THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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FY 2016 Year-End Budget Adjustments and Year-End Budget Monitoring

OVERVIEW

The FY 2016 Year-End Budget Monitoring Report (Year-End Report) was issued on May 17, 2016 and presented to the Budget Review Committee (BRC) on May 19, 2016. The Year-End Report describes revenue and expenditure year-end projections based on actual (unaudited) data from July 2015 through March 2016. The Year-End Report also includes a number of requests for authority for City Council review.

The Year-End Report reflects projected increased General Fund revenues of approximately $3.6 million over the FY 2016 Adopted Budget, as well as projected expenditure savings of $38,000. Together, these projections reduce the use of Excess Equity budgeted for FY 2016 General Fund operations, from $6.2 million to $2.5 million. The positive variance in General Fund revenues from the FY 2016 Adopted Budget is primarily due to a projected increase in all major General Fund revenues (except for sales tax), and other General Fund revenues.[1]

The Year-End Report provides a thorough review of General Fund year-end projections for both revenue and expenditures and provides useful details about major revenues, departmental operations, and other programmatic items. The purpose of our report is to provide clarification or additional information for items outlined in the Year-End Report, as well as an analysis of the Mayor's recommended appropriation adjustments and other requests for authority. For FY 2016, the Year-End Report requests that the City Council approve the following items:

[1] The category of 'other General Fund revenues' includes miscellaneous General Fund revenues and department revenues. Department revenues are projected to come in $4.5 million under-budget at year end, due primarily to less-than-anticipated reimbursements for positions and work over a number of departments. Miscellaneous General Fund revenues is comprised of unexpected or increased revenue amounts in motor vehicle license fees, refuse collection business tax, transfers in, and other revenue, and is projected to come in $6.0 million over-budget at year-end due to the receipt of a number of one-time revenues.

1. Transfers of expenditure budgets between General Fund departments, with no overall impact to the General Fund budget
2. Appropriate $1.1 million in revenue and approve a corresponding increase in the expenditure budget in the Petco Park Fund
3. Appropriate fund balance to fund the non-General Fund portion of the Pension Payment Stabilization Reserve
4. Appropriate $22.8 million in Excess Equity for General Fund reserve contributions and capital project expenditures: $16.0 million for the Pension Payment Stabilization Reserve, $3.0 million for the Public Liability Reserve, $2.5 million for the Workers' Compensation Reserve, and $1.3 million for three Capital Improvement Program (CIP) projects
5. Authorize year-end authorities to allow for budget transfers between General Fund departments
6. Authorize the increase of appropriations from available sources for all funds, to address any unanticipated events that may occur prior to year-end and to close FY 2016 with departments and funds in balance

Our report provides additional information or clarification to the information included in the Year-End Report to be considered in combination with the May Revision to the FY 2017 Proposed Budget (May Revise), when they are presented to the City Council on June 13, 2016. It also includes status updates on any changes to programmatic budgetary items that were not included in the Year-End Report, a discussion on salaries and vacancies, reserve goals, and the Excess Equity estimate.

FISCAL/POLICY DISCUSSION

As noted in the Overview above, the Year-End Report reflects projected increased General Fund revenues of approximately $3.6 million over the FY 2016 Adopted Budget, as well as projected expenditure savings of $38,000. These year-end projections reflect changes from the Mid-Year Report: a decrease of $72,000 in projected General Fund revenues and an increase of $3.9 million in General Fund expenditures. Significant changes in year-end revenue and expenditure projections from the FY 2016 Adopted Budget and the projections in the Mid-Year Report are discussed in the following sections.

Our Office has reviewed the FY 2016 Year-End Report and notes that the Financial Management Department (FM) has provided detailed explanations for variances between the year-end projections included in the Year-End Report and the FY 2016 Mid-Year Budget Monitoring Report (Mid-Year Report). We note that the variances discussed in the Year-End Report compare year-end revenue and expenditure projections to the Current Budget, as opposed to the FY 2016 Adopted Budget. The Current Budget includes department-initiated transfers of budget between expenditure categories that do not change department bottom line budget allocations, any increases or decreases to a department's budget approved by Council throughout the year, and changes made as part of the mid-year budget adjustments approved by the City Council in March. Our report differs from the Year-End Report as we provide comparisons of the year-end projections for General Fund revenues and expenditures to the Adopted Budget, modified only by the mid-year budget adjustments, rather than the Current Budget.

General Fund Revenues

FY 2016 General Fund revenues are projected to be approximately $1.29 billion at fiscal year-end, $3.6 million or 0.3% over the FY 2016 Adopted Budget, and $72,000 under the year-end projection reported in the Mid-Year Report, as displayed in the following table.

FY 2016 Projected Year-End General Fund Revenue					
($ in millions)	**Adopted Budget**	**Mid-Year Projection**	**Year-End Projection**	**Variance: Adopted Budget to Year-End**	**Variance: Mid-Year to Year-End**
Property Tax	$470.1	$467.8	$470.9	$0.8	$3.1
Property Transfer Tax	8.4	9.4	9.3	0.9	(0.1)
Sales Tax	285.8	282.5	280.8	(5.0)	(1.7)
Transient Occupancy Tax	102.2	106.0	106.9	4.7	0.9
Major Franchise Fees	79.4	79.8	80.0	0.6	0.2
Sub-total Major General Fund Revenues	**$945.8**	**$945.6**	**$947.9**	**$2.1**	**$2.3**
Other General Fund Revenue	336.1	340.0	337.6	1.5	(2.4)
Total General Fund Revenues:	**$1,281.9**	**$1,285.6**	**$1,285.5**	**$3.6**	**$(0.1)**

Note: Table may not total due to rounding.

Major General Fund revenue projections have not changed significantly from the year-end projections reported in the Mid-Year Report, with the following exceptions:

Sales Tax

Sales Tax revenues are projected to be approximately $280.8 million at fiscal year-end, which is $5.0 million or 1.7% below the FY 2016 Adopted Budget, and $1.7 million below the year-end projection reported in the Mid-Year Report. Typical drivers of taxable sales—including consumer confidence and low unemployment rates—remain largely positive in San Diego. However, actual growth in sales tax revenues has been checked by year-over-year declines in fuel prices: sales tax revenue from fuel sales has decreased by 17.2% in FY 2016 compared to FY 2015.

As the decline in fuel prices has now impacted taxable sales for a full year, its impacts on future years' taxable sales growth rates should be minimized.

Transient Occupancy Tax (TOT)

TOT revenues are projected to be approximately $106.9 million at fiscal year-end, which is $4.7 million or 4.6% over the FY 2016 Adopted Budget, and $889,000 or 0.8% over the increased year-end projection reported in the Mid-Year Report. TOT is levied on the daily room price of lodging businesses in which the transient's stay is less than one month. Due to the sustained increase in TOT receipts, FM has increased the TOT growth rate from the 6% rate included in the Mid-Year Report to 8% for the rest of the fiscal year. Our Office agrees with this increase for the remainder of FY 2016 as it reflects the actual receipts received by the City. We also note that the TOT growth rate is appropriately set back at 6% in the FY 2017 Proposed Budget reflecting the projections of the Tourism Marketing District and the positive but declining forecast for TOT in the Mayor's most recent Five-Year Financial Outlook.

General Fund Expenditures

There is essentially no overall variance between the Adopted Budget and the Year-End projection for General Fund expenditures;[2] however, a combination of over-budget and under-budget components net to zero. A breakdown of variances between the FY 2016 Adopted Budget and year-end projection (as well as variances for the year-end projections reported in the Mid-Year and Year-End Reports) is included in the table below.[3]

FY 2016 General Fund (GF) Expenditures					
($ in millions)	Adopted Budget	Mid-Year Projection	Year-End Projection	Variance: Adopted to Year-End	Variance: Mid-Year to Year-End
Salaries & Wages	$ 522.4	$ 522.4	$ 517.9	$ 4.5	$ 4.5
Fringe Benefits	356.3	357.5	359.6	(3.3)	(2.1)
Sub-Total: Personnel Expenditures	$ 878.7	$ 879.9	$ 877.5	$ 1.2	$ 2.4
Supplies	$ 28.7	$ 31.8	$ 31.7	$ (3.0)	$ 0.1
Contracts	220.3	223.4	224.3	(4.0)	(1.0)
Information Technology	26.8	26.2	25.7	1.1	0.4
Energy & Utilities	47.1	38.7	37.8	9.3	0.9
Other Expenditures	86.4	84.1	91.0	(4.6)	(6.8)
Sub-Total: Non-Personnel Expenditures	$ 409.4	$ 404.2	$ 410.5	$ (1.2)	$ (6.3)
TOTAL GF EXPENDITURES	$ 1,288.0	$ 1,284.1	$ 1,288.0	$ 0.0	$ (3.9)

Note: Table may not total due to rounding.

Personnel Expenditures

For salaries and wages there is a net $4.5 million under-budget amount when comparing the Adopted Budget to the year-end projection. A number of over-budget and under-budget components net to this $4.5 million under-budget salaries and wages amount as outlined below.

Salaries are projected to come in under-budget at year-end by $17.7 million.[4] This is up from the $12.3 million projected in the Mid-Year Report. The largest under-budget salaries include:

- Police Department - $6.9 million (up from $5.7 million at mid-year)
- Transportation & Storm Water (TSW) Department - $2.9 million (up from $2.0 million at mid-year)
- Fire-Rescue - $1.2 million (up from $175,000 at mid-year)

[2]The variance between the Adopted Budget and Year-End projection is $38,000, too small to be included in the FY 2016 General Fund Expenditures Table.

[3]As stated earlier in this report, the IBA's review of the year-end expenditure variances reported in the Mid-Year and Year-End Reports is based on a comparison of projections to the FY 2016 Adopted Budget, while the Year-End Report compares projections to the FY 2016 Current Budget. Although the Current Budget figures match the Adopted Budget figures in total (with the exception of the $3.3 million mid-year budget increase approved by Council), adjustments have been made among departmental budgets and expenditure categories. These adjustments cause differences between the variance amounts reported in the Year-End Report and variances discussed in this report.

[4]The $17.7 million amount for under-budget salaries is net of $1.2 million in over-budget special pay. The total under-budget amount for "regular" salaries is $18.9 million.

- Park & Recreation Department - $1.1 million (up from $915,000 at mid-year)
- Library - $865,000 (up from $642,000 at mid-year)
- General Services - $733,000 (up from $623,000 at mid-year)

These salary savings are offset by the following over-budget salary and wage expenditures:

- $9.4 million in overtime, including $6.0 million, $1.9 million, and $679,000 for Police, TSW, and Fire-Rescue departments, respectively
- Overages of $1.9 million in pay-in-lieu of annual leave and $1.3 million in termination pay, spread over a number of departments
- $578,000 overage in hourly pay, with the largest overage in Park & Recreation (at $523,000)

The net $3.3 million in projected over-budget fringe benefits also includes a number of offsetting components, some of which are listed below.

- Over-budget fringe expenditures, due in part to the following:
    - $4.8 million increase in workers' compensation costs due to increases in operating costs and increased reserve needs
    - $908,000 increase in Medicare costs, largely due to overtime overages
    - $421,000 from the increased General Fund allocation of retiree health benefits costs
    - $294,000 increase in SPSP, largely due to overages in overtime that is eligible for SPSP-H contributions (for employees in the Proposition B defined contribution plan)
- Under-budget fringe expenditures including:
    - $2.5 million in flexible benefits projections, largely related to higher vacancies than expected and changes in employees' health coverage selections during open enrollment
    - $1.0 million from the reduced General Fund allocation of the Actuarially Determined Contribution (ADC) pension payment

Non-Personnel Expenditures

Total non-personnel expenditures are projected to be $1.2 million over-budget compared with the FY 2016 Adopted Budget, an increase of $6.3 million from the Mid-Year Report. Specific variances include the following:

- Supplies are over-budget by $3.0 million – the largest variances include $1.6 million for TSW (largely related to recent winter storms) and $879,000 for Police.
- Contracts are over-budget by $4.0 million due to a number of over-budget variances that more than offset under-budget variances. The largest contracts variances include the following:
    - $2.8 million over-budget in Citywide Program Expenditures contracts – the largest items include increased costs for Civic Center Plaza ($910,000 for operating

expenses and $1.3 million for a rent back-payment) and a $1.0 million increase for elections costs

    - $6.0 million in TSW over-budget contracts expenditures – largely due to recent storms (the overage is up $2.2 million since the Mid-Year Report)
    - $2.4 million in under-budget Economic Development contract expenditures (this under-budget amount is $1.4 million higher than the Mid-Year Report)
    - $1.8 million reduction in the Park & Recreation contracts expenditures budget that was moved in large part to other expenditures (specifically the transfers out category)

- Energy & utilities includes $9.3 million in under-budget expenditures across departments:
    - The largest under-budget variance is $4.3 million in Park & Recreation, of which $2.8 million is due to savings from water conservation efforts. A mid-year budget adjustment moved $2.5 million in Park & Recreation appropriations to Citywide Program Expenditures to fund the Public Liability Reserve.
    - Police, Environmental Services, Library, and Fire-Rescue departments are also under-budget by $1.7 million, $901,000, $809,000, and $738,000 respectively.
- Other expenditures are projected to be $4.6 million over-budget, due to a number of over-budget variances that more than offset under-budget variances. The largest variances include the following:
    - $9.1 million over-budget in Citywide Program Expenditures, including $5.8 million for the Public Liability Reserve and $3.1 million for increased Public Liability operational needs
    - $3.4 million in under-budget Police CAD project expenditures that will occur after FY 2016
    - $1.8 million in over-budget Park & Recreation transfers out for CIP projects (These costs were met through the transfer of budget from the contracts category as mentioned above.)
    - $1.7 million reduction in the TSW capital expenditures budget that was moved in large part to the contracts budget

A discussion of notable budget variances can be found in the Year-End Report produced by the Financial Management Department.

General Fund Salaries and Wages, and Vacancy Issues

Vacancy Savings Background

The Year-End Report projects $4.5 million in under-budget salaries and wages, as shown in the variance column of the following table. The $18.9 million in salary savings, which is primarily attributable to vacancies, more than offsets overages in other salaries and wages categories– including special pay, overtime, hourly wages, vacation pay-in-lieu, and termination pay.

FY 2016 General Fund Salaries and Wages Comparison ($ in millions)			
Salaries and Wages Categories	**Adopted Budget**	**Year-End Projection**	**Variance**
Salary	$ 422.7	$ 403.7	$ (18.9)
Special Pay	28.0	29.2	1.2
Overtime	50.2	59.7	9.4
Hourly	13.9	14.5	0.6
Vacation Pay-in-Lieu	5.1	7.0	1.9
Terminiation Pay	2.5	3.8	1.3
TOTAL GENERAL FUND	$ 522.4	$ 517.9	$ (4.5)

Note: Table may not total due to rounding.

A large part of the variance in salary savings (referenced here as vacancy savings) has to do with a slower rate of filling new positions than anticipated in the FY 2016 Adopted Budget. Additionally, a large number of the new positions were filled through promotions and transfers, trading one vacancy for another. Further, there have been 414 non-hourly position retirements, resignations, and other terminations from July 1, 2015 through May 31, 2016. The intention is that by the start of FY 2017, or soon thereafter, these vacant positions will become filled, while positions on the whole reach the level of turnover that is expected (budgeted) for FY 2017.

Vacancy savings projected for FY 2016 totals approximately $40.4 million, including $21.5 million in budgeted savings and the $18.9 million in excess savings seen in the table above.[5] For FY 2017, budgeted vacancy savings has increased from the FY 2016 budgeted amount of $21.5 million to $30.4 million, which is $10.0 million less than the FY 2016 projection.[6] Based on an average $65,000 salary for budgeted positions in FY 2017, this $30.4 million in FY 2017 vacancy savings reflects a hypothetical 468 vacant positions. It is important to note that this hypothetical number of vacant positions is not an exact indicator for the number of positions that should remain vacant. Information regarding the number of vacancies is provided to give a general means of comparison.

Vacancies are constantly changing, and the number of actual vacancies at any point in time could change markedly by the next day. The goal is to budget vacancy savings that will match the expected level of turnover. With that, we need to be aware of the trends and major issues behind vacancy savings. Below is a table of recent General Fund vacancy data from various reporting timeframes.

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[5] For purposes of this analysis, FY 2016 projected salary savings of $40.4 million is assumed to be attributable to vacancy savings. There are other types of salary savings that are not related to vacancies, including voluntary furlough and the 3.2% salary reductions for Deferred Retirement Option Plan (DROP) participants in the Deputy City Attorneys Association (DCAA) and San Diego Police Officers Association (POA). These other types of salary savings were projected to be $1.5 million in the FY 2016 Adopted Budget, as compared to the FY 2016 Adopted Budget vacancy savings of $21.5 million. Although these other types of salary savings can vary, given the relative size of the budget, the variance is assumed to be zero for the purposes of this analysis.

[6] The FY 2017 budget amounts are based on the FY 2017 Proposed Budget plus the May Revise adjustments.

General Fund Vacancies				
Oct 2014	May 2015	Nov 2015	Jan 2016	May 2016
547	463	648	612	559

The 463 General Fund vacancies in May 2015 (FY 2015) do not include increased vacancies due to the 316.46 non-hourly FTEs added to the FY 2016 budget. If you consider the addition of these new positions, there has actually been a downward trend in the number of vacant positions shown above. This has occurred as the Personnel Department, City management, and the hiring departments have made a concerted effort to improve the hiring process. Note that in the last six months (since the end of November 2015), the number of vacancies has decreased by 89. This has occurred while there has been ongoing turnover.

City staff has been working to reduce the number of vacancies and fill the FY 2016 added positions. At the onset of FY 2017 there will also be additional vacancies due to the 220.58 non-hourly FTEs added (as of the May Revise) during the current budget process.

Balancing Out Salaries and Wages in FY 2017

The following table shows salary and wage expenditure data, including FY 2015 actual expenditures, FY 2016 projected expenditures, and the expenditures included in the FY 2017 budget as of the May Revise. Additionally, the table includes the variance between what is projected to be spent for FY 2016 and what is budgeted for FY 2017.

General Fund Salaries and Wages Comparison *($ in millions)*				
Salaries and Wages Categories	**FY 2015 Actuals**	**FY 2016 Projection at Year-End**	**FY 2017 Proposed Budget & May Revise**	**Variance: FY 2016 to FY 2017**
Salary	$ 385.8	$ 403.7	$ 428.7	$ 25.0
Special Pay	29.0	29.2	28.2	(1.1)
Overtime	58.5	59.7	53.4	(6.3)
Hourly	14.3	14.5	14.0	(0.5)
Vacation Pay-in-Lieu	6.6	7.0	7.2	0.3
Terminiation Pay	4.3	3.8	2.8	(1.0)
TOTAL GENERAL FUND	$ 498.4	$ 517.9	$ 534.4	$ 16.5

Note: Table may not total due to rounding.

FY 2017 salaries are increasing by $25.0 million from the FY 2016 projection, in anticipation of the new FY 2016 positions being filled for a complete year in FY 2017, as well as filling new FY 2017 positions. Although the hiring pace has increased in FY 2016 it is difficult to predict how timely these positions can be filled, and therefore, how much vacancy savings will accumulate in

FY 2017. If positions are not filled in a timely manner, vacancy savings could exceed the $30.4 million budgeted for FY 2017.

As stated previously, excess vacancy savings can help offset salary and wage categories that are over-budget, which has been the experience in recent years.[7] For example, the over-budget amount for such salary and wage categories (those other than "salary") is projected to be $14.4 million for FY 2016. Projected excess vacancy savings of $18.9 million in FY 2016 offsets these overages, with all salary and wage categories netting to an under-budget amount of $4.5 million.

For expenditure categories other than salary, there is less budgeted in FY 2017 than anticipated to be spent in FY 2016.[8] If recent spending patterns are not adjusted, there is the potential for at least $8.0 million in overages for the other salary and wage categories. The potential for over-budget expenditures in FY 2017 is addressed in the following sections.

To balance out any overages in other salary and wage categories, there would need to be increased revenues or savings in other areas of the budget, including excess vacancy savings. With doubt about the timeliness of filling new and other vacant positions, there may be excess vacancy savings in FY 2017. Further, there could be excess vacancy savings beyond amounts needed to offset other salary and wage categories. The amount is indeterminate: it could be millions of dollars, or it could be nothing.

Special Pay

The FY 2017 May Revise includes a budget of $28.2 million for the Special Pay category. For FY 2016, Special Pays are projected to be $29.2 million, $1.2 million over the $28.0 million budget. FY 2015 actual expenditures were $29.0 million. If recent trends continue, there could be over-budget amounts in FY 2017.

Overtime

The FY 2017 May Revise includes a budget of $53.4 million for overtime. For FY 2016, General Fund overtime is projected to be $59.7 million, and FY 2015 actual expenditures were $58.5 million. If recent trends continue, there could be over-budget amounts in FY 2017.

Overtime has been significantly right-sized since FY 2015, when the General Fund budget was $40.0 million. For FY 2016 the overtime budget was increased to $50.2 million, and for FY 2017 $3.0 million has been added to the Police Department budget. The total FY 2017 General Fund overtime budget is $53.4 million.

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[7] The condition where excess vacancy savings covers over-budget amounts in other salaries and wages (or vice versa) can be a natural occurrence in a dynamic organization. For example, in a constant staffing model such as for fire suppression, overtime may be needed when the existing staffing levels are insufficient to meet required staffing levels. With increases in vacancies there may be times when more overtime is needed than was originally expected.

[8] Vacation pay-in-lieu appears to be an exception, as FY 2017 has a higher budget than FY 2016. However, the increase is due to additional negotiated labor costs beginning in FY 2017. This is explained further in the "Vacation Pay-in-Lieu" section of this report.

For the Police Department, actual spending was $23.1 million in FY 2015. Police Department overtime is projected to be $24.0 million for FY 2016. For FY 2017, it is budgeted at $21.0 million, $3.0 million lower than the FY 2016 projection. As we have stated in our FY 2017 Proposed Budget review and the recent Budget Review Committee hearings, there is the potential for overages to occur in the Police Department, and this budget should be monitored closely.

The $2.0 million TSW overage projected for FY 2016 related to channel clearing activities is not expected to recur in FY 2017.

Overtime Comparison					
($ in millions)	FY 2015 Actuals	FY 2016 Projection at Year-End	FY 2017 Proposed Budget & May Revise	Variance: FY 2015 to FY 2016	Variance: FY 2016 to FY 2017
Police	$ 23.1	$ 24.0	$ 21.0	$ 0.9	$ (3.0)
Transportation & Storm Water	2.0	3.0	1.0	1.0	(2.0)
Fire-Rescue	31.5	30.6	30.1	(0.9)	(0.5)
Other Departments	1.8	2.0	1.2	0.2	(0.8)
TOTAL GF EXPENDITURES	$ 58.5	$ 59.7	$ 53.4	$ 1.2	$ (6.3)

Note: Table may not total due to rounding.

Hourly Wages

Hourly Wages are projected to be $14.5 million for FY 2016 and were $14.3 million for FY 2015. Hourly wages are budgeted at $14.0 million for FY 2017.

Vacation Pay-in-Lieu

An area that we have discussed in prior reports is vacation pay-in-lieu (pay-in-lieu of annual leave). Over the past five completed fiscal years (FY 2011 through FY 2015), pay-in-lieu of annual leave expenditures have averaged approximately $7.1 million and been over-budget. For FY 2016, the year-end projection for vacation-pay-in lieu expenditures is $7.0 million, which is $1.9 million over-budget.

Although there has been an increase to the FY 2017 budget for vacation pay-in-lieu with respect to the recent labor agreement with the Fire Fighter's employee organization (International Association of Fire Fighters, Local 145)–which is pending approval by Council–there has been no adjustment with respect to the historical overages discussed above.

Most of vacation pay-in-lieu is budgeted in three departments: Police, Fire-Rescue, and Park & Recreation. Although pay-in-lieu of annual leave is a difficult expenditure type to forecast, we recommend that the City examine potential methodologies for estimating vacation pay-in-lieu, so that a more accurate budget for those expenditures can be established.

Termination Pay

The May Revise includes $2.8 million for Termination Pay. Termination Pay is another area that is difficult to forecast, and the budget estimate is based on anticipated retirements and annual leave data for DROP employees. For FY 2016, Termination Pay is projected to be $3.8 million, or $1.3 million over-budget. For the prior five years, Termination Pay expenditures for the General Fund have averaged approximately $3.3 million, with an average over-budget amount of $785,000.

Strategic Initiatives – General Fund

The Year-End Report provides updates on some of the projects, programs, and services that received additional funding in the FY 2016 Adopted Budget, as well as other items of interest. In the sections below, our Office provides additional information on the Bay Terraces Senior Center and the turf replacement at Pershing Middle School.

Bay Terraces (Tooma Street) Senior Center

In 2009, original designs were developed for a senior center facility within Bay Terraces Park. However, funding for construction of the project was not identified and the facility was not pursued beyond the initial development of a concrete foundation.

The Year-End Report allocates $500,000 for new designs to be developed for the originally proposed senior center. The Public Works Department will incorporate the Preliminary Engineering Review and Design phases into their FY 2017 work plan. The Department anticipates these phases will take at least 12 months to complete, depending upon the extent and complexity of the needed updates to the original design plans. The Department is exploring avenues to expedite the design process such as engaging the architect that originally designed the project. Updated cost estimates and preliminary project timelines will be available upon the completion of the Preliminary Engineering Review.

Pershing Turf Replacement

The Year-End Report allocates $700,000 to support the replacement of worn synthetic turf at Pershing Middle School per the Joint Use Agreement between the City of San Diego and the San Diego Unified School District (District). The Park & Recreation Department had initially estimated the total replacement cost for the synthetic turf to be approximately $1.2 million and incorporated the total amount in the Mayor's FY 2017–FY 2021 Five-Year Financial Outlook (Outlook). The Outlook included allocations of $500,000 in FY 2017 and $670,000 in FY 2018 for this project.

However, upon inspection of the current condition of the turf, the District considers the poor condition of the turf as a potential safety hazard and has prioritized the turf replacement. To expedite the turf replacement, the District has offered the use of their approved vendor under an existing contract to perform the replacement. The preliminary cost estimate from this vendor is approximately $1.6 million. The District has indicated that delays in replacing the turf may lead to closure of parts of the fields for use by the public. Per the District, the lifespan of synthetic turf fields is ten years, potentially longer based upon following the product maintenance requirements.

The Department is negotiating with the District to allow payment of the turf replacement to occur over three fiscal budgets (FY 2016–FY 2018). The allocation of $700,000 in FY 2016 would serve as the initial allocation of funding, followed by a proposed allocation of $500,000 in FY 2017 (included in the Mayor's FY 2017 Proposed Budget), and approximately $400,000 in FY 2018.

Status of Reserves and General Fund Year-End Budget Adjustments

The following sections discuss the overall General Fund Reserve requirement; available fund balance in the General Fund above the Reserve requirement ("Excess Equity"); recommended year-end budget adjustments which, if approved by Council, would reduce Excess Equity; and Risk Management Reserves.

General Fund Reserve Requirement

On April 12, 2016 the City Council updated the City Reserve Policy, increasing the required General Fund (GF) Reserve from 14% to 16.7% of the previous three-year average of audited General Fund operating revenues. As outlined in the City Reserve Policy, the components of the 16.7% GF Reserve include an 8% Emergency Reserve and an 8.7% Stability Reserve–a 2.7% increase to the Stability Reserve from the previous Reserve Policy.

The new 16.7% reserve level is to be phased-in over six years, beginning in FY 2016 and ending in FY 2021. For FY 2016, funding of $5.7 million beyond what was previously anticipated in the Mid-Year Report is needed to bring the GF Reserve from 14% to its new FY 2016 target of 14.5%, or $164.7 million, as displayed in the following table.

	FY 2016 Reserve Requirement	
($ in millions)	***Before Reserve Policy Changes***	***After Reserve Policy Changes***
FY 2015 Audited Revenues	$ 1,144.5	$ 1,144.5
FY 2014 Audited Revenues	1,171.7	1,171.7
FY 2013 Audited Revenues	1,092.0	1,092.0
3 Year Average Revenues	$ 1,136.1	$ 1,136.1
Reserve Requirement (% of General Fund Revenues)	14%	14.5%
Reserve Requirement (in Dollars)	$ 159.0	$ 164.7

Estimated Excess Equity

The estimated FY 2016 beginning reserve balance is $196.5 million, as outlined in the following table. Based on the Year-End Report, two activities are projected to impact the reserve:

- $2.5 million reduction for the FY 2016 year-end projected use of Excess Equity for General Fund operations

- $1.0 million addition to adjust for a FY 2015 accrual of capacity charges (to avoid double-counting the $1.0 million expenditure occurring in FY 2016)

FY 2016 Year-End Excess Equity Estimate *($ in millions)*		
Beginning FY 2016 Reserve Balance	$	196.5
FY 2016 Projected Use of Excess Equity per Year-End Report		(2.5)
Adjustment for FY 2015 Accrued Low Flow Diversion Capacity Charges		1.0
Year-End FY 2016 Reserve Estimate	$	195.0
FY 2016 14.5% Reserve Requirement	$	164.7
FY 2016 Year-End Excess Equity Estimate	**$**	**30.3**

Adjusting the beginning Reserve for the items described above leaves $195.0 million in FY 2016 estimated year-end reserve. Comparing the estimated year-end reserve to the FY 2016 reserve requirement of $164.7 million yields projected Excess Equity of $30.3 million for the fiscal year-end.

In the Year-End Report and May Revise, budget adjustment requests have been made to transfer most of the projected Excess Equity to other reserves and for specific CIP projects. If approved, these budget adjustments would leave a relatively small excess of $2.0 million, as shown in the following table.

Remaining Excess Equity After Recommended Uses *($ in millions)*		
FY 2016 Year-End Excess Equity Estimate	$	30.3
FY 2016 Year-End Budget Adjustment Requests		
Pension Payment Stabilization Reserve		(16.0)
Public Liability Reserve		(3.0)
Workers' Compensation Reserve		(2.5)
Replacement of Synthetic Turf - Pershing Middle School		(0.7)
Bay Terrace Community Park - Tooma Park Senior Center		(0.5)
Fire-Rescue Fire Station 6 Asbestos Abatement		(0.1)
FY 2017 May Revise Proposed Use of Excess Equity		
Police Officer Retention and Recruitment		(4.0)
Rehabilitation of Historical Library at Balboa Park		(1.5)
Estimated Excess Equity After Proposed Uses	**$**	**2.0**

Risk Management Reserves

Public Liability Reserve

The goal for the Public Liability Reserve, per the City Reserve Policy, is that the overall reserve target of 50% of the outstanding actuarial liability be reached by FY 2019. Presently, this estimate is based on the average value of annual actuarial liabilities for the three fiscal years ending in 2015, which equals $91.8 million. The target amount of 50% of this actuarial liability amount is $45.9 million.

For FY 2016, the Reserve Policy target is 40% of the actuarial liability, or $36.7 million. The current Reserve balance is $33.7 million, which is $3.0 million below the target. As shown in the Estimated Excess Equity section above, the Year-End Report is recommending that $3.0 million be contributed from General Fund Excess Equity to the Public Liability Reserve to bring it to the FY 2016 target level.

Workers' Compensation Reserve

The Workers' Compensation (WC) Reserve target level is 25% of the outstanding liability for WC. The outstanding liability is based on the average of the annual actuarial liabilities for the most recent three fiscal years. The average of the outstanding liabilities for the three fiscal years 2013 through 2015 is $218.1 million, producing a WC Reserve target of $54.5 million.

The current reserve balance is approximately $51.5 million, or $3.0 million less than the target. As shown in the Estimated Excess Equity section above, the Year-End Report is recommending that $2.5 million be contributed from General Fund Excess Equity to the WC Reserve to bring it to the FY 2016 target level. The remaining $500,000 will be contributed by Non-General Funds.

Long-Term Disability Reserve

For FY 2016, the Long-Term Disability Reserve (LTD) had met its overall target level, which is 100% of the outstanding liability for LTD. The outstanding liability is based on the average of the annual actuarial liabilities for the most recent three fiscal years. When the June 30, 2015 valuation was completed, the average of the outstanding LTD liabilities for the three fiscal years 2013 through 2015 decreased by $3.4 million, to $14.9 million.

The projected reserve balance of approximately $18.4 million exceeds the current $14.9 million target by approximately $3.5 million—approximately $2.4 million for the General Fund and $1.1 million for Non-General Funds. In the FY 2017 Budget Priorities memoranda, four Councilmembers proposed the reallocation of this excess LTD Reserve for Council priorities.

Financial Management had originally proposed that the $3.5 million excess amount be maintained in anticipation of additional costs related to pending negotiations regarding death and disability benefits with the City's recognized employee organizations.[9] The most recent estimate for funding

[9] Pending negotiations relate to the provision of new death and disability benefits, including LTD, for employees who fall under the City's 2012 Proposition B provisions and are not eligible for similar benefits in the defined benefit pension plan.

needed to support the new death and disability benefits is approximately $2.6 million citywide; however, the actual amount needed will not be certain until the negotiation process is completed.

Based on this recent estimate, approximately $900,000 citywide is projected to be available for reallocation, of which $610,000 would be General Fund amounts that could be utilized for Council priorities. Since negotiations over death and disability benefits are ongoing, the death and disability cost is not yet finalized. However, this is the best and most recent estimate, and we are recommending the use of the $610,000 General Fund portion of the excess as a resource for Council priorities.

CONCLUSION

The Office of the IBA has reviewed the Year-End Report and we believe that overall the projections included in the Report are appropriate. Our Office notes that the requested Appropriation Adjustments are all reasonable and that any significant adjustments made prior to the fiscal year end, or as part of the closing of the fiscal year, will be reported in the FY 2016 Year-End Performance Report released early in FY 2017.

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