



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Review of the FY 2019 Year-End Financial Performance Report

OVERVIEW

The FY 2019 Year-End Financial Performance Report (Performance Report) was issued on October 9, 2019 and presented to the Budget and Government Efficiency Committee on October 16, 2019. The Performance Report compares revenue and expenditure projections reported in the FY 2019 Year-End Budget Monitoring Report (Third Quarter Report) to unaudited actual revenue and expenditure activity for July 1, 2018 through June 30, 2019.

Our Office's review begins with documenting the change in General Fund Excess Equity from what was projected in the Third Quarter Report to what is reported in the Performance Report. We also provide a high-level comparison of FY 2019 unaudited actual expenditures in the General Fund to the FY 2019 Adopted Budget. This information supplements the data provided by the Department of Finance in the Performance Report, which focuses on comparing third-quarter projections to year-end actuals. Additionally, we provide further detail on expenditures related to homelessness. This added context may be useful to the public and to the City Council as they prepare to review the FY 2020 First Quarter Budget Monitoring Report and the Mayor's FY 2021-2025 Five-Year Financial Outlook, both of which are scheduled to be released on November 6, 2019.

FISCAL/POLICY DISCUSSION

General Fund Excess Equity

The following table shows the changes to Excess Equity since the FY 2019 Third Quarter Report, including use of Excess Equity during the various stages of budget development. The resulting \$23.0 million in FY 2019 ending Excess Equity is based on the unaudited actual revenues and expenditures for FY 2019.

OFFICE OF THE INDEPENDENT BUDGET ANALYST

202 C STREET MS 3A SAN DIEGO, CA 92101

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

During the FY 2020 mid-year budget review, if the Mayor recommends and Council approves additional spending beyond the Adopted Budget expenditure level, such approved amounts would reduce Excess Equity. For example, payments associated with the Flores legal case on overtime rates – currently estimated at \$3.0 million – are anticipated to be made in FY 2020, which would reduce available Excess Equity from \$23.0 million to \$20.0 million.

FY 2019 Year-End Excess Equity (\$ in millions)	
<i><u>Known Excess Equity Uses as of FY 2019 Third-Quarter Report</u></i>	
FY 2019 Third-Quarter Projected Beginning Excess Equity	\$ 38.1
FY 2020 Proposed Budget Use of Excess Equity	(30.7)
FY 2020 May Revise Use of Excess Equity	(4.9)
<i>Projected Excess Equity as of FY 2019 Third Quarter Report</i>	\$ 2.5
<i><u>Excess Equity Changes During the FY 2020 Budget Approval Process</u></i>	
Additional RPTTF Revenues Identified in IBA FY 2020 Budget Recommendations Reports	3.0
Additional FY 2020 Use of Excess Equity Resulting From Council Budget Modifications	(5.2)
<i>Projected Excess Equity After FY 2020 Budget Approval ¹</i>	\$ 0.3
<i><u>Subsequent Excess Equity Changes</u></i>	
Reduction in Expenditures from the Third-Quarter Report to Unaudited Year-End Actuals	15.5
Increase in Revenues as of Unaudited Year-End Actuals (Net of IBA-Identified RPTTF Above) ²	7.1
FY 2019 Year-End Excess Equity	\$ 23.0

Note: Table may not total due to rounding.

¹ Projected Excess Equity after FY 2020 budget approval includes a recalculation of fringe benefits for the final budget.

² The \$7.1 million revenue increase is the result of removing \$3.0 million in RPTTF revenues (which were identified in the IBA's FY 2020 budget recommendations reports) from the full \$10.1 million increase in FY 2019 revenues since the Third-Quarter Report. Note that the \$10.1 million increase is \$0.3 million higher than the \$9.8 million revenue increase included in the Performance Report, due to a timing issue related to interest postings.

There is a \$20.5 million increase in Excess Equity from the \$2.5 million Third Quarter Report projection to the \$23.0 million at year-end. The Performance Report provides a detailed analysis of differences between the third-quarter projections and the year-end unaudited actuals. Increases to Excess Equity include a net \$15.5 million savings in expenditures and a net \$7.1 million increase in revenues.

Notable General Fund expenditure savings that increased Excess Equity since the third-quarter projection include:

- \$3.0 million related to the Flores legal case on overtime rates (payout for this case is anticipated in FY 2020);
- \$2.7 million in additional vacancy savings;
- \$1.7 million in bridge shelter expenses;
- \$1.1 million in Parks and Recreation (P&R) water and fuel savings;
- \$1.0 million in supplies, largely related to Transportation and Storm Water (TSW) and P&R;
- \$970,000 in Economic Development (including savings related to a delay in the Housing Navigation Center opening and utilization of State HEAP funds for the Safe Parking Program and transitional storage);

- \$920,000 in Fire-Rescue related to lower than anticipated computer maintenance, help desk, and Computer Aided Dispatch expenditures; and
- \$850,000 in Police, primarily related to lower than anticipated helicopter maintenance, towing services, and motive equipment charges.

Notable General Fund revenues that increased Excess Equity since the third-quarter projection include:

- \$2.8 million in property tax, of which \$3.0 million from the Redevelopment Property Tax Trust Fund (RPTTF) was identified by our Office during the final Council actions on the FY 2020 budget (as noted in the table on the previous page), which is offset by a \$0.2 million decrease in the base 1% property tax allocation;
- \$2.3 million in sales tax receipts that were higher than anticipated;
- \$2.3 million in TSW Parking Meter District revenue;
- \$1.6 million in Fire-Rescue FEMA reimbursement; and
- \$1.4 million in Office of the City Treasurer which is largely attributed to the Cannabis Business Tax remittance provided by ancillary cannabis businesses outside of the City’s jurisdiction.

General Fund Adopted Budget vs Unaudited Actuals

As stated earlier, while the Department of Finance’s FY 2019 Performance Report focuses on comparing *third-quarter projections* to year-end actuals, the IBA’s expenditure variance review provides a comparison of the *Adopted Budget* to the unaudited year-end actuals. Our expenditure review is intended as an historical resource as we move into the FY 2021 budget development process. The main focus of our analysis is salaries and wages, but we begin below with a summary of overall General Fund expenditures. As of the Performance Report, FY 2019 total General Fund unaudited actual expenditures of \$1.46 billion are \$3.9 million higher than the FY 2019 Adopted Budget¹, or 0.3%, as shown in the following table.

FY 2019 General Fund Expenditures (\$ in millions)				
	Adopted Budget ¹	Unaudited Actuals	Variance	Variance %
Personnel Expenditures (PE)				
Salaries and Wages	\$ 589.1	\$ 585.9	\$ (3.2)	(0.5%)
Fringe Benefits	438.0	446.4	8.4	1.9%
Subtotal PE	\$ 1,027.1	\$ 1,032.3	\$ 5.2	0.5%
Non-Personnel Expenditures (NPE)	431.6	430.3	(1.3)	(0.3%)
TOTAL GENERAL FUND	\$ 1,458.7	\$ 1,462.6	\$ 3.9	0.3%

Note: Table may not total due to rounding.

¹The FY 2019 Adopted Budget total has been adjusted to remove \$554,000 budgeted for General Fund Reserve contributions. Reserve contribution amounts are maintained in/added to the Reserve and are not expended. Thus, for comparative purposes, the \$554,000 in Reserve contributions have been removed from the \$1.4592 billion Adopted Budget, to yield an adjusted Adopted Budget total of \$1.4587 billion, as shown in this table.

¹ Budgeted and unaudited actual expenditures in this analysis and the Performance Report do not include amounts for the FY 2019 General Fund reserve contribution.

Salaries and wages are lower than the Adopted Budget by a net \$3.2 million. However, there are significant overages in overtime and other wage components which are offset by additional vacancy savings that are above budgeted vacancy savings. Our report discusses these areas in the following pages.

Salaries and Wages

The following table compares the FY 2019 unaudited actuals to the Adopted Budget for various salaries and wages categories. The fourth column shows that salaries and wages in total are \$3.2 million lower than what was included in the FY 2019 Adopted Budget.

Looking at the separate rows in the table, we can see that there is \$22.2 million in salary savings, primarily related to higher vacancies than anticipated in the Adopted Budget (budgeted vacancy savings was \$33.2 million). We can also see that this \$22.2 million in additional vacancy savings offsets overages in other salaries and wages categories: special pay, overtime, hourly wages, vacation pay-in-lieu, and termination pay. This has been a recurring trend over the past several years, which is discussed later in the Vacancy Savings section.

FY 2019 Salaries and Wages Expenditures - General Fund				
	Adopted Budget	Unaudited Actuals	Variance ¹	Variance %
Salaries	\$ 467,333,000	\$ 445,100,000	\$ (22,233,000)	(4.8%)
Special Pay	32,346,000	34,599,000	2,253,000	7.0%
Overtime	66,634,000	80,087,000	13,453,000	20.2%
Hourly	13,535,000	14,197,000	662,000	4.9%
Vacation Pay-in-Lieu of Annual Leave	6,882,000	8,353,000	1,471,000	21.4%
Termination Pay	2,369,000	3,586,000	1,217,000	51.4%
Total	\$ 589,099,000	\$ 585,922,000	\$ (3,177,000)	(0.5%)

Note: Table may not total due to rounding.

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

Overtime

The most significant overage, as shown in the table above, is \$13.5 million of overtime, which is largely related to the Fire-Rescue and Police Departments – \$7.0 million and \$4.7 million, respectively. Note that an additional \$2.7 million in Police overtime is being projected in the Seized Assets Fund (SAF), for a total overage of \$7.4 million for the Police Department. This is the first year the SAF has been used for overtime. We have concerns regarding transparency and year-over-year comparability with the overtime expenditures split between two funds. Note that the FY 2020 Adopted Budget also includes Police overtime in the SAF.

For additional context, historical information on Police overtime expenditures is provided in the following table. The main contributing factors for the FY 2019 expenditure overage include extension of shift overtime and neighborhood policing overtime (including for transitional storage, the San Diego riverbed area, and the Housing Navigation Center).

Police Overtime - Historical Budget vs. Actuals						
<i>(\$ in millions)</i>	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Actual	\$ 17.8	\$ 23.1	\$ 25.0	\$ 26.0	\$ 29.7	\$ 31.9 ¹
Budget	11.8	11.1	18.0	21.0	26.3	24.6
Overage	\$ 6.0	\$ 12.0	\$ 7.0	\$ 5.0	\$ 3.4	\$ 7.4

Note: Table may not total due to rounding.

¹The \$31.9 million FY 2019 actual amount includes approximately \$29.3 million of General Fund and \$2.7 million of Seized Assets Fund expenditures.

As shown in the following table, Fire-Rescue’s actual overtime expenditures have significantly increased in FY 2018 and 2019 when compared to the previous several fiscal years. From FY 2014 to FY 2017 average overtime expenditures were about \$31.4 million, compared to the most recent expenditures in FY 2018 and FY 2019, which average \$45.3 million. The Fire-Rescue Department has indicated that contributing factors for increases over the years include effects of MOU changes, increases in strike team deployments and weather-related events, and higher vacancies yielding more constant-staffing overtime. Note that strike team deployment overtime is reimbursable, and therefore will not have an impact on the General Fund.

Fire-Rescue Overtime – Historical Budget vs. Actuals						
<i>(\$ in millions)</i>	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Actual	\$ 29.7	\$ 31.5	\$ 31.8	\$ 32.5	\$ 45.4	\$ 45.2
Budget	23.7	26.7	29.9	30.2	32.8	38.1
Overage	\$ 6.0	\$ 4.8	\$ 1.9	\$ 2.3	\$ 12.5	\$ 7.0

Note: Table may not total due to rounding.

Departmental Variances

The next table displays FY 2019 departmental spending variances (as compared to the Adopted Budget) for various salaries and wages categories. The total salaries and wages spending variance of \$3.2 million – which is the net of all categories’ overages and under-budget spending – is 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 Police Department has a net overage of \$6.1 million, which is largely related to overtime.

Variances for Salaries and Wages Expenditures - General Fund							
Variances: FY 2019 Year-End Unaudited Actuals to Adopted Budget ¹	Salaries	Overtime	Special Pay	Hourly	Vacation Pay-in-Lieu	Termination Pay	Total Salaries and Wages
Fire-Rescue	\$ (8,723,400)	\$ 7,027,500	\$ 957,400	\$ 489,100	\$ (887,200)	\$ (368,400)	\$ (1,505,000)
Transportation & Storm Water	(2,271,100)	130,600	478,900	(80,800)	111,700	66,900	(1,563,800)
Parks and Recreation	(2,000,300)	417,400	54,300	(11,500)	171,900	80,300	(1,287,900)
Facilities Services	(1,369,200)	330,500	33,300	500	146,600	10,200	(848,100)
City Attorney	(1,125,100)	27,300	(373,800)	219,800	414,400	166,800	(670,600)
Environmental Services	(779,900)	725,000	3,100	600	119,700	14,700	83,200
City Treasurer	(686,700)	(16,700)	(6,100)	(800)	53,300	7,500	(649,500)
Police	(677,300)	4,708,100	1,131,700	145,900	251,200	535,400	6,095,000
Library	(589,300)	75,900	(48,300)	(59,900)	103,300	65,800	(452,500)
Purchasing & Contracting	(504,900)	24,500	400	(29,600)	47,000	45,800	(416,800)
Development Services	(489,000)	(59,400)	1,300	9,000	28,800	16,300	(493,000)
Planning	(453,000)	(400)	25,300	(17,100)	43,800	8,100	(393,300)
Other Departments	(2,563,500)	63,200	(4,800)	(3,200)	866,900	567,900	(1,073,500)
Total	\$(22,232,700)	\$13,453,500	\$2,252,700	\$ 662,000	\$1,471,400	\$1,217,300	\$ (3,175,800)

Note: Table may not total due to rounding.

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

Vacancy Savings

Under-budget salaries – again primarily due to vacancies and totaling \$22.2 million – are shown in the second column of the table above. This \$22.2 million in vacancy savings is in addition to the \$33.2 million in budgeted vacancy savings for FY 2019. Adding the budgeted vacancy savings to the additional vacancy savings yields a total vacancy savings of \$55.4 million. This is a continuation of a trend that has been discussed over the past several years, and is shown in the following table. Causes and effects of such additional vacancy savings, for example hiring difficulties and staffing level deficiencies have been questioned by a number of Councilmembers. In December, the City Auditor’s Office plans to release part one of a two-part report on human capital management, which will address some of these issues; and an RFP has been released related to a pay equity study, which may have some bearing. Additionally, the City intends to explore these issues via a working group, at the request of the Budget and Government Efficiency Committee.

Vacancy Savings Comparison - General Fund			
(\$ in millions)	Budgeted Vacancy Savings	Additional Vacancy Savings	Total Year-End Vacancy Savings
FY 2019	\$ 33.2	\$ 22.2	\$ 55.4
FY 2018	\$ 29.7	\$ 19.9	\$ 49.6
FY 2017	\$ 30.4	\$ 15.7	\$ 46.1
FY 2016	\$ 21.5	\$ 21.9	\$ 43.4

Note: Table may not total due to rounding.

While actual vacancy savings has been trending higher than budgeted amounts, it has been fairly consistent on a percentage basis for several years, as shown in the right-most column of the

following table. For the past four completed fiscal years, total vacancy savings has ranged between approximately 10% and 11%.

Vacancy Savings Comparison - General Fund					
<i>(\$ in millions)</i>	<i>Budgeted Salaries¹</i>	Budgeted Vacancy Savings	Budgeted Vacancy Savings as a Percent of Salaries	Total Vacancy Savings	Total Vacancy Savings as a Percent of Salaries
FY 2019	\$ 500.5	\$ 33.2	6.6%	\$ 55.4	11.1%
FY 2018	\$ 463.9	\$ 29.7	6.4%	\$ 49.6	10.7%
FY 2017	\$ 459.2	\$ 30.4	6.6%	\$ 46.1	10.0%
FY 2016	\$ 444.1	\$ 21.5	4.8%	\$ 43.4	9.8%

Note: Table may not total due to rounding.

¹The Budgeted Salaries amounts are the salaries in the Adopted Budgets before each year's vacancy savings is removed.

Adjustments were made in the FY 2020 Adopted Budget. Vacancy savings increased to \$38.0 million (which reduces budget for salaries by that amount); and there were 36.35 FTE reductions, which decreased budgeted salaries expenditures by \$2.1 million. While a future reduction in budgeted salaries could free up budget for other program areas, we caution, that as in FY 2019, higher vacancy savings in the past several years has served as a funding source for overages in other salaries and wages categories. Ensuring that all other salaries and wages expenditures (overtime, special pays, hourly wages, vacation pay-in-lieu, termination pay) have sufficient funding levels will be important if positions are eliminated and salaries are reduced. Reducing total salaries and wages by eliminating funded positions (or alternatively, by increasing vacancy savings) could leave less of a cushion for other salaries and wages overages – which could pose a difficulty if those other salaries and wage types do not have sufficient budget. These issues should be considered during the FY 2021 budget process.

Homelessness Expenditures

The Performance Report indicates that the City spent \$20.2 million on homeless programs and associated City staff in FY 2019². Of this amount, \$3.7 million is associated with City staff support, largely provided by the Police Department to address quality of life issues and provide increased presence in certain neighborhoods. Actual unaudited expenditures for City staff were in line with projections in the Third Quarter Report. The remaining \$16.4 million went to support homeless programs and services, of which \$7.9 million was from the General Fund.

The \$20.2 million spent in FY 2019 is approximately \$15.4 million less than the \$35.5 million that was anticipated to be spent in the Third Quarter Report. The reduction is primarily due to moving \$10.0 million in Community Development Block Grant funds into the Affordable Housing Revolving Loan Fund, where it will be spent over multiple years on three affordable housing projects for individuals experiencing homelessness.

² Note that this reflects unaudited actual expenditures. Additional funding for homelessness is included in the San Diego Housing Commission budget which is excluded from this report.

After removing the \$10.0 million, the most significant reductions from Third Quarter Report projections are:

- \$2.6 million in HEAP funding that will be carried forward to FY 2020;
- \$1.2 million in the General Fund for the bridge shelters largely due to a reduction in equipment including showers, restrooms, and handwashing stations, to align with the need at the Father Joe’s Villages and Veterans Village bridge shelters, as evaluated by staff; and
- \$520,000 in the General Fund not spent on relocating the fourth bridge shelter.

We note that the Performance Report characterizes the \$520,000 above as carry forward expenditures. However, the funds are currently not planned to carry forward to support shelter relocation costs, and instead fall to fund balance as Excess Equity. HEAP funds are being used to complete the relocation project in FY 2020. The table below summarizes the total costs of relocating the fourth bridge shelter operated by Alpha Project. Of the total cost, about \$1.2 million was spent in FY 2019.

Shelter Relocation Costs	
Funding Source	Amount
Original allocation from HEAP	\$1,600,000
Additional HEAP funds reallocated from outreach activities	\$1,060,000
General Fund	20,000
Total¹	\$2,680,000

¹Of which about \$1.2 million was spent in FY 2019.

CONCLUSION

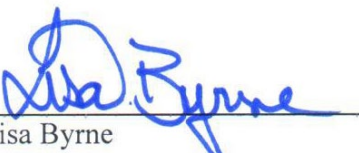
The Office of the IBA’s review of the FY 2019 Performance Report documents the changes to General Fund Excess Equity since the third-quarter projections, provides a high-level summary of year-end expenditure variances as compared to the FY 2019 Adopted Budget, and includes further information on homelessness. We present this information in order to provide another tool for evaluating City expenditures for FY 2019. This information is timely as the public and City Council prepare to evaluate the FY 2020 First Quarter Budget Monitoring Report and the Mayor’s FY 2021-2025 Five-Year Financial Outlook, both scheduled to be released next month.




Angela Colton
Fiscal & Policy Analyst



Jordan More
Fiscal & Policy Analyst



Lisa Byrne
Fiscal & Policy Analyst



Jillian Kisse
Fiscal & Policy Analyst

Brady Balolong

Brady Balolong
Research Analyst

Andrea Tevlin

APPROVED: Andrea Tevlin
Independent Budget Analyst