



THE CITY OF SAN DIEGO

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 200

Review of the FY 2014 May Revise and Recommended Revisions to the Mayor's FY 2014 Budget

The IBA's review of the Mayor's Proposed FY 2014 Budget was issued on April 29, 2013 as IBA Report No. 13-19. Departmental budget hearings with the Budget Review Committee took place May 1, 2013 through May 10, 2013. On May 21, 2013 the Mayor issued a May Revision ("May Revise") to his Proposed Budget along with the FY 2013 Year-End Monitoring Report. On May 22, 2013, the Budget Review Committee held an evening budget hearing to review the May Revise and the FY 2013 Year-End Report and to seek feedback from the community on the budget proposals. The IBA began its review and analysis of the May Revise on May 21, 2013.

This report presents our final FY 2014 budget review and recommendations which are based on the following: our analyses of the FY 2014 May Revise, the FY 2013 Year-End Monitoring Report and the FY 2014 Proposed Budget; review and consideration of outstanding budget issues communicated by Council members in their May 31st budget priority memos; and consideration of feedback from the public, City staff and City Council members during the budget hearings.

The Mayor's Supplemental May Revise was issued on June 5, 2013 to be considered by Council at the June 10, 2013 meeting. We will be prepared to respond to this item at the June 10, 2013 Council meeting.

OVERVIEW OF THE MAY REVISE AND KEY ISSUES

The May Revise increases the Mayor's FY 2014 General Fund budget proposal by \$13.6 million, from \$1.200 billion to \$1.214 billion. Not including expenditure reductions, an additional \$25.8 million of new resources have been identified in the May Revise, including \$10.0 million of FY 2013 budget surplus and \$15.8 million in new or increased revenues. These new resources are offset by an \$8.7 million decrease in SDGE settlement revenues (returned to the Public Liability Fund); and a \$3.5 million decrease in TOT revenue, promotional programs TOT transfer and gas tax revenue. \$13.6 million in net new resources is used to fund 28.06 new FTEs and other

items, increasing the total new positions from 60.29 FTEs in the Mayor’s Proposed Budget to 88.35 FTEs in the revised budget.

Attachment A provides a list of the proposed expenditures in the May Revise, as well as number of FTEs where applicable. **Attachment A** includes all new revenue sources included in the May Revise which have provided funding for expenditure additions.

May Revise Addresses Additional Council Priorities, But No Library or Park and Recreation Hours Increased

For the past two fiscal years when additional funds were identified late in the budget process, both the Mayor’s May Revise, the Council’s Final Budget Revisions and IBA Final Recommendations focused primarily on increasing services to our residents. In FY 2012 and FY 2013, new funding was used to increase service hours at all libraries; increase hours at recreation centers; restore a Graffiti team; increase pool operating hours; restore swim team and water polo programs; and increase after school programs.

While \$13.6 million and 28.06 new FTEs have been added in the May Revise, there are no significant increases in direct services to the community. Even though branch library and recreation center hours, available to the public, were increased in FY 2012 and FY 2013, the hours remain significantly below what they were a decade ago.¹ The budgets for these two departments as a percentage of the City’s total budget have also have declined.² If they were funded at 2001 levels today, the Library Department’s budget would increase by an additional \$6.1 million, the Park and Recreation budget would increase by \$17.4 million.

With the additions in the May Revise, the FY 2014 budget proposal aligns with many of the Council priorities established in the FY 2014 City Council Budget Priorities Resolution. Council priorities added in the May Revise include Police civilians; a Lifeguard Advanced Academy; condition assessments for Facilities and Park and Recreation assets; additional staff for Purchasing and Contracting; and new Labor Relations staff to negotiate with City employees on operational efficiencies. However, consistent top priorities of the Council- increasing service hours for the public at branch libraries, New Central Library and recreation centers- have not been included in either the Mayor’s Proposed Budget or the Mayor’s May Revise.

The table on the following page lists the items included in the Council’s Budget Priorities Resolution and identifies if they have been funded in either the Mayor’s Proposed Budget or the May Revise.

1	<u>2001</u>	<u>Today</u>
Minimum number of weekly branch library hours:	48	44
Number of weekly Central Library hours:	64	49
Average number of weekly recreation center hours:	62.3	40.8
 2 Library Budget as a % of Total General Fund Budget	 4.10%	 3.59%
Park Recreation Budget as a % of Total General Fund Budget	8.82%	7.38%

CITY COUNCIL FY 2014 BUDGET PRIORITIES RESOLUTION

BUDGET RESOLUTION PRIORITY		FY 2014 PROPOSED	FY 2014 MAY REVISE
<i>Enhancing Public Safety</i>			
1	Restoration of Police Civilian Positions		√
2	Increased Number of Police Academies / Recruits in Academy	√	
3	Increased Number of Lifeguard Recruits		√
4	Increased Number of Fire Academy Recruits / Add a Second Academy		
5	Funding for Lifeguard Vehicles & Increased Training	√	
6	Lifeguard Wellness Program	√	
<i>Infrastructure & Deferred Capital</i>			
7	Update Asset Condition Assessments ¹		√
8	Efficiency Consultant for Infrastructure Delivery; Other Studies		
9	Deferred Capital Borrowing On Schedule		
<i>Park & Recreation / Library Hours / Penny for the Arts</i>			
10	Maintaining Library Branch Hours	√	
11	Maintaining Park & Recreation Center Hours	√	
12	Increasing Library Branch Hours		
13	Increasing Park & Recreation Center Hours		
14	Funding for the Penny for the Arts Blueprint	√	
<i>Increased Funding for Neighborhood Services</i>			
15	Community Plan Update Funding	√	
16	Twice Per Week Refuse Pick-Up in Mission Beach from Memorial Day to Labor Day		
17	Neighborhood Code Compliance Improvements	√	
18	Establishment of an Urban Forestry Program		
<i>Reforms, Efficiencies, Partnerships, and Adherence to Fiscal Policies</i>			
19	Ongoing Expenditures Funded By Ongoing Revenue		Partial
20	Adherence to City Reserve Policy / Maintenance of High Level of Reserves	√	√
21	Continued Growth of Marketing Partnerships		
22	Purchasing & Contracting Department Staffing / Resources / Efficiency	√	√
23	Enhanced City Website Functionality for Business and Citizens		
24	Alternative Work Schedules		
25	Continuation of Managed Competition		
26	Labor Relations Officer to Negotiate Efficiencies Identified by Employees		√

¹ Excludes sidewalks

May Revise Includes IBA’s Potential Revisions to the Proposed Budget

With the exception of freeing up future CAD System funding and the EMS fund balance, the May Revise has utilized all of the IBA’s proposals for new one-time and on-going resources identified in our first report as shown in the table on the following page. These new resources have been used to fund a wide range of new expenditures in the May Revise and, therefore, are no longer available for funding other City Council or community priorities. Also shown in the table are the IBA proposed expenditures from our first report that have now been incorporated in the May Revise.

IBA Review of the Mayor's FY 2014 Proposed Budget (4/29/13)

Potential One-Time Revisions

(\$ in millions)

Potential Additional One-Time Resources		Included in May Revise
1	Release County Refund currently earmarked in the CIP	
2	SAFE Funds (Restricted)	√
3	Utilize remaining EMS fund balance not expended in Proposed Budget	
4	Utilize remaining FY 2013 budget surplus	√
5	Utilize Risk Management Administration fund balance	√
6	Reduce funding for computer acquisition and replacement	√
Potential One-Time Expenditures		
7	Increase FY 2014 M&R deferred capital funding to catch up to FY 2013 funding level	√
8	Provide one-time funding for condition assessments: a. facilities; b. sidewalks; and c. park assets	√*

*Facilities and park assets, sidewalks not included

IBA Review of the Mayor's FY 2014 Proposed Budget (4/29/13)

Potential Ongoing Revisions

(\$ in millions)

Potential Ongoing Resources		Included in May Revise
1	Utilize Street Damage Fund to fund trenching portion of streets deferred capital, consistent with the Fund's criteria	√
2	Increase RPTTF revenue for FY 2014 in Proposed Budget	√
Potential Ongoing Expenditures		
3	"Catch-up" Program for Enhanced Option B - Deferred Capital Funding Plan to achieve funding goals through FY 2018, impacts in FY 2015 - 2017 for small increases to debt service	
4	Increase funding for Fire-Rescue diesel fuel costs	√
5	Increase Fire-Rescue personnel budget to further align with operational needs	
6	Increase Fire Academy budgeted for FY 2014 from 30 to 36 recruits	
7	Restore 4 branch library and 3 Central Library hours	
8	Begin phasing in restoration of recreation center hours	
9	Extend operations of Homeless Veterans Emergency Shelter in FY 2014: a. Existing 4 months to 7 months OR b. Existing 4 months to 12 months	√*
10	Provide funding for efficiency consultant for department efficiency studies to identify savings and mitigate deficits in future years	

*Extended to 12 months but budgeted funds may not be sufficient to operate at this level as discussed later in this report

Reliance on One-Time Revenues Reduced But Not Eliminated

Slightly reducing the use of one-time resources to support ongoing expenditures in the May Revise, which will mitigate the deficit for FY 2015, is a positive step. The budget principle guiding the use of one-time resources has been taken seriously for the past several years and has helped make the City's structural budget deficit a thing of the past. Additionally, the May Revise has reduced reliance on one-time SDGE funding in the budget from \$21.6 million to \$12.9 million by returning \$8.7 million to the Public Liability Fund. This action has the benefit of

reducing the annual General Fund contribution to the Public Liability Reserve necessary to meet the City's policy goals by FY 2019, from \$4.8 million to \$2.7 million.

Review of May Revise Revenue Adjustments

TOT

In the May Revise, the transient occupancy tax (TOT) projection is reduced by \$1.4 million in the General Fund and \$1.3 million in the TOT Fund, for a total reduction of \$2.7 million. This reduction is based on revised year-end projections for FY 2013 which demonstrate a \$2.5 million reduction from the year-end projection assumed in the development of the FY 2014 Proposed Budget. This results from growth in TOT receipts in recent months demonstrating a decline over the same period in the previous year. FY 2013 TOT revenue may continue to fall short of projected levels if the recent trend of a reduction in growth persists for the remainder of the fiscal year, which would further impact the FY 2014 projection. The projected growth in TOT over FY 2013 remains budgeted at 6.0%.

Property Tax

The May Revise includes an \$5.9 million increase in the property tax revenue projection. Of this total increase, \$2.6 million is related to an increase in the 1% base property tax revenue, and \$3.3 million to an increase in the projected Redevelopment Property Tax Trust Fund (RPTTF) receipts.

The increase in the 1% base property tax revenue is based on preliminary information from the County Assessor's Office conveying an estimated growth of 2.6% in assessed valuation. The FY 2014 projection has been revised to reflect this 2.6% growth increase over current FY 2013 year-end projections.

The increase of \$3.3 million in anticipated ongoing RPTTF—including both tax-sharing pass through payments and residual distributions—is in line with the additional \$3.1-3.2 million of anticipated RPTTF identified in the IBA Review of the FY 2014 Proposed Budget and is based on updated projections by Financial Management.

General Fund Reserve Remains In Excess of Policy Goals

The Year-End Budget Monitoring Report describes a projected \$17.0 million budgetary surplus for FY 2013. Because revenues are projected to be higher and expenditures are projected to be lower than the current budget³, the City is projecting that budgeted reserves of \$14.3 million will not be utilized in FY 2013. Further, it is projected that there will be \$2.7 million more in revenues than expenditures. These two combined amounts yield a FY 2013 budgetary surplus of \$17.0 million.

Because FY 2013 actual revenues are projected to be \$2.7 million higher than expenditures, the projected actual surplus is \$2.7 million. Below is a table showing the calculation of the General Fund Reserve Balance for FY 2013 and FY 2014, which incorporates the projected surplus for FY 2013 and the use of reserves budgeted in FY 2014.

³ The current FY 2013 expenditure budget includes budget adjustments made after the adoption of the budget: increases of \$5.0 million for Civic San Diego expenditures; a \$200,000 increase for vendor registration software; the \$6.9 million property tax administration fee refund which funds the Police CAD project; \$1.1 million in mid-year use of surplus; and \$4.0 million in mid-year net appropriation increases.

<i>(\$ in millions)</i>	Reserve	% Revenues
FY 2012 Ending Reserve Balance	\$ 167.2	
FY 2013 Projected Surplus	2.7	
FY 2013 Projected Ending Reserve Balance	\$ 169.9	14.5%
FY 2014 Use of Reserves	(13.9)	
FY 2014 Projected Ending Reserve Balance	\$ 156.0	13.0%

**Does not reflect supplemental May Revise*

The estimated FY 2014 year-end General Fund reserve balance of \$156.0 million includes \$28.5 million for potential impacts due to the dissolution of the City’s Redevelopment Agency (RDA). While the \$28.5 million will cover the \$28.0 million anticipated claw back of payments previously made under agreements that were disallowed by the State Department of Finance (DOF) under the Recognized Obligation Payment Schedule (ROPS) 3, additional impacts of \$2.3 million to \$9.9 million have been identified which surpass the amount set aside in General Fund reserve. These additional impacts could be reduced by \$13.2 million in revenues resulting from the non-housing due diligence review as well as the City’s share of any Claw Back that may occur. The items discussed below are not reflected in the reserve amounts shown in the table above, which underscores the need to preserve funds for ongoing risks to the General Fund.

Potential New Impacts to General Fund Reserve Due to RDA Dissolution

Expenditure Impacts

1. *\$1.6 million – Loan for Successor Agency Budget Shortfall*

The Successor Agency will likely seek approval on June 11, 2013 for a loan for up to \$1.6 million to cover a deficiency in its budget for FY 2013; the actual loan amount is likely to be about \$700,000. The shortfall is due to a reduction in the administrative cost allowance—which is calculated as 3% of the Successor Agency’s distribution of RPTTF to pay enforceable obligations—based on items disallowed by the DOF on ROPS 3 (for the period July through December 2012). The City can seek recovery of the loan amount on a future ROPS, and if approved by the Oversight Board and DOF the City could be repaid as early as January 2014.

2. *\$29.6 million – State Controller Claw Back*

Since the DOF has denied certain debt repayments between the City and former RDA on ROPS 3 and more recently on ROPS 4, the State Controller is likely to claw back payments previously made under those agreements, including \$22.6 million for Petco Park improvements; \$4.5 million for the Convention Center Phase II expansion; \$0.9 million for general/startup debt; and \$1.6 million for the Naval Training Center (NTC) Section 108 loan. Note that the City would receive its share of the claw back amount which is 21%.

3. *\$6.7 million – Items Disallowed on ROPS 4*

The DOF denied two items in ROPS 4 which could potentially impact the General Fund. This includes the Naval Training Center (NTC) Section 108 loan which was an outstanding balance of \$6 million, with about \$400,000 of this amount due in FY 2014. This also includes about \$664,000 for project management from the Development Services Department on the Harbor Drive Pedestrian Bridge.

Revenue Impact

1. \$13.2 million – Non-Housing Due Diligence Review (DDR)

The DDR of the non-housing funds of the Successor Agency, required per redevelopment dissolution law, identified \$62.8 million of unobligated reserves for remittance to the County Auditor and Controller for distribution to local taxing entities. Pending the State Department of Finance's (DOF) final approval, the City will receive its share (21%) of about \$13.2 million in additional property tax revenue, likely in early FY 2014. Given the continuing high level of risk to the General Fund due to redevelopment dissolution, we believe it is important to preserve these funds to mitigate future risks.

Public Liability Reserve Goal Will Be Achieved by FY 2019 With Lower Annual Required Contributions

In FY 2012 the City deposited \$27.0 million related to a wildfire settlement with SDG&E into the Public Liability Fund (note that the Public Liability Fund is supported solely with General Fund monies). As part of the FY 2014 budget balancing actions, the Mayor's Proposed Budget transferred the General Fund portion of the \$27.0 million settlement (\$21.6 million) to the General Fund. The remaining \$5.4 million was expected to be transferred to the appropriate Enterprise Funds as part of the May Revision.

However, with the use of one-time resources, including an increase in Tobacco Settlement revenues and the use of budgetary surplus from FY 2013, the FY 2014 May Revise decreases the amount transferred to the General Fund from \$21.6 million to \$12.9 million. This leaves \$8.7 million of the \$21.6 million within the Public Liability Fund, reducing the anticipated Public Liability reserve contributions for each of fiscal years 2015 through 2019 by \$1.7 million in the May Revise.

Furthermore, only \$3.4 million of the \$5.4 million originally estimated to be transferred to the Enterprise Funds from the Public Liability Fund will be transferred – which leaves an additional \$2.0 million in the Public Liability Fund. This is anticipated to reduce the Public Liability reserve contributions for each of fiscal years 2015 through 2019 by an additional \$0.4 million on top of the \$1.7 million stated in the May Revise.

As a result, the anticipated contributions to the Public Liability Fund Reserve for each of fiscal years 2015 through 2019 are expected to be reduced by \$2.1 million – from \$4.8 million to \$2.7 million. The Public Liability Fund Reserve Policy target of achieving 50% funding of outstanding liabilities by FY 2019 is expected to be achieved with these reduced annual contributions. Note that there will be no adjustment to the FY 2014 \$4.8 million reserve contribution amount, of which \$4.7 million is anticipated to be funded through existing Public Liability fund balance.

The IBA supports this funding approach for achieving the overall target of 50% funding of outstanding public liability claims by FY 2019, as the current City Reserve Policy prescribes.

SIGNIFICANT FUNDING ISSUES THAT REQUIRE FUTURE COUNCIL REVIEW

Infrastructure Cash Funding Increased, Future Bond Issuances and Sidewalk Assessment Unresolved

Sidewalk Condition Assessment

We support many of the proposals and commend the Mayor and his financial team for addressing the strong concerns expressed by the City Council and the IBA regarding the inadequate funding for infrastructure in the Proposed Budget. The May Revise now includes \$1.3 million in funding for condition assessments for Facilities and Park and Recreation assets as well as \$8.8 million for water and wastewater assets. These assessments are imperative to identifying the magnitude of the problem and prioritizing funding allocations. The Sidewalk Condition Assessment has not been funded in FY 2014 due to liability concerns and the need to develop a policy for how this information will be used, especially relating to the financial responsibilities of the City and adjacent property owners for sidewalk repair and replacement. However, the City has a responsibility to keep sidewalks safe and in usable condition regardless of whether the City or property owner pays for the repairs.

RECOMMENDATION #1

We recommend that the City assess and revise its policy on sidewalk repairs in consultation with the City Attorney's Office and one-time funding be identified for conducting the sidewalk condition assessment so it can be initiated as soon as possible.

M&R Funding

The May Revise also includes cash funding of \$55.2 million for deferred capital that exceeds the current year level of \$54.1 million. This is an increase of \$6.2 million from the Proposed Budget which is all budgeted for streets, including \$2.2 million for Maintenance & Repairs (M&R) and \$4.0 million for capital projects. The increase in cash funding is a positive step, but it is important for the City to have a common definition of M&R funding which cannot be funded with bond proceeds and is vital for maintaining the condition of assets.

RECOMMENDATION #2

We recommend that M&R funding needs, required to prevent further deterioration of assets, be reassessed to reflect new information, such as the new sustainability model for facilities, and be brought to the Infrastructure Committee in conjunction with updates to the Five-Year Deferred Capital Funding Plan. This will provide a more accurate, transparent view of M&R funding deficiencies and a more solid target for future funding. This is also important so that accurate M&R funding needs can be included in the Multi-Year Capital Improvements Plan which the City is beginning to develop.

Future Bond Issuances

While several positive steps have been taken in the May Revise related to infrastructure, we repeat concerns expressed in our first report regarding the 6-9 month delay in issuing the next round of debt financing for deferred capital as currently proposed in the budget. We continue to recommend a "Catch-Up" Plan that entails increasing the bond issuances from \$80 million to \$100 million in FY 2014-2017. This proposal has no fiscal impact in FY 2014. While it will

slightly increase debt service payments in the future, this approach will bring the City much closer to achieving the funding goals in Enhanced Option Plan B as adopted by Council in March 2012.

RECOMMENDATION #3

We recommend that discussion of the IBA’s “Catch-Up” Plan for the Five-Year Enhanced Option Plan B be brought to the Infrastructure Committee and City Council well in advance of the Mayor releasing his next Five-Year Outlook which is scheduled for November 2013. It is important for the Council to provide policy direction to the Mayor regarding future bond issuances prior to the development of the Five-Year Outlook in November 2013 to ensure that five-year annual debt service requirements will match Council policy.

The following table on the following page shows changes to infrastructure funding between the Proposed Budget and the May Revise and summarizes outstanding issues.

	Proposed Budget	May Revise	Issues for Consideration
Condition Assessments	Condition Assessments for facilities, park system assets, sidewalks, and water and wastewater assets are not funded.	Condition assessments funded: <ul style="list-style-type: none"> • Facilities (total General and Enterprise Fund \$1.6 million); • Park System Assets (\$264,000); • Wastewater Assets (\$3.7 million); and • Water Assets (\$4.5 million) 	The Sidewalk Condition Assessment has not been funded due to liability concerns and the need to develop a policy for how this information will be used, including the City’s and adjacent property owners’ responsibilities. This policy should be reassessed in consultation with the City Attorney’s Office and so that the sidewalk assessment can be initiated as soon as possible.
Maintenance & Repair (M&R) for Facilities, Streets, and Storm Drains <i>(formerly called Operations & Maintenance)</i>	M&R is decreased from \$50 million in the Five-Year Outlook to \$49 million, about \$5.1 million less than the \$54.1 million funded in FY 2013.	Cash funding is increased by \$6.2 million from \$49 million to \$55.2 million; the entire \$6.2 million is for streets. This includes: <ul style="list-style-type: none"> • \$2.2 million for M&R, and • \$4 million to fund CIP projects. 	M&R funding may not represent the proportional M&R need for the three asset types, particularly since the sustainability model for facilities has increased ongoing M&R by \$30 million over the current funding level to meet the low end goal. Revised/updated M&R to meet the Status Quo should be brought to the Infrastructure Committee so that the City has a more accurate target for funding M&R.
Deferred Capital Bond Funding	Starting with DC 3, all four remaining planned bond issuances are delayed by six to nine months.	No change. Note that the IBA’s Proposed Catch-Up Option which increases the four remaining bonds to \$100 million each does not impact the FY 2014 budget.	The IBA’s Proposed Catch-Up Option should be brought to Infrastructure Committee as soon as possible for consideration and approval for inclusion in the FY 2015-2019 Outlook.

Police Officer Recruitment and Retention

Increased Police Academy Size

During the FY 2014 Budget Hearings, the Police Department expressed that with the current proposal of an increase in academy sizes to 34, and assumed sworn attrition of 8 per month, the department will achieve its current budgeted staffing level of 1,969.5 FTE in January 2017. It is projected that the department will not reach its Five-Year Plan sworn staffing goal of attaining its FY 2009 budgeted level of 2,127.75 FTE by FY 2018 until October 2022.

To make strides toward reaching the Police Department's Five-Year Plan goals, our office recommends that the size of all four academies be increased from 34 to 36 recruits. Assuming an attrition rate of 8 per month, the department would reach its current budgeted staffing in October of 2015, and its Five-Year Plan goals in January 2020. The cost of eight additional recruits is estimated at \$536,400.

If sworn attrition levels improve to 7 per month, the department would reach its current budgeted staffing in April 2015, and its Five-Year Plan goal in April of 2018, four years earlier than the budget currently allows. Also, as discussed at the budget hearing, holding four 34 recruit academies requires the department to rely on savings achieved from an attrition rate of 8 per month. If the department experiences an improvement in its attrition levels to an average of 7 per month, an additional \$175,300 would be necessary to maintain the academy size. Total funding required to increase the academy size to 36 recruits, and provide a small amount of funding flexibility in the event of lower attrition, is estimated at \$712,000.

Sworn Staffing Retention Program

As discussed at the FY 2014 Budget Hearings, sworn officer staffing challenges must be addressed by not only providing funding for more Police recruits, but by also addressing current attrition issues within the Police Department. In the current fiscal year, monthly attrition levels are higher than the average of 7 per month experienced in the past three fiscal years. The department has communicated that it has lost officers to other law enforcement agencies, with higher compensation being a main reason.

A majority of the Council budget priority memos discuss the desire to set-aside funding to support a retention program for sworn officers. The details regarding such a program have not been formulated at this time but may involve longevity criteria and/or performance pay, or other measures to allow the department to be competitive with other law enforcement agencies offering lateral opportunities.

Potential Impact of Increased Academy Size and Retention Program

If sworn attrition levels improve to 7 per month, with the implementation of an effective retention program, the department would reach its current budgeted staffing in April 2015 and its Five-Year Plan staffing goals in April of 2018.

RECOMMENDATION #4

In our final budget recommendations, we are recommending that ongoing funding be provided in order to increase academy size from the 34 recruits to 36 recruits. This funding will also provide a small amount of flexibility for the Academy budget in the event attrition is lower than assumed. Based on a majority of Council priority memos, we

have also recommended one-time funding of \$2.0 million to develop and implement a new officer retention program.

Public Safety Potential Underfunding Issues

We have seen a pattern of underfunding in recent years in Public Safety in the areas of personnel expenditures, diesel fuel costs and helicopter fuel and maintenance. In our last three reviews of the Mayor's Proposed Budgets (FY 2012, 2013 and 2014) we have raised the issue of underfunding of helicopter operating and maintenance expenses. The Mayor has allocated SAFE funding of \$650,000 million for helicopter operations and maintenance for FY 2014. However, since SAFE funding is one-time, this will be a budget issue again in FY 2015. The Mayor has also allocated \$1.0 million to Fire-Rescue to address underfunding of fuel expenses, a critical operational need. The Department exceeded their adopted fuel budget by \$1.0 million in FY 2012 and is projected to do the same in FY 2013.

Following is a discussion of the two potential areas of underfunding concerns that may surface during FY 2014. All of these issues, if not addressed now, may need to be addressed in the Mid-Year Monitoring Report.

Potential Shortfalls in Fire-Rescue Personnel Funding

There is potential for a budget shortfall in Fire-Rescue personnel expenditures in FY 2014. As of the Mid-Year Report, the department was projected to end FY 2013 \$2.8 million over budget in personnel costs. When this issue surfaced in FY 2012, Financial Management and Fire-Rescue analyzed the causes and recommended an increase in personnel expenses for FY 2013, resulting in a net increase of \$5.7 million to the budget. In our first report on the Mayor's Proposed Budget, we noted the FY 2014 budget will likely not address the department's personnel expenditure needs based on our analysis. At the department's FY 2014 budget hearing Chief Mainar informed the Council that the shortfall for personnel expenditures in FY 2014 could range from \$1.5 million to \$2.5 million. This has not been addressed in the FY 2014 Budget and could require a Mid-Year adjustment.

Fire-Rescue Revenues Potentially Overestimated

The department requested a total of \$1.6 million in reductions be made to FY 2014 revenue assumptions for fire alarm fees and CEDMAT inspection fees based on their experience and analysis. The FY 2014 budget reduces these revenues in total by \$600,000. Since their initial request, the department has seen an improvement in fire alarm fee revenue. However, CEDMAT fee revenue remains a concern with a potential shortfall in revenues estimated at \$500,000 for FY 2014.

RECOMMENDATION #5

We recommend these two issues be discussed at the Public Safety and Neighborhood Services Committee in advance of the Mid-Year Report to determine whether a budget problem exists that will require Mid-Year funding and potentially require adjustments in FY 2015.

FISCAL POLICIES AND PROGRAMS THAT REQUIRE CITY COUNCIL REVIEW IN FY 2014

FY 2014 Fiscal Impacts Resulting from the Conclusion of Five-Year Labor Agreements

Reporting Fiscal Impacts of Five-Year Labor Agreements

When all actions related to Five-Year Labor Agreements are concluded, they could result in savings in early FY 2014 which will fall to fund balance increasing the General Fund reserve.

RECOMMENDATION #6

We recommend Council request the Mayor to bring to Council in early July, or as soon as available, the final impact on the FY 2014 budget as well as the Five-Year Outlook of five-year labor agreements, including an updated status of the FY 2014 General Fund Reserve.

FY 2014 Statement of Budgetary Principles

The Statement of Budgetary Principles (“Statement”) is an agreement between the Mayor and City Council that has been in existence since 2008 and has assisted in clarifying issues of budgetary authority and communication between the Executive and Legislative branches following budget adoption each year. For the past six fiscal years, following discussions with the Mayor’s Office and agreement on proposed amendments, the Statement has been reviewed by the Budget and Finance Committee and adopted by the City Council as a companion resolution to the Appropriations Ordinance in July. This resolution, and the Mid-Year Budget Adjustments Ordinance- 20084, adopted by the Council in July 2011, lay out expectations and responsibilities for both the Mayor and City Council for carrying out budget intent throughout the fiscal year.

Our office plans to begin discussing these Principles with the administration following final Council budget decisions. As there is some overlap between the Resolution and Ordinance, we will be looking at whether it is advantageous to combine the two documents into a single piece of legislation. We plan to bring this item to Council prior to the legislative recess.

City’s Budget Policy and Reserves Policy Need to Be Updated

Council Review of “Budget” and “Reserve” Policies

The City’s Budget Policy was last updated in November 2010, numerous sections are outdated and require substantial revision. The update process was initiated by Financial Management in the Fall of 2012 working with our office, but was put on hold due to the upcoming change in administration. Many aspects of the operating and capital budget processes have been improved and clarified since November 2010, and new budget principles and practices have been implemented.

In their priority memos, several Council members have expressed a desire to review the City’s Reserves Policy, particularly with respect to the General Fund, to determine if current policy goals should be increased based on changing budget conditions.

RECOMMENDATION #7

We recommend that both the Budget Policy and the Reserves Policy be brought to the Budget and Finance Committee for review and discussion in early Fall.

Status of the City's Strategic Plan and Performance Measures

Council Involvement in Mayor's Update and City Strategic Plan

We commend the Assistant Chief Operating Officer and his staff for working quickly to incorporate a majority of the City's Council's performance measures into the City's Proposed Budget documents both in Volume 1 and in Department's write-ups in Volume 2. It is our understanding that a complete, in-depth review of the Strategic Plan, department tactical plans and all performance measures will be undertaken during FY 2014, for inclusion in the FY 2015 budget, to align with goals of the new administration.

The Council has invested extensive time and effort in advocating for the incorporation of performance measures in the budget process; in developing a list of performance measures, for the administration, that Council sees as top priorities of the community; and in making recommendations for increasing their effectiveness, consistency and transparency. While a majority of Council recommended measures have been included, several of the measures proposed by Councilwoman Lightener remain outstanding and should be reconsidered.

RECOMMENDATION #8

We request that the Mayor's Office continue to work with our office and the Budget and Finance Committee to ensure that the City's Strategic Plan and performance measures represent the policies and funding priorities of the legislative branch and the community.

Managed Competition and Other Efficiency Programs

Managed Competition Evaluation Status/New Efficiencies and Innovation Program

In their priority memos, several Council members indicated a strong desire to either move forward with the City's managed competition program or embark on an aggressive program to identify efficiencies and innovations as well as long term savings in City operations. Suggestions included utilizing vacant positions in the ACOO's office to develop and implement this program; utilizing the efficiency expert that provided guidance during the Managed Competition Program to assist City departments; and to focus on accelerating CIP project delivery cycles and e-government opportunities. The current budget includes significant resources that can be dedicated to this program including existing vacant positions and new positions in Human Resources. In the Proposed Budget, the Mayor stated he would be undertaking departmental efficiency studies to identify FY 2015 savings in order to mitigate the use of one-time proposals included in the FY 2014 budget.

RECOMMENDATION #9

We recommend that the Mayor develop a replacement program for Managed Competition if it is his intent to not move forward with Managed Competition. If this is the case, the Mayor should bring forward to Council a plan for carrying out a new efficiencies and innovations program that lays out his staffing plan; involvement of employee groups; proposals for use of consultant(s); the functions or activities that will be the focus of the initial program; and the estimated timetable for carrying this out.

Also, several months ago the Mayor initiated a comprehensive review of the Managed Competition Program, to be undertaken by the Business Office which was expected to be completed by July 2013. If the Mayor plans to revive the Managed Competition program, we recommend he bring forward to the Budget and Finance Committee the results of the Business Office evaluation as soon as it is available.

HIGH LEVEL RESULTS OF COUNCILMEMBERS' FINAL BUDGET PRIORITY MEMOS

Council members FY 2014 budget priority memos, which are transmitted in IBA Report #13-24, indicate that the Mayor's May Revise has addressed one of the most serious Council concerns relative to the FY 2014 Proposed Budget related to insufficient infrastructure cash funding. Per the Council memos, other programs that remain a top funding priority of a majority of the Council, which are not included in the Mayor's Budget, include the following:

- Providing funding for a retention program to begin to address Police sworn officer attrition
- Providing funding for increasing service hours at all branch libraries
- Providing funding for increasing service hours at the New Central Library
- Providing funding for a Sidewalk Condition and Needs Assessment
- Restoring funding for overnight camping at Mission Trails Regional Park and improvements to the Visitor's Center

These items and their funding requirements are discussed in **Attachment B**.

A second level of priorities mentioned by four members of the Council, are also presented in **Attachment B** for your review and consideration as you develop your final recommendations.

Adding new expenditures to the FY 2014 budget requires the identification of offsetting resources. With the exception of freeing up future CAD System funding and the EMS fund balance, all new or increased resources identified through the budget process including IBA recommendations, have been allocated in the Proposed Budget or the May Revise. As a result, the following resource options are available for Council consideration during Final Council Revisions:

1. Identify expenditure reductions from the Proposed Budget and/or May Revise to offset the cost of Final Council Revisions. **Attachment C** identifies potential ongoing expenditure reductions for Council consideration. These suggestions are a combination of items mentioned in individual Council memos (although not by a majority) and/or by the IBA.
2. Free up a portion of the \$6.9 million set aside in the CIP for the new CAD System for more immediate one-time needs. Replacement funds for the CAD System would need to be identified in time for project development through a commitment of cash funding or lease-purchase financing. Some Councilmember memos also suggested leaving sufficient funds in the CIP for the CAD System to make an initial lease-purchase payment which is estimated at \$1.5 million.
3. **TEMPORARILY** utilize a small portion of the City's FY 2014 General Fund reserve with an equal amount to be replaced in the reserve when funds become available. As noted earlier, when the actions related to five-year labor agreements are finalized, it is anticipated they will result in new, recurring savings in early FY 2014 through reductions to the City's annual ARC payment. These savings will fall to Fund Balance, resulting in replacement funding for the reserve as well as an overall

increase to the General Fund Reserve. Our office would not recommend this temporary use of the City's reserves without a commitment for these funds to be replaced as soon as possible. In the event the anticipated savings do not result, new program expenditures funded in this manner should be cancelled unless other recurring funding sources are identified.

As an alternative to any of the three options discussed above, the Council could choose to wait for the conclusion of the budget impacts and estimated savings resulting from Five-Year Labor Agreements. It is expected that sometime in early July the City will be officially notified of these budget impacts. Resulting savings will fall to fund balance/reserve. To utilize any portion of the savings resulting from the five-year agreements, after budget adoption, would require an expenditure proposal to come from the Mayor and be submitted to the City Council for approval or modification. The Council cannot independently initiate a use of the Reserve once the budget has been adopted. The next Council opportunity to use any of these savings would be at the Mid-Year in March 2014. This would also require a recommendation from the Mayor for the use any projected surplus, however, per the Mid-Year Ordinance the Council could modify the Mayor's proposals.

IBA RECOMMENDED ONE-TIME REVISIONS TO THE FY 2014 BUDGET

A. Recommended One-Time Expenditure Additions- \$3.0 Million

1. Provide funding to develop and implement a Police retention program that begins to mitigate high attrition levels of Police sworn officers. This combined with increasing academy classes is projected to advance the achievement of the department's staffing plans by several years. This item is a top priority of the City Council, per the Council memos. - **\$2.0 million**
2. Provide funding to conduct a Sidewalk Conditions and Needs Assessment. This item is a top priority of the City Council, per the Council memos. - **\$1.0 million**

Total Recommended One-Time Expenditures - **\$3.0 million**

B. Recommended One-Time Funding Source to Offset New One-Time Expenditures - \$3.0 Million

1. Release \$3.0 million in one-time funding from \$6.9 million set aside in the CIP for future CAD System costs. This action will leave \$3.9 million in the CIP for up-front CAD System costs or payments for lease-purchase financing. This does not reduce the City's commitment to this critical project, progress can continue as planned, and replacement funding identified in the future.

Total Recommended One-Time Funds - **\$3.0 million**

IBA RECOMMENDED ONE-TIME REVISIONS TO THE FY 2014 BUDGET	
A. Expenditure Additions	
1. Funding for Police retention program	2,000,000
2. Sidewalk condition and needs assessment	1,000,000
<i>Total</i>	<i>\$3,000,000</i>
B. Funding Source	
1. Release \$3.0 million from \$6.9 million set aside for future CAD system costs	3,000,000
<i>Total</i>	<i>\$3,000,000</i>

IBA RECOMMENDED ONGOING REVISIONS TO THE FY 2014 BUDGET

C. Recommended Ongoing Expenditure Additions- \$4.0 million

1. Provide funding to increase service hours at New Central Library from 49 to 52 hours weekly. This will return service hours to levels available to the public over a decade ago. This is an opportune time for this as the community anticipates opening the doors to a new Central Library in September 2013. This item is a top priority of the City Council, per the Council memos. - **\$0.2 million**
2. Provide funding to increase service hours at all branch libraries from 44 to 48 hours weekly. This will return service hours to levels available to the public over a decade ago. This item is a top priority of the City Council, per the Council memos. - **\$2.9 million**
3. Provide funding to increase the number of recruits in each of the four Police academies from 34 to 36. This funding will also provide some flexibility to address potential academy underfunding should attrition and expected savings be lower than assumed in the budget. Increased Police funding was identified as a priority by several Councilmembers, including increasing academy size. This is also a recommendation of the IBA as a component of a recruitment and retention package. This, together with a new retention program, are projected to advance achievement of the department's staffing plans by several years. - **\$0.7 million**
4. Restore funding for overnight camping at Mission Trails Regional Park and improvements to the Visitor's Center. - **\$0.2 million⁴**

Total Recommended Ongoing Expenditures - **\$4.0 million**

⁴ \$60,000 of this is one-time for improvements to the Visitor's Center.

D. Recommended Ongoing Funding Sources to Offset New Ongoing Expenditures- Up to \$4.0 million

1. **TEMPORARILY** utilize \$4.0 million of the projected FY 2014 General Fund reserve to initially allocate resources for recommended additions. An equal amount will be replaced in the reserve when funds become available. As noted earlier, when the actions related to five-year labor agreements are finalized, it is anticipated they will result in new, recurring savings in early FY 2014 through reductions to the City’s annual ARC payment. These savings will fall to Fund Balance, resulting in replacement funding for the reserve as well as an overall increase to the General Fund Reserve. Our office would not recommend this temporary use of the City’s reserves without a commitment for these funds to be replaced as soon as possible. In the event the anticipated savings do not result, new program expenditures funded in this manner should be cancelled unless other recurring funding sources are identified.

OR

2. A combination of reserves and expenditure reductions as identified in **Attachment C** could be used.

IBA RECOMMENDED ONGOING REVISIONS TO THE FY 2014 BUDGET	
C. Expenditure Additions	
1. Increase hours at New Central Library from 49 to 52	200,000
2. Increase service hours at all branch libraries from 44 to 48	2,900,000
3. Increase number of recruits in each of the 4 Police academies from 34 to 36 and provide funding flexibility	712,000
4. Restore funding for Mission Trails Regional Park & Improvements to the Visitor's Center	200,000*
<i>Total</i>	<i>\$4,012,000</i>
D. Funding Sources	
1. TEMPORARILY utilize portion of projected FY 2014 General Fund reserve/fund balance** OR a combination of reserves and expenditure reductions identified in Attachment C	Up to \$4,012,000
<i>Total</i>	<i>Up to \$4,012,000</i>

* \$60,000 is one-time funding for improvements to Visitor's Center


**An equal amount will be replaced with savings from reduced ARC payments from Five-Year Labor Agreements; if savings do not result related expenditures should be cancelled unless alternative funding sources are identified


OTHER ISSUES FOR COUNCIL DISCUSSION


At the City Council meeting on May 22, 2013 Council members had a number of questions regarding some of the items in the Mayor’s May Revise. **Attachment D** to this report provides additional information on the following issues for Council review: storm water funding and new positions; 525 B Street lease savings; Veterans’ and Emergency Homeless Shelter funding; and Small Business Enhancement Program (SBEP) funding.



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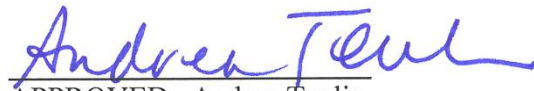

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- Attachments: A: FY 2014 Mayor's May Revision Summary Table
B: Top Priority Expenditure Options Mentioned in Council Memos
C: Resource Options Mentioned in Council Memos and Proposed by the IBA
D: Other Issues for Council Discussion