



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Review of FY 2013 Mid-Year Budget Monitoring Report

OVERVIEW

The Financial Management Director issued the FY 2013 Mid-Year Budget Monitoring Report (Mid-Year Report) on February 25, 2013. The Mid-Year Report describes the current status of revenues and expenditures, and their year-end projections, based on actual (unaudited) data from July through December 2012. The IBA reviewed the financial information compiled in the Mid-Year Report and compared this to the City Comptroller's Financial Performance Report for Period 6, dated February 11, 2012, and the First Quarter Monitoring Report (presented to City Council on January 28, 2013).

The Mid-Year Report reflects both increased revenues and expenditures from the First Quarter Monitoring Report. Projections for revenues have continued to increase due to growth in property tax revenue, resulting primarily from a one-time revenue distribution. Expenditures have increased marginally from the First Quarter Monitoring Report due to a \$6.9 million increase in projected transfers from the General Fund to provide funding for a Computer Aided Dispatch (CAD) system. This transfer was approved by PS&NS on February 13, 2013 and is scheduled for Council consideration on March 11, 2013.

The increase in revenues and expenditures from the First Quarter Monitoring report resulted in a forecasted \$7.7 million deficit. However, the Adopted Budget expenditures for FY 2013 exceeded revenues by \$13.2 million due to the utilization of a corresponding amount of reserves. Based on the utilization of reserves to offset expenditures, the General Fund projected ending balance is \$5.5 million, of which \$1.9 million will be re-budgeted in FY 2014 for Council Community Projects, Programs, and Service and Community Plan Updates in accordance with the CPPS process. The net budgetary surplus after this action is \$3.6 million. The effect of this surplus and utilization of reserves to offset General Fund expenditures is detailed in the Reserve Balance section of this report.

The Mid-Year Report requests City Council to approve \$6.8 million in General Fund revenue and expenditure appropriations to provide the Police, Fire-Rescue, and Park and Recreation departments with sufficient budget to allow continued operation throughout the fiscal year based on current projections. Additionally, the Mid-Year Report includes the Mayor’s proposal to appropriate \$3.3 million of the projected \$3.6 million budgetary surplus to fund various additional General Fund expenditures. The City Council will hold the second hearing of these requested budget amendments (first hearing at Budget and Finance Committee on February 27) and consider the adoption or modification of these requests in part or whole based on Ordinance 20084 (Mid-Year Ordinance).

FISCAL/POLICY DISCUSSION

General Fund Revenues

General Fund revenues have increased from both the FY 2013 Adopted Budget and First Quarter Budget Monitoring Report. Total General Fund revenue is projected to exceed the FY 2012 Adopted Budget by \$10.9 million and the First Quarter Report by \$10.4 million. This increase is primarily due to an increase in property tax revenue; of which the majority was from a one-time distribution.

Our Office believes that major revenue projections included in the Mid-Year Report are appropriate based on revenue distributions to date and the current economic forecast. In total, major revenue (Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees) is projected to exceed the Adopted Budget by \$10.9 million. This is based on a projected increase in property tax and transient occupancy tax of \$14.7 million and \$1.9 million, respectively. However, this increase is offset by declines in franchise fees of \$3.8 million and sales tax of \$1.9 million. The net increase in major revenues of \$10.9 million over the Adopted Budget accounts for the variance in the General Fund’s total projected revenue since aggregate departmental projections have not changed from Adopted Budget levels.

The following revenue sections outline the major General Fund revenues and any departmental revenue items of note.

Major General Fund Revenues

Revenue Source (in millions)	FY 2013 Original Projections	FY 2013 First Quarter Report	FY 2013 Mid Year Report	Variance - Adopted to Mid	Variance - 1st Qtr to Mid YR
Property Tax	\$ 387.1	\$ 390.7	\$ 401.8	\$ 14.7	\$ 11.1
Sales Tax	236.3	232.7	234.4	(1.9)	1.7
Transient Occupancy Tax	81.7	83.7	83.6	1.9	(0.1)
Franchise Fees	71.7	71.6	67.9	(3.8)	(3.7)
Departmental & Other Revenue	374.4	373.0	374.4	(0.0)	1.4
TOTAL ADOPTED BUDGET	\$ 1,151.2	\$ 1,151.7	\$ 1,162.1	\$ 10.9	\$ 10.4
Civic San Diego ¹	\$ 4.5	\$ 4.5	\$ 4.5	\$ -	\$ -
TOTAL ADJUSTED BUDGET	\$ 1,155.7	\$ 1,156.2	\$ 1,166.6	\$ 10.9	\$ 10.4

1 - Authorized by R-307536

Property Tax

The \$401.8 million property tax revenue projection in the Mid-Year Report is comprised of three separate sources of revenue: 1) the City's 1.0 percent property tax revenue, totaling \$387.1 million; 2) \$6.9 million in refunded property tax administration fees; and 3) \$7.8 million distribution based on the elimination of the City's Redevelopment Agency.

– 1.0 Percent Property Tax Revenue

In the First Quarter Report it was assumed that property tax refunding activity would remain consistent with FY 2012 levels. As a result of an analysis of current year-to-date refunding activity, Financial Management has lowered the refund projection from \$5.5 million to \$4.5 million, a reduction of approximately 18.0 percent. This revised projection is consistent with County Assessor reported trends of a reduction in the quantity and value of property assessment appeals countywide in comparison to recent years. The County Assessor's Office continues to work on closing out appeal requests from calendar year 2011 and 2012, with the 2011 reassessment evaluations nearing completion. Although there is a definite year-to-date reduction in refunds that have resulted from appeals, the Assessor's Office has approximately 14,000 appeals to process for 2012. The refund total that will result from these appeals and when they will impact property tax receipts is uncertain.

The First Quarter Report included a projection of \$385.9 for the 1.0 percent property tax revenue, which has subsequently increased to \$387.1 million in the Mid-Year Report primarily due to this decrease in projected refunds.

– Property Tax Administration Fee Refund

A County reimbursement of \$6.9 million was received by the City in November 2012 for Property Tax Administration Fees (PTAF) charged to the City that have been ruled as unauthorized by the California State Supreme Court. As discussed later in this report, in the Mid-Year Report the Mayor has proposed to use the \$6.9 million in one-time property tax revenue to support the replacement of the Police CAD system, as approved by the Public Safety & Neighborhood Services Committee on February 13, 2013.

– Redevelopment Distributions

As a result of the dissolution of California redevelopment agencies on February 1, 2012, the City receives additional property tax funds, including tax sharing pass-through payments and residual distributions—the City's share of residual distributions is about 21 percent. The FY 2013 First Quarter Report included a total of \$4.8 million and did not differentiate between these two types of payments. The Mid-Year Report reflects projections developed by Civic San Diego staff totaling \$7.8 million. This includes \$2.6 million in tax sharing pass-through payments and about \$5.2 million in residual payments. The projections are based on a number of factors and subsequent recent updates by Civic San Diego staff resulted in a \$200,000 reduction to the estimated residual payment for a residual distribution of \$5.0 million and total property tax

projection of \$7.6 million. It is important to note that these projections are based on a number of factors and are subject to change.

It should be noted that the FY 2013 Adopted Budget included \$2.5 million in tax sharing pass-through payments from the Redevelopment Agency that has been eliminated from the Mid-Year, since the payment will now be received as part of Redevelopment Property Tax Trust Fund (RPTTF) monies as mentioned above.

Sales Tax

Sales tax is projected to end the fiscal year at \$234.4 million which reflects a reduction of \$1.9 million from budgeted expectations. This projection demonstrates a \$1.7 million improvement over the projected \$3.6 million under budget performance in the First Quarter Monitoring Report, which was primarily due to a lower “triple flip” payment than budgeted. The improvement in the Mid-Year forecast is due to sales tax receipts above expectations in the second quarter of the fiscal year, which is reflective of sales activity July-September 2012. The second quarter demonstrated growth of 5.2 percent, 4.1 percent more than the original 1.1 percent growth projection assumed in the First Quarter Report. For the remaining two quarters of the fiscal year, 5.3 percent year-over-year growth is expected, which is consistent with the projection included in the First Quarter Budget Monitoring Report.

The Mid-Year sales tax projection is appropriate at this time given current available economic forecasts of continued improvements in employment, personal income, and consumer spending. However, it is important to note that many threats to sales tax exist at this time. These threats include sequestration, a potential continued economic slowdown (with GDP slowing in the fourth quarter of 2012 to 0.1 percent), and/or holiday sales receipts performance below budgeted expectations. The sales tax projection may have to be modified as more data is available regarding the impact of these factors on sales tax performance.

Transient Occupancy Tax (TOT)

Projections for TOT revenue continue to exceed Adopted Budget levels by \$1.9 million, with revenue growth during the first six months of FY 2013, having averaged 5.6 percent over revenue received during the comparable period of FY 2012. The current TOT projection of \$83.6 million is based on revenue receipts through the first six months of FY 2013 and a projected 6.0 percent growth rate for the remainder of the fiscal year. This projected growth rate is an increase of 0.5 percent from the growth rate utilized for year-end revenue projections included in the First Quarter Report. Despite the increase in the forecasted growth rate, TOT projections have declined slightly from the First Quarter Report. The primary reason for the decline in revenue was TOT revenue falling slightly below projected levels for the second quarter of FY 2013.

Despite the current year-to-date growth falling short of the 6.0 percent forecasted rate for the remainder of the fiscal year, TOT revenues are projected to increase by a very small margin or less than \$300,000 by year-end. FY 2013 TOT growth should be closely monitored with any necessary adjustments included in the Year-End Budget Monitoring Report.

Franchise Fees

Franchise fee revenue is currently projected to equal \$67.9 million, which is a \$3.7 million decline from the First Quarter Report projection. The decrease in revenue is attributable to the two largest payments received as franchise fees: cable television franchise agreements and franchise payments from SDG&E. Revenue from the City's cable television franchise agreements has declined by approximately \$0.6 million or 3.2 percent below projections included in the First Quarter Report, while SDG&E payments have declined by \$3.0 million or 8.0 percent. The large decrease in the franchise payment from SDG&E is attributable to decreasing natural gas prices leading to declining revenues consequently lowering the City's payment from the franchise agreement with SDG&E to collect 3.0 percent of gross revenues. In addition to the decline in General Fund revenue due to reduced natural gas prices, the environmental growth fund (EGF) is projected to end the fiscal year \$1.0 million below budgeted amounts (\$0.3 million negative variance in EGF 1/3 and \$0.7 negative variance in EGF 2/3).

Departmental and Other Revenues

Fire-Rescue

In the Mid-Year Report fire inspection revenue, budgeted at \$2.4 million, is projected to come in \$2.2 million under budget. The under budget performance is due to a few factors. During the development of the FY 2013 budget, the budgetary increase related to a modification in Combustible, Explosive, and Destructive Material (CEDMAT) inspection fees was overstated. For FY 2014, a reduction of approximately \$900,000 has been requested by the Fire-Rescue Department to correct the budget. In addition to the budget overstatement, in the beginning of the fiscal year, there was a delay in the collection of CEDMAT inspection fees due to an error in the rate book of City fees and charges noting a per inspection fee verses the intended per hour fee. The Fire-Rescue department halted CEDMAT inspections until a resolution was passed by Council on October 23, 2012 to correct the error. In addition to these two issues, there has been a delay in the hiring of 8.00 Fire Inspector positions that were added as a part of the FY 2013 Budget. Of the 8.00 new positions, 5.00 will be assigned to the CEDMAT program. The Department anticipates hiring 7.00 Fire Prevention Inspectors within the new few months.

The shortfall in fire inspection revenue is not highlighted in the Mid-Year report given that it is offset by increased revenues in other areas within the Fire-Rescue Department. Particularly, reimbursement revenue received by the City from the Emergency Medical Services (EMS) Fund is projected to come in over budget by \$2.8 million. This revenue is received for the rotation of Fire-Rescue personnel on ambulances.

Transportation & Storm Water

The Transportation & Storm Water (TSW) Department has an under budget revenue variance of \$1.8 million or 3.7 percent. This is primarily attributable to:

- \$530,000 in reduced revenue from the Red Light Photo Enforcement Program which was cancelled by the Mayor in February 2013;
- \$255,000 in decreased parking citation revenue for Storm Water; and

- \$718,000 in lower than anticipated reimbursable revenue.

The Transportation Engineering Operations (TEO) Division was over budgeted for revenue when it was restructured, moving the division from Engineering & Capital Projects (E&CP) to the new TSW Department. TSW requested a reduction in the revenue budgeted for FY 2013 and again requested that the revenue be substantially reduced for FY 2014. TEO is currently budgeted for \$792,109 of CIP, grant, or other funding reimbursement in addition to their budget for TransNet and Gas Tax reimbursement. CIP/Other revenues through the first half of the year were approximately \$37,000 and are projected to be approximately \$74,000 (\$718,000 under budget). This deficit is offset by the receipt of two years of SANDAG reimbursements in FY 2013 since the FY 2012 payment was not received until this year. This resulted in a net Charges for Current Services deficit in TEO of \$428,000. We believe it is important for the Department to accurately calculate and include in future budgets reimbursable revenue for TEO.

Public Works – General Services

The Mid-Year Monitoring Report shows General Services Facilities Division revenues to be about \$650,000 less than anticipated. As discussed in our report on Citywide vacancies (Report 13-14), beginning in FY 2010, about 25 percent of Facilities Division positions became revenue reimbursable for repairs and maintenance of enterprise-funded departments and implementation of small-scale capital projects. This change was intended to preserve positions during a time of significant budget cuts, but resulted in the Division prioritizing work for enterprise-funded departments over General Fund departments in order to meet the reimbursable revenue goals. For FY 2013, about \$3.1 million of the Facilities Division's total \$14.0 million budget supports 28.00 reimbursable revenue positions from Enterprise-funded departments.

The Division is projecting a decline in revenue from budgeted levels due to the current unavailability of revenue-generating projects. The Deferred Capital Bond/CIP projects are generally outside the scope of work suitable for the Division, since Facilities is responsible for repair and maintenance rather than construction. Approximately 26 percent of the Division's positions are currently revenue reimbursable. Division staff has stated that General Fund work is dependent on customer requests and is difficult to accurately estimate. Given the impact of the reimbursable revenue positions, going forward it will be important for the Division to realistically estimate reimbursable revenue. It is also important to note that the Division has submitted requests for budget increases for FY 2014 that if approved, will begin to address the Division's larger resource-related issues that have impacted deferred maintenance and capital for the City's facilities.

Office of the CFO - Corporate Partnership Program

Corporate Partnership Program (CPP) revenue is projected to be approximately \$406,000, or 68 percent under budget in FY 2013. The CPP Director recently reported to the Budget and Finance Committee that the projected shortfall is due to unforeseen challenges in fully initiating certain partnerships (i.e., vending and water/sewer line warranty partnerships) and that much of the revenue budgeted in FY 2013 will likely be realized in FY 2014. The Mid-Year Report projects CPP revenue to be approximately \$194,000 in FY 2013, however, the CPP Director believes this projection may underestimate FY 2013 revenue by approximately \$40,000. It is worth noting

that the Program generated substantial in-kind (Toyota vehicles) and other non-monetary (tourism promotion) benefits for the City in FY 2013.

Transient Occupancy Tax Fund Balance

TOT revenue growth, which was budgeted at 5.5 percent, is currently projected at 6.0 percent for the remainder of the fiscal year. With this growth, TOT collections are projected to come in over budget by \$1.9 million this fiscal year within the General Fund (as previously discussed in the Major Revenue section), and by \$1.8 million within the TOT Fund. Per the Mid-year Report, of the \$1.8 million projected overage allocated to the TOT Fund, \$0.5 million is transferred to the Parks and Recreation Department for the reimbursement of expenditures for the maintenance of tourism and promotions related parks and facilities and \$0.4 million for other Special Promotional Program expenses.

The transfer to the Parks and Recreation Department reflects a reduction of \$1.0 million from the First Quarter Report. Due to this, the TOT Fund will end the year with an unallocated \$1.0 million in fund balance from revenue exceeding expenditures. This \$1.0 million will be in addition to the TOT Fund balance of \$10.8 million that is currently available¹, bringing the projected fund balance to \$11.8 million by year-end. Council Policy 100-03 and the FY 2013 Appropriations Ordinance limit the use of TOT Fund revenue to tourism and promotion related expenses. Within these limits, the TOT Fund balance can be utilized to offset General Fund obligations that are related to tourism and promoting the City.

SAFE Grant Funding

Per current California State Law, county service authorities are authorized to impose a \$1 annual fee for registered county vehicles, which is then collected by the Department of Motor Vehicles to fund the installation of call boxes along freeways. Expenses supported by the fee include those related to call box maintenance and emergency response to freeway motorists. Council Members Zapf and Alvarez, as past members of the Service Authority for Freeway Emergencies (SAFE) Board overseeing the San Diego County program, raised concerns regarding the continued collection of the fee. Due to a reduction in the programs use and a large accumulated fund balance, both Councilmembers believed the fund balance could be better utilized for public safety needs.

Assembly Bill 1572, as approved by the Governor on September 13, 2012, dissolved the San Diego County SAFE Board, and transferred the oversight of the program to the San Diego Association of Governments (SANDAG). As a part of the bill, approximately \$9.0 million in available reserves are to be divvied up among County local governments to support motorist aid services or support. This is expected to result in \$4.1 million to the City in FY 2013. By law SANDAG is required to distribute the monies by March 31, 2013. The receipt of this one-time funding is not included in the Mid-Year Report.

¹ The \$10.8 million in TOT Fund balance has carried over from previous fiscal years where above budget TOT collections were not reallocated to special promotional programs and expenses during the fiscal year.

Other Revenue

Another revenue item of note in the Mid-Year Report is \$1.0 million in one-time revenue that was transferred to the General Fund from fund balance of two separate dormant accounts that the Office of the City Comptroller determined were no longer needed.

General Fund Expenses

General Fund expenses have increased \$5.4 million from the FY 2013 Adopted Budget and \$4.6 million since the First Quarter Budget Monitoring Report. The increase from both the Adopted Budget and First Quarter Report is due to a \$6.9 million transfer out from the General Fund for the establishment of a Capital Improvement Program project to help fund the future implementation of a new Computer Aided Dispatch system (discussed further in this section). The following expenditure sections detail any additional city-wide and departmental expenditure items of note.

Expenditure Category (<i>in millions</i>)	FY 2013 Original Projections	FY 2013 First Quarter Report	FY 2013 Mid Year Report	Variance - Adopted to Mid Yr	Variance - 1st Qtr to Mid YR
Personnel Expenditures	\$ 511.5	\$ 511.8	\$ 512.1	\$ 0.6	\$ 0.3
Fringe Benefits	321.1	320.5	320.3	(0.8)	(0.2)
Contracts	143.8	142.6	143.3	(0.5)	0.7
Energy & Utilities	42.7	42.9	42.8	0.1	(0.1)
Information Technology	42.9	42.8	42.9	-	0.1
Supplies	21.3	22.2	22.6	1.3	0.4
Other Expenditures	80.6	81.9	85.3	4.7	3.4
TOTAL ADOPTED BUDGET	\$ 1,163.9	\$ 1,164.7	\$ 1,169.3	\$ 5.4	\$ 4.6
Civic San Diego ¹	\$ 5.0	\$ 5.0	\$ 5.0	\$ -	\$ -
TOTAL ADJUSTED BUDGET	\$ 1,168.9	\$ 1,169.7	\$ 1,174.3	\$ 5.4	\$ 4.6

1 - Authorized by R-307536 & O-20185

City-Wide Items

Election Costs

Election costs for FY 2013 were budgeted at \$1.8 million, which included the cost for ballot measures and a number of elections that were ultimately not required due to candidate victories in the June Primary Election. At the time that the Mid-Year Report was crafted, election costs for FY 2013 were estimated to be \$600,000, which included the November General Election costs and an estimate for the Council District 4 Special Election. Since that estimate, the Registrar of Voters has provided an updated estimate for the anticipated Council District 4 Special Election runoff which would add an additional \$325,000 to the original figure. Based on discussions with the City Clerk, \$925,000 is needed to fully cover the City's FY 2013 elections needs. This would be \$325,000 higher than the \$600,000 estimated expenditures in the Mid-Year Report. Our Office recommends that any appropriation necessary to fund FY 2013 election costs be monitored and brought forward for Council approval prior to year-end.

Workers Compensation Reserve

Footnote 1 of Attachment IV to the Mid-Year Report indicates that the Workers' Compensation reserve is not projected to meet its target of \$40.3 million for FY 2013. The City's reserve policy target for FY 2013 of \$40.3 million is 27 percent of the value of outstanding Workers' Compensation claims. The overall reserve target of \$76 million, or 50 percent funding of these outstanding liabilities, is estimated to be achieved in FY 2019 according to the reserve policy.

The current projection for the reserve balance at June 30, 2013 is \$35.5 million – \$4.8 million less than the target. Risk Management has indicated that this is primarily due to medical costs being higher than anticipated over the past couple years. For FY 2014 a \$6.4 million Citywide reserve contribution has been included in the FY 2014-2018 Five-Year Outlook (\$5.3 million General Fund). This was increased from the reserve policy contribution amount of \$5.9 million because of the lower reserve balance projection.

Additionally, FY 2013 Workers' Compensation expenditures are currently projected to be \$24.3 million, compared to the corresponding fringe benefit revenues from City departments of \$22.0 million – a difference of \$2.3 million. Since funding in FY 2014 (per the Five-Year Outlook) from fringe benefit revenues is approximately the same as for FY 2013, the fringe expenditures that City departments pay will likely need to be increased for FY 2014.

Penny for the Arts Blueprint

The Penny for the Arts Five-Year Blueprint (Blueprint) was adopted by the City Council on October 22, 2012. The adopted Blueprint restores Arts, Culture, and Community Festivals allocations within the annual Special Promotional Programs budget to FY 2002 funding levels. Implementing the Blueprint would incrementally increase Commission funding by \$10.1 million over the next four fiscal years, bringing the total annual Arts, Culture, and Community Festivals allocation to 1.0 cent, from the current 0.5 cent allocation within the Transient Occupancy Tax (TOT) Fund.

The Blueprint requested a \$1.0 million budgetary amendment in FY 2013 for use in reestablishing the Arts and Culture Festival Revolving Fund (Revolving Fund). The Commission proposed to use the funding to support planning and administration in support of Balboa Park Celebration Committee., and as well as current Commission contractors in the planning stages for Centennial activities and events. Commission staff has indicated that these organizations may not be able to start the necessary planning for these events or execute them if funding support is not acquired. Forty-five organizations requested funding in response to a Commission September 7, 2012 Request for Proposals (RFP) deadline. The \$1.0 million budgetary amendment requested in the Blueprint has not been addressed in the Mid-Year Budget Report. However, the Mayor has recommended \$300,000 of the surplus to be directed to Balboa Park Celebration Committee, which is separate from the Blueprint Report.

Computer Aided Dispatch System and Timeline

Among the funding needs outlined in the Police Department Five-Year Plan presented to the Public Safety & Neighborhood Services Committee (PS&NS) on July 18, 2012, was \$8.0 million for the replacement of the Department's 9-1-1 Computer Aided Dispatch System (CAD) in FY 2017. The current CAD System, installed over 25 years ago, is technologically obsolete which minimizes its operational capabilities, and makes technical support difficult and expensive. The replacement of the system is critical as it is used to dispatch police officers to citizen calls for service. A new system will ensure reliability, improve response times, and enhance capabilities. At the February 13, 2013 meeting of PS&NS, the action to appropriate \$6.9 million in resources for the future funding of the CAD system was approved and forwarded to Council.

At the March 11, 2013 City Council Meeting, Councilmembers will be requested to consider the authorization of the set-aside of \$6.9 million in one-time reimbursement monies from the County of San Diego to contribute toward the CAD System replacement. These monies were received by the City in November 2012 as a reimbursement of Property Tax Administration Fees (PTAF) charged to the City that the California State Supreme Court has ruled as unauthorized. The City Council will also consider the adoption of a resolution to allow for the reimbursement of eligible CAD System replacement expenditures with financing proceeds if the City elects to finance the project in the future. IBA Report 13-08 reviews the estimated CAD System replacement project timeline and costs, and provides further information regarding the funding options for its replacement.

The Police Department anticipates that the timeline for implementation of the CAD system can range from 3-5 years, depending on the extent of its integration with other citywide dispatch systems beyond the Police Department's, to include Fire-Rescue, Public Utilities, Environmental Services, and General Services. During this timeframe, an extensive needs assessment and design phase will take place in addition to the RFP, vendor negotiations, and installation. With the current preliminary timeline for full implementation of the Police CAD System, it is anticipated that \$366,000 in funding is needed in FY 2014 for project management and consulting related expenditures. The Police Department has requested funding for these costs as a part of their FY 2014 budget requests. Annual project costs for the remaining years of the project are very preliminary at this time. With the current estimates, \$2.5 million could potentially be needed in FY 2015 and a total of \$5.3 million between FY 2016 and 2017.

With the current timeline, the Council must weigh its desire to set aside \$6.9 million in one-time funding now amid other critical, more immediate budgetary needs. An alternative approach would be to use lease purchase financing to entirely fund the CAD System replacement. The FY 2014-2018 Five-Year Financial Outlook assumed that a new \$8.0 million Police Department CAD System would be lease-purchased over a 7-year term at an estimated annual cost of \$1.3 million beginning in FY 2017. The IBA recommends that within the current budgetary context, with a deficit anticipated in FY 2014, it would be appropriate to lease-purchase the CAD system when the funds are needed. This would free-up the \$6.9 million to address immediate critical needs within the City and spread the costs of the system out over time.

Departmental Items

Library Department

The Library Department is proposing to add four new positions (Librarian 4, Building Services Supervisor, Library Clerk, and Associate Management Analyst) for the last three months of FY 2013 to support the opening of the new Central Library anticipated in July 2013. These positions are considered to be necessary in the preparation for the opening and ongoing management of the new Central Library. The Library Department has submitted to the Mayor's Office a request to create these new positions which will increase the number of FTE's approved in the FY 2013 Adopted Budget.

The total cost associated with the proposed additional positions is anticipated to be approximately \$100,000 in FY 2013 (April – June 2013). The Library Department is proposing to address the cost associated with these positions from vacancy savings from the first part of FY 2013. However, it is our understanding as we reported in IBA 10-56 "New Central Library" that during the approval process for the new central library, the Library Foundation committed to cover up to \$2.0 million per year for new operating costs for the first five years. This commitment also included any operational expenses needed prior to the official opening as we discussed in IBA 12-16 "IBA Review of the FY 2013 Budget". This was in response to numerous concerns expressed about increased operating costs at a time when the City is facing General Fund deficits, which is still the situation today. Based on our understanding of this agreement, the General Fund should not pick up new operating costs for the new Central Library, even if the department has the fund availability to do so.

The four new positions being proposed will add approximately \$400,000 to the FY 2014 Library Department Budget should these positions be approved by the Mayor and it is expected that the Library Foundation will cover costs for FY 2014 through FY 2018 .

Public Works – General Services

General Services Facilities Division is over budget by \$500,000 for supplies and materials for facility repairs. Some of the overrun is attributable to Maintenance, Repair, and Operations (MRO) Agreements, but the high-price mark up issues we reported in our Review of the FY 2013 Proposed Budget have largely been addressed. More significant factors attributable to the overrun in supplies include:

- Facilities doing more scheduled work involving the replacement of major system components like HVAC units and electrical panels;
- Facilities doing more work in support of other General Fund departments (due to the lack of available revenue-generating projects) which require increased material purchases; and
- FY 2012 invoices totaling \$300,000 being carried over and paid in FY 2013 because the Division was over encumbered and over spent towards the end of FY 2012.

STATUS OF GENERAL FUND RESERVE

FY 2013 Starting Fund Balance	\$ 166.9		
Projected GF Use of Reserves in FY 2013	(7.7)		
Re-budget of CPPS and CPU's*	(1.9)		
Proposed Utilization of GF Surplus	(3.3)		
FY 2013 Projected Ending Fund Balance	\$ 154.0	→	
		% of Estimated FY 2013 GF Revenue	13.2%
		Amount Above GF 8% Reserve Policy	\$ 60.7
Potential "Claw-Back" Effect on Reserves	(28.0)		
Projected Fund Balance w/ "Claw Back"	\$ 126.0	→	
		% of Estimated FY 2013 GF Revenue	10.8%
		Amount Above GF 8% Reserve Policy	\$ 32.7

**Funds will be deducted in FY 2014, shown for illustrative purposes on true available General Fund reserves.*

As previously stated, the Mid-Year Report projects the General Fund to end in a \$3.6 million budgetary surplus after utilizing \$7.7 million in reserves from the FY 2012 ending fund balance of \$166.9 million. It should be noted that the \$3.6 million budgetary surplus that is projected in the Mid-Year Report is based on the expenditure of \$6.9 million in General Fund resources for the establishment of a CIP project for the Police Department CAD system is scheduled for Council approval on March 11, 2013. The Mayor has also proposed the utilization of \$3.3 million of the projected surplus for seven separate projects that is detailed further in this report.

If the City Council should approve the \$6.9 million for the CAD system in addition to the projects proposed by the Mayor (in combination with the re-appropriation of \$7.7 million in reserves) the FY 2013 projected ending fund balance would be \$154.0 million or 13.2 percent of projected General Fund revenue as of the Mid-Year Report. This is \$60.7 million above the 8.0 percent Reserve Policy target.

As mentioned in our review of the First Quarter Budget Monitoring Report (12-53), the California State Controller's Office (SCO) has the right under a statutory "claw-back" provision to compel the City to return certain payments previously made by the former Redevelopment Agency or the City's Successor Agency on or after January 1, 2011 under interagency debt agreements that have been subsequently invalidated by the State Department of Finance. The SCO is in the process of completing a written audit report that will identify any interagency transfers of funds and assets that occurred during the 13-month period from January 1, 2011 through January 31, 2012, to the extent that the SCO has deemed those transfers to be ineligible. It is expected that the SCO's final audit report will be issued later in FY 2013 and will include an order compelling the City to return to the Successor Agency certain prior payments that have been deemed ineligible by the SCO.

In addition to the pending audit, it is anticipated that the SCO will conduct a future audit to identify any ineligible transfers of funds and assets that may have occurred between the City and the Successor Agency on or after February 1, 2012. The combined result of the pending audit and the future anticipated audit is that the SCO may issue one or more orders requiring a

cumulative payment from the City's General Fund of up to \$28.0 million. Included in FY 2013 reserves is \$28.5 million in resources that could be utilized to mitigate this potential impact.

In addition to the audits described above, it is anticipated that the SCO will conduct a future audit to examine whether the former Redevelopment Agency and the Successor Agency have made payments in accordance with approved line items in each six-month Recognized Obligation Payment Schedule. If that future audit identifies any discrepancies or improper payments in the SCO's view, then the City's General Fund may incur exposure in excess of the \$28.0 million amount specified above.

It is important to note that the SCO's audits and the invalidation of the Petco Park, Convention Center Phase II, and long-term debt agreements are not the only source of future risk to the City's General Fund arising from the dissolution of the former RDA. For example, there is a pending lawsuit in Sacramento seeking to ensure that the Successor Agency does not incur a funding shortfall of about \$1.6 million for payment of administrative costs during the ROPS 3 period. If the lawsuit is unsuccessful, then one option would be for the City's General Fund to cover the funding shortfall. A similar funding shortfall could occur during each future ROPS period as well, unless the RDA dissolution laws are amended to provide more flexibility or to increase the administrative cost allowance to a more reasonable level. Given this ongoing high level of risk, we continue to believe these funds should be preserved for this purpose. If this "claw-back" should occur and be fully funded from General Fund reserves, the total amount projected to remain would be approximately \$126.0 million, which is 10.8 percent of General Fund revenues and \$32.7 million above the 8.0 percent Reserve Policy target.

MAYOR'S PROPOSED USE OF MID-YEAR SURPLUS

The Mayor has proposed utilizing \$3.3 million of the projected \$3.6 million FY 2013 budgetary surplus to fund seven individual needs identified by the Mayor to be critical, with the remaining \$0.3 million to be held in reserve. Based on the brief summary included in the Mid-Year Report, we have provided additional information for each of the proposed expenditures.

1.) Police Equipment Replacement - \$1.1 million

The Police Department Five-Year Plan presented to the Public Safety & Neighborhood Services Committee (PS&NS) on July 18, 2012, outlined a funding need ranging between \$2.1 million to \$2.5 million annually for the replacement of outdated police equipment. The Department has expressed that due to the deferral of equipment purchases for many years, a critical need exists. Equipment purchases include portable radios, ballistic equipment (vests, helmets and shields), tasers, shotguns, etc. Consistent with the Police Five-Year Plan, the Department has requested approximately \$2.0 million in funding to address its equipment needs as a part of the FY 2014 Budget.

2.) Fire-Rescue – Lifeguard Cliff Rescue Vehicle Replacement - \$0.5 million

As a part of the FY 2014 budget process, the Fire-Rescue Department has requested the replacement of a Lifeguard rescue vehicle at an estimated cost of \$0.5 million. The vehicle is a

multi-purpose rescue apparatus used for coastal cliff and swift-water rescues. The current vehicle in use by the department is in its 19th year of life, with a recommended life cycle of 15 years. The department has identified the replacement of the rescue vehicle as a critical equipment need.

3.) Balboa Park Traffic Management Plan - \$0.5 million

Though the FY 2013 Mid-Year Report includes a recommended allocation of \$500,000 for a Balboa Park Traffic Management Plan (“Traffic Management Plan”), no definitive details or project timelines have been presented by the Mayor’s Office. It is anticipated that the Mayor’s Office will release details of the proposed Traffic Management Plan within the next few weeks. It should be noted that the trams that were to be part of the Plaza de Panama project were ordered in November 2012 as part of the approved master lease at a cost of \$1.0 million, and it is uncertain how they will be incorporated in the Mayor’s proposal.

Per discussions with City staff, the Traffic Management Plan is not anticipated to be a completely new study but rather a review of temporary solutions in previously approved plans, such as the Balboa Park Central Mesa Precise Plan (“Precise Plan”) and the extensive environmental review report developed for the Balboa Park Plaza de Panama Circulation and Parking Structure Project (“Plaza de Panama Project”), for reducing vehicle traffic in the Plaza de Panama. The proposed funding will be utilized for implementation of the agreed upon traffic solutions. No outside consultants are anticipated to be needed for the development of the plans.

In review of the Precise Plan (specifically the Circulation Plan and the Plaza de Panama recommendations) and the environmental review report for the Plaza de Panama Project, the Precise Plan proposes routing traffic to the southwest corner of the Plaza de Panama and removing parking from the Plaza de Panama. Only passenger drop-off and tram loading/unloading would be allowed, reclaiming approximately three-fourths of the Plaza de Panama for pedestrian use. This alternative also envisioned the establishment of tram service throughout the Central Mesa. One-way eastbound vehicular access from the West Mesa (Cabrillo Bridge) would be allowed during the tram service hours (9:30 a.m. – 5:00 p.m.), and two-way vehicular access across the Cabrillo Bridge would be allowed during non-tram service hours. Removable bollards and additional signage would be used to assist in directing traffic. The Alcazar parking lot would be reconfigured in order to accommodate the majority of ADA parking in proximity to the Prado. The full recommendations for the Plaza de Panama include additional landscape and hardscape improvements and are a subset of the full Precise Plan.

The cost estimate for implementing the Plaza de Panama portion of the Precise Plan was \$1.5 million (when the estimate was created in 1991). Subsequently, in FY 2010, the Park and Recreation department presented the “Plaza de Panama Reclamation Project” to the Balboa Park Committee for review. The reclamation project planned improvements to reduce vehicle traffic and increase pedestrian use of the plaza, with an estimated cost of approximately \$5-6 million. It is not known if the Traffic Management Plan will incorporate these concepts or other concepts that were included in the environmental review report for the Plaza de Panama Project. The description above is provided for illustrative purposes only. It is anticipated that the Balboa Park Committee would be the first committee to review the proposed Traffic Management Plan.

4.) *Downtown Public Restrooms - \$0.4 million*

The Mayor is recommending to utilize \$400,000 of the available surplus to provide for two Downtown public restrooms—known as the “Portland Loos” Project. The “Portland Loos” Project has been in the works for several years and is clearly a high priority for the City. Funds should be budgeted in Civic San Diego (CivicSD) rather than Public Works. CivicSD has been involved with the project since its inception, has the necessary background information, and can retain the design consultants and contractors to implement the project expeditiously.² Financial Management staff have indicated the requested appropriation will be switched from Public Works to Economic Development who will then transfer the funds to CivicSD. Once the funding for the project has been approved and transferred to CivicSD, the estimated time of completion is about one year.

In addition to the total cost of the project of \$400,000, which includes \$54,000 for CivicSD to manage the project, ongoing maintenance is estimated to be about \$3,600 per month (\$1,800 for each restroom). Maintenance funding would likely begin in the fourth quarter of FY 2014. CivicSD staff are currently assessing short- and long term funding options for maintenance of the restrooms that will not burden the City's General Fund. Preliminary funding solutions for maintaining the two restrooms at the Park & Market and Tailgate Park locations include parking revenue, the Clean and Safe Program, advertising on the facilities, and developer financing as part of future development of adjacent land parcels. Once all options are fully assessed, CivicSD plans to return to the Council with a proposed funding and maintenance agreement.

5.) *Balboa Park Centennial Celebration - \$0.3 million*

On October 25, 2011, the City entered into a Memorandum of Understanding with Balboa Park Celebration Committee (the “Committee”) to be the sole organizer of the 100th Anniversary of the 1915 Panama California Exposition (“Celebration”), with exclusive authority to plan, organize, and implement the Celebration on behalf of the City and for the benefit of Balboa Park, the City, and the region. As such, the Committee began planning the events to be undertaken during the Celebration including discussing the core programming of events with Balboa Park institutions; developing the venue allocation methodology; entering into an agreement with an internationally-known production firm for the development of key events; and awarding multiple programming planning grants to various institutions via an application process. The grant process was open to members of the Balboa Park Cultural Partnership, which includes 26 park institutions that have a commitment to park-wide collaboration. An evaluation panel, including representation from the Arts and Culture Commission provided recommendations to the Committee’s Board of Directors. The table following outlines the programming planning grants awarded by the Committee to date.

² Approved by the former Redevelopment Agency on June 21, 2010 the project was intended to be funded with redevelopment monies and managed by CivicSD (formerly Centre City Development Corporation). However, when redevelopment agencies in the State of California were dissolved on February 1, 2012, the Portland Loos project was not yet under contract. Therefore, based on redevelopment dissolution law, the City could not use redevelopment funds for the project.

Institution	Grant Amount
San Diego Museum of Art	\$ 55,250
Reuben H. Fleet Science Center	47,750
Natural History Museum	44,716
The Old Globe	40,332
San Diego History Center	40,189
Model Railroad Museum	25,625
Museum of Man	25,000
Museum of Photographic Arts	24,683
Hall of Champions	14,000
Japanese Friendship Garden	7,455
TOTAL	\$ 325,009

The funding allocation requested in the Mid-Year Report is for an additional \$300,000 to be directed to the Committee for the continued planning, organization, and implementation of the Celebration. It is anticipated that this additional funding would be used to initiate the Sponsorship Development component and create sponsor-ready presentation packages based on the premier programming content currently being developed based upon input from park stakeholders and institutions. It is anticipated that the presentation packages could be ready for an early summer presentation to potential sponsors. The Mayor’s proposal would increase the amount of funding contributed by the City to the Celebration Committee to \$1,195,916.

- October 2011 – \$450,000 approved from the Major Events Revolving Fund
- November 2012 - \$300,000 approved from the Major Events Revolving Fund
- November 2012 - \$145,916 approved from Council Districts 2, 3, 5 & 6 Community Projects, Programs and Services funds
- 2013 Mid-Year - \$300,000 proposed from General Fund surplus

It should be noted that the proposed \$300,000 funding for the Celebration Committee is not related to the Arts and Culture Commission request in the Penny for the Arts Five-Year Blueprint Program for an additional \$1.0 million in FY 2013.

6.) *Emergency Winter Homeless Shelter - \$0.3 million*

The Mayor proposes the use of \$0.3 million of the projected surplus to support extending the operations of the 220-bed Homeless Emergency Winter Shelter by an additional three months, until June 2013. This assumes an estimated cost of \$100,000 per additional month. The Winter Shelter, which opened its doors November 23, 2012, is scheduled to end operations in early April. The extension of the operating months will not apply to the 150-bed Homeless Veterans Emergency Winter Shelter, which opened December 7, 2012, and is scheduled to end operations in early April as well. Extending operations for the Veterans Shelter would cost approximately \$84,000 per month.

The Housing Commission supports the efforts of the Mayor to provide funding for additional beds for the homeless given that a great need for housing shelters exists with only 40 percent of the San Diego’s homeless being able to find shelter, per the “2012 Point in Time Count” conducted by the Regional Task Force on the Homeless. This need is especially greatest during

the winter season when the homeless population is most vulnerable to harm and death due to cold weather conditions.

It is important to note that funding for the FY 2014 Emergency Winter Shelter to operate November 2013 through the beginning of April 2014 has not been identified. Despite the anticipated opening of the 223-bed interim and permanent Connections Housing facility on March 11, 2013, a need still exists to shelter homeless individuals during the 2013 / 2014 Winter. It would cost approximately \$550,000 to operate an Emergency Winter Shelter in FY 2014. The Housing Commission estimates monthly operating costs of between \$110,000-\$115,000. Identifying funding for the opening of the shelter next November should take precedence over extending service into the warmer months in the current fiscal year given that the threat to health and safety is most prevalent during winter months.

Extending the months of operation of the Emergency Winter Shelter also raises concerns regarding whether any additional approvals (e.g. an extension of the current single event permit) are necessary in order to lengthen facility operations by an additional three months. As of the date of the release of this report, the City Attorney Office is still working with the Housing Commission, the Economic Development Department, and the Development Services Department to make a determination.

7.) Mission Trails Regional Park – Kumeyaay Campground & Visitors Center - \$0.2 million

Due to budget actions taken in FY 2012 and FY 2013, a staffing reorganization was undertaken for the Kumeyaay Campgrounds within the Mission Trails Regional Park that effectively eliminated overnight camping at the campgrounds. These actions converted the campgrounds to a day-only facility, with Visitor Center hours of 9:00 a.m. to 5:00 p.m. The Mayor is recommending \$200,000 be allocated to restore staffing to resume overnight camping and to provide funding for improvements to the visitor center. The additional staffing would add approximately \$140,000 in personnel costs for the Park and Recreation Department for FY 2014. The remaining \$60,000 would be utilized to rehabilitate the current Visitor Center.

The proposed additional staffing includes a Park Ranger and a Recreation Center Director. According to the department, there are no current certification lists for these specific job classifications. As a result, the hiring process could take several months and funding may not actually be required until the start of FY 2014.

It should be noted that if the overnight camping activities resume, camping fees for the Kumeyaay campgrounds would generate approximately \$40,000 in overnight camping related revenues based on the current Park and Recreation fee schedule. The existing overnight camping fee is currently not fully cost recoverable. This additional marginal revenue would offset a portion of the \$140,000 in personnel expense, resulting in a net impact of approximately \$100,000 annually.

MID-YEAR ADJUSTMENTS ORDINANCE

FY 2013 is the second consecutive year that City Council actions during the mid-year budget process are defined by ordinance (Ordinance-20084), which amended the municipal code regarding mid-year budget adjustments and reporting significant reductions in City services or programs. The ordinance requires the Mayor to report any deficit or surplus in the General Fund projection to the City Council and recommend solutions for addressing the deficit or surplus. In the case of a surplus, such as projected for the current year, the ordinance then specifies:

- *The Mayor may recommend budgeting all, none, or any portion of any projection surplus.*
- *The City Council may approve the Mayor's recommendation or modify such recommendation in whole or part.*
- *The City Council may budget and appropriate up to the total amount recommended by the Mayor; or, if the Mayor recommends budgeting less than \$5 million of the projection surplus amount, the City Council may only increase the adopted General Fund budget by up to \$5 million or not more than 50% of any projection surplus, whichever total dollar amount is less.*

Of the identified \$3.6 million budgetary surplus, the Mayor has proposed re-budgeting \$3.3 million in FY 2013 for the projects that are detailed in the preceding section, with the remaining \$0.3 million to be held in reserve. Based on the identified budget surplus and recommended use, Council options are as follows:

- 1.) Accept the Mayor's \$3.6 million of budget recommendations in full;
- 2.) Modify the Mayor's recommendations as desired for any amount less than or up to \$3.6 million.

The Mayor's veto authority and Council override authority will apply to this action.

IBA RECOMMENDATIONS REGARDING USE OF THE MID-YEAR SURPLUS

The Mayor has recommended that \$3.3 million of the \$3.6 million Mid-Year budgetary surplus be used to fund seven specific budget items with the remaining \$300,000 to be held in reserve. While the proposed expenditures are worthy, knowing that the City is facing a FY 2014 General Fund deficit of \$40 million and the Mayor's FY 2014 Proposed Budget is coming out in just five weeks, we recommend that Council modify the Mayor's mid-year surplus proposal as follows:

- 1) Authorize \$400,000 in funding to provide two new restrooms (referred to as the "Portland Loos" Project) in downtown and request the Mayor to work with Civic SD to identify private donations for annual maintenance of the restrooms or include annual maintenance costs in his FY 2014 Proposed Budget. The proposed funding should be switched from Public Works to Economic Development and budgeted in the CivicSD budget due to their familiarity with the project and their ability to expedite it. This project was first approved by the former Redevelopment Agency in

June 2010 and has been delayed for more than two years as result of redevelopment resolution.

- 2) Defer a decision on the remaining six items and request the Mayor to consider them as he develops his recommendations for the FY 2014 Proposed Budget which will be released on April 15, 2013. This will allow the Mayor and the Council to weigh the criticality of these proposals in totality by considering them along with other competing priority needs and possibly identifying other appropriate funding sources. Knowing how the Mayor plans to address the projected \$40 million deficit for FY 2014 is especially critical to this discussion and to informing Council's budget decisions.
- 3) Defer a decision to set aside \$6.9 million in County reimbursement funds for a new Police CAD system. This is a critical project, however, the department will not be able to fully expend the \$6.9 million until the middle of FY 2016 at the earliest. A decision could be made during the budget process after other immediate needs are considered. Alternatively, lease purchase financing should be considered when the funds are needed in the future.
- 4) Clarify that the Library Foundation, not the City, is to provide funding for the four new positions that have been requested for the new Central Library (including the projected new FY 2013 costs estimated at \$100,000) per public discussions that took place during the approval process for its construction and as has been discussed in prior reports by the IBA.
- 5) Clarify the review and approval processes for creating new City positions by either addressing it in a new ordinance or clarifying the issue in the FY 2014 Statement of Budgetary Principles. The Mid-Year Report noted the Library Director was requesting Mayoral approval of four new positions for the new Central Library for FY 2013, as discussed above, to be funded through temporary, one-time salary savings. In discussing this with the City Attorney's Office, they confirmed the Mayor can create new positions at any time as long as the department has identified salary savings. Our office is concerned about this practice. New positions result in ongoing costs and should not be authorized based on the availability of one-time salary savings unless they are temporary positions. The Mid-Year Budget review process or the annual budget process are more appropriate vehicles for approving the creation of new permanent positions in order to avoid position and budget "creep."
- 6) Approve the \$6.8 million in appropriation requests as outlined in the Mid-Year Report. Based on our review of expenditure and revenue forecasts included in the Mid-Year Report, we believe the increases are prudent and necessary to provide sufficient budget for departmental operations.

In isolation, \$3.6 million of Mid-Year budget proposals may not seem to warrant substantial discussion. However, when considered in the framework of the overall budget, along with other available one-time resources and other pressing needs, it becomes significant. Four sources of

One-Time Resources Available (\$ in millions)	
FY 2013 Mid-Year Surplus	\$ 3.6
County Property Tax Refund	6.9
SAFE Distribution	4.1
FY 2013 Projected TOT Fund Balance	11.8
TOTAL ONE TIME RESOURCES	\$ 26.4

one-time revenue are currently available, which total \$26.4 million as shown in the chart the adjacent table.

Council may want to focus these funds on one or two major funding priorities such as infrastructure projects or one-time increases in Police and Fire academies. Decisions for expending these funds should be approached holistically and carefully weighed to ensure that the community's highest priority needs are being addressed.

Rather than making a determination on March 11, 2013 as to how to expend the \$3.6 million Mid-Year surplus, as well as the \$6.9 million in County reimbursement funds for future CAD costs, we believe that the Council will have a much clearer picture of resource availability and funding priorities after Council has been able to review the Mayor's FY 2014 Proposed Budget; and, most importantly, know how the Mayor is planning to address the City's projected \$40 million deficit.

With the exception of the downtown restrooms, which we recommend move forward expeditiously, we recommend deferring the decision regarding the Mayor's other six proposals for expending the remaining surplus. We also recommend the decision to isolate the \$6.9 million in County reimbursement funds for CAD project costs be deferred in order to consider the lease purchase option for CAD when funds are needed, which would free up \$6.9 million for more immediate, one-time purposes.

The Mayor's Proposed Budget is required by Charter to be released by April 15th of each year which is five weeks from the day you are being asked to approve the Mayor's Mid-Year expenditure proposals. Beginning April 15, 2013 you will have the opportunity to fully discuss budget priorities and appropriate funding sources the community, City management, City departments, and the IBA, which will allow you to make fully informed decisions with respect to the City's budget.

All of the Mayor's proposals for use of the surplus are worthy but there is no mid-year urgency, and it is difficult to assess their criticality without being able to consider them along with other priority needs. Many of the proposed items, such as the Policy and Fire equipment, have been submitted by departments in their FY 2014 budget proposals and are currently under consideration as part of the Mayor's budget development process. Before making decisions on these items, it would be useful for the Council to know what level of funding, if any, is being included in the Mayor's FY 2014 Proposed Budget. Following are several other issues for Council to consider regarding the Mayor's Mid-Year proposal.

- It would be informative for the Mayor to review with the Council details of the new Balboa Park Traffic Management Plan, and discuss the community vetting process he has undertaken to date, prior to asking the Council to approve funding for its implementation. We understand that the trams that were a component of the original Plaza De Panama Plan were ordered back in November at a cost of \$1.0 million. How will they be incorporated into the new proposal? Traffic plan components of the Plaza de Panama portion of the Precise Plan was \$1.5 million, as estimated in 1991,

which was subsequently revised to approximately \$5-6 million in the FY 2010 “Plaza de Panama Reclamation Project”. Council should have more details in order to determine if this funding request is sufficient or will additional funds be necessary in the near future?

- The proposed additional funding for the Centennial Celebration as well as funding for the Mayor’s proposed Balboa Park Traffic Management Plan are eligible uses for TOT funds and this alternative funding source should be considered. The City currently has a projected TOT fund balance of \$11.8 million.
- Would the projected budget surplus be best used to address the Mayor’s proposals or alternatively used to finance critical infrastructure needs, including capital improvements and ongoing maintenance? Infrastructure is a top priority for the City as a result of our significant backlog. Deference of infrastructure and maintenance and capital needs will cause assets to further deteriorate, increasing the cost of repair or replacement. Last year at this time the Council recommended to the Mayor, and the Mayor agreed, that the excess mid-year surplus of \$8.3 million be allocated for this purpose. Council has expressed the desire to increase funding for deferred capital as well as ongoing maintenance.
- While there is clearly a critical need to expand services for the homeless, is it wise to extend services at the Emergency Winter Homeless Shelter in the current fiscal year with no funding yet identified to provide shelter services November to April in FY 2014? Council should also understand why the Mayor did not consider the Veterans’ Emergency Shelter for a similar service extension.
- The City is expecting to receive \$4.1 million in SAFE funds by the end of this month. Could these funds be used for any of the proposed Police and Fire needs?
- The Mid-Year Report points out that the Worker’s Compensation Reserve target will not be met for FY 2013. Greater funding than previously anticipated will be required to stay on course to meet the City’s reserve policy goals. Will the Mayor be addressing this in his Proposed Budget?
- Is restoring overnight camping at Kumeyaay Campgrounds the top priority for restoration of past service reductions? Should General Funds be used for this purpose or do existing user fees need to be increased to achieve full cost recovery?

CONCLUSION

The IBA recommends based on our review that the best course of action is to move forward with the Portland Loos, a longer overdue project which the community has eagerly anticipated since approval in FY 2010, but defer a decision on the Mayor’s six other proposals for expending the Mid-Year surplus. We further recommend that the \$6.9 million in County reimbursement funds currently proposed to be held in the Capital Improvement Budget to be used for Police CAD in the future, be freed up so as to be considered a possible resource for the FY 2014 budget process. We believe that the Council will have a much clearer picture of resource availability and funding priorities after Council has been able to review the Mayor’s FY 2014 Proposed Budget; and, most importantly, know how the Mayor is planning to address the City’s projected \$40 million deficit.



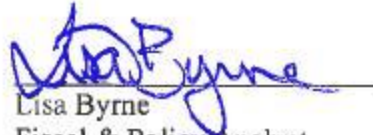
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