

EXECUTIVE SUMMARY

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

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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This report presents the IBA's recommended revisions to the Mayor's Proposed Budget as amended by the Mayor's May Revise issued on May 19, 2011. A Supplemental May Revision to the FY 2012 Proposed Budget was issued by the COO on late Wednesday afternoon, June 1, 2011. This second revision made specific recommendations for how the Council should spend new one-time funds ("excess reserves") recently discovered by the Comptroller in finalizing the FY 2010 Year-End Financial Performance Report. This Supplemental Revision to the budget has no impact on our final recommended revisions to the budget as presented in the attached report. However, our recommendations for the "excess reserves" differ significantly from the recommendations contained in the Mayor's Supplemental May Revision. We will address this later in this report.

The IBA recommends Council approval of the Mayor's Proposed Budget as amended by the May 19, 2011 May Revise and recommends the following IBA revisions as discussed in detail in the attached report. The IBA recommends restoration of \$5.4 million in priority community services funded by \$5.4 million of ongoing resources. This will have no negative impact on FY 2013. With adoption of the Mayor's Proposed Budget, the May 19, 2011 May Revise and the IBA recommended revisions, the following services will be restored:

- Full restoration of browned-out engines, four effective 7/1/11 and four effective 1/1/12 (Mayor's Proposed Budget)
- Full restoration of recreation center service hours (Mayor's May Revise)
- Partial restoration of branch library hours (Mayor's May Revise)
- Full restoration of branch library hours (IBA recommendation)
- Restoration of swim team and water polo programs and restoration of all pool operating hours originally proposed for reduction (IBA recommendation)
- Restoration of after school programs originally proposed for reduction (IBA recommendation)
- Restoration of four Police civilian positions for the Vehicle Abatement Unit (IBA recommendation)

The May 19, 2011 May Revise also recommended a one-time expenditure increase of \$1.7 million to begin the upgrade of the Fire Alert System. The IBA recommends approval of additional one-time resources totaling \$1.7 million, and recommends these resources be used to fund the remainder of costs for the Fire Alert System for a total of \$3.4 million. This additional funding would allow Fire-Rescue to implement the full system.

Finally, \$11.2 million in additional fund balance from FY 2010 was identified during the Comptroller's preparation of the FY 2010 Year-End Performance Report. The net effect of this is an \$11.2 million increase to the FY 2012 projected General Fund reserve. With this increase, the General Fund Reserve for FY 2012 is now estimated to be \$94.1 million-8.3% of FY 2012 General Fund revenues (**after accounting for \$5.4 million of IBA recommended revisions to the FY 2012 budget**). This exceeds the City's original goal and current policy of achieving 8% in FY 2012-by .3% or \$3.9 million. This is very good news for the City and a significant change from the Mayor's Proposed Budget which recommended as a budget balancing action that the FY 2012 reserve remain at 7%. Having achieved this important goal, it is important for the reserve to be maintained at 8% now and in the future.

Our recommendation for the 2012 General Fund reserve excess (\$3.9 million above the 8% reserve goal) is twofold:

1. Resume the Community Projects, Programs and Services Fund-\$1,600,000
\$1.6 million of the \$3.9 million in excess of the 8% goal is directly attributable to savings estimated to be achieved in City Council District Office budgets in FY 2011. As in the past, these savings were identified in FY 2011 and are intended for eligible Community Projects, Programs and Services in FY 2012 for Council Offices where savings occurred. These savings will be returned to the reserves at year-end as a result of a City Attorney's Memorandum of Law issued last fall which recommended improvements in how these funds were being budgeted and appropriated. These issues have now been addressed. To continue this program for FY 2012, \$1.6 million will need to be re-appropriated for this purpose. Our office has been working closely with the Mayor's Office and the City Attorney's Office on this issue and all parties had agreed upon the resolution; however, this item was not included in the Supplemental May Revision. This action would reduce the projected FY 2012 General Fund reserve from 8.3% to 8.2%. After this allocation, the reserve is still projected to exceed the 8% goal for FY 2012 by \$2.3 million.
2. Hold funds in excess of the 8% target in the General Fund Reserves -\$2,300,000
We recommend the remaining funds in excess of the 8% target not be expended at this time. We recommend they be held in reserves as a buffer against possible budget shortfalls in FY 2012 and to help ensure the 8% reserve target is maintained in FY 2013. One-time expenditures could possibly be considered during the mid-year budget review depending on the budget status at that time.

After accounting for the Mayor's Proposed Budget, the Mayor's May 19th Revise, and all of the IBA recommendations contained in our final report, the General Fund reserve is projected to be 8.2% for FY 2012.

Alternatively, the Mayor's Supplemental May Revise proposes spending the "excess reserves". The Mayor's estimate of the excess over 8% is \$4.2 million compared to our estimate of \$3.9 million. His estimate does not account for the IBA recommended revisions to the budget of \$5.4 million, which increases the amount of reserves necessary to achieve the 8% goal. In the Supplemental May Revise, the Mayor recommends that Council spend the estimated excess as follows:

1. Fund remainder of Fire Alert System-\$1,700,000
We support this funding proposal to provide total funding of \$3.4 million for this item. However, we identified other one-time funds for this purpose in our budget recommendations rather than using reserve funds.
2. Provide additional funding for ADA Projects-\$1,200,000
While there are significant funding needs in this area, the Mayor's May 19th Revise included \$1.6 million in General Funds for this purpose. Additionally, alternative resources exist for this purpose including the Infrastructure Bonds issued in FY 2011 and a second \$100 million issuance planned for late FY 2012. This expenditure could also be reconsidered at mid-year depending on the budget status and progress of ADA projects.
3. Provide additional funding for street-related repairs-\$1,300,000
Significant funding needs also exist in the area of street repairs. Alternative resources currently exist from the Infrastructure Bonds issued in FY 2011 and the subsequent \$100 million issuance planned for late FY 2012. This additional expenditure could also be considered at mid-year.

For the reasons discussed above, the IBA does not support the Mayor's recommendations for spending the "excess reserves" as outlined in the Supplemental May Revise. We would also caution that if Council approves the IBA recommendations for service restorations and approves all of the Mayor's recommended one-time expenditures from the "excess reserves", the 8% reserves goal will not be achieved for FY 2012.

The IBA recommends Council consideration of the following actions:

1. Approval of the Mayor's FY 2012 Proposed Budget as issued on April 15, 2011 and as amended by the Mayor's May Revise issued on May 19, 2011;
2. Approval of the IBA recommended revisions for ongoing and one-time expenditures and resources as detailed in the attached report;
3. Approval of IBA recommendations regarding the FY 2012 General Fund Reserve, including re-appropriation of \$1.6 million from the reserves (i.e. savings from Council District Offices in FY 2011) to resume the Community Project, Programs and Services Fund with the remaining amount in excess of the 8% goal (\$2.3 million) to be held in FY 2012 reserves.
4. Approval of funding in the amount of \$450,000 from the City's Major Events Revolving Fund for the work of the non-profit Balboa Park Centennial Host Committee to begin planning for the Centennial event in 2015. Funds have been contributed and accumulated in this Fund for the past several fiscal years therefore, there is no General Fund impact.