



IBA Review of the Fiscal Year 2013 Proposed Budget

May 2, 2012

Mayor's FY 2013 Proposed General Fund Budget



- Totals \$1.150 Billion – 1.9% increase over FY 2012 Adopted Budget of \$1.128 Billion
- FY 2013 deficit identified in November 2011 Five-Year Outlook- \$31.8 million, an estimated 2.8% of expenditures
- Sharp contrast to FY 2010/FY 2011 two-year shortfall of \$233 million

Mayor's FY 2013 Proposed General Fund Budget



- City is in far better position than just two years ago
- Numerous reforms and cost reductions with gradual growth in economy have contributed
- Results of City's actions have recently been recognized by Standard & Poor's and Fitch Ratings

Mayor's FY 2013 Proposed General Fund Budget



- Important to acknowledge significant accomplishments that have addressed financial problems of the past
- Challenges remain and much work lies ahead
- “Guiding Principles for Eliminating the Structural Budget Deficit” are as relevant today as when they were adopted in February FY 2010

Overview of FY 2013 General Fund Revenue



- IBA supports FY 2013 General Fund revenue projections
- Projections are appropriate given current revenue performance and economic forecasts

Major General Fund Revenue (In Millions)					
Revenue Source	FY 2011 Estimated	Growth	FY 2012 Projected	Growth	FY 2013 Proposed
Property Tax	\$ 384.0	0.5%	\$ 385.8	0.8%	\$ 389.1
Sales Tax	\$ 209.1	6.2%	\$ 222.1	5.5%	\$ 234.4
TOT	\$ 73.4	4.4%	\$ 76.6	5.0%	\$ 80.5
Franchise Fees	\$ 65.5	3.8%	\$ 68.0	5.4%	\$ 71.7
SDG&E	\$ 35.0	5.8%	\$ 37.0	1.9%	\$ 37.7
Cable	\$ 18.4	1.2%	\$ 18.6	4.0%	\$ 19.4

Overview of FY 2013 General Fund Revenue



- Concerns noted regarding property tax projection given impact of recent declines in real estate market, more information is needed
- Projected growth rates for sales tax, TOT, and franchise fees are appropriate reflecting continuance of steady, modest economic improvements

Overview of FY 2013 General Fund Expenditures



- Fringe increase of \$12.2M attributable to:
 - \$6.5M Worker's Compensation (W/C) contributions increase – including \$4.9M to W/C Fund Reserve
 - \$2.0 M SPSP increase – aligns budget with employees' current benefits selections (increase is offset by a decrease within Salaries and Wages)
 - \$1.8M retiree health increase – does not incorporate ERRP reimbursements (FY 2012 budget amount of \$1.4M)
 - \$1.6M retirement ARC increase

Overview of FY 2013 General Fund Expenditures



- **Contracts changes net to \$22.2M-** highlights include:
 - \$10.7 million decrease for fuel costs being transferred to Energy/Utilities category
 - \$11.8 million decrease for street-related work funded in FY 2012 through Gas Tax reimbursement savings
 - \$6.0 million increase for transition costs related to the anticipated new IT services contracts
- **Energy/Utilities changes of \$9.1M**
 - \$11.7 million increase for fuel costs (\$10.7M transferred from Contracts)
 - \$1.4 million decrease in electric services, largely due to Broad Spectrum Street Lighting Project

Overview of FY 2013 General Fund Expenditures



- Transfers out increase of \$11.3M
 - \$6.1 million increase for Public Liability Reserve contribution
 - \$5.1 million increase for deferred capital debt service related to the anticipated \$75 million bond issuance in FY 2013

Mayor's FY 2013 Proposed General Fund Budget



- FY 2013 \$31.8 Million Deficit Eliminated with Savings and Increased Revenue
 - \$18.1 million reduction to City's pension ARC as compared to Five-Year Outlook projection
 - \$10.5 million increase in major revenue projections
 - \$2.1 million reduction to debt service costs due to reducing \$100 million FY 2012 deferred capital bond to \$75 million
- No “one-time” solutions were used to balance the budget

Mayor's FY 2013 Proposed General Fund Budget



- While budget documents state “there are no additional service reductions in the FY 2013 Proposed Budget”, we would note the Graffiti Removal Team in DSD (4.00 FTEs) has been eliminated for FY 2013.

Mayor's FY 2013 Proposed General Fund Budget



- **FY 2013 Budget Continues Mid-Year Service Restorations**
 - 35 Branch Libraries are restored to 41 hours weekly
 - 55 Recreation Centers are restored to 45 hours weekly
 - 186 fire rings at beaches to be maintained with City funds

Mayor's FY 2013 Proposed General Fund Budget



- FY 2013 Budget Also Provides Funds for Other Priority Services
 - Restores weekly mowing at athletic fields
 - Adds a new Fire Academy class
 - Provides funding for the lease purchase of one fireboat and two surf rescue boats

Mayor's FY 2013 Proposed General Fund Budget



- FY 2013 Budget Identifies New Resources to Support These Additions
 - Copier contract savings - \$1.0 million
 - User fee cost recovery updates - \$1.1 million
 - Costs for Fire Alert System switched to FY 2012- \$2.7 million
 - Anticipated savings from Fleet Services and Street Sweeping managed competition - \$6.0 million

FY 2013 General Fund User Fee Study Truly Comprehensive



- User fee study addresses all components of a best practice review as recommended by GFOA and requested by the IBA in past years
- Study also included a review by the City Attorney for compliance with Proposition 26
- On April 25th B&FC reviewed 235 user fees including:
 - 100 proposed increases
 - 44 proposed decreases
 - 19 proposed for elimination
 - 72 to remain the same
- Full City Council will need to approve all user fee adjustments

Rating Agencies Take Note of Improvements to City Reserve Levels



- FY 2013 projects a General Fund reserve for FY 2013 of \$120.8 million or 10.5% of revenues, exceeding 8% policy goal (projected to be \$117.5 million or 10.2% at FY 2013 year-end)
- Also, LTD, Public Liability and Workers Compensation reserves all meet FY 2013 policy goals
- In April, Standard & Poor's and Fitch Ratings maintained or upgraded the City's GO equivalent bond rating; assigned the City a go forward "stable outlook"
- Both made note of the City's increased reserve levels in their ratings reports

Deferred Capital Funding



- City Council approved Five-Year Deferred Capital Funding Plan on March 20, 2012 which provided a total investment of \$721.3 million over five years through a mix of bonds and cash funding
- For the first year of the plan City Council approved \$75 million in bond funding and increased cash funding from \$45.1 to \$54.1 million (up to \$8.3 million from FY 2012 surplus)
- Council requested Mayor to include this increase of up to \$8.3 million in his Proposed Budget which has not been included
- Mayor's Office has indicated they plan to consider this item as part of the May Revise

Retiree Health Benefit Restructure



- Most recent estimates include a cumulative cash flow savings of \$802 million over 25 years
- Most recent estimated June 30, 2011 UAL reduction is from \$1.1 billion to \$567 million, with estimated ARC reduction of \$49 million (to \$45 million)
 - These reductions, which apply to the defined benefit Options A and B, do not include the costs associated with Option C (a defined contribution plan).

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



- Budget Priorities Resolution No. 30727 adopted by City Council March 19, 2012 compiled priorities from individual Council memos
- Forwarded to Mayor for his consideration in developing the FY 2013 budget
- With limited resources Proposed Budget addresses several top priorities of the Council
- On the following slides we also identify which priority items have not been included in the Proposed Budget

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



COUNCIL BUDGET PRIORITIES RESOLUTION			
PRIORITY AREA		IN FY13 BUDGET?	COMMENTS
FUNDING OF PUBLIC SAFETY			
1.	Restoration of civilian positions with Police Department		No restorations in budget, under review by IBA. Each PCCO would cost \$86,000. Each PSO would cost \$76,000; each PIA would cost \$78,000
2.	Support for increasing 15 Police recruits in the April academy		Academy costs in FY 2012 Budget, recruits will fill vacancies in FY 2013
3.	Support for increase in both the Police and Fire-Rescue recruits / academies	√	Funds for Fire Academy included in FY 2013, expanded Police Academy in FY 2012
4.	Restoration of previous Lifeguard cuts		Positions not in budget; 3 positions would cost \$354,000
5.	Additional funding for the Neighborhood Code Compliance program if unable to achieve desired service levels		Graffiti Team (4 positions) has been eliminated in FY 2013 for savings of \$280,000
6.	Implement recommendations included in Citygate Report for additional Fire-Rescue Department resources		No recommendations funded beyond Fire Alert System; Citygate recommendations for years 1 & 2 require up to \$17.0 million
7.	Investment of \$2.7 million in the fire alert system		Funded with FY 2012 surplus

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



COUNCIL BUDGET PRIORITIES RESOLUTION			
PRIORITY AREA		IN FY13 BUDGET?	COMMENTS
CONTINUED RESTORATION OF SERVICE LEVELS			
8.	Maintain and increase the hours restored for Park & Recreation and Library	√	FY 2012 restorations maintained but not increased further
9.	Aggressively address vacancies in Library and Park & Recreation		Underway by departments
10.	Continue reforms and efficiencies in all departments	√	
11.	Evaluate "Express Service" model for branch libraries		Business Office studying ways to increase hours with existing resources

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



COUNCIL BUDGET PRIORITIES RESOLUTION

	PRIORITY AREA	IN FY13 BUDGET?	COMMENTS
INVESTMENT IN STREETS AND PUBLIC ASSETS			
12.	Increase funding for deferred capital projects	√	\$75 million bond issuance (FY 2012) and \$45.8 million O&M funds (FY 2013); Council adopted five year funding plan
13.	Include up to \$8.3 million from FY 2012 Mid-Year surplus for additional cash funding for deferred capital projects		Expected to be addressed in the May Revision

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



COUNCIL BUDGET PRIORITIES RESOLUTION

PRIORITY AREA		IN FY13 BUDGET?	COMMENTS
NEW INNOVATIONS AND PARTNERSHIPS			
14.	Continued use of volunteers to supplement City services	√	New Volunteer Coordinator position included
15.	Find public / private partnerships that would benefit the City through cost savings and efficiencies		
16.	Expansion of City services online for businesses and individuals	√	Funded two positions in Treasurer's Office to implement online permitting in FY 2013
17.	Convert work hour shifts to 4/10 or 9/80 for non-public safety positions		No new hours' conversions in FY 2013
18.	Continue managed competition processes	√	Savings of \$7.1 million reflected for the three processes, six processes underway
19.	Continuation of marketing partnership program for new revenue sources	√	\$600,000 revenue included

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



COUNCIL BUDGET PRIORITIES RESOLUTION			
PRIORITY AREA		IN FY13 BUDGET?	COMMENTS
ECONOMIC DEVELOPMENT REPLACEMENT			
20.	Funding for sufficient resources to allow neighborhoods to establish special assessment districts		
21.	Fund community plan updates	√	Department indicates adequate funding provided
22.	Reduce permit fees for responsible businesses		Regulatory Relief options being studied by Committee on Economic Development & Strategies
23.	Continue to provide opportunities for local green businesses		LU&H has reviewed Council Policy 600-27 amendment which creates development incentives for sustainable energy projects

Comparing Mayor's Proposed Budget to City Council Budget Priorities Resolution



COUNCIL BUDGET PRIORITIES RESOLUTION

PRIORITY AREA

IN FY13 BUDGET?

COMMENTS

ONE-TIME EXPENDITURE ITEMS

24.	Funding for a new Fire-Rescue multi-purpose rescue boat	√	Lease purchases of one fireboat and two surf rescue vehicles
25.	Funding of approximately \$550,000 for the Neil Good Day Center for homeless services		\$250,000 to be funded through the Housing Commission; \$300,000 need remains
26.	Prioritize the implementation of the Supplier Relationship Management module in SAP		P&C to report to Rules Committee on status
27.	Implement a full bidder registration system beyond SRM		P&C to report to Rules Committee on status
28.	Funding for new Police Department technologies	√	New pawn shop enforcement technologies underway

Other Items Identified for Council Consideration Not Included in Proposed Budget



- FY 2013 Funding for Existing City Clerk Position - \$107,000
- Internal Controls Audit as recommended by the Audit Committee- \$250,000 to \$1.0 million
- Budget items requested by the City Auditor- \$173,000
- Lifeguard training funds restored by Council in FY 2012/ unfunded for FY 2013 - \$200,000
- Operation costs for new Council District 9 - \$500,000
- Phase II Citizen Survey of City services - \$25,000

One-Time Available Resources Identified for Council Consideration Not Addressed in Proposed Budget



- Transient Occupancy Tax (TOT) Fund balance (Special Promo) - \$10.7 million
 - Unclaimed Monies - \$420,000
 - Revenue Recovery Audit - \$500,000
 - Reduction to Long Term Disability Contribution - \$1.5 million
 - Public Safety Communication Bonds Fund balance - \$537,000
- Appropriate uses for these one-time resources would be one-time expenditures or placement in the General Fund Reserve

IBA Review of FY 2013 Proposed Budget



- Additional sections of IBA report included detailed analysis of the following:
 - FY 2013 General Fund Revenues
 - FY 2013 General Fund Expenditures
 - Deferred Capital
 - General Fund Reserves
 - Other Post Employee Benefits
 - Pension
 - Redevelopment
 - FY 2013 Department Budgets

FY 2013 Budget Calendar



FY 2013 Budget Calendar

May 2 – 4 Departmental / Agency Budget Hearings
(9am – Noon & 2pm – 5pm)

May 9 – 11 Departmental / Agency Budget Hearings
(9am – Noon & 2pm – 5pm)

May 14 Council Public Budget Hearing
(6pm)

May 23 Budget and Finance Committee
(9am)

FY 2013 Budget Calendar



FY 2013 Budget Calendar

May 25
(8:30am)

Special City Council meeting to review Mayor's May Revise and FY 2012 Year-End Budget Monitoring Report

June 1

City Council budget memos due to IBA

June 6

IBA's Final Report on Recommended Changes to the Mayor's Budget issued

June 11/12

Council considers final changes to Mayor's Budget / adopts Budget Resolution