Review of the Fiscal Year 2010 Proposed Budget

Analysis by the
Office of the
Independent Budget Analyst

IBA Report 09-37
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IBA
Office of the
Independent Budget Analyst
City of San Diego

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Overview of the Mayor's Proposed FY 2010 Budget

The Mayor released a proposed balanced budget for FY 2010 to the public on April 13, 2009 — in advance of the April 15 Charter deadline. Contrary to expectations, the Mayor has proposed no further service cuts to eliminate the projected $62.6 million deficit. Rather, the Proposed Budget has been balanced utilizing the following resources:

BALANCING FY 2010 (in millions)

Projected Labor Concessions	$ 30.0
Internal Stabilization Reserves	17.8
Revised/ New Fees	6.7
Library Systems Improvement Fund[1]	4.3
Franchise Fees	4.3
TOTAL	**$ 63.1**

Source: City of San Diego FY 2010 Propsed Budget Power Point, 4/20/09

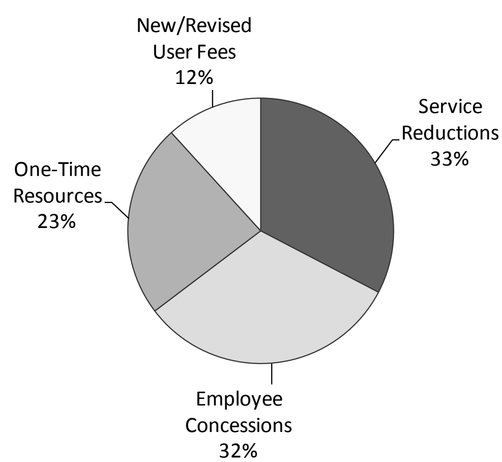
[1] Amount corrected by IBA

This budget balancing approach contrasted with the Mayor's outlook last fall that more drastic service cuts would likely be necessary in FY 2010. It also employs one-time resources and increases in user fees — two new strategies the Mayor did not embrace as solutions to balancing the FY 2009 budget. While the absence of more service cuts likely brought relief to residents and employees alike, the budget balancing strategy has raised questions about the use of one-time resources and the relative ease by which it appears this budget was balanced —particularly given the difficult economic times. We will address these and other issues in our report.

We would first note the balanced approach that has been used to address the FY 2010 deficit including an estimated $31 million in service cuts which are not shown on the Mayor's budget balancing chart. It is important to recall that significant service reductions were implemented in December 2008 to help balance the current year budget as well as to get a head start toward addressing the sizable deficit projected for FY 2010. The following chart shows the balance — between service cuts, employee concessions, one-time resources and new revenues — that was used to address the FY 2010 Budget shortfall:

FY 2010 General Fund Budget Balancing

$93.7 Million



Overview

The IBA generally supports the overall approach the Mayor has taken to balance the budget for FY 2010. We believe it is a sound one-year budget proposal which continues the City's goals toward financial reforms; applies a balanced and fair approach; considers community and Council input and priorities; and utilizes some new resources, previously not considered, to avoid further service cuts.

However, we remain concerned, as we noted in our preliminary budget report a year ago, that there is no clear path to the City's financial health over the long term:

"Unless clear, decisive and long-term corrective actions are implemented, budget deficits will persist well in the future, resulting in a continual erosion of City services." (IBA Report 08-41, "Review of the Fiscal Year 2009 Proposed Budget")

Service Cuts Were Necessary to Balance the FY 2010 Budget

Missing from the Mayor's budget balancing slide were the actions taken by the Mayor and City Council in December 2008 which resulted in $36.6 million of service/cost reductions for FY 2009 . As noted, most of these reductions have been carried through FY 2010 resulting in savings next year estimated at $31 million. These recurring savings contributed significantly to balancing next year's budget and will have a similar positive impact on the City's structural budget deficit.

As a result of cost reductions made last December, skateboard parks are no longer supervised; the number and size of academy classes were cut for both police officers and firefighters in FY 2009 and FY 2010; the City's competitive swim team program was eliminated; seasonal lifeguard hours were reduced; parks maintenance and security positions were eliminated; and the fire rings at the beaches were saved at the last minute through a generous private donation. The Customer Services Department was eliminated including the closure of six community service centers. The Mayor had originally proposed the closure of seven branch libraries and nine recreation centers and the implementation of Fire "rolling brown outs" but funding was subsequently identified to avoid these reductions.

What residents of our community may not realize is that these reductions are on top of service cuts that have been made incrementally since 2000. Over time these ongoing reductions can result in a significant erosion of City services. Comparing statistics from FY 2001 to today in just a few key service areas illustrates this point, in the table on the following page:

Overview

SERVICE COMPARISONS FY 2001 - TODAY

ACTIVITY	FY2001	TODAY
Number of Customer Service Centers	15	0
Number of aquatic programs users[1]	712,000	255,380
Number of youth program after-school sites	37	15
Average number of weekly recreation center hours[2]	62.30	40.25
Average number of weekly library hours[2]	48.0	40.8
Firefighters per 100,000 population[3]	80	71
Police Officers per 100,000 population[3]	166	158
Average wait time (in seconds) to answer 911 calls[4]	4	10

[1] In 2001, pools were open year-round, winter pool closures are now staggered across the community. The department notes that the opening of many new pools by the County and schools has contributed to the reduced usage.

[2] During this period, the number of library facilities has increased from 34 to 36 and recreation centers have increased from 50 to 54 while service hours have declined.

[3] While Police response times have shifted over the decade, today's measures of seven minutes for Priority E calls and 12 minutes for Priority 1 calls are the same as in 2001. Fire response times have decreased slightly from 54.67% in 2001 to 52.85% in 2009 for the percent of initial emergency units arriving within five minutes or less. For nine minutes or less, the percentage has increased from 56.10% to 76.10% (NFPA Guidelines).

[4] The department indicates that this is attributable to the dramatic increase in calls due to the proliferation of cell phone usage. In 2001, 911 dispatch did not receive wireless 911 calls from the public. Dispatcher recruitment and retention has also been an ongoing challenge.

The Mayor's City Management Program, which has resulted in the development of performance measures for all City departments, has helped to provide more transparency regarding what level of service the community can expect given available resources. These performance measures, first incorporated into the annual budget process in FY 2009, assist the community in better understanding the impacts of specific budget proposals and participating in the budget process. As service reductions are proposed or contemplated, the community must play a key role in conveying to City leaders its tolerance level for these reductions. The community must also help City leaders define quality of life needs and expectations and help identify a pathway for achieving them.

While the City's performance measures have come a long way, we would note that the 38 citywide performance measures, identified in Volume I, that track to the City's Strategic Plan, include no data. In an effort to include fiscal years 2008 through

2010 information for the Council in this report, we were surprised to learn that data does not exist in the budget detail for a third of these measures. We discussed this with the Business Office staff, who indicated that targets still need to be set and data gathered for several of them and they will be addressing this in future reports.

In response to a request from Council Member DeMaio, that the Mayor and City Council adopt a narrowed list of the most meaningful measures to track and highlight on the City's website, Business Office staff recently recommended that these 38 Strategic Plan measures serve that purpose.

Recommendation #1:

We recommend that targets be set and data be collected for all 38 Strategic Plan measures for fiscal years 2008 -2010; that this information be included in FY 2010 final budget documents and be easily accessible and prominently displayed on the City's webpage.

"San Diego Speaks", a series of forums held by the Budget and Finance Committee in February, provided citizens and City employees an earlier opportunity this year to help shape the budget. The Mayor followed up with a series of hearings of his own as in previous years. The Mayor relied on this input in developing his budget proposal as noted in his April 13, 2009 press release:

"This budget respects the priorities that San Diegans have voiced to me clearly over the past several months. They are not willing to see cuts in their library hours or recreational programs, and they also don't want city government to backslide on the enormous progress we've made toward solving our chronic budget problems and repairing long-neglected streets and public facilities."

On April 1, San Diego State University officials presented to the Budget and Finance Committee the results of the City service survey that was gathered at the "San Diego Speaks" forums as well as on-line. The survey was designed by the City to begin to gauge residents' perspectives on service priorities and resource options. SDSU recommended as a next step that the City conduct a more comprehensive, random and scientific survey to assess attitudes about quality of life in San Diego, satisfaction with City service levels, effectiveness of City services and willingness to pay more for increased services. This survey could establish a baseline instrument by which the City could measure itself every one to two years on a going-forward basis.

In IBA Report 07-110, "Benchmarking of the Park and Recreation and Library Departments" issued October 2007, our office recommended that funds be allocated for the purpose of conducting a resident attitude survey in the FY 2008 budget. We estimated at the time that a professional survey could be completed by an outside firm or university at a cost of $20,000 to $25,000.

We would note that $40,000 in funding was added to the Business Office budget in FY 2009 to conduct a citizen survey for the Mayor. This funding has now been carried over to FY 2010. The Budget and Finance

Committee has expressed a strong interest in the City conducting a scientific resident survey as a valuable next step.

Recommendation #2:

We recommend that the Mayor and City Council work together to undertake a community survey prior to next year's budget process that meets the information needs of all parties.

The Issue of One-Time Resources

The use of one-time resources in the budget has received much attention in the past year. The first serious discussion about this matter started with a report our office issued February 14, 2008 "City of San Diego Structural Budget Deficit" (IBA Report 08-14). In this report we made the case that the City is indeed facing a structural budget deficit characterized by a persistent pattern of ongoing expenditures exceeding ongoing revenues, even in healthy economic conditions. Our report stated the following:

"The structural imbalance confronting the City is by nature persistent. The City cannot continue to use temporary or one-time solutions to effectively combat its financial challenges. Structural problems require structural solutions."

Our report also called out a long list of one-time solutions that were commonly used to balance City budgets in the past which contributed in part to the City's structural budget deficit that exists today. As a result, the Mayor has received some negative reaction to utilizing $22.1 million of one-time resources including $17.8 million in Internal Stabilization Fund and $4.3 million of Library System Improvement Funds to balance the budget. The Mayor was critical of an IBA recommendation in the fall to keep seven libraries and nine recreation centers open for six months (through FY 2009) utilizing $2.4 million of Library System Improvement Funds. Since that action, the Mayor has reprioritized the libraries and recreation centers that were previously proposed for closure, and has allocated General Funds in FY 2010 for this purpose.

While it was a rare position for our office to take, we made this recommendation in order to provide time for the Mayor to restudy the issue by pursuing alternatives not fully considered such as a reduction in hours and developing a comprehensive facility plan to guide closures in the future. As the Mayor's recommendation was for temporary closure of seven branch libraries and nine recreation centers, we needed to identify short-term funding alternatives (up to 18 months) in order to bridge this difficult time. The Library System funds of $2.4 million kept the libraries open for a six month period and, as noted earlier, the Mayor has since reconsidered these services as a priority for the General Fund for FY 2010.

During this time we reiterated our position regarding the necessity of identifying permanent solutions to address the structural budget deficit (IBA Report 08-118, "Recommended Actions on FY 2009 Budget Adjustment Proposal") but addressed the potential use of one-time resources during unanticipated fiscal crises:

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"Some one-time or short-term solutions, however, should continue to be pursued as they can achieve sizable savings in a relatively short period and can help the City weather the effects of this cyclical economic decline."

We currently find ourselves facing a situation of both short-term economic crises coupled with a long-term structural budget imbalance which requires a combination of appropriate solutions for each of these conditions.

While our office's position on this matter remains grounded in the best practices set forth in our structural budget deficit report, our position on specific proposals for utilization of one-time resources will be tethered to an analysis of the situation and the related criteria.

The Internal Stabilization Reserve (ISR), utilized by the Mayor to balance the budget, was established many years ago as a "backup" to the required debt service reserve funds for five lease revenue financings (PETCO Park, Convention Center Expansion, Balboa Park/Mission Bay Improvements, Old Town Trolley Extension, Bayside Trolley Extension). The backup reserves, which were set up when the City's General Fund reserves were at a very thin 3%, are not required in any bond documents nor are they counted as part of the current General Fund reserves.

In our very first review of the Mayor's Proposed Budget issued April 28, 2006, our office advocated for the consolidation of the ISR within the General Fund reserves as a means to increase our reserves percentage. Over the past few years, the Mayor has increased the reserves to a desirable level of 7% in FY 2010 without this action, and the ISR remained available for appropriate one-time uses. In our review of the Mayor's Five-Year Outlook, IBA Report 09-2 issued January 15, 2009, we again proposed the consolidation of these funds into the General Fund reserves beginning in FY 2010. The net effect of this proposal would have been to reach our 8% reserves goal two years early — by FY 2010 — while avoiding future General Fund contributions of $17.8 million through FY 2012.

The Mayor has taken a different approach with a similar net effect: rather than placing the $17.8 million in the reserves, this one-time resource is being used to fund a number of one-time expenses in FY 2010, with the intent of achieving the 8% reserves goal by FY 2012 through additional contributions.

We support the approach of releasing the $17.8 million of one-time ISR as well as the $4.3 million in Library System Improvement Funds and have confirmed their use for one-time expenditures as discussed in our report. This action has the net effect of freeing up $22.1 million for balancing the FY 2010 Budget.

Using one-time revenues to fund one-time expenditures is an acceptable practice provided those expenditures are indeed removed from the budget the following the fiscal year or an alternative recurring funding source is identified transparently during the budget process. We do not support the continuance of separate funds, like the ISR Fund, that were established years ago and are not tied to legal requirements or

City credit ratings. These and other similar funds should be transparent to the Mayor and the legislative body in the budget process and their use reevaluated given the City's scarce resources. We discuss a similar fund, the Library Operations and Maintenance fund, in the Library Department section of our report.

Recommendation #3:

We recommend that the CFO undertake a comprehensive review of all existing funds including their legal bases or originating purposes, current uses and fund balances, and report back to the Budget and Finance Committee by September 2009.

We also suggest, as in previous reports (IBA Reports 07-46 and 08-70), that the City develop a "Budget Policy" to provide a common understanding of principles and best practices to be followed and to serve as a guide for annual budget development efforts. As part of this policy we recommend that criteria be established for the use of one time resources so that it is clearly understood by all parties. It is our understanding that Financial Management has already begun work on this. Similarly our office has performed research on best budget practices and has reviewed budget policies from other cities.

Recommendation #4:

We recommend that the CFO, Financial Management and the IBA work together to develop a Budget Policy which addresses the use of one-time resources, and bring a draft to the Budget and Finance Committee by July 2009.

User Fees Are Updated to Recover City's Costs

For two years in various reports, the IBA has discussed the need for the City to identify the full cost of service for activities that charge user fees; to determine current cost recovery rates for these activities; to develop "target" cost recovery policies; and to propose recommendations to Council for achieving these targets. The Kroll Report released in August 2006 also included a recommendation "that activities supported by user fees should be fully cost recoverable." A Government Finance Officers Association (GFOA) best practice — "Setting of Government Charges and Fees" (1996) — also supports the use of charges and fees as a method of financing governmental goods and services.

Until recently, the City's user fees and cost recovery rates had not been comprehensively reviewed on a department-wide basis in many years. In some areas, fee adjustments date as far back as the 1980s and 90s. It has not been known for some time to what extent the General Fund has been subsidizing activities originally intended to be supported by those who benefit or use the specific service. To address this issue, last year the Council requested the Mayor to develop a General Fund User Fee Policy for City Council consideration and to undertake a comprehensive user fee analysis in time to incorporate results into the FY 2010 Budget.

The proposed User Fee Policy was developed by the CFO and presented for Budget and Finance Committee consideration on February 25, 2009 and subsequently approved by the full Council. In April 2009 City departments presented the results of their user fee analyses to the Budget and Finance Committee and City Council, along with their recommendations for fee adjustments to achieve cost recovery levels. The Mayor has incorporated $6.7 million of new user fee revenue into the FY 2010 budget. To date, the Council has formally approved $4.4 million of this revenue. The Budget and Finance Committee has approved an additional $2.37 million in increased Fire fees and this item will be coming to the full Council in early May. Any differences between the Mayor's budget assumptions and Council approvals will be addressed in the May Revise. It should also be noted that the matter of increasing parking meter rates and hours will be returning to the Budget and Finance Committee on May 1 which, if approved, would result in additional revenue for FY 2010.

Our office is in full support of the inclusion of the new user fee revenues in the FY 2010 budget.

Recommendation #5:

We recommend that the fees being adjusted to achieve cost recovery levels for FY 2010 be reviewed annually, as a routine part of the budget process, and adjusted as necessary for the CPI to in order to maintain cost recovery levels.

Recommendation #6:

If proposed parking meter revenues are approved, we recommend that the City Council work with the Mayor and the City Attorney to identify appropriate uses for this new revenue in accordance with Municipal Code Sections 82.08 and 82.09.

Employee Concessions and Impacts

In FY 2010, significant concessions from employees are incorporated into the budget. As presented by the Mayor, there is a placeholder in the General Fund budget for approximately $30 million in unspecified concessions, which were as yet to be determined at the time of publishing. Since then, the City Council has approved tentative agreements with the Deputy City Attorney's Association (DCAA), the International Association of Firefighters (IAFF) Local 145 and the Municipal Employees Association (MEA). In addition, terms were imposed on the American Federation of State, County and Municipal Employees (AFSCME) Local 127 and the Police Officers Association (POA). Along with concessions that will be taken by unclassified and unrepresented employees, the targeted reductions in the budget will be met.

These terms actually comprise a package of short-term and long-term concessions, some of which have budgetary impacts in FY 2010, and some of which will be realized more slowly. For FY 2010 savings, the terms comprise concessions such as eliminating or reducing the City's pick-up of the employee's contribution to the pension system, reduction of the flexible benefits package, elimination of the City's match to the Supplemental Pension Savings Program, elimination of holiday pay, salary cuts and furloughs. While some of these concessions may not be permanent in nature (i.e. furloughs), most would have an ongoing effect of reducing the City's structural budget deficit beyond FY 2010 and the terms of the current agreements (which are through FY 2011).

Some of the concessions that are intended to reap savings over a longer term include reforms to the DROP plan, most notably reducing the interest rate on DROP accounts and in some cases delaying eligibility for DROP by five years. In addition, retiree medical will be the subject of a study to transition to a defined contribution plan, which was imposed on Local 127 and POA, and will be further negotiated with the other three unions. In the meantime, the benefits escalator is frozen and vesting time for benefits is doubled. When and if fully implemented, these reforms will reduce the City's unfunded liability in both the pension system and for retiree medical, and will subsequently lower the ARCs for both plans.

Outlook for FY 2011

After accounting for recurring new fee revenue and recurring cost savings proposed for the FY 2010 budget, preliminary estimates still indicate a deficit for FY 2011 of at least $100 million. This is in contrast to the Five-Year Outlook released in November 2008 which projected a $24.3 million shortfall for FY 2011 **after** eliminating the FY 2010 deficit. (The FY 2011 shortfall was projected at $68.3 million **prior** to addressing the FY 2010 shortfall of $44.0 million.) A large portion of the increase for FY 2011 is attributable to the City's pension obligation, which may still be conservatively projected in this scenario. The CFO is in the process of updating the City's Five-Year Outlook, and it is expected to be released shortly.

While we support the Mayor's budget approach for FY 2011 as a necessary next step, we still see no clear pathway to future financial stability. Nearly 900 jobs have already been eliminated since FY 2007 and many City services are at their lowest levels in recent history. City revenues are experiencing unprecedented declines, resulting in the City having $47 million less in General Fund resources than in the FY 2009 Budget. at unprecedented low growth rates resulting in the City having $47 million less in General Funds to spend next year than we had in the current year. Progress over the past three years to reduce the City's pension liability has been negated by the impacts of the current financial crisis. Reduced pension benefits have been implemented for new employees effective July 1, 2009 which will eventually result in significant savings but not in the short term.

The City is currently challenging the vested nature of DROP benefits in court, and a study to examine converting the retiree medical benefit from a defined benefit to defined contribution will be completed by next year. Both of these efforts could potentially result in future savings. Employee concessions are providing significant relief to the budget for FY 2010. However, three of five labor groups have two year agreements — additional labor concessions for these groups are not a possibility for FY 2011.

Overview

A significant portion of the City's General Fund user fees are being adjusted for FY 2010 and CPI adjustments in FY 2011 will generate only modest amounts. Sizeable cost savings associated with 25 completed Business Process Reengineering (BPR) studies are already accounted for in the budget. Eight BPR studies are underway, including Park Maintenance, Streets Maintenance and Facilities Maintenance, with likely efficiency improvements and possible cost savings although the budgets for these activities have already been reduced through annual budget processes. Managed competition, an option that exists for future cost savings, remains on hold for now and may not be available for the FY 2011 budget.

Several one-time funds have either been exhausted or are already committed. The Redevelopment Agency payment for the debt service on PETCO Park is accounted for in the budget for the next five years.

On top of this, State budget cuts to cities are very possible if the State's budget proposal unravels with the election this spring. For San Diego, that could mean an estimated $34 million revenue loss as early as next year.

Since FY 2008 a significant portion of the General Fund has been appropriately allocated to achieving important fiscal reforms, and the FY 2010 Proposed Budget continues progress towards these goals in the following areas:

- Increasing our General Fund Reserve levels in line with best practices
- Adequately funding the City's pension plan each year
- Establishing a retiree health care trust fund to begin pre-funding the City's liability
- Increasing the Public Liability Fund Reserve to appropriate levels
- Increasing our Worker's Compensation Fund Reserve

Given the financial outlook for FY 2011 and left with fewer and fewer options for offsetting shortfalls, future contributions and possibly even existing funding dedicated to these fiscal reforms could be threatened if a plan of action for generating additional resources is not developed soon. As discussed in our chapter on the Public Liability Reserve and the Worker's Compensation Reserve, the 2008 CAFR notes that the established funding goals for both of these reserves is being reassessed given the economic downturn and the continued decline in General Fund revenues.

Recommendation #7:

While not an immediate issue for the FY 2010 Budget, we recommend the Council discuss with the CFO what is being contemplated for the future with respect to reassessing the City's reserves goals as noted in the FY 2008 CAFR.

The Mayor has expressed that proposals for new revenues must emanate from the community. In numerous reports, the IBA has discussed the option of generating new revenue through a storm water fee. At full cost recovery, this would result in an estimated $38 million annually. Our office has advocated for a dedicated source of funding

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for this federally mandated program, which has resulted in an estimated new impact to the General Fund of $134 million since FY 2006.

Our office has also discussed the option of a refuse collection fee currently prohibited by the People's Ordinance. San Diego is the only major California city that does not recover at least a portion of its refuse collection expenses. If the City implemented a refuse collection fee to recover the full cost of providing residential refuse collection services, the total benefit to the General Fund is estimated at $40 million annually.

Both of these options would require voter approval but for different reasons. Recent court rulings have held that storm drain fees are subject to voter approval requirements under Proposition 218. On the other hand the State specifically exempts refuse collection fees from voter approval requirements but requires that any implementation of such fees follow a Proposition 218 notification process. However, majority voter approval would be needed to amend the People's Ordinance before San Diego could implement a new refuse fee. Any decision to move forward with new revenue proposals would need to be made over the next several months to meet election dates necessary to have the revenue available for FY 2011. To implement either of these new revenue sources in time for FY 2011, planning and community outreach should begin now.

Recommendation #8:

We recommend that the Council consider requesting the Mayor to establish a socioeconomically diverse citizen's committee with a focused charge of studying two specific revenue options to augment General Fund resources — a storm water fee and a refuse collection fee — for possible implementation in FY 2011, and make recommendations to Council no later than October 2009.

This would allow sufficient time for placement on the ballot in either March or June of 2010 if recommended as such by the committee. In this context it is important to discuss that the Chamber of Commerce recently requested the Land Use and Housing Committee to begin discussions of a revenue generating effort for infrastructure funding. It is critical that any revenue generating studies and efforts be carefully coordinated, or addressed jointly, to allow for a thorough evaluation of priorities between operating and infrastructure needs; to be able to holistically assess the impacts of recommendations on our residents; to fully consider timing of implementation and possibly a phased, multi-year approach and to have a citizen–based consensus approach to meeting the community's needs.

If revenue options are not recommended by the committee for FY 2011, we recommend that the Mayor and City Council advance the budget balancing process for FY 2011 to the First Quarter next year, as was done in the current year. Implementing cost reductions as soon as potential shortfalls are projected will yield greater savings and help mitigate the impact on City services and employees.

The sections of our report that follow examine FY 2010 revenue projections; review numerous citywide funding issues, and analyze budgets of City departments and independent agencies as proposed for FY 2010. Recommendations noted in these sections are captured in a summary at the end of our report.

General Fund Revenue

The FY 2010 Proposed Budget includes $1.15 billion in General Fund revenue, a net reduction of $46.5 million from the FY 2009 Budget. Four major General Fund revenues, property tax, sales tax, transient occupancy tax (TOT) and franchise fees, account for $761.4 million, or approximately 66% of total General Fund revenue. Projected declines in these four major revenues account for approximately $31.9 million of the total General Fund reduction.

In FY 2009, a rapid decline in economic conditions resulted in significant revenue reductions, particularly among the major revenue sources. As a result, FY 2009 revenues are projected to end the year significantly under budget. These reductions are reflected in the Proposed Budget, as they establish a lower revenue base from which FY 2010 projections are made.

In addition, economic conditions are expected to remain weak. Growth projec-

FY 2010 Proposed Budget - General Fund Revenue

GENERAL FUND REVENUE	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	$ 411,141,755	$ 399,345,245	$ (11,796,510)
Sales Tax	222,081,552	210,141,169	(11,940,383)
TOT	90,628,826	78,341,188	(12,287,638)
Franachise Fees	69,482,159	73,586,929	4,104,770
Other Local Taxes			
Property Transfer	8,901,320	6,010,149	(2,891,171)
Safety Sales Tax	8,114,255	7,057,580	(1,056,675)
Vehicle License Fees	6,875,220	3,900,000	(2,975,220)
Other Non-Departmental			
Interest Earnings	9,613,317	4,091,471	(5,521,846)
Transfer from TOT Fund	16,227,968	14,023,852	(2,204,116)
Employee Offset Savings	7,900,000	-	(7,900,000)
Internal Stabilization Funds	-	17,836,967	17,836,967
Library Improvement Funds	-	4,339,833	4,339,833
Other	49,090,300	42,767,877	(6,322,423)
Departmental Revenues	292,551,719	284,676,396	(7,875,323)
TOTAL GENERAL FUND	**$ 1,192,608,391**	**$ 1,146,118,656**	**$ (46,489,735)**

General Fund Revenue

tions for all of the major revenues except property tax have been significantly lowered from what was presented in the Five-Year Outlook in November 2008, reflecting the deterioration in economic conditions since that time. Furthermore, several of the major revenues are projected to continue declining in FY 2010, even beyond the sizeable reductions experienced in FY 2009.

Major General Fund Revenue Growth Rates

Revenue Source	FY 2007 Actual	FY 2008 Actual	FY 2009 Projected	FY 2010 Proposed
Property Tax	12.10%	6.43%	2.91%	0.98%
Sales Tax	4.35%	1.08%	-6.44%	-1.43%
TOT	11.89%	3.75%	-4.49%	-2.04%
Franchise Fees	7.24%	-0.27%	2.72%	11.12%
SDG&E	*12.16%*	*-1.36%*	*4.13%*	*2.76%*
Cable	*5.40%*	*4.32%*	*6.68%*	*4.25%*

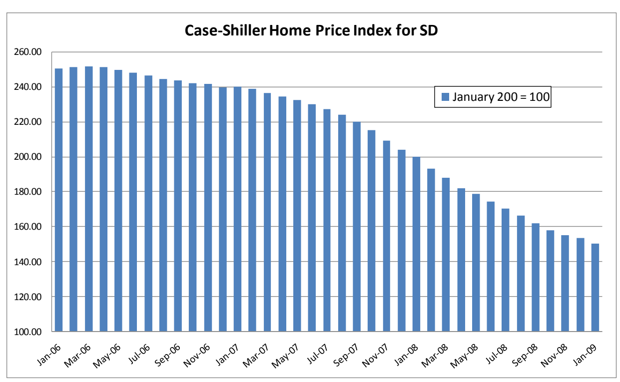
Overall, the General Fund revenue projections in the FY 2010 Proposed Budget are reasonable, and generally reflective of current economic trends. There is still considerable volatility in the economy, and this brings a level of uncertainty to any projection or forecast. While there are downside risks to a few of the revenue estimates, on balance we believe that growth projections were developed with a focus on identifying the most likely outcomes. As always, General Fund revenues should be closely monitored throughout the year.

The following sections discuss each of the major revenues in greater detail, and provide a few comments on other noteworthy General Fund revenue adjustments. Departmental revenues are discussed in the respective Department Review sections.

Property Tax

The FY 2010 Proposed Budget projects General Fund property tax at $399.3 million, a 1.0% growth rate over FY 2009 estimated year-end actuals. This projected growth rate reflects a continued deceleration of growth in assessed valuation, as property values continue to fall. Current estimates project a year-end growth of approximately 3% in FY 2009, while growth in Current Secured Openings (standard property tax bills) is 5%.

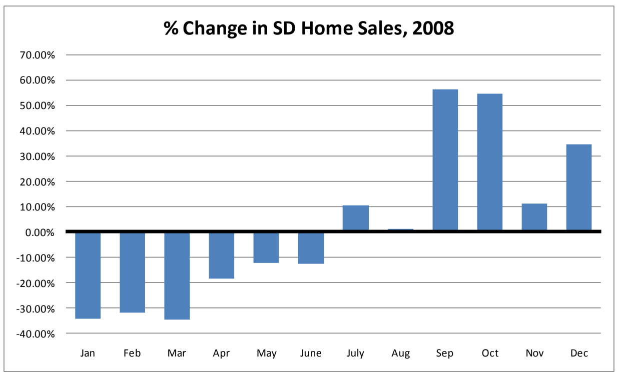
Property tax revenue in FY 2010 is based on assessed valuation as of January 1, 2009, which reflects the market activity that occurred in calendar year 2008. In San Diego County, housing prices continued to decline throughout calendar 2008. According to DataQuick, the median price of all home sales in December 2008 was $300,000, down over 30% from the median $430,000 in December 2007. The Case-Shiller Home Price Index, which tracks price changes across a constant set of home sales, reflects year-over-year declines every month dating back to July 2006.



Case-Shiller Home Price Index for SD

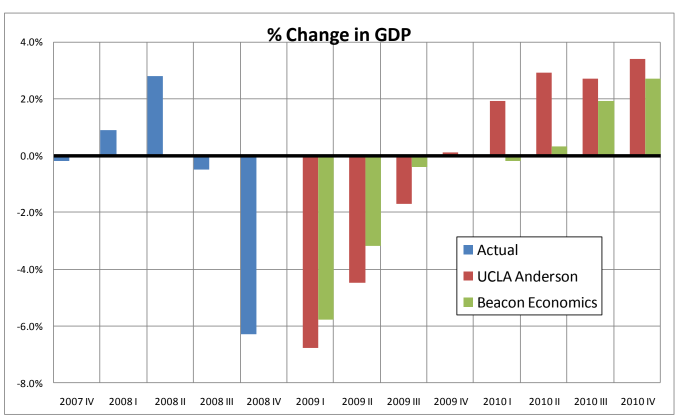
General Fund Revenue

While homes prices continue to fall, sales have begun to recover. According to DataQuick, in July 2008, Southern California home sales posted a 13.8% gain over the same month in the prior year, the first yea-over-year monthly gain since September 2005. San Diego County home sales increased by 10.5% in July, and have remained positive in every month since.



While the rebound in home sales may signal the beginning of a housing market recovery, it does not necessarily bode well for City property tax revenue in the short-term. This is because more homes are being sold at lower prices, which may have a negative impact on assessed valuation until prices begin to recover.

Despite this potential, 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. As a result properties that have not been sold for many years still likely have a low assessed value relative to current prices, and may see substantial increases in assessed value if currently sold.



In contrast, if properties are sold at a lower price than they were originally purchased for, they will see a decline in assessed value. The continuing increase in foreclosed properties presents this very concern, as the majority of foreclosures were likely purchased when prices were high. According to DataQuick, foreclosures accounted for 55.7% of total Southern California resales in December 2008, up from 24.3% in December 2007. Despite this surge, the number of foreclosed homes still represent a small percentage of the total housing stock, which should mute any negative impact to assessed valuation.

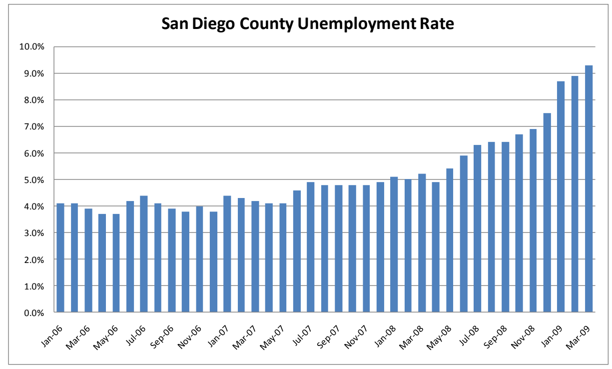
Overall, we believe that the projected growth rate for property tax reasonably reflects the continued decline in the housing market. While increasing home sales may indicate that the market has begun to recover, significant increases in sales without a commensurate increase in prices could further negatively impact growth in assessed valuation for FY 2011.

Sales Tax

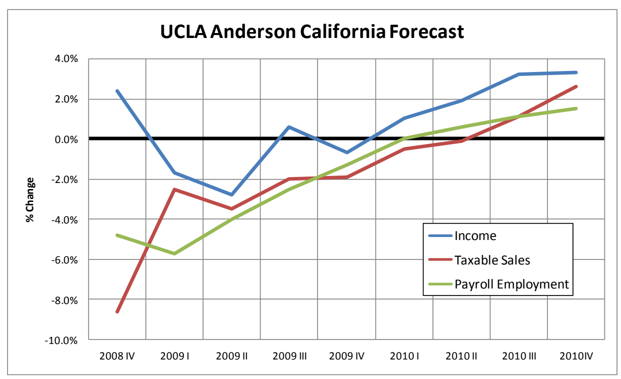
The FY 2010 Proposed Budget for sales tax is $210.1 million, a 1.4% decline over FY 2009 year-end projections. The Mayor's Five-Year Outlook, released in November 2009, projected flat growth in sales tax for FY 2010. Since that time, however, revenue trends and economic conditions have weakened. Appropriately, the projected growth rate for FY 2010 has been lowered.

Sales tax revenue is extremely sensitive to economic conditions, and has been significantly impacted as the economy has declined. Gross domestic product (GDP), the broadest measure of the economy's health, fell by a dramatic 6.3% in the 4th quarter of 2008, following a 0.5% decline in the previous quarter. According to both the UCLA Anderson Forecast and Beacon Economics, GDP will continue to see significant declines in over the next few quarters, before recovering in 2010.

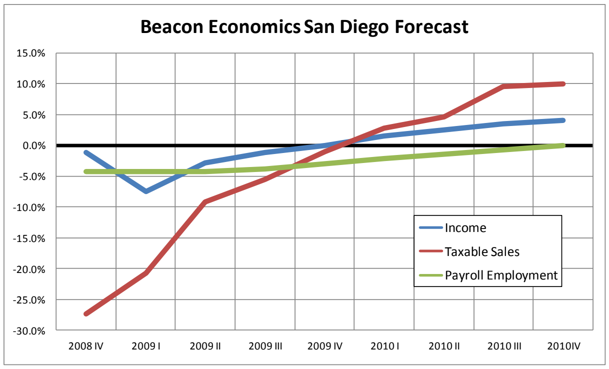
Following this trend, sales tax is projected to decline by 6.4% in FY 2009, following just a 1.1% growth in FY 2008. Receipts from the 4th quarter 2008 posted a decline of approximately 9% from the same quarter in the previous year, and a similar drop is projected for the 1st quarter of 2008. Locally, San Diego County's labor market has deteriorated considerably in the past year. In March 2009, the unemployment rate reached 9.3 percent, compared to 5.2% in March 2008. Over the course of that period, the region lost approximately 44,600 jobs.



Looking forward, the economic prognosis for FY 2010 is a mixed bag. According to the UCLA Anderson economic forecast for California, the first three quarters of 2009 will remain very weak, with flat growth in the 4th quarter, before beginning to pick up in 2010. By the end of 2010, growth should return to normal level. The chart below shows the Anderson forecast for growth in personal income, taxable sales and payroll employment.



On April 14, 2009, Beacon Economics presented a forecast for the San Diego region. According to the Beacon forecast, San Diego's labor market will continue its negative slide into the second half of 2010. However, both personal income and taxable sales are projected to begin recovering toward the beginning of the year. The chart below shows Beacon's forecast for growth in personal income, taxable sales and payroll employment in San Diego County.



While there are some noticeable differences in these forecasts, what is strikingly similar is that they both project a recovery around the beginning of calendar year 2010, or mid-Fiscal Year 2010. Particularly relevant is the projected growth in taxable sales.

The table below shows the growth in taxable sales projected by the two economic forecasts compared with the quarterly sales tax growth rates used in developing the FY 2010 Proposed Budget.

Forecast/ Projection	2009 III	2009 IV	2010 I	2010 II
Anderson	-2.0%	-1.9%	-0.5%	-0.1%
Beacon	-5.5%	-1.1%	2.8%	4.6%
FY10 Proposed	-5.0%	-3.0%	0.0%	0.0%

As this table shows, the budgeted sales tax projections are consistent with projected growth in taxable sales.

Overall, we believe that the FY 2010 Proposed Budget for sales tax represents a fair assessment of current economic conditions, as more significant declines in near term give way to a gradual recovery over the next several quarters. We would note that there is certainly a downside risk to these projections; however, we believe that they are well in line with current economic projections. Nevertheless, sales tax receipts and economic trends must be carefully monitored to ensure that projections remain consistent with developing trends.

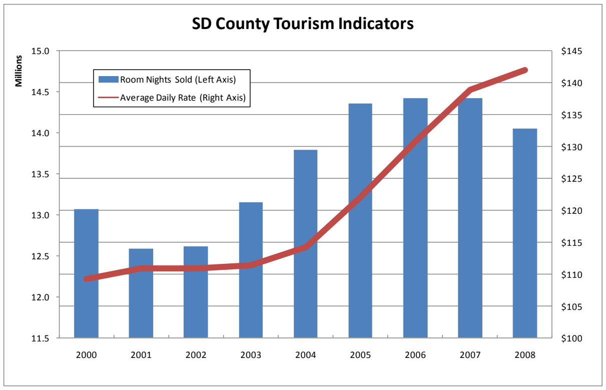
Transient Occupancy Tax

The FY 2010 Proposed Budget for General Fund Transient Occupancy Tax (TOT) revenue is $78.3 million, a decline of $1.6 million from FY 2009 year-end projections and $12.3 million lower than the prior-year budget. As with sales tax, TOT is sensitive to economic conditions, and has been severely impacted as the economy has declined. TOT revenue is projected to fall by 2% in FY 2010, following an estimated 4.5% decline in FY 2009.

Travel and tourism in San Diego remains weak, with nearly every industry measure posting declines from the prior year. In calendar year 2008, total visitors to the region declined by 1.5%, while the countywide occupancy rate fell to 69.5% from 72.9% the year before. In the City of San Diego, room-nights sold, a measure of demand for lodging, has posted year-over-year declines in each of the last ten months dating back to June 2008. The average daily room rate (ADR) has fallen in every month but one month since January 2008. The chart below shows the annual room-nights sold and

General Fund Revenue

ADR for all of San Diego County for the past nine years.



As this chart shows, rooms-nights sold have begun to decline, while ADR has begun to level off. According to the March 2009 Quarterly Travel Forecast prepared for the San Diego Convention and Visitors Bureau by Tourism Economics, this trend is likely to continue. Dour economic conditions have put a damper on travel and tourism across the US, as businesses and consumers have reigned in discretionary spending.

The Quarterly Travel Forecast projects continued declines in hotel demand and average rates through the 1st quarter of 2010. The table below shows the growth in several key measures for San Diego County as projected in the Quarterly Travel Forecast.

SDCVB Quarterly Travel Forecast

Market Indicator	2009 III	2009 IV	2010 I	2010 II
Room-Nights	-8.1%	-2.7%	-0.4%	2.0%
ADR	-8.1%	-4.3%	-2.4%	0.0%
Occupancy	-11.1%	-5.5%	-2.3%	1.2%

Given these projections, we have a degree of concern with the TOT projection for FY 2010, despite the negative growth rate. However, the Quarterly Travel Forecast specifically notes that projections do not take into account any specific marketing programs directed at key markets. Focused tourism marketing by the Convention and Visitors Bureau, coupled with the promotional efforts of the Tourism Marketing District, may offset some of the projected declines.

Nevertheless, we feel that there is a downside risk to the TOT projection, and recommend close monitoring of revenue trends and hotel sector indicators to ensure that growth rate projections remain in line with the market outlook.

Franchise Fees

The FY 2010 Proposed Budget includes $73.6 million in General Fund franchise fee revenue, an 11% growth over FY 2009 year-end projections. Franchise fee revenue is derived from individual franchise agreements with various utility providers for use of the City's rights-of-way.

The majority of franchise revenue comes from three sources: San Diego Gas & Electric (SDG&E); cable providers including Cox Communication, Time-Warner and AT&T, and franchised refuse haulers.

In FY 2010, $2.6 million in Facility Franchise revenue from the Sycamore Landfill has been transferred to the General Fund from the Recycling Fund. In addition, a proposed $4/ton increase in the refuse hauler fran-

General Fund Revenue

chise fee has been incorporated into the FY 2010 Budget. Adjusting for these factors, the Proposed Budget for franchise fees reflects a modest 2.7% growth over FY 2009 year-end projections.

City Franchise	FY 2010 Proposed
SDG&E	$ 41,410,761
Cable Franchises	18,091,168
Refuse Hauler	11,330,000
Facility Franchise	2,600,000
Other Franchises	155,000
TOTAL	**$ 73,586,929**

Total franchise revenue from SDG&E is projected to be $55.2 million in FY 2010. Per the City Charter, 25% of SDG&E franchise revenue is deposited in the Environmental Growth Fund (EGF). As a result, the General Fund Budget includes $41.4 million, while $13.8 million is budgeted in the EGF. Franchise revenue from SDG&E is projected to increase by 2.8% in FY 2010, following a projected growth of approximately 4.1% in FY 2009. Given the historical volatility of SDG&E franchise revenue, we believe this conservative growth rate is warranted, particularly in light of the uncertainty in broader economic trends.

Revenue from the cable franchises is projected to increase by 4.25% in FY 2010, following a projected 6.7% growth in FY 2009. We feel that this growth rate is somewhat conservative given historical trends. Franchise revenue from AT&T's cable service began to generate significant revenue for the first time in FY 2009, bringing in a projected $1.5 million. While this revenue can be expected to grow in the future, it is unclear to what extent it simply represents a shift from the other cable franchises, as customers shift service from their existing cable provider to AT&T. Still, greater competition in the cable market may result in a surge of new customers if prices become more attractive.

Revenue from the refuse hauler franchise fee is projected to increase by approximately $2.2 million over FY 2009 year-end projections. As previously mentioned, a proposal is being brought forward to increase the refuse hauler franchise fee by $4/ton, beginning July 1, 2009. Currently, franchise rates are $11/ton for Class I haulers (those hauling less than 75,000 tons per year) and $12/ton for Class II haulers (more than 75,000 tons). However, because refuse hauler franchise fees are collected one quarter in arrears, the proposed rate increase is only projected to generate an additional $1.7 million in FY 2010.

Finally, the budget for franchise fees reflects a $2.6 million increase due to the transfer of the Sycamore Landfill Facility Franchise Fee from the Recycling Fund to the General Fund. This transfer was approved at part of the FY 2009 First Quarter Budget Adjustments.

Other GF Revenues

A brief descriptions of a few other notable General Fund revenue adjustments is provided below.

Transfer of Internal Stabilization Reserves

One of the most significant revenue adjustment in the FY 2010 Proposed Budget is the consolidation and transfer in of the various Internal Stabilization Reserves. As further discussed in the Overview section of this report, these transfer have been proposed as a budget balancing solution, and provides a one-time $17.8 million increase in General Fund revenue. As such, this funding will not be available in future years.

Employee Offset Savings

The FY 2009 Budget included a $7.9 million reimbursement from Employee Offset Savings to the General Fund. This was intended to pay for the debt service on a planned debt financing that would leverage the Employee Offset Savings to make a large cash infusion into the pension system. These plans were not carried out and have since been canceled. This revenue has therefore been removed in FY 2010, resulting in a $7.9 million reduction.

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. Prior to FY 2008, the City utilized Community Development Block Grant (CDBG) funds as the primary funding source for constructing or retrofitting non-compliant public infrastructure.

FY 2010 Proposed Budget Allocation

In keeping with his commitment to fund ADA in the Five-Year Financial Outlook for the last two years, the Mayor has again budgeted $11.1 million in FY 2010 for ADA improvements (see CIP #37-064.0 on page 107 of Volume III). This compares with $10.3 million budgeted in FY 2009 and $12.3 million budgeted in FY 2008. The difference in total funding each year is tied to the amount of CDBG funding allocated for ADA improvements. Approximately $1.1 million has been allocated in FY 2010. As was the case in the last two fiscal years, $10 million is budgeted in FY 2010 to be funded from the sale of City land.

ADA Funding From City Land Sales

In last year's review of the FY 2009 Proposed Budget, the IBA raised questions about the City's ability to sell properties envisioned to fund ADA and deferred maintenance project commitments. There was a concern that the lack of targeted funding might stall or further delay identified projects even though alternative funds had been identified by the Financial Management Director. Land sales identified for FY 2008 and FY 2009 ADA projects were completed early in FY 2009 and funds have been available since that time.

Facility Survey Needs Assessment

The Disability Services Program is managing a survey needs assessment of 185 City facilities. A consultant began surveying the City facilities in January 2009 for ADA compliance and will develop cost estimates for barrier removal. Eighteen needs surveys have been completed to date and all 185 are anticipated to be finished within the next 15 months.

This work is critical to understanding the nature and financial magnitude of the City's ADA needs. The resulting data will enable the City to effectively prioritize and plan for the most needed projects.

ADA Project Delays

While the IBA commends the Mayor for his ongoing commitment to fund this important need, we continue to have concerns related to the City's ability to complete projects in a timely manner.

Status of ADA Construction Projects

	FY 2008 BUDGET	FY 2009 BUDGET
Project Phases		
Design/Bid/Award	23 (62%)	23 (92%)
In Construction	9 (24%)	1 (4%)
Completed	5 (14%)	1 (4%)
TOTAL ADA PROJECTS:	37 (100%)	25 (100%)

Based on the most recent information the IBA could obtain for 37 identified FY 2008 ADA construction projects: 23 are in the design/bid/award phase; 9 are in the construction phase and 5 are complete. It is unlikely that most of these identified projects will be completed prior to 2010, which is more than 2.5 years after the City Council approved the allocation of funds in the FY 2008 Budget.

Based on the most recent information the IBA could obtain for 25 identified FY 2009 ADA construction projects: 23 are in the design/bid phase; 1 is in the construction phase and 1 is complete. The IBA estimates it is unlikely that most of these identified projects will be completed prior to 2011, which again would be more than 2.5 years after the City Council approved the allocation of funds in the FY 2009 Budget.

Although there were some initial delays early in FY 2008, the lengthy time to complete construction appears to be either a project priority or a project management capacity problem. In addition to the significant delays between the City Council funding decision and project completion dates, lengthy project periods can increase total project management costs, which in turn can reduce the effectiveness of the City Council's funding decision. **The IBA recommends that the Disability Services Program Manager and management from the Engineering & Capital Projects Department brief the City Council at a FY 2010 Budget Hearing on the process and time required to complete ADA construction projects funded in prior years and those identified/planned for FY 2010**.

Additionally the IBA recommends that 1) completed ADA projects be announced/listed under the Projects section of the Disability Services website and 2) the results of the Facility Survey Needs Assessment be presented to the Land Use & Housing Committee upon expected completion in June 2010.

Deferred Maintenance

The FY 2010 Proposed Budget includes a net total $32.2 million for deferred maintenance/capital improvements. The $32.2 million includes $15.5 million from Proposition 42 funds, $11.8 from the leveraging of City assets (land sales), and $4.9 for debt service related to $102.7 million in deferred maintenance bonds.

The plan presented in the FY 2010 Proposed Budget is consistent with what the Mayor has presented in his Five-Year Financial Outlook. Through FY 2014, the Mayor proposes to address the City's estimated $800-$900 million in deferred maintenance/ capital improvement needs using a combination of Land Sales, Bond Financing and State funding. The table at the bottom of this page illustrates the funding from FY 2008—2010.

Regarding the $800-900 million estimated needs figure, staff has provided the following breakdown of the estimated costs:

Funding Area	Funding Amounts
Streets (100% at Acceptable Level)	$591.0
Storm Drains	$100.0
Facilities	$200.0
Total:	*$891.0*

Staff has indicated that these numbers could change once Phase II and III of the Facilities Assessments and Phase I and II of the Storm Drain assessments are complete. It is important to note that these estimates only include construction costs and not the City's cost for planning and administration. Staff has also stated that due to the current economic climate construction costs have decreased.

Leveraging City Assets (Land Sales)

$11.8 million from the sale of properties deemed to be surplus has been budgeted in the Annual Allocation for City Facilities Improvements (CIP 37-068.0). This annual allocation provides for capital improvements at all City facilities. Potential im-

Revenue Source	FY 2008 (Budget)	FY 2009 (Budget)	FY 2010 (Proposed)	Total
Leveraging City Assets (Land Sales)	$5,300,000	$6,800,000	$11,800,000	$23,900,000
Proposition 42	$0	$12,676,642	$15,535,558	$28,212,200
Proposition 1B	$0	$21,200,000	$0	$21,200,000
Bond Debt Service	$0	$0	$4,900,000	$4,900,000
Cash Payment	$8,300,000	$0	$0	$8,300,000
Sub Total:	*$13,600,000*	*$40,676,642*	*$32,235,558*	*$86,512,200*
Lease Revenue Bond Proceeds	$0	$102,698,000	$0	$102,698,000
Total:	*$13,600,000*	*$143,374,642*	*$32,235,558*	*$189,210,200*

provements include roof, heating, ventilation, air-conditioning, and elevator replacements. Staff has indicated that the specific projects that will receive funding will be based on the Facilities Condition Assessment that is expected to be completed at the end of FY 2009. For more information on land sales see the Leveraging City Assets section of this report.

State Funding (Proposition 42 and 1B)

Proposition 42, which was approved by voters in 2002, amended the State Constitution to dedicate most of the revenue from the sales tax on gasoline to transportation uses including improvements to highways, streets and roads, and transit systems. The FY 2010 Proposed Budget includes $15.5 million in Proposition 42 funds. These funds have been budgeted in the City's AB 2928 - Transportation Relief fund and will be used for street slurry seal contracts. Staff estimates that they will be able to slurry seal 155 miles of City streets with the $15.5 million. Staff will use the Streets Condition Assessment to prioritize the streets that will be slurry sealed for FY 2010.

In Fiscal Year 2009 the City received $21.2 million in Proposition 1B funding from the State. These funds were programmed for street resurfacing (Overlay & Slurry Sealing) and miscellaneous road rehabilitation projects. Staff has indicated that work on the street resurfacing projects funded by FY 2009 Proposition 1B funds is expected to start in June 2009. For FY 2010, the City is not expecting additional Proposition 1B funds due to the State's financial situation. Staff has indicated that additional Proposition 1B funds could be available to the City in FY 2011.

Bond Financing

On March 19, 2009 the City executed a Bond Purchase Agreement for $102.7 million is Lease Revenue bonds for deferred maintenance/capital improvement needs. The list of projects to be completed using the $102.7 million was approved by the City Council in April 2008. Staff has indicated that due to timing of the financing, no contracts have been awarded and no funding has been spent on these projects. In addition, minor changes have been made to the original list that will require City Council approval.

The March 19, 2009 bond financing is the first of three issuances for a total of $306.9 million that the Mayor proposes over four fiscal years. The FY 2010 Proposed Budget includes $4.9 million in debt service payments related to the March 19, 2009 bond financing. These funds are budgeted in the General Services and Storm Water Departments.

Infrastructure Bond Measure

At the March 11, 2009 meeting of the Land Use & Housing Committee the San Diego Chamber of Commerce gave a presentation on their Housing Action Plan. One of the items discussed during the presentation was the Chamber's support of the City pursuing an Infrastructure Bond Measure. The proposed bond measure would finance key sewer, water, road, stormwater, park and public facility infrastructure projects and be structured around a public facilities financing plan. In a March 18, 2009 Memorandum to the Mayor, Councilmembers Gloria and Faulconer requested that City staff review and respond to the feasibility of the Chamber's recommendations including the Infrastructure Bond Measure. To date the Mayor's office has not responded to this request.

In the IBA's review of the Mayor's Fiscal Years 2010-2014 Five-Year Outlook (Report 09-02) we pointed out that a well thought-out process could lead to the passage of a General Obligation Bond measure in the San Diego region. However, we also noted that the required two-thirds voter approval could be difficult to achieve.

The benefits of a General Obligation Bond would be the ability for the City to have a dedicated funding source available to address the Deferred Maintenance backlog. The Mayor's Deferred Maintenance Plan projects a total of $393.8 million (FY 2008-2014) in funding to address the estimated $800-$900 in deferred maintenance needs. As the following table illustrates this would still leave the City with a substantial deficit.

Fiscal Years	Funding Amounts (Millions)
2008-2010	$189.2
2011-2014 (Additional Bond Funding)	$204.6
Total:	*$393.8*
Estimated Needs	($891.0)
Deficit	*$497.2*

The $497.2 million deficit does not include possible future increased construction expenses or the City's planning and administrative costs.

Issues for Consideration

As discussed in the IBA's review of the FY 2009 Proposed Budget, the implementation of the Mayor's Deferred Maintenance plan involves many City departments and variables. The allocation of funding through the annual budget is just the first step in the process. Some of the projects will take multiple years to complete.

It is important that the City Council and the public is made aware of the progress being made to address the City's deferred maintenance regardless of where the projects are in the overall process. Including the FY 2010 Proposed Budget, $189.2 million has been allocated to deferred maintenance since FY 2008 but it is unclear from the information provided over the last two years what projects have been completed. Based on information provided in Volume I of the FY 2010 Proposed Budget, much has been done to address deferred maintenance including assessments of the City's streets, storm drains, and facilities.

The IBA recommends that the City Council request regular updates on the status of projects that have been identified in the Deferred Maintenance program. One suggestion is for staff to create a webpage on the City's website that would detail the progress on each of the projects. After two years, it is important that the City Council and the public are informed of the progress that is being made on Deferred Maintenance.

General Fund Reserve

The City's Reserve Policy calls for General Fund reserves to reach 6.5% of the total General Fund budget for FY 2009, increasing to 7% in FY 2010, and ultimately 8% by FY 2012. The reserve calculation includes the Emergency Reserve, the Appropriated Reserve, and the Unappropriated Reserve.

In November 2008, it was reported that the 6.5% reserve goal for FY 2009 was $74.3 million, based on the FY 2009 General Fund budget, and the combined reserve balance of the Appropriated, Emergency and Unappropriated Reserves was $74.6 million. As the goal was expected to be met, the FY 2009 General Fund budget contribution to the reserve of $3.7 million was no longer needed, and was eliminated as part of the Council-approved FY 2009 First Quarter Budget Reduction as a cost-saving measure. However, at the time of the Mid-Year Report in March 2009, it was stated that a $3 million contribution from the General Fund would again be needed due to closing activities by the City Comptroller related to financial statements that had reduced the available balance. The same report projected year-end revenues for the General fund to be $1.147 million.

An April 16, 2009 memo from the COO described the methodology for calculating the General Fund Reserve. In addition, it stated the current reserve balance of $71.5 million. Upon inclusion of the $3 million contribution, the General Fund reserve will total $74.5 million, and meet the 6.5% goal by year-end, barring any further changes.

Effects of Budget Proposal

The FY 2010 Proposed Budget includes no General Fund contribution to the General Fund Reserve. This is in contrast to the Five-Year Outlook that called for a $5.8 million contribution in order to achieve the reserve policy target.

According to the information contained in Schedule V of Volume I, the beginning bal-

General Fund Reserve
Five-Year Outlook

(in milllions)				
Fiscal Year	**Revenues**	**Policy Target**	**Reserve Amount**	**Needed Contribution**
2009	$1,139.0	6.5%	$74.0	
2010	$1,140.0	7.0%	$79.8	$5.8
2011	$1,167.0	7.5%	$87.5	$7.7
2012	$1,201.0	8.0%	$96.1	$8.6
2013	$1,238.0	8.0%	$99.0	$3.0
2014	$1,275.0	8.0%	$102.0	$3.0

ance for FY 2010 is shown as $71.5 million, and an estimate of $8.7 million for released encumbrances to fall to the fund balance/ reserve are shown, bringing the total reserve balance to $80.2 million. Encumbrances are funds committed for projects or contracts during the fiscal year (or prior years) that are treated as expended. In the event circumstances change which reduce the need for the committed funds, encumbrances may be released, making those funds available again.

As the General Fund revenue for FY 2010 is estimated at $1.146 million, $80.2 million is needed to meet the 7% goal. However, the IBA notes that this leaves open to question the use of the $3 million currently planned during FY 2010 for contribution to the reserve. In other words, the $8.7 million requirement may be intended to be met with a combination of General Fund contributions and encumbrance releases. Or, it may be that current budget plans reflect excess reserve funding of $3 million.

The Year-End Report from Financial Management will be presented to the Budget and Finance Committee on May 6, 2009, and it is likely that an update in this area will be available. The IBA will continue to review and monitor the reserve status, and recommend action, as appropriate.

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. The Mayor's FY 2010 Proposed Budget includes no allocation of funding for an Appropriated Reserve. As part of the final budget actions for FY 2009, the City Council established a $10 million Appropriated Reserve, using funds from the General Fund Reserve. However, due to the economic downturn and lower than expected revenue receipts, no use of the Appropriated Reserves has occurred, and funds have been held with the intention of returning them to the Unappropriated and/ or Emergency reserves in order to meet the reserve policy target.

The City has alternatively funded unanticipated requirements during the year through budget adjustments that were funded through service level reductions, in lieu of using the Appropriated Reserve. At the time of the First Quarter Budget Reductions, additional funds were required and included for:

- Booking Fees: $2.1 million
- Fringe Benefit Adjustments: $4 million
- Vernal Pool Settlement: $500,000

It is likely that unanticipated expenditures will require funding during the fiscal year.

The IBA recommends the establishment of an Appropriated Reserve for FY 2010, in accordance with the Reserve Policy.

Other Post-Employment Benefits

Effects of Budget Proposal

The FY 2010 Proposed Budget includes $57.1 million for retiree health obligations, or Other Post-Employment Benefits (OPEB). As referenced in the budget document, $32.1 million is budgeted for health care for retirees in FY 2010. $25 million is budgeted to set aside for benefits that are being earned or have been earned to-date by workers that are not yet retired.

The Annual Required Contribution (ARC) for OPEB in FY 2010 is $113.4 million. The City is not required to pay the ARC, but it should be noted that the liability must now be booked on financial statements. The total unfunded liability is $1.25 billion. This information is available in the valuation of June 30, 2008 performed by Buck Consultants and provided to the City in December 2008.

Changes due to Labor Negotiations

A change to OPEB is contemplated in the recently approved terms and agreements with the City's five labor unions. For AFSCME Local 127 and POA, terms were imposed, including a transition to a defined contribution (DC) retiree health plan for employees more than seven years from retirement eligibility. For DCAA, MEA and IAFF Local 145, a study will be undertaken to develop and agree to a plan of this same nature.

Currently, the City provides a defined benefit plan (DB) for employees hired before July 1, 2005. This means vested employees are provided a specific health benefit at the time of their retirement.

Unlike DB pension plans, it is understood, based on experience elsewhere in the nation, that OPEBs are not constitutionally vested upon the employee's hire, and can in fact be reduced or eliminated prior to retirement. Therefore, the City is endeavoring to change to a DC plan, in which the employer and employee may make specific contributions throughout the employee's service, to provide a variable benefit (dependent upon investment experience, contribution levels, and other factors) to be used for health care at retirement.

The details of this plan are to be determined during the study period and ensuing negotiations based on the results of the study. This should take place over the course of the next two years and is targeted to conclude by April 2011. Upon implementation of a DC plan, much of the unfunded liability will literally be wiped off the City's books as DC plans do not, by definition, have a future liability. However, given that it is proposed that both retirees and employees seven years or less from retirement eligibility continue with the City's current DB plan, there will still be some liability that the City will have to continue reporting and funding. An estimate of this ongoing DB liability is not yet available.

As this issue is being studied, the City has frozen the automatic escalator on the benefit for retiree medical. Currently, the benefit is frozen at $8,880 per year. In addition, vesting time for benefits has doubled. Should these changes remain in effect in perpetuity, it is estimated that it would reduce the OPEB unfunded liability by over $350 million. Final impacts of this and other changes to OPEB that may be implemented would be made available through an updated actuarial valuation.

Issues for Consideration

The IBA recommends that the Mayor make the OPEB valuation publicly available each year, as SDCERS does for the retirement system valuation, and distribute it to stakeholders within the City including the City Council and the IBA.

Additionally, the IBA recommends that updates on the DC study be provided to the Budget and Finance Committee as available.

Pension

Effects of Budget Proposal

The FY 2010 Proposed Budget includes $154.2 million for the Annual Required Contribution (ARC) for the City's pension. The General Fund portion of this payment is $125.3 million.

The City also makes a partial contribution to the system on behalf of employees, referred to as the pick-up or offset. The pick-up is budgeted at $26.2 million citywide, or $18.9 million in the General Fund.

Changes due to Labor Negotiations

Based on the terms and agreements with the City's five labor unions, some changes are anticipated in the City's pension contributions. Immediately in FY 2010, the City will realize savings in the budget due to a reduction in the pick-up for most labor unions and unclassified and unrepresented employees. This is projected to realize a savings of approximately $12 million in the General Fund. This is part of the $29.8 million in labor concessions incorporated into the Mayor's budget, and the final impact in the specific accounts will be provided in advance of the City Council's final vote on the budget.

Due to the salary freezes agreed to and imposed, it is anticipated that the unfunded liability in the pension system will decrease. This is because salary increases are assumed in the pension system's projections, which result in a higher liability due to higher expected pension pay-outs. When salary increases do not occur, the calculations are revised to reflect the lower liability. These concessions are preliminarily estimated to reduce the UAAL by $100 million per year of salary freeze, and reduce the City's ARC by an estimated $12 million per year in both FY 2011 and 2012.

The City has also negotiated or imposed a revision to the crediting of interest to DROP accounts. From now on, the SDCERS Retirement Board of Administration will set this rate. Since the Board recently voted on a new lower rate, effective July 1, 2009, the fund will experience increased assets over time, and the City's ARC will be lower. It has been preliminarily estimated that this action may reduce the UAAL by $250-350 million over several years, and that the City's ARC may be $2-3 million lower in FY 2011 than it otherwise would be, and $16-23 million lower in FY 2012.

Finally, the City approved a new retirement package on July 25, 2008 for employees hired on or after July 1, 2009. This plan will now go into effect as planned for FY 2010. It is expected that some savings will be realized immediately, while ultimately the City will save over $23 million per year as compared to continuing the current plan for new employees.

Pension Obligation Bonds (POBs)

While there has been no formal announcement about proceeding with a POB issuance, the Mayor's Chief Operating Officer was quoted in March 2009 as saying "it's a tool in the arsenal that we'll revisit at some point in the future — six months to a year, conceivably." The financial logic in favor of issuing POBs is that a public employer can sell high-quality taxable debt at an interest rate significantly below the expected return of the pension fund (currently 7.75% for SDCERS), so that an arbitrage profit is earned over the life of the bond issue. Average historical SDCERS pension fund returns (from five to twenty years and including the recent market downturn) have exceeded the current 7.75% expected return. If the City could borrow in the taxable markets at less that 7.75%, POBs may be worth further discussion where all variables and risks can be more fully discussed.

A recent article in Governing Magazine suggests that "properly timed POBs can potentially produce present value savings of approximately one-half of the amount of the issue if realized investment returns achieve historical averages, depending of course on structure, market factors and other circumstances. Paying off a liability at half-cost is an attractive prospect, but it comes with significant risks and some drawbacks." One of the drawbacks cited in the article is the loss of financial flexibility in making annual pension payments. The article also suggests that some public finance officials, anticipating that a pending economic recovery will increase demand for POBs and reduce their interest rates, are developing strategies and policy support for POB issuances in 2009.

While the IBA believes POB proposals deserve extra scrutiny beyond that of a typical debt financing, we concur that it is a tool that may be appropriate under certain circumstances.

Public Liability Reserve

The City's Reserve Policy establishes an increasing goal of funding the Public Liability Reserve to reach 50% of outstanding claims by FY 2014. According to the Five-Year Outlook, annual contributions of $5 million are to be made to the Public Liability Reserve, beginning in FY 2010, reflecting a reduction from a $10 million annual contribution in the previous Outlook. Assuming the City's current level of claims remains at $114 million, the reserve target of 10% for FY 2009 would require $11.4 million total funding on hand. $10 million is reserved for this purpose from FY 2009, plus $18 million in funding to pay annual claims.

Effects of Budget Proposal

The FY 2010 Proposed Budget includes a contribution of $7.07 million to the Public Liability Reserve, budgeted in Citywide Program Expenditures. This is an increase of $2.07 million compared to the Five-Year Outlook, and would bring the reserve level to $17.1 million, in keeping with the 15% policy target.

According to the City's FY 2008 CAFR, "the City had approximately $48.9 million in outstanding public liability claims and $10 million in cash reserves at June 30, 2008 (these amounts do not include enterprise fund nor Redevelopment Agency claims)...Beginning in FY 2010, the City's plan is to budget annual allocations of $5 million per year ... While the City is committed to funding reserves in the Public Liability Fund, the goal of funding 50% of claims by 2014 is being reassessed given the economic downturn and continued decline in General Fund revenues."

The IBA has learned that GASB accounting standards limit the amount of the future claims reported, which differs from the full value of outstanding claims as reported in the actuarial valuation.

The Council may wish to discuss with the CFO the reassessment of funding reserve policy goals referred to in the City's CAFR, that the City may be considering.

Public Liability Reserve FY 2010

	Outstanding Claims	Contribution	Total Reserve w/ Contribution	Reserve: % of claims	Policy Target
Five-Year Outlook	$114.0	$5.0	$15.0	13.2%	15%
FY 2010 Proposed Budget	$114.5	$7.1	$17.1	15.0%	15%
FY 2008 CAFR	$48.9	$5.0	$15.0	30.7%	15%

Storm Water

The 2007 Municipal Storm Water Permit outlines stringent water quality standards that are implemented through multiple regulatory programs in the Storm Water Department. Some requirements under the permit include enhanced public education, business inspections, establishment of minimum private sector Best Management Practices, and the expansion of development planning and monitoring programs.

The FY 2010 Proposed Operating Budget for Storm Water Department totals $45.4 million, which reflects a reduction of $3.3 million from last year's operating budget. Many of the reductions that took place were part of the FY 2009 First Quarter budget cuts. These cuts included the reduction of 10.00 FTEs with a corresponding personnel expense of $940,570. Also included was $3.3 million in non-personnel expenses. Despite these reductions, the department is expected to meet all permit requirements in FY 2010.

Funding included in the Capital Improvement Program (CIP) budget is $1.1 million. However, it should be noted that proceeds from the Deferred Maintenance Bond were budgeted in the FY 2008 and FY 2009 CIP budgets but funds are expected to be expended in FY 2010. These bond proceeds total $13.9 million. Total department funding is reflected in the table below.

The City's Urban Runoff Management Plan (URMP), which is the blueprint for the actions that the City takes to protect and improve the water quality of the region's rivers, bays, and ocean, also provides an estimated amount that is required for storm water compliance. For Fiscal Year 2010 that estimated amount is $54.2 million. This funding assumes that two projects per watershed (the City has six watersheds) per year is completed. The department feels that this schedule is overly aggressive. Furthermore, the number of CIP and pilot projects have been implemented in an effort to more cost-effectively meet the permit requirements.

A concern that was expressed by the department is of future mandates, specifically Total Maximum Daily Load (TMDL) regulations. Funding needed to address TMDL

FY 2010 Storm Water Funding

	FY 2009 BUDGET	FY 2010 PROPOSED*	CHANGE
Operating Budget	$ 48,820,336	$ 45,474,275	$ 3,346,061
CIP Budget	12,205,000	1,139,149	(11,065,851)
Total	**$ 61,025,336**	**$ 46,613,424**	**$ (7,719,790)**

*Deferred Maintenance bond proceeds were budgeted in FY 2008 & FY 2009 but will be expended beginning in FY 2010 requirements is *not* included in the URMP's cost estimates. Therefore, while it is expected all permit requirements will be met in FY 2010, significant additional funding may be needed in the future to comply with more stringent TMDL requirements. Because funding is expected to remain flat per the Mayor's Five-Year Outlook, it is important to continue monitoring whether any additional permit requirements are mandated in the future.

Worker's Compensation Reserve

The City's Reserve Policy establishes a goal of increasing funding for the Worker's Compensation Reserve to reach 50% of outstanding claims by FY 2014. This funding is in addition to funds needed to pay annual claims and administrative costs.

The Five-Year Outlook reported the Worker's Compensation Reserve balance may reach $35 million, and reflected no contribution to the Workers' Compensation Reserve for FY 2010, as the Policy target of 22% was estimated to be reached. Claims were reported at $160.7 million.

Effects of Budget Proposal

The Mayor's Proposed Budget reflects a reduced claims amount of $156.1 million; therefore, a 22% reserve would require only $34.3 million on hand. The IBA understands that the value of outstanding claims is determined each year by an actuary, and these amounts are subject to change.

The Budget also reflects a lower beginning balance in the reserve, $30.3 million, so unlike the plan in the Five-Year Outlook, a contribution is required in FY 2010 to achieve the Policy target. A $5 million contribution is proposed and will bring the reserve to 22.6%.

According to the City's FY 2008 CAFR, "the City had approximately $156.1 million in outstanding workers' compensation claims and $30.7 million in cash reserves at June 30, 2008...the City has allocated an additional $4 million for the General Fund portion of the reserve in the FY 2009 budget...While the City is committed to funding reserves in the Worker's Compensation Fund, the goal of funding 50% of claims by 2014 is being reassessed given the economic downturn and continued decline in General Fund revenues."

It should be noted that, as with the Five-Year Outlook, the CAFR assumes no contribution is necessary in FY 2010.

General Fund vs. Non-General Fund Contributions

In total, the amounts included in the FY 2010 Proposed Budget for Worker's Compensation are $20.66 million and $25.6 mil-

Workers Compensation Reserve FY 2010

	Outstanding Claims	Reserve Beginning Balance	Contribution	Total Reserve w/ Contribution	Reserve: % of claims	Policy Target
Five-Year Outlook	$160.7	$35.0	$0.0	$35.0	21.8%	22%
FY 2010 Proposed Budget	$156.1	$30.3	$5.0	$35.3	22.6%	22%
FY 2008 CAFR	$156.1	$34.7	$0.0	$34.7	22.2%	22%

lion for the General Fund and for all funds citywide, respectively. This reflects a slight shift, among funds, and a small net reduction as shown in the table below.

Overcollection of Funds

In the February 2009 Mid-Year Report, it was discussed that the rates for collecting contributions for Worker's Compensation would be adjusted to address overcharging of City departments that was occurring, as revenue collections were expected to result in balances in excess of Reserve Policy goals. However, based on a review of the Worker's Compensation Fund, substantial revenues are still being received on a regular basis, and rate changes do not yet seem to be in effect.

The IBA intends to further review and monitor the status of the Worker's Compensation Fund to ensure funding levels are appropriate and in accordance with the Reserve Policy. In the event of excess collections, funds could be returned to contributing departments and utilized for other purposes, or FY 2010 budget contributions could be reduced. However, as we noted in our review of the Mayor's Five-Year Outlook, funding plans for future years do not meet escalating reserve requirements in FY 2011-2014, in accordance with the City's Reserve Policy. At the same time, there is little prospect of identifying additional resources needed to meet those Reserve Policy Targets.

The City Council may wish to discuss with the CFO the status of any reassessment of the reserve policy goals as discussed in the City's CAFR, that the City may be considering.

Changes to Worker's Compensation

	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE
General Fund	$20.26	$20.66	$0.40
Non General Fund	$5.74	$4.94	-$0.80
TOTAL	**$26.00**	**$25.60**	**-$0.40**

Anticipated Debt Financings

The City Council acted to receive and accept the audited FY 2008 CAFR on April 13, 2009. The City is now considered to be current with its financial statements and able to issue/sell bonds in the public capital markets for the first time in several years.

Borrowing from the public capital markets significantly reduces interest expense that would otherwise be charged by private lenders. Interest rates on fixed-rate, long-term debt (typically 20 to 30 years) remain at historically low levels which is another favorable consideration as the City plans to borrow approximately $1.3 billion in the coming months. In addition to refinancing outstanding debt to lower interest rates, the $1.3 billion will also finance new projects in Water, Wastewater, and Deferred Maintenance.

Excluding the annual Tax and Revenue Anticipation Note (TRAN) borrowing in June 2009 (estimated to be approximately $148 million), there are three major financings contemplated for completion in the coming months and FY 2010. Each of these is briefly discussed below:

Wastewater Financing

The financing will be executed in two or more series of bond issuances with the first two series (Series 2009A and 2009B) to be issued by the end of May 2009 and any subsequent series to be issued on or before June 30, 2010. Approximately $442 million of the 2009A Bonds are expected to be sold in the second week of May 2009 to: replace a $224 million short-term note with long-term financing; borrow $145 million for needed Wastewater System projects; and refund outstanding bonds to obtain lower interest rates. Approximately $430 million of the 2009B Bonds are expected to be sold by the end of May 2009. These bonds will refund additional outstanding bonds to obtain lower interest rates.

Water Financing

Following the sale of $157 million of 2009A Bonds in January 2009, financial staff plans to request City Council approval to sell approximately $375 million of 2009B Bonds to: replace a $150 million 18-month privately placed note with long-term financing; borrow $150 million to finance new projects in the Water System CIP; and, to the extent possible, refund outstanding 1998 bonds to obtain lower interest rates. The 2009B Bonds are anticipated to be sold in June 2009 and must be sold on or before June 30, 2009 in accordance with the authorizing ordinance. No other Water System related debt financings are expected to be requested of the City Council in FY 2010.

Deferred Maintenance Refunding

Following City Council authorization received in May 2008, the City privately placed $103 million of 10-year lease revenue bonds with Bank of America. The bonds have a two-tiered pricing structure, with a lower interest rate for the first two years and a higher rate in years three through ten.

In a press release issued in March 2009, the Mayor indicated that "financial staff would be working over the coming months on the financing plan to refund this borrowing through long term bonds in the public market." Debt Management staff has informed the IBA that they anticipate bringing refunding bonds forward for City Council consideration potentially by the end of calendar year 2009; however, they will be monitoring market conditions and may proceed sooner if warranted.

City Administration Building

Issues for Consideration

Fire Sprinkler System

On March 10, 2009 the City Council approved extending the required compliance date for sprinkler retrofitting of high rise buildings to February 1, 2010. Currently, the City Administration Building (CAB) lacks a fire sprinkler system on ten of the building's fifteen floors. As part of the motion that was approved on March 10th, the City Council required the Mayor to issue a request for proposal (RFP) to install sprinklers in CAB by June 1, 2009. In addition, the City Council required the Mayor to return to the City Council with a report on the Civic Center Complex redevelopment and retrofit by December 1, 2009.

In January 2009, staff had estimated the cost to install a fire sprinkler system in the remaining floors of CAB would be $5.0 million. The FY 2010 Proposed Budget does not include funding for the fire sprinkler retrofit of CAB. Engineering & Capital Projects Department staff has stated that funds remain from the original installation of the fire sprinklers on five floors and these funds can be used for design work and processing an RFP for the remaining floors. However, if the City elects to move forward with the installation of a fire sprinkler system on the remaining floors, the $5.0 million in installation costs will need to be identified.

Civic Center Complex

On April 22, 2009 the real estate and financial advisory services firm Jones Lang LaSalle completed their updated financial evaluation of the City's options for redeveloping the Civic Center Complex. This updated financial evaluation was released after peer review analysis was completed in March by Ernst and Young. The Centre City Development Corporation plans on bringing the Civic Center Complex options to the City Council in the summer of 2009. It should be assumed that depending on the course of action that the City Council elects to pursue regarding the future of CAB, additional funding will be required to retrofit the current facility or develop a new one.

Expenditure Categories

Salaries & Wages

The Fiscal Year 2010 Proposed Budget reflects a 5.5% reduction in salaries citywide. The General Fund shows a decrease of 7.3%, partially due to the reduction of 130 FTEs in the First Quarter Adjustments of FY 2009.

Salary Changes by Fund (in millions)

FUND	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
General Fund	$ 541.7	$ 502.1	$ (39.6)	-7.3%
Special Revenue Funds	19.3	19.4	0.1	0.5%
Enterprise Funds	141.7	139.8	(1.9)	-1.3%
Internal Service Funds	20.1	21.4	1.3	6.5%
Trust and Agency Funds	5.2	5.2	-	0.0%
TOTAL SALARIES	**$ 728.0**	**$ 687.9**	**$ (40.1)**	**-5.5%**

Labor Negotiations

Anticipated impacts due to labor negotiations were also assumed in the Mayor's Proposed Budget. There is a placeholder in the General Fund budget for approximately $30 million in unspecified concessions, which were as yet to be determined at the time of publishing. Since then, the City Council has approved tentative agreements with the Deputy City Attorney's Association (DCAA), the International Association of Firefighters (IAFF) Local 145 and the Municipal Employees Association (MEA). In addition, terms were imposed on the American Federation of State, County and Municipal Employees (AFSCME) Local 127 and the Police Officers Association (POA). Along with concessions that will be taken by unclassified and unrepresented employees, the targeted reductions in the budget will be met.

The chart below shows the General Fund savings by employee group, in FY 2009 dollars.

Concessions (in millions)

Employee Group	Target
AFSCME Local 127	$ 2.4
DCAA	0.7
IAFF Local 145	5.8
MEA	8.9
POA	11.9
Unclass/Unrepresented	2.6
TOTAL	**$ 32.3**

These impacts will be spread appropriately across departments and expenditure types in the May Revision. It is important to note that, while the placeholder in the budget is in the Salaries category, the actual impacts come significantly from the Fringe category. Therefore, the total decrease from FY 2009 in salaries shown in the table on the previous page should change in the final FY 2010 budget to reflect a less sharp decline in salaries.

Details of Terms

The terms actually comprise a package of short-term and long-term concessions, some of which have budgetary impacts in FY 2010, and some of which will be realized more slowly. For FY 2010 savings, the terms comprise concessions such as eliminating or reducing the City's pick-up of the employee's contribution to the pension system, reduction of the flexible benefits package, elimination of the City's match to the Supplemental Pension Savings Program, elimination of holiday pay, salary cuts and unpaid furloughs. While some of these concessions may not be permanent in nature (i.e. furloughs), most would have an ongoing effect on reducing the City's structural budget deficit beyond FY 2010 and the terms of the three current agreements (which are through FY 2011).

Some of the concessions that are intended to reap savings over a longer-term include reforms to the DROP plan, most notably reducing the interest rate on DROP accounts and in some cases delaying eligibility for DROP by five years. In addition, retiree medical benefits will be the subject of a study to transition to a defined contribution plan, which was imposed on Local 127 and POA, and will be further negotiated with the other three unions. In the meantime, the benefits escalator is frozen and vesting time for these benefits is doubled. When and if fully implemented, these reforms will reduce the City's unfunded liability in both the pension system and for retiree medical, and will subsequently lower the ARCs for both plans, creating budgetary savings.

Vacancy Savings

Vacancy Savings is the term used for budgeting reduced personnel expenditures in anticipation of normal turnover and attrition. The standard is to apply a vacancy factor to any department with 11.00 FTE or more, however, there are several large departments without a vacancy factor, as noted in the individual Department Review sections.

The average vacancy rate citywide is 4.5% and 4.3% in the General Fund. This rate is higher than the average in FY 2009, which was approximately 4% citywide and 3.5% in the General Fund. Last year, the IBA questioned the use of different vacancy rates for the General Fund versus other funds. This year, that discrepancy has been reduced. As shown in the table below, the General Fund's portion of the vacancy savings in FY 2010 closely approximates the General Fund's portion of Personnel Expenses in the City. In FY 2009, there was over a 10% discrepancy between these proportions. We believe this is appropriate given that attrition and turnover should be generally similar across budgeted funds.

Vacancy Factor (in millions)

FY 2010	PE	%	VF	%
General Fund	$ 789.5	73.8%	$ 33.6	70.4%
Non-General Funds	280.8	26.2%	14.1	29.6%
TOTAL	**$ 1,070.3**		**$ 47.7**	

On page 20 of Volume I of the FY 2010 Proposed Budget, a 3% vacancy rate for most departments is set as standard, apart from special circumstances, such as the Police and Fire-Rescue departments, where vacancies are high, and Development Services, where vacant positions are intentionally being held due to the downturn in the construction industry. The vacancy rate is higher for these departments and is discussed in their respective Department Review sections. The average vacancy factors referenced above are skewed by the larger vacancy factors in these departments. Vacancy rates for other departments are discussed in their respective Department Review sections and are generally consistent with the 3% standard. Based on our review of individual departments, the reasonable vacancy factors should allow departments to fill vacant positions promptly.

Terminal Leave

The budget for terminal leave has been increased by over $1.1 million in the FY 2010 Proposed Budget, to $4.3 million, all in the General Fund. Expenditures-to-date in this account exceed budget by almost $500,000 in the General Fund, and the non-General Funds, which do not budget for termination pay, also have expended approximately $500,000, for a total citywide of almost $4.3 million. The table below shows expenses for several fiscal years compared to the proposed budget.

Termination Pay Expenses (in millions)

FY 2005	FY 2006	FY 2007	FY 2008	FY 2009 To-Date	FY 2010 Proposed
$ 2.8	$ 4.6	$ 3.0	$ 3.7	$ 3.7	$ 4.3

Apart from the spike in FY 2006, there has been a trend of increasing costs, as has been discussed by the Mayor in such reports as his FY 2008 Five-Year Financial Outlook. In addition, the budget describes projected increases for FY 2010 based on current employee leave balances and known retirements, such as DROP participants approaching their five year limit.

The IBA concurs with budgeting this expense and suggests continued tracking to ensure the appropriateness of this budget for FY 2010. The IBA also notes that total terminal pay-outs may decrease slightly in the future given that labor negotiations have led to the elimination of terminal leave in which employees can stay "on the books" and continue accruing various fringe benefits after their physical departure. Employees will now be required to cash out their leave in full upon departure and departments will not experience these incremental fringe costs. However, it should be noted that these incidental savings will primarily be experienced in the various fringe accounts, and we would not expect to see significant reduction in expense for this line-item based on this change.

Fringe Benefits

Fringe Benefits have been a topic of considerable discussion over the course of FY 2009. The FY 2010 Proposed Budget has an informative discussion of fringe starting on page 16 of Volume I. In addition, the IBA would refer the reader to our report 09-10 of February 24, 2009 in which we provided some benchmarking information, an historical review of City fringe accounts, and other considerations.

In the FY 2010 Proposed Budget, total Fringe Benefits have increased by approximately $100,000, a negligible amount. In the General Fund, fringe has increased by 1.2% or $3.4 million, as displayed in the table on the following page.

In our analysis, however, the IBA has noted significant decreases in General Fund de-

Fringe Changes by Fund (in millions)

FUND	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
General Fund	$ 284.0	$ 287.4	$ 3.4	1.2%
Special Revenue Funds	8.9	9.4	0.5	5.6%
Enterprise Funds	75.8	71.9	(3.9)	-5.1%
Internal Service Funds	11.1	11.3	0.2	1.8%
Trust and Agency Funds	2.5	2.4	(0.1)	-4.0%
TOTAL FRINGE	$ 382.3	$ 382.4	$ 0.1	0.0%

partments' total personnel budgets over prior year, exclusive of First-Quarter Adjustments, impacts from labor concessions and vacancy savings. In discussions with Financial Management, the IBA learned that these changes are primarily due to three factors: (1) the FY 2009 Grievance Settlement with MEA regarding the leveraging of the Employee Offset Savings, that results in some savings for the City in fringe; (2) a decreased proportion of the payment of the pension's ARC from the General Fund to reflect improvements in budgeting precision made in FY 2009; and (3) reduction of fringe mistakenly allocated in the past to hourly job classifications. These reductions in fringe are mitigated by other increases in fringe, such as approximately $4.5 million for OPEB.

The fringe rate, which is Fringe Benefits as a percentage of Salaries & Wages (as we discussed in IBA Report 09-10) is 55.6% citywide and 57.2% in the General Fund. However, we will refrain at this time from drawing any further conclusions regarding fringe as we expect this to significantly change with the appropriate allocation of labor concession impacts. While the placeholder $30 million reduction is in Salaries, much of the impact is actually to Fringe Benefits, such as reduction in SPSP, retirement pick-up and flexible benefits. Therefore, after the May Revise, the IBA anticipates that total Salaries will be increased, total Fringe Benefits will be decreased, and the fringe rate will be decreased.

The IBA has provided further commentary on various fringe accounts in other sections of this report, such as pension and retirement pick-up, retiree medical (OPEB), Worker's Compensation, and Risk Management.

Supplies & Services

The Supplies & Services category is budgeted at approximately $1.6 billion citywide, an increase over prior year of 0.4%, as displayed in the table below. In the General Fund, the proposed budget decreased by $12.1 million (4.2%) to $279 million.

As we discussed in our budget review last year, this category covers a diverse and broad range of expenditure classes and

Supplies & Services Changes by Fund (in millions)

FUND	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
General Fund	$ 291.4	$ 279.3	$ (12.1)	-4.2%
Special Revenue Funds	313.8	310.5	(3.3)	-1.1%
Debt Service Funds	15.1	15.1	-	0.0%
Enterprise Funds	874.2	899.5	25.3	2.9%
Internal Service Funds	52.8	49.6	(3.2)	-6.1%
Trust and Agency Funds	31.5	31.6	0.1	0.3%
Related City Entities Funds	1.2	-	(1.2)	-100.0%
TOTAL SUPPLIES	$ 1,580.0	$ 1,585.6	$ 6.8	0.4%

types, and the budget document does not provide transparency as to what comprises those expenditures. As the Mayor's staff works to develop a new budgeting system, the IBA will inquire about and advocate for the ability to present better information on this topic in future budgets.

The table below shows significant line-items within this category in the proposed budget.

Citywide Supplies & Services (in millions)

Account(s)	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
Bond/Loan Payments	229.6	220.8	(8.8)	-3.8%
Cash Transfer to Other Funds	158.3	165.2	6.9	4.4%
Water Purchases	110.5	134.6	24.1	21.8%
Reserves	15.2	9.4	(5.8)	-38.2%
Other City Depts/Gen Govt	41.8	43.2	1.4	3.3%
Motive Equipment/Rental	83.6	86.0	2.4	2.9%
Insurance/Liability Fund	39.4	35.6	(3.8)	-9.6%
Consultants	28.3	29.4	1.1	3.9%
Rent	24.2	26.4	2.2	9.1%
Refuse Disposal Fees	14.6	14.8	0.2	1.4%
Subtotal	**$ 745.5**	**$ 765.4**	**$ 19.9**	**2.7%**
Total Supplies & Svcs	**$ 1,580.0**	**$ 1,585.6**	**$ 6.8**	**0.4%**

With 82% of the year completed, 70% of the Supplies & Services budget has been expended and/or encumbered citywide. This is based on the revised budget after First Quarter Adjustments, which increased this category budget by nearly $1 billion. Year-end projections from the Mid-Year Budget Monitoring Report show that General Fund Departments expect to expend this category in full, with a less than 1% overexpenditure.

Information Technology

The Information Technology (IT) Category is budgeted at $81.2 million in FY 2010, an increase of approximately $8.4 million or 11.5%, over FY 2009, as shown in the table opposite. The General Fund budget is proposed to decrease by less than 1% to $37.8 million.

With 82% of the year completed, departments have expended and/or encumbered approximately 92% of IT budgets. Year-end projections from the Mid-Year Budget Monitoring Report show that General Fund Departments expect to expend this category in full as well, with a less than 1% over-

Information Technology Changes by Fund (in millions)

FUND	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
General Fund	$ 38.1	$ 37.8	$ (0.3)	-0.8%
Special Revenue Funds	2.2	2.8	0.6	27.3%
Enterprise Funds	27.0	32.9	5.9	21.9%
Internal Service Funds	3.7	7.7	4.0	108.1%
Trust and Agency Funds	1.8	-	(1.8)	-100.0%
TOTAL INFO TECH	**$ 72.8**	**$ 81.2**	**$ 8.4**	**11.5%**

expenditure.

More information on City IT costs can be found in the Department Review of the Department of Information Technology.

Energy and Utilities

The Energy and Utilities category is budgeted at $91.9 million, an increase of $1.1 million, or 1.2%, over FY 2009, as shown in the table below. The General Fund budget is proposed to increase more substantially, by nearly 3%.

Energy Changes by Fund (in millions)

FUND	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
General Fund	$ 27.6	$ 28.4	$ 0.8	2.9%
Special Revenue Funds	7.9	7.9	-	0.0%
Enterprise Funds	37.0	37.7	0.7	1.9%
Internal Service Funds	18.2	17.9	(0.3)	-1.6%
Trust and Agency Funds	0.1	-	(0.1)	-100.0%
TOTAL ENERGY/UTIL.	**$ 90.8**	**$ 91.9**	**$ 1.1**	**1.2%**

Significant increases are found in Water Charges and Sewer Charges, reflecting the approved rate increases in FY 2010, including the County Water Authority Pass-throughs and IPR demonstration project impacts for Water. Changes in other non-discretionary accounts include a $1 million decrease in telephone charges and a $0.5 million increase in energy for traffic signals, which is budgeted in Streets Division.

With 82% of the year complete, City departments have expended and/or encumbered approximately 78% of the Energy and

Utilities budget. However, projections from the Mid-Year Budget Monitoring Report show that General Fund Departments expect to overexpend by 4% in this category by year-end.

Equipment Outlay

Equipment Outlay is budgeted at $59.8 million, an increase of $2.4 million, or 4.2% over FY 2009, as shown below. The General Fund budget for this category is proposed at $11 million, an increase of $1.1 million or 11% over prior year.

Equipment Outlay Changes by Fund (in millions)

FUND	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE	%
General Fund	$ 9.9	$ 11.0	$ 1.1	11.1%
Special Revenue Funds	5.0	4.0	(1.0)	-20.0%
Enterprise Funds	3.8	4.7	0.9	23.7%
Internal Service Funds	38.3	39.7	1.4	3.7%
Trust and Agency Funds	0.4	0.4	-	0.0%
TOTAL OUTLAY	$ 57.4	$ 59.8	$ 2.4	4.2%

Major changes in the General Fund include increases in Fire-Rescue for the new Alerting System and for lease payments from donations for Copter 2. There are also large reductions in Streets and Police due to program redistributions and First Quarter reductions.

Major changes in the Special Revenue Funds include the elimination of equipment outlay in the Seized and Forfeited Assets Fund, which was a one-time expense in FY 2009, and required Non-Discretionary adjustments for the Communications Division and QUALCOMM Stadium.

Major changes in the Enterprise Funds are primarily due to funding for Communications Equipment in the Water Department.

With 82% of the year completed, just over 53% of the General Fund revised budget has been expended and/or encumbered for Equipment Outlay. Year-end projections from the Mid-Year Budget Monitoring Report show that General Fund Departments expect to realize significant savings in this category, with a 25% savings over the revised FY 2009 Budget. It should be noted that the budget for this category was revised downward by almost $1.2 million in the First Quarter Adjustments.

The City has a history of underexpending its budgeted Equipment Outlay, which means that funds are unnecessarily tied up during the year. As before, the IBA suggests that a more thorough budgeting process be utilized for this expenditure category. Purchases of equipment vary from year-to-year and are most often one-time in nature. Therefore it is not a best budgeting practice to use the prior year's budget as the base to build the next year's budget. All funding should be considered one-time and zeroed out, then requests should be submitted, analyzed and approved for inclusion in the budget.

While there are good justifications for the changes to the budget for FY 2010, there may not be similar justifications for all the previous money that carries over into this year's budget. The IBA anticipates that the quarterly budget monitoring reports will find significant variances in this expenditure category again in FY 2010. **As precision in budgeting continues to be a goal of the Mayor's finance staff, and it is a best practice in budgeting, the IBA recommends a more rigorous, zero-based approach to Equipment Outlay funding allocations.**

Federal Economic Stimulus Package

On February 17, 2009 President Barack Obama signed a $787 billion economic stimulus package to help jump-start the country's economy. The Mayor's Intergovernmental Relations Department (IRD) has been working to identify funding that the City will receive as a result of the economic stimulus package. The table at the bottom of this page represents the funding that the City is expected to receive from the stimulus package. The City could receive additional stimulus package funding through a competitive application process. IRD is currently working on identifying which funding opportunities the City will apply for.

Funding from the economic stimulus package was not included in the FY 2010 Proposed Budget. IRD has stated that they are waiting on the criteria from the Federal government as to how the funds can be used. Once the criteria are communicated, staff will bring suggested proposals on how the funds could be used to the City Council for approval. Staff has indicated that when allocating funds they will be looking at projects that will be one-time and create jobs quickly.

Funding Source	Estimated Amount (Millions)
Community Development Block Grants	$4.0
Emergency Shelter Grants	$6.0
Transportation	$20.5
Justice Assistance Grants	$3.8
Energy Related	$12.0
Total:	*$46.3*

Leveraging City Assets

The FY 2010 Proposed Budget includes $21.8 million in revenue from the sale of City properties. This is a continuation of the program to dispose of City properties that are deemed to be surplus that was first started with the FY 2008 Budget.

The revenue from the sale of public properties has been budgeted in the Capital Outlay Fund. As detailed in Section 77 of the City Charter, these funds can only be used for:

"…the acquisition, construction, and completion of permanent public improvements, including public buildings and such initial furnishings, equipment, supplies, inventory and stock as will establish the public improvement as a going concern. This fund may also be used for the acquisition, construction and completion of real property, water and sewer mains and extensions, and other improvements of a permanent character and also the replacement or reconstruction of the same, but not the repair or maintenance thereof, and shall not be used for any other purpose or transferred from said fund, except with the consent of two-thirds of qualified electors of said City, voting at a general or special election."

The $21.8 million in expenditures has been budgeted in the following Capital Improvement Projects:

CIP Project #	Total Expenditures (millions)	FY 2010 Proposed Budget Volume III Page
37-064.0 - Annual Allocation ADA Improvements	$10.0	107
37-068.0 - Annual Allocation City Facilities Improvements	$11.8	299

It is important to note that if the City is not able to sell properties the City will need to identify other funding sources to complete the projects. Staff has indicated that the current economic climate could have an impact on the value of the properties and the City's ability to sell them. The table at the bottom of this page provides a breakdown of the revenue to the Capital Outlay Fund received from the sale of surplus property by fiscal year.

Issues for Consideration

In January 2009, the City Council approved the Sale of City owned property in Del Mar Heights. The Council approved the sale of the property with the caveat that a discus-

Fiscal Year	Total Revenue Budgeted	Actual Revenue Received (As of 2/2009)
Fiscal Year 2008	$15,300,000	$23,911,876
Fiscal Year 2009	$16,800,000	$1,075,850
Fiscal Year 2010 Proposed Budget	$21,800,000	TBD
Total:	*$53,900,000*	*$24,987,726*

sion would be held at the Budget & Finance Committee on the use of asset proceeds and that any proceeds from the sale of property would be held until a comprehensive plan was brought to the Council. It should be noted that the FY 2010 Proposed Budget continues to use the proceeds from the sale of City Property for deferred maintenance/capital improvement needs and that a discussion on the use of the proceeds, as requested by the City Council, has not occurred.

Use of One-Time Resources

Effects of Budget Proposal

The Mayor has utilized $22.1 million of one-time resources to balance the FY 2010 budget including $17.8 million of Internal Stabilization Funds and $4.3 million in Library System Improvement Funds. This issue is discussed in greater detail in Chapter 1. We do not support the continuation of pots of funds that are not transparent in the budget process or to City leaders; and are not tied to legal requirements, credit ratings or best financial practices. Some of these funds were established years ago, during very different economic conditions, and their use should be revaluated given the City's scarce resources. In some cases there has been confusion regarding their purpose for existence and their original source.

We concur with the use of these funds for one-time expenditures. When allocating one-time resources, a best practice is to utilize them solely for one-time expenditures. This is an acceptable practice provided the one-time expenditures are clearly identified, tracked and removed from the budget the following year or an alternative recurring funding source has been identified and the decision to make this change in the budget has been transparent.

The list of one-time expenditures tied to

Use of One-Time Resources

General Fund	FY 2010 Amount
One-Time Expenditures	
Mission Valley/Ocean Beach Community Plan Update	$1,450,000
Otay Mesa Community Plan Update	287,500
Uptown/North Park/Golden Hill Community Plan Update	1,176,000
Skyline/Paradise Hills Community Plan Update	500,000
Pre-Paid Parking Card System	50,000
Fire Station Alerting System	1,600,000
Fire Flight Simulator Training	74,000
Antenna Movement for Police Communication Backbone	57,000
Non-Personnel Expenses for New Park Facility	290,000
Public Liability Reserve Contribution	7,070,000
Workers' Compensation Reserve Contribution	4,100,000
Long Term Disability Reserve Contribution	1,620,000
Citywide Elections	2,000,000
Information Technology Discretionary Spending	3,745,000
TOTAL ONE-TIME EXPENDITURES	**$24,019,500**

these one-time revenues appears in Volume 1, page 24. However, this list included $34 million in fund transfers that do not fall in the category of one-time expenditures. Therefore we have provided a corrected list of the one-time expenditures that are earmarked to be funded through the Internal Stabilization Reserves Fund and the Library System Improvement Fund:

User Fees

Effects of Budget Proposal

The Mayor's FY 2010 Proposed Budget includes approximately $6.7 million in cost recovery revenue resulting from new and/or revised user fees in the following General Fund Departments:

- Park and Recreation
- City Treasurer
- City Clerk
- Community and Legislative Services
- Engineering and Capital Projects
- Library
- Police
- Development Services /NCC
- Fire-Rescue

The Mayor's proposed revenue increases, as included in the FY 2010 Proposed Budget, and the adopted cost recovery revenue, as approved by the City Council are detailed in the table below.

Fire-Rescue fees (with the exception of Special Events-related Fire-Rescue fees) have not yet been considered by Council and are expected to be scheduled for Council consideration in the upcoming weeks. Mayor's staff has informed the IBA that fees from Fire-Rescue require a public noticing period. The Council may need to consider possible alternatives to balance the budget if the Fire-Rescue fee proposal does not come forward, or is not approved in its entirety.

The IBA has consistently recommended that a comprehensive user fee policy be adopted and a user fee review and update be a sys-

FY 2010 User Fee Revenue

Department	Mayor's FY 2010 Proposed Budget	As approved by Council on 4/20/09	Difference
Park and Recreation	$1,159,190	$1,167,365	$8,175
City Treasurer	$120,000	$120,000	$0
City Clerk	$875	$875	$0
Community and Legislative Services	$225,000	$225,000	$0
Engineering and Capital Projects	$44,750	$44,750	$0
Library	(previously budgeted)	($110,000, as budgeted)	$0
Police	$2,008,765	$1,918,671	($90,094)
Special Events (Police)	$700,000	$450,000	($250,000)
Neighborhood Code Compliance	$16,000	$16,000	$0
Fire-Rescue	$1,900,014	(pending approval)	n/a
Special Events (Fire-Rescue)	$475,000	$450,000	($25,000)
TOTAL GENERAL FUND	**$6,649,594**	**$4,392,661**	

tematic part of the annual budget. As noted previously, reviewing fees is particularly important during this time when there are numerous competing pressures for the City's scarce General Fund resources.

The User Fee Policy was first presented to Budget and Finance Committee on February 25, 2009, where it was accepted and forwarded to Council, with additional instructions for the Chief Financial Officer to return to the Budget and Finance Committee on September 9, 2009 with a draft Comprehensive User Fee Study.

On March 10, 2009, the City Council formally adopted the User Fee Policy with the intent of including new/revised revenue into the FY 2010 Budget. Shortly after, on April 1, 2009, Departments brought cost recovery proposals to Budget and Finance Committee, which forwarded these proposals to the City Council for consideration on April 20, 2009. However, as the Mayor's FY 2010 Budget was released on April 14, 2009, and includes revenue from new/revised user fees, some of the fee revenue in the Proposed Budget must be reconciled with revenue increases adopted by Council on April 20, 2009. The proposed and adopted revenue increases are expected to be reconciled in the Mayor's May Revision.

Fees Adopted by Council

On April 20, 2009, the City Council made the following amendments that will affect the Mayor's FY 2010 Proposed Budget:

Police Department:

1. Firearms Dealer Fees: Council requested postponing the increase on these fees, decreasing revenue by approximately $72,000.
2. Money Exchange Houses: Council requested removing the proposed fee increase, decreasing estimated revenue by approximately $18,000.

Special Events:

The Council voted to keep reduced special events non-profit rates for Police and Fire-Rescue services, however a $1,000 waiver for 501(c)non-profit organizations has been eliminated. According to Special Events Department staff, this provision, Municipal Code Special Events Ordinance §22.4006(c), will affect Police Department revenue only.

Special Events Department staff has estimated new Special Events Police revenue at approximately $450,000. Staff has confirmed that new Special Events Fire-Rescue fee revenue remains estimated at $450,000, as proposed to Council.

Additionally, as approved by Council, Park and Recreation user fee revenue is estimated to generate $8,175 more than included in the Mayor's Proposed Budget.

Issues for Consideration

FY 2010 new/revised user fee revenue should be updated as part of the Mayor's May Revise Report to Council to properly reflect fees as adopted by Council on April 20, 2009.

Additionally, Council may wish to reassess cost recovery levels for professional sports teams, pending a report

from the City Attorney which is expected in May 2009.

Fees adjusted for cost recovery levels in FY 2010 should be reviewed as part of the annual budget process and adjusted for Consumer Price Index (CPI) in order to maintain cost recovery.

Business Office

Effects of Budget Proposal

The Proposed FY 2010 Budget for the Business Office reflects a net reduction of $201,794. This includes a First Quarter Reduction of 2.00 FTEs from the Reengineering Program, equivalent to $214,309.

Managed Competition

The Business Office entered into an agreement in Fiscal Year 2007 with Grant Thornton LLP for $250,000 to provide managed competition support to the City. In June 2008, the Business Office came before the City Council and made a request for an additional $1.3 million to be expended in FY 2008 and 2009. However, due to outstanding questions on the contract, City Council only authorized an additional $250,000 for FY 2009. The total amount appropriated in the FY 2009 Business Office budget for Managed Competition contracts is $500,000.

Shortly after the June 2008 hearing, a significant set-back in the implementation of the Managed Competition program occurred due to the filing of an Unfair Labor Practice Charge by AFSCME Local 127 (later joined by MEA) and the subsequent decision of the California Public Employment Relations Board (PERB). As a result, the parties re-entered negotiations on the Managed Competition Ordinance and implementation of the program has been delayed.

In the FY 2009 First Quarter Budget Reductions, $250,000 was reduced from the Business Office budget for Managed Competition consulting services. Of the $250,000 contract authorized by the City Council for FY 2009, $103,000 remains unspent. The Grant Thornton contract expires on June 30th, 2009. The FY 2010 Proposed Budget includes a new $500,000 budgeted for Managed Competition.

After speaking with the Business Office on

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	11.25	$ 1,313,520	$ 635,404	$ 1,948,924	
Vacancy Factor (09)		34,543		34,543	-
Vacancy Factor (10)		-		-	
Salary and Wage Adjustments		(59,041)		(59,041)	-
Subtotal	*11.25*	*$ 1,289,022*	*$ 635,404*	*$ 1,924,426*	*-*
Additions				-	
Non-Discretionary/IT Adjustments	-	-	37,013	37,013	-
Reductions					
2009 1st Qtr. Budget Adjustment	(2.00)	(214,309)	-	(214,309)	-
Subtotal	*(2.00)*	*$ (214,309)*	*$ 37,013*	*$ (177,296)*	*-*
TOTAL	**9.25**	**$ 1,074,713**	**$ 672,417**	**$ 1,747,130**	**$ -**
Difference from 2009 to 2010	**(2.00)**	**$ (238,807)**	**$ 37,013**	**$ (201,794)**	**$ -**

the proposed $500,000 for FY 2010, it was explained that a new solicitation for Managed Competition support services will be conducted in anticipation of the conclusion of labor negotiations.

Resident Satisfaction Survey

In FY 2009, $40,000 was allocated to the Business Office to complete a Resident Satisfaction survey. The goal of the survey is to collect residents' opinions on the level and quality of services being delivered by the City. It was indicated by the Business Office that no timeline to complete the survey has been set but discussions within the department have begun.

Recently, the "San Diego Speaks" survey and public input process was initiated by the Budget and Finance Committee. This survey was intended to solicit citizen input on community service priorities. Discussions by the Budget and Finance Committee of putting forth a comprehensive, professional survey for next fiscal year, using an independent consultant, are already underway.

Issues for Consideration

Funding exists in the Business Office to conduct a citizen survey in FY 2010. **We recommend that the Mayor and Council work together to undertake a community survey prior to next year's budget process that meets the information needs of both the Mayor and City Council.**

City Attorney

Effects of Budget Proposal

The FY 2010 Proposed Budget for the City Attorney totals $38.6 million, a net increase of $2.2 million, or 6.1% over FY 2009.

This increase is primarily due to the city-wide decentralization of information technology costs, funding for case management software, and a reduced vacancy factor.

Department Reorganization

With a new City Attorney taking office last December, the Department has since been restructured info four units: Civil Litigation; Criminal Litigation; Advisory; and Community Justice.

Budget Additions

Increases to the budget include $500,000 for costs related to a new case management system which is needed for the Criminal Division. The Department must replace the outdated system in order to comply with Court system requirements. A reduced vacancy factor for FY 2010, which represents 2.4% of the Department's personnel budget, increases the total budget by $540,000. The vacancy factor in FY 2008 represented 3.9% of the personnel budget, and increased significantly from the prior year. The FY 2010 vacancy factor appears more reasonable and consistent with those for other City departments. The Department has reworked and arranged various service level agreements with other departments, which results in a net increase of estimated revenue of $1.1 million, to the benefit of the General Fund.

Labor Negotiations

The Mayor reached agreement with the Deputy City Attorneys Association (DCAA), which includes an unpaid furlough

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	339.22	$ 34,874,991	$ 1,516,183	$ 36,391,174	$ 5,001,558
Vacancy Factor (09)		1,390,499		1,390,499	-
Vacancy Factor (10)		(849,636)		(849,636)	
Salary and Wage Adjustments		(76,617)		(76,617)	-
Subtotal	*339.22*	*$ 35,339,237*	*$ 1,516,183*	*$ 36,855,420*	*$ 5,001,558*
Revised Revenue Projections				$ -	1,107,027
Subtotal	*-*	*$ -*	*$ -*	*$ -*	*$ 1,107,027*
Additions				-	
IT Adjustments			1,723,975	1,723,975	
Terminal Leave		32,282		32,282	
Reductions				-	
Non-Discretionary Adjustments			(351)	(351)	
Subtotal	*-*	*$ 32,282*	*$ 1,723,624*	*$ 1,755,906*	*$ -*
TOTAL	**339.22**	**$ 35,371,519**	**$ 3,239,807**	**$ 38,611,326**	**$ 6,108,585**
Difference from 2009 to 2010	**-**	**$ 496,528**	**$ 1,723,624**	**$ 2,220,152**	**$ 1,107,027**

of four days and increased payments by employees to the retirement system of 3.2% of salary. The agreement also includes a new salary schedule for Deputy City Attorney (DCA) I and DCA II and incorporates classification DCA III into the salary schedule effective 7/1/10. Estimated net budgetary savings of the DCAA agreement totals $700,000, and the Department budget is expected to be reduced accordingly at the time of the Mayor's May Revision. Additional impacts related to the commensurate share of the agreement with the Municipal Employees Association are also anticipated, to a lesser extent.

FY 2009 Status

At the time of the First Quarter Adjustments in November, the Office of the City Attorney was estimated to exceed its budget by $1.1 million, while receiving excess revenues of $1.9 million. Reductions of $1.8 million were requested by the Mayor in order to achieve savings by fiscal year-end and to abide by the Council-approved budget.

In the FY 2009 Mid-Year Report, these figures were revised and now show the City Attorney's estimated expenditures to be within budget, and revenue estimates will be exceeded by $940,000 due to $2.0 million in additional litigation awards, which also offset shortfalls in service level agreement revenues.

Performance Measure Impacts

In a change from the FY 2009 budget, the City Attorney's Proposed Budget for FY 2010 includes Goals and Objectives. The goal is "to reduce the effects to the General Fund by 5 to 10 percent" from Fiscal Year 2009, by "[b]eing more proficient with our time and properly charging our recorded hours to the correct Service Level Agreement" and by pursuing grant funding and reducing the use of outside counsel.

Issues for Consideration

The City Attorney has proposed a Memorandum of Understanding with County Counsel to provide mutual legal services in cases where conflicts of interest may exist or specialized legal services may be needed, in the advisory area.

The MOU proposes to provide mutual services, free of charge, in lieu of contracting out for outside counsel, and is anticipated to reduce costs to the City and taxpayers.

The City Council first considered the MOU on April 20, 2009, and requested additional information, including an assessment of costs compared to the use of outside counsel. It will be further discussed at the City Council meeting of May 4, 2009. If approved, the City Attorney's Annual Report will include performance data to evaluate the ongoing value of the agreement.

City Auditor

Department Overview

The Office of the City Auditor was established as a department in the FY 2009 budget. Following voter adoption of Proposition C in June 2008, an independent City Auditor now reports and is accountable to the Audit Committee and the City Council. The independent organizational framework for the department was finalized with the City Council's appointment of Eduardo Luna as City Auditor on April 14, 2009.

Effects of Budget Proposal

The proposed budget for the City Auditor's Department is increased by $1,297,383. Total staff positions are increased by 3.00 FTEs and budgeted revenue is projected to increase by $122,323.

Budget Transfers

In order to facilitate independent oversight of the audit of the City's financial statements, the Audit Committee has recommended the City Auditor manage and monitor the outside auditor contract. This will begin with the audit of the FY 2010 CAFR which is anticipated to begin with pre-audit fieldwork in April 2010. Accordingly, $1,000,000 has been transferred into the department from Citywide Program Expenditures in FY 2010.

Budget Additions

The Mayor has recommended adding 3.00 Principal Auditors in the FY 2010 budget. One of the Principal Auditors will be funded by and exclusively provide services to the City's Water and Wastewater Depart-

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	11.00	$ 1,562,609	$ 115,019	$ 1,677,628	
Vacancy Factor (09)		45,609		45,609	-
Vacancy Factor (10)		(44,948)		(44,948)	
Salary and Wage Adjustments		(106,740)		(106,740)	-
Subtotal	*11.00*	*$ 1,456,530*	*$ 115,019*	*$ 1,571,549*	*$ -*
Transfer of Outside Audit Expense FY 10			1,000,000	1,000,000	
Subtotal	*-*	*$ -*	*$ 1,000,000*	*$ 1,000,000*	*$ -*
Additions				-	
Principal Auditors	2.00	244,643	570	245,213	
Principal Auditor - Water/MWWD SLA	1.00	122,323	-	122,323	122,323
IT Adjustments			35,898	35,898	
Non-Discretionary Adjustments			28	28	
Subtotal	*3.00*	*$ 366,966*	*$ 36,496*	*$ 403,462*	*$ 122,323*
TOTAL	**14.00**	**$ 1,823,496**	**$ 1,151,515**	**$ 2,975,011**	**$ 122,323**
Difference from 2009 to 2010	**3.00**	**$ 260,887**	**$ 1,036,496**	**$ 1,297,383**	**$ 122,323**

ments. With the proposed addition of the other 2.00 Principal Auditors, the department would have a total of 11.00 Principal Auditors to perform audits in FY 2010. The department budget additionally provides for the City Auditor, a Managing Principal Auditor and an analyst to manage the Employee Hotline. All of the positions classified as Principal Accountants in FY 2009 have been reclassified to Principal Auditors in FY 2010.

It should be noted that of the 11.00 Principal Auditors proposed for FY 2010, one is an IT Auditor dedicated to the OneSD project and another is dedicated to Water/Wastewater Department support as noted above. This leaves 9.00 Principal Auditors to perform citywide audits in FY 2010.

Budget Reductions

There are no significant budget reductions proposed for the City Auditor Department in FY 2010.

Vacancy Factor

The department has been assigned a vacancy factor of $44,948, or 2.5% of total proposed personnel expense in FY 2010. This compares with a vacancy factor of 2.9% in FY 2009. Given the small size of this department and the City Auditor's intent to quickly fill new positions, the IBA believes the proposed vacancy factor is appropriate.

Performance Measure Impacts

The City has made a steady and considerable investment over the last two budget years to begin to restore a robust City Auditor Department. Additional funding will continue to be required in the years ahead. Given these circumstances, it will be useful for the City Council and the public to understand the ratio of monetary benefits (attributable to audits) to audit costs, and the actual amount of cost savings/cost recoveries attributable to audits. Although performance tracking was just initiated in FY 2009, these performance measures can be found under Goal 1 on page 115 (Volume II) of the Proposed Budget.

It is worth noting that the cost savings/recovery target of $2 million for FY 2010 would exceed the total proposed budget for the department (approximately $1.8 million) in FY 2010. **As revenue associated with audits can be difficult to project, the IBA recommends that the City Auditor periodically brief the Audit Committee on the status of total revenue recovered following the release of audits.**

In order to determine an appropriate annual budget for the department, it will be important to understand the percent of the annual work plan that is completed each fiscal year (found under Goal 2). It will also be important to understand the percent of audit investigations started within two weeks of receiving an allegation of material fraud, waste or abuse from the City's Fraud Hotline (found under Goal 4).

Issues for Consideration

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. The City's independent audit consultant to the Audit Committee (Jefferson Wells) recommended that high-risk auditable units be evaluated on a three-year cycle. The department does not have sufficient auditor capacity to meet this recommendation.

Jefferson Wells additionally recommended (based on an assessment of the City's auditing needs and a review of other comparably sized cities) that the staffing level for the department be increased over time to approximately 24.00 FTEs. In his Second Annual Report of Independent Consultant to the City dated April 24, 2009, Stan Keller states, "The City needs to devote significant resources to the internal audit function over time if the City Auditor is to fulfill the internal audit responsibilities."

The proposed budget increases department staffing from 11.00 to 14.00 FTEs by adding 3.00 Principal Auditors. With 2.00 Principal Auditors dedicated to specific audit projects, there are 9.00 Principal Auditors free to perform citywide audits in FY 2010.

On April 27, 2009, the City Auditor presented budget information to the Audit Committee. With respect to adding audit staff over time, he provided three, four and five-year plans to increase the number of Principal Auditors in the department. The Proposed Budget adds 3.00 Principal Auditors. This reflects the five-year plan (the slowest of the three plans) to add auditor staff.

The City Auditor also presented an option to the Audit Committee to add 3.00 more Principal Auditor positions at the beginning of calendar 2010 at an estimated cost of $245,900. He further cited a need for 3.00 additional staff positions other than Principal Auditors. These included 1.00 Fraud Investigator, 1.00 Executive Secretary, and 1.00 Audit Manager.

After discussing the City Auditor's comments, the Audit Committee adopted a motion to recommend that the City Council consider adding 4.00 more FTE's to the City Auditor's budget: 3.00 Principal Auditors mid-FY 2010 ($245,900) and 1.00 Fraud Investigator ($153,165) for the Fraud Hotline and other audit activities. The total estimated cost to add these 4.00 FTEs to the Proposed Budget is estimated to be $399,065.

If the City Council decides to add these positions, the Audit Committee additionally recommended that, to the extent possible, the City Auditor assign the 4.00 new FTEs to audit engagements for enterprise departments and independent agencies so that the department (General Fund) might recover some of this additional audit staff cost.

The IBA recommends that projected cost savings (attributable to audits performed by the City Auditor) be conservatively budgeted in FY 2010 and utilized to fund a portion of the 3.00 additional Principal Auditor positions recommended by the Audit Committee.

City Clerk

Effects of Budget Proposal

The Fiscal Year 2010 Proposed Budget for the Office of the City Clerk reflects a total net reduction of $72,086. Also included in the proposed budget is the transfer of an Info Systems Analyst III position to the newly created SAP Support Department to manage the integrated ERP System. No impact to department service levels are expected from this transfer.

The FY 2010 Proposed Budget also includes revenue from a recently adopted user fee increase. This fee reflects a rise in the cost of purchasing a hard-copy edition of the City Charter. The revised user fee will make this service 100% cost recoverable. A total of $875 is expected to be generated for FY 2010.

First Quarter FY 2009 Budget Reductions

The City Clerk offered $227,946 in First Quarter Reductions, however many were not intended to be carried over to the FY 2010 budget. One item included additional vacancy savings totaling $50,000. Another cost-savings measure was the elimination of a half-year's hard-copy docket printing expense of $40,000. However, the City Clerk's Office did not receive additional funding after the Print Shop increased their fees in FY 2008. This factor, combined with FY 2010 being an election year with extra printing demands, is why these savings are not reflected in the FY 2010 Proposed Budget.

One First Quarter Reduction, reflected in

SUMMARY OF BUDGET CHANGES

		FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget		46.00	$	3,695,756	$	800,640	$	4,496,396		
Vacancy Factor (09)				89,063.00				89,063		
Vacancy Factor (10)				(80,634.00)				(80,634)		
Salary and Wage Adjustments				(55,444)				(55,444)		
	Subtotal	*46.00*	*$*	*3,648,741*	*$*	*800,640*	*$*	*4,449,381*	*$*	*-*
Tranfers										
Transfer Info Systems Analyst to SAP		(1.00)	$	(107,511)			$	(107,511)		
	Subtotal	*(1.00)*	*$*	*(107,511)*	*$*	*-*	*$*	*(107,511)*	*$*	*-*
Additions										
Terminal Leave		-		12,605		-		12,605		
Non-Discretionary/IT Adjustments		-		-		213,037		213,037		
IT Upgrade-Records Management Division		-		-		26,970		26,970		
User Fee Revenue		-		-						875
Reductions										
2009 1st Qtr. Budget Adjustment		-		-		(26,000)		(26,000)		
	Subtotal	*-*	*$*	*12,605*	*$*	*214,007*	*$*	*226,612*	*$*	*875*
TOTAL		**45.00**	**$**	**3,553,835**	**$**	**1,014,647**	**$**	**4,568,482**	**$**	**875**
Difference from 2009 to 2010		**(1.00)**	**$**	**(141,921)**	**$**	**214,007**	**$**	**72,086**	**$**	**875**

the FY 2010 Proposed Budget, is $26,000 for outside legal counsel.

Budget Additions

In the Fall of 2006, the Department underwent a Business Process Re-engineering (BPR) of the Records Management Division. The recommendation from this process was to consolidate the City's Records Management Program within the Office of the City Clerk. The Records Management Division is now responsible for the administration of a uniform Records Management Program and provides assistance to all City departments. To continue running an effective program and to maximize department goals, equipment upgrades of $26,970 are included in the FY 2010 Proposed Budget.

Performance Measure Impacts

One goal of the City Clerk's performance measures reflects the percentage in which technology and best business practices are utilized to provide effective service delivery. In FY 2009 this goal is estimated to be reached 69% of the time. However, the FY 2010 target is 90%, which reflects implementation of new projects that are expected to occur next fiscal year, including the e-docket project and the beta testing of on-line "Statements of Economic Interests" submittals.

City Comptroller

Effects of Budget Proposal

The proposed budget for the City Comptroller's Department is decreased by $1,136,089. Total staff positions are reduced by 12.00 FTEs and budgeted revenue is projected to decrease by $1,146,830. Most of the above reductions are tied to the loss of FY 2009 funding for limited employees and the transfer of staff in FY 2010 to support the OneSD project.

Budget Transfers

As noted above, 5.00 FTE's are proposed to transfer to the newly created SAP Support Department. The department anticipates transferring the following positions to the new department: 1.00 Financial Operations Manager; 1.00 Principal Accountant; 2.00 Accountant IVs; and 1.00 Info Systems Analyst II. Additionally, 1.00 Accountant III is proposed to transfer to the HUD Programs Administration work unit in the City Planning and Community Investment Department to help comply with HUD audit recommendations.

Budget Additions

$25,000 in reimbursement revenue has been budgeted for administrative accounting services to the TOT fund.

Budget Reductions

In FY 2009, the City Comptroller added

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	104.00	$	10,633,944	$	1,463,548	$	12,097,492	$	3,870,654
Vacancy Factor (09)			361,988				361,988		-
Vacancy Factor (10)			(219,969)				(219,969)		
Salary and Wage Adjustments			(105,063)				(105,063)		-
Subtotal	*104.00*	*$*	*10,670,900*	*$*	*1,463,548*	*$*	*12,134,448*	*$*	*3,870,654*
Positions to New SAP Support Dept.	(5.00)		(701,800)				(701,800)		
Acct III to HUD Programs Admin. Dept.	(1.00)		(101,581)				(101,581)		
Subtotal	*(6.00)*	*$*	*(803,381)*	*$*	*-*	*$*	*(803,381)*	*$*	*-*
Additions							-		
IT Adjustments					734,558		734,558		
Revenue for FM Services to GF - TOT									25,000
Non-Discretionary Adjustments					401		401		
Reductions							-		
Limited Backfill Positions for OneSD	(6.00)		(729,623)				(729,623)		(1,048,743)
Removal of Accounts Temp Contract					(375,000)		(375,000)		
Revised Revenue Projections									(123,087)
Subtotal	*(6.00)*	*$*	*(729,623)*	*$*	*359,959*	*$*	*(369,664)*	*$*	*(1,146,830)*
TOTAL	**92.00**	**$**	**9,137,896**	**$**	**1,823,507**	**$**	**10,961,403**	**$**	**2,723,824**
Difference from 2009 to 2010	**(12.00)**	**$**	**(1,496,048)**	**$**	**359,959**	**$**	**(1,136,089)**	**$**	**(1,146,830)**

7.00 limited positions and associated revenue to backfill positions that had been assigned to support the OneSD project. With the creation of a new SAP Support Department in FY 2010, 6.00 of the limited positions and the associated revenue have been eliminated. The other limited position was reclassified to permanent mid-year and is one of the five positions being transferred to the new SAP Support Department. $375,000 of funding for the Account Temps (temporary accountant support) is no longer required by the department and has been removed from the budget.

Vacancy Factor

The department has been assigned a vacancy factor of $219,969, or 2.4% of total proposed personnel expense in FY 2010. This compares with vacancy factors of 4.5% and 3.3% in Fiscal Years 2008 and 2009 respectively. Given the department's high vacancy experience in recent years and current vacancies that significantly exceed the proposed factor for FY 2010, the IBA believes the proposed vacancy factor may be too low which would result in unexpected department savings.

Performance Measure Impacts

The completion of audited financial statements through FY 2008 is a significant accomplishment that will help to restore public confidence in the City's financial reporting processes.

While completion of a significant percentage of Kroll Report recommendations has been cited under Goal 2 of the Performance Expectations, much work remains for the Internal Controls Over Financial Reporting (ICOFR) project. In his Second Annual Report of Independent Consultant to the City dated April 24, 2009, Stan Keller notes, "With just over two months before planned go-live (for OneSD), the bulk of the required process flow documentation and the majority of ICOFR actions remain to be done." The ICOFR project manager reported to the Audit Committee in February 2009 that only 4% of these controls were complete or substantially complete with significant improvement expected after the OneSD project is implemented.

A Principal IT Auditor is currently assisting with OneSD implementation (in part reviewing the new system from an internal control standpoint) and this participation may be of assistance to the ICOFR project team. The IBA suggests that a performance measure be developed to track progress made on the ICOFR project as it will further instill public confidence in the City's financial reporting processes.

Issues for Consideration

The FY 2008 CAFR was successfully audited and received by the City Council in April 2009. The City is now current with its financial statements and workload for the department in this area should be normalized. Considerable work remains to improve the City's internal controls over financial reporting and the department has established an ICOFR work unit that should be supported by the implementation of OneSD.

With normal financial statement activity going forward and expected system benefits resulting from OneSD implementation, the IBA believes the proposed budget reductions are appropriate. The appropriateness of the department's staffing levels and vacancy experience should continue to be evaluated in the coming fiscal year.

City Council

Council Offices

Effects of Budget Proposal

The FY 2010 Proposed Budget reduces each Council Office by almost 2%, from $990,000 to $971,500. However, it should be noted that, due to the decentralization of IT costs in this budget proposal, each Council Office must use a larger portion of their budget for IT costs. The net effect of this decentralization is to reduce discretionary funding within the Council Office budget by almost 5%. This is displayed in the first table below, which agglomerates the budgets of the eight offices.

Once the labor concession impact is spread appropriately across all City departments, this will further reduce the Council office budgets. As with the five labor unions, the target reduction will equate to approximately 6% of salaries. Each Council district has a different budget for salaries, so it is estimated that the reduction may range be-

SUMMARY OF BUDGET CHANGES

Council Districts	FTE		PE		NPE		Total	Percent Change
Fiscal Year 2009 Budget	80.00	$	6,894,585	$	1,025,415	$	7,920,000	
IT Adjustments				$	243,414	$	243,414	3.07%
Non-Discretionary					(839)		(839)	-0.01%
Budget Equalization			(390,575)				(390,575)	-4.93%
TOTAL	**80.00**		**6,504,010**		**1,267,990**		**7,772,000**	**-1.87%**
Difference from 2009 to 2010	**-**	**$**	**(390,575)**	**$**	**242,575**	**$**	**(148,000)**	**-1.87%**

SUMMARY OF BUDGET CHANGES

Council Administration	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	13.00	$	1,676,415	$	298,743	$	1,975,158		
Vacancy Factor (09)			-				-		-
Vacancy Factor (10)			(33,635)				(33,635)		
Salary and Wage Adjustments			(41,874)				(41,874)		-
Subtotal	*13.00*	*$*	*1,600,906*	*$*	*298,743*	*$*	*1,899,649*	*$*	*-*
Additions									
IT Adjustments				$	43,661	$	43,661		
Non-Discretionary Adjustment					874		874		
Reductions									
Removal of Fire Committee Consultant	(0.50)		(56,091)				(56,091)		
Removal of FY 2009 Terminal Leave			(185,786)				(185,786)		
Subtotal	*(0.50)*	*$*	*(241,877)*	*$*	*44,535*	*$*	*(197,342)*		*-*
TOTAL	**12.50**	**$**	**1,359,029**	**$**	**343,278**	**$**	**1,702,307**		**-**
Difference from 2009 to 2010	**(0.50)**	**$**	**(317,386)**	**$**	**44,535**	**$**	**(272,851)**	**$**	**-**

tween $20,000-30,000. These calculations should be completed shortly and provided no later than through the Mayor's May Revise.

Council Administration

Effects of Budget Proposal

As illustrated in the second table on the previous page, the proposed budget for Council Administration includes several reductions. In addition, for the first time this year, a vacancy factor is included. The vacancy factor is approximately 2.5%, slightly lower than the 3% average citywide, but within a reasonable standard.

Budget Reductions

The reductions include the elimination of the consultant for the Ad-Hoc Fire Prevention and Recovery Committee, which concluded its duties at the end of calendar year 2008.

Also eliminated is all of the terminal leave budgeted for the exodus of staff in 2008 due to the elections in the odd-numbered districts. It is not anticipated that this large expense should occur again in FY 2010.

City Planning and Community Investment

Effects of Budget Proposal

The Mayor's Proposed Budget for the General Fund allocation for the City Planning & Community Investment Department is $14.9 million, a 17% reduction from FY 2009. The significant changes included in the FY 2010 Proposed Budget include:

- Additional funding for Community Plan updates.
- Creation of a HUD Program Administration Fund.
- Reduction of 1.00 position related to the First Quarter 2009 Reductions.
- The addition of 2.00 positions to the Redevelopment Agency Fund.
- Transfer of 9.00 positions related to the Economic Services Program to Community and Legislative Services.

SUMMARY OF BUDGET CHANGES (General Fund)

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	84.45	$	9,129,451	$	8,768,675	$	17,898,126	$	4,640,508
Vacancy Factor (09)			233,764				233,764		-
Vacancy Factor (10)			(168,819)				(168,819)		
Salary and Wage Adjustments			(57,157)				(57,157)		-
Subtotal	*84.45*	*$*	*9,137,239*	*$*	*8,768,675*	*$*	*17,905,914*	*$*	*4,640,508*
Transfer									
Transfer to HUD Administration Fund	(11.00)	$	(1,068,953)	$	(578,675)	$	(1,647,628)	$	(1,475,000)
Transfer to Economic Growth Services	(9.00)	$	(1,019,033)	$	(451,233)	$	(1,470,266)	$	(871,332)
Transfer of Community Parking District	-	$	-	$	(2,276,892)	$	(2,276,892)	$	-
Subtotal	*(20.00)*	*$*	*(2,087,986)*	*$*	*(3,306,800)*	*$*	*(5,394,786)*	*$*	*(2,346,332)*
Additions									
Community Plan Updates	-		-		3,413,500		3,413,500		-
Public Use Lease Adjustments	-		-		376,674		376,674		-
IT Adjustments	-		-		358,084		358,084		-
FY 2009 Reorganization	1.00		79,743		-		79,743		-
Revenue Adjustments	-		-		-		-		282,500
Reductions									
FY 2009 Community Plan Updates	-		-		(1,550,000)		(1,550,000)		-
FY 2009 1st Qtr. Budget Adjustment	(1.00)		(135,379)		(50,000)		(185,379)		-
Non-Discretionary Adjustments	-		-		(66,881)		(66,881)		-
Subtotal	*-*	*$*	*(55,636)*	*$*	*2,481,377*	*$*	*2,425,741*	*$*	*282,500*
TOTAL	**64.45**	**$**	**6,993,617**	**$**	**7,943,252**	**$**	**14,936,869**	**$**	**2,576,676**
Difference from 2009 to 2010	**(20.00)**	**$**	**(2,135,834)**	**$**	**(825,423)**	**$**	**(2,961,257)**	**$**	**(2,063,832)**

Community Plan Updates

On March 10, 2008 the City Council adopted the updated General Plan. A key component to implementing the City's General Plan is the updating of the City's community plans. The 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.

For FY 2010, the Mayor has included $3.4 million for community plan updates, a significant increase over prior fiscal years. With this funding, CP&CI is starting to address the City's dated community plans. Based on information provided in CP&CI's Performance Measurements, 30% of the City's community plans are over 15 years old. However, it should be noted that the percent of community plans over 15 years old has decreased since FY 2008, when the number was 51%. The $3.4 million included in the FY 2010 Proposed Budget provides funding for the following community plan updates:

Community Plan	FY 2010 Funding	Estimated Completion
Mission Valley	$1,200,000	2012
Ocean Beach	$250,000	2010
Otay Mesa	$287,500	2010
Skyline-Paradise Hills	$500,000	TBD
Uptown/North Park/Golden Hill	$1,176,000	2012
Total:	*$3,413,500*	

It should be noted that the FY 2009 Budget included $1.6 million for community plan updates. This funded was removed as a one-time expense for FY 2009 and then the $3.4 million was added to the FY 2010 Proposed Budget. The net increase for community plans from FY 2009 to 2010 is $1.8 million.

HUD Program Administration Fund

Over the last two fiscal years the City of San Diego has been audited by the U.S. Department of Housing and Urban Development (HUD) Regional Office as well as HUD's Inspector General. Both audits revealed numerous deficiencies with the City's management of CDBG grant funds. The City continues to address these deficiencies through program reforms. One of the reforms, which is implemented in the FY 2010 Proposed Budget, is transferring the City's CDBG Administration program from the General Fund to an independent fund. By transferring the administrative program to a fund outside of the General Fund, the City becomes more transparent in regards to staffing levels for CDBG oversight and expenditures. In previous years, when the program was budgeted in the City's General Fund under the CP&CI Department, it was difficult to identify what positions and expenditures were related to the administration of CDBG. The FY 2010 Proposed Budget includes the transfer of 11.00 positions from CP&CI and 1.00 Accountant III from the City Comptroller; and the addition of 2.00 new Community Development Specialist II's.

First Quarter 2009 Reductions

The FY 2010 Proposed Budget continues the reduction of 1.00 Program Manager taken as part of the First Quarter 2009 Reductions. This position was responsible for oversight of the community plan update/ special project section. Department Management has stated that the responsibilities of this position will be assumed by the Deputy Director of the department.

Redevelopment Agency Fund Additions

For FY 2010 the Redevelopment Agency is adding 1.00 Financial Operations Manager and 1.00 Senior Management Analyst to work on budget and fiscal monitoring of Agency-related activities. For FY 2010 the agency is restructuring internally with the goal of creating a Finance Section. This reflects best practices in redevelopment agencies. The 2.00 new positions will enable the agency to hire staff with specific financial expertise.

Budget Transfers

As part of the First Quarter 2009 Reductions, the Mayor reorganized certain City departments. Included in the reorganization was the transfer of 9.00 positions related to the Economic Services in the Community & Legislative Services Department. Information on this transfer is included in the IBA's review of the Community & Legislative Services Department.

City Retirement System

SDCERS has developed a proposed budget which was presented to the Retirement Board of Administration on April 17, 2009. The Board will again consider the administrative budget for the system at their next meeting, May 15, 2009.

The SDCERS budget is also scheduled to be heard at the April 30, 2009 hearing of the Joint Budget Committee/City Council.

It should be noted that the City's budget document does not reflect the SDCERS Proposed Budget, as it was not available at the time of publication.

Effects of Budget Proposal

The proposed budget presented to the Board at their April meeting represents nearly a 5% decrease from the FY 2009 budget, with reduced expenses in all major categories. The table below presents a summary of the budget proposal, by major category.

For the **Salaries and Personnel** category, note that the proposal does not yet include effects of the recently approved labor terms and agreements. These will be included in their budget once details are finalized, as with the citywide budget. The proposal does assume freezing four vacant positions in FY 2010 to realize some savings. SDCERS staff has also informed the IBA that there is no proposal in the budget for salary increases or bonuses.

In **Data Processing**, funding is proposed for an RFP for a new pension payroll system and for ongoing support for their new financial system and Board meeting software However, reduced overall spending is proposed due to efficiencies.

Reduced expenses in **Legal/External** reflect closing outstanding matters, although a few cases remain unresolved, resulting in a continuing degree of uncertainty for these expenses.

SUMMARY OF BUDGET CHANGES

	FY 09 Budget	FY 10 Budget	Increase/ (Decrease)	Percent Change
Salaries and Personnel	$ 7,535,377	$ 7,038,414	$ (496,963)	-6.60%
Data Processing and Special Projects	$ 2,818,227	$ 2,766,511	$ (51,716)	-1.84%
Legal/External	$ 1,967,500	$ 1,460,000	$ (507,500)	-25.79%
Disability	$ 467,500	$ 248,500	$ (219,000)	-46.84%
General Operations	$ 2,842,657	$ 2,598,347	$ (244,310)	-8.59%
Subtotal Administration	$ 15,631,261	$ 14,111,772	$ (1,519,489)	-9.72%
Investment Management Services	$ 25,736,834	$ 25,255,024	$ (481,810)	-1.87%
Subtotal Investment Management Services	$ 25,736,834	$ 25,255,024	$ (481,810)	-1.87%
TOTAL	**41,368,095**	**39,366,796**	**(2,001,299)**	**-4.84%**

The decrease in **Disability** is a result of significant progress in reducing the open case backlog.

In **General Operations**, major reductions comprise office operations, travel & training, member pre-retirement seminars and strategic planning/communications. Significant additional funding is provided for actuarial services, reflecting an increase in non-retainer work.

Investment Management costs are expected to decrease primarily due to the lower asset base.

Issues for Consideration

At the Board Meeting of April 17, 2009, the Board and staff discussed budget comparisons with other similar California systems. It is the staff's intention to undertake a benchmarking effort, based on FY 2008 data, over this summer.

City Treasurer

Effects of Budget Proposal

The proposed budget for the City Treasurer is increased by $3,296,845. The increase is primarily attributable to the proposal to transfer Community Parking District appropriations of approximately $3.4 million from City Planning and Community Investment to the department as discussed below. Total staff positions are reduced by 4.00 FTEs and budgeted revenue is projected to decrease by $3,343,475.

Budget Transfers

As noted above, approximately $3.4 million of annual Community Parking District (CPD) appropriations are proposed to be transferred from City Planning and Community Investment to the department. The rationale for the transfer is to budget the annual CPD allocation (expense) in the same department responsible for budgeting and monitoring total parking meter revenue.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	126.00	$	10,383,970	$	4,533,604	$	14,917,574	$	29,048,691
Vacancy Factor (09)			249,740				249,740		-
Vacancy Factor (10)			(236,592)				(236,592)		
Salary and Wage Adjustments			(36,387)				(36,387)		-
Subtotal	*126.00*	*$*	*10,360,731*	*$*	*4,533,604*	*$*	*14,894,335*	*$*	*29,048,691*
Transfers						$	-		
CPD Appropriations from CP&CI Dept.					2,276,892		2,276,892		
Realign CPD Allocation Exp. With PM Rev.					1,147,608		1,147,608		
Subtotal	*-*	*$*	*-*	*$*	*3,424,500*	*$*	*3,424,500*	*$*	*-*
Additions							-		
Assistant Investment Officer	1.00		177,709		21,250		198,959		
Net IT Adjustments					718,924		718,924		
Anticipated New PC Web/IVR User Fee									120,000
Pre-Paid Parking Card System				$	75,000	$	75,000		
Funding of Terminal Leave			39,960				39,960		
Non-Discretionary Adjustments					4,594		4,594		
Reductions							-		
One-Time Rev. Reduction for BTCP									(2,847,075)
Revised Revenue Projections									(616,400)
FY 2009 1st Qtr. Budget Adjustment	(5.00)		(452,294)		(304,500)		(756,794)		
One-Time Expense Reduction for TTCS					(243,759)		(243,759)		
NPE Savings - Discontinue Pilot Parking					(101,300)		(101,300)		
NPE Savings - Electronic Payments					(40,000)		(40,000)		
Subtotal	*(4.00)*	*$*	*(234,625)*	*$*	*130,209*	*$*	*(104,416)*	*$*	*(3,343,475)*
TOTAL	**122.00**	**$**	**10,126,106**	**$**	**8,088,313**	**$**	**18,214,419**	**$**	**25,705,216**
Difference from 2009 to 2010	**(4.00)**	**$**	**(257,864)**	**$**	**3,554,709**	**$**	**3,296,845**	**$**	**(3,343,475)**

In addition to providing greater transparency within the budget for the annual CPD allocation, this change enables the department to monitor and adjust the annual CPD allocation to better reflect projected parking meter revenue. Irrespective of whether the Parking Meter Utilization Improvement Program is approved by the City Council in May 2009, the IBA concurs with department management that this budget change should be implemented.

Budget Additions

The department is to receive 1.00 additional Assistant Investment Officer. The position will provide support to the Investments Division that manages the City's Pooled Investment Fund and bond related investments. The work unit currently has 2.00 investment officers. The current staffing level can create coverage challenges when one investment officer becomes ill or goes on vacation.

On April 20, 2009, the City Council approved a new fee to recover the costs associated with a service that allows parking citations to be paid by internet or phone. This service was desired by the public. New fee revenue of $120,000 covers the cost of the service and has been budgeted in FY 2010.

$75,000 has been budgeted for improvements to and ongoing maintenance of the pre-paid parking card system.

Anticipating the retirement of long-term employees, the department has also budgeted $39,960 in terminal leave pay.

Budget Reductions

The department has carried forward reductions made in the FY 2009 1st Quarter Budget Adjustment which include the elimination of 5.00 FTEs and $304,000 in NPE. The 5.00 FTEs include 3.00 Collections Investigators, 1.00 Clerical Assistant II and 1.00 Account Clerk. Although the department does not anticipate a reduction in delinquent account or parking meter citation revenue collections attributable to the eliminated positions, service level impacts were identified and are described below.

Service level impacts resulting from the 5.00 eliminated FTE's include: closing the walk-in Parking Citation Lobby on Fridays; closing the walk-in Delinquent Accounts lobby two days a week; and some extended wait times and delays in the Consolidated Payment Processing work unit. The department does not believe the reduction in staff will weaken internal controls.

The Business Tax Compliance System (BTCP) uses information from the Franchise Tax Board (FTB) to identify businesses that are subject to the City's business tax certificate. The department realized significant revenue from BTCP in FY 2009 using FTB information from 2005 (47,000 leads) and 2006 (22,000 leads). As BTCP revenue tied to the utilization of 2007 FTB information (6,300 leads) is expected to drop, the department has accordingly reduced budgeted revenue by $2, 847,075. This explains most of the department's $3.3 million decrease in budgeted revenue for FY 2010.

The rest of the estimated revenue reduction is primarily attributable to more timely payment of parking citations (less penalty revenue as citations can now be paid by internet or phone).

A one-time expense reduction of $243,759 has been budgeted for the Rental Unit Business Tax System (known as TTCS). A prior year encumbrance is available to fund TTCS improvements in FY 2010, so the department does not need to budget the expense; however, TTCS system expense will need to be added back to the budget in FY 2011.

The discontinuation of a multi-space parking meter pilot project will reduce $101,300 of expense for multi-space meter rental fees and associated replacement part costs.

A reduction of $40,000 of expense for consolidated payments processing reflects a greater percentage of parking payments being processed electronically instead of manually.

Vacancy Factor

The department has been assigned a vacancy factor of $236,592, or 2.3% of total proposed personnel expense in FY 2010. This compares with a vacancy factor of 2.4% in FY 2009. This factor is appropriate given the department's current low vacancy experience.

Performance Measure Impacts

The department has established good performance measures for their varied operations. The IBA has comments relating to two of the listed measures. Measure 2 under Goal 1 (page 240) reports that only 10% of City deposit locations have received cash handling training in FY 2009. We note that the target for FY 2010 is 50%; however, this percentage seems low and the IBA suggests that the department provide information about obstacles they face in achieving a higher training percentage. Cash handling is an important internal control for the City that deserves the allocation of appropriate resources.

Measure 3 under Goal 3 on the same page shows completion of TOT, lease and franchise audits "within required timeframes" without telling the reader what those timeframes are. The IBA suggests that actual timeframes be specified to convey better performance information to the reader.

Issues for Consideration

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. In our report on the proposed budget last year, the IBA noted that revenue associated with revenue audits exceeds the cost of operating the work unit by approximately 3:1. Based on this fact and information that we received, the IBA recommended that an auditor or two be added to this Division to shorten the respective audit cycles, strengthen the audit control framework, and result in the collection of additional revenue for the City that should exceed additional auditor expense.

The IBA notes that the department requested to add an auditor (1.00 Accountant II) but cancelled the request citing vacancies within the Division

and new staff training limitations. Despite these cited challenges, the IBA reiterates its recommendation that 1.00 revenue auditor be added to the Division. The auditor should be funded with additional budgeted revenue that should result from the added position.

Citywide Program Expenditures

Effects of Budget Proposal

The Citywide Program Expenditures budget is comprised of various programs and activities that provide benefits and services Citywide. General Fund portions of programs or activities whose funding is divided among the General Fund and the Non-General funds, and/or programs or activities that are generally not attributable to any one City department are allocated in this budget.

The FY 2010 Proposed Budget for Citywide Program Expenditures totals $23.2 million, a decrease of $44.3 million, or 65.6% from FY 2009.

Budget Reductions

FY 2009 budget reductions include the General Fund's projected savings of approximately $30 million expected as a result of labor negotiations with the City's five labor organizations, which had not yet been concluded at the time the Mayor's Proposed Budget was issued. This amount will be redistributed throughout City departments as part of the Mayor's May Revise, and is expected to be comprised of both salary and benefit impacts. In addition, budget reductions include the elimination of $7.6 million included in the prior year budget, planned

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	-	$ -	$ 67,542,463	$ 67,542,463	$ -
Subtotal	-	$ -	$ *67,542,463*	$ *67,542,463*	$ -
Transfer of Annual Audit to Auditor			$ (1,000,000)	$ (1,000,000)	
Subtotal	-	$ -	$ *(1,000,000)*	$ *(1,000,000)*	$ -
Additions				-	
Property Tax Administration			1,112,341	1,112,341	
Non-Discretionary Adjustment			507,619	507,619	
Mission Bay/Regional Park Funding			102,603	102,603	
Preservation of Benefits			50,000	50,000	
Assessments to Public Property			25,000	25,000	
Reductions				-	
Projected Labor Negotiations		(29,843,536)		(29,843,536)	
FY 2009 1st. Qtr. Budget Adjustment			(187,929)	(187,929)	
Employee Offset Savings for Leveraging			(7,614,000)	(7,614,000)	
General Fund Reserve Contribution			(3,687,718)	(3,687,718)	
Public Liability Reserve Contribution			(2,928,650)	(2,928,650)	
Citywide Election Costs			(700,000)	(700,000)	
Special Consulting			(132,000)	(132,000)	
Subtotal	-	$ *(29,843,536)*	$ *(13,452,734)*	$ *(43,296,270)*	$ -
TOTAL	**-**	**$ (29,843,536)**	**$ 53,089,729**	**$ 23,246,193**	**$ -**
Difference from 2009 to 2010	**-**	**$ (29,843,536)**	**$ (14,452,734)**	**$ (44,296,270)**	**$ -**

as a debt payment related to the leveraging of the employees offset savings, which was not implemented, and is no longer needed. Contributions to the City's General Fund Reserve and Public Liability Reserve have also been eliminated or reduced in the FY 2010 Proposed Budget. These funds were also eliminated or reduced as part of the First Quarter Adjustments in FY 2009 as cost-saving measures. For further analysis regarding the reserves and funding levels, please refer to the Reserves Section.

A reduction of approximately $188,000 in rent funding is related to the closure of community service centers in Clairemont, Sports Arena, and Tierrasanta, which became effective in January 2009.

Funding in the amount of $700,00 to reimburse the Development Services Department for permit waivers for fire victims has also been eliminated from Special Consulting Services. Also, costs for Citywide Elections were reduced by $700,000, to $2 million, which is comprised of $200,000 for the primary election for even -numbered Council Districts, and $1.8 million for potential ballot propositions.

Budget Additions

Budget additions include funding for increased Property Tax Administration payments made to the County on an annual basis ($1.1 million), increased rent payments for City office buildings ($515,000), and the increase to the allocation of Mission Bay Park lease revenue to Mission Bay Park and Regional Park Improvement Funds, in order to comply with Proposition C ($103,000).

Issues for Consideration

The IBA did not receive information on what expenses comprise the Special Consulting Services in Citywide at the time of this writing. The table below presents what we have deduced, however we recommend that finance staff provide this information to the City Council for budget deliberations. Additionally, the IBA questions whether funds are available here for the retiree medical study the City has agreed to undertake in FY 2010, or if that needs to be added to the budget.

Citywide Program Expenditures

	FY 2010 PROPOSED	FY 2009 BUDGET	CHANGE
Special Consulting Services			
Actuary Services	$200,000	$200,000	$0
Disclosure Counsel	$100,000	$100,000	$0
Meet & Confer	$400,000	$400,000	$0
Reimbursement to DSD	$0	$700,000	($700,000)
MuniServices	$400,000	$0	$400,000
Other Consultants	$250,000	$82,000	$168,000
TOTAL	**$1,350,000**	**$1,482,000**	**($132,000)**

Community and Legislative Services

Effects of Budget Proposal

The Proposed FY 2010 Budget for Community and Legislative Services totals $6.06 million, an increase of $1.87 million, or 44% from FY 2009. In FY 2010, the Department proposes to transfer in 13.00 FTE positions from other departments, eliminate 5.00 FTE positions and add 1.00 FTE position, for a net increase of 9.00 FTE positions. As in FY 2009, no vacancy factor has been budgeted for this department.

The increase in positions is primarily the result of position transfers from the Administration and Economic Growth Services Departments, as described below.

Economic Growth Services Transfer

The Economic Growth Services (EGS) work unit is comprised of 8.00 FTEs (4.00 in the Business Expansion and Retention Program [BEAR] and 4.00 in the Government Incentives Program). During FY 2009, EGS was

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	28.00	$ 3,304,419	$ 882,386	$ 4,186,805	$ 266,900
Vacancy Factor (09)	-	-	-	-	-
Vacancy Factor (10)	-	-	-	-	-
Salary and Wage Adjustments		100,837.00	-	100,837	-
Subtotal	*28.00*	*$ 3,405,256*	*$ 882,386*	*$ 4,287,642*	*$ 266,900*
Transfer of Economic Growth Services	9.00	1,006,971	451,233	1,458,204	871,332
Transfer of Confidential Secretary to Mayor	1.00	115,683	-	115,683	-
Transfer of Council Reps. from Admin. Dept.	3.00	293,493	6,000	299,493	-
Subtotal	*13.00*	*$ 1,416,147*	*$ 457,233*	1,873,380	*$ 871,332*
Additions					
Economic Development Program Manager	1.00	144,515	50,000	194,515	194,515
Redistribution From NPE to PE	-	18,000	(18,000)	-	-
Temporary Help for IRD	-	65,906	-	65,906	-
Automated System for EZ Program	-	26,000	75,000	101,000	101,000
IT Adjustments	-	-	88,211	88,211	-
Non-Discretionary Adjustment	-	-	6,518	6,518	-
TOT Reimbursement	-	-	-	-	30,000
Revised User Fee for EGS	-	-	-	-	225,000
Reductions					
FY 2009 1st Qtr. Budget Adjustment	(4.00)	(341,923)	(119,250)	(461,173)	-
FY 2010 Reduction	(1.00)	(99,019)	-	(99,019)	-
Revised Revenue Projection	-	-	-	-	(82,503)
Subtotal	*(4.00)*	*$ (186,521)*	*$ 82,479*	*$ (104,042)*	*$ 468,012*
TOTAL	**37.00**	**$ 4,634,882**	**$ 1,422,098**	**$ 6,056,980**	**$ 1,606,244**
Difference from 2009 to 2010	**9.00**	**$ 1,330,463**	**$ 539,712**	**$ 1,870,175**	**$ 1,339,344**

transferred from the City Planning and Community Investment Department to report to Community & Legislative Services. The proposed budget reflects this change.

As to the rationale for the movement of EGS to the department, the IBA was informed that the Mayor wanted to make jobs and revenue growth a top priority. He believed moving EGS under his direct supervision would reflect that priority and potentially improve EGS effectiveness.

Other Department Transfers

A total of 3.00 Council Representatives from the Administration Department and 1.00 Confidential Secretary to the Mayor have been transferred to the Department in an effort to properly reflect the organization and duties of these positions, as they currently support the Department.

Budget Reductions

In the First Quarter FY 2009 Budget Reduction process 3.00 FTEs were eliminated. These positions were: 2.00 Council Representative II positions; 1.00 in Policy and 1.00 FTE in Communications; and 1.00 Clerical Assistant II in the Docket Office. As a result of these reductions in Policy and Communications, the workload, which includes responding to Public Records Act requests, will be distributed among remaining staff. Also, the Docket Office anticipates a reduced workload beginning FY 2010 in light of the implementation of the new e1472 system.

Staff has confirmed that a fourth position, 1.00 Community Development Specialist IV, was eliminated in the First Quarter Reduction process, however in the First Quarter this position was budgeted in the EGS Department, which has since been transferred and its reductions are not reflected in the Community and Legislative Services budget.

An additional 1.00 Council Representative II has been reduced in the department for FY 2010. This position held the title of Protocol Director. Staff indicated that the duties that were formerly performed by this position will be fulfilled by the Director of Boards and Commissions, who will carry both titles. There is no anticipated impact from the elimination.

Approximately $119,000 was reduced in the First Quarter from the Non-Personnel Expense reductions in CityTV. Staff has indicated that this funding relates primarily to engineering services that will now be funded from a Cox grant fund. Staff confirmed that $50,000 in closed captioning for CityTV has been included in the budget for FY 2010.

Budget Additions

It should be noted that the Mayor is proposing to add 1.00 Program Manager to EGS in FY 2010. The IBA was informed that this proposal is linked to the decrease in TOT funding (from $619,000 to $50,000) to the Economic Development Corporation (EDC). The Program Manager position will be assessing the services that the EDC provided to the City in FY 2009 such as advertising, trade show representation, promotional luncheons, etc., and determine how these promotional services might better be directly provided by the City. It is possible that EGS staff may also report to the Program Manager although EGS already has four supervisor level positions that report to the Mayor's Director of Policy.

The Program Manager position will be funded with TOT at a cost of $194,515 which includes $50,000 of associated NPE. Given the four existing supervisorial positions and EGS staff with considerable economic development expertise, the IBA questions whether the proposal to add a Program Manager is necessary or if the work, as described above, could otherwise be capably performed by one or both of the two Community Development Coordinators managing the two work programs within EGS. These programs typically receive increased utilization with effectively placed promotional activities.

Approximately $65,000 has been budgeted for temporary work performed by staff to reimburse the Water Department. Staff indicated that additional services are necessary due to increased workload on Intergovernmental Relations Department issues.

Performance Measure Impacts

According to Department staff, the estimated $231 million decrease in "Regional dollars lobbied for and received which directly benefit the City of San Diego," is the result of the fact that in previous years the City and SANDAG secured Proposition 1B funding—in FY 2008 the Corridor Mobility Improvement Account and the Trade Corridor Improvement Fund in FY 2009. Staff indicated that Proposition 1B funds are one-time revenues and the majority of the funds have now been allocated. Staff also noted that the $200 million target for FY 2010 reflects anticipated funding from the Transportation Reauthorization and American Recovery and Reinvestment Act of 2009, and some potential remaining Proposition 1B funds, whose allocation is dependant on the final State budget resolution.

In light of the present economic downturn, the projection for number of jobs created in the City has been adjusted significantly down from an estimated 3,665 new jobs in FY 2009 to a target 916 new jobs projected in FY 2010. Similarly, net tax revenue increase has been adjusted downward.

However, on a more positive note, target rates for FY 2010 show a significant increase in CleanTech jobs and a 42% increase in the number of businesses participating in the Enterprise Zone Program.

Debt Management

Effects of Budget Proposal

The Proposed Budget for the Debt Management Department is decreased by $32,460. Total staff positions are reduced by 1.00 FTE and budgeted revenue is projected to decrease by $105,600.

Budget Additions

The department is adding 4.00 Debt Management Program Coordinators. These are unclassified positions intended to enable department management to attract employees with debt management expertise. Funding for these positions is covered by the reduction of 5.00 FTEs as described below.

Budget Reductions

The department is eliminating 5.00 classified Senior Management Analyst Positions in an effort to fund and recruit staff with more debt expertise via the 4.00 new Debt Management Program Coordinator positions described above. The $105,600 reduction in revenue is attributed to projected changes in reimbursements for services provided to other departments, agencies and funds.

Performance Measure Impacts

The department will have facilitated multiple debt issuances and filed many continuing disclosure annual reports in the second half of FY 2009 and first half of FY 2010. Several performance measures have been established to assess the effectiveness of these work processes. Estimates for these measures look good for FY 2009. Bond pricing objectives, timeliness of financial reporting, offering document disclosures that adhere

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	22.00	$ 2,402,590	$ 351,326	$ 2,753,916	$ 1,243,485
Vacancy Factor (09)		61,295		61,295	-
Vacancy Factor (10)		(55,316)		(55,316)	
Salary and Wage Adjustments		(27,131)		(27,131)	-
Subtotal	*22.00*	*$ 2,381,438*	*$ 351,326*	*$ 2,732,764*	*$ 1,243,485*
Additions				-	
Debt Mgmt. Program Coordinators	4.00	449,382	-	449,382	
IT Adjustments			60,857	60,857	
Reductions				-	
Senior Management Analysts	(5.00)	(518,777)		(518,777)	
Revised Revenue Projections					(105,600)
Non-Discretionary Adjustments			(2,770)	(2,770)	
Subtotal	*(1.00)*	*$ (69,395)*	*$ 58,087*	*$ (11,308)*	*$ (105,600)*
TOTAL	**21.00**	**$ 2,312,043**	**$ 409,413**	**$ 2,721,456**	**$ 1,137,885**
Difference from 2009 to 2010	**(1.00)**	**$ (90,547)**	**$ 58,087**	**$ (32,460)**	**$ (105,600)**

to DPWG Controls and Procedures, and the completion of priority City financings are all measures that should continue to be evaluated when actual data for the upcoming activity is reported.

Development Services Department

Effects of Budget Proposal

The Mayor's Proposed Budget for the Development Services Enterprise Fund is $45.9 million, a 7% reduction from FY 2009. The net expenditure reduction is primarily due to the following:

- A vacancy rate of 28%
- Reduction of 28.00 positions
- Transfer of 15.00 positions to the Fire-Rescue Department

Balancing the Development Services Enterprise Fund

The DSD Enterprise continues to face significant challenges balancing their fund due to the current economic climate. The DSD Enterprise fund serves the construction industry and the health of that industry 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 and revenue. As the following table indicates, the department has seen a substantial slowdown in Building Permits over the last three years:

	FY 2008	FY 2009	FY 2010
Building Permits Issued	8,225	7,380	6,160

As the economy continues to decline, de-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	453.00	$	36,722,730	$	12,558,433	$	49,281,163	$	49,537,998
Vacancy Factor (09)			9,754,829				9,754,829		-
Vacancy Factor (10)			(9,214,290)				(9,214,290)		
Salary and Wage Adjustments			70,251				70,251		-
Subtotal	*453.00*	*$*	*37,333,520*	*$*	*12,558,433*	*$*	*49,891,953*	*$*	*49,537,998*
Transfer to Fire-Rescue Department	(15.00)	$	(1,865,527)	$	(129,140)	$	(1,994,667)	$	(1,994,667)
Subtotal	*(15.00)*	*$*	*(1,865,527)*	*$*	*(129,140)*	*$*	*(1,994,667)*	*$*	*(1,994,667)*
Additions									
Non-Discretionary Adjustments	-		-		938,286		938,286		-
Contractual Services	-		-		37,033		37,033		-
Reductions									
Personnel Reductions	(28.00)		(2,707,000)		-		(2,707,000)		-
IT Adjustments	-		-		(240,152)		(240,152)		
2007 Wildfire Revenue Reimbursement	-		-		-		-		(700,000)
Subtotal	*(28.00)*	*$*	*(2,707,000)*	*$*	*735,167*	*$*	*(1,971,833)*	*$*	*(700,000)*
TOTAL	**410.00**	**$**	**32,760,993**	**$**	**13,164,460**	**$**	**45,925,453**	**$**	**46,843,331**
Difference from 2009 to 2010	**(43.00)**	**$**	**(3,961,737)**	**$**	**606,027**	**$**	**(3,355,710)**	**$**	**(2,694,667)**

partment management has employed multiple measures to address the shortfall in revenue. Many of the measures were included in the FY 2009 Budget and continue through the FY 2010 Proposed Budget. The measures include:

- Vacancy Savings.
- Personnel Reductions.
- Full cost recovery of staff services due to the implementation of Fee Study (Still to be approved by the City Council).
- Efficiencies approved through the implementation of the Department's Business Processing Reengineering (BPR) process (Approved by the City Council on October 14, 2008).
- Consolidation of Facilities.

Vacancy Savings

Department management continues to include a high vacancy savings in their operating budget. The FY 2009 Annual Budget included $9,754,829 or 27% of personnel expenses and the FY 2010 Proposed Budget includes a vacancy savings of $9,214,290 or 28% of personnel expenses. In terms of positions the FY 2009 vacancy savings equated to 91.00 vacant positions and the FY 2010 Proposed Budget is 85.00 positions.

The challenge to department management is predicting the staffing needed to meet demand fluctuations. Management has taken the approach of not reducing a substantial number of positions from the budget but keeping them vacant. If the economy turns around, the department would then fill the vacant positions to address the increased workload. However, it should be noted that for FY 2010, management is not anticipating an increase in workload and has elected to reduce 28.00 positions.

Personnel Reductions

DSD's FY 2010 Proposed Budget includes the reduction of 28.00 positions which are currently occupied. Due to an estimated revenue shortfall of $7.4 million (Charter 39 Period 9 Report) in FY 2009, department management decided to accelerate the layoffs to ensure that the DSD Enterprise Fund ends the Fiscal Year balanced. In effect, the positions that were proposed to be laid off with the FY 2010 Proposed Budget have already been dismissed. Management has indicated that this measure was drastic but due to the economy they were left with few choices.

Department management has indicated that there could be a short-term impact to service levels due to the reductions but once staff becomes familiar with their new or increased assignments, the effect will be minimal. However, management has indicated that if the economy continues to decline additional reductions might be required in FY 2010. The following table details the 28.00 positions proposed to be reduced from the FY 2010 Budget:

Position Title	FTE
Associate Engineer -Civil	(1.00)
Associate Engineer - Electrical	(1.00)
Associate Engineer - Mechanical	(1.00)
Associate Planner	(2.00)
Auto Messenger II	(2.00)
Combination Inspector II	(4.00)
Development Project Manager I	(1.00)
Development Project Manager II	(1.00)
Junior Engineering Aide	(1.00)
Mechanical Inspector II	(1.00)
Plan Review Specialist III	(5.00)
Plan Review Specialist IV	(1.00)
Principal Engineering Aide	(1.00)
Public Information Clerk	(1.00)
Senior Combination Inspector	(1.00)
Senior Planner	(1.00)
Structural Engineering Associate	(2.00)
Structural Inspector II	(1.00)
Total:	*(28.00)*

Fee Study

The Development Services Department has over 1,400 fees for the services provided. The last fee study that was completed was in FY 2003. Since that time operational expenses have increased causing some fees to not be cost recoverable. Over the past fiscal year DSD has been working on a fee study that will enable the department to be cost recoverable. Management has indicated that this fee study should be ready in early FY 2010.

Business Processing Re-engineering

On October 14, 2008 the City Council approved DSD's BPR. This was a culmination of a two year process that reviewed all operational aspects of the department. The BPR approved by the City Council included 125 recommendations that addressed the department's seven core functions. The FY 2010 Proposed Budget does not included additional expenditure reductions as a result of the BPR. The FY 2008 Budget already included a reduction of 54.00 positions in anticipation of the BPR's implementation. Management has stated that they are continuing to implement the 125 recommendations and that some additional efficiencies could be achieved. These efficiencies will help the department handle future increases in workload and provide better customer service without an increase in staffing or additional funding.

In addition, department management has stated that as part of the implementation of the BPR recommendations they will be reviewing the employee suggestions submitted to the Mayor prior to the development of the FY 2010 Proposed Budget. Some of these suggestions had already been reviewed as part of the initial BPR process.

One final item concerning DSD's BPR, in FY 2009 the department was not able to complete a customer service survey due to financial constraints. In the future, the customer service survey will be used to measure the impacts of the BPR on customer service. Department management has stated that if the economy continues to decline they may not be able to undertake a customer service survey in FY 2010.

Consolidation of Facilities

Currently, DSD is housed in the Development Service Center, located at 1222 First Avenue. This facility is owned by the City of San Diego. Neighborhood Code Compliance (NCC), which is a division of DSD is located in the Civic Center Plaza building which is not owned by the City of San

Diego. As a cost saving measure, management plans on moving NCC to the Development Services Center. Depending on how this is implemented this could result in a savings to either the City's General Fund, where NCC is budgeted, or DSD if NCC is charged rent.

As the City progresses through FY 2010 it is important that this fund is continuously monitored and reported on as part of the City Comptroller's Charter 39 reports given at the Budget and Finance Committee. Given the fact that DSD's fund balances continue to be low and not a viable option for offsetting deficits, balancing solutions, if necessary, will need to be implemented earlier in the fiscal year to ensure a balanced fund.

$700,000 Revenue Reduction

DSD's FY 2009 included $700,000 for reimbursement of permit fee waivers for citizens who lost their homes in the 2007 Wildfire. This reduction removes the revenue for FY 2010. It is important to note that as of April 2009 DSD has incurred $1.7 million in lost fee revenue (including the $700,000 budgeted in FY 2009) and has not been reimbursed by the Federal Government.

Neighborhood Code Compliance

Effects of Budget Proposal

The Mayor's Proposed Budget for the Neighborhood Code Compliance (NCC) Division is $6.7 million, a 3% increase from FY 2009. Significant changes from FY 2009 include the following:

- Reduction of 4.00 positions.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	68.00	$ 5,616,156	$ 883,191	$ 6,499,347	$ 730,267
Vacancy Factor (09)		131,339		131,339	-
Vacancy Factor (10)		(128,548)		(128,548)	
Salary and Wage Adjustments		154,641		154,641	-
Subtotal	*68.00*	*$ 5,773,588*	*$ 883,191*	*$ 6,656,779*	*$ 730,267*
Additions					
IT Adjustments	-	-	242,332	242,332	-
Terminal Leave	-	107,662	-	107,662	-
Redevelopment Agency Revenue	-	-	-	-	263,034
Revised Revenue	-	-	-	-	192,500
Reductions					
FY 2009 1st Qtr. Budget Adjustment	(4.00)	(275,607)	-	(275,607)	-
CDBG Revenue	-	-	-	-	(375,667)
Non-Discretionary	-	-	(22,429)	(22,429)	-
Subtotal	*(4.00)*	*$ (167,945)*	*$ 219,903*	*$ 51,958*	*$ 79,867*
TOTAL	**(4.00)**	**$ 5,605,643**	**$ 1,103,094**	**$ 6,708,737**	**$ 810,134**
Difference from 2009 to 2010	**64.00**	**$ (10,513)**	**$ 219,903**	**$ 209,390**	**$ 79,867**

- $263,034 increase in revenue from the Redevelopment Agency.
- $375,667 decrease in revenue related to Community Development Block Grants (CDBG)

Reduction of 4.00 positions

NCC's FY 2010 Proposed Budget continues the reduction of 4.00 positions taken as part of the First Quarter 2009 Reductions. These positions include:

Position Title	FTE
Code Compliance Officer	(3.00)
Public Information Clerk	(1.00)
Total:	*(4.00)*

Department management has stated that the Public Information Clerk position was vacant and the 3.00 Code Compliance Officers were filled and impacted. Two of the Code Compliance Officers were placed in other General Fund departments and one left the City.

Due to the reductions, NCC had to adjust enforcement priorities and suspend enforcement of certain low priority violations. These violations include the enforcement of:

- Billboards
- Garage Sales
- Noise that disturbs two (2) or fewer separate households.
- Non-Permitted accessory structures.
- Outdoor merchandise displays
- Overheight fences
- Removal of required landscaping.

Department management has stated that when the reductions were first taken in December 2008 some complaints were received for lack of service but those have tapered off.

One final note on these reductions. The FY 2010 Proposed Budget reflects the reduction of the 3.00 Code Compliance Officers from the Graffiti Control activity. Department management has stated that the positions reduced had been budgeted in the wrong activity and the Graffiti program will not experience any reductions in service.

Redevelopment Agency Revenue Increase

The FY 2010 Proposed Budget for NCC includes a revenue increase of $263,034 from the Redevelopment Agency. These funds will provide for two proactive Zoning Investigators for the City Heights Redevelopment Project Area and one to the Crossroads Project Area.

The Zoning Investigator in City Heights will primarily focus on addressing vacant foreclosed properties. The Zoning Investigator assigned to Crossroads will focus on enforcing Land Development Code regulations and monitoring multi-family housing conditions.

It should be noted that although NCC has received increased revenue from the Redevelopment Agency, new investigators have not been added to the budget. However, management has indicated that positions previously used for CDBG funded proactive enforcement will fill these roles.

CDBG Revenue Decrease

The FY 2009 Annual Budget included $550,667 in revenue reimbursement from CDBG for pro-active enforcement. This revenue was based on City Council district allocations. As part of the FY 2010 CDBG allocation, which was approved by the City Council on March 3, 2009, the allocation for pro-active enforcement was reduced by $375,667. As a result of this reduction, department management will reduce or suspend pro-active services in Council Districts that are no longer funding this service with CDBG funds.

Engineering and Capital Projects

Effects of Budget Proposal

The Mayor's FY 2010 Proposed Budget for the General Fund allocation for the Engineering & Capital Projects (E&CP) Department is $65.3 million, a less than 1% increase from FY 2009. Except for internal transfers between divisions, the FY 2010 Proposed Budget for E&CP has changed little since FY 2009.

Project Capacity

As with FY 2009, E&CP is anticipating the workload for their department to increase significantly. For FY 2010, the number of CIP projects in construction is expected to increase by almost 50% from FY 2009. Based on sizing data provided by the department, the estimated number of CIP projects in construction for FY 2009 was 153. For FY 2010 the number of projects in construction is expected to increase to 225. The reason for the increase is the City's recent re-entry into the public bond market.

Currently the E&CP department has 22.00 vacant engineering positions. This is an improvement from the 57.00 vacant engineering positions that the department had in April 2008. The department continues to interview candidates for the vacant positions. In addition, the department will pick up some of the engineers reduced from the

SUMMARY OF BUDGET CHANGES (General Fund)

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	520.50	$	55,144,845	$	10,015,088	$	65,159,933	$	63,064,976
Vacancy Factor (09)			1,391,889				1,391,889		-
Vacancy Factor (10)			(1,272,259)				(1,272,259)		
Salary and Wage Adjustments			(1,016,090)				(1,016,090)		-
Subtotal	*520.50*	*$*	*54,248,385*	*$*	*10,015,088*	*$*	*64,263,473*	*$*	*63,064,976*
Transfer to SAP Support	(1.00)	$	(61,459)	$	-	$	(61,459)	$	-
Subtotal	*(1.00)*	*$*	*(61,459)*	*$*	*-*	*$*	*(61,459)*	*$*	*-*
Additions									
IT Adjustments	-		-		1,443,939		1,443,939		-
Revenue Adjustments	-		-		-		-		433,560
Reductions									
FY 2009 1st Qtr. Budget Adjustment	-		-		(209,496)		(209,496)		-
Non-Discretionary	-		-		(125,714)		(125,714)		-
Subtotal	*-*	*$*	*-*	*$*	*1,108,729*	*$*	*1,108,729*	*$*	*433,560*
TOTAL	**519.50**	**$**	**54,186,926**	**$**	**11,123,817**	**$**	**65,310,743**	**$**	**63,498,536**
Difference from 2009 to 2010	**(1.00)**	**$**	**(957,919)**	**$**	**1,108,729**	**$**	**150,810**	**$**	**433,560**

Development Services Department due to FY 2009 and 2010 budget reductions.

Department management has stated that even with the current engineering position vacancies, they feel that will be able to handle the increased workload. In FY 2009 E&CP completed their BPR which resulted in significant restructuring of the department. The BPR accounted for a baseline workload peak and included a peak workload. The peak workload is expected to be addressed by filling vacancies, overtime, consultant services, and workload leveling such as assigning project types across divisions.

First Quarter 2009 Reductions

The FY 2010 Proposed Budget continues the $209,469 reduction in Non-Personnel expenses for outside training. Department management has stated that they will hold their own in-house training for project management/construction management and traffic operations.

CIP Prioritization

The E&CP Department continues to prioritize the City's ongoing and future CIP projects based on City Council Policy 800-14, which was approved by the Council on May 30, 2008. The purpose of the Council Policy is to allow decision makers to have a basis for choosing the most compelling projects for implementation. All projects considered for funding will be prioritized (scored) in accordance with the guidelines established in the policy. Once a ranking list is established for each category (Buildings, Drainage, Parks, Transportation, etc.) the list is to be reported by the Mayor to the Council as part of the annual CIP budget, with recommendations for funding. Upon approval of the CIP budget by the Council, the Mayor shall pursue the completion of each project phase according to the priority ranking resulting from the prioritization process.

In Goal 3, #1 of the Department's performance measures, the department is estimating for FY 2010 to prioritize 100% of Transportation projects and 70% of all other new projects. Department management has stated that that they plan on reflecting the scored projects and the ranking list for each category in the FY 2011 Proposed Budget.

Issues for Consideration

In the E&CP's Service Efforts and Accomplishments section of their FY 2010 Proposed Budget, the department outlines the projects that have been completed for FY 2009. Annually, the City's completes Capital Improvement Projects worth millions of dollars. However, besides the information contained in the City's annual budget document, it is difficult to ascertain what capital improvement projects are being completed on an annual basis. **The IBA suggests that the Mayor consider publishing a list of completed projects on the City's website. As projects are completed this list should be updated to reflect the progress made on Capital Improvement Projects.**

Environmental Services

The FY 2010 Proposed Budget for the Environmental Services Department (ESD) reflects $100.4 million in total expenditures, $50.6 million in revenue and 460.08 full-time equivalent positions. The Department consists of four primary divisions spread across five different funds, as shown in the table below. Due to the complex nature of the Department's budget structure, the discussion of ESD's FY 2010 Proposed Budget in this section is organized by fund.

Department-wide, one of the most significant budgetary impacts in FY 2010 is the implementation of a fiscal mitigation proposal brought forward by the Department in FY 2009 to protect the financial health of the Recycling Fund. The proposal includes five primary elements:

1. Increase AB 939 fees by $3/ton;
2. Transfer certain programs from Recycling Fund to Refuse Disposal Fund;
3. Increase tipping fees by $2/ton;
4. Increase the Refuse Hauler Franchise Fee by $4/ton;
5. Establish a $5/ton discount on waste disposed by the City.

These proposals are scheduled to be heard by the City Council on April 28, 2009. However, the financial impacts have been incorporated into the FY 2010 Proposed Budget. The financial impact of these proposals will be discussed in the respective fund sections.

General Fund

Effects of Budget Proposals

The FY 2010 Proposed Budget for the Gen-

Environmental Services Department - FY 2010 Proposed Budget

Division	General Fund	Energy Conserv.	Refuse Disposal	Recycling Fund	Container Replacmnt	TOTAL
Office of the Director	$ 1,582,247		$ 3,636,376	$ 2,448,136		**$ 7,666,759**
Collection Services	34,813,603		1,241,667	16,286,632		**52,341,902**
Energy Sustain. & Env. Protection	1,754,658		1,131,625	1,699,297		**4,585,580**
Waste Reduction & Disposal		1,913,461	31,432,670	1,975,517		**35,321,648**
Container Replacement					500,000	**500,000**
TOTAL DEPARTMENT	**$ 38,150,508**	**$ 1,913,461**	**$ 37,442,338**	**$ 22,409,582**	**$ 500,000**	**$100,415,889**

eral Fund portion of Environmental Services reflects an expenditure reduction of approximately $2.4 million and a net reduction in revenue of just over $500,000.

The decline in revenue is due primarily to Facility Franchise revenue now being categorized as non-departmental General Fund revenue. In the FY 2009 Budget, $615,000 in Facility Franchise revenue was transferred from the Recycling Fund to General Fund as a budget balancing solution. The remaining $1.9 million was moved to the General Fund during the FY 2009 First Quarter Budget Adjustments, and the entire $2.5 million is now reflected in the budget for Franchise Fees.

Budget Reductions

As part of the FY 2009 First Quarter Budget Adjustments, ESD eliminated four positions, including 2.00 Sanitation Drivers, 1.00 Refuse Collection Supervisor, and 1.00 Associate Management Analyst. In addition, the Department identified savings in the budget for refuse disposal fees, established a preferred disposal rate for City-hauled tons, reduced funding for automated refuse container purchases, and discontinued extra summer refuse collection in Mission Beach.

The position reductions and the elimination of extra summer refuse collection is Mission Beach have been carried forward into FY 2010. However, funding for the purchase of automated refuse containers has been restored, as this was only submitted as a one-time reduction for FY 2009. The FY 2010 impact to refuse disposal fees is discussed in the next section.

SUMMARY OF BUDGET CHANGES - GENERAL FUND (ESD)

		FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget		**156.76**	**$**	**13,588,323**	**$**	**26,922,998**	**$**	**40,511,321**	**$**	**1,665,653**
Vacancy Factor (09)		-		626,508		-		626,508		-
Vacancy Factor (10)		-		(293,548)		-		(293,548)		-
Salary and Wage Adjustments		-		(342,177)		-		(342,177)		-
	Subtotal	*156.76*	*$*	*13,579,106*	*$*	*26,922,998*	*$*	*40,502,104*	*$*	*1,665,653*
Internal Restructuring		(1.00)	$	(88,903)	$	-	$	(88,903)	$	-
	Subtotal	*(1.00)*	*$*	*(88,903)*	*$*	*-*	*$*	*(88,903)*	*$*	*-*
Additions								-		
Revenue Adjustment		-		-		-		-		20,237
Transfer from TOT Fund		-		-		-		-		58,500
Reductions										
FY 2009 1st Qtr. Budget Adjustment		(4.00)		(376,098)		(15,000)		(391,098)		-
Non-Discretionary/IT Adjustment		-		-		(1,204,056)		(1,204,056)		-
Refuse Disposal Fees		-		-		(667,539)		(667,539)		-
Removal of Sycamore Franchise Rev.		-		-		-		-		(615,000)
	Subtotal	*(4.00)*	*$*	*(376,098)*	*$*	*(1,886,595)*	*$*	*(2,262,693)*	*$*	*(536,263)*
TOTAL		**151.76**	**$**	**13,114,105**	**$**	**25,036,403**	**$**	**38,150,508**	**$**	**1,129,390**
Difference from 2009 to 2010		**(5.00)**	**$**	**(474,218)**	**$**	**(1,886,595)**	**$**	**(2,360,813)**	**$**	**(536,263)**

Recycling Fund Fiscal Mitigation

As discussed in the beginning section, to protect the financial health of the Recycling Fund, the Department has proposed, among other things, increasing the AB 939 (Recycling) Fee by $3/ton, and the Miramar Landfill "tipping" fee by $2/ton. Since the City provides refuse collection for single-family residents, these fee increases would impact the General Fund. To mitigate this impact, the Department has also proposed establishing a $5/ton discount on the disposal fees paid by the City. This preferred rate for City tons would offset any impact from the other fee increases.

However, due to a general decline in the amount of waste being collected by the City, the budget for refuse disposal fees is reduced by approximately $668,000.

Another element of the fee proposal is a $4/ton increase in the refuse hauler franchise fee. This increase would result in $1.7 million in additional revenue in FY 2010. However, this revenue is included with franchise fees in the major revenues category. This is discussed further in the General Fund Revenue section.

Employee and Citizen Suggestions

One suggestion to address the City's budget deficit offered by City employees and also by citizens at the San Diego Speaks budget forums is to reduce the frequency of residential trash collection to once every other week, with recycling collection on the opposite week. While implementing such a collection schedule would have the potential to generate significant savings, both State law and the City's Municipal Code require that trash be collected on a weekly basis.

Recycling Fund

Effects of Budget Proposals

The FY 2010 Proposed Budget for the Recycling Fund reflects a net expenditure reduction of approximately $700,000, and a $4.3 million decrease in revenue.

The significant reduction in revenue results from two primary factors. First, as part of the FY 2009 First Quarter Budget Adjustments, the Sycamore Landfill Facility Franchise Fee has been permanently transferred to the General Fund. This results in a $2 million revenue reduction to the Recycling Fund. It should be noted that $615,000 was previously transferred as part of the FY 2009 Budget.

The second factor causing the revenue decline is a sharp reduction in the market rate for recycled materials. As economic conditions have weakened, the demand for raw materials, including recyclable commodities, has fallen significantly. As a result, less revenue is generated from the sale of curbside recycling commodities. This is projected to result in a $2.1 million reduction in FY 2010.

Recycling Fund Fiscal Mitigation

Over the past several years, one of the most significant issues facing the Recycling Fund has been the steady decline in fund balance. The AB 939 (recycling) fee, the Fund's largest source of revenue, has not been increased since originally instituted in 1998, while recycling service has more than tripled. This has led to a situation where expenditures have outpaced revenues. In addition, a decline in tonnage due to diversion efforts and the weakened economy have reduced AB 939 revenue. More recently, the decline in commodity revenue and transfer of the Facility Franchise Fee to the General Fund have exacerbated the fiscal imbalance.

As previously discussed, the Environmental Services Department has brought forward a proposal to protect the fiscal health of the Recycling Fund for FY 2010. While there are several elements to the proposal, two in particular directly impact the Recycling Fund. First, several programs previously funded by the Recycling Fund will be transferred to the Refuse Disposal Fund, resulting in a reduction of 14.52 FTE positions and approximately $2.1 million in expenditures in the Recycling Fund.

Second, the Department has proposed a $3/ton increase in the AB 939 fee. This increase is expected to result in approximately $3 million in additional revenue. However, this increase is offset by the decline in tonnage, resulting in a net reduction of $450,000 from the FY 2009 Budget.

SUMMARY OF BUDGET CHANGES - RECYCLING FUND

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	**144.52**	**$**	**11,314,040**	**$**	**11,765,254**	**$**	**23,079,294**	**$**	**20,208,540**
Vacancy Factor (09)	-		1,189,541		-		1,189,541		-
Vacancy Factor (10)	-		(194,071)		-		(194,071)		-
Salary and Wage Adjustments	-		(141,200)		-		(141,200)		-
Subtotal	*144.52*	*$*	*12,168,310*	*$*	*11,765,254*	*$*	*23,933,564*	*$*	*20,208,540*
Internal Restructuring	1.53	$	158,478	$	-	$	158,478	$	-
Program Transfers to RDF	(14.52)		(1,295,273)		(756,801)		(2,052,074)		-
Transfer of Facility Franchise to GF	-		-		-		-		(1,985,000)
Subtotal	*(12.99)*	*$*	*(1,136,795)*	*$*	*(756,801)*	*$*	*(1,893,596)*	*$*	*(1,985,000)*
Additions									
Non-Discretionary/IT Adjustment	-		-		35,012		35,012		-
Clean Harbor Contract	-		-		300,000		300,000		200,000
Other Budgetary Adjustments	-		-		34,593		34,593		(11,746)
Reductions									
Recycling Fees	-		-		-		-		(445,000)
Curbside Recycling Commodity	-		-		-		-		(2,100,000)
Subtotal	*-*	*$*	*-*	*$*	*369,605*	*$*	*369,605*	*$*	*(2,356,746)*
TOTAL	**131.53**	**$**	**11,031,515**	**$**	**11,378,058**	**$**	**22,409,573**	**$**	**15,866,794**
Difference from 2009 to 2010	**(12.99)**	**$**	**(282,525)**	**$**	**(387,196)**	**$**	**(669,721)**	**$**	**(4,341,746)**

Overall, the fiscal mitigations proposed by the Department will keep the Recycling Fund from ending the fiscal year with a deficit. However, ongoing expenditures still exceed revenues by a significant margin, so more significant structural mitigation will be needed in the near future.

Refuse Disposal Fund

Effects of Budget Proposals

The FY 2010 Proposed Budget for the Refuse Disposal Fund reflects a $3.8 million increase in expenditures, and a $3.4 million reduction in revenues. Significant expenditures adjustments include the addition of $600,000 to begin addressing methane emissions from closed and inactive landfills as required by AB 32. An additional increase of $743,000 is related to anticipated increases in the cost of heavy duty leased equipment, particularly bulldozers used at landfill operations.

Recycling Fund Fiscal Mitigation

As discussed in the previous section, of one the key elements in the fiscal mitigation proposal is the transfer of certain programs from the Recycling Fund to the Refuse Disposal Fund. These transfers add 14.52 positions and approximately $2.1 million in expenditures to the FY 2010 Proposed Budget for the Refuse Disposal Fund.

Other elements of the proposal that impact the Refuse Disposal Fund are the $2/ton increase in landfill tipping fees, and the $5/ton discount for City-hauled waste. While

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	**153.95**	**$ 13,364,215**	**$ 20,281,989**	**$ 33,646,204**	**$ 34,019,892**
Vacancy Factor (09)	-	345,413	-	345,413	-
Vacancy Factor (10)	-	(264,415)	-	(264,415)	-
Salary and Wage Adjustments	-	(234,208)	-	(234,208)	-
Subtotal	*153.95*	*$ 13,211,005*	*$ 20,281,989*	*$ 33,492,994*	*$ 34,019,892*
Internal Restructuring	(0.53)	$ (64,239)	$ -	$ (64,239)	$ -
Program Transfers from Recycling Fund	14.52	1,295,273	756,801	2,052,074	-
Subtotal	*13.99*	*$ 1,231,034*	*$ 756,801*	*$ 1,987,835*	*$ -*
Additions					
Non-Discretionary/IT Adjustment	-	-	528,774	528,774	-
Increase for AB32 Compliance	-	-	600,000	600,000	-
Increase in Leased Equipment Costs	-	-	743,150	743,150	-
Other Expenditure Adjustments	-	-	194,585	194,585	-
Revenue Adjustments	-	-	-	-	683,738
Reductions					
Removal of One-Time Expenditure	-	-	(105,000)	(105,000)	-
Reduction in Refuse Disposal Fees	-	-	-	-	(4,109,119)
Subtotal	*-*	*$ -*	*$ 1,961,509*	*$ 1,961,509*	*$ (3,425,381)*
TOTAL	**167.94**	**$ 14,442,039**	**$ 23,000,299**	**$ 37,442,338**	**$ 30,594,511**
Difference from 2009 to 2010	**13.99**	**$ 1,077,824**	**$ 2,718,310**	**$ 3,796,134**	**$ (3,425,381)**

the fee increase has a positive effect on tipping fee revenue, the preferred rate for City-hauled waste has a negative effect. In addition, a significant reduction in tonnage has driven down revenues sharply. While it is difficult to isolate the impact of each one of these factors, the overall result is a significant reduction in tipping fee revenue for the Refuse Disposal Fund.

Issues for Consideration

The fiscal mitigations proposed by the Environmental Services Department are expected to keep the Recycling Fund from ending FY 2010 with a negative fund balance. However, these proposals were designed to be a one-year solution. Ongoing imbalances between revenues and expenditures will require more significant structural mitigations in the near future.

In addition, the program transfers and the discounted disposal rate for City-hauled waste will have a negative impact on the Refuse Disposal Fund. As with the Recycling Fund, the Refuse Disposal Fund is facing financial strains, particularly as increased diversion rates and lower tonnage due to economic conditions reduce the Fund's revenue base. Though not as dire as the Recycling Fund, the imbalance in the Refuse Disposal Fund will likely also require significant financial mitigation.

Finally, the People's Ordinance presents a significant challenge to the City's recycling and solid waste management programs. Because the City is unable to pass the cost of refuse collection on to its customers, the General Fund faces a significant impact from any fee increases that may be necessary to support the Recycling and Refuse Disposal Fund. To protect the General Fund, the City must find other ways to offset these increase costs.

Under the current proposal, this would be accomplished through the discounted disposal rate for City-hauled waste. However, this essentially means that commercial haulers – and hence businesses and multi-family residents – will bear the full brunt of the proposed fee increases. We are concerned that this only further exacerbates the inequitable situation in which these customers are subsidizing the services for single-family residents.

As noted in the Overview to this report, we recommend that a cost recovery fee for refuse collection be studied by a citizen's committee this summer for possible implementation in FY 2011.

Financial Management

Effects of Budget Proposal

The proposed budget for the Financial Management Department is decreased by $275,883. Although a few positions are added and eliminated as discussed below, there is no net change in staffing which remains at 31.00 FTEs. Budgeted revenue is projected to decrease by $281,089 as described below.

Budget Additions

The department is adding 1.00 Supervising Budget Development Analyst and 1.00 Senior Budget Development Analyst on a limited basis to assist with the new budget development system. These two limited positions will be reimbursed from the OneSD project fund.

It should also be noted that the department received an additional $33,501 of PE (embedded within Salary & Wage Adjustments in the table below) to cover costs associated with reclassifying (from Management Analysts to Budget Development Analysts) all of the department's analysts to a 10% higher pay grade pursuant to the approval of the FY 2009 Salary Ordinance.

The department is scheduled to receive an increase of $6,000 in TOT reimbursement revenue for administrative services associated with the safety and maintenance of visitor-related facilities.

Budget Reductions

The department has carried forward reductions made in the FY 2009 1st Quarter

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	31.00	$	3,380,133	$	891,531	$	4,271,664	$	652,784
Vacancy Factor (09)			-				-		-
Vacancy Factor (10)			(81,546)				(81,546)		
Salary and Wage Adjustments			64,376				64,376		-
Subtotal	*31.00*	*$*	*3,362,963*	*$*	*891,531*	*$*	*4,254,494*	*$*	*652,784*
Additions							-		
Public Budget Formulation Support	2.00		223,807		-		223,807		223,807
Revenue for FM Services to GF - TOT									6,000
Non-Discretionary Adjustments					223		223		
Reductions							-		
FY 2009 1st Qtr. Budget Adjustment	(2.00)		(187,724)		(223,464)		(411,188)		(136,000)
ERP Position Backfill Revenue									(96,804)
Revised Revenue Projections									(278,092)
Net IT Adjustments					(71,555)		(71,555)		
Subtotal	*-*	*$*	*36,083*	*$*	*(294,796)*	*$*	*(258,713)*	*$*	*(281,089)*
TOTAL	**31.00**	**$**	**3,399,046**	**$**	**596,735**	**$**	**3,995,781**	**$**	**371,695**
Difference from 2009 to 2010	**-**	**$**	**18,913**	**$**	**(294,796)**	**$**	**(275,883)**	**$**	**(281,089)**

Budget Adjustment. In FY 2010, these include a reduction of 2.00 Associate Management Analysts, one of which is for a limited OneSD backfill position and the other is from the Budget Monitoring Team. The total expense associated with these positions is $187,724. With the loss of the OneSD backfill position, $96,804 of associated revenue was removed from the department's budget.

Additionally, $223,464 of data processing related expense (primarily for budget development system consultant costs that are no longer required) has been eliminated from the budget. $136,000 of revenue that was to have been billed to non – General Fund departments for this consultant expense was accordingly removed.

Costs for developing the annual budget development system are no longer anticipated as they will become part of the OneSD project, so $278,092 of budgeted revenue has been removed from the department budget.

Vacancy Factor

The department has been assigned a vacancy factor of $81,546, or 2.4% of total proposed personnel expense in FY 2010. No vacancy factor was budgeted for Financial Management in FY 2009; however, the department installed a vacancy factor of $50,000 as a corrective action in the FY 2009 First Quarter Budget Adjustment. This is slightly below the overall 3% vacancy factor established for all General Fund departments (on page 20 of the Proposed Budget, Volume I); however, this is a relatively small department and the department is currently fully staffed.

Performance Measure Impacts

The department has several performance measures to gauge the accuracy and efficiency of the budget process. Under Goal 1, the percent of the General Fund operating expense budget adjusted through the year has yet to be calculated pending the Comptroller's Year-End Report in September 2009; however, as with all other departments, it is both possible and useful to provide an estimate for the current year based on data available to date. For example, the FY 2009 First Quarter Budget Adjustment was approximately $36.5 million which is approximately 3.1% of the General Fund operating expense budget. The target for this measure in FY 2010 is less than 3% variance.

Fire-Rescue

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Fire-Rescue Department totals $200.6 million, a net increase of $9.9 million, or 5.2% over FY 2009.

Budgetary increases are due to the transfer of 15.00 FTEs from the Development Services Department, new funding allocated for a Fire Station Alerting System, the lease payment for the newly acquired helicopter (funded from donations), and increased costs for motive equipment usage and assignment charges, which fund replacement costs.

Budget Reductions

The FY 2009 First Quarter Reductions for Fire-Rescue totaled $2.3 million, most significantly reducing the number of Fire Recruit Academies from two to one, implementing cross-staffing of one helicopter during the non-wildfire season, and eliminating two code compliance officers, two life-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	1,200.63	$	161,659,389	$	29,037,388	$	190,696,777	$	9,574,413
Vacancy Factor (09)			7,853,351				7,853,351		-
Vacancy Factor (10)			(7,579,587)				(7,579,587)		
Salary and Wage Adjustments			1,407,141				1,407,141		-
Subtotal	*1,200.63*	*$*	*163,340,294*	*$*	*29,037,388*	*$*	*192,377,682*	*$*	*9,574,413*
Transfer from Development Services	15.00	$	1,865,522	$	129,140	$	1,994,662	$	2,375,519
Subtotal	*15.00*	*$*	*1,865,522*	*$*	*129,140*	*$*	*1,994,662*	*$*	*2,375,519*
Additions							-		
Terminal Leave			2,051,199				2,051,199		
Non-Discretionary Adjustments					3,730,608		3,730,608		
Fire Station Alerting					1,600,000		1,600,000		
Helicopter Lease Payment					1,074,590		1,074,590		1,074,000
IT Adjustments					1,162,645		1,162,645		
Fire Marshall Addition	1.00		161,444				161,444		161,444
Support for Fee Administration	2.00		122,230				122,230		
Flight Simulator Training & Special Pay			25,000		74,000		99,000		
New/Revised User Fees							-		2,375,014
Revised Revenue Projections							-		406,321
Reductions							-		
FY 2009 1st Qtr. Budget Adjustment	(8.00)		(2,222,682)		(12,400)		(2,235,082)		109,764
One-Time Reductions			(92,000)		(1,335,248)		(1,427,248)		
BPR Adjustment			(149,885)				(149,885)		
Subtotal	*(5.00)*	*$*	*(104,694)*	*$*	*6,294,195*	*$*	*6,189,501*	*$*	*4,126,543*
TOTAL	**1,210.63**	**$**	**165,101,122**	**$**	**35,460,723**	**$**	**200,561,845**	**$**	**16,076,475**

guards, and clerical and support positions. These reductions continue in the FY 2010 Proposed Budget, generating cost savings of $2.2 million. Initially, proposed reductions totaled $4 million and included a rolling service closure of two companies per day, estimated to further reduce costs by $1.6 million.

Budget Additions

Significant additions for Fire-Rescue include $1.6 million for a Station Alerting System, needed to replace the current system which is described as rapidly deteriorating and becoming unreliable for emergency response notification. In an effort to replace this outdated technology, reduce response times and firefighter stress levels, a new fire station alerting system is planned for all fire stations. An optimal fire station alerting system should use a human voice to awaken the firefighter and night vision lighting to provide low intensity red light to illuminate the dorm and exit corridors. These features reduce the cardiac and optical stress of night alarms.

The lease purchase payment of $1.1 million for Copter 2 is added to the FY 2010 budget, funded from donations and grants. A 15-year lease-purchase agreement was initiated in FY 2008. Without additional donations, the lease payment is expected to become a General Fund obligation in FY 2011. In addition, $3.5 million has been added in FY 2010 for increased motive equipment assignment and usage costs.

Labor Negotiations

The Mayor reached agreement with the International Association of Firefighters, Local 145, which includes increased payments by employees to the retirement system of 4.3% of salary, the elimination of 17.5 days of paid holiday time accrued each year, and a reduction to annual uniform allowances from $900 to $475. Also included is the reduction to the interest crediting rate on DROP accounts. Estimated budgetary savings of the Local 145 agreement totals $5.8 million, and the Department budget will be reduced accordingly at the time of the Mayor's May Revision. Additional budgetary impacts will be implemented based on the number of employees represented by other labor organizations, including the Municipal Employees Association.

Transfer from Development Services

The FY 2010 budget includes the transfer of 15.00 positions from the Development Services Department to Fire-Rescue. These positions are assigned to the New Construction Plan Check and Inspection Program, funded from developer permits and fees. A service level agreement has been put in place between the two departments, and the transfer of the positions allows for a better utilization of resources among various activities, and improved accountability.

New Firefighter Classification

As a result of labor negotiations with Local 145, and following review and approval of their request by the City's Personnel Department and the Civil Service Commission, the Salary Ordinance for FY 2010 includes the addition of a new classification, Fire

Fighter III, with a salary range 5% higher than Fire Fighter II. It is possible that one Fire Fighter III could be assigned to each shift at each station, equating to approximately 140 positions, at an increase in pay. Preliminary estimates for the maximum budgetary impact are approximately $560,000. The FY 2010 Proposed Budget does not include the new classification, or funding for the potential promotion of current staff. This is under review by the Fire-Rescue Department and may be requested as part of the May Revision process.

Fire Recruit Academies

Due to the salary and benefit changes agreed to by Local 145, especially the interest rate change related to the DROP program, it is expected that Fire-Rescue may experience higher than normal numbers of retirements and separations in the near future. The Council previously agreed to the reduction to one Fire Recruit Academy each year, for both FY 2009 and FY 2010. However, it may be necessary to increase the size of the Academy class, or schedule additional Academies, for the coming year, if it is determined that staffing should be bolstered. The elimination of one Academy reduced costs by $715,000 in FY 2009, and the Fire-Rescue Department may need additional funding of a similar amount to re-institute additional Academies in FY 2010, depending on the staffing situation. Funding for additional Academies or increased class sizes could likely come from additional salary savings the Department may achieve, if vacancies are greater than anticipated.

Employee and Citizen Suggestions

Many suggestions were received in the area of Fire-Rescue, including several that were already in the process of implementation. Cross staffing of one helicopter during non-wildfire season was suggested, and has been implemented during FY 2009, and will continue into next year.

Other suggestions discussed the use of volunteer lifeguards, in lieu of paid employees; seeking reimbursement from the County and/or its residents for a share of the costs of Lifeguard/Beach protection; reducing four person crews to three; and eliminating take home vehicles. In some cases, public safety could be jeopardized, which needs to be carefully considered when evaluating changes to staffing and response plans.

Issues for Consideration

Brush Management

For FY 2009, six Code Compliance Officers were added to the existing staff of two to allow for the annual proactive inspection of privately owned parcels subject to brush management regulation. However, two positions were eliminated through the FY 2009 First Quarter Budget Reduction process, as the positions had not yet been filled. This is an area in which the Council has expressed great interest, in order to prevent and/or minimize future fire incidents. The reduction of two positions prolongs the time to review 100% of all parcels from a two-year to a three-year period, and may be even longer.

New/Revised User Fees

In accordance with the newly adopted Cost Recovery Policy, Fire-Rescue evaluated its fees and has recommended the establishment of new fees and increases to existing fees, where full cost recovery was not being achieved. Additional revenue of $2.37 million has been included in the proposed budget for this purpose. Council will hear the Fire-Rescue fee proposal item the week of May 4. As a result of the fee review, the Proposed Budget includes the addition of 2.00 support positions to work on fee administration.

Fire Station Master Plan

The Council's Public Safety and Neighborhood Services Committee recently received a presentation on the Fire Station Master Plan, which outlined the need for additional stations throughout the City, in order to improve response times. **While the Plan does not include the identification of specific funding sources or a timeline to implement, the Council may want to consider options or steps that should be taken to seriously advance the Plan and bring it to fruition. The item is expected to be presented to the full City Council in the near future.**

Office of Homeland Security

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Office of Homeland Security totals $1.59 million, a net decrease of $18,227 from FY 2009.

As part of the Managerial Reorganization that occurred during FY 2009, the Office of Homeland Security began reporting to the Fire-Rescue Department. In addition, approximately $84,000 was reducing by eliminating funding no longer needed for the Reverse 911 System, because the City has signed an agreement with the County to use the regional emergency notification system.

The budget includes the addition of 0.35 Police Sergeant to work on the City's Hazard Evacuation Plan and MOUs, which are supported by grant revenues, increasing revenues and expenditures by approximately $53,000. In addition, the allocation of information technology costs increases the budget by approximately $137,000.

A reduction of $112,000 reflects a one year membership waiver adopted by the San Diego Unified Disaster Council in February 2009.

Emergency Medical Services

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Emergency Medical Services Fund totals $7.27 million, an increase of $163,000, or 2.3% over FY 2009. No significant changes have been recommended in the budget.

General Services

Facilities Division

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Facilities Division reflects a net expenditure reduction of approximately $63,000, and $425,000 in increased revenue.

Notable expenditures increases include the transfer of three cost-recoverable positions from the Metropolitan Wastewater Department (MWWD) in anticipation of providing facility maintenance support through service level agreement. In addition, funding for debt service on the Deferred Maintenance Bond was increased by $281,000, bringing the total debt service budgeted in Facilities to nearly $1.2 million. The debt service for the Deferred Maintenance Bond is shared by Facilities, Street Division, and the Storm-water Department.

Significant revenue increases include $244,000 in cost-reimbursement related to the transferred positions, and a $100,000 increase in TOT funding. In FY 2009, approximately $7.5 million was allocated from the TOT Fund for promotion-related expenditures in the General Fund. The Facilities Division received $600,000 to support maintenance and repairs of regional park facilities.

Budget Reductions

Expenditure increases in the Facilities Divi-

SUMMARY OF BUDGET CHANGES - FACILITIES DIVISION

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	**109.00**	**$ 8,983,390**	**$ 6,017,695**	**$ 15,001,085**	**$ 3,354,100**
Vacancy Factor (09)	-	215,566	-	215,566	-
Vacancy Factor (10)	-	(194,008)	-	(194,008)	-
Salary and Wage Adjustments		(297,576)		(297,576)	-
Subtotal	*109.00*	*$ 8,707,372*	*$ 6,017,695*	*$ 14,725,067*	*$ 3,354,100*
Transfer from MWWD for SLA	3.00	$ 244,234	$ -	$ 244,234	$ 244,234
Subtotal	*3.00*	*$ 244,234*	*$ -*	*$ 244,234*	*$ 244,234*
Additions					
Non-Discretionary/IT Adjustment	-	-	93,686	93,686	-
Increase in Debt Service for DM Bond			281,214	281,214	
Increase in Transfer from TOT Fund	-	-		-	100,000
Other Revenue Adjustments	-	-	-	-	80,900
Reductions					
FY 2009 1st Qtr. Adjustment	(5.00)	(375,539)	(30,800)	(406,339)	-
Subtotal	*(5.00)*	*$ (375,539)*	*$ 344,100*	*$ (31,439)*	*$ 180,900*
TOTAL	**107.00**	**$ 8,576,067**	**$ 6,361,795**	**$ 14,937,862**	**$ 3,779,234**
Difference from 2009 to 2010	**(2.00)**	**$ (407,323)**	**$ 344,100**	**$ (63,223)**	**$ 425,134**

sion are largely offset by the reduction of five positions eliminated as part of the FY 2009 First Quarter Budget Reductions. These positions include 1.00 Custodian II, 1.00 Painter, 1.00 Painter Supervisor, 1.00 Plasterer and 1.00 Refrigeration Mechanic. Three additional Painter positions were also scheduled for elimination in FY 2009, but were restored by the City Council. These positions have been maintained in the Proposed Budget.

Service impacts due to the five eliminated positions include less frequent preventative maintenance to heating, ventilation and air conditioning (HVAC) systems, a reduction in vacuuming certain facilities, and increased workload for other classifications.

Deferred Maintenance Funding

On March 19, 2009, the City executed a Bond Purchase Agreement for $102.7 million in Lease Revenue Bonds to address deferred maintenance needs. This bond is anticipated to provide $24.8 million for facility improvements. This funding was budgeted as a capital project in FY 2009, so no additional appropriation is needed in FY 2010. The table at the bottom of the page provides a breakdown of the types of facility improvement projects that will be addressed with this bond funding.

Issues for Consideration

As in prior years, we are concerned that the City is prioritizing deferred maintenance at the expense of preventative maintenance. While we certainly support continuing to address the City's deferred maintenance backlog in a meaningful way, we believe that it is important to adequately fund preventative maintenance so that the backlog in deferred maintenance does not continue to grow. The Department has indicated that the issue of preventative maintenance will be addressed as part of the Facilities Division Business Process Reengineering, which is in the final stages of completion, and is expected to be brought forward for Council approval within the next several months.

Facility Deferred Maintenance

Project Type	Bond Funding	
Public Safety Facilities	$	9,340,983
Parking Lot Resurfacing		4,530,000
Roofing Projects		3,925,000
HVAC Projects		3,250,000
Plumbing Projects		1,360,000
Windows/Doors		1,000,000
Electrical Projects		950,000
Elevator Modernization		525,000
TOTAL	**$**	**24,880,983**

Street Division

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Street Division reflects an expenditure reduction of approximately $6.4 million, primarily due to the removal of $5.8 million in Proposition 1B funding. In FY 2009, the Street Division received approximately $16 million in Proposition 1B funding for street maintenance and repair. Of that amount $5.8 million was budgeted in the General Fund for slurry sealing. Due to financial conditions at the State level, the City does not expect to receive additional Proposition 1B funding in FY 2010.

Other expenditure adjustments include a $1.2 million increase in non-discretionary accounts, such as refuse disposal fees and information technology adjustment, and a $335,000 increase in debt service for the Deferred Maintenance Bond. This addition brings the total Street Division budget for debt service to just over $3 million.

Budget Reductions

As part of the FY 2009 First Quarter Budget Reductions, the Street Division eliminated three vacant positions and $1.5 million in non-personnel expense related to tree maintenance and street repair. Eliminated positions include 1.0 Public Works Supervisor, 1.0 Electrician Supervisor, and 1.0 Associate Traffic Engineer. These reductions are included in the FY 2010 Proposed Budget.

Deferred Maintenance Funding

The Deferred Maintenance Bond is anticipated to provide nearly $64 million in funding in for street and sidewalk repair. Of this amount, $54 million will be used to street

SUMMARY OF BUDGET CHANGES - STREET DIVISION

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	**253.67**	**$ 19,855,987**	**$ 31,196,021**	**$ 51,052,008**	**$ 37,574,417**
Vacancy Factor (09)	-	620,184	-	620,184	-
Vacancy Factor (10)	-	(425,945)	-	(425,945)	-
Salary and Wage Adjustments		(471,680)		(471,680)	-
Subtotal	*253.67*	*$ 19,578,546*	*$ 31,196,021*	*$ 50,774,567*	*$ 37,574,417*
Additions					
Increase in Debt Service for DM Bond	-	-	334,569	334,569	-
Non-Discretionary/IT Adjustment	-	-	1,195,547	1,195,547	-
Increase in Transfer from TOT Fund	-	-	-	-	42,702
Reductions					
FY 2009 1st Qtr. Adjustment	(3.00)	(305,637)	(1,500,000)	(1,805,637)	-
Removal of Prop. 1B Funding	-	-	(5,806,007)	(5,806,007)	(5,806,007)
Other Revenue Adjustments	-	-	-	-	(112,858)
Subtotal	*(3.00)*	*$ (305,637)*	*$ (5,775,891)*	*$ (6,081,528)*	*$ (5,876,163)*
TOTAL	**250.67**	**$ 19,272,909**	**$ 25,420,130**	**$ 44,693,039**	**$ 31,698,254**
Difference from 2009 to 2010	**(3.00)**	**$ (583,078)**	**$ (5,775,891)**	**$ (6,358,969)**	**$ (5,876,163)**

resurfacing, while $9.4 million will be directed to sidewalk repairs. It is estimated that a minimum of 78 miles of street resurfacing and 2,300 sidewalk repairs will be completed with this funding. As with the Facilities Division, these bond proceeds were budgeted in FY 2008 and FY 2009, so no additional appropriation is necessary. The table below shows the bond funding that was appropriated in prior years.

In addition to bond funding, the City expects to receive $15.5 million in Proposition 42 funds that will be allocated for street maintenance. This funding is budgeted in the AB 2928 Transportation Relief Fund, and will be reappropriated by Council action when specific maintenance contracts are brought forward. It is estimated that 155 miles of slurry seal will be completed with this funding.

Street Division Bond Funding Appropriation

PROJECT TYPE	FY 2008	FY 2009	TOTAL
Street Resurfacing	$18.5 million	$35.0 million	$53.5 million
Sidewalk Repairs	$2.0 million	$7.5 million	$9.5 million
TOTAL APPROPRIATION	**$20.5 Million**	**$42.5 Million**	**$63.0 million**

Fleet Services

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Fleet Services Division, including both the Operating and Vehicle Replacement Funds, reflects a $2.4 million expenditures reduction and a $2.9 million increase in revenues.

The revenue increase was primarily due to rate increases in assignment and usage charges. Assignment charges, which are paid by City departments for vehicle replacement, increased by $4.5 million. Usage charges, which pay for vehicle maintenance and operation, increased by $372,000. Significant expenditures adjustments include a $1.7 million non-discretionary reduction in vehicle replacement outlays.

Underutilized Vehicle Report

In FY 2009, the Fleet Services Division conducted a study of all vehicles in the City to determine whether some vehicles were underutilized. The study concluded that 145 vehicles could be eliminated from the City's fleet, resulting in annual savings of nearly $2 million citywide. These savings are budgeted in various City departments through reduced assignment and usage charges.

Issues for Consideration

In previous years the IBA has advocated for the establishment of the fuel reserve to protect against significant and unanticipated increases in fuel prices. This was a particular concern several years when gas prices were increasing at an unprecedented rate. While prices have subsided somewhat, we still believe that it would be prudent to establish a fuel reserve. However, funding constraints have thus far prevented this

SUMMARY OF BUDGET CHANGES - FLEET SERVICES DIVISION

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	**248.50**	**$ 20,896,476**	**$ 68,355,558**	**$ 89,252,034**	**$ 91,140,319**
Vacancy Factor (09)	-	443,318	-	443,318	-
Vacancy Factor (10)	-	(417,051)	-	(417,051)	-
Salary and Wage Adjustments		(434,482)		(434,482)	-
Subtotal	*248.50*	*$ 20,488,261*	*$ 68,355,558*	*$ 88,843,819*	*$ 91,140,319*
Additions					
Non-Discretionary/IT Adjustments	-	-	74,926	74,926	-
Addition of Administrative Aide II	0.50	38,750	-	38,750	-
Increase in Usage Charges	-	-	-	-	371,624
Increase in Assignment Charges	-	-	-	-	4,492,394
Reductions				-	
Underutilized Vehicle Report	-	-	(415,708)	(415,708)	(1,965,219)
Replacement Fund Non-Discretionary	-	-	(1,698,505)	(1,698,505)	-
Subtotal	*0.50*	*$ 38,750*	*$ (2,039,287)*	*$ (2,000,537)*	*$ 2,898,799*
TOTAL	**249.00**	**$ 20,527,011**	**$ 66,316,271**	**$ 86,843,282**	**$ 94,039,118**
Difference from 2009 to 2010	**0.50**	**$ (369,465)**	**$ (2,039,287)**	**$ (2,408,752)**	**$ 2,898,799**

from happening. **We recommend that a reserve be created and be funded with any year-end surpluses that may result when fuel costs are lower than anticipated**.

Communications

Effects of Budget Proposal

In FY 2009, the Communications Division was transferred organizationally from the Office of the Chief Information Officer to the General Services Department. This transfer is reflected in the FY 2010 Proposed Budget.

The Proposed Budget for the Communications Division reflects a net expenditure reduction of $368,000, and a reduction in revenue of approximately $1.1 million.

Significant expenditure adjustments include the elimination of 3.00 Communication Technicians. These positions were offered up as part of the FY 2009 First Quarter Budget Reductions, but were not taken at that time. However, they have been eliminated in FY 2010. These reductions have been partially offset by the addition of 1.00 Storekeeper II for inventory and supplies management and 1.00 Clerical Assistant II for cell phone and modem billing.

SUMMARY OF BUDGET CHANGES - COMMUNICATIONS DIVISION

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	**53.88**	**$ 5,528,219**	**$ 4,844,384**	**$ 10,372,603**	**$ 10,662,177**
Vacancy Factor (09)	-	128,996	-	128,996	-
Vacancy Factor (10)	-	(105,356)		(105,356)	
Salary and Wage Adjustments		(141,268)		(141,268)	-
Subtotal	*53.88*	*$ 5,410,591*	*$ 4,844,384*	*$ 10,254,975*	*$ 10,662,177*
Transfer to IT Department	(0.50)	$ (100,288)	$ -	$ (100,288)	$ -
Transfer to Office of CIO	(1.00)	(65,922)	-	(65,922)	-
Subtotal	*(1.50)*	*$ (166,210)*	*$ -*	*$ (166,210)*	*$ -*
Additions					
Revenue Adjustment	-	$ -	$ -	$ -	$ (1,051,648)
Position Adds	2.00	129,400	7,231	136,631	-
Non-Discretionary/IT Adjustment	-	-	33,295	33,295	-
Other Budgetary Adjustments	(0.38)	(29,295)	80,899	51,604	(48,035)
Reductions					
Position Reductions	(3.00)	(305,471)	-	(305,471)	-
Subtotal	*(1.38)*	*$ (205,366)*	*$ 121,425*	*$ (83,941)*	*$ (1,099,683)*
TOTAL	**51.00**	**$ 5,039,015**	**$ 4,965,809**	**$ 10,004,824**	**$ 9,562,494**
Difference from 2009 to 2010	**(2.88)**	**$ (489,204)**	**$ 121,425**	**$ (367,779)**	**$ (1,099,683)**

Publishing Services

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Publishing Services Division includes a $1.3 million increase in both revenue and expenditures to reflect historical trends associated with the convenience copier program. These increases are partially offset by minor adjustments in other revenue and expenditure accounts.

Contracts Division

Effects of Budget Proposal

The only significant budget adjustment for the Contracts Division is the reduction of 1.00 Principle Engineering Aide and $170,000 in non-personnel expense for HVAC repair contracts. These reductions were part of the FY 2009 First Quarter Budget Reductions.

Human Resources

Effects of Budget Proposal

The FY 2010 Proposed Budget for Human Resources totals $2.5 million, an increase of $1.6 million, or 165% over FY 2009.

The increase is due to the Managerial Reorganization which occurred during the FY 2009 First Quarter Adjustments. The Managerial Reorganization eliminated the Office of Ethics and Integrity, among other things, and its various functions have been consolidated with Labor Relations in a new department called Human Resources. Functions transferred here include Citywide Training, the Human Relations Commission, ADA and Disability Services and Diversity Commitment.

CDBG funding previously allocated for ADA administrative costs has been redirected in order to respond to concerns raised in the recent HUD Audit. This change eliminates $120,000 in revenue which previously reimbursed a portion of General Fund costs for ADA administration.

Performance Measure Impacts

The performance measures for Human Resources reflects the reorganization of the Department and now includes goals and measures for Citywide Training, ADA and Disability Services and Diversity Commit-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	7.00	$	924,982	$	38,565	$	963,547	$	-
Vacancy Factor (09)			-				-		-
Vacancy Factor (10)			(45,290)				(45,290)		
Salary and Wage Adjustments			46,270				46,270		-
Subtotal	*7.00*	*$*	*925,962*	*$*	*38,565*	*$*	*964,527*	*$*	*-*
FY 2009 1st Qtr. Budget Adjustment:									
Transfer of Citywide Training	3.00	$	238,436	$	128,289	$	366,725		
Transfer of Human Relations Comm	1.00		150,146		39,644	$	189,790		
Transfer of ADA and Disability Svcs	4.00		449,001		221,498		670,499		120,000
Transfer of Diversity	1.00		115,573		156,104		271,677		484,101
Subtotal	*9.00*	*$*	*953,156*	*$*	*545,535*	*$*	*1,498,691*	*$*	*604,101*
Additions							-		
IT Decentralization/Non Discretionary					74,855		74,855		
Reductions							-		
Revised Revenue Projections							-		(604,101)
Subtotal	*-*	*$*	*-*	*$*	*74,855*	*$*	*74,855*	*$*	*(604,101)*
TOTAL	**16.00**	**$**	**1,879,118**	**$**	**658,955**	**$**	**2,538,073**	**$**	**-**
Difference from 2009 to 2010	**9.00**	**$**	**954,136**	**$**	**620,390**	**$**	**1,574,526**	**$**	**-**

ment, in addition to Labor Relations.

For ADA and Disability Services, many of the items shown in the workload data estimated for FY 2009 have exceeded targets for FY 2009, including number of facilities surveyed for ADA compliance increased from 75 to 85, number of ADA projects managed has increased from 16 to 25 However, number of on-site inspections dropped from the target of 240 to 160 for FY 2009.

Issues for Consideration

This report contains additional discussion of ADA Compliance including IBA recommendations, in the section entitled "Significant Funding Areas."

Information Technology

Effects of Budget Proposal

The Department of Information Technology (IT), formerly known as the Office of the CIO, is comprised of both General Fund and non-general fund components. The General Fund portion of the budget reflects the General Fund share of costs for City-wide Information Technology efforts, and includes no budgeted positions.

Budget Additions

The General Fund share of funding for the new SAP Support Department of $7.6 million is reflected here. Also, the budget includes a $2.4 million transfer to the IT Special Fund component (described later), and $7.2 million for Wireless Communications (which includes lease-purchase payments of $2.9 million for the Public Safety Communications Project), now in General Services. An additional $500,000 has been included in FY 2010 for General Fund PC Replacements.

Budget Reductions

The FY 2010 Proposed Budget reflects the decentralization of General Fund information technology and telephone costs, reducing the IT Department by $16.3 million. IT adjustments/increases have been made to all departments, based on computer and telephone inventories and department-specific requirements. This is a change from 2007 when centralization of these costs was completed. Since that time, it has been determined that accountability will be increased and costs more easily controlled with a decentralized approach.

SUMMARY OF BUDGET CHANGES (General Fund)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	-	$ -	$ 24,963,599	$ 24,963,599	$ -
Vacancy Factor (09)		-		-	-
Vacancy Factor (10)		-		-	
Salary and Wage Adjustments		-		-	-
Subtotal	-	$ -	$ *24,963,599*	$ *24,963,599*	$ -
Additions				-	
Net Transfer to IT Fund			1,058,033	1,058,033	
General Fund PC Replacement			500,000	500,000	
General Fund Portion of SAP Support			7,565,861	7,565,861	
Reductions				-	
IT Decentralization to Departments			(16,336,199)	(16,336,199)	
Subtotal	-	$ -	$ *(7,212,305)*	$ *(7,212,305)*	$ -
TOTAL	**-**	**$ -**	**$ 17,751,294**	**$ 17,751,294**	**$ -**
Difference from 2009 to 2010	**-**	**$ -**	**$ (7,212,305)**	**$ (7,212,305)**	**$ -**

For the most part, these services are provided by San Diego Data Processing Corporation (SDDPC). The IT Department works closely and coordinates efforts with SDDPC. The SDDPC Budget is also discussed in the City Agencies section of this report.

In total, the costs budgeted for FY 2010 for Information Technology needs across all General Fund Departments is $234,000 less than amounts budgeted for FY 2009, suggesting no significant adds occurred during the decentralization process.

Citywide, however, total IT costs have increased $8.4 million, with significant increases shown in the Public Utilities area, and the new SAP Support Department.

Information Technology Special Fund

Effects of Budget Proposal

In FY 2009, the Communications Division was transferred organizationally from the Information Technology Fund to the General Services Department. This transfer is reflected in the FY 2010 Proposed Budget, and reduces the IT Fund by 53.88 positions and $10.37 million.

Budget Transfers

The FY 2010 Proposed Budget reflects transfers from the Communications Division, including 0.50 Department Director, which will become the Information Tech-

SUMMARY OF BUDGET CHANGES (Special Fund)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	25.50	$ 2,939,565	$ 2,092,462	$ 5,032,027	$ 2,554,314
Vacancy Factor (09)		68,005		68,005	-
Vacancy Factor (10)		(50,748)		(50,748)	
Salary and Wage Adjustments		(34,456)		(34,456)	-
Subtotal	*25.50*	*$ 2,922,366*	*$ 2,092,462*	*$ 5,014,828*	*$ 2,554,314*
Transfer from Communications Div	1.50	166,210		166,210	
Transfer to SAP Support	(4.00)	(449,465)		(449,465)	
Subtotal	*(2.50)*	*$ (283,255)*	*$ -*	*$ (283,255)*	*$ -*
Additions				-	
OneSD Costs			100,000	100,000	
IT Support/Purchases			98,306	98,306	
General Fund Support					1,059,798
Non General Fund Support					850,480
Reductions					
FY 2009 1st Qtr. Budget Adjustments	(2.00)	(215,988)	(139,000)	(354,988)	
IT Adjustments			(26,231)	(26,231)	
Non-Discretionary Adjustments			(36,978)	(36,978)	
Subtotal	*(2.00)*	*$ (215,988)*	*$ (3,903)*	*$ (219,891)*	*$ 1,910,278*
TOTAL	**21.00**	**$ 2,423,123**	**$ 2,088,559**	**$ 4,511,682**	**$ 4,464,592**
Difference from 2009 to 2010	**(4.50)**	**$ (516,442)**	**$ (3,903)**	**$ (520,345)**	**$ 1,910,278**

nology Director, currently being recruited, and1.00 Payroll Specialist.

Due to the creation of the SAP Support Department, four positions have been transferred from the IT Fund, including the OneSD Project Manager, reducing the budget approximately $450,000.

Budget Reductions

FY 2009 First Quarter Budget Reductions were made, eliminating 2.00 Information Systems Analysts, which is described as severely limiting the ability to provide project management assistance for projects outside the department, and also reducing the ability to provide oversight, training, and maintenance. Also reduced were GIS support provided by contractors, and contractual support used to evaluate and integrate new features and technologies into the City's websites. These reductions continue in FY 2010.

Budget Additions

Additions to the IT Fund include $98,000 to support hardware and software purchases, and training and consulting, including City-wide eLearning for Microsoft Suite 2007, as well as contract labor for Adobe eControl. An additional $100,000 has been included for Citynet/Netweaver Portal Integration related to the OneSD project.

Both the General Fund and non-general fund departments contribute a portion of the costs to support the IT Fund. In FY 2009, funding support was reduced to utilize fund balance accumulated over prior years. These amounts are increased in FY 2010, with an additional $1.06 million coming from the General Fund's IT Department (described earlier), and an increase of $850,000 allocated among non-general fund departments. In total, the General Fund will contribute $2.48 million, while the non-general funds will provide the remaining $1.98 million.

Issues for Consideration

Increasing Fund Balance

The Revenue and Expense Statement of the IT Special Fund reflects a beginning balance of $1.9 million. Estimated revenue to be received from the General Fund and other non-general fund departments total $4.6 million and slightly exceed the budgeted expenses of $4.5 million for FY 2010, resulting in an increase to the balance shown. In addition, $500,000 is shown to be a contingency for Information Technology, while at the same time, $500,00 has been added to the General Fund IT Department for PC Replacement. Due to the reorganization of the Communications Division, a new fund is created in the budget, and it also reflects a fund balance of $1.1 million. Based on our review, the balances may be greater.

The IBA recommends further review of the status of these funds, and suggests the reduction of City contributions, in order to utilize the accumulated fund balances. Approximately 55% of the IT funds and 78% of the Communications funds originate from the General Fund. Use of these fund balances could possibly save the General Fund at least $2 million.

Library

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Library Department totals approximately $38.3 million, a net increase of $1.3 million, or 3.5% from FY 2009. The Department also has another funding source in addition to the General Fund, the Library Grants Fund.

This increase is primarily the result of a new facility - the opening of the Logan Heights Branch Library, scheduled for the fall of 2009.

When presenting his FY 2010 Proposed Budget, the Mayor noted that the Proposed Budget was drafted with community input from the San Diego Speaks public hearing process in mind, as a significant portion of constituents expressed their desire to avoid further service level reductions in the Library Department.

This decision is a significant shift in policy since the FY 2009 First Quarter Budget Reductions, at which time seven libraries were initially slated for closure.

In prior years' budget reviews, the IBA highlighted the comparative deficiencies in the Library Department's expenditures, operating hours, and full-time equivalents, among

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	375.21	$ 27,800,936	$ 9,212,621	$ 37,013,557	$ 1,745,548
Vacancy Factor (09)	-	612,688	-	612,688	-
Vacancy Factor (10)	-	(594,768)	-	(594,768)	
Salary and Wage Adjustments	-	(455,689)	-	(455,689)	-
Subtotal	*375.21*	*$ 27,363,167*	*$ 9,212,621*	*$ 36,575,788*	*$ 1,745,548*
BPR Service Enhancements			(4,000)	(4,000)	3,870
Subtotal	*-*	*$ -*	*$ (4,000)*	*$ (4,000)*	*$ 3,870*
Additions				-	
Logan Heights Library	4.25	280,856	318,359	599,215	
IT Adjustments			1,332,238	1,332,238	
Non-Discretionary Adjustment			178,284	178,284	
Terminal Leave		119,556		119,556	
Reductions				-	
FY 2009 1st Qtr. Budget Adjustment	(1.00)	(93,862)	(250,000)	(343,862)	
Elimination of Photocopy Service			(130,692)	(130,692)	(160,000)
FY 2010 Revenue Projections Adjustment				-	(50,000)
Non-Discretionary Adjustment			(10,892)	(10,892)	
Subtotal	*3.25*	*$ 306,550*	*$ 1,437,297*	*$ 1,743,847*	*$ (210,000)*
TOTAL	**378.46**	**$ 27,669,717**	**$ 10,645,918**	**$ 38,315,635**	**$ 1,539,418**
Difference from 2009 to 2010	**3.25**	**$ (131,219)**	**$ 1,433,297**	**$ 1,302,078**	**$ (206,130)**

other measures. Although no significant reductions have been proposed for FY 2010, the upcoming year may be an opportunity to assess the long-term vision for the Department, particularly the status and the future of the Library Expansion Plan, as resources continually decline or are redirected.

The Department's Budget includes a vacancy factor of $594,768, a slight decrease of $17,920 from FY 2009. At Mid-Year in FY 2009, the Department is estimated to expend approximately $508,000 less than budgeted, and according to the April 13, 2009 memorandum from the Business Office, the department has a total of 28 vacant and reserved-to-be-filled positions. More recently, Library staff has indicated that they are moving forward to recruit and hire for vacant positions in FY 2010.

Budget Reductions

In the First Quarter Budget Reduction process, 1.00 Associate Management Analyst position was eliminated. Library staff has confirmed that this position was vacant and no anticipated negative impact to service will result from this reduction.

The Library Matching Funds for donations were reduced by $250,000, from $1.5 to $1.25 million in the FY 2009 First Quarter Reductions and this reduction has been carried through FY 2010. As reported to the Board of Library Commissioners on April 1, 2009 by San Diego Public Library Foundation, as of April 2009 fundraising totals over $1.00 million, on track to meet $1.25 million by the end of FY 2009.

Budget Additions

The Proposed Budget includes the addition of 1.00 Librarian II, 1.00 Library Assistant, 1.00 Library Clerk and 1.25 Library Aide at $280,856 PE and $318,359 NPE, totaling $599,215 for the new Logan Heights Branch Library. The new facility is 25,000 sq. ft., which is significantly larger than the old 3,967 sq. ft. facility, and as a result will require this additional staffing.

User Fees

On April 20, 2009, the City Council voted to approve an increase in overdue fines from $0.25 a day to $0.30 a day for Adult Library Fines. As a result, the Department estimates an increase of $110,000 in revenue for FY 2010. This new revenue will be used to address the shortfall in the Adult Fine revenue budget, which was budgeted at $685,000 for FY 2009, but actual revenue of $565,000 is projected. The Department's FY 2009 total projected revenues indicate that the Department will be under budget by $464,000, or 27%, at the end of the fiscal year, therefore this new revenue is an important part of meeting the FY 2010 revenue projections.

Performance Measure Impacts

Performance Measures show that the Department estimates that by the close of FY 2009, 100% of the Express Check plan will be implemented. Staff has confirmed that the plan is successfully progressing and the last remaining self-check machines are anticipated to arrive in the near future. Staff estimates that approximately 53-55% of items are now currently checked out using the new self-check machines at the Central Library.

Measures indicate that Library expenditures per capita declined 32% from FY 2006 to FY 2007 and have stagnated in recent years. The figures are expected to increase slightly from $2.86 per capita expenditures in library materials in FY 2009 to $2.94 per capita in FY 2010. The IBA noted in the past that Library expenditures usually range from 17 to 19% of a Library's budget. In FY 2010, expenditures for books are proposed to be budgeted at the same level as in prior years, at approximately $1.84 million, or 4.8% of the total FY 2010 Proposed Budget.

Overall, the Department's performance measure targets for FY 2010 have generally plateaued. These include: attendance in programs, number of juvenile cardholders, circulation per capita and number of users of the library's website, catalog, and databases. Staff has noted increased use at Library facilities, however this trend has not yet fully materialized in the Department's monthly performance data.

Library Usage Data

The Library collects monthly statistics including a door count at all of its facilities. Data obtained from FY 2008 and FY 2009 does not indicate any clear trends for each branch library, although monthly usage has increased in the Library system-wide. Staff notes that data is not easily comparable since in some cases library branches have had to temporarily close due carpet replacement or other interruptions. Additionally, door counts may not properly capture all Library patrons, for example those using community meeting rooms.

Business Process Reengineering and Other Efficiencies

The FY 2010 Budget includes an anticipated cost of $4,000 and corresponding $3,870 in revenue related to Business Process Reengineering. Library staff has indicated that the Department has begun implementing a new system, which emails patrons due date reminders prior to the return date.

Staff indicated that the implementation of new pay-for-print system allows patrons to self-serve when printing from library computer stations is in progress and will continue into FY 2010. This system "increases self-service options for patrons and reduces the time it takes for staff to collect money and handle printouts."

Other efficiencies that staff noted include greater access to services such as renewals over the internet, downloadable audio books and videos, as well as added resources for students through a partnership with the San Diego Unified School District. Possible future plans include an online payment system for library bills and fines.

Employee and Citizen Suggestions

The Library Department ranks high among the priorities expressed by the public in the San Diego Speaks public hearing process. Many individuals highlighted the importance of preserving Library funding and stressed the value of the resources such as access to the internet, children's reading programs and the use of community meeting rooms, among other examples, to underscore the importance of the library in their community. Some possible suggestions that City employees offered, but that were not budgeted in FY 2010, included: reductions in Library hours, alternating library closures for nearby libraries, joint regional agreements between the City, County or school districts, creating partnerships with the business community to help fund library materials, and allowing private companies to operate coffee shops in libraries, among others.

Although no immediate reductions threaten the Department in FY 2010, it is important for the Mayor and Council to weigh such suggestions in FY 2010, prior to the FY 2011 budget process.

Capital Improvements Program

On April 22, 2009, the Department issued an update on the status of the Library's planned capital improvement projects. The status of the following projects was reported:

As of April 2009, no further progress has been made with the construction of the new downtown library. The California State Library Foundation has extended its commitment of a $20 million grant to July 1, 2009 pending satisfactory progress in securing further funding and planning of the project. The San Diego School District continues to explore legal options for including a school in the Library without requiring major changes to the current design.

Library staff has confirmed that a previous commitment from a private donor in the amount of $3.5 million for the Skyline Hills Library has expired as a result of insufficient progress in the planning and construction of the project. As a result, any future development will depend on a commitment of additional City funds.

The Mission Hills, San Carlos and North Park Libraries are all in various stages of planning, however lack sufficient funding for construction and on-going operational costs. Plans for the Mission Hills Library require some modifications and additional feedback from the community. Similarly, San Carlos Library plans require further review and community input. The North Park Redevelopment Project Area Committee approved moving forward with additional study of the site for the North Park Library.

Long-Term Strategic Library System Plan

In the FY 2009 Budget Amendment report to Council, the IBA noted that five proposed libraries are in various planning stages: Balboa, Mission Hills/Hillcrest, North Park, Paradise Hills and San Ysidro. These new libraries are classified as replacement libraries for existing nearby branches, however, it may be useful to develop a long-term strategy to replace these branches in a phased-in approach over a period of time. These considerations should be addressed if planning and construction are not moving forward, in order to effectively communicate to the public the policy approach of the Mayor and the City Council.

As noted in IBA Report 08-118, "Recommended Actions FY2009 Budget

Adjustment Proposal", the Library Facilities Improvement Program has not been updated since its inception in 2002. In summary, "Projects have not been reevaluated or reprioritized with an eye towards the City's operating budget capacity. Projects have been delayed due to lack of capital funding so the focus has been on pursuing those where grants or developer money has been received. At the same time, the issue related to operating costs has not been reconsidered in light of the City's ongoing budget challenges." A revised comprehensive plan is needed to address this issue with the cooperation of all stakeholders.

Deferred Maintenance

In March 2009, the City executed a $103 million Bond Purchase Agreement for Lease Revenue Bonds. In a March 19, 2009 memorandum to the Council, the Chief Financial Officer included the following Library projects on the list of "priority areas" to benefit from this financing:

- Ocean Beach and Mission Hills roofing projects, totaling $150,000 and $75,000, respectively
- North Park Library and Pacific Beach Library HVAC Projects, totaling $250,000 and $550,000, respectively
- Main Library plumbing project at $350,000
- Rancho Bernardo Library elevator modernization at $25,000

In addition, Library staff expressed that positive progress has been made to address deferred maintenance projects. For example, the department has worked with the Environmental Services Department to replace energy efficient lighting and windows at some branch libraries, in an effort to conserve energy and costs.

State Library Grants Fund Reinstatement

In FY 2010, the Library anticipates an additional $455,000 in revenue from the State Public Library Fund. This funding was initially expected to be eliminated in FY 2009, however a portion was eventually received and funding is expected to continue in FY 2010. In previous years, the Department has budgeted FTE positions in this fund, however no positions are budgeted in FY 2010. Department staff has indicated that funding will be used to augment the number of hourly positions, training, and special memberships.

Issues for Consideration

Library Operations and Maintenance Fund

As of April 2009, the balance of this fund totals $1.075 million. The Library has been contributing $300,000 annually to this fund, which is designated for funding the operations and maintenance of new libraries, in accordance with the expansion plan.

With the expansion plans on hold, the IBA recommends that the use of the accumulated funds in the Library Operations and Maintenance Fund and the annual contribution from the General Fund be carefully reevaluated and recommendations for the fund be pre-

sented to the Budget and Finance Committee by September 2009.

Library System Improvements Fund

The Library System Improvements Fund is a separate fund established as part of the Library Facilities Improvement Program to provide lease payments related to debt issuances, payments for project costs and management cots. As the City has not initiated any debt issuances, the program has not been fully implemented. The IBA proposed the use of this fund during discussion of the First Quarter FY 2009 budget reduction process as a way to continue library services and the FY 2010 Proposed Budget includes the transfer of $4.3 million from this fund. Financial Management staff has indicated that the transfer of $4.3 million will deplete this fund.

Library Ordinance

Municipal Code §22.0228 requires that the City Manager (Mayor) propose the budget for the Library Department equal to no less than 6% of the total General Fund proposed budget. However if the City Manager (Mayor) "determines that anticipated revenues in any fiscal year will be insufficient to maintain existing City services necessary for the preserving the health, safety, and welfare of the citizens, the City Manager may ask the City Council to temporarily suspend compliance with this Section." By majority vote, the City Council may waive compliance with this section.

The Mayor has not made this request of the Council, although the Proposed Budget is not equal to 6% as required by the Municipal Code. A total Library Department Budget of $68.8 million would be necessary to meet this requirement. As noted in our past reports, the IBA encourages the Council to consider pursuing alternatives to the Library Ordinance that reflect more realistic and historic funding levels.

Board of Library Commissioners of the San Diego Public Library

At the most recent meeting of the Board on April 22, 2009, the Board voted to support the Library Department's FY 2010 Proposed Budget. Additionally, the Board moved to urge the City Council to restore the Library Improvements System Fund balance in the future following the proposed transfer in FY 2010.

Metropolitan Wastewater

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Metropolitan Wastewater Department reflects a net expenditure decrease of $3.4 million, a revenue decrease of approximately $48.7 million, and the reduction of 13.00 positions.

The significant decrease in revenue is primarily due to a $40.8 million reduction in budgeted bond proceeds. On April 13, 2009, the City Council approved issuance of Sewer Revenue Bonds and Sewer Revenue Refunding Bonds. As part of this bond issuance, $145 million in net "new money" proceeds will be generated to finance Wastewater System capital improvements. However, at the time the budget was developed, it was not believed that all of these proceeds would be expended in FY 2010. As a result, only $65.4 million in bond proceeds is budgeted in FY 2010. However, the execution rate of capital projects has begun to accelerate, and it is the Department's intention to expend as much of the new money proceeds as possible in FY 2010.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	840.50	$ 80,258,389	$ 420,060,011	$ 500,318,400	$ 486,768,000
Vacancy Factor (09)	-	1,557,244	-	1,557,244	-
Vacancy Factor (10)	-	(1,635,362)	-	(1,635,362)	-
Salary and Wage Adjustments		(1,307,100)		(1,307,100)	-
Subtotal	*840.50*	*$ 78,873,171*	*$ 420,060,011*	*$ 498,933,182*	*$ 486,768,000*
Transfer to Facilities Division	(3.00)	(244,234)	-	(244,234)	-
Subtotal	*(3.00)*	*$ (244,234)*	*$ -*	*$ (244,234)*	*$ -*
Additions				-	
Capital Improvement Program	-	-	30,962,286	30,962,286	-
Non-Discretionary/IT Adjustments	-	-	5,707,576	5,707,576	-
Other Budgetary Adjustments	-	138,304	546,398	684,702	379,556
Sewer Service Charges	-	-	-	-	1,000,000
Reductions				-	
Consolidation with Water Dept.	(10.00)	(933,943)	-	(933,943)	-
Elimination of Director's Contingency	-	-	(8,001,297)	(8,001,297)	-
Unbudgeting of Operating Reserve	-	-	(30,202,216)	(30,202,216)	-
Bond Proceeds	-	-	-	-	(40,775,000)
Capacity Charges	-	-	-	-	(9,300,000)
Subtotal	*(10.00)*	*$ (795,639)*	*$ (987,253)*	*$ (1,782,892)*	*$ (48,695,444)*
TOTAL	**827.50**	**$ 77,833,298**	**$ 419,072,758**	**$ 496,906,056**	**$ 438,072,556**
Difference from 2009 to 2010	**(13.00)**	**$ (2,425,091)**	**$ (987,253)**	**$ (3,412,344)**	**$ (48,695,444)**

Another significant revenue adjustment is a $9.3 million decrease in capacity charges, as a result of depressed building permit activity. Revenue from sewer service charges is projected to increase by $16 million compared to FY 2009 year-end projections due to the scheduled May 2009 rate increase. However, due to an overestimate in FY 2009, this only results in a $1 million increase from the FY 2009 Budget.

Capital Improvements

The FY 2010 Proposed Budget for the Sewer Department includes a $31 million increase in the CIP budget, for a total of $134.1 million. The capital budget continues to focus on sewer main replacement and pipeline rehabilitation. It is anticipated that 45 miles of sewer main will be replaced or rehabilitated in FY 2010. In addition, significant funding will be appropriated for trunk sewer and pump station upgrades.

MWWD Capital Projects

Project Type	FY 2010 Appropriation
Sewer Main Replacement	$41.8 million
Trunk Sewer Upgrades	$39.2 million
Pipeline Rehabilitation	$32.5 million
Pump Station Upgrades	$8.9 million
Treatment Plant/Facilities	$5.4 million
Other Projects/Contingecies	$6.3 million
TOTAL CIP BUDGET	**$134.1 million**

It should be noted that the CIP budget for any given fiscal year only reflects funding that will be appropriated, not necessarily what will be spent. Capital projects by nature often span multiple fiscal years, and current CIP expenditures typically rely on prior year appropriations. Thus, while the FY 2010 CIP Budget for MWWD is $134.1 million, actual CIP expenditures will likely be in excess of $154 million.

Water/Sewer Department Consolidation

The Water and Sewer Departments are in the process of consolidating into a unified Public Utilities Department in order to take advantage of similarities between the departments and to create efficiencies by eliminating redundancies in overlapping functions. In the FY 2010 Proposed Budget, MWWD has eliminated eight positions and $700,000 in corresponding personnel expense as part of this consolidation. This consolidation is currently focused around the Financial Services, Human Resources and Safety & Training functions. It is likely that the Department will realize additional savings in the future as other functions are identified for potential consolidation, and as the functionality of new organizational structures and work processes are assessed.

Debt Financings and Refunding

As previously mentioned, on March 13, 2009, the City Council authorized the issuance of the 2009 Sewer Revenue Bonds and Sewer Revenue Refunding Bonds. This financing plan contemplates two or more bond issuances, beginning with Series 2009A

Bonds, which is anticipated to be issued by May 15, 2009. The 2009A Bonds will repay the $223.8 million principal on the 2007 short-term Notes, due May 15, 2009, and provide an estimated $145 million in net new proceeds for Wastewater System infrastructure improvements.

Subsequent bond issuances will be used to refund up to $900 million of outstanding Sewer Revenue Bonds if at least a 3% net present value savings can be achieved. Approximately $430 million in 2009B Bonds are anticipated to be sold by the end of May 2009.

Unbudgeting of Operating Reserve

In prior years, it was standard practice for the Sewer Department to budget their operating reserve. At the end of each fiscal year, this reserve would fall to fund balance and be budgeted again in the following year. While this practice had little operational consequence, it resulted in expenditure projections (and actual) that consistently appeared under-budget.

In FY 2010, this practice has changed to where only the adjustment in the reserve is budgeted. The reserve itself has been transferred to a general ledger account, and will no longer be reflected as part of the budget. While this does not impact the size of the reserve, it results in a one-time budgetary reduction of $30.2 million.

Park & Recreation

Effects of Budget Proposal

The Fiscal Year 2010 Proposed Budget for the Park and Recreation Department totals $87.8 million in the General Fund, a slight decrease of $490,179 from FY 2009. The Department has other funding sources, including the Golf Course Enterprise Fund, Los Penasquitos Reserve, and the Environmental Growth Funds. In total, the Department budget exceeds $116.4 million, which has decreased $5.2 million from FY 2009, primarily due to reductions in the Environmental Growth Fund, and the elimination of the Open Space Fund, due to the final payment of debt service on outstanding bonds.

Budget Reductions

The FY 2009 First Quarter Budget Adjustments reduced the Department's General Fund budget by $1.4 million. Initially, proposed reductions totaled $2.2 million and would have eliminated 49.75 positions, by closing nine recreation centers, one gymnasium, and reducing positions and hours at many other locations. Funding was identified to allow for locations to remain open, though remaining reductions became effective, including skate parks becoming unsupervised, the elimination of 6.25 Assistant Center Directors at recreation centers, and the elimination of the Competitive Level Swim Team, among other items. Additional funds of $748,000 were redirected from projects and instead transferred to the General Fund. The FY 2010 budgetary impact of these changes is the elimination of 22.95 positions and a reduction of $2.1 million.

Budget Transfers

The proposed budget reflects the transfer of the Reservoir Recreation funding to the

FY 2010 Proposed Budget - Park and Recreation

Division by Fund	FTE	PE	NPE	Total	Revenue
Mt. Hope Cemetery	12.00	818,475	818,142	1,636,617	1,252,614
Park and Rec - Administration	18.00	1,994,095	429,986	2,424,081	10,000
Community Parks I	139.87	8,713,601	9,362,265	18,075,866	1,744,307
Developed Regional Parks	319.85	21,071,798	14,288,364	35,360,162	20,227,061
Community Parks II	214.47	12,351,865	8,178,186	20,530,051	2,196,548
Open Space Division	58.75	4,601,018	5,215,462	9,816,480	3,782,485
TOTAL GENERAL FUND	**762.94**	**$ 49,550,852**	**$ 38,292,405**	**$ 87,843,257**	**$ 29,213,015**
Los Penasquitos Reserve	2.00	167,833	45,403	213,236	176,000
Golf Course Enterprise Fund	95.75	6,353,252	7,555,602	13,908,854	17,013,019
Open Space Park Facilities	-	-	-	-	-
Environmental Growth Fund(1/3)	-	-	5,552,429	5,552,429	4,654,696
Environmental Growth Fund(2/3)	-	-	8,896,882	8,896,882	9,255,891
TOTAL DEPARTMENT	**860.69**	**$ 56,071,937**	**$ 60,342,721**	**$ 116,414,658**	**$ 60,312,621**

responsibility of the Water Department, consistent with the approved Business Process Reengineering study. While funding remains in the General Fund to reimburse the Water Department for recreation activities, it is no longer reported as a Park and Recreation function. This change reduces the total Park and Recreation budget by $1.95 million. In addition, Park and Recreation received an Assistant Director position as a transfer from the General Services Department. This will allow the reinstatement of this management position, which was eliminated last year, following a retirement.

Budget Additions

New positions and funding have been included in the FY 2010 Budget to annualize the costs of facilities that opened during FY

SUMMARY OF BUDGET CHANGES (General Fund)

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	770.68	$	50,621,099	$	37,712,337	$	88,333,436	$	31,031,101
Vacancy Factor (09)			1,685,880				1,685,880		-
Vacancy Factor (10)			(1,012,537)				(1,012,537)		
Salary and Wage Adjustments			(1,474,031)				(1,474,031)		-
Subtotal	*770.68*	*$*	*49,820,411*	*$*	*37,712,337*	*$*	*87,532,748*	*$*	*31,031,101*
Assistant Director from Gen Svcs	1.00	$	179,130	$	-	$	179,130		
Reservoir Recreation to Water					(1,953,419)		(1,953,419)		(1,210,484)
Subtotal	*1.00*	*$*	*179,130*	*$*	*(1,953,419)*	*$*	*(1,774,289)*	*$*	*(1,210,484)*
Additions									
New and Annualized Facilities	13.21		849,910		762,335		1,612,245		97,095
Brush Management	1.00		93,862				93,862		93,862
Terminal Leave			13,179				13,179		
Rec Center On-Line Registration					200,000		200,000		
Mosquito Control - Kumeyaay Lake					160,000		160,000		
Regional Beach Sand Project					102,000		102,000		
Non-Discretionary Adjustments					1,178,857		1,178,857		
IT Adjustments					788,114		788,114		
Continue Funding for Children's Pool					57,551		57,551		
Net TOT for Visitor Related Facilities							-		2,366,949
Revised User Fees							-		1,167,365
Fire Pit Donation							-		172,875
Reductions							-		
FY 2009 1st Qtr. Budget Reductions	(22.95)		(1,405,640)		(715,370)		(2,121,010)		(166,100)
Reduce EGF Reimbursements							-		(3,485,000)
Reduce Brush Management Grant							-		(314,685)
Revised Revenue Estimates							-		(539,963)
Subtotal	*(8.74)*	*$*	*(448,689)*	*$*	*2,533,487*	*$*	*2,084,798*	*$*	*(607,602)*
TOTAL	**762.94**	**$**	**49,550,852**	**$**	**38,292,405**	**$**	**87,843,257**	**$**	**29,213,015**
Difference from 2009 to 2010	**(7.74)**	**$**	**(1,070,247)**	**$**	**580,068**	**$**	**(490,179)**	**$**	**(1,818,086)**

2009, and for new locations projected to open in FY 2010, for a total cost of $1.6 million and the addition of 13.21 positions, as detailed in the table below.

Other additions to the Department include funding to implement on-line registration for recreation center programs, funding for mosquito population control at Kumeyaay Lakes at Mission Trails Regional Park, and the City's contribution for a regional beach sand project.

Vacancy Factor

For the Department's General Fund divisions, the vacancy factor and related savings target has been reduced by $673,343, increasing the availability of additional funding for personnel costs. As a percentage, the vacancy savings has been reduced from 3.3% of the personnel budget in FY 2009 to 2% in FY 2010. This should assist the Department by allowing them to fill vacancies in a timely manner, provided General Fund revenues are received as planned.

Revised User Fees

In accordance with the adopted User Fee Policy, the Department reviewed its fee schedule comprised of hundred of fees for all of the programs and services offered. Proposed changes to the fee schedule were made to achieve a greater level of cost recovery, and also included new fees for youth league reservations and athletic field lights, and for special, non-exclusive use permit and special use permit holders, among others. The Park and Recreation Board considered the fees, and changes were made based on input and feedback received from the public and the board. The revised fee proposal, approved by the City Council on April 20, 2009, is estimated to generate an additional $1.16 million in revenue to the General Fund. The Park and Recreation fee schedule is available on the City's website.

Park and Recreation
FY 2010 New and Annualized Facilities

Facility Title	FTEs	Personnel Expense	Personnel Expense	Total	Est. Open Date	CD
NEW						
Additional Burial Section	1.00	61,143	5,312	66,455	Feb-2009	4
Alice Birney Elementary School Joint Use	0.05	3,057	2,737	5,794	Mar-2010	3
Citywide Maintenance FY 2010	3.05	212,414	290,000	502,414	Varies	Varies
Hilltop Community Park Phase III	0.52	31,793	5,621	37,414	Dec-08	1
Naval Training Center/Liberty Station Ph II	2.15	131,459	137,713	269,172	Nov-09	2
Ocean Air Recreation Center and Park	3.64	213,259	148,132	361,391	Sep-09	1
Open Space Additional Acres 2010	1.00	75,486	32,200	107,686	Varies	Varies
Rancho Encantada	1.00	75,486	58,762	134,248	Jul-09	7
Roosevelt Middle School Joint Use	0.07	4,279	3,236	7,515	Mar-2010	3
ANNUALIZED						
Carmel Valley Skate Park	0.13	7,948	16,600	24,548	Nov-08	1
La Mirada Elementary School Joint Use Ph II	0.10	6,115	3,773	9,888	Dec-08	8
Mira Mesa Hourglass CP Field House	0.50	27,471	58,249	85,720	Mar-09	5
TOTAL	**13.21**	**$849,910**	**$762,335**	**$1,612,245**		

Performance Measure Impacts

The Department's performance measures in the FY 2010 Proposed Budget show many positive results compared to the targets in the FY 2009 Budget. The number of volunteer hours for FY 2009 had a target of 136,000, and is now estimated at 182,000, which has become the new target for FY 2010. A target of 90% for customer satisfaction with the Park and Recreation System and its facilities determined through a survey (Goal 1, Measure 4 and Goal 3, Measure 1) were exceeded with actual data showing 92.7%. After a decline of several years in total recreation center hours of operation, FY 2010 reflects a slight increase, attributable to the opening of an additional recreation center. The number of park acres, and acres maintained continue to increase, while numbers of youth served and aquatic users are expected to be the same, as in the current year, though both have been increased from targets in the FY 2009 Budget.

Issues for Consideration

Swimming Pool Program

As part of the FY 2009 Budget, the swimming pools were placed on a schedule of rotating closures, and costs associated with the closure periods were reduced from the Park and Recreation budget. The reduction resulted in pool-related positions budgeted as if they were less than full-time all year-round. However, this has created operational and labor issues, and the Department has incurred costs in excess of budget levels, which it has had to absorb. The Department has indicated that it intends to request additional funding in the FY 2010 budget as part of the May Revision in order to correct the shortfall, and is considering options to offset the increase.

Funding for Mission Bay Park and Regional Park Improvements

The IBA has requested information about the implementation of Proposition C, which amended the City Charter, effective July 1, 2009, to dedicate Mission Bay Park lease revenues for Mission Bay and Regional Park Improvement projects for the next thirty years. The measure requires that this funding not be used for operations and maintenance costs, and a baseline is to be established and audited each year. Information has not yet been received to document that a baseline has been established, which is needed to ensure future budget decisions do not conflict with the law.

The FY 2010 Proposed Budget includes each of the park improvements funds in the City Planning and Community Investment Department, and reflects the estimated revenue to be received by each. In addition, the Capital Improvements Program budget includes the funding in total, but no allocations or recommendations have been made on specific projects to be funded. Work is also needed to properly establish and implement the oversight committees called for in the measure. The IBA has previously expressed concern that funds allocated for park projects in these areas have gone unexpended and progress has been slow.

The Council may wish to consider the addition of a dedicated management position to provide coordination, and oversight and to handle liaison activities among the various City Departments (including City Planning, Engineering, and Park and Recreation) and to the respective citizens oversight committees. The possible use of the Mission Bay Park improvement funds should be explored as an option for funding related costs. Such a resource is needed to fully implement the project plans for the Mission Bay and Regional Park Improvements to ensure that the long-term funding approved by the voters for this purpose is successfully and carefully planned and executed, with input of the Mayor, the City Council and the public.

Environmental Growth

The Environmental Growth Funds (EGFs) are projected to receive a total of $13.8 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.

As part of the FY 2009 budget process, accumulated fund balance from the EGFs was used to increase the reimbursements to the General Fund for eligible park maintenance activities, and may have overcommitted the fund beyond its available resources. For FY 2010, the amount budgeted for these purposes has been reduced by $3.4 million to $14.2 million.

In October 2008, the Budget and Finance Committee received a report from the IBA on the status and outlook for the EGF funds. The Committee requested additional information including a legal opinion as to the appropriate uses of EGF funds, expressing concerns about the reliance of the General Fund on the EGF funding to support park maintenance.

Golf Course Enterprise

The FY 2010 Proposed Budget for the Golf Course Enterprise Fund totals $13.9 million, and has increased $283,554 from FY 2009. In addition, CIP expenses of $3.3 million are budgeted for FY 2010, from $150,000 in FY 2009.

The revenue estimates reflect an increase of $1.5 million due to the revised Golf Fees for FY 2010, previously approved as part of the Five Year Golf Plan.

Personnel

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Personnel Office reflects a net reduction of $15,167. Also included was a reduction of 1.50 FTEs. Of these position reductions 1.00 was an Associate Personnel Analyst, which was a 2009 First Quarter Reduction being carried through to FY 2010. The 0.50 FTE reduction was a Program Manager that was temporarily assigned to a backfill position for ERP. This reduction will result in $82,050 in personnel expenses and a $73,500 reduction in associated revenue.

Performance Measure Impacts

No performance measures have been provided in the budget document for the Personnel Department. The OneSD project will change many of the current processes within the department, and therefore, staff has indicated that comparisons between such varying processes would not be useful to the public. Once the OneSD project is complete, however, the department says that performance measures will be included.

The City has developed a "City Strategic Plan," which consists of city-wide goals, objectives and vision statements. There are 38 city-wide performance measures that track the progress of this Plan. One of these measures is to "build a diverse workforce reflective of and responsive to the diverse citizens of San Diego." This measure falls under the Personnel Department's jurisdiction. Therefore, in order to track the progress of this measure, the IBA wants to emphasize the importance of displaying performance measures for the department.

Employee and Citizen

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	59.00	$	5,830,957	$	627,458	$	6,458,415		
Vacancy Factor (09)			142,594.00				142,594		-
Vacancy Factor (10)			(129,647.00)				(129,647)		
Salary and Wage Adjustments			(81,213.00)				(81,213)		-
Subtotal	*59.00*	*$*	*5,762,691*	*$*	*627,458*	*$*	*6,390,149*	*$*	*-*
Additions							-		
IT Budget Adjustments					309,609		309,609		
Reductions							-		
Non-Discretionary/IT Adjustment					(67,876)		(67,876)		
ERP Backfill Position	(0.50)		(82,050)				(82,050)		(73,500)
2009 1st Qtr. Budget Adjustment	(1.00)		(99,084)		(7,500)		(106,584)		
Subtotal	*(1.50)*	*$*	*(181,134)*	*$*	*234,233*	*$*	*53,099*	*$*	*(73,500)*
TOTAL	**57.50**	**$**	**5,581,557**	**$**	**861,691**	**$**	**6,443,248**	**$**	**(73,500)**
Difference from 2009 to 2010	**(1.50)**	**$**	**(249,400)**	**$**	**234,233**	**$**	**(15,167)**	**$**	**(73,500)**

Suggestions

Suggestions by current City employees were proposed for various City departments. The affected department along with Financial Management reviewed them to determine their viability. A suggestion for the Personnel Department included streamlining the internal job notification process for City employees via interoffice email. Currently, employees receive notifications through U.S. mail. However, as explained by the department, the current computer systems do not allow the option to send notifications via email automatically, and due to the increased staff that would be required to manually track employees and then send manually created emails for notifications, a cost *increase* would be realized. However, the department's ability to incorporate this into new systems continues to be evaluated.

PETCO Park

Effects of Budget Proposal

The FY 2010 Proposed Budget for PETCO Park reflects a net expenditure increase of approximately $5.8 million. However, the majority of this increase is due to the one-time transfer of the $5.7 million rate stabilization reserve. Aside from this one-time transfer, expenditures increased just $105,000, primarily due to the transfer of 0.50 FTE from the Real Estate Assets Department to PETCO Park. This transfer was approved as part of the FY 2009 First Quarter General Fund Budget Reductions, and essentially results in the Ballpark Administrator being fully budgeted in the Ballpark Fund.

The Proposed Budget also reflects a $2.2 million increase in revenue, primarily due to an increase in the transfer from the TOT Fund. In FY 2009, this transfer was lowered in order to provide additional resources for the General Fund, causing the PETCO Park Fund to rely on excess fund balance to cover planned expenditures. Now that excess fund balance has largely been depleted, the transfer from the TOT Fund must be increased to ensure that revenues meet expenditures.

It should be noted that the $14.7 million transfer from the TOT Fund includes the $11.3 million payment from the Redevelopment Agency, which fully covers the annual debt service on the Ballpark Bonds. This payment is budgeted in the TOT Fund, and then transferred to the PETCO Park Fund. It is unclear why the Redevelopment payment is not budgeted directly in the PETCO Fund.

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	0.50	$	81,777	$	17,587,044	$	17,668,821	$	15,500,447
Salary and Wage Adjustments			(3,045)				(3,045)		-
Subtotal	*0.50*	*$*	*78,732*	*$*	*17,587,044*	*$*	*17,665,776*	*$*	*15,500,447*
Transfer from Real Estate Assets	0.50	$	78,732	$	-	$	78,732	$	-
Transfer Internal Stabilization Reserve	-	$	-	$	5,657,279	$	5,657,279	$	-
Subtotal	*0.50*	*$*	*78,732*	*$*	*5,657,279*	*$*	*5,736,011*	*$*	*-*
Additions									
Transfer from TOT Fund	-		-		-		-		2,015,718
Other Revenue Adjustments	-		-		-		-		185,000
Other Expenditure Adjustments	-		-		29,087		29,087		-
Subtotal	*-*	*$*	*-*	*$*	*29,087*	*$*	*29,087*	*$*	*2,200,718*
TOTAL	**1.00**	**$**	**157,464**	**$**	**23,273,410**	**$**	**23,430,874**	**$**	**17,701,165**
Difference from 2009 to 2010	**0.50**	**$**	**75,687**	**$**	**5,686,366**	**$**	**5,762,053**	**$**	**2,200,718**

Police

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Police Department totals $416.2 million, a net increase of $5.5 million, or 1.3% over FY 2009.

Budget Reductions

The FY 2009 First Quarter Reductions totaled $6.2 million for the Police Department, increasing the vacancy factor and eliminating 35.00 non-sworn positions, reducing the size of Police Recruit Academies to 25, and reduced funding for supplies, overtime, equipment and information technology. The FY 2010 budget impact of the FY 2009 First Quarter Reductions totals $9.3 million, and a loss of 36.00 positions.

Budget Additions

The previous labor agreement with POA called for a 3% increase effective December 27, 2008, increasing personnel costs for ap-

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	2,787.00	$	352,820,263	$	57,850,582	$	410,670,845	$	44,785,622
Vacancy Factor (09)			12,978,646				12,978,646		-
Vacancy Factor (10)			(13,711,479)				(13,711,479)		
Salary and Wage Adjustments			8,631,000				8,631,000		-
Subtotal	*2,787.00*	*$*	*360,718,430*	*$*	*57,850,582*	*$*	*418,569,012*	*$*	*44,785,622*
Family Justice Center	4.00	$	314,713	$	133,430	$	448,143	$	59,753
Gang Commission	1.50		160,802		28,498		189,300		104,151
Subtotal	*5.50*	*$*	*475,515*	*$*	*161,928*	*$*	*637,443*	*$*	*163,904*
Additions									
IT Adjustments					2,508,992		2,508,992		
Terminal Leave			1,534,483				1,534,483		
Police Decentralization Transfer					1,112,487		1,112,487		
Non-Discretionary Adjustments					548,627		548,627		
Animal Services Contract					375,000		375,000		
Special Pay Increases			212,670				212,670		
Payroll Specialist	0.25		14,714				14,714		
New/Revised User Fees							-		2,708,765
Reductions							-		
FY 2009 1st Qtr. Budget Adjustment	(36.00)		(7,046,533)		(2,300,000)		(9,346,533)		(559,753)
Revised Revenue Projections							-		(2,522,014)
Parking Citations Revenue							-		(3,984,284)
COPS Revenue							-		(200,000)
Subtotal	*(35.75)*	*$*	*(5,284,666)*	*$*	*2,245,106*	*$*	*(3,039,560)*	*$*	*(4,557,286)*
TOTAL	**2,756.75**	**$**	**355,909,279**	**$**	**60,257,616**	**$**	**416,166,895**	**$**	**40,392,240**
Difference from 2009 to 2010	**(30.25)**	**$**	**3,089,016**	**$**	**2,407,034**	**$**	**5,496,050**	**$**	**(4,393,382)**

proximately six months of FY 2009. The fiscal impact of these raises further increases the Department budget for FY 2010. Because of this, combined salary adjustments comprise a 3% increase over FY 2009, differing from most City departments.

Also included in the FY 2009 First Quarter Adjustments was increased funding of $2.1 million for payment to the County related to Booking Fees. And, as part of the Managerial Reorganization, the Gang Commission and the Family Justice Center now report to the Police Department, and have been transferred as part of the FY 2010 budget.

Labor Negotiations

Unable to reach an agreement, the Mayor and City Council imposed terms on the Police Officers Association (POA), including a 1.5% salary reduction and increased employee contributions of 4.1 % to the retirement system. Also included is the reduction to the interest crediting rate on DROP accounts. Estimated budgetary savings of the POA terms total $11.8 million, and the Department budget will be reduced accordingly at the time of the Mayor's May Revision. Additional budgetary impacts will be implemented based on the number of employees represented by other labor organizations, including the Municipal Employees Association.

Booking Fees

In 1994, the City of San Diego and the County of San Diego entered into a Memorandum of Understanding (MOU) concerning the City's participation in the financing and construction of a new jail facility in downtown San Diego. The MOU provides that the City will make a payment in the nature of prepaid rent of approximately $5.2 million the day the new facility is operational, and for 29 years thereafter. In return, the City will have the right to 180 beds for City misdemeanant arrestees in the new facility and be relieved of the obligation to pay past and future booking fees. In addition, the City pays an agreed upon sum as a per diem for those arrestees. While the operational date for the facility was not specified in the MOU, the County informed the City that the facility planned to begin operations in late May of 1998. Under the terms of this agreement, these payments will continue through Fiscal Year 2028.

The City has had ongoing negotiations with the County on revising the terms of the MOU, and appears close to reaching a final agreement. Issues have included attempting to minimize the impact caused by the discontinuation of booking fees the City has received from the State, which have instead gone directly to the County.

The Police Department's budget includes full funding of $5.2 million to pay the County for booking fees. The FY 2009 Budget included an anticipated reduction in booking fees of $2.1 million, which was later increased to the full amount of $5.2 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.

The revised terms will allow the City to pay only for the number of jail beds actually used, instead of a fixed cost. Cost savings are estimated at $1.4 million annually, if approved, and have been included in the FY 2010 Proposed Budget. It is expected that the City will continue to make the annual $5.2 million payment to the County as required by the MOU.

Animal Services Contract

In March 2009, the City Council approved an agreement with the County to continue providing all animal services within the City of San Diego to include field enforcement, sheltering, medical services, and dog licensing services for the period of Fiscal Years 2009 through 2013. The agreement calls for cost-sharing of the County program among the County and client cities, based on population and each city's service demand, reduced by revenues collected on behalf of each city. For FY 2009, the net cost of the agreement totaled $6.9 million. The budget includes an additional $375,000 for FY 2010.

Revised User Fees

In accordance with the recently adopted User Fee Policy, the Police Department reviewed its regulatory licenses, permits, fees and fines, and recommended increases to achieve full cost recovery. In some cases, fees had not been reviewed or updated for ten years. Increased revenue of $2.7 million due to the fee proposal has been included in the FY 2010 Proposed Budget. New rates have been approved by the City Council for a variety of Police-regulated businesses, as well as Alarm Permit Fees, and Burglar Alarm Permits and Penalties, and will become effective July 1, 2009.

Additional work is underway related to Entertainment Permits to address concerns that had been raised, and a revised proposal is expected to return to the Council for consideration.

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. Federal law requires that assets received go toward *enhanced enforcement activity* and not be used to supplant normal City revenues.

For FY 2009, the Revenue and Expense Statement in the Budget identified a significant beginning fund balance of $5.0 million. Further, the statement identified the use of the fund balance to support the scheduled lease payment, for the Police helicopter, offsetting the need to use General Funds. Based on our review of the historical revenue received in this fund, it was recommended that additional funds be estimated to be received and utilized to support equipment and technology needs. For FY 2010, due to the use of the accumulated fund balance in 2009, the budget reflects a reduction of $1.8 million eliminating the support of the helicopter lease payment, now shifted back to the General Fund, and the reduction of $1.75 million that was authorized for equipment and technology enhancements. Additions include $500,000 for the purchase of helicopter fuel. The IBA will continue to review the status of these funds to ensure resources are utilized as they become available.

Performance Measure Impacts

The Performance Measure information for the Police Department differs from other departments as data is reported on a calendar year basis (compared to fiscal year), enabling the department to consistently utilize the same data that is reported to other state and federal agencies. Measures reported in the FY 2010 Proposed Budget for Calendar Year 2008 have been revised from the FY 2009 Budget, and reflect improvements in most response times, and reductions to the numbers of crimes. However, the number of gang-related crimes for CY 2008 (previously estimated at 963) was revised to 500 in the FY 2009 Budget and is now shown as 1,013, which is likely due to the availability of data for six months of the calendar year reporting period.

Priority E calls involve an imminent threat to life. Priority I calls involve series 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). As discussed in our report at this time last year, a 2.7% reduction in response time from Calendar Year 2007 was projected for Calendar Year 2009 (from 7.2 minutes to 7.0 minutes) for Priority E calls. Updated Calendar Year 2008 data reflects the actual time at 6.8 minutes, and the goal for CY 2009 remains at 7 minutes. Similarly, a 1.1% reduction of Priority 1 calls was projected (from 13.5 minutes to 12 minutes), and actual CY 2008 data reflects the response time at 13.1 minutes, while the CY 2009 goal stays at 12 minutes.

The department had projected response times for non-emergency calls to increase. Non-emergency calls are classified as Priority 2, 3, and 4 calls. Priority 2 calls involve less-serious crimes, with no threat to life. Priority 3 calls involve minor crimes or requests for service that are not urgent, while Priority 4 calls involve minor requests for police services. Most notably, Priority 3 calls were shown with a response time of 61.3 minutes for Calendar Year 2008 in the FY 2009 Budget, with a target of 90 minutes for CY 2009. The FY 2010 Proposed Budget reflects actual CY 2008 response time of 36.1 minutes for Priority 3 calls. However, an April 17 memo from the Business Office clarified that the 36.1 minutes shown in the budget document was the result of a typographical error, and should instead be shown as 63.1 minutes. However, targets for CY 2009 have been reduced from 90 minutes to 65, reflecting a significant reduction and improvement in service.

Another change for the better shown for CY 2008 is the average wait time to answer 9-1-1 calls which improved from 11 seconds to 8 seconds, while the target for CY 2009 remains at 10 seconds. The Department has indicated that wait times have increased significantly in recent years due to an increase in 9-1-1 calls from cell phones. Recruitment and retention of 9-1-1 dispatchers has also been an ongoing challenge.

The Department has added the percent reduction in core overtime hours as a measure, with a target of 8% for CY 2009. Other changes to performance measures include additional Sizing and Workload data, including the number of arrests made, and number of citations issued.

Issues for Consideration

Police Recruit Academies

Due to the salary and benefit changes imposed on POA, especially the interest rate change related to the DROP program, it is possible that retirements and separations may exceed normal levels, in the near future. The Council previously agreed to reducing the size of each of the four Police Recruit Academies held each year from 50 to 25, for both FY 2009 and FY 2010. However, it may be necessary to increase the size of the Academy class, or schedule additional Academies for the coming year, if it is determined that staffing numbers should be boosted. Funding for additional Academies or increased class sizes could likely come from additional salary savings the Department may achieve, if vacancies are greater than anticipated.

The Police Department is pursuing COPS funding for 120 officers, up to $20 million over the next three years to assist in this effort. It is possible the City may know the success of the request as early as July. In a change from previous years, the COPS funding will now pay for all expenses for a new officer, increased from a cap of $25,000 each.

Parking Enforcement

Estimated revenue has been reduced by approximately $4 million in the area of Parking Citations for the Police Department, based on historical receipts.

The Police Department has a total of 64.50 budgeted positions in the classifications of Parking Enforcement Officers I and II, and Parking Enforcement Supervisor and Senior Parking Enforcement Supervisor. The Storm Water Department has an additional nine Parking Enforcement Officer Is and one Parking Enforcement Officer II. Offsetting the $4 million reduction is an increase of $1.89 million in the Storm Water Department, allocating the revenue among the generating departments.

Parking Citation revenue has been an area of ongoing concern for the last few years. As of April 25 (representing 82% of the fis-

Parking Citation Revenue (in millions)

	FTEs	FY 2009 BUDGET	FY 2010 PROPOSED	CHANGE
Department				
Police	64.50	$16.95	$12.97	($3.98)
Storm Water	10.00	$0.90	$2.79	$1.89
TOTAL	**74.50**	**$17.85**	**$15.76**	**($2.09)**

cal year), just $10.7 million of the $17.85 million estimated had been received, or 60%. At this same time last year, 52% of the total revenue had been received, and at year-end, $15.1 million in total was received, or 84.6% of the estimate of $17.85 million, which was unchanged for the FY 2009 Budget. The IBA notes that the reduction to Parking Citations revenue is a needed adjustment, both among the departments, and in total.

The proposed Parking Meter Utilization Plan is expected to enhance users' ability to pay by allowing the use of credit cards, will vary meter rates, and expand the number of hours and days for parking meter operations. These various changes are likely to impact enforcement activities, the number of citations issued, and revenue to be generated. Parking Citation revenue may need additional revision beyond the adjustments made in the FY 2010 budget, and related enforcement programs should be reviewed in light of the proposal.

Emergency Dispatch Efficiency Study

In an April 15 memo to the Council, the Business Office described the status of the City's Reengineering efforts. The memo described an Emergency Dispatch Efficiency Study, which brought together leaders of dispatch functions from Police, Fire-Rescue, Lifeguards and Public Works, along with the Communications Division and Office of Homeland Security. The City Council may wish to request an update through its Public Safety and Neighborhood Services Committee on potential improvements or efficiency gains that may be possible in this area, as a result of the study.

Effects of Budget Proposal

Family Justice Center

Budget Reductions

As of the FY 2009 First Quarter Budget Reductions, the Family Justice Center (FJC) has been consolidated with the San Diego Police Department. At this time, two positions, 1.00 Department Director and 1.00 Clerical Assistant, were eliminated at a reduction of approximately $190,000. The remaining four positions, 2.00 Associate Management Analysts, 1.00 Clerical Assistant II, and 1.00 Executive Secretary, have been transferred to Police. This departmental transfer totals $314,713 in PE and $133,430 in NPE, for a total of $448,143, with $59,753 in associated revenue.

At a March 26, 2009 meeting of the Family FJC Steering Committee, FJC staff expressed satisfaction with this transfer and noted positive administrative improvements since the Police Department consolidation.

At this meeting, Committee Chair Emerald requested the creation of a working group to address the long-term strategic plan for the center. The lease at the current facility on 7th and Broadway expires in March 2010 and a new site has not been identified. Possible solutions discussed included renegotiating the present lease, moving into a smaller facility or creating a regional system of facilities throughout San Diego that would be coordinated through a central downtown location.

The next Steering Committee meeting is scheduled for July 16, 2009, and additional information will be reported and available for Council consideration at that time.

Purchasing & Contracting

Effects of Budget Proposal

The proposed budget for the Purchasing & Contracting Department is increased by $126,092. Total staff positions are reduced by 3.00 FTEs and budgeted revenue is projected to increase by $21,735.

Budget Transfers

The Living Wage Program (LWP) is being transferred to the Administration Department within the Office of the Assistant Chief Operating Officer (ACOO). The rationale provided for the movement of LWP to Administration Department of the ACOO was that it was a better alignment in terms of wage monitoring. The IBA was informed that living wage monitoring was not a core service for the department and is better aligned with the ACOO's Administration Department because they have the Equal Opportunity Contracting Program that monitors prevailing wages.

The cost of the LWP is $231,209. This covers 2.00 FTEs (a Supervising Management Analyst and a Senior Management Analyst) and $8,500 of associated NPE.

1.00 Info Systems Technician is proposed to transfer to the newly created SAP Support Department.

Budget Additions

2.00 Program Managers are proposed to be

SUMMARY OF BUDGET CHANGES

	FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget	43.00	$	3,852,489	$	587,726	$	4,440,215	$	865,121
Vacancy Factor (09)			142,248				142,248		-
Vacancy Factor (10)			(86,732)				(86,732)		
Salary and Wage Adjustments			7,794				7,794		-
Subtotal	*43.00*	*$*	*3,915,799*	*$*	*587,726*	*$*	*4,503,525*	*$*	*865,121*
Transfers						$	-		
Transfer of LWP to Administration Dept.	(2.00)		(222,709)		(8,500)		(231,209)		
Positions to New SAP Support Dept.	(1.00)		(76,678)				(76,678)		
Subtotal	*(3.00)*	*$*	*(299,387)*	*$*	*(8,500)*	*$*	*(307,887)*	*$*	*-*
Additions							-		
Addition of Program Managers	2.00		282,486				282,486		
Net IT Adjustments					306,503		306,503		
Revised Revenue Projections									111,791
Non-Discretionary Adjustments					70,515		70,515		
Funding of Terminal Leave			23,796				23,796		
Reductions							-		
FY 2009 1st Qtr. Budget Adjustment	(1.00)		(176,275)		(50,000)		(226,275)		
Limited Backfill Positions for OneSD	(1.00)		(86,356)				(86,356)		(90,056)
Subtotal	*-*	*$*	*43,651*	*$*	*327,018*	*$*	*370,669*	*$*	*21,735*
TOTAL	**40.00**	**$**	**3,660,063**	**$**	**906,244**	**$**	**4,566,307**	**$**	**886,856**
Difference from 2009 to 2010	**(3.00)**	**$**	**(192,426)**	**$**	**318,518**	**$**	**126,092**	**$**	**21,735**

added to the department's budget at a cost of $282,486. The addition of these managers follows the recent elimination of the Assistant Director (discussed below) who had the same employee oversight responsibilities. Department management explained that the go-forward plan is to consolidate work units into two sections (one with a public works orientation and another focusing on the other purchasing functions) with a program manager over each section.

The IBA was informed that while the proposed change involves additional management in the short-run, there is a longer term strategy to make the department more staff efficient and less costly; however, the efficiency/cost saving benefits of this plan are not transparent in the proposed budget for FY 2010.

The department has $111,791 of additional budgeted revenue for OPIS maintenance which is primarily reimbursement from other non - General Fund departments who use OPIS.

Non-Discretionary Adjustments increased by $70,515 largely due to a change in OPIS maintenance funding.

Anticipating the retirement of long-term employees, the department has budgeted $23,796 in terminal leave pay.

Budget Reductions

The department has carried forward reductions made in the FY 2009 First Quarter Budget Adjustment which include the elimination of 1.00 FTE (Purchasing Agent/ Assistant Director) and $50,000 in NPE for a total reduction of $226,275.

With the creation of a new SAP Support Department in FY 2010, 1.0 limited FTE (a OneSD Backfill position - Procurement Specialist) has been eliminated along with $90,056 in budgeted revenue for the position.

Vacancy Factor

The department has been assigned a vacancy factor of $86,732, or 2.4% of total proposed personnel expense in FY 2010. This compares with a vacancy factor of 3.7% in FY 2009. Given that the department has current vacancies above the recommended factor and new positions to be filled, the IBA believes the proposed vacancy factor may be too low which would result in unexpected department savings.

Performance Measure Impacts

The department has a number of performance measures to gauge the efficiency and effectiveness of the processes they manage. The IBA notes significant improvement in the average time from proposal receipt to vendor selection / contract award (measure 3 under Goal 1 on page 213). This measure is estimated to improve from 228 days in FY 2008 to 120 days (estimated) in FY 2009.

Issues for Consideration

While the IBA acknowledges the wage monitoring rationale for the transfer of the Living Wage Program to the Administration Department, we also note that the importance of living wage ordinance information being clearly provided to contractors early on (during bid processes and contract execution) in order to reduce costly and time-consuming enforcement activities later. The IBA suggests that LWP staff continue to work closely with Purchasing & Contracting Department staff to coordinate effective conveyance of LWP information to contractors.

QUALCOMM Stadium

Effects of Budget Proposal

The FY 2010 Proposed Budget for QUALCOMM Stadium reflects a net expenditure increase of approximately $220,000, and a $1.6 million increase in revenue. The revenue increase reflects a $970,000 increase in the transfer from the TOT Fund, and a $615,000 increase related to special events and renegotiation of the lease agreement with San Diego State. Under the new agreement, Aztec games will now be fully cost recoverable to the QUALCOMM Stadium Fund.

The most significant expenditure adjustment is a $635,000 increase for contractual services, primarily related to security and waste removal services. This addition is partially offset by a net reduction in the budget for supplies and services, and non-discretionary adjustments.

Reclassification of Temporary Help

In FY 2009, the QUALCOMM budget included approximately $933,000 in temp help, which was used for custodial services. In FY 2010 this temp help has been reclassified to 14.00 full-time equivalent positions (FTE), including 7.00 Building Service Technicians, 4.00 Ground Maintenance Workers, 1.00 Electrician, 1.00 Plumber and 1.00 Building Supervisor. This reclassification was done in order to better align budgeted positions with work actually being performed. It should be noted that the addition of these positions is essentially cost neutral due to the corresponding reduction

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	22.75	$ 3,088,910	$ 15,623,977	$ 18,712,887	$ 17,088,498
Vacancy Factor (09)	-	43,248	-	43,248	-
Vacancy Factor (10)	-	(62,590)	-	(62,590)	-
Salary and Wage Adjustments		(38,908)		(38,908)	-
Subtotal	*22.75*	*$ 3,030,660*	*$ 15,623,977*	*$ 18,654,637*	*$ 17,088,498*
Additions				-	
Contractual Services	-	-	635,000	635,000	-
Reclass Temp Help to FTE	14.00	6,286	-	6,286	-
Transfer from TOT Fund	-	-	-	-	969,166
Aztec/Special Event Revenue	-	-	-	-	614,965
Reductions				-	
Reduction in Supplies & Services	-	-	(96,780)	(96,780)	-
Non-Discretionary/IT Adjustment	-	-	(266,401)	(266,401)	-
Subtotal	*14.00*	*$ 6,286*	*$ 271,819*	*$ 278,105*	*$ 1,584,131*
TOTAL	**36.75**	**$ 3,036,946**	**$ 15,895,796**	**$ 18,932,742**	**$ 18,672,629**
Difference from 2009 to 2010	**14.00**	**$ (51,964)**	**$ 271,819**	**$ 219,855**	**$ 1,584,131**

in the budget for temp help.

Issues for Consideration

QUALCOMM Stadium continues to operate with a significant deficit. In FY 2010, $11.8 million in TOT funding is needed to support Stadium expenditures; however, the debt service payment on the Stadium bond is only, meaning that approximately $6 million in TOT funding is needed support Stadium operations.

Over the last several years Stadium management has made efforts to increase Stadium revenue by attracting new special events. However, due to the age of the facility and the nature of stadium operations, it is unlikely that the Stadium will ever be fully self-sufficient. QUALCOMM Stadium is not unique in this respect. Stadiums and arenas across the country require subsidies to support their operation. We encourage continuing efforts to increase revenue and reduce costs in order to minimize the operating subsidy that is required.

QUALCOMM Stadium

FY 2010 TOT Funding		
Debt Service	$	5,769,853
Operating Subsidy		6,051,817
Total TOT Support	**$**	**11,821,670**

Real Estate Assets

Effects of Budget Proposal

The Mayor's proposed budget for the General Fund allocation for the Real Estate Assets Department (READ) is $3.9 million, a 4% reduction from FY 2009. The significant changes to READ's General Fund for FY 2010 include:

- Reduction of $1.8 million in revenue from City leases, concessions, and rents.
- Reduction of 2.00 positions related to the First Quarter 2009 Reductions.

Significant changes to the Concourse and Parking Garage Fund include:

- Reduction of 1.00 position related to the First Quarter 2009 Reductions.

Reduction In Revenue

Currently the General Fund receives $41.8 million in leases, concession, and rents from land owned by the City. Of this amount, $28.0 million (FY 2010 Proposed Budget) is related to Mission Bay Park Rent and Concessions. Due to the declining economy, the FY 2010 Proposed Budget includes a reduction of $1.8 million in the Mission Bay Rent and Concessions revenue account. Many of the leases in Mission Bay are Percentage of Sales based. Due to the declining economy leaseholders' projected sales have decreased.

First Quarter 2009 Reductions

The FY 2010 Proposed Budget continues the reduction of 1.00 Associate Property Agent and 1.00 Word Processing Operator.

SUMMARY OF BUDGET CHANGES (General Fund)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	34.50	$ 3,523,303	$ 538,817	$ 4,062,120	$ 43,604,594
Vacancy Factor (09)		92,333		92,333	-
Vacancy Factor (10)		(80,073)		(80,073)	
Salary and Wage Adjustments		10,559		10,559	-
Subtotal	*34.50*	*$ 3,546,122*	*$ 538,817*	*$ 4,084,939*	*$ 43,604,594*
Transfer					
Transfer to PETCO Park	(0.50)	$ (78,732)	$ -	$ (78,732)	$ -
Subtotal	*(0.50)*	*$ (78,732)*	*$ -*	*$ (78,732)*	*$ -*
Additions					
IT Adjustments	-	-	115,528	115,528	-
Reductions					
FY 2009 1st Qtr. Budget Adjustment	(2.00)	(156,909)	(38,600)	(195,509)	-
Non-Discretionary	-	-	(9,174)	(9,174)	-
Revenue Adjustments	-	-	-	-	(1,809,685)
Subtotal	*(2.00)*	*$ (156,909)*	*$ 67,754*	*$ (89,155)*	*$ (1,809,685)*
TOTAL	**32.00**	**$ 3,310,481**	**$ 606,571**	**$ 3,917,052**	**$ 41,794,909**
Difference from 2009 to 2010	**(2.50)**	**$ (212,822)**	**$ 67,754**	**$ (145,068)**	**$ (1,809,685)**

Both of these positions were vacant in FY 2009 and their duties were assumed by other staff members in the department.

Concourse & Parking Garage

Effects of Budget Proposal

First Quarter 2009 Reductions

The FY 2010 Proposed Budget continues the reduction of 1.00 Associate Management Analyst. The position was not vacant and the incumbent was placed in another City department in FY 2009. The duties of this position have been assumed by the remaining employees that are responsible for management of the Community Concourse and Parking Garage.

Risk Management

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Risk Management Department is approximately $9.4 million, an increase of $561,043, or 6.3% from the Adopted FY 2009 Budget. The Proposed Budget includes a reduction of 0.50 FTE and a vacancy factor of $142,137.

Budget Reductions

The Department proposes to reduce 0.50 FTE at a total of $29,432 PE and a corresponding revenue decrease of $29,401. This position was temporarily added in FY 2009 to offset a department position assigned to the OneSD development, which will be implemented during FY 2010.

Also, the Proposed Budget includes a total reduction of $95,329 in revenue, of which a $95,179 is the result of a reduction in the reimbursement from TOT funds for services provided to ensure the City absorbs no liability by the hosting of special events.

Budget Additions

The Risk Management Department is an internal service fund that receives its revenue from all City departments that have budgeted positions in accordance with an established rate determined as a percentage of salaries. In our prior FY 2009 Budget Review, the IBA proposed for the Department to reduce revenue by utilizing the accumulated fund balance and prevent overcharging city departments and over-collection of funding for the department.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	82.75	$ 7,139,753	$ 1,728,357	$ 8,868,110	$ 6,599,088
Vacancy Factor (09)	-	163,072	-	163,072	-
Vacancy Factor (10)	-	(142,137)	-	(142,137)	-
Salary and Wage Adjustments	-	(101,130)	-	(101,130)	-
Subtotal	*82.75*	*$ 7,059,558*	*$ 1,728,357*	*$ 8,787,915*	*$ 6,599,088*
Additions					
SAP Support			533,964	533,964	
Non-Discretionary Adjustment	-	-	20,197	20,197	-
IT Adjustment	-	-	116,509	116,509	-
City Contributions	-	-	-	-	2,054,795
Reductions					
Reduction of Backfill Position for OneSD	(0.50)	(29,432)	-	(29,432)	(29,401)
TOT Reimbursement/Revised Revenue					(95,329)
Subtotal	*(0.50)*	*$ (29,432)*	*$ 670,670*	*$ 641,238*	*$ 1,930,065*
TOTAL	**82.25**	**$ 7,030,126**	**$ 2,399,027**	**$ 9,429,153**	**$ 8,529,153**
Difference from 2009 to 2010	**(0.50)**	**$ (109,627)**	**$ 670,670**	**$ 561,043**	**$ 1,930,065**

For FY 2010, the Department is proposing an increase of approximately $2.0 million in revenue from City contributions. The prior year's balance totals $1.7 million, with $800,000 budgeted in Reserves, in a change from prior years. Staff has indicated that this amount is not in fact a reserve, rather, it is the projected year-end carryover balance that will be required for payment of FY 2009 activities invoiced in FY 2010. Staff has noted that this amount is likely to change based on actual FTEs, revenues, and expenses. The IBA intends to review this further to ensure excess funds are not collected.

Approximately $534,000 in SAP Support has been added to the budget to reflect the department's share of citywide costs associated with the implementation of OneSD and costs associated with the new SAP Support Department (For additional information please see SAP Support Department review.)

Performance Measure Impacts

Performance measures for FY 2010 indicate positive growth in the reserve balances for Long Term Disability, Public Liability and Worker's Compensation, consistent with the City's Reserve Policy.

Staff has informed the IBA that the Department has been very effective with training and prevention programs to reduce the number and cost of outstanding Worker's Compensation claims. Performance Measure estimates for FY 2009 and target rates for FY 2010 show a 10% decrease in the average "Recordable Injury Incident Rate," "Lost/Rest Rate," and "Lost Days" compared to the prior year.

Employee and Citizen Suggestions

Two out of four total employee suggestions for this department recommended new or improved access to claim forms online. The Department responded that such access is already available in many cases, including Intranet access to the Worker's Compensation Claim form and Insurance Reimbursement forms. Additionally, the Department noted that Public Liability will be transitioning to a new database that will provide the ability to PDF the Notice of Claims Filed Against the City to individual departments. These changes are not projected to provide any significant cost savings.

Department staff has also indicated that in light of the recent labor negotiation settlements which will have different impacts across the City's various bargaining units, additional information regarding the specific impacts to employee benefits according to labor organization will be made available on its internet site.

SAP Support

Effects of Budget Proposal

The FY 2010 Proposed Budget includes the creation of a new SAP Support Department, based on an industry-proven model for co-location of ongoing operations and maintenance for ERP systems. The City's ERP System, known as OneSD, will become operational during FY 2010, and the SAP Support Department will provide the long-term resources to operate and maintain the system, in cooperation with San Diego Data Processing Corporation.

Funding for the Department's annual costs are allocated among the various City departments, with 58.7%, or $7.6 million, coming from the General Fund's Information Technology Department.

Lease Purchase Financing

In FY 2007, the City Council authorized a seven year lease-purchase financing arrangement with IBM Credit LLC to provide funding of up to $29.5 million for the OneSD project. In April 2009, a request was made of the Council to authorize an amendment to the IBM agreement to increase the amount of financing to $37 million, and to extend the term of the acquisition period, due to changes in the scope and schedule of the OneSD project. Additional information was requested by the Council and action is expected shortly.

Annual lease purchase payments are now budgeted in SAP Support, and are estimated at close to $4.6 million for FY 2010, based

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	-	$ -	$ -	$ -	$ -
Vacancy Factor (09)		-		-	-
Vacancy Factor (10)		(41,192)		(41,192)	
Salary and Wage Adjustments		-		-	-
Subtotal	-	$ (41,192)	$ -	$ (41,192)	$ -
Transfer to SAP Support	17.00	$ 1,877,476		$ 1,877,476	
Subtotal	17.00	$ 1,877,476	$ -	$ 1,877,476	$ -
Additions				-	
Contribution from General Fund					7,565,861
Contribution from Non General Funds					5,332,843
Payroll Audit Supervisors	2.00	159,664		159,664	
IT Adjustments			5,883,810	5,883,810	
Lease Purchase Payments			4,581,346	4,581,346	
NPE/Non Discretionary Adjustments			250,473	250,473	
Rent			187,127	187,127	
Subtotal	2.00	$ 159,664	$ 10,902,756	$ 11,062,420	$ 12,898,704
TOTAL	**19.00**	**$ 1,995,948**	**$ 10,902,756**	**$ 12,898,704**	**$ 12,898,704**
Difference from 2009 to 2010	**19.00**	**$ 1,995,948**	**$ 10,902,756**	**$ 12,898,704**	**$ 12,898,704**

on current projections and schedules for drawing borrowed funds.

Other Project Financing

In addition to the lease purchase financing, cash funding is being provided from the City's A-List Project Fund of $4.5 million, and San Diego Data Processing Corporation (SDDPC) in the amount of $5.5 million. Total project costs are currently estimated at $47 million. The OneSD project is contained in the CIP budget (CIP #92-000.0), which reflects the capital portion of the project costs, which amount to $38 million, and is separate and apart from the costs reflected in the SAP Support Department.

Budget Additions/Transfers

Seventeen financial, support and technical positions were transferred from various City departments to create the new SAP Support Department, mitigating the budgetary impact of new maintenance requirements. Transferred positions were assigned tasks and responsibilities that would be reduced or eliminated with the future use of OneSD, so minimal impacts to these departments are expected due to the loss of these positions..

Two Payroll Audit Supervisors were also added, bringing the total budgeted FTEs to 19.00 at a cost of almost $2 million. The Personnel Department is studying the job duties and requirements, and new classifications may be developed to address the need for specific skills and experience related to the use of SAP.

Performance Measure Impacts

The budget document does not include Goals and Objectives, Performance Expectations, or Sizing and Workload Data for the new department, but describes that a tactical plan including performance measures and goals will be developed and included in the Final Budget for FY 2010.

Impact to City Departments of SAP Support Department

	FTEs	Reduction
Source Department		
City Clerk	-1.00	(107,511)
City Comptroller	-5.00	(701,800)
Information Technology - NGF	-4.00	(449,465)
Purchasing & Contracting	-1.00	(76,678)
General Services Administration	-1.00	(93,862)
Business and Support Services	-1.00	(61,459)
Water Department	-1.00	(76,678)
Administration-Metro	-2.00	(233,354)
Redevelopment	-1.00	(76,678)
TOTAL TRANSFER	**-17.00**	**(1,877,485)**

Special Promotional Programs

Effects of Budget Proposal

The FY 2010 Proposed Budget for Special Promotional Programs (TOT Fund) reflects a $7.4 million net reduction in both revenues and expenditures, and a reduction of one position. Per the San Diego Municipal Code, 5-cents of the City's 10.5-cent TOT levy are deposited into the TOT Fund, and allocated for various purposes via the Special Promotional Programs budget. The Municipal Code further requires that 4 of the 5 cents deposited into the TOT Fund must be used solely for the purposes of promotion, while the remaining 1-cent may be used for discretionary purposes.

In FY 2010, citywide TOT revenue is projected to decline by 2%, on top of a projected 4.5% decline in FY 2009. As a result, TOT revenue for the Special Promotional Programs has been revised downward by $11. 2 million in the FY 2010 Proposed Budget.

This decline has been partially offset by a $3.8 million increase in the payment from the Redevelopment Agency in support of the PETCO Park Bonds. This increase brings the total Redevelopment Payment to $11.3 million, which fully covers the annual debt service payment.

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	10.00	$ 1,059,932	$ 89,029,911	$ 90,089,843	$ 90,089,843
Salary and Wage Adjustments	-	(11,206)	-	(11,206)	-
Subtotal	*10.00*	*$ 1,048,726*	*$ 89,029,911*	*$ 90,078,637*	*$ 90,089,843*
Additions					
RA Support to Ballpark Bonds	-	-	-	-	3,820,750
General Fund Promotion-Related	-	-	3,359,482	3,359,482	-
Increase to PETCO	-	-	2,015,718	2,015,718	-
Increase to QUALCOMM	-	-	969,166	969,166	-
Reductions				-	
TOT Revenue Decrease	-	-	-	-	(11,170,581)
Other Revenue Adjustments	-	-	-	-	(50,001)
FY 2009 1st Qtr. Budget Adjustment	(1.00)	(93,862)	-	(93,862)	-
Convention Center Dewatering	-	-	(5,926,118)	(5,926,118)	-
Decrease to Trolley Extension	-	-	(3,066,019)	(3,066,019)	-
Decrease in 1-cent Discretionary	-	-	(2,234,116)	(2,234,116)	-
Other Expenditure Adjustments	-	-	(2,412,877)	(2,412,877)	-
Subtotal	*(1.00)*	*$ (93,862)*	*$ (7,294,764)*	*$ (7,388,626)*	*$ (7,399,832)*
TOTAL	**9.00**	**$ 954,864**	**$ 81,735,147**	**$ 82,690,011**	**$ 82,690,011**
Difference from 2009 to 2010	**(1.00)**	**$ (105,068)**	**$ (7,294,764)**	**$ (7,399,832)**	**$ (7,399,832)**

Budget Reductions

Beginning in FY 2009, the City began transferring the full 1-cent of discretionary TOT back to the General Fund. In FY 2009, this amounted to approximately $16.3 million. However, due to the projected decline in TOT revenue in FY 2010, this discretionary 1-cent has declined as well, resulting in a $2.2 million reduction in the transfer to the General Fund.

Fortunately, a number of anticipated reductions in other TOT allocations largely offset further impacts from the decline in TOT revenue. The most significant reduction is the removal of a $5.9 million one-time allocation for sewer capacity charges related to Convention Center dewatering efforts.

Another significant reduction is in the allocation to the Trolley Extension Reserve Fund, which decreased by approximately $3.1 million due to the retirement of the Bayside Trolley Extension Lease Revenue Bonds. As part of the FY 2009 First Quarter Budget Reductions.

Other reductions include the elimination of 1.00 Arts & Culture position as part of the FY 2009 Budget Reductions, and a reduced allocation for Balboa Park/Mission Bay improvements due to a scheduled decline in debt service.

Budget Additions

Two notable increases in TOT allocations are those to PETCO Park and QUALCOMM Stadium. In FY 2009, the allocations to these funds were held low in order to draw down excess fund balances. Now that these excess fund balances have largely been depleted, the TOT allocations must be increased in order to ensure sufficient funding for operations.

General Fund "Promotion-Related" Expenditures

In FY 2010, TOT allocations for General Fund promotion-related activities has increased by approximately $3.4 million. As previously discussed, the Municipal Code requires that 4-cents of TOT must be used for the purpose of promotion. While the Municipal Code does not define what constitutes promotion, certain General Fund programs and activities would seem to have a clear nexus with promoting the City.

In FY 2009, the City began allocating TOT funds for promotion-related expenditures within the General Fund, including police services for special events, Balboa Park events, and maintenance of streets, facilities and parks frequently used by visitors. In FY 2010, these allocations have expanded to promotion-related activities in various departments, as shown below.

GF Promotion-Related Funding

DEPARTMENT		FY 2010 PROPOSED
Park & Recreation	$	7,185,000
Storm Water		1,309,149
Police Department		1,096,145
Facilities Division		700,000
Street Division		332,758
City Planning/Comm. Invest.		133,200
Environmental Services		58,500
TOTAL	**$**	**10,814,752**

Storm Water Department

In FY2009, the City's storm water-related functions were consolidated into a single department. Since then the Storm Water Department continues to restructure and redistribute activities within its divisions.

Effects of Budget Proposal

The Proposed Budget for the Storm Water Department includes a $3.3 million net reduction in funding, which includes a decrease of 11.00 FTE positions.

An increase in revenue of $3.2 million is expected as a result of revised parking citation revenue of $1.9 million and a $1.3 million TOT reimbursement for safety and maintenance of visitor-related facilities.

Budget Reductions

Of the 11.00 reduced positions, 10.00 were eliminated as part of the FY 2009 First Quarter Reduction. This included a decrease of $940,570 in corresponding personnel expenses. One additional vacant position has been transferred from the department to the Office of the Assistant Chief Operating Officer, which includes approximately $170,625 in reduced personnel expenses.

Additional First Quarter 2009 Reductions expected to be carried through to FY 2010 include non-personnel expenses in the amount of $3.3 million. FY 2009 service-level impacts included a decrease in education and outreach efforts and the delay of lower priority storm drain repairs. However, in FY 2010 the storm drain repairs are expected to be implemented through the deferred maintenance bond proceeds and impacts to education and outreach efforts

SUMMARY OF BUDGET CHANGES

		FTE		PE		NPE		Total		Revenue
Fiscal Year 2009 Budget		131.00	$	11,566,596	$	37,253,740	$	48,820,336	$	6,260,091
Vacancy Factor (09)				368,916				368,916		
Vacancy Factor (10)				(234,355)				(234,355)		
Salary and Wage Adjustments				(180,634)				(180,634)		
	Subtotal	*131.00*	*$*	*11,520,523*	*$*	*37,253,740*	*$*	*48,774,263*	*$*	*6,260,091*
Transfer Program Manager to ACOO		(1.00)		(170,625)		-		(170,625)		-
	Subtotal	*(1.00)*	*$*	*(170,625)*	*$*	*-*	*$*	*(170,625)*	*$*	*-*
Additions										
Debt Service for DM Bond		-		-		659,762		659,762		-
Non-Discretionary/IT Adjustment		-		-	$	455,695	$	455,695		-
Revised Parking Citation Revenue		-		-		-		-	$	1,890,000
Transfer from TOT Fund		-		-		-		-	$	1,309,149
Reductions										
2009 1st Qtr. Budget Adjustment		(10.00)		(940,570)		(3,304,250)		(4,244,820)		-
	Subtotal	*(10.00)*	*$*	*(940,570)*	*$*	*(2,188,793)*	*$*	*(3,129,363)*	*$*	*3,199,149*
TOTAL		**120.00**	**$**	**10,409,328**	**$**	**35,064,947**	**$**	**45,474,275**	**$**	**9,459,240**
Difference from 2009 to 2010		**(11.00)**	**$**	**(1,157,268)**	**$**	**(2,188,793)**	**$**	**(3,346,061)**	**$**	**3,199,149**

are said to be negligible in the upcoming fiscal year. However, this reduction will result in less funding for additional maintenance projects.

Impact of Vacant Positions

In April 2009, a memo by the Business Office on "City Vacancies," indicated that the Storm Water Department currently has 26.00 vacant FTE positions. After verifying with the department, 21.00 are approved and expected to be filled while the process to fill the other 5.00 positions has not yet been initiated. However, all positions are expected to be filled by early FY 2010. Service impacts in FY 2009 include insufficient staff to put contracts in place and, in turn, delays in executing program contracts. As a result, there will be savings in FY 2009. However, after discussions with the Department these savings are being redirected to various Storm Water CIP projects. Some of these projects are being implemented through the Engineering and Capital Projects Department to ensure adequate staff support. Similar impacts caused by vacant positions were not expected to be an issue in FY 2010.

CIP Projects

A $103 million bond has been issued by the City to address long-deferred maintenance projects. Of this funding, $13.9 million has been allocated for storm drain replacement and repairs. These bond proceeds were budgeted in FY 2008 and 2009 and are expected to be expended beginning in FY 2010.

Additional Storm Water CIP projects are being implemented through revenue generated from the TOT reimbursement. These projects include the design and construction of Watershed Capital Projects and also low flow diversion systems for four storm drain outfalls that discharge directly in the La Jolla Ecological Reserve Area of Special Biological Significance (ASBS 29).

Street Sweeping

The Storm Water Department is currently one year into a two-year Street Sweeping Pilot Program. In this program, more frequent street sweeping is being implemented in developed areas that drain into various waterways. Therefore, some neighborhoods are experiencing an increase in this activity.

The goal of the pilot study is to determine if increased street sweeping can help the City better comply with local, state and federal Clean Water regulations. The program is expected to be completed in June 2010 and the IBA recommends that results be presented to the Natural Resources & Culture Committee.

A frequent response collected through the "San Diego Speaks" survey was to "reduce street sweeping activities." However, at this time, the City intends to complete the pilot study and evaluate the results and level of services thereafter.

After speaking with the department, a challenge the program is currently facing has been illegally parked cars, which block the path of scheduled street sweeping routes. In order to accurately determine how efficient the program is being, it is vital that sweeping along the curb and under cars are able to occur. The addition of Parking Enforcement Officers (PEOs) or camera technology would help enforce parking restrictions during street sweeping activities. The department would expect this service to be cost-neutral as it would generate revenue from parking citations.

Issues to Consider

An ongoing concern for the past two fiscal years has been the Storm Water Department's ability to expend all budgeted funds by the end of the fiscal year. Approximately $5.9 million remains from FY 2008, and an additional $34.3 million of FY 2009 funding has not been expended as of Period 9. To-date, the department's actual expenditures are only 50% of budget as of that period. **The IBA recommends that the Department's ability to expend all budgeted and encumbered monies for upcoming FY 2010 be discussed and evaluated during budget hearings.**

Another matter of consideration is the potential implementation of a storm water fee. This fee would aim to provide the department with adequate funding to meet future fiscal requirements. Cost efficiencies realized by various pilot programs, including CIP and street sweeping projects, would help determine an amount that is appropriate to charge to the public. As noted in the overview to this report, we recommend that a cost recovery storm water fee be studied by a citizen's committee this summer for possible implementation in FY 2011.

Water Department

Effects of Budget Proposal

The FY 2010 Proposed Budget for the Water Department reflects a $30.9 million net increase in expenditures and a $4.3 million net increase in revenue. In addition, the Department has a net reduction of 3.00 FTE positions.

One of the most significant adjustments to the Department's budget is a $51.7 million increase in revenue from water sales. This increase reflects the planned 6.5% rate increase for infrastructure improvements that will go into effect on July 1, 2009, as well as the 8.5% County Water Authority (CWA) pass-through and the temporary 3.26% rate increase for the Indirect Potable Reuse (IPR) Demonstration Project, both effective as of January 1, 2009. In addition, projected revenue from water sales factors in a 15% reduction due to conservation, comfortably in excess of the required 8% reduction announced by the CWA on April 23, 2009.

The CWA pass-through will impact Water Department expenditures as well. The FY 2010 budget for water purchases reflects a

SUMMARY OF BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2009 Budget	778.50	$ 67,682,756	$ 466,210,159	$ 533,892,915	$ 510,410,016
Vacancy Factor (09)	-	2,476,600	-	2,476,600	-
Vacancy Factor (10)	-	(1,402,150)	-	(1,402,150)	-
Salary and Wage Adjustments	-	(651,458)	-	(651,458)	-
Subtotal	*778.50*	*$ 68,105,748*	*$ 466,210,159*	*$ 534,315,907*	*$ 510,410,016*
Additions					
Water Sales	-	-	-	-	51,749,950
Water Purchase	-	-	25,906,343	25,906,343	-
IPR Pilot Program	-	-	10,526,000	10,526,000	-
Chemicals and Supplies	-	-	4,273,685	4,273,685	-
Non-Discretionary/IT Adjustment	-	-	3,967,126	3,967,126	-
Debt Service	-	-	2,188,241	2,188,241	-
Conservation Public Outreach	-	-	1,200,000	1,200,000	-
Other Expenditure Adjustments	2.00	45,673	2,739,425	2,785,098	
Reductions					
Bond Proceeds	-	-	-	-	(45,336,489)
Other Revenue Adjustments	-	-	-	-	(2,141,205)
Consolidation with MWWD	(5.00)	(455,146)	-	(455,146)	-
Unbudgeting of Operating Reserve	-	-	(19,880,518)	(19,880,518)	-
Subtotal	*(3.00)*	*$ (409,473)*	*$ 30,920,302*	*$ 30,510,829*	*$ 4,272,256*
TOTAL	**775.50**	**$ 67,696,275**	**$ 497,130,461**	**$ 564,826,736**	**$ 514,682,272**
Difference from 2009 to 2010	**(3.00)**	**$ 13,519**	**$ 30,920,302**	**$ 30,933,821**	**$ 4,272,256**

$25.9 million increase over FY 2009, primarily due to the higher rates charged by CWA for wholesale water supplies. The increase for water purchase costs also reflects a 15% reduction in water demand as a result of conservation. It is anticipated that CWA and the Metropolitan Water District will be raising the price of wholesale water in September 2009 and again in January 2010. The Water Department anticipates a subsequent pass-through in January is response to these rate increases.

Capital Improvements

The FY 2010 CIP Budget for the Water Department is $149.8 million, a $28.1 million decrease from FY 2009. This capital budget is reflected both in the CIP document (Volume III) and the Department's Revenue and Expense statement. However, we have been unable to confirm the implementation of this reduction in the budget system, and thus it is not reflected in the Summary of Budget Changes table on the previous page. However, the Department has confirmed that the CIP budget for FY 2010 is in fact $149.8 million, so further clarification is needed.

In FY 2010, the Water Department's capital program will continue to focus on the upgrade and expansion of water treatment plants, and replacement of water mains. The Department anticipates that 20 miles of water main will be replaced in FY 2010.

Water Department Capital Projects

Project Type	FY 2010 Appropriation
Water Main Replacement	$53.8 million
Alvarado Water Treatment Plant	$37.9 million
Miramar Water Treatment Plant	$15.6 million
North City Reclamation Upgrades	$9.4 million
Reservoir Improvements	$8.1 million
Otay Water Treatment Plant	$5.9 million
Recycled Water System Upgrades	$4.4 million
Other Projects/Contingencies	$14.7 million
TOTAL CIP BUDGET	**$149.8 million**

Debt Financings and Refunding

On November 10, 2008, the City Council authorized the issuance of the 2009A and 2009B Water System Bonds. Under the financing plan, the 2009A Bonds would refund the $57 million principal of the 2007A short-term Notes due January 30, 2009, and refund eligible maturities of the 1998 Water System Certificates if at least a 3% net-present value (NPV) savings could be achieved.

The 2009B Bonds would provide an estimated $150 million new funding for Water System infrastructure improvements, refund the $150 million principle of the 2008A short-term Notes, and refund any additional outstanding 1998 Certificates if 3% NPV savings can be achieved.

The 2009A Bonds were priced on January 13, 2009, marking the City of San Diego's first public offering since 2003. Under this issuance, approximately $94.2 million of the 1998 Certificates will be refunded, resulting in a NPV savings of $5.6 million. The Department anticipates that the 2009B Bonds will be issued in June 2009.

Other Budget Additions

The FY 2010 Proposed Budget for the Water Department also includes a $10.5 million expenditure increase for the IPR Demonstration Project. Total project costs are estimated at $11.8 million, with $1.1 million being funded through a Proposition 50 grant.

Other notable expenditures increases include $4.3 million for water treatment chemicals and other supplies, $1.2 million for public outreach related to conservation, and $900,000 for the purchase and installation of new water meters as part of the Automated Meter Reading program. Two positions were added to the FY 2010 Proposed Budget related to the Recycled Water Program.

Water/Sewer Department Consolidation

The Water and Sewer Departments are currently in the process of consolidating into a unified Public Utilities Department in order to take advantage of similarities between the departments and to create efficiencies by eliminating redundancies in overlapping functions.

In the FY 2010 Proposed Budget, the Water Department has eliminated five positions and over $450,000 in corresponding personnel expense as part of this consolidation. This consolidation is currently focused around the Financial Services, Human Resources and Information Technology functions. It is likely that the Department will realize additional savings in the future as other sections are identified for potential consolidation, and as the functionality of new organizational structures and work processes are assessed.

Unbudgeting of Operating Reserve

As with the MWWD, it has been standard practice in prior years for the Water Department to budget their operating reserve. At the end of each fiscal year, this reserve would fall to fund balance and be budgeted again in the following year. While this practice had little operational consequence, it resulted in projected and actual expenditures that consistently appeared under-budget.

In FY 2010, this practice has changed to where only the adjustment in the reserve is budgeted. The reserve itself has been transferred to a general ledger account, and will no longer be reflected as part of the budget. While this does not impact the size of the reserve, it results in a one-time budgetary reduction of $19.9 million.

Issues for Consideration

On April 23, the County Water Authority announced that water deliveries to member agencies would be reduced by 8% beginning July 1, 2009. The Water Department has proposed that the City move to Drought Response Level 2, which imposes certain mandatory behavior restrictions on the use of water. To assist in enforcement of these regulation, the Department will propose to add 10.00 limited positions in the May Revisions to the FY 2010 Proposed Budget.

Other Departments

Administration

The FY 2010 Proposed Budget continues the FY 2009 First Quarter reduction of 1.00 Associate Management Analyst. This position was responsible for monitoring and coordinating the City's grant program. The responsibilities of this position were reassigned to the Strategic Partnerships program located in the Office of the Chief Financial Officer.

Airports

The FY 2010 Proposed Budget includes no significant modifications from FY 2009.

Ethics Commission

The FY 2010 Proposed Budget includes the annualization of the Ethics Commission's FY 2009 reduction of one Training Aide and associated non-personnel expense.

Office of the Assistant COO

This department was created at a total cost of $181,000 during the First-Quarter Adjustments of FY 2009, with the addition of an Assistant COO through the Managerial Reorganization. Funding was made available through the elimination of four Deputy Chief Operating Officers at that time.

In the FY 2010 Proposed Budget, the department added an Executive Secretary and transferred a Program Manager position from Storm Water, as well as associated non-personnel expense for a total departmental budget of approximately $550,000.

Office of the IBA

The FY 2010 Proposed Budget includes the annualization of the IBA's FY 2009 First-Quarter reduction of one Fiscal & Policy Analyst. This position was authorized in FY 2009 in order to provide more robust revenue analysis and economic forecasting independent of the Mayor's Financial Management Department.

Office of the Mayor and COO

The FY 2010 Proposed Budget includes no significant modifications from FY 2009.

Special Events

The FY 2010 Proposed Budget includes the reduction of various non-personnel expenses taken during the First-Quarter 2009, realized as a result of efficiencies in the department.

In addition, the department has reduced revenue projections, comprising negotiated commercial fees and permit application processing fees, due to the down economy.

Redevelopment Agency

For FY 2010 the Redevelopment Agency budgets will be included as part of the City's regular budget process. This includes a technical review by the City's Financial Management Department, review by the City's Joint Budget and Finance Committee, and full review by the Redevelopment Agency. This is consistent with the review process for the Mayor's proposed budget for all operating departments. The joint Budget and Finance Committee will be reviewing the Redevelopment Agency budget on May 7, 2009 and budget approval will take place in late May or June.

On February 20, 2009 the City's Financial Management Director sent a memorandum to the Agency executives requesting that, in the interest of achieving greater transparency, they provide technical details of their budget in a format that more closely mirrors the details provided by City Departments. As part of the memorandum, a template was provided to the agencies to provide relevant information. This information has been conveyed to the City Council as part of Volume I of the Mayor's FY 2010 Proposed Budget. However, it should be noted that due to the timing of the publication of the proposed budget, some changes have been made to the agencies budgets after inclusion in Volume I. The Redevelopment Agency's detailed proposed budget and Financial Management's Technical Review will be made available to the Joint Budget and Finance Committee prior to the meeting on May 7, 2009. The information provided in this section is intended to augment Financial Management's Technical Review. The IBA will continue to review the Redevelopment Agency's proposed budgets and if warranted release an additional report under separate cover prior to the Joint Budget and Finance Committee on May 7, 2009.

City Redevelopment Division

Effects of Budget Proposal

Budget Additions

The Redevelopment Agency's positions and personnel expenses are budgeted in the City of San Diego's Redevelopment Division within the City Planning & Community Investment Department (CP&CI). For FY 2010, the Redevelopment Agency is adding 1.00 Financial Operations Manager and 1.00 Senior Management Analyst to work on budget and fiscal monitoring of Agency-related activities. For FY 2010 the agency is restructuring internally with the goal of creating a Finance Section. This reflects best practices in redevelopment agencies. The 2.00 new positions will enable the agency to hire staff with specific financial expertise.

Salary & Benefits

The FY 2010 Redevelopment Agency's Proposed Administration budget includes an estimated $134,910 reduction in salaries and benefits, which equates to 4% of the personnel expense budget. Department management has stated that this figure was an estimate and they will be fully complying with the 6% employee salary and benefit reduction that was negotiated with the City's labor organizations. This will be reflected in the Agency's FY 2010 Annual Budget.

Issues for consideration

Repayment of Community Development Block Grant (CDBG) Loans

In December 2008, the Inspector General of the Housing and Urban Development Department (HUD) found that the City had legitimately loaned CDBG funds to the Agency project areas but failed to execute loan agreements and repayment schedules. As of June 30, 2008, the Redevelopment Agency has a total of $18.4 million in outstanding CDBG loans (Principal and Interest) that are owed to the City. The City of San Diego and the Redevelopment Agency are currently in negotiations with HUD on the establishment of an acceptable repayment plan. The Redevelopment Agency's FY 2010 Proposed Budget does not assume repayment of CDBG loans to the City of San Diego. The Redevelopment Agency's management has stated that once an agreement has been reached with HUD, the Agency will bring forward a repayment plan to the City Council and Redevelopment Agency for consideration.

Centre City Development Corporation

Effects of Budget Proposal

Reduction of 4.00 positions

The FY 2010 CCDC proposed budget includes the reduction of 4.00 positions including 1.00 Vice President Real Estate, 1.00 Assistant Vice President Architecture & Planning, 1.00 External Relations Coordinator, and 1.00 Planner. CCDC management has stated that the duties of the eliminated Vice Presidents will be assumed by existing management. The External Relations Coordinator and Planner positions are currently vacant. Although management had intended to fill these positions, the duties will now be assumed by existing staff. It is unclear what operational effects the reductions of these positions will have on the organization. As a result of the reduction of 4.00 positions, CCDC's administration budget will be reduced by 11% from FY 2009.

Salary & Benefits

CCDC's FY 2010 Proposed Budget does not assume a reduction of employee salary or benefits, nor does the proposed budget assume merit increases or bonuses for FY 2010.

PETCO Park Debt Service

On March 10, 2009 the City Council and the Redevelopment Agency in a joint public hearing approved a second amendment to the Ballpark Cooperation agreement and made the necessary findings to enabling the agency to make additional payments to the

City for debt service related to PETCO Park.

Prior to FY 2009, the City allocated revenue from the Transient Occupancy Tax fund via the Special Promotional Programs budget to support PETCO Park operations and maintenance. This included the annual debt service payment of approximately $11.3. To partially offset these costs, the Mayor included $5.0 million in repayments from the Redevelopment Agency as part of his FY 2009 Proposed Budget. It was proposed that this source of revenue would be utilized to fund PETCO park debt service payments which in turn would free up revenue that could be used for other General Fund expenses. After reviewing the Mayor's FY 2009 Proposed Budget and meeting with CCDC staff, the IBA proposed increasing the repayment from $5.0 million to $7.5 million. This proposal was approved by the City Council on June 23, 2008 as part of their final approval of the FY 2009 budget.

In October 2008, the City Council was informed that due to declining revenue as a result of the economic crisis facing the country, the City's General Fund was projecting a $43.0 million dollar deficit for FY 2009 year end. In response, the City's Chief Operating Officer proposed increasing the Redevelopment Agency payment of the PETCO Park bonds from $7.5 to $11.3 million as one of the corrective actions to close the $43.0 million deficit. The increase was approved by the City Council on December 9, 2009 as part of the corrective actions taken to close the $43.0 million budget deficit. The actions taken by the City Council and Redevelopment Agency on March 10, 2009 enabled the City and Redevelopment Agency to complete the increase in funding. CCDC's FY 2010 Proposed Budget includes the $11.3 million payment to the City for bond debt service related to PETCO Park. The $11.3 million in funding is budgeted in the Centre City Project Area budget.

Issues for consideration

Repayment of Community Development Block Grant (CDBG) Loans

As of June 30, 2008, CCDC has a total of $93.0 million in outstanding CDBG loans (principal and interest) that are owed to the City. The City of San Diego and the Redevelopment Agency are currently in negotiations with HUD on the establishment of an acceptable repayment plan. CCDC's FY 2010 Proposed Budget does not assume repayment of CDBG loans to the City of San Diego. CCDC's management has stated that once an agreement has been reached with HUD, the corporation will bring forward a repayment plan to the City Council and Redevelopment Agency for consideration. Currently, CCDC is projecting to start repayment of CDBG loans to the City in FY 2014.

Performance Audit

Currently, CCDC is undergoing a performance audit by the consulting firm of Sjoberg Evashenk. The Performance Audit will cover a three-year period from July 1, 2005 through June 30, 2008 to evaluate the efficiency and effectiveness of the organization and determine if the organization's goals are being achieved. The performance audit is expected to be completed in May 2009. CCDC's FY 2010 Proposed Budget does not assume any structural changes from the audit at this time. If changes to the organization are required and they have a budgetary impact, CCDC will bring necessary amendments to the FY 2010 Annual Budget to the Redevelopment Agency for approval.

Southeastern Economic Development Corporation

Effects of Budget Proposal

Performance Audit

In September 2008, Macias Consulting Group released their Performance Audit of SEDC. Included in the Performance Audit were 33 recommendations for governance and organizational changes. Six of the 33 recommendations have an impact on the FY 2010 Proposed Budget. The six recommendations and how they are addressed in SEDC's FY 2010 Proposed Budget are addressed below:

- *The City should require in SEDC's Operating Agreement the position classification of a Chief Financial Officer who reports to the Board of Directors and fill the newly-created position through a competitive and open recruitment.*

  The position of Chief Financial Officer has been included in the FY 2010 Proposed Budget. This position was hired in February 2009. Amendments to the Operating Agreement and reporting requirements are currently being reviewed by the City's Rules Committee.

- *SEDC should fill the Manager of Projects and Development Position as soon as possible.*

  This position was filled in February 2009.

- *SEDC should fill a Vice President for Operations to help oversee day-to-day operations and be responsible for SEDC's adherence and compliance to internal controls.*

  This position is not budgeted in the FY 2010 Proposed Budget. The Interim Chief Administrator has indicated that this position and its duties will be reviewed once a new CEO of the Corporation is selected.

- *SEDC should establish a part-time formal Human Resources Manager position to oversee SEDC's recruiting, hiring, staff development and termination activities.*

  The position of full-time Human Resources Manager has been included in the FY 2010 Proposed Budget. SEDC is currently recruiting for this position.

- *The new SEDC Chief Financial Officer, in the budget presentation to the Board and supplementary submission to the City, should include a minimum of three years of budget versus actual data for revenues and expenditures, for both project budgets and corporate budgets, including variances. The* *budget should include detailed and precise information on base salary and other forms of compensation by employee position and estimated overtime.*

SEDC's FY 2010 Proposed Budget lacks some of the presentation information required in the Audit. This includes three years of budget versus actual data and precise information on base salary and other forms of compensation. SEDC management has indicated that the CFO and a temporary auditor are currently working to collect prior year information.

The information provided by SEDC to the City's Financial Management department for their Technical Review does include detailed salary and benefit information. This information is included in the City Agencies Section of Volume I of the FY 2010 Proposed Budget. Salary information will also be presented as part of Financial Management's Technical Review.

- *The SEDC Chief Financial Officer should include project goals and accomplishments information by project into the City's budget presentation, which will require SEDC to tie program goals and objectives to their budget.*

SEDC's FY 2010 Proposed Budget does include a work plan and FY 2009 status by Project area. The FY 2010 Proposed budget also includes revenue and expenditure information for each project area. When developing the FY 2010 Proposed Budget, SEDC management included the project managers in the development of each area budgets. In previous years this was not occurring.

Salary & Benefits

SEDC's FY 2010 Proposed Budget does not assume a reduction of employee salary or benefits, nor does the budget assume merit increases or bonuses for FY 2010.

Corporation Reorganization

The FY 2010 SEDC Proposed Budget includes the reduction of 3.00 positions including 1.00 Director of Finance, 1.00 Community Relations Manager, and 1.00 Senior Project Manager. SEDC management has stated that these positions are vacant and their duties have been assumed by other employees. The savings from the reduction of these positions was used to offset the increase in personnel expenses related to the addition of 1.00 Chief Financial Officer, 1.00 Human Resources Director, and .50 of a Messenger Clerk.

Issues for consideration

Repayment of Community Development Block Grant (CDBG) Loans

As of June 2008, SEDC has a total of $51 million in outstanding CDBG loans (Principal and Interest) that are owed to the City. The City of San Diego and the Redevelopment Agency are currently in negotiations with HUD on the establishment of an acceptable repayment plan. SEDC's FY 2010 Proposed budget assumes $100,000 in repayment of CDBG loans to the City of San Diego. These funds are budgeted in the Central Imperial Project area under Debt Service Payments. SEDC's management has stated that once an agreement has been reached with HUD, the corporation will bring forward a repayment plan to the City Council and Redevelopment Agency for consideration.

In addition to the $51 Million, the Inspector General of HUD's identified $1.7 million in CDBG funds that were expended on ineligible purposes and activities in SEDC project areas. These funds are required to be paid back using nonfederal funds. The FY 2010 Proposed Budget does not include funding for this purpose. However, SEDC management is currently in negotiations with HUD concerning this claim.

San Diego Data Processing

Effects of Budget Proposal

The Fiscal Year 2010 Budget of the San Diego Data Processing Corporation (SDDPC) was approved by its Board of Directors on March 26, 2009. The SDDPC Budget is developed based on the Information Technology needs and requirements of all City Departments, and to a lesser degree, other non-City customers.

The FY 2010 Budget for SDDPC totals $46.8 million, a slight increase of $272,278, over FY 2009. It includes the addition of 22.00 positions over the initial FY 2009 Budget, based on customer demand for additional services that has already occurred in FY 2009. City funding to SDDPC (including SDCERS) represents approximately 92.7%. SDDPC is contributing funds to the City's OneSD project from prior year and excess revenues, totaling $6.2 million, to date, including funding planned in FY 2010.

Volume I of the City's Budget Document includes summary and position detail information reflecting the SDDPC Budget, as approved by the Board. In a change from past practice and in recognition of the City's dire budget situation, funding for bonuses and salary increases has been eliminated from the SDDPC Budget for FY 2010.

Since the budget's printing, it has been announced that SDDPC employees may be requested to participate in salary and/or benefit reductions in the amount of 6%. The SDDPC Board began initial discussions of this issue on April 24, and is scheduled to

SUMMARY OF BUDGET CHANGES

		FY 2009		FY 2009 PROJECTED		FY 2010 PROPOSED		Budget Change
Personnel								
Salaries & Wages		20,070,000		19,831,077		21,364,410		1,294,410
Overtime		163,000		205,500		166,040		3,040
Fringe Benefits		6,566,000		6,673,500		7,053,644		487,644
Subtotal	$	*26,799,000*	$	*26,710,077*	$	*28,584,094*	$	*1,785,094*
Non-Personnel								
Data/Voice Ciruits & Lines		4,896,000		5,195,500		4,555,672		(340,328)
Professional Services		1,562,000		2,331,000		1,456,632		(105,368)
Equipment & Software Maintenance		6,899,000		6,744,000		5,367,429		(1,531,571)
Depreciation		4,434,000		4,227,000		4,984,847		550,847
Facilities		1,102,000		1,105,500		1,091,976		(10,024)
Supplies & Others		846,000		520,000		769,628		(76,372)
Subtotal	$	*19,739,000*	$	*20,123,000*	$	*18,226,184*	$	*(1,512,816)*
TOTAL	**$**	**46,538,000**	**$**	**46,833,077**	**$**	**46,810,278**	**$**	**272,278**

discuss in more detail the week of April 27.

A 6% reduction in salaries could reduce the SDDPC Budget by approximately $1.3 million. If implemented and the budget is reduced accordingly, SDDPC could revise its rates and the amounts budgeted in all City Departments for Information Technology could be also reduced, creating additional budgetary savings Citywide.

The Financial Management Department is completing a technical review of the SDDPC Budget for the first time, in an effort to treat all City Agency budgets in a consistent way. It is expected that the technical review will be available in advance of the budget hearing.

Issues for Consideration

Operating Agreement

The City's Information Technology Department together with Financial Management are working on a revision to the City's outdated Operating Agreement with SDDPC. The current agreement calls for the City Council to annually review and approve the budget of SDDPC.

Throughout the 1980s, 90s, and early 2000s, the SDDPC Budget was presented to the City Council and it was adopted via resolution.

Changes in the reporting structure occurred in 2004, in response to inappropriate management practices, and SDDPC began to report directly to the City Manager. Assumptions were made at that time that the Council was no longer required to approve the SDDPC Budget. Until this issue is clarified by the City Attorney, the IBA recommends that Council approval of the SDDPC be required as written in the Operating Agreement.

San Diego Housing Commission

Effects of Budget Proposal

The Mayor's FY 2010 Proposed Budget offers a brief overview of the services that the San Diego Housing Commission (SDHC) performs in the City of San Diego. The major areas include: housing assistance, housing development and finance, and housing policy advice.

As noted in the Budget, the SDHC FY 2010 Budget was not available in time to be included in the FY 2010 Proposed Budget document.

The SDHC is scheduled to be reviewed by the Budget Review Committee on May 7, 2009, however Financial Management staff has noted that differences in budget process timelines resulted in the City not receiving the SDHC FY 2010 Proposed Budget in time for the City's FY 2010 Proposed Budget publication. As a result, Financial Management has not yet completed a technical review of the SDHC budget.

The IBA will review any information that becomes available before the May 7, 2009 Budget hearing and again prior to final Housing Authority approval.

The IBA is tracking the progress of the SDHC budget, which is planned to be presented to the SDHC Board on May 15, 2009. Following this, the SDHC is scheduled to present its annual budget to the Housing Authority in June 2009.

IBA Recommendations

The following provides a summary of the IBA's Recommendations included in the various sections of this report.

Overview

We recommend that:

1. Targets be set and data be collected for all 38 Strategic Plan Measures for fiscal years 2008-2010; that this information be included in the FY 2010 final budget documents; and be easily accessible to the public and prominently displayed on the City's webpage.

2. The Mayor and Council work together to undertake a professional Community Attitude survey prior to next year's budget process that meets the information needs of all parties. $40,000 budgeted in the Business Office budget should be considered for this purpose.

3. The CFO undertake a comprehensive review of all existing funds including their legal bases or originating purposes, current uses and fund balances, and report back to the Budget and Finance Committee by September 2009.

4. The CFO, Financial Management, and the IBA work together to develop a "Budget Policy" to provide a common understanding of principles and best practices to be followed and to serve as a guide for annual budget development efforts. As part of this policy, criteria should be established for the use of one time resources so that it is clearly understood by all parties.

5. User fees that are being adjusted to achieve cost recovery levels for FY 2010 be reviewed annually, as a routine part of the budget process, and adjusted as necessary for the CPI in order to maintain cost recovery levels.

6. If proposed parking meter revenues are approved, that the City Council work with the Mayor and the City Attorney to identify appropriate uses for this new revenue in accordance with Municipal Code Sections 82.08 and 82.09.

7. While not an immediate issue for the FY 2010 budget, we recommend that the Council discuss with the CFO what is being considered with respect to reassessing the City's reserve goals for the Public Liability Fund and the Worker's Compensation Fund as noted in the FY 2008 CAFR.

8. The City Council consider requesting the Mayor to establish a socioeconomically diverse citizens' committee with a focused charge of studying two specific revenue options- a storm water fee and a refuse collection fee – for possible implementation in FY 2011, and making recommendations to Council no later than October 2009.

General Fund Revenues

9. Closely monitor Transient Occupancy Tax revenues to ensure that hotel sec-

tor indicators and growth rate projections remain in line with market outlook.

ADA

10. The Disability Services Program Manager and management from the Engineering & Capital Projects Department brief the City Council at a FY 2010 Budget Hearing on the process and time required to complete ADA construction projects funded in prior years and those identified/planned for FY 2010.

11. Completed ADA projects be announced/listed under the Projects section of the Disability Services website.

12. The results of the ADA Facility Survey Needs Assessment be presented to the Land Use & Housing Committee upon expected completion in June 2010.

Deferred Maintenance

13. City staff create a webpage on the City's website that would detail the progress of the deferred maintenance projects.

General Fund Reserves

14. A modest Appropriated Reserve be established for FY 2010 in accordance with the City's Reserve Policy.

Other Post-Employment Benefits

15. The Mayor make the OPEB valuation publicly available each year, as SDCERS does for the retirement system valuation, and distribute it to stakeholders within the City including the City Council and the IBA.

16. Updates on the Defined Contribution study for retiree health care be provided to the Budget and Finance Committee as available.

Non-Personnel Expenditures

17. A more thorough, zero-based budgeting process be implemented for the Equipment Outlay expenditure category.

User Fees

18. FY 2010 user fee revenue assumptions should be updated as part of the Mayor's May Revise Report to match the user fee revenue as adopted by Council on April 20, 2009.

19. The City Council may wish to reassess cost recovery levels for professional sports teams, pending a report from the City Attorney which is expected in May 2009.

City Auditor

20. Projected cost savings (attributable to audits) be conservatively budgeted in FY 2010 and utilized to partially fund additional auditor position(s) in FY 2010.

Citywide Program Expenditures

21. Information be provided on what expenses comprise the Special Consulting Services in Citywide and if funding has been included in the FY 2010 Proposed Budget for a retiree medical study.

City Treasurer

22. 1.00 revenue auditor position be added to the Revenue Audit & Appeals Division to conduct audits of hotels, lessees, and franchises to ensure that revenues

Recommendations

due to the City are remitted timely and accurately. The auditor should be funded with additional budgeted revenue that should result form the added position.

Engineering & Capital Projects

23. Staff publish an annual list of completed Capital Improvement Projects on the City's website. As projects are completed this list should be updated to reflect the progress made on the projects.

Fire-Rescue

24. The Council consider steps that should be taken to advance the Fire Station Master Plan and bring it to fruition. The Plan, which outlines new stations needed to improve response times does not include the identification of specific funding sources or a timeline to implement.

General Services—Fleet Services

25. A fuel reserve fund be created by setting aside any surplus funding that may result at year-end when fuel costs are lower than anticipated.

Information Technology

26. Review the status of IT related funds, which reflect significant fund balances.

Library

27. Use of the Library Operations and Maintenance Fund be reevaluated and recommendations for the fund be presented to the Budget and Finance Committee by September 2009. This fund currently stands at $1.075 million, and is budgeted to receive an additional $300,000 in FY 2010 for a total of approximately $1.4 million.

Park and Recreation

28. Consider the addition of a dedicated management position for Mission Bay Park and Regional Park Improvements. The possible use of the Mission Bay Park improvement funds should be explored as an option for funding related costs.

Storm Water

29. The Department's ability to expend all budgeted and encumbered monies for FY 2010 be discussed and evaluated during budget hearings. An ongoing concern for the past two fiscal years has been the Storm Water Department's ability to expend all budgeted funds by the end of the fiscal year.

[SIGNED]

Andrea Tevlin
Independent Budget Analyst

[SIGNED]

Penni Takade
Deputy Director

[SIGNED]

Elaine DuVal
Fiscal & Policy Analyst

[SIGNED]

Jeff Kawar
Fiscal & Policy Analyst

[SIGNED]

Jeff Sturak
Fiscal & Policy Analyst

[SIGNED]

Tom Haynes
Fiscal & Policy Analyst

[SIGNED]

Dominika Bukalova
Research Analyst

[SIGNED]

Brittany Coppage
Research Analyst