

# **FISCAL YEAR 2011 FINAL BUDGET REPORT AND RECOMMENDATIONS**

**REPORT BY THE  
OFFICE OF THE  
INDEPENDENT BUDGET ANALYST**

**IBA REPORT 10-43  
MAY 24, 2010**



# Overview

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The IBA's Review of the FY 2011 Proposed Budget was issued on April 29, 2010 as IBA Report 10-37. This final report focuses on a review of the Mayor's May Revise; individual City Council budget priority memos; issues raised during department budget hearings; additional IBA research and analysis; and further discussions with City departmental staff. We also discuss the current year projected budget deficit as recently reported in the FY 2010 Year-End Monitoring Report; and the impact this could have on final Council budget deliberations.

As noted in the introduction of the Mayor's May Revise, the Mayor's recommended revisions did not include "suggestions or recommendations made by individual Council members for which no specific funding source was identified to fund or restore a particular program or service." Most notably this reference speaks to concerns regarding the impacts of browned-out Fire engines expressed by several Council members at Committee meetings and budget hearings over the past several weeks. The May Revise also did not include funding to implement Audit Committee recommendations regarding the City Auditor's budget.

At the May 5th budget hearing, Councilmember Lightner specifically requested the Mayor to identify alternative service reductions, considered but not taken in December 2009, in order to allow the Council to consider restoring service to 1, 3, or possibly all 8 browned-out Fire engines, to restore service at the 13 impacted stations. During the discussion of the Mayor's May Revise at the May 18 Council meeting, the Chief Operating Officer noted this information was not provided as the Mayor does not support restoration at this time of any of the reductions made this past December. The COO further noted that any new resources identified should be banked to offset the projected FY 2012 deficit, and as the City's budget picture improves in the future the Mayor will consider restoring browned out Fire engines a top priority.

To respond to requests made by Council members at the hearings or in memos, our office has continued to explore resource options and we have identified several for Council consideration. As noted in our Review of the FY 2011 Proposed Budget, we do not advise restoring past reductions at this time due to the tentativeness of the City's General Fund budget as demonstrated by:

- According to the Year-End Report, a year-end deficit of \$7.8 million still remains;
- In the May Revise, an additional \$8.3 million of budget solutions had to be identified to balance the proposed FY 2011 budget;
- We remain concerned about optimistic property tax assumptions being applied to the FY 2011 budget which could have a negative impact of \$4-8 million;
- The recently released Five-Year Outlook continues to reflect deficits every year of the forecast including a \$72 million shortfall for FY 2012;

# Overview

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- A multi-year plan to eliminate the City's structural budget deficit has yet to be developed, the mayor is expected to issue his plan in September 2010;
- No consensus has developed around the issue of pursuing new resources; expenditure reductions will continue to be the default solution to the City's fiscal challenges in the near term. More service reductions could be necessary as soon as Fall 2010.

This report also includes our review of all line item changes proposed in the Mayor's May Re-  
vise.

# FY 2010 Mid-Year and Year-End Reports and Future Budget Monitoring

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At the March 3, 2010 Budget and Finance Committee meeting, Financial Management (FM) presented the results of the FY 2010 Mid-Year Budget Monitoring Report. FM reported that their mid-year analysis indicated a FY 2010 year-end deficit of \$11.2 million without further mitigating actions. In a departure from past years when a deficit was projected, the CFO recommended that no mid-year adjustments be made to correct the budget. Rather, it was reported at Committee that FM would continue to monitor the budget and research possible solutions, such as fleet and data processing charges, for incorporation into the Year-End Report.

It should be noted that it is best practice, and has been the practice in San Diego, to adjust the budget at mid-year if a year-end deficit is projected based on an analysis of revenue and expenditure patterns. Given the significant budget changes that took place in December 2009, the approach to not make further adjustments at that time appeared reasonable. **However, this was with the understanding that the deficit would be fully addressed in the Year-End Report, and that Council could be reasonably assured the current year budget was in balance prior to making final FY 2011 budget decisions.**

**This is not the case.** The Year-End Report, which was released on May 20, 2010, shows that since the Mid-Year Report, the projected year-end deficit has increased from \$11.2 million to \$22 million. While an offsetting \$14.2 million of current year expenditure savings and new resources have been identified since March, they are not sufficient to address the growing deficit. With six weeks remaining in the fiscal year, a \$7.8 million deficit is projected for the current year based on FM's recent analysis. No solutions are proposed in the Year-End Report for Council review and consideration. The report indicates they will provide a separate report in early June; and that "all necessary steps will be taken to ensure that the General Fund ends Fiscal Year 2010 in balance."

This approach to the current year budget puts the Council at a disadvantage in knowing the complete budget picture. While the Mayor continues to look for solutions to balance the current year budget, the Council simultaneously must make final decisions on the FY 2011 budget. It is likely that actions taken to balance FY 2010 will negatively impact the FY 2011 budget. For example, if sufficient solutions are not identified and a year-end deficit is unavoidable, the General Fund reserves or property tax set-aside would need to close the gap. If this is a possibility, Council should be aware of it prior to making final budget decisions to ensure that maintaining FY 2011 reserve targets is a priority over other budget changes. Also, solutions being considered by the Mayor for the current year may be the same as those being considered by Council members for possible modifications to the FY 2011 budget. Further, if the Mayor plans to propose solutions as late as June to balance the current year, this puts the Council at a disadvantage. Should Council disagree with the proposed solutions, there will be limited time available to propose viable alternatives to balance the current year budget.

Given that we are nearing the end of FY 2010 and are in the final steps of the FY 2011 budget

# FY 2010 Mid-Year and Year-End Reports and Future Budget Monitoring

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process, it is not possible to fix the process issues of the past to effectuate the current budget situation. However, to avoid this in the future, we recommend the following:

- When a year-end deficit is projected in the Mid-Year Monitoring Report, action should be taken immediately to correct the budget through mid-year budget adjustments.
- When a year-end deficit is still projected in the Year- End Report, solutions for eliminating it should be proposed immediately, and Council should be given sufficient opportunity to provide input on proposed solutions.
- The Year-End Report (including recommendations for eliminating any projected current year deficit) should be provided to the City Council in advance of the Council's first scheduled meeting on budget deliberations/decisions on the upcoming fiscal year budget.

For FY 2011, we recommend that the Mayor provide a General Fund revenue update to the Budget and Finance Committee at the September 29<sup>th</sup> meeting. This update should include, at a minimum, updated property tax and sales tax projections based on the final assessed valuation report from the County and the September sales tax cleanup payment. Such an update is particularly critical given our ongoing concerns with FY 2011 property tax projection and the impending General Fund deficit projected for FY 2012. The City Council should receive timely updates of critical financial information to allow swift corrective actions to be formulated, if needed.

# Issues and Options for Discussion

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Consistent with the process of the past several years, Budget and Finance Committee Chair Tony Young requested Council members to submit individual memos to the IBA regarding their FY 2011 budget priorities and observations. Councilmember's memos are attached for your reference. While a number of important budget issues and valuable input with respect to future budgets and ongoing fiscal reforms were discussed in the memos, consideration of restoring browned-out Fire Engines was the only specific budget issue that was mentioned in a majority of the memos. This issue is discussed below.

The May Revise does not address additional recommendations made by the Audit Committee on April 12, 2010. These items are detailed below for your consideration in final FY 2011 budget decisions.

Also, progress has been made on several Park and Recreation issues since the Mayor issued the FY 2011 Proposed Budget, and private funding, donations and contributions have been secured to allow the development and/or reinstatement of these popular programs. Information is included for potential addition to the FY 2011 Budget.

Resource options are discussed beginning on page 7.

## ***Fire-Rescue (Brownouts)- \$1.4 million - \$11.5 million GF Expenditure Increase***

The Mayor's May Revise to the Fiscal Year 2011 Proposed Budget does not include the restoration of service to any of the 8 fire engines impacted by the rolling brown-outs. At the April 28<sup>th</sup> Public Safety & Neighborhood Services Committee (PS&NS) meeting, the Fire Chief reviewed the department's evaluation of a number of potential adjustments to the Brown-Out Plan to mitigate observed impacts. Plan changes were recommended relating to the replacement of the trucks without extinguishment capability at Fire Station 35 and Fire Station 21 with trucks with extinguishment capability from Fire Station 44 and Fire Station 46, respectively.

Due to funding limitations, adjustments involving the re-staffing of browned-out units were not recommended. The restoration of each engine would require an additional \$1.4 million in funding from the budget. Other reductions or resources would have to be identified to support restorations. Individual Councilmembers requested the Mayor to provide resource options to allow for Council consideration of the restoration of 1, 3, or 8 fire engines in the final budget deliberations. The Mayor has not responded to this request and does not support restoration of engines at this time. Restoration of 1, 3, or 8 engines would require funding of \$1.4 million, \$4.2 million, and \$11.5 million respectively.

# Issues and Options for Discussion

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## **City Auditor / Audit Committee-\$162,165 GF Expenditure Increase; \$100,000 Public Utilities Revenue Offset**

The Audit Committee reviewed the budget of the City Auditor and made the following budget recommendations:

- Add another Principal Auditor FTE to begin mid-year in FY 2011 at a fully loaded cost of \$76,583. Recommend that discretion be given to the City Auditor to ultimately determine whether to hire an additional Principal Auditor or support staff for the office.
- Transfer \$100,000 from Public Utilities to the Office of the City Auditor to facilitate the performance of annual financial and performance audits for the Water and Wastewater departments. It is envisioned that existing City Auditor staff would perform the audits in accordance with a Service Level Agreement to be developed with Public Utilities. The proposed transfer would reduce the General Fund obligation to fund the City Auditor budget by \$100,000.
- In a final motion, supported by a 3-2 vote, the Audit Committee recommended that the City Council consider restoring the City Auditor's 6% benefit reduction (the City Auditor proposed taking the 6% reduction in FY 2010 by eliminating the City's 6% mandatory and voluntary match to SPSP). The City Auditor's salary of \$168,000 remains unchanged and management indicates that no further budget adjustments are necessary to effectuate restoring the 6% benefit reduction.

The FY 2011 Proposed Budget included the annualization of 3.00 Principal Auditor positions added mid-year in FY 2010 for a total addition of 1.50 FTEs; however, the City Auditor's budget was assigned budgeted salary savings of \$85,582 based on a review of vacancies conducted by the Financial Management Department in December 2009 and March 2010. Most City departments were assigned budgeted salary savings in this manner which effectively reduces budgeted personnel expense in FY 2011. Given that the Audit Committee and the City Auditor desire full staffing for audit work in FY 2011, the City Council could exempt the City Auditor from budgeted salary savings (tied to current year vacancies) in FY 2011. If so, an additional \$85,582 in personnel expense would need to be budgeted in FY 2011.

Additionally, the Audit Committee recommended consideration be given to a proposal to transfer the Revenue Audit Program from the Office of the City Treasurer to the Office of the City Auditor mid-year in FY 2011. On May 10, 2010, the Audit Committee received a presentation from the IBA (Report 10-39) and discussed the proposed transfer with input from the Office of the City Auditor, City Treasurer and the City Attorney. The Office of the City Attorney raised questions regarding the legality of the proposed transfer citing City Charter prescribed responsibilities for the City Treasurer and the City Auditor. Additionally, the Audit



# Issues and Options for Discussion

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Committee was informed that such a transfer would be subject to Meyers-Milias-Brown Act requirements and Civil Service rules. At the request of the Audit Committee, the Office of the City Attorney is preparing a legal opinion regarding the proposed transfer and plans to report back to the Audit Committee at their next meeting on June 14, 2010. The Audit Committee further requested that the City Auditor provide a specific proposal for the contemplated transfer that would address 1) whether and where there would be additional cost efficiencies, 2) how revenues would be enhanced, 3) staff salary implications and 4) how to achieve audit coverage enhancement.

## **Park and Recreation-\$199,709 GF Expenditure Increase; \$199,709 GF Revenue Increase**

### ***La Jolla Children's Pool Park Ranger***

Councilmember Lightner issued a press release on May 14, 2010 indicating that a private donation has been secured for a Park Ranger to patrol La Jolla Children's Pool. The City Park Ranger, under the direction of the City's Park and Recreation Department, will be able to enforce the current joint use policy that allows both seals and people to be on the beach. The Ranger will also train and supervise City-sanctioned volunteer docents. According to the Financial Management Department, the annual personnel cost for 1.00 Park Ranger beginning in Fiscal Year 2011 is estimated to be \$79,209. It is planned to create an endowment to fund future costs to ensure the program continues.

### ***Restoration of Fire Pits***

In a May 10, 2010 press release, the Mayor announced that San Diego's beach fire pits will remain available to the public for at least another year, thanks to contributions from the public, two local foundations and the offices of Councilmembers Faulconer and Lightner.

The donations will fund the cleaning and maintenance of the city's 186 concrete fire pits at the city's beaches and shoreline parks through at least June 2011. The San Diego Foundation contributed \$90,000 of the \$120,500 needed to maintain the pits for the next fiscal year. The La Jolla Community Foundation has pledged \$4,700 while roughly 50 individual citizens contributed another \$2,896. Councilmembers Faulconer and Lightner will contribute \$16,452 and \$6,452, respectively, using money from their office infrastructure funds.

## **Resource Options for Council Consideration**

Changes to the budget are a policy decision for the City Council. It is critical for the City Council to have complete information as well as options in order to make informed decisions on the budget and all policy matters before them. In the Strong Mayor-Strong Council form of government, the Mayor proposes the budget but it is the City Council that is vested with making final budget decisions including, per the City Charter, "adding new items or increasing or decreasing any item". While the Mayor may then veto the Council revisions, the Council

# Issues and Options for Discussion

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can ultimately override the Mayor's veto.

Our advice to the Council is to make no restorations at this time due to the tentativeness of the City's budget. However, in response to requests from several Council members we have developed a number of options for consideration to assist you in your final budget deliberations. These options have been identified through a number of resources including IBA research; City Council ideas; a review of department reductions proposed but not taken in December 2009; and identification of items pending but not yet acted on.

While we considered many more issues than those identified in this report, our focus was avoiding further erosion to the City's core services and priority services as identified in the recent citizen survey. Based on our review of reductions proposed by departments last December but not taken, the next round of service reductions will have a detrimental impact on the quality of life of our community. Some of the items next in line from the department proposals, which were reviewed and rejected in December and again now, include branch library closures; recreation center and parks facilities closures; reduction of street sweeping; elimination of library matching funds; further reductions to the storm water program; elimination of the small business enhancement program- to name a few. These reductions may need to be considered again in FY 2012.

Some of the resource options we have identified below may be needed to eliminate the current year deficit of \$7.8 million. They could also be considered to address priority outstanding budget issues for FY 2011 including restoration of Fire brownouts (\$1.4 million per engine) and Audit Committee recommendations (\$62,165). As an alternative to restorations or additions, we recommend that any new resources go to eliminating the current year deficit; preparing for FY 2011 revenue shortfalls; and preserving options for addressing the \$72 million deficit projected for FY 2012.

<b>IBA Resource Options</b>			
		<b>EXPENSE</b>	<b>REVENUE</b>
#	Resource Option		
<b><u>Feasible Immediately</u></b>			
1	Debt Service Savings	\$ (1,200,000)	
<b><u>City Council Action Required</u></b>			
2	Hold Harmless Refuse	\$ (685,000)	\$ 180,000
3	Small Business Refuse	\$ (573,000)	\$ 134,000
4	Park and Recreation Fee Increase		\$ 123,000
5	5% Percent Reduction to Supplies	\$ (1,100,000)	
	5% Percent Reduction to Contracts	\$ (5,800,000)	
<b><u>SDCERS Board Action Required</u></b>			
6	SDCERS ARC-Substantially Equal*	\$ (2,000,000)	
<b><u>Further Analysis Required</u></b>			
7	Fire-False Alarm Fee		TBD
<b>TOTAL</b>		<b>\$ (11,358,000)</b>	<b>\$ 437,000</b>
	* Pending SDCERS Board Action on May 28, 2010		

# Issues and Options for Discussion

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## ***1. Debt Service Savings on 2010A Lease Revenue Refunding Bonds-\$1.2 million GF Expenditure Reduction***

Estimated debt service of approximately \$11.6 million was used in the development of the FY 2011 Proposed Budget. The General Fund Lease Revenue Refunding Bonds, Series 2010A (“2010A Bonds”) were priced on May 20, 2011. The resulting FY 2011 debt service payment on the 2010A Bonds is approximately \$10.4 million. Actual FY 2011 debt service is lower than estimated due to conservative budgeting, improved bond market conditions and a reduced reserve fund requirement. The difference between estimated and actual FY 2011 debt service for the 2010A Bonds is approximately \$1.2 million.

## ***2. Elimination of Refuse Collection for Hold Harmless Customers – \$685,000 GF Expenditure Reduction; \$180,000 GF Revenue Increase***

The People’s Ordinance, adopted by San Diego voters in 1919, requires the City of San Diego to collect, transport and dispose residential refuse, and prohibits the City from charging a fee for this service. To be eligible for City-provided refuse collection, residential refuse must be placed at the curb line of a public street in a City-approved container. The People’s Ordinance prohibits the City from entering a private street to collect residential refuse, unless a hold-harmless agreement is in place.

The elimination of free refuse collection for hold harmless customers was considered for the December 2009 adjustments, but was ultimately rejected as part of the final recommended adjustments. Collection services to an estimated 10,000 residents would be eliminated, unless refuse containers can be placed at an eligible public street location. However, it is difficult to estimate the number of residents who would lose service, as the exact number of residents who would be unable to place containers in an approved right-of-way is unknown.

Existing hold harmless agreements have termination clauses, and the Mayor has authority to terminate these agreements (upon seven-day notice of such intent). However, significant outreach to the impacted residents and their homeowners associations would be completed over a period of 90 to 120 days.

Discontinuation of residential refuse collection on private streets for residents/associations with hold harmless agreements would yield an estimated \$685,000 in cost reductions for the General Fund. Additionally, an estimated \$180,000 in franchise fee revenues from private haulers would be collected by the General Fund. Furthermore, there would be a favorable impact to the Recycling Fund, which is estimated to be \$32,000.

# Issues and Options for Discussion

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## **3. Elimination of Refuse Collection for Small Businesses – \$573,000 GF Expenditure Reduction; \$134,000 GF Revenue Increase**

Small business collections can be eliminated by City Council, pursuant to the People's Ordinance. The People's Ordinance states, "[t]he City shall not collect Nonresidential Refuse, except that Nonresidential Refuse from a small business enterprise may be collected by City Forces if authorized by the City Council and limited to once a week service in an amount no greater than one hundred fifty percent (150%) of the refuse generated by an average City residential dwelling unit."

The elimination of free refuse collection for small businesses was considered for the December 2009 adjustments, but was ultimately rejected as part of the final recommended adjustments. It is estimated that approximately 6,500 small businesses would lose City collections services.

Discontinuation of small business collections, except for home-based businesses, would yield an estimated \$573,000 in cost reductions to the General Fund. Additionally, an estimated \$134,000 in franchise fees from private haulers would be collected. There would be no savings to the Recycling Fund, as small businesses do not receive recycling collections services.

## **4. Park and Recreation Fee Increases-\$123,000 GF Revenue Increase**

As part of the effort to implement the comprehensive fee policy, the Park and Recreation Department reviewed its fee schedule and is proposing several changes, based on several factors including the Consumer Price Index, estimated cost recovery, and consistency improvements. The proposed fee changes are expected to generate an additional \$123,000 in General Fund revenue, which has not yet been included in the Fiscal Year 2011 budget.

The revised fee schedule was presented to the Park and Recreation Board on May 20, 2010, and is expected to be scheduled for review by the Budget and Finance Committee on June 23, 2010, with Council review and action expected in July 2010. Fee changes, if approved, are proposed to become effective July 15, 2010.

Additional fee review related to the Mt. Hope Cemetery is expected to be undertaken during calendar year 2011, and has not been included in this proposal.

## **5. Percentage Reduction to Supplies and Contracts-\$6.9 million GF Expenditure Reduction**

The Council's Fiscal Reforms, adopted in June 2009, included an item to consider implementation of a zero-base budget review for equipment outlay requests and an expenditure cap for consultant contracts. This reform idea came as a result of Councilmember Young's request

# Issues and Options for Discussion

for spending caps on consulting services, and supplies and services, and the suggestion to reduce total supplies by one percent.

The development of the FY 2011 Proposed Budget included a zero-based review of contracts and equipment outlay category, resulting in budgetary reductions of \$10 million compared to FY 2010.

In the IBA's Review of the Fiscal Year 2011 Proposed Budget, we noted that the Contracts category reflected a reduction of \$21.2 million or 11.6%, including reductions related to Motive Equipment/Fleet. Excluding Fleet impacts, remaining Contract line items were reduced by \$8.3 million or 6.7%, compared to the FY 2010 budget.

In preparing additional resource options, the IBA developed a further 5% reduction to the Contracts category for General Fund departments. This option would create savings of \$5.8 million, and if applied to all departments equally, would result in the reductions as shown in the table to the right. All departmental impacts have not been specifically explored or identified. The City Council could consider reductions at varying percentages, and could consider excluding certain departments, like Police, Fire-Rescue, and Storm Water.

<b>5% REDUCTION TO CONTRACTS BUDGET</b>			
<b>Excluding Motive Equipment/Fleet</b>			
<b>General Fund Departments with Major Impacts</b>			
<b>(in millions)</b>			
<b>General Fund Department</b>	<b>FY 2011 PROPOSED</b>	<b>5% Reduction</b>	<b>Net Amounts</b>
Storm Water	\$ 19.4	\$ (1.0)	\$ 18.4
Citywide Program Expenditures	18.3	(0.9)	17.4
Environmental Services	12.0	(0.6)	11.4
Park and Recreation	11.5	(0.6)	10.9
Police	11.1	(0.6)	10.5
General Services	10.8	(0.5)	10.3
Department of IT	10.2	(0.5)	9.7
Fire-Rescue	4.9	(0.2)	4.7
Remaining Departments	18.0	(0.9)	17.1
<b>TOTAL</b>	<b>\$ 116.1</b>	<b>\$ (5.8)</b>	<b>\$ 110.3</b>

In the IBA's Review of the Fiscal Year 2011 Proposed Budget, we noted that the Supplies category reflected a reduction of \$1.7 million or 7.2%, compared to the FY 2010 budget.

<b>5% REDUCTION TO SUPPLIES BUDGET</b>			
<b>General Fund Departments with Major Impacts</b>			
<b>(in millions)</b>			
<b>General Fund Department</b>	<b>FY 2011 PROPOSED</b>	<b>5% Reduction</b>	<b>Net Amounts</b>
General Services	\$ 5.4	\$ (0.3)	\$ 5.1
Park and Recreation	4.3	(0.2)	4.1
Police	4.3	(0.2)	4.1
Library	2.3	(0.1)	2.1
Fire-Rescue	2.0	(0.1)	1.9
Engineering and Capital Projects	1.1	(0.1)	1.1
Remaining Departments	3.1	(0.2)	2.9
<b>TOTAL</b>	<b>\$ 22.5</b>	<b>\$ (1.1)</b>	<b>\$ 21.4</b>

For discussion purposes, the IBA prepared a further reduction of 5% to the Supplies category, which would result in savings of \$1.1 million, as shown in the chart to the left. Service impacts to specific departments have not been determined.

# Issues and Options for Discussion

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## **6. SDCERS “Substantially Equal” Pension Proposal – \$2.0 million GF Expenditure Reduction**

SDCERS has been studying the “substantially equal” requirement in City Charter section 143. Specifically, the Board has evaluated alternatives for and the propriety of the calculation of employee and City contributions that are substantially equal. The SDCERS Board is scheduled to vote on these alternatives at the Board meeting of May 28, 2010.

If the SDCERS Board were to approve the proposed alternative with the most significant calculation changes, the FY 2011 Annual Required Contribution (ARC) would be reduced by approximately \$2.6 million — from \$231.7 million to \$229.1 million. The General Fund ARC reduction would be approximately \$2.0 million. The corresponding increase to City employees would be \$3.3 million, and member contribution rates would include this change, effective July 1, 2010. This is currently part of the pending lawsuit but SDCERS has tentatively agreed with the City’s position on this portion. It does not resolve the entire pending lawsuit.

## **7. Fire-False Alarm Fee –Fiscal Impact to be Determined**

At the May 5<sup>th</sup> FY 2011 Budget Hearing, the Fire-Rescue Department indicated that it is currently evaluating the implementation of a false alarm fee for the department to recover the costs associated with false alarm emergency responses. The department plans to provide a report to the City Council by the end of the first half of FY 2011. Currently, the Police Department charges a false alarm penalty fee to recover the annual costs of false alarms. The fee schedule discourages repeat offenses with penalties that increase with the number of offenses. Fire-Rescue could implement a similar fee. The possible fiscal impact of Fire-Rescue false alarm fees is currently unknown. The department is in the beginning stages of an analysis of the cost and statistical data to inform a potential cost recovery fee structure. This fee proposal will be a part of an overall comprehensive review of the department costs and potential efficiencies within the Fire Prevention Bureau. This is a potential future resource for restoration of browned-out fire engines.

# Review of Mayor's May Revise

Our office reviewed each item contained in the Mayor's May Revision to the Fiscal Year 2011 Proposed Budget. In some cases, clarifying information was requested of Financial Management and departmental staff. This report contains additional information and more detailed explanations based on the IBA's review process. In summary, the IBA recommends the Council approval of the Mayor's May Revision, while noting slight concern about the reduction proposed for Public Liability, and whether the funding addition for the Police Department recruits is sufficient. These items will need to be reviewed as we move through the fiscal year.

## Citywide Changes

### Workers Compensation

The May Revise reflects a reduction of \$1.45 million to the City's contributions to Workers' Compensation. This adjustment is said to appropriately align the budgeted contributions with expenditure trends. This adjustment will reduce the Proposed Budget amount of \$20.39 million to \$18.94 million.

In the past, the IBA has noted that the collection of funds for Workers' Compensation has exceeded budget needs. As a cost saving measure, Workers' Compensation rates have been adjusted mid-year to slow or reduce collections from all City departments.

WORKERS' COMPENSATION SUMMARY (in millions)			
Fiscal Year	Revenue	Expended	Encumb
2010*	\$ 29.5	\$ 18.0	\$ 4.6
2009	21.7	18.2	3.9
2008	26.9	13.8	-
2007	25.1	15.8	-
2006	27.3	17.4	1.6
<b>Five Year Avg</b>	<b>\$ 26.1</b>	<b>\$ 16.6</b>	<b>\$ 2.0</b>

\*2010 Activity through 5/20/2010  
Source 2006 - 2009: Simpler Info (Fund 81140)

In addition to the budgeted annual contribution, the City has established a Workers' Compensation Reserve Fund, which currently totals \$29.3 million. For FY 2011, no additional contributions to the reserve are planned.

A review of actual revenue and expenditure activity since 2006 shows that revenues have exceeded expenditures each year, which has allowed for the reserve to build.

### Salary and Benefits Adjustments

Attachment I to the Mayor's May Revision reflects a summary by budget department of the recommended changes to the FY 2011 Proposed Budget. Included in the summary is a line item entitled "Salary and Benefit Adjustments" for the General Fund, and also for the Non-General Funds. At the request of the IBA, the Financial Management Department provided further detail of the specific adjustments and the affected departments that sum to the line items shown in the attachment.

Most significantly, these line items include the overall reduction related to Worker's Compensation that will ultimately affect all City departments with personnel, once applied in the budget system. In addition, adjustments were made to reallocate the City's Retirement ARC, and OPEB (Retiree Health) Contributions, as a result of changed number of positions due to

# Review of Mayor's May Revise

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budget revisions. Other changes include corrections to positions that were erroneously omitted in the proposed budget or for costs related to reclassifications not captured at the time the proposed budget was finalized.

## General Fund Changes

### ***City Planning and Community Investment***

The May Revise includes \$500,000 for the City Planning and Community Investment Department in order to fund CEQA analysis of a proposed road connection between Phyllis Place and Friars Road, including traffic and environmental studies and review. As described in the May Revise, during the October 2008 discussion of the Quarry Falls project, the Council initiated an amendment to the Serra Mesa Community Plan, which does not include a street connection between Phyllis Place and Friars Road. While it is typical that cost of CEQA analysis related to a plan amendment required as part of a development project would be paid for by the benefitting developer, the Serra Mesa Community Plan amendment was not directly related to the Quarry Falls project, and thus was not a condition of project approval. As a result, the City is obligated to fund the any required CEQA analysis related to the Community Plan amendment.

Funding for these studies was previously budgeted in CP&CI, but removed as part of the base adjustments to the FY 2011 Proposed Budget. It should be noted that this funding does not restore any of the funding eliminated in FY 2011 for Community Plan Update Program.

### ***Library***

The May Revise includes a reduction of 1.00 FTE Storekeeper I position, at a reduction of \$70,980 in personnel expense. This reduction is associated with the closing of the Library's supply store, Store 77, and a consolidation of Library supplies with Central Stores – a part of an effort to realize efficiencies and cost savings by consolidating warehousing within City operations. The IBA has confirmed that the existing staff person in this position will be transferred to Central Stores to fill a vacancy in the same classification. This adjustment is subject to the meet and confer process.

### ***Park and Recreation***

#### ***Community Development Block Grant (CDBG) Funding***

As noted in the IBA's Review of the FY 2011 Proposed Budget, requested CDBG funding for some Park and Recreation programs was not received. The May Revise includes adjustments to estimated revenues for Park and Recreation to properly reflect the reduction of \$383,390 as a result of the unsuccessful application for City CDBG funding for the Therapeutic Recrea-



# Review of Mayor's May Revise

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tion and Senior Services programs. While CDBG funding was not received, these programs continue to be fully funded within the City's General Fund and have not been correspondingly reduced for FY 2011.

## ***Special Promotional Programs Transient Occupancy Tax Revenue Increase***

As a result of the reduced needs for Qualcomm Stadium related to reduced requirements for earthquake insurance, \$200,000 in TOT funding is now available to reimburse the Park and Recreation Department for maintenance costs related to Balboa Park, considered to be tourism-related. The additional \$200,000 will increase the Park and Recreation reimbursement from TOT for FY 2011 to approximately \$8.1 million.

The IBA understands that Financial Management is preparing a response to questions raised by Councilmembers during budget hearings about the definition and identification of "tourism-related" expenses in the General Fund.

## ***City Attorney***

### ***Litigation Revenue and Revenue from Service Level Agreement***

The May Revise includes the reinstatement of estimated litigation revenue of \$1.4 million which was removed during the development of the FY 2011 Proposed Budget, and is now expected to be received during FY 2011 based on current cases. Other adjustments include additional revenue of \$200,000 related to a Service Level Agreement (SLA) for CIP services to be provided by the Office of the City Attorney.

### ***Increase in Personnel Expenses***

As discussed in the IBA's Review of the FY 2011 Proposed Budget, funding for the Office of the City Attorney was reduced by \$1.5 million in the salaries area based on the review of vacant positions by Financial Management. However, following the vacant position review, several positions were filled, and FY 2011 funding as proposed is insufficient to meet current staffing and operational needs. The May Revise reflects the addition of almost \$1.6 million to fund positions that were previously vacant and have since been filled or are intended to be filled.

## ***City Council***

### ***Adjustments for Fringe Expenses***

To offset significant increases to fringe accounts in the City Council Offices' budgets, the FY 2011 Proposed budget included reductions to salaries and wages and also maintained each office at FY 2010 funding levels. As noted in the Mayor's May Revise, the reduction in salaries and wages to offset the fringe increases was inconsistent with how other City departments were treated in the Proposed Budget. \$863,351 has been included in the May Revise for this

# Review of Mayor's May Revise

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adjustment.

## ***Council Infrastructure Transfers and Annual Leave Adjustments***

Other May Revise adjustments include the reduction of \$32,000 in expenditures and revenue in Council District 5 for a net zero impact to the General Fund and the addition of \$155,961 for annual leave payouts related to the transition of Council Offices in Council Districts 6 and 8. It should be noted that the annual leave payouts are an estimate.

## ***Personnel***

The May Revise restores \$60,000 for a contract for pre-employment medical evaluations, including physical examinations and drug testing for new employees and applicants, and random drug testing for fire, police and lifeguard personnel. The FY 2010 December Adjustments included a FY 2011 reduction of \$160,000. This restoration reflects staff's recalculation of anticipated contract needs since December 2009 and assumes that a Citywide hiring freeze remains in place throughout FY 2011.

Also, the May Revise includes the addition of 0.50 FTE Program Manager position. The IBA has confirmed this position is being added without any additional funding, as this is a critical position charged with the operation of the City's new SAP Org Management function.

## ***Administration***

### ***Restoration of funding for Equal Opportunity Contracting Program Manager Position***

The May Revise includes \$174,461 for the restoration of funding for the Equal Opportunity Contracting Program Manager. The funding for this position was reduced in the Proposed Budget as part of the department's vacancy savings. In our review of the FY 2011 Proposed Budget we noted our concern that the reduction in funding for the EOC Program Manager in conjunction with the permanent reduction of the Supervising Management Analyst could impact the overall success of the program.

### ***Addition of Intern Position***

The May Revise also includes \$18,605 for an intern position to assist with Public Records Act requests.

## ***Human Resources***

### ***Transfer of Disability Services Program to Public Works***

The Disability Services Program (3.00 FTEs) is being transferred from the Human Resources

# Review of Mayor's May Revise

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Department to the Public Works Department. The Disability Services Program Manager will report directly to Deputy Chief of Public Works who has confirmed that the nature of the program will not be changed. There is no budgetary impact associated with the transfer and analytical support staff currently provided by the Human Resources Department will be provided by a Senior Management Analyst in the Engineering & Capital Projects Department. Given its project focus, management believes the Program will be better aligned reporting directly to the Deputy Chief responsible for the implementation of public works projects.

## ***Position Transfer***

Consistent with the IBA's Preliminary Report on the FY 2011 Proposed Budget, the May Revise reflects the transfer of 1.00 Senior Management Analyst from the OneSD Support Department to the Human Resources Department to support citywide training. This transfer was not completed prior to the issuance of the proposed budget and has now been properly reflected as planned, and increases the General Fund by \$118,086, with a corresponding reduction to the OneSD Support Fund.

## ***Office of the Chief Financial Officer-Corporate Partnership***

The Corporate Sponsorship Program is in the process of developing new marketing partnerships that management projects will generate \$150,000 in additional revenue for the General Fund in FY 2011.

## ***City Comptroller***

In order to correct an omission in the FY 2011 Proposed Budget, 1.00 Accountant II position supporting the Internal Controls Division is being added back to the City Comptroller Department. The position will remain vacant until there are sufficient department savings to hire the Accountant II. An additional \$51,000 for Simpler system access has been added to the department budget to enable staff to extract historical transactional data from the legacy systems for the Charter 39 report.

## ***City Treasurer***

### ***Addition of Administrative Aide II for New Business Tax Compliance***

The City Treasurer intends to obtain employee count records to ensure that businesses are accurately reporting employee count information to the City. The City's current Business Tax structure is a flat tax based on number of employees. Small businesses with twelve or fewer employees pay \$34 and large businesses pay \$125 plus \$5 per employee. This new compliance program will ensure a business is not under reporting its number of employees and is paying the correct tax rate.

# Review of Mayor's May Revise

Based on staff assumptions, the department expects this new business tax compliance effort to generate approximately \$642,710 in additional revenue in FY 2011. The additional revenue would result from fines charged to large businesses inappropriately paying business tax to the City at small businesses tax rates. The new business tax compliance program will require the addition of 1.00 Administrative Aide II (added personnel expense of \$81,480) to review employee count records and City data.

## **Increase in Contractual Services**

In order to correct an oversight in the development of the FY 2011 Proposed Budget, \$441,000 in non-personnel expense for contractual services is being added to the City Treasurer's budget to cover annual citywide banking services contracts with Bank of America and Bank of New York.

## **Citywide**

### **Public Liability Adjustments**

The May Revise reflects a reduction of \$2.9 million to the City's Public Liability contribution. This adjustment is said to appropriately align the budgeted contribution amount with current year expenditures, and will reduce the Proposed Budget amount of \$18 million to \$15.1 million.

A review of actual revenue and expenditure activity since 2006 does not show a trend consistent with this reduced contribution level. However, the Public Liability Fund can and has received revenue recoveries or settlement payments in addition to General Fund contributions.

<b>PUBLIC LIABILITY SUMMARY</b>			
<b>(in millions)</b>			
<b>Fiscal Year</b>	<b>Revenue</b>	<b>Expended</b>	<b>Encumb</b>
2010*	\$ 18.0	\$ 21.6	\$ 3.5
2009	23.4	18.5	4.6
2008	25.5	23.9	4.9
2007	25.6	23.2	4.6
2006	28.5	23.9	6.8
<b>Five Year Avg</b>	<b>\$ 24.2</b>	<b>\$ 22.2</b>	<b>\$ 4.9</b>

\*2010 Activity through 5/20/2010  
Source 2006 - 2009: Simpler Info (Fund 81140)

In addition to the budgeted annual contribution, the City has established a Public Liability Reserve Fund, which currently totals \$17.1 million. In the event the annual contribution is insufficient, reserve funding is available to ensure that all expenditure requirements are met. It is possible that use of the Public Liability Reserve may become necessary next fiscal year, because the annual contribution will be reduced.

### **Redistricting**

The May Revise includes \$500,000 in one-time expenditures for anticipated costs associated with the work of the 2010 Redistricting Commission. The May Revise notes that staff plans to monitor costs and return to Council if additional funds are needed. However, it should be clarified that per the City Charter, the Redistricting Commission, once formed, will develop a budget and present it to Council for consideration. The IBA believes that this level of funding

# Review of Mayor's May Revise

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It is reasonable and necessary to begin the work of the Commission, though additional funds may be requested at the time of the Commission's formal budget adoption.

It should be noted that the 2000 Redistricting Commission recommended that a liaison be appointed by the City Manager's Office prior to the hiring of the Commission Director. Per the Commission's recommendation, the liaison would assist with early operating decisions such as refining the budget and securing office space. In addition to including these funds in the final budget, we recommend the Council work with the Mayor to identify a liaison staff person (or persons representing the executive and legislative branches) to coordinate the initial efforts of the Commission. The 2000 Redistricting Commission recommended that the City Manager appoint a liaison by September.

Per the City Charter, the nomination period for the members of the Redistricting Commission shall commence on July 1 and the Presiding Judge shall appoint the Commission members no later than November 1. The Commission shall adopt a budget and submit it to the Presiding Judge within 60 days after the Commission members are appointed. If he or she approves the budget, it will then be forwarded to Council for consideration.

## ***Debt Management***

An additional \$97,276 was budgeted in the Debt Management department. This amount is the net difference resulting from the following budget changes: 1) the elimination of 2.00 budgeted, unfunded Program Coordinators, 2) the addition of 2.00 Senior Management Analysts and 3) removal of funding for 1.00 budgeted, vacant Associate Economist. These changes more accurately reflect current staffing in the department.

## ***Fire-Rescue***

The May Revise includes an expense reduction of \$92,103 and the elimination of 2.00 FTEs in the Fire-Rescue Department. The adjustments are related to efforts to realize efficiencies and cost savings by consolidating warehousing within City operations. The expense reduction is from the elimination of 1.00 FTE Fleet Buyer position in Fire-Rescue. 1.00 FTE Storekeeper II position will be transferred to Central Stores within Purchasing & Contracting. The Fire-Rescue Department will still support this position through a Service Level Agreement with Central Stores for services that will continue to be provided at Central Store 42. These adjustments are subject to the meet and confer process.

# Review of Mayor's May Revise

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## **Office of Homeland Security**

### **Funding for Vacant Positions & Senior Analyst Management Position**

In the IBA's Review of the FY 2011 Proposed Budget, the IBA highlighted that the zeroing out of salary relating to positions vacant as of March 2010 effectively removed General Fund support for grant funded positions within the OHS. In addition to this, a grant funded position authorized for filling mid-year FY 2010 was not reflected in the FY 2011 Proposed Budget. The absence of budget for these salaries would have jeopardized the receipt of grant funds, given matching fund requirements from the General Fund. The personnel expense adjustments in the Mayor's May Revision address this issue. An increase of \$173,342 restores the budgeted salary for 1.00 FTE Admin Aide and 1.00 Senior Management Analyst that was removed during the budget process. An additional expense increase of \$118,086 in the OHS budget will support the addition of 1.00 FTE Senior Management Analyst, with a relating increase in revenue from the receipt of grant funding for the position.

### **Support for Unified Disaster Council (UDC) Membership**

An increase of \$54,099 in the OHS budget in the May Revise is related to the restoration of budget for the payment of Unified Disaster Council (UDC) annual membership dues. In FY 2010, the City's membership payment was waived given the availability of County grant funding to fully support the membership costs. The \$54,099 payment represents only a portion of the membership costs. The full cost will be offset by a County grant in FY 2011.

## **Police**

### **Communications Equipment Adjustment**

As a part of the December 2009 Approved Adjustments, data services were reduced by 10%, impacting maintenance contracts, on-site support, and equipment purchases, for a total reduction of \$911,724. A portion of an additional reduction of \$1.0 million in non-personnel expenses pertained to mobile phone expenses. The Police Department maintains that the May Revise communication equipment adjustment of \$312,000 for hand held cellular phones and high speed modem is not related to the communications equipment reductions that were approved in December. The department holds that it will achieve the December approved savings, and that the \$312,000 increase is a technical adjustment in the budget to replace funding previously transferred to the Department of Information Technology as a part of a previous year budget process.

### **Central Stores Consolidation**

A \$74,447 reduction in the May Revise for the Police Department is ascribed to the elimination of 1.00 FTE Storekeeper I. This position elimination is part of an effort to realize efficien-

# Review of Mayor's May Revise

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cies and cost savings by consolidating warehousing within City operations. The Storekeeper I staffed Store 75, which will be closed as a part of the consolidation. Other Police Department units will have to absorb the duties of the Storekeeper I that will not be transferred to Store I. This is specifically the case for the shipping and receipt of lab materials and equipment for officers that will no longer be centralized at Store 75. This adjustment is subject to the meet and confer process.

## **Police Recruits**

As identified in the IBA Preliminary Review of the FY 2011 Proposed Budget, and confirmed by an April 28, 2010 memorandum from the Chief Financial Officer, the assumed salary savings from vacancies in the proposed Police Department budget did not account for Police Recruits that underfill sworn officer vacancies. In the memorandum, it was estimated that \$3.5 million in personnel funding would have to be identified to support Police Recruit positions in the May Revise.

The May Revise includes \$3.6 million in funding to support Police Recruit positions. The IBA has concerns regarding whether the \$3.6 million adjustment will fully fund the salary and fringe benefits for current Police recruits.

## **Public Works**

The Disability Services Program (3.00 FTEs) is being transferred from the Human Resources Department to the Public Works Department. The Disability Services Program Manager will report directly to Deputy Chief of Public Works who has confirmed that the nature of the program will not be changed. There is no budgetary impact associated with the transfer and analytical support staff currently provided by the Human Resources Department will be provided by a Senior Management Analyst in the Engineering & Capital Projects Department. Given its project focus, management believes the Program will be better aligned reporting directly to the Deputy Chief responsible for the implementation of public works projects.

## **Storm Water**

The Convention Center de-watering expense has been budgeted in both the Convention Center Fund and the Storm Water Department. A transfer of \$975,000 has been made from the Convention Center Fund to the Storm Water Department's Operating Fund for reimbursement of sewer charges paid for this project.

# Review of Mayor's May Revise

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## Non-General Fund Changes

### *City Planning and Community Investment*

#### **Facilities Financing**

An additional \$242,000 in revenue is being added to the Facilities Financing Fund related to reimbursable services to Park Planning and an increase in projected revenue from anticipated financing plan updates in FY 2011.

#### **HUD Administration**

Due to a larger CDBG entitlement from Housing and Urban Development (HUD), an additional \$332,151 in both revenue and expenditures are being added to the HUD Administration Fund in order to maintain CDBG administration at 20% of the total FY 2011 entitlement, as recommended by the HUD audit.

#### **Redevelopment Division**

The Redevelopment Fund is adding 2.50 management intern positions at a cost of \$64,604, which will be reimbursed by Redevelopment Agency tax increment revenues. These positions were mistakenly budgeted in the General Fund in the Proposed Budget.

### *Park and Recreation-MADs*

The May Revise include adjustments to the Maintenance Assessment Districts (MADs) resulting in a revenue reduction of \$472,031 reflecting the updated Consumer Price Index (CPI), and an expenditure increase of \$160,408 to reflect needed expenditure adjustments, and the use of available carryover. Since the MADs FY 2011 Proposed Budget totals \$36.58 million, these adjustments are not considered significant changes.

### *OneSD Support*

Consistent with the IBA's Preliminary Report on the FY 2011 Proposed Budget, the May Revise reflects the transfer of 1.00 Senior Management Analyst from the OneSD Support Department to the Human Resources Department to support citywide training. This transfer was not completed prior to the issuance of the proposed budget and has now been properly reflected as planned, and increases the General Fund by \$118,086, with a corresponding reduction to the OneSD Support Fund.

In addition, due to workload adjustments, 3.00 Program Managers will be added to oversee citywide support of the OneSD system (offset by the reduction of 4.00 Business System Analyst II positions). The Program Managers were approved to be exempted from Civil Service



# Review of Mayor's May Revise

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and were included in the FY 2011 Salary Ordinance.

The net result of these budgetary changes is the reduction of two positions and increased costs of \$62,115. OneSD Support funding is allocated to all City funds, and the General Fund contribution is approximately 59% of the total.

## ***Emergency Medical Services (EMS)***

The May Revise includes an expenditure adjustment of \$561,261, a revenue adjustment of \$737,296, and an increase of 4.00 FTE for the Emergency Medical Services (EMS) budget. In the IBA's Review of the FY 2011 Proposed Budget, the IBA noted that the FY 2011 Emergency Medical Services (EMS) Budget reflected a 19.00 FTE reduction that did not account for the addition of positions associated with the reorganization of the EMS personnel structure in accordance with the new Emergency Medical Services Contract between the City and SDMSE. The May Revise for Emergency Medical Services incorporates a net increase of 4.00 FTE with the reduction of 2.00 FTE paramedic positions, and the additions of 1.00 FTE Risk Manager, 2.00 FTE Fire Captains, and 3.00 FTE Firefighter IIs. With the addition of 4.00 FTE positions, commensurate reimbursement revenue from SDMSE has been added to support the positions in accordance with the EMS Contract between the City and SDMSE.

In the IBA Review of the FY 2011 Proposed Budget, the IBA reported that that we were unable to get more data from Fire-Rescue concerning the removal of \$2.2 million in revenue from the FY 2011 Budget. Our Office has since learned that a \$1.5 million reduction in the Charges for Current Services and a \$687,142 reduction in the Other Revenue category was related to the removal of reimbursement revenue from the General Fund and Rural Metro, respectively. In the FY 2010 Budget, these reimbursements covered staff and Medic Unit costs borne within the EMS Fund, in accordance with former EMS agreements. With the reduction of \$2.2 million in EMS personnel expenses in the FY 2011 Proposed Budget, the related \$2.2 million in reimbursement revenue was removed. The May Revise revenue increase of \$737,269 reduces this revenue reduction to \$1.5 million.

## ***Public Utilities***

### ***Assurance Funding – \$16.1 million expenditure reduction***

The Public Utilities operating budget is being reduced by \$16.1M for the Assurance Fund - an expenditure line item related to Bid-to-Goal. The Department is removing assurance funding from the budget, because payouts for Bid-to-Goal depend on actual savings, and the savings are uncertain. Accordingly, during the budget process, it is difficult to project Bid-to-Goal savings and payouts that will occur in subsequent years.

FY 2009 program incentive payments have not been made as of the date of this report. Program audits must occur prior to such payments, and approval for these audits has not been

## Review of Mayor's May Revise

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obtained from City Council. Additionally, the FY 2010 Bid-to-Goal program has not been approved to-date.

In removing the assurance funding from the operating budget, the intention is to utilize an equity account through which appropriate savings are accumulated – the Employee Efficiency Incentive Reserve (EEIR). The CFO has the authority, via the appropriations ordinance, to increase expenditure appropriations for the purpose of implementing Bid-to-Goal agreements. Although transparency regarding the budgeting of expenditures may be diminished, the budgeted EEIR balance would be displayed within the Revenue and Expense Statement. However, the EEIR will not be broken-out on the Revenue and Expense Statement until the FY 2012 budget is presented, as staff has indicated there are system limitations this late in the budget process.

### ***Reduction in Non-Personnel Expenditures - \$2.2 million expenditure reduction***

Reduced vendor contract costs were obtained subsequent to development of the Mayor's Proposed FY 2011 Budget. Chemical expenditures are being reduced by \$2.0 million, and costs related to meters are being reduced by \$200,000.

### ***Public Utilities Restructure - \$2.5 million expenditure reduction, relating to 31.49 FTE***

On July 1, 2009 the Metropolitan Wastewater Department and the Water Department were merged as one department, the Public Utilities Department. In order to create efficiencies, certain financial and other administrative functions from the former Water and Wastewater Departments have been consolidated. As part of the restructure of the Public Utilities Department, 31.49 FTE will be reduced from the FY 2011 budget in the Mayor's May Revision, resulting in a savings of \$2.5 million.

### ***Support for Customer Implementation System (CIS) – \$9.8 million net expenditure reduction***

An increase of \$484,000 for 6.0 temporary FTE is related to the development of the new CIS, which will be integrated within the City's SAP system. An offsetting reduction of \$10.2 million in expenses, including consultant contracts, hardware and infrastructure, is due to the shifting of the CIS budget to the Capital Improvement Program (CIP). The CIP for CIS will be \$14.6 million.

# Review of Mayor's May Revise

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## ***Environmental Services***

### ***Operations Station Lease Payment – \$1.0 million revenue decrease***

The General Fund makes annual lease payments for the use of the Miramar Place Operations Station, effectively reimbursing the Refuse Disposal Fund for its share of acquisition and improvement expenditures. The existing lease agreement for the General Fund repayment to the Refuse Disposal Fund will be recalculated and extended from FY 2013 to FY 2015. The annual payment will be reduced from \$1.8 million to \$800,000. The expenditure reduction in the General Fund was included in the Mayor's FY 2011 Proposed Budget. However, as noted in our preliminary report, there was no corresponding reduction to the Refuse Disposal Fund's revenues. This revision reduces the revenue to the Refuse Disposal Fund by \$1 million.

### ***Completion of Ridgehaven Facilities Improvements CIP – \$184,000 expenditure decrease***

Anticipated completion of this CIP in FY 2010 eliminates the need to budget for this project in FY 2011. FY 2011 expenditures will be decreased by \$114,000, \$52,000 and \$18,000 in the Refuse Disposal Enterprise Fund, Recycling Enterprise Fund and Energy Conservation Program Fund, respectively.

### ***Energy Efficiency and Conservation Block Grant (EECBG) – \$316,000 revenue and expenditure increase***

Expenditures and revenues in the Energy Conservation Program Fund budget will be increased. Grant revenues will be used to cover the costs of 3.0 limited FTE's – a Supervising Management Analyst, an Associate Management Analyst and a Project Officer. These positions will handle energy efficiency improvements for municipal buildings, residential energy retrofits and other EECBG components.

### ***Addition of Program Manager – \$179,000 expenditure increase***

Energy-related responsibilities for this Energy Conservation Program Fund position include: monitoring Citywide energy management plans, overseeing grant funding, and contributing toward policy development.

### ***Various Adjustments – \$53,000 expenditure decrease***

A \$30,000 expenditure decrease in the Refuse Disposal Fund is attributable to a budgeted refuse packer that was purchased in FY 2010. Additionally, there are \$23,000 in expenditure reductions that are clean-up items, resulting from the transition to the new SAP system.

### ***Appropriated Reserve – \$1.4 million expenditure increase***

Appropriated reserves in the amount of \$920,000 for the Refuse Disposal Fund and \$480,000 for the Recycling Fund are being established to allow for unanticipated revenue shortfalls. The City Reserve Policy will include reference to these appropriated reserves when it is updated. It is anticipated that the revised City Reserve Policy will be presented to the Budget and Finance Committee in June 2010.

# Review of Mayor's May Revise

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## **General Services-Fleet Division**

### **Lease Purchase Payment for Fire-Rescue**

The General Services – Fleet budget changes reflected in the May Revision is a correction to properly reflect the transfer in and expenditure of funding from the Fire-Rescue Department for the annual lease-purchase financing payments related to several fire trucks purchased a few years ago. This does not reflect any sort of operational change.

## **QUALCOMM**

The May Revise includes a \$200,000 reduction in the TOT allocation to Qualcomm Stadium due to earthquake insurance no longer being required. A covenant to the 1996 Qualcomm Stadium revenue bonds required the City to maintain earthquake insurance. This insurance was specific to the Stadium bonds, and is above and beyond the insurance typically carried for City facilities. As a result of the Master Refunding Bonds, approved by Council on April 27, 2010, the requirement to maintain earthquake insurance has been eliminated, and the Risk Management Department has indicated that it is no longer necessary. The City will continue to carry existing property and other insurance on the Stadium, consistent with the coverage for other City facilities.

## **Tax Revenue Anticipation Notes (TRANS)**

Estimated costs of issuance (\$210,000) and interest expense (\$3,434,670) for the FY 2011 TRANS total \$3,644,670. It should be noted that approximately \$2.2 million of the interest expense is related to a higher coupon (2.50%) on the TRANS that results in the City receiving an equivalent original issue premium. The original issue premium reduces the amount the City needs to borrow. As a total cost estimate for the FY 2011 TRANS was not available at the time the FY 2011 Proposed Budget was being prepared, management used budgeted total costs for the FY 2010 TRANS (\$1,326,331) as an estimate for FY 2011. The difference between total FY 2010 costs and estimated FY 2011 costs is \$2,318,339. In order to reflect the current estimate, revenue and expenditures in the Tax and Revenue Anticipation Note Fund have been increased by \$2,318,339.

# The Office of the Independent Budget Analyst

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[SIGNED]

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Andrea Tevlin  
Independent Budget Analyst

[SIGNED]

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Elaine DuVal  
Fiscal & Policy Analyst

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Tom Haynes  
Fiscal & Policy Analyst

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Lisa Byrne  
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Brittany Coppage  
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Melinda Nickelberry  
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Dominika Bukalova  
Research Analyst

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Judy Stone  
Executive Assistant

Attachment-City Council Budget Memos





CITY OF SAN DIEGO  
COUNCILMEMBER SHERRI S. LIGHTNER  
DISTRICT ONE

MEMORANDUM

DATE: May 20, 2010

DTID: SL1005-009

TO: Andrea Tevlin, Independent Budget Analyst

FROM: Councilmember Sherri S. Lightner, First District

SUBJECT: Fiscal Year 2011 Revised Budget

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This memorandum is to convey my priorities and cost savings suggestions for the Fiscal Year 2011 Revised Budget.

**PRIORITIES**

**Public Safety**

I have heard clearly from my communities that public safety is the top priority that must be funded first in our budget.

In particular, residents are very concerned about the Fire-Rescue Department's rolling brownout program for 13 fire engines throughout the City and the absence of year-round lifeguards on Torrey Pines City Beach.

I requested the Mayor's office bring forward a list of possible reductions that were considered by the city departments in December 2009 but were not taken, and that possible reductions be considered in the following amounts that would allow the restoration of funding to the Fire-Rescue Department and Lifeguard Services:

- \$11.5 million: cost to end the rolling brownouts program and restore all 13 engines to the impacted stations
- \$1.4 million: cost to restore one browned out engine
- \$4.2 million: cost to restore browned out engines at Station 35 in University City, Station 40 in Rancho Penasquitos, and Station 21 in Pacific Beach, which are the three stations noted by Chief Mainar to be suffering the most adverse impacts as a result of the brownouts
- \$400,000: cost to restore year-round lifeguard staffing for Torrey Pines City beach

**Parks & Recreation**

We should not cut funding to existing parks, recreation centers, and programming to fund the placement of a rope at Children's Pool. I oppose spending what is estimated to be \$30,000 to \$40,000 to amend the Coastal Development Permit for the year-round rope barrier at the

Children's Pool. This money would come directly from the Park & Recreation Department's Budget and could otherwise be used to fund park maintenance, recreation center hours, park programs, or the City's contribution to the San Dieguito River Park Joint Powers Authority.

Reinstatement of funding for beach fire pits was not included in the Mayor's May Revise, and should be included in the final budget document.

The individual who had performed the duties of City Trails Manager for many years was previously classified as a Project Manager in the Park & Recreation Department. Due to budget reductions, this individual was "bumped" last year to a Park Ranger classification, which prohibits him from performing trails management duties. The institutional knowledge he has acquired over many years is being squandered. A classification should be created for "City Trails Manager" that has the same salary as this individual's current position, but which incorporates the duties of the previous position. This would be a cost neutral way for the City to take advantage of this individual's expertise.

### **Library**

In March 2010, library hours were reduced to 36 hours per week. Analysis should be performed to show how the reconfiguration of library hours has affected attendance and what the public response has been.

### **Streets**

The Citizen Survey performed earlier this year showed that the "condition of the city streets" was one of the top priorities for our City's residents. I support the recommendations of the October 26, 2009 Performance Audit of City's Street Maintenance Functions, and look forward to the citywide street assessment survey to be completed in FY2011.

## **COST SAVINGS**

In addition to continuing our work on the Structural Budget Deficit Elimination Plan, we should consider the following measures for cost savings:

### **Fire & Police Cost Recovery**

We should assure cost recovery for false fire alarms, and ensure false police alarm fees are cost recoverable. Both the Police and Fire-Rescue Department have been working on defining cost recoverable fees for quite some time. Council should establish a timeline and benchmarks for these departments to bring the cost recoverable fees to Council for consideration. We should also review fees for inspections and gun dealer permits and ensure both are fully cost recoverable.

### **Marketing Partnerships**

We should pursue revenue sharing partnerships with corporate sponsors that could benefit various City Departments. There are currently at least two outstanding proposals for marketing partnerships with Lifeguard Services for vehicle sponsorship as well as advertisements on uniforms, rescue buoys, surfboards, bandages, and sunscreen packets. Any revenue generated by Lifeguard Services through sponsorships should be designated for the Lifeguard budget.

### **Newsrack Permit Fees**

The cost for newsrack permits is currently \$15 per year per news rack. The revenue generated funds one half of a full-time position to enforce the Newsrack Ordinance. We should increase



newsrack permit fees to whatever level appropriate to fund one full-time code compliance position to enforce the Newsrack Ordinance.

**Institutional Mitigation**

In light of the 2006 California Supreme Court decision in *City of Marina v CSU Board of Trustees*, the IBA should work with the City Attorney's office to analyze what revenue the City should or could be collecting from public educational institutions within the City of San Diego for mitigation of impacts such as traffic, parking, or Fire-Rescue response. It is likely the City is missing numerous opportunities to collect revenue to which it is legally entitled. There is no doubt our colleges and universities contribute to our community in many ways, but we should ensure that they share the burden, as the rest of us do, of paying for the public services and infrastructure from which these institutions, their students and faculty benefit.

**Alternative Scheduling**

Departments should analyze the possibility of utilizing 4/10 or 4/10/5 work schedules. The Environmental Services Department is already using alternative scheduling to achieve significant cost savings. Alternative schedules could increase efficiencies and save costs in areas such as facilities maintenance, which involve considerable travel and set-up time.

I look forward to working together to restore the City to fiscal health. If you have any questions, please do not hesitate to contact my office.

cc: Honorable Mayor  
Honorable City Attorney



**COUNCIL PRESIDENT PRO TEM KEVIN L. FAULCONER  
CITY OF SAN DIEGO  
SECOND DISTRICT**

**M E M O R A N D U M**

**DATE:** May 20, 2010  
**TO:** Andrea Tevlin, Independent Budget Analyst  
**FROM:** Council President Pro Tem Kevin L. Faulconer  
**SUBJECT:** Budget Priorities for Fiscal Year 2011

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I am proud of the tough decisions the Mayor and City Council made in December 2009 to help bring the City's expenditures in line with revenues. Approving an 18-month budget with \$179 million in cuts was a decisive and forward-looking action that helped put the City in a position to adopt a balanced Fiscal Year 2011 budget with no service reductions or tax increases.

While significant strides have been made to ensure minimal impacts to core City services, there is more to do. As we continue our budget deliberations, I will be focusing on my priorities for the FY11 budget, which include:

- Implementing Managed Competition
- Continued growth of auditing functions
- Lifting the Centre City Redevelopment project area CAP
- Freezing retiree healthcare costs
- Continued monitoring of public safety needs

**Implementing Managed Competition**

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Forty-three months after San Diegans passed Proposition C, City Hall has not implemented managed competition. Citizens are still awaiting this reform, as recently highlighted in the Residents Opinions on City Services (IBA Report No. 10-34), in which 74 percent of respondents said the City should use more private contractors and implement managed competition to deal with the budget deficit.

I support managed competition because ongoing, permanent cost-savings can only be achieved through honest competition between City departments and the private sector.

I believe that, when allowed to compete, City departments will find ways to reduce costs, increase efficiencies, and provide the lowest reasonable bid in most cases. Regardless of whether a City bid or private bid wins, the true winners are San Diego taxpayers because our tax dollars will be used more efficiently. The City must implement managed competition.

#### Continued Growth of Auditing Functions

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The Audit Committee unanimously recommended adding an additional FTE (Full Time Equivalent) position to the Office of the City Auditor in mid-FY11. This modest but necessary staffing increase will move the City closer to reaching 24.5 FTE positions in the City Auditor's department, as recommended by Jefferson Wells, a professional service firm with expertise in internal controls. In addition to the 0.5 FTE position, it is critical that the FY11 budget adequately reflects the Office of the Auditor's current (FY10) staffing levels. I look forward to your review of this matter in the IBA's analysis of the May Revision to the FY11 Budget.

The Audit Committee also recommended that the City Council consider reallocating to the Office of the City Auditor \$100,000 set aside for an audit of the Public Utilities Department. This action would put the City's independent auditor in charge of the performance audit, eliminating the need for a contract with an outside firm.

Continued investment in the Office of the City Auditor increases independent oversight of City management and is a key component in ensuring City Hall has the checks and balances that San Diegans expect. City taxpayers are already receiving a return on investment. A March 2010 Activities and Accomplishments Report highlighted that the City Auditor put forth 274 recommendations to improve economy, efficiency, and effectiveness, and identified \$7.4 million in potential savings and revenue enhancements since July 2008.

The City Auditor reported his office is achieving a \$3-to-\$1 return on investment, but more work needs to be done. A May 6 report to the City Council notes that 90 percent of the potential audits listed on the Citywide Risk Assessment remain to be audited. I encourage the Mayor and my Council colleagues to continue to invest in oversight and accountability by supporting the Audit Committee's recommendations.

#### Lifting the Centre City Redevelopment Project Area CAP

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Increasing the tax increment limit for the Centre City redevelopment area will benefit residents downtown and across the city of San Diego. Downtown redevelopment has proven to be an economic engine that fuels San Diego's most dynamic industries, provides jobs, and generates tax revenue for the City's General Fund. Lengthening the life of the Centre City redevelopment area will allow these successes to continue.

Lifting the CAP will provide additional revenues in future fiscal years to the General Fund in the form of Sales Tax and Transient Occupancy Tax (TOT). It would also relieve the General Fund of the obligation to fund more than \$1 billion in future infrastructure projects identified in the Downtown Community Plan, such as fire stations and parks.

#### Freezing Retiree Healthcare Costs

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I have supported freezing retiree healthcare costs for some employees. I encourage the Mayor and my Council colleagues to finish what we started by expanding this reform to cover all City employees. In 2006, non-Medicare eligible retirees each received \$7,224 a year. Next year, non-Medicare eligible retirees who retired on or after July 1, 2009 are eligible to receive \$8,880. We must continue to rein in retiree healthcare costs.

#### Continued Monitoring of Public Safety Needs

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As mentioned, filling the projected \$179 million budget deficit required the City Council and Mayor make hard choices to ensure the financial health of the City. In addition to Police and Fire operating budget reductions, our public safety employees joined other City workers in taking a 6 percent reduction in compensation.

I will continue to monitor impacts to the public safety departments and their ability to serve the people of San Diego. This includes closely watching the Fire Department's rolling brownout of some fire engines. As we monitor this year's budget and prepare for FY11, the Fire Chief's assessment of the effectiveness of the rolling brownouts will be important to me. I look forward to continued updates to the Council on ways to improve the Fire Department's operations during these difficult economic times.

I appreciate the opportunity to provide my FY11 budget priorities and look forward to adopting a budget that delivers outstanding City services and wisely uses San Diego's tax dollars.



**OFFICE OF COUNCILMEMBER TODD GLORIA  
COUNCIL DISTRICT THREE**

**M E M O R A N D U M**

**DATE:** May 21, 2010  
**TO:** Andrea Tevlin, Independent Budget Analyst  
**FROM:** Councilmember Todd Gloria, Third Council District *Todd Gloria*  
**SUBJECT:** Fiscal Year 2011 Budget Priorities and Issues for Consideration

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Thank you for the opportunity to convey my budget priorities for Fiscal Year 2011.

First, I want to thank and acknowledge you and your staff for the tremendous work during the budget cycle and throughout the year. You've provided advice and expertise that have made the process a better-informed and more effective one. Your analyses and reports have made an immeasurable difference in the ability of the Council and the public to make sound decisions. My appreciation, as well, to the Mayor, particularly his budget team, for providing us with overviews of the many departmental budgets and for being responsive to Councilmembers' questions and requests for additional information.

As we continue to pursue structural solutions to our City's budget crisis, the proposed budget offers a "bridge" solution for the coming year. Many of us recognize that this budget is merely a short-term resolution. The budget allows the City to continue to function, meet its obligations and ensure that core services are not further diminished. More importantly, it provides the necessary time to identify new opportunities that are critical to a permanent fix.

In these trying times however, public safety remains the one area in which there is no margin for error. Public safety is the most serious mandate of city government. It is also the top priority of our residents per the recent *Residents' Opinion on City Services Survey*. What concerns me most about the proposed budget is the continued rolling brown-outs of fire engines. I echo Fire-Rescue Chief Mainar's hope that this "will come to an end as soon as possible." The practice, implemented on February 6, 2010, is unsustainable. The department has reported that the brown-outs have further compromised compliance with national response standards for first on scene units and assembly of an effective fire force. This is something that cannot be ignored.

It is estimated that each engine restored would require \$1.4 million in funding. I provide the following funding options for consideration.



## OPTIONS TO RESTORE PUBLIC SAFETY SERVICES

### Termination of Hold Harmless Agreements for Refuse Collection

There are several inequities to the existing People's Ordinance which governs the City's practice of refuse collection. It forces some residents to pay for trash services, while it provides trash services to others without an additional fee. Furthermore, the Ordinance prohibits the City from going onto any private street, alley, driveway, parking lot or other private property to collect refuse, except in the case of an emergency or pursuant to a pre-existing hold harmless agreements.

The City currently has over 110 Hold Harmless Agreements for refuse collection on private property. The select few residences cost taxpayers approximately \$1 million annually. I request that the process begin to terminate these agreements.

### Mission Bay Improvement Fund

As part of the December 2009 budget adjustments, Council approved a transfer of \$4.3 million from the Pre-Prop C Mission Bay Improvement Fund. I request that all funds not restricted by the recent charter amendment be identified and considered for more critical public safety purposes.

### Parking Meter Utilization Plan

I request that the Parking Meter Utilization Plan be brought forward for Council consideration. The Plan not only increases parking in highly impacted areas, it also allows room for efficiencies that come with new technology, as well as a revenue source for the City.

### Entertainment Permits Fees

According to the Police Department's 2009 Report to Council on User Fees, revisions to the Entertainment Permit Fees to achieve full cost recovery could potentially generate an additional ~\$300,000. The Mayor and entertainment industry stakeholders were provided until the end of calendar year 2009 to propose alternative fees. As fees are to be reviewed and updated annually by Council, I ask that the Mayor bring forward fully cost-recoverable Entertainment Permit Fees.

### False Alarm Fee—Fire-Rescue Department

Unlike the Police Department, the Fire-Rescue Department has no mechanism to recover costs incurred responding to false alarms. The Police Department's fee is expected to generate \$3.1 million annually, which would recover approximately 79% of the costs of administrative and false alarm responses.

False alarms have become an enormous concern for our public safety departments. The hope is to alleviate the false alarm problem, thereby redirecting public safety resources to more effectively serve the community as a whole. I request that a similar fee be implemented for the Fire-Rescue Department.

### First Responder Service Fee

According to your Report Number 10-29, the City explored the establishment of a First Responder Service Fee in 2004, but the fee proposal was not approved by Council. The proposal was for the implementation of a \$175 fee for all Advance Life Support (ALS) services and \$125 for all Basic Life Support (BLS) services. At the time of the proposal, it was estimated

that a First Responder Service Fee would generate \$2.1 million in net new revenue for the General Fund.

With the fairly recent establishment of a Fee Policy and the need to restore critical public safety services, it is prudent to revisit this fee now. I ask that Budget and Finance Committee work with your office to get an updated estimate and request that the Mayor bring forward a new proposal of a First Responder Service Fee.

## OTHER ISSUES FOR CONSIDERATION

### Public Facilities Financing Plans

The Capital Improvements Program hinges on effective Public Facilities Financing Plans (PFFP). I request that updated PFFPs be brought forward for Council consideration. The Mid-City PFFP update was completed nearly 18 months ago. The City adopted the FY 2010 budget without first adopting the new PFFP, and we're nearing adoption of the FY2011 budget, also without benefit of the new PFFP. Approval of these plan updates could result in additional revenue for the Facilities Financing Division and also increase their reimbursement of administrative expenses from Development Impact Fees.

### City Planning and Community Investment—Historic Resources Division

I request that your office explore whether or not additional fees can be generated by reinstating the Senior Planner Position for Historic Preservation. Particularly, what would be the total of those fees, and what could be accomplished with them? There is interest and support from the Historic Preservation community to make this service fully cost-recoverable.

### Seized and Forfeited Assets Fund

A fund balance of \$917,802 remains. With the great needs and shortage of resources in the Police Department, I request that eligible activities be explored for use of these funds. I am particularly interested in the restoration of Police Service Officers.

### Business Process Reengineering

BPRs have resulted in reductions of over 400 full time positions and over \$32 million in personnel expenditures. The City has saved millions of dollars in non-personnel costs and has become a more efficient organization as a result of this process.

I request that an update be provided at the next available Budget & Finance Committee and that implementation be made a priority as additional cost savings, cost avoidances, and efficiencies will likely result from these processes. I also ask that clarification be provided on the distinctions between "reorganizations" and "business process reengineering."

### Contracting

General Fund departments have experienced significant budgetary reductions in the area of Contracts. Excluding the impacts related to Motive Equipment/Fleet, the Contracts category reflects a reduction of \$8.3 million, or 6.7%, compared to FY 2010, which was said to be the result of a zero-based review. Departments most significantly impacted include Storm Water, Environmental Services, Park and Recreation, and Police.

However, the City has also changed its procedures related to the treatment of prior year encumbrances with the transition to the OneSD. In the past, departments were able to carry

forward budgetary authority for contractual work that continues into the following fiscal year. The changed procedures will require departments to operate within their restricted budgets which have already been reduced, and must also account for already authorized work that may continue beyond FY 2010.

I am concerned that these two factors will likely result in Contracts spending that will likely exceed these reduced budget levels for FY 2011. I ask that you further explore potential impacts of these changes in methodology.

#### New Revenues

It comes as no surprise that with the current revenue structure, the City has insufficient income to maintain critical services. This was the case even during healthy economic times. The public has indicated they will no longer accept reduced levels of neighborhood services. Your Report Number: 10-29 identifies General Fund Revenue Options and a potential to generate over \$350 million in new revenue for the City. I request that we begin discussions immediately to narrow our focus on revenue options that would best serve our General Fund.

By now, we have come to realize that it would be unwise to try to cut our way out of the problem. Increasing fees is no one's favorite way to address budget challenges, but after almost a decade of budget cuts, we have run out of viable alternatives. When our fire engines are not staffed and other service levels are falling, raising new revenues should no longer be a tough decision.


Again, thank you for the opportunity to share my priorities for the upcoming year. I look forward to a day when we can restore the cuts made and return city services to the level that San Diegans deserve.

TG:pi





**CITY OF SAN DIEGO  
OFFICE OF COUNCILMEMBER ANTHONY YOUNG**

DATE: May 20, 2010  
TO: Andrea Tevlin, Independent Budget Analyst  
FROM: Councilmember Anthony Young   
SUBJECT: Fiscal Year 2011 Budget Ideas

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As Chairman of the Budget and Finance Committee, my priorities include resolving the City's Structural Budget Deficit, once and for all. To achieve that end, and as part of the Fiscal Year 2011 budget review process, I am providing my suggestions and recommendations.

Updating the City's strategic plan and vision provides the Mayor and Council clear choices in making decisions to fund city services prioritized by the citizens, Mayor and Council. I look forward to scheduling the Strategic Plan Update for an upcoming meeting of the Budget and Finance Committee.

We have made tremendous strides in addressing our budget deficit. However, there is more to be done including:

- Adoption of a Structural Budget Deficit Elimination Plan in the fall;
- Receiving and acting on recommendations from the Citizen's Revenue Review and Economic Competitiveness Commission;
- Discussing and acting on recommendations to possibly merge the City Treasures audit division with the Office of the City Auditor to achieve more efficiency.
- Priority driven budgeting (PDB) is a process that allows the budget to be linked with direct outcomes. I look forward to continuing this process with the Council, Independent Budget Analyst and the Mayor to ensure we continue to move this city forward in spite of continuing economic downturns.



## COUNCILMEMBER CARL DEMAIO

FIFTH DISTRICT  
CITY OF SAN DIEGO

### MEMORANDUM

DATE: May 20, 2010  
TO: Andrea Tevlin, Independent Budget Analyst  
FROM: Councilmember Carl DeMaio  
RE: FY 2011 Budget Recommendations and Priorities

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At the request of Councilmember Tony Young, the Chair of the Budget and Finance Committee, I am submitting my budget recommendations priorities memo to the Independent Budget Analyst for the FY 2011 budget.

In December of 2009, I provided my budget priorities for the 18-month budget being considered at the time. At that time, the FY 2011 budget balanced a projected \$179 million deficit “through one-time solutions of \$96.5 million and recurring resources of \$82.6 million.”<sup>1</sup>

I also noted my desire to replace one-time deficit fixes with structural solutions, as one-time fixes do not address the core problem that the City continues to live beyond its financial means. I reiterate my desire to halt our continued reliance on one-time fixes that do not solve the structural spending issues plaguing our budget.

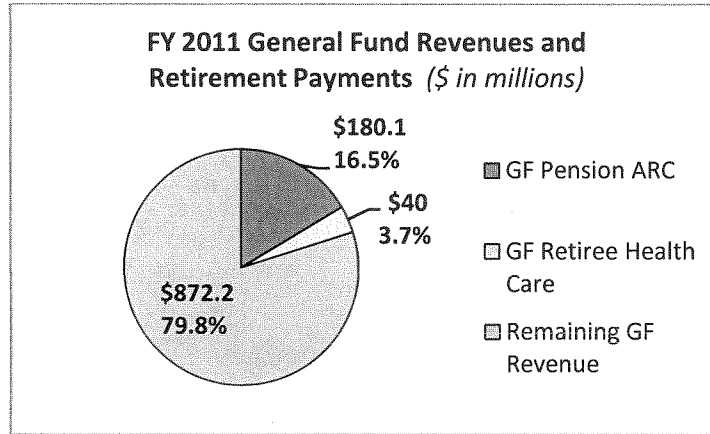
Excluding the approximate \$4.5 million budget gap needing to be solved with the May Revision, the proposed FY 2011 budget still features corrective actions of \$28.2 million, \$14.1 million of which are considered to be one-time actions by the IBA.

Furthermore, the updated Five Year Outlook projects significant budget deficits (\$48.1 million - \$72.5 million) in each year covered, before accounting for the underfunding of retiree health care and deferred maintenance/capital liabilities.

My concern is underscored by the continuation of an unsustainable relationship between the City’s annual retirement obligations and the General Fund. Using the data provided in the updated Five Year Outlook, the following pie chart provides a proportional look at FY 2011 General Fund revenue compared to funding of pension and retiree health care obligations.

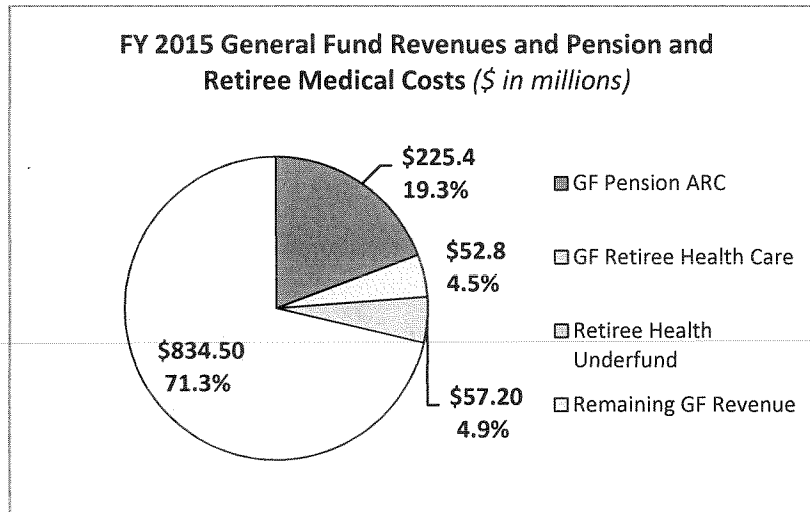
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<sup>1</sup> See IBA Report 09-90.



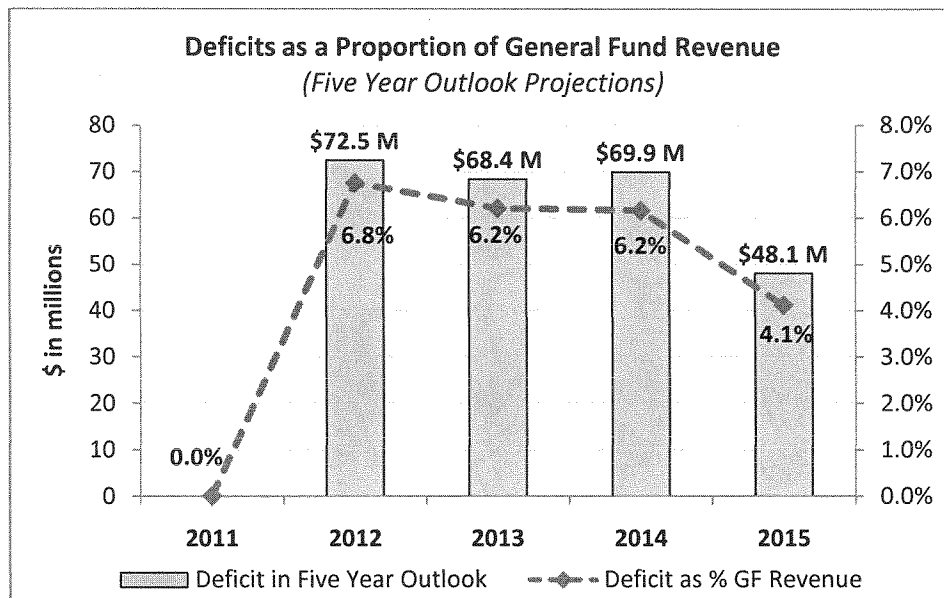
As the chart above shows, for the FY 2011 Budget, after funding the General Fund pension obligation and *paying only 48% of the actuarially required retiree medical obligation*, less than 80% of the City's General Fund revenue remains.

The chart below depicts how this picture changes if the retiree medical obligation is fully funded. Using the FY 2015 projections from the Five Year Outlook, but assuming that retiree medical costs are fully funded yields the following scenario for FY 2015 (the last year in the most recent Five Year forecast)<sup>2</sup>:

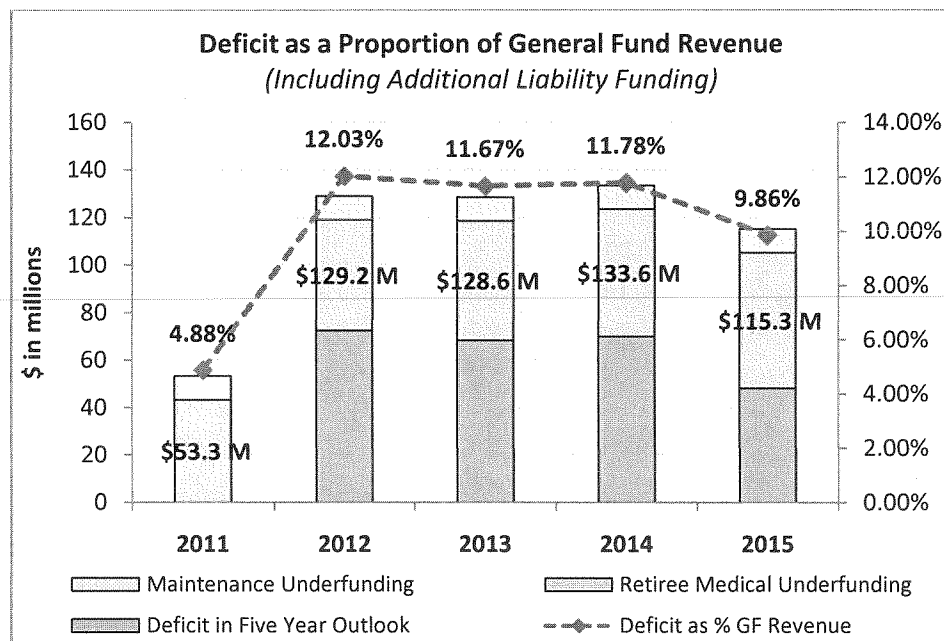


It may also be useful to examine the City's forecasted deficits in a proportional comparison to the City's General Fund. The chart below shows the projected General Fund deficits according to the updated Five Year Outlook.

<sup>2</sup> Assumes that projected General Fund retiree medical payment equates to 48% of full General Fund cost in FY 2015.



The data in the above chart shows that even after \$207.2 million in cumulative corrective actions for the FY 2011 budget, the City does not face a deficit of less than 4% of its entire General Fund for the remainder of the Outlook – *before accounting for the underfunding of significant liabilities*. As shown below, accounting for these two liabilities significantly worsens the deficit outlook significantly.<sup>3</sup>



Incorporating the retiree medical and infrastructure liabilities into the forecast shows that the City has projected deficits near or above 10% of its annual General Fund revenue in each year of the Five Year forecast.

<sup>3</sup> Maintenance underfunding for ongoing maintenance needs and additional capital needs amortization assumed at \$10 million annually. This number will hopefully be clarified by an anticipated June report.

My priorities for the FY 2011 budget are as follows:

### 1. Book the City's True Liabilities in Deficit Calculations

Continuing to omit retiree health care and infrastructure liabilities from annual deficit calculations for annual budgeting and financial forecasting purposes **does not mean that these liabilities do not exist**. In 2004, the Pension Reform Committee Final Report noted:

"The [pension] UAAL has been treated as off balance sheet debt when in fact it is a full obligation of the City."

The current treatment of these two obligations repeats this same error. Unless reforms are solidified with respect to retiree health care, the same holds true with that liability.

As it pertains to annual infrastructure maintenance funding, I disagree with the notion that the City does not have an obligation to taxpayers to adequately maintain public assets. This means that regular maintenance costs are in fact an annual obligation of the City, as well as the amortized reduction of the deferred maintenance/capital backlog. Failing to do so pushes current obligations on to future taxpayers and perpetuates a generational inequity – a practice I cannot support.

Adding these two significant liabilities to the City's deficit total will have the effect of increasing budget transparency and more clearly depicting the reality of the City's financial condition.

### 2. Reform the City's Pension, Retiree Health and Deferred Infrastructure Liabilities

#### Pension Reform

Since my last submission on pension reform in December, the City Attorney has sought legal remedy to compel SDCERS to comply with City Charter Section 143.1. While we await the outcome of these efforts, the pension reform goals I presented in December still hold today:

- a) Reducing the pension debt through benefits reform,
- b) Reducing the pension debt through reforms that achieve actuarial savings (managed competition, salary freezes, reductions-in-force, etc.)
- c) Achieving savings in other parts of employee compensation to pay down accrued pension liabilities, or
- d) A combination of all of the above.

Furthermore, the City can pursue reform of the following discretionary items:

- Negotiating a SPSP waiver option for the Local 127 and any unclassified employees still receiving the benefit.
- Eliminating all Employee Offsets, or “pickup” that remains. While the steps taken to eliminate the offset for some employees are commendable, the proposed FY 2011 budget includes \$7.9 million in offsets (\$4.8 million General Fund).
- Negotiation of a new pension plan for remaining bargaining units. A reformed pension benefit package for new hires has not yet been implemented for all bargaining units. A more affordable benefit must be negotiated as soon as possible with all remaining bargaining units that do not yet have a reformed pension plan for new hires.
- Increase employee contribution rates to reflect a fair share of market losses.

The City must also closely monitor the progress of the City Attorney’s actions, as well as prepare for additional reform opportunities that may arise in the event of updated determinations by the Internal Revenue Service (IRS) with regard to individual employee opt-out capability. While these events materialize, however, the City can and should adamantly pursue the reforms provided above in the coming year.

### **Retiree Health Care**

The previous analysis of the difficulty associated with balancing the City’s budget when accounting for the full cost of current retiree medical benefits displays the crucial nature of reforming of this liability. Following the completion of the ongoing “Joint Study,” the City must aggressively negotiate to ensure that meaningful reform is achieved in this area.

## **3. Other Structural Reforms**

### **Managed Competition:**

As of May 20, 2010, it has been 3 years, 6 months and 13 days since voters approved the Managed Competition reform tool in the City of San Diego. Immediate action to implement this critical reform tool is necessary, and has been called for by taxpayers for more than 3.5 years.

The Mayor should be given the authority to proceed with competitive sourcing for a number of functions – including trash collection, landfill management, auto maintenance, landscaping, printing/publishing and information technology. Consistent with this authority, the City Council should support the Mayor in the necessary “Meet and Confer” process with our labor unions.

### **Performance Audits**

I am pleased to have proposed six performance audits with my Council colleagues last week. Continuing to support the efforts of our City Auditor in identifying available cost savings and prudently following up on the recommendations of audits must be prioritized.

### **Enhanced Marketing Partnerships**

The City should expand its marketing partnerships to generate additional revenues. This concept has also been endorsed by the Teamsters 911 bargaining unit. I plan to submit a detailed proposal on this idea in the coming weeks.

### **Elimination of Terminal Leave**

Earlier this year, the City Council took final action to eliminate Terminal Leave for three groups of employees, but has not yet eliminated it for a number of bargaining units. This costly benefit represents another opportunity for the City to reduce its costs associated with discretionary benefits.

## **4. Jobs Friendly Environment**

### **Reject Tax and Fee Increases**

The City must avoid increasing taxes and/or fees, as these revenue increases place additional hardship on San Diego's working families and businesses.

### **Improve Small Business Efforts**

The technical assistance provided by organizations such as Business Improvement Districts (BIDs) can be improved upon by examining the ways in which the City interacts with them. Rather than engaging in overly burdensome reimbursement processes, the City should explore a forward-looking budgeting process for the BIDs to provide these organizations with increased cash flow certainty and reduced administrative burdens. At the same time, the City can maintain adequate administrative oversight by exploring a change to the current governance model of the BIDs.

The City should also seek to reduce the burdens associated with regulatory compliance that it places on small businesses. Increased automation of the permitting process is an essential place to start this reform effort.

As the daunting deficit projections make clear, quickly pursuing needed reforms is critical to the City's financial health. I look forward to working toward implementing these reforms in the coming year.



**COUNCILMEMBER DONNA FRYE**

City of San Diego  
Sixth District

**MEMORANDUM**

**DATE:** May 20, 2010

**TO:** Andrea Tevlin, Independent Budget Analyst

**FROM:** Councilmember Donna Frye

A handwritten signature in cursive script that reads 'Donna Frye'. The signature is written in black ink and is positioned to the right of the 'FROM:' field, overlapping the 'SUBJECT:' field.

**SUBJECT:** Budget Priorities for Fiscal Year 2011

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For the purpose of discussion during the City Council's budget review process, below is a list of my priorities for the current budget discussions.

**Specific Programs:**

- **Half-Million Dollar Phyllis Place Road Connection Study:** The city should not be spending \$500,000 to fund a road connection study to benefit development projects in Mission Valley, while reducing funding for public safety services such as police and fire. These funds should be reallocated to help offset cuts to public safety services.
- **Civilian Positions in the Police Department:** Cutting civilian positions within the Police Department has a direct impact on sworn police officers' ability to be actively patrolling our neighborhoods. The PSO positions and police support staff are vital and need to be retained.
- **Rolling Brown-Outs:** The rolling brown-out plan implemented by the city in the December 2009 budget discussions should be reviewed to the maximum extent possible to determine if other funding is available to allow fire-life safety services to be fully restored.
- **DROP Neutrality Study:** Funding for the DROP neutrality study must be identified so that the study can move forward and the impact of the program on the city can be determined.
- **Treasurer-Auditor Staff Positions:** The six positions currently located in the City Treasurer's Revenue Audit Program should be consolidated into the office of the City Auditor.






City Of San Diego  
**COUNCILMEMBER MARTI EMERALD**  
**DISTRICT SEVEN**

**M E M O R A N D U M**

**DATE:** May 20, 2010 **REF:** M-10-05-04

**TO:** Councilmember Tony Young, Chair Budget Committee

**FROM:** Councilmember Marti Emerald 

**SUBJECT:** Fiscal Year 2011 Budget

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Many of the issues revolving around the City's FY2011 budget have been resolved or are close to being resolved. With that in mind I submit several ideas and requests that will assist us in balancing this year's budget and our FY2012 budget which is expected to be out of balance by up to \$75 million.

1. **Management Review**

Over the past few years many positions, vacant and filled, have been removed from the City's budget. I request that the IBA conduct a review of management level positions Citywide. The purpose would be to confirm if reductions in management have kept pace with reductions of front-line workers. I have been informed on several occasions that the ranks of management have grown since the inception of Strong Mayor and this review would confirm or deny this concern.

2. **Management Benefits, Perks and Bonuses**

Recently, I issued a memo to the IBA to review all salaried position that have a base greater than the salary of the Mayor (CEO) to determine the saving to taxpayers if no employee of the City received base pay greater than the CEO of the City. In addition, I believe we should review all management level bonuses and perks and identify taxpayer savings if the management benefits were brought more in line with front-line employees.

**3. Downtown Public Restrooms**

According to a report released this week by the San Diego County Grand Jury the installation of public restrooms downtown would save taxpayers thousands of dollars now spent power washing streets, alleys and sidewalks, and would reduce calls for emergency services (police, fire and EMS). It would also reduce the public health risk created by human defecation on streets and sidewalks and create a place for hand washing and access to potable water. Attached to this memo are details of the "Portland Loo," a pre-built, low cost and easy to maintain public restroom. I would propose that we amend the CCDC FY11 budget to include up to \$750,000 for the purchase and installation of six "Portland Loo" or equivalent style public restrooms for downtown San Diego. The funds would come from reserves or other CCDC line items.

**4. Review Employees/Residents Suggestions Memos:**

Nader Tirandazi issued a memo January 22, 2009 to the Budget Committee and the City Council titled "Employee/Resident Suggestions." The report contained many efficiencies and cost saving ideas for the City to pursue. I would request a report from the Mayor outlining the actions that have been taken to evaluate and implement the many ideas presented by the public and our City employees.

**5. Audit of Consultant and other outside Contracts:**

Councilmembers Emerald and DeMaio sent a memo to San Diego's Independent Auditor earlier this month to audit consultant contracts as soon as possible. I recommend we impose a moratorium on new consulting contracts until the audit is complete.

**6. Revenue to Restore Fire & Police Protection**

The issue of Fire Engine Closures has been a hot topic Citywide since the implementation of the program in February of this year. The public has testified over and over that they want the fire engines restored. Recently, my office was informed that any available revenues identified would be "impounded" by the Mayor to pay down the deficit before restoring any fire engines. The City Council is empowered to make the policies of the City and that includes how many fire engines will be budgeted.

**7. Community and Legislative Services**

This department, which is really the Mayor's office, contains excess and duplicative positions. Community representation and legislative services are proper functions of a City Council office. I recommend that we reduce this budget by \$2,000,000 and allow the Mayor to reorganize his office so that the public is aware of the size of the Mayor's staff and what functions they serve.

**8. Redevelopment Agency**

Recently, I asked the IBA to review the overall redevelopment activities and structures currently employed by the Redevelopment Agency. While redevelopment activities are generally funded from tax increment and not the general fund, it is possible that millions of dollars could be saved by consolidating our current triad structure (City Redevelopment Department, CCDC and SEDC) with one strong, independent Redevelopment Agency. Streamlining support staff and eliminating duplication of services would also be beneficial to the overall effectiveness of our redevelopment program.

ME/cp



## COUNCIL PRESIDENT BEN HUESO

City of San Diego  
Eighth District

### MEMORANDUM

DATE: May 20, 2010

TO: Councilmember Tony Young  
Chair, Budget & Finance Committee

FROM: Council President Ben Hueso

RE: FY 2011 Budget Recommendations

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Thank you for your leadership as Chair of the Budget & Finance Committee. The difficult budget decisions we have made as a Council over the past several years have helped the City navigate through an extraordinarily challenging time. The FY11 budget and future budgets should prioritize eliminating the structural deficit. **I emphasize the importance of adhering to the Structural Budget Deficit Elimination Guiding Principles, which the IBA and our colleagues have worked so hard to set.** I look forward to continue making progress toward the City's long-term fiscal health while maintaining a high quality-of-life for San Diegans.

My recommendations for FY2011 are as follows:

#### City Planning and Community Investment

- Provide additional funding to City Planning and Community Investment for completion of the Community Plan Update program in general and the Otay Mesa and Barrio Logan Community Plan Updates in particular

#### Engineering & Capital Projects

- Support a Deferred Capital/Deferred Maintenance funding plan that incorporates the Guiding Principles

#### Fire-Rescue

- Prioritize restoration of service reductions and cancellation of rolling brown-outs when new funding is identified
- Restore senior management analyst and administrative aide under the office of Home Land Security in order not to jeopardize receipt of FEMA and UASI grant funding

### Library

- Support keeping our libraries open and maintaining current hours of operation
- Consider restoring the youth services librarian positions lost in previous fiscal years, particularly for the Otay Mesa/Nestor library

### Parks and Recreation

- Allocate an additional \$125,000 to Silver Wing Neighborhood Park for security and ball field lighting, using DIF funds currently proposed for Pequena Street storm drain system upgrade, identified as fund 400125, page 803 of Volume III budget book
- Allocate \$550,000 for Villa Montezuma improvements and restoration
- Allocate \$900,000 for completion of Memorial Pool repairs
- Prioritize design and construction of Riviera del Sol Park
- Oppose Park and Recreation's Proposed Fee Schedule that would increase fees to programs and services

### Pension

- Make annual payments to the pension, as prioritized in the Guiding Principles

### Police

- Increase the number of academies to increase police force when new funding is identified

### Special Promotional Programs

- Recommend maintaining Mayoral and Council allocations for district events, as arts and cultural programs need our support during these difficult economic times

Thank you for your consideration. I look forward to working with you on a successful budget process.

cc: Honorable Mayor Sanders  
Honorable Councilmembers  
Honorable City Attorney  
Andrea Tevlin, IBA  
Jay Goldstone, COO