



THE CITY OF SAN DIEGO

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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** March 5, 2020

**IBA Report Number:** 20-05

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# IBA Review of the FY 2020 Mid-Year Budget Monitoring Report

## OVERVIEW

The Fiscal Year 2020 Mid-Year Budget Monitoring Report (Mid-Year Report) was issued on January 31, 2020, and was presented to the Budget and Government Efficiency Committee on February 5, 2020. The Mid-Year Report describes the status of revenues and expenditures and provides year-end projections based on actual (unaudited) data from the first five months of the fiscal year. The Mid-Year Report also provides useful details about major revenues, departmental operations, and other programmatic items. The purpose of the IBA review of the Mid-Year Report is to provide clarification and additional information for items outlined in that report.

The FY 2020 Mid-Year Report is projecting a General Fund year-end budgetary surplus of approximately \$5.8 million. At this time, resulting excess equity is projected to be \$27.9 million at year-end. No appropriation of excess equity is being proposed at this time and excess equity may be available as a partial budget balancing tool for the FY 2021 Budget.

The Mayor is recommending General Fund appropriation adjustments of approximately \$6.3 million with an equal increase in revenues. Per the Mid-Year Ordinance, the “Council may approve the Mayor’s recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor.”

In this report, we review major General Fund revenues, salaries and wages, vacancy savings, select department expenditures and excess equity. We provide additional information for requested appropriation adjustments. We also offer updates on key issues such as homelessness services and staff relocation out of the 101 Ash Street building. Finally, we provide a status update on all items City Council added to the FY 2020 Adopted Budget as part of their final budget resolution.

# FISCAL/POLICY DISCUSSION

## General Fund Revenues

The FY 2020 Mid-Year Report includes projections for all General Fund revenues. Total General Fund revenues are projected to be \$12.6 million over the FY 2020 Budget. Of this, \$5.5 million of the overage is in the Major General Fund Revenues and \$7.1 million is from departmental revenues. This is an overall increase of \$7.6 million in General Fund revenue since the projections provided in the FY 2020 First Quarter Budget Monitoring Report (First Quarter Report). The table below includes both the FY 2020 first quarter and mid-year projections for comparison. Below, we review the four largest General Fund revenue sources and Cannabis Business Tax, which is the largest contributor to the over budget projection in departmental revenues.

Major General Fund Revenues (in Millions)								
	FY 2020 Budget	FY 2020 1st Quarter Projection	FY 2020 1st Quarter Variance	FY 2020 1st Quarter Variance %	FY 2020 Mid-Year Projection	FY 2020 Mid-Year Variance	FY 2020 Mid-Year Variance %	Change 1st Quarter to Mid-Year
Property Tax	\$ 601.9	\$ 604.7	\$ 2.8	0.5%	\$ 607.4	\$ 5.5	0.9%	\$ 2.7
Sales Tax	297.9	300.6	2.8	0.9%	300.2	2.3	0.8%	(0.5)
Transient Occupancy Tax	136.9	136.6	(0.3)	-0.2%	133.6	(3.3)	-2.4%	(3.0)
Franchise Fees	80.0	79.8	(0.2)	-0.3%	79.6	(0.4)	-0.5%	(0.2)
Other Major Revenues	88.8	88.8	0.0	0.0%	90.1	1.4	1.6%	1.4
<b>Total Major Revenues</b>	<b>\$ 1,205.4</b>	<b>\$ 1,210.4</b>	<b>\$ 5.0</b>	<b>0.4%</b>	<b>\$ 1,210.9</b>	<b>\$ 5.5</b>	<b>0.5%</b>	<b>\$ 0.5</b>
Departmental Revenues	343.8	343.8	0.0	0.0%	350.9	7.1	2.1%	7.1
<b>Total</b>	<b>\$ 1,549.2</b>	<b>\$ 1,554.2</b>	<b>\$ 5.0</b>	<b>0.3%</b>	<b>\$ 1,561.8</b>	<b>\$ 12.6</b>	<b>0.8%</b>	<b>\$ 7.6</b>

## Major General Fund Revenues

The four largest revenue sources for the General Fund are property tax, sales tax, transient occupancy tax (TOT) and franchise fees. Overall, these four revenue sources are projected to bring in approximately \$4.1 million of revenue over the FY 2020 Budget, which is a reduction from the \$5.0 million projected over budget revenue in the First Quarter Report. The largest change is a drop in projected TOT revenue. Sales tax and franchise fees also have slight declines, while the property tax projection has increased.

### Property Tax

Property tax revenues are projected to be \$5.5 million above the current budget, and \$2.7 million above the First Quarter Report projection. The increase is mainly due to a change in the most recent Recognized Obligation Payment Schedule (ROPS) from the former Redevelopment Agency, which moved a payment from the “A” period to the “B” period. This will increase revenues by a projected \$3.4 million in FY 2020. Assuming that this payment change remains consistent in subsequent ROPS submissions, there should be no changes to projected revenues in the next few fiscal years.

### Sales Tax

The sales tax revenue projection is \$2.3 million over budget, which is a slight reduction of 0.1% from the \$2.8 million over budget projection in the First Quarter Report. This projection was

updated with the latest actual receipts and maintains the same projected growth rate as the First Quarter Report.

### Transient Occupancy Tax

The General Fund TOT revenue projection in the FY 2020 Mid-Year Report is \$3.3 million or 2.4% under budget. This is a significant reduction of \$3.0 million from the projection in the First Quarter report which maintained TOT at close to budget. As a result of more recent data on tourism trends and the actual TOT receipts during the second quarter of FY 2020, the Department of Finance has reduced the growth rate from the 3% assumed in the budget to 2% for the remainder of this fiscal year. Both the San Diego Tourism Authority and the San Diego Tourism Marketing District are reporting lower growth than was previously anticipated. This will not only impact FY 2020 but is anticipated to reduce the FY 2021 projection by approximately \$10.0 million.

It is important to note that reduced TOT revenue also impacts Special Promotional Programs. The FY 2020 projections for arts and culture organizations remains the same. However, the Mid-Year Report reflects an approximately \$2.3 million reduction in reimbursable revenue to General Fund departments, including Parks and Recreation (\$1.7 million) for tourism-related activities and Police and Fire-Rescue Departments (\$550,000 combined) for public safety provided during special events. There is also a \$590,000 projected reduction to the 1 cent discretionary TOT that is transferred to the General Fund from Special Promotional Programs. This brings the total TOT revenue transferred from Special Promotional Programs to the General Fund down by \$2.9 million and, combined with the TOT directly deposited in the General Fund, reflects an overall revenue reduction as a result of the slow-down in tourism of \$6.1 million in the General Fund.

### Franchise Fees

Franchise fees continue to decline in the Mid-Year Report, with current projections anticipating a variance of \$400,000 below budget, which is a further decrease of \$200,000 from the First Quarter Report. This decline is mostly attributable to further declines in cable franchise payments.

## **Departmental Revenues**

### Cannabis Business Tax (City Treasurer)

Cannabis Business Tax (CBT) revenue is projected to be \$4.9 million over the current budget, which is a slight increase of \$100,000, or 2% from the First Quarter Report. The \$100,000 increase is due to an additional outlet opening sooner than anticipated. Overall, the projection remains consistent with the First Quarter Report taking into consideration the number of operating outlets, ancillary products at the outlets being taxed, increased taxable gross receipts, and compliance efforts related to cannabis business activities.

## **General Fund Expenditures**

Our review of General Fund expenditures is intended as an historical resource for the FY 2021 budget development process. The main focus of our analysis is salaries and wages. We also discuss various programs for which we anticipate additional expenditures that are not included in the mid-year projections, such as election costs and smart streetlights. We begin on the following page with a summary of overall expenditures. The Mid-Year Report projects FY 2020 total General Fund

expenditures to be \$1.58 billion, a \$6.8 million overage as compared to the FY 2020 Adopted Budget<sup>1</sup>, or 0.4%, as shown in the following table.

<b>FY 2020 General Fund Expenditures (\$ in millions)</b>				
	<b>Adopted Budget <sup>1</sup></b>	<b>Mid-Year Projections</b>	<b>Variance: Mid-Year to Adopted <sup>2</sup></b>	<b>Variance %: Mid-Year to Adopted</b>
<i>Personnel Expenditures (PE)</i>				
Salaries and Wages	\$ 645.1	\$ 644.4	\$ 0.7	0.1%
Fringe Benefits	466.8	471.8	(5.0)	(1.1%)
<b>Subtotal PE</b>	<b>1,111.9</b>	<b>1,116.2</b>	<b>(4.3)</b>	<b>(0.4%)</b>
Non-Personnel Expenditures (NPE)	466.2	468.7	(2.5)	(0.5%)
<b>Total General Fund</b>	<b>\$ 1,578.1</b>	<b>\$ 1,584.9</b>	<b>\$ (6.8)</b>	<b>(0.4%)</b>

Note: Table may not total due to rounding.

<sup>1</sup> The FY 2020 Adopted Budget total has been adjusted to remove \$11.9 million 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 \$11.9 million in Reserve contributions has been removed from the \$1.5899 billion Adopted Budget, to yield an adjusted Adopted Budget total of \$1.578 billion, as shown in this table.

<sup>2</sup> Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

Projected salaries and wages are lower than the Adopted Budget by a net \$715,000. However, there are significant overages in overtime and other wage components which are offset by the vacancy savings in excess of budgeted vacancy savings. Our report discusses these areas in the following pages.

### **Salaries and Wages**

The following table compares the FY 2020 mid-year projections to the Adopted Budget for various salaries and wages categories. The fourth column shows that salaries and wages in total are \$715,000 lower than what was included in the FY 2020 Adopted Budget.

Looking at the separate rows in the table, we can see that there is \$10.9 million in salary savings, largely related to higher vacancies than anticipated in the Adopted Budget (budgeted vacancy savings was \$38.0 million). We can also see that this \$10.9 million in additional vacancy savings offsets overages in other salaries and wages categories: special pay, overtime, hourly wages, and termination pay. This has been a recurring trend over the past several years, which is discussed later in the Vacancy Savings section.

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<sup>1</sup> Budgeted and projected expenditures in this report and the Mid-Year Report do not include amounts for the FY 2020 General Fund reserve contribution.

<b>FY 2020 Salaries and Wages Expenditures - General Fund</b>				
	<b>Adopted Budget</b>	<b>Mid-Year Projections</b>	<b>Variance: Mid-Year to Adopted <sup>1</sup></b>	<b>Variance %: Mid-Year to Adopted</b>
Salaries	\$ 510,817,000	\$ 499,917,000	\$ 10,900,000	2.1%
Special Pay	38,359,000	40,733,000	(2,374,000)	(6.2%)
Overtime	72,872,000	81,310,000	(8,438,000)	(11.6%)
Hourly	14,245,000	14,254,000	(9,000)	(0.1%)
Vacation Pay-in-Lieu of Annual Leave	6,601,000	5,033,000	1,568,000	23.8%
Termination Pay	2,190,000	3,121,000	(931,000)	(42.5%)
<b>Total</b>	<b>\$ 645,084,000</b>	<b>\$ 644,368,000</b>	<b>\$ 715,000</b>	<b>0.1%</b>

Note: Table may not total due to rounding.

<sup>1</sup> Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

### Overtime

The most significant overage, as shown in the table above, is \$8.4 million of overtime, which is largely related to the Fire-Rescue and Police Departments – \$5.7 million and \$1.6 million, respectively. Note that an additional \$3.9 million in Police overtime was budgeted and is being projected in the Seized Assets Fund (SAF). We have concerns regarding transparency and year-over-year comparability with the overtime expenditures split between two funds.

For additional context, historical information on Police overtime expenditures is provided in the following table. The primary cause for the \$1.6 million expenditure overage in FY 2020 is extension of shift overtime for the Joint Violence Reduction plan, which occurred during the first quarter of FY 2020. Comparing the FY 2020 and FY 2019 actuals (\$37.6 million and \$31.9 million, respectively), increased expenditures include those related to Clean SD and neighborhood policing, as well as general salary increases. Note, the FY 2020 actual amount is based on the projections in the Mid-Year Report.

<b>Police Overtime - Historical Budget vs. Actuals</b>							
<i>(\$ in millions)</i>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Actual <sup>1</sup>	\$ 17.8	\$ 23.1	\$ 25.0	\$ 26.0	\$ 29.7	\$ 31.9 <sup>2</sup>	\$ 37.6 <sup>2</sup>
Budget	\$ 11.8	\$ 11.1	\$ 18.0	\$ 21.0	\$ 26.3	\$ 24.6	\$ 35.9
<b>Overage</b>	<b>\$ 6.0</b>	<b>\$ 12.0</b>	<b>\$ 7.0</b>	<b>\$ 5.0</b>	<b>\$ 3.4</b>	<b>\$ 7.4</b>	<b>\$ 1.6</b>

Note: Table may not total due to rounding.

<sup>1</sup> FY 2014 through FY 2019 amounts are based on unaudited actuals, whereas the FY 2020 amount in the "Actual" line is based on the projections in the Mid-Year Report.

<sup>2</sup> The \$31.9 million FY 2019 actual amount includes approximately \$29.3 million of General Fund and \$2.7 million of Seized Assets Fund (SAF) expenditures. For FY 2020, the \$37.6 million actual amount includes \$33.7 million and \$3.9 million for the General Fund and SAF, respectively; and the \$35.9 million budget amount includes \$32.1 million and \$3.9 million for the General Fund and SAF, respectively.

As shown in the following table, Fire-Rescue's actual overtime expenditures have significantly increased in FY 2018 through FY 2020 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 through FY 20, which average \$44.3 million. The Fire-Rescue Department has indicated that contributing factors for increases over the years

include general salary increases and other 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.

<b>Fire-Rescue Overtime – Historical Budget vs. Actuals</b>							
<i>(\$ in millions)</i>	<b>FY 2014</b>	<b>FY 2015</b>	<b>FY 2016</b>	<b>FY 2017</b>	<b>FY 2018</b>	<b>FY 2019</b>	<b>FY 2020</b>
Actual <sup>1</sup>	\$ 29.7	\$ 31.5	\$ 31.8	\$ 32.5	\$ 45.4	\$ 45.2	\$ 42.3
Budget	\$ 23.7	\$ 26.7	\$ 29.9	\$ 30.2	\$ 32.8	\$ 38.1	\$ 36.6
<b>Overage</b>	<b>\$ 6.0</b>	<b>\$ 4.8</b>	<b>\$ 1.9</b>	<b>\$ 2.3</b>	<b>\$ 12.5</b>	<b>\$ 7.0</b>	<b>\$ 5.7</b>

Note: Table may not total due to rounding.

<sup>1</sup> FY 2014 through FY 2019 amounts are based on unaudited actuals, whereas the FY 2020 amount in the "Actual" line is based on the projections in the Mid-Year Report.

### Departmental Variances

The next table displays the projected FY 2020 departmental spending variances (as compared to the Adopted Budget) for various salaries and wages categories. The total salaries and wages spending variance of \$715,000 – which is the net of all categories’ overages and under budget spending – is shown in the right-most column.

<b>FY 2020 Variances for Salaries and Wages Expenditures - General Fund</b>							
<b>Variances: Mid-Year Projection to Adopted Budget<sup>1</sup></b>	<b>Salaries</b>	<b>Overtime</b>	<b>Special Pay</b>	<b>Hourly</b>	<b>Vacation Pay-in-Lieu</b>	<b>Termination Pay</b>	<b>Total Salaries and Wages</b>
Fire-Rescue	\$ 4,795,000	\$ (5,739,000)	\$ (1,380,000)	\$ (398,000)	\$ 583,000	\$ 379,000	<b>\$ (1,760,000)</b>
Police	908,000	(1,630,000)	(455,000)	216,000	735,000	(770,000)	<b>(996,000)</b>
Transportation & Storm Water	892,000	344,000	(497,000)	180,000	71,000	(96,000)	<b>894,000</b>
Department of Finance	871,000	(21,000)	-	18,000	(13,000)	(110,000)	<b>745,000</b>
City Treasurer	561,000	16,000	(5,000)	(8,000)	5,000	(5,000)	<b>564,000</b>
Economic Development	488,000	(7,000)	2,000	(35,000)	5,000	(1,000)	<b>452,000</b>
Purchasing & Contracting	448,000	(26,000)	-	30,000	(2,000)	(7,000)	<b>443,000</b>
Smart/Sustainable Communities	447,000	-	-	-	-	-	<b>447,000</b>
City Auditor	345,000	-	-	(43,000)	-	(14,000)	<b>288,000</b>
Environmental Services	330,000	(648,000)	-	(27,000)	13,000	(23,000)	<b>(355,000)</b>
Office of Homeland Security	308,000	-	3,000	34,000	8,000	(16,000)	<b>337,000</b>
Office of the Mayor	298,000	-	-	(9,000)	3,000	(9,000)	<b>283,000</b>
Parks and Recreation	180,000	(467,000)	(9,000)	212,000	98,000	(46,000)	<b>(32,000)</b>
Library	(192,000)	(77,000)	(2,000)	208,000	(10,000)	(26,000)	<b>(99,000)</b>
City Attorney	(1,173,000)	(89,000)	(14,000)	(270,000)	10,000	(117,000)	<b>(1,653,000)</b>
Other Departments	1,394,000	(94,000)	(17,000)	(117,000)	62,000	(70,000)	<b>1,158,000</b>
<b>Total</b>	<b>\$ 10,900,000</b>	<b>\$ (8,438,000)</b>	<b>\$ (2,374,000)</b>	<b>\$ (9,000)</b>	<b>\$ 1,568,000</b>	<b>\$ (931,000)</b>	<b>\$ 715,000</b>

Note: Table may not total due to rounding. □

<sup>1</sup> Positive variances are spending below budget levels. Negative variances are overages, or spending above budget levels.

A majority of departments’ under budget salaries (shown as positive amounts in the second column of the table and totaling \$10.9 million) more than offset over-spending in the other salaries and wages categories. Conversely, the City Attorney’s Office and Library Department have overages in salaries, as well as the total salaries and wages column. Further, the three departments with the highest over budget overtime (Fire-Rescue, Police, and Environmental Services) have net overages for total salaries and wages.

As a majority of departments' under budget salaries more than offset over spending in other salaries and wages categories, we have included a table of vacant FTE positions for each General Fund department as Attachment 1 to this report and a summary table is provided below. Attachment 1 includes each department's budgeted FTEs and budgeted vacancies, as well as the numbers of filled and vacant FTEs as of December 31, 2019.<sup>2</sup>

	Budgeted				Actuals - 12/31/2019 Data			
	Total FTEs (Standard Hour Positions)	Vacant FTEs	Funded FTEs (Total vs Vacant FTEs)	Budgeted Vacancy Percentage	Filled FTEs at 12/31/19 (Active Positions)	Vacant FTEs at 12/31/19 (Total Budgeted vs Filled)	12/31/19 Vacant FTEs as a % of Budgeted Total FTEs	12/31/19 Vacant FTEs in Excess of Budgeted Vacancies
Fire-Rescue	1,248.00	106.00	1,142.00	8.5%	1,187.00	61.00	4.9%	(45.00)
Police	2,605.00	264.00	2,341.00	10.1%	2,402.00	203.00	7.8%	(61.00)
Other Departments	3,474.35	177.75	3,296.60	5.1%	3,150.29	324.06	9.3%	146.31
<b>Total General Fund</b>	<b>7,327.35</b>	<b>547.75</b>	<b>6,779.60</b>	<b>7.5%</b>	<b>6,739.29</b>	<b>588.06</b>	<b>8.0%</b>	<b>40.31</b>

The right-most column in Attachment 1, and the summary table above, shows 146.31 vacant FTEs that are in excess of the 177.75 budgeted vacancies (which are included in the third column of the table) for all General Fund departments besides public safety<sup>3</sup>. These FTE totals exclude vacancies for the Police and Fire-Rescue Departments, as those departments have more positions filled than are budgetarily funded. These “overfilled” positions (61.00 FTEs for Police and 45.00 FTEs for Fire-Rescue) skew the General Fund total for the vacant FTEs that are in excess of budgeted vacancies<sup>4</sup>.

Some Councilmembers have indicated a desire for analysis of the extent to which departments are having difficulty performing work and meeting service levels, as well as whether there may be departments with excess positions that are not needed. Further, the causes of additional vacancy savings, including hiring difficulties, have been discussed by a number of Councilmembers. By the end of March, 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.

### Vacancy Savings

Projected under budget salaries – again primarily due to vacancies and totaling \$10.9 million – are shown in the second column of the preceding table. In addition, the Mid-Year Report is estimating another \$3.0 million in vacancy savings (included in non-personnel expenditures) based on the

<sup>2</sup> The vacancy status is a snapshot in time - vacancies are constantly changing. Also, the budgeted vacancies are not exact indicators for the number of positions that should remain vacant.

<sup>3</sup> In addition to the vacant FTE figures in Attachment 1, there are employees in the City who are on some type of extended leave, which even though not a technical vacancy included in Attachment 1, may be creating an operational vacancy.

<sup>4</sup> The Fire-Rescue Department indicates that they have a number of operational vacancies (as discussed in the footnote above) that would partially reduce the 45.00 overfilled positions shown Attachment 1. Additionally, there are 28.00 Fire Recruits not working in fire suppression that are filled through supplemental positions (positions that are not budgeted).



historical trend of vacancy savings coming in higher at year-end than was projected at mid-year. With this \$3.0 million added to the \$10.9 million shown in the preceding table, there is a total of \$13.9 million in vacancy savings projected in the Mid-Year Report.

One causal factor cited in the Mid-Year Report for the \$3.0 million adjustment is related to unanticipated hiring between departments. The departments that will potentially lose employees to other departments have not anticipated such vacancies in their projections. This enhanced approach incorporates a more holistic consideration of salaries expenditures.

Note that the projected \$13.9 million in vacancy savings discussed above is in addition to the \$38.0 million of budgeted vacancy savings for FY 2020. Adding the budgeted vacancy savings to the \$13.9 million of additional vacancy savings yields a total vacancy savings of \$51.9 million. The trend of vacancy savings being significantly higher than budgeted has occurred over the past several years, as shown in the following table.

<b>Annual Vacancy Savings Comparison - General Fund</b>			
<i>(\$ in millions)</i>	<b>Budgeted Vacancy Savings</b>	<b>Additional Vacancy Savings</b>	<b>Total Year-End Vacancy Savings <sup>1</sup></b>
FY 2020	\$ 38.0	\$ 13.9	\$ 51.9
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.

<sup>1</sup> Total vacancy savings for FY 2016 through FY 2019 are unaudited actual amounts. For FY 2020 the amount is the projection as of the Mid-Year Report, which includes a \$3.0 million adjustment for a historical trend between the mid-year projections and actuals.

*Variations in Vacancy Savings from Mid-Year Projections to Year-End Actuals*

Over the past several years, total General Fund year-end vacancy savings has been significantly higher than projected at mid-year, as shown in the fourth and fifth columns of the following table. Increases in vacancy savings from the mid-year projections have averaged about \$10.3 million over the prior four completed fiscal years.

<b>Vacancy Savings Projections - General Fund</b>				
<i>(\$ in millions)</i>	<b>Projected at Mid-Year</b>	<b>Actuals At Year-End</b>	<b>Increase from Mid-Year</b>	<b>Increase Percent</b>
FY 2019	\$ 43.8	\$ 55.4	\$ 11.7	26.7%
FY 2018	40.1	49.6	9.5	23.7%
FY 2017	34.8	46.1	11.2	32.3%
FY 2016	\$ 34.8	\$ 43.4	\$ 8.6	24.7%

Note: Table may not total due to rounding.



However, we do not anticipate such a large increase over the mid-year vacancy savings projection for FY 2020, due to a number of factors.

- The mid-year vacancy savings projection for FY 2020 has been increased with a \$3.0 million adjustment based on the historical trend mentioned earlier.
- Budgeted vacancy savings was increased by \$4.8 million for FY 2020 (from \$33.2 million in the FY 2019 Adopted Budget to \$38.0 million in the FY 2020 Adopted Budget).
- There were 36.35 FTE reductions in the FY 2020 Adopted Budget, which decreased budgeted salaries expenditures by \$2.1 million.

Vacancy Savings as a Percentage of Budget

While the total 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 five completed fiscal years, total vacancy savings has been around 10% or 11%.

Vacancy Savings Comparison - General Fund					
<i>(\$ in millions)</i>	<i>Budgeted Salaries</i> <sup>1</sup>	<b>Budgeted Vacancy Savings</b>	<b>Budgeted Vacancy Savings as a Percent of Salaries</b>	<b>Total Vacancy Savings</b> <sup>2</sup>	<b>Total Vacancy Savings as a Percent of Salaries</b>
FY 2020	\$ 548.8	\$ 38.0	6.9%	\$ 51.9	9.5%
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.

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

<sup>2</sup> Total vacancy savings for FY 2016 through FY 2019 are unaudited actual amounts. For FY 2020 the amount is the projection as of the Mid-Year Report, which includes a \$3.0 million adjustment for a historical trend between the mid-year projections and actuals.

Future Budget Considerations for Vacancy Savings

In the FY 2021 Councilmembers' budget priority memoranda released in January (see IBA Report 20-02), five Councilmembers expressed support for examining challenges associated with the City's vacancy levels, filling vacancies, and/or adjusting budgeted vacancy savings to match operating needs. For example, increases to vacancy savings would better align salaries with historical trends, but doing so would require careful consideration. **Increasing budgeted vacancy savings (a reduction of the salaries budget) to free up budget for other areas could further suppress hiring efforts related to vacant positions the City needs to fill.** Additionally, increasing budgeted vacancy savings would leave less of a cushion for other salaries and wages overages (overtime, special pays, hourly wages, vacation pay-in-lieu, termination pay) should they continue the trend of exceeding budget.

City Attorney - Salaries and Wages Overage

The Office of the City Attorney is projecting salaries and wages to be over budget by nearly \$1.7 million. The primary contributor, at approximately \$1.2 million of this overage, is the filling of

positions. The FY 2020 Adopted Budget for the City Attorney's Office includes 382.25 FTE budgeted positions (not including hourly positions). As of December 31, 2019, the Office had 361.00 FTE filled positions, reflecting approximately 94% of budgeted FTE positions. We note three things regarding the projected salaries: 1) the relatively low number of vacancies in the department, 2) a large proportion of these are in lower cost positions which produces less salary savings, and 3) an optimistic projection to fill remaining vacancies quickly. The Office of the City Attorney's salaries and wages projections should be monitored and revisited for the Third Quarter Budget Monitoring Report. If these hiring trends continue, it is likely that the budgeted vacancy savings will need to be reduced for the FY 2021 Budget.

#### Environmental Services Department - Clean SD Vacancies

The Environmental Services Department's General Fund expenditures budget for Clean SD is projected to be under budget by \$150,000 due to vacancies within the program. The vacancies are primarily attributable to internal promotions/transfers which filled new Code Compliance positions (3.00 FTEs) that were added in the FY 2020 Adopted Budget. As a result, new vacancies were created, including 1.00 Code Compliance Officer, 1.00 Heavy Truck Driver 2, and 1.00 Utility Worker 2. The Department has indicated that they are currently in the process of filling these vacancies.

### **Departmental Non-Personnel Expenditures**

#### City Clerk Election Costs

Subsequent to the release of the Mid-Year Report, the City Clerk released a memo detailing cost projections for the upcoming primary election in March from the County Registrar of Voters. The costs are now projected to be \$2.6 million, which is approximately \$400,000 above the current budget. This increase is due to the fact that there are fewer state and county measures on the March Primary ballot. As a result, the City of San Diego's portion of the election costs for the citywide contests escalated because the City has the largest number of registered voters among the jurisdictions participating. For Measures C and D, the higher number of pages appearing in the sample ballot pamphlet also affected costs.

#### Smart Streetlights

The Smart Streetlights program is currently projected to be over budget in FY 2020 due to unanticipated operating costs related to software contracts. However, these costs are not included in the Mid-Year Projections.

The main overages for the program stem from the fact that operating costs to run the program were not fully included in the FY 2020 Adopted Budget. This includes connectivity charges and software costs to control the LED lights as well as software costs to run the Intelligent Cities nodes, which include the cameras that are used to develop planning information and assist in police activities. While in future years the program is projected to not fully achieve its projected energy savings, energy costs for FY 2020 are currently projected to be either at budget or even below budget.

In the Mid-Year Report, these software costs were not included in the departmental expenditure projections because these costs were not approved in the Adopted Budget. As shown in the table below, the total operating costs of the program for FY 2020 (not including the debt payments to

GE Current for the currently installed lights and smart nodes) are \$1.5 million, which is currently being split among four departments. If the program continues as planned, an additional \$1.5 million in either other budgetary savings or additional appropriation will be necessary by the end of the fiscal year. These projections also assume that the current contracts continue at their current rates through the rest of the year. The Sustainability Department is currently renegotiating these contracts in order to hopefully bring down these costs.

<b>Smart Streetlight Cost Table</b>					
	<b>General Fund</b>	<b>Departments</b>			
<b>Software Programs</b>	<b>Total Cost</b>	<b>TSW</b>	<b>EDD</b>	<b>Police</b>	<b>SD</b>
API Hosting (Intelligent Cities)	1,155,960	57,990	771,480	288,990	37,500
AT&T Connectivity	345,600	117,504		228,096	
<b>Total</b>	<b>1,501,560</b>	<b>175,494</b>	<b>771,480</b>	<b>517,086</b>	<b>37,500</b>

TSW: Transportation and Storm Water EDD: Economic Development Department SD: Sustainability Department

## General Fund Excess Equity

The following table shows the FY 2020 year-end excess equity estimate as of the Mid-Year Report projections. After accounting for the FY 2020 15.5% reserve requirement of \$205.6 million and FY 2020 projected activity, excess equity is estimated to be \$27.9 million at year-end, as shown in the table below.

However, there is a potential for excess equity to be reduced by additional expenditures that are not included in the mid-year projections. For example, additional costs for smart streetlights are estimated to be about \$1.5 million, and the issues surrounding the program were discussed in the previous section. Additional costs for the Flores litigation are estimated to be around \$6.2 million and are anticipated to be paid from non-general funds and the Public Liability Fund; though, the Public Liability Fund is ultimately funded by the General Fund. Further, as discussed later in this report, FY 2020 impacts related to relocating staff from the 101 Ash Street building are currently estimated at \$1.7 million, and an estimated \$600,000 of funding will need to be identified to cover increased costs for the fourth bridge shelter.

<b>FY 2020 Year-End Excess Equity Estimate (\$ in millions)</b>	
Audited Beginning Fund Balance at June 30, 2019	\$ 256.5
Less: 15.5% Reserve Requirement for FY 2020	(205.6)
<b><i>Remaining Fund Balance Before FY 2020 Projected Activity</i></b>	<b><u>50.9</u></b>
<i>FY 2020 Projected Activity (use of Excess Equity)</i>	
Projected Revenue	1,561.8
Projected Expenditures	(1,584.9)
<b><i>FY 2020 Projected Use of Excess Equity</i></b>	<b><u>(23.0)</u></b>
<b>FY 2020 Projected Year-End Excess Equity</b>	<b>\$ <u>27.9</u></b>

Note: Table may not total due to rounding.

Since the FY 2020 First Quarter Report, projected year-end excess equity has increased by \$5.8 million, due to a budgetary surplus resulting from the projected activity in the Mid-Year Report. This \$5.8 million budgetary surplus is largely related to a \$12.6 million net revenue increase over the FY 2020 Adopted Budget, which is partially offset with a \$6.8 million net expenditures increase. The largest revenue increases include \$5.5 million for major General Fund revenues and \$4.9 million for cannabis business tax revenue.

## **Program Updates**

Following is additional, updated information on the relocation of staff from the 101 Ash Street building and homelessness services, including a discussion on the potential impacts to General Fund excess equity projections.

### **101 Ash Street Building**

The Mid-Year Report includes a table showing capital project costs related to tenant improvements of the 101 Ash Street building, as well as operating costs related to financing and moving staff into the building. The Mid-Year Report notes that this represents known costs as of January 16, 2020. However, staff were informed on January 17, 2020 that they would be relocated out of the building and assigned to temporary work locations. On January 21, 2020, City Council was notified via memo of the staff relocations and the Mayor's intent to hire an outside consultant to perform a forensic assessment of the events leading up to the relocations. On January 23, 2020, City Council received another update via memorandum which included various communications with City staff regarding relocations and Development Services operating hours.

At the January 28, 2020 City Council meeting, information was presented describing what occurred on January 16, 2020 and what steps had been and will be taken. Executive management indicated that staff were in the process of evaluating what had occurred at 101 Ash Street, developing a plan for asbestos mitigation going forward and estimating related costs. Also on January 28, 2020, the City Attorney's Office brought to City Council an as-needed agreement with law firm Hugo Parker, which specializes in asbestos-related matters. The Mid-Year Report notes that the costs for any activity after January 16, 2020 are not included in the projections provided in the report. This was also noted in the Department of Finance's presentation of the Mid-Year Report at the February 5, 2020 Budget and Government Efficiency Committee meeting. Committee members requested our Office and the Department of Finance to identify the fiscal impacts related to the events at 101 Ash Street, including the costs to house staff elsewhere and to enter into consultant contracts with the necessary expertise.

To identify actual and anticipated costs resulting from recent asbestos issues at 101 Ash Street and the related staff relocations, our Office did our own independent research, and just recently, we received preliminary information from the Mayor's Office that is consistent with our analysis. Mayoral staff has emphasized that they are continuing to develop a complete picture of the overall costs and that the information provided to us is preliminary and should be considered draft.

### Operating Budget Impacts for FY 2020

In the following discussion, we include the information we have identified to date. For the purposes of evaluating the Mid-Year Report, we are primarily interested in knowing the costs for what has

occurred since January 16, 2020, such as the relocation of staff, the contracts for evaluating what occurred and ongoing costs of housing staff at other locations. We understand that the Mayor's staff are evaluating options to fully address the asbestos issues at 101 Ash Street before considering moving staff back into the building. As a result, a timeline and costs for remediation are unknown at this time.

In addition to the above timeline of events, we are aware of the activities with fiscal impacts as discussed below. The table at the end of this section summarizes the preliminary cost estimates of \$1.7 million.

#### Staff Relocations

Approximately 840 City staff were relocated out of 101 Ash Street from the following departments: Fire-Rescue, Sustainability, Planning, Ethics, Arts and Culture, Boards and Commissions, ADA Compliance and Accessibility, Development Services and Information Technology. Development Services suspended services at 101 Ash Street on January 21, 2020 and reopened to customers at the City Operations Building on January 24, 2020. Development Services also opened for service on Saturday, January 25, 2020 by offering staff voluntary overtime. Staff relocations to their "temporary" work locations were primarily completed by January 27, 2020. Computers, phones and printers had to be set up at the new temporary work locations.

Staff were directed to track all of their time related to moving out of 101 Ash Street in a specific internal order. In addition, any staff involved in assisting with the relocation, such as IT staff setting up computers, were instructed to track their time as well. The City financial system, SAP, shows approximately 5,000 staff hours at a cost of nearly \$306,000. Of this amount, approximately 1,900 hours, or \$94,000 is tracked as overtime. Note, the amounts pulled from the accounting system are for all staff, which includes some non-general fund departments such as Development Services and Information Technology. We are unsure if this includes the overtime performed by Development Services to provide services on Saturday, January 25, 2020.

We have also received preliminary information regarding the purchase of supplies and reasonable accommodation equipment, renting moving bins, and other non-personnel expenses associated with moving staff out of 101 Ash Street and setting up temporary work spaces. This estimate is \$252,000 but is incomplete as other information is still pending.

#### Lease Expenses

Per the lease agreement (effective January 3, 2017), the base rent at 101 Ash Street is \$534,726.50/month. Staff have been moved out of 101 Ash Street and back into a variety of buildings, some of which are City owned, such as the City Operations Building. However, many staff were moved back into leased spaces. The following information was provided to us:

- Fire Rescue and City Auditors at 600 B Street with a monthly expense of approximately \$54,000
- Transportation and Storm Water at Othello Avenue with a monthly expense of approximately \$30,000
- Ethics at 450 B Street with a monthly expense of approximately \$8,000
- Planning Department at Aero Drive Parking with a monthly expense of approximately \$11,000

These additional rents total approximately \$516,000 for FY 2020.

Asbestos Support and Forensic Analysis

We received a copy of the proposal for asbestos-related work from Shefa Enterprises, Inc. dated January 26, 2020. The initial agreement was estimated to be \$150,000. An increase is expected to be brought to City Council later this month to bring that contract cost up to \$200,000. Some of the items listed in the scope of work from the proposal include:

- Research related to asbestos located in 101 Ash Street
- Development of a written work plan for asbestos abatement activities at 101 Ash Street
- Develop a written Operation and Maintenance (O&M) Program for 101 Ash Street in accordance with state and federal recommendations and regulations
- Provide asbestos training for City maintenance and cleaning personnel and/or outside contractors at 101 Ash Street
- Provide asbestos awareness and education for City employees and/or outside contractors
- Final reports for compliance activities at 101 Ash Street
- Expert witness and regulatory support representative during media, compliance and legal processes

The City Attorney's Office received approval for a \$150,000 as-needed agreement with law firm Hugo Parker, LLP, on January 28, 2020. Hugo Parker, LLP was hired to assist the City in addressing issues related to asbestos in City buildings. It is our understanding that they will be bringing forward an action later this month to increase the not-to-exceed amount to \$350,000, which could be funded by either the General Fund or Public Liability Fund. The primary reason for increasing the amount is due to the City's request for Hugo Parker, LLP to oversee an extensive forensic analysis of all issues related to 101 Ash Street, from the acquisition of the building in October 2016 to the recent removal of over 800 employees from the building in January 2020 due to asbestos-related events. In addition to Hugo Parker, LLP, the City Attorney's Office has also indicated that there will be another \$100,000 of legal expenses for other lawyers involved in the project, for a total of \$450,000 in estimated expenses related to 101 Ash Street and/or asbestos-related matters.

To date, specific timetables have not been established for this work.

<b>101 Ash Street Building Relocation Preliminary Cost Estimates since Move-Out (January 17, 2020)</b>	
	<b>FY 2020 Cost Estimate</b>
Staff Relocation (5,324.2 hours) <sup>1</sup>	\$ 305,941
Supplies & Equipment for Staff Relocation	252,193
600 B Street rent February-June 2020	269,995
Othello Avenue rent February-June 2020	149,195
450 B Street rent February-June 2020	40,690
Aero Drive Parking rent February-June 2020	56,405
Shefa Enterprises, Inc.	200,000
Hugo Parker, LLP	350,000
Other legal expenses	100,000
<b>Total Preliminary Estimate</b>	<b>\$ 1,724,419</b>

Note: This information reflects various funding sources, in addition to the General Fund.

<sup>1</sup> Includes \$94,374 in staff overtime.

Our overriding questions are:

- How do these costs impact the projected General Fund excess equity presented in the Mid-Year Report?
- How much of these expenses belong to the General Fund?
- How much, if any, will be absorbed within departments' budgets?
- Is this the total amount of costs expected this fiscal year?

## **Homelessness Services**

### Current Budget

The Mid-Year Budget Monitoring Report reflects \$33.0 million for the FY 2020 Homeless Services and Support Staff Current Budget, comprised of certain funds the City receives. Our Office reviewed the components of the Current Budget and identified items in need of revision. We worked with the Department of Finance and other department staff to identify a revised Current Budget of \$31.2 million. Staff has indicated that these corrections will be included in the Third Quarter Report. For reference, we have summarized the breakdown of the revised Current Budget in the table at the end of this section. Since several programs are supported by various funding sources located in both the City's budget and the San Diego Housing Commission's (SDHC) budget, we include all fund sources to provide a holistic view of each program reflected in the Mid-Year Report. It is important to note that in addition to funding reflected in the table, there are programs funded exclusively in the SDHC's budget that provide significant support for addressing homelessness, such as federal vouchers and permanent supportive housing.

The revised Current Budget is about \$6.7 million less than the Current Budget reflected in the First Quarter Report, which was \$37.9 million. The difference is attributed to changes regarding which expenditures were included in the two reports. For example, \$10.0 million in federal Community Development Block Grant (CDBG) funds for multifamily rehabilitation was included in the First Quarter Report, but excluded in the Mid-Year Report; which is discussed in the paragraph below. Partially offsetting this reduction is the inclusion of the following expenditures that were omitted



in the First Quarter Report: \$1.9 million in CDBG funds carried over from prior years; \$1.0 million in federal Emergency Solutions Grants (ESG) funds; and \$360,000 in staff expenditures.

We note two significant items that were excluded from the FY 2020 Current Budget in the Mid-Year Report:

- \$10.0 million in CDBG funds for multifamily rehabilitation, of which \$5.0 million is anticipated to support a transitional housing facility, and the remaining \$5.0 million was included in the SDHC Notice of Funding Availability for permanent supportive housing; and;
- \$4.3 million (\$3.9 million in Seized Asset Funds and \$447,000 in General Funds) related to Neighborhood Policing which provides homeless outreach and addresses public safety needs in certain areas.

Our Office is concerned with excluding these items as it is inconsistent with how homelessness expenditures were reported in the FY 2019 Budget Monitoring Reports, making it difficult to make year-to-year cost comparisons. We recommend these items be included under Homelessness Services and Support Staff in future reports for greater transparency and consistency.

It would also be helpful to include under Homelessness Services the approximately \$200,000 in General Funds within the CleanSD program that supports the Wheels of Change program which the City began contributing to in September 2019. This program employs individuals residing at the Single Adults Bridge Shelter to provide community cleanups.

#### Projected Expenditures

The Mid-Year Report reflects \$6.3 million that is projected to be unspent in FY 2020. However, after incorporating expenditures that will occur this year pursuant to Council approval of the flexible spending pool and the expansion of the Golden Hall bridge shelter on December 10, 2019, this estimate is reduced to about \$5.1 million. Most of the funds projected to be unspent are attributed to state Homeless Emergency Aid Program (HEAP) funds anticipated to be carried forward into FY 2021. The City has until June 30, 2021 to fully expend HEAP funds. In the paragraphs below, we provide additional information on two items.

#### CDBG “Homeless Facility Acquisition and/or Operations”

At the time that CDBG allocations were approved in FY 2020, \$1.0 million was allocated for “Homeless Facility Acquisition and/or Operations” but it was unclear what specific activities this would support. Staff indicates that of this amount \$600,000 went to improvements for two transitional housing facilities to fulfill City commitments related to the Naval Training Center Homeless Agreement. The remaining \$400,000 was originally planned to fund a budget gap for the operations of the Day Center for Homeless Individuals. However, according to staff, only \$150,000 of this amount would support near-term needs, and further analysis would be conducted to determine if the residual amount would be needed. If it is not, staff indicates the funds would go towards other homeless programs. The \$150,000 is in addition to the annual appropriation of \$541,000 in CDBG funds provided for this program.

#### Fourth Bridge Shelter Capital Costs

In our Office’s review of the FY 2019 Year End Performance Report, we listed the funds being allocated for the relocation of the fourth bridge shelter serving a flexible population, totaling \$2.7

million. According to staff, the most recent estimate is \$3.3 million based on information that was unavailable for inclusion in the Mid-Year Report, but will be included in the Third Quarter Report. This is an increase of about \$600,000. Staff indicates that the funding source for the increased costs is undetermined at this time.

**Summary of FY 20 Homeless Services and Staff Support Current Budget**

(\$ in millions)

Program	Funds Tracked in Mid-Year Report						Other Funds for Respective Programs Not in Mid-Year Report			
	General Fund	Low-Moderate Income Housing Asset Fund	Low Income Lease Revenue Fund	Federal CDBG	State HEAP <sup>1</sup>	Federal ESG	Local	State	Federal	Total
Neighborhood Services Branch	0.7	-	-	-	0.2	-	-	-	-	0.9
Economic Development Department	0.4	-	-	-	-	-	-	-	-	0.4
City-funded SDHC Positions (3)	0.4	-	-	-	-	-	-	-	-	0.4
Bridge Shelters	3.1	-	2.6	-	2.8	-	4.4	-	7.1	19.9
Homeless Outreach Team	3.0	-	-	-	-	-	-	-	-	3.0
Serial Inebriate Program	0.3	-	-	-	-	-	-	-	-	0.3
Connections Housing Interim Bed Program	0.3	-	-	0.3	-	0.1	-	-	-	0.7
Interim Housing for Homeless Adults	1.6	-	-	0.3	-	0.2	-	-	-	2.1
Housing Navigation Center <sup>1</sup>	0.3	0.3	-	1.0	-	-	0.1	-	-	1.6
Homeless Related Public Services projects	-	-	-	0.3	-	-	-	-	-	0.3
Day Center for Homeless Individuals	-	-	-	0.7	-	-	-	-	-	0.7
Naval Training Center (NTC) Agreement	-	-	-	0.6	-	-	-	-	-	0.6
Cortez Hill Family Center	-	-	-	0.2	-	0.3	0.4	-	-	1.0
Palm Avenue Transitional Housing <sup>1</sup>	-	-	-	0.9	-	-	-	-	-	0.9
Transitional Storage - Think Dignity	0.1	-	-	-	0.1	-	-	-	-	0.1
Storage Connect Lease Payment from SDHC	0.2	-	-	-	-	-	-	-	-	0.2
Storage - New and Existing	-	-	-	-	1.0	-	-	-	-	1.0
Family Reunification and SDHC Diversion Program	-	-	-	-	1.5	-	2.3	0.8	-	4.6
PLEADS criminal diversion program	-	-	-	-	0.3	-	-	-	-	0.3
Safe Parking: New and Existing	-	-	-	-	1.2	-	-	-	-	1.2
Flexible Spending Pool for Housing	-	-	-	-	2.0	-	-	-	-	2.0
Expand Landlord Engagement	-	-	-	-	0.5	-	3.2	-	-	3.7
Rapid Rehousing Expansion	-	-	-	-	2.7	0.3	2.6	-	2.3	8.0
Administration	-	-	-	-	0.5	-	-	-	-	0.5
<b>Subtotal</b>	<b>\$10.3</b>	<b>\$0.3</b>	<b>\$2.6</b>	<b>\$4.3</b>	<b>\$12.7</b>	<b>\$1.0</b>	<b>\$13.0</b>	<b>\$0.8</b>	<b>\$9.4</b>	<b>\$54.5</b>
<b>Total Mid-Year Current Budget</b>	<b>\$31.2</b>									

Note: Table may not total due to rounding.

<sup>1</sup> Includes funding carried forward from prior years.

## Appropriation Adjustments

Following is additional information on select appropriation adjustments requested in the Mid-Year Report. Our Office recommends approval of the budget adjustments and reallocations requested in the report with one possible exception. If the sidewalk fee waiver item is not presented at the same City Council meeting, we recommend that approval of the \$100,000 appropriation in the Transportation and Storm Water Department be held until the item is discussed by Council (see further discussion later in this section).

### Office of Boards & Commissions/Arts and Culture – Cultural Plan

The Mid-Year Report includes a \$100,000 appropriation increase to the Office and Boards & Commission’s General Fund budget to provide initial funding for a Citywide Cultural Plan. The Cultural Plan is intended to, among other goals, identify resident priorities regarding the equitable

use of the City's Arts and Culture funding among the City's unique communities. Commission for Arts and Culture staff expects to identify a consultant to conduct the study by the end of FY 2020 and would seek City Council adoption upon completion, anticipated 12 to 18 months thereafter. The total cost of the study is estimated to be up to \$350,000.

#### Police – Sexual Assault Kit Backlog Testing

The Mid-Year Report includes a \$1.4 million appropriation increase for the Police Department. Included in this increase is \$285,000 to have a private laboratory begin to test the Department's backlog of approximately 1,800 sexual assault (SART) kits. The \$285,000 funding estimate assumes that 225 SART Kits will be tested and returned by the end of the fiscal year. Thereafter, the Department assumes 75 SART kits could be tested per month (900 annually), subject to funding appropriation in future fiscal years. The total cost to test all 1,800 SART kits in the Department's backlog is estimated to be approximately \$2.3 million. The decision to have an outside lab test the SART kits was announced by the Department in September 2019.

Other expenses addressed by the appropriation increase relate to \$1.1 million in non-discretionary fuel and utility expenditure overages and \$88,000 for IT expenses associated with the City Administration Building (CAB) Lobby reconfiguration.

#### Sidewalk Repair Incentive Program

In January 2020, the Mayor announced a temporary sidewalk permit fee holiday to last through calendar year 2020 to encourage private investment in sidewalks and reduce the backlog of sidewalk repairs. The Mid-Year Report includes an appropriation of \$100,000 in General Funds to waive permit fees needed for sidewalk repairs done by property owners for the remainder of FY 2020. The appropriation would enable an estimated 50 permits to be processed by the Development Services Department, at an average rate of \$2,000 per permit. Property owners would still be responsible for the costs to repair the sidewalk. The funds needed to cover the fee holiday for part of FY 2021 is estimated to be an additional \$200,000, which would require an additional appropriation in the upcoming budget.

On February 5, the Budget and Government Efficiency Committee approved the Sidewalk Repair Incentive Program and the Mid-Year Report on the condition that they be heard as two separate items for Council consideration. Consistent with this direction, a separate informational item came to the Active Transportation and Infrastructure Committee on February 19 to specifically discuss the proposed new program. The informational item is anticipated to come to Council at the same time as the Mid-Year Report. In the event this item is not heard at the same City Council meeting, we recommend that approval of the \$100,000 appropriation be held until the item is discussed.

Though supportive of the permit fee holiday, Councilmembers of the Active Transportation and Infrastructure Committee emphasized the need to bring down the cost of the permit for the long term. A workgroup comprised of the Development Services Department, Transportation and Storm Water Department, and Public Works are currently considering ways to streamline the permit and inspection process so that the \$2,000 in permits and fees can be reduced.

As background, the City assumes responsibility for fixing defective sidewalks under certain circumstances. However, property owners are responsible for fixing general wear and tear of sidewalks. If it is determined that the property owner is responsible for fixing a sidewalk, they can

go about it in two ways. The first is to make the repair on their own and go through the permitting process. The second way is to participate in the 50/50 Cost Sharing Program where the City shares half of the costs of the repair (as long as the property owner is not the cause of the damage). No permit is needed for the second method as work is done by City forces. According to staff, there is currently a waitlist of over 200 applicants for the cost sharing program. The current estimate to address the sidewalk repair and replacement backlog is about \$90 to \$100 million. Any work that property owners do on their own would mitigate the costs to address the sidewalk backlog.

### Information Technology Fund

The Mid-Year Report requests a \$1.0 million increase to the budget for the Information Technology Fund with an offsetting increase in revenue. This is due to over budget expenditures for the following projects, which are discussed in the Mid-Year Report: a telecommunications expense management tool (\$420,000), wireless access point hardware and data ports/network switches (\$390,000), network power supply hardware (\$220,000), replacement and modernization of the City's call center (\$190,000), and voice network hardware and licensing (\$130,000). The network and call center projects were deemed urgent and necessary this fiscal year because of outages impacting City operations and services. All of these projects were previously scheduled to occur in future fiscal years and some are anticipated to generate savings in the future.

The Information Technology Fund is an internal service fund that receives reimbursement for expenses from the City departments that it serves. The impact to the General Fund from these over budget projects is estimated at \$810,000 in the Mid-Year Report. At this time, a budget adjustment is not requested for the General Fund; however, this overage is accounted for in the General Fund expenditure projections. The Department of Finance indicated that they intend to monitor the General Fund information technology expenditures and will request a budget adjustment in the Third Quarter Budget Monitoring Report, if needed.

### **Items City Council Added in FY 2020 Budget**

Following are status updates on the items that City Council funded in the final budget action on June 10, 2019 (Resolution R-312506). City Council approved the Mayor's Proposed Budget as modified by the Mayor's May Revision and accepted recommendations made in our *Recommended City Council Modifications to the Mayor's Proposed FY 2020 Budget and Review of May Revision and FY 2019 Third Quarter Reports* (IBA Report 19-12) and *Addendum to IBA Report 19-12: Recommended City Council Modifications to the Mayor's Proposed FY 2020 Budget* (IBA Report 19-14). City Council then made further modifications during discussion at the City Council meeting of June 10, 2019. The full list of budget changes made by City Council are listed in the table on the following page with a brief status on the implementation of those items.

### Status of City Council's Modifications in FY 2020 Adopted Budget

	Amount	Status
<b>General Fund Items</b>		
Storm Water Pipe Re-Lining	\$ 1,500,000	Funding diverted to emergency storm water projects, on hold pending identification of additional funding
Tree Trimming	1,071,000	Ongoing, projected to fully expend
Lifeguard Positions - 4.00 FTE Lifeguard IIIs	533,000	Positions filled
Ocean Beach Library Expansion	500,000	Beginning design phase
Trolley Barn Park - New Comfort Station	500,000	In preliminary engineering phase
Deputy City Attorneys Association MOU	478,000	Implemented
New Beyer Park	400,000	In General Development Plan phase
Initiate Emerald Park General Development Plan Amendment	400,000	In preliminary engineering phase
City Heights Pool Reconstruction	300,000	Construction contract being readvertised
Climate Action Resiliency Study	300,000	Spending all but \$24,000
Fire-Rescue Wellness Program	300,000	Due to an operational change, only \$12,000 will be spent
Library Programming	300,000	Projected to be fully expend
Chicano Park Museum & Cultural Center Improvements	250,000	Estimated completion April 2020
Oak Park Library Feasibility Study	250,000	Study in progress
Mobility Monitoring Services in Transportation & Storm Water	225,000	Ongoing, projected to fully expend
Additional Companion Unit Fee Waivers (for total \$800,000)	200,000	Fully expended as of November 2019
Get It Done Application for Transportation & Storm Water	200,000	Ongoing, projected to fully expend
Library Technology Upgrades	200,000	Projected to be fully expend
City Council Government Affairs Coordinator - 1.00 FTE	150,000	Position filled 01/27/2020
City Council Public Communications Position - 1.00 FTE	150,000	Position filled 12/9/2019
Code Compliance Officers in Development Services - 2.00 FTE	148,000	Positions filled on 2/8/2020
Park Rangers for Downtown & Chollas Lake - 2.00 FTE	136,000	Positions have been filled, start date is 3/7/2020
Child Care Coordinator - 1.00 FTE	118,000	Interview process underway
Horticulturalist in Transportation & Storm Water - 1.00 FTE	100,000	Position filled 1/13/2020
North Kellogg Comfort Station Repairs	100,000	Project created
Translation Services for Community Planning Groups	50,000	Funds are being expended
Outside Legal Counsel for Citizen's Review Board	25,000	Funds are being expended
City Attorney - Convert 9.25 FTEs Supplemental to Permanent	-	Positions filled
<b>Total General Fund</b>	<b>\$ 8,884,000</b>	
<b>Other Items</b>		
San Diego Housing Commission - 3.00 FTE	\$ 420,106	Expected to be filled soon
Public Utilities - 2.00 FTE Corrosion Engineers (Water Fund)	187,500	Projected to fill late March/ early April

## CONCLUSION AND RECOMMENDATION

The Mid-Year Ordinance, in effect since 2011, requires the Mayor to report the mid-year deficit or surplus to the Council and provide a recommendation to address such deficit or surplus. The Mayor may budget all, none, or any portion of the surplus. The “Council may approve the Mayor’s recommendation or modify such recommendation in whole or in part, up to the total amount recommended by the Mayor.”

General Fund appropriation increases of approximately \$6.3 million are requested with offsetting revenue. This is the amount Council may approve or modify. In addition, appropriation increases are requested for four other funds.


The Mid-Year Report projects a General Fund year-end budgetary surplus of approximately \$5.8 million. The Mayor is not recommending to appropriate any of this projected surplus. The \$5.8 million in projected budgetary surplus would yield \$27.9 million in excess equity at year-end. This could be used to help balance the FY 2021 Proposed Budget and close the deficit projected in the Five-Year Outlook. However, there is a potential for excess equity to be reduced by additional expenditures that are not included in the mid-year projections.

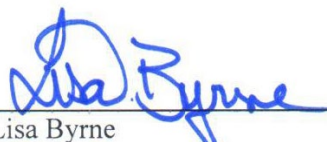
Our Office has raised concerns about several expenditures. These include costs associated with the smart streetlights, staff relocations from the 101 Ash Street building, and homelessness services. We believe that the projections included in the Mid-Year Report are reasonable, based on the information available at the time of the report, as are the requested appropriation adjustments. Updates to projected year-end revenues and expenditures will be available in the Third Quarter Report, scheduled to be released in May and reviewed by the Budget Review Committee on May 21, 2020.

Our Office recommends approval of the FY 2020 appropriation adjustments as proposed in the FY 2020 Mid-Year Report with one with one possible exception. If the sidewalk fee waiver item is not presented at the same City Council meeting, we recommend that approval of the \$100,000 appropriation in the Transportation and Storm Water Department be held until the item is discussed by Council.

  
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Angela Colton  
Fiscal & Policy Analyst


  
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Jordan More  
Fiscal & Policy Analyst

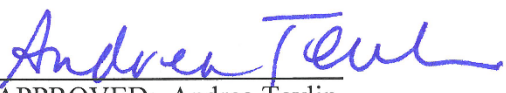
  
\_\_\_\_\_  
Brady Balolong  
Research Analyst

  
\_\_\_\_\_  
Lisa Byrne  
Fiscal & Policy Analyst

  
\_\_\_\_\_  
Baku Patel  
Fiscal & Policy Analyst

  
\_\_\_\_\_  
Jillian Kisse  
Fiscal & Policy Analyst

  
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Jeff Kavar  
Deputy Director

  
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APPROVED: Andrea Tevlin  
Independent Budget Analyst

## Vacancy Analysis at 12/31/2019 - Budgeted FTEs vs Filled FTEs

General Fund Department	Budgeted				Actuals - 12/31/2019 Data			
	Total FTEs (Standard Hour Positions)	Vacant FTEs	Funded FTEs (Total vs Vacant FTEs)	Budgeted Vacancy Percentage	Filled FTEs at 12/31/19 (Active Positions)	Vacant FTEs at 12/31/19 (Total Budgeted vs Filled)	12/31/19 Vacant FTEs as a % of Budgeted Total FTEs	12/31/19 Vacant FTEs in Excess of Budgeted Vacancies
Smart & Sustainable Communities	10.50	0.00	10.50	0.0%	3.50	7.00	66.7%	7.00
Purchasing & Contracting	52.00	8.00	44.00	15.4%	36.00	16.00	30.8%	8.00
Office of Homeland Security	18.00	0.00	18.00	0.0%	13.00	5.00	27.8%	5.00
Office of the City Auditor	22.00	0.00	22.00	0.0%	17.00	5.00	22.7%	5.00
Economic Development	59.00	2.00	57.00	3.4%	47.00	12.00	20.3%	10.00
Real Estate Assets	32.00	1.00	31.00	3.1%	26.00	6.00	18.8%	5.00
Planning	65.75	7.00	58.75	10.6%	54.75	11.00	16.7%	4.00
Office of the Mayor	24.00	0.00	24.00	0.0%	20.00	4.00	16.7%	4.00
Development Services	72.00	6.00	66.00	8.3%	60.00	12.00	16.7%	6.00
City Treasurer	128.00	4.00	124.00	3.1%	108.00	20.00	15.6%	16.00
Performance & Analytics	15.00	1.00	14.00	6.7%	13.00	2.00	13.3%	1.00
Communications	33.00	1.00	32.00	3.0%	29.00	4.00	12.1%	3.00
Transportation & Storm Water	628.25	44.00	584.25	7.0%	555.50	72.75	11.6%	28.75
Facilities Services	211.50	17.00	194.50	8.0%	189.00	22.50	10.6%	5.50
Debt Management	20.00	1.00	19.00	5.0%	18.00	2.00	10.0%	1.00
Ethics Commission	5.50	0.00	5.50	0.0%	5.00	0.50	9.1%	0.50
Department of Finance	111.00	0.00	111.00	0.0%	101.00	10.00	9.0%	10.00
Environmental Services	172.68	10.50	162.18	6.1%	157.29	15.39	8.9%	4.89
Police	2,605.00	264.00	2,341.00	10.1%	2,402.00	203.00	7.8%	(61.00)
City Clerk	47.00	1.00	46.00	2.1%	44.00	3.00	6.4%	2.00
Parks & Recreation	747.42	38.00	709.42	5.1%	703.75	43.67	5.8%	5.67
Human Resources	33.00	1.00	32.00	3.0%	31.00	2.00	6.1%	1.00
City Attorney	382.25	22.75	359.50	6.0%	361.00	21.25	5.6%	(1.50)
Council Administration	19.00	1.00	18.00	5.3%	18.00	1.00	5.3%	0.00
Fire-Rescue	1,248.00	106.00	1,142.00	8.5%	1,187.00	61.00	4.9%	(45.00)
Personnel	67.00	0.00	67.00	0.0%	64.00	3.00	4.5%	3.00
Library	358.00	11.50	346.50	3.2%	346.50	11.50	3.2%	0.00
Neighborhood Services	11.00	0.00	11.00	0.0%	10.75	0.25	2.3%	0.25
Other Departments <sup>1</sup>	129.50	0.00	129.50	0.0%	118.25	11.25	8.7%	11.25
<b>Total General Fund (GF)</b>	<b>7,327.35</b>	<b>547.75</b>	<b>6,779.60</b>	<b>7.5%</b>	<b>6,739.29</b>	<b>588.06</b>	<b>8.0%</b>	<b>40.31</b>
Remove Fire-Rescue	(1,248.00)	(106.00)	(1,142.00)	8.5%	(1,187.00)	(61.00)	4.9%	45.00
Remove Police	(2,605.00)	(264.00)	(2,341.00)	10.1%	(2,402.00)	(203.00)	7.8%	61.00
<b>Adjusted Total GF <sup>2</sup></b>	<b>3,474.35</b>	<b>177.75</b>	<b>3,296.60</b>	<b>5.1%</b>	<b>3,150.29</b>	<b>324.06</b>	<b>9.3%</b>	<b>146.31</b>

**NOTES:**

FTEs are standard hour FTEs (full-time, half-time, etc.).

The vacancy status is a snapshot in time - vacancies are constantly changing. Also, the budgeted vacancies are not exact indicators for the number of positions that should remain vacant.

Filled FTEs include supplemental positions that are not included in the budget. However, some employees (but not all) in supplemental positions may be filling operational gaps for other employees who are on extended leaves but are still considered "active" employees in the system. In such cases, there are two employees included in the filled FTE category, but operationally, one of those filled positions is actually a vacancy. Further, there are other employees in the City who occupy non-supplemental (or budgeted) positions who are on some type of extended leave, which even though not a technical vacancy in the system, may be creating an operational vacancy. Again, these additional operational vacancies are not captured in this table. For example, the Fire-Rescue Department indicates that they have a number of these types of operational vacancies that would partially reduce the 45.00 overfilled positions shown in this table. Additionally, there are 28.00 Fire Recruits not working in fire suppression that are filled through supplemental positions.

<sup>1</sup> Other departments include the nine City Council Districts, which have a total of 10.25 vacant positions.

<sup>2</sup> Fire-Rescue and Police Departments are removed from the total, as the overfilled positions skew the total underfilled positions.