



**COUNCILMEMBER CHRIS CATE  
CITY OF SAN DIEGO  
SIXTH DISTRICT**

**M E M O R A N D U M**

**DATE:** May 22, 2017

**TO:** Andrea Tevlin, Independent Budget Analyst

**FROM:** Councilmember Chris Cate

**SUBJECT:** Recommended Fiscal Year 2018 Budget Revisions

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We must realize the serious state of the City's financial situation. As we know, the General Fund portion of the City's annual pension payment increased by \$45.2 million over last year. After allocating dollars to support Fiscal Year (FY)18 critical expenditure needs, such as San Diego Police Department (SDPD) staffing, public safety equipment, and neighborhood services, an \$81 million deficit was realized. Through the use of one-time dollars, fully applying the newly created Pension Stabilization Reserve, decreasing Penny for the Arts funding, and reducing departmental expenditures by \$22.3 million, the FY18 deficit was eliminated. Though the sacrifices made to produce this balanced budget are noteworthy, next fiscal year is projected to produce additional challenges and financial constraints we will need to address.

Utilizing projections from the most recent Five Year Financial Outlook and current revenues and expenditures outlined in the FY18 Proposed Budget, the City can expect a deficit in FY19. The City's pension payment is expected to grow by another \$4.6 million, bringing next year's pension payment to \$241.0 million. Based on growth rates included in the Five Year Financial Outlook, General Fund revenues are expected to grow by \$9.5 million, while expenditures are anticipated to grow by \$20.7 million. Assuming the Council does fully pre-fund the FY19 reserve contribution in FY18, as proposed within the May Revise, the City can expect a modest deficit prior to including any other additional FY19 critical expenditures. The following table uses the same format of that outlined in the Five Year Financial Outlook:

	FY18 Budget*	FY19 Projection**
<b>General Fund Revenues</b>		
Property Tax	\$532.9	\$554.2
Sales Tax	\$275.3	\$280.3
TOT	\$121.1	\$127.6
Franchise Fees	\$75.1	\$76.6
Property Transfer Tax	\$10.1	\$10.4
Licenses & Permits	\$21.7	\$22.1
Fines	\$31.9	\$32.1
Revenue from Money & Property	\$58.4	\$60.3
Revenue from Other Federal Agencies	\$4.5	\$4.5
Charges for Services	\$152.8	\$156.3
Other Revenue	\$4.9	\$2.3
Transfers In	\$112.4	\$83.6
<b>Total</b>	<b>\$1,401.1</b>	<b>\$1,410.2</b>
<b>General Fund Expenditures</b>		
Salaries & Wages	\$547.2	\$547.2
Employee Agreements	-	\$15.9
ADC	\$236.4	\$241.0
Flexible Benefits	\$96.5	\$96.5
OPEB	\$40.9	\$41.9
Workers' Comp	\$22.4	\$23.1
SPSP	\$18.4	\$18.4
Other Fringe	\$23.6	\$25.6
<b>Personnel Expenditures</b>	<b>\$985.4</b>	<b>\$1,009.6</b>
Infrastructure Fund	\$18.1	\$14.7
Supplies	\$30.3	\$31.4
Contracts	\$240.2	\$231.8
IT	\$31.8	\$28.2
Energy & Utilities	\$43.0	\$44.3
Reserve Contributions	\$10.2	\$0.0
Other Expenditures	\$50.7	\$50.7
<b>Non-Personnel Expenditures</b>	<b>\$424.2</b>	<b>\$401.1</b>
<b>Total Expenditures</b>	<b>\$1,409.6</b>	<b>\$1,410.7</b>
<b>Surplus/(Deficit)</b>	<b>\$(8.5)</b>	<b>\$(0.4)</b>
<i>*General Fund revenues &amp; expenditures are based on FY18 May Revise</i>		
<i>**FY19 projections based on growth projections included in FY18-22 Five Year Financial Outlook</i>		

As noted, this projection does not include the FY19 Five Year Critical Strategic Expenditures for items such as new SDPD and Fire-Rescue positions and equipment, software maintenance, and

technology upgrades, that were included in the previous Five Year Financial Outlook. In total, these critical expenditures account for an additional \$22 million in expenditures in FY19.

<b>FY19 5-Year Critical Strategic Expenditures</b>	
Fire-Rescue	\$3.3
Fleet Operations	\$3.1
Information Technology	\$1.4
Infrastructure Asset Management	\$1.6
Library	\$1.5
Park & Recreation	\$3.3
Real Estate Assets	\$1.8
Police Sworn Positions and Equipment	\$2.2
Police Civilian Positions and Equipment	\$0.7
Police CAD System	\$1.1
Central Library Operations	\$2.0
<b>Total</b>	<b>\$22.0</b>

Furthermore, the 5-year pensionable pay freeze will sunset in FY19. The current labor contract with the Police Officers Association (POA) anticipates a 3.3 percent salary increase for FY19, or \$8.2 million, which is currently included in the projected expenses for FY19. The City and POA have the ability to renegotiate the current contract beginning in calendar year 2018, so a larger amount dedicated to salary increases for FY19 is possible. Each percentage increase in salaries for POA results in approximately \$2 million in expenditure increases. If the will of the Mayor and Council is to increase salaries above the 3.3 percent expected in FY19, it would be prudent to begin planning for the expenditure today. Our projection for FY19 includes an additional \$10 million for this purpose.

<b>Other FY19 Priorities</b>	
Potential POA Additional Salary Increase	\$10.0
<b>Total</b>	<b>\$10.0</b>

Upon taking modest revenue growth and the aforementioned expenditures into consideration, we project the City to have an approximately \$32.4 million budget deficit in FY19. This projection is limited in scope and does not include any additional ongoing expenditures that may be included in the FY18 adopted budget, nor does it include any other initiatives or critical strategic expenditures that may be necessary to be fulfilled during the FY19 budget deliberations.

<b>FY19 Totals</b>	
Total Revenues	\$1,410.2
Total Expenditures	\$1,410.7
5-Year Critical Strategic Expenditures	\$22.0
Other FY2019 Priorities	\$10.0
<b>Surplus/Deficit</b>	<b>(\$32.4)</b>

We must respond to these financial challenges by exercising strong fiscal discipline and maximizing one-time revenue sources for critical needs that ensure the public's safety and delivery of quality neighborhood services.

In response to the public hearings regarding the proposed budget and Mayor's May Revise, I recommend the following allocation for the remaining \$4.0 million of excess equity:

**San Diego Police Department Overtime (~\$4,000,000)**

Last fiscal year, the City Council approved \$4.0 million in non-pensionable compensation to San Diego police officers. This additional compensation granted officers more take-home pay through uniform and equipment allowances. However, given the one-time nature of this funding, the City Council must now put forward additional stop-gap measures until a more permanent solution to SDPD's recruitment and retention problem is presented. I recommend utilizing the entirety of the remaining excess equity balance for police overtime to ensure the Department is able to provide minimum patrol staffing levels. The safety of San Diego residents should be the City's top priority and appropriately reflected within this budget.

I further recommend the following one-time budget adjustments:

**One-Time Penny for the Arts Funding Adjustment (\$1,744,682)**

The FY18 Proposed Budget recommended cutting funding for the Penny for the Arts by \$4.7 million. This decrease lowers funding for the program from 7 percent of Transient Occupancy Tax (TOT) revenue to 4.5 percent. Given the significance of our local arts community and the important role it plays in crafting the minds of San Diego's next generation of leaders, I propose utilizing the entirety of the Mayor and City Council discretionary TOT allocation, in addition to redirecting the Community Projects Programs and Services (CPPS) budget for City Council offices toward Penny for the Arts. Though the Mayor has proposed approximately \$2.4 million in additional one-time funding for Penny for the Arts, we must prioritize the much-needed expenditures that are crucial to protecting public safety and core neighborhood services. My recommendations for the reallocation of this funding are outlined in the below narrative.

**Critical One-Time Allocations Utilizing May Revise Arts Funding (\$2,371,942)**

***Marketing Campaign for San Diego Police Department Recruitment (\$350,000)***

Earlier this month, I issued a memorandum outlining the great needs of our Police Department and provided the recommendation to secure a private sector, professional marketing firm to develop a comprehensive marketing and recruitment plan with the goal of increasing the number of applicants and recruits. I applaud the Mayor for including \$150,000 within the May Revise to support a contract with a professional firm. It is important to note that in order for this effort to be successful, the full funding of \$500,000, as outlined in my memorandum, should be allocated. With a 36 percent decrease in police job applications and 217 sworn officer vacant positions, the City cannot afford half measures to address this crisis.

***Peace Officer Standards and Training Funding (\$237,942)***

The State of California FY2017-18 Proposed Budget outlined over \$13 million in reductions to Peace Officer Standards and Training (POST) reimbursements to local governments, as well as funding for police officer training relating to implicit bias and procedural justice. The local impact to the City of San Diego is estimated to be a reduction of over \$200,000 in annual reimbursements. This funding cut negatively impacts the Department's police training capabilities. I recommend one-time dollars be allocated until a more permanent solution can be presented.

***Partial Replenishment of the Pension Stabilization Reserve (\$1,700,000)***

The FY18 Proposed Budget was partially balanced by the complete drawdown of \$16.0 million from the newly created Pension Stabilization Reserve. These dollars helped offset the \$45.2 million increase in the City's General Fund contribution to the ADC. As mentioned earlier in this memorandum, the City's FY19 pension payment is expected to grow by another \$4.6 million, bringing next year's pension payment to \$241.0 million. Per the City's reserve policy, a replenishment plan must be presented within one year of the drawdown. Prefunding this Reserve in anticipation of additional increases is prudent and necessary in order to protect funding for critical General Fund neighborhood services.

***Support for Expansion of Summer Night Lights Program (\$84,000)***

The Commission on Gang Prevention and Intervention has successfully worked with the City, community members, and stakeholders to launch the "Friday Night Teen Program." This Program proactively engages at-risk youth by providing mentorship services and community engagement activities during expanded hours at ten various Park and Recreation facilities. The Commission wishes to expand this program through the new, seasonal "Summer Night Lights Program", which involves similar mentorship services during summer months at two additional Park and Recreation facilities, Skyline Park & Mira Mesa Community Park. These dollars will be utilized to offset staffing costs for the Park and Recreation and San Diego Police Department.

**Revenue from Former Redevelopment Agency Property for SDPD Facilities (\$1,700,000)**

On May 16, 2017, the City Council authorized the sale of several former Redevelopment Agency properties. After accounting for closing costs and administrative fees, approximately \$1.7 million will be deposited into the City's General Fund. These one-time dollars should be utilized to address critical SDPD needs, such as the Backup Dispatch Center identified in the Department's Five-Year Plan. This facility is currently utilized for the training of all public safety dispatchers on the new Computer Aided Dispatch system. It is also the designated relocation point for temporary radio operations in the event of an emergency should the evacuation of headquarters be necessitated. It is imperative that this facility receive the investment necessary to build out a fully operational and functional emergency dispatch center in order to continue providing critical public safety services and information in the event of an emergency.

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