



IBA Review of the FY 2017 Mid-Year Budget Monitoring Report

City Council, Item 153

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Independent Budget Analyst



IBA Review of the Mid-Year Report

Mid-Year Report year-end projections includes \$4.2 million budgetary deficit

- Mid-Year Report based on five months of actual expenditures instead of six, policy change forthcoming
- Increase in General Fund revenues outpaced by increase in expenditures
 - Receipt of \$13.6 million in one-time revenues for Mt. Hope Cemetery annexation
 - Increase in Fire-Rescue and Police, Salaries & Wages
- Request Council authority for non-General Fund transfers and appropriations

IBA Review of the Mid-Year Report *(cont'd)*

Purpose of IBA review is to provide clarification and additional information on items in the Mid-Year

- General Fund revenues (overview)
- General Fund expenditures (overview) plus analysis of significant departmental expenditures
- Vacancy discussion
- General Fund/Risk Management Reserves
- Additional considerations
- Mid-Year requests for authority/IBA recommendations



Overview of General Fund Revenues

Projected \$9.5 million increase in General Fund revenues due largely to receipt of one-time revenue

FY 2017 Projected Year-End General Fund Revenue (\$ in millions)

Revenue Source	Adopted Budget	First Quarter Projection	Mid-Year Projection	Variance: Adopted Budget to Mid-Year	Variance: First Quarter to Mid-Year
Major General Fund Revenues					
Property Tax	\$502.0	\$505.0	\$503.3	\$1.3	(\$1.8)
Sales Tax	272.8	268.7	271.5	(1.3)	2.8
Transient Occupancy Tax	113.3	113.4	112.5	(0.9)	(1.0)
Major Franchise Fees	81.0	80.6	72.3	(8.7)	(8.3)
Sub-Total Major General Fund Revenues:	969.1	967.8	959.5	(9.6)	(8.3)
Miscellaneous Revenues ¹	70.5	N/A	84.8	14.3	N/A
Property Transfer Tax ¹	9.6	N/A	9.8	0.2	N/A
Department Revenues ¹	280.8	N/A	285.4	4.6	N/A
Total:	\$1,330.0	\$967.8	\$1,339.4	\$9.5	(\$8.3)

Note: Table may not total due to rounding.

¹Year-end projections for property transfer tax, miscellaneous, and department revenues were not part of the First Quarter Report and are not available for comparison to the Mid-Year Report.

Overview of General Fund Revenues *(cont'd)*

- \$9.6 million reduction in major General Fund revenue
 - Adopted Budget and First Quarter describe major General Fund revenue as property tax, sales tax, TOT, franchise fees
 - Sales tax: \$1.3 million *decrease* from Adopted Budget, \$2.8 million *increase* from First Quarter
 - Franchise fees: \$8.7 million *decrease* from Adopted Budget, \$8.3 million *decrease* from First Quarter
- \$14.3 million increase in miscellaneous revenues includes one-time receipt of \$13.6 million for annexation of property near Mt. Hope Cemetery
- \$4.6 million increase in department revenues

Overview of General Fund Revenues *(cont'd)*

- **We believe the projections included in the Mid-Year are appropriate based on revenue distributions to date and current economic information**
- Note that First Quarter Report only included projections for major General Fund revenues, so no comparison available for department revenues, miscellaneous revenues, property transfer tax
- Property transfer tax – revenue amount is under \$10 million, but it reflects the number of properties sold and can be an indicator of changes in the real estate market

Overview of General Fund Expenditures

Projected \$13.6 million over-budget in General Fund expenditures

General Fund Mid-Year Expenditures

(\$ in millions)	Adopted Budget	Mid-Year Projection	Variance	Variance %
Personnel Expenditures (PE)				
Salaries & Wages	\$ 534.5	\$ 546.5	\$ (11.9)	-2.2%
Fringe Benefits	376.9	377.7	(0.8)	-0.2%
Sub-Total PE:	\$ 911.5	\$ 924.2	(12.8)	-1.4%
Non Personnel Expenditures (NPE)				
Contracts	\$ 240.2	\$ 244.8	\$ (4.6)	-1.9%
Energy & Utilities	46.9	44.6	2.3	5.0%
Information Technology	28.8	28.7	0.1	0.4%
Supplies	35.9	38.0	(2.2)	-6.0%
Other	74.7	71.3	3.5	4.6%
Sub-Total NPE:	\$ 426.5	\$ 427.4	(0.9)	-0.2%
Total:	\$ 1,338.0	\$ 1,351.6	\$ (13.6)	-1.0%

Note: Table may not total due to rounding.

Overview of General Fund Expenditures *(cont'd)*

- Over-budget expenditures in a number of categories:
 - Salaries & Wages: \$11.9 million and includes significant overages in overtime costs and in Fire-Rescue salaries
 - Fringe Benefits: \$814,000
 - Contracts: \$4.6 million
 - Supplies: \$2.2 million
- Over-budget expenditures are partially offset with under-budget expenditures in the Energy & Utilities (\$2.3 million), Information Technology (\$118,000), and Other (\$3.5 million) categories

General Fund Fire-Rescue Expenditures:

Fire-Rescue projection, over-budget PE

- \$14.6 million over-budget personnel expenditures (PE)
 - \$8.3 million in Salaries & Wages: salaries (\$2.6 million), overtime (\$3.5 million), special pay (\$1.0 million), pay-in-lieu (\$758,000)
 - \$6.3 million in fringe benefits
 - Largest General Fund expenditure variance in the Mid-Year
- Our Office raises concerns about Fire-Rescue PE and staffing. A thorough analysis of staffing levels is needed and we offer recommendations for the FY 2018 budget process

General Fund Fire-Rescue Expenditures *(cont'd)*

- First Quarter did not fully analyze PE
 - First Quarter included Fire-Rescue overtime projections, but no other Salaries & Wages or Fringe projections
 - Had a full analysis of other PE been included, projected increases could have been reviewed earlier and steps to control further overages could have been considered
- New FRS established, but not part of FY 2017 Budget
 - San Pasqual Valley FRS service: 12-hour basis July 2016-January 2017, currently staffed 24 hours
 - San Pasqual FRS not identified in Adopted Budget or in First Quarter Report

General Fund Fire-Rescue Expenditures *(cont'd)*

- Adopted Budget did not include full fiscal impact of MOU
 - Most recent Local 145 MOU requires mandatory payments to members to reduce annual leave balances
 - Pay-in-lieu of annual leave is higher than anticipated in the budget
 - Adopted Budget did not anticipate increased overtime due to the new MOU provision
 - Department constant-staffing model means absences are often covered with overtime

General Fund Fire-Rescue Expenditures *(cont'd)*

- Expanded fire academies authorized without full funding
 - Academies increased from 36 to 48 participants for FY 2017
 - Adopted Budget included funding to conduct academies, but did not increase salaries to support the new graduates
- Significant changes to staffing policy require further analysis and should be vetted by Council
 - Fire-Rescue intends to reach full fire suppression staffing by the end of the fiscal year, may be overstaffed soon after
 - Moving to full staffing should result in increased salary costs offset by decreased overtime
 - However, the Department projects both salaries and overtime will be over-budget at year-end

General Fund Fire-Rescue Expenditures *(cont'd)*

- Because the true impact of full staffing is not yet known, it may not be prudent to pursue over-staffing and expanded academies in FY 2018

We recommend that Fire-Rescue work with FM to analyze fiscal impacts of any staffing model changes prior to the release of the FY 2018 Proposed Budget

General Fund Police Expenditures

Police projection, over-budget overtime

- High vacancies have contributed to \$2.6 million in salary savings and a \$5.0 million increase in overtime expenditures

Police Overtime - Historical Budget vs. Actual (\$ in millions)

Fiscal Year	Adopted Budget	Actuals	Variance: Adopted Budget to Actual
FY 2017	\$21.0	\$26.0*	\$5.0
FY 2016	18.0	25.0	7.0
FY 2015	11.1	23.1	12.0
FY 2014	11.8	17.8	6.0
FY 2013	17.1	19.7	2.6
FY 2012	17.1	19.3	2.2

*Projected

- Overtime expenditures have increased since FY 2014 and exceeded budget since FY 2012

General Fund Departmental Expenditures

Additional information on significant expenditure variances or items of interest

- Library Department – excess Contracts expenditures of \$360,000 for security services at library facilities
- Public Works-General Services – under-budget personnel costs of \$875,000 due to ongoing vacancies
- READ – net under-budget expenditures of \$1.2 million:
 - \$600,000 in increased expenses for management of DeAnza mobile home park
 - \$1.5 million decrease due to delay in reconfiguration of CCP

Salaries & Wages

Salaries & Wages are over-budget by \$11.9 million because overtime, special pay, termination pay, and pay-in-lieu of annual leave are higher than net vacancy savings

- Vacancy savings \$4.4 million in excess of budget (net)
 - \$8.1 million over-budget vacancy savings, off-set by
 - \$3.6 million over-budget salaries
- Overtime projected \$11.1 million in excess of budget
- Other associated Salaries & Wages expenditures \$5.2 million in excess of budget

Salaries & Wages *(cont'd)*

A vacancy report helps evaluate how City services are being fulfilled, how quickly personnel is hired

- Mid-Year includes hiring status of new positions added in Adopted Budget – 68% or 213.83 of the 314.40 new positions have been filled
- Council provided with a *vacancy report* in FY 2016
- Personnel distributed *vacancy data* late last week

We recommend City Council clarify the vacancy information it would like to receive, in order to understand how City services are being fulfilled

Updates on Reserves

Items of interest or changes in balances for the City's reserves

- Updated Excess Equity estimate: \$23.6 million
 - Mid-Year Report estimates \$11.0 million
 - Updated estimate of \$23.6 million includes the receipt of \$12.6 million from the Chargers
- Risk Management Reserves
 - Public Liability – over-target by \$5.9 million, Mid-Year requests authority to transfer excess to Public Liability Operating Fund

Updates on Reserves *(cont'd)*

- Risk Management Reserves

- Workers' Compensation – City will need to fully fund to target (\$1.7 million General Fund) unless changes to the Reserve Policy lowering the target are approved
- Long-Term Disability – target of \$11.0 million projected to be exceeded by \$6.4 million (\$4.3 million General Fund).
Potential uses of excess reserve could be proposed death and disability benefit and/or to mitigate future deficits

Additional Considerations

Review of recent budget monitoring streamlining efforts

- Changes in FY 2016 budget monitoring efforts:
 - No review of departmental revenue and expenditure projections (by category) included in the First Quarter Report
 - Creation of the Year-End Financial Performance Report - compares 12 months of actual revenues and expenditures to year-end projections in the Third Quarter Report

Additional Considerations *(cont'd)*

- Changes in FY 2017 budget monitoring efforts:
 - First Quarter Report heard at Committee but not presented to Council
 - Mid-Year Report based on five months of actual activity instead of six months as required by the Municipal Code and the City's Budget Policy – FM will return to Council with updates to the Municipal Code and Budget Policy to make the change permanent

Our Office recommends that significant variances in expenditures and revenues be reinstated in the First Quarter Report and presented to full City Council

Mid-Year Requests for Authority and IBA Recommendations

We reviewed the Mid-Year requests for approval and in addition offer recommendations for Council consideration

- The Mid-Year requests Council approval for a number of Non-General Fund allocations and transfers, we believe that all are appropriate
- Our Office raised a number of concerns about the timeliness of budget monitoring information, over-budget Fire-Rescue PE, and the availability of citywide vacancy information

Mid-Year Requests for Authority and IBA Recommendations *(cont'd)*

IBA recommendations for Council consideration:

- That the Council clarify what vacancy information they would like to receive
- That Fire-Rescue work with FM to analyze the fiscal impacts of any staffing model changes prior to the release of the FY 2018 Proposed Budget
- That significant variances in expenditures and revenues be reinstated in the First Quarter Report, and presented to full Council for review