



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: October 24, 2018
City Council Docket Date: October 30, 2018
Item Number: 330

IBA Report Number: 18-34

IBA Review of the FY 2018 Year-End Financial Performance Report

OVERVIEW

The FY 2018 Year-End Financial Performance Report (YEPR) was issued on October 5, 2018 and presented to the Budget and Government Efficiency (B&GE) Committee on October 17, 2018. The YEPR compares revenue and expenditure projections reported in the FY 2018 Year-End Budget Monitoring Report (Third Quarter Report) to unaudited actual revenue and expenditure activity for July 1, 2017 through June 30, 2018.

The purpose of our Office's review is to provide a high-level comparison of FY 2018 actual expenditures to the Adopted Budget. This is a complement to the data provided by the YEPR, which focuses primarily on comparing third-quarter projections to year-end actuals. Additionally, we provide further detail on expenditures related to Fire-Rescue Department overtime, homelessness, bridge shelters, and Hepatitis A. This added context may be useful to the public and to the City Council as they prepare to review the FY 2019 First Quarter Budget Monitoring Report and the Mayor's FY 2020-2024 Five-Year Financial Outlook, both of which are anticipated to be released on November 7, 2018.

FISCAL/POLICY DISCUSSION

General Fund Expenditures

As of the YEPR, FY 2018 General Fund expenditures were \$1.7 million higher than the Adopted Budget – comparing the \$1.4165 billion Adopted Budget to the \$1.4182 billion in unaudited actual expenditures.

FY 2018 General Fund Expenditures (\$ in millions)				
	Adopted Budget¹	Unaudited Actuals per YEPR	Variance: YEPR to Adopted	Variance %: YEPR to Adopted
<i>Personnel Expenditures (PE)</i>				
Salaries and Wages	\$ 547.1	\$ 551.9	\$ 4.8	0.9%
Fringe Benefits	438.4	441.2	2.8	0.6%
<i>Subtotal PE</i>	985.4	993.1	7.6	0.8%
Non-Personnel Expenditures (NPE)	431.0	425.1	(5.9)	-1.4%
TOTAL GENERAL FUND	\$ 1,416.5	\$ 1,418.2	\$ 1.7	0.1%

Note: Table may not total due to rounding.

¹The FY 2018 Adopted Budget total has been adjusted to remove \$17.4 million budgeted for General Fund Reserve contributions (including \$10.3 million for prefunding the FY 2019 contribution). This \$17.4 million will be maintained in/added to the Reserve; and no amounts will be expended for the budgeted Reserve contributions. Thus, for comparative purposes, the \$17.4 million in Reserve contributions have been removed from the \$1.4338 billion Adopted Budget, to yield an adjusted Adopted Budget total of \$1.4165 billion, as shown in this table.

Some notable over-budget expenditures include:

- \$4.8 million in net salaries and wages expenditures (See Salaries and Wages section for additional details.)
- \$3.6 million in additional Fire-Rescue contracts expenditures related to extreme fire conditions – including \$1.3 million to lease two “Super Scooper” Air Tankers, \$780,000 for a Helitanker, \$520,000 for General Atomics intelligence/reconnaissance aircraft, \$510,000 in travel (primarily for deployments), \$450,000 for Mountain Aviation for air tactical platform (for interagency communications and intelligence gathering)
- \$3.5 million in additional Parks & Recreation contracts spending – largely related to homelessness/bridge shelters and Hepatitis A projects (A more comprehensive look at homelessness/bridge shelters and Hepatitis A expenditures is included later in this report.)
- \$3.3 million in additional Parks & Recreation water charges – \$7.1 million budgeted versus \$10.4 million spent (Note that the FY 2018 water budget was insufficient because it was based on reduced water consumption during the previous drought mandate. The FY 2019 budget was subsequently increased to accommodate operational needs and the impact of unprecedented low levels of rain. Water usage will continue to be monitored, including the balancing of conservation with operational needs.)
- \$2.8 million in increased fringe benefits expenditures – primarily related to \$3.5 million in reallocations of the ADC, OPEB, and Workers’ Compensation fixed costs to the General Fund from non-general funds (based on changes in relative numbers of employees); \$1.3 million in increased Medicare expenses, largely related to the Police Department; and an offsetting \$2.4 million savings in flexible benefits, largely related to higher than anticipated vacancies
- \$2.3 million in increased Transportation & Storm Water (TSW) equipment and vehicle rental expenses

- \$1.5 million in additional transfers to the Parks Improvement Funds – \$11.1 million budgeted versus \$12.6 million in transfers
- \$1.2 million in additional spending related to one of the bridge shelter tents
- \$1.1 million in NPE associated with the Executive Complex relocation (moving of equipment; asbestos inspection and abatement; and supplies, equipment, and furniture)
- \$893,000 largely for reimbursements to Engineering & Capital Projects related to right-of-way work (for engineering services provided to SDG&E)

Notable savings from the Adopted Budget which partially offset budget overages include:

- \$7.3 million in reduced transfers for Public Liability expenditures
- \$6.0 million in Citywide elections savings – \$6.5 million budgeted versus \$486,000 spent for the June 2018 primary election (Note that the budgeted \$6.5 million included \$5.0 million for a November 2017 special election – related to the homelessness/streets/convention center initiative – that did not occur.)
- \$2.9 million in information technology savings – the largest components for Police and Fire-Rescue, at \$887,000 and \$602,000, respectively
- \$2.0 million in reduced transfers to the Public Liability Reserve – \$3.1 million budgeted versus \$1.1 million transferred
- \$1.5 million in reduced interest on deferred capital debt service – related to the use of interest from bond construction funds to pay the interest portion of the debt service
- \$1.4 million in reduced TSW purchases of lower priority supplies, to help bring about citywide budget savings – including sign materials and electrical materials expenses (for equipment such as pump stations, street lights, and traffic signals)
- \$1.1 million in decreased corporate master lease expenditures, including \$450,000 related to the Executive Complex relocation
- \$593,000 in reduced Parks & Recreation landscaping services – \$2.1 million budgeted versus \$1.5 million spent

Salaries and Wages

The table on the following page compares the FY 2018 year-end unaudited actual expenditures to the Adopted Budget for various salaries and wages categories. The fourth column shows that salaries and wages in total are \$4.8 million higher than what was included in the FY 2018 Adopted Budget.

Looking at the separate rows in the table, we can see that there is \$19.9 million in salary savings, primarily related to higher vacancies than anticipated in the Adopted Budget. This \$19.9 million in vacancy savings, though, is more than offset by overages in other salaries and wages categories: special pay, overtime, hourly wages, vacation pay-in-lieu, and termination pay.

The most significant overage, \$18.0 million in overtime, is largely related to the Fire-Rescue, Police, and Transportation & Storm Water (TSW) Departments – \$12.5 million, \$3.4 million, and \$1.2 million, respectively. The sizable Fire-Rescue overage is discussed later in the Fire Overtime section of this report.

FY 2018 Salaries and Wages Expenditures - General Fund				
	Adopted Budget	Unaudited Actuals per YEPR	Variance: YEPR to Adopted¹	Variance %: YEPR to Adopted
Salaries	\$ 434,207,000	\$ 414,337,000	\$ (19,870,000)	-4.6%
Special Pay	28,606,000	31,536,000	2,930,000	10.2%
Overtime	61,514,000	79,529,000	18,015,000	29.3%
Hourly	13,026,000	13,660,000	634,000	4.9%
Vacation Pay-in-Lieu of Annual Leave	7,308,000	8,889,000	1,581,000	21.6%
Termination Pay	2,396,000	3,902,000	1,506,000	62.9%
Total	\$ 547,057,000	\$ 551,853,000	\$ 4,796,000	0.9%

Note: Table may not total due to rounding.

¹Positive variances are overages, or spending above budget levels. Negative variances are spending below budget levels.

The following issues related to overages in overtime will require further review throughout the budget process:

- The costs of maintaining service levels via the use of overtime versus the filling of positions
- Approaches for reducing overtime in the future – through additional hiring and/or through other overtime reduction efforts

The next table displays FY 2018 departmental spending variances (as compared to the Adopted Budget) for various salaries and wages categories. Under-budget salaries, again totaling \$19.9 million, are shown in the second column. Total salaries and wages – the net of all categories' overages and under-budget spending – are shown in the right-most column. A majority of departments' under-budget salaries more than offset over-spending in the other salaries and wages categories. However, the following departments have net overages for total salaries and wages: Fire-Rescue (at \$5.5 million), Police (at \$2.7 million), TSW (at \$653,000), and the City Attorney's Office (at \$335,000).

Variances for Salaries and Wages Expenditures - General Fund							
Variances: FY 2018 YEPR to Adopted Budget	Salaries	Overtime	Special Pay	Hourly	Vacation Pay-in-Lieu	Termination Pay	Total Salaries and Wages
Fire-Rescue	\$ (7,326,700)	\$ 12,524,100	\$ 712,700	\$ 152,200	\$ (696,700)	\$ 153,000	\$ 5,518,600
Police	(3,421,400)	3,374,900	1,826,900	145,800	195,200	561,600	2,683,000
Parks & Recreation	(1,265,100)	265,300	44,600	382,000	176,900	75,600	(320,700)
Transportation & Storm Water	(1,106,000)	1,240,400	334,100	(58,200)	157,800	85,300	653,400
City Treasurer	(619,000)	1,700	7,400	(21,700)	50,500	20,500	(560,600)
Environmental Services	(608,100)	325,500	500	500	145,500	15,800	(120,300)
Public Works - General Services	(607,300)	106,600	24,400	1,800	91,600	8,000	(374,900)
Planning	(575,800)	(3,000)	(16,400)	16,500	50,200	55,600	(472,900)
Purchasing & Contracting	(546,900)	33,300	(1,500)	(27,900)	36,900	32,900	(473,200)
City Attorney	(483,800)	39,300	(6,000)	219,900	391,700	174,100	335,200
Library	(365,500)	103,300	(4,200)	(119,300)	125,400	42,500	(217,800)
Development Services	(342,400)	(89,800)	(100)	5,000	39,500	(5,300)	(393,100)
City Comptroller	(333,900)	(6,600)	-	(2,500)	116,400	14,400	(212,200)
Other Departments	(2,267,400)	100,000	7,600	(59,800)	700,600	271,500	(1,247,500)
Total	\$ (19,869,300)	\$ 18,015,000	\$ 2,930,000	\$ 634,300	\$ 1,581,500	\$ 1,505,500	\$ 4,797,000

Note: Table may not total due to rounding.

¹Positive variances are overages, or spending above budget levels. Negative variances are spending below budget levels.

Fire-Rescue Overtime

At the time of the Third Quarter Report, the FY 2018 year-end projection for Fire-Rescue overtime was \$12.9 million over the budgeted level set by the Adopted Budget. The magnitude of that variance caused our Office concern regarding the appropriateness of budgeted overtime expenditures for the Department in FY 2019. At FY 2018 year-end, actual Fire-Rescue overtime expenditures exceeded budget by approximately \$12.5 million.

As shown in the table below, the Department's overtime expenditures have exceeded budget for the past five years. With regard to FY 2018, overtime expenditures for Fire-Rescue were about 45% higher than the average cost over the previous 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	\$45.4	-

Our office continues to work with staff in monitoring and analyzing Fire-Rescue overtime in FY 2019, as overtime budgeted for FY 2019 is significantly less than the actual amount expended in FY 2018. To this end, the Fire-Rescue Department has indicated that approximately \$2.4 million of overtime expenditures in FY 2018 were due to weather-related events that were likely one-time

events and therefore not budgeted for in FY 2019. Additionally, approximately \$6.0 million was due to the introduction of new Local 145 MOU provisions that were instated at the start of FY 2018, the effects of which are anticipated to taper off during FY 2019.

The Department has indicated that, due to higher-than-anticipated firefighter attrition, an additional fire academy will likely be requested in FY 2019 to fill firefighter vacancies and reduce the Department's reliance on overtime to maintain staffing levels. This request is anticipated to be made during the mid-year budget adjustment process. This would increase the total number of budgeted fire academies in FY 2019 from one to two, at an additional cost of approximately \$1.1 million.

Hepatitis A and Homelessness

In FY 2018, the City incurred costs that were unanticipated at the time of the FY 2018 Adopted Budget. Among these were costs for the response to a Hepatitis A outbreak and providing additional homelessness services. According to the Department of Finance, total costs attributed to these efforts were \$7.4 million, and as stated in the YEPR, the General Fund portion was approximately \$7.2 million.

Some of these costs were able to be absorbed within regular staff time within adopted department budget levels without significantly impacting existing service levels. However, other expenses such as overtime and non-personnel expenditures, required General Fund appropriations that were approved as outlined in the Third Quarter Report. Available General Fund monies were derived from savings attributed to reduced departmental expenditures and an increase in revenue in FY 2018.

The following sections summarize the FY 2018 unanticipated expenditures related to Hepatitis A and homelessness.

Hepatitis A Response

On September 1, 2017 the County of San Diego declared the spread of Hepatitis A a local health emergency which lasted until January 23, 2018. Total costs associated with the emergency, including administrative support, were \$4.1 million, of which \$3.9 million was in General Funds. Major activities included education (e.g., development of materials, outreach, and staff training), sanitation services, vaccinations, and the establishment of a transitional camp area for homeless individuals to reside from October to December of 2017.

Though the end of the health emergency has been declared, the City is continuing to provide increased public restroom facilities and related security, as well as sidewalk sanitation and increased street sweeping. These activities have been included in the FY 2019 Adopted Budget.

Homelessness

The FY 2018 YEPR includes unaudited actual expenditures for the City's bridge shelters and other unanticipated homelessness costs, including the Safe Parking Program and homeless outreach provided by the Police Department.

Bridge Shelters

On November 14, 2017, the Housing Authority and the City Council authorized the establishment of three temporary bridge shelters to provide individuals a safe place to be temporarily housed and receive services while preparing for permanent housing placements. The shelters opened between December 1, 2017 and January 2, 2018.

Though the San Diego Housing Commission provided funding for the start-up and operations of the shelters during FY 2018, the City also incurred approximately \$3.0 million in costs, almost all attributed to the General Fund. Over half of these costs were associated with the Parks & Recreation Department for security during the construction of the shelters and for equipment rentals for items such as showers, restrooms, laundry, lighting, mobile offices, and storage. Additionally, over one third of costs were for the purchase and set up of the tent at the Father Joe's Villages site. The other two tents were supported by private donors. Ongoing General Funds have been included in the FY 2019 Adopted Budget associated with the shelters.

Safe Parking Program and Homeless Outreach

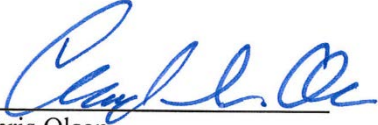
The City added a Safe Parking Program to its efforts to reduce homelessness in October 2017. The City expanded an existing program operated by two nonprofits which provides those who are temporarily living in cars with a safe place to park at night, assistance finding permanent housing, and other services. Total City expenditures for the program in FY 2018 were \$250,000 from the General Fund. Ongoing General Funds have been included in the FY 2019 Adopted Budget for this program.

In March 2018 the SDPD's Neighborhood Policing Division was established which centralized teams that address quality of life issues. Its Homeless Outreach Team incurred \$140,000 in unanticipated General Fund costs for increased outreach efforts in downtown and around the new transitional storage center which opened in June 2018. These costs were not projected at the time of the Third Quarter Report and it is currently unknown if a future budget adjustment will be needed.

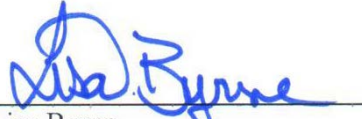
CONCLUSION

The Office of the IBA's review of the FY 2018 YEPR provides a high-level summary of year-end expenditure variances as compared to the FY 2018 Adopted Budget, as well as further information on key issues of interest to the City Council. We present this information in order to provide another tool for evaluating City expenditures for FY 2018. This information is timely as the public

and City Council prepare to evaluate the FY 2019 First Quarter Budget Monitoring Report and the Mayor's FY 2020-2024 Five-Year Financial Outlook, both scheduled to be released next month.




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