



Overview of Mayor's FY 2015 Proposed Budget & Discussion of Significant Issues

Office of the Independent Budget Analyst

May 5, 2014

Bottom Line



- **Strengths:**
 - Revenue assumptions are sound
 - Budget includes significant investment in public safety
 - Restores/adds other priority community services
- **Weaknesses:**
 - Current infrastructure funding sources are not sustainable
 - Current sources will not generate enough funding to effectively address City's significant capital needs
 - General Fund surpluses projected for FY 2016-FY 2019 are likely optimistic



How the Budget Was Balanced

- A combination of increases in revenues and decreases in various expenditures eliminated the projected FY 2015 deficit and provided resources to restore/add priority services in FY 2015

November 2014 Mayor's FY 2015 Five-Year Financial Outlook Baseline / IBA Revised Baseline

<i>\$ in millions</i>	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Outlook Baseline Budget Surplus / (Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0
IBA Revised Baseline Budget Surplus / (Deficit)	\$ (34.1)	\$ (7.6)	\$ 31.8	\$ 55.9	\$ 80.6

How the Budget Was Balanced



- Major contributors to budget balancing include:
 - Increases in Major General Funds
 - One-time use of TOT fund balance
 - Reduction in pension Actuarially Determined Contribution
 - Reduction in Worker's Compensation contribution
 - Creation of Engineering & Capital Projects Internal Service Fund
 - Creation of Parking Meter Operations Special Revenue Fund

How the Budget Was Balanced



- Some reductions funded new priorities:
 - Civic Innovation Lab funds used to increase Community Plan Updates funding
 - Book budget reduction used for new Library after-school homework program
 - Funding for contracted street repairs used to hire City employees to perform work more efficiently

Discussion of Strengths



Service Reductions Restored:

- Library hours expanded

Library*			
Measure*	Actual FY 2005	Actual FY 2010	Target FY 2015**
Number of Hours of Operation	83,884	76,651	94,848**
Central	2,618	2,492	2,808
Branches	81,266	74,159	92,040

* All statistics based on the Annual California State Library Report unless otherwise specified.
 ** Based on the Mayor's Proposed Budget and availability of additional FY 2014 data.

- 17 Police civilian positions restored

Police Budgeted Staffing Levels Since FY 2010						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Civilian	630.00	503.00	504.25	504.75	511.75	526.75

Discussion of Strengths



Service Reductions Restored:

- Number of Police recruits in each of the four academies increased from 34 to 43

Police Budgeted Staffing Levels Since FY 2010						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sworn	2,124.75	1,991.00	1,969.50	1,969.50	1,977.67	2,013.00



Discussion of Strengths

Funding also restored for:

- Brush management

PARK AND RECREATION ACRES OF BRUSH CLEARED						
	FY2010*	FY2011*	FY2012*	FY2013*	FY2014**	FY2015***
Acres of Brush Cleared	607	317	259	280	452	452

Actual; **Budgeted; *Proposed*

- Facilities maintenance staff

SUMMARY OF CHANGES IN FACILITIES DIVISION BUDGETED FTES						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Facilities Division Budgeted FTE	107.00	108.00	107.00	107.00	116.00	123.00

- Additional Fire academies – 1 in 2014
- Community plan updates

Discussion of Strengths



New Programs Also Funded:

- Do Your Homework @ the Library after school pilot
- Two-person Fast Response Squad pilot
- Expansion of police body worn cameras
- Multi-faceted, coordinated approach to homelessness beyond shelter services
- New temporary Skyline Fire Station will be operational in FY 2015, permanent facility complete in FY 2019
- Eleven new parks and park-related facilities available to the public in FY 2015

Discussion of Strengths



Focus on Public Safety

- New committed resources of \$19 million expected to improve public safety service delivery
- Fast Response Squad could reduce response times in certain deployment areas by 1-3 minutes
- Operation of new Skyline Fire Station will insure service in area of critical need



Discussion of Strengths

- Increasing Police Academy size could result in department achieving staffing goals in 2018 rather than 2027

Effect of Academy Hires on Budgeted Sworn Staffing Goal of 2128 Officers*		
Budgeted Staffing by Date	43 Recruits Per Academy	34 Recruits Per Academy
July 2015	1974	1923
July 2016	2029	1946
July 2017	2081	1968
July 2018	2131	1989
July 2019		2009
July 2020		2027
...		...
April 2027		2128

*Assumes attrition of 9 officers per month.

- Budget includes second year of funding for ongoing Police recruitment and retention program, sworn officer salary survey also underway

Mayor & Council Priorities Match Closely



COMPARISON OF CITY COUNCIL FY 2015 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET

BUDGET PRIORITY		IN FY 2015 BUDGET	COMMENTS
<i>Enhancing Public Safety</i>			
1	Police Department Five-Year Plan	P	\$5.7 million in funding
	Addition of Sworn Personnel	Y	4 academies at 43 recruits each plus full year funding for 9 recruits added to the May 2014 academy through FY 2014 Mid-Year actions
	Addition of Civilian Personnel	Y	17 new positions
	Vehicles & Equipment	P	\$244,000 equipment for new recruits, no funding for vehicles
	Computer Aided Dispatch System Funding	-	To be determined whether remaining CAD acquisition costs will be cash or lease-purchase financed
2	Police Department Retention Program	Y	\$3.2 million included
3	Continued Implementation of Citygate Report Recommendations (Eastside Mission Valley, Skyline Drive, and Home Avenue Fire Stations)	Y	\$950,000 funding included for Skyline temporary station operations. Construction funding of Eastside Mission Valley station, partial funding for permanent Skyline station and Home Avenue station is provided through deferred capital bonds and other sources
4	Restoring Lifeguard Headquarters to Full Use for Public Safety	Y	\$500,000 for facility renovations
5	Expansion of Boating Safety Unit	Y	4 new lifeguard positions

- Not included in the budget
 Y Included in budget, full funding
 P Included in budget/ partial funding

Mayor & Council Priorities Match Closely



COMPARISON OF CITY COUNCIL FY 2015 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET

BUDGET PRIORITY		IN FY 2015 BUDGET	COMMENTS
<i>Community Services</i>			
6	Increase Hours for Central and Branch Libraries	Y	4 new hours at all branch libraries, 5 new hours at Central Library for a total of 48 and 54 hours, respectively
7	Continuation and Expansion of Funding for Homeless Services	Y	\$1.9 million for comprehensive solutions
8	Establishment of Urban Forestry Program & Citywide Tree Maintenance	-	
<i>Infrastructure & Deferred Capital</i>			
9	Address Critical Sidewalk Repair Needs (Sidewalk Condition Assessment, Construction of Sidewalks, Increase Funding of City's 50/50 Program)	P	\$1.5 million for sidewalk assessment / sidewalk and street light improvements
<i>Operational & Policy Funding</i>			
10	Creation of Chief Data Officer Position	Y	Funding of \$202,000 included - additional resources may be needed (see discussion in Analytics and Performance Management Department)
11	Improvement of City of San Diego Website	Y	FY 2014 Mid-Year funding of \$258,000 provided
12	Program Manager Position to Advance City's Climate Action Plan	-	
13	2.0 FTE's for Increased Compliance Monitoring of the Living Wage Ordinance	-	
<i>Revenue</i>			
14	Addition of Residual Property Tax Trust Fund Revenue	Y	\$11.4 million in RPTTF revenue

- Not included in the budget
 Y Included in budget, full funding
 P Included in budget/ partial funding

General Fund Reserve Policy & “Excess Equity”



Mayor's Budget Includes New Council Policy for 14% General Fund Reserve, Policy For Use of "Excess Equity" Still Needed

- On February 10, 2014, the Council approved revisions to the City Reserve Policy increasing the General Fund Reserve from 8% to 14%
- Fund balance in excess of the 14% requirement is defined as excess equity
- The Mayor's Budget contemplated reserving the excess equity, estimated at \$14.1 million, as a buffer for potential revenue shortfalls

General Fund Reserve Policy & “Excess Equity”



- The Mayor has since announced his May Revision will recommend putting excess equity (updated estimate - \$12.3 million) into the City’s Public Liability and/or Long-Term Disability Reserve
- This is consistent with Council’s action during the FY 2014 Mid-Year Budget Review to use excess equity to increase City’s other reserves, with the goal of accelerating full funding

General Fund Reserve Policy & “Excess Equity”



- Due to significant public liability claims, excess equity may not be sufficient to fully fund the Public Liability Reserve and may be needed to meet its FY 2015 funding target (37% of outstanding claims)
- City’s Reserve Policy needs to be revised in near future to define the purposes, priorities and timing of future decisions regarding the use of excess equity

Revenue Projections Are Appropriate



- General Fund revenue projections are appropriate given current revenue performance and economic forecasts
- Recommend a small reduction of \$610,000 to Franchise fee projections based on our review
- Propose no further changes to revenues at this time
- However, we are considering recommending a small increase in property tax growth rates later in the process depending on updated information



Discussion of Weaknesses

Current infrastructure funding sources are not sustainable and do not generate enough funding to address the problem

- The most significant financial pressure facing the City continues to be our infrastructure funding needs estimated at \$2.0 billion or more
- Condition assessments to be completed in FY 2015 will better define the magnitude of the problem
- The City has made progress on increasing funding in recent years through several sources but they are not sustainable or sufficient



Lease Revenue Bonds

- Since 2009 the issuance of \$213 million in lease revenue bonds has been the primary source of funding, this source is not feasible or recommended over the long term:
 - Lease revenue bonds place a 30-year funding obligation on the General Fund which is not desirable as a long term solution, General Fund has other significant funding obligations
 - There is a limit on available City leasable properties for this funding vehicle beyond the next several years

Additional General Fund Contributions



- The City has also increased annual General Fund contributions for maintenance and repair per the Council's adopted Enhanced Option Plan B:
 - The FY 2015 Proposed Budget increases General Fund spending by \$7 million, from \$55 million to \$62 million
 - Every General Fund dollar that goes to maintenance and repair is one less dollar for critical City services that have to rely almost solely on the General Fund

Mayor Pledges 50% of New General Fund Revenue Growth



- The Mayor has pledged to commit 50% of new General Fund revenue growth to infrastructure:
 - The Mayor exceeded his pledge by contributing 64% or \$22 million for FY 2015
 - In any given year, this is apt to generate only a small amount of new funding as compared to the need
 - Critical City services rely on this same General Fund growth to maintain or improve services and meet future service needs

Community Development Block Grant (CDBG) Allocation Restructuring



- Recent restructuring of the CDBG annual allocation, as outlined in the FY 2015 – FY 2019 Consolidated Plan, will set aside funding specifically for City infrastructure
- 33% of the total allocation will be dedicated for this purpose (60% of the 55% allotted for CIP)
- Beginning in FY 2016, it is estimated that this may provide \$3 - \$4 million for this purpose (based on CDBG entitlement funding trends)
- Additionally, reprogrammed CDBG funds may be allocated to City CIP projects

Discussion of Weaknesses



- In light of no alternative funding sources for infrastructure, all of these actions have been necessary and significant
- However, we cannot rely on these current resources to be the answer to addressing the infrastructure problem over the long term
- Alternative revenue sources will need to be aggressively pursued and implemented as part of a full scale infrastructure financing strategy



Discussion of Weaknesses

Mayor's Updated General Fund Outlook is Likely Optimistic; Future Funding Commitments not Included

- The Mayor has provided an updated four-year Outlook as part of his budget to show revised surplus/deficit figures for FY 2016 – FY 2019, based on incorporating his FY 2015 Proposed Budget

	FY 2016	FY 2017	FY 2018	FY 2019
Net Surplus	\$ 25.1	\$ 60.7	\$ 86.9	\$ 117.0



Discussion of Weaknesses

- While results show generous surpluses in each of the next four years, we believe they are overly optimistic based on the following omissions:
 - Operating costs for future fire stations coming on line
 - Operating costs for future branch libraries
 - Increases to maintenance and repair funding per Enhanced Option Plan B
 - Debt service for future lease revenue bonds beyond FY 2015



Discussion of Weaknesses

- These future expenditure commitments, which have been included in recent Outlooks, would add an estimated \$50 million over the next four years, resulting in sizable offsets to the projected surpluses
- A new Five–Year Financial Outlook for FY 2016 – FY 2020 is expected to be issued in November 2014 which will provide another opportunity to gain perspective on the City’s future budget status

Potential Resource Revisions for Council Consideration



1. Potential Increase in Property Tax Growth Rate from 3.5% to 4% - About \$2 million
2. Moving to Full Cost Recovery for Street Damage Fees – About \$2 million
3. Potential for Reduced Debt Service Needs in FY 2015 – About \$2 million

Potential Expenditure Revisions for Council Consideration



1. Staff for Effective Enforcement of Living Wage Ordinance (LWO)
2. Program Manager for Climate Action Plan
3. Civic San Diego Funding Requests
4. Helicopter Maintenance General Fund Support
5. Traffic Engineer for Planning
6. Urban Forestry Program
7. General Fund Costs for Enterprise Asset Management (EAM) System Implementation

Policy/Budget Issues Requiring Attention in FY 2015



- Mayor's plans for continuing the Managed Competition program or pursuing alternative efficiency studies
- Implementation of Mayor's quarterly City service performance reports and user-friendly dashboard of key performance measures
- Recommendations for improving and accelerating City hiring process

Policy/Budget Issues Requiring Attention in FY 2015



- Continuing to implement Purchasing and Contracting efficiencies including identification of SAP system requirements and training to correct underutilization (Huron Report)
- Assessing the need and costs associated with reinstating a citywide SAP training program
- Identifying and implementing improvements to the Real Estate Assets Department recommended in Huron report
- Addressing the role of Civic San Diego

Policy/Budget Issues Requiring Attention in FY 2015



- Adopting the Mayor and Council FY 2015 Statement of Budgetary Principles
- Determining the need for and timing of a potential Charter Review process
- Completing next comprehensive user fee analysis on a timely basis to ensure readiness for FY 2016 budget implementation
- Completing the Police Sworn Officer salary survey on a timely basis to continue to address recruitment and retention

Policy/Budget Issues Requiring Attention in FY 2015



- Continuing to focus on City's Economic Development activities and finalizing Economic Development Strategy
- Completing the streets, facilities, sidewalks, park assets and public utilities condition assessments on a timely basis to identify the magnitude of deferred capital funding needs
- Completing the Multi-Year Capital Improvement Plan

Policy/Budget Issues Requiring Attention in FY 2015



- Including new performance measures in the FY 2015 final budget to measure for Capital Improvement projects being on time and on budget
- Discussing potential new resources for funding deferred capital and infrastructure (including storm water) such as a voter approved bond program
- Addressing solutions to the linkage fee

Policy/Budget Issues Requiring Attention in FY 2015



- Completing cost of service study necessary to consider increases to City's storm drain fee to support new storm water requirements
- Revising the City's Reserve Policy to address use of excess equity
- Monitoring and addressing the ongoing challenges faced by the Successor Agency in conducting redevelopment dissolution and redevelopment wind-down activities which continue to pose a high level of risk to the General Fund

Next Key Dates in the Budget Process



Monday, May 5 – Friday, May 9

- City Council Budget Review Committee hearing with City departments. IBA Review of the Mayor's Proposed Budget presented on Monday, May 5 at 9:00am

Monday May 19

- Public Hearing on the Mayor's Proposed Budget at 6:00pm

Tuesday, May 20

- Mayor issues May Revision and FY 2014 Year-End Report



Next Key Dates in the Budget Process

Wednesday, May 21

- Budget Review Committee reviews May Revision and Year-End Report

Friday, May 23

- City Council budget priority memos due to IBA

Wednesday, June 4

- IBA's final report issued on recommendations to the Mayor's budget

Monday, June 9

- City Council final budget decisions