMMARY OF OFFICE OF THE MAYOR BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	29.50	$ 3,670,358	$ 800,762	4,471,120	$ 328,245
Programmatic Changes					
Reduction of Mayor Representative 2	(1.00)	(176,616)	-	(176,616)	-
Other Changes					
Proposed Budget Reduction	-	-	(10,605)	(10,605)	-
Salary & Wage Adjustments	-	136,791	-	136,791	-
Fringe Increases (Includes Retirement ADC)	-	178,851		178,851	-
Other Adjustments	-	-	2,627	2,627	-
FY 2018 Proposed Budget	**28.50**	**$ 3,809,384**	**$ 792,784**	**$ 4,602,168**	**$ 328,245**
Difference from 2017 to 2018	*(1.00)*	*$ 139,026*	*$ (7,978)*	*$ 131,048*	*$ -*

Park & Recreation

Impact of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Park and Recreation Department totals approximately $109.3 million in the General Fund, an increase of approximately $1.0 million over the FY 2017 Adopted Budget. The FY 2018 Proposed Budget includes 896.84 FTE positions which represents a reduction of 2.94 FTE positions from the FY 2017 Adopted Budget.

The Department's General Fund revenue includes a slight reduction of $20,000 from the FY 2017 Adopted Budget but remains materially unchanged at $44.3 million.

The Department has several other funds including the Golf Course Fund, the Los Penasquitos Reserve Fund, and the Environmental Growth Funds. When the Department funds are combined, the Department budget totals $142.5 million, an increase of approximately $1.7 million over the FY 2017 Adopted Budget.

General Fund

Significant Budget Expenditure Reductions

<u>*Reduction of Citywide Park Maintenance Staff*</u> - The FY 2018 Proposed Budget includes the reduction of 6.00 FTE positions and approximately $385,000 in expenditures related to citywide park maintenance staff. The proposed staffing adjustment will not impact a specific park or area, but is expected to result in less frequent mowing, sweeping, and pesticide application throughout the park system. All of the positions identified for reduction are currently vacant.

Per the Department, the reduction of these positions is anticipated to be the least impactful to customer service. The Department has indicated that the FY 2018 Proposed Budget includes a number of positions within the job classifications identi-

SUMMARY OF PARK AND RECREATION DEPARTMENT EXPENDITURE BUDGET CHANGES						
	FY 2017 FTE	FY 2018 FTE	CHANGE	FY 2017 BUDGET	FY 2018 PROPOSED	CHANGE
General Fund						
Administrative Services	19.00	20.00	1.00	$ 3,387,803	$ 3,769,725	$ 381,922
Community Parks I	209.06	207.57	(1.49)	28,059,507	27,001,672	(1,057,835)
Community Parks II	264.67	268.22	3.55	25,156,490	26,759,812	1,603,322
Developed Regional Parks	336.73	330.73	(6.00)	39,445,099	39,426,314	(18,785)
Open Space	70.32	70.32	-	12,267,656	12,361,477	93,821
Subtotal General Fund	***899.78***	***896.84***	**(2.94)**	***108,316,555***	***109,319,000***	***1,002,445***
Non-General Fund						
Environmental Growth Fund 1/3	-	-	-	4,278,367	4,406,822	128,455
Environmental Growth Fund 2/3	-	-	-	10,458,591	10,303,909	(154,682)
Golf Course Fund	101.76	102.08	0.32	17,504,080	18,230,601	726,521
Los Penasquitos Canyon Preserve Fund	2.00	2.00	-	234,172	262,178	28,006
Subtotal Non-General Fund	***103.76***	***104.08***	**0.32**	***32,475,210***	***33,203,510***	***728,300***
TOTAL PARK AND RECREATION	**1,003.54**	**1,000.92**	**(2.62)**	**$ 140,791,765**	**$142,522,510**	**$ 1,730,745**

fied for reduction, allowing the tasks to be absorbed by the remaining staff. While the Proposed Budget eliminates 6.00 citywide park maintenance positions, it also includes 5.31 new FTE positions to support the maintenance of new parks.

Reduction in Tree Trimming and Pool Maintenance - The FY 2018 Proposed Budget includes the reduction of approximately $268,000 in contractual services primarily for tree trimming services ($163,000) and pool maintenance (105,000). The proposed reduction will delay projects that are identified as non-safety related.

The reduction in resources used for tree trimming will impact the Department's ability to trim trees over 70 feet in height. The Department contracts with a third party to conduct these services as these tasks require special equipment such as cranes to reach the taller trees. Due to the need for special equipment, the Department does not have staff in-house that can absorb these responsibilities.

The reduction in pool maintenance resources will impact the Department's ability to perform certain pool maintenance such as re-plastering. Department staff does not possess the appropriate skill sets necessary to perform these specific tasks in-house.

Reduction of Habitat Restoration Services - The FY 2018 Proposed Budget includes the reduction of approximately $186,000 in contractual services related to supporting habitat restoration services at the City's Open Space parks. The reduction will impact multiple contracts and will reduce the Department's ability to remove non-native plants, perform habitat restoration, remove trash and debris from the parks, provide security services, and service re-

SUMMARY OF PARK AND RECREATION DEPARTMENT - BUDGET CHANGES

Description	FTE	PE	NPE	Total Expense	Revenue
FY 2017 Adopted Budget	899.78	$ 64,602,577	$ 43,713,978	$ 108,316,555	$ 44,267,244
Programmatic Changes					
Vernal Pool Habitat Conservation Plan Contribution	1.00	79,206	44,000	123,206	-
Addition of Grounds Maintenance Manager	1.00	57,485	49,000	106,485	-
Carmel Mountain Ranch FIT Athletic Pool	-	-	90,000	90,000	-
Brush Management Contract	-	-	39,412	39,412	-
Cesar Solis Community Park and Joint Use Facility	3.00	190,007	186,405	376,412	-
Southcrest Trails Neighborhood Park	0.60	33,095	67,836	100,931	-
Park de la Cruz Skate Park	0.50	27,580	16,200	43,780	-
Wightman Street Neighborhood Park	0.20	11,030	12,981	24,011	-
Franklin Ridge Pocket Park	0.01	553	3,654	4,207	-
Completion of Coastal Marine Life Management Plan	-	-	(50,000)	(50,000)	-
Reduction of Recreation Specialist	(1.00)	(66,363)	(5,000)	(71,363)	-
Reduction of Habitat Restoration Services	-	-	(186,468)	(186,468)	-
Reduction of Tree Trimming and Pool Maintenance	-	-	(268,070)	(268,070)	-
Reduction of Citywide Park Maintenece Staff	(6.00)	(350,239)	(35,000)	(385,239)	-
Water Conservation Effort	-	-	(446,610)	(446,610)	-
One-Time Reductions and Annualizations	-	-	(1,675,105)	(1,675,105)	(20,000)
Other Changes					
Salary & Benefit Adjustments	(2.25)	4,458,676	-	4,458,676	-
Non-Discretionary Adjustments	-	-	(1,387,326)	(1,387,326)	-
Other Adjustments	-	-	105,506	105,506	-
FY 2018 Proposed Budget	**896.84**	**$ 69,043,607**	**$ 40,275,393**	**$ 109,319,000**	**$ 44,247,244**
Difference from 2017 to 2018	*(2.94)*	*$ 4,441,030*	*$ (3,438,585)*	*$ 1,002,445*	*$ (20,000)*

strooms.

Water Conservation Efforts – The FY 2018 Proposed Budget includes the reduction of approximately $447,000 in expenditures related to reduced water usage by the Department. In response to the City's efforts to reduce water usage during the most recent drought, the Department was successful at reducing watering days and managing conditions within the parks. The Department is proposing to continue these efforts even though water usage restrictions have been eased.

Completion of Coastal Marine Life Management Plan – The FY 2018 Proposed Budget includes the reduction of $50,000 in contractual services due to the completion of the Coastal Marine Life Management Plan. This plan was part of the effort initiated in FY 2016 to determine appropriate measures to address public/marine life issues along the San Diego coast, particularly in the La Jolla Cove area. The final plan will be presented to the Department by the end of FY 2017. The Department anticipates the recommendations to be primarily educational in nature and does not anticipate material costs in the future should the Department implement the recommendations.

Reduction of Recreation Specialist – The FY 2018 Proposed Budget includes the reduction of 1.00 Recreation Specialist position and $71,000 in expenses. The reduction of this position will require dance instructors to absorb administrative and programming tasks.

Significant Budget Additions

Vernal Pool Habitat Conservation Plan Funding – The FY 2018 Proposed Budget includes the addition of 1.00 Biologist 2 position and $123,000 in expenditures to support the development, implementation, and monitoring of the Vernal Pool Habitat Conservation Plan (VPHCP). The Department anticipates presenting the VPHCP to the City Council in late FY 2017. The VPHCP describes the plan for regular monitoring, maintenance, and reporting of vernal pools per regulations and guidelines outlined in the Multi-Species Conservation Program. This plan is a part of the Climate Resiliency Strategy which supports the Climate Action Plan, a top priority identified in the City Council's Budget Priority Resolution.

Addition of Grounds Maintenance Manager – The FY 2018 Proposed Budget adds 1.00 Grounds Maintenance Manager position and approximately $106,000 in expenditures to provide addition front line supervision to onsite maintenance staff. The added position will manage training, scheduling, assign work areas and contribute to the management of the new park acreages becoming available in FY 2018.

Pool Guard Services at Carmel Mountain Ranch FIT Athletic Pool – The FY 2018 Proposed Budget includes $90,000 in contractual expenses to provide pool guard services at the Carmel Mountain Ranch FIT Athletic Pool. The third party operator of the pool will provide pool guard services at the City owned pool year-round to the benefit of the public.

Contractual Adjustment to Brush Management Contract – In December 2015, the City entered into an agreement with a third party to thin over 300 acres of brush annually. Terms within the agreement allow the third party to be awarded, based upon presentation of supporting documentation, an annual price adjustment. The FY 2018 Proposed Budget includes approximately $39,000 in expenditures to address the anticipated increased cost for the brush management services.

New Parks - The FY 2018 Proposed Budget includes 4.31 FTE positions and $287,000 in expenses to operate and provide maintenance to five new parks throughout the City. The new parks add approximately 33 acres of parkland to the City. The new parks include:

- Cesar Solis Community Park and Joint Use Facility
- Southcrest Trail Neighborhood Park
- Park de la Cruz Skate Park
- Wightman Street Neighborhood Park
- Franklin Ridge Pocket Park

The Mayor's FY 2018-2022 Five-Year Financial Outlook (Outlook) anticipated nine new parks opening in FY 2018, however four parks identified in the Outlook have been delayed for various reasons including additional required environmental (CEQA) review. Fifteen new parks were funded in the FY 2017 Adopted Budget.

The Department has indicated that the delivery and opening of the Franklin Ridge Pocket Park may be delayed based upon the development schedule of the surrounding area.

Issues for Consideration

Open Space Rangers - For the FY 2018 Proposed Budget, the Department requested 2.00 Park Rangers positions and approximately $218,000 in expenses ($88,000 one-time costs) for management of additional open space acreage anticipated to be acquired by the City throughout the year. This funding request was not included in the Proposed Budget.

The Department has established a goal ratio of approximately 650 acres of park land to one park ranger. Currently, the City has a ratio of one park ranger for every 1,060 acres of park land.

Service Level Impacts and Performance Measures

The performance measures provided in the table below reflect customer satisfaction with the Department's recreational programs; show increased usage of the City's pool programs; and show the total number of operating hours targeted by the Department.

Environmental Growth Funds

The Environmental Growth Funds (EGFs) are projected to receive approximately $14.8 million in franchise fees from San Diego Gas & Electric, which represents one-quarter of the total SDG&E franchise fees received by the City in accordance with Charter Section 103.1a. This revenue projection is a decrease of approximately $1.6 million over FY 2017. Additional information related to the franchise fees can be found in the Franchise Fee portion of the "General Fund Revenues" Overview Section in our report.

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage customer satisfaction with recreational program activities	94%	93%	94%	94%	94%
Number of aquatic users	304,125	304,125	320,000	316,000	320,000
Total Number of hours of operation of recreation centers	154,101	154,101	155,780	155,876	165,360

The EGFs are allocated into a one-third and two-thirds portion, to reflect Charter provisions that up to two-thirds of revenues can be pledged for bonds for the acquisition, improvement, and maintenance of park or recreational open space.

To the extent funds exist over and above the requirements for debt service, the Charter provides that they may be used for other purposes so long as it preserves and enhances the environment and is approved by the City Council.

In FY 2009, the Environment Growth 2/3 Fund retired the 1004 San Diego Open Space Facilities District No. 1 General Obligation Bonds. Since the time the bonds have been repaid in 2009, available revenues have been utilized to reimburse the General Fund for eligible park and open space maintenance activities.

Additional funds are budgeted for reimbursement to Maintenance Assessment Districts and for transfer to the Los Penasquitos Canyon Preserve Fund.

The FY 2018 Proposed Budget for the EGFs includes funding to reimburse the General Fund for park expenses, and provides support for Regional Park and Open Space Maintenance. The projected reduction in revenue from the Franchise Fees for FY 2018 has decreased the transfers to the General Fund by approximately $650,000.

Golf Course Fund

The Golf Course Fund maintains three City golf courses operated by the City: Mission Bay, Balboa Park, and Torrey Pines (future site of the 2021 U.S. Open Championship).

The FY 2018 Proposed Budget for the Golf Course Fund totals $18.2 million, representing an increase of approximately $727,000 over the FY 2017 Adopted Budget. Department revenues are anticipated to increase by approximately $1.7 million to $20.5 million from $18.8 million in FY 2017 due to the completion of renovations on the Torrey Pines North Course.

Significant Budget Additions

Golf Equipment Contract – The FY 2018 Proposed Budget includes $405,000 to support a new lease contract for golf course maintenance equipment.

Golf Pro Shop Merchandise – In July 2016, the Department assumed responsibility for the Pro Shop at the Balboa Park Golf Course. The FY 2018 Proposed Budget includes expenses and revenues of approximately $90,000. It is projected that the operation of the Pro Shop will be cost neutral for the Department.

SUMMARY OF PARK AND RECREATION DEPARTMENT – GOLF FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	101.76	$ 7,616,511	$ 9,887,569	$ 17,504,080	$ 18,750,847
Programmatic Changes					
Golf Equipment Contract	-	-	405,000	405,000	-
Golf Pro Shop Merchandise	-	-	89,500	89,500	89,500
One-Time Reductions and Annualizations				-	1,630,000
Other Changes					
Salaries and Benefits Adjustments	(0.01)	408,434	-	408,434	-
Non-Discretionary Adjustments	-	-	(139,172)	(139,172)	-
Other Adjustments	0.33	16,680	(53,921)	(37,241)	-
FY 2018 Proposed Budget	**102.08**	**$ 8,041,625**	**$ 10,188,976**	**$ 18,230,601**	**$ 20,470,347**
Difference from 2017 to 2018	***0.32***	***$ 425,114***	***$ 301,407***	***$ 726,521***	***$ 1,719,500***

Performance & Analytics

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Total percentage of key performance indicators (KPIs) published on the performance dashboard (cumulative)	N/A	N/A	19%	20%	40%
Percentage of City workforce participating in Operational Excellence initiatives	N/A	1%	1%	1%	1%
Percentage of customers satisfied with process of reporting problems (i.e. potholes) to the City[1]	N/A	50%	N/A	N/A	65%

[1]The Citywide Resident Satisfaction Survey occurs every other year with the next effort scheduled for Fiscal Year 2018.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Performance & Analytics Department (P&A) is approximately $2.8 million, a $123,000 or 4.2% decrease from the FY 2017 Adopted Budget. This decrease is due primarily to a reduction in non-personnel expenditures that were one-time additions in FY 2017, and $130,000 in non-personnel reductions offered by the Department to address the FY 2018 projected deficit. These reductions are partially offset by a $159,000 increase in personnel expenditures due to the reclassification of 3.00 FTE positions approved by the City Council in May 2016 and a $165,000 increase in other salaries and wages adjustments that include increases in fringe and a reduction in the Department's budgeted vacancy savings.

P&A reports on eight key performance indicators (KPIs) in the FY 2018 Proposed Budget. Three of those KPIs, measuring the number of City KPIs published on the City's website, the percentage of City staff participating in Operational Excellence efficiency and training initiatives, and the percentage of satisfaction with the process of reporting problems to the City are also included in the table at the top of this page. Overall P&A has indicated that reductions to their budget in FY 2018 are not expected to impact any of their KPIs.

Budget Expenditure Reductions

Due to the projected budget deficit for FY 2018, General Fund departments were asked to submit budget reductions equal to 3.5% of their FY 2017 budget. P&A submitted $130,000 in reductions or 4.4% of their FY 2017 budget, and all reductions submitted have been included in the FY 2018 Pro-

SUMMARY OF PERFORMANCE & ANALYTICS DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	15.00	$ 1,828,756	$ 1,105,883	$ 2,934,639	$ -
Programmatic Changes					
Reduction of Performance Management Section Contract Services	-	-	(40,000)	(40,000)	-
Reduction of Operational Excellence Section Contract Services	-	-	(40,000)	(40,000)	
Reduction of Contract Services in Support of Open Data	-	-	(50,000)	(50,000)	-
Other Changes					
Budget Change to Reflect FY 2017 Position Reclassifications	-	159,457	-	159,457	-
Other Salaries and Wages Adjustments	-	164,744	-	164,744	-
Other Non-Personnel Expenditure Adjustments	-	-	(317,047)	(317,047)	-
FY 2017 Proposed Budget	**15.00**	**$ 2,152,957**	**$ 658,836**	**$ 2,811,793**	**$ -**
Difference from 2016 to 2017	-	*$ 324,201*	*$ (447,047)*	*$ (122,846)*	*$ -*

posed Budget. These reductions include budget for consultant support for the resident and employee satisfaction surveys, training for City staff through the newly developed OpEx Academy, and support for the Open Data portal. All of this work will now be performed by Department staff.

Program Updates

P&A is organized into several sections housing a number of programs that have citywide impact. Department staff are involved in performance management and surveying, government transparency initiatives, open data, customer service, and reorganization and efficiency initiatives. In FY 2018, the Department expects to continue their work on a number of these initiatives including:

- Supporting the City's Get it Done program;
- Increasing the number of datasets available through the City's Open Data portal;
- Providing ongoing Operational Excellence (OpEx) efficiency training for City staff;
- Increasing the number of kpis published on the City's performance dashboard; and
- Conducting a resident satisfaction survey to follow-up on the one conducted in FY 2016.

Issues for Council Consideration

Customer Experience & Service Delivery Program (311)

P&A's FY 2017 budget included an addition of 3.00 FTE positions and $767,000 in non-personnel expenditures to support the City's 311 program. Plans for the scope and timing of 311 were presented to the Rules Committee in October 2016, and included an expansion of the Get it Done pilot program as well as a 311 customer service call center. Support for the second phase of 311 was projected by P&A to be $3.4 million in FY 2018, most of which would be for one-time implementation costs.

The 3.00 FTE positions added in FY 2017 to support 311 have all been filled, and these staff are working to support the existing Get it Done program, develop the knowledge management framework needed for the 311 implementation, and work to identify City business process improvements. While this work supports the 311 program as it was presented to Rules Committee, this work also supports other efficiency efforts overseen by the Department.

P&A delayed their 311 funding request for FY 2018 in consideration of the deficit projected for FY 2018. Should the City want to pursue a full 311 program as currently envisioned, it is expected that those costs will need to be incurred.

At this time, a General Fund deficit is being projected for FY 2019, despite the measures taken to balance the Proposed Budget in FY 2018. **Council may want to consider asking P&A to return to Committee with an updated 311 implementation roadmap that includes options for the scope of the project and associated funding levels.**

Personnel

Performance Measure	Actual FY 2014	Actual FY 2015	Actual FY 2016	Estimated FY 2017	Target FY 2018
Number of days to issue certification to hiring departments—without recruitment	5.3	10	12	12	12
Number of days to issue certification to hiring departments—with recruitment	57.5	59	53	58	59
Number of days to complete classification and compensation studies	17	17	19	19	23

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Department of Personnel totals approximately $8.7 million. This is an increase of $300,000 over the $8.4 million in the FY 2017 Adopted Budget. The Department has minimal budgeted revenue.

Personnel Expenditures (PE)

The number of Personnel Department positions has decreased by 1.01 FTE positions, from 71.00 in the FY 2017 Adopted Budget to 69.99 in the FY 2018 Proposed Budget. The decrease includes the elimination of 1.0 Associate Personnel Analyst.

In FY 2017, 1.00 Associate Personnel Analyst (and 2.00 other FTEs) were added to the Personnel budget to handle the workload, including increases in the number of budgeted positions. From the FY 2013 Adopted Budget to the FY 2018 Proposed Budget, the number of budgeted FTEs has risen by almost 1,300 citywide.

The eliminated Associate Personnel Analyst position is in Classification and Compensation section of the Department. With this position reduction, classification studies, reclassifications, and special salary adjustments would be subject to potential delays. Further, elimination of this position may impact other areas of the Department, as assignments may be shifted to other employees, causing delays in their respective work areas.

Additionally, FY 2018 is the last year that MOU agreements with the City's employee organizations include general salary freez-

SUMMARY OF PERSONNEL BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
FY 2017 Adopted Budget	71.00	$ 7,292,189	$ 1,062,869	$ 8,355,058	$ 1,000
Programmatic Changes					
Reduction of Associate Personnel Analyst	(1.00)	(70,943)	-	(70,943)	-
Other Changes					
Other Salary & Wages Adjustments	-	(9,708)	-	(9,708)	-
Other Fringe Increases (Included Retirement ADC)	-	401,306	-	401,306	-
Hourly Wages Decrease	(0.01)	(5,726)	-	(5,726)	-
Other Adjustments	-	-	(15,364)	(15,364)	-
FY 2018 Proposed Budget	**69.99**	**$ 7,607,118**	**$ 1,047,505**	**$ 8,654,623**	**$ 1,000**
Difference from 2017 to 2018	***(1.01)***	***$ 314,929***	***$ (15,364)***	***$ 299,565***	***$ -***

es that have been in place since July 1, 2009. As FY 2019 approaches, there could be more requests for special salary adjustments than in recent years.

The Performance Measures table on the previous page shows two increased timelines for the FY 2018 target column—the average number of days to complete classification and compensation studies, and the average number of days to issue certifications to hiring departments when recruitments are required. These increased timelines take into account the elimination of the Associate Personnel Analyst position.

In light of the increased hiring activity over time and the other concerns discussed above, we recommend the City Council discuss with the Personnel Director the potential impacts of eliminating the Associate Personnel Analyst positon that was added in FY 2017.

Planning

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget categorizes the Planning Department into three divisions based upon their respective work functions. These divisions are:

- Long-Range Planning Division
- Environmental & Resource Analysis Division
- Financial & Administrative Services Division

Due to varied work functions and multiple funding sources in the Department, the following analysis is organized by funding source.

General Fund

The FY 2018 Proposed Budget for the Planning Department totals approximately $10.1 million, a decrease of approximately $433,000 and 0.12 FTE positions from the FY 2017 Adopted Budget. Revenues are projected to total $1.4 million, a decrease of approximately $1.5 million from the FY 2017 Adopted Budget.

Significant Budget Expenditure Transfers

Transfer of Urban Forestry Program - The FY 2018 Proposed Budget includes the transfer of 1.00 Program Manager and approximately $134,000 from the Planning Department to the Transportation & Storm Water Department for the Urban Forestry Program.

In January 2017, the City Council adopted the Urban Forestry Five-Year Plan which defines the Urban Forestry Program and roles of various City Departments. As the program is transitioning from the planning phase to the implementation phase, the resources are being transferred to the department primarily responsible for the management of the program.

SUMMARY OF PLANNING AND FACILITIES FINANCING EXPENDITURE BUDGET CHANGES						
	FY 2017 FTE	FY 2018 FTE	CHANGE	FY 2017 BUDGET	FY 2018 PROPOSED	CHANGE
General Fund (Planning)						
Long-Range Planning	33.07	32.95	(0.12)	$ 5,443,814	$ 4,873,109	$ (570,705)
Environmental & Policy Analysis	21.00	21.00	-	3,172,336	3,317,281	144,945
Financial & Administrative Services	11.00	11.00	-	1,916,952	1,909,706	(7,246)
General Fund	***65.07***	***64.95***	**(0.12)**	***$ 10,533,102***	***$ 10,100,096***	***$ (433,006)***
General Plan Maintenance Fund						
Long-Range Planning	-	-	-	$ -	$ 1,743,508	$ 1,743,508
Environmental & Policy Analysis					$ 906,492	$ 906,492
General Plan Maintenance Fund	**-**	**-**	**-**	***$ -***	***$ 2,650,000***	***$ 2,650,000***
Facilities Financing Fund						
Facilities Financing	16.35	16.35	-	$ 2,408,887	$ 2,908,328	$ 499,441
Facilities Financing Fund	***16.35***	***16.35***	**-**	***$ 2,408,887***	***$ 2,908,328***	***$ 499,441***

*Prior to FY 2017, all divisions within the Planning Department combined in Planning category. Planning Department to be categorized into three divisions based upon focused specialties of work functions: Long-Range Planning, Environmental & Resource Analysis, and Financial & Administrative Services.

General Plan Maintenance Fund (GPMF) – The FY 2018 Proposed Budget includes the transfer of $1.5 million in expenditures and $2.3 million in revenue from the General Fund to the GPMF within the Department. The Department is transferring the expenses and associated revenues related to the community plan updates and certain activities (community related initiatives) that benefit those paying the General Plan Maintenance Fee to the GPMF. The Special Revenue Fund will provide greater transparency as to the usage of these revenues for appropriate expenditures. Resources from the GPMF will be used to address contractual services related to community plan updates and initiatives, and potentially reimburse the General Fund for billable services.

Significant Budget Additions

Parks Master Plan (PMP) – The FY 2017 Adopted Budget included $200,000 in funding to initiate the PMP. The Department contemplated a three-year work plan beginning in late FY 2017. The Department's request for the Mayor's FY 2018-2022 Five-Year Financial Outlook continued to project support for the PMP in FY 2018 and FY 2019.

The FY 2018 Proposed Budget includes $400,000 in expenditures to continue support the development of the PMP. However, the Department has indicated that the PMP will not be initiated until early FY 2018. The proposed allocation for the FY 2018 budget will be in addition to the funding allocated in FY 2017 and increase the funding available for the program to $600,000. The Department continues to anticipate a three-year work plan and the initial funding will offset funding needed in future years. The Department's preliminary estimate of needed funding over the three-year period is approximately $1.4 million, however that figure will be adjusted as the final scope of work is developed with the selected consultant.

Policy and Ordinance Positions – The FY 2018 Proposed Budget includes the addition of two positions (1.00 Program Manager and 1.00 Environmental and Policy Analysis Program Manager 2) and approximately $257,000 to support the Environmental & Policy Division. These positions are needed to update codes and policies for streamlin-

SUMMARY OF PLANNING DEPARTMENT - BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	65.07	$ 8,041,008	$ 2,492,094	$ 10,533,102	$ 2,869,175
Programmatic Changes					
Parks Master Plan	-	-	400,000	400,000	-
Policy and Ordinance Development	2.00	256,571	-	256,571	-
Transit Priority Area Parking Standard	-	-	250,000	250,000	-
Workforce Housing Density Program	-	-	250,000	250,000	-
Reduction of Word Processing Operator	(1.00)	(54,962)	-	(54,962)	-
Transfer of Urban Forestry Program	(1.00)	(134,468)	-	(134,468)	-
General Plan Maintenance Fund	-	-	(1,486,721)	(1,486,721)	(2,310,000)
General Plan Maintenance Fund Revenue	-	-	-	-	823,279
Revised Revenue	-	-	-	-	(20,000)
Other Changes					
Salary & Benefit Adjustments	(0.12)	106,117	-	106,117	-
Non-Discretionary Adjustments	-	-	(16,758)	(16,758)	-
Other Adjustments	-	$0	(2,785)	(2,785)	-
FY 2018 Proposed Budget	**64.95**	**$ 8,214,266**	**$ 1,885,830**	**$ 10,100,096**	**$ 1,362,454**
Difference from 2017 to 2018	***(0.12)***	***$ 173,258***	***$ (606,264)***	***$ (433,006)***	***$ (1,506,721)***

ing the permitting process, removing conflicting code interpretations, proactively preparing local policies to address emerging land issues, and coordinating with stakeholders on local land and environmental issues.

Transit Priority Parking Standard – The FY 2018 Proposed Budget includes the one-time addition of $250,000 in contractual expenditures for the review and development of options/impacts of revised parking standards within Transit Priority Areas. The Department anticipates a work program of 18 to 20 months, which would encompass stakeholder outreach, drafting of the study, preparation of revised parking options and standards, and conducting the environmental review.

Workforce Housing Density Program – The FY 2018 Proposed Budget includes $250,000 in contractual expenditures to develop a Workforce Housing Density Program modeled after the State and City Affordable Density Bonus regulations, and designed to incentivize developers to construct additional housing that can be sold or rented to entry-level/workforce households. The Department anticipates an 18 to 20 month work program which includes stakeholder outreach, preparing the land development code regulations, and conducting the necessary environment review.

Revenue Change

Reimbursements from the GPMF – The FY 2018 Proposed Budget includes approximately $823,000 in revenue for reimbursements from the GPMF. The revenue is reimbursement from the GPMF for work that General Fund staff completes on activities related to community plan updates and related items.

Other

Reduction of Word Processing Officer position – As part of the Department's efforts to address the City's shortfall projected in FY 2018, the FY 2018 Proposed Budget includes the reduction of 1.00 Word Processing Officer position and $55,000 in expenditures. This reduction could have an impact on the CEQA Environmental Compliance and Documentation group.

Department Work Schedule

The Department's planned work schedule for community plan updates is provided below. Additional information related to the Department's work plan can be found on the City's website under the Planning Department.

ANTICIPATED COMMUNITY PLAN UPDATE WORK SCHEDULE*		
Community Plan Updates	**Scope of Project**	**FY 2018 Status**
Midway/Pacific Highway	Plan Update	To be completed
Old Town	Plan Update	To be completed
Barrio Logan	Plan Update	To be completed
Mission Valley	Plan Update	In progress
Clairemont Mesa	Plan Update	In progress
Kearny Mesa	Plan Update	In progress
University	Plan Update	In progress
Mira Mesa	Plan Update	In progress

*Per the Planning Department Work Program FY 2017 & 2018.

General Plan Maintenance Fund (GPMF)

The FY 2018 Proposed Budget totals approximately $2.7 million for the GPMF. Revenue is projected to total approximately $2.7 million. As the GPMF is a Special Revenue Fund, budgeted revenue will mirror budgeted expenses.

Significant Budget Additions

Transfer from the General Fund – The FY 2018 Proposed Budget includes the addition of approximately $1.5 million in expenditures and $2.3 million in revenue from the General Fund.

Community Plan Updates – The FY 2018 Proposed Budget includes approximately $1.2 million in expenditures related to contractual services and billable City services related to community plan updates. The fund will reimburse the Department's General Fund staff for work on the community plan updates and other initiatives that benefit communities.

Revenue Change

Revised Revenue – The FY 2018 Proposed Budget includes the addition of $340,000 in revenue related to increased building activities.

Facilities Financing

The FY 2018 Proposed Budget totals approximately $2.9 million for the Facilities Financing Fund, an increase of approximately $499,000 over the FY 2017 Adopted Budget. There is no change in the number of personnel from FY 2017.

As Facilities Financing is a Special Revenue Fund, budgeted revenue will mirror budgeted expenses. Budgeted revenue totals approximately $2.9 million, an increase of approximately $499,000 over the FY 2017 Adopted Budget due to projected increases in review activity.

SUMMARY OF GENERAL PLAN MAINTENANCE FUND – BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	-	$ -	$ -	$ -	$ -
Programmatic Changes					
General Plan Maintenance Fund	-	-	1,486,721	1,486,721	2,310,000
Community Plan Updates	-	-	1,163,279	1,163,279	-
Revised Revenue	-	-	-	-	340,000
FY 2018 Proposed Budget	**-**	**$ -**	**$ 2,650,000**	**$ 2,650,000**	**$ 2,650,000**
Difference from 2017 to 2018	***-***	***$ -***	***$ 2,650,000***	***$ 2,650,000***	***$ 2,650,000***

SUMMARY OF FACILITIES FINANCING FUND – BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	16.35	$ 1,946,548	$ 462,339	$ 2,408,887	$ 2,408,887
Programmatic Changes					
Rental Compensation	-	-	212,563	212,563	-
Relocation to 101 Ash Street	-	-	71,975	71,975	-
Revenue Adjustment	-	-	-	-	499,441
Other Changes					
Salary & Benefit Adjustments	-	132,656	-	132,656	-
Non-Discretionary Adjustments	-	-	37,890	37,890	-
Other Adjustments	-	-	44,357	44,357	-
FY 2018 Proposed Budget	**16.35**	**$ 2,079,204**	**$ 829,124**	**$ 2,908,328**	**$ 2,908,328**
Difference from 2017 to 2018	***-***	***$ 132,656***	***$ 366,785***	***$ 499,441***	***$ 499,441***

Budget Additions

Rental Compensation – The Department is anticipated to relocate their operations in FY 2018 from their current location in the City Operations Building to the city-owned building at 101 Ash Street. The FY 2018 Proposed Budget includes $212,000 in expenditures to address the Department's share of rent at the 101 Ash Street Building.

Relocation to 101 Ash Street – The FY 2018 Proposed Budget includes approximately $72,000 for moving costs and additional furniture needed at the new location.

Department Work Schedule

Below is the Department's anticipated work schedule for facilities financing plans. Additional information on the Department's work schedule can be found on the City's website within the Planning Department section.

Issues for Council Consideration

Council Priorities Addressed

The FY 2018 Proposed Budget includes several items that support the Climate Action Plan, which was identified as a priority for a majority of the Councilmembers in the FY 2018 Council Priority memorandums. These items include: the study of the Transit Priority Area Parking Standard as this study looks to provide alternatives to parking issues and support alternative modes of transportations; and the addition of two positions to support the strategic updates to land codes and policies.

Service Level Impacts and Performance Measures

The performance measures provided in the table below reflect the Department's ability to achieve established milestones.

FACILITIES FINANCING PLAN WORK SCHEDULE*

Plan	Scope of Project	FY 2018 Status
Midway/Pacific Highway IFS	Plan Update	To be completed
Old Town IFS	Plan Update	To be completed
Barrio Logan IFS	Plan Update	To be completed
Otay Mesa PFFP	Plan Update	In progress
Black Mountain Ranch PFFP	Plan Update	In progress
Torrey Highlands PFFP	Plan Update	In progress
Mission Valley CPU/IFS	Plan Update	To be initiated
Kearny Mesa CPU/IFS	Plan Update	To be initiated
Clairemont Mesa CPU/IFS	Plan Update	To be initiated
University CPU/PFFP	Plan Update	To be initiated
Mira Mesa CPU/PFFP	Plan Update	To be initiated

*Per the Planning Department Work Program FY 2017 & 2018.

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percent of achieved major milestones associated with environmental resource initiatives	N/A	62%	80%	83%	80%
Percent of achieved major milestones associated with planning initiatives	N/A	83%	80%	80%	80%

Police

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of 911 calls answered within 10 seconds	N/A	73%	90%	90%	95%
Average response time to Priority E calls (in minutes)	7.0	7.1	7.0	7.0	7.0
Average response time to Priority 1 calls (in minutes)	14.0	14.9	14.0	16.5	14.0
Average response time to Priority 2 calls (in minutes)	27.0	37.7	27.0	44.0	27.0

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Police Department is approximately $463.8 million for the General Fund, an increase of $25.1 million or 5.7% from the FY 2017 Budget. The FY 2018 Proposed Budget includes 2,653.01 FTE positions, an increase of 9.00 FTE positions over FY 2017. Budgeted revenue totaling $46.4 million represents an increase of $1.3 million.

Proposed changes to the Police budget include modest position additions to support the Department's Communications, Crime Lab, and Property Room operations; added overtime expenditures based on a zero-based review; adjustments to revenue; and support for ongoing costs related to the Computer-Aided Dispatch (CAD) system replacement project. These budget changes are intended to maintain or improve current public safety service levels.

Apart from a reduction of one-time compensation budgeted for sworn police officers in FY 2017, the FY 2018 Proposed Budget does not include any service cuts to the Police Department.

Removal of One-Time FY 2017 POA Compensation

The FY 2018 Proposed Budget removes $4.0 million in one-time expenditures added in FY 2017 related to the City's Memorandum of Understanding (MOU) with the San Diego Police Officers Association (POA). This expenditure funded non-pensionable increases to police officer compensation that were paid in FY 2017 but will not continue in FY 2018. Other ne-

SUMMARY OF POLICE DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	2,644.01	$ 370,405,806	$ 68,383,457	$ 438,789,263	$ 45,065,930
Programmatic Changes					
Addition of Overtime Expenditures	-	2,223,946	-	2,223,946	-
Addition of Supplemental Positions	6.00	698,366	-	698,366	-
Addition of Grant-Funded Crime Lab Positions	2.00	147,088	-	147,088	180,000
Addition of Property Room & Communications Positions	1.00	54,469	-	54,469	-
Removal of One-Time FY 2017 POA Compensation	-	-	(4,000,000)	(4,000,000)	-
Addition of Parking Citation Revenue	-	-	-	-	1,906,956
Reduction of Alarm Permit Revenue	-	-	-	-	(583,116)
Reduction of QUALCOMM Stadium Event Revenue	-	-	-	-	(1,400,000)
Other Changes					
Salary and Benefit Adjustments	-	28,091,321	-	28,091,321	-
Information Technology Adjustment	-	-	2,216,777	2,216,777	-
Non-Discretionary Adjustments	-	-	(2,328,056)	(2,328,056)	-
Other Adjustments	-	(670,876)	(1,376,000)	(2,046,876)	1,234,141
FY 2018 Proposed Budget	**2,653.01**	**$ 400,950,120**	**$ 62,896,178**	**$ 463,846,298**	**$ 46,403,911**
Difference from 2017 to 2018	*9.00*	*$ 30,544,314*	*$ (5,487,279)*	*$ 25,057,035*	*$ 1,337,981*

gotiated increases planned and budgeted for FY 2018 are not affected by this one-time reduction and will continue to be paid in accordance with the terms of the POA MOU.

The $4.0 million reduction of one-time FY 2017 additional compensation is reflected in the Police Department's supplies budget for FY 2018, which is reduced by $4.2 million. Apart from this budgetary adjustment, there is no significant service-related decrease to the Police supplies budget for FY 2018.

Addition of Overtime Expenditures

The FY 2018 Proposed Budget includes the addition of approximately $2.2 million in overtime expenditures for the Police Department. The net overtime expenditure increase is the result of the addition of $4.6 million in overtime related to the Department's zero-based review, the addition of $600,000 related to a change in FLSA-mandated overtime calculations, and the Police Department's pledge to reduce extension-of-shift overtime by $3.0 million in FY 2018.

The Department's FY 2018 overtime budget totals $23.2 million and is composed of the following categories:

- $7.5 million for extension-of-shift
- $3.6 million for grants and task forces (partially reimbursable)
- $3.4 million for holiday pay
- $3.0 million for discretionary items
- $2.7 million for special events (partially reimbursable)
- $2.2 million for court (partially reimbursable)
- $0.6 million for adjustments related to FLSA
- $0.2 million for other events

While FY 2018 Police overtime budget of $23.2 million represents a $2.2 million increase over the FY 2017 Budget, our office notes that the FY 2017 Mid-Year Budget Monitoring Report projected that actual overtime expenditures would reach $26.0 million at current fiscal year-end. If Police overtime expenditures were to remain constant in FY 2018 based on projected FY 2017 actual expenditures, the Department would exceed its overtime budget in FY 2018 by approximately $2.8 million. However, if the Police Department is successful in meeting its pledge to reduce extension-of-shift overtime by $3.0 million in FY 2018, overtime expenditures would remain within budget.

The Police Department has indicated it will be able to reduce extension-of-shift overtime by using new efficiencies and methods of streamlining work without negatively impacting service levels. However, in the event that emergencies or other public safety needs arise that may require additional overtime, the Department has indicated that it will respond in whatever manner is necessary to preserve public safety. Due to the unpredictable nature of extension-of-shift overtime, Police overtime expenditures will require close monitoring beginning with the FY 2018 First Quarter Budget Monitoring Report.

Addition of Supplemental Positions

The FY 2018 Proposed Budget adds 6.00 FTE supplemental positions and $698,000 in associated personnel expenditures to support the Police Department's Communications Division, Medical Assistance Unit, and Backgrounds/Recruiting Unit.

The added 6.00 FTE positions include the following positions for Communications: 1.00 Police Captain, 1.00 Police Dispatch Administrator, 1.00 Senior Clerk/Typist, and 1.00 Administrative Aide 2. The remaining position additions include 1.00 Word Processing Operator for the Medical Assistance Unit and 1.00 Word Processing Operator for the Backgrounds/Recruiting Unit. All 6.00 FTE positions were added in FY 2017 as unbudgeted supplemental positions, and are being added as budgeted positions in FY 2018.

Addition of Grant-Funded Crime Lab Positions

The FY 2018 Proposed Budget adds 2.00 FTE civilian positions and $147,000 in associated personnel expenditures, offset by $180,000 in revenue, to support the Crime Lab Unit. The added positions are two full-time Latent Print Examiner Aides, reimbursement for which will be received from the San Diego Sheriff's Office Fingerprint ID Trust Fund.

Addition of Property Room and Communications Positions

The FY 2018 Proposed Budget includes the addition of $54,000 in personnel expenditures to support 0.50 FTE position for the Communications Division and 0.50 FTE position for the Property Room. Both positions are currently staffed half-time and will become full-time positions with this budget addition.

Technology Initiatives

The FY 2018 Proposed Budget includes $767,000 in expenditures related to debt service and IT support for the replacement CAD system (anticipated to go live October 2017), as well as $1.1 million in revenue and expense budgeted for a grant-reimbursable project to migrate from the current Criminal Records Management System (CRMS) to a new Net Records Management System (NetRMS). Both of these technology programs were identified as Critical Strategic Initiatives in the first year of the FY 2018-2022 Five-Year Financial Outlook but not included in projections.

Addition of Parking Citation Revenue

Additional parking citation revenue of approximately $1.9 million is included in the FY 2018 Proposed Budget for the Police Department, based on a review of actual collections. The Department has attributed the revenue increase to higher staffing levels in the Parking Enforcement Officer (PEO) Unit compared to previous fiscal years. As of December 2016, 53.00 of 58.00 FTE budgeted PEO positions were filled.

Reduction of Alarm Permit Revenue

In April 2017, the City Council approved changes to the Police Department's alarm permit fees and penalties that will take effect at the beginning of FY 2018. In its report to Council, the Police Department estimated that the amended fee and penalty schedule would result in an ongoing annual revenue decrease of $1.7 million. However, the FY 2018 Proposed Budget reduces alarm permit revenue by only $583,000.

The Financial Management Department has indicated that the revised revenue estimate included in the FY 2018 Proposed Budget assumed a revenue decrease related to the lower permit fees approved by Council, but did not take into account the reduction in false alarm penalties predicted by the Police Department. Instead, the revised revenue estimate reflects the updated penalty schedule but not the associated reduction in false alarms themselves, as anticipated by the "enhanced call verification" initiative to be utilized by alarm service providers beginning in FY 2018. Given that false alarm behavior changes may be difficult to predict, revenue from Police alarm permit fees and penalties will require close monitoring in the FY 2018 Budget Monitoring process.

Issues for Council Consideration

Police Officer Recruitment and Retention

For the past several years, the Police Department has faced significant challenges related to sworn police officer recruitment and retention, which are expected to continue in FY 2018 and beyond. As of April 24, 2017, the Police Department had 1,832 filled sworn positions out of 2,039 budgeted positions.

Since FY 2012, the Adopted Budget has included the addition of expenditures intended to improve Police recruitment and retention, either in the form of increased compensation to officers or as support for expanded Police Department academies. Since FY 2015 the academies have been funded at a maximum capacity level of 43 recruits per academy, held four times per year, for a total of 172 recruits per year. The FY 2018 Proposed Budget continues to fund ongoing support for these expanded academies.

While the FY 2018 Proposed Budget fully funds expanded academies for a total of 172 new recruits in FY 2018, it also assumes a continuing sworn attrition rate of 13 officer departures per month (156 total departures). Over the course of the fiscal year, these assumptions will yield a net addition of 16 filled police officer positions, leaving a significant number of vacant positions remaining.

While the FY 2018 Proposed Budget continues funding for expanded academies and increased compensation (pursuant to the previously negotiated POA MOU), it does not increase funding specifically for recruitment or marketing. For example, the Department's current recruitment budget of $50,000 remains unchanged in FY 2018. One new expenditure worth noting, however, is the addition of $100,000 in one-time expenditures to fund an updated Police compensation survey in FY 2018. The results of the study will inform the City's negotiating strategy for a potential POA MOU reopener eligible to occur in FY 2019.

Council Budget Priority Items

A majority of Councilmember budget priority memoranda identified several priorities for the Police Department. The following list describes the priority items and their funding status in the FY 2018 Proposed Budget:

- Police Officer recruitment and retention (surveying officers, engaging an outside firm to develop a marketing and recruitment strategy, reviewing officer compensation) — the FY 2018 Proposed Budget does not include funding for surveying current officers, nor does it augment the existing recruitment budget. The Proposed Budget does include funding for an updated Police compensation survey in FY 2018.

- Support for Police technology, including support for CAD and AB 953 (Racial and Identity Profiling Act of 2015) implementation — the FY 2018 Proposed Budget fully funds support for the Police Department's new CAD system, although no funding is included specifically for AB 953 implementation due to the fact that data collection requirements have not been finalized by the State of California.

- Police Chief Recruitment — The FY 2018 Proposed Budget does not include funding for a nationwide search for a new Police Chief in preparation for the planned retirement of the current Police Chief in calendar year 2018, due to the requirements of the City's Deferred Retirement Option Program (DROP).
- Programs for Homelessness — The FY 2018 Proposed Budget includes expenditures related to Homelessness that are discussed elsewhere in this report. With regard to the Police Department, the Proposed Budget does not increase Police personnel for existing programs such as the Serial Inebriate Program (SIP), Homeless Outreach Teams (HOT), and Psychiatric Emergency Response Teams (PERT). The County PERT Coordinating Council will be reviewing data to determine the potential assignment of 10 PERT clinicians (funded by the County) to the San Diego Police Department. If funded, the additional PERT clinicians would increase the City's total number of PERT teams from 16 to 26 in FY 2018.

Public Utilities

The Public Utilities Department (PUD) is responsible for providing water and sewer services throughout the City of San Diego. Three major enterprise funds support PUD's operations: the Municipal Sewer Revenue Fund, the Metropolitan Sewer Revenue Fund, and the Water Utility Operating Fund. Additionally, the Department manages recreational use of the City's reservoirs via the General Fund.

For the purposes of analyzing the Department's operations in the FY 2018 Proposed Budget, we will consider operations funded by the Metropolitan and Municipal Sewer Funds together, while operations supported by the Water Fund and the City's General Fund will be reviewed separately.

The breakout of proposed expenditures from each funding source is shown on the table below. This chart shows both operating expenditures and proposed Capital Improvement Plan (CIP) expenditures. Additional details on each funding source's operations are included in the following sections.

Water Fund

Impacts of Mayor's FY 2018 Budget Proposal

Expenditures in the FY 2018 Proposed Budget for the Water Utility Operating Fund total $729.6 million (this is an increase of $101.0 million from the FY 2017 Adopted Budget). Of this $729.6 million, $517.8 million are for operational expenses (this is an increase of $13.6 million from FY 2017), and $211.7 million are for capital expenditures (this is an increase of $87.3 million from FY 2017).

Revenues in the Water Fund are budgeted at $728.1 million, which represents an increase of $125.9 million over the FY 2017 Adopted Budget.

This section will outline the main causes for revenue and expenditure variations from FY 2017, and discuss other significant issues that should be considered during Council's review of the Proposed Budget. A table detailing significant changes to the Water Fund's Operating Budget can be found on the next page.

Revenue Review

Revenue for the Water Fund in the Proposed Budget is forecast to increase by $125.9 million in FY 2018.

This increase is largely driven by two factors: an increase in revenue from water sales, and issuance of commercial paper that will be recognized as revenue.

Revenue from water sales in the Proposed Budget is increasing by $33.8 million, and is driven by water consumption and increases in water rates that were approved

SUMMARY OF PUBLIC UTILITIES DEPARTMENT BUDGET			
Fund	**Operating Expenditures**	**CIP Expenditures**	**Revenues***
Water Fund	$ 517,845,212	$ 211,712,181	$ 728,070,035
Sewer Funds	352,157,160	105,787,104	391,779,388
General Fund	2,495,029	-	1,409,000
Total	**$ 872,497,401**	**$ 317,499,285**	**$ 1,121,258,423**

**Revenues include AB 1600 revenues of $16.1 million for the Sewer Funds and $12.0 million for the Water Fund.*

by the City Council in 2015.

The Proposed Budget also includes $117.0 million in revenue associated with the issuance of commercial paper to fund the Department's capital program.

These increases are partially offset by a net reduction in revenue from State Revolving Fund (SRF) loan proceeds of $20.4 million; SRF loan program expenditures in the Proposed Budget have been adjusted to align with the actual commitment item where the Comptroller posts revenues.

Expenditure Review

Operating expenditures for the Water Fund in the Proposed Budget total $517.8 million, an increase of $13.6 million over the FY 2017 Adopted Budget. This increase includes the following significant adjustments:

- $5.5 million in increased water purchasing costs.
- 9.00 new FTE positions and $1.2 million in expenditures to support the City's Pure Water potable reuse program. This program is discussed in greater detail later in this section.
- $3.7 million in increased expenditures for condition assessments of water pipelines, reservoir dams, and outlets.
- $1.2 million in increased expenditures for habitat restoration, largely at the El Monte Valley and the Hodges Reservoir.
- A decrease of $1.5 million in ground-

SUMMARY OF PUBLIC UTILITIES WATER FUND OPERATING BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	781.83	$ 76,626,789	$ 427,583,603	$ 504,210,392	$ 590,144,391
Programmatic Changes					
Additional Pure Water Support	9.00	909,731	274,413	1,184,144	-
New Deputy Director for Construction & Maintenance	1.00	110,207	-	110,207	-
Transfer of Human Resources Positions	(1.47)	(184,334)	-	(184,334)	-
Pipeline, Dam, and Outlet Condition Assessments	-	-	3,685,000	3,685,000	-
Habitat Restoration	-	-	1,192,300	1,192,300	1,191,000
Otay Water Plant Filter Replacement	-	-	750,000	750,000	-
Completion of Groundwater Monitoring Projects	-	-	(1,530,000)	(1,530,000)	-
Revenue Adjustments					
Increased Revenue from Water Sales	-	-	-	-	33,751,000
Commercial Paper Issuance	-	-	-	-	117,000,000
SRF Loan Proceeds, Payments, and Reassignment	-	-	(2,422,460)	(2,422,460)	(20,378,700)
Grants	-	-	-	-	3,650,000
Other Revenue Adjustments	-	-	-	-	(1,655,300)
Other Changes					
Incrased Water Purchasing Costs	-	-	5,548,960	5,548,960	-
Salary and Benefit Adjustments	0.01	3,954,947	-	3,954,947	-
Reiumbursement to Sewer Fund for Reclaimed Water	-	-	3,445,305	3,445,305	-
Vehicle, Laboratory, and Security Equipment	-	-	(366,403)	(366,403)	-
IAM Project Support	-	-	220,000	220,000	567,644
Personnel Adjustments (Overtime, Hourly, COLA, etc)	(0.78)	1,594	-	1,594	-
Sweetwater Settlement Adjustment	-	-	(3,500,000)	(3,500,000)	-
One Time Adjustments and Annualizations	-	-	1,148,241	1,148,241	(8,200,000)
Non Discretionary and Information Technology	-	-	(1,244,355)	(1,244,355)	-
Other Adjustments	1.44	9,710	1,631,964	1,641,674	-
FY 2018 Proposed Budget	**791.03**	**$ 81,428,644**	**$ 436,416,568**	**$ 517,845,212**	**$ 716,070,035**
Difference from 2017 to 2018	*9.20*	*$ 4,801,855*	*$ 8,832,965*	*$ 13,634,820*	*$ 125,925,644*

PUBLIC UTILITIES WATER FUND KEY PERFORMANCE MEASURES					
Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage reduction of per capita water consumption	N/A	N/A	5%	5%	5%
Miles of water mains awarded for replacement	35.0	52.4	35.0	35.0	35.0
Number of water main breaks	83.0	77.0	77.0	77.0	77.0

water monitoring expenses associated with completing various regulatory requirements.

Issues to Consider

Pure Water Implementation

The Proposed Budget for FY 2018 includes a total of $85.4 million in expenditures for the Pure Water project. The Water Fund's portion of this amount totals $53.0 million ($7.0 million in operating expenses, and $46.0 million in CIP expenses). This amount is augmented by an additional $32.5 million from the sewer funds.

The Pure Water project is one of the City's most important projects, with the goal of producing 83 million gallons of potable water per day by 2035 while also eliminating the need to make upgrades at the Point Loma wastewater treatment that could cost in excess of $2 billion (this is discussed in greater detail in the following section on the Sewer Funds).

The first phase of this project, which calls for 30 million gallons per day to be generated by 2021, is currently underway. **Council may wish to request regular updates on the status of Phase 1 implementation.**

Reviews of Funds and Cost of Service Study Funding

In 2015, the City Council approved a five-year series of water rate increases that extend through FY 2020. During that rate case, the Public Utilities Department committed to completing two reviews of funds—one in FY 2018 and one in FY 2020—to ensure that rate increases approved then were appropriate, and to make any adjustments to those rates that are necessary.

Additionally, Public Utilities is currently in the process of completing an RFP for a Cost of Service Study consultant to examine what rate changes may be necessary in years past FY 2020. A proposal from the Environment Committee to authorize the IBA to hire a consultant to review future rates cases is also anticipated to be heard by Council in May of this year.

Council may wish to request additional details on these processes, when reviews of funds will be presented to Council, and when the Department envisions the next Cost of Service Study will come forward.

Sewer Funds

Impacts of Mayor's FY 2018 Budget Proposal

The Proposed Budget for expenditures in the combined Metropolitan and Municipal Sewer Utility Funds totals $457.9 million (a decrease of $27.6 million from FY 2017). Of this $457.9 million, $352.2 million are for operating expenses (a decrease of $2.1 million from FY 2017), and $105.8 are for CIP expenses (a decrease of $25.5 million from FY 2017). Significant changes in operational expenditures are discussed on the following page.

Revenues in the Sewer Funds are budgeted at $391.8 million, which represents a decrease of $3.0 million from FY 2017. This decrease is attributable to lower water use during winter months. As sewer service charges are based on the average water use during wet months, decreases in water use associated with additional water conservation and increased rainfall can impact expected sewer service revenue.

A table detailing significant changes to the Operating Budget of the Sewer Funds is displayed below

Expenditure Review

Operating expenditures in the Sewer Funds in the FY 2018 Proposed Budget total $352.2 million, which is a reduction of $2.1 million from FY 2017. Significant expenditure adjustments include:

- $2.8 million in increased expenditures for condition assessments. These expenditures include assessments of wastewater treatment facilities, and wastewater pipelines.
- $3.0 million in reduced expenditures for contracts associated with payments to agencies that participate in the Metropolitan Wastewater JPA.
- $2.8 million in reduced expenditures for environmental compliance projects. This is largely due to completion of the stadium wetland mitigation project which was initially anticipated to be completed in FY 2018, but is now expected to be completed in FY 2017.

Issues to Consider

Secondary Equivalency at Point Loma Wastewater Treatment

As mentioned in the review of the Water Fund's budget, one of the goals of the City's Pure Water project is to eliminate the need to upgrade the Point Loma Wastewater Treatment plant to provide full secondary treatment for the City's wastewater. The cost of such upgrades could exceed $2 billion.

SUMMARY OF PUBLIC UTILITIES SEWER FUNDS OPERATING BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	862.91	$ 87,758,672	$ 266,482,612	$ 354,241,284	$ 378,806,222
Programmatic Changes					
Condition Assessments	-	-	2,790,000	2,790,000	-
New Deputy Director for Construction & Maintenance	-	-	-	-	-
Transfer of Human Resources Positions	(1.53)	(191,880)	-	(191,880)	-
Wastewater Planning	-	-	870,000	870,000	-
Wastewater Pipelines and Pump Stations	-	-	1,000,000	1,000,000	-
Completion of Environmental Compliance Projects	-	-	(2,775,000)	(2,775,000)	-
Wastewater Disposal Contract Reductions	-	-	(3,000,000)	(3,000,000)	-
Sewer Main and Manhole Projects	-	-	540,000	540,000	-
Other Changes					
IAM Project Support	-	-	330,000	330,000	851,466
Salary and Benefit Adjustments	-	3,693,095	-	3,693,095	-
Non Discretionary and Information Technology	-	-	684,079	684,079	-
Laboratory and Security Equipment	-	-	1,689,724	1,689,724	-
One Time Adjustments and Annualizations	-	-	(6,371,166)	(6,371,166)	-
Personnel Adjustments (Overtime, Hourly, COLA, etc)	(0.03)	373,249	-	373,249	-
One Time Adjustments and Annualizations	-	-	-	-	-
Non Discretionary and Information Technology	-	-	-	-	-
Other Adjustments	(1.44)	(52,343)	(1,663,882)	(1,716,225)	(3,958,300)
FY 2018 Proposed Budget	**859.91**	**$ 91,580,793**	**$ 260,576,367**	**$ 352,157,160**	**$ 375,699,388**
Difference from 2017 to 2018	*(3.00)*	*$ 3,822,121*	*$ (5,906,245)*	*$ (2,084,124)*	*$ (3,106,834)*

PUBLIC UTILITIES SEWER FUNDS KEY PERFORMANCE MEASURES					
Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Miles of sewer mains replaced, repaired, or rehabilitated	45.0	45.8	45.0	45.0	45.0
Number of acute sewer main defects identified	50.0	58.0	50.0	56.0	50.0
Number of sanitary sewer overflows (SSOs)	40.0	35.0	40.0	36.0	40.0

Because the Pure Water project will divert wastewater flow away from Point Loma's outfalls, the amount of pollutants discharged into the ocean is expected to be the equivalent of upgrading the Point Loma plant to full secondary treatment. The City ultimately seeks to have federal modification of its permit for the Point Loma plant to allow for its continued operations that treat wastewater to an advanced primary level.

The City developed a broad coalition of environmental, regulatory, and non-profit groups to support this approach, and moving forward with Pure Water is necessary to ensure continued support of the secondary-equivalency concept.

Details on phase one of the Pure Water program were presented to and approved the Regional Water Quality Control Board on April 12th, and the Coastal Commission is expected to consider these details in May.

Given the desire to move forward with the Pure Water project and to avoid the large potential costs associated with Point Loma plant upgrades, Council should request an update on progress towards modification of the permit for the Point Loma plant.

General Fund

The City offers recreational use of its reservoirs, collecting various fees from recreation patrons. Revenues and expenses associated with the recreational use of reservoirs are General Fund transactions.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget includes expenditures for managing these activities in the amount of $2.5 million. This is a decrease of $82,000 or 3.2% from FY 2017 levels.

Revenues are projected to total $1.4 million, which is $200,000 below FY 2017 levels. The decrease in revenues is due to lower-than-expected recreational use of the San Vicente reservoir. That reservoir was reopened to recreational use in September 2016 after being closed in 2008 to allow for raising of the dam.

Budget Reductions

The $82,000 decrease in expenditures is associated with reducing trash pickup and restroom cleaning during peak season (March through September) from twice per day to once per day. Department staff plans to establish a volunteer program at reservoirs to assist in some of these functions to minimize any impacts to recreational users.

Public Works

The Public Works Department is comprised of the following three branches.

- **Contracting**—Procures construction and consulting services specifically for Capital Improvement Program (CIP) projects and provides other related services. This branch also provides support to other departments that is unrelated to Engineering & Capital Projects (E&CP).
- **E&CP**—Provides engineering services for implementing the City's CIP and quality control and inspection of private work permitted in the public right-of-way. Expenses in the E&CP branch are billed against CIP projects.
- **General Services**—Provides maintenance and repair for the City's facilities and publishing services for City departments.

The Proposed Budget for each branch is detailed in the individual sections that follow this overview.

SUMMARY OF PUBLIC WORKS DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
Contracting Branch					
FY 2017 Adopted Budget	21.00	$ 2,120,896	$ 181,825	$ 2,302,721	$ 1,181,777
FY 2018 Proposed Budget	21.00	2,268,670	71,330	2,340,000	1,181,777
Difference from 2017 to 2018	-	147,774	(110,495)	37,279	-
Engineering & Capital Projects Branch					
FY 2017 Adopted Budget	644.70	$ 69,262,802	$ 13,980,255	$ 83,243,057	$ 83,243,057
FY 2018 Proposed Budget	715.80	79,629,715	15,684,524	95,314,239	95,314,239
Difference from 2017 to 2018	71.10	10,366,913	1,704,269	12,071,182	12,071,182
General Services Branch					
FY 2017 Adopted Budget	184.00	$ 15,114,459	$ 12,955,205	$ 28,069,664	$ 7,362,575
FY 2018 Proposed Budget	178.00	15,149,150	8,687,414	23,836,564	7,327,339
Difference from 2017 to 2018	(6.00)	34,691	(4,267,791)	(4,233,100)	(35,236)

Public Works - Contracting

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Average number of days to award contracts	90	82	90	80	90

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Contracting branch includes $2.3 million in General Fund expenditures, which is an increase of about $37,000, or 1.6% over the FY 2017 Adopted Budget. It maintains 21.00 FTE positions from FY 2017. Revenues are also expected to remain flat.

Significant Budget Additions and Expenditure Reductions

The increase in the Contracting branch's budget is attributed to fringe benefits in the amount of $158,000. The Proposed Budget includes a reduction in supplies and information technology consulting services of about $81,000 to achieve General Fund savings.

Issues for Council Consideration

Accommodating Growth in the CIP

The FY 2018 Proposed CIP Budget anticipates moving 156 projects, with a sum value of $542.6 million, forward to bid and award construction contracts during FY 2018.

The Proposed Budget reports that for FY 2017, 160 consultant and construction contracts were awarded, totaling $536 million. The sum value of the contracts awarded in FY 2017 is up by about $130 million, or 32%, over FY 2016.

With the expansion of the CIP and the constraints of the General Fund, it is especially important for the Contracting branch to continue to implement process improvements to efficiently administer procurement and management of CIP contracts. The Proposed Budget reports that the ability for Council to approve the list of planned construction contracts (under $30 million) through the budget process so that contracts can go to bid without additional approval, reduces the project execution time by three to 12 months. A process is also being developed to combine smaller construction projects into larger contracts to minimize costs.

The key performance indicator table above shows that the branch is on track to meet its target for the average number of days to award contracts. The target may need to be adjusted going forward to reflect this progress.

SUMMARY OF PUBLIC WORKS – CONTRACTING BRANCH BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	21.00	$ 2,120,896	$ 181,825	$ 2,302,721	$ 1,181,777
Programmatic Changes					
Reduction of Non-Personnel Expenditures	-	-	(20,095)	(20,095)	-
Other Changes					
Salary Adjustments	-	(9,777)	-	(9,777)	-
Fringe Adjustments (Includes Retirement ADC)	-	157,551	-	157,551	-
Non-Discretionary Adjustment/IT Support	-	-	(90,400)	(90,400)	-
FY 2018 Proposed Budget	**21.00**	**$ 2,268,670**	**$ 71,330**	**$ 2,340,000**	**$ 1,181,777**
Difference from 2017 to 2018	-	*$ 147,774*	*$ (110,495)*	*$ 37,279*	*$ -*

Public Works - Engineering & Capital Projects

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of Capital Improvement Projects delivered on baseline Project Charter schedule	70.0%	70.0%	80.0%	72.8%	80.0%

The E&CP branch is budgeted in a special revenue fund. E&CP staff charge CIP projects for services, and are reimbursed directly from capital fund sources as appropriate. All E&CP branch expenses from the special revenue fund are billed against CIP project accounts, and the fund therefore recognizes revenues equal to its expenses.

The branch is comprised of five divisions:

- Architectural Engineering & Parks
- Construction Management & Field Services
- Project & Operational Support
- Project Implementation
- Right-of-Way Design

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the E&CP branch includes $95.3 million in expenditures, which is an increase of $12.1 million, or 14.5% over the FY 2017 Adopted Budget. The Proposed Budget also increases the branch's positions by a net of 71.10 FTE positions over FY 2017, to a total of 715.80 FTE positions.

Significant Budget Additions

The proposed influx of positions continues the expansion of the branch that began in FY 2016. The branch received an additional 104.00 FTE positions in FY 2016 and another 49.50 FTE positions in FY 2017 to support the expansion of the CIP. The Proposed Budget includes 68.00 FTE positions to support CIP expansion. Additional details on the total proposed new positions are listed below.

SUMMARY OF PUBLIC WORKS - E&CP BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	644.70	$ 69,262,802	$ 13,980,255	$ 83,243,057	$ 83,243,057
Programmatic Changes					
Additional CIP Related Support	68.00	5,896,711	293,903	6,190,614	-
IAM Engineering Support	4.00	387,074	15,756	402,830	-
Non-Standard Hour Personnel Funding	(0.90)	(95,027)	-	(95,027)	-
IAM Reimbursable Revenue	-	-	-	-	471,271
Regional Water Quality Control Board Penalty	-	-	576,766	576,766	-
Other Changes					
Other Salary Adjustments	-	(206,034)	-	(206,034)	-
Other Fringe Increases (Includes Retirement ADC)		4,384,189	-	4,384,189	-
Other Adjustments	-	-	817,844	817,844	-
Revised Revenue	-	-	-	-	11,599,911
FY 2018 Proposed Budget	**715.80**	**$ 79,629,715**	**$ 15,684,524**	**$ 95,314,239**	**$ 95,314,239**
Difference from 2017 to 2018	*71.10*	*$ 10,366,913*	*$ 1,704,269*	*$ 12,071,182*	*$ 12,071,182*

Construction Management & Field Services

- 45.00 FTE positions for Construction Management & Field Services due to the overall increase in permits for construction and the projected growth of the CIP.

Specific duties include construction field inspections, overseeing the implementation of the Pure Water project, ensuring compliance with storm water regulations, construction management, materials testing, and traffic and electrical engineering services.

Project Implementation

- 17.00 FTE positions related to the expansion of the CIP.

Specifically, the positions are to improve project management, support the increase in the City's street paving, drainage, and storm water activities; and support the increase in environmental mitigation, permit requirements, and construction environmental management services.

- 4.00 FTE positions to support the Infrastructure Asset Management Project with engineering services.

Project & Operational Support

- 5.00 FTE positions to provide administrative support for the CIP, IT support, and organizational effectiveness.

Right-of-Way Design

- 1.00 FTE position to support the CIP with in-house design of accessible curb ramps

Issues for Council Consideration

Capacity to Expand the CIP

If the additional proposed positions are adopted, the E&CP branch will have received about 230 positions in three years, with almost all of them attributed to the expansion of the CIP. This increases the size of the E&CP branch by 48% over FY 2015 position levels. The FY 2018 Proposed CIP Budget reflects expansion at a similar rate (44%) over the FY 2015 Adopted CIP Budget.

The Public Works Department indicates that five positions from those provided in FY 2016 have yet to be filled but anticipate filling three of them soon. Of the positions provided in FY 2017, eight are not yet filled but anticipate filling six positions soon. For FY 2018 proposed positions, the Department anticipates some office space limitations but believes they will be able to resolve them.

It will be important to monitor the Public Works Department's key performance indicators that relate to the E&CP branch as it expands. Relevant indicators include: the percentage of capital improvement projects that are delivered on schedule; and the percentage of construction change orders that occur due to changed or unforeseen conditions and design errors. Prior year information is unavailable for the latter indicator since it is new for FY 2018. As displayed on the previous page for the on-time project delivery indicator, progress is estimated to be made in FY 2017 over FY 2016. The target for this indicator is for 80% of projects to be delivered on schedule.

Both indicators provide insight on project implementation and overall productivity. Though there will likely be lag time for these new positions to affect performance, **Council may wish to closely track progress on these indicators in light of recent significant investments.**

Public Works - General Services

FACILITIES KEY PERFORMANCE MEASURES					
Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage of preventative maintenance activities of overall facilities maintenance activities	17%	17%	30%	16%	20%

The General Services branch of the Public Works Department provides direct support to other City departments including facilities maintenance and repair, and publishing services. The General Services Branch is comprised of three divisions:

- Facilities
- General Services Administration
- Publishing

Facilities and Administration are General Fund divisions, and Publishing is funded by the Publishing Services Fund. An overview of funds in the General Services branch is included in the table below. For the purposes of this review, we will examine each division separately.

Facilities

Impacts of Mayor's FY 2018 Budget Proposal

The Facilities Division's main function is to provide maintenance, repair, modernization, and improvement services for facilities Citywide.

The FY 2018 Proposed Budget for the division includes $19.0 million in General Fund expenditures, which is a decrease of about $3.7 million, or 16.5% as compared to the FY 2017 Adopted Budget. Budgeted positions are also proposed to be reduced by 5.00 FTE positions, to bring the total positions for the division to 161.00 FTE positions.

Significant Budget Expenditure Reductions

The Proposed Budget includes reductions of: 5.00 vacant FTE positions (three custodians, one roofer, and one plasterer) with $278,000 in associated personnel expenditures, and $568,000 in non-personnel costs ($356,00 for as-needed building material supplies, and $212,000 in contracts) to achieve total General Fund savings of about $846,000. The Proposed Budget indicates that the reductions in building supplies and contracts align to historical spending levels.

SUMMARY OF PUBLIC WORKS - GENERAL SERVICES BUDGET CHANGES					
Description	FTE	PE	NPE	Total Expense	Revenue
General Fund (Facilities & General Services Administration)					
FY 2017 Adopted Budget	174.00	14,257,283	9,879,734	24,137,017	3,747,579
FY 2018 Proposed Budget	168.00	14,257,691	5,918,216	20,175,907	3,666,682
Difference from 2017 to 2018	(6.00)	408	(3,961,518)	(3,961,110)	(80,897)
Publishing Services Fund					
FY 2017 Adopted Budget	10.00	857,176	3,075,471	3,932,647	3,614,996
FY 2018 Proposed Budget	10.00	891,459	2,769,198	3,660,657	3,660,657
Difference from 2017 to 2018	-	34,283	(306,273)	(271,990)	45,661

Issues for Council Consideration

Funding Requests Not Budgeted

The Public Works Department made budget requests for significant one-time resources and 21.00 FTE positions for FY 2018 in an effort to improve the condition of the City's facilities to achieve the desired service level standard recently approved by Council. This standard is a facility condition index score of 15 or 20, depending on the type of building, which is an indication that the facility is in "good" condition. Scores are determined by conducting a facility condition assessment. These requests were not included in the FY 2018 Proposed Budget.

The Public Works Department also requested $42,000 in one-time costs for business process consultant services related to transitioning from legacy systems to the IAM Project. This unfunded request is expected to be absorbed in the Department's budget. We note that the Public Utilities Department and the Transportation & Storm Water Department received funding for this purpose in their proposed budgets. For more information on the IAM Project refer to the Infrastructure/Public Works section in Other Departments.

Service Level Impacts and Performance Measures

One of the Public Works Department's key performance indicators is to increase the percentage of preventative maintenance activities as a proportion of all facilities maintenance activities. As displayed in the table on the previous page, the goal for this indicator is to have 20% of overall facilities maintenance activities be preventative maintenance in FY 2018. For FY 2017, the Department is estimated to reach 16%, slightly less than the percentage achieved in FY 2016. The Department reduced the target from 30% in FY 2017 to 20% in FY 2018 due to hiring challenges of skilled trade professions, primarily heating, ventilation, and air condition technicians.

The proposed position reductions will eliminate vacancies in the Division that, if filled, would increase work capacity and could contribute to improving outcomes in the key performance indicator and the condition of the City's facilities.

On March 14, 2017, Council received an update on the facilities condition assessments conducted for General Fund buildings. The report estimated a reinvestment amount of $828.7 million is necessary to increase the condition of facilities that fall below the desired service level standard. This estimate does not include code upgrades, improvements, or expansions to the facilities.

Funding routine maintenance and repair to mitigate the maintenance and capital backlog is a challenge because it cannot be paid for with bonds and many available funding sources have restrictions that may limit the use on maintenance and repair. However, making these investments is critical to preserving the condition of the City's assets.

Though our Office agrees that increases in General Fund expenditures are not fiscally prudent at this time given the current budget climate, greater reliance on preventative maintenance and avoidance of equipment failures would lead to cost avoidance for future budgets. To the extent Senate Bill 1 is enacted and the City receives additional revenues for streets, they could be used in place of other funding sources planned for street repair, such as the Infrastructure Fund, thereby freeing up those dollars to be spent on other needs, including facility maintenance and repair. We note that the FY 2018 Proposed Budget includes $15.3 million from the Infrastructure Fund for slurry seal maintenance. Council may wish to consider this option.

For more information about Senate Bill 1 refer to the Significant Citywide Issues section under External Government Policy Changes. For more information on condition assessments recently completed on the City's assets, refer to the Significant Citywide Issues section under Infrastructure & Financing Issues.

Vacancy and Staffing Issues

The Facilities Division received 21.00 FTE positions and $2.5 million in the FY 2017 Adopted Budget to improve the condition of the City's facilities. This investment resulted from a zero-based budgeting exercise completed in September 2016.

Of the FTE positions added in the FY 2017 Adopted Budget, 9.00 FTE positions remain vacant. With the proposed reduction in positions, remaining vacancies will be reduced to four. As noted above, the Division has experienced challenges in hiring skilled trade professionals, largely due to outside employer competition. The Public Works Department anticipates continuing its efforts to create incentives to attract desired staff through apprenticeship programs and providing additional pay for certain certificates.

It is especially important to fill existing vacancies that are already budgeted since it is a way to make progress on: (1) the Department's key performance indicator to increase preventative maintenance, and (2) achieving the desired service level standard for the City's facilities while not impacting the General Fund. Our Office will continue monitoring the Division's staffing issues.

General Services Administration

Impacts of Mayor's FY 2018 Budget Proposal

The Administration Division provides administrative and technical support to the Public Works Director and the General Services Division. The FY 2018 Proposed Budget for this division includes $1.2 million in expenditures, which is a decrease of $216,000, or 15.5%. The Proposed Budget transfers 1.00 FTE position to the Human Resources Department for a total reduction of 6.00 FTE positions in the General Services branch.

Publishing Services

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget totals approximately $3.6 million for the Publishing Services Fund, a decrease of approximately $272,000 from the FY 2017 Adopted Budget. The primary driver of the reduction in expenditures is related to a decrease of approximately $220,000 in non-discretionary allocations for IT support. There is no change in the number of personnel from FY 2017.

As Publishing Services is a Special Revenue Fund, budgeted revenue will mirror budgeted expenses. Budgeted revenue totals approximately $3.6 million for citywide publishing services, an increase of approximately $272,000 over the FY 2017 Adopted Budget.

Purchasing & Contracting

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percent of total transactions on contract under $150,000	31%	31%	50%	40%	40%
Percentage increase in customer satisfaction	N/A	N/A	5%	1%	5%
Percentage of purchase orders processed within 10 days	79%	79%	90%	85%	90%

The Purchasing & Contracting Department (P&C) includes programs and services supported by the General Fund and the Central Stores Fund. P&C staff procure goods and services on behalf of most City departments, oversee Central Stores warehouses, and also administer the City's Equal Opportunity Contracting (EOC) and Living Wage programs.

General Fund

Impacts of the Mayor's FY 2018 Budget Proposal

The FY 2018 proposed General Fund expenditure budget for P&C is approximately $6.7 million, a $107,000 or 1.6% increase over the FY 2017 Adopted Budget. The increase is due to the addition of 1.00 Program Coordinator position to support the Administrative Appeals Hearing Program as well as increases in the Department's fringe. These increases are offset by reductions offered by the Department to address the projected deficit, as well as overall reductions in P&C's IT non-discretionary costs.

Significant Budget Expenditure Reductions

P&C's FY 2018 budget includes reductions of approximately $230,000, or 3.5% of their FY 2017 budget, that were proposed in order to help mitigate the FY 2018 projected deficit. These reductions include 3.00 FTE positions—one filled, two vacant—and a reduction in miscellaneous non-personnel expenses that are reduced as a result of changes in department processes and the implementation of efficiencies. All reductions offered by P&C were accepted for FY 2018.

One of P&C's position reductions is 1.00 vacant Senior Management Analyst position in the Living Wage program, reducing the Living Wage program to 2.00 vacant FTE positions in FY 2018 (although the Department notes that they are in the process of filling those vacancies.) P&C has

SUMMARY OF PURCHASING & CONTRACTING DEPARTMENT BUDGET CHANGES (GENERAL FUND)					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	59.96	$ 5,504,054	$ 1,069,562	$ 6,573,616	$ 1,458,716
Programmatic Changes					
Reduction of 1.00 FTE in Living Wage Program	(1.00)	(85,848)	-	(85,848)	-
Support for Administrative Appeals Hearing Program	1.00	132,174	4,344	136,518	-
Other Changes					
Reduction of Purchasing & Contracting Positions	(2.00)	(128,585)	-	(128,585)	-
Reduction of Non-Personnel Expenditures	-	-	(16,040)	(16,040)	-
Other Non-Personnel Expenditure Adjustments	-	-	(82,025)	(82,025)	-
Other Salaries & Wages Adjustments	-	283,353	-	283,353	-
FY 2018 Proposed Budget	**57.96**	**$ 5,705,148**	**$ 975,841**	**$ 6,680,989**	**$ 1,458,716**
Difference from 2017 to 2018	*(2.00)*	*$ 201,094*	*$ (93,721)*	*$ 107,373*	*$ -*

recently reviewed their operations and internally restructured in an effort to realize operational efficiencies, with the result that remaining Living Wage program staff are now part of the EOC reporting structure. Savings from this reduction will be used to support the Minimum Wage and Earned Sick Leave Ordinance program in the City Treasurer's Office.

Significant Budget Additions

P&C's FY 2018 budget increased over their FY 2017 budget in part because of the addition of the City's Administrative Appeals Hearing Program to the Department. The City's appeals program currently settles parking citations disputes and is supported by a third-party vendor contract managed by the City Treasurer's Office. In FY 2018 this program will be budgeted in P&C and expanded to include dispute resolution for other City services (for example building permits) and will be supported by 1.00 Program Coordinator position.

Audit Update

In FY 2015 and FY 2016 the City Auditor released two reports: *Performance Audit of Citywide Contract Oversight* and *Performance Audit of Selected Contracts*. These audits included a number of recommendations that, when implemented, would more clearly define how contracts are monitored in the City, as well as strengthen the City's contract oversight tools.

In response to the recommendations included in these audits, P&C put in place a number of changes including the creation of a Procurement Contracting Officer job class to staff the Department's new Contract Compliance Unit, and the implementation of catalogue procurement software (Ariba) that will track spending for applicable goods contracts. P&C will have addressed many of the audit recommendations by the end of FY 2017, and in FY 2018 will continue with the phased implementation of Ariba (projected to be fully implemented in July 2018) and the training of citywide staff on new contract monitoring procedures. All audit recommendations for P&C will be considered implemented when work on Ariba is completed early in FY 2019.

Issues for Council Consideration

Service Level Impacts and Performance Measures

Of the six measures included in Volume 2 of the Proposed Budget, three measures include estimates for FY 2017 that fall below the targets for that year, as displayed in the performance measure table on the preceding page. The Department expects that the metrics associated with the percent of transactions on contract and the tracking of the time to process purchase orders will improve when Ariba is fully implemented in early FY 2019. P&C has also indicated that there are no expected service level impacts as a result of their FY 2018 budget reductions.

Vacancy and Staffing Issues

P&C currently has 13.00 FTE positions that are vacant, two of which are proposed for reduction in FY 2018. The Department is in the process of hiring for a number of their remaining vacancies and expects to have them filled before the end of FY 2017. If, however, those vacancies are filled with internal candidates, hiring will need to continue through FY 2018 to fill the new vacancies.

P&C may be asked to administer a new City program in FY 2018. On April 5, 2017, Councilmember Ward presented a report on a proposed Equal Pay Ordinance to the Rules Committee. The Committee approved the Councilmember's motion to bring the ordinance to the City Council for review. **Our Office recommends that when the Equal Pay Ordinance comes to Council for consideration, that P&C provide an update on Department vacancies and resources available to support an Equal Pay program, should it be approved.**

Central Stores

Impacts of the Mayor's FY 2018 Budget Proposal

The FY 2018 proposed Central Stores expenditure budget is approximately $10.1 million, a $3.2 million or 24.3% decrease from the FY 2017 Adopted Budget. The decrease is primarily due to the transfer of water meter inventory and procurement to the Public Utilities Department, as originally reported in the FY 2017 Mid-Year Budget Monitoring Report, and the reduction of 1.00 Stock Clerk position.

SUMMARY OF CENTRAL STORES BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	23.00	$ 1,628,241	$ 11,735,182	$ 13,363,423	$ 13,363,176
Programmatic Changes					
Transfer of Water Meter Inventory and Procurement to PUD	(1.00)	(52,559)	(3,325,440)	(3,377,999)	(3,377,599)
Other Changes					
Other Salaries & Wages Adjustments	-	136,559	-	136,559	-
Other Non-Personnel Expenditure Adjustments	-	-	(2,278)	(2,278)	-
Revenue Adjustments	-	-	-	-	(42,331)
FY 2017 Proposed Budget	**22.00**	**$ 1,712,241**	**$ 8,407,464**	**$ 10,119,705**	**$ 9,943,246**
Difference from 2017 to 2018	*(1.00)*	*$ 84,000*	*$ (3,327,718)*	*$ (3,243,718)*	*$ (3,419,930)*

QUALCOMM Stadium

The Qualcomm Stadium Operations Fund is a special revenue fund that supports the day-to-day operations of Qualcomm Stadium (Stadium). Management of the Stadium is provided by the Real Estate Assets Department. As in prior years, the FY 2018 Proposed Budget does not include any performance measures for the Stadium.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 proposed expenditure budget for Qualcomm Stadium is approximately $18.9 million, a $1.5 million or 7.6% decrease from the FY 2017 Adopted Budget. This overall budget reduction is due to position and non-personnel reductions submitted by the Department as part of the City's projected deficit mitigation strategy, a reduction in overtime and non-personnel expenditures due to the Chargers' move to Los Angeles, and the transfer of 1.00 Program Manager position to the Office of the Chief Operating Officer to budgetarily reflect the hiring of the Senior Advisor on Housing Solutions position in FY 2017. These reductions were partially offset by a one-time increase in use of fund balance for the November 2017 special election and increases in other Salaries & Wages and miscellaneous non-personnel expenditures.

The Stadium's FY 2018 budgeted expenditures are in excess of budgeted revenues by $7.2 million, a deficit that will be mitigated through the use of fund balance.

Significant Budget Expenditure Reductions

The Qualcomm Stadium Department proposed to reduce their budget in FY 2018 by $392,000, a 1.9% reduction from their FY 2017 budget, in order to address the City's projected deficit. The reduction included 1.00 vacant Building Service Technician as

SUMMARY OF QUALCOMM STADIUM BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	38.00	$ 3,601,818	$ 16,808,919	$ 20,410,737	$ 19,823,595
Programmatic Changes					
Reduction of 1.00 Building Service Technician and Associated Revenue	(1.00)	(40,013)	-	(40,013)	(40,013)
One-time Reduction of Miscellaneous Non-Personnel Expenses and Associated Revenue	-	-	(351,839)	(351,839)	(351,939)
Reduction due to Chargers Lease Termination	-	(74,054)	(5,010,709)	(5,084,763)	(2,979,149)
Reduction in Transfer from the TOT Fund due to the Receipt of the Chargers Lease Termination Fee (Available Fund Balance)	-	-	-	-	(4,773,356)
One-time Use of Chargers Lease Termination Fee (Available Fund Balance) for November 2017 Special Election	-	-	3,500,000	3,500,000	-
Other Changes					
Other Salaries & Wages Adjustments	-	343,991	-	343,991	-
Other Non-Personnel Expenditure Adjustments	-	-	300,911	300,911	-
Transfer of 1.00 Program Manager Position to the Office of the Chief Operating Officer	(1.00)	(217,209)	-	(217,209)	-
FY 2018 Proposed Budget	**36.00**	**$ 3,614,533**	**$ 15,247,282**	**$ 18,861,815**	**$ 11,679,138**
Difference from 2017 to 2018	***(2.00)***	***$ 12,715***	***$ (1,561,637)***	***$ (1,548,922)***	***$ (8,144,457)***

well as a one-time reduction of $352,000 in miscellaneous non-personnel expenditures. Stadium staff note that there are no expected service impacts associated with these reductions, and that the non-personnel expenses were included as a one-time reduction as this budget is expected to be needed again in FY 2019 to properly maintain the aging stadium.

As a result of the Chargers' move to Los Angeles in FY 2017, the Stadium's FY 2018 proposed budget includes a $5.1 million reduction in ongoing overtime and non-personnel expenditures. At this time Stadium staff are not anticipating acquiring another tenant or an offsetting number of special events to replace the Chargers and therefore do not anticipate requiring this budget in FY 2019.

Staff also notes that FY 2018 is the last year of the contract with the San Diego State University Aztecs. Execution of a contract extension with the Aztecs is on hold, however, pending the potential addition of a November 2017 special election ballot measure for a new stadium on the Qualcomm Stadium site, and the subsequent result of that election.

Significant Budget Additions

A one-time expenditure addition of $3.5 million has been added to the Stadium's proposed budget for FY 2018, in order to utilize available Qualcomm Stadium Operations fund balance to support a special election scheduled for November 2017.

Significant Revenue Changes

When the Chargers announced their decision to move to Los Angeles in FY 2017, they were required to pay a lease termination fee of $12.6 million. The lease termination fee has been received by the City in the Qualcomm Stadium Operations Fund, and the Mayor's FY 2018 Proposed Budget proposes the following allocations for that fee:

- $4.8 million for the FY 2018 Qualcomm Stadium debt service payment;
- $3.5 million for a special election in FY 2018; and
- $4.3 million toward the FY 2019 Qualcomm Stadium debt service payment.

A majority of City Councilmembers proposed using the Chargers lease payment in FY 2018 in their January budget priority memoranda. Our Office notes that the Mayor's proposal for the Chargers lease termination payment includes keeping $4.3 million in Qualcomm Stadium Operations fund balance for use in FY 2019. **Council could consider using those funds to support a one-time expenditure in FY 2018 instead, although use of the Chargers lease termination payment may mean an increase in the transfer of TOT funds to the Stadium in future fiscal years to cover debt service payments.** An increase in the transfer of TOT funds to the Stadium would mean a reduction in TOT funds available to support eligible General Fund services. Our Office notes that Qualcomm bond debt service payments are required through FY 2027.

Real Estate Assets

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Number of properties reviewed for potential disposition per year	55	57	50	50	50
Percentage of lease agreements on a month-to-month holdover status	26%	27%	20%	25%	20%

The Real Estate Assets Department (READ) manages the City's real estate portfolio, including the administration of over 500 of the City's existing leases, permits, operating agreements, and subleases. READ also provides direction for operations of Qualcomm Stadium, the City Concourse, and the City's Airports division, as well as the Joint Use Management Agreement for PETCO Park.

READ's General Fund and Concourse Operations budget are addressed in this section; the budget for Qualcomm Stadium is addressed in a separate section of our report, and the budgets for PETCO Park and the Airports Division are discussed in the Other Departments section.

General Fund

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the General Fund portion of READ includes expenditures of $8.0 million, which is a decrease of approximately $37,000 from the FY 2017 Adopted Budget. READ's General Fund revenues in the Proposed Budget total $50.5 million, which is $1.8 million below revenues in the FY 2017 Adopted Budget.

Significant Budget Reductions

- A reduction of 2.00 FTE positions and $140,000 in expenditures associated with the removal of two currently vacant positions.

  1.00 of those FTE positions was added in the FY 2017 budget, and was for a

SUMMARY OF REAL ESTATE ASSETS DEPARTMENT GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	36.00	$ 3,887,561	$ 4,146,944	$ 8,034,505	$ 52,275,295
Programmatic Changes					
101 Ash Street Improvements and Relocation	-	-	2,100,000	2,100,000	-
De Anza Mobile Home Park Property Management	-	-	600,000	600,000	-
Reduction of San Diego Theater Support	-	-	(43,000)	(43,000)	-
Reduction of Word Processing Operator	(1.00)	(54,962)	-	(54,962)	-
Reduction of Property Agent	(1.00)	(85,047)	-	(85,047)	-
Other Changes					
Salary and Benefits and Hourly Sick Leave	-	218,935	-	218,935	-
Non-Discretionary and Information Technology		-	(28,064)	(28,064)	-
Expenditure and Revenue Projection Adjustments		-	(114,110)	(114,110)	1,157,595
One-Time Reductions and Annualizations	-	-	(2,631,193)	(2,631,193)	(2,952,000)
FY 2018 Proposed Budget	**34.00**	**$ 3,966,487**	**$ 4,030,577**	**$ 7,997,064**	**$ 50,480,890**
Difference from 2017 to 2018	*(2.00)*	*$ 78,926*	*$ (116,367)*	*$ (37,441)*	*$ (1,794,405)*

Property Agent to assist READ on its backlog of leases. That position was never filled, and READ reassigned existing staff to work on this effort.

The other position proposed to be removed is a Word Processing Operator. This position has been vacant since September 2016, and its duties have been covered by existing staff since then.

- A reduction of $43,000 in expenditures supporting contractual services for maintenance of the San Diego Theater. READ indicates that the FY 2018 Proposed Budget does include $722,000 in expenditures for contractual services, and that these will still be sufficient to support the San Diego Theater.
- A reduction in one-time revenues of $2.9 million, largely due to the removal of $3.0 million in one-time revenues from the extension of the lease for the Stonewood Gardens Apartments property.

Significant Budget Additions

- An increase in expenditures of $2.1 million to make improvements to and occupy the 101 Ash building. READ anticipates using these expenditures to cover furniture, IT, and moving costs. All departments currently located at the Executive Complex and the City Operations Building are anticipated to move to 101 Ash during FY 2018.
- An increase of $600,000 for management of the DeAnza Mobilehome Park. The City has been transitioning use of this site to park uses, and tenants of the park have moved out. READ is managing the City's contract with Newport Pacific Capital to manage the site during the transition.

Concourse & Parking Garage Operating Fund

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Concourse and Parking Garage Operating Fund includes $5.1 million in expenses, which is an increase of $1.8 million over the FY 2017 Adopted Budget.

This increase in expenditures is almost entirely due to an increase in transfers to the General Fund of $1.8 million. This will reduce the remaining balance of the Concourse Fund from its FY 2017 total of $987,000 to $86,000. READ believes this represents sufficient remaining fund balance.

FY 2018 Revenues in the Fund total $4.2 million, an increase of $517,000 over the FY 2017 Adopted Budget.

SUMMARY OF CONCOURSE AND PARKING GARAGE OPERATING FUND CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	2.00	$ 191,251	$ 3,131,856	$ 3,323,107	$ 3,639,233
Programmatic Changes					
Increased Transfer to General Fund	-	-	1,762,337	1,762,337	-
Other Changes					
Non-Discretionary/Information Technology	-	-	4,629	4,629	-
Salary and Benefit Adjustments	-	(14,357)	-	(14,357)	-
Revised Revenue Projections	-	-	-	-	516,685
FY 2018 Proposed Budget	**2.00**	**$ 176,894**	**$ 4,898,822**	**$ 5,075,716**	**$ 4,155,918**
Difference from 2017 to 2018	-	*$ (14,357)*	*$ 1,766,966*	*$ 1,752,609*	*$ 516,685*

Risk Management

The Risk Management (RM) Department manages the City's self-insured Workers' Compensation Program; coordinates public liability and loss control measures; and administers employee health and safety programs, employee savings plans, and the Long-Term Disability Plan.

The RM Administration Fund is an internal service fund from which risk management administration costs are paid. In order to operate, an internal service fund needs sufficient revenues to cover expenditures.

City departments contribute to the RM Administration Fund revenues, on a per employee basis, as part of Fringe Benefits.[1] General Fund Fringe Benefits contributions of $6.9 million comprise approximately 66% of the revenues to the Risk Management Administration Fund, with Non-General Fund departments contributing $3.6 million, or approximately 34%.

Impacts of Mayor's FY 2018 Budget Proposal

The table below presents a summary of budget changes from the FY 2017 Adopted Budget to FY 2018 Proposed Budget. Revenues and expenditures in RM's FY 2018 Proposed Budget total approximately $10.5 million and $11.0 million, respectively. Expenditures that exceed revenues are anticipated to be covered with RM fund balance.

The number of FTE positions in the FY 2018 Proposed Budget has decreased by 2.00, from 87.23 to 85.23. Highlights of budget changes are discussed in the next

SUMMARY OF RISK MANAGEMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expenditures**	**Revenue**
FY 2017 Adopted Budget	87.23	$ 8,254,631	$ 2,518,963	$ 10,773,594	$ 10,529,309
Programmatic Changes					
Information Systems Analyst 3	1.00	100,371	-	100,371	-
Safety Representative 2	(1.00)	(86,715)	-	(86,715)	-
Clerical Assistant 2	(1.00)	(84,636)	-	(84,636)	-
Benefits Representative 2	(1.00)	(91,834)	-	(91,834)	-
IT Projects - Including Initial Project Scope for Claims Management System RFP	-	-	(236,400)	(236,400)	-
Other Changes					
Position Upgrades and Other Salary & Wages Adjustments	-	229,494	-	229,494	-
Other Fringe Increases (Includes Retirement ADC)	-	372,741	-	372,741	-
Other Adjustments	-	-	31,561	31,561	-
FY 2018 Proposed Budget	**85.23**	**$ 8,694,052**	**$ 2,314,124**	**$ 11,008,176**	**$ 10,529,309**
Difference from 2017 to 2018	***(2.00)***	***$ 439,421***	***$ (204,839)***	***$ 234,582***	***$ -***

[1] Fringe benefits are non-wage costs related to personnel, such as Workers' Compensation, Long-Term Disability, the Actuarially Determined Contribution (ADC) pension payment, Flexible Benefits, and Medicare.

sections.

Personnel Expenditures (PE)

Net FTE changes to the RM Department include:

- Addition of 1.00 Information Systems Analyst 3 for support of the claims management system for workers' compensation, public liability, loss recovery, and long-term disability

  The claims management system needs upgrading to effectively manage the City's various claims activities and to ensure the system supports State mandated reporting requirements.

- Reduction of 1.00 Safety Representative 2 (one of the two positions currently devoted to the City's ergonomic evaluation program)
- Reduction of 1.00 Clerical Assistant 2 in the Safety and Environmental Health Division
- Reduction of 1.00 Benefits Representative 2 in the Employee Benefits Division

The RM Proposed Budget also includes a realignment of certain positions to devote more funding to the highest priority activities—which include Workers' Compensation and Public Liability functions, as well as City employees' Flexible Benefits and Savings Plans.

As part of the position realignment, 12.00 FTE positions have been converted to higher professional levels to help attract and retain better qualified personnel with more developed skill sets. Additionally, 1.00 hourly Claims Representative 2 has become a permanent full-time position.

The upgrading of these positions, as well as the net FTE changes mentioned earlier, results in a net $170,000 in increased salary costs for the Department.

Non-Personnel Expenditures (NPE)

Significant NPE budget changes between FY 2017 and FY 2018 include the removal of $236,000 for information technology projects. This funding was primarily for initial project scope work for a Request for Proposal (RFP) to replace the City's claims management system.

RM has decided to not move forward with an RFP at this time. Instead, RM has extended the contract with the current vendor and will perform an assessment of the system to determine its viability.

Additionally, $250,000 for temporary Workers' Compensation staffing has been re-categorized in FY 2018—from a one-time to ongoing expenditure type. There are currently a number of vacant positions for which a certified list of eligible employees is not available. The temporary positions will assist in handling the workers' compensation workload, including activities related to State reporting requirements.

Other Risk Management Funds

Risk Management Administration oversees the Public Liability, Workers' Compensation, and Long-Term Disability Funds. Information on these three funds is included in this report, under "Significant Citywide Issues."

Special Events and Filming

Performance Measure	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Average number of visits to the Special Events Calendar website	66,000	66,000	80,000	70,000	90,000
Number of special events and filming dates permitted	1,900	1,900	2,000	2,000	2,000

Impact of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Special Events and Filming Department totals approximately $1.2 million, a decrease of approximately $210,000 from the FY 2017 Adopted Budget. The number of positions within the department did not change from the FY 2017 Adopted Budget and remains at 6.00 FTE positions.

Budget Expenditure Reduction

Film funding and Regional Film Marketing – The FY 2018 Proposed Budget includes the reduction of approximately $50,000 for professional services. The Department has indicated that the FY 2018 Proposed Budget will provide adequate funding to continue a marketing program targeting location managers to gain exposure and awareness for the San Diego region as a competitive and film-friendly destination.

Office of the Assistant COO

Please refer to the "Office of the Assistant ACOO" section of this report for details on FY 2018 budget changes. The Director of this Department reports to the ACOO and associated staffing and expense data for the Department are included in the budget of the Office of the ACOO.

Issues for Consideration

As part of the FY 2016 Budget, the City Council approved funding for a Filming Program Manager to support the development of the film office. Though other agencies and organizations had expressed interest in providing funding for a regional Film Office, the only other funding provided has been a one-time Neighborhood Reinvestment Program grant from former County Supervisor Dave Roberts.

SUMMARY OF SPECIAL EVENTS AND FILMING – BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	6.00	$ 820,806	$ 605,176	$ 1,425,982	$ 75,000
Programmatic Changes					
Film Funding for Regional Film Marketing	-	-	(49,909)	(49,909)	-
One-Time Reductions and Annualizations	-	-	(125,000)	(125,000)	-
Other Changes					
Salary & Benefit Adjustments	-	(84,751)	-	(84,751)	-
Non-Discretionary Adjustments	-	-	12,687	12,687	-
Other Adjustments	-	-	37,296	37,296	-
FY 2018 Proposed Budget	**6.00**	**736,055**	**480,250**	**1,216,305**	**75,000**
Difference from 2017 to 2018	-	*$ (84,751)*	*$ (124,926)*	*$ (209,677)*	*$ -*

Special Promotional Programs

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 proposed budget allocations for Special Promotional Programs is approximately $112.0 million, a $724,000 or 0.7% increase over FY 2017. This increase is due to the projected continued growth of transient occupancy tax (TOT) revenue offset with a $5.8 million decrease in the use of fund balance.

The expenditure and revenue budgets displayed in the table below incorporates the projected use of approximately $1.9 million in fund balance in FY 2018 as well as allocations that support the FY 2018 proposed operating budgets for the Commission for Arts and Culture ($1.4 million included in the Arts, Culture, and Community Festivals line item) and the Special Events and Filming Department ($1.2 million).

Funding for Special Promotional Programs comes from available fund balance and

SUMMARY OF SPECIAL PROMOTIONAL PROGRAMS BUDGET CHANGES			
	FY 2017 ADOPTED	FY 2018 PROPOSED	CHANGE
Revenue			
Transient Occupancy Tax (TOT)	$ 103,022,585	$ 110,010,229	$ 6,987,644
Special Events Department	75,000	75,000	-
Use of TOT Fund Balance	7,778,159	1,943,220	(5,834,939)
Total Revenue	**$ 110,875,744**	**$ 112,028,449**	**$ 1,152,705**
Allocations			
Arts, Culture, and Community Festivals	$ 15,139,850	$ 10,395,967	$ (4,743,883)
Capital Improvements	29,322,870	29,326,332	3,462
Convention Center Complex	12,560,450	12,556,450	(4,000)
Mission Bay Park/Balboa Park Improvements	1,665,941	1,670,166	4,225
PETCO Park	9,287,704	9,288,975	1,271
QUALCOMM Stadium	4,748,125	4,755,491	7,366
Trolley Extension Reserve	1,060,650	1,055,250	(5,400)
Economic Development Programs	1,710,000	1,710,000	-
Major Events Revolving Fund	150,000	-	(150,000)
Safety and Maintenance of Visitor-related Facilities	64,981,573	70,596,150	5,614,577
Discretionary TOT to General Fund	20,204,517	21,602,046	1,397,529
Mission Bay Park/Balboa Park Improvements	359,059	359,059	-
Convention Center	4,283,543	3,883,543	(400,000)
PETCO Park	3,185,710	4,045,773	860,063
QUALCOMM Stadium	8,131,512	2,958,838	(5,172,674)
Special Events Department	1,425,982	1,216,305	(209,677)
Trolley Extension Reserve	3,000	3,000	-
TOT Administration and Promotional Activities	27,388,250	36,527,586	9,139,336
Total Allocations	**$ 111,304,293**	**$ 112,028,449**	**$ 724,156**

from 5 of the 10.5 cents of TOT revenue received by the City. Per the San Diego Municipal Code, 5.5 cents of the City's 10.5 cent TOT levy are deposited into the General Fund to support general government services, while the remaining 5 cents is deposited into the TOT Fund. Of this 5 cents, the Municipal Code requires that 4 cents be used solely for the purpose of promoting the City, while the remaining 1 cent can be used for any purpose as directed by the City Council.

Discretionary TOT to the General Fund

The majority of the revenue from the 1 cent of TOT is transferred to the General Fund. In FY 2018 this transfer is approximately $21.6 million, a $1.4 million or 6.9% increase over the FY 2017 Adopted Budget. The increase in this transfer is a result of the projected increase in TOT revenue for FY 2018.

Program and Department Budgets

A number of promotional programs, agencies, and City departments are supported wholly or in part by the TOT Fund. The following sections discuss FY 2018 arts and culture funding (Penny for the Arts), the Commission for Arts & Culture Department budget, and funding allocated to the Mission Bay Park/Balboa Park Improvements Fund and for TOT administration and promotional activities. Details on the changes in TOT funding for PETCO Park, QUALCOMM Stadium, and the City's Special Events Department can be found in Volume 2 of the FY 2018 Proposed Budget and in the "QUALCOMM Stadium," "Special Events and Filming," and "Other Departments" sections of this report. A discussion of Convention Center revenues, including the FY 2018 TOT allocation to the Convention Center, will be included in the Office of the IBA's forthcoming report "Review of City Agencies FY 2018 Budgets: Convention Center," expected to be released on May 5, 2017.

Arts and Culture Funding

The FY 2018 proposed Arts, Culture, and Community Festivals funding is approximately $10.4 million, a decrease of $4.7 million or 31.3% from the FY 2017 funding level of $15.1 million, despite an increase in the City's projected TOT revenue. This reduction to arts and culture funding was proposed by the Mayor as a significant resource for mitigating the projected FY 2018 deficit.

This reduction in the Proposed Budget is a departure from the funding allocated to arts and culture funding for FY 2018 in the Mayor's FY 2018-2022 Five-Year Financial Outlook ($15.1 million), as well as a divergence from the priority of a majority of Councilmembers who requested in their budget priority memoranda that arts and culture funding be increased from, or remain consistent with, the FY 2017 amount of $15.1 million. Our Office notes that the FY 2017 arts and culture funding level was increased as a result of the Council's final budget decisions, by $1.2 million over the Mayor's Proposed Budget.

The City Council defined their plan for arts

PENNY FOR THE ARTS - BLUEPRINT GOAL: 9.52% OF TOT			
	FY 2017 ADOPTED	FY 2018 PROPOSED	CHANGE
Transient Occupancy Tax Projection (10.5 cents)	216,347,429	231,021,481	14,674,052
Percent of TOT Funding in Budget	7.00%	4.50%	-2.50%
Penny for the Arts Blueprint Goal ($, based on goal of 9.52%)	20,596,275	21,993,245	1,396,970
Penny for the Arts Budgeted Funding ($, based on percent of TOT funding)	15,139,850	10,395,967	(4,743,883)
Variance in Budgeted Funding from the Blueprint Goal ($)	**$ (5,456,425)**	**$ (11,597,278)**	**$ (6,140,853)**

Performance Measures	Target FY 2016	Actual FY 2016	Target FY 2017	Estimated FY 2017	Target FY 2018
Percentage increase in number of non-profits submitting applications for the TOT funding distributed through the Commission for Arts & Culture	24%	24%	6%	-2%	6%
Percentage of artworks in the Civic Art Collection on exhibit	80%	N/A	80%	80%	70%

and culture funding when they adopted the Penny for the Arts Five-Year Blueprint (Blueprint) on October 22, 2012, with the goal of restoring Arts, Culture, and Community Festivals allocations within the annual Special Promotional Programs budget to FY 2002 funding levels or 9.52% of total City TOT revenues. The Blueprint funding in the FY 2018 Proposed Budget is reduced to 4.5% of projected TOT revenues, a percentage that is smaller than the FY 2013 arts and culture funding level of 5% that was in place the year that Council adopted the Blueprint, although the dollar amount is greater as the amount of TOT revenue has increased.

Reduced Blueprint funding will mean that organizations approved for arts and culture funds will be drawing from a reduced pool of resources and will likely have a smaller allocation from the prior fiscal year. The Commission for Arts & Culture will approve FY 2018 funding allocations on April 28. A list of the nonprofit arts and culture organizations that are eligible to receive funding pending the Commission's recommendation is included at the end of this section.

Should Council be interested in allocating additional arts and culture funding, our Office notes that:

- Any **ongoing** increase to arts and culture funding above what was included in the Proposed Budget will need to be supported by an ongoing resource (either a new funding source or an offsetting ongoing reduction elsewhere); and
- Council may consider a one-time increase to arts and culture funding for FY 2018 with available one-resources.

Commission for Arts & Culture Department

The Commission for Arts & Culture was established to advise the Mayor and City Council on a wide range of arts-related initiatives, programs, and policies. City staff advised by the Commission administer arts and culture funding programs and the Public Arts program.

The FY 2018 proposed expenditure budget for the Department is approximately $1.5 million, a $187,000 or 10.8% reduction from FY 2017. This reduction is primarily due to the removal of $442,000 in one-

SUMMARY OF COMMISSION FOR ARTS & CULTURE DEPARTMENT BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	8.00	$ 868,528	$ 865,327	$ 1,733,855	$ 596,872
Programmatic Changes					
Reduction of Commission-Initiated Public Art Expenditures and Assoicated Revenues	-	-	(442,229)	(442,229)	(442,229)
Other Changes					
Other Salaries & Wages Adjustments	-	60,155	-	60,155	-
Increase in Rent, Including One-Time Office Relocation Costs	-	-	187,562	187,562	-
Other Non-Personnel Expenditure Adjustments	-	-	7,932	7,932	-
FY 2018 Proposed Budget	**8.00**	**$ 928,683**	**$ 618,592**	**$ 1,547,275**	**$ 154,643**
Difference from 2017 to 2018	**-**	***$ 60,155***	***$ (246,735)***	***$ (186,580)***	***$ (442,229)***

time funding for Commission-initiated public art expenditures that was added to the budget in FY 2017, partially offset by increases in rent and relocation costs, and other salaries and wages and non-personnel expenditure adjustments.

The Commission for Arts & Culture Department currently has two key performance indicators (KPIs) included in the FY 2018 Proposed Budget, as displayed in the table above. As noted in the first KPI, the Commission is estimating a slight decrease in FY 2017 of the number non-profits applying for funding, although the Department notes that the number of new applicants has increased. The Commission is continuing to review its outreach work and has streamlined the application process in order to encourage applications. Additionally, in FY 2018 the Department has reduced the percentage of artworks on exhibit. A portion of the artworks have to be off-exhibit each year in order to preserve and protect them, and as the number of artworks in the Civic Art Collection has increased, the proportion needing to be off-exhibit changes. Staff has calculated a new target of off-exhibit artworks for FY 2018 of 30%.

Mission Bay Park/Balboa Park Improvements Fund (Improvements Fund)

The Improvements Fund budget includes debt service payments, maintenance of the Balboa Park tram, and other miscellaneous costs. In the FY 2018 Proposed Budget the Improvements Fund totals approximately \$2.0 million, an increase of \$4,000 over FY 2017 due to changes in non-discretionary expenditures charged to the fund.

TOT Administration and Promotional Activities

A portion of the 4 cents of TOT is allocated to the General Fund to support promotional activities such as the maintenance of parks and facilities in areas frequently visited by tourists, in compliance with the Municipal Code requirement for promotional funding. The FY 2018 allocation for TOT Administration and Promotional Activities is approximately \$36.5 million, a \$9.1 million or 33.4% increase over FY 2017 due to the projected increase in the City’s TOT revenue, as well as the use of savings resulting from the reduction in arts and culture spending and a reduction of the transfer of TOT funds to Qualcomm Stadium. The reduction in the transfer of funds to Qualcomm Stadium is due to the one-time use of the Charger’s lease termination fee for the stadium’s FY 2018 debt service payment, and the reduction of stadium operating expenditures as a result of the Chargers’ move to Los Angeles.

List of Nonprofit Arts and Culture Organizations
Eligible for Commission for Arts and Culture Funding

FY 2018 Organization Support Program Applicant	
Art of Elan	Putnam Foundation dba Timken Museum of Art
ArtReach	Resounding Joy
Arts for Learning San Diego	Reuben H Fleet Science Center
Bach Collegium San Diego	SACRA/PROFANA
Balboa Park Cultural Partnership	San Diego Air & Space Museum
Balboa Park Online Collaborative	San Diego Art Institute
California Ballet Association	San Diego Automotive Museum
Camarada	San Diego Ballet
Center for World Music	San Diego Center for Jewish Culture
Choral Club of San Diego	San Diego Children's Choir
Choral Consortium of San Diego	San Diego Chinese Historical Society and Museum
City Ballet	San Diego Civic Youth Ballet
Classics for Kids	San Diego Dance Theater
Culture Shock Dance Troupe	San Diego Guild of Puppetry
Cygnet Theatre Company	San Diego Hall of Champions
Diversionary Theater Productions	San Diego Historical Society
Fern Street Community Arts	San Diego Junior Theatre
Finest City Performing Art	San Diego Model Railroad Museum
Flying Leatherneck Historical Foundation	San Diego Museum Council
Gaslamp Quarter Historical Foundation	San Diego Museum of Art
Intrepid Shakespeare Company	San Diego Museum of Man
Japanese Friendship Garden Society of San Diego	San Diego Musical Theatre
La Jolla Historical Society	San Diego Opera Association
La Jolla Music Society	San Diego Pro Arte Voices
La Jolla Symphony and Chorus Association	San Diego Repertory Theatre
Lambda Archives of San Diego	San Diego Society of Natural History
Library Association of La Jolla	San Diego Symphony Orchestra Association
Mainly Mozart	San Diego Watercolor Society
Malashock Dance & Company	San Diego Women's Chorus
Maritime Museum Association of San Diego	San Diego Writers, Ink
Media Arts Center San Diego	San Diego Young Artists Music Academy
Mingei International	San Diego Youth Symphony and Conservatory
Mojalet Dance Collective	Save Our Heritage Organisation
Moxie Theatre	Scripps Ranch Theatre
Museum of Contemporary Art San Diego	So Say We All
Museum of Photographic Arts	The AjA Project
NTC Foundation	The New Children's Museum
Old Globe Theatre	The PGK Project
Opera NEO	Theater and Arts Foundation of San Diego County
Outside the Lens	Veterans Memorial Center
Pacific Arts Movement	Villa Musica
Persian Cultural Center	Westwind Brass
Playwrights Project	Women's History Reclamation Project
Prophet World Beat Productions	Youth Philharmonic Orchestra

FY 2018 Creative Communities San Diego Program Applicant
A Ship in the Woods Foundation
America's Finest City Dixieland Jazz Society
Armed Services YMCA of the USA - San Diego Branch
Balboa Park Conservancy
BAME Community Development Corporation
Bodhi Tree Concerts
Brazilian Institute for Arts & Culture
Cabrillo Festival Inc.
California Lawyers for the Arts
CoTA
Diamond Business Association Inc.
Hillcrest Business Improvement Association
Indian Fine Arts Academy of San Diego
Italian American Art and Cultural Association of San Diego
Jacobs & Cushman San Diego Food Bank
Karama
Karen Organization of San Diego
Kyoto Symposium Organization
La Maestra Family Clinic Inc.
Linda Vista Multi-Cultural Fair Inc.
Little Italy Association
Little Saigon San Diego Foundation
Mariachi Juvenil de San Diego
Mariachi Scholarship Foundation
Media Heritage Inc.
Musicians For Education Inc.
Ocean Beach Merchants Association Inc.
Pacific Beach Business Improvement Association
PASACAT Inc.
Point Loma Summer Concerts
Rancho de los Penasquitos Town Council
San Diego City College Foundation
San Diego Earth Day
San Diego Film Foundation
San Diego Lesbian Gay Bisexual Transgender Pride
San Diego Performing Arts League
San Diego Shakespeare Society
San Diego State University Research Foundation for KPBS
Sorrento Valley Town Council
TEDxSanDiego
The Bon Temps Social Club of San Diego
Torrey Pines Kiwanis Foundation
transcenDANCE Youth Arts Project
Via International
Write Out Loud

Transportation & Storm Water

Transportation & Storm Water (TSW) is responsible for the operation and maintenance of streets, sidewalks, and storm drains, and plans and coordinates the City's rights-of-way. The Department also performs traffic and transportation engineering, and leads efforts to protect and improve water quality in the City's waterways and the ocean. To accomplish these goals, TSW has four divisions:

- Street
- Storm Water
- Right of Way (ROW) Management
- Transportation Engineering Operations (TEO)

In addition to the General Fund, the Department receives both operating and Capital Improvement Program (CIP) funds from various sources, including transfers from the Prop 42 Replacement-Transportation Relief Fund, the Underground Surcharge Fund, the Gasoline Tax, TransNet, the Storm Drain Fund, and the newly implemented Infrastructure Fund.

Mayor's FY 2018 Proposed Adjustments

The FY 2018 Proposed Budget for TSW includes both General Fund and Underground Surcharge Fund expenditures and revenues. A summary of General Fund changes by division is included below, and

SUMMARY OF TRANSPORTATION & STORM WATER DEPARTMENT GENERAL FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	625.79	$ 53,490,115	$ 77,939,898	$ 131,430,013	$ 56,439,871
Programmatic Changes - Street					
Reduced Asphalt for Parking Lot Repairs	-	-	(255,000)	(255,000)	-
Reduced Weed Abatement for Paper Streets	-	-	(400,000)	(400,000)	-
Reduced Tree Trimming	-	-	(881,746)	(881,746)	-
Transfer of Urban Forestry Program Manager	1.00	134,468	-	134,468	-
Increase in Cost-Recovery for ROW Damages	-	-	-	-	100,000
Other Revised Revenues	-	-	-	-	59,400
Programmatic Changes - Storm Water					
Final PUD Low Flow Diversion Transfer Costs	-	-	2,021,184	2,021,184	-
RWQCB Penalty and Projects	-	-	640,207	640,207	595,840
Reduction in Master Maintenance Program	-	-	(340,000)	(340,000)	-
Reduction in Funding for Storm Water Permit Fees	-	-	(1,063,783)	(1,063,783)	-
Reduction in Storm Water Permit Compliance Efforts	-	-	(884,522)	(884,522)	-
Revenue as Lead Agency in Permit Compliance Efforts	-	-	-	-	681,536
Programmatic Changes - TEO					
Reduction in Traffic-Data Collection Services	-	-	(150,000)	(150,000)	-
Programmatic Changes - Admin/ROW					
Trench Cut/Excavation Fee Transfer	-	-	500,000	500,000	-
Reduction in Gap Funding for Grant-Funded Projects	-	-	(175,000)	(175,000)	-
Reimbursement for Utilities Undergrounding Work	-	-	-	-	51,822
Other Changes					
Salary and Benefit Adjustments	-	3,442,439	-	3,442,439	-
Non-Standard Hourly and Sick Leave Adjustments	(2.08)	(9,449)	-	(9,449)	-
IAM Project Support	-	-	138,083	138,083	1,148,128
Non Discretionary and Information Technoloy	-	-	517,662	517,662	-
One-Time Reductions and Annualizations	-	127,100	(13,817,811)	(13,690,711)	(1,969,238)
FY 2018 Proposed Budget	**624.71**	**$ 57,184,673**	**$ 63,789,172**	**$ 120,973,845**	**$ 57,107,359**
Difference from 2017 to 2018	***(1.08)***	***$ 3,694,558***	***$ (14,150,726)***	***$ (10,456,168)***	***$ 667,488***

a summary of changes to the Underground Surcharge Fund is shown on this page. The total expenditures in the Proposed Budget for both funds combined totals $180.5 million, which is a decrease of $9.8 million from the FY 2017 Adopted Budget. Combined revenues in the Proposed Budget total $117.7 million, a decrease of $7.5 million from FY 2017.

A review of the FY 2018 Proposed Budget and significant programmatic changes in each TSW division follows.

Street

The Street Division maintains and repairs all streets, alleys, sidewalks, bridges, guardrails, and fences. This includes administering annual resurfacing and slurry seal contracts, performing traffic lane striping, and painting and removing traffic markings and legends. Street Division also maintains and repairs street lights, traffic signals, signs, and street trees.

In addition to the General Fund, the Street division receives funds from other sources, including:

- Prop 42 Replacement-Transportation Relief Fund
- TransNet
- Gasoline Tax
- Infrastructure Fund

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for Street Division totals $53.0 million, a decrease of $4.0 million from FY 2017. The Proposed Budget includes 334.44 FTE positions in the Division, which is an increase of 1.00 FTE position over FY 2017.

Significant Budget Reductions

- $882,000 reduction in funding for the City's contract to trim street trees. This reduction applies to broad-leaf and conifer trees, and will reduce the frequency those trees are trimmed from once every 7 years to once every 15 years. The number of trees expected to be trimmed in FY 2018 will fall from roughly 25,000 to 12,000 as a result of this reduction in funding. TSW indicates that it will still trim and maintain trees that could have immediate public safety impacts regardless of whether the particular tree posing a safety hazard is scheduled for periodic trimming.

- $400,000 reduction in funding for weed abatement on paper streets. Paper streets are streets that exist only on a map, and the land on which these streets would sit is typically owned by abutting property owners. Responsibility for maintaining these areas legally falls on those property owners.

SUMMARY OF UNDERGROUND SURCHARGE FUND BUDGET CHANGES					
Description	**FTE**	**PE**	**NPE**	**Total Expense**	**Revenue**
FY 2017 Adopted Budget	11.00	$ 1,281,755	$ 57,628,380	$ 58,910,135	$ 68,781,508
Programmatic Changes					
Additional Undergrounding Staff	6.00	561,900	-	561,900	-
Other Changes					
Salary and Benefit Adjustments	-	83,585	-	83,585	-
Non-Discretionary and Information Technology	-	3,000	(29,649)	(26,649)	-
Revised Revenue from SDG&E	-	-	-	-	(8,217,180)
FY 2018 Proposed Budget	**17.00**	**$ 1,930,240**	**$ 57,598,731**	**$ 59,528,971**	**$ 60,564,328**
Difference from 2017 to 2018	*6.00*	*$ 648,485*	*$ (29,649)*	*$ 618,836*	*$ (8,217,180)*

STREET DIVISION KEY PERFORMANCE MEASURES					
Performance Measure	**Target FY 2016**	**Actual FY 2016**	**Target FY 2017**	**Estimated FY 2017**	**Target FY 2018**
Miles of Streets repaired	308	321	308	308	349
Number of Trees Trimmed	44,000	42,142	44,000	42,000	31,000
Average number of days to mitigate a reported sidewalk hazard	5	20	5	20	15
Square Feet of sidewalks replaced/repaired	N/A	114,868	170,000	170,000	170,000

Significant Budget Additions

- 1.00 FTE position and $134,000 in expenses associated with the transfer of a Program Manager position from the Planning Department to work on the City's Urban Forestry Program.

Issues for Council Consideration

Sidewalk Repairs

The Proposed Budget does include 33.00 FTE positions and $8.3 million in operational costs for sidewalk repairs. $6.0 million is additionally available in the CIP for sidewalk repairs. However, the Proposed Budget does not increase sidewalk repair expenditures over FY 2017. The sidewalk condition assessment completed last year found $40.0 million in needed sidewalk repairs, and unfunded TSW requests in the FY 2018 Proposed Budget included 2.00 new FTE positions and $5.9 million in capital and operational expenditures to increase work on the City's sidewalk repair backlog.

Council may wish to inquire as to what liability the City currently maintains with its backlog of damaged sidewalks, and what plans exist to go about reducing that backlog.

Trees

The Proposed Budget cuts the budget for tree trimming by $882,000, and does not include any additional funding for tree planting above what was included in the FY 2017 Adopted Budget. While $100,000 in expenditures for replacement of damaged or fallen trees does exist in the Proposed Budget, funding for planting of new trees does not. The City's Climate Action Plan has a goal of planting 2,000 trees per year, and the lack of additional funding for tree planting may delay implementation of this goal.

TSW did request $400,000 in additional funding to plant trees in accordance with the Climate Action Plan, but that funding was not included in the Proposed Budget. Since the release of the Proposed Budget, the City's Assistant Chief Operating Officer has indicated that $100,000 in new expenditures for tree planting will be included in the May Revise.

Street Repair and Maintenance

The Proposed Budget assumes 349 miles of street repairs, in the following amounts:

- 250 miles of slurry seal maintenance work, funded by the Gas Tax Fund and Infrastructure Fund (slurry seal repairs costs roughly $100,000 per mile)
- 91 miles of asphalt overlay, funded by the Gas Tax, TransNet, the Trench Cut Fund, and continuing bond appropriations (asphalt overlay costs approximately $400,000 per mile)
- 5 miles of concrete streets, funded by the Gas Tax (concrete streets cost roughly $1 million per mile)
- 3 miles of street reconstruction, funded by continuing bond appropriations (street reconstruction costs roughly

STORM WATER DIVISION KEY PERFORMANCE MEASURES					
Performance Measure	**Target FY 2016**	**Actual FY 2016**	**Target FY 2017**	**Estimated FY 2017**	**Target FY 2018**
Number of Failed Storm Drain Pipes	0	42	0	12	0
Percentage of water samples meeting the FY 2014 target for bacteria content set by the RWQCB	61%	66%	64%	66%	69%
Percentage of planned channel clearing completed on schedule	100%	1300%	100%	80%	100%

$1.5 million per mile)

This amount of street repair is consistent with the Mayor's pledge to maintain City streets at a overall condition index of 70 or higher.

Storm Water

The Storm Water Division leads the City's efforts to protect and improve water quality in the City's waterways and water bodies. The Division's efforts are focused on ensuring compliance with the Municipal Storm Water Permit and other surface water quality regulations issued by governing bodies, as well as engaging in flood risk management activities.

In May 2013, the new Municipal Storm Water Permit (permit) was adopted by the San Diego Regional Water Quality Control Board (Regional Board). This permit mandates more stringent regulations which require a significant increase in expenditure over the next several decades to comply with permit requirements.

In FY 2014, TSW prepared a Watershed Asset Management Plan (WAMP) that incorporates both the costs of permit compliance and the costs of flood risk management activities. The WAMP is used as a planning tool to project how much funding is necessary for permit compliance, including costs associated with Total Maximum Daily Loads (TMDLs), Areas of Special Biological Significance (ASBS), upcoming compliance deadlines, the deferred capital backlog, and the Storm Water Division's operational activities. This WAMP is updated periodically.

The most recent update to the WAMP projects compliance costs through FY 2040 as totaling $3.1 billion. TSW staff proactively works with environmental stakeholders and the Regional Board to refine regulations and decrease compliance costs. TSW staff has been effective in achieving future compliance cost reductions—the $3.1 billion cost estimate identified above has been reduced from $3.9 billion when the WAMP was initially prepared, as a result of changes to the Chollas Creek metals TMDL that TSW staff worked with the Regional Board to implement. Additional changes to other TMDLs may further decrease costs, but even with such reductions, compliance costs will remain high. The City lacks a dedicated source of funding that is sufficient to fully address compliance requirements.

Development of the Division's FY 2018 Proposed Budget was guided in part by the WAMP, which was reflected in the City's Five-Year CIP Outlook. The Outlook identified $139.0 million in funding needed for compliance in FY 2018. Actual funding in the Proposed Budget for the Storm Water division totals $53.0 million, of which $26.6 million is for flood risk management activities, and $26.4 million is for water quality efforts.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for the Storm Water Division totals $53.0 million and includes 200.25 FTE positions, a decrease of $7.7 million and 2.10 FTE positions from FY 2017.

Significant Budget Reductions

- $1.1 million in reduced expenditures for permit fees and mitigation costs associated with increased storm drain channel clearing. TSW indicates that increased channel clearing in the past two fiscal years has resulted in efficiencies in the permitting process that account for a portion of this decrease. Additionally, some habitat mitigation projects associated with recent channel clearings will not need to be implemented until FY 2019. TSW anticipates clearing six channels in FY 2018.

- $885,000 in reduced expenditures for storm water permit compliance efforts. These reductions include a $405,000 reduction in education and outreach expenditures (this is an 80% reduction from FY 2017), and a $440,000 reduction in TMDL studies and pollutant monitoring.

Significant Budget Additions

- $2.0 million in expenditures associated with making the final payment of charges to the Public Utilities Department for the Low Flow Diversion Program. The transfer of this program was completed in FY 2015, and this represents the final payment associated with that transfer.

- $640,000 in additional expenditures to implement the settlement terms of a recent case brought by the Regional Board regarding the City's storm water efforts. The total cost of this settlement agreement is $3.2 million, and roughly half of that amount will go towards storm water projects.

- $682,000 in increased revenue from other agencies who share storm water permit compliance requirements on which the City is taking the lead.

Issues for Council Consideration

Storm Water Permit Compliance

As noted earlier, the City is not currently making all the expenditures necessary to ensure compliance with its storm water permits, and absent a new source of revenue dedicated to storm water permit compliance, it is unlikely the City will have the means to make all expenditures necessary for permit compliance. Penalties for not complying with storm water permit requirements are up to $10,000 per day per violation.

Multiple TMDL deadlines are approaching over the next several years—the Chollas Creek Metals and Bacteria TMDLs have compliance deadlines that hit in FY 2019. Deadlines associated with the Los Penasquitos Sediment TMDL begin in FY 2020, and deadlines associated with the San Dieguito, Los Penasquitos, Mission Bay, San Diego River, and San Diego Bay bacteria TMDLs exist in FY 2021 as well. The City is currently on track to meet the TMDL requirements that hit in FY 2019, but is not currently trending towards compliance with targets that have deadlines in FY 2020 and beyond.

Transportation Engineering Operations

Transportation Engineering Operations (TEO) serves as the asset manager of the City's roadway infrastructure within the public right of way. These responsibilities include performing operational functions for the City's transportation systems and planning and programming CIP projects.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for TEO includes $9.7 million in expenditures and 69.25 FTE positions. This is an increase of $702,000 in expenditures and a decrease of 0.75 FTE positions from the FY 2017 Adopted Budget.

Budget Reductions

- $150,000 in reduced expenditures for traffic data collection. This reduction will limit the City's ability to perform before-and-after studies that measure the impact of traffic improvement projects. TSW indicates that funding to complete safety analyses will be maintained, and that the level of service in traffic data collection contracts will remain the same as it was in past fiscal years.

ROW Management

The ROW Division is responsible for right-of-way planning, control, and coordination between City departments, franchise utilities, developers, and other private entities that perform work in the public right-of-way. The Division also plans and manages the Utilities Undergrounding Program, which is funded through the Underground Surcharge Fund.

Impacts of Mayor's FY 2018 Budget Proposal

The FY 2018 Proposed Budget for ROW Management includes $5.3 million in General Fund expenditures and 20.77 FTE positions, which is an increase of $499,000 and 0.77 FTE positions over the FY 2017 Adopted Budget.

The Proposed Budget for the Underground Surcharge Fund includes $59.5 million in expenditures and 17.00 FTE positions, which is an increase of $619,000 and 5.00 FTE positions from FY 2017. Revenues for the Underground Surcharge Fund are $60.6 million, a decrease of $8.2 million from FY 2017.

Significant Budget Reductions

- $8.2 million in reduced revenue from SDG&E. As addressed in our review of General Fund Franchise Fee revenues, SDG&E fees paid to the City in in FY 2017 have declined substantially, and that decline impacts FY 2018 Utilities Undergrounding projections.

Significant Budget Additions

- 6.00 FTE positions and $562,000 in associated expenditures have been added in the FY 2018 Proposed Budget to increase the amount of work done by the Utilities Undergrounding Program. That program typically allocates 12 to 16 undergrounding projects per year, but that amount increased to 35 new undergrounding projects in FY 2016 and 27 in FY 2017. The Undergrounding Program is currently managing 111 projects throughout the City, and these additional staff will help to support the Division's undergrounding efforts.

Other Departments

Airports

Expenditures in the FY 2018 Proposed Budget for the Airports Division total approximately $5.7 million, an increase of approximately $644,000 or 12.7% over the FY 2017 Adopted Budget. Airports Fund revenue is budgeted at $5.4 million, an increase of $349,000 or 7% from FY 2017.

Significant adjustments include:

· $225,000 in increased expenditures to rehabilitate the exterior surface of the Brown Airport Terminal Building in accordance with historical building standards.

· $200,000 in increased expenditures to repair and re-stucco the Montgomery Field Airport Operations Terminal.

· $90,000 in increased expenditures to replace three Airport operations vehicles that have surpassed their in-service life cycle.

The remaining balance in the Airports Fund is projected to total $8.3 million.

Ethics Commission

The FY 2018 proposed expenditure budget for the Ethics Commission is approximately $1.2 million, an increase of $42,000 or 3.5% over the FY 2017 Adopted Budget. This change is almost entirely due to an increase in the Department's Salaries & Wages and fringe expenditures for their 5.00 FTE positions.

Infrastructure/ Public Works

The FY 2018 Proposed Budget includes expenditures for the Infrastructure/Public Works Branch of approximately $992,000, a decrease of $2,000 or 2% from the FY 2017 Adopted Budget. This decrease results from a $28,000 reduction in NPE that is significantly offset by a $26,000 increase in salary and benefit adjustments.

The Branch has 5.00 FTE positions which include 3.00 positions supporting the Infrastructure Asset Management (IAM) Project. Budgeted revenue for the Branch in FY 2018 is $73,000, a reduction of $65,000 or 47% from the FY 2017 Adopted Budget. This decrease is attributable to a reduction in labor reimbursement related to the City's IAM Project.

Infrastructure Asset Management (IAM)

The Infrastructure/Public Works Branch oversees the IAM Program which is a Citywide initiative to develop and implement a software solution aimed to improve the City's management of infrastructure assets. IAM will enable staff to use information on assets, such as current conditions, geographic locations, and expected maintenance needs to develop optimal maintenance plans and guide CIP decisions.

IAM is identified as a critical strategic expenditure in the FY 2018-2022 Five-Year Financial Outlook as well as a critical step toward replacing disparate and outdated maintenance management systems currently in use in the Phase 1 participating departments. Phase 1 of IAM is anticipated to go live in the second quarter of FY 2018. The total one-time project implementation cost is $54.2 million spent over three years, which includes $47.1 million in the CIP and $7.1 million in the operating budget. Ongoing maintenance costs for FY 2018 are $1.5 million in software maintenance costs and $479,000 in projected debt service.

New key performance indicators are established for IAM for FY 2018, therefore no prior year data exist. The new indicators will track the planned go-live date and whether IAM is over budget for delivery.

Internal Operations

The FY 2018 Proposed Budget for the Internal Operations Branch is approximately $461,000, an increase of $43,000 or 4.4% from the FY 2017 Adopted Budget. The increase is primarily attributable to a $47,000 increase in salary and benefit adjustments which is being partially offset by a $4,000 reduction in NPE. The Branch has 1.50 FTE positions.

Neighborhood Services

The FY 2018 Proposed Budget for the Neighborhood Services Branch is approximately $1.1 million, an increase of $44,000 or 10.2% from the FY 2017 Adopted Budget. The increase is primarily attributable to a $36,000 increase in salary and benefit adjustments and an $8,000 increase in NPE. The Branch has 6.50 FTE positions.

Community Review Board on Police Practices

The FY 2017 Adopted Budget included the addition of $25,000 in expenditures to the Neighborhood Services Branch to provide funding for independent outside counsel for the Citizens' Review Board on Police Practices, which has since been renamed the Community Review Board on Police Practices (CRB). This ongoing funding is continued in the FY 2018 Proposed Budget. To date, no funds have been expended on outside counsel by the CRB in the current fiscal year. An update on issues related to the CRB and outside counsel is expected to be considered by the appropriate City Council Committee in June 2017 as a follow-up to a 2015/2016 San Diego County Grand Jury Report on the CRB.

Office of the CFO

The FY 2018 Proposed Budget for the Office of the CFO is approximately $619,000, an increase of $32,000 or 5.4% from the FY 2017 Adopted Budget. The increase is primarily attributable to a $47,000 increase in salary and benefit adjustments and a net $15,000 decrease in NPE (including a $21,000 reduction in professional services offered as a proposed budget reduction). The Branch has 2.00 FTE positions.

Office of the COO

The FY 2018 Proposed Budget for the Office of the COO is approximately $1.5 million, an increase of $362,000 or 33.3% from the FY 2017 Adopted Budget. A significant portion of this increase is attributable to the transfer of 1.00 vacant Program Manager (associated personnel costs of $217,000) from the QUALCOMM Stadium Operating Fund to the Office of the COO. The transferred position is now filled by the Senior Advisor on Housing Solutions. Budgeted positions in the Office accordingly increase by 1.00 FTE from 5.35 to 6.35 FTE positions in FY 2018.

The balance of the FY 2018 budget increase is explained by a $164,000 increase in salary and benefit adjustments, a $3,000 reduction in funding for hourly staff, and a net $16,000 reduction in NPE.

Office of Homeland Security

The FY 2018 Proposed Budget for the Office of Homeland Security (OHS) is approximately $2.6 million, a decrease of $86,000 or 3.2% from the FY 2017 Adopted Budget. Budgeted revenue totaling $901,000 represents a decrease of $781,000. The FY 2018 Proposed Budget reduces OHS staff from 18.05 to 17.05 FTE positions by reducing 1.00 FTE Associate Management Analyst in the Response and Recovery Division. OHS has indicated that they did not propose this budget reduction as the position is 100% grant funded. OHS is currently coordinating recruitment for this position and will likely request that it be added as a supplemental position in FY 2018. Other reductions to the OHS budget include the reclassification of 3.00 Supervising Management Analysts to 2.00 Program Coordinators and 1.00 Senior Management Analyst, which will result in a net savings of $163,000 due largely to a shift in expenditures from the General Fund to grant funded sources.

Office of the IBA

The FY 2018 Proposed Budget for the Office of the IBA is approximately $2.2 million, an increase of $178,000 or 9% from the FY 2017 Adopted Budget. The increase is attributable to a $176,000 increase in salary and benefit adjustments and a net $2,000 increase in NPE. Staffing for the Office remains unchanged at 10.00 FTE positions.

PETCO Park

The FY 2018 Proposed Budget for the PETCO Park Fund includes $16.8 million in expenditures, an increase of $644,000 or 4% over the FY 2017 Adopted Budget. Revenues are projected to total $16.6 million, which is an increase of $1.2 million or 7.5% above FY 2017.

Significant adjustments include:

- $543,000 in increased expenditures and $500,000 in increased revenues associated with increased police officer and special event traffic control services. These services are provided by the City and the Padres provide reimbursement to the City.
- $661,000 in increased revenues, which consists largely of $861,000 in increased revenue related to TOT projections offset by $176,000 of reduced special events revenue in accordance with the amended Joint Use Management Agreement with the Padres.

Budget Review for City Agencies

Budget reviews for the Convention Center, San Diego Housing Commission, Civic San Diego/Successor Agency, and the City Retirement System will be released on May 5, 2017, in anticipation of their budget hearings on May 9, 2017.