

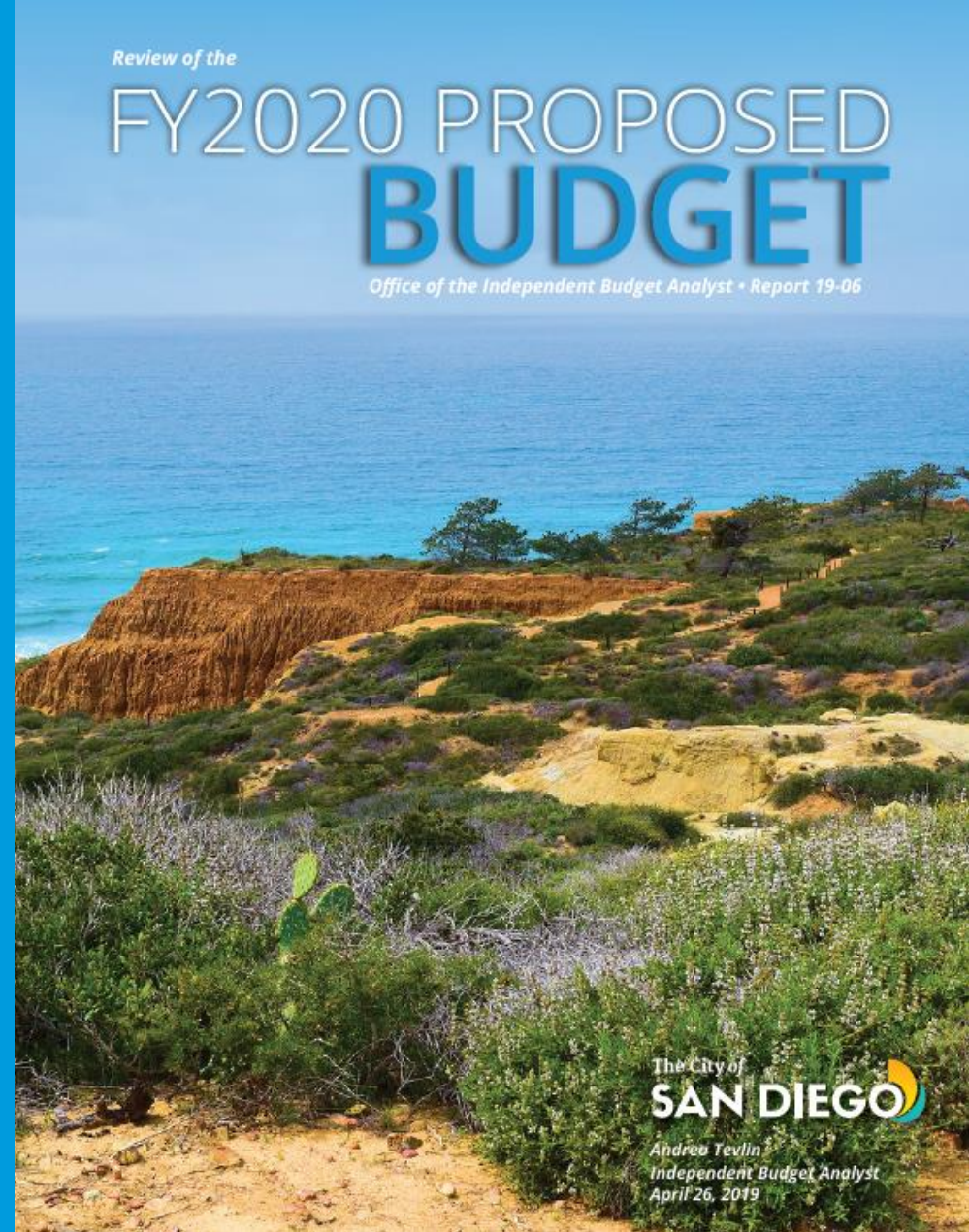
IBA Review of the Fiscal Year 2020 Proposed Budget

Budget Review Committee

May 1, 2019

Review of the
FY2020 PROPOSED
BUDGET

Office of the Independent Budget Analyst • Report 19-06



The City of
SAN DIEGO

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Independent Budget Analyst
April 26, 2019



Independent Budget Analyst





Mayor/Council/IBA/Public Roles and Authorities in the Budget Process

As the City's CEO, the Mayor is responsible for:

- Proposing a balanced budget to Council by April 15
- Providing any known changes to the budget in the May Revision, for Council consideration
- Carrying out the City's goals, policies, programs, and services reflected in the budget following adoption by Council

Mayor/Council/IBA/Public Roles and Authorities in the Budget Process *cont'd*

The Council:

- Examines the Mayor's Proposed Budget in depth and holds hearings with department heads and the public
- Has the authority to change budgeted line items or services and programs proposed in the Mayor's budget, as long as the budget remains balanced
- Is responsible for reviewing and approving the Proposed Budget on or before June 15
- Has final budget authority



Mayor/Council/IBA/Public Roles and Authorities in the Budget Process *cont'd*

The Office of the IBA:

- Once the Mayor releases the Proposed Budget, IBA reviews and analyzes the Mayor's Proposed Budget for Council and the public, and issues comprehensive report
- Provides support to the City Council and its Committees throughout the process
- Develops final budget recommendations for City Council consideration

Mayor/Council/IBA/Public Roles and Authorities in the Budget Process *cont'd*

IBA Analysis Includes:

- Reviewing all revenues and expenditures
- Assuring budget is structurally balanced
- Evaluating consistency with City Council and community priorities
- Ensuring best financial practices and policies have been applied
- Identifying impacts on service levels
- Highlighting issues for discussion during budget reviews



Mayor/Council/IBA/Public Roles and Authorities in the Budget Process *cont'd*

The Public:

- Attend public hearings and community town halls
- Make issues known
- Contact your Councilmember and the Mayor



Mayor/Council/IBA/Public Roles and Authorities in the Budget Process *cont'd*

Final steps:

- Mayor can veto Council changes to the Proposed Budget
- Council can override a Mayoral veto with six votes
- After the budget is adopted, the Mayor, Council, DOF and IBA monitor expenditures, revenues, and significant City programs and services throughout the fiscal year
- Once the budget is adopted only the Mayor can initiate changes to the budget during the fiscal year

General Fund Expenditures Overview

The FY20 Proposed Budget includes \$1.57B in proposed General Fund expenditures

- Increase of \$115.5M, or 7.9% over the FY19 Adopted Budget
- Net 62.39 additional FTEs:
 - Additions include 106.74 FTEs
 - Reduction of 44.35 FTEs as part of departments' budget reduction proposals



General Fund Revenues Overview

FY 20 Proposed Budget includes \$1.54B in General Fund revenues

- Increase of \$107.6M or 7.5% over the FY19 Adopted Budget
- Overall, our Office agrees FY20 General Fund revenue projections are appropriate based on FY19 revenue projections and current economic forecast

Balancing the FY20 Proposed Budget

Mayor has faced deficits for three years in developing the annual budgets

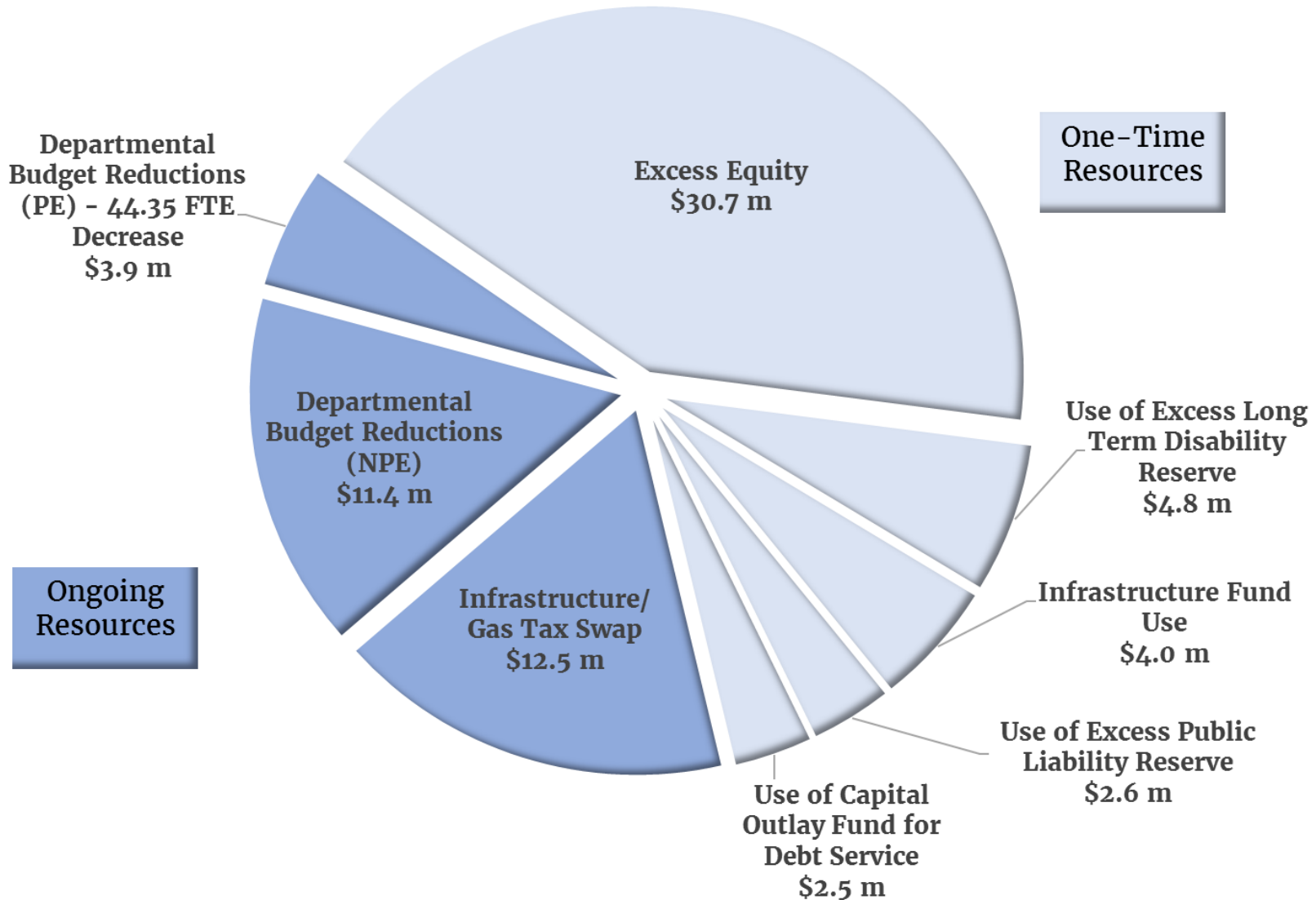
- Major causes of FY20 deficit (before balancing actions) include:
 - Increase in personnel costs due to labor agreements
 - Increase to the Actuarially Determined Contribution (ADC)
 - Increase in expenditures for new initiatives
- Our office has calculated the deficit at \$72.4M before balancing actions

Balancing the FY20 Proposed Budget *cont'd*

General Fund Deficit in Proposed Budget	FY 2018	FY 2019	FY 2020
Deficit amount (before balancing actions, in millions)	\$81.0	\$46.4	\$72.4
Deficit as a percentage of the Proposed Budget	5.7%	3.2%	4.6%

- Deficits represent a relatively small percentage of the budget
- Nonetheless, it is challenging to identify sufficient mitigating actions to bring the budget into balance given competing General Fund needs and constraints

General Fund Balancing Resources - \$72.4 Million





Balancing the FY20 Proposed Budget *cont'd*

- Mayor used all \$30.7M of excess equity early in the process to balance the FY20 Proposed Budget
- This is the first time in several recent years where all ending excess equity is utilized in the Proposed Budget
- Demonstrates a uniquely “tight” budget year

Excess Equity Projections, Actuals, and Use in the Following Year's Proposed Budgets

	FY 2016	FY 2017	FY 2018	FY 2019
Projected at the Third Quarter	\$7.5 ¹	\$26.4	\$22.7	n/a
Actual Excess Equity at Year-End Before Use of Excess Equity in the Following Year's Proposed Budget (FY 2019 Excess Equity is as of the Mid-Year Report)	\$28.0	\$43.2	\$33.5	\$30.7
Excess Equity Used in the Following Year's Proposed Budget	<u>\$0.0</u>	<u>(\$8.3)</u>	<u>(\$12.3)</u>	<u>(\$30.7)</u>
Excess Equity Remaining After Following Year's Proposed Budget	<u>\$28.0</u>	<u>\$34.9</u>	<u>\$21.2</u>	<u>\$0.0</u>

Use of Excess Equity

- In the past, excess equity has been an important resource for the Mayor to address necessary changes in the May Revise
- Also an important one-time use as a resource for City Council budget modifications
- Can serve as a cushion if year-end adjustments are necessary
- For the past three years, excess equity has been available for Mayor, City Council and for year-end adjustments

Use of Excess Equity *cont'd*

Challenging to find resources for Council modifications

- Memo from DOF:
 - *“The Dept. of Finance does not anticipate any increases in revenue as part of the May Revision and all projected excess equity from FY19 was included in the FY20 Budget. This means any budget addition requests will need to be evaluated against budget reductions or reprioritization of additions already incorporated into the Mayor’s FY20 Proposed Budget.”*
- Recent IBA discussions with DOF confirm no new significant resources expected to be identified this fiscal year

Overview of Programmatic Actions

- *“Despite the fiscal challenge, the Mayor’s FY20 Proposed Budget maintains funding or increases funding for numerous high priority programs and community services while keeping a balanced budget”*
- The following slides provide a snapshot of the Mayor’s funding priorities in the FY20 Proposed Budget

Overview of Programmatic Actions *cont'd*

Largest Capital Improvements Program in Proposed Budget

- \$716M CIP Proposed Budget
- Almost three-quarters of funding added for FY20 comes from the following projects:
 - Pure Water \$387M
 - Water and Sewer main replacements \$96M
 - Pipeline rehabilitation \$35M

Overview of Programmatic Actions *cont'd*

Community Service Levels Maintained

- Service levels, reduced in the past and restored in recent years, maintained for priority services such as
 - Library service hours
 - Recreation center hours
 - Swimming pool hours

Overview of Programmatic Actions *cont'd*

Clean SD Expanded

- One-time funding used for expansion in FY20
- \$2.7M in ESD
 - Expansion includes contractual services to provide litter removal 24/7 as well as second daily waste abatement shift
- \$3.5M in Police Department overtime
 - Involves police officers working together with ESD employees as they perform Clean SD functions
 - This is in addition to Neighborhood Policing expansion

Overview of Programmatic Actions *cont'd*

Homelessness Services Continue

- Continues service levels for Neighborhood Policing Division that were expanded in FY19
- Includes ongoing increase to Homeless Outreach Team and continuing to serve community around Storage Connect Center and Housing Navigation Center
- Includes three positions to focus on program coordination

Overview of Programmatic Actions *cont'd*

General Fund Reserves Fully Funded

- \$11.9M budgeted Reserve contribution is anticipated to bring Reserve to its projected FY20 target balance of \$204.7 million
- FY20 target is 15.5% of operating revenues

Overview of Programmatic Actions *cont'd*

New Park Facilities to Open

- Three Joint Use facilities and the North Park Mini Park are scheduled to open in FY20
- New park facilities have been allocated sufficient operating funds

Overview of Programmatic Actions *cont'd*

Disparity Study Funding Increased

- \$800,000 allocated for a City Disparity Study
- Priority item for several Councilmembers and the community
- Funding source is Engineering & Capital Projects Fund, which limits City to studying CIP contracts but not contracts for professional services, goods and supplies
- Council may wish to broaden scope

Overview of Programmatic Actions *cont'd*

New Immigrant Affairs Manager Funded

- Proposed by Mayor and approved by City Council as a mid-year budget adjustment in February 2019
- Currently in hiring process and added to FY20 Proposed Budget within the Government Affairs Department

Overview of Programmatic Actions *cont'd*

101 Ash Renovation and Move-In on Schedule and within Budget

- Construction anticipated to be completed this summer and City staff moved in this fall
- Project is anticipated to be on time and within budget

Snapshot of Actions that Raise Questions

- Use of all available excess equity
- Storm Water Channel Maintenance Reductions and Other Storm Water Reductions - \$2.0M
- One-Time Police Overtime for Clean SD and Homelessness
 - \$3.5M for Clean SD
 - \$4.3M for Neighborhood Policing Division

Snapshot of Actions that Raise Questions *cont'd*

- Staff Reductions in Facilities Maintenance
- Tree Trimming Reduction - \$1.1 M
- Reduction of Park Maintenance Staff
- Reduction in Brush Management from FY19 levels - \$555,000 reduction
- Companion Unit Fee Waiver - \$300,000 one-time



Council Priorities in the Proposed Budget

COMPARISON OF COUNCIL FY 2020 BUDGET PRIORITIES RESOLUTION TO MAYOR'S FY 2020 PROPOSED BUDGET (Y=Yes, N=No, P=Partial Funding)		
GENERAL FUND BUDGET PRIORITIES (FIVE OR MORE COUNCILMEMBER MENTIONS)	FUNDED IN FY 2020 BUDGET	NOTES
Arts and Culture		
Increase funding or maintain at FY 2019 level	Y	The Proposed Budget includes \$14.2 million for Arts and Culture funding. While this is a slight decrease from the FY 2019 overall funding level of \$14.5 million, there is no change to the amount of funding available for allocation towards Creative Communities San Diego and Organizational Support programs.



Council Priorities in the Proposed Budget *cont'd*

Clean SD and Other Neighborhood Clean-Up Items		
General support for Clean SD	Y	Proposed Budget includes \$2.7 million in additional one-time funding within the Environmental Services Department to expand Clean SD to provide litter removal 24 hours per day, seven days per week, as well as a second daily waste abatement shift. \$3.5 million in added Police overtime is also attributed to Clean SD.
Add Code Enforcement Officer positions and filling existing positions	Y	The Proposed Budget includes 3.00 term-limited (non-permanent) FTEs, including 2.00 Code Compliance Officers and 1.00 Code Compliance Supervisor.
Continue sidewalk sanitation for Hepatitis A	Y	Sidewalk sanitation service frequency that is currently being conducted will continue in FY 2020.
Expand Clean SD in new areas	P	While Clean SD is not expected to expand to any specific new areas, more as-needed requests can be responded to Citywide given the additional funding for litter removal and waste abatements.
Increase efforts to alleviate graffiti and illegal dumping	P	As discussed above, one-time funding for increased litter removal and waste abatement service levels to address illegal dumping are included in the Proposed Budget. With respect to graffiti abatement, one-time funding of \$300,000 added by the City Council in FY 2019 was not continued in the Proposed Budget.



Council Priorities in the Proposed Budget *cont'd*

CAP Strategy 3: Bicycling, Walking, Transit, and Land Use		
Increase funding for bicycle infrastructure	Y	\$2.5 million in operating and capital expenditures as part of Vision Zero (CIP).
Add Traffic Engineer positions	N	Not included in Proposed Budget.
Support for sidewalk improvements for mobility	Y	\$2.4 million in new walkways and \$1.0 million to address ADA complaints, located in the CIP. No allocation for repair and replacement to reduce the sidewalk backlog.
Improved tracking and administration of mobility goals	P	Additional \$100,000 for general CAP monitoring and performance measurement.
CAP Strategy 5: Climate Resiliency		
Increase urban tree canopy	P	While reduced initially, tree planting will be maintained at the current level.
Increase tree inspection and care	N	All routine, non-palm tree trimming contracts were reduced, totaling \$1.1 million.
Add positions for urban forestry, specifically 1.00 Arborist/Horticulturalist	N	No positions added.



Council Priorities in the Proposed Budget *cont'd*

Fill Vacant Positions in Key Departments		
General support for prioritizing filling vacancies	N	Proposed Budget eliminates several vacant positions but does not add resources specifically for filling vacant positions.
Get it Done and 311		
General support for Get It Done or similar programs such as 311	N	Funding reduced, enhancements will be delayed.
Add positions to City departments that respond to requests submitted via the app	P	The Refuse Disposal Fund and the Recycling Fund each received 1.00 Public Information Clerk (2 FTEs total) to address incoming telephone and Get It Done requests. However, numerous TSW requests for positions to support Get It Done were unfunded.



Council Priorities in the Proposed Budget *cont'd*

Homelessness and Housing		
Fund outreach, bridge shelters, permanent supportive housing, safe parking programs	Y	Proposed Budget continues service levels from FY 2019. Expansion of safe parking programs and outreach is funded through a state grant (HEAP funds). Permanent supportive housing and outreach is provided through San Diego Housing Commission.
Expand Police Department services related to homelessness such as Serial Inebriate Program (SIP), Homeless Outreach Team (HOT), and other Neighborhood Policing Division activities	P	No expansion to SIP but the Proposed Budget continues service levels that were expanded in FY 2019 for HOT and Neighborhood Policing Division.
Add Community Paramedic positions to Fire-Rescue for the Resource Access Program (RAP)	N	No expansion of RAP in the Proposed Budget.
Support for Accessory Dwelling Units (ADUs)	P	\$300,000 in one-time funding continued in FY 2020 at same level as in FY 2019.



Council Priorities in the Proposed Budget *cont'd*

Infrastructure: Library Facility Improvements		
Fund facility improvements at various City libraries	P	Rancho Penasquitos Library Skylight Replacement included \$250,000 in the CIP annual allocation for City Facilities Improvements.
Infrastructure: Parks, Recreation Centers, and Senior Centers		
Fund facility improvements at various parks, recreation centers, and senior centers	Y	\$14.7 million in for park CIP projects, including Mission Bay Improvements, plus two subprojects within the CIP annual allocation for City Facilities Improvements.
Fund design and construction of new facilities	N	Not included in Proposed Budget.
Infrastructure: Sidewalks		
Fund sidewalk repair, replacement, and new construction	Y	\$2.4 million in new walkways and \$1.0 million to address ADA complaints, located in the CIP. No allocation for repair and replacement to reduce the sidewalk backlog.
Infrastructure: Street Lights		
Fund street light installation	Y	\$200,000 in the CIP.
Infrastructure: Transportation Safety		
Support for Vision Zero, including crosswalks, traffic calming, measures to improve pedestrian and bicycle safety, and traffic signal improvements	Y	\$11.9 million in operating and capital expenses.



Council Priorities in the Proposed Budget *cont'd*

Libraries: Programming and Hours		
Maintain or increase Library programming and hours	Y	Library programming funding (\$100,000) and hours are maintained at FY 2019 levels in the Proposed Budget.
Libraries: Materials and Technology		
Increase funding for Library materials and technology	N	No additional Library materials or technology resources in the Proposed Budget.
Public Safety: Police Recruitment and Retention		
Continue or expand efforts to improve Police Department recruitment and retention	Y	Proposed Budget includes \$20.7 million in salary-related expenditure increases for San Diego Police Officers Association members. \$400,000 for a new lateral recruitment incentive program is also included.
Support for a housing incentive program	N	Not included in Proposed Budget.
Expand efforts to increase diversity in hiring	N	No new initiatives included in Proposed Budget.
Public Safety: Lifeguard Positions		
Add positions to Lifeguard Division, including staff for Boating Safety Unit, Dive Team, and Lifeguard 3s at key beach locations	N	No positions added for Lifeguards.

Potential Resources

- Given likelihood of there being no remaining excess equity, the Council and the IBA will need to identify appropriate alternative resources for final budget modifications
- Council’s consideration of modifications is very important and changes have been consistently modest as a percentage of the budget
- Council’s authority to make modifications is a critical part of the budget process

City Council Budget Modifications	FY 2017	FY 2018	FY 2019
Amount (in millions)	\$3.0	\$15.3	\$5.7
% of Adopted Budget	0.22%	1.07%	0.39%

Potential Resources *cont'd*

- *“After analyzing the budget, holding numerous hearings and soliciting feedback from the public, Councilmembers are in the position to consider the feedback received from the public, and determine whether significant community priorities have been omitted”*

Potential Resources *cont'd*

Resource options our Office is exploring

- Utilize \$9.4M in Capital Budget originally set aside for Plaza de Panama, which is now available for other capital projects
- Determine if additional capital outlay funds are available to be used for General Fund debt service
- Consider using a **portion** of Pension Payment Stabilization Reserve Fund for portion of FY20 ADC increase, freeing up General Fund monies for one-time uses
- Reallocate funding from items proposed by the Mayor in favor of alternative priorities identified by the City Council

Potential Future impacts *cont'd*

Potential increased costs or reduced revenue to City

- Labor Agreements
 - City is currently negotiating with Deputy City Attorneys Association (DCAA)
 - FY20 Proposed Budget includes placeholder amount of \$1.0M for any negotiated compensation increases; could increase or decrease depending on outcome of negotiations
 - MOUs with other five employee organizations all expire at the end of FY20 and any negotiated increases would affect FY21
- ADC Pension Payments: factors that could impact future ADC
 - FY19 “experience gains and losses”
 - Changes to assumptions in actuarial valuation for FY19
- Possibility of a Recession or Significant Economic Slowdown

Potential Future impacts *cont'd*

Potential increases in resources

- SDCCU Stadium Site Sale
 - Should sale be completed early in 2020, City will likely eliminate annual operating deficit for the stadium (\$4.8M for FY20)
 - City could potentially cover some of the remaining debt service payments, which are \$4.0M annually
- Ballot Measure Proposing to Increase TOT
 - If approved, could generate \$1.8B to address homelessness and \$546M for street repairs, over 42 years

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 1-3, 6-7 (May 8 if needed, including additional evening meeting on May 1): Budget Review Committee
 - IBA Review of the FY20 Proposed Budget
 - Public hearings on City departments, functions, and agencies
- May 13: 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 20: City Councilmembers issue final budget priority memoranda to the Office of the IBA
- June 3: 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 10: City Council makes final FY20 budget decisions and takes action on any budget revisions
- June 25: City Council introduces and adopts the FY20 Appropriations Ordinance

“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”