



IBA REVIEW: MAYOR'S FY 2012 PROPOSED BUDGET

May 4, 2011

Mayor's Budget Approach



- FY 2012 funding needs total \$73.2 M:
 - Deficit identified in February Five-Year Outlook- \$56.7 M
 - Plus \$7.8 M in department technical adjustments (including \$5.4 M vacancy savings correction)
 - Plus \$8.7 M for restoring 8 browned-out Fire engines

Mayor' Budget Approach



- Significant Issues Addressed Since Outlook:
 - Retiree health care reform expected to reduce UAAL and ARC going forward
 - COO issued revision to Outlook at Budget Committee March 16th adding three new \$100 M bond issuances for a total of \$500 M for next five years for deferred capital

Mayor's Budget Approach



- FY 2012 General Fund Revenue projections remain conservative:

Major General Fund Revenue Growth Rates				
Revenue Source	FY 2009 Actual	FY 2010 Estimated	FY 2011 Projected	FY 2012 Proposed
Property Tax	3.8%	-1.8%	-2.7%	0.0%
Sales Tax*	-5.6%	-9.5%	5.5%	3.0%
TOT	-11.9%	-12.2%	9.4%	3.0%

* Reflects economic growth, not year-to-year growth in City revenues

Mayor's Budget Approach



- FY 2012 Revenue Projections remain conservative:
 - Property tax is appropriately conservative
 - Upward adjustments to sales tax and TOT may be warranted based on growth in FY 2011
 - Revisiting revenue projections for FY 2012 included on list of resource options

Mayor's Budget Approach



- Overview of FY 2012 General Fund Expenditures:
 - Salaries and Wages increased \$12.9 M overall
 - Attributable to vacancy savings correction and restoration of Fire engines

Mayor's Budget Approach



- Fringe Benefits increased by \$1.2 M overall:
 - Worker's Compensation claims increased \$1.4 M, not in Outlook
 - General Fund ARC unchanged from FY 2011, down \$1.6 M from Outlook
 - \$1.6 M for Long Term Disability Reserves remains funded, treated differently from other reserves

Mayor's Budget Approach

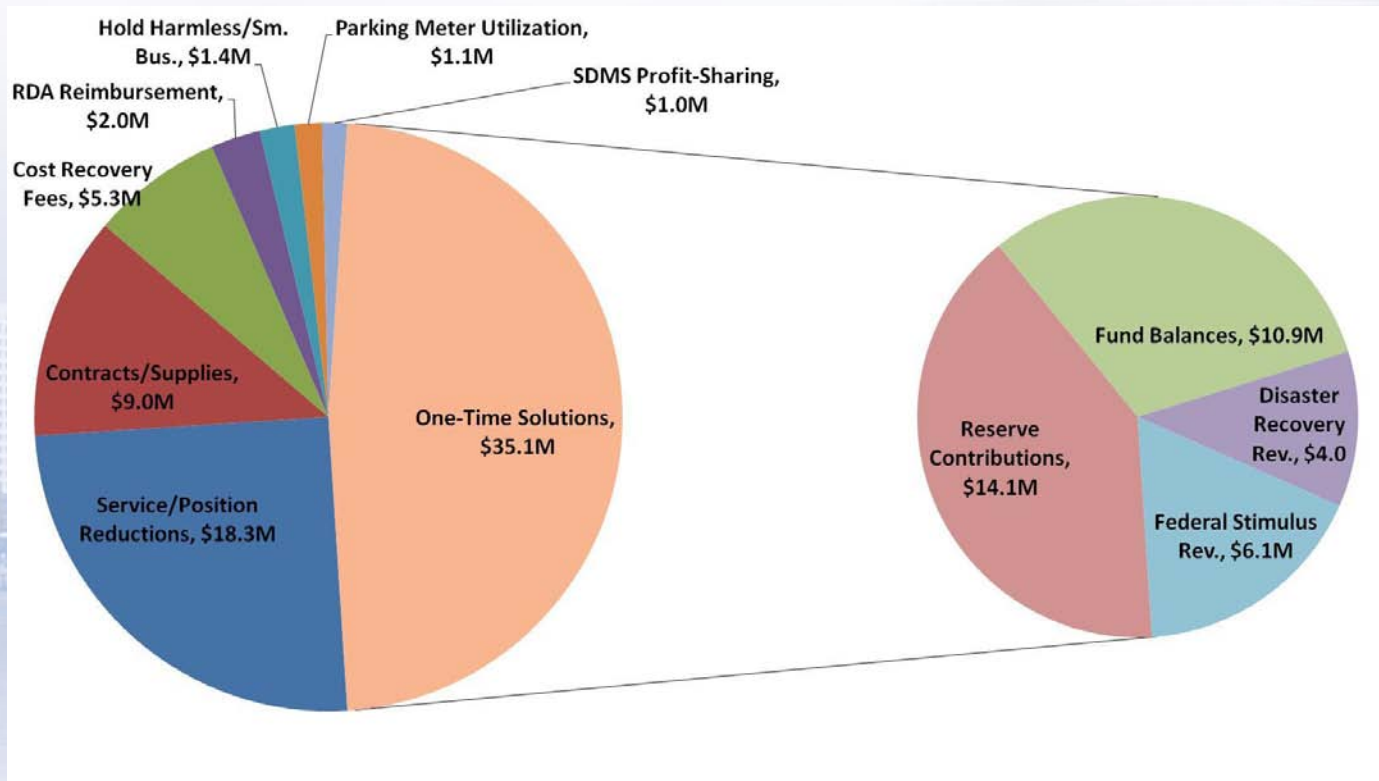


- Overview of General Fund Expenditures:
 - Supplies and contracts reduced by \$9 million
 - Council resolution requested 5-10 % reduction
 - 10% across-the-board taken for discretionary items
 - Information Technology at \$24.7 M is \$900,000 less than FY 2011. \$13.3 M is identified as discretionary- services not necessarily provided by SDDPC
 - Other/Capital
 - Elimination of Public Liability(\$5.7 M) and General Fund Reserves (\$3.5 M) contributions

Mayor's Budget Approach



- Mayor's Budget Balancing Actions:



Mayor's Budget Approach



- Ongoing Resources-\$38.1 M:
 - Service/Position Reductions
 - \$19.7 M, 207 total positions
 - 154 positions in Library and Park and Recreation, 91 positions are filled
 - Reductions to NPE
 - \$9.0 M, 10% across-the-board reductions to supplies and contracts
 - Cost recovery fees
 - \$5.3 M
 - Four increased or new fees in Public Safety area

Mayor's Budget Approach



- Ongoing Resources:
 - Parking meter utilization program- \$1.1 M
 - Hold Harmless Residential/Small Business- \$1.4 M
 - RDA payment toward Convention Center Phase II debt service-\$2.0 M
 - SDMS profit sharing- \$1.0 M

Mayor's Budget Approach



- One-Time Resources-\$35.1 M
 - Reserves holiday- \$14.1 M
 - Fund balances-\$10.9 M
 - Disaster recovery reimbursements-\$4.0 M
 - Federal stimulus dollars for Streets-\$6.1 M

Mayor's Budget Approach



- Issues Regarding One-Time Resources:
 - In the past, one-time resources were tied to one-time expenditures; this information was not provided for FY's 2011 or 2012
 - One-time resources used in prior year have been appropriately removed each year

Mayor's Budget Approach



- Mayor forthright in stating that use of one-times will result in \$41 M deficit next year
- We agree that in times of economic decline a balanced approach is needed
- Not enough alternative reductions to replace \$35.1 M of one-times

Mayor's Budget Approach



- Comparing Budget to Council Resolution:
 - Mayor included nine of the 23 actions requested by the Council
 - These nine actions generated savings/new resources estimated at \$29.2 M
 - IBA looked to items not implemented by the Mayor as possible resource items for FY 2012

Mayor's Budget Approach



COUNCIL BUDGET RESOLUTION - RESOURCE OPTIONS				
IBA Focused List of Menu Options		In FY12 Budget?	Funding Included	Comments
18.	Comprehensive review of all fund balances	✓	\$9.9m	SDSME, Police Decentralization, Qualcomm, Sick leave
47a.	Transfer unclaimed funds in City Treasury to the General Fund	✓	\$1.0m	
123.	Expand use of marketing partnerships		-	Only base of \$0.5m included; no projected expansion
145.	Implement false alarm fees for Fire-Rescue	✓	\$0.9m	
189.	Five percent reduction to supplies and services	✓	\$9.0m	Reflects a 10% reduction in discretionary supplies and contracts
200.	RDA payment for Convention Center Phase II debt service	✓	\$2.0m	Approved by Council/Agency on 3/29/11
14.	Implement recovery auditing program		-	Plan to reflect revenue based on audit results
47b.	Fire-Rescue resume billing and retroactively bill for high-rise inspections	✓	-	Revenue for charges going forward already in budget; no retroactive billing (est. \$1.0m)
61.	Eliminate cell phones for non-emergency personnel		-	Up to \$0.7m possible based on IBA estimate
102.	Eliminate Management Flex Benefits		-	Up to \$1.4m possible based on IBA estimate
142.	Sale of underutilized real estate assets		-	Up to \$8.0m possible based on sale of WTC
202.	RDA repayment of General Fund debt		-	Up to \$2.0m possible based on IBA estimate
1.	Accelerate Managed Competition for refuse collection		-	Explore for FY 2013
11.	Expand use of 4/10/5 work schedule		-	Explore for FY 2013
122.	Impose mandatory furlough		-	Explore for FY 2013

Mayor's Budget Approach



COUNCIL BUDGET RESOLUTION - RESOURCE OPTIONS				
Additional Items in Council Resolution		In FY12 Budget?	Funding Included	Comments
1.	Recover costs associated with entertainment permits for police-regulated businesses	✓	\$0.3m	
2.	Acceleration of Publishing and Fleet Services managed competition		-	In process, savings to be reflected upon implementation in FY 2012
3.	Updating revenue projections	✓	\$1.0m	Sales tax growth increased from 2.4% to 3%. Additional review by IBA underway
4.	Savings from permanent elimination of vacant positions	✓	\$5.1m	Of 207 FTE eliminated, 57 were vacant full-time positions. Assumes \$90k/position.
5.	Elimination of take home vehicles for City		-	
6.	Review and potential revision of lease payment formula for payments from the Golf Enterprise Fund to the General Fund		-	Explore for FY 2013
7.	Options for budget-neutral funding of the 9th Council District in FY13		-	FY 2013 budget issue; up to \$1.6m possible
8.	Reform of Retiree Health Care benefit		-	Negotiations underway - \$57m included in FY 2012, \$39m less than full ARC payment
Total Funding Included in Mayor's Proposed Budget			\$29.2m	



Mayor's Budget Approach

COUNCIL BUDGET RESOLUTION - SERVICE PRIORITIES				
City Service Issues		In FY12 Budget?	Total Funding	Comments
1.	Restoration of Fire Engine brown-outs	✓	\$8.7m	Restores 4 engines July 1, 2011 and 4 engines on January 1, 2012
2.	Preservation of Police, Fire-Rescue, and Lifeguard services		-	No lifeguard services restored from past reductions; new reductions in Police total \$3.5m, including elimination of 20 vacant sworn position and 4 code compliance officers
3.	Mitigation of Library, Park & Rec reductions		-	\$13.9m and 154 FTE proposed for elimination between both depts.; 50% reduction to branch library and rec center hours
4.	Fund City's deferred capital backlog	✓	\$7.4m	Debt service for initial \$100m bond issuance included; additional \$100m bond issuance proposed for FY 2012, with payments to begin in FY 2013



Options for Revisions to Budget

- IBA approach to identifying options:
 - Actions in Council resolution not implemented by Mayor
 - Resource options identified by the IBA through our review of major expenditure categories and departments
 - Changes to FY 2012 Budget since Outlook
 - All about choices and priorities- are these items more important than Library and Park and Recreation hours?

Options for Revisions to Budget



- Options for addressing Park and Recreation and Library reductions in response to community concerns
- Phasing in Fire engines over two fiscal years rather than one to free up resources
- Alternatives for using of one-time resources

Options for Revision to Budget



RESOURCE OPTIONS		
Ongoing - Identified in Council Resolution		Total Resources
1	Adjust FY 2012 Revenue Estimates	\$ 3,000,000
2	Expand Marketing Partnerships	500,000
3	Use Land Sales Revenue for Convention Center Phase II Debt Service Costs	2,500,000
4	Eliminate Management Flex Benefits	1,400,000
5	Eliminate Cell Phones for Non-Public Safety Depts	400,000
Sub-Total:		\$ 7,800,000
Ongoing - Identified During IBA Review of Proposed Budget		
6	Reduce Workers' Compensation Funding	\$ 1,400,000
7	Adjust Terminal Leave	400,000
8	Adjust Long Term Disability Reserve Amounts	1,600,000
9	Reduce Overtime for Non-Public Safety Departments	1,250,000
10	Reduce Training and Travel for Non-Public Safety Departments	1,000,000
11	Reduce funding for Arts & Culture by 10%	620,000
12	Reprioritize Mayor & Council TOT Allocations	220,000
13	Reduce IT Discretionary Funding by 20%	1,500,000
Sub-Total:		\$ 7,990,000
Total Ongoing Resource Options:		\$ 15,790,000

Options for Revision to Budget



RESOURCE OPTIONS		
One-Time		Total Resources
14	Collect Retroactive Fire High-Rise Inspection Fees	\$ 1,000,000
15	Redevelopment Agency Dept Repayment	1,000,000
16	Implement Recovery Auditing	500,000
17	Early Retiree Reinsurance Program (ERRP)	2,000,000
Total One-Time Resource Options:		\$ 4,500,000
Additional Resource Options		Total Resources
18-A	Restore six browned-out engines in FY 2012 (three in July 2011 and three in January 2012) and two in FY 2013, in lieu of all eight in FY 2012	\$ 2,200,000
18-B	Restore four browned-out engines in FY 2012 (two in July 2011 and two in January 2012) and four in FY 2013, in lieu of all eight in FY 2012	4,300,000
Total Additional Resource Options:		\$ 2,200,000 - 4,300,000

Options for Revision to Budget



RESTORATION OPTIONS		
		Additional Cost to Budget
1. Options to Restore Branch Library Hours (Ongoing)		
A	Fully restore all branch library hours to current service levels	\$ 7,400,000
B	Partially restore hours at branch libraries by implementing 10 branch library pairings and "Express Library" proposal	2,200,000
C	Partially restore hours at branch libraries by only implementing "Express Library" proposal	3,400,000
2. Options to Restore Recreation Center Hours (Ongoing)		
A	Restore Recreation Center Hours	\$ 3,300,000
Other Options (One-Time)		
3	Provide Funding for Fire In-Station Alerting System	\$ 1,700,000 - 3,400,000
4	Replenish General Fund Reserve to meet 7.5% for FY 2012	3,500,000
Total Ongoing:		\$ 5,500,000 - 10,700,000
Total One-Time:		\$ 5,200,000 - 6,900,000

Other Issues Identified in Report



- Status of General Fund Reserve
 - City is unable to report current status of its reserves due to delay in Year-End Report
 - Unknown whether 7% goal for FY 2011 has been attained or maintained
 - Information is expected end of May, relevant to decision regarding reserves suspension
 - No Appropriated Reserve included in Proposed Budget this year, agree no purpose for it until issue of Council's authority is resolved

Other Issues Identified in Report



- User Fee Review Process
 - Recommend a more comprehensive, broader-based user fee review process be implemented
 - Cost recovery levels for all fees should be provided to the BFC in the Fall- well in advance of the budget process
 - Committee could provide early input and identify fees they would like to see addressed in the budget

Other Issues Identified in Report



- **Deferred Capital**
 - Five-Year funding resource reflected in revised Outlook but not discussed in Proposed Budget
 - Staff capacity to handle workload remains a concern
 - Engineering will be bringing alternative delivery systems to Council
 - Staff is also pursuing alternative processes for procurement

Other Issues Identified in Report



- Performance Measures
 - Last year Mayor announced suspension of performance measures until 2013
 - Agreed to provide FY 2010, FY 2011 data for a certain set of measures but no FY 2012 targets
 - Numerous basic measures helpful to decision-makers are still not captured (branch library hours per week and building permits issued)
 - Look forward to improvements in future including targets that match to proposed funding

Other Issues Identified in Report



- Managed Competition
 - Ongoing concerns about pace of implementation
 - Consultant support for FY 2012 is reduced \$140,000, no impact on implementation expected
 - Savings results from Publishing Services competition could be available prior to final budget decisions

Other Issues Identified in Report



- Information needs:
 - Budget document contains large amount of detailed information
 - Some valuable information has been lost in documents:
 - Departmental lists of “Significant Budget Adjustments” have been more thorough including tracking changes from the prior year
 - Actual revenue and expenditure data for prior fiscal years is not available

Other Issues Identified in Report



- Residents' Opinions on City Services Survey
 - First community survey was completed in March 2010 and presented to Council in April 2010
 - Gauged citizen opinions of City service priorities, satisfaction levels and budget balancing alternatives

Other Issues Identified in Report



- Council and IBA discussed repeating this same survey every two years to track progress
- \$24,000 was budgeted in Business Office in FY 2010, no funding included for FY 2012
- Real value of a citizen survey is measuring opinions over time, if not funded in FY 2012 recommend for FY 2013

FY 2012 Budget Calendar



FY 2012 Budget Calendar

May 4 – 6 Departmental Budget Hearings

May 9 Council Public Budget Hearing
(6pm)

May 11-13 Departmental Budget Hearings

May 18 Mayor's May Revise and FY
2011 Year-End Budget
Monitoring Report Issued

FY 2012 Budget Calendar



- May 23/24** Presentation of Mayor's Recommended Revisions and FY 2011 Year-End Budget Monitoring to City Council
- May 25** Budget and Finance Committee
- June 2** IBA's Final Report on Recommended Changes to the Mayor's Budget Issued
- June 6/7** Council considers final changes to Mayor's Budget/Adopts Budget Resolution



Questions?

General Fund Revenues

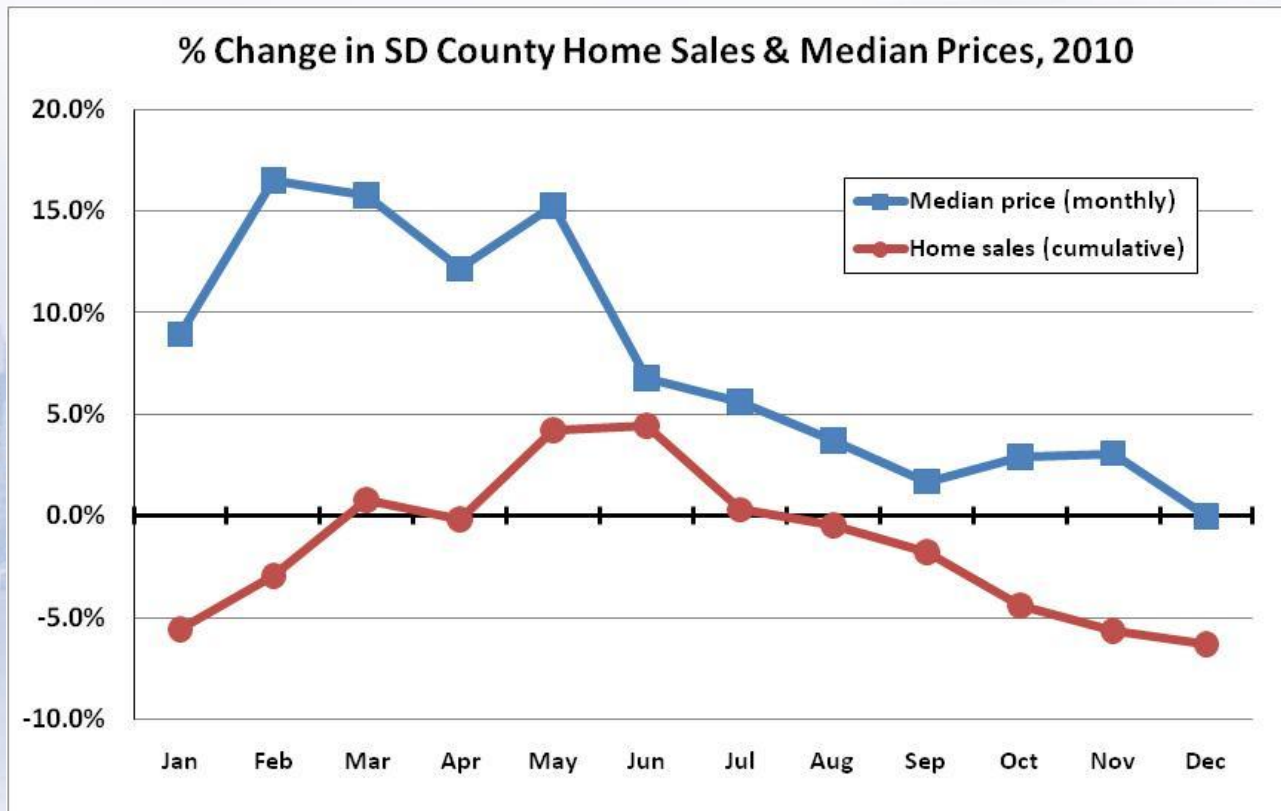


- Property Tax
 - FY 2011 Projected Growth: -2.7%
 - Mixed results in residential market in 2010
 - Total sales & prices increased in 1st half due to tax credits; declined in 2nd once expired;
 - Large backlog of property assessment appeals
 - Modest CPI increase will provide some buffer

General Fund Revenues



- Property Tax



General Fund Revenues

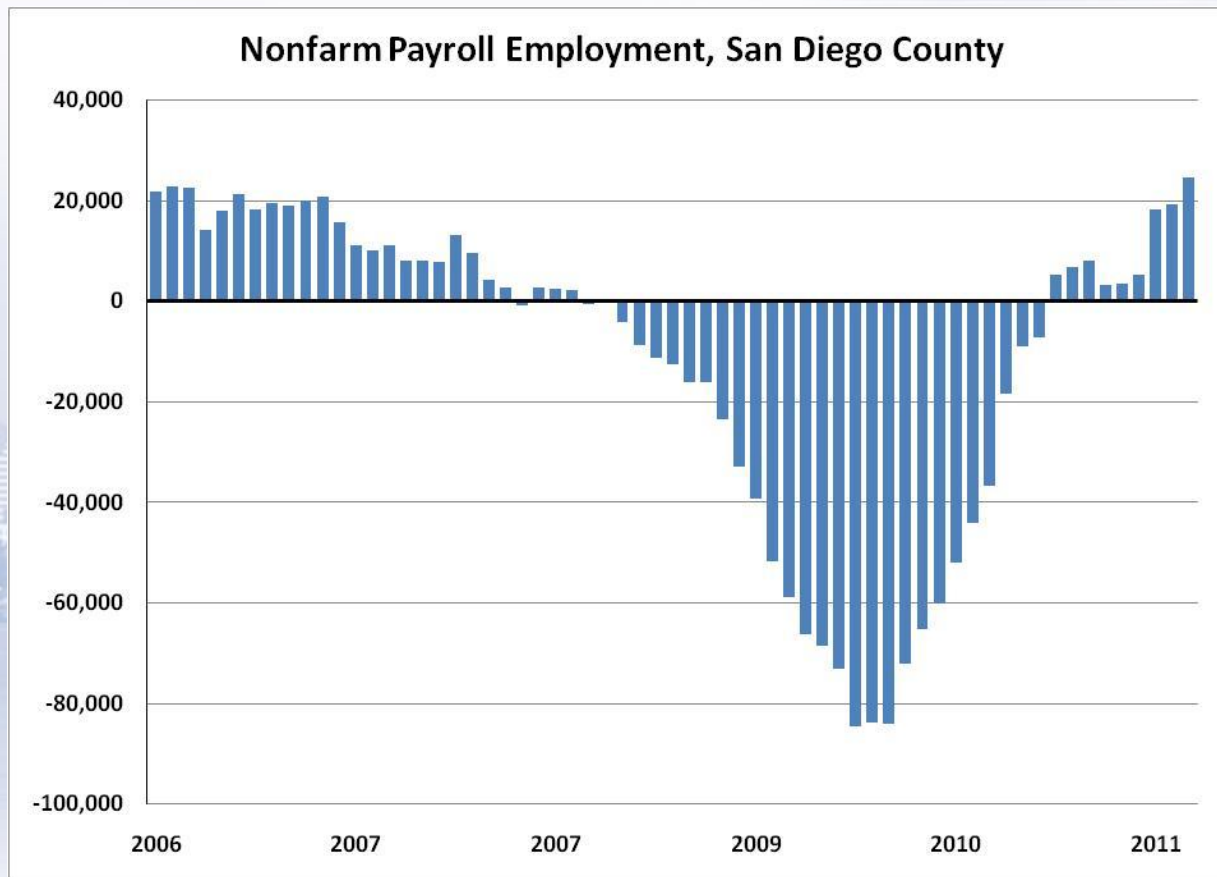


- Sales Tax
 - FY 2011 Projected Growth: 5.6%
 - Year-to-date growth: 6.4%
 - Consumer spending & business investment has been strong for several quarters
 - Job growth has resumed
 - 24,700 jobs added year-over-year in March 2011
 - USD Index of Leading Indicators increased 1.9% in Feb., largest gain on record

General Fund Revenues



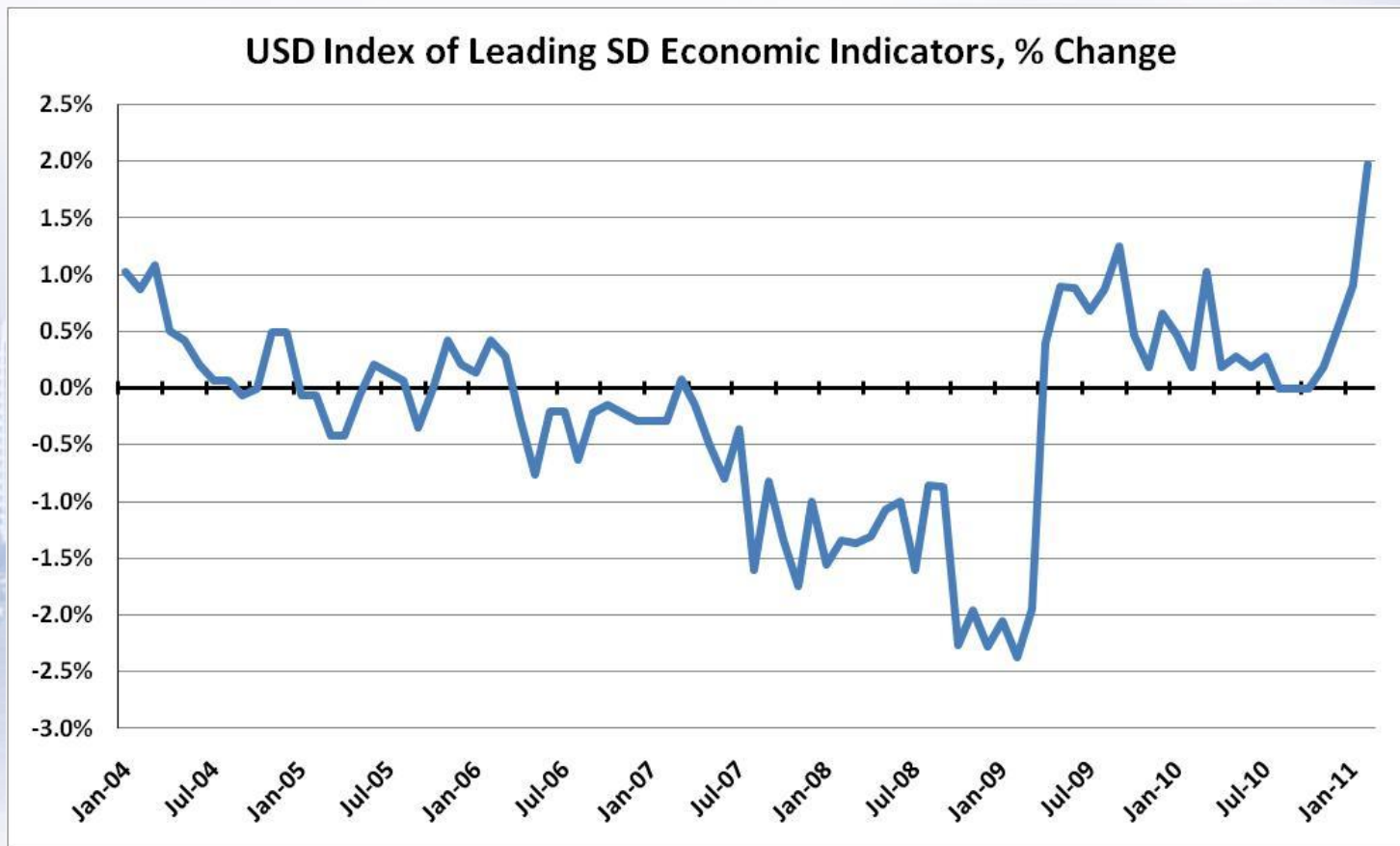
- Sales Tax



General Fund Revenues



- Sales Tax



General Fund Revenues



- Transient Occupancy Tax
 - FY 2011 Projected Growth: 6.3%
 - Year-to-date growth: 8.6%
 - Tourism and Lodging industry is recovering
 - Significant indicators increased in 2010:
 - Total visitors – 0.9%
 - Overnight visitors – 4.5%
 - Room Demand – 6.4%
 - ADR projected to resume growth in 2011

General Fund Revenues



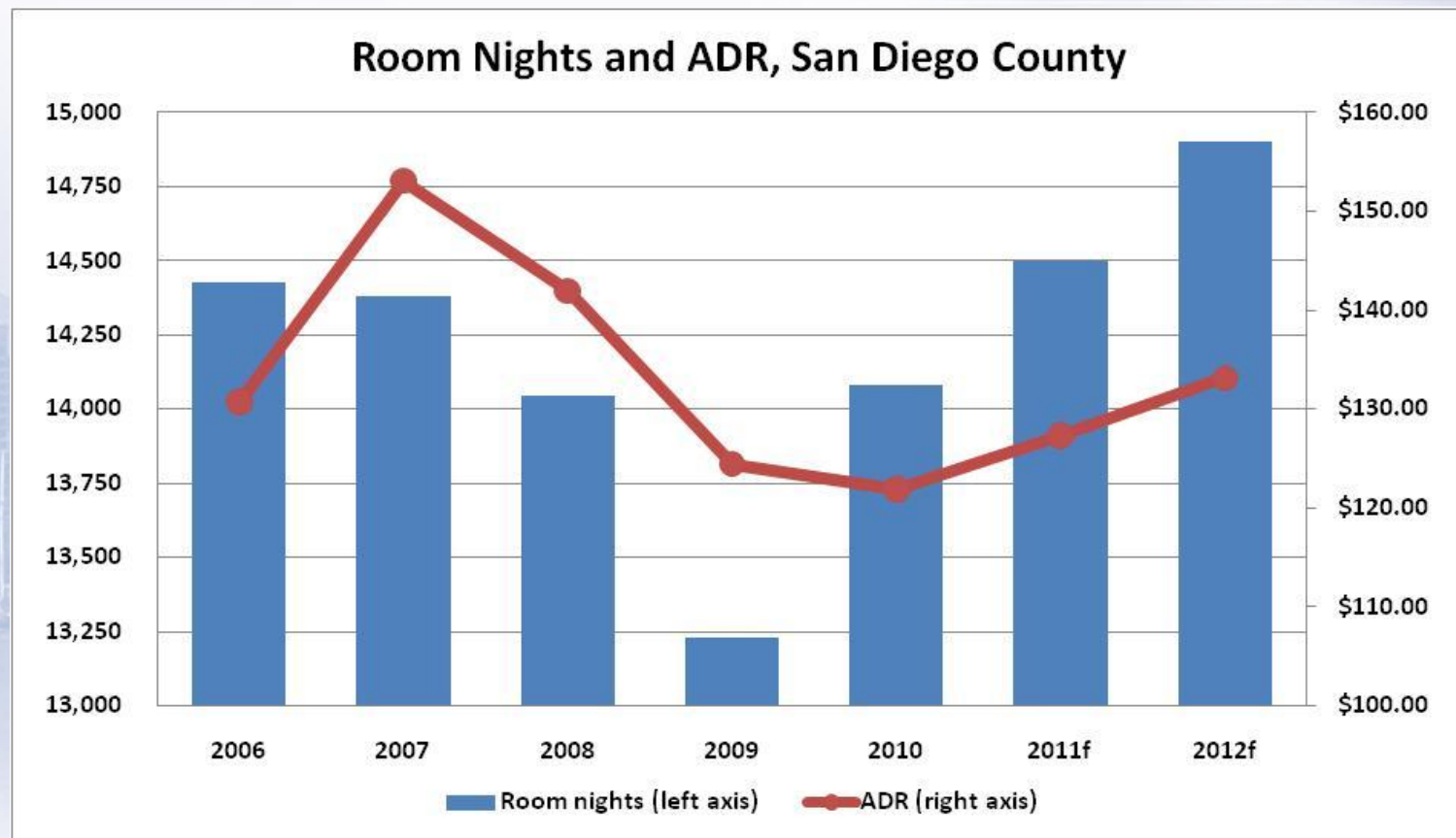
- Transient Occupancy Tax

ConVis Quarterly Travel Forecast			
	2010	2011	2012
Total Visitors	0.9%	3.8%	2.6%
Overnight Visitors	4.5%	2.6%	1.5%
Room Demand	6.4%	3.0%	2.8%
Average Daily Rate	-2.0%	4.4%	4.6%
Occupancy Rate	66.7%	68.8%	70.1%

General Fund Revenues



- Transient Occupancy Tax



Convention Center Phase II



Funding for Convention Center Phase II DS

Fiscal Year	RDA Payment	WTC Proceeds	TOTAL FUNDING
2012	\$ 2,000,000	\$ 2,500,000	\$4,500,000
2013	2,500,000	2,000,000	4,500,000
2014	3,000,000	1,500,000	4,500,000
2015	3,500,000	1,000,000	4,500,000
2016	4,000,000	500,000	4,500,000
2017	4,500,000	500,000	5,000,000
2018	5,000,000	-	5,000,000
2019	5,500,000	-	5,500,000
2020	6,000,000	-	6,000,000