



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: May 31, 2018

IBA Report Number: 18-13

City Council Docket Date: June 11, 2018

Item Number: TBD

Recommended City Council Modifications to the Mayor's Proposed FY 2019 Budget and May Revision

This report presents the Office of the Independent Budget Analyst's final FY 2019 budget review and recommendations for Council budget modifications. The recommendations are based on the following: our analysis of the FY 2019 May Revision to the Proposed Budget (May Revise), the FY 2018 Year-End Budget Monitoring Report (Third Quarter Report), the FY 2018 CIP Year-End Budget Monitoring Report, and the FY 2019 Proposed Budget. Recommendations also reflect our review of Councilmember budget modification memoranda that were submitted to our Office on May 21, 2018 and released concurrently with this report as IBA Report 18-14, as well as our consideration of feedback from the public, City staff, and City Councilmembers received during the Budget Review Committee (BRC) hearings.

This report is released at the end of a budget development process that has included extensive reviews of the Mayor's FY 2019 Proposed Budget by the City Council and the IBA, including:

- The IBA's review of the Mayor's FY 2019 Proposed Budget issued on April 27, 2018 as IBA Report No. 18-08
- Departmental and agency budget hearings with the BRC that took place on May 2-4 and May 7-8, 2018
- An evening City Council meeting held on May 14, 2018, in order to solicit input from the community on the Mayor's budget proposals and City Council's budget priorities for FY 2019
- The discussion of the May Revise and Third Quarter Report (both of which were released on May 15, 2018) at the BRC on May 17, 2018
- The discussion of the FY 2018 CIP Year-End Budget Monitoring Report at the Infrastructure Committee on May 23, 2018
- Financial Management responses to BRC requests for additional information released following BRC hearings

OFFICE OF THE INDEPENDENT BUDGET ANALYST

202 C STREET MS 3A SAN DIEGO, CA 92101

TEL (619) 236-6555 FAX (619)-236-6556

In addition to approving final budget modifications, our Office recommends that the City Council designate any modifications made as either one-time or ongoing expenditures, in order to avoid confusion about their funding status in future budgets. This, and other requests for Council authority, are itemized in the concluding section of this report.

OVERVIEW OF THE FY 2018 YEAR-END REPORT AND AVAILABLE EXCESS EQUITY

The Third Quarter Report describes revenue and expenditure year-end projections based on actual (unaudited) data from July 2017 through March 2018 and includes several requests for authority for City Council approval. We address select components of the Third Quarter Report (including General Fund (GF) revenues, salaries and wages, and other significant issues, such as resources that balance FY 2019, Fire overtime, Fleet fund balance, and E&CP deficit) in Attachment 1 to this report.

Additionally, the Third Quarter Report provides an updated estimate of GF Excess Equity, which increased by \$10.4 million since the Mid-Year Report – from \$12.3 million to \$22.7 million. The FY 2019 Proposed Budget and May Revise incorporate the use of most of this Excess Equity into the FY 2019 budget, leaving \$1.8 million in Excess Equity, which is shown in the following table.

Excess Equity Estimate (\$ in millions)	
FY18 Beginning Reserve Balance	\$ 218.2
FY18 Budgeted Use of Excess Equity ¹	(8.7)
FY18 Projected Budgetary Surplus (Based on Year-End Report)	4.8
FY18 Prefunding of FY19 General Fund Reserve Contribution	(10.3)
<i>FY18 Year-End Reserve Estimate</i>	204.0
FY18 15% Reserve Requirement (<i>includes FY18 contribution</i>)	(181.3)
FY18 Year-End Excess Equity Estimate	22.7
FY19 Proposed Budget Use of Excess Equity	(12.3)
FY19 May Revision Use of Excess Equity	(8.6)
Estimated Available Excess Equity	\$ 1.8

¹FY18 Budgeted Use of Excess Equity does not include 1) the \$7.0M FY18 budgeted GF Reserve contribution, which is incorporated in the "FY18 15% Reserve Requirement" line and 2) the \$10.3M FY18 prefunding of the FY19 Reserve contribution, which is included on its own line.

A portion of the \$1.8 million Excess Equity is considered available for ongoing expenditures, based on the May Revise indication that ongoing revenues exceed ongoing expenditures by \$1.6 million – with the remaining \$0.2 million available for one-time expenditures.

Subsequent to the presentation of the May Revise at Budget Review Committee on May 17, it was discovered that \$855,000 of the \$1.6 million (related to RPTTF distributions from the sale of the World Trade Center parking garage) was erroneously categorized in the May Revise as an ongoing resource. In consulting with Financial Management, we jointly identified that, based on historical trends, an increase in ongoing Fire-Rescue vacancy savings of around \$800,000 is an appropriate

budget adjustment for replacing the one-time funding from the sale of the World Trade Center parking garage. The revenue reclassification to a one-time resource also frees up \$855,000 for additional one-time expenditures. These adjustments are reflected in the table entitled “Recommended Modifications to the Mayor’s FY 2019 Budget” and in our Office’s list of final budget recommendations, both of which appear later in this report.

OVERVIEW OF THE FY 2019 MAY REVISE AND KEY ISSUES

General Fund Adjustments

The May Revise increases the Mayor’s FY 2019 General Fund expenditures budget to approximately \$1.46 billion, a \$9.7 million or 0.7% increase over the Proposed Budget. This increase in expenditures is supported by \$8.6 million of Excess Equity and a net increase of \$1.1 million in General Fund revenues, as displayed in the following table. Overall, our Office considers the use of these resources to be appropriate.

Resources for May Revise Expenditures	
Use of Excess Equity	\$ 8,584,180
Department Revenue	1,259,818
User Fee Revenue	391,667
Major General Fund Revenue ¹	(527,772)
Total Resources	\$ 9,707,893

¹ Significant decreases include a \$1.8 million decrease in Property Tax revenue which is being allocated to the Otay Mesa Enhanced Infrastructure District and a \$1.9M decrease in Employee Offset Savings revenue (to align with fringe expenditures that support such revenue). The largest offsetting increases include an increase of \$2.6M in residual RPTTF distributions and an increase of \$465,000 in TOT revenue.

Non-General Fund Adjustments

Transient Occupancy Tax Fund

The May Revise includes the addition of \$83,000 in expenditures and an increase of \$423,000 in revenues in the Transient Occupancy Tax (TOT) Fund resulting in a projected fund balance of \$340,000. The \$423,000 in increased revenue is based on updated FY 2018 TOT receipts. The expenditure addition is primarily the net result from an increased allocation of approximately \$1.0 million for Fire-Safety Lifeguards (\$5.0 million was included in the FY 2019 Proposed Budget) and the reduction of \$950,000 in debt service costs projected to result from the anticipated refunding of the 2010 Master Refunding Bonds.

Low and Moderate Income Housing Asset Fund

The May Revision adds \$17.8 million in non-personnel expenditures for low-income housing loans to support affordable housing development projects within the Low and Moderate Income Housing Asset Fund (LMIHAF). These projects are anticipated to come before Council for approval during Fiscal Year 2019. At the time of the Proposed Budget only projects that had received approval by

City Council were budgeted. Approval of this adjustment would reduce the remaining fund balance from \$22.8 million at the time of the Proposed Budget to approximately \$300,000.

The May Revision includes a \$6.5 million allocation for the San Ysidro Senior Village Project within the proposed \$17.8 million increase. This allocation is intended to substitute San Diego Housing Commission funds approved for this project to reimburse the Housing Commission for funds it spent on bridge shelters in FY 2018. At the Budget Review Committee on May 7, 2018, Housing Commission staff stated that the City has also committed to replenishing Housing Commission funds expended in FY 2018 and FY 2019 for the new transitional storage center and FY 2019 costs for the bridge shelters (together totaling \$18.3 million). An additional \$2.0 million is budgeted within the \$17.8 million LMIHAF adjustment and Council has already approved \$10.0 million in Community Development Block Grant funding that is intended to go towards this purpose.

Significant May Revise Additions

Our Office has reviewed the additions included in the May Revise and notes their overall appropriateness. However, several items that were raised as priorities by Councilmember budget priority memoranda, Councilmember comments, and public testimony during BRC hearings were not funded in the May Revise. We discuss those unfunded priority items later in this report in the section “Results of Councilmembers’ Final Budget Memos”. In the following section, we highlight and discuss items included in the May Revise that may be of particular interest to the City Council due to the size of the adjustment, or to provide additional information on the reasons for the addition.

Fire-Rescue Overtime - \$6.8 million

In response to a projected FY 2018 over-budget expenditure of \$12.9 million for Fire-Rescue Department overtime in the Third Quarter Report, the May Revise adds \$6.8 million in overtime expenditures to the Fire-Rescue budget for FY 2019. Of this amount, half (\$3.4 million) is funded with ongoing resources and half is considered a one-time expense.

As has been explained in previous reports by Financial Management, a large part of the overage in FY 2018 is due to strike team deployments and weather-related staffing which are one-time events. But another part is due to Local 145 MOU provisions, including one that went into effect at the start of FY 2018, which needs to be addressed to avoid these overages in future years.

We have discussed with Financial Management some concerns about \$3.4 million being budgeted as one-time in FY 2019 and whether there will be enough behavior change to achieve the necessary mitigations. Aside from that issue, we cautiously agree that the total amount for FY 2019 should be sufficient even though it is \$7.6 million less than FY 2018 projections. We will continue to work with staff in monitoring and analyzing this issue through the end of FY 2018 and into FY 2019.

City Attorney Positions - \$790,000

In our review of the FY 2019 Proposed Budget, we noted that the City Attorney had requested an additional 11.50 FTE positions and \$120,000 for Deputy City Attorney tuition reimbursement that were not included in the Mayor’s proposal. During the City Attorney’s presentation at the BRC hearing on May 8, 2018, she updated and refined this request to \$130,000 for tuition reimbursement and 6.00 FTE positions. The May Revise adds \$130,000 for tuition reimbursement and 5.00 FTE positions. The positions added include a third Senior Victim Services Coordinator (budgeted as an Assistant Management Analyst) for the Family Justice Center, which the Department indicates will assist with client intake and supervision of the reception desk. This request was made after the budget hearing. The Assistant City Attorney and Court Support Clerk positions were not included in the May Revise.

CITY ATTORNEY POSITIONS			
Description	Budget Hearing Request	May Revision	Change
<i>Assistant City Attorney</i>	1.00		(1.00)
<i>Deputy City Attorney (Civil Litigation Division)</i>	1.00	1.00	-
<i>Deputy City Attorney (Civil Advisory Division)</i>	1.00	1.00	-
<i>City Attorney Investigator</i>	1.00	1.00	-
<i>Senior Clerk Typist</i>	1.00	1.00	-
<i>Court Support Clerk</i>	1.00		(1.00)
<i>Assistant Management Analyst/Sr Victim Svcs Coord (FJC)</i>		1.00	1.00
Total	6.00	5.00	(1.00)

Animal Services Contract - \$451,000

In our review of the FY 2019 Proposed Budget, we noted that the budget for the animal services contract in the Purchasing & Contracting Department was less than the proposed contract with the San Diego Humane Society. On April 30, 2019, City Council approved the new contract with the San Diego Humane Society, including the FY 2019 expense of nearly \$11.0 million from the General Fund. The May Revise adds \$451,000 to fully fund the contract in FY 2019.

Police Captain for Recruitment and Onboarding - \$317,000

The May Revise includes the addition of 1.00 Police Captain and \$317,000 in associated expenditures to support the Police Department’s recruitment and onboarding activities. This position was requested by the Police Department based on an updated evaluation of its staffing needs since the FY 2019 Proposed Budget was released. The position is anticipated to lead the Background/Recruiting and Volunteer Services Unit and will oversee all aspects of talent acquisition and onboarding activities for sworn personnel, including community outreach and advertising.

Community Plan Updates - \$202,000

The May Revise includes the restoration of \$202,000 in non-personnel expenditures that were reduced in the FY 2019 Proposed Budget as a budget reduction measure for the Planning

Department. As a result, the Mira Mesa Community Plan Update is anticipated to proceed as currently planned in the Department's current Work Program.

Safe Parking Program - \$103,000

In our review of the FY 2019 Proposed Budget, we noted that the \$308,000 budget for the Safe Parking Program in the Economic Development Department would only cover nine months of operations. The May Revise adds \$103,000 to cover the remaining three months of operations for FY 2019.

Companion Unit Fee Waiver Pilot - \$300,000

The May Revise includes the addition of \$300,000 in one-time funds within the Citywide Program Expenditures budget to continue the Companion Unit Fee Waiver Pilot, which was approved by City Council on April 30, 2018, into FY 2019. This funding will be used to reimburse the Public Utilities Department for sewer and water capacity fees that cannot be waived and that otherwise would have been paid by companion unit permittees.

Lifeguard Academy – \$238,000

The May Revise includes the addition of \$238,000 in expenditures to allow for one Lifeguard Academy to be held in FY 2019. The Lifeguard Academy was not requested by the Fire-Rescue Department in the FY 2019 Proposed Budget, but was later identified as a need to maintain necessary staffing levels.

RESULTS OF COUNCILMEMBERS' FINAL BUDGET MEMOS

Following the release of the May Revise and Council's subsequent review at the BRC hearing on May 17, 2018, Councilmembers submitted budget modification memoranda to our Office on May 21, 2018. These memos identified expenditure priorities and potential new funding sources that were not included in the FY 2019 Proposed Budget or May Revise.

Our Office reviewed the budget priorities mentioned by a majority of Councilmembers (five or more) and we recommend funding all majority-support items using a combination of available ongoing and one-time resources. Descriptions of the majority-support items are provided in narrative form in the following section. Additionally, the table entitled "Recommended Modifications to the Mayor's FY 2019 Budget" (included later in this report) specifies recommended expenditures on majority-support items, whether they are ongoing or one-time, and what resources are available to fund them.

Tree Trimming - \$882,000 Ongoing

Seven councilmember budget memos requested the restoration of funding for the City's tree trimming contract to FY 2018 levels, which would allow for broadleaf trees to be trimmed once every nine years instead of once every 21 years. Amounts for this restoration in the memos ranged

from \$800,000 to \$900,000. **The total reduction in tree trimming contract expenses in the Proposed Budget is \$882,000, and our final recommendations include restoring this funding.**

Library Programming - \$100,000 Ongoing

A majority of Councilmember budget priority memoranda included support for funding library programming. In past years, the Department received \$500,000 in FY 2017 and \$100,000 in FY 2018 which allowed for the development of programs such as Spring into STEAM, 1000 Books Before Kindergarten, the Campaign for Grade Level Reading, and the Summer Reading Program, among others; however, no funding was included in the FY 2019 Proposed Budget. **Our Office recommends that \$100,000 in ongoing funding be added to the Library Department budget to further library programming.**

Council Administration (1.00 FTE) - \$66,000 Ongoing

A majority of Councilmember budget priority memoranda requested 1.00 FTE be added to the Council Administration Department to provide services in support of City Council operations. **The estimated annual cost for a Council Representative I position is \$66,000, which our Office recommends adding to the Council Administration budget.** The requested position would perform several duties including: assisting with the administration and tracking of grant funded programs; ensuring contract requirements are met for the Council's Community Projects, Programs, and Services (CPPS) grants and Arts, Culture, and Community Festivals allocations; oversight of credit card usage for all City Council offices; processing and accounting for all travel requests; and other complex administrative support activities.

Code Compliance Positions (5.00 FTEs) - \$400,000 Ongoing

Seven Councilmember budget priority memoranda requested an increase to the number of code enforcement positions in the Development Services Department (DSD). **Our Office recommends the addition of 5.00 FTEs, consisting of 1.00 FTE Senior Zoning Investigator and 4.00 FTE Zoning Investigators, and \$400,000 in ongoing funding to DSD's General Fund budget.** The Department has stated they concur with the position classifications that we have identified.

Lifeguard Clerical Assistant II (1.00 FTE) - \$53,000 Ongoing

A majority of Councilmember budget priority memos supported the addition of a clerical staff member to the Fire-Rescue Department's Lifeguard Division, both in the first round of priority memoranda in January 2018 and in the second round of memoranda in May 2018. **Based on this majority Council support, our Office recommends that 1.00 FTE Lifeguard Clerical Assistant II and \$53,000 in ongoing funding be added to the Fire-Rescue Department budget to support Lifeguard Division operations.**

Graffiti Abatement - \$300,000 One-Time

Six councilmember budget memos requested the restoration of funding for the City's graffiti abatement contract, with funding amounts of \$100,000 to \$300,000. The Proposed Budget included a \$300,000 reduction in the City's graffiti abatement contracts, which would be

associated with eliminating abatements on residential private property. **Our final recommendations include restoring this \$300,000 in funding.**

Library Security - \$288,000 One-Time

A majority of Councilmember budget priority memoranda included support for providing additional security services at library branches. **Our office recommends that \$288,000 in one-time funding be added to the Library Department budget to enhance the existing level of security services.** Attachment 2, which was provided by the Department, reflects their planned FY 2019 Library system security schedule, including the service level increase given the recommended additional funding. Note that the Department plans to make periodic adjustments to this schedule based on frequency of security incidents experienced at branch locations.

Brush Management - \$555,000 One-Time

A majority of Councilmember budget priority memoranda supported a service increase for the frequency of brush abatement from 24 months (452 acres) to 21 months (509 acres). The Parks and Recreation Department estimates this increase to cost \$555,000, including oversight and management of work performed by a third-party contractor. **Our office recommends that \$555,000 in one-time funding be added to the Parks and Recreation Department budget to enhance the existing level of brush management.**

CIP Items – Streetlights - \$3.0 Million

Installation of City-owned streetlights was the only capital activity prioritized by five Councilmembers. Some Councilmembers prioritized streetlights throughout the City generally or in certain communities, while others offered a list of numerous specific locations in their districts that need attention. **We recommend allocating the \$3.0 million available for capital expenditures to be placed in the annual allocation for Installation of City Owned Streetlights AIH00001.** This would increase the amount included in the FY 2019 Proposed Budget for this annual allocation from \$1.9 million to \$4.9 million. There is also \$2.2 million in carryforward budget (as of the beginning of May) that is working to be spent among 15 subprojects which addresses numerous locations.

We note that in the Unidentified Funding project list published in the FY 2019 Proposed Budget, the installation of streetlights annual allocation has the second largest unidentified funding need of \$184.8 million (behind the drainage and watershed annual allocations). Only 4.2% of total streetlights needs are funded which is the smallest percentage out of all the annual allocations on the list. In addition to installing new streetlights, Transportation and Storm Water staff, as well as several Councilmembers, have noted a need to repair streetlights.

For illustrative purposes, it costs approximately \$20,000 for a new streetlight with a pole and \$2,500 for a new light (also referred to as a cobra head street light) to be added to an existing pole. With a total appropriation of \$4.9 million, this would fund roughly 245 streetlights including a pole, or 1,900 new cobra head street lights.

RECOMMENDED MODIFICATIONS TO THE FY 2019 BUDGET

Our Office recommends the following budget modifications for City Council approval at its meeting on June 11, 2018. This scenario includes funding for all Council-majority expenditure priorities using a combination of available resources, as shown in the table below.

Recommended Modifications to the Mayor's FY 2019 Budget - \$5.7M

Ongoing Operating Expenditure Items	Amount
Tree Trimming	\$ 882,000
Library Programming	100,000
Council Administration - 1.00 FTE Council Representative I	66,000
Code Compliance Positions - 5.00 FTEs	400,000
Lifeguard Division - 1.00 FTE Clerical Assistant II	53,000
Total Ongoing Operating Expenditures	\$ 1,501,000
Ongoing Operating Resources	Amount
Ongoing Excess Equity	\$ 751,000
Ongoing Fire Vacancy Savings (portion)	750,000
Total Ongoing Operating Resources	\$ 1,501,000
Balance of Ongoing Operating Expenses/Resources	\$ -

One-time Operating Expenditure Items	Amount
Graffiti Abatement	\$ 300,000
Library Security	288,000
Brush Management	555,000
Total One-Time Operating Expenditures	\$ 1,143,000
One-time Operating Resources	Amount
One-Time RPTTF	\$ 855,000
Remaining Excess Equity	200,000
Ongoing Fire Vacancy Savings (portion)	88,000
Total One-Time Operating Resources	\$ 1,143,000
Balance of One-Time Operating Expenses/Resources	\$ -

Capital Expenditure Items	Amount
Streetlights	\$ 3,035,000
Total Capital Expenditures	\$ 3,035,000
Capital Resources	Amount
Remaining Land Sales	\$ 2,300,000
Infrastructure Fund	735,000
Total Capital Resources	\$ 3,035,000
Balance of Capital Expenses/Resources	\$ -

Grand Total of All Expenditures	\$ 5,679,000
Grand Total of All Resources	\$ 5,679,000
Final Balance of All Expenditures/Resources	\$ -

FINAL BUDGET RECOMMENDATIONS

In order to approve the FY 2019 budget, the City Council is being asked to approve the following two actions:

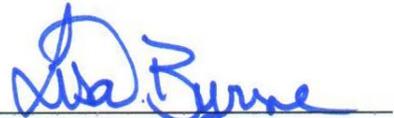
1. Approve the Mayor's FY 2019 Proposed Budget, as modified by the Mayor's May Revision.
2. Approve the Independent Budget Analyst's recommended final budget modifications included in IBA Report 18-13 in the table entitled "Recommended Modifications to the Mayor's FY 2019 Budget", and as modified by the City Council.

LOOKING TO FY 2020

As we mentioned in our review of the FY 2019 Proposed Budget, we are potentially heading, based on current information, into a deficit situation for FY 2020. Our Proposed Budget review discusses several financial issues contributing to FY 2020 being another difficult budget year, with the City possibly facing a double-digit deficit that could require more reductions, operational efficiencies, and/or new revenue sources to balance the budget. An evaluation of challenges for FY 2020 will occur during FY 2019, beginning with the completion of the Five-Year Outlook in November and continuing during the FY 2020 budget development process.



Chris Olsen
Fiscal & Policy Analyst



Lisa Byrne
Fiscal & Policy Analyst



Baku Patel
Fiscal & Policy Analyst



Charles E. Modica, Jr.
Fiscal & Policy Analyst



Jillian Kisse
Fiscal & Policy Analyst



Angela Colton
Fiscal & Policy Analyst



Jeff Kavar
Deputy Director



Andrea Tevlin
Independent Budget Analyst

- Attachments: 1. IBA Review of the FY 2018 Year-End Budget Monitoring Report
2. Library Department FY 2019 Planned Security Schedule

IBA Review of the FY 2018 Year-End Budget Monitoring Report

Overall, our Office concurs with the year-end expenditure and revenue projections included in the FY 2018 Year-End Budget Monitoring Report (Third Quarter Report). Our Office also agrees with the Third Quarter Report appropriation adjustment requests, as well as the typical annual year-end budget control authorities requested in the report. Details of select revenue and expenditure projections included in the Third Quarter Report, including major General Fund revenue projections, over-budget expenditures in salaries and wages, as well as significant issues identified by our Office, are discussed in the following sections.

General Fund Revenues

FY 2018 General Fund revenues are projected to be approximately \$1.42 billion at fiscal year-end, \$13.3 million or 1.0% above the FY 2018 Adopted Budget, and \$8.1 million over the year-end projection reported in the FY 2018 Mid-Year Budget Monitoring Report, as displayed on the following table.

FY 2017 Projected Year-End General Fund Revenue					
Revenue Source (\$ in millions)	Adopted Budget	Mid-Year Projection	Year-End Projection	Variance: Adopted Budget to Year-End	Variance: Mid-Year to Year-End
Major General Fund Revenues					
<i>Property Tax</i>	\$ 534.6	\$ 532.9	\$ 533.3	\$ (1.4)	\$ 0.4
<i>Sales Tax</i>	275.3	274.4	276.4	1.1	2.0
<i>Transient Occupancy Tax</i>	121.1	123.3	121.9	0.9	(1.4)
<i>Major Franchise Fees</i>	73.5	77.7	77.7	4.2	0.0
Sub-Total Major General Fund Revenues:	1,004.5	1,008.3	1,009.3	4.8	1.0
Miscellaneous Revenues	105.7	105.7	108.3	2.5	2.5
Property Transfer Tax	10.1	10.4	10.6	0.5	0.2
Department Revenues	287.4	288.5	292.9	5.5	4.4
Total:	\$ 1,407.7	\$ 1,412.9	\$ 1,421.1	\$ 13.3	\$ 8.1

Note: Table may not total due to rounding

Our office agrees with the year-end revenue projections in the Year-End Report.

General Fund Expenditures

Since the Third Quarter Report includes detailed discussion on FY 2018 projections, our coverage of Third Quarter Report expenditures will focus on salaries and wages.

Salaries and Wages

The following table includes year-end projections from both the Mid-Year and Third Quarter Reports for the various salaries and wages categories. The second column from the right shows that salaries and wages in total are projected to be \$7.6 million higher than what was included in the FY 2018 Adopted Budget.

Looking at the separate lines in the table, we can see that there is \$15.5 million in salary savings, primarily related to higher vacancies than anticipated in the Adopted Budget. This \$15.5 million in vacancy savings, though, is more than offset by overages in special pay, overtime, hourly wages, vacation pay-in-lieu, and termination pay.

The most significant overage, \$16.8 million in overtime, is largely related to the Fire-Rescue, Police, and Transportation & Storm Water Departments – \$12.9 million, \$1.7 million, and \$1.4 million, respectively. Note, however, that \$4.5 million of the overtime overage is related to reimbursable amounts for Fire-Rescue, which after receipt of such reimbursements, will have no impact on the General Fund fund balance. The sizable Fire-Rescue overage is discussed later, in the Fire Overtime section of this Attachment.

FY 2018 Projected Salaries and Wages Expenditures						
General Fund Amounts (\$ in millions)	Adopted Budget	Mid-Year Projection	Third-Qtr Projection	Variance Mid-Year to Third Qtr	Variance Adopted to Third-Qtr	Variance % Adopted to Third-Qtr
Salaries ¹	\$ 434.2	\$ 423.8	\$ 418.7	\$ (5.1)	\$ (15.5)	-3.6%
Special Pay	28.6	31.3	31.6	0.3	2.9	10.3%
Overtime	61.5	67.8	78.4	10.6	16.8	27.4%
Hourly	13.0	13.3	13.3	(0.0)	0.3	2.0%
Vacation Pay-in-Lieu of Annual Leave	7.3	9.3	9.1	(0.2)	1.8	24.3%
Termination Pay	2.4	3.0	3.6	0.5	1.2	49.9%
Total	\$ 547.1	\$ 548.5	\$ 554.6	\$ 6.1	\$ 7.6	1.4%

Note: Table may not total due to rounding.

¹The Year-End Report salaries category includes special pay, producing a net salary savings of \$12.5M (the \$2.9M over-budget special pay offsets the \$15.5M in salary savings, netting to \$12.5M).

The trend where salary/vacancy savings offsets or partially offsets other salaries and wages categories has been occurring for several years, as the next table demonstrates.

Salaries and Wages Expenditures			
General Fund Amounts (\$ in millions)	FY 2016 Variance Adopted to Actual Expenditures	FY 2017 Variance: Adopted to Actual Expenditures	FY 2018 Variance: Adopted to Third-Qtr Projection
Salaries	\$ (21.9)	\$ (15.7)	\$ (15.5)
Special Pay	1.6	4.0	2.9
Overtime	11.9	10.6	16.8
Hourly	0.4	0.1	0.3
Vacation Pay-in-Lieu of Annual Leave	2.8	1.9	1.8
Termination Pay	1.1	0.9	1.2
Total	\$ (4.2)	\$ 1.9	\$ 7.6

Note: Table may not total due to rounding.

Significant Issues

Risk Management Reserves

The Risk Management Department manages the Public Liability (PL), Workers’ Compensation, and Long-Term Disability Funds. In our review of the FY 2019 Proposed Budget we reviewed issues associated with each of these funds. Except for the PL Funds, nothing in the Year-End Report has changed with respect to the projected year-end balances or reserve targets. Changes with respect to PL Funds are discussed in the next section.

Public Liability Funds – Resources that Balance the FY 2019 Budget

There are two PL funds supporting claims against the General Fund: the PL Reserve and the PL Operating Fund. In our review of the FY 2019 Proposed Budget, we identified one-time resources in the PL Operating Fund that exceeded projected FY 2018 costs by about \$7.3 million. We also identified \$2.0 million in excess PL Reserve that was estimated for FY 2019, for a total of \$9.3 million.

Not being needed to support the Reserve and public liability claims in FY 2018, Financial Management utilized this \$9.3 million in excess resources by reducing the FY 2018 General Fund expenditures that were budgeted to support the PL funds. With this action, additional General Fund Excess Equity was created, of which \$8.6 million was used to balance the FY 2019 May Revise. The largest components of May Revise expenditures increases are \$6.8 million in Fire overtime (discussed below) and \$935,000 in Infrastructure Fund transfer.

Fire Overtime

The Fiscal Year 2018 Year-End projection for Fire overtime is \$12.9 million over the budgeted level set by the Adopted Budget. This overage has increased significantly from the projection at Mid-Year. As shown in the table below, the total projected overtime expenditure for Fire is now \$45.8 million, which is about 45% higher than the average cost over the past four years.

Fire-Rescue Overtime – Historical Budget vs. Actuals (in millions)

	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Budget	\$23.7	\$26.7	\$29.9	\$30.1	\$32.8	\$38.1
Actual	\$29.7	\$31.5	\$31.8	\$32.5	\$45.8 (YE Proj.)	-

In response to the projected over-budget overtime expenditures for FY 2018, the May Revise adds \$6.8 million in overtime expenditures to the Fire-Rescue budget for FY 2019. Of this amount, half (\$3.4 million) is funded with ongoing resources and half is considered a one-time expense. As has been explained in previous reports by Financial Management, a large part of the overage in FY 2018 is due to strike team deployments and weather-related staffing which are one-time events.

But another part is due to Local 145 MOU provisions, including one that went into effect at the start of FY 2018, which needs to be addressed to avoid these overages in future years.

We have discussed with Financial Management some concerns about the \$3.4 million being budgeted as one-time in FY 2019 and whether there will be enough behavior change to achieve the necessary mitigations. Aside from that issue, we cautiously agree that the total amount for FY 2019 should be sufficient even though it is \$7.6 million less than FY 2018 projections. We will continue to work with staff in monitoring and analyzing this issue through the end of FY 2018 and into FY 2019.

Fleet Operating Fund Balance

At the time of our review of the FY 2019 Proposed Budget, it was unclear if the Fleet Operating Fund would have sufficient fund balance at the end of FY 2018 to support the significant vehicle usage fee rate reduction being given to client departments in FY 2019. Based on the FY 2018 mid-year projections and accounting for the savings from not conducting tenant improvements at the Othello facility, we projected the Fleet Operating Fund would be short approximately \$1.6 million of fund balance at the end of FY 2019. However, with the updated projections in the FY 2018 Year-End Budget Monitoring Report, which include the savings from Othello, the Fleet Operating Fund is now projected to end FY 2019 with a positive fund balance of approximately \$332,000.

Engineering & Capital Projects Deficit

The Year-End Budget Monitoring Report includes a projected Engineering & Capital Projects (ECP) Fund deficit of \$8.0 million by the end of FY 2018. This is a \$4.4 million increase in deficit from the Mid-Year Budget Monitoring Report. Our Office's review of the Proposed Budget discussed the projected FY 2019 deficit and suggested Council request additional information from staff on what is driving the deficit and how it will be addressed. The Year-End Budget Monitoring Report provides additional information on this topic.

The report states that revenues are estimated to decrease by \$7.4 million from the Mid-Year Budget Monitoring Report due primarily to challenges in filling vacant positions and an increase in non-billable or unreimbursed labor charges. Staff indicates that one such unreimbursed labor charge is for inspections that Public Works conducts related to work that San Diego Gas and Electric does in the public-right-of-way, typically paid out of the General Fund from Franchise Fee revenue. This contributes to \$1.2 million of the revenue decrease. Expenditures are also projected to be underbudget primarily due to vacant reimbursable positions.

The year-end report indicates that one of the planned ways to mitigate the \$8.0 million deficit is to adjust the ECP overhead rate. The overhead rate that ECP uses is currently set at 94.7% and is updated each year. For every \$1 in direct expenditures, such as time an engineer spends on a specific capital improvement project, an additional 0.95 cents is charged to cover indirect expenses such as utilities and management. The overhead rate is generally calculated by taking total *indirect* costs and dividing by *direct* salaries and wages, using audited financial data from two years prior.

The current overhead rate, based on FY 2016 data, could be understated. For example, staff indicates that the FY 2018 vacancies are about 5% higher than in FY 2016, in which many of these positions are billable. If the proportion of direct expenditures is less in FY 2018 as compared to FY 2016, this would have the effect of increasing the overhead rate calculation.

FY 2019 - Library System Security Guard Schedule

Branch Libraries Security Guard Schedule - Additional hours from FY18 shown in red.

Beckwourth

BW	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	10:00-6:00	10:00-6:00	10:00-6:00	10:00-6:00	10:00-6:00	10:00-6:00		
Guard 1	8	8	8	8	8	8		48

** Increases 4 hours Mondays through Fridays and adds 8 hours on Saturdays*

Carmel Valley

VA	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	2:00 - 6:00	2:00 - 6:00	2:00 - 6:00	2:00 - 6:00	2:00 - 6:00	2:00 - 6:00	1:00-5:00	
Guard 1	4	4	4	4	4	4	4	28

**Adds 4 hours on Saturdays and Sundays*

Carmel Mountain Ranch

CT	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30 - 6:00	11:30 - 8:00	11:30 - 8:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	1:00-5:00	
Guard 1		8	8	8	4			28

City Heights

CT	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30 - 6:00	11:30 - 8:00	11:30 - 8:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	1:00-5:00	
Guard 1	8	8	8	8	8	8	4	52

College Rolando

CH	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	1:00 - 6:00	1:00 - 8:00	1:00 - 8:00	1:00 - 6:00	1:00 - 6:00	1:00 - 6:00		
Guard 1	5	7	7	5	5	5		34

**Adds 5 hours on Saturdays*

La Jolla

LJ	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:15-5:15	11:15-7:15	11:15-7:15	9:15-5:15	9:15-5:15	9:15-5:15	12:30-4:30	
Guard 1	8	8	8	8	8	8	4	52

Logan

LO	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	10:00-6:00	12:00-8:00	12:00-8:00	10:00-6:00	10:00-6:00	10:00-6:00	1:00-5:00	
Guard 1	8	8	8	8	8	8	4	52

Linda Vista

LV	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	2:00 - 6:00	2:00 - 8:00	2:00 - 8:00	2:00 - 6:00	2:00 - 6:00	11:30 - 4:00		
Guard 1	4	6	6	4	4	5		29

**Increases 1 hour on Tuesdays and Wednesdays*

Mira Mesa

MM	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	10:00-6:00	10:00-6:00	10:00-6:00	10:00-6:00	10:00-6:00	10:00-6:00	1:00-5:00	
Guard 1	8	8	8	8	8	8	4	52

Mission Hills

MH	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	2:00-6:00	4:00-8:00	4:00-8:00	2:00-6:00	2:00-6:00	10:00-6:00		
Guard 1	4	4	4	4	4	8		28

**Adds 4 hours on Mondays, Thursdays, Fridays and 8 hours on Saturdays*

Mission Valley

MV	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	10:00-6:00	12:00-8:00	12:00-8:00	10:00-6:00	10:00-6:00	10:00-6:00	1:00-5:00	
Guard 1	8	8	8	8	8	8	4	52

Malcolm X

MX	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30-5:00	11:30-7:30	11:30-7:30	9:30-5:00	9:30-5:00	9:30-5:00	12:00-5:00	
Guard 1	8	8	8	8	8	8	5	
Hours	4:00-8:00	4:00-8:00	4:00-8:00	4:00-8:00	4:00-8:00	4:00-8:00	12:00-5:00	
Guard 2	4	4	4	4	4	4	5	82

North Clairemont

NC	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	11:30-8:00	2:00-8:00	4:00 - 6:00	4:00 - 6:00	4:00 - 6:00			
Guard 1	8	6	4	4	4			26

**Adds 8 hours on Mondays and 4 hours on Thursdays, Fridays and increases 2 hours on Tuesdays*

North Park

NP	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	11:30-8:00	11:30-8:00	11:30-8:00	11:30-8:00	2:00 - 6:00	2:00 -6:00		
Guard 1	8	8	8	8	4	4		40

**Adds 8 hours on Mondays and increases 4 hours on Tuesdays through Thursdays*

Ocean Beach

OB	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30 - 6:00	11:30 - 8:00	11:30 - 8:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00		
Guard 1	8	8	8	9	9	9		51

**No increase - hours were adjusted*

Oak Park

OK	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours		9:30 - 6:00	9:30 - 6:00	9:30 - 6:00				
Guard 1		8	8	8				24

**Increases 4 hours on Tuesdays through Thursdays*

Otay Mesa

OT	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	2:00 - 6:00	2:00 - 6:00	2:00 - 6:00		
Guard 1	8	8	8	4	4	4		36

**Increases 4 hours on Mondays through Wednesdays*

Pacific Beach

PB	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	10:00 - 6:00	11:30 - 8:00	11:30 - 8:00	10:00 - 6:00	10:00 - 6:00	10:00 - 6:00	12:00-5:00	
Guard 1	8	8.5	8.5	8	8	8	5	54

Point Loma

PO	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	1:00-5:00	
Guard 1	8	8	8	8	8	4	4	
Guard 2				4				
Total	8	8	8	12	8	4	4	52

**Increases 4 hours on Mondays, Thursdays, Fridays and 2 hours on Tuesdays and Wednesdays*

San Ysidro

SY	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours		9:30 - 6:00	9:30 - 6:00	9:30 - 6:00				
Guard 1		8	8	8				24

**Increase 4 hours on Tuesdays and Wednesdays, adjusted hours on Thursdays*

Serra Mesa

SM	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours		2:00-8:00	2:00-8:00	2:00-8:00		12:00 - 6:00	1:00-5:00	
Guard 1		6	6	6		6	4	28

**Adds 6 hours on Thursdays and 4 hours on Sundays*

Skyline

SK	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	2:00-6:00	12:00-8:00	12:00-8:00	2:00 - 6:00	2:00-6:00	2:00 - 6:00		
Guard 1	4	8	8	4	4	4		32

Tierrasanta

TS	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours		4:00 - 8:00	4:00 - 8:00			12:00-4:00		
Guard 1		4	4			4		12

University Heights

UH	Mon	Tue	Wed	Thur	Fri	Sat	Sun	Total
Hours	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00	9:30 - 6:00		
Guard 1	8	8	8	8	8	8		48

**Increases 4 hours on Mondays through Fridays*

CENTRAL LIBRARY
Security Guard Schedule - Additional hours from FY18 shown in red.

Guards	Mon.	Tues.	Wed.	Thurs.	Fri.	Sat.	Sun.	Total
24 hrs Guards	24	24	24	24	24	24	24	168
Lead 1	8	8	8	8	8	8	6	54
Lead 2	5	5	5	5	0	8	7	35
Guard1	8	8	8	8	8	8	7	55
Guard 2	8	8	8	8	8	8	7	55
Guard 3	8	8	8	8	8	8	7	55
Guard 4	8	8	8	8	8	8	7	55
	<i>*Increases 8 hours Mondays through Fridays</i>							
Total Daily Hours	69	69	69	69	64	72	65	477

****Security Guard Schedules are subject to change based on needs.**