




**COUNCILMEMBER CHRIS CATE
CITY OF SAN DIEGO
SIXTH DISTRICT**

M E M O R A N D U M

DATE: May 21, 2018
TO: Andrea Tevlin, Independent Budget Analyst
FROM: Councilmember Chris Cate 
SUBJECT: Recommended Fiscal Year 2019 Budget Revisions

The City continues to be in a precarious financial situation. In January of this year, the projected deficit for Fiscal Year (FY) 19 was anticipated to be above \$24 million, largely due to an increase in the General Fund portion of the Actuarially Determined Contribution (ADC) payment. To maintain basic neighborhood services for FY19, such as library and recreation center hours, road repair efforts, and responsive Police and Fire-Rescue Departments, City departments were asked to submit 2% operational reductions, primarily in non-personnel expenditures and in the elimination of vacant positions. Other strategies involved the use of excess equity and fund balances in the sum of \$26.7 million. These operational cuts ensured that critical strategic expenditures, such as the Clean SD program and Bridge Shelters, received the necessary support they needed to operate in FY19. Nevertheless, the multitude of ongoing expenditures that may require support beyond FY19 are expected to be affected by the City's budget going forward into FY20.

FY2020 Projected Deficit

Based on the projections from the most recent Five-Year Financial Outlook and current revenues and expenditures outlined in the FY19 Proposed Budget, the City can expect a deficit in FY20. The City's pension payment is expected to grow by another \$24.5 million, bringing next year's total payment to \$347.4 million, with an \$18.1 million hit to the General Fund. Based on growth rates included in the Five-Year Financial Outlook, General Fund revenues are expected to grow by \$39.5 million, while expenditures are anticipated to grow by \$73.8 million. Furthermore, in light of the Council pre-funding the FY19 reserve contribution in FY18 by \$10.3 million, the City can expect a \$9.6 million obligation in FY20 to meet reserve targets. The following table uses the same format of that outlined in the Five-Year Financial Outlook:

| | FY2019 5yr | FY2019 Budget | FY2020 Projection |
|--|------------------|------------------|-------------------|
| General Fund Revenues | | | |
| Property Tax | \$563.7 | \$559.5 | \$586.1 |
| Sales Tax | \$281.8 | \$281.9 | \$289.8 |
| TOT | \$130.6 | \$127.9 | \$135.3 |
| Franchise Fees | \$77.7 | \$78.9 | \$80.5 |
| Property Transfer Tax | \$10.5 | \$10.9 | \$11.3 |
| Licenses & Permits | \$19.7 | \$25.3 | \$25.8 |
| Cannabis Business Tax* | \$5.5 | \$0.0 | \$0.0 |
| Fines | \$32.0 | \$31.4 | \$31.6 |
| Revenue from Money & Property | \$60.3 | \$59.8 | \$61.8 |
| Revenue from Other Federal Agencies | \$4.5 | \$5.5 | \$4.5 |
| Charges for Services | \$163.5 | \$159.3 | \$162.6 |
| Other Revenue | \$2.5 | \$3.0 | \$2.5 |
| Transfers In | \$82.2 | \$91.9 | \$83.8 |
| Removal of One-Time Resources/Interest | | \$0.7 | |
| Baseline | \$1,434.5 | \$1,436.0 | \$1,475.5 |
| | | | |
| General Fund Expenditures | | | |
| Salaries & Wages | \$549.5 | \$581.6 | \$581.6 |
| Employee Agreements | \$40.3 | \$0.0 | \$40.3 |
| ADC | \$231.4 | \$238.9 | \$257.0 |
| Flexible Benefits | \$82.8 | \$94.1 | \$82.8 |
| OPEB | \$41.9 | \$41.7 | \$42.7 |
| Workers' Comp | \$23.2 | \$19.7 | \$21.2 |
| SPSP | \$18.9 | \$19.5 | \$19.0 |
| Other Fringe | \$25.9 | \$24.0 | \$25.8 |
| Personnel Expenditures | \$1,013.9 | \$1,019.5 | \$1,069.7 |
| | | | |
| Infrastructure Fund | \$16.9 | \$16.2 | \$17.7 |
| Supplies | \$31.2 | \$30.2 | \$31.7 |
| Contracts | \$236.9 | \$236.8 | \$245.1 |
| IT | \$34.5 | \$32.0 | \$32.6 |
| Energy & Utilities | \$45.5 | \$49.0 | \$51.3 |
| Reserve Contributions | \$5.0 | \$4.2 | \$13.5 |
| Other Expenditures | \$51.9 | \$59.9 | \$59.9 |
| Non-Personnel Expenditures | \$421.9 | \$428.2 | \$451.8 |
| | | | |
| Total Expenditures | \$1,435.8 | \$1,447.7 | \$1,521.5 |
| Baseline Difference | (\$1.3) | (\$11.7) | (\$46.0) |

*Included within Licenses & Permits in FY19 Budget & FY20 Projection

As noted, this projection does not include the FY20 Five-Year Critical Strategic Expenditures for items, such as Clean SD, SDPD, and Fire-Rescue positions and equipment, software maintenance, and technology upgrades, that were included in the previous Five-Year Financial Outlook. In total, not including costs for the Bridge Shelters, Storage Center Operations, and Othello Fleet Services Improvements, these critical expenditures account for an additional \$25.6 million in expenditures in FY20.

| FY20 5-Year Critical Strategic Expenditures | |
|--|---------------|
| City Clerk | \$0.5 |
| Chief Operating Officer | \$0.3 |
| City Treasurer | \$0.3 |
| Citywide Program Expenditures | \$0.6 |
| Environmental Services | \$0.3 |
| Fire-Rescue | \$7.9 |
| Fleet Operations | \$4.6 |
| Hepatitis A Response | \$0.7 |
| Homelessness (Safe Parking) | \$0.2 |
| Library | \$0.6 |
| Park & Recreation | \$4.2 |
| Performance and Analytics | \$0.7 |
| Police Body Worn Cameras and Tasers | \$0.4 |
| Police Civilian Positions and Equipment | \$1.0 |
| Transportation and Storm Water | \$3.3 |
| Total | \$25.6 |

Upon taking into consideration the modest revenue growth and the above-mentioned expenditures, we project the City to have an approximately \$46.0 million budget deficit in FY20. This projection is limited in scope and does not include any additional ongoing expenditures that may be included in the FY19 adopted budget, nor does it include any initiatives or critical strategic expenditures necessary to be fulfilled during the FY20 budget deliberations.

| FY20 Totals | |
|--|-----------------|
| Total Revenues | \$1,475.5 |
| Total Expenditures | \$1,521.5 |
| 5-Year Critical Strategic Expenditures | \$25.6 |
| Surplus/Deficit | (\$46.0) |

We must respond to these financial challenges by exercising strong fiscal discipline and maximizing one-time revenue sources for critical needs that ensure the public's safety and delivery of quality neighborhood services.

FY2019 Priorities

In response to the public hearings regarding the proposed budget and Mayor's May Revise, I recommend the following allocations for the remaining \$1.8 million of excess equity:

San Diego Police Department Housing Incentives (\$500,000)

The City Council and Mayor should continue prioritizing resources and funding to address the recruitment and retention crisis of the San Diego Police Department (SDPD). Staffing levels continue to be 200 officers below the nearly 2,000 budgeted for the department. To meet full staffing goals, the City should consider instituting a housing incentive pilot program for officers willing to reside within City limits. The program should include down payment and closing cost assistance by leveraging matching funds from financial institutions. \$500,000 should be allocated to initiate this pilot.

Mira Mesa Epicentre Facility Improvements (\$234,157)

Vacant since 2016, the Mira Mesa Epicentre provided San Diego youth a host of services since first opening in 1999, including educational activities, recreational services, a concert venue, and an entrepreneurial program for young adults. The facility has struggled to find a replacement tenant due to substantial, outstanding retrofits, and specific covenants tied to the receipt of prior Community Development Block Grants. To make the Epicentre more marketable and attractive to prospective tenants, the following improvements, identified as critical needs in a 2014 facility assessment, should be considered for funding from the remaining excess equity:

- Foundation Repair: \$107,760
- Slab on Grade Repairs: \$77,280
- Domestic Water Distribution: \$15,120
- Total: \$200,160
- Total with Inflation: \$234,157

Citywide Brush Management (\$554,696)

As the City enters a long-term drought, the maintenance of brush adjacent to residents and businesses is paramount. To mitigate the potential for future fire damage, the City should move forward with an increase to the Brush Management Budget of the Park and Recreation Department by \$554,696.

Wheels of Change (\$120,000)

Wheels of Change is a proven program that provides homeless individuals with the opportunity to earn a fair wage for a day's work. Modeled after Albuquerque's "There's a Better Way" program, Wheels of Change gives San Diego's homeless an opportunity to better their lives. Operated by the Alpha Project, there is currently a list of over 150 individuals waiting to participate. As such, this program is hoping to secure \$120,000 to expand its days of operation to five days per week.

Street Repairs (~\$500,000)

I recommend the following street repairs be funded through \$734,841 of unallocated dollars from the General Fund transfer to the Infrastructure Fund:

- Glasgow Drive from Merrimac Avenue to north cul-de-sac, OCI 16, 0.3 mile
- Clairemont Mesa Blvd. between the 163 and 805, OCI 40, 1.0 mile
- Pegasus Avenue from Capricorn Way to Polaris Drive, OCI 29, 0.5 mile

Private Property Graffiti Abatement (\$234,841)

In the Mayor's Proposed Budget, the City's Private Property Graffiti Abatement program was eliminated from the Transportation and Storm Water Department's budget. This program previously utilized a contract with Urban Corps to help residents abate graffiti on their property. To help individuals who may not have the physical or financial means to abate graffiti, the full reinstatement of this funding should be prioritized. I recommend that \$300,000 of the \$1.3 million General Fund transfer to the Capital Improvement Program (CIP) Budget be reallocated for this purpose. The CIP Budget should be backfilled with remaining dollars from the unallocated Infrastructure Fund transfer outlined in the May Revise.

I further recommend the following positions be added to the FY19 Budget by reallocating \$587,097 from the City Attorney's Office per the funding increase outlined in the Mayor's May Revise. This reallocation will not include the additions associated with the Family Justice Center and Tuition Reimbursement.

5.00 Full Time Equivalent (FTE) Positions for Marijuana-Related Code Compliance (~\$525,716)

With the implementation of Proposition 64 in January of this year, the City will continue to see an escalation of marijuana-related business activity, particularly as the 40 new production facilities go on-line. Measure N, passed by the voters in November 2016, authorizes a levy of gross receipts tax to properly regulate the marijuana industry without the diversion of resources from core City services. In the Proposed FY19 Budget, no code compliance officers were added. As such, approximately \$500,000 should be allocated to support the addition of 5.00 new FTE positions for code compliance to help regulate the local marijuana industry.

1.00 FTE Position for Council Administration (\$66,000)

Council Administration provides critical services to City Council offices. Their workload includes managing items appearing before Council committees, ensuring Councilmembers receive docket information and closed session material, providing Information Technology support, overseeing payroll, and processing Community, Projects, Programs and Services (CPPS) documentation. Recently, new filing deadlines issued by the City Attorney's Office have had a significant effect on the turnaround time for Council Administration to process CPPS items. 1.00 FTE position should be added to Council Administration to help alleviate the delays this has caused.

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