



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 6

FY 2017 Year-End Financial Performance Report: Additional Information Regarding Salaries and Wages

OVERVIEW

The FY 2017 Year-End Financial Performance Report (YEPR) prepared by the Financial Management Department (FM) discusses changes between the FY 2017 Year-End Budget Monitoring Report (third-quarter) projections and the actual (unaudited) activity for the full year. The third-quarter report provided variances between the FY 2017 “Current Budget” and year-end projections at the time of the analysis. Coverage of the financial activity in those FM reports is inclusive, and thus our office will not be providing an in depth analysis for revenues or all expenditure categories in our coverage of the YEPR.

Instead, this report will focus on documenting the final (unaudited) General Fund salaries and wages expenditures for FY 2017 as we move forward into the FY 2019 budget cycle (beginning with the Five-Year Financial Outlook to be released in November 2017). While FM’s YEPR compares FY 2017 Year-End Budget Monitoring Report projections to (unaudited) actuals, the IBA’s review of expenditure variances is based on a comparison of FY 2017 actual expenditures to the FY 2017 Adopted Budget.

FISCAL/POLICY DISCUSSION

As compared to the Adopted Budget, FY 2017 actual salaries and wages expenditures were \$1.9 million over-budget, or 0.4%. Although this is a relatively low variance, there are large and offsetting components in the salaries and wages sub-categories (i.e. salaries, special pay, overtime, etc.). Again, this information is presented for reference as the City moves into the FY 2019 budget

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cycle and the City Council considers the FY 2019 budget projections included in the Five-Year Outlook.

The following table shows a break-down of FY 2017 General Fund salaries and wages into subcategories, as well as certain departments with significant variances or expenditures. The next section discusses variances in the salaries, special pay, and overtime categories.

FY 2017 General Fund Salaries and Wages Expenditures			
<i>(dollars in millions)</i>	Adopted Budget	Year-End Performance Report (YEPR)	Variance: Adopted Budget to YEPR
Salaries			
<i>Fire-Rescue</i>	\$ 73.2	\$ 73.0	\$ (0.2)
<i>Park & Recreation</i>	31.0	29.0	(2.0)
<i>Police</i>	169.6	164.6	(4.9)
<i>Public Works - General Services</i>	8.6	7.2	(1.5)
<i>Transportation & Storm Water</i>	29.6	27.9	(1.7)
<i>Other Departments</i>	<u>116.9</u>	<u>111.6</u>	<u>(5.3)</u>
Subtotal Salaries	<u>428.8</u>	<u>413.2</u>	<u>(15.7)</u>
Special Pay			
<i>Fire-Rescue</i>	10.8	12.5	1.7
<i>Police</i>	16.1	17.7	1.6
<i>Other Departments</i>	<u>1.2</u>	<u>1.9</u>	<u>0.7</u>
Subtotal Special Pay	<u>28.2</u>	<u>32.1</u>	<u>4.0</u>
Overtime			
<i>Fire-Rescue</i>	30.1	32.5	2.3
<i>Police</i>	21.0	26.0	5.0
<i>Transportation & Storm Water</i>	1.0	3.2	2.2
<i>Other Departments</i>	<u>1.3</u>	<u>2.3</u>	<u>1.1</u>
Subtotal Overtime	<u>53.4</u>	<u>64.0</u>	<u>10.6</u>
Hourly Wages	14.0	14.2	0.1
Vacation Pay-in-Lieu	7.2	9.2	1.9
Termination Pay	<u>2.8</u>	<u>3.8</u>	<u>0.9</u>
TOTAL SALARIES AND WAGES	\$ 534.5	\$ 536.4	\$ 1.9

Note: Table may not total due to rounding.

Salaries and Wages Sub-Categories

Salaries

As shown in the table above, the salaries sub-category ends the year at \$413.2 million, or \$15.7 million under budget. This under-budget amount largely offsets the overages in the other salaries and wages sub-categories (e.g. overtime and special pay), leaving a net over-budget amount of \$1.9 million for total salaries and wages, as mentioned earlier.

The \$15.7¹ million in salary savings is the result of additional vacancy savings above the budgeted amount of \$30.4 million. Thus, total vacancy savings for FY 2017 is about \$46.1 million – compared to \$43.4 million for FY 2016.

For historical context, FY 2016 vacancy savings was budgeted at \$21.5 million. In the FY 2017 Adopted Budget, this was increased by \$8.9 million to get to \$30.4 million (FY 2018 budgeted vacancy savings is similar, at \$29.7 million²). In the absence of hind-sight information regarding the FY 2017 hiring activity, this was a reasonable approach. However, in light of actual vacancy savings trending around \$45.0 million in both FY 2016 and FY 2017, the FY 2019 vacancy savings budget may need to be further right-sized.

Below are some areas affecting vacancy savings to be considered in future budget cycles:

- Continued (or new hiring) difficulties – Prior budget-related reports have emphasized vacancy issues in certain departments (for example, the Police Department and Public Works – General Services).
- Anticipated budget deficits leading to an environment where hiring may be stifled
- Estimated future retirement trends

Operating Considerations

The condition where excess vacancy savings offsets over-budget amounts in other salaries and wages categories (or vice versa) can be a natural occurrence in a dynamic organization. For example, in a constant staffing model such as for fire suppression, overtime may be needed when the existing staffing levels are insufficient to meet required staffing levels. With increases in vacancies there may be times when more overtime is needed than was originally expected.

¹ For purposes of this analysis, the additional \$15.7 million in salary savings is assumed to be attributable to vacancy savings. There are other types of salary savings that are not related to vacancies, including voluntary furlough and the 3.2% salary reductions for Deferred Retirement Option Plan (DROP) participants in the Deputy City Attorneys Association (DCAA) and San Diego Police Officers Association (POA). These other types of salary savings were projected to be \$1.7 million in the FY 2017 Adopted Budget, as compared to the FY 2017 Adopted Budget vacancy savings of \$30.4 million. Although these other types of salary savings can vary, given the relative size of the budget, the variance is assumed to be zero for the purposes of this analysis.

² FY 2018 vacancy savings of \$29.7 million for the General Fund as a whole is close to the FY 2017 amount of \$30.4 million. However, there were two major changes based on recent trends: the Police Department's vacancy savings budget was increased by \$3.5 million, while the Fire-Rescue Department's vacancy budget was decreased by \$3.9 million.

- Adjustment of vacancy savings for new positions – FM’s FY 2017 Mid-Year Budget Monitoring Report noted that as of January 20, 2017, 72% or 150.74 of the 209.48 new full-time equivalent (FTE) positions had been filled.

Special Pay

Special pay expenditures for FY 2017 totaled \$32.1 million, approximately \$4.0 million higher than the \$28.2 million budget. The largest overages were in the Fire-Rescue and Police Departments at \$1.7 million and \$1.6 million, respectively. The variances are largely related to special pay that is associated with overtime. We recommend that FM examine potentially including a budget amount for such special pay expenditures.

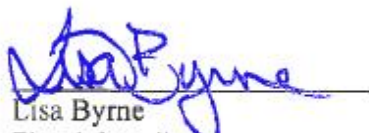
Overtime

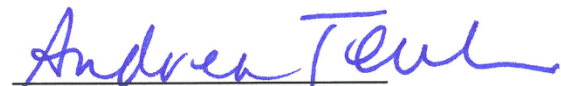
Overtime has been significantly right-sized since FY 2015, when the General Fund budget was \$40.0 million. Subsequently, the overtime budget was increased: to \$50.2 million in FY 2016, \$53.4 million in FY 2017, and \$61.5 million in FY 2018.

The \$61.5 million FY 2018 overtime budget is less than the \$64.0 million expended in FY 2017; and the \$2.5 million difference is largely attributable to the Transportation and Storm Water Department (TSW). In FY 2017, TSW spent \$3.2 million on overtime, largely due to winter storm related issues that were not expected to occur again in FY 2018. Thus, the FY 2018 budget is \$1.1 million, which is \$2.1 million less than those FY 2017 expenditures.

CONCLUSION

The information in this report is presented for reference as the City moves into the FY 2019 budget cycle and works toward continued improvements to the budgeting process. FM has been working diligently since the initial implementation of SAP to refine budgeting practices and the use of the system, as well as to right-size budget expenditures in various departments and overall categories in a changing environment. Going forward we anticipate continued refinements to this complex process.


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