



Proposed Revisions to the Mayor's FY 2016 Budget

Office of the Independent Budget Analyst

City Council: June 8, 2015

Item 202

Budget Review Steps Since Release of FY 2016 Proposed Budget



- April 13, 2015 – Mayor’s FY 2016 Proposed Budget issued
- May 4 - May 8, 2015 – Budget Review Committee department and agency budget hearings held
- May 11, 2015 – City Council evening hearing to solicit community input
- May 19, 2015 – Mayor’s FY 2016 May Revision and FY 2015 Year-End Report issued
- June 3, 2015 – IBA Review of the FY 2016 May Revision and Recommended Revisions to the Mayor’s FY 2016 Budget issued
- June 9, 2015 – Final City Council decisions for FY 2016

Overview of May Revision



FY 2016 budget recommendations for final Council budget modifications based on the following:

- Our analyses of the FY 2016 May Revision and its supplement (May Revision), the FY 2015 Year-End Report, and the FY 2016 Proposed Budget
- Review of Councilmember budget priority memoranda submitted to our office on May 23
- Consideration of feedback from the public, City staff, and City Councilmembers during the Budget Review Committee hearings

Overview of May Revision cont'd



- May Revision increases the Mayor's FY 2016 Proposed Budget by \$29.1 million (2.3%) from \$1.28 billion to \$1.30 billion
- May Revision increases the number of General Fund FTEs by 47.56 from the Proposed Budget, bringing the total General Fund FTEs to 7,268.95
- General Fund revenues increased by \$8.4 million (0.7%) from \$1.27 billion to \$1.28 billion
- Expenditures increased approximately \$20.8 million above new resources due to the proposed use of excess equity for the proposed Pension Payment Stabilization Fund and to pre-fund the Public Liability Reserve

Primary Resources Used to Balance May Revision



- Excess Equity - \$20.8 million projected
- Increased TOT (full 10.5 cents) Growth Rate (5.5% to 6%) - \$3.6 million
- Increased Property Tax Growth Rate (4.25% to 5%) - \$2.7 million
- User Fee Increases - \$881,000

Top Council Expenditure Priorities Addressed in FY 2016



- Police Recruitment and Retention (Proposed Budget)
 - \$11.1 million in PE and NPE to support the first year of the MOU
 - 22.00 FTE civilian positions
 - 5.00 FTE sworn positions and \$1.1 million in support
 - \$2.1 million for the continued implementation of body worn cameras
- Fire-Rescue (Proposed Budget)
 - \$2.5 million for the operation of East Side Mission Valley Fire Station and the Skyline Temporary Fire Station
 - \$1.2 million for Fast Response Squad program continuation and expansion
 - \$1.1 million (one-time) for two additional academies

Top Council Expenditure Priorities Addressed in FY 2016 cont'd



- Infrastructure
 - Proposed Budget:
 - \$29.2 million for street repairs
 - \$5.0 million for General Fund portion of EAM
 - \$3.2 million for sidewalk repairs
 - \$1.4 million for condition assessments
 - May Revision: \$1.7 million transfer of funding for the repair of libraries and park and recreation facilities

Top Council Expenditure Priorities Addressed in FY 2016 cont'd



- Community Services
 - Proposed Budget: increased funding for additional park maintenance services, brush management in Otay Valley Regional Park, additional recreation center hours at 16 facilities
 - May Revision Library:
 - \$210,000 to restore library materials budget
 - \$40,000 to support Sunday hours in Pacific Beach

Top Council Expenditure Priorities Addressed in FY 2016 cont'd



- Community Services
 - May Revision Park & Recreation:
 - \$1.2 million to support increased hours of operations at 36 recreation centers (increase of 20 centers from Proposed Budget)
 - 1.00 Program Manager (\$130,000) to support Balboa Park/Mission Bay Park
 - 1.00 Horticulturalist (\$75,000) to support the Water Conservation Program

Top Council Expenditure Priorities Addressed in FY 2016 cont'd



- Internal Efficiencies

- Proposed Budget: significant support for IT initiatives such as online customer portals; upgrades to budget, human resources, personnel, and procurement modules; upgrades/replacement to the City's CAD systems; library broadband upgrades
- May Revision:
 - \$98,000 in Performance & Analytics to support a performance dashboard and online open data tool
 - Additional support from the Water Utility Operating Fund to support the Advanced Metering Infrastructure project, the Advanced Water Purification Facility Demonstration Project, and acceleration of the PURE Water Program

May Revision – State Drought Mandates



The May Revision increased support for the Public Utilities Department (Non-General Fund) in order to address new State drought mandates, including:

- \$20.6 million reduction in Water Fund related to water purchases
- \$14.7 million/26.00 FTEs to support the Advanced Metering Infrastructure Project
- \$11.8 million/6.00 FTEs to support the PURE Water Program
- \$1.8 million for turf replacement/conservation outreach
- \$1.5 million/11.00 FTEs for emergency water repairs
- \$738,000/8.01 FTEs for water use restriction enforcement

IBA Recommended Resource – Excess Equity



<i>Description</i>	One-Time (Excess Equity)	General Fund Ongoing
<i>IBA Proposed Resources</i>		
Fund Public Liability Reserve through FY 2016 rather than FY 2018, freeing up \$5.8 million in excess equity and \$900,000 in ongoing funds. This is consistent with City policy goals and the FY 2016-FY 2020 Outlook.	\$ 5,800,000	\$ 900,000
Free up \$5.0 million of ongoing resources by utilizing excess equity to fund \$5.0 million in one-time costs for the Bayside Fire Station construction.	(5,000,000)	5,000,000
Total Available Resources	\$ 800,000	\$ 5,900,000

IBA Recommended Resource – Excess Equity cont'd



- \$6.7 million used to pre-fund the General Fund contribution to the Public Liability Reserve through FY 2018
- Public Liability Reserve FY 2016 goal fully funded with FY 2015 funds
- **Recommendation: fund the Public Liability Reserve through FY 2016 consistent with policy goals and the Proposed Budget, but not through FY 2018 (\$5.8 million one-time; \$900,000 ongoing)**

IBA Recommended Resource – Excess Equity cont'd



- Bayside Fire Station currently funded in FY 2016 with ongoing funds
- **Recommendation: use \$5.0 million in excess equity (one-time) to fund Bayside Fire Station**
- Funding Bayside this way, and not pre-funding FY 2017 and FY 2018 Public Liability Reserve, frees up:
 - \$5.9 million in General Fund ongoing funds
 - \$800,000 in excess equity (one-time)

Expenditure Priorities Identified in Memos by Majority of Council



IBA Proposed FY 2016 Budget Revisions for Council Consideration		
Penny for the Arts Blueprint - Increase from 5.7% to 6% of 1 cent TOT	\$ -	\$ (500,000)
IBA consultant to support complex analyses	-	(20,000)
7.00 FTE Mechanics to help achieve Fleet vehicle maintenance and safety goals	-	(453,000)
2.00 FTE Associate Personnel Analysts to support hiring workload	-	(192,000)
3.00 FTE Park Rangers for Shoreline Parks, Sunset Cliffs Natural Park, and Chicano Park	-	(384,000)
ADA Upgrades/Tot lots in neighborhood parks (one-time cost)*	-	(500,000)
Traffic Signal Optimization Technology to address traffic congestion (one-time cost)*	-	(1,500,000)
Mission Beach street vacuuming to help mitigate fly infestation during summer months	-	(40,000)
Market Street Sidewalks - design and environmental analysis conducted in FY 2016 (one-time cost)*	(375,000)	(625,000)
Replacement of old City Hall carpet to prevent trips and falls (one-time cost)	(425,000)	-
Total Suggested Budget Revisions	\$ (800,000)	\$ (4,214,000)
Net Balance**	\$ -	\$ 1,686,000

*One-time expenditure funded with ongoing resources

**Available for excess equity or one-time unfunded Council/community priorities

Expenditure Priorities Identified in Memos by Majority of Council cont'd



Ongoing Expenditure Priorities Recommended for Funding

- Park Rangers for Shoreline Parks, Sunset Cliffs Natural Park, Chicano Park - \$384,000
- Increased Support for Penny for the Arts - \$500,000
- Fleet Services Technicians - \$453,000/7.00 FTE
- IBA consultant funds - \$20,000
- Personnel Department Analysts - \$192,000/2.00 FTE

Expenditure Priorities Identified in Memos by Majority of Council cont'd



One-time Expenditure Priorities Recommended for Funding

- Traffic signal optimization - \$1.5 million
- ADA compliance/tot lot improvements at neighborhood parks - \$500,000

Expenditure Priorities Identified by Council and IBA



Health and Safety Issues Recommended for Funding

- Mission Beach Fly Infestation Abatement - \$40,000 (potential ongoing)
- Replacement of old City Hall carpet on multiple floors to prevent trips and falls - \$425,000 (one-time)
- Market Street sidewalks, design initiation and environmental study - \$1.0 million (one-time)

Expenditure Priorities Not Recommended for Funding



- Police Department – Community-Oriented Policing, Community Relations Officers (CROs), Implementation of PERF Report Recommendations
 - No funding estimates for PERF recommendations at this time
 - Department will be returning to Public Safety and Livable Neighborhoods with an updated report on implementation of PERF recommendations
- Police Department – Traffic and Special Events Building
 - Currently no funding estimates for facility repair/replacement are available
 - Current location of facility subject to FAA restrictions

Councilmember Priorities Receiving Four Mentions



• Ongoing Expenditures

- Increase fire safety throughout the Wildland-Urban Interface - \$1.0 million
- Support for a regional Film Commission - \$485,000
- Support staff for the Office of the City Attorney - \$217,000
- Purchasing & Contracting Department support - \$TBD

• One-time Expenditures

- Tubman Charter School Joint Use Park - \$1.9 million
- Home Avenue temporary fire station - \$900,000
- Flashing crosswalk at Adams Avenue and Kensington Drive - \$100,000
- Relocation of electrical boxes on Meade Avenue - \$91,000

Other Significant Issues: Excess Equity



- **Current Excess Equity Policy Guidelines**
 - Adopted on June 24, 2014
 - Excess equity projected in quarterly monitoring reports (amount of excess equity only finalized when books are closed at year-end)
 - Originally set aside to mitigate budget fluctuations during the year

Other Significant Issues:

Excess Equity cont'd



- Mayor may propose the following uses for excess equity during May Revision: fund General Fund Reserves, fund Risk Management Reserves, or fund priority one-time capital needs
- Council may approve or reject the Mayor's excess equity recommendations in the May Revision, in full or in part, and Council may also propose and adopt a funding alternative exclusive of a Mayoral recommendation
- Transfer of excess equity occurs after the fiscal year closes and the 14% General Fund Reserve requirement has been met

Other Significant Issues:

Excess Equity cont'd



- IBA Recommendations for Excess Equity in April Report
 - Change the Reserve Policy to include an Equity Reserve equal to 1% of General Fund revenues, calculated like the 14% General Fund Reserve requirement
 - 1% for FY 2016 projected to be \$11.6 million
 - Our Office had preliminary discussions with the CFO and City Attorney's Office on this recommendation; we noted that we could continue to work with these offices before bringing the matter to Budget and Government Efficiency Committee and full Council

Other Significant Issues:

Excess Equity cont'd



- Mayor's May Revision Recommendations for Excess Equity
 - \$5.8 million to pre-fund the Public Liability Reserve through FY 2018
 - \$15.0 million to establish an irrevocable trust to help mitigate the risks of pension investment losses or other actuarial changes

Other Significant Issues:

Excess Equity cont'd



- Pension Payment Stabilization Reserve Trust (PPSRT)
 - IBA Review of the Mayor's FY 2016 Proposed Budget identified possible changes to SDCERS Board discount rate assumptions as a potential future risk we agree we need to prepare for
 - There is currently no financial policy in place that provides parameters, purposes, funding levels, or authorization for an irrevocable trust restricted to pension payments
 - Current Reserve Policy specifies that uses of excess equity in the May Revision are for the General Fund Reserve, Risk Management Reserves, and one-time capital expenditures

Other Significant Issues:

Excess Equity cont'd



- No discussion has occurred at Budget and Government Efficiency Committee re: the pros and cons of a restricted, irrevocable trust vs. a more flexible equity reserve
- During Budget Review Committee hearings, the general consensus was to refer this discussion to Committee
- **Recommendation: Return to Budget and Government Efficiency Committee to develop a policy and proposal for future Council actions**

Other Significant Issues:

Excess Equity cont'd



- PPSRT/Equity Reserve in Councilmember Memoranda
 - All Councilmembers expressed interest in exploring the concept of a pension payment stability fund or similar mechanism
 - Majority of Councilmembers indicated support for referring the discussion to the Budget and Government Efficiency Committee
 - PPSRT allocates \$15.0 million; Equity Reserve of 1% of General Fund Revenue would be \$11.6 million, a difference of \$3.4 million
 - \$3.4 million difference could remain in excess equity pending determination of the amount of pension reserve, or a small portion could be used for a one-time capital item
 - Other potential funding sources for a new pension stabilization reserve: remaining excess equity, any FY 2016 mid-year surplus, any new RPTTF funds

Other Significant Issues: RPTTF



- Redevelopment Property Tax Trust Fund (RPTTF)
 - May 26 ruling found that the San Diego County Auditor and Controller (CAC) calculation for City's share of RPTTF was not in compliance
 - Potential for City to receive a one-time 'right-size' payment; preliminary estimates indicate \$18.0 - \$25.0 million
 - Ongoing increase to RPTTF of several million per year after one-time payment
 - Appeals may be filed within 60 days; no appeal filed at this time

Other Significant Issues: Ballpark Refunding Bonds



- May 19, 2015, City Council and Public Facilities Financing Authority approved City's Ballpark Refunding Bonds
- Based upon this approval, FY 2016 Proposed Budget reduced General Fund debt service by \$1.1 million
- CFO memo:
 - Lawsuit filed against the City challenging validity of that action
 - Refunding has been delayed; if delay continues, \$1.1 million savings may not be realized
 - Changes in debt service obligations will be addressed during the FY 2016 Mid-Year Budget Monitoring Report

Final Recommendations: Budget



- Do not pre-fund the Public Liability Reserve through FY 2018 (\$5.8 million one-time; \$900,000 ongoing)
- Use Excess Equity (one-time) to fund Bayside Fire Station
- Fund recommended additional expenditures: \$5.0 million (\$800,000 one-time; \$4.2 million ongoing)
- **Balance after funding recommendations: \$1,686,000 (ongoing)**

Final Recommendations: Policy



- Defer discussion of PPSRT/Equity Reserve to Budget and Government Committee
- Request that the Mayor provide a plan for allocating the anticipated one-time RPTTF payment
- Request that Personnel provide raw vacancy data to the City Council on a quarterly basis
- Request that the results of the Traffic Signal Communication Master Plan be brought to the Infrastructure Committee
- IBA Proposed Revisions to the FY 2016 Budget Report also included a request for the list of Park & Recreation and Library facilities prioritized for repair with the \$1.7 million allocated in the May Revision



Final Steps

- Tuesday, June 9 – Wednesday, June 10
 - City Clerk to transmit resolution to Mayor
- Wednesday, June 10
 - Mayor's veto period begins (5 business days)
- Tuesday, June 16
 - Veto period ends; Council has 5 days to override Mayor's veto, if necessary
- Tuesday, June 23
 - City Council adoption of Tax Rate Ordinance per City Charter August 31 deadline

Final Steps cont'd



- **Wednesday, July 15**
 - Budget and Government Efficiency Committee review of Appropriation Ordinance
- **Monday, July 20**
 - City Council introduces and adopts Appropriation Ordinance