
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Recommended Revisions to the Mayor's Proposed FY 2012 Budget and May Revise

BACKGROUND

The IBA's review of the Mayor's Proposed FY 2012 budget was issued on April 29, 2011 as IBA Report No. 11-25. On May 19, 2011 the Mayor issued the May Revision to his Proposed Budget. In our first report we provided information regarding budget balancing options and service priorities that the City Council included in their April 12, 2011 Budget Resolution and we noted which items had been addressed by the Mayor in his Proposed Budget. As shown on the following pages, we have updated this information to highlight the additional Council proposals that the Mayor has included in his FY 2012 Budget based on the May Revise. In total the Mayor has incorporated 13 of the budget balancing options that Council requested him to consider in development of the FY 2012 budget. These 13 items are projected to generate resources estimated at \$36.3 million which have been used in the Mayor's Budget proposal to eliminate the FY 2012 projected deficit and restore valuable community services including Fire brown-outs, all recreation center hours and a portion of the library hours proposed for reduction.

Most notably on the resource side, the Mayor and his staff have agreed with our analysis in our first budget report that, based on the most current data, TOT revenues could be conservatively increased. We support the Mayor's proposal to increase the TOT base estimate and the projected growth rate by 1% resulting in \$3.4 million in additional revenue. This updated revenue estimate is the result of careful analysis of the most current economic data by both Financial Management and the IBA. We further noted in

our first review of the Mayor's Proposed Budget that we believed Sales Tax estimates could similarly be revised upward. While the Mayor has not included an increase to Sales Tax revenue in his May Revise, we believe based on our analysis a conservative increase in Sales Tax growth from 3% to 4% should be considered by the Council as a revision to the Mayor's budget.

Also of note, the May Revise incorporates an IBA recommendation to utilize \$8 million in revenue from the sale of the World Trade Center to free up current capital-related General Fund expenses over the next five years. While we had recommended using this resource to pay principal debt service costs on the Convention Center Phase II, the Mayor has opted to use these revenues to pay the principal portion of debt service on the Deferred Capital Bonds which frees up \$2.5 million in General Funds for FY 2012. Either option is viable and will produce the same General Fund savings over the next five years.

On the expenditure side the most significant programmatic revisions in the May Revise include the full restoration of recreation center hours to current levels and partial restoration of library branch hours. Rather than fully restoring library hours, the Mayor's revised proposal would maintain 36 hours of service per week at eight branches but reduce 27 branches from an average of 36 hours to 18.5 hours per week. "Mitigation of service and staffing reductions to the Library and Park and Recreation departments" was one of the four key service priorities called out in the City Council resolution provided to the Mayor as guidance for developing the FY 2012 budget. While all browned-out Fire engines will be restored in FY 2012 and recreation centers will be open the same hours as they currently are per the May Revise, library branch service levels continue to be significantly diminished in the Mayor's final budget proposal.

COUNCIL BUDGET RESOLUTION - RESOURCE OPTIONS				
IBA Focused List of Menu Options		Mayor's Proposed Budget	Mayor's 5/19 May Revise	Mayor's Total Funding
18.	Comprehensive review of all fund balances	✓		\$9.9m
47a.	Transfer unclaimed funds in City Treasury to the General Fund	✓		\$1.0m
123.	Expand use of marketing partnerships			-
145.	Implement false alarm fees for Fire-Rescue	✓		\$0.9m
189.	Five percent reduction to supplies and services	✓		\$9.0m
200.	RDA payment for Convention Center Phase II debt service	✓		\$2.0m
14.	Implement recovery auditing program			-
47b.	Fire-Rescue resume billing and retroactively bill for high-rise inspections	✓		-
61.	Eliminate cell phones for non-emergency personnel		✓	\$0.2m
102.	Eliminate Management Flex Benefits			-
142.	Sale of underutilized real estate assets		✓	\$2.5m
202.	RDA repayment of General Fund debt		✓	\$0.8m
1.	Accelerate Managed Competition for refuse collection			-
11.	Expand use of 4/10/5 work schedule			-
122.	Impose mandatory furlough			-
Additional Budgetary Items in Council Resolution				
1.	Recover costs associated with entertainment permits for police-regulated businesses	✓		\$0.3m
2.	Acceleration of Publishing and Fleet Services managed competition		✓	\$0.2m
3.	Updating revenue projections	✓	✓	\$4.4m
4.	Savings from permanent elimination of vacant positions	✓		\$5.1m
5.	Elimination of take home vehicles for City employees			-
6.	Review and potential revision of lease payment formula for payments from the Golf Enterprise Fund to the General Fund			-
7.	Options for budget-neutral funding of the 9th Council District in Fiscal Year 2013			-
8.	Reform of Retiree Health Care benefit			-
Total Funding Included in Mayor's Proposed Budget:				\$36.3m

COUNCIL BUDGET RESOLUTION - SERVICE PRIORITIES				
City Service Issues		Mayor's Proposed Budget	Mayor's 5/19 May Revise	Mayor's Total Funding
1.	Restoration of Fire Engine brown-outs	✓		\$8.7m
2.	Preservation of Police, Fire-Rescue, and Lifeguard services		✓	\$0.2m
3.	Mitigation of Library, Park & Rec reductions		✓	\$5.7m
4.	Fund City's deferred capital backlog	✓	✓	\$7.4m

IBA RECOMMENDED REVISIONS FOR ONGOING EXPENDITURES AND RESOURCES

This report recommends revisions to the Mayor's Proposed Budget as amended by the Mayor's May Revise issued on May 19, 2011. To assist the IBA in developing final budget recommendations, Council members prepared individual budget memos outlining priority programs and resource options. These memos are attached for your reference. Our recommendations take into account the Council's budget memos; the results of our initial review of the Mayor's Proposed Budget as well as the May Revise; additional IBA review and analysis of items from the Council's Budget Priorities Resolution; and further discussions with City management as well as operations staff.

As we developed our final budget recommendations, first and foremost we kept in mind that the City has not yet resolved its structural budget deficit and, based on the Mayor's Five-Year Outlook, is projected to be facing a \$41 million deficit in FY 2013. Additionally, while there are signs of improvement in some sectors of the economy such as tourism and retail sales, other sectors including employment and real estate remain uncertain. In this economic climate, a conservative approach is the only recommended approach.

With the Mayor's Proposed Budget providing funding to end all Fire brown-outs and the May Revise fully restoring recreation center hours and partially restoring branch library hours- largely through Council and IBA-proposed resources, we have focused on identifying sufficient resources from the Council's Budget Priorities Resolution and IBA analysis to address the top budget priorities identified by a majority of Council members in their budget memos.

We would also note as a reminder for the Council that the Audit Committee has recommended a new Auditor position be funded for the City Auditor's Office effective January 2012 at a cost next fiscal year of \$85,000. The Mayor did not include this position in his May Revise. Based on Council feedback in the budget priority memos, we

have not included it in our funding recommendations. Should the Council wish to consider this item, we would need to identify an additional \$85,000 in ongoing resources and could work with Council to do so.

IBA RECOMMENDED ONGOING EXPENDITURE REVISIONS TOTAL \$5.4 MILLION

Full Restoration of Library Branch Hours – Net \$4,600,000

With the May Revise providing \$2.7 million and 30.10 FTEs for partial restoration of library branch hours, an additional \$4.6 million is needed to fully restore library branch hours to current service levels which average 36 hours per week. This includes the additional restoration of 46.92 FTEs.

Restoration of Police Civilian Positions for Vehicle Abatement Unit – \$330,000

The Proposed Budget includes the reduction of four of nine civilian positions in the Police Vehicle Abatement Unit (1.00 Code Compliance Supervisor/3.00 Code Compliance Officers). In our review of the Mayor's budget proposal, we noted that while these positions are fully reimbursable from the State the department did not reduce the revenue associated with the four civilian positions. At the May 11, 2011 Public Safety and Neighborhood Services Committee (PS&NS) meeting, the department presented a new staffing plan that would continue the abatement program at a 100% reimbursement level of \$1.0 million by backfilling the 4.00 reduced Code Compliance Officers with 3.50 Motor Officers.

If the 4.00 civilian positions are reinstated as recommended, it is likely that the 3.50 Motor Officers would continue to perform patrol activities not necessarily related to vehicle abatement. Since the budget is already balanced utilizing the \$1.0 million in State reimbursement for the current level of vehicle abatement activity, \$330,000 in General Funds are required to restore the 4.00 civilian Code Compliance Officers and retain the 3.50 Motor Officers for motor patrol.

At the May 11, 2011 PS&NS meeting, the Police department reported that the balance in the Abandoned Vehicle Abatement Trust (AVA Trust) account is estimated to be \$1.3 million. The PS&NS Committee requested the IBA to research the possibility of using the funds in the AVA trust to pay for the restoration of the four Code Compliance Officers and requested the City Attorney to opine on the use of the trust fund balance. The City Attorney's Office released a May 23, 2011 Memorandum that stated: "The costs directly related to enforcement of the AVA Program, including personnel, are recoverable. Thus, the funds could be used to pay civilian employees dedicated to the program." However, as our office noted at the May 11 PS&NS meeting, the fund balance in the AVA trust is one-time funding and the use of these funds for the restoration of the civilian positions would result in one-time funding being used for on-going expenses.

Restoration of Swim Team and Water Polo Programs – \$223,000

\$223,000 in funding is recommended for restoration of 6.40 FTE positions, which includes hourly positions and associated non-personnel expenditures for swim team and water polo program during non-summer months.

Restoration of Pool Operating Hours – Net \$76,400

Also recommended are total costs to restore pool operating hours of \$107,800, which is offset by estimated revenues from the program of \$31,400 for a net cost of \$76,400. This will restore 1.93 FTE positions for the pools to remain open during “core hours” during the summer and off season at all pools except Ned Baumer.

Restoration of After School Programs – \$137,600

This item will restore 3.55 FTE positions for specialized After School Programs for children and pre-teens at five recreation centers (Allied Garden, Azalea, Penn Athletic, South Bay and Willie Henderson).

**IBA RECOMMENDED ONGOING RESOURCE REVISIONS TOTAL
\$5.4 MILLION**

1% Increase in Sales Tax Growth – \$2,060,000

While the May Revise updated and increased TOT revenue estimates, it did not update sales tax projections. Budgeted sales tax growth for FY 2012 remains at 3% reflecting a slight increase from the 2.4% projected for FY 2012 in the Five-Year Outlook which was developed last December. However, this is still well below the 4.5% growth rate reflected in the “Optimistic Scenario” in the Five- Year Outlook. Through March, year-to-date growth in sales tax for FY 2011 was 6.4%, while growth at year-end is projected to be 5.6%.

In addition, the economic outlook is generally positive. The USD Index of Leading Economic Indicators continues to post monthly gains, and has remained positive or unchanged for two full years. In addition, the County’s unemployment rate declined to 9.8% in April, marking the first time since May 2009 that the unemployment rate was in single digits. Finally, the UCLA Anderson forecast is projecting healthy growth in statewide personal income, payroll employment and taxable sales over the next several years. Based on these factors and the growth rates experienced in the current fiscal year, we believe that an upward adjustment in the sales tax growth rate from 3% to 4% is warranted and remains conservative.

Long Term Disability (LTD) Reserve Reduction – \$1,200,000

The Proposed Budget includes \$1.2 million for a FY 2012 contribution to the LTD reserve, treating this reserve differently from the General Fund, Worker’s Compensation and Public Liability Fund reserves. In discussing this with Mayoral staff, this contribution was maintained in order to prepare for future transition of the LTD program

to an insurance provider. In doing so, the City will need to continue to pay existing claims at the same time it will be paying costs associated with premiums for future insurance coverage. This proposal is in its early stages and requires further study; discussions with the City Council as well as meet and confer with our labor organizations.

Overtime/Travel and Training Reduction for Non Public Safety – \$1,000,000

We recommend a \$500,000 reduction to non-public safety overtime and a \$500,000 reduction to travel and training for non-public safety. We agree with management that departments require a level of flexibility and opportunity for both of these areas. However, we believe the recommended reductions are achievable. Both the Comptroller and Financial Management experienced events in the current fiscal year which required unusual amounts of overtime which should be mitigated for FY 2012. While it is important to continue training related to Kroll recommendations, out-of-town travel should continue to be restricted.

IT Discretionary Funding Reductions – \$400,000

The IBA previously identified IT Discretionary Funding as an area for potential reduction to provide resources for other priority needs. A 20% reduction to non-public safety departments General Fund departments was estimated to generate \$1.5 million. During the recent budget hearings, departments described intended uses for the FY 2012 IT discretionary funds, and possible impacts if funding were to be reduced. A reduction of \$400,000, amounting to only 3% of the proposed budget amount, is recommended.

Reduction to Annual Leave Estimate – \$400,000

The Mayor's Proposed Budget stated that in the past, the City had not completely funded the additional expense of Annual Leave (also known as terminal leave and accrued leave liability) paid to employees who end their employment with the City with leave balances. The Fiscal Year 2012 budget includes \$3.2 million Citywide, with almost \$2.5 million included in the City's General Fund, for this purpose. This reflects an increase of \$585,000 in the General Fund from the adopted FY 2011 Budget. The IBA identified a \$400,000 reduction in this area as a possible option for consideration; this option was based on limiting the increase to levels included in the FY 2011 budget.

The identification of the \$400,000 reduction option was based on a concern that the most recent Five-Year Outlook (issued in February 2011) estimated General Fund annual leave at \$2.1 million for FY 2012 rather than \$2.5 million, which already reflected an increase of \$200,000 from the FY 2011 budget. Then, in future years of the Outlook, this increased to \$3.0 million for FY 2013, then \$6.3 million in 2014.

Annual Leave (in millions - GF)	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016
Outlook (02/11)	1.9	2.1	3.0	6.3	4.1	1.6
Outlook (10/09)	2.7	4.9	6.4	16.0	2.9	n/a
Outlook (11/08)	5.3	6.1	7.6	7.6	n/a	n/a

The previous version of the Outlook from October 2009 also reflected a wide range of estimates, from \$2.7 million in FY 2011 to \$16.0 million in FY 2014, then \$2.9 million in 2015, based on the expected number of retirees in each year. For FY 2010, \$4.3 million was budgeted in the General Fund and \$2.12 million was actually expended (subject to final close/audit); not even 50% of the budget amount was expended. For the FY 2011 adopted budget, \$1.88 million is budgeted in the General Fund with \$1.57 million expended year-to-date.

Expansion of Marketing Partnerships-\$300,000

In presenting budget options for City Council consideration, the IBA suggested it may be reasonable to budget additional marketing partnership revenue in FY 2012 (\$500,000 has already been budgeted in the FY 2012 Proposed Budget). In order to better determine the reasonability of budgeting additional marketing partnership revenue, the IBA discussed pending opportunities with the City’s new Director of Strategic Partnerships, including those identified by the CFO in her memorandum dated March 10, 2011. Several promising partnerships are currently planned or under development (vehicles, wireless, vending, beach area sponsorships, etc.).

Working with marketing consultant Pathfinder, the IBA recommends the City more aggressively pursue these and other sponsorship opportunities. We understand there is often extra lead time required to develop and execute public-private marketing sponsorships; however, many of the cited opportunities have been under development for some time and may be close to completion. Therefore, we believe it is reasonable to budget an additional \$300,000 of partnership revenue in FY 2012 based on partnerships already under development or other sponsorship opportunities identified in the CFO’s March 10th memorandum.

IBA RECOMMENDED REVISIONS FOR ONGOING EXPENDITURES AND RESOURCES	
Ongoing Service Restoration	NET EXPENSE
Full Restoration of Library Hours	\$ 4,600,000
Restoration of Vehicle Abatement Unit	330,000
Restoration of Swim Team & Water Polo Programs	223,000
Restoration of Pool Operating Hours	76,400
Restoration of After-School Programs	137,600
Total Ongoing Service Restorations	\$ 5,367,000
Ongoing Resource Revisions	NET RESOURCE
Increase in Sales Tax Revenue	\$ 2,060,000
Expansion of Marketing Partnerships	300,000
Reduction in Long Term Disability Reserve	1,200,000
Reduction in Overtime, Travel & Training for Non-PS	1,000,000
Reduction in IT Discretionary Funding	400,000
Reduction in Terminal Leave Funding	400,000
Total Ongoing Resource Revisions	\$ 5,360,000

IBA RECOMMENDED REVISIONS FOR ONE-TIME RESOURCES AND EXPENDITURES

RECOMMENDED ONE-TIME EXPENDITURE REVISION TOTALS \$1.7 MILLION

Consistent with best budget practices and the Council- adopted Budget Principles we recommend one-time resources be used only for one-time expenditures.

Fund Remainder of Costs for Fire Alert System-\$1,700,000

The Fire-Rescue Department uses an In-Station Alerting System to alert fire station crews of what and where to respond. As noted in the Citygate Report, the current Alerting System technology is “21 years old, technically obsolete and, in many cases, inserts unnecessary time delays into the crew dispatching process.” Citygate recommended the City make it a priority to replace the Alerting System at an approximate cost of \$3.4 million. The Department believes the procurement/installation process would take two fiscal years requiring two annual appropriations of approximately \$1.7 million.

The May Revision recommends a one-time expenditure increase of \$1.7 million for the Fire-Rescue Department in FY 2012 to begin the upgrade of the Alerting System. In order to complete the upgrade project, the IBA recommends using one-time resources in FY 2012 to fund the remaining cost (\$1.7 million) of the upgrade project.

RECOMMENDED ONE-TIME RESOURCES TOTAL \$1.7 MILLION

In our review we identified and recommend for inclusion in the FY 2012 Budget the following one- time resources which are not included in either the Mayor's Proposed Budget or the May Revise.

Public Liability Fund Balance – \$600,000

The Public Liability Fund began Fiscal Year 2011 with a fund balance of \$3.3 million. The FY 2011 budget included a reduced annual payment for Public Liability of \$15.1 million from the General Fund (down from \$18 million in FY 2010), with no additional contribution to increase the current \$17.1 million Public Liability Reserve. As of May 26, 2011, the Public Liability Fund reflects expenditures and encumbrances totaling \$18.4 million, and a remaining balance of \$1.76 million, with five weeks remaining in the fiscal year. The IBA inquired if any projected year-end balance could be returned to the General Fund, or if it could reduce the need for the FY 2012 transfer (currently budgeted at \$15.1 million).

Projections for the Public Liability Fund are difficult to make and have been described as more uncertain and less predictable than expenditures related to other risk management activities, specifically Workers' Compensation. Projections for Public Liability cannot be predicted with any level of certainty, and it should be noted that a shortfall in the Public Liability Fund could require additional contribution from the General Fund, which has occurred in past fiscal years, or the Public Liability Reserve could be considered, as an alternative.

Based on current expenditure activity and funding levels, the IBA expects excess funds within the Public Liability Fund at the end of FY 2011, and recommends a reduction of \$600,000 in the City's General Fund contribution for FY 2012 (to \$14.6 million). The IBA intends to continue to monitor the Public Liability Fund and work with the Risk Management Department to ensure that funding levels are sufficient throughout the fiscal year.

Implement Recovery Auditing-\$500,000

At the request of the Audit Committee, the City Auditor has reported on potential opportunities related to Revenue Recovery Auditing. In a memorandum dated April 1, 2011, the City Auditor indicated the greatest potential for cost-effective returns exist in the areas of accounts payable, reverse sales tax and municipal court revenue. The CFO subsequently issued a memorandum to the Audit Committee dated April 29, 2011, acknowledging that revenue recovery audits have merit and stating that her staff would

be evaluating and pursuing or performing audits in FY 2012 in the areas identified by the City Auditor; however, the CFO did not plan to pursue reverse sales tax or accounts payable audits until June of 2012. The Audit Committee subsequently recommended the City Council consider directing the IBA to develop an RFP for recovery audit services. It is difficult to predict in advance the amount of revenue that might result from audits. Provided 1) that an outside revenue recovery auditor can be expeditiously retained and 2) the CFO initiates the court revenue audit soon, it may be reasonable to budget \$500,000 in FY 2012. If this revenue is to be realized in FY 2012, it will be important that there be coordination and cooperation between the selected outside auditor and the CFO's staff.

Retroactive High Rise Fire Inspection Fees-\$600,000

The Fire Prevention Audit released in October 2010 recommended the Fire-Rescue Department resume and retroactively bill for inspections performed on high-rise buildings once the City Council approves the new fee structure. The Audit indicated the Department estimates approximately \$545,000 in high-rise inspection costs were not recovered in FY 2010. If the same amount is assumed for FY 2011, the General Fund has not recovered more than \$1.0 million of fire inspection costs. As the Department supports retroactive cost recovery and is proposing the new high-rise inspection fee structure be approved as part of the Council's budget action, we recommend \$600,000 in retroactive collections be budgeted as one-time revenue for FY 2012. This recommendation conservatively assumes that not all retroactive costs will be recovered in FY 2012.

IBA RECOMMENDED REVISIONS FOR ONE-TIME EXPENDITURES AND RESOURCES	
	NET
One-Time Expenditure	EXPENSE
Fund Remainder of Fire Alert System	\$ 1,700,000
Total Ongoing Service Restorations	\$ 1,700,000
	NET
One-Time Resources	RESOURCE
Public Liability Fund Balance (One-Time)	\$ 600,000
Recovery Auditing (One-Time)	500,000
Retroactive High Rise Fire Inspection Fees	600,000
Total Ongoing Resource Revisions	\$ 1,700,000

RECOMMENDATIONS REGARDING UPDATED FY 2012 GENERAL FUND RESERVE

On May 25, 2011 the City Comptroller issued an update to their FY 2010 Year-End Report, originally issued on May 18, 2011, and presented the results of this update to the Budget and Finance Committee. This update identified a one-time amount of \$11.2 million which had not been accounted for in the original FY 2010 Year-End Report. The net effect of this is an \$11.2 million increase to the FY 2010 and 2011 ending balances and the FY 2012 beginning balance/General Fund reserve. Based on this, the General Fund Reserve for FY 2012 is estimated to be \$94.1 million – 8.3% of General Fund revenues (after accounting for the increased revenues associated with the IBA recommendations.) The reserve policy adopted by the Mayor and Council in 2008 called for achieving a General Fund reserve goal of 7.5% and 8% of revenues for FY 2011 and FY2012 respectively.

For the past two fiscal years the Mayor has recommended suspending contributions to the reserves necessary to achieve these goals and maintaining the reserves level for FY 2011 and FY 2012 at 7.0%. The FY 2012 General Fund reserve, now estimated at \$94.1 million, is projected to exceed the City's original goal of 8% by .3% or \$3.9 million. This is very good news for the City as General Fund reserves were as low as 3% just six years ago. Having achieved this important goal in the midst of significant fiscal challenges, it is important for the reserves to be maintained at 8% now and in the future.

Funding for Community Projects, Programs and Services Fund From Council District Office Savings/Reserves – \$1,600,000

It should be noted that an estimated \$1.6 million of the \$3.9 million in excess of the 8% reserve goal is attributable to savings estimated to be achieved in City Council District budgets during FY 2011. These savings are planned to be used for eligible City Council Community Projects, Programs and Services in FY 2012. Discussions with the City Attorney's Office and Financial Management have been underway to properly budget and appropriate the budgetary savings in Council District budgets in FY 2012. Funding of \$1.6 million from the reserves is recommended for re-appropriation for this purpose in the FY 2012 budget.

In conjunction with the City Attorney and Financial Management, the IBA is developing a proposed Council Policy to incorporate an annual budgetary appropriation for each Council District, for community funding to be allocated at the discretion of each Councilmember, during the fiscal year. It is proposed that the City's annual budget include an appropriation within each City Council Office budget for "Community Projects, Programs and Services". To ensure no impact to the City's budget, these amounts to be added are recommended to be based on estimated savings in each Council Office budget for the current fiscal year.

If added during the Council’s final budget decisions, the amounts budgeted for “Community Projects, Programs and Services” will be subject to a majority affirmative vote of the Council at the time the annual budget is adopted. And, if approved by the Council, these allocations would be subject to review and approval (and/or veto) by the Mayor, as are all other budgetary decisions of the Council.

The IBA will be finalizing the proposed Council Policy describing the budgeting and allocation process, and intends to bring the Council Policy for final Council review and approval prior to the end of fiscal year.

Based on the FY 2011 Year-End Budget Monitoring Report, the estimated savings for the eight Council offices totals \$1,612,318, assuming approval of the requested FY 2011 year-end budget adjustments. These amounts are recommended to be re-appropriated within the FY 2012 budget for each Council Office for Community Projects, Programs and Services.

As shown below, this action would reduce the General Fund reserve from 8.3% to 8.2% for FY 2012 and the reserve would exceed the 8% goal by .2% or \$2.3 million after this allocation.

City Council Offices			
FY 2011 Estimated Savings			
Year-End Budget Monitoring			
		Year-End	
	Est Savings	Requested	Revised
		Adjust	Savings
CD1	218,032		218,032
CD2	167,688	25,000	192,688
CD3	182,778		182,778
CD4	162,167		162,167
CD5	197,249	25,000	222,249
CD6	144,764	9,000	153,764
CD7	175,023		175,023
CD8	267,617	38,000	305,617
TOTAL	1,515,318	97,000	1,612,318

FY 2012 ESTIMATED GENERAL FUND RESERVE			
FY 2011 Ending General Fund Reserve Balance	\$	94,057,216	8.3%
Less: FY 2012 Council Community Programs		<u>(1,612,318)</u>	
FY 2012 Beginning General Fund Reserve Balance	\$	92,444,898	8.2%
<i>8% General Fund Reserve Target</i>	<i>\$</i>	<i>90,128,245</i>	<i>8.0%</i>
Reserve Funding in Excess of 8% Target	\$	2,316,653	0.2%

With respect to the remaining \$2.3 million in excess of the 8% goal, we would recommend these funds not be expended and that they be held in reserves as a buffer against possible budgetary shortfalls in FY 2012 and to help ensure that the 8% reserve target is maintained in FY 2013. Other potential one-time uses that we considered include:

- Additional funding to implement the more robust Supplier Relationship Module (SRM) in the Purchasing and Contracts Department (\$2.1 million);
- Additional funding for ADA projects;
- Additional funding for priority deferred capital projects including streets and sidewalks.

However, rather than appropriating these funds, we recommend waiting until the FY 2012 mid-year monitoring report to make any further decisions regarding expending this excess .

IMPACTS OF IBA PROPOSED REVISIONS

Impacts on FY 2013 Outlook

All of the ongoing expenditure changes recommended by the IBA are funded with ongoing resources. As a result, these recommended changes will have no negative impact on the \$41 million shortfall currently projected for FY 2013 in the Mayor’s Five-Year Outlook. In fact, the revised projections for TOT included in the May Revise and those for Sales tax in the IBA recommendations may have a positive impact on the FY 2013 budget projections, as growth rates will be applied to a higher base.

Additionally, after accounting for all of the IBA’s recommended changes, the General Fund reserve is projected to not only achieve the 8% target in FY 2012, but to exceed this target by an estimated \$2.3 million, or 0.2%. The Five-Year Outlook assumes a \$7.5 million contribution to the General Fund reserve in FY 2013 in order to reach the 8% target. Achieving a reserve in excess of 8% in FY 2012 will not only mitigate the need for such a large contribution in FY 2013, but will also provide a cushion for any potential budgetary shortfalls in FY 2012.

Position Changes

The following chart shows the number of positions restored in the May Revise and the number that would be restored as a result of the IBA recommended revisions to the Mayor’s Budget:

SUMMARY OF POSITION CHANGES							
Fund/FTE	FY 2011	FY 2012	Change	FY 2012	FY 2012	FY 2012	Change
	Final	Proposed	from 2011	May Revise	IBA Changes	Final	from 2011
General Fund	7,067.98	6,879.95	(188.03)	90.36	62.80	7,033.11	(34.87)
Non General Funds	3,154.11	3,093.38	(60.73)	(21.74)	-	3,071.64	(82.47)
Total City	10,222.09	9,973.33	(248.76)	68.62	62.80	10,104.75	(117.34)

After accounting for all revisions, 34.87 FTE General Fund positions and 117.34 FTE non-General Fund positions will be reduced in the FY 2012 budget as compared to Final FY 2011 Adopted Budget.

NEW/INCREASED FEES INCLUDED IN THE FY 2012 BUDGET AND NEXT STEPS

Proposals for the establishment of new fees and for increases to existing fees have been included in the Mayor’s Proposed Fiscal Year 2012 Budget, most notably in the Police

and Fire-Rescue Departments. The City Attorney has indicated that such new or increased fees must be enacted by the Council in a separate action or series of actions and in accordance with Proposition 26.

On March 4, 2011, the City Attorney issued a Memorandum of Law regarding “Proposition 26 and Its Impact on Fees and Charges.” The memorandum provides guidance on specific issues to consider when new or increased fees are proposed for City services due to the passage of Proposition 26 last November. Furthermore, the memorandum indicates that the City Attorney is reviewing current policies, procedures, and administrative regulations related to fees to determine revisions which may be necessary or advisable, in light of Proposition 26.

Specific excerpts from the City Attorney’s memorandum speak to the level of documentation that should be made available to the Council and the public as part of the legislative record, at the time fee proposals are considered:

“If challenged, a local agency’s legislative documents in support of the fee are critical: staff must explain the link between the cost and the matter to be regulated and justify all fee calculations based on a study of the costs associated with the regulation at issue. Further, the local agency’s approval of a fee should be based on the facts presented, and the basis for the decision must be documented.”

“Fee Studies are Necessary to Employ Certain Exceptions. Departments imposing, increasing, or extending fees after November 3, 2010 are required to do a fee study in support of their proposed fee if they claim the user fee, government service/product fee, or regulatory fee exception to Proposition 26...In any event, City staff must be able to prove their calculations to the satisfaction of the Council and the public. The legislative record should reflect these calculations and there should be concrete evidence in support of the calculations, as the local agency has the burden of establishing a fee is appropriate if challenged.”

Cost studies and calculations related to the proposed new or increased fees have not yet been provided to the Council as part of the public, legislative record for the fees assumed in the Mayor’s Proposed Fiscal Year 2012 Budget. As indicated above, the Council will be asked to review such materials and impose any new or increased fees at a later date. In the event that specific fee proposals are not enacted as proposed by the Mayor, budgetary mitigation options should be considered to ensure a balanced budget continues to be in place during the fiscal year. Similarly, budget adjustments may be required if any elements of the Mayor’s fee proposals are substantially delayed.

The specific requests for Council action will be coming forward to Budget and Finance Committee and City Council over the next several weeks. The City Attorney’s Office has advised us that in the meantime Council can adopt their final decisions on the FY 2012 budget based on the fee assumptions that are proposed in the budget.

OTHER FISCAL POLICY MATTERS IDENTIFIED IN COUNCIL BUDGET MEMOS

In addition to providing feedback on budget priorities for the FY 2012 budget , individual Council memos addressed a number of longer range budget issues the City should continue to pursue in order to accomplish the goal of eliminating the City' structural budget deficit:

- Strategies to obtain additional ongoing funds from golf courses and parking e.g. charging for parking at our beaches, bays and regional parks;
- Exploring expansion of the 4/10/5 work schedule;
- Changing how the Transient Occupancy Tax (TOT) is officially allocated by amending the municipal code section and City Council Policy to eliminate the dedicated four cents that the City is obligated to use from the TOT for purposes of promoting the City, and instead, direct that those funds be returned to the General Fund;
- Comprehensive assessment across City departments of the actual need for take home vehicles and eliminate as many take home vehicles as possible;
- Exploring if the City can achieve savings through outsourcing Disability Administration;
- Exploring greater flexibility in the provision of library hours within sub-regions to better meet the needs of the immediate community (e.g. explore implementing the Express Library concept for the beginning and end of the day for an hour or two to extend branch hours each day);
- Systematic comprehensive annual reviews of the City's user fees as part of the annual budget process and revision of the User Fee Policy to ensure conformance with Proposition 26 approved by the voters in November 2010;
- Updated Public Facilities Financing Plans be brought forward to Council immediately in order to consider whether these plan updates could result in additional revenue for the Facilities Financing Division and also increase reimbursement of administrative expenses from Development Impact Fees (non-General Fund impact);
- Increased transparency of vacant positions;
- Cost of service studies for storm water and refuse collection be completed and presented to the Council during the 2011 calendar year;
- Exploring options for consolidation of the City's financial functions; review the roles of the City's Public Information Officers to determine if there are duplicate functions; and possible consolidation of Management Analyst positions throughout the city.

SUMMARY OF IBA RECOMMENDATIONS AND NEXT STEPS IN BUDGET ADOPTION PROCESS

The IBA recommends Council consideration of the following actions:

1. Approval of the Mayor's FY 2012 Proposed Budget as issued on April 15, 2011 and as amended by the Mayor's May Revise issued on May 19, 2011;
2. Approval of the IBA recommended revisions for ongoing and one-time expenditures and resources as detailed in this report;
3. Approval of IBA recommendations regarding the FY 2012 General Fund Reserve including re-appropriation of \$1.6 million from Council Office savings for Community Projects, Programs and Services with the remaining amount in excess of the 8% target (\$2.3 million) to be held in the FY 2012 reserves;
4. Approval of funding in the amount of \$450,000 to be authorized from the City's Major Events Revolving Fund for work of the non-profit Balboa Park Centennial Host Committee as part of the FY 2012 Budget. Funds from the Special Promotional Programs/TOT Budget have been contributed and have accumulated over past the several fiscal years specifically for this program which will take place in 2015. Significant planning needs to take place over the next several fiscal years. As there are sufficient funds in the Major Events Revolving Fund, there is no impact to the General Fund.

The following key steps remain in the FY 2012 budget adoption process:

June 6	Council decisions on final budget modifications
June 7	Council decisions on final budget modifications (if needed)
June 8-9	City Clerk to transmit resolution to Mayor within 48 hours of passage
June 9	Mayor's veto period begins (five business days)
June TBD	Separate adoption of new and increased fees proposed for FY 2012
June 15	Mayor's veto period ends
June 20	Council consideration of Veto Override (if needed)
July 18	Adoption of Appropriation Ordinance: First public hearing
July 25	Second public hearing: Introduction and adoption of Appropriation Ordinance
July 25	Adoption of Tax Rate Ordinance

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