



THE CITY OF SAN DIEGO

---

## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

---

**Date Issued:** May 31, 2019  
**City Council Docket Date:** June 10, 2019  
**Item Number:** TBD

**IBA Report Number:** 19-12

---

# Recommended City Council Modifications to the Mayor's Proposed FY 2020 Budget and Review of May Revision and FY 2019 Third Quarter Reports

This report presents the Office of the Independent Budget Analyst's final FY 2020 budget review and recommendations for Council budget modifications. The recommendations are based on the following: our analysis of the May Revision to the FY 2020 Proposed Budget (May Revision), the FY 2019 Year-End Budget Monitoring Report (Third Quarter Report), the FY 2019 CIP Year-End Budget Monitoring Report, and the FY 2020 Proposed Budget. Recommendations also reflect our review of Councilmember budget modification memoranda that were submitted to our Office on May 20, 2019 and released separately as IBA Report 19-13, as well as consideration of feedback from the public, City staff, and City Councilmembers received during the Budget Review Committee (BRC) hearings.

This report is released at the end of a budget development process that has included extensive reviews of the Mayor's FY 2020 Proposed Budget by the City Council and the IBA, including:

- The IBA's review of the Mayor's FY 2020 Proposed Budget issued on April 26, 2019 as IBA Report No. 19-06
- Departmental and agency budget hearings with the BRC that took place on May 1-3 and May 6-7, 2019
- An evening BRC meeting held on May 1, 2019 and an evening City Council meeting held on May 13, 2019, in order to solicit input from the community on the Mayor's budget proposals and City Council's budget priorities for FY 2020
- The discussion of the May Revision and Third Quarter Report (both of which were released on May 14, 2019) at the BRC on May 17, 2019
- The discussion of the FY 2019 CIP Year-End Budget Monitoring Report at the Active Transportation and Infrastructure Committee on May 22, 2019
- Department of Finance responses to BRC requests for additional information released following BRC hearings

In addition to approving final budget modifications, our Office recommends that the City Council designate any modifications made as either one-time or ongoing expenditures, in order to avoid confusion about their funding status in future budgets. This, and other requests for Council authority, are itemized in the concluding section of this report.

## OVERVIEW OF THE FY 2019 THIRD QUARTER REPORT, THE RESULTING EXCESS EQUITY, AND ADDITIONAL RESOURCES FOR FY 2020

The Third Quarter Report describes revenue and expenditure year-end projections based on actual (unaudited) data from July 2018 through March 2019 and includes several requests for authority for City Council approval. We address select components of the Third Quarter Report including General Fund revenues and salaries and wages expenditures, as well as other significant issues, such as homelessness and the Engineering & Capital Projects Fund deficit in Attachment 2 to this report.

Additionally, the Third Quarter Report provides an updated estimate of General Fund Excess Equity, which increased by \$7.4 million since the Mid-Year Report – from \$30.7 million to \$38.1 million. The FY 2020 Proposed Budget and May Revision incorporate the use of most of this Excess Equity into the FY 2020 budget, leaving \$2.5 million in Excess Equity, which is shown in the following table.

<b>Excess Equity Estimate (\$ in millions)</b>	
FY 2019 Beginning Reserve Balance	\$ 227.5
FY 2019 Projected Revenues in Excess of Expenditures <sup>1</sup>	3.4
<b><i>FY 2019 Year-End Reserve Estimate</i></b>	<b>\$ 230.9</b>
FY 2019 15.25% Reserve Requirement (includes FY 2019 contribution)	(192.8)
<b>FY 2019 Year-End Excess Equity Estimate</b>	<b>\$ 38.1</b>
FY 2020 Proposed Budget Use of Excess Equity	(30.7)
FY 2020 May Revision Use of Excess Equity	(4.9)
<b>Estimated Available Excess Equity (as of the May Revision)</b>	<b>\$ 2.5</b>

<sup>1</sup> FY 2019 Projected Revenues in Excess of Expenditures does not include the FY 2019 General Fund Reserve contribution, which is incorporated in the "FY 2019 15.25% Reserve Requirement" line.

Subsequent to the Third Quarter Report, the City received a California Department of Finance determination on the 13<sup>th</sup> Recognized Obligation Payment Schedule (ROPS 13), which disallowed the Park Boulevard At-Grade Crossing project. This disallowance results in an estimated \$1.7 million in additional residual Redevelopment Property Tax Trust Fund (RPTTF) *one-time* funds for FY 2019. It also produces an estimated \$1.8 million in *ongoing* residual RPTTF revenues. For further discussion of the disallowed project see Attachment 2 to this report, under General Fund Revenues. Combining the additional RPTTF monies with the Third Quarter Excess Equity estimate yields \$6.0 million in resources for final Council budget modifications as shown on the following page.

# RESOURCES AVAILABLE FOR COUNCIL MODIFICATIONS

The following table summarizes the funding available to City Council for consideration of final budget adjustments and identifies if the resources are one-time or ongoing.

Resources for Final Budget Modifications			
(\$ in millions)	One-time	Ongoing	Total
FY 2019 Excess Equity per Third Quarter Report	\$ 2.0	\$ 0.5	\$ 2.5
Additional RPTTF Revenues	1.7	1.8	3.5
Housing Affordability Program Expenditure Correction <sup>1</sup>	0.1	(0.1)	-
<b>Total Resources</b>	<b>\$ 3.8</b>	<b>\$ 2.2</b>	<b>\$ 6.0</b>

<sup>1</sup> The May Revise includes a \$100,000 reduction to Housing Affordability Program expenditures that was incorrectly included as an ongoing expenditure reduction (a resource in this table), when it should have been a one-time expenditure reduction. This General Fund expenditure was reduced because it is being funded by the General Plan Maintenance Fund. See the Discussion of Selected Significant May Revise Adjustments in Attachment 1 of this report for more information.

# RESULTS OF COUNCILMEMBERS’ FINAL BUDGET MEMOS AND IBA-RECOMMENDED BUDGET MODIFICATIONS

Following the release of the May Revision and Council’s subsequent review at the BRC hearing on May 17, 2019, Councilmembers submitted budget modification memoranda to our Office on May 20, 2019. These memos identified expenditure priorities and potential new funding sources that were not included in the FY 2020 Proposed Budget or May Revision.

Our Office reviewed all budget priorities mentioned in Councilmembers’ memos. **We recommend funding those items which are supported by a majority (five or more) of the Council.** Council memos also identified a number of funding opportunities; however, none of them received majority support.

**Our recommended additions total \$4.3 million from the General Fund** and include all items which received majority support from the Councilmembers and several items that are high priority and/or high impact and can be supported by the available funding discussed above. The table on the following page, titled “Recommended Modifications to the Mayor’s FY 2020 Budget”, specifies whether items are ongoing or one-time and what resources are available to fund them. Descriptions of the recommended expenditures are discussed following the table. As shown in the table, **\$1.7 million remains available for Council allocation.**

## Recommended Modifications to the Mayor's FY 2020 Budget

<b>\$4.3M General Fund</b>	
<b>Ongoing Expenditure Items</b>	<b>Amount</b>
Tree Trimming	\$ 971,000
Lifeguard Positions - 4.00 FTE Lifeguard IIIs	533,000
Deputy City Attorneys Association MOU	478,000
Child Care Coordinator - 1.00 FTE	118,000
Library Programming	100,000
City Attorney - Convert 9.25 FTEs Supplemental to Permanent	-
<b>Total Ongoing Expenditures</b>	<b>\$ 2,200,000</b>
<b>Ongoing Resources</b>	<b>Amount</b>
Ongoing RPTTF	\$ 1,800,000
Ongoing Excess Equity	500,000
Correction to May Revise - Housing Affordability Program	(100,000)
<b>Total Ongoing Resources</b>	<b>\$ 2,200,000</b>
<b>Balance of Ongoing Expenditures/Resources</b>	<b>\$ -</b>

<b>One-Time Expenditure Items</b>	<b>Amount</b>
Storm Water Pipe Re-Lining	\$ 1,100,000
Fire-Rescue Wellness Program	300,000
Chicano Park Museum & Cultural Center Improvements	250,000
Oak Park Library Feasibility Study	250,000
Library Programming	200,000
<b>Total One-Time Expenditures</b>	<b>\$ 2,100,000</b>
<b>One-time Resources</b>	<b>Amount</b>
One-Time Excess Equity	\$ 2,000,000
One-Time RPTTF	1,700,000
Correction to May Revise - Housing Affordability Program	100,000
<b>Total One-Time Resources</b>	<b>\$ 3,800,000</b>
<b>Balance of One-Time Expenditures/Resources</b>	<b>\$ 1,700,000</b>

<b>Grand Total of All General Fund Expenditures</b>	<b>\$ 4,300,000</b>
<b>Grand Total of All General Fund Resources</b>	<b>\$ 6,000,000</b>
<b>Final Balance of All General Fund Expenditures/Resources</b>	<b>\$ 1,700,000</b>

<b>Non-General Fund</b>	
<b>Ongoing Expenditure Items</b>	<b>Amount</b>
Public Utilities - 2.00 FTE Corrosion Engineers (Water Fund)	\$ 187,500

## **Recommended General Fund Expenditure Additions**

### **Tree Trimming - \$971,000 Ongoing**

The Proposed Budget reduced all funding for routine non-palm tree trimming services with a reduction totaling \$1.1 million. As noted in our analysis, this reduction has been in previous proposed budgets but subsequently restored by Council on a one-time basis. **Our final recommendations include partially restoring this funding at \$971,000 on an ongoing basis.** This would increase the number of non-palm trees trimmed by approximately 14,000, from 4,000 to 18,000. A further increase to the \$1.1 million amount would restore funding for an additional 2,000 trees.

### **Lifeguard Positions (4.00 FTEs) - \$533,000 Ongoing**

**This item will fund 4.00 FTE Lifeguard III positions on an ongoing basis.** Council memos specifically requested adding Lifeguards to the Boating Safety Unit and the Children's Pool/La Jolla Cove on a year-round basis to enhance public safety. The addition of 4.00 FTEs allows for increased staffing of two Lifeguard III positions, assigned seven days per week, to both locations (one for the Boating Safety Unit and one for Children's Pool/La Jolla Cove).

### **Deputy City Attorneys Association MOU - \$478,000 Ongoing**

The FY 2020 Proposed Budget included \$1.0 million as a placeholder for compensation increases for Deputy City Attorneys Association (DCAA) members. Based on recent negotiations with DCAA regarding its FY 2020 labor contract with the City, the \$1.0 million included in the Proposed Budget will need to be increased by \$478,000, for a total of approximately \$1.5 million. **Our budget recommendation includes the \$478,000.**

### **Child Care Coordinator (1.00 FTE) - \$118,000 Ongoing**

Several Council budget memos supported funding to reinstate the Child Care Coordinator position that existed in the City in 2005. **Our office recommends \$118,000 in ongoing funding to create this position.** The Coordinator's role would be to update City Council Policy 300-12: Child Care and the City's 1995 Child Care Work Plan, and pursue ways to increase the accessibility of child care facilities and services for City employees and the City of San Diego. While this item did not achieve majority support, it is a relatively low-cost item that could potentially benefit many City employees and possibly others in need of child care services.

### **Library Programming - \$300,000 (\$100,000 Ongoing and \$200,000 One-Time)**

**Our Office recommends \$300,000 (including \$100,000 in ongoing funding and \$200,000 one-time) be added to the Library Department budget to further library programming.** This would bring the total library programming budget for FY 2020 up to \$400,000.

### **City Attorney Supplemental Positions (9.25 FTEs) – \$0 Ongoing**

During our review of the FY 2020 Proposed Budget, we noted that the City Attorney's Office had requested to convert 10.25 FTE supplemental positions to permanent positions. Current staff have held these positions since as early as March 2012 to as recently as March 2018. The May Revision adds one of these positions, the Assistant City Attorney. **Our office recommends adding the remaining filled supplemental positions of 7.25 FTE Deputy City Attorneys and 2.00 FTE Program Coordinators for \$1,285,703, with an offsetting increase in budgeted vacancy savings, resulting in a net zero impact to the General Fund budget.**

Storm Water Pipe Re-Lining - \$1.1M One-Time

Several budget memos expressed a desire to restore funding for storm water channel maintenance, which is reduced in the Proposed Budget from 6 to 4 channels per year (a total reduction of \$1,000,000). The Transportation & Storm Water Department indicates that, even with enhanced funding, it is unlikely that they will be able to address more than 4 storm water channels this year due to current renegotiations regarding storm water channel permits.

In lieu of additional funding for channel maintenance, we recommend providing additional funding for storm drain lining projects. The Proposed Budget and the May Revision contain a total of \$1,167,000 for storm drain lining projects, as discussed in Attachment 1. This funding is enough for approximately 6.5 locations, or 2,275 linear feet of pipe repair. However, this is still less than half of the \$2.6 million requested by the department, which is facing a significant backlog in projects related to storm drain infrastructure. **Our final recommendations include increasing the transfer to the CIP by an additional \$1.1 million on a one-time basis.** This would increase the total amount of locations addressed to 13, covering approximately 4,550 linear feet of pipe repair.

Fire-Rescue Wellness Program - \$300,000 One-Time

An additional \$300,000 is needed to fully fund the contract for the Fire-Rescue Wellness Program and avoid reducing health and wellness services for the City's Fire-Rescue personnel. **Our final recommendations include adding this \$300,000 as one-time funding for the Fire-Rescue Wellness Program.**

Chicano Park Museum & Cultural Center Improvements - \$250,000 One-Time

**Our Office recommends \$250,000 for Chicano Park Museum and Cultural Center improvements.** This is a current capital improvement project (S18008). The FY 2020 Proposed Budget reflects almost \$1.0 million available for the project but there are many needed improvements, including asbestos abatement and roof repair. This funding would support HVAC replacement and an enhanced HVAC system to be installed in some parts of the facility.

Oak Park Library Feasibility Study - \$250,000 One-Time

**Our Office recommends \$250,000 for a feasibility study for the Oak Park Library.** This would result in the creation of a new capital improvement project. The feasibility study would examine the library's needs and evaluate the suitability of the existing site, including associated constraints. The study would also offer program layout options which would become the basis of the design.

**Recommended Non-General Fund Expenditure Additions**

Public Utilities Corrosion Engineers (2.00 FTEs) - \$187,500 Ongoing

**This item will fund 1.00 Associate Engineer – Corrosion and 1.00 Assistant Engineer – Corrosion for a total of \$187,499 in ongoing funding in the Water Operations Fund of the Public Utilities Department.** The department currently has 6.00 FTE corrosion engineering positions (1.00 FTE Senior Corrosion Specialist, 2.00 FTE Associate Engineer-Corrosion, 1.00 FTE Assistant Engineer-Corrosion, and 2.00 FTE Principle Corrosion Engineering Aides). This addition will bring the total up to 8.00 FTE positions working towards identifying and preventing water main breaks in the City.

## POTENTIAL USES FOR REMAINING \$1.7M IN ONE-TIME RESOURCES

As discussed earlier in our report, after funding our recommended items which total \$4.3 million, \$1.7 million in one-time funding remains available for Council allocation.

Option 1	Department	Amount
Remain as Excess Equity for FY 2020		\$ 1,700,000
<b>Total Option 1</b>		<b>\$ 1,700,000</b>

Option 2	Department	Amount
Additional Storm Water Pipe Re-Lining (for total \$1.5 million)	Transportation & Storm Water	\$ 400,000
Initiate Emerald Park General Development Plan Amendment	Planning	400,000
Climate Action Resiliency Study	Sustainability	300,000
Additional Companion Unit Fee Waivers (for total \$800,000)	Citywide Program Expenditures	200,000
1.00 City Council Government Affairs Coordinator <sup>1</sup>	Council Administration	150,000
1.00 City Council Public Communications Position <sup>1</sup>	Council Administration	150,000
Additional Tree Trimming (for total \$1.1 million)	Transportation & Storm Water	100,000
<b>Total Option 2</b>		<b>\$ 1,700,000</b>

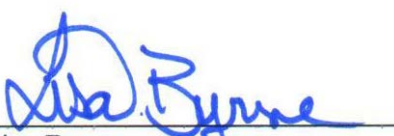
<sup>1</sup> For one or both Council Administration positions to be funded as an ongoing expenditure, one-time funds could be swapped for a portion of ongoing tree trimming funds. This would not change the amount of tree trimming funding for FY 2020.


## FINAL BUDGET ACTIONS

In order to approve the FY 2020 budget, the City Council is being asked to approve the following three actions:

1. Approve the Mayor's FY 2020 Proposed Budget, as modified by the Mayor's May Revision.
2. Approve the Independent Budget Analyst's recommended final budget modifications included in IBA Report 19-12 in the table entitled "Recommended Modifications to the Mayor's FY 2020 Budget", and as modified by the City Council.
3. Approve the Independent Budget Analyst's Option 1 or Option 2 for the remaining \$1.7 million available as reflected in IBA Report 19-12, and as modified by the City Council.

  
 Chris Olsen  
 Fiscal & Policy Analyst

  
 Lisa Byrne  
 Fiscal & Policy Analyst



---

Angela Colton  
Fiscal & Policy Analyst



---

Baku Patel  
Fiscal & Policy Analyst




---

Jillian Kisse  
Fiscal & Policy Analyst



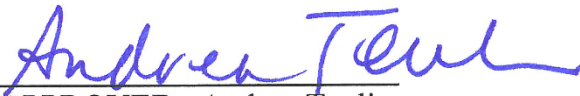
---

Jordan More  
Fiscal & Policy Analyst



---

Jeff Kavar  
Deputy Director



---

APPROVED: Andrea Tevlin  
Independent Budget Analyst

Attachments:

1. IBA Review of the May Revision to the FY 2020 Proposed Budget
2. IBA Review of the FY 2019 Third Quarter Budget Monitoring Report



## IBA Review of the May Revision to the FY 2020 Proposed Budget

Our Office has reviewed the additions included in the May Revision and notes no significant concerns. In the discussion that follows, we highlight selected items included in the May Revision that may be of particular interest to the City Council or provide additional information.

### General Fund Adjustments

The May Revision increases the Mayor's FY 2020 General Fund expenditures budget to approximately \$1.58 billion, a \$6.7 million or 0.4% increase over the Proposed Budget. This increase in expenditures is supported by \$4.9 million of Excess Equity and a net increase of \$1.8 million in General Fund revenues, as displayed in the table below. Overall, our Office considers the use of these resources to be appropriate.

<b>Resources for May Revise Expenditures</b>	
Use of Excess Equity	\$ 4,886,594
Department Revenue <sup>1</sup>	3,406,226
Major General Fund Revenue <sup>2</sup>	(1,580,479)
<b>Total Resources</b>	<b>\$ 6,712,341</b>

<sup>1</sup> The largest increases in department revenue include \$2.4 million related to shared dockless mobility device regulations and \$1.6 million in revenue from CivicSD downtown planning/permitting and parking program functions, which are being restructured into the General Fund. The largest offsetting decrease includes \$1.6 million in Mission Bay area lease revenues resulting from the exchange of rent credits for contractual services.

<sup>2</sup> The net decrease in major General Fund revenue includes a \$2.0 million decrease in Property Tax revenue due to updated projections and the removal of residual RPTTF that had been anticipated from the sale of "Skateworld" and other properties. The largest offsetting increases include \$287,000 in Franchise Fee revenue and \$191,000 in Sales Tax revenue.

In the table on the following page, we summarize all General Fund revenue and expenditure adjustments included in the May Revision. This table identifies the Department and any positions and/or revenue associated with each line item.

<b>Summary of General Fund May Revision Adjustments</b>				
<b>Ongoing Revenue &amp; Expenditure Adjustments</b>	<b>Department</b>	<b>FTE</b>	<b>EXP</b>	<b>REV</b>
Shared Dockless Mobility Device Permit Revenue	Development Services	-	\$ -	\$ 2,400,000
Other Departmental Revenue	Various	-	-	500,025
Franchise Fees	Major Revenue	-	-	287,256
Sales Tax	Major Revenue	-	-	191,206
Other Major General Fund Revenue	Major Revenue	-	-	31,830
Transient Occupancy Tax	Major Revenue	-	-	(44,178)
Property Tax	Major Revenue	-	-	(1,044,382)
Downtown Planning, Permitting and Parking	Smart & Sustainable Comm.	9.00	1,618,450	1,618,450
Brush Management and Abatement <sup>1</sup>	Transp. & Storm Water	-	900,000	-
Brush Management and Abatement <sup>1</sup>	Parks & Recreation	-	626,000	-
Homelessness Coordination	Neighborhood Services	3.00	420,106	-
Employee Assistance Program Expansion	Human Resources	-	250,000	-
Long-Range Planning Support	Planning	2.00	237,060	237,172
SANDAG Member Agency Assessment	Citywide Program Exp.	-	234,817	-
Assistant City Attorney - Administration Division	City Attorney	1.00	230,996	-
Restoration of Park Rangers	Parks & Recreation	3.00	205,086	-
Enterprise Asset Management & Get it Done	Transp. & Storm Water	2.00	161,695	-
Civic Engagement and Community Outreach	Planning	1.00	151,651	151,707
Program Coordinator Data Manager	Performance & Analytics	1.00	149,872	-
Public Records Act Program Support	Communications	1.00	136,378	-
Facilities Services Division Restructure	Real Estate Assets	1.00	135,878	-
LGBTQ+ Coordinator	Office of the Mayor	1.00	116,786	-
Property Dispositions	Real Estate Assets	1.00	98,816	98,872
Restoration of Associate Personnel Analyst	Personnel	1.00	95,306	-
Tree Planting Services	Transp. & Storm Water	-	77,800	-
Education and Training Programs	Ethics Commission	0.50	77,374	-
Collection Programs Administrative Support	Environmental Services	0.60	50,219	-
Civilian Position Proposed Reduction Revision	Police	-	15,185	-
Grants Management Support	Government Affairs	-	7,203	-
Citywide Maintenance for New Facilities Revision	Parks & Recreation	-	4,102	-
Office of Homeland Security Restructure	Police & Homeland Security	-	(52,520)	-
Helicopter Mechanics	Fire-Rescue	2.00	(94,449)	-
Contributions to Maintenance Assessment Districts	Parks & Recreation	-	(227,736)	-
STRO Compliance Software License	City Treasurer	-	(250,000)	-
Salary and Fringe Benefit Adjustment	All	-	(498,012)	-
Mission Bay RV Park Management <sup>2</sup>	Real Estate Assets & Citywide	-	(2,200,000)	(1,600,000)
<b>Subtotal Ongoing Adjustments</b>		<b>30.10</b>	<b>\$ 2,678,063</b>	<b>\$ 2,827,958</b>
<b>One-Time Revenue &amp; Expenditure Adjustments</b>	<b>Department</b>	<b>FTE</b>	<b>EXP</b>	<b>Revenue</b>
Property Tax (One-time Loss of Residual RPTTF)	Major Revenue	-	\$ -	\$ (1,002,211)
Vision Zero CIP Projects	Citywide Program Exp.	-	750,000	-
Get It Done Mobility Development Resources	Performance & Analytics	-	350,000	-
Brush Management and Abatement <sup>1</sup>	Transp. & Storm Water	-	350,000	-
Downtown Mobility Plan Phase III CIP Project	Citywide Program Exp.	-	300,000	-
Storm Drain Lining CIP Projects	Citywide Program Exp.	-	300,000	-
Companion Unit Fee Waiver Program	Citywide Program Exp.	-	300,000	-
Private Property Graffiti Abatement	Transp. & Storm Water	-	300,000	-
Mobility Action Plan	Transp. & Storm Water	-	250,000	-
Pay Equity Study	Performance & Analytics	-	250,000	-
Police Officer Homebuyer Down Payment Assistance	Police	-	250,000	-
Clean SD Expansion	Environmental Services	-	200,000	-
Disparity Study	Purchasing & Contracting	-	200,000	-
Corral Painting for Dockless Mobility Devices	Transp. & Storm Water	-	150,000	-
Diversity Training	Fire-Rescue	-	150,000	-
Dockless Mobility Traffic Enforcement	Police	-	150,000	-
Dedicated Bus Lane Pilot on El Cajon Blvd	Transp. & Storm Water	-	100,000	-
Vision Zero Education	Communications	-	100,000	-
Housing Affordability Program <sup>3</sup>	Planning	-	(100,000)	-
Community Projects, Programs, and Services	Council Districts 1-9	-	(126,172)	-
Reduction of Excess Stadium Negotiation Contract	Citywide & Real Estate Assets	-	(189,550)	-
<b>Subtotal One-Time Adjustments</b>		<b>-</b>	<b>\$ 4,034,278</b>	<b>\$ (1,002,211)</b>
<b>Total Adjustments</b>		<b>30.10</b>	<b>\$ 6,712,341</b>	<b>\$ 1,825,747</b>

<sup>1</sup> Total Brush Management and Abatement adjustment is \$1,876,000.

<sup>2</sup> Combines the reductions in Property Management (\$600,000) and Transfer to the Mission Bay Park Improvements Fund (\$1.6 million).

<sup>3</sup> Recategorized from Ongoing to One-Time

## **Discussion of Select General Fund May Revision Adjustments**

### **Mobility Programming - \$2.4 million**

On May 14, 2019, Council approved an ordinance regulating shared dockless mobility devices, which included a charge for the use of City-owned property by each shared mobility device put into operation. The revenue associated with this charge is estimated to total \$2.4 million in FY 2020 on an ongoing basis. For FY 2020, the May Revision has proposed additional mobility-related items, as further described below.

- \$750,000 for a transfer to the CIP to complete various Vision Zero projects
- \$350,000 in one-time non-personnel expenditures for the Performance & Analytics Department to enhance Get It Done to accommodate user reporting related to the new regulations
- \$300,000 transfer to the CIP for the preliminary design of the Phase III Downtown Mobility Plan
- \$250,000 for the Mobility Action Plan in the Transportation & Storm Water Department. This funding was mentioned in our analysis as an unfunded request, and the project was previously known as the Strategic Transportation Optimization Program (STOP) Guide
- \$150,000 in Police for the creation of a dockless mobility enforcement program, which will be matched with grant funds
- \$150,000 for scooter and dockless mobility device corral painting. This is part of the overall dockless mobility directive
- \$150,000 for 1.00 FTE Program Coordinator who will serve as a data manager, responsible for overseeing enhancements to Get It Done and to coordinate data analysis among City departments and private mobility device companies
- \$162,000 for 2.00 FTE positions in Transportation & Storm Water, including a Principal Utility Supervisor and a Dispatcher to support Enterprise Asset Management and Get It Done related work. These positions were noted in our analysis as unfunded requests of the department
- \$100,000 for a dedicated bus lane pilot on El Cajon Boulevard from Park Boulevard to Fairmont Avenue
- \$100,000 in the Communications Department for Vision Zero Education

### **Brush Management - \$1.9 million**

The May Revision includes \$1.9 million in additional expenditures for brush management and abatement, of which \$350,000 is one-time. The expenditures are allocated within the budgets for the Parks and Recreation Department and Transportation & Storm Water Department.

For Transportation & Storm Water, \$900,000 in ongoing expenditures and \$350,000 in one-time expenditures will be utilized for brush management and abatement in the public right-of way. This includes \$200,000 that will be used for high priority cases referred to the department from the Fire Marshal, with the balance of the funding to be used to mitigate 300 locations citywide in FY 2020. On an ongoing basis, funding will be included for the Fire Marshal cases as well as 200 locations citywide.

For Parks and Recreation, \$626,000 in ongoing expenditures will maintain brush abatement in Open Space areas at FY 2019 service levels, which equates to 509 acres per year.

#### Downtown Planning, Permitting, and Parking - \$1.6 million

Due to a legal settlement between the City, Civic San Diego, and the San Diego Building & Construction Trades Council, the City will be reassuming the planning, permitting, and parking district functions for the downtown area. In order to take on these responsibilities, the May Revision adds 9.00 FTE positions and \$1.6 million in expenditures to support these functions. This action also adds \$1.6 million in revenue which is derived from permitting revenue, parking district revenue, and the General Plan Maintenance Fund. The City Council still needs to approve the final terms of the settlement, which will be presented on June 4<sup>th</sup>.

#### Additional Positions for Homelessness Coordination - \$420,000

The May Revision provides an additional 3.00 FTE positions and \$420,000 in General Funds to support the City's homelessness programs. This is in addition to the 3.00 FTE positions and \$286,000 provided in the FY 2020 Proposed Budget. The May Revision positions are ongoing while two of the three positions provided in the Proposed Budget are limited-term. If the positions provided in the Proposed Budget and the May Revision are approved, the City would have a total of 8.00 FTE positions to support homelessness programs. With the combined positions, staff intends to, among other things:

- Better respond to existing issues and requests
- Develop and implement programs approved by Council funded by state Homeless Emergency Aid Program (HEAP) funds
- Monitor the effectiveness of City programs and whether they meet the needs of homeless individuals
- Ensure programs align with an overarching strategy, including alignment with housing policies
- Implement recommendations from the City's Strategic Plan on Homelessness expected to be released in summer 2019

More specifically, two analyst positions provided in the Proposed Budget would largely develop and monitor programs, manage related contracts, and ensure compliance related to state HEAP funds. The third analyst position, which is currently filled, will also do limited work on HEAP programs. However, this position will primarily work on broader program development, stakeholder engagement, and strategic planning. One Program Manager proposed in the May Revision would oversee these functions. The May Revision also proposes another Program Manager to oversee financial and administrative activities, as well as provide program monitoring and performance improvement. The third position proposed in the May Revision, a Program Coordinator, would support these functions. Staff intends to adjust position duties based on needs.

#### Planning Department Positions - \$389,000

The May Revision includes the addition of 1.00 Program Manager and \$152,000 in expenses for the Planning Department to develop and manage a new Civic Engagement and Community Outreach program within the Planning Department. The program is expected to be focused on engaging with residents, Community Planning Groups, and other stakeholders to share

information, solicit feedback, and drive public participation as the department prepares long range planning initiatives. It is also anticipated that the Program Manager will manage reform efforts in response to both the City Auditor's Performance Audit and the Grand Jury's report on Community Planning Groups.

Also included in the May Revision is the addition of 2.00 FTEs and \$237,000 in expenses to support the Planning Department's long-range planning initiatives, including community plan updates. The positions include 1.00 Senior Traffic Engineer and 1.00 Associate Planner.

Revenue from the General Plan Maintenance Fund fee increase are included as a transfer to fully support all three positions added in the May Revision.

#### Storm Drain Lining Projects - \$300,000

The May Revision includes an additional \$300,000 in General Fund support to the CIP for storm drain lining projects. This funding is in addition to the \$867,000 included in the Proposed Budget for this purpose from the Infrastructure Fund. As mentioned in our analysis, the Transportation & Storm Water department initially requested \$2.6 million in funding for this purpose, which is used to repair and extend the useful life of a pipe that is currently minimally impacted or compromised. This potentially precludes the need for emergency repairs of these pipes in the future, and this practice was highlighted in the most recent audit of the Storm Water Division.

#### Companion Unit Fee Waiver Program - \$300,000

The May Revision includes the addition of \$300,000 in one-time funds within the Citywide Program Expenditures budget to provide additional funding for the Companion Unit Fee Waiver Program. The funding for this Program is utilized to reimburse the Public Utilities Department for water and sewer capacity fees that cannot be waived and that otherwise would need to be paid by companion unit permittees. This addition, together with \$300,000 in one-time funds that were included in the Proposed Budget, brings the total budget to \$600,000 for FY 2020.

In FY 2019, the Adopted Budget included \$300,000 for the Program. According to the Development Services Department, this funding was spent down within six months supporting the permitting of 84 companion units. Based on this experience, the FY 2020 funding level is reasonable.

#### Private Property Graffiti Abatement - \$300,000

As mentioned in our analysis, the Proposed Budget removed one-time funding for private property graffiti abatement, which had been reduced in prior proposed budgets and restored by the Council. The May Revision restores this funding for FY 2020, again on a one-time basis.

#### Restoration of Park Rangers - \$205,000

The May Revision includes the restoration of 3.00 Park Rangers and \$205,000 in expenses that were reduced in the FY 2020 Proposed Budget as a budget reduction measure for the Parks and Recreation Department.

Clean SD Expansion - \$200,000

The May Revision includes an additional \$200,000 in one-time expenditures within the Environmental Services Department (ESD) for the Clean SD Program. This program was expanded in the Proposed Budget with one-time funds totaling \$2.7 million specifically intended to increase service levels for litter removal to occur 24 hours, 7 days per week and to add a second waste abatement shift. With this addition in the May Revision, service areas are expected to be increased. A draft workplan has been prepared which identifies specific service areas that will be targeted given the total \$2.9 million in additional funding for FY 2020. The department plans to provide a briefing to each Council office on the work plan prior to Council's final budget deliberations on June 10th.

Disparity Study - \$200,000

During our review of the FY 2020 Proposed Budget, we noted that the \$200,000 of General Fund budget in FY 2019 for a disparity study would not be spent and recommended it be re-budgeted in FY 2020. This adjustment is included as one-time funding in the May Revision. This brings the total allocation for the disparity study to \$1.0 million for FY 2020, of which \$800,000 is from the Engineering and Capital Projects Fund for study of CIP contracts.

The full cost of a disparity study is still unknown. Our office had estimated \$1.0 million minimum cost in FY 2016 and noted that the scope of the study would impact the cost. Based on the discussion at the Budget Hearing on May 3, 2019, Council supports a broad RFP to evaluate conducting the study on the full scope of City contracts. In addition, the study is likely to span multiple fiscal years. Further discussion of the costs and appropriate allocation among all impacted funded sources is expected to occur in the fall, following the results of the RFP.

Tree Planting - \$77,800

As mentioned in our analysis, the Proposed Budget contained a reduction for tree planting services that was made in error. The May Revision restored this funding.

Housing Affordability Program

The Proposed Budget included \$100,000 in one-time expenditures in the Planning Department's General Fund budget to support the development of additional Housing Affordability Program initiatives under the Housing SD plan. The May Revision replaces this funding with an equal amount of revenue projected from the General Plan Maintenance Fund fee increase, thereby reducing the General Fund expenditure. We note that the May Revision incorrectly reflected this adjustment as a reduction to *ongoing* expenditures, when it should be a *one-time* reduction. As a result, ongoing resources available for final budget modifications must be adjusted downward by \$100,000 and available one-time resources are increased by \$100,000. This correction is accounted for in our discussion of available resources for final budget modifications earlier in this report.

**Discussion of Select Non-General Fund May Revision Adjustments**Development Services Fund - \$4.7 million

The May Revision includes the addition of 41.00 FTEs and \$4.7 million in expenditures in the Development Services Fund (DSF). The majority of these additions, 24.00 FTEs and \$2.2 million in expenditures, is for dedicated 5G permitting staff. The additional staff is necessary to be

compliant with federal and state laws, including the Spectrum Act, which imposes mandated review and approval timeframes for wireless carrier facilities. Consequences of not meeting these timeframes may result in some permit applications to be “deemed granted” under federal and state law, as well as the potential for litigation to force the City to approve applications based on a failure to process the application in a timely manner.

The proposed staffing level was determined by DSD based on projected workload information provided by each wireless carrier estimated to result in approximately 6,500 – 10,000 additional permits annually. Given that this new staff will be expected to fully address all the Department’s 5G workload, existing staff will have a greater capacity to complete SDG&E and other non-utility driven permits. According to the Department, SDG&E projects are currently limited to 20 per week; it is the Department’s goal to increase this to 40-60 projects weekly. Expenditures for this additional staff is expected to be fully offset by revenue from permitting activities; we note, however, that revenue generated from these positions is budgeted at 50% of budget expenditures (or \$1.1 million) given the department’s expectation of filling these positions mid-fiscal year.

Also notable is the addition of 10.00 FTEs and \$952,000 in expenditures for residential permitting staff. The additional staff will accelerate turnaround times for the inspection of structural, plumbing, mechanical, electrical and fire sprinkler installations associated with one and two-family residential homes, townhomes, and accessory dwelling/companion units. Similar to the assumption for the 5G permitting staff, revenue generated from these positions is budgeted at 50% of budget expenditures (or \$476,000).

In addition to \$1.5 million in revenue generated from the positions discussed above, \$2.0 million of additional revenue is included in the May Revision from a 3.3% user fee increase. This increase percentage was determined in order to offset recently approved special salary increases (\$1.6 million) and pension cost increases (\$400,000). The City Attorney’s Office has indicated that authority to implement this fee increase currently exists through a 2009 Council Resolution (R-305326) which allowed for annual adjustments to DSD’s fees to account for Council approved changes in staff salary and fringe benefit costs, as well as overhead.

#### General Plan Maintenance Fund - \$1.8 million

The City Council approved the Planning Department’s Fee and Deposit schedule on April 8, 2019, which included an increase to the General Plan Maintenance Fund (GPMF) Fee from \$275 to \$450 per applicable permit application. The May Revision includes \$1.8 million in additional revenue projected as a result of the fee increase. This additional revenue will be utilized to offset General Fund funding that would otherwise be necessary for several adjustments to the Planning Department’s General Fund budget in the May Revision. As discussed earlier (in Attachment 1), this includes a total of \$389,000 in funding for 3.00 FTEs added to the Planning Department’s General Fund budget, as well as \$100,000 to replace funding for Housing Affordability Program initiatives that was reduced in the General Fund budget in the May Revision. GPMF funds will also be used to entirely mitigate impacts from the reduction of \$297,000 of NPE for long-range planning that was included in the Proposed Budget.

## IBA Review of the FY 2019 Third Quarter Budget Monitoring Report

Overall, our Office concurs with the year-end expenditure and revenue projections included in the FY 2019 Third Quarter Report. Additionally, the Third Quarter Report appropriation adjustment requests appear reasonable. Note that any remaining deficits at year-end are planned to be remedied through use of the annual year-end budget control authorities requested in the report. Details of select revenue and expenditure projections included in the Third Quarter Report, including major General Fund revenue projections, expenditure variances in salaries and wages, as well as significant issues identified by our Office, are discussed in the following sections.

### General Fund Revenues

FY 2019 General Fund revenues are projected to be approximately \$1.48 billion at fiscal year-end, \$44.9 million or 3.1% above the FY 2019 Adopted Budget, and \$3.7 million over the FY 2019 Mid-Year Budget Monitoring Report projection, as displayed on the following table.

<b>FY 2019 Projected General Fund Revenue (\$ in millions)</b>					
<b>Revenue Source</b>	<b>Adopted Budget</b>	<b>Mid-Year Projection</b>	<b>Year-End Projection</b>	<b>Variance: Adopted to Year-End</b>	<b>Variance: Mid-Year to Year-End</b>
<b>Major General Fund Revenues</b>					
Property Tax	\$ 560.0	\$ 566.7	\$ 567.8	\$ 7.8	\$ 1.1
Sales Tax	282.1	301.9	302.1	20.0	0.2
Transient Occupancy Tax	128.4	130.3	131.8	3.4	1.5
Franchise Fees	77.1	79.1	79.3	2.2	0.2
Other Major Revenues	88.8	89.7	92.3	3.5	2.6
<b>Subtotal Major Revenues</b>	<b>\$ 1,136.4</b>	<b>\$ 1,167.7</b>	<b>\$ 1,173.3</b>	<b>\$ 36.9</b>	<b>\$ 5.6</b>
Department Revenues	300.2	310.1	308.2	8.0	(1.9)
<b>Total</b>	<b>\$ 1,436.6</b>	<b>\$ 1,477.8</b>	<b>\$ 1,481.5</b>	<b>\$ 44.9</b>	<b>\$ 3.7</b>

Note: Table may not total due to rounding.

Our Office agrees with the revenue projections in the Third Quarter Report. Generally, projections were revised from the Mid-Year Report based on actual revenue receipts through the third quarter of FY 2019. This results in minor increases for Sales Tax and Franchise Fees and a \$1.5 million increase in Transient Occupancy Tax projected for FY 2019.

Property Tax is projected to be \$1.1 million higher than projected in the Mid-Year Report due to higher than anticipated residual Redevelopment Property Tax Trust Fund (RPTTF) dollars from property sales closing more quickly than expected, as well as higher anticipated revenues due to an adjustment made by the State Department of Finance (DOF) for a prior period adjustment.

Subsequent to the release of the Third Quarter Report, a letter was issued containing the final determinations from the State DOF concerning the Recognized Enforceable Obligations Schedule (ROPS) 13. In this letter, the State DOF has denied the eligibility for the capital project known as Park Boulevard At-Grade Crossing to be funded through the RPTTF allocation. This denial



reduces the ROPS RPTTF commitment by \$9.5 million in FY 2019, which results in an additional amount of Excess Equity to the City's General Fund of \$1.7 million (the City receives 18% of the total apportionment). In addition, the FY 2020 Proposed Budget and May Revision for Property Tax assumed that the next ROPS schedule would also include \$9.7 million for this project. With this denial, the residual RPTTF funding is estimated to increase by an additional \$1.8 million on an ongoing basis.

### **General Fund Expenditures**

As of the Third Quarter Report, projected year-end General Fund expenditures of \$1.48 billion are \$19.4 million higher than the FY 2019 Adopted Budget<sup>1</sup>, or 1.33%. A portion of the variance was addressed with \$11.9 million in mid-year budget adjustments, including the addition of the following Police Department appropriations: \$4.2 million for fixed fringe, \$3.0 million for overtime, and \$3.4 million for supplies and contracts. Other General Fund expenditure increases since the Mid-Year Report include \$4.9 million in additional fringe benefits and \$3.4 million in additional NPE. The Department of Finance has provided explanations for many of the budget variances in the Third Quarter Report.

Salaries and wages are projected to be lower than the Adopted Budget by a net \$504,000. However, there are significant overages in overtime and other wage components which are offset by additional vacancy savings that are above budgeted vacancy savings. Our report discusses those aspects in the following pages.

#### **Salaries and Wages**

The following table compares the FY 2019 Third Quarter expenditure projections to the Adopted Budget for various salaries and wages categories. The fourth column shows that salaries and wages in total are projected to be \$504,000 lower than what was included in the FY 2019 Adopted Budget.

Looking at the separate rows in the table, we can see that there is \$19.5 million in salary savings, primarily related to higher vacancies than anticipated in the Adopted Budget. We can also see that this \$19.5 million in vacancy savings offsets overages in other salaries and wages categories: special pay, overtime, hourly wages, vacation pay-in-lieu, and termination pay.

The most significant overage, \$13.7 million in overtime, is largely related to the Fire-Rescue and Police Departments – \$7.4 million and \$4.6 million, respectively. Note that an additional \$2.7 million in Police overtime is being projected in the Seized Assets Fund, for a total overage of \$7.3 million for the Police Department. This is a departure from past practice, where all Police overtime was included in the General Fund. We have concerns regarding transparency and year-over-year comparability with overtime split between two funds. Note that the FY 2020 Proposed Budget also includes Police overtime in the Seized Assets Fund.

---

<sup>1</sup> Budget and projected expenditures totals in this analysis and the Third Quarter Report do not include amounts for the FY 2019 General Fund reserve contribution.

<b>FY 2019 Salaries and Wages Expenditures - General Fund</b>				
	<b>Adopted Budget</b>	<b>3d Quarter Projections</b>	<b>Variance: 3d Quarter to Adopted<sup>1</sup></b>	<b>Variance %: 3d Qtr. to Adopted</b>
Salaries	\$ 467,332,700	\$ 447,805,800	\$ (19,526,900)	-4.2%
Special Pay	32,345,900	34,025,900	1,680,000	5.2%
Overtime	66,633,600	80,344,600	13,711,000	20.6%
Hourly	13,534,800	14,180,200	645,400	4.8%
Vacation Pay-in-Lieu of Annual Leave	6,881,900	8,529,100	1,647,200	23.9%
Termination Pay	2,368,700	3,708,100	1,339,400	56.5%
<b>Total</b>	<b>\$ 589,097,600</b>	<b>\$ 588,593,700</b>	<b>\$ (503,900)</b>	<b>-0.1%</b>

Note: Table may not total due to rounding.

<sup>1</sup>Positive variances are overages, or spending above budget levels. Negative variances are spending below budget levels.

The next table displays FY 2019 projected departmental spending variances (as compared to the Adopted Budget) for various salaries and wages categories. The total salaries and wages spending variance of \$504,000 – which is the net of all categories’ overages and under-budget spending – is shown in the right-most column. A majority of departments’ under-budget salaries more than offset over-spending in the other salaries and wages categories. However, the Police Department has a net overage of \$6.1 million, which is largely related to overtime.

<b>Variances for Salaries and Wages Expenditures - General Fund</b>							
<b>Variations: FY 2019 Third Quarter to Adopted Budget</b>	<b>Salaries</b>	<b>Overtime</b>	<b>Special Pay</b>	<b>Hourly</b>	<b>Vacation Pay-in-Lieu</b>	<b>Termination Pay</b>	<b>Total Salaries and Wages</b>
Fire-Rescue	\$ (8,113,000)	\$ 7,350,700	\$ 665,800	\$ 430,700	\$ (868,200)	\$ (133,100)	\$ (667,100)
Police	(480,200)	4,621,200	886,400	136,700	337,600	555,600	<b>6,057,300</b>
Parks and Recreation	(1,801,700)	443,400	55,800	(98,100)	189,200	55,900	<b>(1,155,500)</b>
Facilities Services	(1,259,900)	412,800	22,600	200	132,800	9,200	<b>(682,300)</b>
Transportation & Storm Water	(1,755,300)	62,000	471,500	(57,000)	181,700	45,600	<b>(1,051,500)</b>
City Treasurer	(521,600)	(15,200)	(5,400)	(800)	48,100	(20,600)	<b>(515,500)</b>
Environmental Services	(695,800)	674,100	1,800	600	127,900	13,500	<b>122,100</b>
City Attorney	(802,400)	27,700	(375,600)	258,000	389,700	206,600	<b>(296,000)</b>
Development Services	(463,100)	(59,300)	1,600	9,200	41,900	21,200	<b>(448,500)</b>
Planning	(408,900)	5,000	8,400	(3,500)	55,000	7,200	<b>(336,800)</b>
Purchasing & Contracting	(450,400)	20,000	700	(29,600)	44,600	41,300	<b>(373,400)</b>
Library	(498,700)	55,900	(44,800)	4,900	97,000	50,400	<b>(335,300)</b>
Other Departments	(2,276,100)	112,800	(8,600)	(6,000)	869,700	486,500	<b>(821,700)</b>
<b>Total</b>	<b>\$ (19,527,100)</b>	<b>\$ 13,711,100</b>	<b>\$ 1,680,200</b>	<b>\$ 645,300</b>	<b>\$ 1,647,000</b>	<b>\$ 1,339,300</b>	<b>\$ (504,200)</b>

Note: Table may not total due to rounding.

<sup>1</sup>Positive variances are overages, or spending above budget levels. Negative variances are spending below budget levels.

### Vacancy Savings

Under-budget salaries – again primarily due to vacancies and totaling \$19.5 million – are shown in the second column of the table above. This \$19.5 million in vacancy savings is *in addition* to the \$33.2 million in budgeted vacancy savings for 2019. Adding the budgeted vacancy savings to

the additional vacancy savings yields a total vacancy savings of \$52.7 million. This \$52.7 million in projected vacancy savings is approximately \$9.0 million higher than the \$43.8 million projected in the Mid-Year Report, as shown in the following table.

<b>Variations for Salaries Expenditures - General Fund</b>			
<b>Department</b>	<b>Mid-year Projection</b>	<b>3d Quarter Projection</b>	<b>Projection Change</b>
Fire-Rescue	\$ 77,289,700	\$ 73,179,100	\$ (4,110,600)
Police	181,719,100	181,818,900	99,800
Parks and Recreation	31,848,500	31,064,800	(783,700)
Facilities Services	10,473,200	10,224,000	(249,200)
Transportation & Storm Water	31,794,100	30,782,500	(1,011,600)
City Treasurer	7,438,200	6,890,900	(547,300)
Environmental Services	8,371,300	8,182,700	(188,600)
City Attorney	30,896,600	30,610,400	(286,200)
Development Services	4,008,200	3,817,000	(191,200)
Planning	4,606,800	4,429,500	(177,300)
Purchasing & Contracting	3,083,400	2,849,400	(234,000)
Library	17,531,700	17,086,600	(445,100)
Other Departments	47,714,100	46,869,900	(844,200)
<b>Total</b>	<b>\$ 456,774,900</b>	<b>\$ 447,805,700</b>	<b>\$ (8,969,200)</b>

Note: Table may not total due to rounding.

Additionally, for a historical perspective, the City's actual vacancy savings has been trending higher than budgeted amounts as shown in the table below.

<b>Vacancy Savings Comparison - General Fund</b>			
<i>(\$ in millions)</i>	<b>Budgeted Vacancy Savings</b>	<b>Additional Vacancy Savings</b>	<b>Actual/ Projected Vacancy Savings <sup>1</sup></b>
FY 2019	\$33.2	\$19.5	\$52.7
FY 2018	\$29.7	\$19.9	\$49.6
FY 2017	\$30.4	\$15.7	\$46.1
FY 2016	\$21.5	\$21.9	\$43.4

Note: Table may not total due to rounding.

<sup>1</sup>FY 2016 through FY 2018 are actual amounts; FY 2019 is the 3d Quarter projected amount.

Adjustments have been made within the FY 2020 Proposed Budget. Vacancy savings has increased to \$36.4 million (which reduces budget for salaries by that amount); and there have been 44.35 FTE reductions, which decrease budgeted salaries expenditures by \$2.4 million. Any additional reduction in expenditures for salaries could free up budget for other program areas.

We caution, however, that for several years, higher vacancy savings have served as a funding source for overages in other salaries and wages categories. Ensuring that all other salaries and

wage expenditures (overtime, special pays, hourly wages, vacation pay-in-lieu, termination pay) have sufficient funding levels will be important if positions are eliminated and salaries are reduced. Reducing total salaries and wages by eliminating funded positions (or alternatively, by increasing vacancy savings) could leave less of a cushion for other salaries and wages overages – which could pose a difficulty if those other salaries and wage types do not have sufficient budget.

At the Budget & Government Efficiency Committee (B&GE) meeting on January 31, 2019, Chair Bry commented that she would like to have a working group analyze a process to address staffing and vacancy issues, as well as how much more compensation is needed to attract talent. During the April 10, 2019 B&GE meeting, the Department of Finance took the first step related to pending analysis of vacancies and staffing issues by presenting a “Vacancies 101” informational report to the Committee (Item 5, Introduction to the Vacancy Factor).

B&GE has requested that a working group, consisting of staff from a number of City offices, including the IBA, be convened to begin analyzing issues related to staffing and vacancies. Chair Bry has requested the IBA lead this effort, working closely with the appropriate City staff. A citywide examination of the issues of hiring, vacancies, overtime, and staffing is a large and complex task; and it is difficult to determine which issues and departments to examine first. The working group will help to identify which departments and issues are of greatest concern and report potential solutions to B&GE. Due to the timetable of the upcoming budget process, the working group will be formed and work will begin after the budget process is completed in June.

### **Significant Issues**

#### **Homelessness: Bridge Shelters**

The Third Quarter Report reflects significant projected over-budget expenditures for operation of the Temporary Bridge Shelter Program. Total City costs are projected to exceed the current \$3.0 million budget by \$670,000 in General Funds (excluding costs related to the winter storm). We note that an additional \$11.1 million is budgeted for the bridge shelters in the FY 2019 San Diego Housing Commission Budget. The projected over-budget expenditures are associated with laundry pumping services, diesel fuel for lighting, and electricity. If costs continue as projected, there may be an appropriation made during the FY 2019 year-end close process in which budget control authority could be used to increase appropriations from fund balance or unanticipated revenues.

Though there are significant over-budget expenditures projected for FY 2019, staff does not anticipate needing additional funds in the FY 2020 budget for the bridge shelters, as other ways to reduce costs are being explored.

In addition, on December 4, 2018 Council approved the appropriation of \$14.1 million in state Homeless Emergency Aid Program (HEAP) funds. Included in this action, was \$1.6 million for the relocation of the Father Joe’s Villages bridge shelter serving families and single women, to accommodate a planned permanent supportive housing project. The Third Quarter Report projects costs to exceed this allocation by \$540,000 in General Funds for a total relocation cost of about \$2.2 million. The report attributes this cost increase to City labor expenses that were not previously factored in, and costs related to state rules, which were adopted by the City, that increase building

requirements for emergency housing under a shelter crisis declaration. The initial \$1.6 million estimate to relocate the shelter was done prior to receiving construction bids.

Finally, \$20,000 in City Concourse Funds is projected for the temporary relocation of the Father Joe's Villages bridge shelter to Golden Hall, prior to its permanent relocation. We note that this is roughly in line with estimated costs provided to our Office at the time that Council approved this action.

#### Engineering and Capital Projects Fund Deficit

The Engineering and Capital Projects (E&CP) Fund supports the Public Works Department. The E&CP Fund receives revenue largely from staff billing their time working on implementing capital improvement projects. The fund is supposed to be fully cost recoverable, where expenditures equal revenues it receives. However, the Third Quarter Report projects a \$1.8 million deficit at the end of FY 2019. This reflects the fund's projected deficit within a single year, which is in addition to deficits accumulated over previous years.

The FY 2020 Proposed Budget reports the accumulated fund deficit of \$9.6 million, as of FY 2018. Together, with the FY 2019 projected negative fund balance, the total fund deficit at the end of FY 2019 is estimated at \$11.4 million. This estimate is consistent with the estimate provided by the Public Works Department and included in our Office's review of the FY 2020 Proposed Budget.

As our Office's review of the Proposed Budget discusses, Public Works is increasing the overhead rate of the E&CP Fund to recapture revenue that has fallen short in recent years. This rate is applied when staff charges against the Capital Improvements Program (CIP) for work on projects and is intended to account for indirect costs of doing business such as rent and personnel costs that are not directly attributable to an individual CIP project, like management. We note that recent increases to the overhead rate have contributed to the improvement in the single-year fund deficit for FY 2019 of \$1.8 million, as compared to the \$8.0 million deficit reflected in last year's report for FY 2018. Staff also anticipates mitigating the deficit further as more billable positions are hired.