

## **OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT**

**Date Issued:** January 25, 2006

**IBA Report Number:** 06-4

**City Council Agenda Date:** January 30, 2006

**Item Number:** 151

**Item:** City Council Budget Priorities for Fiscal Year 2007

### **OVERVIEW**

City Charter Section 265(b)(15) requires the Mayor to propose a budget to the City Council and the public by April 15 of each year. The City Council will then hold public hearings prior to adopting or modifying the proposed budget before returning it to the Mayor. On June 16, 2005, the Mayor-City Council Transition Committee recommended that in addition to these requirements, the City Council create a standing Budget and Finance Committee and would adopt by resolution its budgetary priorities for submission to the Mayor by February 1 of each year.

On January 18, 2006, members of the City Council submitted to the Budget and Finance Committee their priorities for the Fiscal Year 2007 budget. These priorities (see attached memoranda) were intended for discussion and referral to the full City Council and submission to the Mayor. The purpose of this report is to convey to the Mayor the Fiscal Year 2007 budget priorities established by each City Councilmember, and to discuss the approach that the Office of Independent Budget Analyst (IBA) recommends for preparing a balanced budget for Fiscal Year 2007. The IBA recommends that the City Council endorse the approach outlined below and submit to the Mayor the individual memoranda from each Councilmember.

### **DISCUSSION**

In the past two months the City of San Diego has experienced a multitude of tumultuous changes: a transition to a new form of government; the election of a new Mayor and two City Councilmembers; the hiring of new City officials and the departure of numerous others; and the continued investigation of the City's finances by various agencies. These changes have created significant challenges for the City, but also have provided a unique opportunity to bring about change and work together to create a strong, vital and efficient city government that citizens will trust. The paramount challenge over the next several months will be developing a balanced Fiscal Year 2007 budget. Several issues make the Fiscal Year 2007 budget process particularly challenging: the Mayor's proposal for major organizational changes; the lack of a clear status of the Fiscal Year 2006 Budget, and a

corresponding accurate outlook for 2007; and the lack of clear processes and procedures by which the budget will be developed under the new form of government. These challenges, combined with the rapidly approaching April 15 deadline, cause serious concern as to the viability of producing a comprehensive Fiscal Year 2007 Proposed Budget.

### **RECOMMENDATION**

In light of these concerns, the IBA recommends that Fiscal Year 2007 be a year for a “time out.” This “time out” is needed in order to give the Mayor and City Council the opportunity to understand and review current budget policies, receive an accurate assessment of unfunded needs, identify current and future expenditure requirements, and address many of the issues that have plagued past City budgets. The IBA recommends that the Fiscal Year 2007 Budget include no new program funding, with the following exceptions: necessary expenses related to pension obligations, previously-negotiated contractual labor obligations, audit and legal expenses, and full funding of all State and Federal compliance orders related to Water and Sewer Infrastructure. This approach is consistent with many of the Fiscal Year 2007 budget priorities outlined by the City Councilmembers in their memos.

Additionally, the IBA recommends that the City Council request the following information from the Mayor. This information includes:

- Fiscal Year 2006 mid-year budget status incorporating the following:
  - General Fund/Enterprise Funds/Internal Services funds expenditures and projections for the year end detailed by department.
  - All projected General Fund unbudgeted expenditures.
  - Current status of General Fund revenues and projections for the year end.
  - Current cost recovery levels for all fee supported programs and services and recommend actions for achieving higher cost recovery revenues, including known revenue changes.
  - Projected General Fund deficit or surplus at the end of the fiscal year.
  - Any other issues impacting the year end status of the General Fund/Enterprise Funds/Internal Service funds, including Kroll investigation costs, and known legal expenses.
  - Current list of supplemental positions and associated costs by department.
  - Current list of vacant positions by department.
  
- Overview of Fiscal Year 2007 budget overview for all General Fund and Non-General Fund departments including:
  - Pension obligations.
  - Retiree health requirements.
  - Labor contract requirements by bargaining unit.
  - State & Federal compliance orders.

- Unfunded public safety requirements including personnel, equipment, and facilities costs.
  - Deferred Maintenance.
  - Major General Fund revenue projections.
  - Total cost of unbudgeted supplemental positions including corresponding revenue.
- Updated list of City leases and real estate holdings to be presented to the City Council no later than April 15, 2006

It is respectfully requested that this information, with the exception of the updated list of City leases and real estate holdings, be provided by mid-March to allow the City Council to gain a clear picture of the status of the Fiscal Year 2006 Budget and projected requirements for Fiscal Year 2007. The information requested should be as accurate as possible, recognizing that Fiscal Year 2007 expenditure and revenue estimates may change as the budget process continues.

It should be noted that the suggested budget approach for Fiscal Year 2007 is not in any way intended to diminish the importance of the specific service and program needs identified by individual Councilmembers. These services and programs are extremely important to the community but the priority for this year must be on addressing the most critical financial issues before other funding needs can be considered.

**[SIGNED]**

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