Review of the Fiscal Year 2009 Proposed Budget

**Analysis by the
Office of the
Independent Budget Analyst**

**IBA Report 08-41
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IBA

Office of the
Independent Budget Analyst
City of San Diego

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Mayor's FY 2009 Budget Approach and Strategy

The Mayor's FY 2009 Proposed Budget responsibly addresses the City's most significant financial obligations for the second year in a row: Pension, General Fund Reserves, Deferred Maintenance, Retiree Health, Storm Water, ADA Compliance, Workers' Compensation Reserves and Public Liability Reserves. The strategy laid out in the Mayor's first Five-Year Outlook, published in the Fall of 2006, has been closely adhered to. The IBA continues to support the Mayor's overarching goals in each of the funding areas but as a result of our analysis, we raise several technical and practical issues in our report that we believe warrant further review.

The Proposed Budget is balanced largely through position reductions as in the past two years. In a departure from last year, the Mayor has acknowledged that these reductions could have a negative impact on service delivery in some areas, particularly in the areas of Park and Recreation and Library. As we discuss in the section "FY 2009 Budget Balancing Actions," no new or significant ongoing budget balancing strategies have emerged for FY 2009 nor are there any new savings built into the budget from Managed Competition or Business Process Reengineering. Several one-time revenue strategies are used to help balance the budget such as use of accumulated fund balances in Information Technology and Risk Management. It should also be noted that new costs to maintain and operate new facilities are simply being funded through reductions in costs to operate existing facilities.

Departmental performance measures and targets for Fiscal Years 2007, 2008 and 2009 have been provided this year as part of the City's budget documents. This important information adds a valuable dimension to the budget process, matching budgeted dollars and positions with service delivery. Since many of the measures are new, the information will improve with time as more data becomes available. A new chapter on "Service Impacts" tied to proposed budget changes has also been included. While this discussion lacks specificity and impacts are not provided for all budget changes, this is an important section to improve upon and continue to include in future budgets.

The budget documents also discuss "The City Strategic Plan" from which departmental goals, objectives and performance measures were derived. The City organization coming together to develop a vision for the future is vital but would be made much more meaningful by including the policy-making body, the City Council, and the public in this important undertaking.

For three years, the Mayor has presented a balanced budget in the face of serious City financial challenges, and pressures of a growing City. This is good news, but likely short-lived. As the State continues to struggle with its budget deficit, the City's resources provided from the State could be seriously threatened. This could materialize at about the same time the City is wrapping up its budget deliberations and contingencies will need to be developed should this occur.

Finally, the City is facing a structural budget deficit - ongoing expenses cannot be supported by ongoing revenues. Year-by-year budget balancing actions will not solve this problem in a way that is effective or well thought out. Structural deficits require structural solutions. Unless clear, decisive and long-term corrective actions are implemented, budget deficits will persist well into the future, resulting in continual erosion of municipal services.

As in the past, our review and analysis of the Proposed Budget focuses on policy analysis; technical budget accuracy; best budgeting and financial practices; legal requirements; clarity and transparency for the public; documentation and justification of proposals; potential community and employee impacts; and legislative/community priorities.

The following overarching principles guide our work:

- The underlying accounting concept of conservatism.
- Adherence to best budgeting and financial practices.
- Prior legislative review and authorization of significant budget proposals.
- The probability of an outcome of a budget proposal.
- Accurate and honest representation of budget proposals.
- Ensuring that problems are not pushed off to the future.

We have applied these principles to our review and analysis of all issues discussed in our report.

FY 2009 Significant Funding Areas

The IBA supports the FY 2009 funding proposals which responsibly and aggressively address the City's most significant financial obligations for the second year in a row. The proposed budget continues to faithfully implement the strategy laid out in the Mayor's first Five-Year Outlook issued in November 2006. The chart below provides an overview of the IBA position and comments on each of these areas.

While we support each of the overarching goals, we raise several technical and practical issues for further review. For example, based on current and end-of-year Reserve estimates, we are not convinced that it will be necessary to allocate a new $6.0 million to the Reserve for FY 2009 in order to achieve the goal of 6.5% of the General Fund budget. We discuss this and other issues in the sections that follow.

IBA POSITION ON SIGNIFICANT FUNDING AREAS IN MAYOR'S FY 2009 BUDGET

SIGNIFICANT FUNDING ISSUE	FY 09 FUNDING	SUPPORT	COMMENTS	REPORT PAGE NO.
Pension	$161.7M	Yes	Support ARC funding which reflects no negative amortization	29
General Fund Reserves	$6.0M	Generally support	Support 6.5% goal, question need for additional $6.0M to achieve it	33
Deferred Maintenance	$77.5M Financing $6.8M Land Sales $21.2M Prop 1B $3.6M Debt Service $109.1M Total	Yes	Financing approved by Council 4/22/08 We note these are multi-year projects and all won't be completed in FY 09	47
Retiree Health	$50.0M	Yes	Support Pay Go and trust fund	31
Storm Water	$27.5M	Generally support	Question ability to fully expend available funding - Continue to recommend new dedicated funding source	45
ADA Compliance	$10.0M	Yes	Question capacity to complete projects in FY 09 Reliant on achieving land sales	43
Workers' Compensation Reserves	$5.0M	Yes	Budget may provide funding in excess of 15% goal by $1.25M	39
Public Liability Reserves	$10.0M	Yes	Consider increase to funding to ensure reserves are allowed to build given recent expenditure activity	37

FY 2009 Budget Balancing Actions

The IBA generally supports the proposed budget balancing actions but we raise several issues. First, with the exception of the Redevelopment Agency repayment and Transfers from the Special Promotional Program Budget, there is nothing new or significant in this category. We also suggest that the Agency repayment could be made at a higher level, and have offered two proposals for consideration in the section "Options for Revisions to the Mayor's FY 2009 Budget."

Several of the other noted actions are obvious such as the receipt of FEMA reimbursements and State Proposition 1B funds. Since the FEMA costs have already been absorbed through use of the City's reserves, this should be considered a one-time funding source. Land sales receipts are one-time as well, but we note that they are tied specifically to one-time deferred maintenance/ADA projects. If the receipts do not materialize, the expenditures will not occur, which is sound practice.

The Mayor again relies heavily on position reductions and service reductions totaling $27.2 million. These reductions have been offset by

IBA POSITION ON BUDGET BALANCING ACTIONS IN MAYOR'S FY 2009 BUDGET

ACTION	FY 09 FUNDING	SUPPORT	COMMENTS	REPORT PAGE NO.
Service/Position Reductions	Net $10.6M	More information needed	Impacts of service reductions need to be carefully considered, Council needs to hear from community during hearing process	51
Redevelopment Agency (CCDC) Repayment	$5.0M	Yes	IBA proposes two options for increasing repayment level for FY 09	55
FEMA Support	$8.0M	Yes	$8.0M assumed for FY 09	57
One Time Revenue from Real Estate Assets	$16.8M	Yes	Tied to one time deferred maintenance/ADA needs	49
Proposition 1B	$21.2M	Yes	$21.2M assumed in state funding for FY 09 for street related funding	47
Transfers from Special Promo	$5.0M	Yes	Support conceptually,but may be reduced if Redevelopment Agency Repayment is budgeted directly in the General Fund	203

priority position additions in other areas, such as Storm Water, for a net reduction of $10.6 million and 127.13 positions. We continue to believe that many of the reductions taken in the FY 2008 budget were service-related as well, particularly in the areas of Park and Recreation and Library, which are hit hard again in the Mayor's FY 2009 budget proposal. These reductions may be necessary if no other solutions are identified to balance the budget, but they should not be made lightly. These two departments, as well as others, have experienced reductions for several years in a row. The cumulative effect of this, not just the FY 2009 impact, should be considered. It should also be noted that new costs to maintain and operate new facilities are simply being funded by making offsetting program and staffing reductions at existing facilities. This is an unfortunate method by which to address costs of opening new facilities, and should be the subject of a larger policy discussion.

We would note there are no significant savings for FY 2009 resulting from either Business Process Reengineering or Managed Competition to help balance the budget. Both of these programs have taken longer than was originally anticipated to implement. We have expressed such concerns in numerous reports and are currently pursuing remedies for facilitating these processes. At this point, savings associated with Managed Competition results are not expected until FY 2010 at the earliest.

Despite recurring deficits, no new revenues have been pursued, such as a dedicated funding source for new, costly Storm Water mandates; and existing fees have not been evaluated for cost recovery levels or incorporated into annual budget discussions for several years. The Mayor's Office has committed to undertaking a full review of existing user fees this summer, and to having the results and an accompanying Cost Recovery Policy complete by January 2009 for application in FY 2010.

The City's ability to balance its FY 2009 budget is good news, but short-lived. With a struggling national and local economy, the City faces declining revenue growth on top of potential significant state funding cutbacks on top of an embedded structural budget deficit. This dynamic does not bode well for future budgets. Unless clear, decisive and long-term corrective actions are implemented, budget deficits will persist well into the future, resulting in a continual erosion of City services.

Comparison of Budget to Council Priorities Resolution

By February 1st of this year, as in the past two budget cycles, the City Council provided the Mayor with a Resolution and Report outlining "City Council Budget Priorities for Fiscal Year 2009." (See IBA Report No.08-7) In 2006, this was a new step in the budget process recommended by the Transition Committee for the new form of government, the purpose of which is to provide early legislative guidance to the Mayor in advance of his development of the proposed budget for the coming fiscal year.

The FY 2009 Resolution and Report reflect a compilation of consensus priorities and budget themes garnered from individual City Councilmembers' Budget Priorities Memoranda prepared in January 2008, for the FY 2009 budget. Also provided this year in the priorities report was an outline of budget information requirements and hearing expectations for the upcoming budget process.

Provided below is a snapshot of the major Council priorities and themes for City Service Areas with comments on how they are addressed in the Mayor's Proposed FY 2009 Budget. We have also noted the page number of this report which provides greater detail on each issue.

As indicated on the following page, the most significant deviations in the Mayor's budget from the Council's service priorities are the service reductions proposed for Park and Recreation and Library programming and staffing levels. Also, significant Fire Facilities needs continue to be unmet.

SNAPSHOT OF COUNCIL PRIORITIES RESOLUTION

COUNCIL IDENTIFIED SELECTED SERVICE PRIORITIES	ISSUE ADDRESSED?	COMMENTS	REPORT PAGE NO.
POLICE:			
Salary Increases	YES	Salaries determined, most funding included	181
Funds to Fill Officer Vacancies	YES	Funds added	181
Equipment/Vehicles/Technology	YES	Adequate level of funding provided	181
Maintenance of Civilians	NO	24 positions eliminated, but no CRO's/CSO's	182
FIRE:			
Second Helicopter Funding	YES	Funds included, but no FTE's included	199
Salary Increases	YES	Salaries determined, most funding included	197
Fire Facilities Backlog	NO	Not addressed	197
Equipment/Vehicles/Technology	YES	Adequate level of funding provided	197
Maintenance of Civilians	YES	No reductions proposed	197
BRUSH MANAGEMENT	YES	Positions added to address City properties & private property inspections; grant funding received	174 & 197

SNAPSHOT OF COUNCIL PRIORITIES RESOLUTION (Cont'd)

COUNCIL IDENTIFIED SELECTED SERVICE PRIORITIES	ISSUE ADDRESSED?	COMMENTS	REPORT PAGE NO.
PARK & RECREATION:			
Maintenance of Recreation Center Hours	YES	No hours reduced	173
Maintenance of Programming & Staffing	NO	Supervision/Programming, other reductions proposed	173
Maintenance of Swimming Pool Hours	NO	Three more pools to close for 3.5 months - only one location open for twelve months	174
LIBRARY:			
Maintenance of Library Hours	YES	No hours reduced	155
Maintenance of Programming & Staffing	NO	Programming/staffing reductions proposed	156
PLANNING:			
Parks Master Plan	NO	No funding included	101
Community Plans	YES	$1.2 million added to complete the Uptown/ North Park/Golden Hill Community Plan Update Cluster	101
DEFERRED MAINTENANCE	YES	Significant funding level provided	47
NEIGHBORHOOD PROTECTION:			
Maintenance of Community Cleanups	YES	79 in '07, 104 expected in 08 & 09	126
Maintenance of Graffiti Funding	NO	Position reduced, impact unknown	126
Maintenance of Code Enforcement	YES	No reductions proposed	127
Maintenance of Historic Preservation staffing	NO	No change from FY 08, but no new resources either	103
Inclusion of Winter Shelter Funding	NO	No funding included, Mayor proposes using grant funds/Housing Commission funds	105

The chart below provides a snapshot of how the Mayor has addressed the major Council priorities as reflected in the priorities memoranda in the area of Best Financial Practices.

COUNCIL IDENTIFIED BEST FINANCIAL PRACTICES PRIORITIES	ISSUE ADDRESSED?	COMMENTS	REPORT PAGE NO.
Performance Measures	YES	Measures included in FY 09 document	See individual department summaries
Effective Audit Organization	YES	Staff increased from 6 to 11 for FY 09	91
Business Process Reengineering	NO	No new significant savings in FY 09 budget	75
Managed Competition	NO	No savings or results for FY 09 $900,000 for Managed Comp consultant costs requested in FY 09	75
Reserves Funding	YES	$6 M requested to achieve 6.5%	33
Pension Funding	YES	ARC funding provided	29
CDBG Reform	Partially	Continued reforms need to be addressed	105
Equal Opportunity Reforms	Partially	Continued reforms need to be addressed	81
Council Financial Training	YES	Funding maintained	117

Comparison of FY 2008 Budget and Five-Year Outlook to FY 2009 Budget

Comparison with FY 2008 Budget

The FY 2009 Proposed General Fund Budget totals $1.19 billion, and reflects an increase of $82.3 million, or 7.4% over the FY 2008 budget. Driving this increase are the enhanced levels of funding for the significant areas identified in the Five-Year Financial Outlook, most notably retirement and retiree health obligations, deferred maintenance needs, storm water compliance, and funding for the City's various reserves.

Other factors also contribute to the increased General Fund budget, including the impacts of negotiated salary increases for the public safety labor organizations, estimated at $13.6 million, and the implementation of the Engineering & Capital Project Business Process Reengineering which shifted Non-General Fund operations to the General Fund, causing the General Fund to grow by $33.7 million.

Sixty-eight percent of the General Fund budget is allocated to personnel expenses, including Salaries and Wages, and Fringe Benefits. These areas individually grew by 5% and 3%, respectively, over the prior year. The Supplies & Services category has grown most dramatically, over 18%, from FY 2008, primarily due to the funding for projects and reserves, which are reflected in this category.

Costs for Energy and Utilities reflect a 5.7% increase, due to rising fuel costs, expected utility rate increases, and increased usage related to new facilities.

Information Technology and Equipment Outlay reflect the largest percentage decreases with reductions resulting in drops of 3.1% and 5.8%, respectively, from FY 2008 budget levels.

GENERAL FUND SUMMARY
Comparison FY 2009 Proposed with FY 2008 Budget

Expenditure Category	Proposed FY 09	Final FY 08	Change	% change	FY 2009 % of total
Salaries & Wages	525,949,079	499,191,888	26,757,191	5.4%	44.2%
Fringe Benefits	280,378,842	271,645,420	8,733,422	3.2%	23.6%
Supplies (incl. reserves & projects)	306,988,300	259,804,185	47,184,115	18.2%	25.8%
Information Technology	38,071,177	39,272,572	(1,201,395)	-3.1%	3.2%
Energy & Utilities	27,111,126	25,655,302	1,455,824	5.7%	2.3%
Equipment Outlay	10,140,906	10,761,585	(620,679)	-5.8%	0.9%
TOTAL	**1,188,639,430**	**1,106,330,952**	**82,308,478**	**7.4%**	

Consistency with Financial Outlook

The FY 2009 Proposed Budget continues the strategy laid out in the Five-Year Financial Outlook, and provides enhanced levels of funding for significant areas that in the past had largely been ignored.

The Five-Year Outlook estimated the total FY 2009 General Fund budget to reach $1.19 billion. The FY 2009 Proposed General Fund Budget is approximately $7.1 million less than the Outlook estimate, along with an apparent shift of funding from non-personnel areas to Salaries and Wages, and Fringe Benefits. It is interesting to note the Outlook estimate included ADA projects to be funded from land sales, which is not ultimately reflected in the General Fund budget, and would result in the overstatement of the Outlook estimate by $10 million. Comparisons for each expenditure category follow.

Salaries and Wages. The Five-Year Financial Outlook did not include impacts related to salary increases for Fiscal Years 2009 or beyond, though it showed an $18 million increase from the FY 2008 budget. Contributing to this increase was the addition of funding of $4.9 million for terminal leave requirements. The amount in the proposed budget for this purpose is approximately 50% less than stated in the Outlook. In our review of the Outlook, the IBA noted concerns regarding the need for additional funding for terminal leave given the high level of salary savings recently experienced. For the first year of implementing this practice, the IBA believes the revised amount is reasonable, and will monitor the use of these funds throughout the year. The ongoing need will be monitored and reviewed during the development of the budget for FY 2010.

The Vacancy Factor for the General Fund is essentially consistent with the Financial Outlook. The Outlook identified a vacancy factor of 3.4% for the General Fund in Fiscal Year 2009, which is only slightly different than the actual factor proposed (3.5%). The FY 2009 proposed budget for Salaries and Wages reflects an increase of $8.7 million from the Outlook.

GENERAL FUND SUMMARY
Comparison FY 2009 Proposed with Five-Year Outlook
(in millions)

Expenditure Category	Proposed FY 09	5 Year Update FY 09	Change	% change
Salaries & Wages	$ 525.9	$ 517.2	$ 8.7	1.7%
Fringe Benefits	280.4	278.3	2.1	0.7%
Supplies (incl. reserves & projects)	307.0	318.1	(11.1)	-3.5%
Information Technology	38.1	40.7	(2.6)	-6.5%
Energy & Utilities	27.1	28.8	(1.7)	-5.9%
Equipment Outlay	10.1	12.6	(2.5)	-19.5%
TOTAL	**$ 1,188.6**	**$ 1,195.7**	**$ (7.1)**	**-0.6%**

Fringe Benefits. The Five-Year Financial Outlook did not include impacts related to salary increases for Fiscal Years 2009-2013. Because of this, it is assumed that salary-related fringe benefit increases were also not included in the Outlook. However, the Outlook reflects increases each year to fringe benefits, due to expected increases in the annual required contribution to the retirement system, and for increased funding for retiree health obligations. The FY 2009 Outlook estimated General Fund fringe benefits to reach $278.3 million, which is less than the proposed budget level of $280.4 million. It is interesting to note that the amount shown in the fringe benefit category in the proposed budget does not yet include the impact of the negotiated salary increases, though these impacts were also not identified in the Outlook.

Supplies and Services. The Five-Year Financial Outlook reflected the Supplies and Services expenditure category specifically to total $236.1 million for the General Fund for FY 2009. However, additional expenditure items separately outlined in the Outlook would likely fall in the Supplies and Services category, including allocations for reserves, storm water runoff compliance, and the public liability fund. Adding these items brings the Outlook total to $318.1 million. As described earlier, the Outlook estimate included ADA projects to be funded from land sales, which is not ultimately reflected in the General Fund budget, and would result in the overstatement of the Outlook FY 2009 estimate by $10 million. The FY 2009 Proposed Budget is significantly lower than the Outlook estimate by $11.1 million.

Information Technology. The Five-Year Financial Outlook estimated Information Technology expenditures for FY 2009 at approximately $40.7 million for the General Fund. Annual inflationary increases of 4% were included, in addition to changes reflecting planned departmental needs over the five year period. Comparatively, the FY 2009 Proposed Budget totals $38.1 million, reflecting a decline of $2.6 million from the Outlook estimate.

Energy and Utilities. The Energy and Utilities expenditure category was estimated at $28.8 million for the General Fund for FY 2009 in the Five-Year Financial Outlook. Future years of the Outlook contained inflationary increases of 5% annually, and increases of $1.365 million were also added to account for escalating fuel costs, which, if incorporated, would be reflected in motive equipment usage rages (within the Supplies and Services category). The proposed budget for FY 2009 shows a slight decrease of $1.7 million from the Outlook estimate.

Equipment Outlay. The Five-Year Financial Outlook reflected Equipment Outlay expenditures to reach $12.6 million for the General Fund for FY 2009, which included a 3% annual inflationary increase, in addition to other expected needs. As the IBA previously noted, this category has been the subject of previous budgetary reductions, showing declines from year to year. The proposed budget for FY 2009 shows a drop of $2.5 million from the amount contained in the Outlook.

Options for Revisions to FY 2009 Proposed Budget

The IBA has identified a number of areas in the FY 2009 Proposed Budget for potential revision that require additional research, community input, discussion with the Mayor, and Council deliberation and direction. On the resource side of the budget, we have identified potential changes which could result in new resources or opportunities for reallocation of existing resources to other priority areas.

Possibly offsetting these potential resources, we have analyzed the City's revenue assumptions and caution that a more conservative approach may be warranted. We discuss below the implications for the FY 2009 budget should revenues need to be lowered. We are aware that the Mayor's office is carefully monitoring this situation as well for possible recommendations in the May Revise.

On the expenditure side, we have identified certain unmet needs and service restorations that the Council may want to consider as they deliberate the budget. The budget hearings will provide an opportunity for the Council to discuss these issues further with City departmental staff and the Mayor and to receive important feedback from the community to assist with final budget decisions.

An overall note of caution with respect to considering any revisions to the FY 2009 Proposed Budget—State budget reductions to City resources could hit in June or July requiring even further reductions to those already proposed. Any resources identified in the budget process may be needed to help minimize the impacts of State budget cuts. Similarly, if services are restored in the budget process they will likely be the first to go if the City faces State cuts.

Potential Resource Increases for Consideration

1. **Increase Redevelopment Agency (CCDC) Repayment** $2.5M—$5.0M

   We have explored and discussed with CCDC staff two options for increasing the budgeted repayment from the Redevelopment Agency for FY 2009.

   Option 1 – Increase repayment amount from $5.0 million to $7.5 million for a new resource of $2.5 million in FY 2009.

   Option 2 – Increase repayment from $5.0 million to $10.0 million for new resource of $5.0 million in FY 2009.

   (See page 55 for additional detail)

2. **Reevaluate Reserves Allocation Required to Achieve 6.5% Goal**
   $6.0M GF + $5.0M TMD
   Based on recent reserve status reports, it appears that the General Fund Reserves currently total $78 million, and would require no additional funding in order to meet the goal for next fiscal year. However, additional actions are expected to take place before the conclusion of the fiscal year, which could both positively and negatively impact current reserve levels. The reserve is an area that will require close monitoring in the months ahead to ensure that over-funding does not occur at the expense of the elimination of priority programs and services, and without full discussion and affirmative action by the City Council. Furthermore, the IBA was unable to determine if the $5 million in TMD savings which was to be directed to the reserves in FY 2008 has been accounted for properly. Inclusion of these amounts would result in reserves in excess of the 6.5% policy goal. (See page 33 for additional detail)

3. **Review Equipment Outlay Allocations for Possible Reduction** $1.0M
   Expenditures that fall within the Equipment Outlay expenditure category are typically one-time in nature. This category should be subject to a zero-based budget review, with department budget levels required to be fully justified each year. With 82% of the current fiscal year completed, only $5.5 million has been expended and/or encumbered from the $10.8 million General Fund budget for this category, representing just 51% of the budget allocation utilized to date. (See page 73 for additional detail)

4. **Resolution of Booking Fees Issue** $3.1M
   The FY 2009 Proposed Budget includes a $3.1 million contingency for booking fee expenses. Under current State law, cities will no longer receive booking fee reimbursements from the State, which instead will be allocated directly to counties. However, under the terms of the current MOU with the County, the City of San Diego is still liable for an annual payment of $5.2 million. While it is assumed that the terms of the MOU will be renegotiated so that the City is held harmless in FY 2009, another issue remains with the State Budget, which proposes to allocate just $32 million for booking fee reimbursements to counties. Under current law, if the State appropriates less than $35 million, counties may charge cities in proportion to the amount not funded. According to IBA calculations, the amount the City of San Diego may be liable for is significantly less than $3.1 million, which may free up additional General Fund resources. (See page 183 for additional detail)

5. **Reduction to Workers' Compensation Fund Reserves Allocation** $1.oM GF
   The Five-Year Outlook estimated the Workers' Compensation Fund Reserve at $20.4 million. Adding the $5 million reserve contribution would result in a total reserve of

$25.4 million, which exceeds the required level of $24.15 million by $1.25 million. The reserve policy required 15% of outstanding claims. Consideration could be given to reduce the reserve contribution to the Workers' Compensation Fund to allow departmental budgets citywide to be reduced accordingly. This reduction could positively impact the General Fund by almost $1.0 million, 77% of total contributions. (See page 39 for additional detail)

6. **Transfer of Environmental Growth Fund Balance to Offset Appropriate General Fund Expenses** $4.8M
Fund balances in the Environmental Growth Fund total $4.3 million, and a reserve for the Open Space Park Facilities Fund in the amount of $500,000 should no longer be needed due to the retirement of outstanding bonds. The City Charter allows the use of these funds for purposes that preserve and enhance the environment, and the IBA suggests options for the use of these funds to reimburse appropriate General Fund expenses be explored. (See page 176 for additional detail)

7. **Discuss Comptroller's Need for Temporary Help** $375,000
Of the $750,000 provided to the Comptroller in FY 2008 for extraordinarily CAFR work, $375,000 has been allocated again for FY 2009. Suggest that the Council discuss with the Comptroller the need for continued temporary help through FY 2009, in light of significant CAFR workload accomplished in FY 2008. (See page 97 for additional detail)

8. **Review of Citywide Election Costs** $1.0M
The FY 2009 Proposed Budget allocation of $2.7 million for Citywide Elections may warrant a reduction to reflect more accurate costs. According to the Registrar of Voters, it would cost the City between $1.6 million and $1.8 million to administer six races and five ballot propositions in November, resulting in a potential savings of approximately $1 million from the proposed budget. This estimate could be conservative depending upon election outcomes in June. (See page 111 for additional detail)

9. **Tobacco Settlement Revenues (TSR)** $300,000
The City has committed the first $10.1 million of the TSR it receives annually to TSR bondholders. The City is entitled to annual TSR revenue above the $10.1 million. To date, the City has received approximately $10.4 million in FY 2008. The IBA recommends that $300,000 in TSR revenue be budgeted for FY 2009.

10. **Seized and Forfeited Assets** $1.0M
Review of Seized and Forfeited Assets fund balance and identification of possible eligible expenses in the General Fund that could be reimbursed. (See page 184 for additional detail)

11. **Savings Attributable to Annual Audits**
Discuss with the City Auditor, conservatively budgeting $150,000 of the $418,000 Internal Auditor 25% costs recovery target as General Fund revenue in FY 2009. This would be a reasonable revenue expectation and would allow $150,000 to be redeployed to address other General Fund needs in FY 2009. (See page 91 for additional detail)

12. **Release of A-List Project Funds** $1-2M
With current cash funding of $4 million, and the expected transfer of the FY 2008 allocation of $1.5 million (yet to be made), a serious review of the status of the Information Technology projects planned for the A-List Project Fund should be undertaken, with consideration given to the cancellation of lower priority projects and tasks, to allow the possible release of excess funds for priority programs and services to be funded or restored for FY 2009. (See page 70 for additional detail)

13. **Potential Storm Water Savings**
In the past, the Storm Water Pollution Prevention Division has been unable to expend all budgeted funds by the end of the fiscal year. The Storm Water Division has $5.6 million in encumbrances at the end of FY 2007, of which approximately $2.8 million has been expanded as of April 2008. Additionally, the Storm Water Division anticipates encumbering approximately $16.7 million to be carried over to FY 2009. This is in addition to the $48.8 million in total operating expenditures and $12.2 million in Capital Improvements Program funding. The IBA expresses concern over the department's ability to expend all budgeted and encumbered monies in FY 2009. (See page 207 for additional detail)

Potential Revenue Decrease

1. **Results of IBA Analysis of Revenue Assumptions**
While projected growth rates for the major General Fund revenues in the FY 2009 Proposed Budget generally reflect a slowing economy, we feel that the projections still tend to be somewhat aggressive, particularly in regard to sales tax and TOT. If the projected growth rates for these revenues are lowered, it may reduce General Fund revenues by several million dollars. Both the IBA and the Financial Management Department will be closely monitoring current economic data to determine if a revision to the projected growth rates is warranted. (See page 21 for additional detail)

Priority Unmet Needs/Service Restorations for Consideration (Cost Related Items)

1. **Park and Recreation Service Restorations**

    - ***Park and Recreation District and Area Managers.*** The FY 2009 Proposed Budget eliminates five District

Managers and ten Area Managers, for a reduction of $1.5 million. Affected areas include Balboa Park event and facility maintenance, Mission Bay Park support, recreation center operations, and community park maintenance. Service level impacts are likely given the magnitude of this reduction, and the key responsibilities and functions performed by these classifications. The Council may wish to consider the restoration of a number of these positions in specific areas to minimize impacts at key regional parks, like Balboa Park and Mission Bay Park. Costs for each District Manager and Area Manager are $110, and $96,000, respectively.

- ***Maintain Pool Hours.*** The FY 2009 Proposed Budget eliminates 9.00 FTEs related to the operations of the City's pools, reducing the number of locations operating the full year from four to one. The Park and Recreation Department provided a memorandum describing the proposed staggered schedule for FY 2009, along with the associated net costs to extend operations at each of the twelve pool locations, which in total exceeds $1.4 million. On average, an additional $117,000 per pool is needed to provide for year-round operations. The City Council could choose to maintain the current level of service, by restoring funding for the operations at three pools for 3.5 months.

- ***Overnight Use of Kumeyaay Campground.*** The FY 2009 Proposed Budget reduces two positions (1.00 Park Ranger and 1.00 Recreation Center Director I) and related NPE at Kumeyaay Campground at Mission Trails Regional Park that allows for overnight camping. Under the Mayor's plan, the campground will be open for day-use only for FY 2009. To continue to allow overnight use, additional funds of approximately $180,000 (net of program revenue) would need to be identified.

- ***Continue Skate Park Supervision.*** The IBA is concerned about the City's potential liability associated with the proposal to eliminate the supervision provided at skate parks throughout the City. We understand that an opinion from the City Attorney is forthcoming on this issue. This advice will be extremely helpful in evaluating this budget proposal. Restoration of 7.50 FTEs and related costs to maintain current services would require $450,000.

2. **Library Service Restorations**

- ***Restore Library Assistants to Branch Libraries.*** The FY 2009 Proposed Budget includes the reduction of 16.40 Library Assistants for branch libraries, including 3.90 FTEs funded from State grants, bringing the number to 28, representing a reduction of 37% from the prior year. These positions directly assist both library patrons and librarians in their daily responsibilities. Library operations and customer service will be negatively affected. Should the City Council wish to restore all or some portion of this reduction, $77,040 would be needed for each Library Assistant for FY 2009.

3. **Graffiti Program Restoration**
The Neighborhood Code Compliance Division's FY 2009 Proposed Budget includes a reduction of one Utility Supervisor ($86,107) which was the supervisor of the Graffiti Control Program crew. The impact of this should be discussed at the budget hearing.

4. **Landslide Costs**
On October 3, 2007 a landslide occurred on Mt. Soledad and destroyed a large section of the 5700 block of Soledad Mountain Road and Desert View Drive Alley. The damage estimate for the landslide is $26 million, of which $21.0 million is for slope stabilization and road reconstruction. The FY 2009 Capital Improvements Budget does not include funding for this project. Staff has indicated that they may be including changes to this project as part of the May Revise.

5. **Equal Opportunity Contracting Reforms**
The FY 2009 Proposed Budget includes 11.00 positions for the Equal Opportunity Contracting Program. However, it should be noted that even with the 11 proposed positions, this is substantially less than what was budgeted for the department in FY 2007, which included 25 positions for the program. To accomplish the Performance Measures included in the FY 2009 Proposed Budget, additional staff might be needed. Currently, six of the budgeted staff members are Senior Management Analysts. The cost associated with a Senior Management Analyst is $105,220.

6. **Homeless Shelter Funding**
Similar to FY 2008, funding for the Winter Shelter Program is not included in the Proposed Budget. For FY 2009, the Mayor proposes utilizing grant funds and Housing Commission funds similar to his proposal for FY 2008. If the City chooses to continue with this program funds will need to be identified. The total cost of the program in FY 2008 was $675,000. This funding proposal should be discussed at the budget hearing.

7. **Additional Audit Staff**
The IBA supports the Internal Auditor's proposed three-year staffing plan that would add five auditors in FY 2009 and six auditors in FY 2010 and FY 2011. If, however, the Council wishes to consider adding more auditors than the five recommended by the Mayor in FY 2009, each new auditor would cost approximately $148,000 including related non-personnel expense.

8. **Mills Act Workload**
On March 19, 2008, the San Diego County Grand Jury released a report titled "History Hysteria: Historical Resources in The City of San Diego". One of the Grand Jury's findings was the City had "insufficient personnel to regularly inspect designated properties to ensure that they are being preserved in accordance with Department of Interior Standards." In response to the County Grand Jury's report, the Mayor has proposed tightening City policies for Mills Act compliance. The Mayor's staff held their first public Mills Act Workshop on April 18, 2008 to discuss the new measures. However, the FY 2009 Proposed Budget does not include additional resources to address the County Grand Jury's concerns with the City's Historical Resources program. The cost for an additional Associate Planner is $99,400.

9. **Non-Mayoral Departments Not Considered By Mayor**

- ***Office of the Independent Budget Analyst***
Should the City Council wish to proceed with the second phase of the IBA's staffing plan, a total allocation of $250,000 would be needed. This includes funding for one Fiscal & Policy Analyst and one entry-level Research Analyst with a vacancy factor of 33%; associated non-personnel expense including funding for training and to configure office space; and minimal funding to utilize experts on as-needed special research projects.

- ***City Attorney***
As stated in the report of the Independent Consultant to the SEC, "The City, through the City Attorney office should, prior to the preparation of the 2007 CAFR, improve its systems for dealing with loss contingencies for financial reporting purposes." The City Attorney's office has indicated that a case management system is needed and would assist tremendously in the tracking of cases and would assist with the preparation of comprehensive and regular litigation updates to various parties, including the Council, the Risk Management Department, the City Comptroller, and the City's outside auditors. Preliminary estimates range from $250,000 to $500,000 for short-term fixes and off-the-shelf products, with custom options estimated to need approximately $3 million.

10. **Preventative Maintenance Costs**
The FY 2009 Proposed Budget for the General Services Department includes ten position reductions in the Street Division and nine position reductions in the Facilities Division. The reductions in the Facilities Division are anticipated to delay the maintenance and repair of City-owned facilities; while the Street Division reductions may delay planned maintenance operations for unimproved streets. As stated in the General Services Department Review section on page 145, if pre-

ventative maintenance is not adequately funded, efforts made to address the deferred maintenance backlog could be negated. Costs associated with the 19.00 FTEs and related expenses to maintain current services would require approximately $1.5 million. There are a variety of impacted classifications, but the average position cost is $82,640.

11. **Advanced Water Treatment Demonstration Project (Non-General Fund)** No funding is budgeted in the FY 2009 Proposed Budget for the Advanced Water Treatment (AWT) Demonstration Project, approved by Council on December 3, 2008. The Water Department and the Mayor's Office have both stated repeatedly that there is no available funding for this project, since it was not included as part of the 2007 rate case. The IBA has begun investigating possible sources of funding, and we urge a full policy discussion on possible options.

Non-Cost Related Items

1. Add 8.80 Fire FTEs for Second Helicopter (FTEs) to Match Funds in Proposed Budget.

2. Identify Funding Level of Appropriated Reserve within the Total Reserves Allocation. Funds are budgeted for the full reserves level but a portion has not yet been designated for the Appropriated Reserves. Recommend $10-15 million.

General Fund Revenue

The FY 2009 Proposed Budget includes $1.19 billion in General Fund revenue, an increase of $82.3 million over FY 2008. The General Fund revenue budget includes $796.6 million from the City's four major revenues, property tax, sales tax, Transient Occupancy Tax and franchise fees. These major revenues comprise 67.0% of total budgeted General Fund revenue, yet account for only $16.8 million, or 20%, of the total revenue increase. Departmental revenues contribute $283.5 million to the General Fund, an increase of nearly $50 million over FY 2008.

Growth projections for the major General Fund revenues are unchanged from what was presented in the Mayor's Five-Year Financial Outlook in January 2008. At that time we commented that the General Fund revenue projections were generally consistent with underlying economic trends. However, it is our view that economic conditions have worsened since the Five-Year Outlook was presented, and the fact that growth rate projections for the major revenues have not changed leaves us with a degree of concern.

	FY 2008 BUDGET	FY 2009 PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	385,688,853	411,468,401	25,779,548
Sales Tax	239,485,958	223,636,666	(15,849,292)
TOT	85,184,936	92,019,530	6,834,594
Franachise Fees	69,431,697	69,482,159	50,462
Other Local Taxes			
Property Transfer	7,570,860	8,901,320	1,330,460
Safety Sales Tax	8,401,528	8,114,255	(287,273)
Vehicle License Fees	7,938,333	7,219,695	(718,638)
Other Non-Departmental			
Interest Earnings	7,777,122	12,640,554	4,863,432
Transfer from TOT Fund	10,579,289	16,480,824	5,901,535
Employee Offset Savings	21,200,000	17,714,000	(3,486,000)
Booking Fees	5,222,533	-	(5,222,533)
FEMA Reimbursement	-	8,000,000	8,000,000
Other	23,927,797	29,498,552	5,570,755
Departmental Revenues	233,922,046	283,463,474	49,541,428
TOTAL GENERAL FUND	**1,106,330,952**	**1,188,639,430**	**82,308,478**

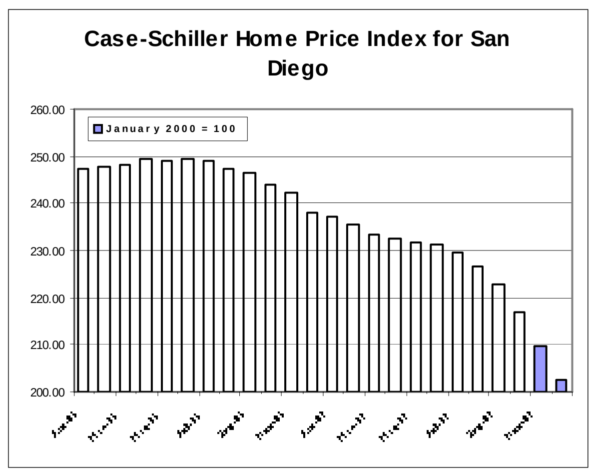
Overall, while growth rate projections for some of the major revenues do reflect weakened conditions, we feel that in general the major revenue projections tend to be somewhat aggressive. In the sections that follow, each of the major General Fund revenues will be examined in greater detail, as well as economic factors that influences each. In addition, the final section of this chapter provides comments on a few other noteworthy General Fund revenues budgeted in FY 2009. Departmental revenues are discussed in the respective Departmental Review sections.

Major Revenue Growth Rates

	FY 2008 PROJECTED	FY 2009 PROPOSED
Property Tax	8.15%	6.00%
Sales Tax	0.35%	1.25%
TOT	5.70%	7.50%
Franachise Fees		
SDG&E	-1.38%	7.50%
Cable	6.11%	6.50%

PROPERTY TAX

The FY 2009 Proposed Budget projects General Fund property tax at $411.5 million, reflecting a 6.0 percent growth rate over FY 2008 estimated year-end actuals. This projected growth rate reflects a slowdown in the rate of growth in assessed valuation and hence property tax revenue. Current estimates project a year-end growth of approximately 8.2 percent in FY 2008, while growth in Current Secured Openings (standard property tax bills) was 8.7 percent. Property tax revenue in FY 2009 based on assessed valuation as of January 1, 2008, which reflects the market activity that occurred in calendar year 2007. In San Diego County, housing prices and sales continued to decline throughout calendar 2007. According to DataQuick, the overall median price of homes purchased in 2007 was $476,000, a decline of 4.8 percent from 2006, while the number of sales dropped 22.1 percent to 34,741. According to the Case-Shiller Home Price Index, which tracks price changes across a constant set of home sales, home prices fell a more robust 8.1 percent in 2007. The Case-Shiller index is generally thought to be more accurate since it controls for the variation in housing characteristics that may skew the median.



Despite this continued weakening in the housing market, property tax revenue is somewhat buffered against dramatic declines due to Proposition 13, which limits the growth in a property's assessed value to 2 percent per year unless the property is sold or remodeled, at which point it is reassessed at market value. This means properties that have not been sold for many years still have a low assessed value (relative to current prices), and stand to see substantial increases in assessed value if sold currently.

In contrast, if properties are sold at a lower price than they were originally purchased at, they will see a decline in assessed value. This typically occurs only when homeowners are forced to sell their properties, such as when homes are foreclosed. According to DataQuick, in 2007 there were 7,349 foreclosures in San Diego County, up from just 1,621 in 2006.

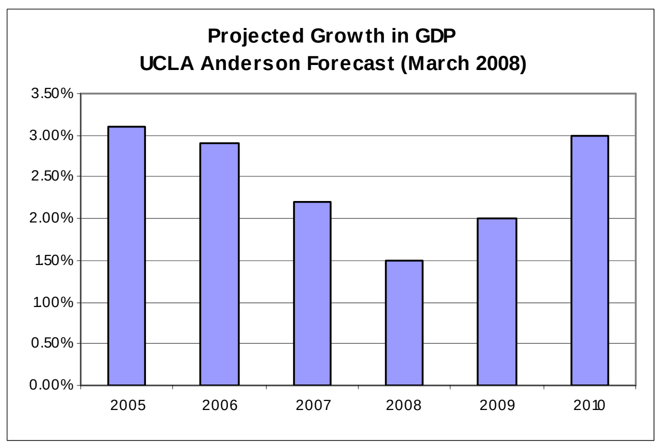
Despite this significant increase, the number of foreclosures in 2007 is not likely to have a dramatic effect on assessed valuation, as they represent just a fraction of the total number of sales. However, there is evidence that foreclosure activity is still accelerating. In March 2008, it was estimated that over 36 percent of all resale home and condo sales in San Diego County were due to foreclosure. If this trend continues, it could have a negative impact on property tax growth in FY 2010.

Overall, we believe the projected growth rate for property tax reasonably reflects the gradual slowing of growth in assessed valuation that is resulting from the weakened housing market.

SALES TAX

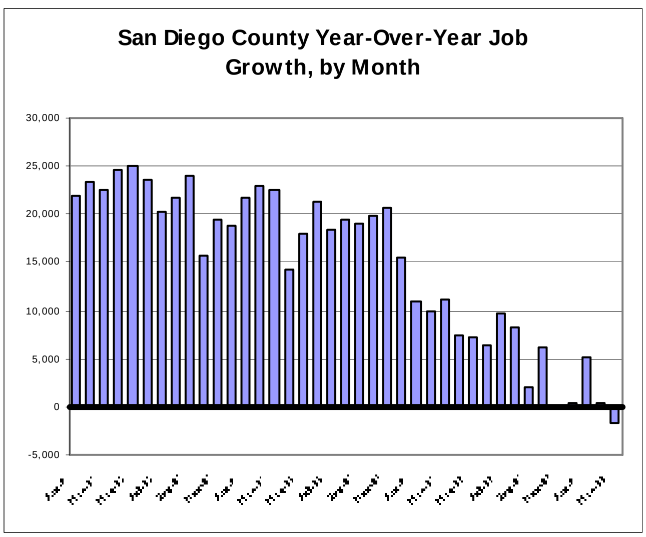
The FY 2009 Proposed General Fund Budget includes $223.6 million in sales tax revenue, a growth of 1.25 percent over FY 2008 year-end estimates. While this growth rate would seem to suggest a projected slowdown in sales tax growth, it actually assumes an improvement in economic conditions, as actual sales tax growth in FY 2008 is projected to be just 0.35 percent.

Sales tax is driven largely by consumer spending, and fluctuates greatly with economic conditions. Sales tax revenue has actually declined in the last several quarters as economic conditions have weakened. Gross domestic product (GDP), the broadest measure of the economy's health, grew by a tepid 0.6 percent in the final quarter of 2007. While growth figures for the first quarter of 2008 are not yet available, the March 2008 UCLA Anderson Forecast estimates that GDP growth will slow to 0.4 percent in the current quarter, followed by a *negative* 0.4 percent growth in the second quarter.



Nevertheless, the Anderson Forecast cautiously does not predict a recession. While the fallout from the housing market continues to impact employment in the construction industry, employment in sectors outside of construction and manufacturing has held steady, and the Forecast predicts that housing's drag on the economy will begin to dissipate in the second half of 2008. The Anderson Forecast does offer a note of caution however, stating that if there is a quick halt to consumer spending there will surely be a recession in 2008.

At the State level, the Anderson Forecast also projects weakness in 2008. Growth in Gross State Product is estimated to slow to just 1.1 percent, down from 3.2 percent in 2007. Likewise, growth in real personal income is estimated to slow to from 2.9 percent in 2007 to 1.2 percent in 2008. However, taxable sales are projected to grow 0.4 percent after declining by 0.6 percent in 2007, suggesting that the worst may be behind us in terms of sales tax growth.



Locally, the employment picture has also begun to show signs of weakness. Non-farm payroll employment in San Diego County grew by just 6,600 jobs in 2007, down from 19,500 in 2007.

As with the trends on the national level, job losses were most pronounced in the construction sector, while manufacturing continued it's downward trend, shedding jobs in eight out of the past nine years. Job growth in the leisure and hospitality sector has remained strong, and has helped to offset losses in these other areas.

However, continued weakness at the local level remains a threat. After job gains in the first two months of the year, the region actually lost jobs in March. In addition, the University of San Diego's Index of Leading Economic Indicators fell in March to it's lowest point since 1995, and has fallen in 22 of the last 23 months. According to the Index's creator, USD professor Alan Gin, the San Diego region will experience continued weakness for at least the first half of 2008, with housing prices continuing to fall and retail sales continuing to slow.

Overall, the projected growth rate for sales tax in the FY 2009 Proposed Budget reflects tepid growth in consumer spending. What is unclear, however, is whether the worst is behind us. Should job growth continue to slow, or show outright declines as it did in March, even the modest sales tax growth projection of 1.25 percent may prove to be too aggressive. It is critical that the City keep a watchful eye on the local employment picture to determine if a downward revision to the sales tax projection is warranted.

Transient Occupancy Tax

General Fund Transient Occupancy Tax (TOT) revenue is budgeted at $92.0 million in the Proposed Budget, reflecting a 7.5 percent growth rate, unchanged from FY 2008. Current year-end estimates indicate projected actual growth of 5.7 percent in FY 2008, down from nearly 12 percent in FY 2007.

In our analysis of the Mayor's Five-Year Financial Outlook in January 2008, we commented that the TOT growth projections may have been somewhat aggressive, but given the historical strength of the City's tourism industry and the potential stimulus from factors such as the declining dollar and the establishment of the TMD, there was little compelling evidence that lower growth rates were imminent. Since then, however, we have become more bearish in regards to TOT growth.

As with sales tax, TOT revenue is sensitive to economic conditions. However unlike sales tax, it is not local economic conditions that impact TOT as much as it is regional and national conditions. As indicated in the previous section on sales tax revenue, conditions at both the state and national level have been weak, with continued weakness expected through at least calendar year 2008. The UCLA Anderson Forecast projects non-farm payroll employment to grow by just 0.36 percent in 2008, followed by 0.65 percent growth in 2009. However, there has been a net reduction in jobs in each of the first three months of the year, including a reduction of 80,000 in March, the most in five years.

Even if the economy does not slip into a recession, prolonged weakness in the job market is likely to result in a cut back in discretionary spending for things such as travel. In addition, the cost of traveling appears to be going up, as gas prices continue to rise and the struggling airline industry looks at increasing fees and cutting the number of discount fares. Already through the first two months of the year, average domestic fares were up 5.7 percent from the same period last year according to the Air Transport Association.

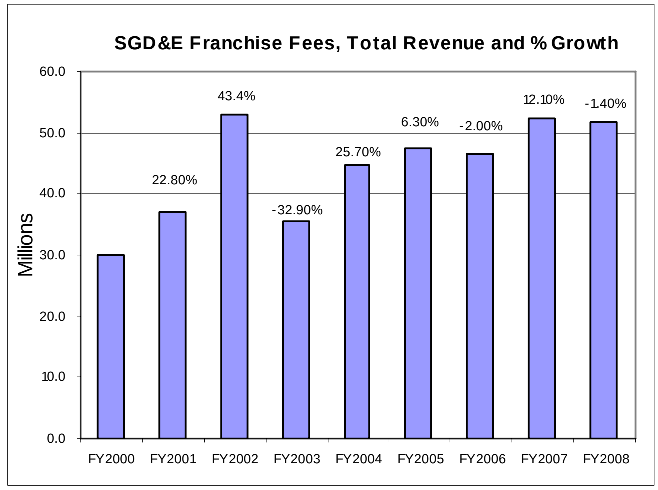
In early April the San Diego Convention and Visitors Bureau issued a revised 2008 Travel and Tourism Forecast for San Diego County. In response to negative economic news since January, several key industry measures were revised downward, including the growth in total overnight visitors, which dropped to 0.9 percent from the original forecast of 1.8 percent; and growth in the average daily room rate (ADR), which dropped to 3.0 percent from the original projection of 5.0 percent. In February, the ADR declined by 2.2 percent, the first monthly decline since January 2004.

Overall, we believe that the projected growth rate for TOT revenue is likely overly optimistic. While the local tourism industry should still see solid growth due to increased marketing and promotion as a result of the TMD and several major events including the U.S. Open, we feel that the continued decline in economic conditions coupled with increased fuel and transportation costs may warrant closer examination of the City's growth rate assumptions.The FY 2009

FRANCHISE FEES

Proposed Budget includes $69.4 million in General Fund franchise fee revenue, including $42.6 million from San Diego Gas & Electric, $17.6 million from cable franchises, primarily Cox and Time-Warner, and $9.1 million in refuse hauler franchise fees. A 7.5 percent growth rate was assumed for SDG&E revenues, while cable revenues are projected to grow by 6.5 percent. Revenue from franchised refuse haulers is projected to decline by $400,000 from FY 2008 year-end estimates due to an estimated reduction in tonnage disposed at Miramar landfill as a result of the City Recycling Ordinance.

In FY 2008, total SDG&E revenues (including those allocated to the Environmental Growth Funds) are estimated to come in nearly $5 million under-budget, reflecting a growth rate of just 1.9 percent. Unfortunately, no substantive explanation was provided to the City for this shortfall, and it is unclear whether it reflects an economic trend, or simply a one-time anomaly. As we have mentioned several times in the past, franchise fees are arguably the most difficult major revenue source to project, and we are growing increasingly concerned with the City's inability to access information from SDG&E or its parent company Sempra Energy.



Absent a more thorough understanding of the factors that drive SDG&E franchise revenue, budget projections are forced to rely heavily on historical trends. But even that offers little guidance, as illustrated in the chart above. The sporadic nature of this revenue sources leaves us collectively scratching our heads as to what the appropriate growth rate should be. And while we have a bit of discomfort with continuing to assume a 7.5 percent growth rate, history has shown that this is not necessarily unreasonable. However, we feel that the City must do more to gain a better understanding of this significant revenue source.

Franchise revenue from Cox Cable and Time-Warner is projected to end FY 2008 with an estimated growth of approximately 6.1 percent. The City also began receiving franchise revenue from AT&T in FY 2008, pursuant to the State franchise system established under the Digital Infrastructure and Video Act of 2006 (AB 2987). This revenue was minimal in FY 2008, and while it is expected to grow over time, the magnitude of this growth is unclear. It is equally unclear whether the presence of AT&T as a service provider will increase the total number of cable customers or simply take customers away from Cox and Time-Warner. As a result the FY 2009 Proposed Budget does not project a significant increase in franchise revenue from AT&T.

Overall, we feel that the growth projection for cable franchise revenue is reasonable and in line with recent trends. While we are not entirely comfortable with the projected growth rate for SDG&E revenue, our discomfort stems more from a lack of information than from the projection itself, which history has shown is not unreasonable.

OTHER REVENUES

Transfer From TOT Fund

The FY 2009 Proposed Budget includes a $16.5 million transfer from the TOT Fund. As explained in the Department Review section for Special Promotional Programs, 5-cents of the City's 10 1/2 –cent TOT levy are allocated directly to the TOT Fund, and are allocated via the Special Promotional Programs budget. Of that amount, the Municipal Code requires that 4-cents be used solely for the purpose of promotion, while 1-cent may be used for any purpose directed by Council. The $16.5 million transfer to the General Fund reflects this 1-cent of TOT to be used for discretionary purposes. The FY 2009 Proposed Budget also includes $5 million in Special Promo allocations to the General Fund for promotion-related expenses. This is described in greater detail in the Budget Balancing Actions section.

Employee Offset Savings

Since FY 2007 , $10.1 million in Employee Offset Savings (EOS) has been budgeted in the General Fund to backfill Tobacco Settlement Revenues that were securitized in FY 2006 in order to make a sizeable cash infusion into the pension system. In FY 2008, an additional $10.1 million was budgeted on a one-time basis due to a change in how the EOS was accounted for. In the FY 2009 Proposed Budget, an additional $7.6 million in EOS is budgeted in the General Fund, for a total of $17.7 million, the full savings from the employee offset. As described in greater detail in the Anticipated Debt Financings section, these additional savings are intended to be leveraged into the pension system.

FEMA Reimbursement

The FY 2008 Proposed Budget includes $8 million in estimated reimbursement from FEMA for expenses incurred related to the October 2007 wildfires. It should be noted that the expenses associated with these events occurred in FY 2008.

STATE IMPACTS

The Governor's Proposed 2008-2009 State of California Budget did not include significant unanticipated financial impacts for the City of San

Diego. However, several alternate proposals by the Legislative Analyst's Office may have a significant impact on City revenues if adopted. These proposals, and the potential impacts to the City, are discussed below.

Parole Realignment

The LAO proposes a realignment of lower-level state parole responsibilities to counties. Funding for this realignment is proposed to come from three sources, one of which is Proposition 172 sales taxes, or safety sales taxes, that are currently allocated to cities. If this proposal is adopted, the City of San Diego could stand to lose $8.1 million from the FY 2009 Proposed Budget.

Restructuring Local Assistance for Public Safety

The LAO also proposes the elimination of a variety of state subventions to local governments for public safety, including booking fee reimbursements and funding for Citizens Option for Public Safety (COPS). Under current law, if the State eliminates funding for booking fee reimbursements, Counties would be allowed to charge cities for actual booking expenses. It is unclear how this proposal would impact the City of San Diego due to the current Memorandum of Understanding with the County, but it could result in booking fee charges by the County of $5 million or more. It should be noted that the FY 2009 Proposed Budget includes a $3.1 million contingency for booking fee expenses.

The COPS program provides annual State funding to supplement local law enforcements. Elimination of this funding would reduce the City's General Fund revenue by approximately $1.5 million.

Elimination of Sales and Use Tax Exemptions

The LAO has proposed the elimination of a number of sales tax exemptions including those for diesel fuel, the leasing of films and tapes, custom computer programs, and eliminating the use tax on out of state vessels, recreational vehicles and aircraft. It is estimated that elimination of these exemptions could increase local Bradley Burns sales tax collections by over $40 million statewide. However, the precise impact to the City of San Diego is not yet known.

Pension

Effects of Budget Proposal

The FY 2009 budget reflects full funding of the Annual Required Contribution (ARC) of $161.7 million as determined by the June 30, 2007 SDCERS actuarial valuation and approved by the SDCERS Board of Administration. The contribution is based on a 20-year amortization period (reduced from 27 years) and includes funding to eliminate any negative amortization. The actuarial funding method was changed from Projected Unit Credit to Entry Age Normal to reflect a more widely utilized standard.

FY 2009 Payment to SDCERS		
ARC Payment in 2008	$	139.2
Payment for use of 20-year UAL	$	9.4
Payment to Eliminate Negative Amortization	$	13.1
Total ARC PAYMENT FY 2009	$	161.7
IRS Limitations Payback	$	1.1
Retirement Offset Contribution	$	18.8
TOTAL FY 2009 Payment (in millions)	**$**	**181.6**

Preservation of Benefits. The City has budgeted $1.1 million in Citywide Program Expenditures, an increase of $600,000 over the FY 2008 Annual Budget, for payment to SDCERS to cover benefits provided to city employees in excess of the IRS 415(b) limits. Section 415(b) of the Internal Revenue Code provides for dollar limitations on benefits and contributions under qualified retirement plans. Any benefits accrued in excess of that amount cannot be paid for using SDCERS trust fund assets. Instead, the City is responsible for excess payments. In FY 2008, a total payment of $1.o million was made to SDCERS to cover this expense. Documentation is still needed to justify the FY 2009 allocation of $1.1 million.

Retirement Offset Contribution. The City is also paying $18.8 million in contributions to SDCERS on behalf of employees per negotiated agreements. This allocation, referred to as the Retirement Offset Contribution, is a $400,000 decrease compared to the FY 2008 allocation, reflecting reduced FTEs citywide.

Labor Agreements. Based on the current agreement with Local 127, by June 30, 2008, the City was required to dedicate $600 million to the Unfunded Actuarial Accrued Liability (UAAL). The City has leveraged approximately $110 million of Employee Offset Savings (EOS) and tobacco settlement revenues and is pursuing a financing plan to leverage an additional $50-80 million in EOS. However, it appears the City will not be able to meet the outstanding obligation of approximately $490 million. No analysis of potential legal or budgetary ramifications, if any, has been provided to the City Council.

Proposed Pension Plan. The Mayor is currently in the process of negotiating a new pension plan which would apply to all non-safety city employees starting in January 2009. The outcome of negotiations is uncertain; however, any new plan established would have minimal budgetary impacts in FY 2009.

Other Post-Employment Benefits

Effects of Budget Proposal

In FY 2009, a net increase of $2.1 million is allocated for Other Post-Employment Benefits (OPEB), also known as Retiree Health, for a total of $50 million, as described in the Mayor's Proposed Budget. All of these funds will be transferred to the new trust for OPEB established by the City of San Diego in FY 2008 and administered by CalPERS. The funds that are for FY 2009 retiree premium expenses (the pay-as-you-go, or PAYGO, portion) will be paid out of this fund during the year. The remaining funds will be saved and will accrue interest to pre-fund future benefits that have been earned.

In FY 2009, the Mayor's budget proposes to pay over 50% of the Annual Required Contribution (ARC) for OPEB.

While the Proposed Budget indicates that the PAYGO portion is anticipated to be $23 million, the most recent valuation performed estimated PAYGO expenses in FY 2009 at over $26 million. If that is the case, the amount that will remain in the trust to pre-fund future benefits will be lower than projected in the Mayor's proposal (less than $24 million vs. $27 million). The net effect would be that less money is being pre-funded in FY 2009 as compared to FY 2008 ($25 million).

Nevertheless, the amount of funding remaining after PAYGO benefits are distributed will represent a continued dedication to pre-funding this committed expenditure and will benefit the City through the accumulation of interest over the years. The IBA continues to support this plan to address OPEB liabilities.

Future Years. The Mayor's Proposed Budget indicates that this year's funding level is part of a plan to reach payment of the full OPEB ARC by FY 2010, as has also been stated in his Five-Year Financial Outlook. In the Outlook, the ARC was estimated at $75 million, or an increase of $25 million over FY 2009.

However, the IBA notes that the actual ARC for FY 2009 is between $85-95 million (depending on the assumed discount rate) and would not be anticipated to decline in FY 2010. This would represent a significant increase in appropriation, and may be at the expense of services. As an example, an addition of $30-40 million for OPEB in FY 2010 is equivalent to the entire Library System budget and over 1/3 of the Park and Recreation Department programs and services in the General Fund.

General Fund Reserves

Five-Year Outlook

The Five-Year Outlook included increasing the General Fund Reserve to a goal of 8% of General Fund Revenues by FY 2012, and highlighted this as a significant area deserving much needed attention and funding over a multi-year period. Increased reserves are expected to assist with reinstating, enhancing and maintaining positive credit ratings. The FY 2009 Five-Year Update included funds in the amount of $7.0 million for FY 2009 in order to reach the stated reserve goal of 6.5% of the estimated budget, at that time.

Reserve Policy

The City Council adopted the Reserve Policy on November 13, 2007, which defined the need to establish and augment reserves for various City funds, and included targeted levels of funding to be reached by specific dates, consistent with the Five-Year Outlook. For the General Fund, the Reserve Policy defined an Emergency Reserve and an Appropriated Reserve, as follows:

Emergency Reserve. The Reserve Policy calls for the Emergency Reserve (or Unappropriated Reserve) to be set at 8% of annual General Fund revenues, to be achieved by Fiscal Year 2012. For Fiscal Year 2009, the percentage goal is 6.5%. Based on the FY 2009 Proposed Budget, the 6.5% goal results in a reserve target of $77.3 million.

The Reserve Policy states that, until the City reaches a reserve level in excess of 8%, for purposes of calculating the City's General Fund Reserve level, the City shall combine the balance in the Emergency Reserve with the balance in the Appropriated Reserve in order to achieve the reserve percentage goals. However, at no time shall the balance in the General Fund Emergency Reserve fall below 5% unless specifically waived by the City Council because of an unforeseen emergency. Based on the FY 2008 budget, the minimum funding for the Emergency Reserve is $55 million. Due to the increase in the proposed FY 2009 budget, the minimum funding for the Emergency Reserve would grow to $59 million, based on the 5% minimum.

FY 2009 Budget Levels

The FY 2009 Proposed General Fund Budget includes the contribution of $6 million towards the City's General Fund reserve. This amount is included in the General Fund's Citywide Expenditures Department, and has been determined to be the amount necessary in order to achieve the

Reserve Policy goal of 6.5% of the General Fund. This is an increase of $2.67 million over the FY 2008 contribution level. Based on recent reserve status reports, it appears that the General Fund reserves currently total $78 million, and would require no additional funding in order to meet the goal for next fiscal year. However, additional actions are expected to take place before the conclusion of the fiscal year, which could both positively and negatively impact current reserve levels. The reserve is an area that will require close monitoring, and will need to be reevaluated during the May Revision and Year-End Budget Adjustment process to ensure that over-funding of the reserve does not occur at the expense of the elimination of priority programs and services, and without full discussion and an affirmative action by the City Council.

No funding has been allocated in the FY 2009 Proposed Budget for the Appropriated Reserve. The IBA recommends that funding be allocated to the Appropriated Reserve as part of the FY 2009 budget process, especially given the significant level of unbudgeted expenditure activity which has taken place during FY 2008. Ensuring that the Emergency Reserve maintains its 5% minimum of $59 million, the Appropriated Reserve could be funded in the amount of $18.3 million, and the combined reserve goal of 6.5% could still be achieved. Alternatively, additional sources of funding could be identified to fund the Appropriated Reserve.

Issues for Consideration

Appropriated Reserve. There are no minimum or maximum funding levels for the Appropriated Reserve for a given year. The Reserve Policy states that the Mayor will include an amount each year in the operating budget to fund the Appropriated Reserve. At the time the Reserve Policy was adopted, an Appropriated Reserve totaling $7 million was established. Including actions that pre-dated the creation of the Appropriated Reserve brings the total unbudgeted expenditures to $10 million for FY 2008. Actions to further increase the Appropriated Reserve in the amount of $5 million are expected to come to the City Council for approval shortly.

Tourism Marketing District (TMD). As noted during FY 2008 budget discussions, the IBA recommended, and the City Council agreed with, the exclusion of the Tourism Market District (TMD) savings of $5.0 million from the FY 2008 budget. Further, the IBA suggested that any savings, if realized, be used to increase reserves. At the time, it was estimated that the reserve would increase from $67.1 million to $72.1 million, with the addition of TMD savings of $5 million, and would have represented 6.5% of the General Fund, in total. Implementation of the TMD is underway, and the collection of TMD assessments begun as of January 1, 2008. The IBA was unable to determine if the $5 million in TMD savings to be received in FY 2008 has been accounted for in the current or future fiscal year. The IBA recommends that these funds be contributed to the General Fund reserve, which would allow an off-setting reduction of the needed contribution in FY 2009 in order to achieve reserve policy levels. Funds in the amount of $5 million could be utilized for other priority needs, including the Appropriated Reserve.

Public Liability Fund

Five-Year Outlook

The Five-Year Outlook included increasing the Public Liability Reserve and established a reserve goal of 50% of outstanding claims, highlighting this as another significant area requiring additional funding over the next several years.

Reserve Policy

The Reserve Policy formally enacted the concepts included in the Five-Year Outlook, and stated a reserve goal of 50% of outstanding claims for Public Liability, to be reached no later than Fiscal Year 2014, based on an increasing annual percentage goal. The 50% goal is intended to insulate the City from possible impacts to programs and services should the City be required to make a large claims payout. For Fiscal Year 2009, the reserve policy outlines a goal of 10% of outstanding claims. Outstanding claims currently total $114 million, which would necessitate a reserve of $11.4 million for FY 2009.

FY 2009 Budget Levels

The proposed FY 2009 budget includes funding for the Public Liability Fund in the amount of $18 million for annual pay-as-you-go claims and needs, plus an additional $10 million, comprised of $5 million towards the building of the Public Liability Reserve, plus $5 million to replace the reserve contribution provided in FY 2008, which has been fully expended. These amounts are reflected in the budget in the General Fund's Citywide Expenditures Department.

The Water and Sewer Funds include an additional $2.27 million specifically for public liability needs, which remains unchanged from amounts budgeted in FY 2008. Including these amounts with the $10 million General Fund reserve contribution would exceed the $11.4 (or $10) million reserve goal. However, the reserve policy does not explicitly state which funding sources are to be included to meet the reserve goal.

Issues for Consideration

Consideration should be given to further increasing contributions to the Public Liability Fund, which would allow the reserve to build. In FY 2008, the $5 million reserve contribution was fully exhausted, and additional funds in the amount of $4.5 million will be requested shortly to allow additional needs to be funded.

Workers Compensation Reserve

Five-Year Outlook

The Five-Year Outlook called for the augmentation of the Workers Compensation Reserve (initial balance of $18 million), with the contribution of $5 million in Fiscal Year 2009, and $10 million annually thereafter. These amounts are in addition to funds needed for annual claim costs. The Five-Year Outlook emphasized this as a significant area in need of additional funding over the next several years. The FY 2009 Five-Year Update reflected a revised balance of $20.4 million.

Reserve Policy

The Reserve Policy established a reserve goal of 50% of outstanding claims for Workers Compensation, to be reached no later than Fiscal Year 2014, based on an increasing annual percentage goal. The 50% goal is intended to insulate the City from possible impacts to programs and services should the City be required to make a large claims payout. For Fiscal Year 2009, the reserve policy outlines a goal of 15% of outstanding claims, currently estimated at $161 million, which results in a required reserve level of $24.15 million.

FY 2009 Budget Levels

The proposed FY 2009 budget sets the Workers Compensation contribution citywide at $27 million, which reflects an increase of $840,000. This amount is described in the proposed budget as $22 million for the pay-as-you-go payment for annual workers compensation claims, plus an additional $5 million for the reserve. This reflects a decrease of $4 million in the annual claims budget from FY 2008, but is consistent with recent annual claims expenditure levels.

Workers' Compensation Experience (in millions)
Source: Risk Management Department

Fiscal Year	# of claims	Cost of Claims
2007	1811	$20.17
2006	1947	$21.83
2005	2033	$23.77
2004	1976	$26.24
2003	2025	$25.18

Adding the $5 million reserve contribution to the current reserve of $20.4 million would result in a total reserve of $25.4 million, which exceeds the required level of $24.15 million by $1.25 million.

Approximately 77% of the total contributions are generated from General Fund departments, as part of the fringe benefits expenditure category (see Fringe Benefits section of this report for a more complete description.)

Issues for Consideration

Consideration could be given to reduce the reserve contributions to the Workers Compensation Fund to allow departmental budget Citywide to be reduced accordingly. This reduction could positively impact the General Fund by almost $1.0 million.

Long Term Disability

Five-Year Outlook

The Five-Year Outlook initially did not discuss or estimate the needs for a Long Term Disability Reserve. The FY 2009 Five-Year Update included the addition of funding for this purpose, following the adoption of the Reserve Policy which specifically highlighted the need for a Long Term Disability Reserve. The City's Long Term Disability Plan provides non-industrially disabled City employees with income and flexible benefits coverage.

Reserve Policy

The Reserve Policy stated that the Long Term Disability Fund contained a balance of $3.0 million (at that time), and the policy established a goal of $12 million by Fiscal Year 2012 to be achieved by increasing reserve contributions by $2.25 million annually, starting in Fiscal Year 2009. Additionally, it was described that a study would be undertaken to determine the feasibility of purchasing insurance as an alternative to the City's practice of self-insuring for this purpose.

FY 2009 Budget Levels

The proposed FY 2009 budget sets the contribution citywide for Long Term Disability at $5.36 million, which reflects an increase of $2.76 million. This increase includes a contribution of $2.3 million towards the reserve for Long Term Disability, consistent with the Five-Year Update and the Reserve Policy.

Approximately 72.7% of the total contributions are generated from General Fund departments, as part of the fringe benefits expenditure category (see Fringe Benefits section of this report for a more complete description.)

ADA Compliance

Americans with Disabilities Act of 1990 (ADA). The Americans with Disabilities Act of 1990 (ADA) addresses the right of people with disabilities to obtain equal access to services, programs, buildings, facilities and employment. The law has far-reaching impacts on local jurisdictions both architecturally and programmatically. In part, the law requires local jurisdictions to make all public infrastructure physically accessible to people with disabilities. In the past, the City of San Diego utilized Community Development Block Grant Funds (CDBG) as the primary funding source for constructing or retrofitting non-compliant public infrastructure.

FY 2009 Proposed Budget Allocation. In keeping with his commitment in last year's Five-Year Financial Outlook, the Mayor has budgeted $10.3 million in FY 2009 for ADA improvements (see CIP #37-064.0 on page 98 of Volume III). This is a reduction of $2 million from the $12.3 million budgeted in FY 2008. The reduction is attributed to less available CDBG funding for ADA improvements. As was the case in FY 2008, the $10 million budgeted in FY 2009 is to be funded from the sale of City land with the remaining $300,000 coming from an allocation of Community Development Block Grants (CDBG).

ADA Project Capacity and Funding. While the IBA commends the Mayor for his continued commitment to fund this important need, we continue to have concerns related to the City's capacity to complete projects within the budget year and the ability to realize needed land sale revenue.

The ADA projects identified for FY 2008 are just entering the design/bid process and are scheduled for final completion in April 2009. The IBA is encouraged, however, to have recently received a preliminary list of identified ADA projects for FY 2009. If this project list can be expeditiously scoped and scheduled, it is reasonable to expect that the identified projects could be substantially completed in FY 2009. The IBA recommends that the Council be apprised on the progress of these projects every six months.

On April 25, 2008 the Financial Management Department Director issued a memorandum specifying that approximately $7.5 million (a combination of land sale and fund balance revenue) was available for ADA improvements in FY 2008. As noted in the Leveraging City Assets section of this report, only $4.8 million of the $55.5 million of City properties authorized for sale have been sold.

If the Proposed Budget is adopted as submitted, significant land sales will be needed in order to fund combined ADA and deferred maintenance project commitments of $15.3 million in FY 2008 and $ 16.8 million of FY 2009.

Other ADA Related Considerations. In FY 2008, approximately $680,000 of ADA funds were allocated for a survey needs assessment. A consultant is to survey City facilities for ADA compliance and develop cost estimates for barrier removal. The Request For Proposal (RFP) for this work is planned to be distributed in May 2008. In FY 2009, approximately $330,000 of CDBG funds is planned for other ADA assessment needs and inputting curb ramp data into the City's GIS system.

This above work is critical to understanding the nature and magnitude of the City's ADA needs. Without the resulting data, it is difficult to effectively plan for the most needed projects. The IBA recommends that the Disability Services Program utilize appropriated funds to ensure the completion of this work in FY 2009.

The total scope and cost of the City's ADA deficiencies has yet to be determined, but may be in the hundreds of millions of dollars. If so, normal increases in construction costs and materials could mean that the City's total cost to achieve compliance is growing faster than the additional funds being budgeted. The IBA recommends that a more precise estimate of total project costs to achieve ADA compliance be developed.

Storm Water

The 2007 Municipal Storm Water Permit greatly increased requirements to improve the City's water quality. Such requirements include enhanced public education, increased business inspection, establishment of minimum private sector Best Management Practices, and the expansion of development planning and monitoring programs.

The FY 2009 Proposed Budget reflects the reorganization of the Storm Water Pollution Prevention Division, formerly of the General Services Department, into a stand-alone department. The newly created Storm Water Department will now be responsible for all aspects of Permit compliance and storm drain infrastructure, including street sweeping and related parking enforcement functions.

The FY 2009 Budget reflects $66 million total funding (including funding allocated in the Capital Improvements Program) for storm water permit compliance, an increase of $18.7 million over FY 2008. Of the $66 million, approximately $53.8 million is in operating expenditures, while $12.2 million is budgeted in CIP. The revised Urban Runoff Management Plan (URMP) is the blueprint for the actions that the City will take to protect and improve the water quality of the region's rivers, bays, and ocean. The revised URMP anticipated $54.2 million would be required for storm water compliance in FY 2009. A more thorough discussion of Storm Water funding can be found in the department review on page 207.

Storm Water Compliance Funding

	FY 2008	FY 2009	Change
CIP Funding	$ 4,777,099	$ 12,205,000	$ 7,427,901
Operating	$ 43,723,857	$ 53,825,175	$ 10,101,318
Total	**$ 48,500,956**	**$ 66,030,175**	**$ 17,529,219**

Deferred Maintenance

The FY 2009 Proposed Budget includes a net total of $109.1 million in funding for Deferred Maintenance/Capital Improvements with a focus on streets, storm drains, and City facilities. The funding of the $109.1 million is from a combination of cash, Proposition 1B funds, and bond financing. The following table illustrates the proposed funding for FY 2009:

		FY 2009
Total Funding		**$109.1[1] million**
Streets and Storm Drains		$73.7 Million
	Prop 1B Funding:	$21.2 Million
	Financing:	$52.5 Million
Facilities		$31.8 Million
	Cash (Land Sales)	$6.8 Million
	Financing:	$25.0 Million

[1] $3.6 Million of the total $109.1 is for Debt Service

Proposition 1B funding. In 2006, California voters approved Proposition 1B which provides funding for local streets and roadway infrastructure. For FY 2009 the City is expecting to receive $21.2 million in Proposition 1B funds. $15.4 has been programmed for streets & bridges, storm drains, street lights, and traffic calming measures. $5.8 Million has been included in the General Services budget for Slurry Sealing of 58.1 miles. It is important to note that to receive Proposition 1B funds, a plan must be submitted to the State's Department of Finance, which identifies the projects. This plan needs to be approved by the City Council. Staff has indicated that they will be bringing this plan forward to the City Council in May or June.

Land Sales. $6.8 million in cash programmed for Facilities deferred maintenance is dependent on the sale of City properties. These funds will be used for the design of FY 2010 Facilities deferred maintenance projects. If the City is not able to sell properties, the $6.8 million will not be available to fund the design of FY 2010 Deferred Maintenance projects. For more information on Land Sales see Page 49 of this report.

Bond Financing. The financing amount included in the FY 2009 budget is consistent with what was proposed in the Mayor's Five-Year Financial Outlook. The $77.5 million in bond financing for FY 2009 and $24.75 million in FY 2008 was approved by the City Council on April 22, 2008.

Completion of the projects. The implementation of the Mayor's Deferred Maintenance plan involves many City departments and variables. The approval of the bond financing on April 22, 2008 was just the first step needed to start work on the various projects. Many of the Deferred Maintenance projects are still in the planning stage. In addition, most of the projects will need to go through the City's contracting process. It would be unrealistic to think that $109.1 million in projects will be completed in FY 2009. Some projects might take multiple years to complete as is typical for Capital Projects. The IBA recommends that staff update the City Council bi-annually on the progress being made on the various projects that the $109.1 million is funding.

Leveraging City Assets

The FY 2009 Proposed Budget includes $16.8 million in revenue from the sale of public properties. The revenue from the sale of public properties has been budgeted in the Capital Improvements Program for ADA related projects ($10.0 million) and the design of FY 2010 Deferred Maintenance projects ($6.8 million). This is very similar to the $15.3 million in revenue included in the FY 2008 budget from the sale of public properties. For FY 2008, $10.0 million was for ADA related projects and $5.3 million for capital improvements for City-owned properties.

Since May 2007, the City Council has approved the sale of 20 City properties with a combined value of $55.5 million. Since that time the City has sold four properties for $4.8 million. This is reflected in the table below:

Real Estate Assets Department staff is optimistic that they will be able to close on enough properties to meet the $15.3 million budgeted for FY 2008.

If the City is not able to sell properties, the $16.8 million will not be available to fund the design of FY 2010 Deferred Maintenance projects and to address ADA projects.

Fiscal Year	Budgeted Revenue	Actual Revenue (As of 4/25/08)
FY 2008	$15.3	$4.8 Million
FY 2009	$16.8	TBD
Total:	**$32.1 Million**	**$4.8 Million**

Position Reductions

Effects of Budget Proposal

For the third year, the Mayor has relied on position reductions to address the City's deficit situation. For FY 2009, the Mayor has recommended a total reduction of 240.75 FTEs, of which, 157.15 will be reduced from the General Fund. An additional 83.60 FTEs are to be reduced from non-general fund departments.

In its review, the IBA has categorized the FY 2009 position reductions into job category or type as defined in the Memorandum of Understandings by and between The City of San Diego and the San Diego Municipal Employees' Association (MEA) and AFSCME Local 127. The categories created include:

- Unclassified/Unrepresented employees who are "at-will" employees and/or not represented by a union. Examples include Program Manager, Supervising Management Analyst, Information Systems Analyst III, etc.
- Municipal Employees Association (MEA) represent employees in the following units:
    - Administrative Support/Field Service Unit includes Clerical Assistant II, Account Clerk, Legal Secretary I, Library Aide, Parking Enforcement Officer I, etc.
    - Professional Unit includes Accountant III, Assistant/Associate Engineer, Senior Management Analyst, Marine Biologist II, Librarian IV, Economist, etc.
    - Supervisory Unit includes Area Manager II, Building Supervisor, Code Compliance Supervisor, Graphic Design Supervisor, Project Officer II, Lifeguard Sergeant, etc.
    - Technical Unit includes City Attorney Investigator, Dispatcher II, Pool Guard I, Recreation Leader II, Legal Assistant, Lifeguard II, etc.
- Local 127 represent employees in the Maintenance, Labor, Skilled Trades and Equipment Operator Unit.

The charts on the next page reflect the distribution of the FY 2009 Proposed Budget position reductions among the City's various bargaining units. General Fund Departments impacted by position reduction include Engineering & Capital Projects, General Services, Park and Recreation, Police, and Library. Of these reductions 79% of the total are classifications represented by MEA.

Non-General Fund Departments impacted by position reductions totaling 83.60 FTEs, shown below, include Airports, Development Services, Environmental Services, Office of the Chief Information Officer (CIO), Library (Grants Fund), Water, and Metropolitan Wastewater. Of these reductions, 37% of the total are classifications represented by Local 127, including positions such as Water Systems Technician and Utility Worker.

General Fund FTE Reductions

BARGAINING UNIT	FTE	%
Unclassified/Unrepresented	(15.00)	9.5%
Municipal Employees Association		
Administrative Support	(24.70)	15.7%
Professional	(38.05)	24.2%
Supervisory	(31.75)	20.2%
Technical	(29.65)	18.9%
Local 127	(18.00)	11.5%
TOTAL	**(157.15)**	**100%**

The positions eliminated for FY 2009 have been required in response to the reductions in the FY 2008 operating budget of all departments, with the exception of public safety. In past reports, the IBA reiterated its position regarding a budget-balancing approach that employs across-the-board percentage cuts as a policy that "lacks thoughtful analysis of organizational priorities and associated service impacts."

Non General Fund FTE Reductions

BARGAINING UNIT	FTE	%
Unclassified/Unrepresented	(10.50)	12.6%
Municipal Employees Association		
Administrative Support	(9.70)	11.6%
Professional	(14.90)	17.8%
Supervisory	(7.50)	9.0%
Technical	(7.50)	9.0%
Local 127	(31.00)	37.1%
Undetermined	(2.50)	3.0%
TOTAL	**(83.60)**	**100%**

As the IBA previously noted in its Review of the Mayor's 2009-2014 Five-Year Financial Outlook, members of the City Council have identified certain service areas as a high priority that should be maintained or enhanced in the budget. Significant position reductions have been proposed for FY 2009 for the priority areas of Park and Recreation and Library.

Use of One-Times

The General Fund budget includes almost $21 million in one-time revenues in FY 2009. Contributing most significantly to the large amount is the reimbursement of expenditures related to the wildfires which occurred in October 2007. While a large portion of the reimbursement is expected to be received in FY 2009, a large percentage of the costs have already been incurred and funded through the FY 2008 budget, through a combination of budget adjustments and the use of reserves, or absorbed in departmental budgets which would have experienced greater savings had the fires not taken place.

On a related note, the City expects to receive a FEMA grant for brush management, over a two-year period. While the grant revenues are considered one-time in nature, brush management efforts will likely need to be an ongoing effort with a commitment of General Fund resource son an annual basis.

ONE-TIME REVENUES

Department/Description	Amount
Citywide Revenue	
Reimbursements from Federal Emergency Management Agency (FEMA) and California Disaster assistance Act (CDAA) for prior year expenditures related to the October wildfires	8,000,000
Corporate partnership with the Pepsi Corporation	511,539
General Services	
Proposition 1B funding from the State for deferred maintenance	5,800,000
Park and Recreation	
FEMA Brush Management Grant ($2.36 M over two years)	1,475,000
Information Technology	
Use of accumulated fund balance	3,500,000
Risk Management (70% of total $2.4 M)	
Use of accumulated fund balance	1,680,000
TOTAL ONE TIME REVENUES	**20,966,539**

One-time expenditures total almost $18 million, and some one-time revenues are utilized to fund the listed one-time expenditures, most notably the Proposition 1B funding from the State which will be utilized to fund street and storm drain maintenance in the amount of $5.8 million.

ONE-TIME EXPENDITURES

Department/Description	Amount
General Services	
Street and storm drain deferred maintenance	5,800,000
Citywide	
Citywide elections	2,700,000
City Planning and Community Investment	
Uptown/North Park/ Golden Hill Community Plan Update Cluster	1,150,000
Fire-Rescue	
Expenses which include equipment repair and purchases, mandated registration fees, and facility repairs	1,330,000
Business Office	
Support for consulting services related to the Managed Competition Program	900,000
Park and Recreation	
Dredging of La Jolla's Children's Pool	40,000
Special Promotional Programs	
Sewer Capacity Charge for Convention Center	5,900,000
TOTAL ONE-TIME EXPENDITURES	**17,820,000**

Redevelopment Agency Repayment

Background

Over the past 30 years, the City has contributed funds to the Redevelopment Agency through a variety of methods, including General Fund loans, Community Development Black Grant (CDBG) loans, and Section 108 loans for redevelopment plan implementation. Under California Community Redevelopment Law, all agencies in the state are required to incur debt in order to legally receive tax increment; an agency can only receive an annual tax increment amount that is no more than the project area's total indebtedness minus its available revenue. This requirement is why it was essential for the City to loan funds to the Agency when project areas were first established; without this debt the project area would have been unable to receive any tax increment to fund redevelopment activities. It has always been anticipated that these funds would be repaid; however, no timetable has been established.

The Proposed Budget identifies a loan repayment from the Redevelopment Agency of $5 million in FY 2009 (with increasing amounts identified for future fiscal years). It is proposed that this source of revenue will be utilized to fund PETCO Park debt service payments. Without this revenue source, additional Transient Occupancy Tax dollars would be needed to fund planned expenditures in the Special Promotional Program Budget. The loan repayment is anticipated to come from the Centre City project area, managed by the Centre City Development Corporation (CCDC).

Mechanics of Loan Repayment. The specific details on this loan repayment are unclear, as the budget does not identify the type of loan being repaid. A majority of the outstanding loans from the Redevelopment Agency represent loans from City CDBG funds. Funds received by the City from the repayment of these loans would still be restricted and could only be used for purposes eligible under CDBG guidelines. Additional details on the mechanics of this loan repayment must be provided before this action is approved by Council.

In addition, the IBA is concerned with using these funds to support the debt service on PETCO Park bonds. These bonds are backed by Transient Occupancy Tax revenues and the IBA recommends that they continue to be paid by the pledged revenues, especially in the absence of concrete information about the type of loan being repaid from the Redevelopment Agency. While a repayment from the Centre City project area has a nexus to PETCO Park by virtue of its location, there is no requirement for the loan repayment to be used within the project area it is being repaid from. And since we cannot be confident about the restrictions on the loan repayment funds at this time, we are concerned that it would be inappropriate to pledge this funding for that purpose. The debt service must be fully budgeted from sources that may appropriately be used, and TOT funding is an appropriate source. Finally, the loan repayment should be paid directly to the General Fund, where the funding is already ending up given that the current proposal simply frees up TOT funds to be transferred to the General Fund. This would be a much more transparent approach to budgeting these funds. The IBA recommends that the loan repayment be budgeted directly in the General Fund and used for purposes consistent with the type of loan being repaid.

Issues for Consideration

Alternatives. The IBA met with CCDC staff to discuss the possibility of increasing the loan repayment to $7.5 or $10 million, versus the $5 million that is currently incorporated in the Proposed Budget. CCDC staff communicated that this could impact the *timing* of planned projects, possibly including Social Services/Capital Needs Program, "C" Street Corridor and/or Fire Station #1. However, they further noted the impact of shifting the timing somewhat would likely not be detrimental and, in fact, may represent a more realistic schedule for these projects. This is also based on a budget that is anticipating $98.6 million in tax increment for FY 2009. The IBA has previously stated that it appears the projected revenues are calculated conservatively. For instance, in FY 2008, $102.1 million is budgeted and approximately $15 million in net tax increment in excess of budget is projected. The IBA will follow up this analysis upon review of the full Redevelopment Agency budget in May.

Wildfire Reimbursement

The FY 2009 Proposed Budget includes $8.0 million in revenue that is anticipated to be received from the Federal Emergency Management Agency (FEMA) and the California Disaster Assistance Act (CDAA) for reimbursement of October 2007 wildfire expenses.

It is projected that total expenditures associated with the October 2007 wildfires will be $22.9 million, with the majority of expenses occurring in FY 2008. Based on information from the Office of Homeland Security, it is estimated that reimbursements will occur over a three year period, beginning in FY 2008 continuing through FY 2010. The projected expenditures and reimbursements by fiscal year are outlined below. Reimbursement projections reflect the ***total possible reimbursement*** that the City may be eligible for. In Fiscal Year 2009, the total estimated reimbursements for the General Fund are $9.1 million, of which, the Mayor has included $8.0 million in the Proposed Budget for the General Fund.

This is a one-time revenue source and should be removed from the budget for Fiscal Year 2010.

Projected Wildfire Expenditures and Reimbursements
(in millions)

	EXPENDITURES		REIMBURSEMENTS	
FISCAL YEAR	General Fund	Non-General Fund	General Fund	Non General Fund
FY 2008	$19.1	$0.6	$6.5	$0.5
FY 2009	$0.0	$3.2	$9.1	$1.4
FY 2010	$0.0	$0.0	$0.1	$1.7
TOTAL	**$19.1**	**$3.8**	**$15.7**	**$3.6**

Expenditure Categories

In our review of the Proposed Budget, an effort was made to provide more analysis and comparative information for the six categories that comprise budgeted expenditures. It is our hope that additional explanatory information related to each of the expenditure categories is useful to the City Council and members of the public, as the budget document relies heavily on the use of the categories throughout the department sections to describe budgetary changes. Information is offered to describe expenditure category information for both the General Fund and for the total Citywide budget, as shown in the charts here. The pages that follow contain detailed descriptions and analysis of each of the six expenditure categories.

GENERAL FUND SUMMARY

Expenditure Category	Proposed FY 09	Final FY 08	Change
Salaries & Wages	525,949,079	499,191,888	26,757,191
Fringe Benefits	280,378,842	271,645,420	8,733,422
Supplies (incl. reserves & pro	306,988,300	259,804,185	47,184,115
Information Technology	38,071,177	39,272,572	(1,201,395)
Energy & Utilities	27,111,126	25,655,302	1,455,824
Equipment Outlay	10,140,906	10,761,585	(620,679)
TOTAL	**1,188,639,430**	**1,106,330,952**	**82,308,478**

CITYWIDE SUMMARY

Expenditure Category	Proposed FY 09	Final FY 08	Change
Salaries & Wages	710,199,798	712,379,422	(2,179,624)
Fringe Benefits	378,780,652	382,360,021	(3,579,369)
Supplies (incl. reserves & pro	1,992,150,870	1,614,107,522	378,043,348
Information Technology	72,593,791	78,078,117	(5,484,326)
Energy & Utilities	84,218,322	76,881,412	7,336,910
Equipment Outlay	56,815,085	52,234,165	4,580,920
TOTAL	**3,294,758,518**	**2,916,040,659**	**378,717,859**

Salaries & Wages

Summary

The Salaries and Wages expenditure category reflect the salaries that are linked directly to positions, hourly wages, overtime, and special pay expenses. The Fiscal Year 2009 Proposed Budget reflects a net reduction in salaries of $2.1 million, or 0.3% of the total budget (as detailed below); however, the General Fund is projected to increase by $26.8 million, or 5.4%. The General Fund is primarily proposed to increase as a result of the restructuring of Engineering and Capital Projects, in which the positions in the divisions supported by an Internal Service Fund have been transferred to the General Fund; and the proposed salary increases for sworn police officers and firefighters.

Salary Changes by Fund

FUND	FY08 BUDGET	FY09 PROPOSED	CHANGE	%
General Fund	$ 499.2	$ 525.9	$ 26.7	5.3%
Special Revenue Funds	21.1	19.2	(1.9)	-9.0%
Enterprise Funds	156.9	141.4	(15.5)	-9.9%
Internal Service Funds	31.7	20.1	(11.6)	-36.6%
Trust and Agency Funds	4.9	5.1	0.2	4.1%
TOTAL SALARIES	**$ 713.8**	**$ 711.7**	**$ (2.1)**	**-0.3%**

Proposed Salary Increases. At the time of publication of the Proposed Budget document, the City of San Diego was still in negotiations with all labor organizations, including Police Officers Association (POA), Local 145-Firefighters, Local 127, Municipal Employees Association (MEA), and the Deputy City Attorneys Association (DCAA). In April, tentative one-year agreements with POA and Local 145 were achieved and are outlined in the below chart. The projected increases for Salaries and Wages is anticipated to be $10.4 million (the total estimated impact on Personnel Expenses is $15.4 million).

Proposed Salary Increse

BARGAINING UNIT	SALARY	FRINGE	TOTAL PE	BUDGETED CONTINGENCY
POA	$7.2 m	$3.4 m	$10.6 m	$10.3 m
Local 145	$3.2 m	$1.6 m	$4.8 m	$3.3 m
TOTAL	**$10.4 m**	**$5.0 m**	**$15.4 m**	**$13.6 m**

Although *actual impacts* were not included in the proposed budget for POA and Local 145, contingencies were established, also outlined in the above chart. The contingencies were estimated at $13.6 million and have not been allocated between the Salaries and Wages and Fringe Benefits expenditure categories. An additional $1.8 million will need to be identified to fund the proposed salary increases. Also, it is unclear whether the estimates for the proposed increases include the associated impacts on special pays. A variety of special pays are instituted as a percentage of the base salary (i.e. detective pay, field officer training pay, EMS specialty pay, Urban

Search and Rescue pay). In the past when salary increases were approved, the additional costs for special pays was not addressed and resulted in the department absorbing these costs. The Mayor's previous budgets addressed this under-funding and should not re-create the problem in this budget.

At this time, the outcomes of the remaining three labor negotiations are still pending. If any additional salary increases are agreed upon, additional funding will need to be identified by the Mayor's office for inclusion in the Final Budget, as the proposed budget does not include any other contingencies to address this.

Terminal Leave. Terminal Leave reflects the annual leave that an employee has accrued through their years of service that must be paid out to them upon their departure from the City. In the past, departments absorbed this expense. The FY 2009 Budget proposes to increase this line item by $2.3 million in the General Fund. There are no funds budgeted for this purpose in other funds. The IBA questions why this practice wasn't applied citywide. The budgeted amounts per department are detailed in the next chart.

Terminal Leave

DEPARTMENT	FY 08 BUDGET	FY 09 BUDGET
City Council		36,000
City Clerk		4,855
City Attorney		6,891
City Treasurer		14,630
City Planning and Community Investment		34,539
Police		1,031,489
Fire-Rescue	700,000	1,261,042
Library		153,888
Engineering and Capital Projects		156,338
Park & Recreation		150,368
Environmental Services		102,271
General Services		88,477
Customer Services		5,104
TOTAL	**700,000**	**3,045,892**

Consistency with Financial Outlook. The Five-Year Financial Outlook did not project any salary increases for Fiscal Years 2009-2013. In the next update of the Outlook, the IBA recommends information be presented that would indicate how possible salary increases could impact the projections (i.e. a table that details what a one-percent salary increase would equate to for each bargaining unit).

The Outlook projected terminal leave for FY 2009 of $5.6 million; this would have been a $4.9 million increase from FY 2008. The actual amount currently budgeted is approximately 50% less than the original projection. In our review of the Outlook, the IBA noted concern on whether additional funds needed to be programmed for this purpose given the high level of salary savings. For the first year of implementing this practice, the IBA believes the amount proposed seems fair and will review the amount in future budgets.

VACANCY FACTOR

Summary

The City institutes a vacancy factor to capture the personnel expense savings that may occur from normal attrition and the hiring of employees who may make less than the average budgeted salary. Per the budget document, a vacancy factor is applied to all departments with 10.00 or more FTE.

Changes from Fiscal Year 2008. The overall vacancy factor for Fiscal Year 2009 is 4.1%, which is the same as last year; the General Fund vacancy factor is 3.5%, which is less than the factor applied last year. In reviewing the proposed vacancy factor with last year's, the biggest difference is the application to General vs. Non-General Funds. As detailed in the below chart, the General Fund represents approximately 74% of the City's total Personnel Expenses; however, the vacancy factor for the General Fund is less, representing 63% of the total factor applied. This has changed significantly from the prior year. Since this is a budget approach to reflect normal attrition that is to be applied consistently across all City departments, the IBA questions why the factor is applied disproportionately between the general and non-general funds.

Consistency with Financial Outlook. The Vacancy Factor for the General Fund is essentially consistent with the Financial Outlook. The Outlook identified a vacancy factor of 3.4% for the General Fund in Fiscal Year 2009, which is only slightly different than the actual factor proposed (3.5%).

Vacancy Factor (in millions)

FUND	PE	%	VF	%
FISCAL YEAR 2008				
General Fund	$ 770.8	70.3%	$ 34.7	74.3%
Non-General Funds	$ 326.1	29.7%	$ 12.0	25.7%
TOTAL SALARIES	**$ 1,096.9**		**$ 46.7**	
FISCAL YEAR 2009				
FUND	**PE**	**%**	**VF**	**%**
General Fund	$ 806.3	73.9%	$ 29.1	62.7%
Non-General Funds	$ 285.0	26.1%	$ 17.3	37.3%
TOTAL SALARIES	**$ 1,091.3**		**$ 46.4**	

Fringe Benefits

Summary

The Fringe Benefits expenditure category consists of the costs to provide employee benefits. Typical employee benefits include the flexible benefit program, insurance, and retirement. According to the City Charter, fringe benefit expense is not considered a salary or wage expense.

Specific Components of Fringe Benefits. Fringe Benefits include payments to the retirement system (including retirement offsets and contributions for the pension liability), contributions to employee savings plans (SPSP), flexible benefit plan funding, unemployment insurance, FICA/Medicare insurance, and retiree health (OPEB) funding. It also includes contributions for Risk Management Administration, and Workers Compensation and Long Term Disability insurance.

Total fringe benefits are often expressed as a percentage of the Salaries and Wages expenditure category as many of the fringe items are funded through the application of rates, which are applied to employee salaries each pay period (every two weeks). However, some fringe expenditure items are a fixed cost allocated among City departments based on total budgeted positions, and target amounts are required to be generated by fiscal year-end. Contributions of some of the fixed cost items occur in the form of one-time transfers, rather than on a regular, bi-weekly basis, and may skew the actual expenditure pattern throughout the year, causing spikes when transfers are executed. For FY 2008, fixed fringe items together comprised 75% of the total fringe budget, while the remaining 25% is tied to employee salaries, and can be affected by actual staffing levels.

Impacts to Other City Funds. Fringe expenditure items in City departments for Risk Management Administration, and Workers Compensation and Long Term Disability Insurance (among other fringe items) become the source of revenue to other City funds, where the payment of claims and related activities and expenditures occur. Budgets for the Workers Compensation and Long Term Disability Insurance Funds are not explicitly displayed in the budget document, though these two areas have received increased attention and significant funding in the Five-Year Outlook and the proposed budget, in order to augment reserves to protect the City from possible impacts of the payment of large claims.

FY 2009 Citywide Fringe Benefits Budget. The Fringe Benefit expenditure category Citywide reflects a total decrease of $3.5 million from the FY 2008 budget. Decreased funding is expected due to reduction of 127.13 FTEs in the proposed budget citywide.

SUMMARY OF FRINGE BENEFITS BUDGET CHANGES

CITYWIDE (in millions)	FY 2008	FY 2009	Change
Retirement Contribution	$ 165.5	$ 161.8	$ (3.7)
Pension Liability Contribution	19.3	19.3	0.0
Retirement Offset	19.7	18.8	(0.9)
Retiree Health (OPEB)	48.1	50.0	2.0
SPSP Contributions	21.2	23.8	2.5
Flexible Benefit Plan	58.0	55.2	(2.8)
Management Fringe Benefits	2.6	2.6	0.1
Workers Compensation Insurance	26.2	27.0	0.8
Risk Management Administration	9.1	6.6	(2.5)
Long Term Disability Insurance	2.6	5.4	2.8
Unemployment Insurance	0.9	1.1	0.1
FICA/Medicare Insurance	9.6	7.8	(1.8)
Unused Sick Leave	0.4	0.4	(0.0)
TOTAL	**$ 383.1**	**$ 379.5**	**$ (3.5)**
Total Salaries and Wages	$ 713.8	$ 711.7	$ (2.1)
Fringe as % of Salaries	*54%*	*53%*	

FY 2009 General Fund Fringe Benefits Budget. The Fringe Benefit expenditure category for the General Fund, however, reflects an increase of $8.7 million, and reflects the increase of 218.98 FTEs for the General Fund.

SUMMARY OF FRINGE BENEFITS BUDGET CHANGES

GENERAL FUND (in millions)	FY 2008	FY 2009	Change
Retirement Contribution	$ 123.9	$ 126.1	$ 2.2
Pension Liability Contribution	13.4	14.1	0.8
Retirement Offset	14.1	13.9	(0.2)
Retiree Health (OPEB)	32.2	35.1	2.9
SPSP Contributions	10.8	14.0	3.2
Flexible Benefit Plan	38.5	38.5	0.0
Management Fringe Benefits	1.9	2.0	0.1
Workers Compensation Insurance	21.5	20.8	(0.7)
Risk Management Administration	6.1	4.6	(1.5)
Long Term Disability Insurance	1.8	3.9	2.1
Unemployment Insurance	0.6	0.8	0.1
FICA/Medicare Insurance	6.6	6.2	(0.3)
Unused Sick Leave	0.3	0.3	0.0
TOTAL	**$ 271.6**	**$ 280.4**	**$ 8.7**
General Fund as % of Citywide	**71%**	**74%**	
Total Salaries and Wages	$ 499.2	$ 526.0	$ 26.8
Fringe as % of Salaries	*54%*	*53%*	

Impacts to Fringe Benefits. The Fringe Benefit expenditure category will change for departments, and in total, from year to year, due to the addition or reduction of budgeted positions and/or negotiated salary increases. Changes for these reasons should correspond to changes to the Salaries and Wages category caused by the position and/or salary changes. Changes to negotiated benefits, and policy decisions impacting the level of contributions to the retirement system and retiree health obligations and respective unfunded liabilities also impact the Fringe Benefit category, though would not reflect a corresponding change to Salaries and Wages. Revised rates to generate changed funding levels for City insurance programs, reserves and their related administration also solely impact the Fringe Benefit category. Many of these items are beyond the ability of individual departments to control when establishing their budgets, or during the year as expenditures occur.

Contributions citywide for Risk Management Administration were reduced by $2.4 million for FY 2009, due to the planned use of accumulated fund balance likely caused by the over-collection of contributions in FY 2008, as noted in monitoring reports for the First Quarter and at Mid-Year. The benefit of the use of the fund balance in FY 2009 is one-time in nature, and is not expected to continue in future years.

Also noted in the First Quarter Monitoring Report were issues related to the FY2008 budget for Supplemental Pension Savings Plan (SPSP). It appears the FY 2008 budget for SPSP was not based on prior year actual experience. Actual SPSP expenses have not varied from year to year, based on experience to-date. However, the FY 2008 budgeted amount was almost $2 million less than FY 2007 levels. Adjustments related to application of the vacancy factor for the Police Department were not properly allocated, and caused discrepancies among the fringe benefit accounts.

The BPR for Engineering and Capital Projects resulted in the transfer of 165.73 FTEs from an internal service fund to the General Fund for FY 2009. This transfer increases the total General Fund positions and increases the percentage of the General Fund's share of fringe benefits, when compared to the total. For FY 2008, the General Fund's share of total fringe benefits is 71%, which will increase to 74%, based on the proposed budget for FY 2009.

Needed Changes to Fringe Benefits. Due to negotiated salary increases for POA and Local 145, both the Salaries and Wages, and Fringe Benefit expenditure categories will increase, with offsetting reductions to the Supplies and Services category, where funds have been included in the proposed budget as a placeholder for this purpose. Additionally, fixed cost fringe items, including retirement contributions, will likely need to be reallocated among all City departments, based on the new salary amounts. Last year, a similar adjustment was outlined in the Mayor's May Revision for the same reasons. These adjustments will not result in an increase to the Citywide budget, but rather, a reallocation of the total among departments. Increases to the total budget may be needed, depending on the outcome of ongoing negotiations with the remaining labor organizations.

Consistency with Financial Outlook. The Five-Year Financial Outlook did not include impacts related to salary increases for Fiscal Years 2009-2013. Because of this, it is assumed that salary-related fringe benefit increases were also not included in the Outlook. However, the Outlook reflects increases each year to fringe benefits, due to expected increases in the annual required contribution to the retirement system, and to increase funding for retiree health obligations. The FY 2009 Outlook estimated General Fund fringe benefits to reach $274.2 million, which is less than the proposed budget level of $280.4 million. It is interesting to note that the amount shown in the fringe benefit category in the proposed budget does not yet include the impact of the negotiated salary increases, though these impacts were also not identified in the Outlook.

Non-Personnel Expenditures

SUPPLIES & SERVICES

This expenditure category consists of materials, supplies, contractual services, fees, and other services. Many significant and diverse expenditure items are captured in this category including debt payments, water purchases, office space rent, costs related to motive equipment usage and replacement, as wells fund transfers for capital projects, reserves and insurance.

Unfortunately, the information contained in the City's budget documents does not very clearly describe the various components that comprise this significant expenditure category. Construction and consultant contracts are also reflected here, and many of the priority areas receiving enhanced funding, like storm water compliance, deferred maintenance, and street and sidewalk improvements are reflected here. Additional information has been provided in this report to attempt to explain the myriad of expenditure accounts captured in the City's Supplies & Services expenditure category. It is the IBA's hope that future budget documents will expand the information in this area, and that consideration will be given to the use of subcategories to better communicate the various activities collected in this area of the City's budget.

FY 2009 Citywide Supplies & Services. The Supplies and Services expenditure category totals almost $2.0 billion citywide, reflecting a $378 million increase over FY 2008, or growth of 23.4%. The Supplies and Services category represents 60% of the total budget. The chart reflects significant components within this category in descending order.

Citywide Supplies & Services (in millions)	Proposed FY 09	Final FY 08	Change	% change	FY 2009 % of total
Construction Contracts	$ 670.2	$ 353.0	$ 317.3	89.9%	33.6%
Bond/Loan Payments	237.7	203.2	34.5	17.0%	11.9%
Cash Transfer to Other Funds	116.4	45.0	71.4	158.7%	5.8%
Water Purchases	110.5	107.3	3.2	3.0%	5.5%
Reserves	96.3	94.6	1.7	1.8%	4.8%
Other City Depts/Gen Govt	95.1	79.5	15.6	19.6%	4.8%
Supplies	91.3	93.4	(2.1)	-2.2%	4.6%
Motive Equipment/Rental	87.0	82.2	4.8	5.8%	4.4%
Gas Tax/TransNet	63.2	72.6	(9.4)	-12.9%	3.2%
Insurance/Liability Fund	39.4	33.2	6.2	18.7%	2.0%
Janitorial/Repair/Landscaping	36.3	37.5	(1.2)	-3.2%	1.8%
SDCERS Consultants	27.7	32.0	(4.3)	-13.4%	1.4%
Other Consultants	24.7	23.9	0.8	3.4%	1.2%
Rent	24.3	24.7	(0.3)	-1.3%	1.2%
Contractual Svcs - Other Agencies	22.0	20.1	1.9	9.5%	1.1%
TOT Allocations to Orgs	16.5	66.1	(49.6)	-75.0%	0.8%
Refuse Disposal Fees	14.4	15.5	(1.1)	-7.1%	0.7%
Repair & Maintenance Road	11.0	5.2	5.8	112.8%	0.6%
Printing/Advertising	7.3	7.4	(0.1)	-1.8%	0.4%
SUBTOTAL	**$ 1,791**	**$ 1,396**	**$ 395.0**	**28.3%**	**89.9%**
Citywide Supplies & Services	**$1,992.2**	**$1,614.1**	**$ 378.1**	**23.4%**	

FY 2009 General Fund Supplies & Services. The Supplies and Services expenditure category totals $307 million in the General Fund proposed budget, which reflects an increase of $47.2 million from FY 2008, or 18.2%. Supplies and Services comprises 26% of the General Fund budget, and the General Fund portion is 15% of the total amount budgeted in this category. In anticipation of negotiations with the labor unions, the proposed budget included the addition of $13.6 million as a placeholder for possible impacts, which was included in the Supplies & Services category. During the finalization of the budget, this amount will be reallocated to the Salaries & Wages, and Fringe Benefit expenditure categories, with a corresponding reduction seen in Supplies & Services. Adjusting the totals for this purpose results in a revised General Fund Supplies & Services level of $293.3 million, and a 12.9% increase over FY 2008. The chart reflects significant components within this category in descending order.

General Fund Supplies & Services (in millions)	Proposed FY 09	Final FY 08	Change	% change	FY 09 % of total
Motive Equipment/Rental	$ 56.8	$ 53.0	$ 3.8	7.2%	18.5%
Construction Contracts	47.3	38.6	8.7	22.5%	15.4%
Other City Depts/Gen Govt	33.7	30.0	3.7	12.3%	11.0%
Insurance/Liability Fund	30.0	20.1	9.9	49.3%	9.8%
Supplies	23.9	22.4	1.5	6.7%	7.8%
Other Consultants	18.1	18.0	0.1	0.6%	5.9%
Rent	12.8	11.4	1.5	12.8%	4.2%
Refuse Disposal Fees	12.5	13.1	(0.6)	-4.6%	4.1%
Janitorial/Repair/Landscaping	12.3	11.6	0.7	6.0%	4.0%
Bond/Loan Payments	11.2	-	11.2	n/a	3.6%
Repair & Maintenance Road	10.9	5.1	5.8	113.7%	3.6%
Cash Transfer to Other Funds	8.8	7.8	1.0	13.3%	2.9%
Contractual Svcs - Other Agencies	6.8	6.2	0.6	9.7%	2.2%
Contract Svc Operations	5.1	4.7	0.4	8.5%	1.7%
Printing/Advertising	4.9	4.9	0.0	0.4%	1.6%
Transportation Allow/Parking	2.9	2.5	0.4	17.1%	0.9%
Legal Fees	1.3	0.1	1.2	1400.0%	0.4%
Library Matching Funds	1.0	1.0	-	0.0%	0.3%
SUBTOTAL	$ 300.3	$ 250.3	$ 50.0	20.0%	97.8%
General Fund Supplies/Services	$ 307.0	$ 259.8	$ 47.2	18.2%	

Consistency with Financial Outlook. The Five-Year Financial Outlook reflected the Supplies and Services expenditure category specifically to total $236.1 million for the General Fund for FY 2009. However, additional expenditure items separately outlined in the Outlook would likely fall in the Supplies & Services category, including allocations for reserves, storm water runoff compliance, and the public liability fund. Adding these items brings the Outlook total to $278.4 million. The FY 2009 proposed budget is significantly higher than the Outlook estimate by $15 million.

INFORMATION TECHNOLOGY

This expenditure category includes data center, network, procurement and maintenance of hardware, software, telephones, and associated labor. The City's Office of the Chief Information Officer coordinates the information technology budget, working with San Diego Data Processing Corporation (SDDPC), the City's primary provider for information technology needs. Recent efforts have moved the City from a decentralized Information Technology structure to a centralized IT function, transferring staff from various City departments, with the goal to ensure consistent application of policies, to achieve efficiencies and provide enhanced customer service and support citywide. This included the creation of IT Group Managers to provide key communication, oversight and coordination of City departmental IT needs. As part of this restructuring, major steps have been undertaken to implement best practices and standardizations citywide that, over time, are planned to allow for the provision of IT service and support in the most effective way, given limited resources.

Significant reductions were made in the Information Technology area as part of the FY 2009 budget development process. Most notably, the IT Group Managers, recently recommended through the Information Technology Business Process Reengineering effort, have been eliminated from the proposed budget. Additionally, SDDPC has been instructed to reduce its budget for the upcoming year in anticipation of reduced services to be required by the City. Accordingly, City departmental budgets have been reduced in this area. Service impacts are inevitable, and have not been clearly defined. In addition, replacement schedules for computers have been extended, and accumulated fund balances in Information Technology-related funds are being utilized for budget balancing purposes. Some of these impacts are one-time in nature, and will not be available as a recurring source in future budget years.

FY 2009 Citywide Information Technology Budget. The Information Technology expenditure category totals $72.6 million citywide, reflecting a $5.5 million reduction in total over FY 2008, or a 7.0% drop. Information Technology represents 2.2% of the total budget.

FY 2009 General Fund Information Technology Budget. The Information Technology expenditure category totals $38.1 million in the General Fund proposed budget, which reflects a decrease of $1.2 million from FY 2008, or a 3.1% reduction. Information Technology represents 2.3% of the General Fund budget, and the General Fund portion is 52% of the total amount budgeted in this category.

Information Technolog	Proposed FY 09	Final FY 08	Change	% change
Citywide	72,593,791	78,078,117	(5,484,326)	-7.0%
General Fund	38,071,177	39,272,572	(1,201,395)	-3.1%
GF as % of Citywide	52%	50%	22%	

Due to reorganizations which have occurred, the transition of departments from non-general fund to General Fund status should result in additional IT funds for the General Fund. However, because of the severity of the reductions that are proposed, positive impacts from restructuring are not apparent in the General Fund in the Information Technology area.

A-List Project Fund. The FY 2008 budget contained the allocation of $1.5 million to the A-List Project Fund, where priority, citywide information technology projects are centrally funded, typically with contributions from multiple city departments and funds. Last year, the IBA requested additional information about the level of funding and the specific projects to be funded with existing and new A-List Project funding. The proposed budget for FY 2009 contains no allocations for the A-List Project Fund, resulting in a reduction of $1.5 million from FY 2008. In addition, the budgets of departments responsible for citywide financial systems, including Financial Management and the City Comptroller, reflect a shift of funding from previous contributions to the A-List fund to now a direct budgeting of costs in their departments, for ongoing computer system support. This apparent transition from the A-List Project fund is desirable.

Consistency with Financial Outlook. The Five-Year Financial Outlook estimated Information Technology expenditures for FY 2009 at approximately $40.7 million for the General Fund. Annual inflationary increases of 4% were included, in addition to changes reflecting planned departmental needs over the five year period. Comparatively, the FY 2009 proposed budget totals $38.1 million, reflecting a decline of $2.6 million from the Outlook estimate.

ENERGY/UTILITIES

This expenditure category includes gas, electrical, water, sewer, telephone, and other utility expenses. Budget allocations are based on previous year actual expenditure activity, adjusted for expected changes due to new facilities and equipment locations, or increased usage requirements, and expected rate changes. During the budget process, estimates are provided to departments for inclusion in the proposed budget. Year to year changes are described as non-discretionary adjustments in the department detail of the budget document. Actual experience may vary from budgeted levels during the year due to changes in usage, or changed opening dates of new facilities.

FY 2009 Citywide Energy/Utilities Budget. The Energy and Utilities expenditure category totals $84.2 million citywide, reflecting an increase of $7.3 million in total over FY 2008, or a 9.5% increase. Energy and Utilities represents 2.6% of the total budget.

FY 2009 General Fund Energy/Utilities Budget. The Energy and Utilities expenditure category totals $27.1 million in the General Fund proposed budget, which reflects an increase of $1.5 million from FY 2008, or a 5.7% increase. Energy and Utilities represents 2.3% of the General Fund budget, and the General Fund portion is 32% of the total amount budgeted in this category.

Energy & Utilities	Proposed FY 09	Final FY 08	Change	% change
Citywide	84,218,322	76,881,412	7,336,910	9.5%
General Fund	27,111,126	25,655,302	1,455,824	5.7%
GF as % of Citywide	32%	33%	20%	

With 82% of the fiscal year completed, $20.7 million has been expended and/or encumbered, from the $25.7 million FY 2008 budget, representing 77% of the budget allocation utilized to date. At the time of the Mid-Year Monitoring Report, several departments were projecting overexpenditures in this category, with a projected deficit of $374,000 for the General Fund in total. Budget changes for FY 2009 reflect increases for Energy and Utilities for many of these departments that include the City Clerk, City Comptroller, Mt. Hope Cemetery, Fire-Rescue, and Park and Recreation.

Consistency with Financial Outlook. The Energy and Utilities expenditure category was estimated at $28.8 million for the General Fund for FY 2009 in the Five-Year Financial Outlook. Future years of the Outlook contained inflationary increases of 5% annually, and increases of $1.365 million were also added to account for escalating fuel costs, which, if incorporated, would be reflected in motive equipment usage rages (within the Supplies & Services category). The proposed budget for FY 2009 shows a slight decrease of $1.7 million from the Outlook estimate.

EQUIPMENT OUTLAY

This expenditure category includes purchases of capital equipment, such as furniture, vehicles, large machinery, and other capital items. The Equipment and Vehicle Financing Program is budgeted within this expenditure category.

Expenditures that fall within the Equipment Outlay expenditure category are typically one-time in nature. This category should be subject to a zero-based budget review, with department budget levels required to be fully justified each year. It is possible for equipment outlay allocations to be appropriate in a particular year based on the addition of new employees with new requirements for office furniture, equipment or other needs. However, budget allocations automatically roll to the next year. Because of this, proactive measures are needed to reevaluate funding levels for the upcoming year. In prior years, expenditures in this category have been strictly controlled as a means to balance the budget.

FY 2009 Citywide Equipment Outlay Budget. The Equipment Outlay expenditure category totals $56.8 million citywide, reflecting an increase of $4.6 million in total over FY 2008, or an 8.8% increase. Equipment Outlay represents 1.7% of the total budget.

FY 2009 General Fund Equipment Outlay Budget. The Equipment Outlay expenditure category totals $10.1 million in the General Fund, which reflects a decrease of $620,000 from FY 2008, or a 5.8% drop. Equipment Outlay represents less than 1% of the General Fund budget. The General Fund portion is 18% of the total amount budgeted citywide in this category, declining from 21% in FY 2008.

Equipment Outlay	Proposed FY 09	Final FY 08	Change	% change
Citywide	56,815,085	52,234,165	4,580,920	8.8%
General Fund	10,140,906	10,761,585	(620,679)	-5.8%
GF as % of Citywide	18%	21%	-14%	

With 82% of the fiscal year completed, $5.5 million has been expended and/or encumbered, from the $10.8 million budget, representing just 51% of the budget allocation utilized to date.

Consistency with Financial Outlook. The Five-Year Financial Outlook reflected Equipment Outlay expenditures to reach $12.6 million for the General Fund for FY 2009, which included a 3% annual inflationary increase, in addition to other expected needs. As the IBA previously noted, this category has been the subject of previous budgetary reductions, showing declines from year to year. The proposed budget for FY 2009 shows a drop of $2.5 million from the amount contained in the Outlook.

Issues for Consideration

- With current cash funding of $4 million, and the expected transfer of the FY 2008 allocation of $1.5 million (yet to be made), the IBA recommends a review of the status of the priority projects planned to be funded with the A-List Project Fund, with consideration given to the cancellation of lower priority tasks, and/or the possible return of excess funds to allow other priority programs and services to be funded or restored for FY 2009.

- The IBA recommends that the Equipment Outlay expenditure category be reevaluated to determine if additional reductions could be managed for General Fund departments that may not have specific, documented needs for equipment purchases during the next fiscal year. Additional reductions would bring budget allocations for next year in line with recent expenditure trends.

Business Process Reengineering/ Managed Competition

Summary

Extensive discussions have taken place throughout the year on Business Process Reengineering (BPR) and Managed Competition (MC). Primarily, the discussions are still focused on process issues, including City Council's role, especially as it relates to ensuring service quality is maintained; communication of service information once a BPR is completed; and the impact of linking the BPR and Managed Competition processes, resulting in the withholding of BPR findings pending the outcome of the competitive procurement process. This last issue is of concern due to delays in realizing BPR savings and implementing operational efficiencies.

Recently, the IBA has proposed amendments to the BPR ordinance to address the timely implementation of BPR findings that demonstrate that cost savings, efficiencies, or service level enhancements can be achieved; timely reporting to Council of service levels identified in BPR studies for functions involved in an active managed competition procurement process; and improving the docketing process of BPRs for Council review and approval. The overall goals of our proposed recommendations are aimed at reducing the length of delays currently experienced with the BPR process. Supported by the Budget and Finance Committee, it is anticipated that the full City Council will decide on these proposals in May 2008.

Current Status of BPRs / MC

In Fiscal Year 2008, two BPRs for Engineering and Capital Projects and Lifeguards were brought before the City Council. Both BPRs were approved by the Council in July 2007. It is anticipated that three more BPRs for Police, Fire, and Water-Administration will be heard before the Council in the upcoming months.

The Five-Year Financial Outlook did not include any projected savings as a result of BPRs or Managed Competition. The Fiscal Year 2009 Proposed Budget includes no new significant savings attributable to these processes. Conflicting messages have been conveyed on whether future BPRs will result in any significant savings. Any savings from Managed Competition are not anticipated until Fiscal Year 2010, at the earliest, based on the latest high-level timeline provided by the Mayor, as outlined below:

Managed Competition Timeline

ACTIVITY	TIMELINE
Initiate pre-competition assessments	By end of 2007
Complete initial pre-competition assessments	Winter 2008/Spring 2008
Announce functions for initial procurement	Spring 2008
Develop Request for Proposals (RFP)	Spring-Summer 2008
Advertise solicitation	Summer 2008
MC Independent Review Board (IRB) reviews proposals	Fall 2008
Mayor/Council consider award recommendations	End of 2008
Transition to proposed service delivery process compelted	By Summer 2009
Begin performance monitoring	Thereafter

Currently, the results of the pre-competition assessments of 16 functions within the General Services and Environmental Services Departments are pending.

Status of Implemented BPRs

Fiscal Year 2008 represented the implementation phase of multiple BPRs, including Human Resources, Contracts, Information Technology, Fleet Services, and Metropolitan Wastewater. Currently, updates on the status of implemented Business Process Reengineering efforts have not occurred. However, in review of the Proposed Budget, the IBA noted the following that may impact the Information Technology and Human Resources BPRs:

- The Human Resources BPR, approved by the City Council in October 2006, recommended the creation of three Group Human Resources Manager positions that would "assist with continuing improvements in human resources policies and procedures citywide." These positions, budgeted as Program Managers, were added to the Public Safety, Public Works, and Neighborhood and Customer Services (currently Community Services) Groups.
- Similarly, the Information Technology BPR created Group Information Technology Managers to "ensure consistent application of policy, to develop teams to continue the review and evaluation of the City's information technology functions, and to guide the implementation of the plan which was developed." IT Group Managers, budgeted as Program Managers, were added to the Public Safety, Public Works, Land Use and Economic Development (currently City Planning and Development), and Neighborhood and Customer Services (currently Community Services) Groups.

The Fiscal Year 2008 Budget reflected the creation of these seven program managers by transferring existing positions from other City Departments. For Fiscal Year 2009, the budget proposes a net reduction of six (of the original seven) program managers as summarized in the following chart:

Possible Impacts to IT/HR BPRs

GROUP	FY08 BUDGET HR BPR	FY08 BUDGET IT BPR	FY09 BUDGET	NET IMPACT
Public Safety	1.00	1.00	(1.00)	1.00
Public Works	1.00	1.00	(2.00)	-
City Planning and Development[2]		1.00	(1.00)	-
Community Services[3]	1.00	1.00	(2.00)	-
	3.00	4.00	(6.00)	1.00

[1] 1.00 Program Manager in Public Safety transferred to Labor Relations
[2] Previously Land Use and Economic Development
[3] Previously Neighborhood and Customer Services

The budget document does not communicate how these reductions will impact the outcome of their respective BPRs.

Anticipated Debt Financings

The CFO estimates that the Comptroller will complete the City's FY 2007 financial statements and receive an audit opinion from the external auditor by July 2008. If so, the City will be current with its financial statements and poised to access the public capital markets for the first time in several years. It is possible that the rating agencies could restore the City's credit ratings before the FY 2007 financial statements are completed.

Accessing the public capital markets will significantly reduce the interest expense that would otherwise be charged by private lenders. Long-term rates remain relatively low which is another favorable consideration as the City endeavors to replace short-term private debt with long-term public debt. Most of the public assets financed in recent years tend to have long-term useful lives (i.e., wastewater and water infrastructure). Matching the term of the City's debt to the useful life of the financed asset is an equitable and recommended best practice.

Excluding the annual Tax and Revenue Anticipation Note (TRAN) borrowing, there are three major financings contemplated for completion in FY 2009. Each of these is briefly discussed below:

Pension Financing. The FY 2009 Proposed Budget indicates that debt is being planned to fund the Retirement System with an additional contribution. More specifically, the IBA has been informed that the contemplated bonds will be used to pay the outstanding portion of the McGuigan Settlement. Although the FY 2009 Proposed Budget (Volume I, pages 8 and 85) indicates that the borrowing will be $50 to $60 million, the IBA has recently been informed that the private borrowing may be in the $30 to $50 million range. Debt service on these bonds would be paid from the residual amount of annual employee offset savings.

The IBA has been informed that the bonds would be structured as an asset transfer lease revenue financing. The bonds would be issued at a fixed rate for a ten-year term. Employee offset savings of $7.6 million have been budgeted in Citywide Program Expenditures for FY 2009 to pay debt service on these bonds. The Debt Management Department plans to bring an ordinance to Council for the contemplated financing in late June 2008. If approved, the ordinance would become effective approximately two months later and the bonds could be issued in late August 2008.

Water Financing. The Water Department has indicated that they will need to borrow approximately $150 million in FY 2009 to continue to fund water system improvements and comply with the Department of Public Health Compliance Order. Additionally, there is a need to refinance approximately $227 million of outstanding 2007A and 2008A Water Revenue Notes. There may also be an opportunity to refund a significant portion of the 1998 Certificates of Participation in order to achieve interest rate savings for ratepayers.

Considering the above referenced financing needs, the Debt Management Department is planning for a public offering of Water Revenue Bonds late in calendar 2008. This issuance could be approximately $550 million depending on the level of long-term interest rates later in the year.

Wastewater Financing. Similar to the Water Department above, the Wastewater Department has indicated that they will need to borrow approximately $146 million in FY 2009 to continue funding critical capital improvement needs in compliance with the Final Consent Decree. Additionally, there is a need to refinance approximately $224 million of outstanding Series 2007 Wastewater Revenue Notes. Depending on the level of long-term interest rates later in the year, it may be cost-effective to refinance a significant portion of over $900 million of outstanding sewer revenue bonds. The Debt Management Department is planning for a public offering of Sewer Revenue Bonds late in calendar 2008 that could be significantly over $370 million.

Debt Capacity. The City's Debt Policy indicates that the most important debt affordability ratio for General Fund supported debt is debt service/ lease payments as a percentage of the total General Fund budget. The City's current General Fund supported debt affordability ratio remains below 5%. Credit rating agency guidelines recommend this ratio be between 8% and 12%; however, the City's Debt Policy indicates that it will strive to maintain its ratio below 10%. With respect to the City's revenue bonds (i.e., Water and Wastewater), the City currently maintains debt service coverage ratios that are significantly higher than the 110% minimum required by the City's Debt Policy.

Municipal Bond Market Volatility. In recent months, the sub-prime mortgage crisis, problems faced by hedge funds and problems faced by municipal bond insurers have forced many buyers out of the municipal bond markets causing prices to fall and interest rates to rise for municipal bonds. The problems have been particularly severe for municipal issuers of variable rate debt who need to remarket or re-price their debt on a periodic basis. Recently, municipal bond markets have begun to stabilize. As the City plans to be an issuer of long-term fixed rate debt in FY 2009, the outlook for the planned City financings may be favorable particularly if long-term rates were to begin to decline.

User Fees

Effects of Budget Proposal

As the Mayor's staff indicated at the March 5, 2008 Budget and Finance Committee Meeting, the Mayor has not included any new user fees in the FY 2009 Proposed Budget.

As was most recently stated in the IBA Review of the Mayor's Five-Year Financial Outlook and IBA Report 08-20, "Need for Comprehensive Annual User Fee Review Process as Part of the Annual Budget", the IBA has discussed the need for the City to:

- Identify the full cost of service for activities that charge user fees
- Determine current cost recovery rates for these activities
- Develop "target" cost recovery policies, and
- Propose recommendations to Council for achieving these targets

The IBA has reviewed this issue in numerous reports and stresses the importance of timely implementation.

The Mayor has indicated that "a policy on cost – recovery for City fees will be developed and presented to the Budget and Finance Committee and City Council by the fall of 2008," in an April 15, 2008, memorandum to the Chair of the Budget and Finance Committee.

In response to the IBA's recommendation for City Auditor assistance in this effort, the Internal Auditor has recommended that "Internal Audit staff would research and provide to the Administration information regarding best practices, methodologies, and protocols regarding local government user fees," to provide the Mayor's staff with tools that will enable the timely development and implementation of a user fee policy.

Issues for Consideration

In summary, the IBA has recommended that comprehensive user fee policy be adopted and a user fee review should be a systematic part of the annual budget process. Timely implementation of a user fee review, to be completed in the summer of 2008 and a user fee and cost recovery policy should be developed and adopted by January 2009

Administration

The FY 2009 Administration Department manages two citywide functions previously performed in other departments: Equal Opportunity Contracting and Grants and Gifts Administration. All positions and related expenditures were transferred into this department for FY 2009.

Effects of Budget Proposal

The FY 2009 Administration Department reflects a net increase of 17.75 FTE and $1.9 million in total expenditures consisting mostly of position transfers from the Business Office and Purchasing and Contracting departments.

EQUAL OPPORTUNITY CONTRACTING PROGRAM

Effects of the Budget Proposal

In FY 2008, a component of the Purchasing and Contracting Department's BPR was the decentralization of the Equal Opportunity Contracting Program (EOCP) responsibilities to various City Departments.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	-	$ -	$ -	$ -	$ -
Vacancy Factor (08)		-		-	
Vacancy Factor (09)		(52,387)		(52,387)	
Salary and Wage Adjustments		(1,605)		(1,605)	
Subtotal	*-*	*$ (53,992)*	*$ -*	*$ (53,992)*	*$ -*
Transfers					
Transfers from Business Office	12.00	$ 1,418,755	$ 94,457	$ 1,513,212	$ 25,000
Transfer from Purchasing	9.00	$ 939,526	35,000	974,526	-
Transfer to Customer Service	(1.00)	$ (62,179)	-	(62,179)	-
Transfer to Community Services	(4.00)	$ (631,156)	(19,078)	(650,234)	-
Subtotal	*16.00*	*$ 1,664,946*	*$ 110,379*	*$ 1,775,325*	*$ 25,000*
Additions					
Equal Opportunity Additions	1.75	$ 209,767	$ 5,000	$ 214,767	$ 77,500
Reductions					
Non-Dsicretionary/IT Changes			(8,010)	(8,010)	
Revenue Adjustment					(1,926)
Subtotal	*1.75*	*$ 209,767*	*$ (3,010)*	*$ 206,757*	*$ 75,574*
TOTAL	**17.75**	**$ 1,820,721**	**$ 107,369**	**$ 1,928,090**	**$ 100,574**
Difference from 2008 to 2009	**17.75**	**$ 1,820,721**	**$ 107,369**	**$ 1,928,090**	**$ 100,574**

During non-agenda public comment at the May 15, 2007 City Council meeting, concerns were raised regarding the status of the EOCP. In a follow-up memorandum dated May 21, 2007 to Mayor Sanders, Councilmember Tony Young requested a report addressing the concerns of the speaker.

At the August 1, 2007 Rules Committee meeting, Purchasing and Contracting Management gave a presentation on the status of the EOCP. The IBA also presented findings in Report No. 07-79 Equal Opportunity Contracting. The information provided by staff and the IBA was alarming. Construction awards by ethnicity for Fiscal Year 2007 were close to zero for all groups. In addition, statistics for prior years were not available due to the fact that the City had stopped tracking the information. In summary, the decentralization of the EOCP was a failure. To rectify this, the Mayor proposed centralizing the EOCP and moving the program to the Administration Department which reports directly to the Chief Operating Officer. This was implemented in January 2008 and the FY 2009 Proposed Budget reflects these changes.

The reconstituted EOCP includes 11.00 FTEs. The positions are:

Position Title	FTE
Program Manager	1.00
Supervising Mgmt Analyst	2.00
Sr. Management Analyst	6.00
Administrative Aide I	1.00
Word Processing Operating	1.00
Total:	**11.00**

The 11.00 FTEs includes 9.00 that were transferred from the Purchasing & Contacting department, 1.00 position transferred from the Business Office, and 1.00 Administrative Aide I and the 0.75 annualization of a program manager position that are new for FY 2009. The 11.00 FTEs are an improvement over FY 2008 staffing levels. However, it should be noted that even with the 11.00 proposed FTEs, this is substantially less than what was budgeted for the department in FY 2007, which included 25.00 positions for the program.

Performance Measures. For FY 2009, EOC has included performance measures that will begin to give the City Council an indication of the effectiveness of this program. Many of the program functions, discontinued after the decentralization, are now measured. This includes EOC training for City contract managers and field engineers, and site visits of City projects. The IBA is encouraged by these measures. It shows a commitment by the Mayor to address the deficiencies in the operations of this program. However, it should be noted that many of the targets for these measures are 100%. With the proposed level of staffing this might be optimistic.

Issues for consideration

- Currently the City is using the consulting services of Franklin Lee from Tydings & Rosenberg LLC, to help the City review our EOC programs, policies, and procedures.

The FY 2009 Proposed Budget does not include funding to continue this contract.

- There is a strong possibility that the City will need to commission a new Disparity Study. EOC staff continues to recommend waiting for the outcome of the Coral Construction Case prior to investing City funds to complete a new disparity study. Disparity Studies can cost millions of dollars to complete. The FY 2009 Proposed Budget does not include funding for a Disparity Study or contingencies if one is required.

Business Office

In FY 2009, the Business Office (formerly the Business Operations and Administration Department) continued to consolidate functions related to Business Process Reengineering, Managed Competition and the City Management Program.

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Business Office includes a net reduction of 8.00 FTEs and approximately $900,000 in PE, as well as a net increase of just under $900,000 in NPE. The net position reduction is the result of position transfers and associated NPE from the Business Office to Administration for staffing and support; and a transfer of 4.00 FTEs and associated NPE from Purchasing and Contracting to the Business Office.

Budget Additions. The Business Office Proposed Budget includes an additional expense of $900,000 for Managed Competition consulting services. The additional funding is requested to provide the Business Office with consultant assistance for employee proposals and *Compare* vendor support - the costing software used to

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	19.25	$	2,221,457	$	161,634	$	2,383,091	$	25,000
Vacancy Factor (08)			53,096				53,096		
Vacancy Factor (09)			(34,543)				(34,543)		
Salary and Wage Adjustments			(29,361)				(29,361)		
Subtotal	*19.25*	*$*	*2,210,649*	*$*	*161,634*	*$*	*2,372,283*	*$*	*25,000*
Transfers to Administration	(12.00)	$	(1,394,595)	$	(99,457)	$	(1,494,052)	$	(25,000)
Transfers From Purchasing & Contracting	4.00		503,542		22,000		525,542	$	-
Subtotal	*(8.00)*	*$*	*(891,053)*	*$*	*(77,457)*	*$*	*(968,510)*	*$*	*(25,000)*
Additions									
Managed Competition Consultant		$	-	$	900,000	$	900,000	$	-
Customer Service Survey					40,000		40,000		
Non-Discretionary/IT Changes					11,227		11,227		
Subtotal	*-*	*$*	*-*	*$*	*951,227*	*$*	*951,227*	*$*	*-*
TOTAL	**11.25**	**$**	**1,319,596**	**$**	**1,035,404**	**$**	**2,355,000**	**$**	
Difference from 2008 to 2009	**(8.00)**	**$**	**(901,861)**	**$**	**873,770**	**$**	**(28,091)**	**$**	**(25,000)**

evaluate employee and independent contractor proposals.

In April 2007, the City initiated a contract with consultant Grant Thornton for services related to the facilitation of the Managed Competition process. To date, approximately $240,000 has been expended for pre-competition assessment support. It is anticipated that in May the Council will hear an action to extend the contract for an additional $400,000 for assistance in the Statement of Work development in FY 2008. An additional $900,000 for Managed Competition consultant support is included in the FY 2009 Proposed Budget. The total contract amount proposed is $1,550,000.

The FY 2009 Proposed Budget also includes an additional $40,000 to conduct surveys on residential satisfaction of City services. The evaluation of City services by residents will be a key element in measuring success, and a concerted effort to provide the important feedback mechanism should be done on a citywide basis covering a wide variety of City services.

Issues for Consideration

Total projected expenditures of $1.5 million for consulting services for Managed Competition appear excessive in this budget climate. The IBA recommends this request be more carefully evaluated during budget deliberations. Some portion of these budgeted funds could be considered for a possible reallocation to other priority needs.

City Attorney

Effects of Budget Proposal

The FY 2009 proposed budget for the Office of the City Attorney reflects a reduction of $415,398 over the FY 2008 budget, an increase of 1.00 FTE, and a net reduction to departmental revenues of $1.16 million.

Budget Enhancements. One Deputy City Attorney has been added to the FY 2009 budget, which will be fully funded by a one-year Family Justice Center Pro-Arrest Grant at an additional cost of $137,788.

Vacancy Factor. The department has been assigned a vacancy factor of $1.39 million, or 3.8% of the total proposed personnel expense for FY 2009. This compares with the FY 2008 vacancy factor of $681,143, which amounted to 1.9% of the FY 2008 personnel budget. This reflects a significant change of $709,356, which is effectively unavailable to fund departmental positions. At the time of the FY 2008 Mid Year Monitoring Report, it was projected that department expenditures in the Salaries and Fringe categories would exceed budget levels by $357,000, which could

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	338.22	$	35,324,180	$	1,586,994	$	36,911,174	$	6,163,262
Vacancy Factor (08)			681,143				681,143		
Vacancy Factor (09)			(1,390,499)				(1,390,499)		
Salary and Wage Adjustments			219,612				219,612		
Subtotal	*338.22*	*$*	*34,834,436*	*$*	*1,586,994*	*$*	*36,421,430*	*$*	*6,163,262*
Additions									
Atty for Family Justice Center	1.00		137,788				137,788		134,558
Terminal Leave			7,560				7,560		
Reductions									
Non-Discretionary Adjustments					(380)		(380)		
Support for Information Technology					(70,622)		(70,622)		
Reduction to Reimbursements									(1,296,262)
Subtotal	*1.00*	*$*	*145,348*	*$*	*(71,002)*	*$*	*74,346*	*$*	*(1,161,704)*
TOTAL	**339.22**	**$**	**34,979,784**	**$**	**1,515,992**	**$**	**36,495,776**	**$**	**5,001,558**
Difference from 2008 to 2009	**1.00**	**$**	**(344,396)**	**$**	**(71,002)**	**$**	**(415,398)**	**$**	**(1,161,704)**

likely continue and worsen in FY 2009, under this scenario.

Performance Measures. The City Attorney has opted not to provide performance measures in the budget document and has chosen to not participate in the City Management Program. The IBA has strongly advocated for the inclusion of performance measures in the budget document to be utilized as a tool for measuring the effectiveness of City services and to assist with the budget decision-making process.

It is important to note that the City Attorney provides a detailed annual report of the accomplishments of the office, which is made available to the City Council and the public. The annual report provides significant information about each of the work units and work completed during the report period. Much of it includes quantitative information which could easily be incorporated into a performance measure, and reported on a regular basis. Additionally, the reports provide a significant amount of descriptive information that would not typically be captured in departmental performance measures and is extremely interesting and useful to the Council and the public in understanding the actual work being completed. However, in this format, the outcomes and results of the department's work are not tied directly to budgetary allocations, and cannot easily be utilized as a tool for budget decision making. The IBA recommends that the City Attorney consider including performance measure information, some of which may be already available and compiled as part of its annual reporting process, into future budget documents.

The City Attorney issued the FY 2007 Annual Report on April 4, 2008, which reflects the accomplishments of the Civil and Criminal Divisions, for the fiscal year ended June 30, 2007.

Significant Revenue Adjustments. The department submitted revised revenue estimates reflective of the current status of service level agreements in place with other City departments, some of which have been discontinued. These revisions result in a negative impact to General Fund departmental revenues totaling $1.3 million, as reflected in the following table:

CITY ATTORNEY
REVENUE CHANGES

Service Provided to:	Adjustment
Metropolitan Wastewater Department	($350,866)
Development Services Department	(250,000)
Engineering and Capital Projects Department	(245,614)
Water, Metropolitan Wastewater and Env Svcs	(185,062)
ESD's Recycling and Refuse Disposal Fund	(179,085)
Development Services - Local Enforcement Agency	(126,038)
Community Services Department	(55,110)
Water Department - Water Theft program	(37,093)
Redevelopment Agency	(34,909)
Park and Recreation Department - MAD	(24,693)
Housing Authority	(6,700)
Planning Department - Facilities Financing	110,000
Real Estate Assets Department-Airports, and IT&C	88,908
TOTAL	**($1,296,262)**

Issues for Consideration

Departmental Requests. During the development of the proposed budget, the City Attorney submitted requests for additions to the FY 2009 budget, including 33.14 positions at a cost of $4.6 million, plus non-personnel expenses totaling $727,227. Of these requests, only the addition of 1.00 Deputy City Attorney funded by the Family Justice Center grant was included in the Mayor's Proposed Budget. A brief summary of the City Attorney's requested additions are listed here:

- 1.00 prosecutor to handle gang injunctions and nuisance properties and businesses
- 2.00 neighborhood prosecutors for work in Council Districts 4 and 8
- 10.00 Trial Unit attorneys to improve workload levels, which contribute to high turnover
- Establishment of South Bay satellite office for criminal prosecution to include: 5.00 attorneys, support staff, and related non-personnel and information technology needs.

Funding for Case Management System. In the First Annual Report of the Independent Consultant (to the Securities and Exchange Commission), dated March 25, 2008, Recommendation 18 states that "the City, through the City Attorney office should, prior to the preparation of the 2007 CAFR, improve its systems for dealing with loss contingencies for financial reporting purposes in order to remedy any deficiencies raised by the City's independent auditors to the extent not already remedied."

The Kroll Report also included a remediation item (#88) describing formal procedures which should be implemented to monitor the adequacy of case reserves and general litigation estimates, and also recommended quarterly communication among the Risk Management, CFO, Internal Auditor and City Attorney to ensure accurate year-end financial reporting.

The IBA understands that improvements have been made in the communication between the affected departments, and information is shared in a common format on a regular basis.

The City Attorney's office has indicated that a case management system is needed and would assist tremendously in the tracking of cases, along with calendaring of court dates and deadlines, and would assist with the preparation of comprehensive and regular litigation updates to various parties, including the Council, the Risk Management Department, the City Comptroller, and the City's outside auditors. Unfortunately, funding has not been authorized to begin a process to research and study available software options, which is a key first step to determine if a commercially available solution exists, or if a custom option would need to be developed. Preliminary estimates range from $250,000 to $500,000 for short-term fixes and off-the-shelf products, with custom options estimated to need approximately $3 million.

Funding for Electronic Filing of Court Documents. The City Attorney indicates that the court system is moving towards implementation of systems that will require the electronic filing of court documents. The City must take necessary steps to prepare for new system requirements and to take advantage of automation that may reduce future costs and/or increase efficiencies.

Funding for short-term and long-term requirements for case management and electronic court filing systems for the City Attorney's Office should be seriously considered as resources become available.

City Auditor

Effect of Budget Proposals

The Office of the City Auditor is proposed as a new department in FY 2009. The FY 2009 Proposed Budget describes this department as a newly-created independent office that reports to and is accountable to the Audit Committee and the City Council; however, this description will depend on whether voters adopt proposed City Charter reform in June 2008.

The City Auditor was hired in October 2007 and provided with a staff of four auditors. The position had been vacant for nine months. Due to a focus on completing the City's outstanding financial statements, the auditing function was effectively stopped in January 2006.

The City Auditor currently reports to the Mayor's Chief Operating Officer. The Mayor adopted a Statement of Operating Principles (SOP) in April 2007 that has been incorporated into the Audit Committee's Charter. The SOP provides that the City Auditor shall communicate with and be responsive to requests of the Audit Committee. This reporting framework remains in effect until Charter reform takes place.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	-	$	-	$	-	$	-	$	-
Vacancy Factor (08)			-				-	$	-
Vacancy Factor (09)			(45,609)				(45,609)		
Salary and Wage Adjustments			23,186				23,186	$	-
Subtotal	*-*	*$*	*(22,423)*	*$*	*-*	*$*	*(22,423)*	*$*	*-*
Auditor Transfer from Comptoller Dept.	5.00	$	701,734	$	19,536		721,270		
Assoc. Mgmt Analyst from OEI	1.00		96,107				96,107		
Subtotal	*6.00*	*$*	*797,841*	*$*	*19,536*	*$*	*817,377*	*$*	*-*
Additions							-		
Principal Accountants	5.00		795,453		80,383		875,836		
Support for Information Technology					100		100		
Reductions							-		
Subtotal	*5.00*	*$*	*795,453*	*$*	*80,483*	*$*	*875,936*	*$*	*-*
TOTAL	**11.00**	**$**	**1,570,871**	**$**	**100,019**	**$**	**1,670,890**	**$**	
Difference from 2008 to 2009	**11.00**	**$**	**1,570,871**	**$**	**100,019**	**$**	**1,670,890**	**$**	**-**

New Budget. The proposed budget for the Office of the Auditor is comprised of 11 positions. Five of the positions are budgeted as Principal Accountants to be hired and one Associate Management Analyst position is proposed to transfer into the department from the Office of Ethics and Integrity. The five existing positions (including the City Auditor, Internal Audit Manager, Accountant IV and two Accountant IIs) would be transferred from the City Comptroller to the new department. The proposed budget has been allocated approximately $100,000 of NPE.

Vacancy Factor. The FY 2009 Proposed Budget includes a vacancy factor of $45,609, or approximately 2.9% of budgeted personnel expenditures. While 2.9% would be a reasonable vacancy factor in a fully staffed department, it is low for a new department that may be asked to double its staffing level. The City Auditor has proposed a performance measure with a target of achieving full staffing for nine out of 12 months, or 75% of FY 2009. This suggests that it may take an average of three months to effectively recruit and hire five new auditors.

Although the need to quickly add several staff might justify an increase to the proposed vacancy factor, the IBA is inclined to support the proposed factor. Our rationale is that the Auditor may need these funds if he is able to quickly fill all of the new positions or alternatively needs to hire interns for an interim period. This will allow the office maximum flexibility as they endeavor to add staff and provide needed audit services.

Service Levels. Given the importance of the City's auditing needs and the significant additional investment that the City Council is considering to improve the City's audit organization, City Auditor performance measures will be an important means of assessing the quality of audit operations. The IBA has reviewed the proposed performance measures in the FY 2009 Proposed Budget and found several to be very good.

In particular, we note the measure comparing City benefits (defined as measurable monetary recoveries and cost savings) to City Auditor costs. The FY 2009 target for this measure is 25% and the footnote to the measure indicates that this percentage will increase significantly in future years as City audits begin to focus more on the City's operational efficiency and effectiveness as opposed to internal financial controls. This suggests that the City's audit organization will trend towards a cost recoverable operation in the years ahead.

A 25% cost recovery target for FY 2009 equates to approximately $418,000. Understanding that some of the resulting recoveries and savings will accrue to non-General Fund operations, the IBA conservatively suggests that $150,000 could be budgeted as revenue in FY 2009. This should be discussed with the City Auditor during the hearing process. This would be a reasonable expectation and allows $150,000 to be redeployed to address other General Fund needs in FY 2009.

Other sound performance measures include:

- Percentage of audit work plan completed during the fiscal year.
- Percent of recommendations reported as implemented by management that are verified by follow-up audit testing.
- Percent users satisfied with timeliness, reliability and value of audit services.

Issues for Consideration

Professional Audit Consultant's Analysis. On March 6, 2008, the professional audit consultant to the Audit Committee (Jefferson Wells) analyzed the citywide risk assessment developed by the Internal Auditor and provided recommendations related to City Auditor staffing and the development of an annual audit work plan. Key budget related recommendations within the report included:

- Based on the City's auditing needs, increase staff City Auditor staff to 24.5 FTE employees. (The IBA issued report #07-35 in March 2007 indicating that audit staffing levels in 12 peer cities averaged 22.5 positions).
- Hire an IT Auditor to assist with the implementation of the ERP system in order to ensure that internal control considerations have been adequately addressed during the implementation period.
- Develop an annual audit work plan that provides detailed audit budget information to enable the Audit Committee to determine whether the proposed audit activities address the City's needs.

Risk Assessment. Utilizing a management questionnaire to gauge the City's significant auditable units, the City Auditor developed a citywide risk assessment in January 2008. The risk assessment identified 138 auditable units as high risk and another 184 as medium risk units. In their report, Jefferson Wells recommended that all identified high-risk auditable units be evaluated on a three-year cycle. Setting aside the medium risk audits and other important unanticipated City audit needs, this equates to approximately 46 high-risk audits a year.

In his response to the Jefferson Wells report, the City Auditor agreed with their recommendations and outlined three options for ramping up staff over time to develop a stronger internal audit function. The most aggressive of these plans suggests adding 17 auditors, one audit manager and two support staff over the next three fiscal years. The City Auditor estimates that each new auditor can perform approximately three audits a year.

Workload Considerations. Understanding the City Council's desire to rapidly strengthen the City internal audit activities, it is important to note that the City's audit organization has been significantly understaffed and unable to perform routine audit activity for several fiscal years. It will take an aggressive plan to increase the audit budget and recruit quality auditor staff to normalize the City's audit organization. The IBA believes the three-year plan suggested by the City Auditor is a reasonable approach to rebuild a healthy audit organization.

The IBA supports the plan to add five auditors in the FY 2009 in order to begin to address the audit deficiency. While this would enable the City Auditor to perform approximately 15 additional audits, it will not enable the City Auditor to perform the recommended level of audit activity in FY 2009. It is reasonable to assume that it will take three years to thoughtfully add staff and increase audit activity as recommended.

In addition to audit responsibilities, the City Auditor is also being asked to perform other significant responsibilities for the City. To date, these partially include the following responsibilities:

- Participation in Employee Hotline (Hotline administration by the Office of the City Auditor has been recommended by Jefferson Wells).
- Ex-officio member of the DPWG.
- Testing remediation measures implemented by the Mayor in response to Kroll recommendations and outside auditor findings.
- Prepare an annual Report on Internal Controls in the City.
- Review and provide recommendations for effective cost recovery processes for City services subject to user fees.

These and other unanticipated requests of the City Auditor should be considered against the significant backlog of audits with high-risk potential that need to be performed. The IBA believes that the responsibilities cited above are important and should have City Auditor involvement. We would point out, however, that these activities can both complement and take away from the City Auditor's ability to focus on the City's identified audit needs.

- Support the current proposal to add five auditor positions as reflected in the FY 2009 Proposed Budget. Should the Council wish to consider adding more audit staff than recommended by the Mayor, each new auditor would require approximately $148,000 including related non-personnel expense.
- Discuss with the City Auditor the idea of conservatively budgeting $150,000 of the $418,000 25% cost recovery target as General Fund revenue in FY 2009. This would be a reasonable revenue expectation and al-

lows $150,000 to be redeployed to address other General Fund needs in FY 2009.

City Comptroller

Effects of Budget Proposal

The budget for the City Comptroller's Office is proposed to increase by $443,645 in FY 2009. Total staff positions are proposed to grow by 4.00 FTEs. Total budgeted revenue is projected to increase by $945,000.

Staffing Changes. In order to separate Auditor operations from Comptroller operations, five auditor positions have been transferred to a newly created Auditor Department. The transferred positions included an Assistant City Auditor & Comptroller, a Principal Accountant, an Accountant IV and two Accountant IIs. The transferred Assistant City Auditor & Comptroller was reclassified to Director (City Auditor) of the new City Auditor Department. The department's remaining Assistant City Auditor & Comptroller position was reclassified to Director (Comptroller) of the department. The Comptroller continues to report to the Chief Financial Officer (CFO). The City Auditor also currently reports to the Chief Operating Officer.

Project management responsibility for the Enterprise Resource Planning (ERP) project has

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	99.00	$	10,035,526	$	1,475,564	$	11,511,090	$	2,750,837
Vacancy Factor (08)			477,146				477,146		
Vacancy Factor (09)			(361,988)				(361,988)		
Salary and Wage Adjustments			(80,218)				(80,218)		
Subtotal	*99.00*	*$*	*10,070,466*	*$*	*1,475,564*	*$*	*11,546,030*	*$*	*2,750,837*
City Auditor Transfer	(5.00)	$	(680,171)	$	(19,536)	$	(699,707)		
Subtotal	*(5.00)*	*$*	*(680,171)*	*$*	*(19,536)*	*$*	*(699,707)*	*$*	*-*
Additions									
ERP Limited Positions	7.00		871,478				871,478		875,378
Internal Controls (ICOFR)	2.00		229,414		8,000		237,414		
Budgeting Simpler Service Contract					100,000		100,000		
Non-Discretionary Adjustments					783,102		783,102		327,320
Reductions									
Budget Reduction - Temp Help					(375,000)		(375,000)		
Support for Information Technology					(508,582)		(508,582)		
Reduction in Services to Other Depts.									(257,698)
Subtotal	*9.00*	*$*	*1,100,892*	*$*	*7,520*	*$*	*1,108,412*	*$*	*945,000*
TOTAL	**103.00**	**$**	**10,491,187**	**$**	**1,463,548**	**$**	**11,954,735**	**$**	**3,695,837**
Difference from 2008 to 2009	**4.00**	**$**	**455,661**	**$**	**(12,016)**	**$**	**443,645**	**$**	**945,000**

shifted from the Office of the Chief Information Officer to the City Comptroller with oversight by the CFO. In light of the added responsibility, the department is proposing to add seven positions to backfill seven existing positions that have been assigned to the ERP project. The seven new positions would be added on a limited basis and are comprised of a Financial Operations Manager, four Accountant IVs, one Accountant II and a Payroll Audit Specialist II. The seven assigned positions are reimbursable from the ERP project, so the proposed new positions would not create additional expense for the department.

The City Comptroller has also undertaken a project to document and implement internal controls related to financial reporting. The project is referred to as the Internal Controls over Financial Reporting (ICOFR) Project. The department is requesting two more positions, a Principal Accountant and an Accountant III, be added to the ICOFR project team in FY 2009.

Netting the transfer of (5.00) auditor staff against the proposed addition of 7.00 limited ERP staff and 2.00 new ICOFR staff yields an overall addition of 4.00 FTEs for the department.

Vacancy Factor. The department has been assigned a vacancy factor of $361,988, or 3.3% of total proposed personnel expense in FY 2009. This compares with a vacancy factor of $477,146, or 4.5% of total personnel expense in FY 2008. Although hiring and job classification processes are underway, the department currently has six vacancies and projects year-end personnel savings to be approximately $900,000. Given the department's high vacancy experience in recent years and their need to hire additional positions in FY 2009, the IBA believes the proposed vacancy factor may be too low. We recommend that the vacancy rate be monitored and adjusted mid-year if necessary.

Financial Outlook Reduction. The department proposes to eliminate $375,000 in NPE related to contractual services for temporary staff. The $375,000 NPE reduction equates to approximately 3.1% of the proposed FY 2009 budget.

It should be noted, however, that the Mayor's May Revise memorandum for the FY 2008 budget made the recommendation to appropriate $750,000 of un-earmarked professional service funds, in the Citywide Department, to the Comptroller in FY 2008 for temporary help. The recommendation was related to the need to work on the outstanding CAFRs and develop internal controls.

The IBA believes this appropriation was intended to be a one-time allocation to accommodate specific workload circumstances and a significant number of departmental vacancies. Of the $750,000 allocated for temporary help in FY 2008, the department expects to expend $650,000 by year-end, leaving approximately $100,000 encumbered for the Accountemps contract that will be carried forward into FY 2009.

The Proposed Budget built another $750,000 of NPE for temporary help into the City Comptoller's base budget and then reduced it by 50% ($375,000) to satisfy the Outlook reduction requirement, leaving $375,000 for temporary help in FY 2009. The CAFR workload should begin to normalize in FY 2009 as the department expects to be current on the CAFR development process early in FY 2009. The department is also proposing to add two additional staff to the ICOFR team.

Understanding that there may be some residual need for assistance from Accountemps in FY 2009, the IBA suggests that the remaining encumbered funds from FY 2008 could be used for that purpose. Given normalized CAFR activity and proposed additional staff for internal controls in FY 2009, the IBA recommends that the City Council determine if workload circumstances justify appropriating another $375,000 in FY 2009 or, alternatively, if some or all of these funds might be better utilized to address other General Fund needs.

Other Budgeted NPE & Revenue Adjustments. Excluding the proposed $375,000 reduction in NPE for temporary help, other significant NPE changes are primarily attributable to reductions in information technology expense and additional funding for the AMRIS and Simpler information systems. The additional AMRIS funds cover non-fixed system charges. These charges are now entirely budgeted in the Comptroller's budget with pro-rata revenue being received from other benefiting non-general fund departments. The department has also budgeted $100,000 for the FY 2009 Simpler service contract.

The biggest proposed change in budgeted revenue is approximately $875,000 to reimburse the seven positions providing services to the ERP project. Due to a reduction in the level of services provided to other City departments (i.e., Utilities), budgeted revenue was also reduced by approximately $271,000 in FY 2009.

Service Levels. The City Comptroller has developed a good array of performance measures to help assess the effectiveness of their work processes. A few notable measures include:

- Number of months post-close to issue the Comprehensive Annual Financial Report (CAFR).
- Number of documented accounting policies and procedures issued as part of the Comptroller's Internal Control Review Project.
- Percent of internal control documentation necessary to ensure internal control compliance with COSO for the City's OneSD (ERP) system completed.
- Average number of days to pay invoices.

- Percent of employees compliant with Comptroller training policy.

Issues for Consideration

- Given normalized CAFR activity and proposed additional staff for internal controls in FY 2009, the IBA suggests discussing with the Comptroller the need to continue funding $ 375,000 for temporary help in FY 2009.

City Planning & Community Investment

Effects of Budget Proposal

The FY 2009 Proposed Budget for the City Planning & Community Investment (CP&CI) Department is $28.7 million, a 1% increase from Fiscal Year 2008. The CP&CI Department contains many important City functions including:

- **Planning:** Management of the City's General Plan, Community Planning, Urban Design, Park Planning, Historical Resources, and the Multiple Species Conservation Program (MSCP).
- **Community Investment:** Management of the City CDBG Program, Economic Development, Redevelopment, Homeless Program, Community Parking Districts.
- **Facilities Financing:** Ensures that the City has adequate public facilities such as parks, libraries, fire stations and streets, to serve the City's current and future population.

This analysis reflects the operational structure of the department.

SUMMARY OF BUDGET CHANGES

General Fund	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	93.45	$ 9,866,536	$ 6,849,799	$ 16,716,335	$ 3,719,778
Vacancy Factor (08)		467,278		467,278	-
Vacancy Factor (09)		(233,764)		(233,764)	
Salary and Wage Adjustments		67,137		67,137	-
Subtotal	*93.45*	*$ 10,167,187*	*$ 6,849,799*	*$ 17,016,986*	*$ 3,719,778*
Reductions	(4.00)	(321,634)	(476,350)	(797,984)	-
Additions	2.00	128,879	2,078,600	2,207,479	72,000
Transfer to other departments	(7.00)	(818,091)	-	(818,091)	
CDBG adjustments	-	-	296,153	296,153	522,515
IT Adjustments	-	-	6,589	6,589	
Non-Discretionary	-	-	(236,783)	(236,783)	
Revenue Adjustments					75,590
Subtotal	*(9.00)*	*$ (1,010,846)*	*$ 1,668,209*	*$ 657,363*	*$ 670,105*
TOTAL	**84.45**	**$ 9,156,341**	**$ 8,518,008**	**$ 17,674,349**	**$ 4,389,883**
Difference from 2008 to 2009	**(9.00)**	**$ (710,195)**	**$ 1,668,209**	**$ 958,014**	**$ 670,105**

Reduction to Department-wide Support Services. The FY 2009 Proposed Budget includes the reduction of 1.00 Information System Analyst IV, 1.o0 Account Clerk, 1.00 Executive Secretary, and 1.00 Clerical Assistant II. These positions provided department-wide administrative support. Department management has indicated that the service level impacts from the reduction of these positions will be minimal due to the fact that they have been vacant and their duties have already been absorbed by other employees in the department.

CITY PLANNING

Operational Overview. For the last few years the focus of the City Planning division has been the updating of the City's General Plan, which was last updated in 1979. The completion of the General Plan required a huge effort from planning staff. With limited resources, department management was required to move staff from other planning projects or responsibilities to help complete the General Plan. The cascade effect of this was the development of a backlog in other planning areas. On March 10, 2008 the City Council approved the updated General Plan. With the approval of the General Plan, department management has been able to reallocate staff to their regular planning responsibilities.

Planning Division Additions. The Planning Division's FY 2009 Proposed Budget includes the addition of 1.00 Clerical Assistant II and Non-Personnel expenditures for a total of $60,800. This addition ensures compliance with Council Policy 600-14, which requires planning staff to assist planning groups, standing subcommittees, and the Community Planners to comply with the Brown Act. City Council policy 600-14 was amended on May 22, 2007, to include this provision.

The FY 2009 Proposed Budget also includes $1,150,000 to fund the Uptown/North Park/ Golden Hill Community Plan Update Cluster. These funds are in addition to the $400,000 that was added in FY 2008 for this Community Plan Update Cluster. Staff has indicated that the total amount of $1,550,000 is enough to complete the cluster update. A discussion of funding of Community Plans is below in the Issues for Consideration Section.

Redevelopment Fund/Planning Division's Reduction. In previous fiscal years, 1.00 Supervising Public Information Officer (PIO) has been budgeted in the Redevelopment fund to support both redevelopment and planning activities. Planning has funded their share of the position by transferring appropriations to the Redevelopment Fund. For FY 2009, the Supervising PIO position has been reclassified to a Clerical Assistant II and $55,000 of Non-Personnel expenses has been reduced from the Planning Division's budget. It is unclear how Redevelopment and Planning will continue to provide public information services with the reclassification of the Supervising PIO.

BPR related transfers from Planning. The proposed budget includes the transfer of 2.00 Senior Traffic Engineers, 2.00 Associate Traffic Engineers, 2.00 Assistant Traffic Engineers to the Engineering & Capital Projects Department. These positions are responsible for travel forecasting, street functionality studies, and reviewing of traffic studies. The intent of this move is to keep the policy-based efforts in Planning and the implementation of the studies will be done by E&CP.

Issues for Consideration

Historical Resources and the Mills Act. The City's Mills Act Agreement program grants property tax reductions to qualified designated historical properties. The purpose of this program is to provide a public benefit by preserving architecturally significant structures and neighborhood character.

On March 19, 2008, the San Diego County Grand Jury released a report titled "History Hysteria: Historical Resources in The City of San Diego". In the report, the Grand Jury had the following findings:

- The City of San Diego designated as historical far more buildings every year than any other City in California.
- This designation leads to a significant and growing loss of tax revenue to the City via the Mills Act property tax reassessments (20% - 70% per parcel).
- The criteria and processes for historical designations are far too lax, and there are insufficient personnel to regularly inspect designated properties to ensure that they are being preserved in accordance with Department of Interior Standards.
- Procedures for removing designations from buildings that may have fallen out of status are not being implemented, in part because of a shortage of staff.

In response to the County Grand Jury's report, the Mayor has proposed tightening City policies for Mills Act compliance. The Mayor's staff held their first public Mills Act Workshop on April 18, 2008 to discuss the new measures.

The FY 2009 Proposed budget does not include additional resources to address the County Grand Jury's concerns with the City's Historical Resources program. Department Management has indicated that the reallocation of resources due to the completion of the General Plan should make staff available to address some of the County Grand Jury's issues. However, it should be noted that currently *the City has a backlog of approximately 100 applications for Historical Designation. The existing backlog and the need to monitor existing properties without the addition of staff is a concern for the IBA.* This item will be further considered by the City Council when the proposed response to the Grand Jury report is docketed at a future Council meeting.

The General Plan and funding of Community Plans and the Parks Master Plan. A key component to implementing the General Plan is the updating of the City's community plans. Community plans represent a vital component of the City's General Plan because they contain more detailed land use designations and describe the distribution of land uses. The community-specific detail found in community plans is also used in the review process for both public and private development projects.

Based on information provided in the Division's performance measures, 43% of the City's Community plans are over 15 years old. Although funding is included in the FY 2009 Proposed Budget for the Uptown/North Park/Golden Hill Community Plan Update Cluster, funding is not included to update other community plans. In FY 2008, the City funded the Otay Mesa Community Plan ($800,000) and the Grantville Community Plan ($792,181) out of reserves. The funding to update these community plans was not included in FY 2008 Budget.

The IBA is concerned that a dedicated funding source that can be used on an annual basis to update the Community Plans has not been identified. It should be noted that starting in FY 2010, the $1.6 million budgeted in FY 2009 for the Uptown/North Park/Golden Hill Community Plan Update Cluster could be used to fund other community plans if this appropriation is not reduced in future fiscal years.

Another implementation measure of the General Plan is the development of a comprehensive Parks Master Plan (PMP). The PMP will assess all City park lands, recreational uses, facilities, and services; the plan will also set priorities for protection and enhancement of existing park and recreation assets. The PMP is expected to be prepared by consultants, with the assistance of Park Planning staff. Staff estimates that the cost to complete the PMP is $3.0 million. *No funding has been included in the FY 2009 Proposed Budget for the PMP but staff has indicated funds will be requested in FY 2010.*

COMMUNITY INVESTMENT

Community Investment Division Additions. The Community Investment Division's FY 2009 Budget includes the addition of $296,153 in Contractual Services and $535,049 in Revenue for the Community Development Block Grant (CDBG) administration. The IBA was unable to identify what additional services would be provided by adding these funds. More information on the challenges the City is facing with CDBG is provided below in the Issues for Consideration Section.

The FY 2009 Proposed budget also includes the addition of 1.00 Administrative Aide I and $72,000 in associated revenue to administer the Tourism Marketing District. This position will help with monitoring and reimbursement of expenditures and coordination of the annual City Council process.

Another significant addition of note is $574,000 for the Small Business Enhancement Program (SBEP). SBEP was created in 1995 to provide continuing support to small businesses in the City. The SBEP appr0priation process includes a base determined as part of the City's annual budget process, with the final appropriation adjusted at the end of the fiscal year to reflect actual revenues collected during the fiscal year. The current allocation process for the funds is fifty-percent to the Citywide business assistance program and fifty-percent to the Business Improvement District programs. This adjustment will balance projected SBEP expenditures to approximate FY 2007 budgeted and actual revenues per Council Policy 900-15.

An additional $185,322 in revenue was added to the department for FY 2009. $65,000 of the revenue is from the Redevelopment Agency to manage the General Plan- Housing Element and other housing related activities. $120,322 is from the Centre City Development Corporation to reimburse the City for a Downtown Business Development Officer position. *For both of these positions, the IBA was not able to locate where the positions were added to the budget. Staff has indicated that the Downtown Business Development Officer was added in FY 2008. These revenue appropriations seem to be more of a budget balancing action and not an increase in services to the City.*

Issues for Consideration

Winter Shelter Program and the Homeless Services Coordinator position. The Homeless Services Program organizes and coordinates activities to assist the homeless community, including the Winter Shelter Program. *Funding for the Winter Shelter Program is not included in the Proposed Budget.* However, in a April 23, 2008 Memorandum to Councilmember Toni Atkins, staff states they will fund the Winter Shelter in FY 2009 by using $201,676 in Housing and Urban Development (HUD) Emergency Shelter Grant and $474,000 from the San Diego Housing Commission. The funding from the Housing Commission should be discussed further during budget discussions on their budget in May.

It should also be noted that the City's Homeless Coordinator recently retired. Department management intends to recruit for this position, and also plans on this position assuming some duties related to City housing issues.

Community Development Block Grant. In August 2007, the City of San Diego received notice from the U.S. Department of Housing and Urban Development (HUD) detailing concerns with the City's compliance with HUD regulations. Additionally, in November 2007, HUD's Inspector General notified the City that they planned on conducting an additional audit with the overall objective of "determining whether management complied with applicable laws, regulations, and requirements of HUD's CDBG program."

Included in HUD's August audit of the City's CDBG program were six findings dealing with the management and oversight of the program. To address HUD's concerns, the Mayor convened an ad-hoc group that was charged with reviewing the City's CDBG policies. Attendees of the ad-hoc group included representatives of Council Districts 1,3, and 8, Auditor's Office, Comptroller's Office, San Diego Housing Commission, Mayor's Policy staff, and the IBA.

One of the solutions proposed by the ad-hoc group was a change to the CDBG allocation process which included increasing the minimum award amounts to $25,000. One of the intents of this change was to reduce the number of contracts that the department would have to monitor. These changes were approved by the City Council on January 29, 2008. Even with the change to the Council policy, additional staff could be required to help with monitoring of the program and grantees.

To address resource issues with the City CDBG Management and oversight, 2.00 existing positions have been moved from the CP&CI department to the CDBG program for FY 2009. However, no new positions have been added to the proposed budget. *The IBA has concerns that the existing staff, even with the personnel transferred internally, may not be adequate to effectively manage the CDBG program.* As noted above, $296,153 in Contractual Services was added for FY 2009 but it is unclear what additional services will be provided with these funds.

City Treasurer

Effects of Budget Proposal

The Office of the City Treasurer is proposed to have net growth of two FTEs (from 124.00 to 126.00) and $496,816 in FY 2009.

Net departmental budgeted revenue is projected to decrease by approximately $1.5 million. This is primarily due to a revenue adjustment reflecting lower than expected revenue collection in FY 2008 from the Business Tax Compliance Program attributable to an unanticipated delay in program implementation. The department's vacancy factor remains relatively unchanged at 2.3% of total personnel expense, which is reasonable given a low staff vacancy experience.

Financial Outlook required budget reductions are proposed to be $457,786, or approximately 3% of the total departmental budget. This reduction level was achieved by cutting 4.00 vacant Collection Investigator I's ($294,360) and reducing contractual services for the new parking citations system by $163,426 to reflect better system cost information.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	124.00	$ 10,343,539	$ 4,098,377	$ 14,441,916	$ 30,584,549
Vacancy Factor (08)		231,276		231,276	-
Vacancy Factor (09)		(249,740)		(249,740)	
Salary and Wage Adjustments		(25,017)		(25,017)	-
Subtotal	*124.00*	*$ 10,300,058*	*$ 4,098,377*	*$ 14,398,435*	*$ 30,584,549*
Additions				-	
TMD Accountants	2.00	208,980	4,000	212,980	200,000
Franchise Tax Board (FTB) Program	3.00	252,514	-	252,514	
Parking Meter Operations	1.00	92,535	258,000	350,535	
Support for IT			208,821	208,821	
Non-Discretionary Adjustments			127,181	127,181	
Terminal Leave		16,052		16,052	
Reductions				-	
Collection Investigator I	(4.00)	(293,056)	(1,304)	(294,360)	
Parking Admin Contractual Services			(163,426)	(163,426)	
FTB Program Hourly Support		(170,000)		(170,000)	
Revised Revenue Estimates					(1,735,858)
Subtotal	*2.00*	*$ 107,025*	*$ 433,272*	*$ 540,297*	*$ (1,535,858)*
TOTAL	**126.00**	**$ 10,407,083**	**$ 4,531,649**	**$ 14,938,732**	**$ 29,048,691**
Difference from 2008 to 2009	**2.00**	**$ 63,544**	**$ 433,272**	**$ 496,816**	**$ (1,535,858)**

When asked if there would be a loss of revenue tied to the elimination of four collection investigators, management responded that there would be no loss of revenue as the positions have been vacant and are no longer needed. Department management further explained that these positions have been allowed to become vacant due to efficiencies created by consolidated program administration and implementation of the new online parking citations system.

Business Tax Compliance Program. The City's Business Tax Compliance Program (BTCP) is authorized by the State's implementation of AB 63 in 2001. This bill permits the California Franchise Tax Board (FTB) to disclose specified income tax information to tax officials of any California city under a written agreement between the city and FTB. Cities can then use the FTB data to identify businesses that might be subject to a local business license fee or tax.

The City implements annual agreements with the FTB and utilizes the BTCP as a means to increase business tax compliance. Addressing legal considerations and business owner concerns delayed full implementation of BTCP in FY 2008 resulting in lower than expected revenue collection. Other cities have similarly had to address implementation issues when initiating their BTCP programs.

A revenue adjustment was made in the FY 2009 Proposed Budget to reflect that $5.9 million was budgeted for FY 2008, yet only $3.5 million is expected to be collected. Tax compliance and revenue receipts are typically highest in the first full year of BTCP operation. Because of delayed BTCP implementation, tax compliance and associated revenue will be lower than expected in FY 2008 and should be higher than originally expected in FY 2009. Department management has budgeted $3.6 million for FY 2009 and expects the program to yield roughly $1 million a year thereafter.

BCTP was supported by limited hourly employees in FY 2008 as the associated program workload was uncertain during the first year of program implementation. Now that ongoing program workload is better understood, the department is proposing to add 3.00 positions (2.00 Administrative Aide IIs and 1.00 Associate Management Analyst) to support BCTP. Hourly support is being reduced by $170,000 to reflect the conversion from hourly employees to FTEs.

Tourism Marketing District Support. At the request of hoteliers, the City formed a Tourism Marketing District (TMD) in FY 2008 to promote tourism. A special assessment is collected by the hoteliers and overseen/administered by the City. The City Treasurer is proposing to add 2.00 reimbursable positions (2.00 Accountant IIIs) in FY 2009 to audit TMD operations. City administration costs for the TMD are to be fully reimbursed in accordance with the City's contract for the TMD. The IBA notes that budgeted revenue for these two positions is approximately $13,000 less than the budgeted expense. The IBA suggests that the City Treasurer work with the Economic Development Division to ensure that all annual City TMD administration costs are fully reimbursed.

Parking Meter Operations. The City Treasurer is proposing the addition of 1.oo Parking Meter Technician (PMT) and $258,000 of related non-personnel expense to support Parking Meter Operations. Department management has explained that a PMT is an operations specialist that collects coins, reports violators, optimizes collection routes, and repairs and installs a greater variety of City parking meters. The proposed addition of $258,000 in related NPE would largely fund bank fees to facilitate electronic payment options and equipment fees for enhanced City meters.

Service Levels. The City Treasurer has developed a good array of performance measures for their varied operations. The measures reflect key attributes of the important functions managed by the department including:

- Speed of account reconciliation.
- Accuracy in daily cashiering.
- Completion of TOT, lease and franchise audits within required timeframes.
- Percent of staff receiving necessary training.
- Investment Policy compliance and portfolio performance.

Issues for Consideration

Revenue Audit & Appeals Division. The Revenue Audit & Appeals Division of the City Treasurer conducts audits of hotels, lessees, and franchises to ensure revenues due to the City are remitted timely and accurately. The Budget Dollars at Work section of the FY 2009 Proposed Budget targets $2 million of revenue associated with 130 revenue audits performed. The FY 2009 Proposed Budget indicates that 6.00 FTEs will comprise the Division at a total cost of approximately $714,000. The Division has previously been operated with as many as 11 auditors.

Given the Division's history and the above revenue/expense information, the IBA suggests that the City Council request information regarding cost-effectiveness of incrementally adding auditors to the Revenue Audit & Appeals Division. Adding a few auditors would likely shorten the respective audit cycles, strengthen the audit control framework, and result in collection of revenue due to the City that exceeds the additional staff expense.

Citywide Program Expenditures

Effects of Budget Proposal

The FY 2009 Budget includes an increase of $23.4 million in Citywide Program Expenditures. There are no FTEs budgeted in the Department, and thus no change.

Annual Audit. The FY 2009 Budget includes an increase of $318,000 to cover expenses of external audits for a total of $1 million. This increased funding is intended to provide for the outside auditor of the FY 2008 financial statements.

Corporate Master Leases Rent. The FY 2009 Budget includes an increase in Corporate Master Leases Rent of $2.3 million for a total of $9 million. The increase is the result of a 2% base-weighted averaging increase in rent on the City's mega leases at Civic Center Plaza, Executive Complex, and 600 B St. per the lease agreement. Another factor in the increase is the Engineering & Capital Projects BPR that transferred some of the Department's costs (including rent) from the Internal Service Fund to the General Fund.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	-	$ -	$ 47,811,862	$ 47,811,862	$ -
Subtotal	*-*	*$ -*	*$ 47,811,862*	*$ 47,811,862*	*$ -*
Additions					
Annual Audit	-	$ -	$318,195	$ 318,195	$ -
Assessments to Public Property			124,735	124,735	
Corporate Master Leases Rent			2,335,298	2,335,298	
General Fund ERP Cost Allocation			1,432,759	1,432,759	
General Fund Reserve			6,000,000	6,000,000	
Leverage of Employee Pick-Up Savings			7,614,000	7,614,000	
Preservation of Benefits			1,100,000	1,100,000	
Public Liab Claims Fund Trans			10,000,000	10,000,000	
Reductions					
Citywide Program Expenditures			(3,328,641)	(3,328,641)	
Insurance			(474,121)	(474,121)	
Special Consulting Services			(1,683,169)	(1,683,169)	
Transfer to Park Improvement Funds			(66,395)	(66,395)	
Subtotal	*-*	*$ -*	*$ 23,372,661*	*$ 23,372,661*	*$ -*
TOTAL		**$**	**$ 71,184,523**	**$ 71,184,523**	**$**
Difference from 2008 to 2009	**-**	**$ -**	**$ 23,372,661**	**$ 23,372,661**	**$ -**

Citywide Elections. The FY 2009 Proposed Budget includes $2.7 million for Citywide Elections, reflecting no change from the FY 2008 Budget. The Presidential Election, as well as two citywide elections and four district elections are anticipated to occur in FY 2009. Projected election expenditures reflected in the Proposed Budget were calculated before more accurate cost estimates could be provided by the Registrar of Voters (ROV). According to the ROV, it would cost the City between $1.6 million and $1.8 million to administer six races and five ballot propositions in November; resulting in a potential savings of approximately $1 million over the Proposed Budget. Further savings may be achieved for FY 2009 depending upon the outcome of June elections.

Citywide Program Expenditures. Citywide Program Expenditures, which included the total General Fund Reserve in FY 2008, has been eliminated as a line item in the FY 2009 Budget. $3.3 million has been transferred to the General Fund Reserve. For further analysis, refer to the Reserves Section.

General Fund ERP Allocation. The FY 2009 Budget includes $1.4 million to fund the lease payment for the General Fund's portion of the Enterprise Resource Program. For further analysis, refer to the ERP Section.

Leverage of Employee Pick-up Savings. The FY 2009 Budget includes $7.6 million of Employee Offset Savings to be leveraged for additional contributions to SDCERS above the Annual Required Contribution. The funds will pay the debt service payment on private bonds in the range of $30 to $50 million, which is expected to be heard by Council in June. For further analysis, refer to the Anticipated Debt Financings section.

Preservation of Benefits. The FY 2009 Budget includes an allocation of $1.1 million for payments to SDCERS for employee benefits in excess of IRS 415(b) limits. The allocation reflects an increase of $600,000 over the FY 2008 budget. Although $500,000 was budgeted for this purpose in FY 2008, an additional $500,000 was required for a total payment of $1 million. Documentation is needed to authenticate this allocation of $1.1 million.

Public Liability Claims Transfer Fund. The FY 2009 Budget includes $28 million for the Public Liability Transfer Fund. Of the $28 million, $18 million is expected to cover annual pay-as-you-go claims and needs, and $10 million to service as a reserve for paying down outstanding public liability claims. The allocation of $28 million in FY 2009 is a $10 million increase over FY 2008. This funding is consistent with the Five-Year Financial Outlook. For further analysis, refer to the Public Liability Section.

Special Consulting Services. The FY 2009 Budget includes an expenditure reduction of $1.7 million for Special Consulting Services from FY 2008. The $1.2 million budgeted in FY 2009 reflects likely expenses, such as funding for a labor negotiator and disclosure counsel, as well as additional funds for possible consulting activity or other unanticipated projects as shown in the chart below.

Special Consulting Services

	FY 09 Proposed	
Actuary Services	$	350,000
Charter Revision	$	50,000
Disclosure Counsel	$	100,000
Meet & Confer	$	600,000
Public Records Requests	$	100,000
Total	**$**	**1,200,000**

Issues for Consideration

- Consider a reduction of a funding for Elections to reflect a more accurate cost estimates provided since budget development.

Community & Legislative Services

Effects of Budget Proposal

The Proposed FY 2009 Budget for Community and Legislative Services is $4.2 million, a decrease of $180,000, or 4% from the FY 2008 Budget, resulting primarily from reductions in non-personnel expenses. No vacancy factor has been budgeted for this function for FY 2009.

Budget Reductions. In FY 2009, the department proposes to eliminate one of its 29 positions; a vacant position of multimedia productions coordinator in City TV. Additionally, $187,000 in various non-personnel expenses will be eliminated from the budget.

Budget Additions. There is one reclassification of a position - a Senior Public Information Officer position has been reclassified to a Program Manager, at a net cost of $23,925 in City TV.

Service Levels. Staff has indicated that the job function of the eliminated Multimedia Production Coordinator position will be absorbed by the existing staff, as has been done since August 2007, when the position became vacant.

As noted by department staff, both the reduction of this position and the above-mentioned $187,000 reduction in non-personnel expenses will not result in service level impacts.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	29.00	$ 3,248,541	$ 1,131,992	$ 4,380,533	$ 258,900
Vacancy Factor (08)	-	80,104	-	80,104	-
Vacancy Factor (09)	-	-	-	-	-
Salary and Wage Adjustments	-	83,297	-	83,297	-
Subtotal	*29.00*	*$ 3,411,942*	*$ 1,131,992*	*$ 4,543,934*	*$ 258,900*
Additions				-	
Revised Revenue	-	-	-	-	8,000
Reductions				-	
City TV Multimedia Production Coordinator	(1.00)	(89,142)	-	(89,142)	-
Overtime for Council Liason position	-	(5,124)	-	(5,124)	-
Non-Discretionary Adjustment	-	-	(38,262)	(38,262)	-
IT Adjustment			(24,273)	(24,273)	
Miscellaneous Reductions			(187,071)	(187,071)	
Subtotal	*(1.00)*	*$ (94,266)*	*$ (249,606)*	*$ (343,872)*	*$ 8,000*
TOTAL	**28.00**	**$ 3,317,676**	**$ 882,386**	**$ 4,200,062**	**$ 266,900**
Difference from 2008 to 2009	**(1.00)**	**$ 69,135**	**$ (249,606)**	**$ (180,471)**	**$ 8,000**

Issues for Consideration

During the FY 2008 Budget hearing process, the Council requested that $50,000 be added to support Closed Captioning for City TV. The IBA notes that staff has indicated that funding has been continued for the FY 2009 department budget.

Council Administration

Effects of Budget Proposal

The biggest change to the budget for Council Administration since FY 2008 is the inclusion of a full year of funding for the Committee Consultant for the Ad-Hoc Fire Prevention and Recovery Committee. It is necessary and appropriate to include funding for this, however it is expected that the Committee will conclude at the end of this calendar year. Therefore half of the year's funding for this position may be available for reprogramming.

In addition, some funding was added to pay the terminal leave of employees who may separate following the conclusion of their service in the offices of Council Districts 1, 3, 5 and 7. The Proposed Budget includes $39,500 in salaries and fringe for this purpose. However, based on actual leave balances and accrual rates, it is projected that a total of nearly $200,000 may be required. This funding would be a onetime allocation in light of the unique situation in Fiscal Year 2009.

It should be noted that $15,000 for City Council Financial Training is provided again in the FY 2009 Proposed Budget.

Issues for Consideration

The IBA suggests that terminal leave, which is a known and unavoidable expense, be fully funded in the budget. If not funded, it is very likely that the reserves would have to be utilized to cover this expenditure. As established by Council Policy, the reserves should be for emergencies or

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	12.50	$	1,338,097	$	511,374	$	1,849,471	$	-
Salary and Wage Adjustments			98,953				98,953	$	-
Terminal Leave			39,500				39,500	$	-
Subtotal	*12.50*	*$*	*1,476,550*	*$*	*511,374*	*$*	*1,987,924*	*$*	*-*
Cmte Consultant added in FY 08	1.00		114,227				114,227		
Non-Discretionary & IT					12,369		12,369		
Subtotal	*1.00*	*$*	*114,227*	*$*	*12,369*	*$*	*126,596*	*$*	*-*
TOTAL	**13.50**	**$**	**1,590,777**	**$**	**523,743**	**$**	**2,114,520**	**$**	
Difference from 2008 to 2009	**1.00**	**$**	**252,680**	**$**	**12,369**	**$**	**265,049**	**$**	**-**

unanticipated expenses, which is not the case for terminal leave in these districts in Fiscal Year 2009.

The budget also continues the allocation for the contract with Jefferson Wells, providing consulting services to the Audit Committee. In FY 2008, the $225,000 allocated for Jefferson Wells has only been partially expended and it is anticipated that the original contract amount should be sufficient for the projects identified.

However, this is a discussion for members of the Audit Committee to have during budget deliberations. It the Audit Committee concurs that identified projects can be completed with existing funds, funding for the Jefferson Wells contract should be freed up for other purposes.

Customer Services

Effects of Budget Proposal

In Fiscal Year 2009 the Customer Services Department has been reassigned to Community Services as a result of organizational restructuring. The Proposed Budget for the department totals $2.3 million, a reduction of $190,000, or 7.5% from FY 2008. The Vacancy Factor proposed for FY 2009 is set at $49,017, or 2.5% of total personnel expense, a slight increase from the FY 2008 vacancy factor of 2.3%.

Budget Reductions. In response to the FY 2009 Mayoral 10% reduction requirement for the department, the Proposed Budget includes at least $201,000 in reductions to a number of its training programs and program development initiatives. This reduction includes: $35,000 reduction in training supplies, $50,000 reduction from the City-wide Training Division Leadership Development and a $56,000 reduction in training-related expenses to the Centralized Sexual Harassment Training program.

As a result of these reductions, the department will no longer have the same capacity to work with outside agencies to develop new trainings

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	20.00	$ 1,733,879	$ 789,253	$ 2,523,132	$ 676,814
Vacancy Factor (08)		40,581		40,581	
Vacancy Factor (09)		(49,017)		(49,017)	
Salary and Wage Adjustments		40,941		40,941	
Subtotal	*20.00*	*$ 1,766,384*	*$ 789,253*	*$ 2,555,637*	*$ 676,814*
Transfer in Public Info Clerk	1.00	$ 62,179		$ 62,179	$ -
(to be reclassified as Exec. Secretary)				-	-
Subtotal	*1.00*	*$ 62,179*	*$ -*	*$ 62,179*	*$ -*
Additions		-		-	-
Public Information Specialists	2.00	128,130		128,130	129,193
Terminal leave		5,600		5,600	
IT Budget Adjustments				8,323	
Reductions				-	
Nondiscretionary Adjustment			(225,877)	(225,877)	
Revised Revenue Appropriation				-	(101,986)
Training and Development			(201,000)	(201,000)	
Subtotal	*2.00*	*$ 133,730*	*$ (426,877)*	*$ (284,824)*	*$ 27,207*
TOTAL	**23.00**	**$ 1,962,293**	**$ 362,376**	**$ 2,332,992**	**$ 704,021**
Difference from 2008 to 2009	**3.00**	**$ 228,414**	**$ (426,877)**	**$ (190,140)**	**$ 27,207**

and workshops, and will lose funding that supported annual and biennial Customer Service workshops. These reductions are reflected in the department's performance measures and in the chart below:

Number of Training Hours Conducted

FY 2007	Estimated FY 2008	Target FY 2009
630	520	440

Although staff has indicated that reductions will not affect current core training for City staff, the FY 2009 proposed reductions will remove funding for future training and program development of training for all City staff.

Budget Additions. The Proposed Budget includes 3.00 additional FTE. This addition includes the transfer of 1.00 Executive Secretary, from the Administration Department, to support the Department Director, as well as 2.00 FTE Limited Public Information Specialists to provide service to customers at the San Ysidro Community Service Center. As a result of these two additions, the FY 2009 Budget includes $129,193 in additional revenue that will be used to offset the cost of these positions.

***Service Levels*.** The department service levels indicate positive trends with the exception of training, as discussed above, which shows a reduction from 630 to 440 training hours, a 30% decrease, from FY 2007 to FY 2009.

Two part-time managers, which in the past have been budgeted within Engineering and Capital Projects, will be absorbed back into the Engineering and Capital Projects Department, effective July 1, 2008. As a result, the department will have to shift from assigning one manager to each customer service center, to relying on area managers. Staff has indicated that there will be no impact on hours of operation or front line staffing.

As a result of this operational change, the department's role of coordinating City volunteerism will be phased out. Staff has indicated that the department will no longer be able to support these activities after July 1, 2008 and potential volunteers will be instructed to contact departments directly.

Debt Management

Effects of Budget Proposal

The budget for the Debt Management Department is proposed to increase by $31,796 in FY 2009. Total staff positions remain unchanged and total budgeted revenue is projected to decrease by $282,904. No reductions are proposed for the department in FY 2009.

Vacancy Factor. The department has been assigned a vacancy factor of $61,295, or 2.5% of total proposed personnel expense in FY 2009. This compares with a vacancy factor of $56,707, or 2.4% of total personnel expense in FY 2008.

Revenue Adjustments. The budgeted revenue reduction of $339,000 in FY 2009 is primarily attributable to conservative expectations regarding debt to be issued by the City in FY 2009. In the course of developing their budget, the department anticipated fewer bond issuances being completed in the coming budget year and therefore less reimbursable revenue for staff working to facilitate new bond issuances. Staff costs are typically reimbursed to the City as a cost of issuance when bonds are sold.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	22.00	$	2,346,312	$	384,089	$	2,730,401	$	1,526,389
Vacancy Factor (08)			56,707				56,707		-
Vacancy Factor (09)			(61,295)				(61,295)		
Salary and Wage Adjustments			69,147				69,147		-
Subtotal	*22.00*	*$*	*2,410,871*	*$*	*384,089*	*$*	*2,794,960*	*$*	*1,526,389*
Additions							-		
Non-Discretionary Adjustment									
Reductions							-		
Non-Discretionary Adjustment					(6,571)		(6,571)		
Information Technology Adjustments					(26,192)		(26,192)		
Revised Revenue Projection									(282,904)
Subtotal	*-*	*$*	*-*	*$*	*(32,763)*	*$*	*(32,763)*	*$*	*(282,904)*
TOTAL	**22.00**	**$**	**2,410,871**	**$**	**351,326**	**$**	**2,762,197**	**$**	**1,243,485**
Difference from 2008 to 2009	**-**	**$**	**64,559**	**$**	**(32,763)**	**$**	**31,796**	**$**	**(282,904)**

Service Levels. The Debt Management Department has developed several performance measures to assess the effectiveness of their work processes. A few notable measures include:

- Percent of City's priority financings completed.
- Percent of debt payments made to bond trustees on time.
- Average number of days for the Formal Centralized Monitoring Program (FCMP) semi-annual compliance status reports to be completed (to support internal controls for the City).
- Percent of continuing disclosure annual reports sent on or before due dates.
- Percent accomplishment of the Department Professional Development Performance Index (PDPI) as established by the Department.

Development Services

DEVELOPMENT SERVICES ENTERPRISE FUND

Effects of Budget Proposal

The Mayor's proposed budget for the Development Services Enterprise Fund is $48.6 million, an 8% reduction from FY 2008. The net expenditure reduction is primarily due to the following:

- A very high vacancy rate of 22.5%.
- Reduction of 10.00 positions.
- Transfer of 6.00 positions to E&CP as part of that department's BPR.
- A reduction of $454,142 to Information Technology (IT) accounts.

The FY 2009 Proposed Budget also includes the addition of $3,280,545 in revenues.

Vacancy Savings and Balancing the Enterprise Fund. The DSD Enterprise Fund's proposed vacancy factor for FY 2009 is $10,394,049 or 22.5%. In terms of positions, the department is projecting to keep 91.00 vacant for FY 2009. The vacancy rate is extremely high when compared to other departments. However, the DSD Enterprise fund faces unique challenges due to the fact that they serve the construction industry and the health of that in-

SUMMARY OF BUDGET CHANGES

Enterprise Fund	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	469.00	$ 40,647,021	$ 12,400,871	$ 53,047,892	$ 45,557,453
Vacancy Factor (08)		8,238,940		8,238,940	-
Vacancy Factor (09)		(10,394,049)		(10,394,049)	
Salary and Wage Adjustments		(861,645)		(861,645)	-
Subtotal	*469.00*	*$ 37,630,267*	*$ 12,400,871*	*$ 50,031,138*	*$ 45,557,453*
Reductions	(10.00)	(912,994)		(912,994)	
E&CP BPR Transfer	(6.00)	(803,288)	795,151	(8,137)	
IT Adjustments			(454,142)	(454,142)	
Non-Discretionary			(144,553)	(144,553)	
ERP			82,202	82,202	
Revenue Adjustments					3,280,545
Subtotal	*(16.00)*	*$ (1,716,282)*	*$ 278,658*	*$ (1,437,624)*	*$ 3,280,545*
TOTAL	**453.00**	**$ 35,913,985**	**$ 12,679,529**	**$ 48,593,514**	**$ 48,837,998**
Difference from 2008 to 2009	**(16.00)**	**$ (4,733,036)**	**$ 278,658**	**$ (4,454,378)**	**$ 3,280,545**

dustry has a direct impact on the department. In a good economy, more commercial and residential construction occurs resulting in an increased workload and revenue for the department. A downturn in the economy results in a decrease in workload. As the following chart indicates, the department has been seeing a slowdown in Building Permits over the last two years:

	FY 2006	FY 2007	FY 2008 (Estimated	FY 2009 (Target)
Building Permits Issued	10,203	8,568	8,225	8,225

The challenge to department management is predicting the staffing needed to meet demand fluctuations. One method to address this challenge is to staff to current workload levels and keep positions vacant. Department management has taken the approach of not reducing positions from the budget but keeping them vacant. If the economy turns around, the department will begin to fill some of the vacant positions to address the increased workload. This requires the department to keep the expenditures related to the vacant positions in the budget but those expenditures are then reduced using the vacancy savings. This results in a higher than usual vacancy savings. The department is also able to maintain a balanced budget without permanently reducing positions, which would leave them unable to respond to increased workload when and if the economy improves.

What happened to the Fund Reserves and Balance? DSD's budgeted reserve levels and fund balances have declined significantly over the last three years to alarmingly low levels. The table below shows the decline from FY 2007:

	FY 2007	FY 2008	FY 2009
Reserves	$2,550,000	$50,000	$50,000
Fund Balance	$4,553,739	$6,945	$201,429

Department management states that there are multiple factors that have contributed to the decline in Reserves and Fund Balance. One of the major factors is the downturn in the economy which has resulted in a decline in revenues from permit applications.

Another factor is that operational expenditures have increased. Some of the increases were not included in the department's last fee study done five years ago. Over time, this has resulted in some processes not being fully cost recoverable. The department has stated that they are currently working on a Fee Study in order to assess rates charged for staff services needed to review, process, and inspect projects. This will allow the department to fully recover increased costs not included in the last fee study. This should also help the department to increase reserves and their fund balance. It is important to note that in the FY 2009 Proposed Budget, the department has included a performance measure to track their reserve levels.

If the department is seeing a decline in workload why are they increasing revenue? Department Management has stated that the revenue budgeted for FY 2008 was more conservative than necessary. The impact to the fund is that even though the department is seeing a decline in overall activity, some revenue accounts are seeing an increase over what was previously budgeted. Another factor is that the department is "lending" 6.00 staff members (Inspectors) to Neighborhood Code Compliance (NCC). The work done for NCC is reimbursable to the DSD Enterprise fund resulting in an increase in revenue. The operational impact of shifting these positions to NCC is discussed below in the NCC division section.

Department Reductions and transfer of positions to E&CP. The DSD Enterprise Fund's FY 2009 Proposed Budget includes the reduction of 10.00 positions resulting in a savings of $912,994. Department management has stated that the positions reduced are vacant and their duties have been assumed by other staff members. The positions reduced include:

POSITION	FTE
Public Information Clerk	(1.00)
Assistant Engineer-Traffic	(1.00)
Associate Planner	(3.00)
Information Systems Analyst III	(1.00)
Senior Drafting Aide	(1.00)
Clerical Assistant II	(1.00)
Associate Engineer – Civil	(1.00)
Development Project Manager II	(1.00)
Total:	**(10.00)**

The department is also taking a reduction of $454,142 in IT accounts. The IBA is concerned with this reduction because the department has been working on IT process improvements and the reduction might impact the positive gains being made by the department in these areas. Some examples of IT improvements include the upgrading to an Electronic Noticing and Document Distribution process and providing handheld computers to DSD inspectors. The handheld computers allow the inspectors to enter inspection results in real time while still in the field. Department management has indicated that even with the funding reduction they will still be able to continue with the process improvements.

As part of the E&CP Department's BPR, 6.00 positions have been transferred from the DSD Enterprise fund to E&CP. This move is being done to increase the organizational and budgetary accountability of these personnel to the City Engineer. The positions transferred include:

POSITION	FTE
Senior Engineering Geologist	(1.00)
Senior Civil Engineer	(2.00)
Senior Traffic Engineer	(2.00)
Senior Land Surveyor	(1.00)
Total:	**(6.00)**

Business Process Reengineering (BPR). During FY 2007 and 2008 the DSD department underwent a department-wide BPR. Thirty-three major processes were reviewed resulting 133 separate recommendations. Many of these recommendations would result in savings or efficiencies in the department and should be implemented as soon as possible.

Issues for Considerations

The IBA offers the following recommendation concerning DSD Enterprise Fund Budget:

- The last fee study was completed five years ago. A new fee study is required to ensure the fiscal integrity of the Enterprise Fund. The IBA recommends that a new fee study be completed prior to the end of the calendar year.

NEIGHBORHOOD CODE COMPLIANCE

Effects of the Budget Proposal

The FY 2009 Proposed Budget for Neighborhood Code Compliance (NCC) is $6.7 million, a 1% reduction from FY 2008. The significant changes to NCC include:

- Reduction of 1.00 position from the Graffiti Control Program.
- Reduction of $388, 209 in CDBG revenue.

Reduction to Graffiti Control Program. NCC's FY 2009 Proposed Budget includes the reduction of 1.00 Utility Supervisor resulting in a savings of $86,107. This position was the supervisor of the Graffiti Control Program crew. As a result of this reduction, the division's Senior Civil Engineer will assume supervision responsibilities of this program. In addition, Utility Worker II's will act as team leads to distribute work and provide supervision at job sites. It is unclear what impact the change will have on the regular duties of the Senior Civil Engineer or the Graffiti Control Program.

In regard to service levels for this program, department management feels that they could be more timely and proactive in the removal of graffiti if additional staff were provided. However, the current backlog of 100 cases is substantially less than the 700 they had the previous year.

SUMMARY OF BUDGET CHANGES

General Fund	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	68.00	$ 5,829,384	$ 874,532	$ 6,703,916	$ 1,321,088
Vacancy Factor (08)		134,751		134,751	-
Vacancy Factor (09)		(131,339)		(131,339)	
Salary and Wage Adjustments		37,290		37,290	-
Subtotal	*68.00*	*$ 5,870,086*	*$ 874,532*	*$ 6,744,618*	*$ 1,321,088*
Reductions	(1.00)	(86,107)	-	(86,107)	
IT Adjustments			(327)	(327)	
Non-Discretionary			6,905	6,905	
Revenue Adjustments					(388,209)
Subtotal	*(1.00)*	*$ (86,107)*	*$ 6,578*	*$ (79,529)*	*$ (388,209)*
TOTAL	**67.00**	**$ 5,783,979**	**$ 881,110**	**$ 6,665,089**	**$ 932,879**
Difference from 2008 to 2009	**(1.00)**	**$ (45,405)**	**$ 6,578**	**$ (38,827)**	**$ (388,209)**

CDBG and the reduction in related Revenue. In FY 2009, the department is expecting to receive $573,279 in revenue from CDBG. This is a decrease of $388,209 from the FY 2008 amount of $961,488. The majority of the budgeted revenue for CDBG is contingent on City Council offices that have programmed funding in the past from their annual CDBG allocations to continue with this funding. Although CDBG revenue has been reduced, a corresponding reduction in positions has not occurred. Department management has indicated that they plan on providing the same level of services as before. It is unclear what the service level impact would be if the City Council offices that contributed CDBG funding in the past choose to not continue with these allocations.

The IBA would like to point out that one of the concerns that the Housing and Urban Development (HUD) department had with the City's CDBG program is the possibility of supplanting. Over the past decade, the City looked for ways to balance annual budgets while trying to maintain service levels. In some cases, where the City's General Fund services were reduced, CDBG funds were used to help maintain service levels. This practice, referred to as "supplanting," is a concern to HUD. An example is the use of Compliance Officers in service areas that do not meet CDBG regulations. Compliance officers that are funded with CDBG dollars must work in areas were low and moderate income residents reside with the purpose of removing blighted conditions.

To ensure that the City of San Diego is compliant with HUD regulations, the City's CDBG office has been working with NCC management. A MOU between the two departments that establishes criteria for the use of CDBG funded Compliance Officers is in the process of being developed and will be ready before July 1, 2008. This MOU will be reviewed by the City Attorney's Office. Some of the criteria in the MOU includes more diligent record keeping and focused enforcement in areas that meet CDBG regulations. The IBA would like to point out that it is unclear how this will impact other areas of the City if compliance officers that are CDBG funded can only work in specific areas.

Is NCC able to meet the increased workload with the new programs added in FY 2008? In FY 2008, the City Council approved multiple programs to address problems associated with nuisance rental properties/mini-dorms. These programs included the Administrative Citation Program, Residential High Occupancy Permit Program, and the Rooming House Ordinance. One of the concerns with the implementation of these programs was the impact on service levels to other NCC enforcement activities. In discussions with NCC management, they have indicated that to-date they are not seeing a great impact on workload. Recent data indicates that the programs are working and the awareness of the program is resulting in a decrease in complaints. Staff also noted that before these programs were approved, they were receiving the complaints but they did not have the enforcement tools to address them. With

The recent approval of the nuisance rental properties/mini-dorm related programs they now have the necessary enforcement vehicles.

It should be noted that one of the performance measures included in the FY 2009 Proposed Budget shows a substantial decrease in code compliance cases investigated from FY 2006 (7,152) to FY 2007 (6,091). Department management stated that the decrease was due to a lack of staff resources. However, department management has come up with an innovative way to address resource issues since that time. In the past year, NCC management has been using DSD Enterprise Fund's field inspectors to investigate Construction without permits, Aesthetic, Zoning, and sign violations. With the downturn in the economy, DSD has been able to "lend" these inspectors to NCC. The advantage of this is that DSD does not have to reduce their trained, seasoned inspectors and NCC is able to meet workload demands. Work done by the DSD inspectors is reimbursed by NCC (General Fund) to the DSD Enterprise fund. It should be noted that it is not clear what the impacts would be to NCC service levels if the economy turns around and these inspectors return to their normal duties.

Engineering and Capital Projects

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Engineering & Capital Projects (E&CP) Department is $66.4 million, an increase of 6% from the FY 2008 Proposed Budget. The majority of the increase is due to citywide restructuring of engineering functions as a result of the department's BPR.

Business Process Reengineering (BPR). Starting in July 2006 the E&CP Department conducted a comprehensive assessment of engineering core functions and processes, spread among various City departments, in order to identify operational efficiencies, streamline business processes, and reduce the cost of providing services to citizens. The implementation of the E&CP BPR was to be completed in two phases. The first phase included the following changes to the FY 2008 Annual Budget:

- Reduction of 78.50 vacant positions in the E&CP, Metropolitan Wastewater (MWWD), General Services, and Purchasing & Contracting departments.
- Transfer of 1.00 position to the Office of CIO.
- Transfer of 1.00 position to the General Service Department.
- Transfer of 18.00 positions from the Park and Recreation Department to the E&CP department.

SUMMARY OF BUDGET CHANGES

General Fund	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	286.47	$	30,532,179	$	4,892,249	$	35,424,428	$	26,999,153
Vacancy Factor (08)			1,082,321				1,082,321		-
Vacancy Factor (09)			(1,230,359)				(1,230,359)		
Salary and Wage Adjustments			(705,761)				(705,761)		-
Subtotal	*286.47*	*$*	*29,678,380*	*$*	*4,892,249*	*$*	*34,570,629*	*$*	*26,999,153*
Reductions	(4.00)		(355,181)		(98,552)		(453,733)		
BPR related changes	238.03		25,919,247		8,361,257		34,280,504		33,584,682
IT Adjustments					(683,791)		(683,791)		
Non-Discretionary					(2,461,110)		(2,461,110)		
Misc. Revenue Adjustments									2,481,141
Subtotal	*234.03*	*$*	*25,564,066*	*$*	*5,117,804*	*$*	*30,681,870*	*$*	*36,065,823*
TOTAL	**520.50**	**$**	**55,242,446**	**$**	**10,010,053**	**$**	**65,252,499**	**$**	**63,064,976**
Difference from 2008 to 2009	**234.03**	**$**	**24,710,267**	**$**	**5,117,804**	**$**	**29,828,071**	**$**	**36,065,823**

The second phase of the E&CP BPR was heard by the City Council on July 31, 2007. The second phase of the E&CP BPR included:

- The transfer of positions to the E&CP department from the following departments:

Department	FTE
MWWD	35.00
Water	25.00
Development Services	6.00
Planning	6.00
General Services	1.00
Total:	**73.00**

- Reduction of 11.00 positions from the E&CP, MWWD, and Water Departments.

- Transfer of 2.00 positions to the Purchasing and Contracting department.

- Reclassification of 14.00 positions.

The actions listed above have been included in the E&CP Department's proposed FY 2009 budget. As a result of the BPR, two divisions were eliminated (Water and Sewer Design and Water/Wastewater Field Engineering) and the positions were transferred into five divisions. It should be noted that the two divisions that were eliminated were Internal Service Funds. In previous fiscal years these funds resided outside of the General Fund and were funded by the Water and MWWD (Non-General Fund) departments. For FY 2009, E&CP's five divisions are included in the General Fund. However, work done for Non-General Fund departments will be reimbursed.

Internal Service Funds
A fund created to finance and account for a department's or division's work for other departments. The fund's expenses are repaid from fees or fund transfers from other City departments.

If the E&CP FY 2009 Proposed Budget is approved, the restructuring required to finalize the department's BPR will be complete. The department has indicated that it is too early to tell the effects of the BPR. However, they have acknowledged that they are already seeing better business practices in the department. Some examples include a more uniform set of requirements across projects and better sharing of information between City Project Managers.

Capacity. For FY 2009, the department is anticipating the number of CIP projects in construction to dramatically increase. Based on sizing data provided by the department, the estimated number of CIP projects in construction for FY 2008 is 85. For FY 2009 the department is projecting 153, a 44% increase. The reason for the significant increase is the City's anticipated ability to access the public bond markets after years of not being able to.

Currently the E&CP department has 293.50 budgeted engineers. However, 57.00 of these positions are currently vacant. The department is actively trying to hire these positions but the current environment, where many cities are in the process of hiring engineers, makes this a challenge. In addition, the department is finding it hard to identify qualified candidates for some of the specialized engineering fields. ***Department management has stated that they feel they will be able to handle the increased workload if they are able to hire the vacant engineer positions.*** The department will also look at using different project delivery methods and, if necessary, contracting out for consultant services and construction managers.

CIP Prioritization. In FY 2007 the City Council approved Council Policy 800-14 which codified a process for the prioritization of Transportation and Drainage CIP projects. Since 2007, the department has been working to revise the policy to incorporate the prioritization of all capital projects. The proposed language of the revised Council Policy has been reviewed and commented on twice by the Budget and Finance Committee. The department is anticipating bringing the revised policy forward to the City Council in June or July.

Currently the City of San Diego has thousands of capital assets that will need to be prioritized. Before being prioritized, each asset undergoes a comprehensive review that includes many variables. Depending on the size and the condition of the existing assets, the time required to complete the review can take a few hours or months to complete. Some assets might require field visits or the hiring of specialized consultants to complete an inspection. An example is the City's storm drains and water/sewer pipelines that require televised inspection to gauge the condition of the pipes before the prioritization process can occur. In addition, the department must balance workload within the department which requires management to either allocate resources to working on the prioritization list or working on projects that are under construction.

In Goal 3, #1 of the Department's performance measures, they are estimating to score and prioritize 100% of the City's transportation projects and 25% of all other projects during FY 2009. After conversations with Department management on the challenges that they face, the IBA feels that these goals may be optimistic.

Reductions. E&CP's Proposed FY 2009 budget includes the reduction of 4.00 positions (2.00 Assistant Engineer, 1.00 Clerical Assistant II, 1.00 Principal Engineering Aide) for $355,181. The service level impacts of these reductions include:

- Reduction to Quality Assurance/Quality Control which will result in the need to fulfill this function via additional consultant services.

- Reduction to the support of E&CP construction contract processing for CIP projects. As a result of this reduction, more time will be spent by project managers on administrative functions.

- Reduction to the identification of long term capital asset rehabilitation/replacement needs. As a result of this reduction, consultants will be required to help with this function.

The department is also taking a reduction of $91,032 to their Non-Personnel expenses. This majority of the NPE reduction is funding for training.

Enterprise Resource Planning

Effects of Budget Proposal

ERP Project. The Enterprise Resource Planning (ERP) Project will replace the major software systems currently in use for accounting, treasury, procurement and human resource functions. ERP is a key element of the City's remediation efforts to address internal controls and improve financial reporting. Development of a new system will allow the creation and documentation of financial policies and procedures that will assist in addressing past deficiencies. The ERP effort has recently been dubbed "One SD".

Total project costs are estimated at $36.5 million, and the City secured multi-year financing of $29.5 million last fiscal year. Cash funding totaling $7.0 million is provided by the San Diego Data Processing Corporation (SDDPC) and the City's A-List Project Fund ($3.5 million each).

Budgetary Changes. Changes in the FY 2009 proposed budget include increases for the lease payments on the financed portion of the project. Funding for the lease payments is allocated among various City departments on a proportionate basis, with the General Fund's share budgeted

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	-	$ -	$ 20,642,500	$ 20,642,500	$ 17,142,500
Vacancy Factor (08)				-	-
Vacancy Factor (09)				-	
Salary and Wage Adjustments				-	-
Subtotal	-	*$ -*	*$ 20,642,500*	*$ 20,642,500*	*$ 17,142,500*
Additions				-	
Increase to Lease Payments			1,721,606	1,721,606	1,721,606
Support for Info Technology			843,244	843,244	
Rent			185,389	185,389	
IT Interfund Transfer			3,334	3,334	
Reductions				-	
Adjust from Prior Year Levels			(12,506,343)	(12,506,343)	(9,474,376)
Subtotal	-	*$ -*	*$ (9,752,770)*	*$ (9,752,770)*	*$ (7,752,770)*
TOTAL			**10,889,730**	**10,889,730**	**9,389,730**
Difference from 2008 to 2009	**-**	**$ -**	**$ (9,752,770)**	**$ (9,752,770)**	**$ (7,752,770)**

in Citywide Program Expenditures. In addition, ERP has budgeted for rent for the leased office for the project team. Adjustments have also been made in the proposed budget to authorize the remaining funding to bring cumulative project costs to the estimated total of $36.5 million.

Status of Project. In June 2007, SAP AG was selected as the provider of the ERP system software. Axon Solutions was selected in September 2007 to serve as system integrator. The software and first year maintenance cost totals $4.6 million, compared to initial project estimates in the range of $5 - 7 million. Based on these figures, project savings could reach $2.4 million for these components of the project. However, more significant cost items are still to come and an evaluation of the project budget will be ongoing.

ERP Item	Initial Estimate	Negotiated Price	Savings to Date
Software, including SAP and 3rd party licenses	$4-5 million	$3,757,250	$1,242,750
Annual License Maintenance	$1-2 million	$818,633	$1,181,367
TOTAL	**$5 7 million**	**$4,575,883**	**2,424,117**

Impact on City Departmental Operations. Representatives from all City departments have been involved over the past several months participating in workshop meetings to scope out system needs for the various functional areas. To ensure project success, departmental liaisons have been named to meet regularly for communication and training updates on the project. ERP is a significant and important effort that the IBA strongly supports. However, concerns exist about the ability of the City's workforce to balance the competing demands of managing ongoing daily departmental operations, while assisting with the implementation of a major Citywide reengineering effort, in the midst of budgetary reductions.

Addition of Positions Citywide for FY 2009. The FY 2009 Proposed Budget includes the addition of 12 positions at a cost of $1.2 million, specifically for assignment to the ERP project, or to backfill positions in several departments already assigned to ERP. Costs for the additions are funded from the ERP project. The IBA expects that additional position will be needed as the project progresses, and that reassignments will likely take place to ensure ERP is given the priority attention it deserves.

ENTERPRISE RESOURCE PLANNING (ERP) COMMITTED POSITIONS

Department/Description	FTEs	Amount
FY 2009 Budget Additions		
City Comptroller		871,478
Accountant IV	4.00	
Accountant II	1.00	
Payroll Audit Specialist II	1.00	
Financial Operations Mgr	1.00	
Financial Management		
Associate Management Analyst	1.00	96,107
Purchasing & Contracting		
Procurement Specialist	1.00	89,393
Risk Management		
Clerical Assistant II	1.00	58,300
SUB TOTAL NEW POSITIONS	**10.00**	**1,115,278**
Reassignments/Reclassifications		
City Treasurer		
Program Manager	1.00	85,000
Personnel		
Program Manager	1.00	May Revise
SUBTOTAL INCREASED COSTS	**12.00**	**1,200,278**

Quarterly Updates to the Rules Committee. The IBA had previously recommended that quarterly updates be provided by ERP project management staff to ensure the City Council is kept apprised of the project schedule and budget, and impacts on City operations. The Rules Committee was last updated on April 23, 2008, with the next report scheduled for July 16, 2008.

Environmental Services

The FY 2009 Proposed Budget for the Environmental Services Department (ESD) is $98.7 million, and includes 464.08 budget positions and $58.1 million in revenue. The Department consists of three operating divisions and one administrative division spread across four different funds, as illustrated below.

ESD's Business Process Reengineering, approved by the City Council on February 6, 2007, resulted in the consolidation of several divisions, and the centralization of administrative staff into the new Office of the Director Division. These structural changes are implemented in the FY 2009 Proposed Budget. Due to the complex nature of the Department's budget structure, the analysis of ESD's FY 2009 Proposed Budget in this section is organized by fund.

FY09 Proposed - Expenditures

	General Fund	Energy Conserv.	Refuse Disposal	Recycling Fund	TOTAL
Office of the Director	1,646,908		3,485,091	2,282,852	**7,414,851**
Collection Services	36,735,689		1,098,729	15,586,494	**53,420,912**
Energy Sust. & Env. Prot.	1,809,626	1,804,582	1,025,643	1,286,369	**5,926,220**
Waste Reduct & Disposal			28,119,073	3,826,379	**31,945,452**
TOTAL	**40,192,223**	**1,804,582**	**33,728,536**	**22,982,094**	**98,707,435**

GENERAL FUND

Effects of Budget Proposal

The FY 2009 Proposed Budget for the General Fund portion of ESD reflects a net reduction in expenditures of just over $600,000. However, budgeted revenue increased by approximately $1.05 million, due in large part to $615,000 in facility franchise revenue that was from the Recycling Fund in lieu of further budget reductions.

There were no significant expenditure adjustments to the General Fund portion of ESD's budget. Adjustments for non-discretionary expenditures resulted in a reduction of approximately $450,000, while 1.00 position was eliminated as part of the Mayor's budget reduction plans. Since residential refuse collection, provided by the Collection Services Division, accounts for the vast majority of the General Fund budget, the Department is limited in its ability to reduce positions that would impact service levels. However, ESD was able to contribute to city-wide savings through an increased vacancy factor in the Collection Services Division, which will be discussed further in the Issues for Legislative Consideration Section.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	156.21	$	13,783,523	$	27,009,831	$	40,793,354	$	513,582
Vacancy Factor (08)	-		308,715		-		308,715		-
Vacancy Factor (09)	-		(626,508)		-		(626,508)		-
Salary and Wage Adjustments	-		220,306		-		220,306		-
Subtotal	*156.21*	*$*	*13,686,036*	*$*	*27,009,831*	*$*	*40,695,867*	*$*	*513,582*
BPR Restructuring	1.55	$	127,365	$	-	$	127,365	$	-
Subtotal	*1.55*	*$*	*127,365*	*$*	*-*	*$*	*127,365*	*$*	*-*
Additions							-		
Facility Franchise Revenue	-		-		-		-		615,000
Other Revenue Adjustments	-		-		-		-		434,571
Reductions									
Budget Reductions	(1.00)		(117,438)		-		(117,438)		-
Non-Discretionary Adjustment	-		-		(450,367)		(450,367)		-
IT Adjustment	-		-		(63,204)		(63,204)		-
Subtotal	*(1.00)*	*$*	*(117,438)*	*$*	*(513,571)*	*$*	*(631,009)*	*$*	*1,049,571*
TOTAL	**156.76**	**$**	**13,695,963**	**$**	**26,496,260**	**$**	**40,192,223**	**$**	**1,563,153**
Difference from 2008 to 2009	**0.55**	**$**	**(87,560)**	**$**	**(513,571)**	**$**	**(601,131)**	**$**	**1,049,571**

Refuse Disposal Fund

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Refuse Disposal Fund reflects a net reduction of 1.55 positions and $104,000 in expenditures. Major adjustment include the removal of $600,000 in one-time FY 2008 expenditures related to the purchase of a tubgrinder machine used to grind wood and greenery into chips.

The Proposed Budget also reflects a $2.7 million reduction in revenue, primarily due to the loss of tipping fees related to the Construction & Demolition (C&D) and City Recycling Ordinances. As described in detail in IBA Report 07-101, a host of fees are charged for each ton of waste that is disposed in the Miramar landfill, including tipping fees that support the Refuse Disposal Fund. As recyclable material is diverted from the landfills certain fees, including the tipping fee, cannot be charged. As a result, several funds that are supported by these fees will experience a reduction in revenue. In FY 2009, the Refuse Disposal Fund reduced tipping fee revenue by approximately $5.2 million as a result of increased diversion due to the two recycling ordinances, as well as the imposition of the C&D surcharge. This reduction was partially offset by a $2.2 million increase related to the increase in self-haul fees.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	155.50	$ 13,383,125	$ 20,449,364	$ 33,832,489	$ 36,730,149
Vacancy Factor (08)	-	262,934	-	262,934	-
Vacancy Factor (09)	-	(345,413)	-	(345,413)	-
Salary and Wage Adjustments	-	131,063	-	131,063	-
Subtotal	*155.50*	*$ 13,431,709*	*$ 20,449,364*	*$ 33,881,073*	*$ 36,730,149*
BPR Restructuring	(0.55)	$ (34,834)	$ -	$ (34,834)	$ -
Subtotal	*(0.55)*	*$ (34,834)*	*$ -*	*$ (34,834)*	*$ -*
Additions				-	
Non-Discretionary Adjustment	-	-	130,597	130,597	-
IT Budget Adjustment	-	-	67,284	67,284	-
Funding for ERP	-	-	32,081	32,081	-
Hourly, Special Pay, Overtime	-	165,466	-	165,466	-
Other Operations Increases	-	-	284,122	284,122	-
Reductions					
Revenue Adjustment	-	-	-	-	(2,710,257)
NGF Budget Reductions	(1.00)	(121,890)	(75,363)	(197,253)	-
One-Time Expenditure Removal	-	-	(600,000)	(600,000)	-
Subtotal	*(1.00)*	*$ 43,576*	*$ (161,279)*	*$ (117,703)*	*$ (2,710,257)*
TOTAL	**153.95**	**$ 13,440,451**	**$ 20,288,085**	**$ 33,728,536**	**$ 34,019,892**
Difference from 2008 to 2009	**(1.55)**	**$ 57,326**	**$ (161,279)**	**$ (103,953)**	**$ (2,710,257)**

RECYCLING FUND

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Recycling Fund reflects the addition of 7.15 positions, a net expenditure reduction of $1.0 million, and a net revenue reduction of nearly $800,000.

Significant expenditure reductions include a $1.4 million decrease in non-discretionary expenditures for the Collection Services Division, including a $727,000 decrease in motive equipment usage charges, and $709,000 reduction in outlay for the lease/purchase payment related to recycling and greenery bins. In addition, the vacancy savings for the Collection Services Division increased by $1.1 million, further reducing the expenditure budget.

These reductions were partially offset by the addition of 7.00 positions related to the C&D and City Recycling Ordinances, as the increased recycling effort will require enhanced operations of the City's recycling program. In addition, the budget reflects a $1 million reduction in recycling fee revenue due to the increased diversion of recyclable material from the Miramar landfill, partially offset by a $215,000 increase in self-haul fees. The Recycling Fund also reduced $615,000 in Franchise Facility Revenue that was transferred to the General Fund. While this transfer was made in lieu of additional General Fund reductions, it negatively impacts the health

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	137.37	$	11,512,017	$	12,493,745	$	24,005,762	$	21,000,700
Vacancy Factor (08)	-		253,998		-		253,998		-
Vacancy Factor (09)	-		(1,189,541)		-		(1,189,541)		-
Salary and Wage Adjustments	-		149,476		-		149,476		-
Subtotal	*137.37*	*$*	*10,725,950*	*$*	*12,493,745*	*$*	*23,219,695*	*$*	*21,000,700*
BPR Restructuring	0.15	$	18,338	$	-	$	18,338	$	-
Subtotal	*0.15*	*$*	*18,338*	*$*	*-*	*$*	*18,338*	*$*	*-*
Additions							-		
C&D and City Recycling Ords.	7.00		620,221		40,000		660,221		-
SLA w/MWWD, Storm Water	-		-		300,000		300,000		300,000
Other Operations Increase	-		34,038		55,540		89,578		-
Reductions									
Non-Discretionary Adjustment	-		-		(1,305,738)		(1,305,738)		-
FFE Transfer to GF	-		-		-		-		(615,000)
Other Revenue Adjustments	-		-		-		-		(477,160)
Subtotal	*7.00*	*$*	*654,259*	*$*	*(910,198)*	*$*	*(255,939)*	*$*	*(792,160)*
TOTAL	**144.52**	**$**	**11,398,547**	**$**	**11,583,547**	**$**	**22,982,094**	**$**	**20,208,540**
Difference from 2008 to 2009	**7.15**	**$**	**(113,470)**	**$**	**(910,198)**	**$**	**(1,023,668)**	**$**	**(792,160)**

of the Recycling Fund. These reductions are partially offset by increased revenue from the sale of recyclable materials.

Issues for Consideration

The FY 2009 Proposed Budget does not include any revenue or expenditures associated with the Automated Refuse Container Replacement Fee, which was approved by Council in November 2007. It is our understanding that this will be addressed in the May Revise, and that $500,000 in revenue and expense will be budgeted in the Container Replacement Fund. The department estimates that approximately 10,000 automated refuse containers will need replacement in FY 2009.

No fiscal mitigations for the Refuse Disposal or Recycling Fund are built in to the FY 2009 Proposed Budget. As discussed when the C&D and City Recycling Ordinances were being proposed, both the Refuse Disposal Fund and the Recycling Fund have been experiencing declining fund balances for several years, as disposal fees have not kept pace with costs. Both the C&D and the City Recycling Ordinance will exacerbate this effect as recycling efforts are increased. The Department plans to come forward with long-term fiscal mitigation proposals sometime in FY 2009. It should be noted that these proposals are likely to have a General Fund impact.

As previously mentioned, the FY 2009 Proposed Budget for the Collection Services Division reflects a significant increase in the vacancy savings. In FY 2008, vacancy savings was approximately $432,000, or approximately 2% of the Division's personnel expense. In FY 2009, this vacancy savings has grown to $1.8 million, or nearly 9% of budgeted personnel expense. According to the department, vacant positions have not been filled in anticipation of implementing the Division's BPR. Service impacts are not anticipated due to a downward trend in tonnage being collected and efficiencies in routing.

Financial Management

Effects of Budget Proposal

Departmental Summary. The Financial Management Department is proposed to grow by 1.00 limited FTE and $163,967 in FY 2009. In order to backfill an Associate Management Analyst assigned to the Enterprise Resource Planning (ERP) implementation project, 1.00 limited Associate Management Analyst has been added to the department's budget in FY 2009.

Total budgeted revenue is projected to increase by $536,126. The increase in budgeted revenue is primarily attributable to revenue received from other non-General Fund departments to cover their costs associated with the Financial Management Information System (FMIS) and the Business Objects information system. These systems were previously funded by the A-List Fund used by the Information Technology Department for citywide technology projects. The FMIS and Business Objects systems will be entirely budgeted in Financial Management beginning in FY 2009. Approximately $671,000 of additional NPE for information technology support has been budgeted in the department to reflect this change. This department does not have a vacancy factor in the FY 2009 Proposed Budget.

Other NPE and Revenue Reductions. The Department reduced its NPE by $50,611, or approximately 1.2% of the total departmental

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	30.00	$ 3,178,179	$ 939,598	$ 4,117,777	$ 116,658
Vacancy Factor (08)		75,644		75,644	-
Vacancy Factor (09)		-		-	
Salary and Wage Adjustments		40,283		40,283	-
Subtotal	*30.00*	*$ 3,294,106*	*$ 939,598*	*$ 4,233,704*	*$ 116,658*
Additions				-	
ERP Backfill Position	1.00	96,107		96,107	96,804
Non-Discretionary Adjustment					541,980
Support for Information Technology			682,231	682,231	
Revised Revenue Projection					(102,658)
Reductions				-	
Non-Discretionary Adjustment			(679,687)	(679,687)	
Supplies & Services			(50,611)	(50,611)	
Subtotal	*1.00*	*$ 96,107*	*$ (48,067)*	*$ 48,040*	*$ 536,126*
TOTAL	**31.00**	**$ 3,390,213**	**$ 891,531**	**$ 4,281,744**	**$ 652,784**
Difference from 2008 to 2009	**1.00**	**$ 212,034**	**$ (48,067)**	**$ 163,967**	**$ 536,126**

budget, in an effort to satisfy Financial Outlook required budget reductions. According to the Department, this NPE reduction for Print Shop services reflects a lower budget printing cost experience in recent years.

Financial Management also reduced budgeted revenue by $102,658 based on a lower level of reimbursable services provided to other departments related to TransNet and Gas Tax administration.

Service Levels. The Financial Management Department has developed a good mix of performance measures to help gauge the accuracy and efficiency of the budget process. A few notable measures include:

- Percent of General Fund operating expenditure budget adjusted though the year.
- Percent variance between projected and annual budgeted revenue.
- Percent variance between actual General Fund expenditures and revised budget at year-end.
- Percent reduction in staff time required to calculate and print the Final Budget with new budgeting system.
- Percent of staff compliant with the Department's training policy.

General Services

Facilities Division

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Facilities Division reflects a net increase in expenditures of just under $400,000. Most of that increase is the result of a $900,000 debt service payment for financing facilities deferred maintenance. This increase is partially offset by a reduction of nine positions and associated personnel expense. Service impacts are anticipated with the reduction of 7.00 of the 9.00 FTEs. These reductions will likely result in delayed maintenance and repair to City-owned facilities and increase the administrative duties of other supervisors within the Division. The reduction of 1.00 Building Services Supervisor and 1.00 Building Service Technician, which support the World Trade Center and Crabtree buildings, are not anticipated to impact services levels. These buildings are anticipated to be sold. If the buildings are not sold, the Facilities Division will have to absorb the personnel expenses of the two positions, leaving less money for contracted repairs.

SUMMARY OF BUDGET CHANGES

FACILITIES DIVISION	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	118.00	$ 9,697,335	$ 4,966,976	$ 14,664,311	$ 1,654,100
Vacancy Factor (08)		320,281	-	320,281	-
Vacancy Factor (09)		(215,566)	-	(215,566)	-
Salary and Wage Adjustments		39,206	-	39,206	-
Subtotal	*118.00*	*$ 9,841,256*	*$ 4,966,976*	*$ 14,808,232*	*$ 1,654,100*
Transfers					
Transfer Service Funds to Contracts			(30,071)	(30,071)	-
Revenue Transfer from Contracts			-	-	1,100,000
Subtotal	*-*	*$ -*	*$ (30,071)*	*$ (30,071)*	*$ 1,100,000*
Additions					
Debt Service Payment		-	900,000	900,000	-
Facilities Service to TOT		-	-	-	600,000
Terminal Leave for DROP		12,056	-	12,056	-
Non-Discretionary/IT Changes		-	162,365	162,365	-
Reductions					
FTE Reduction	(9.00)	(793,899)	(1,000)	(794,899)	-
Subtotal	*(9.00)*	*$ (781,843)*	*$ 1,061,365*	*$ 279,522*	*$ 600,000*
TOTAL	**109.00**	**$ 9,059,413**	**$ 5,998,270**	**$ 15,057,683**	**$ 3,354,100**
Difference from 2008 to 2009	**(9.00)**	**$ (637,922)**	**$ 1,031,294**	**$ 393,372**	**$ 1,700,000**

Total funding for deferred maintenance in the Facilities CIP Budget is $31.8 million, an increase of $26.5 million over the FY 2008 allocation. Of the $31.8 million, $25 million is assumed to be paid through bond financing. The funding will be used for upgrades and structural repairs, such as roof replacements and heating and air conditioning upgrades, to City-owned facilities. The remaining $6.8 million in revenue from land sales will be used for the design of various FY 2010 deferred maintenance projects. The funding levels are consistent with projections made in the Five-Year Financial Outlook for FY 2009. The table below illustrates the increase in funding.

Facilities Capital Improvements Program				
Type of Funding	**FY 2008**		**FY 2009**	
Capital Outlay - Land Sales	$	5.3	$	6.8
Bond Financing	$	-	$	25.0
TOTAL (in millions)	**$**	**5.3**	**$**	**31.8**

The FY 2009 Proposed Budget for Facilities reflects a transfer of $1.1 million from the Contracts Division of General Services. The transfer of revenue reflects reimbursement from Non-General Fund Departments for elevator maintenance and janitorial services performed by the Facilities Division. The Division also received a $600,000 allocation of Transient Occupancy Tax revenue from Special Promotions Programs for expenditures associated with facility maintenance. The funding has not been allocated for specific projects, but will be used for maintenance and repair of tourist areas including Balboa Park, La Jolla, and Mission Bay. Actual expenditures for visitor-related facilities maintenance were approximately $633,000 for FY 2006 and $656,000 for FY 2007.

Issues for Consideration

The FY 2009 Proposed Budget significantly increases the funding for deferred maintenance. While the IBA continues to support efforts to address the deferred maintenance backlog, such efforts will likely continue to be limited in effectiveness if preventative maintenance is not adequately addressed. By reducing seven positions dedicated to the maintenance and repair of City facilities, efforts to reduce the deferred maintenance backlog could be partially negated. As stated in our Review of the Proposed FY 2008 Budget, the City will essentially be trading old deferred maintenance for new deferred maintenance. This trade-off will likely continue as long as efforts to fully fund preventative maintenance efforts are not addressed.

- Discuss impacts on preventative and deferred maintenance of eliminating seven maintenance positions in the Proposed Budget.

FLEET DIVISION

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Fleet Division reflects a reduction of 0.5o FTE, and a net expenditure increase of just under $1.3 million. The 0.50 FTE reduction is the result of the mid-year elimination of the Liquefied Natural Gas

SUMMARY OF BUDGET CHANGES

FLEET DIVISION	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	249.00	$	21,042,019	$	28,730,483	$	49,772,502	$	50,080,035
Vacancy Factor (08)			459,330				459,330		
Vacancy Factor (09)			(443,318)				(443,318)		
Salary and Wage Adjustments			16,214				16,214		
Subtotal	*249.00*	*$*	*21,074,245*	*$*	*28,730,483*	*$*	*49,804,728*	*$*	*50,080,035*
Additions									
ERP Allocation					32,130		32,130		
Non-Discretionary/IT Changes					444,195		444,195		
Increase in Usage Charges							-		1,166,965
Fuel Cost Inflation					1,706,000		1,706,000		
Eliminate LNG Fueling Program					(186,000)		(186,000)		
Reduce Vapor Recovery Project					(916,000)		(916,000)		
Facility Expansion					175,000		175,000		
Reductions							-		
Revenue Adjustment							-		(198,500)
Position Reductions	(0.50)		(11,553)				(11,553)		
Subtotal	*(0.50)*	*$*	*(11,553)*	*$*	*1,255,325*	*$*	*1,243,772*	*$*	*968,465*
TOTAL	**248.50**	**$**	**21,062,692**	**$**	**29,985,808**	**$**	**51,048,500**	**$**	**51,048,500**
Difference from 2008 to 2009	**(0.50)**	**$**	**20,673**	**$**	**1,255,325**	**$**	**1,275,998**	**$**	**968,465**

(LNG) Alternative Fueling Program; there are no assumed impacts to the reduction. The most significant increase to the Fleet Division Proposed Budget is a $1.7 million increase in the allocation for fuel, reflecting a net 12% cost increase. The fuel allocation for FY 2009 is based on a 15% increase in fuel costs and a 2.6% decrease in the volume of fuel consumed Citywide. The 15% fuel cost increase is based on average annual fuel increases between FY 2000 and FY 2009.

Other significant budget adjustments include a one-time expenditure decrease of $916,000 for the reduction in the Enhanced Vapor Recovery Project. The project was a one-time expense to comply with State mandated underground storage tank emission standards. The remaining project costs have been remitted to the Environmental Services Department The project is expected to be completed by early Calendar Year 2009; there are no impacts associated with this reduction.

The FY 2009 Budget includes an elimination of the LNG Alternative Fueling Program and $186,000 in associated costs. The program, which provided fuel for the City's refuse packers, was discontinued in December 2007. The Environmental Services Department determined that low-sulfur diesel refuse packers were more cost-effective than the LNG packers.

The Proposed Budget also reflects a $1.2 million increase in revenue due to an increase in vehicle usage charges. The Fleet Division increased the Equipment Division Usage Charge which funds the fuel, repair, and maintenance of vehicles to ensure full cost recovery. The increase is largely the result of rising fuel costs.

PUBLISHING SERVICES

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Publishing Services Division reflects an increase of approximately $375,000 for non-discretionary and information-technology changes.

In FY 2008, Publishing Services increased service rates to cost recoverable levels. This is reflected in the FY 2009 Proposed Budget as a revenue increase of $118,000. Prior to the rate increase, Publishing Services experienced a deficit due to the fact that rates were not cost recoverable. As a result, a negative fund balance is anticipated at the end of FY 2009. While the current rate increase achieves full cost-recovery for current services, it is not intended to address the past deficit accumulated in the fund. No solution has been factored into the FY 2009 Proposed Budget. A funding solution needs to be considered to correct the Publishing Services fund deficit.

Although the Revenue and Expense Statement listed in the Publishing Services FY 2009 Proposed Budget indicates a positive beginning fund balance of $0.8 million, the actual estimated beginning balance per the division is a negative $1.4 million as accurately reflected in Schedule V of Volume I.

Issues for Consideration

When the IBA first expressed concern regarding the negative fund balance in Publishing Services, the deficit was approximately $0.6 million. While the division has taken appropriate action to increase service rates to cost recoverable levels, which should eliminate any future growth of the deficit, no corrective action has been identified to eliminate the current negative fund balance.

SUMMARY OF BUDGET CHANGES

PUBLISHING SERVICES	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	25.00	$ 1,787,226	$ 2,406,597	$ 4,193,823	$ 4,500,000
Vacancy Factor (08)		39,754		39,754	
Vacancy Factor (09)		(38,531)		(38,531)	
Salary and Wage Adjustments		(11,479)		(11,479)	
Subtotal	*25.00*	*$ 1,776,970*	*$ 2,406,597*	*$ 4,183,567*	*$ 4,500,000*
Additions					
ERP Allocation			2,323	2,323	
Publishing Services Rate Increase				-	118,052
Non-Discretionary/IT Changes			373,118	373,118	
Subtotal	*-*	*$ -*	*$ 375,441*	*$ 375,441*	*$ 118,052*
TOTAL	**25.00**	**$ 1,776,970**	**$ 2,782,038**	**$ 4,559,008**	**$ 4,618,052**
Difference from 2008 to 2009	**-**	**$ (10,256)**	**$ 375,441**	**$ 365,185**	**$ 118,052**

Street Division

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Street Division includes a net reduction of 29.66 positions, and $16 million in expenditures. The Division anticipates a net increase in revenue of approximately $500,000.

The 29.66 net reduction in FTE is the combination of position transfers with Engineering & Capital Projects, Public Works Dispatch Center, Storm Water, Water and MWWD Departments. A total of 64.00 FTE were transferred to the Storm Water Department for street sweeping functions, while 39.34 FTE were transferred into the Street Division for trench restoration services provided to the Water Department and MWWD. The Street Division transferred one associate planner position and $100,000 in PE to Engineering & Capital Projects. The Public Works Dispatch Center received 4.00 FTEs from Street to centralize Station 38 functions.

The FY 2009 Proposed Street Division Budget also reflects a debt service payment of $2.7 million for the financing of deferred maintenance, as well as $5.8 million of Proposition 1B funding for deferred maintenance projects. The Street Division plans to slurry seal 58.6 miles of streets

SUMMARY OF BUDGET CHANGES

STREET DIVISION	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	283.33	$ 22,219,713	$ 44,922,384	$ 67,142,097	$ 37,057,418
Vacancy Factor (08)		741,675		741,675	
Vacancy Factor (09)		(620,184)		(620,184)	
Salary and Wage Adjustments		182,119		182,119	
Subtotal	*283.33*	*$ 22,523,323*	*$ 44,922,384*	*$ 67,445,707*	*$ 37,057,418*
Transfers					
Transfer Out Public Works Dispatch Center	(4.00)	(263,867)		(263,867)	
Transfer Out GS Admin			(20,000)	(20,000)	
Transfer Out Engineering and Capital Projects	(1.00)	(99,400)		(99,400)	
Transfer Out Storm Water	(64.00)	(5,257,373)	(18,240,816)	(23,498,189)	(5,145,091)
Transfer from Water and MWWD	39.34	2,958,203	75,320	3,033,523	5,000,000
Subtotal	*(29.66)*	*$ (2,662,437)*	*$ (18,185,496)*	*$ (20,847,933)*	*$ (145,091)*
Additions					
Debt Service Payment			2,700,000	2,700,000	
Funding Deferred Maintenance			5,806,007	5,806,007	5,806,007
Funding Storm Water Compliance	10.00	817,473	4,188,551	5,006,024	
Terminal Leave for DROP		85,022		85,022	
Service to TOT fund				-	290,056
Reductions					
FTE Reduction	(10.00)	(740,363)		(740,363)	
One-Time Expenditure Removal			(8,250,000)	(8,250,000)	
Non-Discretionary/IT Changes			(104,139)	(104,139)	
Gas Tax Revenue Adjustment				-	(1,538,189)
Revised Trasnet/Storm Drain Rev				-	(3,895,784)
Subtotal	*-*	*$ 162,132*	*$ 4,340,419*	*$ 4,502,551*	*$ 662,090*
TOTAL	**253.67**	**$ 20,023,018**	**$ 31,077,307**	**$ 51,100,325**	**$ 37,574,417**
Difference from 2008 to 2009	**(29.66)**	**$ (2,196,695)**	**$ (13,845,077)**	**$ (16,041,772)**	**$ 516,999**

with this funding in FY 2009. The Proposed Budget also includes a one-time expenditure removal of $8.25 million of FY 2008 funding for deferred maintenance operations covering the cleaning and inspection of structures.

Total funding for deferred maintenance in the Street CIP Budget is $53.7 million, an increase of $32.1 million over the FY 2008 allocation. Of the $53.7 million, $42.5 million is assumed to be paid through bond financing. The funding levels are consistent with projections made in the Five-Year Financial Outlook for FY 2009. The table below illustrates the increase in funding. The funding will be used for street resurfacing and sidewalk replacements.

Street Capital Improvements Program

Type of Funding	FY 2008	FY 2009
Bond Financing	$ 20.5	$ 42.5
Prop 1B	$ -	$ 10.3
TransNet Funding	$ 1.2	$ 0.8
TransNet Commercial Paper	$ -	$ 0.2
TOTAL (in millions)	**$ 21.7**	**$ 53.7**

The Proposed Budget reflects a $1.5 million reduction in revenue resulting from a reallocation of Gas Tax Revenue within the General Fund. In addition there is a $3.9 million reduction in TransNet revenue in accordance with new funding restrictions and reduced receipts for the City. Also included is a $290,000 TOT allocation from the Special Promotions Program for urban forestry of visitor high-use roadways. This represents 10% of the current year street tree maintenance budget.

Transfers to Storm Water. In FY 2009, the City's Storm Water related functions were consolidated into a new Storm Water Department. The Street Division transferred 64.00 FTEs to Storm Water along with $18.2 million in NPE and $5.1 million in revenue related to the storm drain and street sweeping functions. These positions cover functions including: street sweeping, cleaning and inspecting structures, pipes, and the maintenance of channels.

However, the Proposed Budget adds 10.00 FTEs and $4.2 million in NPE for storm water compliance within the Street Division Budget. This funding is allocated to increase the frequency of street sweeping, storm drain structure inspections, and storm drain cleaning. An explanation has not yet been provided regarding the addition of funding for storm water compliance to the Street Division Proposed Budget, but the Division ought to address this issue at Budget Hearings.

Transfers from Water and MWWD. A total of 39.34 FTEs and $3 million in total expenditures, along with $5 million in revenue were transferred to the Street Division from the Water and MWWD Departments. The Street Division is now responsible for trench restoration services. This section of the Street Division will perform repairs to damaged roadway surfaces and sidewalks associated with water and sewer work. The $5 million transfer covers work provided by the Street Division to Water and MWWD through Service Level Agreements.

Reductions to Street Division Budget. The Street Division Budget includes a reduction of 10.00 FTEs in FY 2009. The Proposed Budget expects the service impact to result in delays on planned maintenance operations for unimproved streets.

Issues for Consideration

The Proposed Budget includes $53.1 million in CIP funding, as well as $5.8 million in operating expenditures, to improve the conditions of the City's most damaged roads. However, the Street Division proposes reductions that would likely delay planned preventative maintenance operations to the City's unimproved streets, increasing the likelihood that they will ultimately fall into the deferred maintenance backlog. As is the case with the Facilities Division, inadequate funding of preventative maintenance efforts will likely result in trading new deferred maintenance for old deferred maintenance.

- Discuss further the impacts of eliminating ten positions on planned preventative maintenance operations.

Labor Relations

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Labor Relations Department reflects an increase of 1.00 FTE and $158,000.

Included in the proposed budget is the transfer of the Human Resources Group Manager (Program Manager) from the Public Safety Department to Labor Relations, at a cost of $167,622.

The FY 2008 Budget reflected the creation of seven Program Managers as part of the Human Resources and Information Technology BPRs, as Group Managers for each functional area. At that time, these positions were created from the transfer of existing positions from other City Departments. For Fiscal Year 2009, the budget proposes a net reduction of six (of the original seven) program managers as summarized in the following chart:

Possible Impacts to IT/HR BPRs

GROUP	FY08 BUDGET HR BPR	FY08 BUDGET IT BPR	FY09 BUDGET	NET IMPACT
Public Safety[1]	1.00	1.00	(1.00)	1.00
Public Works	1.00	1.00	(2.00)	-
City Planning and Development[2]		1.00	(1.00)	-
Community Services[3]	1.00	1.00	(2.00)	-
	3.00	**4.00**	**(6.00)**	**1.00**

[1] 1.00 Program Manager in Public Safety transferred to Labor Relations
[2] Previously Land Use and Economic Development
[3] Previously Neighborhood and Customer Services

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	6.00	$	762,353	$	47,268	$	809,621		
Vacancy Factor (08)			-				-		-
Vacancy Factor (09)			-				-		
Salary and Wage Adjustments			(6,063)				(6,063)		-
Subtotal	*6.00*	*$*	*756,290*	*$*	*47,268*	*$*	*803,558*	*$*	*-*
Transfer in - Program Manager	1.00	$	167,622			$	167,622		
Reclass Prog Mgr to Deputy Director			5,732				5,732		
Subtotal	*1.00*	*$*	*173,354*	*$*	*-*	*$*	*173,354*	*$*	*-*
Reductions							-		
Non-Discretionary Adjustments					(6,853)		(6,853)		
Support for Information Technology					(1,850)		(1,850)		
Subtotal	*-*	*$*	*-*	*$*	*(8,703)*	*$*	*(8,703)*	*$*	*-*
TOTAL	**7.00**	**$**	**929,644**	**$**	**38,565**	**$**	**968,209**	**$**	
Difference from 2008 to 2009	**1.00**	**$**	**167,291**	**$**	**(8,703)**	**$**	**158,588**	**$**	**-**

The one remaining Group Manager position has been transferred to the Labor Relations Department, and will take on new duties. It is intended that this position will take on additional work required under the new Firefighter's Procedural Bill of Rights Act (FBOR). This new law, effective January 1, 2008, essentially grants Firefighters additional appeal rights for lower level disciplines, and contains specific guidelines about the evidentiary rules that need to be followed in these appeal hearings. The hearing must be conducted by an independent hearing officer outside of the department. The format of disciplinary investigations must also be changed. Also included in the proposed budget is the reclassification of a Program Manager to a Deputy Director.

It should be noted that the Fire Department has also proposed the addition of 1.00 Fire Battalion Chief due to the newly required work under the Firefighter's Procedural Bill of Rights Act, and assumes workload of up to 1040 hours of Judicial Review. Costs associated with the Fire Department addition total $155,838.

Issues for Consideration

- Discussions should occur at budget hearings on how the level of support for the Firefighter's Procedural Bill of Rights Act was determined.

Library

Effects of Budget Proposal

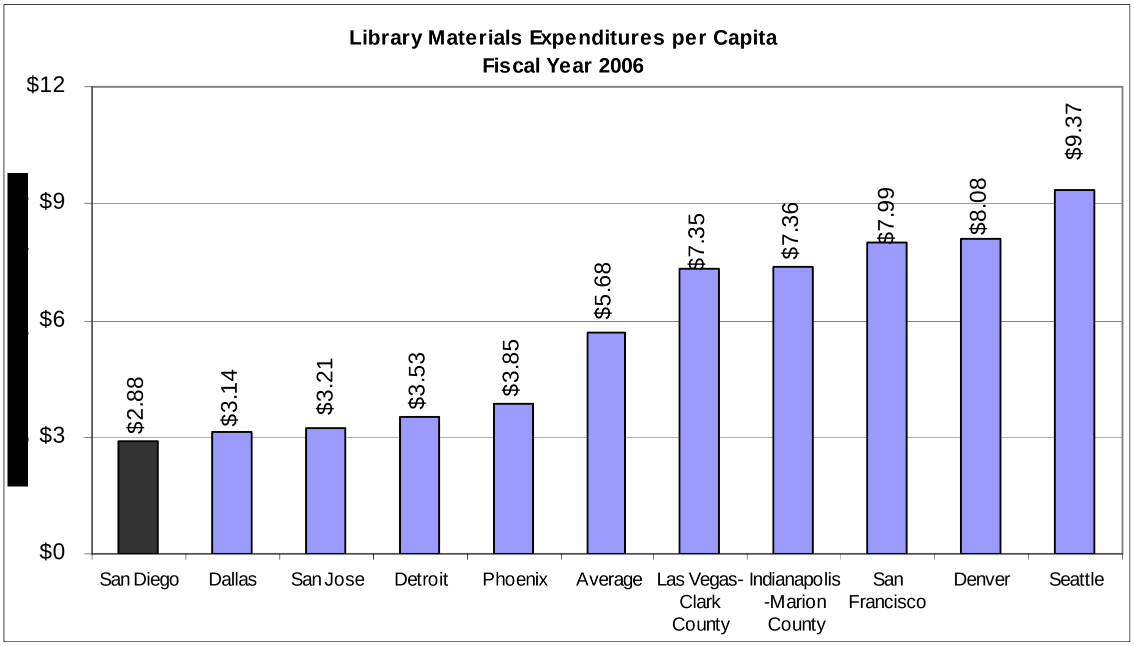
The FY 2009 Proposed Budget proposes approximately $2.3 million, or a 6% decrease in the Library Department budget. This is the largest percentage reduction to the Library's budget in the last decade. The Mayor has allocated $1.8 million for the acquisition of books and other media, which maintains the FY 2008 level of funding at 5% of the Library's operating budget, however staff has indicated that it is typical to allocate 17 to 19% of a library's operating budget to the acquisition of new books and media.

The chart on the next page reflects library materials expenditures per capita comparing San Diego to other local governments that are similar in population, size and type of library system. Library materials include books, periodicals, audio-visual and electronic resources which can be checked out by patrons, used in libraries but not

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	379.76	$	28,187,394	$	9,443,270	$	37,630,664	$	1,694,422
Vacancy Factor (08)	-		683,384		-		683,384		-
Vacancy Factor (09)	-		(612,688)		-		(612,688)		
Salary and Wage Adjustments	-		(15,228)		-		(15,228)		-
Subtotal	*379.76*	*$*	*28,242,862*	*$*	*9,443,270*	*$*	*37,686,132*	*$*	*1,694,422*
Additions	-		-		-		-		
Reinstatement of La Jolla Branch	0.75		56,004				56,004		51,126
Terminal leave			168,844				168,844		
Reductions	-						-		
Cut Assistant to Director position	(1.00)		(148,829)		(2,000)		(150,829)		
Library Assistants	(12.50)		(962,997)				(962,997)		
Misc. Position Reductions	(6.05)		(470,186)				(470,186)		
Fundraising/Grants, Admin Positions	(2.25)		(220,015)				(220,015)		
Cut Fundraising Programs					(86,873)		(86,873)		
Non-Discretionary Adjustment					(7,616)		(7,616)		
IT Budget Adjustment					(696,859)		(696,859)		
Subtotal	*(21.05)*	*$*	*(1,577,179)*	*$*	*(793,348)*	*$*	*(2,370,527)*	*$*	*51,126*
TOTAL	**358.71**	**$**	**26,665,683**	**$**	**8,649,922**	**$**	**35,315,605**	**$**	**1,745,548**
Difference from 2008 to 2009	**(21.05)**	**$**	**(1,521,711)**	**$**	**(793,348)**	**$**	**(2,315,059)**	**$**	**51,126**

checked out (e.g. reference materials), or accessed via the library's online systems. In 2006, San Diego ranked 10th out of the 10 cities compared.



Budget Reductions

State Library Grant Fund. According to the FY 2009 Proposed Budget, the State Library Grant Fund has been slated for elimination. The State Library Grant Fund awards funding to qualifying libraries "equal to the proportional share of the total amount appropriated by the state Legislature and signed by the Governor each year, based on the population of the library's service." In order to receive funding, the Library Department must maintain or increase its appropriation in the preceding year.

Although the Library Department faces the reduction of $2.3 million, the department anticipates that it will be able to use $1.9 million in deferred maintenance in conjunction with additional technology funding specifically earmarked for Library Department operations, to qualify for the grant funding. However, as the State faces budget reductions, only about $450,000 of the previous $728,000 in revenue is expected in FY 2009. If the City is able to qualify for this funding, the Library staff has indicated that this would significantly mitigate the potential loss of 8.60 FTEs, reducing the loss to just 2.00 FTEs in the Library Grant Fund.

Position Reductions. In addition to the Library Grants Fund reduction, the FY 2009 Proposed Budget eliminates a total of 21.05 positions from the General Fund portion of the budget. The Assistant to the Director has been eliminated; a position described by the Library as "critical" to its operations, particularly in assisting with securing grant funding.

The next table reflects the position reductions according to classification in the Library Department on top of last year's reduction of 37.60 FTEs.

FY 2009 Position Reductions

Position Title	FTE Reduction
Library Assistant	12.50
Librarian II	3.00
Assistant to the Director	1.00
Library Clerk	1.00
Payroll Specialist II	1.00
Admin. Aide II - Fundraising and Grants	1.00
Supervising Librarian - Fundraising and Grants	1.00
Custodian II	1.00
Fundraising and Grants	0.25
Unclassified Position - Fundraising and Grants	0.05
SUBTOTAL GENERAL FUND	**21.80**
Library Grants Fund	8.60
TOTAL including LIBRARY GRANT FUND	**30.40**

Vacancy Factor. In the FY 2009 Proposed Budget, the vacancy factor is set at $612,688, which does not reflect a significant increase from the FY 2008 vacancy factor.

Budget Additions. This year's budget reinstates 0.75 FTE at the La Jolla Library Branch, which will allow for the restoration of hours at the branch. This restoration is funded through private donations.

The Proposed Budget includes $196,000 for the funding of new wireless points, self-check machines and assistive technology workstations. About $70,ooo will allow for the purchase of six new self-check machines. While these technologies are important enhancements, this funding for new technology will only partially mitigate the loss of 21 positions.

Service Levels. As the Mayor's budget and press releases have noted, there will be reductions in service levels, however the impacts on programs and customer service are uncertain.

According to the measures reported by the Library, Library hours are maintained, however attendance at both adult and juvenile programs is expected to decline in the coming year, as shown below:

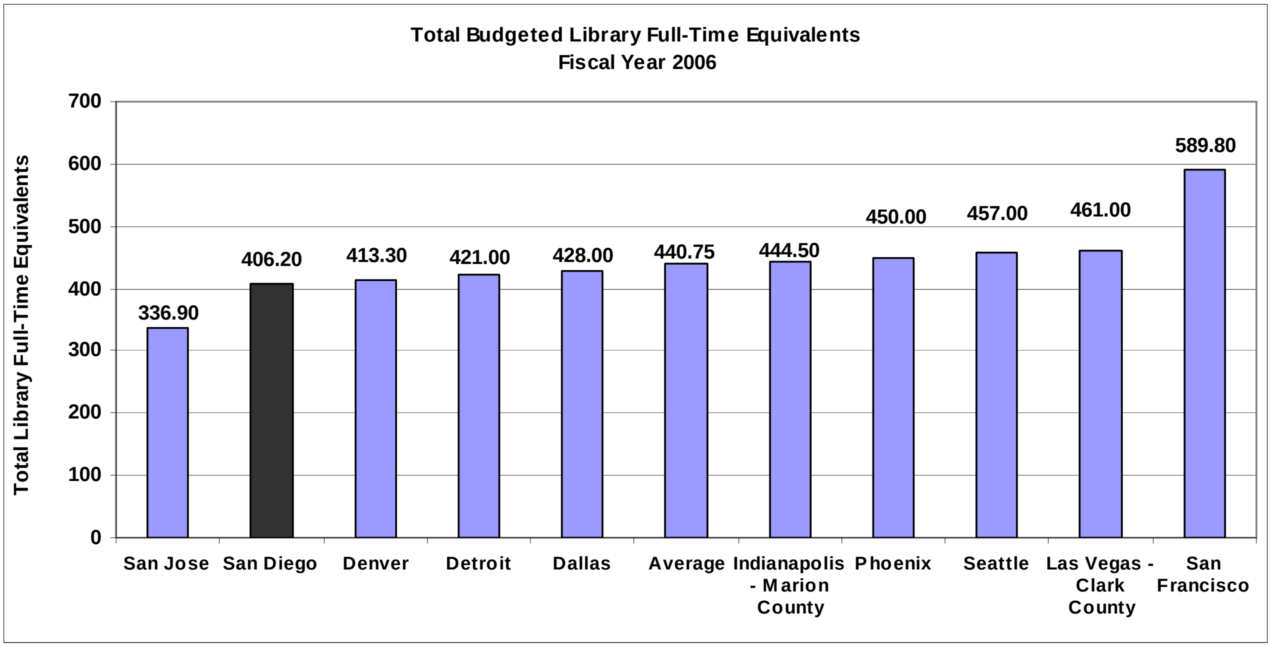
Attendance at Library Programs

Performance Measure	Baseline FY 2007	Estimated FY 2008	Target FY 2009
Attendance at Adult Programs	42,454	42,454	40,331
Attendance at Juvenile Programs	138,614	138,614	131,683

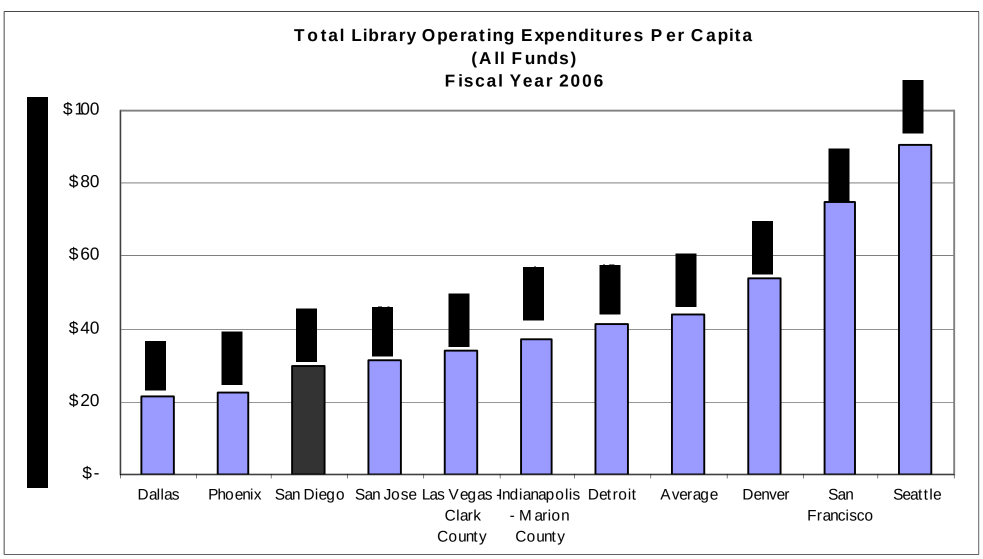
A reduction of 2.25 positions in fundraising and grants may at first be seen as the cause of the anticipated decline to donations and grants. However, this function will be privately funded by the Library Foundation in FY 2009. Total number of Library contributors, however, is expected to remain unchanged at a time when new contributions are critical to help offset other reductions.

As the IBA has noted in IBA Report 07-110, the City has lower funding and staffing levels in some areas compared to many other library departments.

The chart on the next page reflects the total library Full-Time Equivalents (Staff) for each of the comparison cities. In 2006, San Diego ranked 9th out of the 10 cities compared.



The following chart reflects the total library operating expenditures per capita. This chart includes all funding sources for each city's library system. In 2006, San Diego ranked 8th out of the 10 cities compared.



Library Ordinance

Per Municipal Code §22.0228, the proposed annual budget for the Library Department should equal no less than 6% of the total General Fund proposed budget. As in past years, if this funding level is not provided, the City Council must explicitly waive this provision in its adoption of the FY 2009 Budget. To fulfill the requirement of the Library Ordinance, a Library General Fund budget of $71.3 million, or an additional $36.3 million, would be necessary to achieve 6% of the $1.18 billion total General Fund budget.

Capital Improvement Program. According to the FY 2009 Proposed Capital Improvements Budget, there is no new funding allocated for the construction of the Main Library. Since the inception of the project in 2001, approximately $16 million has been spent on planning and site development, with $59 million budgeted in continuing appropriations.

Additionally, the FY 2009 CIP Budget allocates $600,000 to the construction of the Logan Heights Branch Library, which is scheduled to be completed in 2010.

Library Matching Funds

In FY 2008, the Library Department expects to receive over $1 million of private donations, which are periodically matched with equivalent funds from the General Fund. Increases to the match of up to $500,000, to a possible $1.5 million in City matching funds, would likely be successfully matched in FY 2009, and has been supported by the Library Board of Commissioners.

Issues for Consideration

- Further discussion needs to take place to understand the full service impacts of the proposed reductions to Library services and programming. The Council will want to receive feedback from the community on this matter.
- A definitive answer is needed on whether the Library will qualify for State Library Grant funding for FY 2009 by including deferred maintenance and technology funding to meet maintenance of effort requirements.
- Council must waive Municipal Code §22.0228 Preparation of Annual Budget; Library Appropriation.
- As discussed in our two prior budget reports, alternatives to the Library Ordinance that are more in line with realistic and historic funding levels need to be pursued.

Metropolitan Wastewater

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Metropolitan Wastewater Department (MWWD) reflects a net expenditure increase of $247.4 million and a revenue increase of $352.6 million. The majority of these substantial increases are due to budgeted financing proceeds that will be used to retire existing debt.

Other significant budget adjustments include a $17.8 million increase in debt service; $6.3 million in increases related to the Department's Bid-

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	916.44	$ 89,696,256	$ 380,750,282	$ 470,446,538	$ 359,030,423
Vacancy Factor (08)	-	-	-	-	-
Vacancy Factor (09)	-	(1,721,842)	-	(1,721,842)	-
Salary and Wage Adjustments	-	(243,077)	-	(243,077)	-
Subtotal	*916.44*	*$ 87,731,337*	*$ 380,750,282*	*$ 468,481,619*	*$ 359,030,423*
Transfer to E&CP (BPR)	(35.00)	$ (3,780,326)	$ -	$ (3,780,326)	$ -
Transfer Trench Rest. to GS	(15.44)	(1,171,270)	-	(1,171,270)	-
MWWD BPR Restructuring	(1.00)	(93,504)	-	(93,504)	-
Subtotal	*(51.44)*	*$ (5,045,100)*	*$ -*	*$ (5,045,100)*	*$ -*
Additions					
Financing Proceeds	-	-	-	-	330,200,000
Other revenue adjustments	-	-	-	-	22,414,577
ERP Funding	-	-	236,596	236,596	-
Non-Discretionary	-	-	46,627	46,627	-
CIP Additions*	-	-	6,938,483	6,938,483	-
Increase in Debt Service	-	-	17,849,598	17,849,598	-
Retirement of Existing Debt	-	-	215,922,310	215,922,310	-
Increase per Bid-to-Goal Contract	-	-	6,367,879	6,367,879	-
Increase to Contingency Reserve	-	-	3,320,082	3,320,082	-
Other Operating Increases	-	158,884	5,988,354	6,147,238	-
Reductions					
IT Adjustment	-	-	(335,173)	(335,173)	-
NGF FTE Reductions	(24.50)	(2,074,215)	-	(2,074,215)	-
Subtotal	*(24.50)*	*$ (1,915,331)*	*$ 256,334,756*	*$ 254,419,425*	*$ 352,614,577*
TOTAL	**840.50**	**$ 80,770,906**	**$ 637,085,038**	**$ 717,855,944**	**$711,645,000**
Difference from 2008 to 2009	**(75.94)**	**$ (8,925,350)**	**$ 256,334,756**	**$ 247,409,406**	**$ 352,614,577**

* The CIP addition is partially offset by positions transfers to Engineering & Capital Projects, which are reflected in the Transfer to E&CP line item. The net increase to CIP is $3,400,116.

to-Goal program, including $2 million for the employee efficiency incentive reserve and $4.4 million for contractual consumer price index adjustment; a $3.3 million increase to the contingency reserve; and a $6.9 million increase in capital expenditures. Revenue from sewer service charges increased by $28 million; however, this reflects a five percent reduction in sewage discharges as a result of water conservation efforts.

As part of the Engineering and Capital Projects (E&CP) BPR, MWWD transferred 35.00 positions and $3.8 million in personnel expenditures (PE) to the Engineering Department. In addition, 15.44 positions and $1.2 million in PE is transferred to the General Services Department as part of the consolidation of the City's trench restoration program. MWWD will now be charged by the respective departments for engineering and trench restoration services. However, it is unclear whether additional funds have been budgeted for these services.

In addition to the position reductions due to the transfers described above, the FY 2009 Proposed Budget for MWWD reflects the reduction of 24.50 positions and $2.1 million in PE. Of the positions eliminated, only one is currently filled, and it is not anticipated that these reductions will result in service impacts. The department has indicated that these reductions are a continuation of the Bid-to-Goal/BPR effort implemented in FY 2008. When the BPR was approved in May 2007, it was stated that 17.50 of the positions identified for elimination would be temporarily retained for FY 2008 in order to facilitate the transition. These positions are included in the 24.50 eliminated in FY 2009, in addition to seven other positions that were not identified when the BPR was approved.

Capital Improvement Program. MWWD's proposed capital budget for FY 2009 is $104.1 million, a net increase of $3.4 million over FY 2008. Total CIP additions are $6.9 million, but partially offset due to the transfer of positions to E&CP, most of which were previously budgeted in the department's capital program.

MWWD's CIP program continues to focus on replacement of sewer mains, pipeline repair and rehabilitation, and upgrades to trunk sewers and pump stations as required by the Consent Decree with the U.S. Environmental Protection Agency.

FY 2009 Major Capital Projects

PROJECT	BUDGET
Pipeline Rehabilitation	$31.5 million
Sewer Main Replacement	$25.9 million
Annual Allocation - Pump Stations	$13.7 million
Annual Allocation - Trunk Sewers	$6.9 million
South Mission Valley Trunk Sewer	$3.5 million
PLWTP Grit Processing Improvements	$3.2 million

In FY 2009, the department plans to replace 10 miles of sewer main and repair or rehabilitate 35 miles of pipeline. The Consent Decree requires that a total of 250 miles of pipeline be replaced, repaired or rehabilitated between FY 2008 and FY 2013. Other capital projects funded in FY 2009 include grit processing improvements at the Point Loma Wastewater Treatment Plant, upgrades to the Facilities Control System, and upgrades to the Metro Biosolids Center.

The department plans to secure $330.2 million in financing proceeds in January 2009. Of that amount $224 million will be used to retire the 2007 short-term Wastewater Revenue Notes. While it is anticipated that the City will have regained access to the public bond markets prior to the next financing, the department is prepared to secure additional private financing at that time should the City not have access to the public markets.

Issues for Consideration

The budget practice in regard to the retirement of recent short-term private financings is inconsistent between the Water and Sewer Departments. MWWD budgeted the gross financing proceeds as well as expenses associated with retirement of the 2007 private financing, while the Water Department did not budget either proceeds or expenses associated with retirement of existing debt. The budgetary treatment of this issue should be the same for both departments, and we suggest that the departments work with the CFO to determine the appropriate method.

Office of Ethics & Integrity

Effects of Budget Proposal

The budget for the Office of Ethics & Integrity (OEI) includes a 10% reduction, as described below. The vacancy factor has decreased for the department as compared to FY 2008, reflecting that staff was hired late in the current year and that less salary savings would be achieved in FY 2009.

Budget Reductions. Programs administered by OEI are expected to be impacted by the 10% budget reduction mentioned above. For instance, there will be reduced support for the Citizens' Review Board and some diversity training will be eliminated or, in the case of Diversity University, sessions will be reduced significantly, according to the department. For the Human Relations Commission, cuts result in reduced ability to "1) provide direct conflict resolution services, 2) maintain financial and work/leadership commitments to community consortiums and partnerships, 3) respond to public inquiries, complaints, hate-motivated behavior, and 4) provide training, research, educational materials to Commissioners and community groups."

Service Levels. Notwithstanding the budget reductions and associated impact statements noted above, the budget document and performance expectations do not reflect these impacts. In many cases, the activities of the affected pro-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	14.00	$	1,587,760	$	812,777	$	2,400,537	$	859,466
Vacancy Factor (08)			59,588				59,588	$	-
Vacancy Factor (09)			(38,636)				(38,636)		
Salary and Wage Adjustments			4,170				4,170	$	-
Subtotal	*14.00*	*$*	*1,612,882*	*$*	*812,777*	*$*	*2,425,659*	*$*	*859,466*
Transfer of staff to Auditor	(1.00)	$	(96,107)			$	(96,107)		
Subtotal	*(1.00)*	*$*	*(96,107)*	*$*	*-*	*$*	*(96,107)*	*$*	*-*
Addition for Paratransit Program					30,184		30,184		
Non-Discretionary and IT					(7,895)		(7,895)		
Reductions			(18,518)		(225,000)		(243,518)		
Revenue Adjustment							-	$	(35,365)
Subtotal	*-*	*$*	*(18,518)*	*$*	*(202,711)*	*$*	*(221,229)*	*$*	*(35,365)*
TOTAL	**13.00**	**$**	**1,498,257**	**$**	**610,066**	**$**	**2,108,323**	**$**	**824,101**
Difference from 2008 to 2009	**(1.00)**	**$**	**(89,503)**	**$**	**(202,711)**	**$**	**(292,214)**	**$**	**(35,365)**

grams show enhanced targets for service in FY 2009 such as deadlines for reviews by the Citizens' Review Board, number of diversity events held, and number of trainings and events that the Human Relations Commission initiated or participated in. In addition, sizing and workload data do not reflect the impacted workload. Data in the impacted areas often reflect the same or greater capacity. The IBA suggests the department evaluate this performance information and provide clarifying information through public budget hearings.

Issues for Consideration

The "Whistleblower Hotline" is currently administered by OEI. At the time of this writing, a proposal is being submitted to the City Council regarding the management and administration of the Hotline. Among other recommendations, the Council will consider moving the Hotline to the City Auditor for administration. The proposed budget already includes the transfer of one position to the City Auditor for this purpose. Depending on the outcome of the City Council deliberations because changes may need to be implemented in the FY 2009 Budget.

Office of the IBA

Effects of Budget Proposals

The primary change to the budget for the Office of the Independent Budget Analyst is the addition of full-year funding for the Research Analyst position that was added by the City Council in January 2008. This position was proposed as phase 1 of the staffing plan the IBA prepared at the request of the City Council and presented in fall 2007. This department does not have a vacancy factor in the FY 2009 Proposed Budget.

Issues for Consideration

Consistent with phase 2 of the staffing plan, the IBA submitted a budget request for two additional staff and minimal funding to engage consultants as necessary with special expertise on research topics. The use of an actuary for our recent pension reform options analysis is an example of requiring outside expertise to assist the Council in its decision-making.

The focus of phase 2 of our staffing plan is to enhance the IBA's capacity with respect to researching economic conditions and providing more frequent, in-depth economic data and revenue analysis to the City Council. This request was not considered or included in the Mayor's Proposed Budget.

- Should the City Council wish to proceed with phase 2 of the staffing plan for this office, a total allocation of $250,000 is recommended. This includes funding for one Fiscal & Policy Analyst and one entry-level Research Analyst with a vacancy factor of 33%; associated non-personnel expense including funding for training and to configure office space; and minimal funding ($20,000) to utilize experts on as-needed special research projects.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	9.00	$	1,277,911	$	38,423	$	1,316,334	$	-
Salary and Wage Adjustments			31,207				31,207	$	-
Subtotal	*9.00*	*$*	*1,309,118*	*$*	*38,423*	*$*	*1,347,541*	*$*	-
Budget for staff added in FY 2008	1.00		66,940				66,940		
Non-Discretionary & IT					(1,071)		(1,071)		
Subtotal	*1.00*	*$*	*66,940*	*$*	*(1,071)*	*$*	*65,869*	*$*	-
TOTAL	**10.00**	**$**	**1,376,058**	**$**	**37,352**	**$**	**1,413,410**	**$**	
Difference from 2008 to 2009	**1.00**	**$**	**98,147**	**$**	**(1,071)**	**$**	**97,076**	**$**	**-**

Office of the CIO

INFORMATION TECHNOLOGY

The City's Office of the Chief Information Officer coordinates the information technology budget citywide, working with San Diego Data Processing Corporation (SDDPC), the City's primary provider for information technology needs. Recent efforts have moved the City from a decentralized Information Technology structure to a centralized IT function, transferring staff from various City departments, with the goal to ensure consistent application of policies, to achieve efficiencies and provide enhanced customer service and support citywide. This included the creation of IT Group Managers to provide key communication, oversight and coordination of City departmental IT needs. As part of this restructuring, major steps have been undertaken to implement best practices and standardizations citywide that, over time, are planned to allow for the provision of IT service and support in the most effective way, given limited resources.

Budgetary Reductions. Significant reductions have been made in the Information Technology area as part of the FY 2009 budget development process. SDDPC has been instructed to reduce its budget for the upcoming year in anticipation of reduced services to be required by the City. Accordingly, City departmental budgets have been reduced in this area. Service impacts are inevitable, and have not been clearly defined. In addition, replacement schedules for computers have been extended.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	-	$ -	$ 29,063,056	$ 29,063,056	$ -
Vacancy Factor (08)				-	-
Vacancy Factor (09)				-	
Salary and Wage Adjustments				-	-
Subtotal	-	*$ -*	*$ 29,063,056*	*$ 29,063,056*	*$ -*
Transfer to 085 - IT Fund			$ (1,257,077)	$ (1,257,077)	
Subtotal	-	*$ -*	*$ (1,257,077)*	*$ (1,257,077)*	*$ -*
Reductions				-	
Support for Information Technology			(1,999,846)	(1,999,846)	
Non-Discretionary Adjustments			(842,564)	(842,564)	
Subtotal	-	*$ -*	*$ (2,842,410)*	*$ (2,842,410)*	*$ -*
TOTAL		**$**	**$ 24,963,569**	**$ 24,963,569**	**$**
Difference from 2008 to 2009	**-**	**$ -**	**$ (4,099,487)**	**$ (4,099,487)**	**$ -**

Due to reorganizations which have occurred, the transition of departments from non-general fund to General Fund status should have resulted in additional IT funds for the General Fund. However, because of the severity of the reductions that are proposed, positive impacts from restructuring are not apparent in the General Fund in the Information Technology area. Net reductions total $4.1 million, although a shift of funding from the General Fund to the Information Technology Fund in the amount of almost $1.3 million should not be considered a reduction to overall information technology funding.

Service Levels. Service level impacts related to the reductions in the IT area have not been adequately discussed in the budget document. Operations of all City departments are likely to be negatively impacted if needed IT support is delayed or unavailable because of reduced IT resources. CIO performance measures reflect targets for FY 2009 to decline from FY 2008 for number of monthly Help Desk calls handled, and incident tickets processed.

Consistency with SDDPC Budget. The IBA has not yet reviewed the SDDPC budget, but understands that reductions for FY 2009 have been requested. As the City is SDDPC's primary customer, it is important that the SDDPC budget is consistent with the City's IT budget, and that expectations for SDDPC services are in-line with funding allocated by the City for this purpose.

INFORMATION TECHNOLOGY FUND

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	88.38	$	9,420,455	$	5,716,865	$	15,137,320	$	15,776,599
Vacancy Factor (08)			200,625				200,625		-
Vacancy Factor (09)			(197,001)				(197,001)		
Salary and Wage Adjustments			44,733				44,733		-
Subtotal	*88.38*	*$*	*9,468,812*	*$*	*5,716,865*	*$*	*15,185,677*	*$*	*15,776,599*
Transfer from General Fund -IT				$	1,257,077	$	1,257,077		
Subtotal	*-*	*$*	*-*	*$*	*1,257,077*	*$*	*1,257,077*	*$*	*-*
Additions							-		445,244
Support for Information Technology					334,494		334,494		
Generator Licensing/Inspection					25,000		25,000		
Non-Discretionary Adjustments					256,215		256,215		
Reductions	(6.00)		(586,618)		(311,439)		(898,057)		(2,000,986)
Strategic Planning & Governance	(1.00)		(145,821)		(65,731)		(211,552)		(200,000)
Web Admin & Supervision	-		-		(100,000)		(100,000)		(100,000)
Web Proj Mgmt & Appl Support	-		-		(100,000)		(100,000)		(100,000)
Communications Technicians	(2.00)		(217,559)		(78,000)		(295,559)		(292,927)
Subtotal	*(9.00)*	*$*	*(949,998)*	*$*	*(39,461)*	*$*	*(989,459)*	*$*	*(2,248,669)*
TOTAL	**79.38**	**$**	**8,518,814**	**$**	**6,934,481**	**$**	**15,453,295**	**$**	**13,527,930**
Difference from 2008 to 2009	**(9.00)**	**$**	**(901,641)**	**$**	**1,217,616**	**$**	**315,975**	**$**	**(2,248,669)**

Information Technology Division Budgetary Reductions. The FY 2009 Proposed Budget includes the reduction of seven positions in the Office of the CIO, including one program manager, three Information Systems Analyst (ISA) III, one ISA IV, one IS Technician, and one clerical assistant, totaling $732,439. This is a significant reduction, leaving the division with 25.50 FTEs. In addition, $577,170 in non-personnel costs have been reduced in the areas of web supervision and project management. A shift of funding from the General Fund to the Information Technology Fund in the amount of almost $1.3 million should not be considered an increase to overall information technology funding.

Communications Division Budgetary Reductions. The FY 2009 Proposed Budget includes the elimination of two Communications Technicians and related NPE totaling $295,559. This change reduces Communications Division positions to 53.88.

Lease Payments for the Public Safety Communications Project (PSCP). The Communications Division budget also includes the annual lease payments to Motorola and Koch Financial for the PSCP. Contributions of funding for these payments is budgeted among all City departments as transfers, and are reflected as revenue to the Information Technology Fund, with a corresponding expenditure budgeted for the payment amount.

Use of One-Time Funding. According to the Revenue and Expense Statement for the Information Technology Fund, a significant fund balance is projected to exist, which is planned to be reduced during FY 2009. In addition, revenue estimates for FY 2009 exceed projected expenditures. During last year's budget review, the IBA recommended the reduction of fund revenues to allow City department contributions to be reduced, and recognized the growing fund balance that could also be utilized as a funding source. However, it should be noted that use of the accumulated fund balance is a one-time source of funding that cannot be expected to be used as an ongoing source in future budget years.

Issues for Consideration

- The City Council may wish to discuss the impacts of funding reductions for the City's information technology needs during the budget hearings with both the Office of the CIO and representatives of San Diego Data Processing Corporation. Budget reductions may significantly impact the ability of all City departments to execute core functions, if IT support causes delays in response time for customer service, equipment maintenance, repairs and replacement.

Park & Recreation

Departmental Summary

The FY 2009 Proposed Budget for the Park and Recreation Department in the General Fund totals 737.17 FTEs and $86.23 million. This reflects a net decrease of 32.77 FTEs and $1.29 million, or a 4.3% decrease in the number of positions and a 1.5% drop in total General Fund dollars from FY 2008.

In addition to the seven Park and Recreation Divisions within the General Fund, Park and Recreation Department operations also include the Golf Course Enterprise Fund, Los Penasquitos Canyon Preserve, and the Environmental Growth Funds.

Effects of Budget Proposal

Additions for New Facilities and Annualization of New Facilities. Across the Park and Recreation Department, 10.38 FTEs with associated costs and non-personnel expenses totaling $1.38 million have been included in the FY 2009 Proposed Budget for new facilities planned for opening during the fiscal year. Included are costs to annualize partial year funding

SUMMARY OF BUDGET CHANGES

General Fund	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	769.94	$	50,619,878	$	36,900,263	$	87,520,141	$	20,953,228
Vacancy Factor (08)			1,016,633				1,016,633		-
Vacancy Factor (09)			(1,511,439)				(1,511,439)		
Salary and Wage Adjustments			876,884				876,884		-
Subtotal	*769.94*	*$*	*51,001,956*	*$*	*36,900,263*	*$*	*87,902,219*	*$*	*20,953,228*
Transfer Biologist MSCP from CPCI	1.00	$	109,708			$	109,708		
Subtotal	*1.00*	*$*	*109,708*	*$*	*-*	*$*	*109,708*	*$*	*-*
Additions	1.00		96,957		111,366		208,323		71,953
Revised Revenue Projections							-		147,000
Annualize FY 08 New Facilities	2.90		230,930		196,474		427,404		14,702
New Facilities to open in 2009	7.48		546,632		407,897		954,529		12,818
Brush Management - Grant Funds	13.00		832,187		1,249,128		2,081,315		1,475,000
Dredging of Children's Pool					40,000		40,000		
Terminal Leave			164,983				164,983		
Non-Discretionary Adjustments					812,433		812,433		
Reimbursement from TOT							-		2,324,770
Reductions	(58.15)		(4,398,612)		(2,069,448)		(6,468,060)		
Subtotal	*(33.77)*	*$*	*(2,526,923)*	*$*	*747,850*	*$*	*(1,779,073)*	*$*	*4,046,243*
TOTAL	**737.17**	**$**	**48,584,741**	**$**	**37,648,113**	**$**	**86,232,854**	**$**	**24,999,471**
Difference from 2008 to 2009	**(32.77)**	**$**	**(2,035,137)**	**$**	**747,850**	**$**	**(1,287,287)**	**$**	**4,046,243**

for those facilities that opened during FY 2008. Savings may be experienced if actual facility opening dates occur later than currently estimated. Partial year funding in FY 2009 will need to be increased for annualization purposes in FY 2010.

PARK AND RECREATION NEW FACILITIES FOR FY 2009

Facility	FTEs	Amount
Additional Open Space Acres	1.00	111,400
Black Mountain Neighborhood Park - Del Sur		36,412
Carson Elementary Joint Use	0.18	22,020
Fay Elementary Joint Use	0.20	20,158
La Mirada School Joint Use (Phase II)	0.10	10,078
Mira Mesa Community Park Field	1.50	261,154
New Facilities Citywide	4.50	493,307
SUBTOTAL NEW FACILITIES	**7.48**	**$ 954,529**
Additional Open Space Acres	2.50	205,708
Florence Joyner Joint Use	0.05	4,677
Park De La Cruz Phase II	0.08	11,094
Porter Elementary School Joint Use	0.05	5,932
Rancho Encantada Neighborhood Park		64,598
Rodriguez School Joint Use	0.02	2,591
Teralta Park Comfort Station	0.20	15,863
Thurgood Marshall Joint Use		43,964
Torrey Del Mar Neighborhood Park		72,977
SUBTOTAL ANNUALIZATIONS	**2.90**	**$ 427,404**
TOTAL	**10.38**	**$ 1,381,933**

Addition for Brush Management. The FY 2009 proposed budget includes the addition of 13.00 FTEs and related costs of $1.25 million in the Open Space Division to address brush management efforts. This is expected to allow the City to thin all 1,180 acres of the City's open space brush over the next two years. Separately, additional resources are included in the Fire-Rescue Department for six code compliance officers to monitor brush and weed abatement on private property. The Mayor announced the receipt of $2.36 million in federal brush management grant funding. The City will pair those grant funds with $3.9 million from the City's General Fund over the next two years. Not all costs added to the General Fund budget will be funded by the grant, requiring the commitment of an additional $606,315 in FY 2009 from the General Fund for this purpose. Additionally, following the exhaustion of the grant funds, continued efforts in this area will be fully borne by the General Fund. The Five-Year Outlook contained no additional resources for Brush Management.

Reduction of District and Area Managers. District and Area Managers supervise and coordinate recreation programs and activities, facility maintenance, and grounds maintenance functions in a district or area having more than one major recreation center or a combination centers, or a significant regional community recreation center. The FY 2009 Proposed Budget eliminates five District Managers and ten Area Managers, for a reduction of $1.5 million. This brings the total number of these positions from 35.00 to 20.00, with affected areas including Balboa Park event and facility maintenance, Mission Bay Park support, recreation center operations, and community park maintenance. Service level impacts are likely given the magnitude of this reduction, and the key responsibilities and functions performed by these classifications.

Closures of Pools. The proposed budget eliminates 9.00 FTEs related to the operations of the City's pools, bringing budgeted positions from 50.74 to 41.74. This City will maintain a year-round, rotating schedule of pool operations, with only the Ned Baumer Aquatics Center to remain open all year, due to required operating arrangements with Miramar College. This is a change from the FY 2008 budget, which funded year-round schedules at four sites, including Vista Terrace, Memorial, Clairemont and Ned Baumer. The FY 2008 budget for the City's thirteen pools totals $5.1 million (within two divisions), and generates estimated revenue of close to $2 million. The Park and Recreation Department provided a memorandum describing the proposed staggered schedule for FY 2009, along with the associated net costs to extend operations at each of the twelve pool locations, which in total exceeds $1.4 million. On average, approximately an additional $117,000 per pool is needed to provide for year-round operations.

Reduction for Day Use Only for Kumeyaay Campground. The proposed budget reduces two positions (1.00 Park Ranger and 1.00 Recreation Center Director I) and related NPE at Kumeyaay Campground at Mission Trails Regional Park that allows for overnight camping. Under this proposal, the campground will be open for day-use only for FY 2009. The reduction to the budget amounts to $204,234, with a revenue reduction of $24,940.

Elimination of Skate Park Supervision. The proposed budget includes the elimination of 7.50 FTEs with associated costs of $450,000, to eliminate the supervision provided at skate parks throughout the City. The IBA is concerned about the City's potential liability associated with a change to this practice, and understands that an opinion from the City Attorney is forthcoming on this issue. This advice will be extremely helpful in evaluating this budget proposal.

Reduction to Park Rangers. The proposed budget also eliminates 3.00 Park Rangers and 1.00 Senior Park Ranger (and associated non-personnel expenses) that have been frozen in the department's budget since FY 2004, reducing the budget by $356,000. These positions (assigned to Black Mountain Park, Mission Trails Regional Park and the San Diego River Park) have remained unfilled for the past few years, so no significant change to service levels is expected. This reduction, along with the loss of the Campground ranger, will result in a change to total City park rangers from 34 to 27, including two assigned to and funded by the Los Penasquitos Canyon Preserve.

Reduction for Reservoir Recreation. The Water Department operates the reservoir recreation program. The Reservoir Recreation Division within Park and Recreation provides funding from the General Fund to the Water Department for costs associated with recreational services offered at the City's reservoirs, without Water Department subsidies. Business Process Reengineering (BPR) efforts have been under way for some time to determine the most efficient and effective way of providing these services to the community, and by which City department. Until the BPR process is completed, the reservoir recreation program continues to be operated by the Water Department, with costs associated with the recreation activities tracked and reimbursed from the City's General Fund.

Effective September 2008, the San Vicente Reservoir will close for four to six years due to dam reconstruction, impacting recreational services to be offered. It is anticipated that funding needed to reimburse the Water Fund for FY 2009 will be reduced by $1.46 million. A minimal reduction of $276,000 in revenues received from patrons is also expected.

Environmental Growth Fund

The Environmental Growth Funds (EGFs) are projected to receive a total of $14.2 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees projected, in accordance with Charter Section 103.1a. The EGFs are broken out into a one-third and two-thirds portion, to reflect Charter provisions that up to two-thirds of revenues can be pledged for bonds for the acquisition, improvement and maintenance of park or recreational open space.

In FY 2009, the EGF (two-thirds portion) will retire the 1994 San Diego Open Space Facilities District No. 1 General Obligation Bonds through a payment of $434,600, comprising $410,000 principal and $24,600 interest. To the extent funds exist over and above the requirements for debt service, the Charter provides that they may be used for other purposes so long as it preserves and enhances the environment and is approved by the City Council. In fact, the Proposed Budget indicates that nearly $9 million from the two-thirds are in excess and will be used for park maintenance.

Yet, the two-thirds portion also projects an ending balance in FY 2009 of over $4.3 million. In addition, the Open Space Park Facilities Fund reflects a reserve for the ensuing year's interest payment of over $500,000. Since the City will satisfy its bond obligations in FY 2009, and there are no future payments to reserve against, the IBA recommends that this funding be reprogrammed for other purposes consistent with the City Charter. This may include relieving expenses currently borne by the General Fund which preserve and enhance the environment. We suggest that the Park & Recreation Department and the CFO provide advice on and options for reprogramming these funds at the public budget hearing for this department.

As recommended previously, a long-term strategy for the EGF should be presented, including a discussion of any plans to finance further land acquisition and policies for fund balances and reserves, if necessary.

Issues for Consideration

- Further discuss impacts of Park and Recreation service reductions with departmental staff during budget hearings.

- Evaluate proposal for the elimination of supervision at City skate parks, considering forthcoming advice of the City Attorney related to possible increased liability.

- Reprogram $4.8 million from the Environmental Growth Fund to support expenses in the General Fund that preserve and enhance the environment.

PETCO Park

Effect of Budget Proposal

The FY 2009 Proposed Budget for PETCO Park is $17.7 million, an increase of just over $200,000 from the FY 2008 Budget. The Budget includes a debt service payment of $11.3 million, consistent with FY 2008, but reflecting a $3.7 million decline from FY 2007 due to the refunding of the Ballpark Bonds.

The most significant budget increase is in Operation and Maintenance expenses, which increased approximately $200,000, and reflects the City's cap expense per the Joint Use and Management Agreement. Funding for landscaping and other contractual services increased slightly, but was largely offset by a reduction in other administrative costs.

Reimbursement from the Padres for police costs increased by approximately $700,000, reflecting the agreement that was reached between the City and the Padres in regards to billing for police services. In addition, the rental payment from the Padres increased by $250,000 to the full payment of $500,000, reflecting the expiration of the Padres' rental credit in FY 2008. These revenue increases partially offset the transfer from the Transient Occupancy Tax

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	0.50	$	78,665	$	17,375,496	$	17,454,161	$	15,668,826
Salary and Wage Adjustments	-		3,245		-		3,245		-
Subtotal	*0.50*	*$*	*81,910*	*$*	*17,375,496*	*$*	*17,457,406*	*$*	*15,668,826*
Additions							-		
Reimbusement for Police Costs	-		-		-		-		743,000
Padres Rental Payment	-		-		-		-		250,000
Other Revenue Adjustments	-		-		-		-		218,548
Increase in O&M Expense	-		-		203,530		203,530		-
Increase in Contract Services	-		-		86,500		86,500		-
Reductions									
Reduction in TOT Allocation	-		-		-		-		(1,379,927)
Reduction in Admin & Police Cost	-		-		(78,482)		(78,482)		-
Subtotal	*-*	*$*	*-*	*$*	*211,548*	*$*	*211,548*	*$*	*(168,379)*
TOTAL	**0.50**	**$**	**81,910**	**$**	**17,587,044**	**$**	**17,668,954**	**$**	**15,500,447**
Difference from 2008 to 2009	**-**	**$**	**3,245**	**$**	**211,548**	**$**	**214,793**	**$**	**(168,379)**

(TOT) fund, which was reduced by approximately $1.4 million.

Issues for Consideration

Over the past two years the City has reduced the transfer to PETCO Park from the TOT Fund, primarily due to the refunding of the Ballpark Bonds in January 2007. However, the PETCO Park Fund still receives nearly $13 million in TOT funding. In addition, budgeted expenditures exceed budget revenues by approximately $2.2 million, relying on a commensurate reduction in fund balance. This practice has been employed in the last few years as the PETCO Park Fund had amassed a sizeable fund balance. However, should that fund balance be depleted in future years, an increase in TOT funding may be needed. The Ballpark Administrator continues to work on securing additional special events at PETCO Park, which may lead to additional revenue that would ease the fund's reliance on TOT.

Police

Effects of Budget Proposal

In summary, the Proposed Budget for the Police Department includes additional funding for a proposed salary increase for sworn positions, a significantly lower vacancy factor, the transfer of a portion of the department's parking enforcement section to the Storm Water Department, and the proposed elimination of 24.5 non-sworn FTEs. The department also received funding for the replacement of the officers' mobile computer terminals, some of which are over seven years old. The new units will provide the capability to run newer applications including the automatic vehicle locator (AVL) application; which will greatly improve officer safety.

Proposed Salary Increase. On April 9, 2008 the Police Officers Association approved a tentative agreement in which sworn personnel would receive a 3% increase on July 1, 2008 and an additional 3% increase on December 27, 2008. At the time of publication, the results of contract negotiations were unknown, but a contingency of $10.3 million was included in the proposed budget. It has been estimated that the proposed increases will cost the City approxi-

SUMMARY OF BUDGET CHANGES

GENERAL FUND	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	2,818.50	$	335,333,840	$	57,002,855	$	392,336,695	$	41,642,463
Vacancy Factor (08)			19,033,440				19,033,440		-
VF attributed to 19 FTEs for Northwestern			2,352,611				2,352,611		
Vacancy Factor (09)			(12,978,646)				(12,978,646)		
Salary and Wage Adjustments			(762,571)				(762,571)		
Terminal Leave			1,131,750				1,131,750		
Estimated POA increase					10,337,430		10,337,430		
Subtotal	*2,818.50*	*$*	*344,110,424*	*$*	*67,340,285*	*$*	*411,450,709*	*$*	*41,642,463*
Transfer of Parking Enforcement	(11.00)	$	(793,322)	$	(15,165)	$	(808,487)	$	(900,000)
Subtotal	*(11.00)*	*$*	*(793,322)*	*$*	*(15,165)*	*$*	*(808,487)*	*$*	*(900,000)*
Additions:				$	2,176,139	$	2,176,139	$	1,740,444
Police Decentralization					974,187		974,187		
Reductions: Non-Sworn	(24.50)		(1,824,405)		(646,248)		(2,470,653)		
Booking Fees					(2,122,533)		(2,122,533)		
Subtotal	*(24.50)*	*$*	*(1,824,405)*	*$*	*381,545*	*$*	*(1,442,860)*	*$*	*1,740,444*
TOTAL	**2,783.00**	**$**	**341,492,697**	**$**	**67,706,665**	**$**	**409,199,362**	**$**	**42,482,907**
Difference from 2008 to 2009	**(35.50)**	**$**	**6,158,857**	**$**	**10,703,810**	**$**	**16,862,667**	**$**	**840,444**

mately $10.6 million in salary and fringe. The IBA is unable to ascertain whether this estimate included the impact of any proposed salary increase on special pays.

Reduced Vacancy Factor. In recent years, the Police Department has experienced a rather large vacancy factor as a result of the recruitment and retention problems in the department. However, recent actions, including raises in both Fiscal Year 2008 and 2009, have resulted in lowering the department's attrition rate, as shown in the following chart:

Sworn Attrition Rates

Fiscal Year	Rate
Fiscal Year 2006	18 per month
Fiscal Year 2007	15 per month
Fiscal Year 2008 (as of 3/31/08)	11 per month

As a result of the current and projected reduction in the department's attrition rate, the vacancy factor for Police has been reduced from 5.4% in Fiscal Year 2008 to 3.7% proposed in 2009. The vacancy factor essentially reflects an attrition rate of nine officers per month offset by academies of 48 recruits. The vacancy factor was also adjusted to reflect the reversal of last year's action in which 19 sworn FTEs were added for the Northwestern Area Division Substation with a corresponding increase in vacancy factor (net zero impact on the budget) to reflect the department's recruitment and retention problems in 2008. This fully restores the funding necessary to support these positions.

Elimination of Non-Sworn positions. The budget proposes to eliminate 24.5 non-sworn FTEs. This would be in addition to the net reduction of 17.5 non-sworn FTEs (a total of 22 vacant positions were reduced, but 4.5 non-sworn positions were added for Northwestern) in last year's budget. The document states that this action will require the reprioritizing of support functions, but the IBA is concerned with the actual impact on sworn positions. In the past, when non-sworn positions have been cut, functions previously performed by the support staff were transferred to officers, resulting in a loss of officer time in the field.

The IBA performed research on the level of support staff for sworn positions that other cities utilize and found the City to be within the normal range, as presented in the following table:

Sworn to Civilian Comparison

City	Ratio
Denver, Colorado	6.67
Indianapolis, Indiana	5.37
Dallas, Texas	5.15
Houston, Texas	4.14
San Diego, California[1] (FY09)	*3.61*
San Diego, California[1] (FY08)	*3.46*
Los Angeles, California	3.27
Portland, Oregon	3.07
Phoenix, Arizona	2.59
Austin, Texas	2.48
Las Vegas, Nevada	1.60
AVERAGE	**3.76**

[1] Excludes parking enforcement positions.

Service Levels. The Service Level information for the Police Department differs from other departments, in that the information is reported on a calendar year basis. This enables the department to consistently report information in the document with the information communicated to other state and federal agencies.

Priority E calls involve an imminent threat to life. Priority 1 calls involve serious crimes in progress or a threat to life or safety. The department's highest priority and greatest challenge has been reducing the amount of time it takes to respond to emergency types of calls. Accordingly, the department has set a goal for improving response to emergency calls (Priority E and 1) for the upcoming year, as highlighted in the next chart. For Priority E calls, a 2.7% reduction in response time from Calendar Year 2007 is projected for Calendar Year 2009 (from 7.2 minutes to 7.0 minutes). Similarly, a 11.1% reduction of Priority 1 calls is projected (from 13.5 minutes to 12 minutes).

Emergency Response Times (in minutes)

	Baseline CY2007	Target CY2009
Response time to Priority E calls	7.2	7.0
Response time to Priority 1 calls	13.5	12.0

However, the department projects response times for non-emergency calls to significantly increase, as highlighted in the next chart. Non-emergency calls are classified as Priority 2, 3, and 4 calls. Priority 2 calls involve less-serious crimes, with no threat to life (i.e. fights without weapons). Priority 3 calls involve minor crimes or requests for service that are not urgent (i.e. investigation of a stolen car). Priority 4 calls involve minor requests for police services (i.e. parking violations). The anticipated increase in response time is a significant reduction in service that is not communicated in the service impact section of Volume I. The IBA believes additional discussion on this proposed service impact should occur at the Department's Budget Hearing, currently scheduled for May 1, 2008.

Non-Emergency Response Times (in minutes)

	Baseline CY2007	Target CY2009
Response time to Priority 2 calls	24.9	30.0
Response time to Priority 3 calls	64.6	90.0
Response time to Priority 4 calls	61.9	90.0

Although two dispatchers are reduced as part of the non-sworn position reductions, the department anticipates a reduction in the average wait time to answer 9-1-1 and non-emergency calls. This is achieved through technological advancements and the purchase of new equipment.

Booking Fees. Police Department's budget includes an anticipated reduction in the booking fees expense of $2.1 million. Although the actual expense is made out of the Police Decentralization Fund, the funding is received from the General Fund as a transfer from Police. After the reduction, $3.1 million will remain as a contingency for any future payment to the County that may be required.

There are two issues at play here. First, as previously discussed in last year's discussion, the City still has a Memorandum of Understanding (MOU) with the County of San Diego to pay for jail services; even though the County receives these funds directly from the State. Although discussed for the past two years, resolution has not come to fruition on this specific topic. Without resolution, the City may still have a legal obligation to pay booking fees (estimated at $5.2 million). It is the IBA's understanding that this expense is not currently budgeted.

Second, the State will reimburse counties for local jurisdiction's booking fees at a minimum level of $35 million. If the State determines to pay less than this amount, as currently proposed in the Governor's budget, the counties are able to invoice the cities for the difference. The Governor's budget proposes a 10% reduction in this funding and it is anticipated that the County of San Diego will then invoice the City for its proportionate share. The budget identifies a contingency for this possibility (approximately $3.1 million). However, the IBA needs additional information to determine if this is the appropriate amount. The State as a whole will reduce its funding from $35 to $32 million (a total difference of $3 million statewide), the IBA believes that the City's share may be much smaller.

Seized and Forfeited Assets. One component of the department's budget is the special revenue fund that has been established for the expenditure of proceeds from seized and forfeited assets. Under the Federal Comprehensive Crime Control Act of 1984, local law enforcement agencies may receive from the federal government seized and forfeited assets from operations in which the local agencies participated. It is our understanding that the City is eligible for participation in this program. Federal law requires that assets received go toward *enhanced enforcement activity* and are not to be used to supplant normal City revenues.

The Revenue and Expense Statement in the Budget identifies a significant beginning fund balance, $5.0 million, for Fiscal Year 2009. Further, the statement identifies a drawing down of this fund balance to support the scheduled lease payment, for the Police helicopter, due to a lack of sufficient revenue. In review of the historical revenue received in this fund, we believe the statement underestimates anticipated revenue. For FY 2007 and FY 2008 (year-to-date), the fund has received nearly $2 million annually in revenue, whereas the budget estimates only $0.8 million. The IBA questions whether additional eligible expenses could be supported by this fund, especially considering the department's need for additional technology that would aid in the department's overall goals.

Issues for Consideration

Additional information should be provided and discussion should occur on the following:

- Review of Seized and Forfeited Assets fund balance and identification of possible eligible expenses that could be reimbursed.
- Projected reduction in service as identified in the increase of non-emergency response times.

Public Safety

Effects of Budget Proposal

The Public Safety Group Budget has a variety of changes proposed that impact Management, Emergency Medical Services, and the Gang Commission.

Public Safety Management. The budget proposes to eliminate one Program Manager and transfer another Program Manager to the Labor Relations Department. There is no stated service impact from this proposed action; however, upon review, the IBA believes the creation of these two positions was as a result of the approved Human Resources and Information Technology Business Process Reengineering (BPR) efforts. The IBA believes additional information should be provided on possible impacts of reducing these positions.

Emergency Medical Services. The Emergency Medical Services section of Public Safety reflects the budget for contractual oversight and management. The budget proposes to reduce a contingency of $250,000 to offset possible reductions in MediCare/MediCal reimbursements as stipulated by the EMS contract is being re-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	7.00	$	1,003,806	$	2,049,380	$	3,053,186	$	221,742
Vacancy Factor (08)							-		-
Vacancy Factor (09)							-		
Salary and Wage Adjustments			2,323				2,323		-
Subtotal	*7.00*	*$*	*1,006,129*	*$*	*2,049,380*	*$*	*3,055,509*	*$*	*221,742*
Transfer to Labor Relations	(1.00)		(167,622)				(167,622)		
Subtotal	*(1.00)*	*$*	*(167,622)*	*$*	*-*	*$*	*(167,622)*	*$*	*-*
Additions					(3,687)		(3,687)		
Gang Commission	0.50		29,153		-		29,153		29,151
Emergency Medical Svcs Mgmt					71,680		71,680		
Reductions					(8,734)		(8,734)		
Gang Commission					(3,094)		(3,094)		
Emergency Medical Svcs Mgmt					(363,267)		(363,267)		(11,464)
Public Safety Management	(1.00)		(167,622)		(3,618)		(171,240)		(2,654)
Subtotal	*(0.50)*	*$*	*(138,469)*	*$*	*(310,720)*	*$*	*(449,189)*	*$*	*15,033*
TOTAL	**5.50**	**$**	**700,038**	**$**	**1,738,660**	**$**	**2,438,698**	**$**	**236,775**
Difference from 2008 to 2009	**(1.50)**	**$**	**(303,768)**	**$**	**(310,720)**	**$**	**(614,488)**	**$**	**15,033**

moved. The trigger for this has not occurred in FY 2007 or FY 2008; however, if the trigger does occur an appropriation adjustment during the year may be required.

Gang Commission. The Gang Commission will be adding 0.50 FTE for a Clerical Assistant II as a result of receiving grant funds from the California Wellness Foundation. The Gang Commission has complied with the Mayor's request to provide a 10% reduction and will reduce non-personnel expenses by $3,100.

Purchasing & Contracting

Effects of Budget Proposal

In FY 2009, the Purchasing and Contracting Department continued its restructuring and consolidation of centralized procurement and contracts management. A net reduction of nine FTEs was largely the result of the transfer of positions to Administration, which now houses the Equal Opportunity Contracting Program, and the Business Office, which administers the Managed Competition program.

Purchasing and Contracting is responsible for the implementation and enforcement of the Living Wage Ordinance (LWO). In FY 2008, one Supervising Analyst position absorbed the duties of monitoring and enforcement of the LWO alongside other Purchasing and Contracting duties, preventing proactive implementation of the ordinance. In FY 2009, the Mayor has proposed the addition of 1.00 Senior Management Analyst position dedicated to the LWO in order to fulfill the obligations of proper monitoring and enforcement. The Supervising Analyst responsi-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	52.00	$	4,961,003	$	652,492	$	5,613,495	$	1,376,981
Vacancy Factor (08)	-		104,278		-		104,278	$	-
Vacancy Factor (09)	-		(142,248)		-		(142,248)	$	-
Salary and Wage Adjustments	-		(36,600)		-		(36,600)	$	-
Subtotal	*52.00*	*$*	*4,886,433*	*$*	*652,492*	*$*	*5,538,925*	*$*	*1,376,981*
Transfers									
Transfer In - E&CP	2.00	$	218,041	$	-	$	218,041	$	-
Transfer In - Central Stores	-		2,209		-		2,209		-
Transfers Out - Business Admin and Office	(13.00)		(1,443,066)		(57,000)		(1,500,066)		-
Subtotal	*(11.00)*	*$*	*(1,222,816)*	*$*	*(57,000)*	*$*	*(1,279,816)*	*$*	*-*
Additions									
ERP Backfill	1.00	$	89,393	$	-	$	89,393	$	90,056
Staff Dedicated to Living Wage	1.00		106,045		-		106,045		-
Reductions									
Revenue Reductions	-		-		-		-		(601,916)
Non-Discretionary/IT Changes	-		-		(7,766)		(7,766)		-
Subtotal	*2.00*	*$*	*195,438*	*$*	*(7,766)*	*$*	*187,672*	*$*	*(511,860)*
TOTAL	**43.00**	**$**	**3,859,055**	**$**	**587,726**	**$**	**4,446,781**	**$**	**865,121**
Difference from 2008 to 2009	**(9.00)**	**$**	**(1,101,948)**	**$**	**(64,766)**	**$**	**(1,166,714)**	**$**	**(511,860)**

ble for implementing the LWO will continue to allocate the same proportion of time in FY 2009.

The Vacancy Factor has increased in the department from 2.1% in FY 2008 to 3.6% in FY 2009. Based on the FY 2008 Mid-Year Budget Monitoring Report, it is expected that the Purchasing and Contracting Department will end FY 2008 over budget. The Department does not anticipate any impacts to service or hiring personnel as a result of the increase to the vacancy factor. However, the IBA has concerns that the increase could impact the Department, given their anticipated challenge in meeting their budget in FY 2008.

QUALCOMM Stadium

Effects of Budget Proposal

The FY 2009 Proposed Budget for QUALCOMM Stadium reflects a net expenditure increase of $159,000. The most significant expenditure adjustment is a $172,000 increase in the Charger's ADA arbitration award, bringing the total payment to $1,572,000.

In FY 2009, lease revenue from the Midway Frontier shopping mall and the Sports Arena (now the ipay-One Center) have been redirected from the QUALCOMM Stadium Operating Fund to the General Fund. Further detail on this action can be found in the Real Estate Assets section.

We support this action, and believe that it is appropriate to direct the Midway/Sports Arena lease revenue to the General Fund. However, this results in a revenue reduction for QUALCOMM Stadium of approximately $3.5 million. To compensate for this loss of revenue, as well as cover expenditure increases and reduce the draw down in fund balance, the transfer from the Transient Occupancy Tax Fund has been increased by $4.4 million, to a total of $10.9 mil-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	22.75	$	3,111,571	$	15,380,008	$	18,491,579	$	16,203,448
Vacancy Factor (08)	-		42,118		-		42,118		-
Vacancy Factor (09)	-		(43,248)		-		(43,248)		-
Salary and Wage Adjustments	-		(2,568)		-		(2,568)		-
Subtotal	*22.75*	*$*	*3,107,873*	*$*	*15,380,008*	*$*	*18,487,881*	*$*	*16,203,448*
Lease Revenue to General Fund	-	$	-	$	-	$	-	$	(3,522,454)
Subtotal	*-*	*$*	*-*	*$*	*-*	*$*	*-*	*$*	*(3,522,454)*
Additions							-		
TOT Allocation Increase	-		-		-		-		4,407,504
Charges Settlement Award	-		-		172,000		172,000		-
Non-Discretionary Adjustment	-		-		83,581		83,581		-
Subtotal	*-*	*$*	*-*	*$*	*255,581*	*$*	*255,581*	*$*	*4,407,504*
TOTAL	**22.75**	**$**	**3,107,873**	**$**	**15,635,589**	**$**	**18,743,462**	**$**	**17,088,498**
Difference from 2008 to 2009	**-**	**$**	**(3,698)**	**$**	**255,581**	**$**	**251,883**	**$**	**885,050**

lion. It should be noted that this redirection of the lease revenues does not result in any "new" revenue for the General Fund, as an equivalent amount of TOT funding would be available for General Fund use if this action were not to occur.

Issues for Legislative Consideration

The redirection of the Midway/Sports Arena lease revenue to the General Fund further illustrates the imbalance in the QUALCOMM Stadium Fund. While the debt service payment in FY 2009 is $5.8 million, the Fund requires $10.9 million in TOT funding to maintain operations. Furthermore, budgeted expenditures exceed budgeted revenues by approximately $1.6 million, resulting in a commensurate reduction in fund balance. Should this fund balance be depleted in future years, additional TOT funding would be required absent additional revenues in other areas. It is unclear what additional steps need to be taken in order to make Stadium operations more self-sufficient, but consideration should be given to the long-term financial viability of QUALCOMM Stadium.

In FY 2008, QUALCOMM Stadium fund balance was drawn down by $2.3 million. In FY 2009, the fund balance is drawn down by only $1.6 million.

Real Estate Assets

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Real Estate Assets Department (READ) is $7.0 million, a 1% decrease from FY 2008. The expenditure reduction primarily reflects the removal 1.00 Associate Property Agent and 1.00 Intermediate Stenographer. Both of these positions are currently vacant. The department has stated that the service level impacts to the department will be minimal.

Revenue Increase of $4.4 million. READ's proposed FY 2009 budget reflects a net increase to revenue of $4.4 Million. The majority of the revenue increase is from rental income from the Midway Frontier shopping mall and the Sports Arena. In prior years the rental revenue from these two properties was deposited into the QUALCOMM Stadium fund. This practice started in 1965 to pay for the debt service on the original bonds used to build the stadium. In 1998 the Stadium bonds matured and the decision was made to continue the practice of depositing rental income from the Midway Frontier shopping mall and the Sports Arena into the Stadium fund. The revenue was used to offset op-

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	36.50	$ 3,690,392	$ 571,070	$ 4,261,462	$ 39,194,996
Vacancy Factor (08)		92,719		92,719	-
Vacancy Factor (09)		(92,333)		(92,333)	
Salary and Wage Adjustments		(646)		(646)	-
Subtotal	*36.50*	*$ 3,690,132*	*$ 571,070*	*$ 4,261,202*	*$ 39,194,996*
Additions				-	
Reductions	(2.00)	(157,887)	(42,830)	(200,717)	
IT Adjustments			10,771	10,771	
Non-Discretionary			(194)	(194)	
Transfer of Midway Frontier and Sports Arena Rental					3,522,454
Misc. Revenue Adjustments					887,144
Subtotal	*(2.00)*	*$ (157,887)*	*$ (32,253)*	*$ (190,140)*	*$ 4,409,598*
TOTAL	**34.50**	**$ 3,532,245**	**$ 538,817**	**$ 4,071,062**	**$ 43,604,594**
Difference from 2008 to 2009	**(2.00)**	**$ (158,147)**	**$ (32,253)**	**$ (190,400)**	**$ 4,409,598**

erations costs of the stadium. See the QUALCOMM Stadium department review for a discussion on the impacts of this action to the Stadium's operating fund.

New Division for FY 2009. For Fiscal Year 2009, READ has created a new division, Corporate Services. This division was created through internal restructuring of the department and results in a net zero impact to the General Fund. The function of Corporate Services is to locate and allocate facilities for the various departments of the City. Prior to assuming this function, the various City departments located their own office space. This created inefficiencies and significant additional expenses to the City. READ expects to see savings to the City by consolidating departments from leased space to City owned space and exercising surrender options in leased space and subleasing.

Risk Management

Effects of Budget Proposal

The Risk Management Department budget is proposed to be reduced by $91,969. Total staff positions are proposed to be reduced by 1.50 FTEs. Total budgeted revenue is projected to be reduced by $2,518,911.

Budget Reductions & ERP Add. The department proposes to eliminate 2.50 vacant positions in an effort to satisfy required budget reductions. These include 1.00 Employee Benefits Specialist II from the Long Term Disability Program, 1.00 Information Systems Analyst II and 0.50 of a Claims Aide from the Workers' Compensation Division. Department management has indicated that these reductions can be absorbed without a significant reduction in service as the positions have been vacant and there is existing staff capacity to cover all associated responsibilities.

Risk Management proposes to add 1.00 limited Clerical Assistant II (CA II) in order to backfill a CA II assigned to the Enterprise Resource Planning (ERP) implementation project. As the assigned CA II will be reimbursable from the ERP

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	84.25	$	7,397,451	$	1,676,483	$	9,073,934	$	9,073,934
Vacancy Factor (08)	-		176,197		-		176,197		
Vacancy Factor (09)	-		(163,072)		-		(163,072)		
Salary and Wage Adjustments	-		(79,701)		-		(79,701)		
Subtotal	*84.25*	*$*	*7,330,875*	*$*	*1,676,483*	*$*	*9,007,358*	*$*	*9,073,934*
Transfers							-		
Funding for ERP					67,135		67,135		
ERP Limited Position	1.00		58,300				58,300	$	58,803
Subtotal	*1.00*	*$*	*58,300*	*$*	*67,135*	*$*	*125,435*	*$*	*58,803*
Additions							-		
Special Event Reimbursement from TOT							-		95,329
Investment Consultant Contract					105,000		105,000		
Reductions							-		
Position Reductions	(2.50)		(235,557)				(235,557)		
Information Technology Adjustments					(6,536)		(6,536)		
Revised Revenue Estimates							-		(2,673,043)
Non-Discretionary Adjustments					(13,735)		(13,735)		
Subtotal	*(2.50)*	*$*	*(235,557)*	*$*	*84,729*	*$*	*(150,828)*	*$*	*(2,577,714)*
TOTAL	**82.75**	**$**	**7,153,618**	**$**	**1,828,347**	**$**	**8,981,965**	**$**	**6,555,023**
Difference from 2008 to 2009	**(1.50)**	**$**	**(243,833)**	**$**	**151,864**	**$**	**(91,969)**	**$**	**(2,518,911)**

project, the new position does not create additional expense for the department.

Vacancy Factor. The department has been assigned a vacancy factor of $163,072, or 2.2% of total proposed personnel expense in FY 2009. This compares with a vacancy factor of $176,197, or 2.3% of total personnel expense in FY 2008.

Significant Budgeted Revenue Adjustments. The Risk Management Department is an internal service fund that receives its funding through the establishment of rates determined as a percentage of salaries, which are charged to all City departments that have budgeted positions. In order to balance the fund between proposed annual revenue and expenditures, an annual revenue balancing adjustment is made. In FY 2009, it is proposed that revenue be reduced by approximately $2.7 million in order to utilize the accumulated fund balance. In FY 2008, the revenue reduction was approximately $3.1 million due to departmental reorganization which reduced their budget.

As the IBA has noted in previous reports, these rates in recent years have led to the over-collection of funding for the Risk Management Department. This results in revenue that is in excess of department needs, and may cause other City departments to overspend in the fringe benefit category. Use of the fund balance is a one-time fiscal benefit in FY 2009 that comes at the expense of higher than necessary department rates in FY 2008. The IBA will continue to monitor this throughout the fiscal year.

Additionally, the department is adding $95,329 of budgeted revenue in FY 2009 for liability monitoring services provided to Transient Occupancy Tax funded special events.

Consultant Services Increase. The Risk Management Department proposes to add $105,000 of NPE in FY 2009 to budget for investment consulting services to the SPSP and 457 plans. Department management indicates that this is a best management practice for employee investment plans as the consultant reviews the annual fees, risk factors and performance data associated with employee investment fund options.

Service Levels. The Risk Management Department has developed several performance measures to help assess their ability to effectively manage the City's risk. A few notable measures include:

- Reserve balances in millions (and percent of reserve goals) at the beginning and ending of fiscal year for Public Liability, Workers' Compensation and Long Term Disability.
- Percent of safety audits (conducted in departments with the largest workers compensation exposure) found to have implemented best practices for public safety.
- Percent increase/decrease of workers compensation claims compared to prior year (as an indicator of safety program effectiveness).

San Diego Fire-Rescue

Effects of Budget Proposal

The Fiscal Year 2009 Proposed Budget addresses key public safety priorities, including funding for a proposed salary increase for firefighters, the annualization of Fire Station 47 in the Pacific Highlands Ranch area, the operational costs for a second fire helicopter, and additional code compliance officers for brush management.

Local 145 approved a tentative agreement in which firefighters would receive a 3% salary increase on July 1, 2008 and an additional 2% salary increase on September 1, 2008. Since negotiations were not completed by the time of publication, a contingency in the amount of $3.3 million was included in the Proposed Budget. It is estimated that the salary increases will cost $4.6 million in Fiscal Year 2009. It is our understanding, that the additional funding ($1.3 million) still needs to be addressed. Also, similar to the Police Department, it is not clear whether the estimated costs of the salary increases includes the impact on special pays for firefighters.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2008 Budget	1,175.50	$ 153,980,195	$ 25,962,903	$ 179,943,098	$ 9,114,413
Vacancy Factor (08)		8,000,000		8,000,000	-
Vacancy Factor (09)		(6,600,000)		(6,600,000)	
Salary and Wage Adjustments		(929,252)		(929,252)	
Terminal Leave		615,576		615,576	
Estimated 145 increase			3,333,171	3,333,171	
Subtotal	*1,175.50*	*$ 155,066,519*	*$ 29,296,074*	*$ 184,362,593*	*$ 9,114,413*
Additions	1.00	155,838	$ 2,683,322	$ 2,839,160	
2nd Helicopter		67,020	826,200	893,220	
Annualization of Station 47	4.33	692,285	58,039	750,324	
Brush Management	6.00	437,004	-	437,004	
Chula Vista Dispatch	4.00	335,926	48,530	384,456	460,000
Reductions			(1,029,028)	(1,029,028)	
Implement Lifeguard BPR		(384,810)		(384,810)	
Subtotal	*15.33*	*$ 1,303,263*	*$ 2,587,063*	*$ 3,890,326*	*$ 460,000*
TOTAL	**1,190.83**	**$ 156,369,782**	**$ 31,883,137**	**$ 188,252,919**	**$ 9,574,413**
Difference from 2008 to 2009	**15.33**	**$ 2,389,587**	**$ 5,920,234**	**$ 8,309,821**	**$ 460,000**

Possible Impact of Grant funding. Fire-Rescue applied for, but is awaiting a decision on the award for a grant that may impact the Fiscal Year 2009 Budget. In December 2007, Council authorized the Mayor to take all necessary actions to secure grant funding in the amount of $2.53 million from the Staffing for Adequate Fire and Emergency Response (SAFER) program. This grant would expedite staffing of a truck company at Fire Station 47-Pacific Highlands Ranch, which had been originally slated for Fiscal Year 2012 by providing funding for the firefighter positions needed to operate the truck company. The City would be required to match an increasing proportion of the salary over a four-year period and in the fifth year of the grant, the City would need to absorb the entire costs of the positions. If the City commenced the operations of the truck company in the upcoming fiscal year with funds from the grant, the City would need to fully fund these costs in Fiscal Year 2013, which is one year after the current estimate of needing the truck company operational in Fiscal Year 2012. Discussion on the status of the award of this grant should occur at the Budget Hearing for Fire-Rescue, currently scheduled for May 1, 2008. Also, as part of the discussion, information on how the City will meet the first year's grant match requirements should be made available.

Lifeguard Business Process Reengineering (BPR). In July 2007, the Lifeguard component of the Fire-Rescue's BPR was approved by the City Council. The primary recommendation of the BPR was to convert all permanent lifeguard positions (except those assigned to the 24-hour night crew schedules) to a 4/10 work schedule, in which lifeguards would work four, 10-hour days each work week. It was projected that savings could be achieved by reducing the need for overtime and backfilling positions in order to obtain necessary and vital training. The Proposed Budget quantifies this savings as a $384,810 reduction in personnel expenses.

However, the IBA was unable to ascertain whether two other recommendations of the approved BPR were implemented:

- Reclassification of two Lifeguard II positions to Lifeguard Sergeant positions
- Reclassification of the Lifeguard II position responsible for Community Outreach, Education, and Recruitment to a civilian position.

The remaining portions of the Fire-Rescue BPR are slated for discussion at the City Council in May 2008.

Service Levels. The information presented on service levels in the budget document provides very relevant performance measures for the department. The measures are directly linked to the National Fire Protection Association (NFPA) 1710 guidelines.

Performance Measures

	Estimated FY2008	Target FY2009	NFPA Guideline
Percent of initial unit emergency repsonse arrival within NFPA 1710 guideline of 5 minutes or less (by fire station district)	52%	57%	90%
Percent of effective fire force emergency response arrival within NFPA 1710 guideline of 9 minutes or less (by fire station district)	66%	75%	90%

The IBA is questioning the department's ability to significantly improve response arrival times, given the fact that no additional stations are planned to open in Fiscal Year 2009. It is our understanding that these measures are primarily impacted by the number and location of stations. Considerable discussions have occurred on the City's need for additional fire stations to meet these guidelines; however, the document essentially communicates that the department's response times can be improved without the addition of fire stations. In following up on this item, the IBA has learned from the department that by implementing a "pre-alert" status for ambulances, response times may improve to some extent. Essentially, "pre-alert" reflects the process in which once an emergency call comes, an ambulance will be immediately dispatched. And as the ambulance is in route, the dispatcher will complete triage and relay all necessary information. Previously, the standard was to wait for triage to be completed before an ambulance was dispatched.

Although some improvement is noted, the City is still significantly under the NFPA standards and the need still exists to make considerable progress towards these goals.

The performance measures, while excellent for emergency response, do not communicate the positive service impact of funding six additional code compliance officers for brush management. Upon discussion with the department, it was identified that this addition will enable Fire-Rescue to complete 50% of the inspection for canyon rim parcels. The IBA would recommend that this performance measure be included in future documents.

Issues for Consideration

Children's Pool Lifeguard Station. Recently, the Children's Pool Lifeguard Station was condemned. To address the loss of this particular lifeguard station, *two* separate stations will need to temporarily be put into service until the station is reopened. The document does not include the operational costs associated with staffing two temporary stations because condemnation just occurred and it was unanticipated. Discussion needs to occur on the funding required and inclusion of these funds in the final budget.

Second Helicopter. The Proposed Budget includes funding for a second helicopter; however, the additional FTEs are not included. Funding to support the staffing costs ($1.4 million) was made available by reallocating a portion of the department's vacancy factor. In our report 08-15, we questioned this practice. This is a new level of service for the citizens of San Diego and the budget should accurately reflect the total impact of this action (including the necessary positions and costs). Regardless of the department's vacancy levels in the applicable positions, the FTEs should be accurately reflected. Since the staffing costs are included, the inclusion of the FTEs would have no budgetary impact.

IBA suggests that the following be considered:

- Include the FTEs (3.30-Fire Captains, 3.30-Pilots, and 2.2-Fire Fighters) for the second helicopter. (No budgetary impact)
- Identify and include funding for remainder of salary increase in the Final Budget.
- Include brush management performance measure in future budget documents.
- At Budget Hearing, discuss with Fire-Rescue how improvements for emergency response times were determined. Also, review status of the grant for staffing of a truck company at Station47.
- Identify how the closure of Children's Pool Lifeguard Station will be addressed.

SDCERS

The San Diego City Employee Retirement System (SDCERS) is responsible for administering the City's retirement pension plans as well as proposing and adopting an annual budget. The proposed FY 2009 SDCERS budget will be reviewed for adoption by the Board on May 16th. The SDCERS budget will be presented to the City Council on May 7th as part of the Budget Hearing process, in accordance with Municipal Code section §24.0906, which states: "The Board will submit the annual budget to the City Council for inclusion in the annual budget ordinance."

Source of Budget Funds. The SDCERS Board of Administration receives authority from the California Pension Protection Act of 1992 as well as the San Diego Municipal Code Chapter 2, Article 4 to expend trust fund assets for the purpose of administrative expenses. The trust fund comprises all of the assets of the Retirement System, including employee and employer contribution, as well as investment earnings. The trust fund is also the source for pension benefits payments to retirees. A portion of the trust assets are used to actually administer the retirement system and this is the source of funds for the budget de-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	64.00	$	7,332,163	$	34,868,048	$	42,200,211	$	-
Salary and Wage Adjustments	-	$	140,702	$	-	$	140,702	$	-
Subtotal	*64.00*	*$*	*7,472,865*	*$*	*34,868,048*	*$*	*42,340,913*	*$*	*-*
Additions									
ERP Allocation	-		-	$	89,129	$	89,129	$	-
Non-Discret/IT Changes	-		-	$	676,124	$	676,124	$	-
Subtotal	*-*	*$*	*-*	*$*	*765,253*	*$*	*765,253*	*$*	*-*
TOTAL	**64.00**	**$**	**7,472,865**	**$**	**35,633,301**	**$**	**43,106,166**	**$**	
Difference from 2008 to 2009	**-**	**$**	**140,702**	**$**	**765,253**	**$**	**905,955**	**$**	**-**
SDCERS Proposed Budget	**65.00**	**$**	**7,922,602**	**$**	**33,853,220**	**$**	**41,775,822**	**$**	**-**
Difference from Budget Document to CERS	**1.00**	**$**	**449,737**	**$**	**(1,780,081)**	**$**	**(1,330,344)**	**$**	**-**

scribed here. The market value of SDCERS trust fund assets on June 30, 2007 was $4.64 billion. The SDCERS proposed administration budget represents one percent of that value.

Effects of Budget Proposal

On April 11, 2008, the Business and Governance Committee of SDCERS reviewed the Proposed FY 2009 Budget for SDCERS which is being forwarded to the full Board of Administration as mentioned above. The policy budget presented to the SDCERS Board includes reductions in administrative expenses of $1.8 million, and an increase in Investment Management Services of $1.5 million for a net reduction of $250,000 in the SDCERS budget from the FY 2008 Budget.

The reduction in Administrative expenses is largely the result of a decrease in legal fees of $1.7 million. An increase in investment fees of $1.6 million accounts for most of the increase in the SDCERS budget.

The FY 2009 Proposed Budget includes $813,000 to cover office rent, which was not charged to SDCERS during the first year in their new facility.

Special Promotional Programs

Effects of Budget Proposal

The FY 2009 Proposed Budget for Special Promotional Programs (TOT Fund) reflects an expenditure increase of approximately $10.3 million and a revenue increase of approximately $11.3 million. Per the San Diego Municipal Code, 5-cents of the City's 10 ½-cent TOT levy are deposited into the TOT Fund. Projected revenue growth in FY 2009 results in a $6.2 million increase in TOT revenue for Special Promotional Programs (Special Promo). In addition, the $5 million repayment from the Centre City Development Corporation is budgeted to be received in the Special Promotional Programs.

Of the 5-cents of TOT that are deposited in the TOT Fund, San Diego Municipal Code requires that 4-cents be used solely for the purpose of promotion. Under this requirement, TOT funding has been allocated for such purposes as arts and cultural programs, community festivals, economic development programs and capital improvements. The remaining 1-cent can be used for any purpose determined by the City Council.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	7.00	$	736,856	$	76,816,992	$	77,553,848	$	77,553,848
Salary and Wage Adjustments	-		(4,191)		-		(4,191)		-
Subtotal	*7.00*	*$*	*732,665*	*$*	*76,816,992*	*$*	*77,549,657*	*$*	*77,553,848*
Transfer in Special Events	3.00	$	331,192	$	162,846	$	494,038	$	287,000
Subtotal	*3.00*	*$*	*331,192*	*$*	*162,846*	*$*	*494,038*	*$*	*287,000*
Additions							-		
TOT Revenue Increase	-		-		-		-		6,213,268
Repayment from CCDC	-		-		-		-		5,000,000
Other Revenue Adjustments	-		-		-		-		(199,997)
Increase in 1-cent to GF	-		-		5,931,535		5,931,535		-
Promotion allocation to GF	-		-		4,955,270		4,955,270		-
Convention Center Dewatering	-		-		5,926,118		5,926,118		-
Increase to QUALCOMM	-		-		4,407,504		4,407,504		-
Other Adjustments	-		-		565,653		565,653		
Reductions									
Reduction due to TMD	-		-		(10,589,701)		(10,589,701)		-
Reduction to PETCO	-		-		(1,379,927)		(1,379,927)		-
Subtotal	*-*	*$*	*-*	*$*	*9,816,452*	*$*	*9,816,452*	*$*	*11,013,271*
TOTAL	**10.00**	**$**	**1,063,857**	**$**	**86,796,290**	**$**	**87,860,147**	**$**	**88,854,119**
Difference from 2008 to 2009	**3.00**	**$**	**327,001**	**$**	**9,979,298**	**$**	**10,306,299**	**$**	**11,300,271**

In the FY 2009 Proposed Budget, TOT funding for arts and cultural programs has remained constant. However, there are several significant adjustments to the TOT allocations in other areas. These major adjustments are described separately below.

$10.6 Million Reduction Due to TMD. The Tourism Marketing District (TMD), approved by City Council on December 3, 2007, guarantees funding for certain groups that previously received City TOT funding, effectively offsetting $10.6 million in prior allocations made by the City. As such, the FY2009 Proposed Budget eliminates TOT funding for these groups, listed below.

Former Recipient Group	FY 2008 Funding
San Diego ConVis	8,830,411
San Diego North ConVis	380,903
San Diego Film Commission	661,817
SD Bowl Game Association	391,137
International Sports Council	145,800
Hall of Champions	75,000
Accessible San Diego	65,039
Rock N Roll Marathon	19,519
California State Games	15,427
San Diego Crew Classic	4,648
TOTAL	**10,589,701**

It should be noted that while both ConVis and North ConVis are guaranteed formula funding for the life of the TMD, the other groups listed above are only guaranteed funding for the first 12 months. Since the TMD began operation on January 1, 2008, these groups are only guaranteed to receive one-half of the funding listed above in FY 2009 (i.e. equivalent to a half-year's funding). In the future, if these groups are not awarded TMD funding through the competitive application process, they may again seek City TOT funding. The FY 2009 Proposed Budget assumes that no funding will be restored or allocated to these groups.

$5.9 Million Increase in Discretionary Funding to the General Fund

Per the Municipal Code, one-cent of City TOT revenue deposited into the TOT Fund is discretionary and can be used for any purpose that Council may direct. In FY 2008, approximately $10.6 million was transferred to the General Fund for discretionary use. The FY 2009 Proposed Budget increases this transfer by approximately $5.9 million to $16.5 million, equivalent to the full 1-cent in discretionary revenue.

$5.0 Million Increase to General Fund for Promotion-Related Expenditures. Per the Municipal Code, four-cents of City TOT revenue deposited into the TOT Fund must be used solely for the purposes of promotion. In order to comply with the Municipal Code but still benefit the General Fund, the FY 2009 Proposed Budget allocates TOT funding for promotion-related expenditures that are currently provided by the General Fund, such as police services for special events, Balboa Park events, and building maintenance in Mission Beach and La Jolla. This funding is allocated to the following departments, as shown in the next table.

Department	Amount
Park & Recreation	2,324,770
Police	1,740,444
Facilities (GS)	600,000
Street Division (GS)	290,056
TOTAL	**4,955,270**

While we support this action in concept, and proposed it in IBA Report 07-95 regarding the Tourism Marketing District, we would still caution that there is currently no formal definition of "promotion" as contemplated in the Municipal Code. If TOT allocations will continue to be made for General Fund services in the future, the City may wish to more clearly define what constitutes promotion.

$5.9 Million Increase in One-Time Funding to Convention Center. The FY 2009 Proposed Budget includes a one-time increase of $5.9 million for sewer capacity charges related to the Convention Center dewatering efforts. Two options for dealing with the dewatering effluent from the Convention Center had previously been considered: (1) discharge into Metropolitan Sewage System, and (2) construction and operation of a reverse osmosis (R/O) treatment facility. However, the latter option was dropped out of concern for possible violations of the RWCQB discharge permit if the R/O facility were to malfunction. As a result, the Convention Center will begin discharging dewatering effluent into the sewer system. The one-time sewer capacity charge is based on an estimated discharge of 400,850 gallons per day.

$4.4 Million Increase to QUALCOMM. As further described in the section on QUALCOMM Stadium, lease revenue from the Midway Frontier shopping center and the Sports Arena (now the ipay-One Center) has been redirected from the Stadium Operating Fund to the General Fund. While we support this action, additional TOT funding is needed to support Stadium operations. The total allocation to QUALCOMM is approximately $10.9 million. This allocation is likely to continue or even increase in the future.

Issues for Consideration

As mentioned in the Redevelopment Agency Payment section, the rationale for budgeting the $5 million Redevelopment Agency loan repayment in the TOT Fund is unclear. There does not appear to be a clear nexus between this funding and any of the allocations made in the Special Promo budget, including PETCO Park, and ultimately this funding makes its way back to the General Fund in the form of the $5.0 million TOT allocation for promotion-related expenditures, as previously explained. We feel that the Redevelopment Agency repayment should more appropriately be budgeted directly in the General Fund to ensure the maximum flexibility in its use.

- Budget all revenue related to Redevelopment Agency loan repayment directly in the General Fund to ensure maximum flexibility.

- Reduce the TOT allocation to the General Fund for promotion-related expenditures by a commensurate amount so as to have a net-zero effect on the General Fund and the TOT Fund.

Storm Water

In the FY 2009 Proposed Budget the City's storm water-related functions have been consolidated into a single department. The newly created Storm Water Department is the primary actor in meeting the education and compliance requirements of the 2007 Municipal Storm Water Permit. The Department will continue to inspect, repair, and maintain the City's storm drain system, and has expanded its functions to include street sweeping and related parking enforcement functions.

Effects of Budget Proposal

The FY 2009 Proposed Budget includes a net increase of 89.00 FTEs to the Storm Water Department, along with a net increase of $17.9 million in NPE and $6 million in revenue. Of the 89.00 FTE increased, 74.00 were transferred in from the Police Department and Street Division of General Services. Approximately $18 million in NPE was transferred into Storm Water along with the net 74.00 FTE transfers and $6 million in revenue. An addition of 18.00 FTE was added to the Department to meet the increased requirements of the Municipal Permit. The addition also

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	42.00	$	3,741,661	$	19,253,748	$	22,995,409	$	200,000
Vacancy Factor (08)	-	$	553,264	$	-	$	553,264	$	-
Vacancy Factor (09)	-	$	(368,916)	$	-	$	(368,916)	$	-
Salary and Wage Adjustments	-	$	190,230	$	-	$	190,230	$	-
Subtotal	*42.00*	*$*	*4,116,239*	*$*	*19,253,748*	*$*	*23,369,987*	*$*	*200,000*
Transfers									
Transfer In - Streets	64.00	$	5,257,373	$	18,240,816	$	23,498,189	$	5,145,091
Transfer In - Police	11.00	$	793,322	$	15,165	$	808,487	$	900,000
Transfer Out - GS Admin	(1.00)		(75,375)		-	$	(75,375)		-
Subtotal	*74.00*	*$*	*5,975,320*	*$*	*18,255,981*	*$*	*24,231,301*	*$*	*6,045,091*
Additions									
Storm Water Compliance	18.00	$	1,871,106	$	2,652,225	$	4,523,331	$	-
Revenue Adjustments	-	$	-			$	-	$	15,000
Non-Discretionary/IT Changes	-	$	-	$	110,267	$	110,267	$	-
Reductions									
Position/NPE Reductions	(3.00)	$	(339,307)	$	(2,731,428)	$	(3,070,735)	$	-
Rent Reduction	-	$	-	$	(345,000)	$	(345,000)	$	-
Subtotal	*15.00*	*$*	*1,531,799*	*$*	*(313,936)*	*$*	*1,217,863*	*$*	*15,000*
TOTAL	**131.00**	**$**	**11,623,358**	**$**	**37,195,793**	**$**	**48,819,151**	**$**	**6,260,091**
Difference from 2008 to 2009	**89.00**	**$**	**7,881,697**	**$**	**17,942,045**	**$**	**25,823,742**	**$**	**6,060,091**

includes $2.7 million in NPE. This funding will be used primarily for increased monitoring and education requirements. The Proposed CIP Budget allocates $12.2 million for emergency drainage projects for reconstructing or replacing failed drainage facilities citywide.

Transfers from Street Division. The Street Division of General Services transferred 64 FTE to the Storm Water Department along with $18.2 million in NPE and $5.1 million in revenue. As stated in the Street Division section of this report, these positions cover functions including: street sweeping, cleaning and inspecting structures, pipes, and the maintenance of channels. The transfer of storm drain and street sweeping functions to the Storm Water department also resulted in the transfer of $5.1 million in storm drain revenue identified for those functions.

Transfers from Police. The FY 2009 Budget includes the transfer of 11.00 FTE and approximately $800,000 in total expenditures from the Police Department for parking enforcement functions related to street sweeping. Along with the positions, the transfer of $900,000 is shown in the Storm Water department's budget. In FY 2008, a determination was made to consolidate all parking enforcement positions into the Police Department. Because street sweeping functions are proposed to transfer to the new Storm Water Department, the determination was made that parking enforcement functions related to street sweeping services would be better served in the newly created Storm Water Department.

Reductions in Storm Water. The FY 2009 Budget also includes the reduction of 3.00 FTEs and $2.7 million in NPE from the Storm Water Budget. Storm Water does not anticipate any compliance or service impacts resulting from these reductions. Work performed by the three positions slated for reduction is expected to be reallocated into existing staff duties. It is expected that the addition of staff reflected in the Proposed Budget will accommodate any further service or compliance needs.

Issues for Consideration

The Storm Water Department anticipates encumbering approximately $16.7 million in supplies and services to be carried over to FY 2009. This is in addition to the $48.8 million in total operating expenditures and $12.2 million in Capital Improvements Program funding in FY 2009 The IBA expresses concern over the Department's ability to expend all budgeted and encumbered monies in FY 2009 and suggests it be discussed and evaluated during budget hearings.

Water

Effects of Budget Proposal

The FY 2009 Proposed Budget for the Water Department reflects a net expenditure increase of $14.3 million and a revenue increase of $36.9 million, primarily due to a $36.1 million increase in financing proceeds, bringing total budgeted proceeds to $153.8 million. These proceeds reflect 80 percent of planned capital improvement expenditures, consistent with the department's goal of funding capital projects with 20 percent cash and 80 percent financing. Other significant revenue adjustments include a $6.1 million re-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2008 Budget	850.90	$	75,996,588	$	429,957,941	$	505,954,529	$	462,174,462
Vacancy Factor (08)	-		1,683,250		-		1,683,250		-
Vacancy Factor (09)	-		(2,476,600)		-		(2,476,600)		-
Salary and Wage Adjustments	-		572,362		-		572,362		-
Subtotal	*850.90*	*$*	*75,775,600*	*$*	*429,957,941*	*$*	*505,733,541*	*$*	*462,174,462*
Transfer to E&CP (BPR)	(24.00)	$	(2,672,043)	$	-	$	(2,672,043)	$	-
Add'l. Reduction per E&CP BPR	(1.00)		(89,142)		-		(89,142)		-
Transfer Trench Rest. to GS	(23.90)		(1,786,940)		-		(1,786,940)		-
Department Restructuring	-		(3,301)		-		(3,301)		-
Subtotal	*(48.90)*	*$*	*(4,551,426)*	*$*	*-*	*$*	*(4,551,426)*	*$*	*-*
Additions							-		
ERP Funding	-		-		189,275		189,275		-
Non-Discretionary	-		-		6,762,232		6,762,232		-
CIP Additions	-		-		18,093,826		18,093,826		-
Increase for Water Purchases	-		-		5,193,077		5,193,077		-
Funding for Engineering Svcs.	-		-		2,447,755		2,447,755		-
Funding for Trench Restoration	-		-		2,837,060		2,837,060		-
Other Expenditure Adjustments	-		-		546,000		546,000		-
Bond Proceeds	-		-		-		-		36,080,144
Other Revenue Adjustments	-		-		-		-		795,410
Reductions									
IT Adjustment	-		-		(384,895)		(384,895)		-
Department Reductions	-		-		(13,523,352)		(13,523,352)		-
NGF FTE Reductions	(23.50)		(3,026,212)		-		(3,026,212)		-
Subtotal	*(23.50)*	*$*	*(3,026,212)*	*$*	*22,160,978*	*$*	*19,134,766*	*$*	*36,875,554*
TOTAL	**778.50**	**$**	**68,197,962**	**$**	**452,118,919**	**$**	**520,316,881**	**$**	**499,050,016**
Difference from 2008 to 2009	**(72.40)**	**$**	**(7,798,626)**	**$**	**22,160,978**	**$**	**14,362,352**	**$**	**36,875,554**

duction in revenue from water sales, as water sales are projected to decline by 15 percent due to conservation efforts.

As part of the Engineering and Capital Projects BPR, the Water Department transferred out 24.00 positions and approximately $2.7 million in personnel expense (PE). Additionally, 23.90 positions and $1.8 million in PE were transferred to General Services as part of the consolidation of the City's trench restoration program. The Water Department's FY 2009 Budget includes $5.3 million for engineering and trench restoration services that will now be charged by the respective departments.

Other significant expenditure adjustments include an $18.1 million increase in CIP expenditures, $6.8 million in non-discretionary increases, and a $5.2 million net increase for water purchases to correct past underfunding of water purchases. Aside from the positions transferred out due to restructuring, expenditure increases were partially offset by the reduction of 23.50 positions as part of the citywide budget reductions, and a reduction of $13.5 million in non-personnel expense (NPE) as a result of reduced revenue from water sales. In addition, the reduction in revenue from water sales has caused the department to be unable to increase its operating reserve to the targeted level of providing funding for 55 days of operation, as defined in the City's Reserve Policy. As a result, the operating reserve is set at $19.9 million, which will provide for 50 days of emergency operation. Based on these figures, an additional $2 million would be required to reach the 55 day target.

Capital Improvement Program

The Water Department's capital program continues to focus on replacement of water mains, rehabilitation of pump stations, and the upgrade and expansion of the Alvarado, Miramar and Otay water treatment plants as required by the Compliance Order from the California Department of Public Health.

FY 2009 Major Capital Projects

PROJECT	BUDGET
Water Main Replacement	$41.6 million
Miramar Water Treatment Plant	$44.0 million
Alvarado Water Treatment Plant	$22.7 million
SD 17 Flow Control Facility & Pump Station	$11.7 million
Otay Water Treatment Plan/2nd Pipeline	$17.9 million

The department's goal is to replace 20 miles of cast iron water main in FY 2009, 10 miles more than required by the Compliance Order. Improvements to the water treatment plants include rehabilitation of flocculation/sedimentation basins 1 and 2 (Phase 3), and the construction of ozone disinfection and pumping facilities (Phase 4) at the Alvarado Treatment Plant; construction of four new flocculation and sedimentation basins and demolition of existing basins, filters and backwash tanks (Contract B), and installation of ozone equipment and liquid oxygen delivery and storage facilities (Contract C) at the Miramar Treatment Plant; and construction of a new flocculation and sedimentation basin (Phase 1) and construction of other treatment plant tanks and facilities (Phase 2) at the Otay Treatment Plant.

The FY 2009 Proposed Budget also allocated significant CIP funding for improvements to the Otay Second Pipeline and for the groundwater asset development program.

The department plans to obtain new financing in December 2008. It is anticipated that proceeds from this financing will be used to retire the 2007A short-term notes of $57 million, and likely the 2008A short-term notes of $150 million that will be used to retire existing debt are not budgeted. It is anticipated that the City will gain access to the public bond markets prior to the next financing, in which case the Water Department would likely seek long-term bond funding. However, the department will be prepared to obtain additional private financing should the City not have access to the public markets.

Budget Reductions

As part of the citywide budget reductions the Water Department eliminated 23.50 positions and $3.0 million in personnel expense. Of the positions eliminated, 19.00 are currently vacant. As such, the Department does not anticipate any service level impacts as a result of these reductions. However, it is unclear why Enterprise Fund departments such as Water and Sewer are required to participate in budget reductions, as these departments have their own funding sources and do not compete for limited General Fund resources. That being said, if the 23.50 positions and associated personnel expense are not necessary to fulfill the department's mission then it makes sense they should be eliminated from the budget. However, these reductions should be discussed in the context of the Water Department's BPR, which is anticipated to come to Council in May.

Issues for Consideration

The Water Department's proposed budget for FY 2009 does not include any funding for the Advanced Water Treatment (AWT) demonstration project, approved by Council on December 3, 2007. While the total cost of the AWT demonstration project is not precisely known, the department hired a consultant in FY 2008 to assist in developing the scope of the project and refine the cost estimates. It is anticipated that more refined cost estimates will be available in the near future.

The department has stated on several occasions that funding is not available for the Demonstration Project, since it was not factored into the 2007 rate increases. However, it is difficult to understand how at least partial funding cannot be identified when 23.50 positions and over $16.5 million can be eliminated from the Water Department budget with no service impacts. Furthermore, it should be noted that over $4 million in O&M and CIP savings have been identified in FY 2008 and redirected to other capital projects upon authorization from the Independent Rates Oversight Committee. We urge a full policy discussion on potential sources of funding for the AWT demonstration project.

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