

IBA Review of the FY 2018 Mid-Year Budget Monitoring Report

City Council, Item 202

February 12, 2018



Independent Budget Analyst



Overview

Mid-Year Report year-end projection includes \$5.6 million budgetary deficit

- No recommendation to address deficit at this time
- Monitor budget closely and review hiring decisions
- Any adjustments will occur in Third Quarter Report when released on May 15, 2018
- Mid-Year budget adjustments for non-General Fund expenditures and revenues in Development Services Fund and Fleet Operating Fund are appropriate
- IBA Report includes recommendations related to the Mid-Year Ordinance for future consideration

Overview of General Fund Revenues

Projected \$7.0 million increase in General Fund revenues due largely to increased Franchise Fees and TOT receipts

FY 2018 Projected Year-End General Fund Revenue (\$ in millions)

Revenue Source	Adopted Budget	First Quarter Projection	Mid-Year Projection	Variance: Adopted Budget to Mid-Year	Variance: First Quarter to Mid-Year
Major General Fund Revenues					
Property Tax	\$534.6	\$539.3	\$532.9	(\$1.8)	(\$6.5)
Sales Tax	275.3	275.0	274.4	(0.9)	(0.6)
Transient Occupancy Tax	142.7	145.3	145.3	2.6	(0.0)
Major Franchise Fees	73.5	74.0	77.7	4.1	3.6
Sub-Total Major General Fund Revenues:	1,026.1	1,033.6	1,030.2	4.1	(3.5)
Property Transfer Tax ¹	10.1	N/A	10.4	0.4	N/A
Miscellaneous Revenues ¹	84.1	N/A	85.7	1.5	N/A
Department Revenues ¹	287.4	N/A	288.5	1.1	N/A
Total:	\$1,407.7	\$1,033.6	\$1,414.8	\$7.0	(\$3.5)

Note: Table may not total due to rounding.

¹Year-end projections for property transfer tax, miscellaneous, and department revenues were not part of the First Quarter Report and are not available for comparison to the Mid-Year Report.

Overview of General Fund Revenues *(cont'd)*

- **We believe the projections included in the Mid-Year are appropriate based on revenue distributions to date and current economic information**
- Note that First Quarter Report only included projections for major General Fund revenues, so no comparison available for department revenues, miscellaneous revenues, property transfer tax
- Property tax – Growth Rate from First Quarter still appropriate; but increases in last ROPS to fund CDBG loan repayments and other projects, result in a decrease in residual RPTTF revenue

Overview of General Fund Expenditures

Projected \$12.6 million over-budget in General Fund expenditures

- Over-budget expenditures due largely to:
 - Hepatitis A efforts
 - Bridge Shelter startup costs
 - Fire-Rescue air operations costs related to extreme fire weather conditions
 - Storm water and street maintenance needs

Overview of General Fund Expenditures *(cont'd)*

- Expenditures are \$12.6 million over-budget despite budgetary savings in the following areas:
 - \$10.4 million in salary savings (primarily vacancy savings)
 - \$5.8 million in Citywide contract savings, including \$5.0 million in savings from proposed November 2017 special election
 - \$2.1 million due to delayed occupancy of 101 Ash Street
 - \$760,000 in debt savings related to the IAM asset management project (anticipated to occur in 2019)

Overview of General Fund Expenditures *(cont'd)*

- Net salaries and wages projection is \$1.5 million higher than Adopted Budget
- A combination of over-budget and under-budget salaries and wages components net to the \$1.5 million
 - \$10.4 million in salary/vacancy savings is more than offset by overages in overtime, special pay, vacation pay-in-lieu, termination pay, and hourly wages
 - Police and Fire-Rescue are the Departments with the largest variances

Departmental Expenditures of Note

Homelessness and Hepatitis A

Activity	Total General Fund	Total Non-General Fund	Total Expenditures ¹
Hepatitis A Response	\$ 5,040,000	\$ 190,000	\$ 5,240,000
Ongoing Sanitation	1,690,000	60,000	1,750,000
San Diego Riverbed Clean-up	320,000	140,000	460,000
Clean San Diego ²	200,000	0	200,000
Bridge Shelters	1,880,000	20,000	1,900,000
Safe Parking Program	310,000	0	310,000
Total Expenditures	\$ 9,440,000	\$ 410,000	\$ 9,860,000

¹Table may not total due to rounding.

²The current estimate as of issuance of this report is a range between \$200,000 and \$345,000. Please refer to the Clean San Diego section on page 10 for more detail.

Departmental Expenditures of Note *(cont'd)*

Upcoming Homelessness Initiatives

Activity	Description
Housing Navigation Center Site Purchase and Operations	• Estimated to open July 2018 • Council approved purchase of property for the center on January 29, 2018 for \$7.3 million in federal CDBG funds • Will provide a central place for individuals experiencing homelessness to get connected to services that support permanent housing • Estimated annual operational costs of \$1.5 million, of which \$300,000 is General Fund, effective FY 2019
Transitional Storage Facility	• Estimated to open April 2018 • Will provide up to 1,000 individual storage containers (for use by homeless individuals to store their belongings), above those provided by the existing transitional storage center • Estimated annual operational costs of up to \$1 million. FY 19 costs funded by projected temporary bridge shelter savings; ongoing funding source unknown at this time

Departmental Expenditures of Note *(cont'd)*

- Clean San Diego (CleanSD)
 - Mid-Year reflected \$2.0 million in new unbudgeted expenditures in FY 2018 for ESD to begin to implement new services, no funding source was identified
 - Of this, only \$200,000 to \$345,000 is expected to be readily expendable in FY 2018
 - If additional funding is needed, appropriation adjustments will be brought to Council with the Third Quarter Report
 - Impact of program expansion on the FY 2019 budget is expected to range between \$4.0 and \$6.0 million and will be included in the Mayor's FY 2019 Proposed Budget
 - Increased pension payments since Outlook and new projected costs for Clean SD raise FY 2019 deficit to \$22.0 to \$24.0 million

Departmental Expenditures of Note *(cont'd)*

- Fire-Rescue Department

- Second fire academy beginning March 2018 projected to incur \$970,000 in unbudgeted expenditures
- Fire academy needed to maintain full staffing in response to higher-than-anticipated attrition due mainly to retirements
- \$2.3 million in overtime due to strike team and other reimbursable deployments
- \$4.7 million in over-budget contract expenditures primarily for air support resources including “Super Scooper” air tankers, heli-tankers, and other aircraft expenses

Departmental Expenditures of Note *(cont'd)*

- 101 Ash Street
 - \$2.1 million in FY 2018 savings identified due to delayed tenant improvements and relocation of staff, although expenditures will be necessary for same project in FY 2019
- Executive Complex
 - Employees relocated due to asbestos; budgetary impacts of the relocation are unknown at this time

Mid-Year Budget Adjustment

We reviewed proposed appropriation adjustments and recommend Council approval

- \$1.3 million in Development Services Fund revenues and expenditures primarily related to Accela project tracking system replacement
- \$1.4 million in Fleet Operating Fund revenues and expenditures associated with changes to the fuel purchasing process used by Fire-Rescue

Mid-Year Ordinance & City Council Role

- Council's ability to modify the Mayor's Mid-Year recommendations for new expenditures is limited in Ordinance to when Mayor has recommended use of surplus or an appropriation adjustment to cover costs
- No surplus projected or General Fund adjustment requested this year, no source of alternative funding was identified for the expanded CleanSD program originally projected at \$2.0 million
- Our Office raised concerns at B&GE Committee:
 - Mayor's recommendations for new or expanded services at Mid-Year should be tied to a specific resource
 - Council should have authority to modify Mayor's recommendations for all such expenditures not just those funded through surplus

Mid-Year Ordinance & City Council Role

IBA Recommendations:

- Approve requested appropriation adjustments for DSD and Fleet
- B&GE Committee may want to consider minor amendments to the Mid-Year Ordinance:
 - If the Mayor proposes expenditures for new or expanded services at Mid-Year, resources for funding them – whether it be a surplus, appropriation adjustment, departmental savings, program reduction, or new revenue – should be identified in the Mid-Year Report.
 - Council Mid-Year authority should be clarified in the Ordinance to apply to all such Mid-Year expenditures and resources as described above