



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 151

IBA Review of the FY 2013 May Revise and Recommended Revisions to the Mayor's FY 2013 Budget

The IBA's review of the Mayor's Proposed FY 2013 budget was issued on April 27, 2012 as IBA Report No. 12-16. In this report we provided a matrix of City Council budget priorities that were included in the Council's FY 2013 Budget Priorities Resolution and noted which items had been addressed in the Mayor's Proposed Budget. On May 23, 2012 the Mayor issued a May Revision to his FY 2013 Proposed Budget. On the following pages we have updated this matrix to highlight the additional Council priorities that the Mayor has included in the FY 2013 Budget based on the May Revise. Also identified on this matrix are those expenditures our office recommends Council consider as final modifications to the Mayor's Budget. These recommendations are derived from the priorities expressed in Councilmembers' June 1st collective memos to our office and at Council budget hearings, as well as our analysis of the Proposed Budget, the May Revise and the FY 2012 Year-End Budget Monitoring Report.

OVERVIEW OF MAY REVISE

Our office supports the recommendations in the May Revise to increase TOT and sales tax base estimates for FY 2013, based on FY 2012 collections to date, which is estimated to increase revenues next year by \$1.7 million. As the Mayor revised only the base estimates but not the economic growth rates for FY 2013, we also recommend conservative increases be made to economic growth projections for both sales tax and TOT. This is estimated to generate an additional \$739,000 in TOT revenue and \$619,000 in sales tax revenue next year.

Our office also concurs with the May Revise recommendation to reduce property tax revenue projections from original estimates in the Proposed Budget by \$2.0 million. In our review of the Mayor's Proposed Budget we noted concerns about the proposed growth factor next year of 0.8% and cautioned that the property tax forecast was a risk to the FY 2013 revenue assumptions. While we are not recommending further reductions to property tax revenue at this time, this is an area that we believe is still vulnerable and will need to be closely monitored. This issue is discussed in more detail in the "Recap of Major Revenues".

On the expenditure side, the most significant programmatic revisions in the May Revise closely align with the Council Budget Priorities Resolution. The May Revise incorporated the following expenditures into next year's budget: additional funding for both the Police and Fire Academies; restoration of the Graffiti Team (previously eliminated in the Proposed Budget); an additional three hours of library branch hours, increasing all branches from 41 to 44 hours per week; restoration of five Saturday hours at the Central Library; providing partial funding for the Neil Good Day Center for homeless services; and a funding increase for Community Plan Updates for a total of \$670,000.

The Mayor has also included in the May Revise the City Council's requested action of March 12, 2012 to increase cash funding of deferred capital projects by \$8.3 million, utilizing the projected FY 2012 surplus. This will increase deferred capital cash funding from \$45.8 million to \$54.1 million to achieve "status quo" for operations and maintenance cash funding for FY 2013, and will increase total FY 2013 funding to \$129.1 million (including \$75 million in bond proceeds).

Finally, our office supports recommendations in the May Revise to 1.) Set aside a \$10.7 million projected TOT fund balance and \$3.7 million in an Appropriated Reserve for a total of \$14.4 million, to address impacts of the dissolution of the redevelopment agency, and 2.) To establish a General Fund Reserve of \$118.9 million or 10.3% of General Fund revenues, exceeding the policy target of 8% for FY 2013. Both of these actions are fiscally responsible given the unknowns related to the unwinding of redevelopment, as well as an unpredictable global economy. Our resolute commitment to increasing the City's General Fund reserve levels over the past five years has been noted recently by Moody's, Standard & Poor's and Fitch rating agencies as a positive action by our City.

RESULTS OF COUNCIL BUDGET PRIORITIES RESOLUTION					
PRIORITY AREA		PROPOSED BUDGET	MAY REVISE	IBA PROPOSED	COMMENTS
FUNDING OF PUBLIC SAFETY					
1.	Restoration of civilian positions within Police Department			√	Police Department to address their five-year staffing plan at PS&NS July 2012, IBA proposal includes five positions hired January 2013
2.	Support for increasing 15 Police recruits in the April 2012 academy				Funded in FY 2012 Budget
3a.	Support for increasing Police recruits/academies		√		Increased from 25 to 30 recruits for FY 2013 for four academies
3b.	Support for increasing Fire-Rescue recruits/academies	√	√		One new academy funded in Proposed Budget, second academy in May Revise
4.	Restoration of previous Lifeguard cuts			√	IBA proposal includes three positions
5.	Additional funding for the Neighborhood Code Compliance program if unable to achieve desired service levels		√		Existing Graffiti program funding was eliminated in Proposed Budget but restored in May Revise
6.	Implement recommendations included in Citygate Report for additional Fire-Rescue resources				See Item 7. Other recommendations will require multi-year funding
7.	Investment of \$2.7 million in the fire alert system				Funded in FY 2012, part of Citygate recommendations

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PRIORITY AREA	PROPOSED BUDGET	MAY REVISE	IBA PROPOSED	COMMENTS	
CONTINUED RESTORATION OF SERVICE LEVELS					
8.	Maintain and increase the hours restored for Park & Recreation and Library	√	√		FY 2012 restorations continued in FY 2013 for both; and additional 3 Library hours funded in May Revise for branch libraries, 5 hours for Central Library
9.	Aggressively address vacancies in Library and Park & Recreation				Underway by departments
10.	Continue reforms and efficiencies in all departments	√			
11.	Evaluate alternative service models for branch libraries				Under study by the Business Office, per Councilmember Zapf's memo IBA will work with the Mayor's Office on this matter
INVESTMENT IN STREETS AND PUBLIC ASSETS					
12.	Increase funding for deferred capital projects	√			Five-Year Funding Plan adopted by Council and included in FY 2012 and FY 2013 budgets
13.	Include up to \$8.3 million from FY 2012 surplus for additional cash funding for deferred capital projects		√		Deferred capital cash funding increased from \$45.8 million in Proposed Budget to \$54.1 million in May Revise per Council action
NEW INNOVATIONS AND PARTNERSHIPS					
14.	Continued use of volunteers to supplement City services	√			New Volunteer Coordinator position funded in FY 2013
15.	Find public / private partnerships that would benefit the City through cost savings and efficiencies				
16.	Expansion of City services online for businesses and individuals	√			Positions added in Treasurer's Office to implement online permitting in FY 2013
17.	Convert work hour shifts to 4/10 or 9/80 for non-public safety positions				ESD has achieved significant savings through 4/10 largely through more efficient collections routes, studies may be necessary in other departments before implementing
18.	Continue managed competition processes	√			General Fund savings of \$3.4 million included in FY 2013 for Fleet, Street Sweeping and Publishing Services
19.	Continuation of marketing partnership program for new revenue sources	√			\$600,000 revenue included, wi-fi a new area of focus for FY 2013

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PRIORITY AREA		PROPOSED BUDGET	MAY REVISE	IBA PROPOSED	COMMENTS
ECONOMIC DEVELOPMENT REPLACEMENT					
20.	Funding for sufficient resources to allow neighborhoods to establish special assessment districts or other initiatives			√	IBA proposal includes \$250,000 in seed money for neighborhood redevelopment initiatives
21.	Fund community plan updates		√		\$670,000 in General Funds budgeted in FY 2013
22.	Reduce permit fees for responsible businesses				
23.	Continue to provide opportunities for local green businesses				LU&H amendment to Council Policy 600-27 increases incentives for sustainable energy projects
ONE-TIME EXPENDITURE ITEMS					
24.	Funding for a new Fire-Rescue multi-purpose rescue boat	√			Lease purchase of three vehicles funded in FY 2013
25.	Funding of approximately \$550,000 for the Neil Good Day Center for homeless services		√	√	\$300,000 in May Revise, IBA proposal includes \$250,000
26.	Prioritize the implementation of the Supplier Relationship Management module in SAP	√			\$900,000 carried over from FY 2012, transferred to IT Department for same use, report to B&FC June
27.	Implement a full bidder registration system beyond SRM				P&C to report to B&FC on status in June 2012
28.	Funding for new Police Department technologies	√			Pawn shop enforcement technologies underway

RECAP OF MAY REVISE SIGNIFICANT REVENUE REVISIONS

TOT

The May Revise includes an \$887,297 increase in the General Fund Transient Occupancy Tax (TOT) projection, and a \$781,574 increase to the TOT Fund, totaling \$1.7 million in additional revenue. Of the increase to the General Fund TOT, \$27,565 is related to an increase in the 1-cent Council Discretionary transfer to the General Fund. The total General Fund projection is revised from the proposed budget of \$80.5 million to \$81.3 million, a 1.1% increase. The revised projection is reflective of 5.0% growth over projected FY 2012 year-end collections. This revision is related to an increase in the projected year-end revenue for the FY 2012 base year. Year-to-date TOT actuals July-March demonstrate 6.9% growth over the same period in FY 2011. TOT is projected to show 5.5% growth over the same period in FY 2011 for the remaining months of the year, resulting in a total year-over-year growth of 6.6%.

Sales Tax

The May Revise includes a \$1.2 million increase in the sales tax revenue projection, revising the total budget to \$235.6 million, representing a 0.5% increase from the \$234.4 million projected in the FY 2013 Proposed Budget. Overall, the May Revise sales tax budget represents a 5.7% increase over the FY 2012 year-end projection for sales tax.

The \$1.2 million adjustment is due to an increase in the projected year-end revenue for FY 2012, which is the base for projected growth in FY 2013. The year-end revenue projection for sales tax has increased by \$750,000, to \$222.8 million from the amount assumed as the base for the FY 2013 Proposed Budget. This increase is reflective of an increase in the assumed growth rate for the fourth quarter of FY 2012 from 5.0% to 6.0% in consideration of actual growth for the first, second, and third quarters averaging 9.0% over the same period in the previous year.

Property Tax

The May Revise includes a \$2.0 million reduction in the property tax revenue projection, bringing the total FY 2013 projection to \$387.1 million. This represents a 0.5% reduction from the \$389.1 million projected in the Proposed Budget. This reduction is based on preliminary information from the County Assessor's Office relaying the potential for negative assessed valuation growth.

In our office's review of the new projection, and further discussions with the County Assessor's Office, we have determined that there is the potential for additional reductions in the property tax revenue. While the property tax projection in the May Revise represents a reduction from the Proposed Budget, it represents 0.44% growth over the FY 2012 year-end projection of \$385.4 million. With information relaying the likelihood of negative growth in assessed valuation, this projection is a risk to the FY 2013 revenue assumptions. Each 0.5% reduction in collections over the current year-end projection would lead to a \$3.6 million reduction in property tax collections in the upcoming fiscal year from that projected in the May Revise.

It is also anticipated, however, that the County Assessor's efforts to proactively reassess properties for the FY 2013 property tax roll will lead to fewer refunds in FY 2013 from property owner initiated reassessment requests. The May Revise property tax budget assumes \$5.7 million in refunding activity during the fiscal year. A reduction in refunding activity in FY 2013 could offset in part the impact of declines in collections due to negative assessed valuation growth. This revenue category will need to be closely monitored throughout the fiscal year.

RECAP OF MAY REVISE SIGNIFICANT EXPENDITURE REVISIONS

Increasing Recruits in Police Academies

The May Revise includes an addition of \$262,140 to support primarily non-personnel expenditures associated with an increase in the number of recruits in each of the four police academies by five in FY 2013, from 25 to 30. The funding will support pre-employment activities and equipment for the new recruits, with \$11,529 in expenditures to support additional overtime and non-personnel recruiting costs.

IBA Report 12-19 reviewed the sworn and civilian staffing challenges faced by the Police Department, particularly noting issues with attrition leading to more sworn officers leaving on an

annual basis than being retained as recruits. At current attrition rates and the FY 2013 Proposed Budget planned academy size of 25, the Police Department would not have been able to staff sworn personnel at their budgeted levels in the upcoming fiscal year. Sworn departures at the publication of IBA Report 12-19 averaged 8 per month, with departures projected at 96 for the year; academy attrition averaged 11.1%, with 88 recruits being retained. These attrition issues are exacerbated by a FY 2012 beginning year staffing deficit of 40.50 sworn FTE beyond those accounted for in the department's vacancy factor.

In reviewing sworn officer attrition rates within the limits of the need to maintain budgeted salary savings, our office concluded that academy sizes could be increased by up to five recruits in FY 2013 without the need for additional personnel budget. This is due to sworn vacancies being projected to exceed those assumed for the year, leaving budgetary savings, assuming a continuance of current rates of sworn officer and academy attrition. In FY 2013 we recommend the Department be authorized flexibility to alter the size of each of the academies based on the number of qualified recruits available and attrition exceeding expectations. Since the publication of IBA Report 12-19, the monthly attrition rate in the Department has increased from 8 to 9 sworn officers per month. A continuance of such a trend would warrant the addition of more recruits. As recommended in our report, the Police Department should present a report on a quarterly basis to PS&NS on sworn and civilian recruitment, attrition, and staffing levels to keep the Council abreast of staffing progress or any continuing challenges.

Second Fire Academy

Included in the May Revise is the addition of \$1.1 million to fund a second 30 member fire academy. Of the total, \$870,896 is related to personnel costs, and \$263,732 to non-personnel costs. At the time of the IBA review of the FY 2013 Proposed Budget, Fire-Rescue expressed that a second academy may be required in FY 2013 to meet staffing needs due to attrition. As of the beginning of May, the Department had 120 sworn vacancies, with 44 of the vacancies being related to retirements. The two 30 recruit academies will allow the Department to begin to address the vacancies left due to sworn attrition. The Department anticipates that some of the personnel costs associated with the second fire academy may be offset by salary and fringe savings from vacancies. If this is the case, a second academy may be able to be conducted for less than \$1.1 million.

The \$1.1 million budget addition represents an approximate \$328,000 increase over the \$806,000 cost for an additional academy referenced during the Department's budget hearing. The additional funding will support the 10-week post academy personnel costs for the new fire-fighters.

Additional Library Hours

The May Revise provided for the addition of approximately \$1.1 million and 22.39 FTEs for the addition of three operational hours at 35 branch libraries and five operational hours for Saturdays at the Central Library. The projected increase in expenditures as presented in the May Revise is for a full fiscal year. However, as the additional hours are anticipated to become effective at the branch libraries on September 17, 2012 and effective at the Central Library on September 15, 2012, the full projected expenditure amount may not be realized due to the effective dates occurring after the beginning of the fiscal year.

The average number of service hours at each branch library will increase from 41 hours per week to 44 hours per week. The Central Library is currently not open on Saturdays and this action would open the Central Library for five hours on Saturdays. The specific scheduling of the additional hours will be determined in the near future. In determining the scheduling of hours at the branch and Central libraries, the Library Department receives input from stakeholders through regular meetings with the Friends of the Library groups and through monthly Library Commission meetings. Proposals for changes to services are discussed with these groups. Additionally, the Library Department receives regular and direct input from patrons who use the libraries. As the new fiscal year progresses and staffing and services stabilize, the Library Department - with feedback from stakeholders - will examine its hours and services to see if adjustments are needed. Additionally in response to Councilmember Zapf's budget memo, the IBA will work with the Mayor's Office to explore options for flexible hours among branch libraries that are within close proximity of one another.

Restoration of the Graffiti Removal Team

The May Revise included 4.00 FTEs and \$298,154 in expenditures for restoration of the Graffiti Removal Team which was eliminated in the Proposed Budget. The Graffiti Removal Team is currently part of the Neighborhood Code Compliance Division within the Development Services Department. However, consideration is being given to transferring this activity to the Transportation & Storm Water Department which is responsible for related functions including Storm Water property maintenance. The Graffiti Removal Team currently operates out of a Transportation & Storm Water facility and uses the Transportation & Storm Water's service yard to house equipment. Transferring the Graffiti Team to the Transportation & Storm Water Department could provide opportunities for operational synergy and efficiencies.

Arts & Culture Allocations

The May Revise increases the allocation to Arts & Culture programs by \$310,000. As a part of the Budget Hearing for Special Promotional Programs, the Arts & Culture Commission requested a 5.0% increase to the arts and culture allocation of \$6.2 million included in the FY 2013 Proposed Budget. This increase equates to the \$310,000 added in the May Revise. It is intended to reflect the projected growth in TOT revenues that is assumed in the FY 2013 Proposed Budget. With the adjustment, the Arts & Culture Commission will be able to increase FY 2013 allocations for organizations, and provide funding to five additional organizations as a part of their Organization Support Program (OSP) and one more Creative Communities San Diego Programs (CCSP) project. In total, 77 OSP organizations will be funded and 44 CCSP projects. The May Revise also increases the funding for Mayor and City Council discretionary allocations by \$128,750, from \$234,500 to \$363,250. Eight Council District allocations will be increased from \$25,000 to \$40,000, with the 9th district to receive a prorated amount of \$8,750, increasing its allocation to \$23,250. This increase will allow Council Districts to provide additional funding to support more community based arts and culture organizations and projects. In total, the revisions increase the arts and culture allocation in the FY 2013 Budget to \$6.6 million.

A number of Councilmembers have expressed the desire to receive more information regarding the Return on Investment (ROI) associated with the arts allocations provided to arts and culture organizations. Although arts and culture allocations support organizations and programs that generate revenue and attract cultural tourism to the City, it is difficult to quantify the Return on

Investment (ROI) associated with them given that the majority of the allocations generally support operations, and not specific projects or programs that have a direct relationship to the funding. Also, those organizations or projects funded may not always have a quantifiable ROI, with the benefits being more qualitative in nature in enhancing quality of life, diversity, regional character, neighborhoods and creating opportunities for youth. Despite this difficulty in quantifying the direct relationship between Arts & Culture funding and ROI, it is known that arts and culture organizations produce events and attractions that increase tourism to the City. This increased tourism benefits TOT collections with overnight stays and sales tax with tourist spending. The Arts & Culture Commission Annual Economic Impact Study for 2011 also speaks to the impact of allocations in supporting organizations that stimulate the economy with over \$170.0 million in direct expenditures, supporting a workforce of 6,000 and generating \$202.0 million in revenues.

Funding for Community Plan Updates

The May Revise provided for the re-budgeting of \$258,924 from the FY 2012 budget and the addition of \$230,511 for continued work on various community plan updates and several other projects. The additional funds will bring the total General Fund amount budgeted in FY 2013 for these projects to approximately \$1.15 million, with approximately \$670,000 allocated specifically to community plan updates. Additional funding such as grants will contribute to the amount used to fund community plan updates in FY 2013. There will be one major community plan amendment and ten community plan updates that will be worked on during FY 2013. The community plan amendment will be for the Navajo community, and the community plans updates are for: Barrio Logan, Golden Hill, the Midway Pacific Hwy Corridor, North Park, Ocean Beach, Old Town San Diego, Otay Mesa, San Ysidro, Southeastern, and Uptown communities. Additionally, there will be ongoing work on the Housing Element update and completion of the Affordable Housing Parking Study.

IBA RECOMMENDED BUDGET REVISIONS – ONGOING

Our recommendations are derived from the priorities expressed in Councilmembers' June 1st collective memos to our office and at Council budget hearings, as well as our analysis of the Proposed Budget, the May Revise and the FY 2012 Year-End Budget Monitoring Report.

ONGOING RESOURCES

1) TOT- \$739,000

Given year-to-date TOT performance and industry forecasts of continued modest improvements in hotel occupancy and average daily rates, the IBA recommends that the assumed growth rate for TOT for FY 2013 is increased from 5.0% to 5.5%. This 0.5% increase in the assumed growth rate would equate to an additional \$739,305 in TOT revenue, with \$387,254 being allocated to the General Fund and \$352,051 to the TOT Fund. The \$352,051 allocated to the TOT Fund could be utilized to offset tourism and promotional related expenses within the General Fund, and be applied as an increase to the 1% Council discretionary transfer into the General Fund.

2) Sales Tax - \$619,000

Sales tax performance has improved substantially, with current projections of 6.6% growth over FY 2011 in FY 2012. (With the removal of a one-time payment of sales tax from previous years,

the growth is 5.5%.) Based on current year performance, and forecasted continual improvements in the San Diego economy, the IBA recommends a modest increase in the year-over-year assumed growth from 5.7% to 6.0%. This would equate to an additional \$619,000 in additional structural revenue for the FY 2013 Budget.

ONGOING EXPENDITURES

1) Restoration of 5 Police Civilian Positions-\$212,000 (Half-Year Funding)

Over the past few fiscal years, 193.25 civilian positions, including 88 filled and 105.25 vacant, have been eliminated from the budget. These reductions impacted all areas of the Police department. As noted in IBA Report 12-19, the Department is committed to restoring some of the civilian positions reduced in the past, however, has noted that their first priority is to increase sworn officer strength and fill their existing civilian vacancies, totaling 63.75 FTE. In the report, we recommended that if the restoration of previously cut civilian positions remained a Council priority, and if funding was identified, that consideration could be given to restoring civilian positions based on the priorities identified by the Police Chief.

Given the Chief's first priority to fill current budgeted sworn and civilian vacancies amid timing challenges associated with the hiring process, we recommend funding for 5 civilian positions to be identified by the Chief for half of the fiscal year. Delaying the new hires until January 2013 will allow the Department to have completed and vetted a new five-year staffing plan for both civilians and sworn positions with PS&NS and the City Council, as well as allow time for existing vacancies to be filled. Salary and fringe costs for each civilian position would average approximately \$85,000. Funding for half of the year would total approximately \$212,000. Full year costs in FY 2014 are estimated at \$425,000.

2) Relief Lifeguards-\$291,000

The Fire-Rescue Department has requested restoration of three additional Lifeguard relief positions, totaling \$291,179. The 3.00 FTE positions would consist of 2.00 FTE Lifeguard 2's and 1.00 FTE Lifeguard Sergeant. Relief lifeguards are assigned to stations and duties as needed. The restoration of these positions and the flexibility that they offer would lessen the current strain on the lifeguard scheduling system, reduce the use of mandatory overtime to maintain constant staffing levels, and support scheduling personnel training. The IBA recommends the addition of funding to support the 3.00 FTE Lifeguard relief positions.

3) Lifeguard Wellness Program- \$81,000

The Risk Management Department and the City's Industrial Medicine Group are currently undertaking a study to evaluate a potential Wellness Program for lifeguard staff to mitigate work related injuries. This report will be completed by June 30th, and will be presented to Human Resources for discussion during the FY 2014 Meet and Confer process. The Mayor's Office has indicated that Meet and Confer is the appropriate venue for this issue rather than the budget process. However, there is no clear precedent on this. The Wellness Program for firefighters resulted from a meet and confer process while the Police Wellness Program did not.

With the participation of all 91.00 FTE budgeted full-time lifeguards, the program would cost \$981 per employee, totaling \$89,271. This total includes an assumed CPI increase of 4.2% over previous year costs. Given that annual exams covered by a Lifeguard Wellness Program are already required and budgeted for Boating Safety Unit and Dive Team lifeguards, totaling \$8,805, the net budgetary increase necessary to fund a Lifeguard Wellness Program is

approximately \$81,000. The IBA recommends the addition of \$81,000 to fund a Lifeguard Wellness Program in FY 2013, but recommends that this program be implemented after review and consideration of the results of the study being conducted by Risk Management and the City's Industrial Medicine Group anticipated for June 30th.

4) Investment to explore new funding sources for economic development and redevelopment - \$250,000

We are recommending an ongoing expenditure of \$250,000 to enable a successor agency for the Centre City Development Corporation (CCDC) and Southeastern Economic Development Corporation (SEDC) or internal economic development agency to explore and identify new funding sources for economic development and neighborhood revitalization activities communitywide. With the dissolution of California redevelopment agencies on February 1, 2012 per AB 26, the City's Redevelopment Department employees underwent a Reduction in Force. CCDC's and SEDC's funding sources have restrictions on use and are limited to winding down the affairs of the former Redevelopment Agency, planning and processing permits for private development Downtown, and managing Downtown's parking district.

This investment will provide seed money for a successor agency or internal economic development agency to conduct research and retain needed experts to identify alternative funding, such as grants and new market tax credits, to Tax Increment Funding that was available under California Redevelopment Law. Alternative funding sources are needed to conduct important activities previously funded by TIF that would otherwise be eliminated and to explore these activities communitywide. This includes:

- urban planning and studies for parks, transit, mobility, and sustainability;
- economic development for creating jobs, attracting businesses, and retaining both;
- implementing critical infrastructure improvements to accommodate anticipated population growth; and
- identifying homelessness solutions.

5) Funding for the Teen Nights programs - \$40,000

The Teen Nights programs are currently provided at five recreation centers that have established Teen Centers (Encanto, City Heights, Memorial, Southcrest, and Mountain View), and the programs run from May through mid-September. State grant funding (CalGrip grant) will provide funding for these programs through September 2012, which will allow these programs to continue through the summer of 2012. However, no State funding has been identified beyond September 2012. The May Revise did not provide funding for these programs for the beginning of summer of 2013. The addition of \$40,000 to the FY 2013 Budget for the Park and Recreation Department would allow for these programs to continue during May and June 2013. Funding these programs beyond FY 2013 would be a consideration for future budgets.

In response to Councilmember Emerald's request to add the Teen Nights program at an additional site (Linda Vista), the space and current programs at this site are being evaluated as to the appropriateness of the space and steps necessary to establish a Teen Center at this site, as a Teen Center does not currently exist at this location.

6) San Diego Circuit (County Library Cooperation) – Funded Through D6 CPPS

A new service that will be available to citizens in FY 2013 is the San Diego Circuit (“Circuit”). The Circuit is a service that allows library users from participating libraries to quickly borrow books from other San Diego Circuit libraries if the books are not owned by their home library or if their library's copy is already checked-out. The service was originally launched to the public in January 1998 and is currently in active use by the following institutions: UC San Diego, San Diego State University, CSU San Marcos, University of San Diego, University of San Diego Law Library, and San Diego County Library.

Councilmember Zapf has committed to fund the initial set up costs and the annual fee associated with the first year of service for the City through Community Projects, Programs and Services (CPPS) funding allocated to District 6. The initial set up cost of \$31,000 is being addressed in FY 2012 while the annual costs of \$44,500 will be addressed in FY 2013. A funding source for the annual costs beyond FY 2013 will need to be identified in future budgets for the service to continue.

Becoming an active member in the Circuit will allow the San Diego Public Library (SDPL) to offer its patrons access to the vast print collections of the other Circuit libraries. Patrons with a valid SDPL library card will have the ability to place a hold request on books shelved at any Circuit library and have the requested materials delivered to their local SDPL branch library. Materials can be borrowed for up to 28 days and then returned to any SDPL branch. There is no fee for patrons opting to use this service, provided that materials are returned on time and in good condition.

7) Funding Internal Control Audits - \$0 - \$150,000

The Audit Committee has repeatedly discussed and reaffirmed their interest in an independent audit of the City’s internal controls to begin in FY 2013. An independent audit of internal controls was initially recommended in the 2006 Kroll Report given concerns about substantive weaknesses in the City’s internal controls. Funding for an internal controls audit was not included in the FY 2013 Proposed Budget.

In recent discussions with the COO, Comptroller and the City Auditor, the potential cost and readiness for a comprehensive audit of all City internal controls were cited as concerns. It was decided that a more reasonable approach would be to commission smaller annual audits of internal controls covering certain City operational or process areas – particularly those areas impacting financial reporting. These internal control audits could either be performed by City Auditor staff (by acquiring specialized audit expertise) or by a qualified outside audit firm. The Comptroller suggested disclosure, payroll and treasury functions as initial internal control audit possibilities.

The possibility of performing limited annual internal controls audits (by either the Office of the City Auditor or the City independent auditor – Macias Gini & O’Connell) with existing resources was also discussed. The City Auditor is in the process of researching the costs and considerations associated with either internal or external audits. Depending on the results of this research, this work may be able to be absorbed within existing contracts or reprioritization of internal audits. However, we recommend setting aside \$150,000 for this purpose until further information is available.

8) Office of the City Auditor - \$77,000

On May 7, 2012, the Audit Committee discussed the City Auditor’s FY 2013 budget requests. The Committee recommended adding \$51,850 to purchase an “electronic workpaper” software system. The system is considered an ongoing expense as it requires roughly equivalent recurring annual costs for licensing, maintenance & support and related computer server costs. The Audit Committee additionally recommended a one-time increase of \$25,000 to fund an increase in employee “close-out” audits associated with the transition of mayoral administrations. Based on the Audit Committee’s recommendation, this funding is included in the IBA Proposal.

IBA Recommended Revisions for Ongoing Expenditures and Resources	
Resources	
Increase TOT growth from 5% to 5.5%	739,000
Increase sales tax growth from 5.7% to 6.0%	619,000
<i>Total</i>	<i>\$1,358,000</i>
Expenditures	
5 Police civilians (half year)	212,000
3 Relief Lifeguards	291,000
Lifeguard wellness program	81,000
Economic Development Seed Money	250,000
Teen Nights (May/June 2013)	40,000
Library Circuit - Councilmember Zapf funding of \$75,000	0
Internal Controls Audit	0 - 150,000
Auditor Software, close out audits	77,000
<i>Total</i>	<i>\$951,000 - \$1,101,000</i>
Remaining Funding	\$257,000 - \$407,000

**IBA RECOMMENDED BUDGET REVISIONS – ONE-TIME
ONE-TIME RESOURCES**

1) Estimated Revenue from two Revenue Recovery Audits concluding in FY 2013 - \$350,000

Two revenue recovery audits were initiated late in FY 2012. In April, the Council authorized the Comptroller to enter into an agreement with an independent auditor to perform an audit of the City’s accounts payable over the last three years. This audit is scheduled to begin in June and conclude in July or August of 2012. In the third quarter of FY 2012, the City Treasurer initiated a review/audit of Court fees the City receives from the County of San Diego; however, the results of this audit are not expected until July or August of 2012.

It is difficult to predict in advance the amount of revenue that might result from revenue recovery audits. Although \$500,000 was estimated and budgeted to result from these audits in FY 2012, the receipt of this one-time revenue is now more probable in FY 2013. This revenue was not included in the FY 2013 Proposed Budget. The IBA now believes it is more reasonable to budget approximately \$350,000 of one-time revenue to result from these two audits in FY 2013.

ONE-TIME EXPENDITURES

1) Neil Good Day Center- \$250,000

The Housing Commission request for \$550,000 in FY 2013 CDBG grant monies to support the Neil Good Day Center was not approved. At the March 2011 CDBG hearing at Council, the Housing Commission committed to fund \$250,000 of the need, leaving an outstanding funding need of \$300,000. The May Revise includes the addition of \$300,000 to supplement the \$250,000 committed by the Housing Commission to fully fund the \$550,000 cost to support the operations of the Neil Good Day Center in FY 2013.

During the Housing Commission Budget Hearing, the Housing Commission informed the City Council of a potential funding need for a contingency arrangement for a Homeless Emergency Winter Shelter if it is the case that the Connections Housing Facility is not ready to provide housing by December 1st as planned. The total not-to-exceed anticipated cost for this contingency arrangement is \$457,000. The Housing Commission has expressed that it will pose a challenge for the agency to provide funding to support both the Neil Good Day Center and a potential contingency arrangement for a Homeless Emergency Winter Shelter.

With this outstanding funding need, the IBA recommends one-time General Fund support to fund the \$250,000 pledged by the Commission to support the Neil Good Day Center. Removing this funding obligation will help the Commission to address funding needs that may arise relating to the Winter Shelter. In the future, as discussed by Council during Budget Hearings, it is the intent of the Council to improve the CDBG allocation process to ensure that funding for the Neil Good Day Center is required “off-the-top” before other funding allocations are deliberated by the Consolidated Plan Advisory Board, and subsequently approved by the City Council.

2) Funding for the Workforce Partnership’s Hire-A-Youth Program - \$100,000

Councilmembers have expressed interest in supporting the San Diego Workforce Partnership’s Hire-A-Youth program. Based on information provided to the IBA, the Workforce Partnership seeks one-time seed funding to enable them to pursue grants, corporate partnerships and otherwise develop a sustainable youth employment program. The proposal envisions budgeting \$100,000 in FY 2013 to be matched by another \$100,000 from Council CPPS funds. The process of securing FY 2013 commitments for CPPS matching funds is already underway. Given Councilmember support for a sustainable and high-quality youth employment program, \$100,000 of one-time funding is included in the IBA Proposal.

IBA Recommended Revisions for One-Time Expenditures and Resources	
<i>Resources</i>	
Revenue recovery audit	350,000
<i>Total</i>	<i>\$350,000</i>
<i>Expenditures</i>	
Neil Good Day Center	250,000
Hire-A-Youth <i>(to match to Council CPPS funding of \$100,000)</i>	100,000
<i>Total</i>	<i>\$350,000</i>

IMPACTS OF PROPOSED REVISIONS ON FY 2013 BUDGET

All ongoing expenditure changes recommended by the IBA are funded with ongoing resources and one-time resources have been identified for new one-time expenditures, consistent with the Council Adopted Structural Budget Deficit Principles. There will be no negative structural impacts to the budget upon approval of these recommendations.

The following table shows the number of FTEs added/restored in the May Revision (41.23 General Fund and 13.25 non-General Fund FTEs), and the number of FTEs that would be restored as a result of the IBA recommended changes to the Mayor's revised budget (8.00 General Fund FTE's). Attachment 1 provides the May Revision position changes by department.

SUMMARY OF FTE CHANGES							
Fund	FY 2012 Adopted	FY 2013 Proposed	Difference from 2012	FY 2013 May Revision	FY 2013 IBA Changes	FY 2013 Final	Difference from 2012
General Fund	7,036.62	7,105.42	68.80	41.23	8.00	7,154.65	118.03
Non General Funds	3,071.64	2,954.02	(117.62)	13.25	-	2,967.27	(104.37)
Total City	10,108.26	10,059.44	(48.82)	54.48	8.00	10,121.92	13.66

After accounting for all changes, 118.03 General Fund FTE's would be added and 104.37 non-General Fund FTEs would be reduced in the FY 2013 budget as compared to the FY 2012 Adopted Budget.

OTHER ISSUES FOR DISCUSSION

Preserving Funds for Impact of Redevelopment Dissolution

The FY 2013 May Revise includes \$14.4 million to address the potential impact to the General Fund of the dissolution and unwinding of the former Redevelopment Agency per AB 26—\$10.7 million in TOT fund balance and \$3.7 million of Appropriated Reserve. In addition, the FY 2012 Year-End Budget Monitoring Report recommended that \$5.0 million of the projected \$17.8 million revenue surplus be retained in reserves to be available for unforeseen circumstances or to mitigate impacts related to dissolution.

Furthermore, the City has received additional property tax trust fund revenues, above the amount needed to pay enforceable obligations, from the County's June 1, 2012 allocations. The City received \$15.7 million of the \$66.7 million of the June 1st County distribution (based on property taxes received February-May 2012). Of this amount \$10.9 million is needed to pay enforceable obligations and the administrative budget for ROPS I and II. This leaves a remaining \$4.8 million; however, it is unclear to which fiscal year these funds will be attributed.

As there are many unknowns and risks, the cautious approach is to preserve these funds to mitigate these risks which include the following and are discussed in greater detail below:

- Ongoing and future scrutiny of enforceable obligations by the Successor Agency Oversight Board, County Auditor and Controller (A/C), and State Department of Finance (DOF);

- State Controller’s order to unwind asset transfers not allowed by AB 26 from redevelopment agencies to their creator City or County; and
- City’s less than anticipated allocation of property tax revenues due to the timing of payments and County’s method of allocating monies.

These funds may also be needed to offset administrative costs in excess of the Administrative Allowance of \$308,000.

Governing Entities’ Review of Enforceable Obligations

On May 25, 2012, DOF approved the initial Recognized Obligation Payment Schedule (ROPS) covering payments on enforceable obligations for January through June 2012 and second ROPS for July through December 2012. The approved ROPS II included \$13.8 million in debt service for improvements to Petco Park (\$11.3 million) and the expansion of the Convention Center Phase II (\$2.5 million in FY 2013). In its approval letter, DOF reserved the right to question and remove items included in future ROPS that are not enforceable obligations even if they were not removed from a previous ROPS. The third ROPS, which has not yet been forwarded to the Oversight Board or DOF for approval, will cover the second half of FY 2013.

Enforceable obligations included in the ROPS are also subject to closer scrutiny by both the Successor Agency Oversight Board and the County A/C. AB 26 requires that the County A/C conduct an agreed-upon procedures audit to certify the initial ROPS, which is expected to be completed in July 2012.

State Controller’s Order to Unwind Asset Transfers Not Allowed by AB 26

The City has not yet responded to the State Controller’s April 20, 2012 order requiring that asset transfers not allowed by AB 26 from former redevelopment agencies to the City or County that created the agency be immediately reversed. Such assets include cash reserves and properties of the former redevelopment agency that were transferred during the 13-month period commencing in January 2011 that are not contractually committed to a third party. This clawback provision could impact payments made by the City on enforceable obligations using reserves, among other things.

City’s Less Than Anticipated Share of Property Tax

Per AB 26, property tax monies will be distributed to taxing entities by the County A/C on June 1 and January 16 of each year. However, the City’s allocation of property tax is less than anticipated, due to two factors. First, by making payments to taxing entities on June 1, all receipts will not be included, such as late payments.

Second, AB 26 has contradictory language with regard to distribution and has been interpreted differently by various entities. The League of California Cities and the City, among others, advocate the “universal” method which allocates property taxes based on the pro-rata share of taxing entities. DOF and the County advocate the allocation of monies based on the “waterfall” method. (In a May 23, 2012 letter, the County reiterated its legal position that the waterfall method trumps the universal method.) The County distributes the first tier of funds based on pass through payments (statutory and negotiated) that would have been received under Community Redevelopment Law. Given that cities generally receive relatively smaller pass through payments, this approach results in a smaller allocation for the City.

This smaller than expected share of property taxes impacts the administrative budget of the successor agency, which is calculated as 3.0% of anticipated ROPS enforceable obligations payable from property taxes, and could have a more significant effect as reserves of the former Redevelopment Agency are exhausted.

As shown in the table below, the City has relied upon reserves and other revenues such as bond proceeds of the former Redevelopment Agency to pay the majority of enforceable obligations for ROPS I and II:

	Initial ROPS January-June 2012	ROPS II (revised) July-December 2012
Total Outstanding Debt or Obligation	\$6,471.8	\$6,265.7
Total Enforceable Obligations for Six-Month Period	207.0	95.0
<i>Resources for Enforceable Obligations</i>		
Available Revenues Other Than Property Tax	203.7	84.3
Anticipated Funding from Property Tax Monies	3.3	10.6
Administrative Allowance	-	0.3
<i>Total Resources for Enforceable Obligations</i>	207.0	95.2

\$ in millions

Note: Totals may not add due to rounding

General Fund Reserve

The status of the General Fund reserve is discussed in detail in the IBA’s review of the FY 2012 Year-End Budget Monitoring Report, which was issued June 6, 2012. Note that this report will also be discussed at the Council meeting of June 11, 2012. Below is a brief discussion regarding the General Fund Reserve.

A total of \$12.8 million in reserves is anticipated to be utilized in the FY 2013 budget, including the following items: \$3.7 million for amounts budgeted in FY 2012 that will be re-budgeted in FY 2013; \$8.3 million to increase cash funding for FY 2013 deferred capital projects (in order to reach the “Status Quo” operations and maintenance funding level); and \$0.8 million to fund a portion of the FY 2013 appropriated reserve.

The General Fund reserve target is 8 percent of annual General Fund revenues, as prescribed by the City’s Reserve Policy. Below is a table which shows the projected excess General Fund reserve over 8 percent of General Fund revenues for FY 2013, as well as the total projected General Fund Reserve as a percent of FY 2013 projected revenues.

General Fund Reserve as a Percent of General Fund Revenues

FY 2013 Reserve - Projected Ending Balance	\$118.9
8% of General Fund Revenues	<u>92.0</u>
FY 2013 Projected Reserve Over 8% of Revenues	<u>\$26.9</u>
Total FY 2013 Reserve (Projected Ending Balance) as a Percent of FY 2013 Revenues - Based on May Revision	10.3%

The IBA recommended changes to the Mayor's revised FY 2013 budget that are discussed in this report would have a negligible impact to the reserve projections discussed above. Note that the projected FY 2013 General Fund Reserve of \$118.9 million does not include the potential addition of any unbudgeted revenue received from property tax trust fund distributions that are in excess of the City's required obligations from the Redevelopment Agency's dissolution. For more information on redevelopment dissolution, see the previous section entitled, "Preserving Funds for Impact of Redevelopment Dissolution."

Outstanding Public Safety Issues

The IBA Review of the FY 2013 Proposed Budget (IBA Report 12-16) highlighted a number of anticipated public safety expense and revenue issues that were not addressed in the Proposed Budget. This included Police Department needs totaling \$1.6 million. These needs include: a net \$392,000 increase in the Animal Services Contract costs, a \$340,000 contractual Uniform Allowance expense obligation, and \$900,000 to support the overhaul of a police helicopter due to insufficient monies in the Seized Assets Funds to support the expense. These funding needs are not addressed in the May Revise. Our office has concerns that this will arise as an issue in FY 2013, unless the Department is able to absorb these costs in identifying offsetting savings in other areas of its budget. In FY 2012, the Police Department's budget was adjusted Mid-Year to cover overages in supplies primarily pertaining to Uniform Allowance expenses. While the need for \$900,000 to support the overall of a police helicopter arose in the FY 2012 First Quarter Monitoring Report, COPS funding was identified as a funding source later in the year.

IBA Report 12-16 also highlighted the need for additional funding for diesel fuel costs for fire trucks and engines in FY 2013. The Fire-Rescue Department's budget was increased by \$1.0 million as a Mid-Year adjustment in FY 2012 to address this need. The Department's request for additional funding for diesel fuel costs as part of the FY 2013 May Revise was not approved. Fire-Rescue has expressed that it may be able to absorb the costs, but that any significant over budget expenses would have to be addressed as an appropriation adjustment during the fiscal year.

The IBA also remains concerned regarding the ability of the Fire-Rescue Department to achieve budgeted expectations for their Alarm Permit Fee program in FY 2013. In the 2012 Year-End Report, the projection for Alarm Permit Fee revenue was reduced by \$715,652 from the \$910,000 budgeted due to the number of permits issued and penalty billings assessed being less than that originally assumed. Despite this, the FY 2013 Budget has not been adjusted to reflect a reduction in Alarm Permit Fee revenue, with the budget remaining at \$910,000. The Department has expressed that since the program is still new, with little data to base an adjustment on, it is premature to modify the budget at this time.

SUMMARY OF IBA RECOMMENDATIONS

The IBA recommends Council consideration of the following actions:

1. Approval of the Mayor's FY 2013 Proposed Budget as issued on April 11, 2012 and as amended by the Mayor's May Revise issued on May 23, 2012;
2. Approval of the IBA recommended FY 2013 budget revisions for ongoing and one-time expenditures and resources as detailed below:

IBA Recommended Revisions for Ongoing and One-Time Expenditures and Resources			
ONGOING		ONE-TIME	
Resources			
Increase TOT growth from 5% to 5.5%	739,000	Revenue recovery audit	350,000
Increase sales tax growth from 5.7% to 6%	619,000		
<i>Total</i>	<i>\$1,358,000</i>	<i>Total</i>	<i>\$350,000</i>
Expenditures			
5 Police civilians (half year)	212,000	Neil Good Day Center	250,000
3 Relief Lifeguards	291,000	Hire-A-Youth	
Lifeguard wellness program	81,000	(to match Council CPPS funding of \$100,000)	100,000
Economic Development Seed Money	250,000		
Teen Nights (May/June 2013)	40,000		
Library Circuit- Councilmember Zapf funding of \$75,000	0		
Internal Controls Audit	0 - 150,000		
Auditor Software, close out audits	77,000		
<i>Total</i>	<i>\$951,000 - \$1,101,000</i>	<i>Total</i>	<i>\$350,000</i>
Remaining Funding	\$257,000 - \$407,000		\$0

For your reference we have provided in Attachment 2 a list of other policy issues identified in individual Councilmember budget memos. Additionally, Attachment 3 provides information on Councilmember revenue and expenditure proposals not included in final budget proposals.

NEXT STEPS

The following key steps remain in the FY 2013 budget adoption process:


- | | |
|------------|---|
| June 11 | Council decisions on final budget modifications |
| June 11 | Adoption of new and increased fees proposed for FY 2013 |
| June 12 | Available if needed for final Council budget decisions |
| June 13-14 | City Clerk transmits resolution to Mayor within 48 hours of passage |
| June 13 | Mayor's veto period begins (five business days) |
| June 19 | Mayor's veto period ends |
| July 16 | First public hearing: Adoption of Appropriation Ordinance |
| July 23 | Second public hearing: Adoption of Appropriation Ordinance |
| July 23 | Adoption of Tax Rate Ordinance |




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- Attachments:
1. General Fund FTE Changes By Department Based on May Revision
 2. Other Fiscal Policy Matters Identified In Council Budget Memos
 3. Councilmember Identified Potential Revenues & Expenditure Proposals not Included in IBA Proposal