

Review of the Fiscal Year 2019

# Proposed Budget

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# IBA Review of the Fiscal Year 2019 Proposed Budget

Budget Review Committee

May 2, 2018



The City of  
**SAN DIEGO**



# Independent Budget Analyst





## Overview: IBA Review & Analysis of FY19 Proposed Budget

***“The Mayor has provided the Council with a balanced, sensible and responsible initial budget proposal that is indicative of having given serious consideration to Council priorities”***

***“The Council has final budget authority and can develop their own set of final budget revisions or additions based on community input, hearings with City departments and our IBA review and analysis”***

# General Fund Expenditures Overview

*The FY19 Proposed Budget includes \$1.45B in proposed General Fund expenditures*

- Increase of \$13.9M, or 1% over the FY18 Adopted Budget
- Total FTE positions: 7,596.24 – net 68.81 additions
  - Additions (not including transfers) include 106.60 FTEs:
    - 19.22 – Parks & Rec; 17.00 – Environmental Services;
    - 15.00 – Police; 15.00 – Fire-Rescue; 12.00 – Transportation & Storm Water; 8.00 – City Attorney
  - Reduction of 27.85 non-hourly positions and 9.94 hourly positions



# General Fund Revenues Overview

*FY 2019 General Fund expenditures are supported by \$1.44B in projected revenues and \$12.3M in Excess Equity*

- Increase of \$27.7M or 2.0% over the FY 2018 Adopted Budget
- Overall, our Office agrees with the FY 2019 General Fund revenue projections based on FY 2018 revenue projections and current economic forecast
- Updated User Fee General Fund revenue of \$135,000 will be included in the May Revise

# Reserves

## *General Fund*

- Overall Reserve goal is 16.7% of operating revenues
  - 16.7% to be reached by FY25
- FY18 Reserve interim target is 15%, or \$181.3M
- FY19 Reserve target is 15.25%, estimated to be \$192.2M
  - FY19 Reserve contribution is a reduced \$554K, as \$10.3M is to be prefunded in FY18
- ***FY19 Proposed Budget utilizes all of the FY18 projected Excess Equity of \$12.3M***

## Reserves *cont'd*

### *Long-Term Disability Fund (LTD)*

- Reserve goal is 100% of actuarial liability, currently \$5.5M
- Projected FY19 LTD costs of \$2.4M covered by **excess** LTD Reserve (no FY19 budget for LTD costs)
- Projected FY19 **excess** Reserve estimate:
  - \$7.8M (General Fund portion – \$5.1M)
- Potential uses for excess Reserve include:
  - Death and disability benefit for post-Prop B employees (currently being negotiated)
  - Covering FY20 LTD costs

## Reserves *cont'd*

### *Workers' Compensation Fund (WC)*

- Reserve goal is 12% of actuarial liability:
  - \$30M for FY18
  - Projected \$31.7M for FY19
- Projected FY19 WC costs are partially covered by **excess** WC Reserve (\$5.0M citywide)
  - Resulting FY19 citywide budget: \$24.6M
  - FY19 General Fund portion: 80%, or \$19.7M
- Projected FY19 **excess** Reserve estimate:
  - \$4.0M (General Fund portion – \$3.2M)
  - Anticipated as support for FY20 WC costs

## Reserves *cont'd*

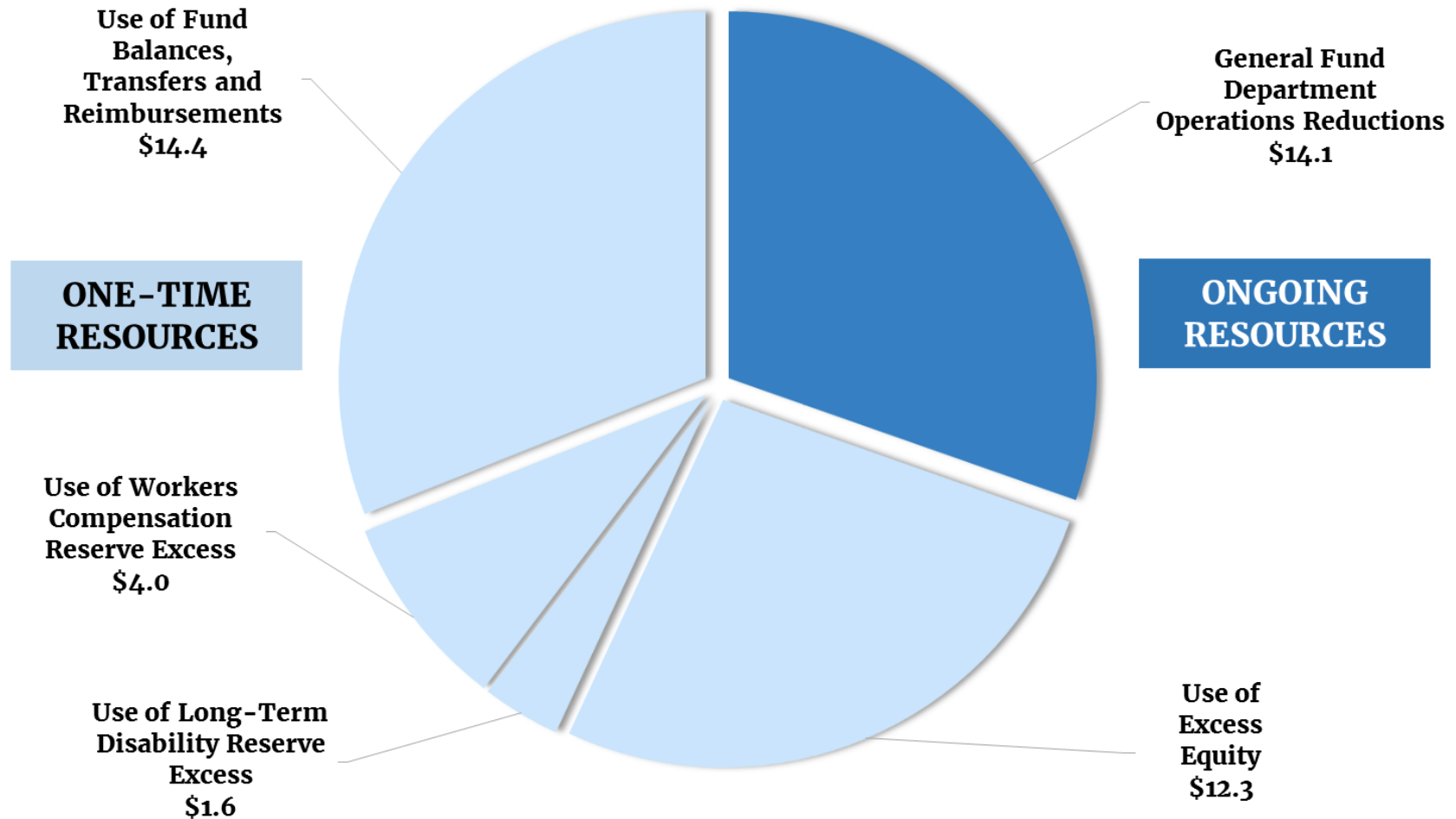
### *Public Liability (PL) Funds – Operating & Reserve*

- Support costs to the City related to claims against the General Fund (supported entirely by GF contributions)
- Overall Reserve goal is 50% of actuarial liability by FY19
  - FY19 estimated Reserve goal amount is \$34.7M
  - FY18 Reserve interim target is 47%, or \$32.6M
- ***Potential one-time PL resources that could be used for one-time expenditures:***
  - PL Operating Fund: FY18 resources are projected to exceed costs by about \$7.3M
  - PL Reserve Fund: projected to have \$2.0M excess at FY19



# Balancing the FY19 Proposed Budget

## GENERAL FUND MITIGATION ACTIONS: \$46.4 MILLION (\$ MILLIONS)



# Balancing the FY19 Proposed Budget *cont'd*

- \$12.3M Use of Excess Equity (one-time)
  - Full amount of excess equity estimated at Mid-Year was used to balance FY19 Proposed Budget
  - Availability of excess equity is often relied upon for the Mayor's May Revision, some one-time Council budget modifications, and addressing unanticipated expenditure overages at year-end
  - FM will be updating the excess equity projection in the May Revision

# Balancing the FY19 Proposed Budget *cont'd*

- \$14.4M Fund Balances, Transfers & Reimbursements (one-time)
  - \$4.8M from the Compensated Absences Leave Fund (overcharges to General Fund departments for deferred compensation related to overtime)
  - Two other funds contributed a total of \$8.0M:
    - \$4.6M from the Fleet Operations Operating Fund
    - \$3.4M from the Fleet Operations Replacement Fund
  - Of the \$8.0M in Fleet funds, \$6.5M was budgeted in FY18 to make improvements at the City-leased Othello facility to increase efficiency of fire apparatus maintenance and repair

# Balancing the FY19 Proposed Budget *cont'd*

- \$5.6M Workers Compensation and Long-term Disability Excess Reserve Balances (one-time)
  - FY19 Proposed Budget includes reduced departmental contributions for Workers Compensation and LTD
  - For the General Fund, approximately \$4.0M and \$1.6M of reserve balances are proposed to cover a portion of operational costs

# Balancing the FY19 Proposed Budget *cont'd*

## *Department Operations Reductions Detail*

- Transportation & Storm Water - \$882,000 reduction in tree trimming contract
- Transportation & Storm Water - \$300,000 reduction in graffiti abatement
- Planning - \$202,000 reduction in contract costs impacting Mira Mesa Community Plan Update
- Parks & Recreation - \$267,000 reduction in Citywide park maintenance
- Public Works - \$355,000 reduction in Facilities Maintenance staff

# Potential Resources for Council Budget Revisions

- Excess Equity – Availability uncertain (one-time)
- Public Liability Fund Operating Fund excess balance – \$7.3M (one-time)
- Public Liability excess Reserve – \$2.0M (one-time)
- General Fund relocation costs for 101 Ash – \$2.1M (one-time)



# Council Priorities in the Proposed Budget

## *Programs for the Homeless*

GENERAL FUND BUDGET PRIORITIES (FIVE OR MORE COUNCILMEMBER MENTIONS)	FUNDED IN FY 2019 BUDGET	NOTES
Programs for the Homeless		
Expansion of Homeless Outreach Services	N <sup>1</sup>	No increase from the General Fund (see footnote 1).
Increased Park Ranger and Library Security Services	P	Proposed Budget includes 1.00 Senior Park Ranger and \$88,000 in expenditures to manage and coordinate Park Ranger activities along the San Diego River. No funding provided for two other requests, a Downtown Park Ranger and increased Library security services of \$288,000.
Select Committee on Homelessness Funding	Y	Proposed Budget includes \$38,000 to fund existing contract through December 31, 2018.
Workforce Development Strategies for Homeless Individuals	N	Not included in Proposed Budget.
Public Restrooms Funding	Y	Includes \$898,000 to fund eight portable restrooms and security services at three locations downtown.
Continued Bridge Shelters Funding	Y	Proposed Budget includes \$2.8 million from the General Fund and \$10.0 million in Housing Commission local funds <sup>2</sup>
Resources for a Homeless Navigation Center	Y	Proposed Budget includes \$300,000 from the General Fund, \$250,000 from the Low and Moderate Income Housing Asset Fund, and \$1.0 million in CDBG funding.
Additional Psychiatric Emergency Response Team (PERT) Staffing	N	No increase included in Proposed Budget.



# Council Priorities in the Proposed Budget *cont'd*

## *Climate Action Plan*

Climate Action Plan		
Adaptive Traffic Signals	N	No additional resources included above FY 2018 amounts.
City's Urban Forestry Program	N	1.00 FTE Horticulturist position is relocated from DSD to TSW, but no additions are proposed. The budget for the City's tree trimming contract is reduced by \$882,000 which will reduce broadleaf tree trimming from once every 9 years to once every 11 years.
Vision Zero Program	Y	1.00 FTE Civil Engineer has been reclassified as a Program Manager in part to oversee Vision Zero implementation. The Proposed Budget includes \$18.6 million for projects that support Vision Zero and improve safety for all modes of transportation.
Community Choice Energy Local Buildout Study	N	While not specifically mentioned in the Proposed Budget, this study is planned for evaluation by the new Office of Sustainability and will likely be grant funded.
Bicycle, Pedestrian, and Transit Mode Share Monitoring Program	Y	Staff transferring into the new Office of Sustainability will be deploying and evaluating smart sensors on streetlight infrastructure in FY 2019.
CAP Social Equity Metrics	Y	A Community Development Specialist 4 position is being added in the new Office of Sustainability in the FY 2019 Proposed Budget. This position will dedicate time to developing social equity metrics for the CAP.





# Council Priorities in the Proposed Budget *cont'd*

## *Public Safety*

Police		
Enhance Police Department Recruitment and Retention	Y	\$18.5 million increased salary-related expenditures for POA members included in Proposed Budget.
Fire-Rescue		
Additional Resources for the Fire-Rescue Department's Resource Access Program (RAP)	N	No additional RAP resources in Proposed Budget.
Increased Lifeguard Services Staffing	N	No additional Lifeguard positions in Proposed Budget.



# Council Priorities in the Proposed Budget *cont'd*

## *Storm Water Infrastructure and Maintenance*

Storm Water Infrastructure and Maintenance		
Increased Channel Clearing	N	No additional channel clearing resources in Proposed Budget.
Neighborhood Storm Water Projects	P	Proposed Budget includes \$873,000 for a nine-member storm water pipe repair crew. Funding for specific storm water CIP projects is not identified.



# Council Priorities in the Proposed Budget *cont'd*

## *Sanitation Services*

Sanitation Services		
Ongoing Street Sanitation	Y	The Proposed Budget includes \$1.3 million for contracted sidewalk sanitization services primarily to occur in the downtown area. This is a component of the CleanSD program.
Additional Code Compliance Officers	Y	The Proposed Budget includes 4.00 Code Compliance Officers, 1.00 Code Compliance Supervisor, and 1.00 Senior Code Compliance Supervisor to enforce illegal dumping. This is a component of the CleanSD Program.
Illegal Dumping Programs	Y	The Proposed Budget includes various efforts to address illegal dumping, including riverbed clean-up efforts, scheduled waste abatements downtown, curbside community clean-ups, and illegal dumping enforcement. These are all components of the Clean SD Program.
Community Clean-ups	Y	The Proposed Budget includes increased frequency of Community Clean-ups. These curbside collection events which are currently held once per week, would increase to 2-3 times per week at different locations around the City. This is a component of the CleanSD Program.
Green Waste Collection	N	No funding for green waste collection.
Mission Beach Second Trash Pick-Up	Y	The Proposed Budget includes \$70,000 in one-time funding to perform two collections per week during the summer months. This is the same level of service that was funded in the FY 2018 Adopted Budget.



# Council Priorities in the Proposed Budget *cont'd*

## *Arts & Culture; CONNECT2Careers*

Arts and Culture		
Arts and Culture Funding Increase	P	The Proposed Budget includes \$14.5 million for Arts, Culture and Community Festivals funding, a slight decrease of approximately \$150,000 or 1.0% from the FY 2018 funding level of \$14.6 million.
CONNECT2Careers Program		
CONNECT2Careers Program Funding Increase	N	Proposed Budget reduces CONNECT2Careers funding in EDD by \$100,000, with \$324,000 remaining in the General Fund budget after the cut. However, a CDBG allocation of \$625,000 is included (\$225,000 to existing program and \$400,000 for a new mentorship program). An additional \$50,000 is provided by the former Enterprise Zone.



# Council Priorities in the Proposed Budget *cont'd*

## *Earned Sick Leave & Minimum Wage; DSD Code Enforcement*

<b>Earned Sick Leave and Minimum Wage Ordinance</b>		
Additional Staff and/or Increased Non-Personnel Budget for City Treasurer	N	No additional resources included above FY 2018 amounts.
<b>Development Services Department - Code Enforcement</b>		
Additional Staffing for Code Compliance Officers, Inspectors or Zoning Investigators	N	The Proposed Budget does not include any additional staffing in the Development Services Department for Code Enforcement.



# Council Priorities in the Proposed Budget *cont'd*

## *Capital Projects Priorities*

Capital Projects Priorities		
Park Capital Improvement Program (CIP) Projects	Y	Proposed Budget includes \$11.8 million for park CIP projects, also \$4.7 million is anticipated in Commercial Paper funding.
Pedestrian and Cycling Safety	Y	Proposed Budget includes \$18.6 million for projects that support Vision Zero and improve safety for all modes of transportation.
Sidewalk Repair and Installation	Y	Proposed Budget includes \$5.0 million for repair/reconstruction and \$1.2 million for installation.
Street Repair	Y	Proposed Budget includes \$75.9 million total for streets, of which \$46.9 million is for capital projects. <sup>3</sup>
Streetlight Installation	Y	\$1.9 million budgeted in the CIP annual allocation.



# Council Priorities in the Proposed Budget *cont'd*

## *Council Administration*

Council Administration		
Addition of 1.00 Council Representative 1	N	Council requested the addition of 1.00 Council Representative 1 to provide additional support to Council Administration. Not included in Proposed Budget. Annual cost is \$66,000.



# Select Department Requests NOT Funded

*Unfunded requests may be of interest to the Council*

- Library:
  - Expand security hours at branch libraries - \$288,000
  - Increase number of RFID security gates at branch libraries - \$202,000
- Parks & Recreation:
  - 1.00 Open Space Park Ranger - \$112,000
- City Attorney:
  - 11.50 FTE Attorney positions - \$1.3M
- Environmental Services:
  - 1.00 Program Manager and 2.00 Code Compliance Officer for Zero Waste Plan and CAP - \$384,000





# Select Department Requests NOT Funded *cont'd*

*Unfunded requests may be of interest to the Council*

- Public Works E&CP:
  - 1.00 Management Analyst for CIP - \$93,000
- Public Works Facilities:
  - Asbestos remediation - \$150,000
  - 21.00 Facilities Maintenance positions - \$3.3M
  - City facilities repairs - \$700,000
  - Emergency repair contracts for City facilities - \$200,000
- Transportation & Storm Water:
  - Fund storm water CIP projects - \$25.0M



## New/Reconfigured Departments

**Department of Finance:** Merges and reorganizes Comptroller and Financial Management departments

**Office of Sustainability:** Merges 19.35 ESD & EDD staff and adds 5.00 new staff to implement Climate Action Plan

**Government Affairs:** 5.00 staff to manage the City's state and federal legislative priorities (reports to Office of Mayor)

**Office of Boards & Commissions:** Intended to support City's 49 Boards & Commissions (reports to Office of Mayor)

# Key Citywide Issues: 101 Ash, CCP & Othello Facility Delays

## *101 Ash*

- The project scope for building renovations increased from improving 5 floors to all 19 floors, and cost estimates have increased from \$5.0M when the City acquired the building in 2016 to \$32.0M in March; bids for the project were cancelled; current staff estimate is \$27.0M
- A re-scoped project, RFP, and financing plan will be presented to Infrastructure Committee on May 23 and Council in June
- We recommend staff consider including bid-alternates in the new RFP that include a smaller scope, more in line with the original proposal, and a non-24/7 work schedule
- This would allow for options to be weighed by Mayor and Council, which is important in light of the significant budget impacts

# Key Citywide Issues: 101 Ash, CCP & Othello Facility Delays *cont'd*

## 101 Ash

- Depending upon bids, financing options for tenant improvements being considered by staff include
  - \$12.0-\$16.0M in new Commercial Paper to be repaid over 15-20 years either by DSD via increased fees or the General Fund
  - \$6.0-\$10.0M in Capital Outlay fund (cash)
  - \$5.0M available from original lease purchase
- FY19 Budget includes \$13.8M in expenditures for 101 Ash - \$3.9M in relocation expenses and \$9.9M in rent and operating expenditures
  - \$2.1M in relocation expenses and \$4.5M in rent/operating expenses from the General Fund; DSD portion of rent is \$4.0M
  - Another \$2.6M in furniture will be needed upon move-in
- Delays in the project and potential schedule/scope changes in a future RFP mean renovation may or may not be completed in FY 2019

# Key Citywide Issues: 101 Ash, CCP & Othello Facility Delays *cont'd*

## *Civic Center Plaza (CCP)*

- In July 2015, when the City entered into a lease-to-own agreement for CCP, it was estimated that up to \$21.4M of improvements would be needed in the first five years; no significant improvements have been made
- Mayor's FY18-22 Financial Outlook included \$7.6M beginning in FY18 to reconfigure space and increase work stations; however it was not funded
- CCP improvements currently on hold for as long as DSD remains in the City Operations Building (COB)
- CCP reconfiguration is dependent on using vacant COB space as swing space while CCP renovations are carried out; funding will need to be identified

# Key Citywide Issues: 101 Ash, CCP & Othello Facility Delays *cont'd*

## *Othello Facility*

- In April 2016, a consultant hired by the City to evaluate Fleet Operations concluded:  
*“The current set up for performing maintenance on both the Fire and Refuse fleets at the Miramar Shops is not adequate to allow the technicians to be successful in keeping both fleets serviced”*
- In April 2017 Council approved a 10-year \$10.4M lease for the Othello facility to address consultant’s findings by creating a space solely for fire apparatus maintenance
- Needed improvements were estimated by staff at \$6.5M but have since increased to \$17.0M; project is now on hold
- No current plan to move forward; facility being used as storage space for departments and to house employees relocated from Executive Complex

# Key Citywide Issues: 101 Ash, CCP & Othello Facility Delays *cont'd*

## *Recommendations*

- Council may want to revisit the Othello issue to learn the status of addressing the need for improved space for Fire apparatus maintenance and any new or revised plans for the Othello facility
- Decisions need to be made, and implementation/financing plans developed and coordinated for all three facilities
- Once a plan and financing for 101 Ash has been decided by the Mayor and Council, we recommend that a strategic and comprehensive space plan, including financing options, be developed

## Key Citywide Issues: Homelessness

### *Permanent Supportive Housing Funding Reallocated for Bridge Shelters in FY 2018 is not Budgeted*

- Housing Commission reallocated \$6.5 million in permanent supportive housing funds to support bridge shelters in FY 2018
- Housing Authority action approving the bridge shelters requested these funds be replaced
- Council may wish to request more information on the plan and timeline for providing this funding



## Key Citywide Issues: Homelessness *cont'd*

### *Ongoing Funding Remains an Issue for Bridge Shelters and Transitional Storage Center*

- FY 2018 bridge shelter savings will be used for FY 2019 Transitional Storage Center costs, pending approval of Housing Commission's budget
- Housing Commission's budget also includes \$10.1 million from property reserves for FY 2019 bridge shelter costs, in addition to \$2.8 million in General Funds in the proposed budget
- No ongoing funding plan has been identified past FY 2019 if both programs are approved to continue
- Council may wish to request a funding plan for the two programs

# Key Citywide Issues: Climate Action Plan

## *New CAP-related expenditures identified*

- The FY 2019 Proposed Budget attributes \$152.9 million of new expense to CAP-related projects and activities
- \$121 million (79.4%) Pure Water Program (CAP-indirect)
- 2016 GHG emission measurement: 0.5 MT CO<sub>2</sub>e under the CAP's 2020 target emission level
- New Office of Sustainability to lead implementation of CAP
- CAP social equity metrics to be developed in FY 2019

# Key Citywide Issues: CIP

## *Allocation of Flexible Funding Generally Aligns with Councilmember Priorities*

- Infrastructure Fund and anticipated commercial paper allocations fund priorities including streets, sidewalks, parks, streetlight installation, and projects that enhance pedestrian and cycling safety
- However, Council may wish to ensure there is capacity to spend the additional \$5.0 million proposed for sidewalk repair
  - The annual allocation for sidewalk repair and replacement has \$4.4 million carried over from previous years

# Key Citywide Issues: CIP *cont'd*

## *Looking Forward*

- There are many unfunded General Fund capital needs
  - Additional revenue sources should be considered in the future to fund backlogs identified in condition assessments and to fund departmental asset management plans
- Anticipated commercial paper issuance focuses on existing projects
  - New projects should be considered for future financing to provide critical City services, such as recommended fire stations

## Key Citywide Issues: Pension

### *FY19 Actuarially Determined Contribution (ADC) (defined benefit pension payment)*

- Decrease of \$1.6M – from \$324.5M in FY18 to \$322.9M
  - Highlights of offsetting factors influencing the ADC change are included in our report
    - Investment experience gain and liability experience loss; SDCERS Board-approved assumption changes
- General Fund portion is increasing due to a higher allocation of cost – based on FTE distribution citywide
  - Increase of \$2.6M – from \$236.4M in FY18 to \$239.0M

## Key Citywide Issues: Pension *cont'd*

### *FY19 Actuarially Determined Contribution (ADC) (defined benefit pension payment)*

- Unfunded Liability (UAL) of \$2.76B, up from \$2.56B
- Other pension considerations in our report
  - Potential market correction/future investment return uncertainty
  - Future SDCERS Board discussions regarding assumption changes
  - Impacts of Proposition B
  - Legal challenges to Proposition B

# Looking to FY20 & a Future Deficit

## *City possibly facing double-digit deficit for FY20*

- FY20 could require more operational efficiencies, and/or new revenue sources in order to balance the budget.
- The City has the tools, policies, principles, and oversight in place to avoid a structural budget deficit.
  - In 2010 the City adopted a Structural Budget Deficit Elimination Plan
  - The City has since consistently balanced its budget structurally
  - This plan is relevant today and adherence to it will be continuously monitored

# Looking to FY20 & a Future Deficit

## *Some Factors That Could Impact a FY20 Deficit*

- Employee compensation increases related to negotiated labor agreements – estimated to be at least \$29M
- The defined benefit pension payment, or ADC:
  - Projected to increase by \$24.5M for FY20 (citywide) (from \$322.9M to \$347.4M)
  - General Fund portion estimated to be \$18.1M
  - Actual FY20 ADC determined by the FY18 actuarial valuation (expected January 2019)
- General Fund Reserve contribution – \$9.0M estimated increase



# Looking to FY20 & a Future Deficit

## *Some Factors That Could Impact a FY20 Deficit*

- Operating costs for homeless services: temporary bridge shelters and the Transitional Storage Center
  - No ongoing funding plan identified beyond FY19
    - \$2.8M General Fund budget for three bridge shelters
    - \$10.1M for bridge shelters and \$1.7M for Transitional Storage Center from SDHC – pending approval of SDHC's FY19 Proposed Budget
- Fleet Operating Fund: fund balance (FB)
  - FB provides one-time FY19 General Fund rate relief of \$4.6M
  - Consistent operations in FY20 could lead to increased vehicle usage fees – due to depletion of Fleet's fund balance in FY19

# City Council Budget Authority

*The Mayor has proposed his budget, now the Council has the authority to either approve the budget as submitted, or modify it in whole or in part*

- The City Council may increase or decrease any item, provided the budget remains structurally balanced with ongoing expenditures funded with ongoing resources
- The Mayor can approve, veto, or modify any line item approved by Council
- The Council can override the Mayor's veto with a two-thirds vote

## Next Steps in the Process

### *Council meets as the Budget Review Committee to make the Proposed Budget into the City's final Adopted Budget*

- May 2-4, 7-9: Budget Review Committee
  - IBA Review of the FY19 Proposed Budget
  - Public hearings on City departments, functions, and agencies
- May 14: City Council holds evening hearing to receive further input from the public
- May 17: Budget Review Committee reviews the Mayor's May Revision and Year-End Report

## Next Steps in the Process *cont'd*

- May 21: City Councilmembers issue final budget priority memoranda to the Office of the IBA
- June 4: Office of the IBA issues final report on recommended changes to the Proposed Budget based on input from Council memoranda, public comment, and independent analysis
- June 11: City Council makes final FY19 budget decisions and takes action on any budget revisions
- June 26: City Council introduces and adopts the FY19 Appropriations Ordinance