



# Office of the IBA: Review of FY 2016 Mid-Year Budget Monitoring Report

March 1, 2016

City Council

Item – S500

# FY 2016 Mid-Year Report



The Mid-Year Report requests City Council approval:

1. Appropriate \$3.3 million in one-time General Fund revenues above FY 2016 Adopted Budget levels
2. Increase General Fund expenditure appropriations in the Citywide Program Expenditures Department by \$5.8 million to fund a Public Liability Reserve contribution
3. Decrease General Fund expenditure appropriations in the Park & Recreation Department by \$2.5 million
4. Appropriate \$4.0 million in the Low Income Housing Lease Revenue Fund for the Homeless Veterans Initiative
5. Transfer up to \$1.0 million from the SDFD Station Alerting CIP to the Police Range Refurbishment CIP
6. Transfer up to \$2.0 million from the annual allocation for Watershed CIP to the annual allocation for Drainage Projects

# FY 2016 Mid-Year Report



## IBA Review of the following items in the Mid-Year Report:

- General Fund revenues and expenditures including policy issues and programmatic budgetary items
- City hiring and vacancies
- Reserve goals
- The projected surplus for FY 2016
- Excess equity



# General Fund Revenues

- General Fund revenue is projected to exceed the FY 2016 Adopted Budget by \$3.7 million
- Major General Fund Revenues: Overall decrease of \$204,000 from the Adopted Budget
  - Property Tax
    - \$2.3 million decrease from Adopted Budget
    - \$2.6 million decrease from First Quarter
  - Sales Tax
    - \$3.2 million decrease from Adopted Budget
    - \$1.8 million decrease from First Quarter
  - Transient Occupancy Tax (TOT)
    - \$3.9 million increase over Adopted Budget
    - \$2.0 million increase over First Quarter Report
    - Growth rate increase from 6% to 7% for remainder of the fiscal year



# General Fund Revenues



**We believe the projections included in the Mid-Year Report are appropriate based on revenue distributions to date and current economic information**

- The Mid-Year Report states that overall, actual receipt of major General Fund revenues reflect the moderate level of economic growth projected in the FY 2016 budget
- Our Office notes that major General Fund revenue should continue to be closely monitored throughout the remainder of the fiscal year. Current projections for major General Fund revenues are projected to end the year slightly under-budget and any change to the economy could affect the City's ability to realize budgeted revenue levels.

# General Fund Expenditures



- General Fund expenditures are projected to be \$3.9 million under-budget at year-end—under-budget expenses in the Energy and Utilities (\$8.4 million) and Other Expenditures (\$2.3 million) categories
- Under-budget expenditures are partially offset with over-budget fringe, contracts, and supplies spending
  - Fringe: \$1.2 million over-budget partially due to:
    - \$4.7 million increase in workers' compensation costs
    - \$3.6 million reduction in flexible benefits projections
  - Contracts: \$3.0 million over-budget partially due to:
    - \$3.1 million increased Public Liability Fund operational needs
    - Other offsetting increases and decreases
  - Supplies: \$3.2 million over-budget including \$1.6 million, \$862,000, and \$612,000 for TSW, Police, and Fire-Rescue departments, respectively

# General Fund Vacancies



- Vacancy savings of approximately \$12.3 million over Adopted Budget, of which \$5.7 million is due to vacancies in the Police Department
- Excess vacancy savings are offset by other personnel expenditures including:
  - Overtime, \$9.0 million over budget (\$6.0 million Police)
  - Termination pay and pay-in-lieu of annual leave, \$2.8 million over budget
- Decrease of 65.25 FTEs General Fund vacancies from the November 2015 snapshot (1112.50 to 1047.25 FTEs)

**Our Office is encouraged by the overall reduction in General Fund vacancies. We suggest continued monitoring of departments' ability to hire, and only partial year funding assigned for newly budgeted positions when appropriate**



# General Fund Expenditures



- Variances in departmental expenses
  - Park & Recreation Department: \$3.5 million in savings from water and sewer expenses
  - TSW: \$1.6 million over-budget supplies; \$2.0 million vacancy savings; \$1.6 million over-budget overtime
  - Fire-Rescue Department: \$631,000 over-budget overtime
  - Police Department
    - \$5.7 million in salary savings
    - \$6.0 million over-budget overtime, up \$1.0 million from First Quarter

**Our Office continues to have concerns regarding increases in Police department overtime and the high number of vacancies in excess of budget. Continued higher-than-anticipated attrition has shown no improvement since last fiscal year.**



# Update on Reserves – General Fund



- Current General Fund Reserve target is 14%
- CFO taking revisions to the Reserve Policy to Budget and Government Efficiency Committee (B&GE) in March
  - Increase General Fund Reserve target to 16.7%
  - Establish a Pension Payment Stabilization Reserve
- Rating agencies have responded positively to Council's January 2016 decision to increase reserves

# Update on Reserves – Risk Management



- Public Liability Reserve
  - FY 2016 reserve target: 40% of the average of the annual actuarial liabilities for the most recent three fiscal years, or \$36.7 million
  - Mid-Year reserve balance is \$22.9 million, \$13.8 million below target
- Workers' Compensation Reserve
  - FY 2016 reserve target: 25% of the average actuarial liabilities, or \$54.5 million
  - Mid-Year reserve balance is \$48.4 million, \$6.1 million below target

# Update on Reserves – Risk Management



- Long-term Disability Reserve
  - FY 2016 reserve target: 100% of the average actuarial liabilities, or \$14.9 million
  - Current reserve balance is \$18.4 million, exceeding target
- Mid-Year Report
  - Request for appropriations to increase contributions to Public Liability Reserve by \$5.8 million
  - Increased contributions to Workers' Compensation Reserve by \$3.1 million
- Projected additional needs at year-end
  - Public Liability: \$8.0 million (General Fund)
  - Workers' Compensation: \$3.0 million (\$2.5 million General Fund)



# Excess Equity and Mid-Year Surplus



<i>\$ in millions</i>	Adopted Budget	Year-End Projection	Budgetary Surplus/(Deficit)
Revenue	\$ 1,281.9	\$ 1,285.6	\$ 3.7
Expenditures	\$ (1,288.0)	\$ (1,284.1)	\$ 3.9
<b>USE OF EXCESS EQUITY</b>	<b>\$ (6.2)</b>	<b>\$ 1.5</b>	<b>\$ 7.6</b>

Table may not total due to rounding.

- Projected Budgetary Surplus, \$7.6 million
  - \$5.8 million, Public Liability Reserve contribution
- Excess Equity
  - FY 2016 ending Excess Equity estimate: \$39.9 million
  - FY 2017 CPPS: \$1.0 million
  - Mid-Year appropriation adjustment request: \$5.8 million for Public Liability Reserve contribution
  - **Remaining estimated Excess Equity: \$33.1 million**

# IBA Recommendations and Next Steps



- We believe that requested appropriation adjustments are prudent:
  - Increase General Fund appropriations to fund Public Liability Reserve
  - Appropriate \$4.0 million in the Low Income Housing Lease Revenue Fund for the Homeless Veterans Initiative
  - Transfer funds between CIP projects
- We anticipate additional requests for General Fund dollars in FY 2016
  - To meet FY 2016 Public Liability and Workers' Compensation reserve targets
  - To fund FY 2016 election costs for up to 10 ballot measures
  - **At this time the only revenue source to support additional FY 2016 requests is estimated Excess Equity: \$33.1 million**
- Updates to the Reserve Policy will come to B&GE in March; funding changes to General Fund Reserves will be part of FY 2017 Proposed Budget