



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** June 8, 2016

**IBA Report Number:** 16-11

**City Council Docket Date:** June 13, 2016

**Item Number:** 202

---

# Review of the FY 2017 May Revision and Recommended Revisions to the Mayor's FY 2017 Budget

This report presents the IBA's final FY 2017 budget review and recommendations for Council budget modifications. The recommendations are based on the following: our analysis of the FY 2017 May Revision to the Proposed Budget (May Revise), the FY 2016 Year-End Budget Monitoring Report (Year-End Report) discussed in IBA Report Number 16-13, and the FY 2017 Proposed Budget. Recommendations also reflect our review of Councilmember budget priority memoranda that were submitted to our Office on May 27, 2016 and released as IBA Report Number 16-12, as well as our consideration of feedback from the public, City staff, and City Councilmembers received during the budget review hearings.

This report is released at the end of a budget development process that has included extensive reviews of the Mayor's FY 2017 Proposed Budget by the City Council and the IBA, including:

- The IBA's review of the Mayor's FY 2017 Proposed Budget issued on April 29, 2016 as IBA Report No. 16-05
- Departmental and agency budget hearings with the Budget Review Committee that took place on May 4, 5, 9, and 10, 2016
- An evening City Council meeting held on May 16, 2016, in order to solicit input from the community on the Mayor's budget proposals and Council's budget priorities for FY 2017
- The discussion of the May Revise and Year-End Report (both of which were released on May 17, 2016) at the Budget Review Committee on May 19, 2016
- Financial Management responses to Budget Review Committee requests for additional information released on May 13, May 20, May 24, and June 2, 2016

In addition to approving final budget modifications, our Office recommends that the City Council designate modifications made as either one-time or ongoing expenditures, in order to avoid confusion about their funding status in future budgets. Council is also being asked to request that the Mayor consider Council priorities for the upcoming Deferred Capital 4 (DC4) capital bond

issuance. And finally, Council is being asked to authorize the transfer of revenues available in the Low-Income Housing Revenue Fund to the General Fund or to the Housing Authority for use by the Housing Commission to address homelessness and expand the Serial Inebriate Program. These requests for authorities are itemized in the concluding section of this report.

## OVERVIEW OF THE FY 2017 MAY REVISION AND KEY ISSUES

The May Revise increases the Mayor’s FY 2017 General Fund expenditures budget by approximately \$10.5 million or 0.8% over the Proposed Budget, from \$1.33 billion to \$1.34 billion. General Fund revenues budgeted at \$1.33 billion in the Proposed Budget increased by \$5.0 million or 0.4% in the May Revise. The May Revise also increased the net number of General Fund full-time equivalent (FTE) positions by 11.25 from the Proposed Budget to a total of 7,528.69 FTEs—a proposed overall General Fund increase of 229.21 FTEs from FY 2016.<sup>1</sup>

Expenditure increases in the May Revise are \$5.5 million more than new resources, although the budget is still in balance due to the proposed use of Excess Equity. The FY 2017 Proposed Budget and May Revise are also balanced using a total of approximately \$30.8 million in one-time resources. The use of these resources remains in keeping with the City’s Budget Policy as there is a total of \$41.4 million in proposed one-time expenditures in FY 2017, meaning that \$10.7 million in proposed one-time expenditures are funded with on-going resources.

### **Primary Resources Used to Balance the May Revise**

The increased expenditures included in the May Revise are funded through a variety of sources: an increase in lease revenue, an increase in property tax revenue, return of excess fund balances to the General Fund, and the use of \$5.5 million in projected FY 2016 year-end Excess Equity. An overview of revenue and equity resources that fund the net \$10.5 million in expenditure increases is displayed in the table below.

<i><b>Resources for May Revise Expenditures</b></i>	<i><b>FY 2017</b></i>
Excess Equity - Police Officer Retention and Recruitment	4,000,000
Excess Equity - Rehabilitation of Historical Library at Balboa Park	1,500,000
MG Stonewood Garden Apartments Renegotiated Lease	2,952,000
Property Tax Revenue	2,266,770
Return of Excess Fund Balances to the General Fund	429,903
Reimbursable Labor Revenue - Communications Department	(597,729)
Transient Occupancy Tax	(57,154)
Property Transfer Tax	(31,190)
<b>TOTAL RESOURCES</b>	<b>\$10,462,600</b>

<sup>1</sup> The increase in 229.21 FTE positions is proposed for the General Fund in FY 2017; the proposed FY 2017 citywide increase is 302.22 FTE positions.

Overall, our Office considers the use of these resources to be appropriate. We provide a review of projected FY 2016 year-end Excess Equity later in this report and in our review of the Year-End Report released as IBA Report 16-13.

### **Significant May Revise Additions**

Our Office has reviewed the additions included in the May Revise and note their overall appropriateness. In many cases they fall in line with Councilmember budget priorities, as noted in Council Budget Priority memoranda, or Councilmember comments made during the Budget Review Committee hearings. In the following sections we highlight and discuss a number of items included in the May Revise that reflect City Council priorities of public safety and parks infrastructure support.

#### *Fire-Rescue Department – Expanded Fire Academies*

The May Revise includes the addition of \$487,000 in personnel and non-personnel expenditures to increase the number of fire academy participants from 36 to 48 per academy in FY 2017. As we noted in our budget review, the FY 2017 Proposed Budget includes funding for two fire academies, which is a reduction from the three academies funded in FY 2016. Increasing the size of the two academies proposed for FY 2017, as the May Revision provides, will lessen the impact of moving from three academies to two. The Fire-Rescue Department has indicated that expanded fire academies in FY 2017 will mitigate the effects of in-academy attrition and advance the Department's goal of achieving full fire suppression staffing in FY 2017.

#### *Thompson Medical Library/Eddy Auditorium (Old Navy Hospital Library Building #8)*

The May Revise includes \$1.5 million in funding for improvements to a portion of the Old Navy Hospital Library. This building is located in the southeastern part of Balboa Park, adjacent to the Developed Regional Park Administration Building and the Balboa Park Maintenance Yard. Built in 1970, this building is a two-story building measuring 8,700 gross square feet including 5,500 square feet on the street level and 2,200 square feet on the sub-street level (including a small auditorium). This building was used by the Navy for many years and was acquired by the City in the 1990s as part of the Navy Hospital upgrade. In 2000, the building was to be converted into the American Indian Culture Center and Museum. However, in 2003 with the conversion partially complete, the project stopped and was no longer pursued. The building has been vacant since 2003.

This building was evaluated as part of the condition assessments for City-owned facilities conducted by the Public Works Department in FY 2015. Based upon the inspection of the building, the facility received a condition rating of Fair and a Facility Condition Index (FCI) score of 30.<sup>2</sup> Based upon the condition assessment default target of restoring the facility to a condition rating of Good and FCI score of 0, the facility was determined to need approximately \$2.1 million in improvements for the entire building.

---

<sup>2</sup>Additional information related to the calculation of the FCI for the condition assessments is presented in Report to the City Council No. 16-014, dated March 10, 2016. Appendix A of Report No. 16-014 includes FCI scores for all the City-owned facilities including those in Balboa Park. Actual FCI scores for facilities within Balboa Park range from 0 to 70.

While several organizations such as the Friends of the Park and the San Diego Zoo have inquired about the building for lease/administrative space, the estimated improvement costs have been an impediment to leasing the facility.<sup>3</sup>

The proposed funding of \$1.5 million in the May Revise would allow for improvements to the 5,500 square foot street level area and would accommodate the transfer of up to 50 Park & Recreation Department Open Space Division employees from the City Administration Building (CAB) to Balboa Park. Of the \$1.5 million in allocated funding, \$1.1 million would be used for capital improvements to lower the FCI score for the improved space to 15 (per recommendations within Report to the City Council No. 16-014) and \$400,000 would be used for necessary tenant improvements. The Open Space Division is the only Park & Recreation Department division not located within Balboa Park. Per the Park & Recreation Department, the transfer of employees would facilitate improved communication and work efficiencies.

Additionally, the transfer of Open Space Division employees would allow staff from other City departments to occupy the vacated space downtown. Based upon the vacated space of approximately 5,500 square feet within CAB, the Real Estate Assets Department estimates the potential of approximately \$175,000 to \$200,000 in avoided annual lease payments as other City employees are moved from third party leased space to the vacated space within CAB.

#### *Police Department – Sworn Recruitment and Retention*

The FY 2016 Year-End Report proposes the use of \$4.0 million of projected Excess Equity to fund expanded Police sworn recruitment and retention efforts in FY 2017, which is a top priority for the City. This proposed expenditure is included in the May Revise, although the details of the proposed expenditure are subject to negotiation and are not yet known. In their budget modification memoranda, several Councilmembers requested that more information on this proposal be provided timely, noting a need to evaluate its effectiveness in improving sworn staffing. Details on the proposed \$4.0 million Police recruitment and retention expenditure should be provided expeditiously to the Council.

#### *Police Department – Dispatcher Recruitment and Retention*

The May Revise includes the addition of \$652,000 in expenditures for Police dispatcher recruitment and retention efforts, which is also a matter of top priority for the City. As with the May Revision's proposal for Police sworn recruitment and retention, the details of this proposed expenditure are subject to negotiation and are not yet known. We recommend that this information be provided timely to the Council, as well as the provision of monthly reports on Police Department Communications Division staffing and dispatch performance measures.

---

<sup>3</sup>A typical lease agreement between the City and a not-for-profit agency would require the City to make the initial required improvements to make the facility inhabitable and only charge the administrative costs for the building (\$3,450 per year) to the not-for-profit organization.

## IBA PROPOSED MODIFICATIONS TO THE MAYOR'S FY 2017 BUDGET

The following table represents the IBA's recommended funding revisions and additions to the FY 2017 Proposed Budget and the May Revise. These recommendations are largely based on City Councilmembers' Budget Priority memoranda that were submitted to our Office on Friday, May 27, 2016. IBA staff carefully reviewed the proposals and discussed issues for clarification with appropriate City staff as needed. The Council memoranda are distributed for public review in IBA Report Number 16-12, which is provided as back-up to this Council item.

Description	Recommended Amount	One-Time/Ongoing
<b>Proposed FY 2017 Budget Revisions for Council Consideration</b>		<b>IBA Recommendation</b>
Funding to restore the Balboa Park Botanical Building: recommendation is 50% of project cost of \$2.7 million	\$ 1,350,000	One-time
Increased support for the Penny for the Arts Blueprint goal from 6.44% to 6.72% of TOT	\$ 600,000	Ongoing
Library programming support which increases support for the Library Ordinance goal from 3.85% to 3.86% of General Fund expenditures	\$ 500,000	Ongoing
Addition of 1.00 Associate Personnel Analyst and 1.00 Word Processing Operator in the Personnel Department to support City hiring	\$ 155,000	Ongoing
Second trash collection in Mission Beach for summer months	\$ 80,000	One-time <sup>1</sup>
Transfer of \$25,000 from Citywide Program Expenditures Department to the Office of the DCOO for the Neighborhood Services Branch for outside counsel for the Citizens' Review Board <sup>2</sup>	\$ 25,000	Ongoing
Corrective option to help restore equity in City Council operating budgets	\$ 275,000	Ongoing
<b>Total Suggested Budget Revisions</b>	<b>\$ 2,985,000</b>	
<b>Proposed New Resources</b>		<b>Availability</b>
Excess Equity	\$ 2,000,000	One-time
Excess funds in the Long-Term Disability Reserve	\$ 610,000	One-time
<b>Proposed Reallocations</b>		<b>Availability</b>
Allocating \$350,000 of the proposed \$758,000 in facilities maintenance funding in the May Revise, to partially support the one-time allocation recommended for the Balboa Park Botanical Building project	\$ 350,000	One-time
Transfer of \$25,000 from Citywide consulting funds for outside counsel for the Citizens' Review Board	\$ 25,000	Ongoing
<b>Total Available Resources</b>	<b>\$ 2,985,000</b>	
<b>Net Balance</b>	<b>\$ -</b>	

<sup>1</sup> Our Office recommends that the need for this expenditure be evaluated annually as part of the budget process.

<sup>2</sup> Funds are available for this purpose in the Citywide Program Expenditures Department's special consulting services budget. Our Office is recommending a transfer of \$25,000 to the Office of the DCOO for the Neighborhood Services Branch for outside counsel for the Citizens' Review Board.

The FY 2017 Proposed Budget remains balanced with these recommendations and is in keeping with the City's Budget Policy. One-time funding of approximately \$1.4 million has been utilized

to fund one-time costs of the Botanical Garden restoration and a second trash collection in Mission Beach in the summer months. The remaining amount of approximately \$1.6 million in expenditures would be funded primarily with one-time resources in FY 2017. Our Office notes that due to the mix of one-time and ongoing expenditures and resources included in the FY 2017 budget, there is sufficient flexibility for Council to designate future funding for the proposed modifications as ongoing if that is the Council's desired intent.

This budgetary flexibility was discussed by Financial Management in their May Revision, where they noted "the May Revision on its own includes more in one-time resources than one-time uses; however, when combined with the Proposed Budget one-time uses still exceed one-time resources by approximately \$10.7 million."

As indicated in the table above, our Office recommends the following:

- That support for Penny for the Arts, Library, corrections to Council District budgets, Personnel, and the outside counsel for the Citizens' Review Board be designated as *ongoing* expenditures
- That the funding for the Balboa Park Botanical Building be considered a *one-time* expenditure
- That the funding for the trash collection in Mission Beach be considered a *one-time* expenditure, although the need for this expense should be reviewed annually

We recommend that the intent for either ongoing or one-time funding for each item be stated in final Council budget actions to ensure clarification in future budgets.

### **KEY RESULTS OF COUNCILMEMBERS' FINAL BUDGET PRIORITY MEMORANDA AND ADDITIONAL IBA RECOMMENDATIONS**

The following items were mentioned by five or more members of the City Council in their budget priority memoranda, and have been included in the IBA recommended revisions to the FY 2017 Budget.

#### **Councilmember Proposals—Majority Priority Expenditures Recommended for Funding**

##### ***Balboa Park Botanical Building Restoration - \$1,350,000***

The Botanical Building, situated in the center of Balboa Park, is a single story building measuring 14,460 gross square feet, displaying more than 2,100 varieties of plants and flowers. The building was originally built in 1914 for the 1915 Panama California Exposition and was one of four structures intended to permanently remain in the park. The other permanent structures from the 1915 Panama California Exposition include the Cabrillo Bridge, the Spreckels Organ Pavilion, and the California Building (Museum of Man). The last renovation to the Botanical Building, consisting of the removal of the arcades surrounding and framing the building, occurred in 1957.

In 2014, the City conducted a limited update to a 2009 condition assessment for the Botanical Building by reviewing the 2009 data and incorporating maintenance to the facility since 2009.

Based upon the review, the facility received a condition rating of Fair and a FCI score of 28.<sup>4</sup> To restore the facility to a condition rating of Good and FCI score of 0, the facility was determined at that time to need approximately \$2.3 million in improvements.<sup>5</sup>

The Balboa Park Conservancy (Conservancy) is a public-benefit 501(c)3 not-for-profit organization which was established in 2011 to raise funds, develop public-private partnerships, and collaborate with Balboa Park stakeholders to identify and implement improvement projects within Balboa Park. In September 2013, the Conservancy's Board of Directors selected the restoration of the Botanical Building as the Conservancy's first major park improvement. The Conservancy has taken steps to initiate the restoration of the Botanical Building including: hiring an architectural firm for the project planning and design phase, completing an updated cost estimate for the full restoration of the facility (updated restoration cost estimate is \$2.7 million), securing \$500,000 in contributions toward the project, and initiating public outreach on the proposed design for the restorations. The Conservancy manages the projects it undertakes in Balboa Park.

In a May 27, 2016, letter to the City Council and the Office of the Independent Budget Analyst, the Conservancy requested the City Council to consider funding \$2.0 million of the \$2.7 million estimated project cost.

A majority of the Councilmembers' FY 2017 May Revision priority memoranda included providing support to the restoration of the Botanical Building, with the proposed funding ranging from \$1.0 million to \$2.0 million. These Councilmembers requested that the funding source be Excess Equity. In order to address other funding priorities stated in a majority of the Council memoranda, with a limited amount of surplus funding our Office is proposing the City contribute \$1,350,000 or 50% of the estimated total project cost. Our Office recommends using \$1.0 million in Excess Equity and \$350,000 from the facilities maintenance funding included in the May Revise, and that funding for this expenditure be designated as *one-time*. The Conservancy has already raised \$500,000 for the building, an additional \$850,000 of donations would need to be raised to complete the project.

### **Related Issues to Consider:**

We are recommending this budget modification, however, we raise a number of issues for Council discussion.

- *Cash Management:* It is important to note that the appropriation of \$1.35 million coupled with the \$500,000 raised by the Conservancy falls approximately \$850,000 short of the \$2.7 million estimate for the restoration project. As the City strives to improve the efficiency and effectiveness of the Capital Improvement Program (CIP), efforts are being made to better manage cash and appropriate funds to priority projects when they are ready

---

<sup>4</sup>Additional information related to the calculation of the FCI for the condition assessments is presented in Report to the City Council No. 16-014, dated March 10, 2016. Appendix A of Report No. 16-014 includes FCI scores for all the City-owned facilities including those in Balboa Park. Actual FCI scores for facilities within Balboa Park range from 0 to 70.

<sup>5</sup>Per Report to the City Council No. 16-014, rehabilitating existing facilities to an FCI of zero by completing the entire maintenance backlog is not industry Best Management Practice and is not a recommended service level.

for funding. It is possible that a phased funding approach may be appropriate for this restoration project, in which case the proposed use of funds would be timely in FY 2017. However, more information is needed from City staff including the Public Works, Park & Recreation, City Attorney's Office, and Real Estate Assets departments to better understand how this project will be managed from a construction perspective, as well as a financial and legal perspective.

- *Fundraising:* With this funding proposal it will be necessary for the Conservancy to raise an additional \$850,000 in private donations. Council may want to discuss with the Conservancy how viable this is and how much time would be needed to do so. Council may also want to stipulate as part of budget actions a timeframe for the private funds to be raised to ensure full funding is in place before City dollars are expended.
- *Conformance with the City's CIP Process:* The Botanical Garden is not an existing City CIP project. To do so, this project will need to be consistent with City Council Policy 800-14, "Prioritizing Capital Improvement Program Projects."

Council Policy 800-14 provides guidelines for the City's CIP prioritization process. Prioritization factors include health and safety risks, environmental concerns, mandated requirements, asset condition and related cost considerations, community investment considerations, and project readiness.

Council Policy 800-14 also provides that needs for CIP projects are generally derived based on input from stakeholders, such as the public, elected officials, or the Community Planning Group. The department with oversight of the project area analyzes the scope of a suggested project and rates the project, providing a priority score to the Capital Improvements Program Review and Advisory Committee (CIPRAC). CIPRAC recommends approvals to the Mayor, who approves projects included in the proposed CIP budget. Once the CIP project is included in an approved budget, it will be evaluated further as to scope, cost, and schedule by the Public Works Department.

- *Status of City Condition Assessment of Botanical Building:* To date, the City has completed new condition assessments only for non-leased facilities in Balboa Park such as the Balboa Park Club, Thompson Medical Library (Old Navy Hospital Library), and numerous information kiosks and comfort stations. Updated assessments for all City leased facilities including the Botanical Building are currently underway and results will not be available until the fall. At this point, it is difficult to assess the priority of the Botanical Building in terms of its condition as compared to other leased facilities in the park (e.g. museums, international houses, etc.) The City has been working toward a process whereby condition assessments are a major factor in the prioritization of capital funding.
- *Conservancy's Projected Project Timeline:* From the perspective of the Conservancy, the conceptual design could be completed by the end of July 2016, with the construction documentation, approvals, and permitting phase beginning immediately thereafter. If funding were available today, the Conservancy believes construction drawings could be completed and permitted within six months, and the actual restoration of the historic



structure would take an additional six months. Preservation of plant collections could extend the project timeframe a few more months. Additionally, this schedule could be impacted by private fundraising timeframes. Council may wish to request an update from the Conservancy on how they plan to incorporate public input on the design.

### ***Increased Support for the Penny for the Arts Blueprint Goal - \$600,000***

The FY 2017 Proposed Budget increased funding for the Penny for the Arts Five-Year Blueprint (Blueprint) from approximately \$12.6 million to \$13.9 million, an increase of \$1.4 million or 11.1% over FY 2016. This increase maintains the FY 2016 funding level of 6.44% of transient occupancy tax (TOT) dollars. The May Revise included the addition of 1.00 Program Manager to the City's Arts and Culture Department that was recommended by the Commission for Arts and Culture. This position is funded through a redistribution of the FY 2017 Proposed Budget allocation for arts and culture as opposed to an increase in funding support.

The Blueprint specifies that allocations to Arts, Culture, and Community Festivals programs should equal 9.52% of TOT in FY 2017—a percent that would establish the full 'penny' for the arts. In FY 2017, TOT is projected to be approximately \$216.5 million; 9.52% of that total equals \$20.6 million or \$6.7 million more than the \$13.9 million currently proposed.

A majority of Councilmembers indicated support for increasing the allocation to the Blueprint as an additional step toward meeting the City's arts and culture funding plan, with funding recommendations ranging from approximately \$131,000 to \$1.2 million. The City's Commission for Arts and Culture Department staff has indicated that any increase in funding will be proportionally distributed across budget line items as recommended by the Commission, including Arts, Culture, and Community Festivals Programs; the City's Public Arts program; and Penny for the Arts special initiatives. Our Office recommends that an increase of \$600,000 be allocated to the Blueprint, which would bring total funding to approximately \$14.5 million or 6.72% of TOT. We recommend that this funding be designated as *ongoing*.

### ***Library Programming - \$500,000***

A majority of the Councilmembers' FY 2017 Budget Priority memoranda included providing increased support for the Library Department's programming efforts. The Department has indicated a need to develop a community input based programming plan to better utilize programming resources, similar to the process used for developing the programming at the Library System's Innovation Labs. The FY 2017 Proposed Budget includes 2.00 Librarian positions to research educational programs such as Science, Technology, Engineering, and Mathematics (STEM) programming, conduct community outreach, and assist in the development of a programming plan. A recent Performance Audit of the San Diego Public Library System conducted by the City's Independent Auditor also found that opportunities exist to provide a more equitable distribution of public resources and improve management decisions related to program resources.

While the Library Department has been allocated resources for the development of a programming plan, no additional resources have been allocated to the Department for implementing new programming. In addition to the Department's goal of establishing a programming plan, the

Library Foundation, the Friends of the Library, and the Board of Library Commissioners have identified the establishment of a library programming budget as one of their collective top priorities. These organizations note that participation in the library programs has more than doubled over the last five years, and funding for library programs would allow for enhanced programming and support the Library Foundation and Friends of the Library in leveraging private donations for program funding.

A majority of the Councilmembers' Budget Priority memoranda included providing support to the Library System, with the proposed increased funding ranging from \$500,000 to \$1.0 million. In considering the Councilmembers' memoranda and the Department's goal of creating and implementing community-based programming, our Office recommends allocating \$500,000 in *ongoing* funding to library programming to serve as funding for new library programs. The Department has indicated that the development of the programming plan may take several months and funding allocated in FY 2017 would likely be expended in the latter part of the fiscal year as new programs are implemented.

Based upon recommendations within the May Revise and recommendations provided in this report, the allocation of \$500,000 for library programming to the FY 2017 Library budget would increase the Library's budget as a percentage of the General Fund budget from 3.85% to 3.86% for FY 2017. We recommend this funding be designated as an *ongoing* expenditure.

#### ***Addition of Personnel Staff to Support City Hiring - \$155,000***

During the FY 2017 Proposed Budget process, Personnel requested two additional positions that were not funded: a Word Processing Operator (WPO) and a Test Administration Specialist. These additions were discussed by the Budget Review Committee in May along with a third position, an Associate Personnel Analyst. These positions would assist the Department with its increased workload resulting from the City's increased hiring activity and additional positions that have been added to the City's budgets in the last couple of years.

One of the three requested positions was funded in the May Revise: the Test Administration Specialist to support the Testing Section. This position will also be involved in traveling out-of-state to assist the Police Department with recruitment efforts.

In their FY 2017 Budget Priorities memoranda, a majority of Councilmembers included the other two positions as budget priorities. We have included \$155,000 for these positions (\$152,000 for personnel costs and \$3,000 for associated non-personnel expenditures) in the proposed revisions to the Mayor's budget, and we recommend this as an *ongoing* expenditure.

#### ***Additional Weekly Trash Collection Service for the Mission Beach Community in the Summer Months - \$80,000***

A majority of the Councilmembers' FY 2017 Budget Priority memoranda requested a second weekly trash collection be provide in the Mission Beach community during the summer months, to address a seasonal fly infestation issue. In order to comply with the People's Ordinance (Municipal Code section 66.0127) and ensure only eligible households receive the second weekly

collection service, City staff may need to establish a citywide administrative procedure which defines eligibility for this service.

Additionally, the City would need to establish a reasonable basis, such as health and safety concerns, to justify the additional weekly collection service as it would exceed services being provided to other communities. As the People's Ordinance provides broad authority to the Environmental Services Department to administer refuse collection services, the Environmental Services Department would be charged with making the administrative decision to provide additional collection services to communities.

Based on the requested additional weekly service for the Mission Beach community for the summer months (15 weeks between Memorial Day and Labor Day), the Environmental Services Department estimates that the additional service would cost approximately \$80,000. If the City did not provide additional trash collection services to the Mission Beach community, the community may explore other alternatives such as the establishment of a Maintenance Assessment District, to address additional trash collection services. We recommend this as a *one-time* expenditure for FY 2017 to be re-evaluated in the FY 2018 budget process.

***Support for Outside Legal Counsel for the Citizens' Review Board on Police Practices - \$25,000***

A significant number of Councilmembers requested in their Budget Priority memoranda that funding be provided for independent outside legal counsel for the Citizens' Review Board on Police Practices (CRB). While this request did not receive majority support in the memoranda, our Office recommends approval for two primary reasons. First, both the Public Safety & Livable Neighborhoods Committee and the Rules Committee recently have adopted motions recommending that the Mayor include funding in FY 2017 for CRB outside counsel. Second, this action is budget-neutral. Sufficient funding for this purpose exists in the proposed FY 2017 Citywide Program Expenditures (Citywide) budget for special consulting services. We recommend that \$25,000 be transferred from Citywide special consulting services to the Office of the DCOO for the Neighborhood Services Branch budget for contracted outside counsel for the CRB, and that this be an *ongoing* expenditure.

***Corrective Option to Help Restore Equity in City Council Operating Budgets - \$275,000***

For the FY 2016 Budget, Financial Management made corrective adjustments to address Council operating budget disparity; however, the corrections were not carried through into FY 2017 when the budget was developed. This situation, coupled with other normal changes in projected fringe expenses, has resulted in significant Council budget disparity in the FY 2017 Proposed Budget as displayed in the following table. The difference between high and low Council operating budgets in the FY 2017 Proposed Budget is approximately \$397,000. Prior to FY 2010, Council offices had equal annual operating budgets.

<b>CURRENT FY 2017 PROPOSED BUDGET</b>					
<b>Council District</b>	<b>PE</b>	<b>Fringe</b>	<b>NPE</b>	<b>Total</b>	<b>FY16 to FY17 Change</b>
1	\$ 665,346	\$ 500,643	\$ 141,288	\$ 1,307,277	\$ 241,436
2	625,212	372,246	182,372	1,179,830	82,862
3	673,055	536,993	106,281	1,316,329	89,894
4	625,219	323,719	121,831	1,070,769	4,993
5	623,625	236,524	184,454	1,044,603	(21,025)
6	600,460	230,640	88,585	919,685	(146,076)
7	650,538	252,853	167,173	1,070,564	(60,633)
8	530,462	380,401	117,357	1,028,220	(89,397)
9	676,985	410,199	154,225	1,241,409	175,635
<b>Total</b>	<b>\$5,670,902</b>	<b>\$3,244,218</b>	<b>\$1,263,566</b>	<b>\$ 10,178,686</b>	
<b>Average</b>	\$630,100.22		\$140,396.22	\$1,130,965.11	
<b>Key</b>	High Budget	Low Budget			

**IBA Recommendation:** As part of their Budget Priority memoranda, three Councilmembers requested consideration of budget adjustments to establish equity among the budgets of the nine Council offices. Other Councilmembers have expressed similar concerns. In response to these concerns, our Office is recommending adjusting those Council office budgets (excluding fringe), that are currently budgeted at less than the average of all Council office budgets, to the average. This option would increase the FY 2017 Proposed Budget for six of the nine offices. It would also mean that six Council office budgets are higher than they were in FY 2016 and three are lower. These changes will reduce the high-low discretionary budget differential by two-thirds.

The second part of this recommendation involves Council discussing future operating budget needs during FY 2017 and requesting that PE and NPE budgets be permanently equalized at a stipulated level beginning mid-year FY 2017 or in the FY 2018 budget. This will require additional review, and may or may not require additional ongoing resources depending on the new PE and NPE budget levels.

Our Office recommends this option to correct City Council operation budgets after evaluating various other options including:

- Adjusting all Council office operating budgets (excluding fringe) to the average amount budgeted in the FY 2017 Proposed Budget (annual ongoing cost: budget neutral)
- Adjusting all Council office operating budgets (excluding fringe) to the highest amount budgeted in the FY 2017 Proposed Budget (annual ongoing cost: \$818,000)
- Adjusting all Council office operating budgets (including fringe) to the average amount budgeted in the FY 2017 Proposed Budget, unless the average budget is less than the amount budgeted for the office in FY 2016 (annual ongoing cost: \$96,000)

All options considered by our Office are discussed in detail in Attachment 1 of this report.

**Councilmember Proposals—Majority Priority Recommended Resource**

***Use of Excess Equity - \$2,000,000***

As shown in the following table, the estimated FY 2016 beginning General Fund Reserve balance is \$196.5 million. Based on the Year-End Report, two activities are projected to impact the reserve:

- \$2.5 million reduction for the FY 2016 year-end projected use of Excess Equity for General Fund operations
- \$1.0 million addition to adjust for a FY 2015 accrual of capacity charges (to avoid double-counting the \$1.0 million expenditure occurring in FY 2016)

<b><i>FY 2016 Year-End Excess Equity Estimate (\$ in millions)</i></b>	
Beginning FY 2016 Reserve Balance	\$ 196.5
FY 2016 Projected Use of Excess Equity per Year-End Report	(2.5)
Adjustment for FY 2015 Accrued Low Flow Diversion Capacity Charges	<u>1.0</u>
Year-End FY 2016 Reserve Estimate	\$ 195.0
FY 2016 14.5% Reserve Requirement	<u>\$ 164.7</u>
<b>FY 2016 Year-End Excess Equity Estimate</b>	<b>\$ 30.3</b>

Adjusting the beginning Reserve for the items described above leaves \$195.0 million in FY 2016 estimated year-end Reserve. Comparing the estimated year-end Reserve to the FY 2016 Reserve requirement of \$164.7 million yields projected Excess Equity of \$30.3 million for the fiscal year-end.

In the Year-End Report and May Revise, budget adjustment requests have been made to transfer most of the projected General Fund Excess Equity to other reserves and for specific CIP projects. If approved, these budget adjustments would leave a relatively small excess of \$2.0 million, as shown in the following table.

<b><i>Remaining Excess Equity After Recommended Uses (\$ in millions)</i></b>	
FY 2016 Year-End Excess Equity Estimate	\$ 30.3
<i>FY 2016 Year-End Budget Adjustment Requests</i>	
Pension Payment Stabilization Reserve	(16.0)
Public Liability Reserve	(3.0)
Workers' Compensation Reserve	(2.5)
Replacement of Synthetic Turf - Pershing Middle School	(0.7)
Bay Terrace Community Park - Tooma Park Senior Center	(0.5)
Fire-Rescue Fire Station 6 Asbestos Abatement	(0.1)
<i>FY 2017 May Revise Proposed Use of Excess Equity</i>	
Police Officer Retention and Recruitment	(4.0)
Rehabilitation of Historical Library at Balboa Park	(1.5)
<b>Estimated Excess Equity After Proposed Uses</b>	<b>\$ 2.0</b>

In the FY 2017 Budget Priorities memoranda, all nine Councilmembers included the use of the remaining \$2.0 million in estimated Excess Equity for Council priorities. We concur with such use of these funds.

### **Other Resources Utilized**

#### ***Councilmember Proposals—Less than Majority Support - \$610,000***

The projected Long-Term Disability (LTD) Reserve balance of approximately \$18.4 million exceeds the current \$14.9 million target by approximately \$3.5 million—approximately \$2.4 million for the General Fund and \$1.1 million for Non-General Funds. In the FY 2017 Budget Priorities memoranda, four Councilmembers proposed the reallocation of this excess LTD Reserve for Council priorities.

Financial Management had originally proposed that the \$3.5 million excess amount be maintained in anticipation of additional costs related to pending negotiations regarding death and disability benefits with the City's recognized employee organizations.<sup>6</sup> The most recent estimate for funding needed to support the new death and disability benefits is approximately \$2.6 million citywide; however, the actual amount needed will not be certain until the negotiation process is completed.

Based on this recent estimate, approximately \$900,000 citywide is projected to be available for reallocation, of which \$610,000 would be General Fund amounts that could be utilized for Council priorities. Since negotiations over death and disability benefits are ongoing, the death and disability cost is not yet finalized. However, this is the best and most recent estimate, and we are

---

<sup>6</sup> Pending negotiations relate to the provision of new death and disability benefits, including LTD, for employees who fall under the City's 2012 Proposition B provisions and are not eligible for similar benefits in the defined benefit pension plan.

recommending the use of the \$610,000 General Fund portion of the excess as a resource for Council priorities.

***Funding Added in the May Revise to Support Citywide Public Facility Major Maintenance and Repair Projects - \$350,000***

The May Revise includes the addition of \$758,000 for city-wide public facilities maintenance. Based on facilities that have been generating a number of concerns and calls to Engineering staff, the Public Works Department has prepared a list of 19 maintenance projects it believes should occur in FY 2017, though costs for the entire list total \$1.3 million. Projects largely consist of lighting upgrades, roof repairs, and HVAC maintenance at various facilities throughout the City, though Department staff has indicated that this list may be subject to some change throughout the year, should immediate needs and maintenance requests shift.

Due to competing Council priorities and limited surplus funding, we are proposing that about half of this facilities maintenance funding (\$350,000) be dedicated to the Balboa Park Botanical Gardens restoration.

**Councilmember Proposals—Other Expenditure Priorities Not Funded**

The following items were mentioned by four members of the City Council in their budget priority memoranda and are listed here for discussion purposes.

- *Resources to implement and enforce the Earned Sick Leave and Minimum Wage Ordinance, should the ballot measure be approved*

Four Councilmembers requested appropriate resources be allocated to implement the City's new earned sick leave and minimum wage law. Management has preliminarily estimated the annual cost for administration and enforcement to be \$400,000. These funds were not included in the FY 2017 Proposed Budget. Once the Council has adopted the City certification of election results (expected in July 2016), the City will need to immediately disseminate information regarding its new law to businesses and employees operating in the City. Additionally, the City should be prepared to monitor implementation, investigate complaints, and take legal action when necessary to enforce the law.

- *Addition of funding for a disparity study*

As noted in IBA Report Number 16-08, disparity studies are complex reports that involve collecting qualitative and quantitative data on businesses within a defined market area, and providing an analysis of that information within the context of the area's governing laws and regulations, and the purchasing program of the city commissioning the study. The Purchasing & Contracting Department has not been allocated funds for a disparity study in FY 2017. Staff has indicated that a recommended first step in producing a disparity study would be to work with a consultant to determine the scope of the project and draft a request for proposal for the study itself. Staff estimates that this initial consultant cost would be approximately \$50,000.

- *Funding for sidewalks on 54<sup>th</sup> Street*

Several Councilmember budget priority memos requested that funding for a sidewalk along 54<sup>th</sup> Street be funded in FY 2017. Staff indicates that \$200,000 for sidewalk installation at this location has been identified for reallocation from cost savings in other completed projects, and that additional budgetary action is not necessary to complete installation of this sidewalk.

- *Expansion of the temporary/portable pools program*

Several of the Councilmembers' FY 2017 May Revision priority memoranda requested \$52,000 in one-time funding to provide temporary pools during the summer months for seven different locations. For 2016, the Park and Recreation Department has developed a service schedule for the Department's three portable pools that includes three week-long sessions at five different park locations. In order to increase the number of locations for service, the Department would either need to augment their service schedule to start earlier or end later, adjust the number of sessions offered at each location, or increase the number of portable pools and staffing.

- *Replacement of old and broken furniture on floors three and 12 in the City Administration Building*

The Council Administration Director submitted a budget request for \$20,000 to replace old and broken chairs for public meeting places in three conference rooms on the 3rd and 12th floors in the City Administration Building. Citing the need to provide the public with adequate accommodations for meetings while visiting City Hall, four Councilmembers have reiterated their support for this request in their most recent budget priority memoranda. Funding to replace the old and broken chairs was not included in the FY 2017 Proposed Budget or the May Revision.

- *Police Department support*

A significant number of Councilmembers expressed support in their memoranda for increased resources to assist the Police Department in achieving the goals in its Five-Year Plan and to improve sworn and civilian staffing. A discussion of proposed Police recruitment and retention expenditures is provided in our review of items included in the May Revision. A significant number of memos also requested that additional Community Relations Officers (CROs) be identified by the Police Department. This request is budget-neutral as the number of existing Police Officer positions assigned to work as CROs is based on an operational decision by the Department.

- *Funding to Expand the Homeless Outreach Team (HOT)*

Councilmember memoranda included a significant number of requests for additional resources to expand HOT. Currently, HOT is staffed by six full-time San Diego Police Department officers, three provisional officers, one County Psychiatric Emergency



Response Team (PERT) clinician, and two County Health and Human Services Agency (HHSA) specialists. HOT has access to four emergency cots at PATH/Connections Housing for single-night use, and 50 homeless triage beds at St. Vincent de Paul, which are funded through the Housing Commission. The number of officers assigned to HOT is based on an operational decision by the Police Department. The Department has indicated that officers assigned to HOT have citywide responsibility and respond where needed.

### **Councilmember Proposals—Resource Priority Not Utilized**

- *Reduction of customer experience & service delivery program resources added to the Performance & Analytics Department in the FY 2017 Proposed Budget*

The FY 2017 Proposed Budget included approximately \$1.1 million in personnel and non-personnel expenditure support for an application-based, citywide customer service system in the Performance & Analytics Department. Department staff has indicated that they anticipate coming to Council with a roadmap for the program sometime before the end of the first quarter of FY 2017.

Four Councilmembers suggested a reduction to the FY 2017 customer service system allocation. FY 2017 is envisioned as a first phase of the program, focused on technology to enable better customer service, and begins with the recently launched pilot program that allows for the reporting of right-of-way issues via an online portal or mobile application. Discussions and decisions on future program phases, including whether the City moves toward a full 311 call center, have not taken place. We believe this discussion with the Council should occur before reductions are made, as a reduction in the FY 2017 customer service budget could compromise the Department's ability to implement the program beyond the recently launched pilot.

### **Other Resources Considered**

City Council Budget Priority memoranda included proposals for resources to support expenditure requests, including unanimous support for the use of Excess Equity, and significant support for a reduction in the proposed allocation to the Performance & Analytics Department for the customer service & service delivery program, and the use of the General Fund portion of the over-target amount of the Long Term Disability Fund. These resource proposals were reviewed by our Office and are discussed in the preceding sections. Our Office also considered a number of other potential resources, some of which were proposed in Councilmember memoranda but did not receive majority or significant support.

- *Reallocation of a portion of new revenue growth – Implemented*

The FY 2017 Proposed Budget includes a number of on-going resources that support one-time funding needs. The Financial Management Department noted in the May Revise that in FY 2017 the Mayor's total budget proposal is balanced with \$10.7 million of ongoing resources supporting one-time expenditures. As we have noted elsewhere in this report, this allows the Council to consider allocating funds to ongoing expenditures despite the one-time nature of the majority of the available resources. The \$1.6 million of ongoing

budget modifications recommended in this report are supported by a corresponding amount of one-time resources that are “swapped” for ongoing resources currently supporting one-time expenditures, as identified in the May Revise.

- *Increase in the FY 2017 Vacancy Savings allocation – Not Recommended*

FY 2017 salaries are increasing by \$25.0 million from the FY 2016 projection, in anticipation of the new 2016 positions being filled for a complete year in FY 2017, as well as filling new FY 2017 positions.<sup>7</sup> Although the hiring pace has increased in FY 2016, it is difficult to predict how timely these positions can be filled; and therefore, it is also hard to predict how much vacancy savings will accumulate in FY 2017. If positions are not filled in a timely manner, vacancy savings could exceed the \$30.4 million budgeted for FY 2017.

Excess vacancy savings can help offset salary and wage categories that are over-budget, which has been the experience in recent years. For example, the over-budget amount for such salary and wage categories (those other than “salary”) is projected to be \$14.4 million for FY 2016. Projected excess vacancy savings of \$18.9 million in FY 2016 offsets these overages, with all salary and wage categories netting to an under-budget amount of \$4.5 million.

For expenditure categories other than salary (special pay, overtime, hourly wages, vacation pay-in-lieu, and termination pay), there is less budgeted in FY 2017 than anticipated to be spent in FY 2016.<sup>8</sup> If recent spending patterns are not adjusted, there is the potential for at least \$8.0 million in overages for these other salary and wage categories.

To balance out any overages in other salary and wage categories, there would need to be increased revenues or savings in other areas of the budget, including excess vacancy savings. With doubt about the timeliness of filling new and other vacant positions, there may be excess vacancy savings in FY 2017. Further, there could be excess vacancy savings beyond amounts needed to offset other salary and wage categories. The amount is indeterminate: it could be millions of dollars, or it could be nothing. Therefore, we do not recommend lowering the General Fund salaries and wages budget by increasing vacancy savings. A full discussion of General Fund salaries and wages and vacancy issues is provided in our review of the Year-End Report released as IBA Report 16-13.

- *Increase in the FY 2017 Vacancy Savings allocation, Police Department Only – Not Recommended*

We have been asked whether the Police Department has potential excess vacancy savings that could be budgeted elsewhere. While the Police Department could have excess vacancy savings in FY 2017, there is also the potential for these savings to offset over-budget overtime. The FY 2016 projection for overtime is \$24.0 million, whereas the FY 2017 budget as of the May Revision is \$21.0 million. Additionally, the FY 2016 projection for

---

<sup>7</sup> Note that FY 2017 budget amounts are based on the FY 2017 Proposed Budget plus the May Revise adjustments.

<sup>8</sup> Vacation pay-in-lieu appears to be an exception, as FY 2017 has a higher budget than FY 2016. However, the increase is due to additional negotiated labor costs beginning in FY 2017.

Police Department salaries and wages in total is essentially the same as the FY 2017 budget, \$213.0 million. Therefore, we do not recommend lowering the Police Department salaries and wages budget by increasing vacancy savings. A full discussion of General Fund salaries and wages and vacancy issues is provided in our review of the Year-End Report released as IBA Report 16-13.

- *Redevelopment Property Tax Trust Fund (RPTTF) Funding – Not Recommended*

RPTTF revenue is used to pay for ongoing enforceable obligations that were entered into by the former Redevelopment Agency. As those obligations are paid off, a residual amount of RPTTF becomes available, and is received by the City as part of its General Fund property tax revenue. Several Councilmembers have indicated a desire to dedicate residual RPTTF revenue to the former Redevelopment Agency project areas.

The allocation or dedication of these revenues, which are currently used to support the City's General Fund expenditures, is a policy decision for Council that requires further discussion. The May Revise projects a total of \$14.8 million in residual RPTTF revenue in FY 2017.

#### **Deferred Capital 4 Bond Priorities**

In the memorandum requesting Councilmember FY 2017 Budget Priorities issued by the Budget and Government Efficiency Chair on May 12, 2016, Councilmembers were asked to recommend their top priority projects for the \$90.0 million deferred capital bond currently planned for issuance at the end of fiscal year 2017. These Council recommendations are listed in the following table, while additional details on each project are included in the Budget Priority memoranda attached to IBA Report 16-12.

Item	Budget Priority Mentions
Design funding for upgrading the OB lifeguard tower	7
Transportation in the San Pasqual Valley	4
Canyon Hills Resource Park Improvements	4
Olive Grove Community Park Improvements	4
Improvements to Wangenheim Joint Use Facility	4
Improvements to Hickman Fields Athletic Area	4
Construction for the San Carlos Library	4
Construction of Villa Monserate Park improvements	4
Morley Green Mini-Park	4
Picnic shelter for Road Runner Park	4
Re-turfing and irrigation upgrades for Cabrillo Heights	4
Installation of a traffic signal at Ulric and Osler	4
Permanent Skyline Hills Fire Station (FS 51)	3
Vision Zero Implementation: funding for the design, engineering, and construction of Complete Street projects in high collision corridors	3
Installation of missing sidewalks in Paradise Hills	3
ADA upgrades in District 8 including audible pedestrian signal, path of travel, sidewalk accessibility, and curb ramps	3
Upgrades for 10 Otay Mesa bus stops on City property	3
Design for a new sidewalk on the west side of Saturn Boulevard	3
Installation of rapid flashing beacons in front of Montgomery Middle School	3
Installation of a traffic signal at San Ysidro Blvd and Averil Road	3
Installation of a guardrail at the intersection of Smythe and Via De La Melodia	3
Provide funding for City Heights Urban Greening plan projects	3
Pre-design study for road improvements including the storm drains at Aldine Drive	3
Reconfiguration of the Marie Widman Memorial Park to enhance public safety	3
Update to the General Development Plan in order to move into the design phase of Beyer Park	3
Playground equipment and rubberized turf for the Sherman Heights Community Center	3
Planning and design for a skate park in San Ysidro	3
Improvements to Clay Park in Council District 9 (perimeter path and tot lot shade)	3
Initiate Chollas Triangle Park CIP	3
Otay Mesa/Nestor Library beam replacement for the trellis	3
Permanent fix to the flooding at the Martin Luther King, Jr. Recreation Center	3
Creation of a master plan for the Memorial Recreation Center and School	3
Improvements to the San Ysidro Senior Center	3
Ward Canyon Neighborhood Park: construction of permanent park improvements	1
Balboa Park: request for substantial funding invested in the park, in particular the rehabilitation of the Marston House	1
Children's Park: construction phase	1

**Other Significant Issues – State Department of Finance Denial of \$3.6 Million in Recognized Obligation Payment Schedule Project Management Costs**

In our review of the Agency Budget for the Redevelopment Successor Agency, we noted that the State Department of Finance (DOF) had questioned inclusion of \$3.6 million in project management costs on the most recent Recognized Obligation Payment Schedule (ROPS), despite

the DOF approving similar amounts in each past ROPS cycle. Since that time, the DOF has gone on to deny the \$3.6 million in funding requested for project management costs.

The May Revise does not include any additional General Fund support for these project management costs. At present, Civic San Diego staff is going over the budgets and schedules of existing projects to see what adjustments and savings are possible, and Financial Management staff is working on determining additional funding sources for those projects. Likely funding sources include excess redevelopment bond proceeds, development impact fees, and allocation of some administrative allocations that were approved by the DOF in the most recent ROPS. This item will be discussed at Council on June 14, 2016.

## FINAL BUDGET RECOMMENDATIONS

In addition to approving final budget allocations, the City Council is also being asked for three additional actions: 1) the designation of final budget modifications as either one-time or ongoing, 2) requesting that the Mayor consider the projects prioritized by Council for the DC4 bonds, and 3) a request from the Financial Management Department to authorize the transfer of Low-Income Housing Revenue Funds. The transfer of these funds will be used to increase the supply of low and moderate income housing by expanding the Serial Inebriate Program (SIP) as allocated in the Mayor's FY 2017 Proposed Budget.

The requests for authority are outlined below.

1. Approve the Mayor's FY 2017 Proposed Budget, as modified by the May Revise.
2. Approve the recommendations in the IBA FY 2017 Budget Report, as modified by the City Council.
3. Clarify the Council's intent for either ongoing or one-time funding for each item added to the FY 2017 Budget, to ensure clarification in future budgets.

Our Office suggests that additional funding approved for Penny for the Arts, Library, corrections to Council District budgets, Personnel, and the outside counsel for the Citizens' Review Board be considered *ongoing* expenditures, while funding for the Balboa Park Botanical Building and additional summer trash collection in Mission Beach be considered *one-time* expenditures.

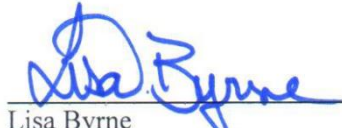
4. Request that the Mayor consider the projects that have been identified as top priorities of the Council in their memoranda for the upcoming DC4 bonds, as listed in the IBA FY 2017 Budget Report.
5. Authority to transfer revenues available in the Low-Income Housing Revenue Fund to the General Fund or to the Housing Authority for use by the Housing Commission to help expand the Serial Inebriate Program for the purpose of addressing homelessness, and for increasing the supply of low and moderate income housing.

This request for authority for the transfer of revenues from the Low-Income Housing Revenue Fund was added to the FY 2017 budget resolution at the request of the Financial Management Department. When the Low-Income Housing Revenue Fund was established several decades ago, its purpose was to increase the supply of low and moderate income housing. The Mayor's Proposed Budget uses these funds to expand SIP which will expand the number of transitional beds provided by the program. As this use falls outside of the scope originally established for the Low-Income Housing Revenue Fund, the Council is being asked to approve this transfer. Granting this authority will allow for the expansion of SIP as indicated in the Mayor's FY 2017 Proposed Budget.


  
Christiana Gauger  
Fiscal & Policy Analyst


  
Chris Ojeda  
Fiscal & Policy Analyst


  
Charles E. Modica, Jr.  
Fiscal & Policy Analyst

  
Lisa Byrne  
Fiscal & Policy Analyst

  
Chris Olsen  
Fiscal & Policy Analyst

  
Trisha Tacke  
Research Analyst

  
Andrea Tevlin  
Independent Budget Analyst

  
Jeff Kavar  
Deputy Director

Attachment: 1. Corrective Options to Help Restore Equity in City Council Operating Budgets

### ***Corrective Options to Help Restore Equity in City Council Operating Budgets***

As part of their Budget Priority memoranda, three Councilmembers requested consideration of budget adjustments to establish equity among the budgets of the nine Council offices. Other Councilmembers have expressed similar concerns. In response to these concerns, our Office has evaluated various options to permanently achieve this budgetary objective. These options are presented below for Council consideration.

Excluding the Community Projects, Programs, and Services (CPPS) budgets, the operating budget for each Council office is comprised of three components:

<b>Personnel Expense (PE):</b>	Employee compensation - salaries and wages
<b>Fringe Expense:</b>	Employee benefits - retirement, flexible benefits, insurance
<b>Non-personnel Expense (NPE):</b>	Supplies, contracts, information technology, miscellaneous

Two of these budget components (PE and NPE) are primarily allocated and expended on a discretionary basis, while the third (fringe expense) is a non-discretionary expense that is primarily determined based on staff characteristics (e.g., staff hire dates). Fringe expenses are more difficult to project and manage due to differences in staff demographics and staff turnover.

There are several possible approaches to restoring Council operating budget equity. Because FY 2017 Proposed Budget allocations for each Council office are different, each approach will impact the proposed operating budget for each office differently and require a different amount of ongoing resources be identified to facilitate the change. Of the four approaches presented below for Council consideration, the first three ignore fringe costs and instead focus on equalizing PE and NPE budget allocations. Fringe is ignored because it is a non-discretionary budget expense based on staff attributes that often change, and budgeting for fringe is considered to be outside of a department's control. The fourth approach is to simply equalize total operating budgets inclusive of fringe.

- 1) The IBA recommends initially adjusting low PE and NPE budgets up to the average amount in the FY 2017 Proposed Budget, and then working to permanently equalize Council office budgets. This option would increase the FY 2017 Proposed Budget for six of the nine offices. It would also mean that six Council office budgets are higher than they were in FY 2016 and three are lower. These changes will reduce the high-low discretionary budget differential by two-thirds. The second step involves Council discussing future operating budget needs during FY 2017 and requesting that PE and NPE budgets be permanently equalized at a stipulated level beginning mid-year FY 2017 or in the FY 2018 budget. This will require additional review, and may or may not require additional ongoing resources depending on the new PE and NPE budget levels. **IBA Recommended Approach - Initial Annual Ongoing Cost: \$275,000**

OPTION 1: ADJUST LOW PE & NPE BUDGETS TO AVERAGE PE & NPE BUDGET								
Council District	PE	Fringe	NPE	Total FY17 Option 1	Proposed Adjustment	FY16 Budget	Change from FY16 to FY17 Proposed	Change from FY16 to FY17 Option 1
1	\$ 665,346	\$ 500,643	\$ 141,288	\$ 1,307,277	\$ -	\$1,065,841	\$ 241,436	\$ 241,436
2	630,100	372,246	182,372	1,184,718	4,888	1,096,968	82,862	87,750
3	673,055	536,993	140,396	1,350,444	34,115	1,226,435	89,894	124,009
4	630,100	323,719	140,396	1,094,215	23,446	1,065,776	4,993	28,439
5	630,100	236,524	184,454	1,051,078	6,475	1,065,628	(21,025)	(14,550)
6	630,100	230,640	140,396	1,001,136	81,451	1,065,761	(146,076)	(64,625)
7	650,538	252,853	167,173	1,070,564	-	1,131,197	(60,633)	(60,633)
8	630,100	380,401	140,396	1,150,897	122,677	1,117,617	(89,397)	33,280
9	676,985	410,199	154,225	1,241,409	-	1,065,774	175,635	175,635
<b>Total</b>	<b>\$5,816,424</b>	<b>\$3,244,218</b>	<b>\$1,391,096</b>	<b>\$10,451,738</b>	<b>\$ 273,052</b>	<b>\$9,900,997</b>		
<b>Cost</b>	<b>\$ 145,522</b>		<b>\$ 127,530</b>	<b>\$ 273,052</b>				
<b>Key</b>	High Budget	Low Budget	Adjustment					

- 2) Adjust all PE and NPE budgets to the average amount budgeted in the FY 2017 Proposed Budget. This option would reduce the total FY 2017 proposed operating budget for six of the nine Council offices and increase it for three. Additionally, six Council office operating budgets would be higher than they were in FY 2016 and three would be lower. This approach eliminates the proposed PE and NPE budget differential in FY 2017. Differences in the total operating budget would be explained by differences in non-discretionary fringe costs. While unexpended fringe can enhance a Council office's CPPS funding, fringe budget allocations are not intended for CPPS. Potential changes to the CPPS Council Policy (e.g. requiring that all fringe savings be shared equally between all Council offices) could mitigate this unintended outcome. **Budget Neutral**

OPTION 2: ADJUST ALL PE & NPE BUDGETS TO AVERAGE PE & NPE BUDGET								
Council District	PE	Fringe	NPE	Total FY17 Option 2	Proposed Adjustment	FY16 Budget	Change from FY16 to FY17 Proposed	Change from FY16 to FY17 Option 2
1	\$ 630,100	\$ 500,643	\$ 140,396	\$ 1,271,139	\$ (36,138)	\$ 1,065,841	\$ 241,436	\$ 205,298
2	630,100	372,246	140,396	1,142,742	(37,088)	1,096,968	82,862	45,774
3	630,100	536,993	140,396	1,307,489	(8,840)	1,226,435	89,894	81,054
4	630,100	323,719	140,396	1,094,215	23,446	1,065,776	4,993	28,439
5	630,100	236,524	140,396	1,007,020	(37,583)	1,065,628	(21,025)	(58,608)
6	630,100	230,640	140,396	1,001,136	81,451	1,065,761	(146,076)	(64,625)
7	630,100	252,853	140,396	1,023,349	(47,215)	1,131,197	(60,633)	(107,848)
8	630,100	380,401	140,396	1,150,897	122,677	1,117,617	(89,397)	33,280
9	630,100	410,199	140,396	1,180,695	(60,714)	1,065,774	175,635	114,921
<b>Total</b>	<b>\$5,670,902</b>	<b>\$3,244,218</b>	<b>\$1,263,566</b>	<b>\$10,178,686</b>	<b>\$ (0)</b>	<b>\$ 9,900,997</b>		
<b>Cost</b>	<b>\$ -</b>		<b>\$ -</b>	<b>\$ -</b>				
<b>Key</b>	High Budget	Low Budget	Adjustment					

- 3) Adjust all PE and NPE budgets to the highest Council office amount budgeted in the FY 2017 Proposed Budget. Option 3 increases the total FY 2017 proposed operating budget



for all nine Council offices. It would also mean that eight of the nine Council office budgets are higher than they were in FY 2016 and one Council office is \$17,000 lower. This approach eliminates the proposed PE and NPE budget differential in FY 2017. Differences in the total operating budget would be explained by differences in non-discretionary fringe costs. While unexpended fringe can enhance a Council office's CPPS funding, fringe budget allocations are not intended for CPPS. Potential changes to the CPPS Council Policy (e.g. requiring that all fringe savings be shared equally between all Council offices) could mitigate this unintended outcome. **Annual Ongoing Cost: \$818,000**

OPTION 3: ADJUST ALL PE & NPE BUDGETS TO THE HIGH PE & NPE BUDGET								
Council District	PE	Fringe	NPE	Total FY17 Option 3	Proposed Adjustment	FY16 Budget	Change from FY16 to FY17 Proposed	Change from FY16 to FY17 Option 3
1	\$ 676,985	\$ 500,643	\$ 184,454	\$1,362,082	\$ 54,805	\$ 1,065,841	\$ 241,436	\$ 296,241
2	676,985	372,246	184,454	1,233,685	53,855	1,096,968	82,862	136,717
3	676,985	536,993	184,454	1,398,432	82,103	1,226,435	89,894	171,997
4	676,985	323,719	184,454	1,185,158	114,389	1,065,776	4,993	119,382
5	676,985	236,524	184,454	1,097,963	53,360	1,065,628	(21,025)	32,335
6	676,985	230,640	184,454	1,092,079	172,394	1,065,761	(146,076)	26,318
7	676,985	252,853	184,454	1,114,292	43,728	1,131,197	(60,633)	(16,905)
8	676,985	380,401	184,454	1,241,840	213,620	1,117,617	(89,397)	124,223
9	676,985	410,199	184,454	1,271,638	30,229	1,065,774	175,635	205,864
<b>Total</b>	<b>\$6,092,865</b>	<b>\$3,244,218</b>	<b>\$1,660,086</b>	<b>\$10,997,169</b>	<b>\$ 818,483</b>	<b>\$ 9,900,997</b>		
<b>Cost</b>	\$ 421,963		\$ 396,520	\$ 818,483				
<b>Key</b>	High Budget	Low Budget	Adjustment					

- 4) Adjust total Council operating budgets to the average proposed FY 2017 operating budget UNLESS the average budget is less than the amount a Council office received in FY 2016 in which case it remains the same. This would increase the total FY 2017 proposed operating budget for five of the nine Council offices and decrease it for four offices. However, seven Council office operating budgets would be higher than they were in FY 2016 and two would remain unchanged. This approach significantly reduces the high-low total budget differential to approximately \$95,000 in FY 2017. While this approach begins to equalize total operating budgets, it does not address current or future differences in budgeted fringe expense which, in turn, can create budget disparity. For example, if one office's budgeted fringe is higher than another due to the characteristics of their employees (for example, longstanding City employees versus new hires), then an equalized total budget approach may limit the amount of salary they have to pay employees (PE) or the amount of funds their have for constituent mailers (NPE). For this reason, the IBA recommends focusing on equalizing PE and NPE only. By ignoring fringe differences or changing CPPS Policy, differences in budgeted fringe expense should not adversely impact Council budget parity. **Annual Ongoing Cost: \$96,000**

<b>OPTION 4: ADJUST FY17 COUNCIL OPERATING BUDGETS TO AVERAGE TOTAL OPERATING BUDGET UNLESS LOWER THAN FY16 BUDGET</b>								
<b>Council District</b>	<b>PE</b>	<b>Fringe</b>	<b>NPE</b>	<b>Total FY17 Option 4</b>	<b>Proposed Adjustment</b>	<b>FY16 Budget</b>	<b>Change from FY16 to FY17 Proposed</b>	<b>Change from FY16 to FY17 Option 4</b>
1	\$ 665,346	\$ 500,643	\$ (35,024)	\$ 1,130,965	\$(176,312)	\$ 1,065,841	\$ 241,436	\$ 65,124
2	625,212	372,246	133,507	1,130,965	(48,865)	1,096,968	82,862	33,997
3	673,055	536,993	16,387	1,226,435	(89,894)	1,226,435	89,894	-
4	625,219	323,719	182,027	1,130,965	60,196	1,065,776	4,993	65,189
5	623,625	236,524	270,816	1,130,965	86,362	1,065,628	(21,025)	65,337
6	600,460	230,640	299,865	1,130,965	211,280	1,065,761	(146,076)	65,204
7	650,538	252,853	227,806	1,131,197	60,633	1,131,197	(60,633)	-
8	530,462	380,401	220,102	1,130,965	102,745	1,117,617	(89,397)	13,348
9	676,985	410,199	43,781	1,130,965	(110,444)	1,065,774	175,635	65,191
<b>Total</b>	<b>\$5,670,902</b>	<b>\$3,244,218</b>	<b>\$1,359,267</b>	<b>\$10,274,387</b>	<b>\$ 95,701</b>	<b>\$ 9,900,997</b>		
<b>Cost</b>	\$ -		\$ -	\$ 95,701				
<b>Key</b>	High Budget	Low Budget	Adjustment					