



# **Office of the IBA**

## **Review of FY 2014 Mid-Year Budget Monitoring Report**

**March 3, 2014**  
**San Diego City Council**  
**Item - S401**



# FY2014 Mid-Year Report

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

- Appropriate \$17.9 million in major revenue growth above FY 2014 Adopted Budget levels to provide necessary funding for unanticipated Citywide elections, Fire-Rescue, Park and Recreation, Police, and Public Works – Engineering and Capital Projects Departments expenditures.
- Utilize \$22.9 million of the revised \$50.8 million projected General Fund budgetary surplus to fund specific expenditures during FY 2014.
- Maintain a 1.3 percent or \$14.1 million “buffer” above the recently adopted City Reserve Policy minimum General Fund reserve level of 14.0 percent to account for any potential variations in projections as proposed by the Chief Financial Officer (CFO).



# FY2014 Mid-Year Report

We have reviewed the following items in the Mid-Year Report:

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



# General Fund Revenues

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

- Total General Fund revenue is projected to exceed the FY 2014 Adopted Budget by \$62.4 million and the First Quarter Report by \$4.0 million. Large increase in projected year-end revenues in FY 2014 is primarily attributable to an increase in property tax revenue based on distributions due to the dissolution of the City's Redevelopment Agency (RDA).
- Major revenue projections included in the Mid-Year Report are appropriate based on revenue distributions to date and the current economic forecast.
- Sales and transient occupancy taxes have shown some softening as compared to projections included in the First Quarter Report and should be closely monitored.

# General Fund Departmental Revenues



- Police Department

- Police Parking Citation Revenue

Revenue estimates were adjusted in FY 2014 by increasing Police parking citation revenue by \$619,000 based on FY 2013 trends. The FY 2014 Mid-Year Report projects an additional increase in citation revenue of \$1 million, for a total year-end projection of \$14,155,235.

- AB 109 Disbursements

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

- Public Works – Contracts

Budgeted revenue targets were about \$1.1 million or 50.0 percent of budgeted expenditures, the Mid-Year Report projects that revenue is \$122,144 or 11.6 percent under budget due to staff charges not being accurately allocated.

- General Services – Facilities Division

Revenue is projected to be under budget by \$200,000 or 4.6 percent due to the Division performing less reimbursable work. This has enabled the Division to focus on conducting more preventative maintenance and addressing the significant backlog of work order requests.



# General Fund Expenses

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

- General Fund expenses projected in the Mid-Year Report have increased \$11.5 million from the FY 2014 Adopted Budget, which is a decrease of \$6.3 million since the First Quarter Report projected year-end expenditures.
- Increase in projected year-end expenditures in FY 2014 above the Adopted Budget is primarily due to unanticipated elections costs and increases in Fire-Rescue and Police Department salary and wages costs.



# General Fund Citywide Expenses

- Departmental Vacancies

- Vacancies are having a significant effect on the year-end projections for the General Fund.
- Mid-Year Report shows approximately 174 General Fund vacancies beyond what were accounted for in the FY 2014 Adopted Budget; and there is \$12.0 million in salary savings projected.
- Savings garnered through the high level of vacancies are more than offset by other personnel expenditures, including pay in lieu of annual leave and overtime, masking the full cost of these expenditure categories.
- Recommend pay-in-lieu be reviewed and overtime be right sized.

- Tree Trimming

TSW's Street Division is completing right of way tree trimming using in-house crews until the new contract is awarded, potentially in March 2014.

- Development Services – Community Plan Updates

- Development Services is projecting a surplus of \$0.9 million for Community Plan Updates due to unanticipated delays in CPU's.
- Staff are currently working on streamlining measures and reforms to address these issues.



# General Fund Department Expenses

- Police Department

- Overtime

Projected to exceed budgeted overtime expenditures by \$4.5 million offset by salary savings, overall personnel expenditure projection \$4.2 million above Budget due to pay-in-lieu and fringe benefits.

- Helicopter Maintenance and Fuel

The department has indicated it will request approximately \$2.5 million in air support maintenance expenditures from the General Fund in FY 2015. Helicopter fuel expenditures of approximately \$800,000 would continue to be supported by Seized Asset Funds.

- Fire-Rescue Department

- Overtime

Projected to exceed budgeted overtime expenditures by \$4.1 million offset by \$2.6 million in salary savings. Department continues to face challenges in balancing the overtime and salary savings associated with the constant staffing model.

- Graduate Decrease

The Mid-Year Report notes that 11 fewer Fire Recruits graduated from the October 2013 fire academy than previously anticipated.





# General Fund Department Expenses

- Public Works – General Services
  - Projecting non-personnel expenditures to be slightly over budget due to the increase costs for Maintenance, Repair, and Operation Contracts or MROs.
  - The Purchasing and Contracting Department Director is anticipated to bring forward Municipal Code changes to the Committee on Budget and Government Efficiency in March 2014 to aid in streamlining requisition of items and contracts in the City.
- Public Works – Engineering & Capital Projects
  - A \$1.7 million increase in expenditures for E&CP is required for unbudgeted costs associated with the move from 600 B Street to 525 B Street and over budget personnel expenditures.
- Transportation & Storm Water – Street Division
  - Filled 32.00 FTE positions thus far in FY 2014 including 26.00 positions for the sidewalk condition assessment, but currently has 19.00 FTE vacancies over budget.
  - Some of these vacancies will remain open while the Department identifies new efficiencies as an alternative to the Street and Sidewalk Maintenance managed competition.



# General Fund Reserve & Excess Equity

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



# Proposed Use of Mid-Year Surplus

- At the February 26, 2014 Committee on Budget and Government Efficiency, Committee Members requested that the Office of the IBA further review each of the \$22.9 million in proposed utilization of the projected surplus, including whether funding for individual proposals can be fully utilized in FY 2014, or if they may potentially be deferred if immediate funding was not required.
- Based on our review, we have identified a portion of the \$22.9 million in proposed use of the projected Mid-Year Report surplus could be deferred to FY 2015 if Council should so desire. Any funds deferred to FY 2015 could be utilized to accomplish other priority items utilizing authority granted in the Mid-Year Ordinance. These deferred items could then potentially be funded in the FY 2015 Budget.



# Proposed Use of Mid-Year Surplus

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

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



# Proposed Use of Mid-Year Surplus

- Public Liability Pay-Go - \$10,100,000
  - No, funding can not be delayed due to anticipated payments and increases in insurance premiums
- Public Liability and LTD Reserve Contributions - \$4,400,000
  - Yes, funding could be delayed and alternatively included in the FY 2015 Proposed Budget
  - Committee interest for pre-funding Public Liability and LTD Reserve Funds, would require utilizing \$14.0 million of remaining \$14.1 million in excess equity in addition to \$4.4 million contribution included in Mid-Year Report
- South Chollas Landfill Improvement - \$3,000,000
  - No, funding can not be delayed due to regulatory requirements
  - Additional one-time General Fund expenditure of \$2.7 million is required plus Enterprise Fund expenditures in FY 2015.



# Proposed Use of Mid-Year Surplus

- Police Body-Worn Cameras - \$2,000,000
  - Partial funding may be able to be delayed depending on several factors including specific implementation plans, an RFP process, and meet and confer.
  - On-going could range from \$100,000 - \$500,000 per year
- North Embarcadero Visionary Plan (Phase One) - \$1,250,000
  - No, funding can not be delayed
  - For this project to move forward, the funding commitment is needed in FY 2014
- Neighborhood Parking Protection Ordinance - \$664,970
  - Partial funding can be delayed
  - On-going \$814,280 per year
  - An alternative funding allocation to consider is \$153,000 in FY 2014 for signage and permitting system and \$511,970 in FY 2015 for Police Enforcement Officers.



# Proposed Use of Mid-Year Surplus

- Skyline Temporary Fire Station - \$420,000
  - No, station is a critical public safety priority that should move forward
  - On-going \$2.2 million per year
- City Attorney Office Budget Restoration - \$300,000
  - Yes, funding could be delayed
  - On-going \$300,000 per year
- City Website IT Updates - \$258,000
  - Partial funding could be delayed
  - An alternative funding allocation to consider is \$150,000 for consultant costs in FY 2014 and \$108,000 for implementation in FY 2015.
- Lifeguard Services Vehicle Outfitting - \$200,000
  - No, funding should not be delayed since vehicles are expected to be delivered in March 2014



# Proposed Use of Mid-Year Surplus

- Additional 9 Police Recruits - \$182,000
  - No, funding should not be delayed as this addresses critical issue of officer retention
  - On-going \$763,000 per year
- Kumeyaay Campground - \$71,250
  - Funding delay not recommended as restoration has been discussed for past year, not a significant cost
  - On-going \$140,000 per year (small incremental revenue)
- Mission Trails Visitor Center - \$60,000
  - No, funding not recommended to be delayed
  - One-time expenditure for energy efficiency improvements
- NEOGOV Personnel Department - \$8,000
  - No, funding is not recommended to be delayed as funding is needed to begin to address hiring process improvements
  - Additional costs may be necessary in the future based on recommended changes





# Mid-Year Ordinance

- Ordinance-20084 (“Mid-Year Ordinance”) amended the municipal code regarding mid-year budget adjustments and reporting significant reductions in City services or programs. The Mid-Year Ordinance requires the Mayor to report any deficit or surplus in the General Fund projection to the City Council and recommend solutions for addressing the deficit or surplus.
- Of the identified \$50.8 million budgetary surplus, the Mayor has proposed utilizing \$22.9 million in FY 2014 for the projects that are detailed in the preceding section, with the remaining \$27.9 million to be held in the General Fund reserve. Based on the identified budget surplus and recommended use, Council options are as follows:
  - 1.) Accept the Interim Mayor’s \$22.9 million of budget recommendations in full;
  - 2.) Modify the Mayor’s recommendations as desired for any amount less than or up to \$22.9 million.



# Conclusion

- Based on the request to our office, we have identified a portion of the \$22.9 million in requested spending of the projected year-end surplus that could be delayed and redirected to other priority areas if the Council should desire utilizing their authority as outlined in the Mid-Year Ordinance.
- Items that are requested to be funded in the Mid-Year Report are worthwhile and justifiable for funding, but may not in all cases require an immediate need for resources.
- The CFO recommended maintaining a 1.3 percent “buffer” above this recently established minimum reserve to further safeguard the 14.0 percent reserve. While we support this for FY 2014, we recommend this concept of establishing a “buffer” be discussed further and clarified in the Reserve Policy before the end of the fiscal year at the Committee on Government and Budget Efficiency.