

# Review of the Fiscal Year 2016 Proposed Budget

Analysis by the Office of the Independent Budget Analyst • Report 15-16



## IBA Review of the FY 2016 Proposed Budget

Budget Review Committee  
May 4, 2015

***“The Proposed Budget is a robust and aggressive budget proposal with appropriately conservative revenue projections that support substantial expenditure increases in FY 2016.”***



# FY 2016 Proposed Budget: Strengths

- Proposed expenditures are tied to new Strategic Vision and Goals:
  - Provide high quality public service
  - Work in partnership with all of our communities to achieve safe and livable neighborhoods
  - Create and sustain a resilient and economically prosperous City
- Conservative and appropriate revenue projections



## FY 2016 Proposed Budget: Strengths (cont'd)

- Significant increases in cash investments for deferred capital—\$44.9 million for:
  - Street and sidewalk repairs
  - Asset management
  - Condition assessments
  - Debt service on bonds
  - Facilities maintenance staff
- Focus on Council and community priorities:
  - Police recruitment and retention
  - Infrastructure
  - Restoring vital services



## FY 2016 Proposed Budget: Strengths (cont'd)

- Significant focus on technology to make it easier for residents to utilize City services
- Significant funding for major projects to improve efficiency of City services:
  - Computer Aided Dispatch (CAD)
  - Enterprise Asset Management (EAM)
  - Open Data
  - “311” Customer Service Center



# FY 2016 Proposed Budget: Challenges

- Significant challenges will be associated with timely hiring of 424 new positions
- Funding shortfall for deferred capital continues to grow with no plan for new revenues
  - Engineering & Capital Projects staff is growing by 25% in FY 2016 with the goal of ramping up on project capacity from current \$300 million to \$450 million
  - Planned lease revenue bond issuances remain at levels consistent with past issuances and end in FY 2019
  - Future utilities rate increases are needed to fund a significant portion of \$450 million



## FY 2016 Proposed Budget: Challenges (cont'd)

- Potential insufficient personnel funding for expanded Fire-Rescue services
- Library materials reduced by approximately \$210,000
- Library budget declines as a % of the General Fund budget for the first time in five years, contrary to the 6% Library Ordinance
- Limited Council or community input into Strategic Plan





# Overview

- FY 2016 Proposed General Fund Budget
  - \$1.28 billion, increase of nearly \$73.3 million or 6.1%
  - 7,221 FTEs, increase of 246
- Proposed Budget benefits from:
  - Recovering economy and positive future outlook
  - Healthy growth in the four major revenue categories (Property Tax, Sales Tax, TOT, Franchise Fees)
  - Savings from years of financial reforms, efficiency improvements, and cost reductions





## Overview (cont'd)

- New General Fund expenditures for FY 2016 are focused on four main service areas:
  - Repairing streets and investing in infrastructure: \$44.9 million
  - Safe and livable neighborhoods: \$27.4 million
  - An economically prosperous city with opportunities in every community: \$8.5 million
  - Excellent customer service and open government: \$500,000



# FY 2016 General Fund Revenue Projections

- Our office agrees with the FY 2016 General Fund revenue projections based on FY 2015 revenue projections and current economic forecast
- Post-recession economic recovery has been steady, though recently growth has slowed



## FY 2016 General Fund Revenue Projections (cont'd)

- FY 2016 General Fund projected revenues: \$1.27 billion, an increase of \$86.1 million or 7.2%
- Four major General Fund revenues (Property Tax, Sales Tax, TOT, Franchise Fees):
  - Total \$934.2 million, an increase of \$67.3 million or 7.8%
  - Account for almost  $\frac{3}{4}$  of the General Fund's revenue



***“the Mayor’s expenditure priorities for FY 2016 align closely with those identified by the City Council”***



# Comparing Council and Mayoral Funding Priorities

| <b>COMPARISON OF COUNCIL FY 2016 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET</b> |   |                       |  |
|--|---|-----------------------|--|
|  | <b>BUDGET PRIORITY</b>                                    | <b>FY 2016 BUDGET</b> | <b>COMMENTS</b>  |
| 1  | Increased Funding for Police Officer Retention            | Full Funding          | \$11.1 million increase in expenditures related to the POA MOU   |
| 2  | Greater Investment in Infrastructure and Deferred Capital |                       |  |
|  | Complete Condition Assessment Work                        | Partial Funding       | \$7.1 million for condition assessments for various assets (\$1.4 million General Fund), future phases still needed  |
|  | Support for Park Construction/Upgrades                    | Full Funding          | \$2.0 million included to fund various park improvement projects, \$300,000 added to repair and replace playground surfaces and equipment, multiple Park projects included in FY 2016 CIP Budget |
|  | Funding for Streetlights                                  | Full Funding          | Addition of \$1.0 million for new streetlights and an additional \$2.9 million and 2.00 FTEs for streetlight upgrades and improvements   |
| 3  | Fire Fast Response Squad Expansion or Relocation          | Full Funding          | \$1.2 million increase for continuation and expansion of FRS   |
| 4  | Increase Funding for Community Services                   |                       |  |
|  | Increase Recreation Center Hours                          | Partial Funding       | Operational hours will increase from 45 hours to 60 hours at 16 large recreation centers; Department requested increased hours at 32 recreation centers in the Five-Year Outlook                 |
|  | Support for Increased Park Maintenance                    | Full Funding          | Additional funding and staff added to expand tree trimming services, service new facilities opening in FY 2016, and maintain park facilities   |
|  | Community Plan Updates                                    | Full Funding          | 3.00 new positions and \$610,000 in funding  |



# Comparing Council and Mayoral Funding Priorities (cont'd)

- Full funding
  - Police officer retention
  - Park construction/upgrades
  - Streetlights
  - Fast Response Squad expansion or relocation
  - Increased park maintenance
  - Community plan updates
- Partial funding
  - Complete infrastructure condition assessments
  - Increased recreation center hours



***“One of the major investments underlying many of these programs is a new and substantial increase in the City’s information technology (IT) infrastructure in order to provide the public with more access to City services and information online”***





# Technology Initiatives

- 311: Program Coordinator position in Performance & Analytics to oversee implementation of a centralized customer service system
- CAD:
  - Fire-Rescue: \$503,000 to upgrade existing CAD system
  - Police: \$5.6 million for CAD replacement CIP
- EAM: asset management solution to provide information on City assets and coordinate citywide infrastructure priorities



## Technology Initiatives (cont'd)

- Golf Online Reservation System: will allow customers to make tee-time reservations and pay by credit card online
- Library Broadband Upgrades: Triple the speed and expand broadband access at all branch libraries
- Open Data: Program Coordinator in Performance & Analytics to support the City's open data efforts
- Open DSD: Development Services Department is upgrading to a new project tracking system



## Technology Initiatives (cont'd)

- SAP Upgrades: upgrades for budgeting, human resources, personnel, and procurement
- Website Update: \$775,000 to continue work on the new website and to explore a centralized service portal to allow customers to logon once for access to online City services



***“While the Mayor is to be commended for proposing such a budget, it is important to note that some of the funded priority items require considerable staff work and follow-through execution to fully realize objectives.”***



# Budget Proposals: Execution and Resources

## Filling Budgeted Position Additions

- Proposed Budget adds a record number of new positions
  - All funds: 424 positions
  - General Fund: 246 positions
- 206 of the new positions fall within:
  - Public Works-Engineering & Capital Projects (102)
  - Transportation Storm Water (104)



## Budget Proposals: Execution and Resources (cont'd)

- Of 279 new positions authorized in FY 2015, 98 had not been filled as of January 2015
- Is the recruitment, hiring, and training of 424 new FTE in FY 2016 achievable along with current vacancies and future departures?

| City Budgeted FTEs<br>FY 2012 - FY 2016 |                                |                  |                                 |
|---|--------------------------------|------------------|---------------------------------|
|   | Citywide<br><u>FTE Changes</u> |                  | Personnel<br><u>Dept. Staff</u> |
| FY 2012 Adopted                         | 10,108.25                      | FY 2012 Adopted  | 59.05                           |
| FY 2013 Change                          | 11.17                          | FY 2013 Adopted  | 59.04                           |
| FY 2014 Change                          | 107.45                         | FY 2014 Adopted  | 60.36                           |
| FY 2015 Change                          | 251.34                         | FY 2015 Adopted  | 63.31                           |
| FY 2016 Change                          | <u>424.09</u>                  | FY 2016 Proposed | 63.99                           |
| FY 2016 Proposed                        | <u>10,902.30</u>               |                  |                                 |



## Budget Proposals: Execution and Resources (cont'd)

- Over the past year, Personnel has implemented a number of efficiency improvements working with departments:
  - Workforce planning for future hiring with City departments
  - Online Hiring Center pilot
  - Faster testing process for Police recruits
  - Monthly vacancy status report to department directors





# Budget Proposals: Execution and Resources (cont'd)

- However, turnaround timeframes in support of hiring departments have recently suffered with increasing workloads

| Performance Measure   | Actual FY 2013 | Actual FY 2014 | Target FY 2015 | Estimated FY 2015 | Target FY 2016 |
|---|----------------|----------------|----------------|-------------------|----------------|
| Number of days to issue certification to hiring departments—without recruitment | 11             | 5.3            | 14             | 10                | 14             |
| Number of days to issue certification to hiring departments—with recruitment    | 100            | 57.5           | 65             | 63                | 65             |
| Number of days to complete classification and compensation studies              | 22             | 17             | 22             | 20                | 22             |

- Personnel Department budget may need to be revisited based on volume of new hires proposed for FY 2016; other departments' budgets may need to be reviewed as well



# Budget Proposals: Execution and Resources (cont'd)

## Cash Management and Streamlining Reforms

- Financial Management is expanding the City's internal CIP monitoring process
- Staff will need to coordinate fund reallocations to priority projects and communicate with stakeholders
- Short-term commercial paper borrowing program needed to improve timely execution of large contracts



## Budget Proposals: Execution and Resources (cont'd)

- Monitor/report to Council on the effectiveness of CIP cash management and streamlining process improvements
- Are department resources sufficient to deliver the desired reform outcomes?



# Budget Proposals: Execution and Resources (cont'd)

## Centralized Customer Service (311) System

- Program Coordinator added in Performance & Analytics to research and develop a scope for a proposed 311 system
- Effective 311 systems require executive leadership, careful strategic planning, and support/buy-in from City departments



# Budget Proposals: Execution and Resources (cont'd)

- New system will require time and significant expense:
  - One-time implementation costs, ranging from \$2.3 to \$5.8 million
  - Annual operating costs of approximately \$3.0 to \$5.0 million
- The audit recommends the development of a citywide Customer Service Working Group and a Strategic Plan



# Budget Impacts of Citywide Contract Oversight Audit

- On April 24, 2015, the Office of the City Auditor released their report: Performance Audit of Citywide Contract Oversight
- Raised concerns about the City's decentralized contract oversight process and provided nine recommendations
- Management agreed to nine recommendations
  - Already conducted 'gap analysis' with SAP on City's procurement module
  - FY 2016 Proposed Budget includes \$900,000 for procurement module upgrades



## Budget Impacts of Citywide Contract Oversight Audit (cont'd)

- Contract administration necessary to comply with the non-technical recommendations of the audit:
  - Better definition of contract administration roles and processes
  - Provision of contract administrator training
  - Defined/standardized contract close-out processes
  - Regular vendor evaluations
  - Vendor disbarment process





## Budget Impacts of Citywide Contract Oversight Audit (cont'd)

- Purchasing & Contracting Procurement Specialist classifications' job descriptions do not include contract administration
- Our office suggests that a consultant with expertise in contract administration be considered to help develop and oversee a timely strategy for the City's compliance with the contract oversight audit
- Purchasing & Contracting budget may need to be revisited to ensure resources are in place to effectively respond to all audit findings



# Anticipated May Revision Funding Requests

We expect a significant number of position and funding requests will be submitted by departments for inclusion in the May Revision

- Fire Helicopter Mechanic positions (Fire-Rescue)
- Additional positions to support SAP procurement upgrades and increased procurement workload (Purchasing & Contracting)



## Anticipated May Revision Funding Requests (cont'd)

- Additional positions to support increased anticipated workload (City Attorney)
- \$3.5 million for the Public Liability Reserve
- IT Performance Auditor position (City Auditor)
- Additional funding for Kinder Morgan lawsuit
- New positions for hiring and personnel support (Personnel)
- Support for new drought mandates (Public Utilities)



## Anticipated May Revision Funding Requests (cont'd)

- Support for budget visualization tool on City website (Performance & Analytics)
- Senior Management Analyst position for budgetary and organizational support (Communications)
- Correcting the omission of Supervising Homeland Security Coordinators (Office of Homeland Security)
- San Diego Works program savings (Performance & Analytics/citywide)



## Discussion of Excess Equity/Possible Policy Revisions

- The availability and use of excess equity first surfaced in FY 2014 when a \$14.1 million surplus was projected at year-end
- Current policies did not address appropriate treatment of excess equity; Council requested a policy be developed
- On June 14, 2014 Council adopted proposed revisions to the General Fund Reserve policy to establish parameters for future excess equity



## Discussion of Excess Equity/Possible Policy Revisions (cont'd)

Excess Equity is defined in the City's Reserve Policy as:

- Spendable and unrestricted fund balance
- One-time resource to be used primarily for General Fund revenue shortfalls or one-time priority expenditures
- Recommended for use by Mayor/approved by the City Council



## Discussion of Excess Equity/Possible Policy Revisions (cont'd)

- Projected in quarterly monitoring reports, but not finally determined until books are closed at year-end
- Uses proposed by Mayor in May Revision will not occur until fiscal year-end when it is certain that sufficient fund balance is available in excess of the 14% General Fund Reserves requirement



## Discussion of Excess Equity/Possible Policy Revisions (cont'd)

- Excess Equity projected to be \$11.3 million at Mid-Year
- During mid-year discussions, questions were raised about the appropriate size of Excess Equity and authority to allocate funds
- IBA has had preliminary discussions with CFO and CAO on this matter, further review and Council direction needed





## Discussion of Excess Equity/Possible Policy Revisions (cont'd)

- Our office recommends further definition of Excess Equity and offers the following for consideration:
  - When surplus funds are available, maintain “Equity Reserve” equal to 1% of General Fund revenues, calculated in the same manner as the 14% General Fund Reserves (for FY 2016, 1% is projected to be \$11.6 million)
  - 1% “Equity Reserve” would provide a reasonable cushion for potential variances in revenue and expenditure projections to address concerns of the CFO



## Discussion of Excess Equity/Possible Policy Revisions (cont'd)

- Expenditures for the use of Excess Equity beyond the 1% Reserve would be limited to one-time capital improvements or funding City reserves, consistent with current policy
- During the annual budget process the Mayor or the City Council may propose eligible uses of Excess Equity



# Looking Ahead to FY 2017

- Mayor's Five-Year Outlook released in November, 2014 based on information available at that time
- Outlook projected surplus of \$21.1 million for FY 2017

| FY 2016-2020 FINANCIAL OUTLOOK     |               |                 |                 |                 |                 |                 |
|------------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| General Fund Amounts (in millions) | FY 2015 *     | FY 2016 Outlook | FY 2017 Outlook | FY 2018 Outlook | FY 2019 Outlook | FY 2020 Outlook |
| Baseline General Fund Revenues     | \$ 1,188.5    | \$1,241.4       | \$ 1,279.2      | \$ 1,316.0      | \$ 1,361.8      | \$ 1,404.2      |
| Baseline General Fund Expenditures | (1,202.4)     | (1,182.9)       | (1,189.9)       | (1,206.5)       | (1,229.8)       | (1,240.2)       |
| <b>Subtotal Surplus/(Deficit)</b>  | <b>(13.9)</b> | <b>58.5</b>     | <b>89.3</b>     | <b>109.5</b>    | <b>132.0</b>    | <b>164.1</b>    |
| Net Priority Initiatives           | n/a           | (55.6)          | (68.2)          | (83.7)          | (94.2)          | (102.3)         |
| <b>Surplus/(Deficit)</b>           | <b>n/a</b>    | <b>2.9</b>      | <b>21.1</b>     | <b>25.8</b>     | <b>37.8</b>     | <b>61.8</b>     |

\*FY 2015 budgeted amount. Updated FY 2015 projections are included in the First Quarter Budget Monitoring Report and the IBA's review of that report.



## Looking Ahead to FY 2017 (cont'd)

- New issues have surfaced or revised revenue projections have become available since issuance of the Outlook:
  - Second-year costs of compensation increases related to the POA MOU exceed the costs reflected in the Outlook by \$6.5 million
  - FY 2017 funding for EAM is now estimated to be \$3.0 million



## Looking Ahead to FY 2017 (cont'd)

- Potential re-openers for non-POA Employee Groups to negotiate over non-pensionable compensation increases were not in Outlook. Each 1% of non-pensionable compensation increase is estimated to be \$3.1 million for the General Fund
- Ongoing costs for a 311 centralized customer service center, if implemented, are estimated at \$3-5 million



## Looking Ahead to FY 2017 (cont'd)

- In September, SDCERS Board will revisit potential changes to the discount rate and wage inflation assumption used in calculating the ADC. Lowering the discount rate to 7% could increase the FY 2017 ADC to \$15.0 million, which could be offset by a reduction in wage inflation
- The Outlook included \$9.7 million in additional sales tax revenue in FY 2017 at the end of the Triple-Flip, which will not be realized
- Mayor had identified additional Discretionary Operational Needs of departments for FY 2017 of \$30.7 million that were not included in the Outlook



## Next Steps

- May 4-8: Budget Review Committee:
  - IBA review of the budget
  - Public hearings on City departments, functions, and agencies
- May 11: City Council holds evening public hearing
- May 21: Budget Review Committee reviews the Mayor's May Revision
- May 22: City Councilmembers issue final budget modification priority memoranda to the IBA



## Next Steps (cont'd)

- June 3: IBA issues report on recommended revisions to the Proposed Budget based on input from Council memoranda and further review of outstanding issues
- June 8: City Council makes final decisions and takes any action on revisions to the budget
- July 20: City Council introduces and adopts FY 2016 Appropriations Ordinance

