

# Review of the Fiscal Year 2017 Proposed Budget

Analysis by the Office of the Independent Budget Analyst | Report 16-05

## IBA Review of the Fiscal Year 2017 Proposed Budget

Budget Review  
Committee  
May 4, 2016



***“The Mayor’s FY 2017 Proposed Budget is a solid proposal adhering to City financial policies and best practices, incorporating reasonable revenue assumptions, and focusing on a wide range of priority core services supported by the City Council.”***

***“Now the City Council will meet as the Budget Review Committee to discuss the proposal in full as they review each department’s budget and hear from the public.”***

## General Fund Expenditures Overview

- FY 2017 Proposed Budget: \$1.33 billion, increase of \$38.2 million or 3%
- FY 2017 Proposed Budget: 7517.44 FTEs, increase of 217.96 FTEs or 3%
- Notable expenditure changes include:
  - \$14.1 million increase in salaries largely due to \$11.1 million associated with position increases across departments
  - Addition of \$3.0 million in Police overtime
  - \$8.9 million increase in vacancy savings (a salary expense reduction)
  - \$21.3 million increase in fringe benefits

## General Fund Expenditures Overview (cont'd)

- \$7.8 million increase for Transportation & Storm Water contracts including: storm drain channel cleaning and pipe repair, environmental permitting, catch basin cleaning
- \$9.4 million increase in Public Liability operations and Reserve funding, and \$7.6 million increase for General Fund Reserve
- \$7.3 million increase in Fleet “usage” and “assignment” charges
- Removal of FY 2016 one-time expenses including:
  - \$5.1 million for the Police Computer Aided Dispatch (CAD) system
  - \$5.0 million for the Bayside Fire Station
  - \$5.3 million for facilities work

## General Fund Revenues Overview

- FY 2017 Proposed General Fund Budget: \$1.33 billion, increase of \$44.3 million or 3.5%
- Our Office agrees with the FY 2017 General Fund revenue projections based on FY 2016 revenue projections and current economic forecast
- Positive but moderate growth in major General Fund revenues that closely resemble the growth rates projected in the FY 2017-2021 Five-Year Outlook
  - Exception: **Sales Tax**, which has been reduced from previous projections to a growth rate of 3.5% for FY 2017 due to the on-going reduction in fuel prices

## FY 2017 Proposed Budget: Strengths

- Highest General Fund Reserves in history
  - FY 2006 – General Fund Reserves funded at 3% of General Fund revenues
  - FY 2017 – General Fund Reserves target of 14.75%
  - FY 2021 – General Fund Reserves target of 16.7% per GFOA best practice and as recently adopted by the City Council
- Mayor's funding proposals closely mirror Council budget priorities and focus on core services
- Street paving funding gap remedied for FY 2017

## FY 2017 Proposed Budget: Strengths (cont'd)

- Public safety overtime right-sizing
  - Additional overtime funding of \$3 million for Police
  - Personnel expenditures adjustments for Fire-Rescue
- Citywide parks system master plan will begin in FY 2017
- Continued focus on identifying deferred capital and operational needs



## FY 2017 Proposed Budget: Weaknesses

- Unmet needs could require new, future resources:
  - Multi-year department plans for Police, Fire, and Lifeguards
  - Citygate report on Fire Standards of Coverage
  - Penny for the Arts Blueprint
  - Five-Year Capital Infrastructure Planning Outlook
  - Community Plan updates
  - Bicycle Master Plan
  - Storm Water Watershed Asset Management Plan
  - Vision Zero
  - Climate Action Plan
  - Library Ordinance

***“These plans and assessments are identifying significant needs and funding requirements above and beyond what our existing resources will likely be able to support in the future.”***

## FY 2017 Proposed Budget: Weaknesses (cont'd)

- Persistent Police recruitment and retention challenges
  - Officers continue to leave at a rate of 13 departures per month in FY 2016, the same as in FY 2015
  - The Proposed Budget does not include any new initiatives or resources beyond what was negotiated in 2015

## FY 2017 Proposed Budget: Weaknesses (cont'd)

- Reduction/change of performance measures
  - Many new measures are missing data from prior years (FY 2015 and FY 2016)
  - Some “old” measures are not included, reducing the ‘core’ of measures maintained over time
    - Library circulation per capita
    - Annual or weekly library and recreation center operating hours
    - Value of commercial and residential building permits
    - Number of aquatics users
  - Many Council-requested measures developed over past several years have been eliminated

## Comparing Council and Mayoral Priorities

Proposed Budget includes funding for 17 of the 21 highest City Council budget priorities approved by Council on February 8, 2016:

- Positions to support the Police's Communications Division
- Support for the City's Police Officer recruitment and retention efforts
- Support for Lifeguard Division Five-Year Needs Assessment
- Park & Recreation capital improvements
- Funding to support pedestrian and cycling safety
- ADA Improvements
- Streetlight installation, maintenance, and repair
- Storm drain maintenance
- Sidewalk maintenance, repair, and installation
- Street maintenance and repair
- Funding for public safety facilities
- Support for the Connect2Careers Program
- Funding for various community and youth library programs
- Support for small businesses
- Climate Action Implementation Plan
- Funding and resources to assist San Diego's homeless population
- Increased funding support for parks and libraries

## Comparing Council and Mayoral Funding Priorities *(cont'd)*

- No funding was included for the following Council Budget Priorities:
  - Converting the South University City FRS to a 24-hour temporary Fire Station
  - Restoration of swimming pool hours
  - Increased funding for Penny for the Arts Blueprint above the current 6.44% of TOT
  - Addition of personnel for Code Enforcement

## Looking Ahead to FY 2018

- Impact on General Fund revenues due to a potentially softening economy
  - Economy shift from recovery to stabilization
  - Impacts from future adjustments to federal interest rates, increases in home prices, and changes to employment rates and consumer confidence levels

***“Economic recovery and associated revenue growth, however, has begun to slow, as the economy shifts out of a phase of rapid recovery.”***

## Looking Ahead to FY 2018 (cont'd)

- Potential cost increases to the FY 2018 Pension ADC
  - If investment returns are less than the assumed 7.125%
  - With potential demographic assumption changes related to mortality – there could be a “meaningful cost increase (2% to 6%)” in liabilities
- Future investments in Police recruitment and retention may be necessary



## Looking Ahead to FY 2018 (cont'd)

- Future costs of Customer Service System (311)
  - Multi-phase program over five years, \$1.1 million added for FY 2017
  - Projected total cost of \$3-4 million, depending on scope
- Future General Fund costs of I AM
  - Debt service payment estimated to be \$2.1 million in FY 2018

## Excess Equity

- Mid-Year Report Excess Equity estimate: \$6.0 million – a potential resource for the FY 2017 budget
  - When labor contracts approved, funding above the estimate in the Proposed Budget could reduce Excess Equity
  - Unforeseen expenditure additions included in the May Revision may reduce Excess Equity
  - Some one-time Council priorities could be funded through Excess Equity, if available

## Items Expected in the May Revision

At this time, our Office is aware of the following likely requests:

- Office of the City Attorney: 1.00 Program Manager and \$140,000 in associated expenditures to support the Community Justice Initiative
- Citizens' Review Board on Police Practices: support for outside counsel
- Kinder Morgan lawsuit: one-time funding was removed from the FY 2017 Proposed Budget although the lawsuit is ongoing
- Real Estate Assets Department: \$17,000 for DocuLynx contract (electronic retrieval system)

## Next Steps in the Process

- **May 4-5, 9-10:** Budget Review Committee
  - IBA review of the budget
  - Public hearings on City departments, functions, and agencies
- **May 16:** City Council holds evening hearing to receive further input from the public
- **May 19:** Budget Review Committee reviews the Mayor's May Revise for consideration in final budget decisions
- **May 27:** City Councilmembers issue final budget priority memoranda to the Office of the IBA

## Next Steps in the Process (cont'd)

- **June 8:** Office of the IBA final report issued on recommended changes to the Proposed Budget based on input from Council memoranda and further review of outstanding issues
- **June 13:** City Council makes final FY 2017 budget decisions and takes action on any FY 2017 budget revisions
- **July 11:** City Council introduces and adopts the FY 2017 Appropriation Ordinance

***“Now the City Council will meet as the Budget Review Committee to discuss the proposal in full as they review each department’s budget and hear from the public.”***