



Office of the IBA

Review of FY 2015 Mid-Year Budget Monitoring Report

March 2, 2015
San Diego City Council
Item – S400



FY 2015 Mid-Year Report

The Mid-Year Report requests City Council approval:

1. Appropriation of \$12.7 million in increased revenues and expenditures above FY 2015 Adopted Budget
2. Utilization of \$3.9 million of the projected \$4.9 million budgetary surplus to pre-fund the Public Liability and Long-Term Disability Funds' contributions
3. Maintenance of 1% or \$11.3 million as excess equity above the City Reserve Policy minimum General Fund reserve level of 14%



FY 2015 Mid-Year Report

IBA Review of the following items in the Mid-Year Report:

- General Fund revenues and expenditures including policy issues and programmatic budgetary items
- The projected surplus for FY 2015
- Excess equity
- The Mid-Year Ordinance
 - Council's options for modifying the projected surplus utilization
 - Clarification of the Mid-Year Ordinance



General Fund Revenues

- Total General Fund revenue is projected to exceed the FY 2015 Adopted Budget by \$14.2 million and the FY 2015 First Quarter Budget Monitoring Report by \$11.8 million, mostly due to an increase in Major General Fund revenues
- Major General Fund Revenues: Overall increase of \$10.7 million over the Adopted Budget
 - Major Franchise Fees
 - \$5.4 million increase over Adopted Budget
 - \$5.0 million increase over First Quarter Report
 - Sales Tax
 - No change from First Quarter Report
 - Potential for decrease in year-end projection due to lower gasoline prices
 - Property Transfer Tax
 - Decrease in year-end projection
 - Reduction in growth rate



General Fund Revenues cont'd

- **IBA Comment: We believe the projections included in the Mid-Year Report are appropriate based on revenue distributions to date and current economic information.**

However, because of the potential for variance in Sales and Property Transfer Taxes, revenue receipts at year-end may be lower than currently projected and could reduce the projected surplus. Actual revenue should continue to be closely monitored throughout the remainder of the fiscal year.



General Fund Expenses

- Increased General Fund expenses projected in the Mid-Year Report:
 - \$9.3 million from the FY 2015 Adopted Budget
 - \$6.8 million from the First Quarter Report
- Projected expenditure increases are primarily due to over-budget public safety personnel expenditures
 - Fringe
 - \$4.0 million, Fire-Rescue
 - \$2.6 million, Police
 - Overtime
 - \$3.7 million, Fire-Rescue
 - \$6.4 million, (from Current Budget) Police
 - Other Salaries and Wages
 - \$1.2 million, Fire-Rescue special pay
 - (\$5.4 million) (from Current Budget), Police excess vacancy savings



General Fund Expenses cont'd

- Variances in Departmental Non-Personnel Expenses
 - Citywide Program Expenditures
 - \$2.5 million decrease in debt service
 - \$1.7 million decrease in election costs
 - \$1.2 million decrease in transfers of Mission Bay rent and concession revenue
 - Planning Department
 - \$500,000 decrease in expenses related to Community Plan Updates
 - Police Department
 - \$1.6 million increase for expenses related to the City's 9-1-1 call manager system



General Fund Expenses cont'd

- **IBA Comment: Our office has concerns regarding increases in projected expenditures, particularly public safety overtime expenditures that could potentially exceed budget even after the FY 2015 Mid-Year Appropriation Adjustments have been made**
- Overtime expenditure projections for Police and Fire-Rescue exceed budgeted levels as they have in years past, and have increased significantly over First Quarter Projections



General Fund Vacancies

- Vacancy savings projected at \$8.8 million over Current Budget, of which \$5.4 million is due to vacancies in the Police Department
- Excess vacancy savings are more than offset by other personnel expenditures including overtime, termination pay, and pay-in-lieu of annual leave
- Decrease of General Fund vacancies from the First Quarter Report:
 - Mid-Year: Approximately 471 FTE vacancies
 - First Quarter: Approximately 547 FTE vacancies
- **IBA Comment: Our office is encouraged by the overall reduction in General Fund vacancies. Unfortunately we were not able to do a thorough analysis of City vacancies as the Vacancy Report was not available before our report was issued.**



Proposed Use of Mid-Year Surplus

<i>\$ in millions</i>	Adopted Budget	Year-End Projection	Budgetary Surplus/(Deficit)
Revenue	\$ 1,188.6	\$ 1,202.8	\$ 14.2
Expenditures	\$ (1,202.4)	\$ (1,211.7)	(9.3)
USE OF EXCESS EQUITY	\$ (13.9)	\$ (8.9)	\$ 4.9

- **Excess Equity**
 - \$13.9 million appropriated for balancing the FY 2015 Adopted Budget
 - \$8.9 million projected to be needed to balance budget at year-end
 - Reduced need for excess equity provides the \$4.9 million projected budgetary surplus
- **Projected Budgetary Surplus, \$4.9 million**
 - \$2.8 million, Public Liability Reserve
 - \$1.1 million, Long-Term Disability Reserve
 - \$1.0 million, excess equity



Mid-Year Ordinance

- Ordinance-20084 (Mid-Year Ordinance) requires the Mayor to report any deficit or surplus in the General Fund projection to the City Council along with recommendations
- Mid-Year Ordinance states:
 - City Council may budget and appropriate up to the total amount recommended by the Mayor; or
 - If the mayor recommends budgeting less than \$5 million of the projected surplus amount, the City Council may only increase the adopted General Fund budget by up to \$5 million or not more than 50% of any projected surplus, whichever total dollar amount is less.
- City Attorney's Office interprets the intent of this section as allowing the City Council to approve or amend the full surplus funding recommendation of **\$3.9 million**
- Language should be amended to clarify City Council authority



IBA Recommendations

- Requested Budget Adjustments – Appropriate \$12.7 million in increased revenues and expenditures above FY 2015 Adopted Budget levels
- Utilization of Mid-Year Budgetary Surplus – Appropriate \$3.9 million of the projected \$4.9 million in the General Fund budgetary surplus to pre-fund the FY 2016 Public Liability and Long-Term Disability reserves
- Mid-Year Ordinance – Revisit the language of the Mid-Year Ordinance to clarify that the City Council has the authority to approve or amend the full amount of surplus funding when the Mayor’s mid-year funding recommendation is less than \$5.0 million, as interpreted by the City Attorney’s Office