Review of the Fiscal Year 2013 Proposed Budget

Analysis by the Office of the Independent Budget Analyst

IBA Report 12-16 April 27, 2012

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City Agencies

Introduction

The FY 2013 budget process began in November 2011 with the Mayor's release of the FY 2013-2017 General Fund Five-Year Outlook which projected a deficit in FY 2013 of $31.8 million– 2.8% of the City's $1.15 billion General Fund operating budget. This is in sharp contrast to the $233 million shortfall which faced the City as it developed its FY 2011 budget just two years ago. Years of service reductions; employee pay freezes; hiring freezes; employee benefit reforms; restructurings; stream linings; and managed competitions, combined with a gradually improving economy, have laid the groundwork for the City's current financial position. During this time the City has built up fiscally prudent reserves; put into place sound financial policies; begun to direct additional funding toward its deferred capital program; and has consistently paid the full pension ARC since 2006.

Many of these actions have been noted by Standard & Poor's, which recently assigned the City an Issuer Credit Rating of AA- (up two notches from the previous general obligation, or GO bond, rating of A). Two weeks ago, Fitch Ratings similarly assigned the City an Implied Unlimited Tax GO bond rating of AA- (updating their previous GO bond rating of AA-). As the City no longer has outstanding GO bonds, these new ratings are the accepted equivalent of a city's GO bond rating.

The City is in a far better position than it was just a few years ago and is significantly better off than many large municipalities which continue to struggle with triple digit operating deficits. While it is important to acknowledge these significant accomplishments that addressed many of the financial problems of the past, the work is really just beginning.

Some City services such as Library hours and recreation center hours remain well below levels of a decade ago; Fire-Rescue is in need of additional Fire stations to meet response times; our deferred capital backlog for streets, storm drains and facilities approaches $900 million; the dissolution of Redevelopment carries many financial uncertainties and the economy is still uncertain. In order to address these matters and sustain the progress that has been made, the City must remain committed to the "Guiding Principles for Eliminating the Structural Budget Deficit" adopted by City Council on February 22, 2010. These principles for fiscal responsibility, which can be found at the end of this section, continue to be as important today as they were at the time of their adoption.

Overview

IBA Supports FY 2013 General Fund Revenue Projections

The FY 2013 Proposed Budget includes $1.15 billion in General Fund revenue, an increase of approximately $20.4 million or 1.8% from the FY 2012 Adopted Budget. Four major revenue sources - property tax, sales tax, transient occupancy tax (TOT) and franchise fees - account for approximately $775.7 million, or roughly 67.6% of total General Fund revenue. These major revenues reflect an increase of $40.6 million over the FY 2012 Adopted Budget.

Overall, the General Fund revenue projections in the FY 2013 Proposed Budget are appropriate given current revenue performance and economic forecasts of steady, modest growth in the economy. It is anticipated that the performance of economically sensitive revenues such as sales tax, TOT, and franchise fees will reflect similar trending. However, the IBA does have concerns regarding the projection for property tax given recent information attained from the County Assessor's Office regarding a likely decline in assessed valuation growth due to declines in the real estate market in 2011. The County Assessor is still in the process of evaluating the FY 2013 Assessed Valuation, and will not close this process until before July 1st of 2012. Each additional 1% decline in property tax receipts growth could equate to a reduction of approximately $3.9 million. The FY 2013 property tax forecast is a risk to the FY 2013 Proposed Budget assumptions, however, we are not recommending a change in the projection at this time until further information is received from the County Assessor.

$31.8 Million Deficit Eliminated Through Savings and Increased Revenue

The FY 2013 projected deficit of $31.8 million has been addressed primarily through:

- An $18.1 million reduction to the City's annual requirement contribution (ARC) pension payment, from what was projected in the Outlook, largely attributable to employee salary reductions and investment experience;
- A $10.5 million increase over projections in major revenue sources; and
- A $2.1 million reduction to debt service requirements due to reducing the proposed FY 2012 $100 million deferred capital bond to $75 million.

For the first time in six years no "one-time" solutions were used to balance the budget, nor were any services reduced.

FY 2013 Proposed Budget Continues Services Restored in FY 2012 and Restores Other Services

A FY 2012 Mid-Year surplus provided funding for restoration in the current year of the following:

- Five additional operating hours per week at all 35 branch libraries for a total of 41 hours
- Five additional operating hours per week at all 55 recreation centers for a total of 45 hours
- An expanded Police Academy in late FY 2012
- Funding for maintenance of 186 fire rings located along the beaches

Utilizing new resources identified for FY 2013, the Mayor has continued the restoration of these services through the next fiscal year. An exception to this is the Police Academy which does not require additional resources in FY 2013. Recruits graduating from the Police Academy will fill existing sworn vacancies.

New resources that have been identified for FY 2013 include:

- Copier contract savings - $1.0 million
- User fee cost recovery updates - $1.1 million

- Savings in FY 2013 by paying for the Fire Alert System with FY 2012 surplus funds rather than FY 2013 resources - $2.7 million
- Anticipated savings from managed competition processes of Fleet Services and Street Sweeping of $5.3 million and $667,000, respectively

These resources and other adjustments have allowed for restoration of weekly mowing of the lighted athletic fields; a new Fire Academy class; and lease purchase payments for one fireboat and two surf rescue boats. The Mayor has also included in the Proposed Budget several new positions in the Office of the Mayor, the Administration Department, the City Attorney's Office, Human Resources and Purchasing and Contracts. A chart in the Expenditure Overview section shows position changes in the Proposed Budget by department. They are further discussed in our review of the departmental budgets.

FY 2013 General Fund Comprehensive User Fee Study Truly Comprehensive

Since 2006 the IBA has advocated for management to undertake a comprehensive analysis of the City's user fees to ensure consistent cost calculations are being applied across all departments; to confirm that full costs or savings are being appropriately accounted for; and to determine current cost recovery rates for these activities compared to policy goals. The process as it existed in the past allowed the Council to review only select user fees as determined by the Mayor and did not provide Council the information necessary to evaluate the City's current "target" cost recovery policies. This analysis is an important part of the annual budget process in order to determine if the costs for specialized services, created and intended for specific users, are being supported by those users or are being subsidized by the General Fund.

The FY 2013 Comprehensive User Fee Analysis, recently completed by Financial Management and presented to the Budget and Finance Committee, contains all of the components of a best practice comprehensive user fee analysis as originally discussed by the IBA and as outlined by the Government Finance Officers Association (GFOA). This analysis also included a review of all user fees by the City Attorney's Office for compliance with Proposition 26. Proposition 26 which was approved by voters in November 2010 provides that a charge of any kind imposed by a local government is a tax unless an exception applies such as in the case of user fees.

At the April 25th, 2012 Budget and Finance Committee, Financial Management presented the results of their user fee analysis which proposed adjustments to 235 user fees; of which 72 fees remained the same, 100 fees increased, 44 fees were decreased, and 19 fees were eliminated. These user fee adjustments, which net $1.1 million, have been included in the Proposed Budget. The full City Council will need to approve all user fee adjustments. Park and Recreation Department fees have not been included in this analysis due to their complexity. The Proposed Budget includes $200,000 in Citywide Program Expenditures for consultant fees to conduct a separate user fee analysis of this department.

The specific user fee adjustments recommended for FY 2013 are discussed in our review of the departmental budgets.

Rating Agencies Take Note of Improvements to City's Reserve Levels

The Mayor's Proposed Budget reflects a General Fund reserve for FY 2013 of $120.8 million or 10.5% of revenue. However, based on a $3.3 million reporting error for TOT revenue in the Mid-Year Report (which has since been corrected) the reserve is estimated to be $117.5 million at the end of FY 2013, which equals 10.2% of total projected revenues which is in excess of the City's policy target of 8% for FY 2013. Even after this correction, General Fund reserves still exceed the City's Reserve Policy requirements by $25.7 million. Also, it should be noted that the Long Term Disability (LTD) Reserve, the Public Liability Reserve and the Workers' Compensation Reserve are all projected to meet policy goals established for FY 2013.

This month, Standard & Poor's and Fitch ratings reviewed the City's financial condition and creditworthiness. Both rating agencies maintained or upgraded the City's GO equivalent bond rating and additionally assigned the City a go forward "Stable Outlook". Strong credit ratings and a Stable Outlook provide the City with favorable access to the public debt markets and lower borrowing costs. A high credit rating for City debt results in cost savings from reduced interest costs and continued access to public debt markets. Both firms made note of the city's increased reserve levels in their ratings report. **Standard & Poor's** noted that they increased their issuer credit rating two notches from A- to A+ due to "proactive budget adjustments that have contributed to ***improved reserve levels*** even as the City managed fiscal pressures related to a sluggish economic cycle and rising pension costs." In the report from **Fitch Ratings,** they noted "Prudent Policies: the City continues to demonstrate a commitment to conservative financial management policies, multi-year budget planning, and ***general fund balance and reserves preservation***."

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

On March 19, 2012 the City Council adopted the FY 2013 Budget Priorities Resolution No. 30727 which was forwarded to the Mayor for his consideration as he developed his Proposed Budget. This resolution is a compilation of the individual budget priorities as stated by Council members in memos submitted to the Office of the IBA. In reviewing the individual Council submissions, it became clear that many areas were consistently mentioned as budgetary priorities, either specifically or that could be captured in six service categories:

- Funding of Public Safety
- Continued Restoration of Service Levels
- Investment in Streets and Public Assets
- New Innovations and Partnerships
- Economic Development Replacement
- One-Time Expenditure Items

The chart on the following pages displays each of the categories and the related common priorities that were called out in IBA Report 12-12REV which accompanied the Resolution. This chart lists each of the priorities, identifies whether the item has been addressed in the FY 2013 budget and provides explanatory comments.

With limited resources available the Mayor's Proposed Budget has addressed a number of the top priorities of the City Council particularly with regard to service restorations and Public Safety needs. The Mayor started to address service restorations as part of the FY 2012 Mid-Year budget monitoring process by recommending to the Council that a FY 2012 surplus be used to restore library branch hours, recreation center hours and fire rings at the beaches. He also recommended a part of this surplus be used to fund 15 additional recruits for the April Police Academy in the current fiscal year and to shift costs from

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
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		Current funding maintained in FY 2013
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
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		

**While the individual Council memos contained many more priorities for FY 2013, these are the funding areas that were most commonly mentioned and the items that were highlighted in the adopted priorities resolution.*

COUNCIL BUDGET PRIORITIES RESOLUTION *(continued)*			
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
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		
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
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		
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
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

FY 2013 to FY 2012 for a new Fire Alert System. All of these items were strongly supported by the City Council in their adoption of the Mid-Year Adjustments and were reiterated in memos as continuing priorities for FY 2013. The Mayor has also funded a new Fire Academy in FY 2013 and the lease purchase of three Fire rescue boats, also identified as Council priorities for FY 2013.

The chart also shows which items have not been included and identifies potential costs where known. These are some of the items the Council may want to consider during budget deliberations over the next several weeks if they are a priority for the City Council and if appropriate funding sources are identified.

Other Items Identified By the IBA For Council Consideration, Not in the Proposed Budget

FY 2013 Funding for Existing City Clerk Position- $107,000

The City Clerk has raised concerns about an existing filled Associate Management Analyst position in her office which has not been funded in the Mayor's FY 2013 Proposed Budget. The City Clerk is requesting that $107,000 in funding for this position be addressed in the Mayor's May Revision.

Internal Controls Audit as Recommended by the Audit Committee- $250,000 to $1.0 Million

The Audit Committee has repeatedly discussed and reaffirmed their interest in an independent audit of the City's internal controls to begin in FY 2013. This was a recommendation in the 2006 Kroll Report. Funding for this purpose has not been included in the FY 2013 Proposed Budget. This item is discussed in more detail in the City Comptroller section.

Budget Items requested by the City Auditor – Up to $187,000

The City Auditor is requesting the following items that have not been included in the FY 2013 Proposed budget: automation software ($68,000 one-time); restoration of travel and training to increase from $14,000 to $39,000; a new Administrative Assistant ($50,000); additional personnel expenses to create career path opportunities for audit staff ($30,000). These items are discussed in more detail in the City Auditor section.

Phase II Citizen Survey of City Services- $25,000

The City's first survey of citizen service priorities and satisfaction levels, since implementation of the Strong Mayor/Strong Council form of government, was undertaken in the winter of 2010 and results were published April 21, 2010. The Office of the IBA led this effort working with a consultant and the Citizens Revenue Review and Economic Competitiveness Commission. At that time, the Business Office had funds in their budget for a citizen survey that they were not planning to utilize. The real value of a citizen survey comes from establishing a baseline and measuring changes in citizen priorities and perceptions over time. FY 2013 would be an opportune time to conduct a follow-up survey to establish a secondary baseline for the new administration as well as to assess changing citizen priorities and perceptions as the economy gradually improves.

Lifeguard Training Funds Restored by Council in FY 2012 / Unfunded for FY 2013- $200,000

Final City Council budget decisions for FY 2012 included the restoration of $240,000 for lifeguard training. At the time the Mayor considered $200,000 of this a one-time restoration for FY 2012 and treated it as such by excluding it from the FY 2013-2017 Outlook and not including this funding in the FY 2013 Proposed Budget. It was not specified as a one-time restoration in the May Revise report, and it is our understanding Fire Rescue was not aware that these funds would not be recurring. This item requires further discussion and clarification and is discussed in greater detail in the Fire Rescue Section.

Operational Costs for New Council District 9- $500,000

The Mayor has indicated that the costs associated with the voter-approved District 9 Council Member, who will take office officially December 2012 and will require funding for office operations, will be considered in his May Revise.

One-Time Available Resources Identified by IBA, Not Addressed in the Proposed Budget

Transient Occupancy Tax (TOT) Fund Balance (Special Promo)- $10.7 Million

The FY 2013 Proposed Budget includes a projected $10.7 million TOT fund balance however there is no discussion in the budget of the plans or proposed uses for this balance. This substantial fund balance is due to FY 2011 and FY 2012 increased TOT collections in excess of budget that were not allocated out to eligible department expenses which is the current practice. TOT funds can be utilized each year to offset General Fund obligations that are related to tourism and promoting the City.

If appropriate department expenditures can be identified and TOT fund balance allocated to these operations, this could free up $10.7 million in General Funds in FY 2013. It is unclear why this was not done as part of the Proposed Budget. Financial Management has indicated to us that these funds will be kept in the TOT fund balance for FY 2013 to be utilized for unanticipated needs or shortfalls in FY 2013. Expenditures would need to be restricted to tourism and promotion of the city. Since this fund balance was not discussed in the Proposed Budget or during any budget presentations, we recommend City Council request additional information from the Executive Branch regarding this matter. If the funds remain in the TOT balance, the process for determining expenditure of these funds needs to be clarified.

Unclaimed Monies- $420,000

The FY 2012 Adopted Budget included $1.0 million of one-time revenue resulting from accelerated receipt of unclaimed monies. This is an item that was identified in the City Council matrix of resource options last year and included in City Council final budget revisions. Due to unanticipated delays, this resource was only partially realized in FY 2012. The Comptroller's decision to shorten the hold on unclaimed public monies (after public noticing) from three years to one year was made in accordance with the City Charter Section 86 and an opinion from the Office of the City Attorney. Due to this policy change, $1.0 million of one-time revenue was expected to be realized in FY 2012 and was budgeted under Major Revenues in the General Fund.

It was unknown at the time that SAP would need to be reprogrammed in order to transfer unclaimed monies in the General Fund after a one year hold. This programming is now underway and the one year hold policy will be implemented in FY 2013. After reviewing the latest information on unclaimed monies, the Comptroller believes it is reasonable to estimate $420,000 of additional one-time revenue in FY 2013. This revenue is not included in the FY 2013 Proposed Budget. As it is a one-time resource, appropriate uses would be one-time expenditures or an addition to the General Fund reserve.

Revenue Recovery Audit- $500,000

The FY 2012 Adopted Budget included one-time revenue of $500,000 expected to result from implementation of revenue recovery auditing. This is another item that the Council included in their final FY 2012 budget revisions and has yet to be realized. Two revenue recovery audits were initiated in FY 2012: 1) The City Treasurer initiated a review of Court fees the City receives monthly from the County of San Diego and 2) The Council recently authorized the Comptroller to enter into an agreement with an independent auditor to perform an audit of the City's accounts payable over the last three years. Although $500,000 was estimated and budgeted in FY 2012 for these audits, the receipt of this one-time revenue is more likely to occur in FY 2013. This revenue is not included in the FY 2013 Proposed Budget. As a one-time resource, we would recommend it be used for one-time expenditures or be placed in the General Fund reserve.

Reduction to Long Term Disability Contribution - $1.5 Million

During our review of the FY 2013 Proposed Budget, the Risk Management Department indicated that current projections for FY 2012 warrant a reduction in the Long-Term Disability contribution amount paid by City departments. Based on FY 2012 projections, it appears that the $8.1 million reserve target for FY 2012 will be exceeded. Further analysis with the department is needed to make a final determination of the amount. The department will be proposing that the FY 2013 Citywide LTD contribution of $3.9 million be reduced by $1.5 million to $2.4 million as part of the May Revision.

Public Safety Communication Bonds Fund Balance - $537,000

The Public Safety Communication Bonds Fund was established to account for the repayment of the 1991 San Diego General Obligation Bonds (Public Safety Communications Project). The 1991 general obligation bonds were paid off at the beginning of FY 2012. There is remaining fund balance of approximately $537,000 in the fund. Our office has been informed that the fund balance with either be transferred into the General Fund in FY 2012 as part of a year end adjustment, or will be added to the FY

2013 Proposed Budget in the May Revision.

IBA Review of the FY 2013 Proposed Budget

In the sections of our report that follow we provide our detailed analysis of FY 2013 General Fund Expenditures; FY 2013 General Fund Revenues; Deferred Capital; General Fund Reserves; Other Post-Employment Benefits; Pension; Redevelopment; and all FY 2013 Departmental budgets.

STRUCTURAL BUDGET DEFICIT ELIMINATION GUIDING PRINCIPLES AS ADOPTED BY THE CITY COUNCIL (2/22/10)

Resolution R-305615

1. Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditure reductions and revenue generation, including identifying new revenue sources.
2. Until the City achieves its targeted General Fund reserve level of 8%, the City should not consider using reserve balances to balance any budget shortfall and should ensure that it does not drop below the current level of 7%.
3. Actively pursue alternative service delivery methods, including managed competition, efficiency improvements and elimination of service duplications.
4. Prepare a 5-year Outlook each year and provide numeric values for alternative budget balancing options based on input from City Council, Mayor, and IBA; be prepared each year to discuss alternative budget balancing options with the Budget Committee or City Council should the Outlook suggest an ongoing structural deficit.
5. One-time resources should be matched to one-time expenditures.
6. Achieve 100% cost recovery for programs and services that are intended to be fully cost recoverable through fees.
7. Reduce pension and retiree health care liability and annual City costs through the meet and confer process.
8. When deciding to construct new facilities or establish new programs, the City must take into consideration ongoing operation expenses and should identify ongoing funding to cover these expenses unless necessary to meet high priority needs.
9. Prioritize City services expenditures based on the City Charter requirements, Citizen Survey and other means of public input, benchmarking studies and departmental goals and performance data.
10. Maintain funding of the full annual required contributions (ARC) for the City's pension obligations in a manner compliant with City Charter and develop a plan to fully fund the Retiree Health Care ARC.
11. Develop a plan to fund deferred capital infrastructure and maintenance needs to reduce the current backlog, identify the level of funding necessary to prevent the problem from growing larger, and to reduce the potential of increasing costs to identify the level of funding. Discuss at Budget and Finance Committee a policy to calculate and identify the level of funding for deferred maintenance budget needs.

Revenue Overview

The FY 2013 Proposed Budget includes $1.147 billion in General Fund revenue, an increase of approximately $20.4 million or 1.8% from the FY 2012 Adopted Budget. Four major revenue sources - property tax, sales tax, transient occupancy tax (TOT) and franchise fees - account for approximately $775.7 million, or roughly 67.6% of total General Fund revenue. These major revenues reflect an increase of $40.6 million over the FY 2012 Adopted Budget.

Other non-departmental revenue sources, such as property transfer tax, charges for current services, and transfers from other funds total $72.8 million, a decrease of approximately $4.7 million from FY 2012. The majority of this decrease is related to the $5.0 million reallocation of Safety Sales Tax revenue to a special fund, the $3.3 million elimination of Vehicle License Fees (VLF), by State Bill 89, and a $4.4 million reduction in transfers in from other funds. These decreases are offset in part by major increases including a $2.6 million increase in General Governmental Service Billings (GGSB) to other funds, a $2.3 million increase in one-time disaster recovery revenue that is related to winter storms, a projected increase in Property Transfer Tax of $1.2 million, and a $1.0 million increase in the transfer from the TOT Fund due to anticipated growth in TOT revenues.

Departmental revenues total $303.2 million, a decrease of approximately $15.5 million over FY 2012. This decrease is primarily attributable to the removal of $11.8 million in revenue related to Gas Tax revenue and a $3.5 million reduction in parking citation

FY 2013 Proposed Budget - General Fund Revenue

GENERAL FUND REVENUE	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	$ 380,908,544	$ 389,106,053	$ 8,197,509
Sales Tax	211,589,835	234,414,956	22,825,121
Transient Occupancy Tax	74,787,161	80,463,918	5,676,757
Franchise Fees	67,808,948	71,678,516	3,869,568
Other Local Taxes			
Property Transfer Tax	5,147,851	6,359,105	1,211,254
Safety Sales Tax[1]	5,020,992	-	(5,020,992)
Vehicle License Fees[2]	3,264,364	-	(3,264,364)
Other Non-Departmental			
Interest Earnings	1,888,098	1,354,233	(533,865)
Transfer from TOT Fund	13,377,666	14,395,303	1,017,637
General Gov't Service Billings	22,568,275	25,192,557	2,624,282
Other	21,530,040	20,836,945	(693,095)
Departmental Revenues	318,711,292	303,206,425	(15,504,867)
TOTAL GENERAL FUND REVENUE	**$ 1,126,603,066**	**$ 1,147,008,011**	**$ 20,404,945**

1 Safety Sales Tax is deposited into the Public Safety Needs and Debt Service Fund instead of the General Fund in FY13. These funds are then used to pay oustanding debt on the Fire and Lifeguard Facilities and the remainder equally transferred to the Fire and Police Departments.

2 Motor vehicle license fees were eliminated by the State of California in FY12, and were eliminated from General Fund projections for FY12 and have beer in the FY13 Proposed Budget.

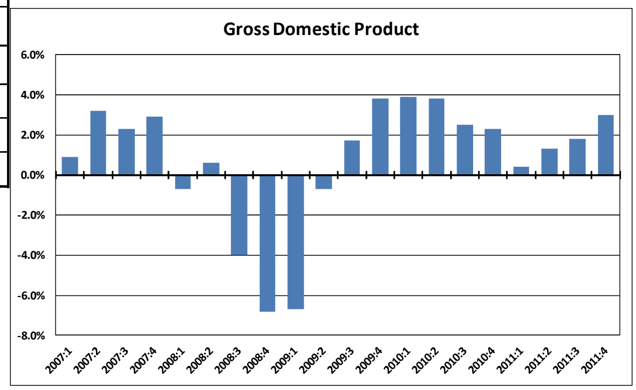
revenues. Changes to departmental revenues are discussed further in the respective departmental budget sections.

Major General Fund Revenue Growth Rates				
Revenue Source	FY 2010 Actual	FY 2011 Estimated	FY 2012 Projected	FY 2013 Proposed
Property Tax	-1.8%	-1.9%	0.6%	0.8%
Sales Tax	-9.6%	12.2%	5.5%	6.2%
TOT	-11.6%	12.5%	7.2%	2.3%
Franchise Fees	-0.6%	-2.8%	3.8%	5.3%
SDG&E	-7.2%	-6.4%	5.7%	2.0%
Cable	6.1%	2.8%	2.3%	2.9%

Economic Outlook

Since the official end of the recession in June of 2009, the U.S. economy has continued to show signs of recovery, albeit at a modest pace. Gross Domestic Product (GDP), the broadest measure of the nation's economic health, increased at an annual rate of 1.7% in 2011, following a 3.0% increase in 2010. GDP grew by 3.0% according to the third estimate released in the last quarter of March 2012. Although recent GDP growth is slower than that necessary to accelerate the nation's economy to pre-recession levels over the next few years, it has been steady for ten straight quarters, following four quarters of decline from mid-2008 to mid-2009.

According to Beacon Economics' April 2012 Economic Forecast, GDP will grow by a quarterly average of 3.4% for the remainder of 2012, with the growth tapering off to 2.8% and 2.7% in the first two quarters of 2013. The March 2012 UCLA Anderson Forecast projects GDP growth of 2.1% in 2012, with growth of 2.1% and 2.4% in the first two quarters of 2013. The improvements in the national economy are being supported by growth in consumer spending, business investment, and exports. Economists note that a main threat to the current economic trend is a continued increase in oil prices that can dampen consumer spending.



On a local level, economic improvements are evident in employment, personal income, and taxable sales numbers. The unemployment rate in San Diego County as of March 2012 according to initial estimates is 9.5%. This is an increase over February's rate of 9.3%, but represents an 1.5% improvement over the March 2011 unemployment rate of 10.8%. Beacon Economics forecasts that unemployment rates will continue to improve to 7.7% by the second quarter of 2013. UCLA forecasts an 8.8% unemployment rate by the second quarter of 2013.

Alongside improvements in the unemployment rate, both the Beacon and UCLA forecasts project continual personal income growth that will support growth in consumer spending, and thus taxable sales. Beacon forecasts growth of 6.9% in taxable sales in FY 2013 over FY 2012. This follows consistent year-over-year growth in taxable sales experienced by the City in FY 2012.

A recent weak spot in the economy is the real estate market, which has seen declines in the past year. The Beacon and UCLA forecasts differ on the timing of a reversal of these decline trends, but a recovery is anticipated to take place in FY 2013. Beacon forecasts growth of approximately 2.0% in median housing values in FY 2013 and an increase of 7.6% in sales. On the other hand, UCLA Anderson forecasts a continuance of decline trends in median single family home values until the middle of FY 2013, with sales increasing by 6.9% during the fiscal year.

Given current trends and economic forecasts of a steady, modest growth in the economy, it is anticipated that the performance of economically sensitive revenues such as property tax, sales tax, TOT, and franchise fees will reflect similar growth trends. In general, the General Fund revenue projections in the FY 2013 Proposed Budget are appropriate given current revenue performance and economic forecasts. While we recommend no change at this time, the IBA does have concerns regarding the projection for Property Tax given recent information attained from the County regarding a likely decline in assessed valuation growth. The following sections discuss each of the major revenue projections in greater detail.

Property Tax

Property tax, the largest General Fund revenue source, is projected at $389.1 million in the FY 2013 Proposed Budget. This projection reflects 0.8% economic growth from the FY 2012 year-end projection, and an increase of $8.2 million from the FY 2012 budget level. In the Five-Year Financial Outlook for FY 2013 - 2017, property tax revenue was projected to grow by 1.0% in FY 2013.

Property tax revenue in FY 2013 is based on assessed valuation as of January 1, 2012, which reflects market activity that occurred in calendar year 2011. In 2011, San Diego's residential real estate market saw declines in valuation and sales. According to MDA Dataquick housing data, the median sales price of homes within San Diego County decreased from $333,000 in December of 2010 to $315,000 in December 2011, a decline of 5.4%. This trend of declining growth in San Diego home prices is also reflected in the Case-Shiller Home Price Index, which is generally regarded as the most accurate measure of home price changes. There was also a 3.2% decline in sales in 2011 over 2010. On balance, residential market activity in 2011 will have a significant negative impact on assessed valuation, and potentially lower property tax collections in FY 2013.

Under State law, properties may be temporarily reassessed if the market value of the property falls below the assessed value. According to the County Assessor's Office, over 196,000 properties have seen a reduction in value as a result of reassessments over the past few years. Due to current declines in the real estate market, the County is proactively reassessing an additional 179,000 properties that were sold between 2001 and mid-2011 for potential reassessments.

Property owners may also formally appeal the assessed value of their property. The number of appeals surged in the past few years resulting in further reductions to assessed value, and significant refunds to property owners. In 2008 and 2009, over 60,000 property assessment appeals were filed with the County Assessor's Office. While this number declined to just over 15,000 in 2010, appeals have seen an uptick to approximately 19,000 for 2011.

On a positive note, the California Consumer Price Index (CCPI) continued positive growth in 2011. Under Proposition 13, the assessed value for properties that have not been sold or remodeled may be increased annually at the rate of inflation, not to exceed 2%. In 2009, the CCPI was negative for the first time in over five decades, resulting in widespread (though modest) reductions in assessed valuation. In 2010, the CCPI increased by 0.75% for purposes of assessed value adjustment. In 2011, the CCPI increased by over 2.0%. This positive CCPI growth will impact approximately 70% of properties on the County roll.

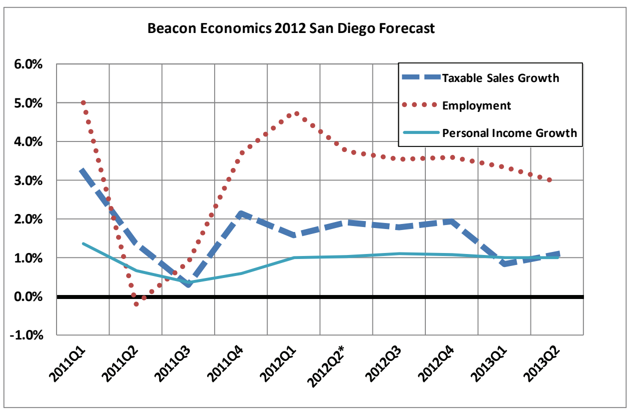
Despite a 2.0% increase to a large number of properties on the property tax roll, recent declines in the real estate market have prompted a large number of reassessments that will negate growth in the property tax roll. The County Assessor is still in the process of evaluating the FY 2013 Assessed Valuation and will not close this process until before July 1st of 2012. Although the actual valuation for the City of San Diego will not be known until then, it is highly likely that property tax growth will be less than the 0.8% growth over FY 2012, given the aforementioned factors. Each additional 1% decline in property tax receipts growth could equate to a reduction of approximately $3.9 million. The FY 2013 property tax forecast is a risk to the FY 2013 Proposed Budget assumptions.

Sales Tax

The FY 2013 Proposed Budget for sales tax revenue is $234.4 million, reflecting 5.5% economic growth from the FY 2012 year-end projection, and an increase of approximately $22.8 million over the FY 2012 Budget. The budgeted growth rate of 5.5% reflects a 1.0% increase from the 4.5% growth projected for FY 2013 in the Five-Year Outlook.

Sales tax revenue is highly sensitive to economic conditions, such as job growth, consumer spending and business investment. As economic conditions have continued to improve, sales tax revenues have responded accordingly. In FY 2012, sales tax receipts continued to experience strong growth that began in FY 2011 after two years of significant declines. Based on receipts through March, year-to-date growth in sales tax is 9.0%, while growth at year-end is projected to be 6.2%. This growth has been fueled by increases in general retail, food product, construction, transportation, and business to business sales.

The projected sales tax revenue growth for FY 2013 assumption aligns with Beacon and UCLA Anderson economic forecasts. Both predict modest, but steady growth in non-farm employment and personal income, fueled by high skill jobs in the region. According to Beacon's recent forecast, a total of approximately 28,760 jobs are anticipated to be added within the County over the course of FY 2013. Personal income levels are forecast to increase by 3.1%. Similarly, the UCLA forecast projects the addition of 32,995 jobs, and 3.4% growth in personal income. Accordingly, this income and employment growth will support a boost in consumer spending, and thus taxable sales. Beacon forecasts a 6.9% increase in taxable sales during FY 2013.



Given the strong growth in sales tax projected in FY 2012 and forecasted improvements in the economy, the 5.5% economic growth rate assumed in the FY 2013 Proposed Budget is appropriate. While there are certain risks to future growth, particularly the recent surge in oil and gasoline prices, the economic outlook is overall positive.

Transient Occupancy Tax

The FY 2013 Proposed Budget projects General Fund transient occupancy tax (TOT) at $80.5 million, which is $22.8 million or 7.6% above the FY 2012 Adopted Budget. This proposed budget level for TOT is also $1.8 million or 2.3% above the projection included in the FY 2012 Mid-Year Budget Monitoring Report. This FY 2013 proposed revenue nearly matches the "optimistic" FY 2013 forecast included in the Mayor's Five Year Financial Outlook of $80.8 million. The proposed budget of $80.5 million is based on the General Fund allocation of 5.5 cents of the City's total 10.5 cent TOT rate, pursuant to San Diego Municipal Code. The total 10.5 cent City TOT revenue in the FY 2013 Proposed Budget is $153.6 million.

General Fund TOT growth from the mid-year projection of 2.3% varies greatly from the budgeted 5.0% indicated in the FY 2013 Proposed Budget document due to a reporting error that occurred for revenue distributions during four months of the current fiscal year. The revenue reporting error was due to the newly implemented TOT reporting system inflating actual revenue receipts. These erroneous distributions were included in the FY 2012 Mid-Year Report, which overstated TOT revenue by approximately $3.3 million. Subsequent to the release of the mid-year, the reporting error was discovered and the revenue distributions were corrected. The Proposed Budget reflects the corrected revenue total. This revenue reduction is also addressed in the General Fund reserves section of this report due to the affect on the surplus identified during the mid-year that increased General Fund reserves.

Despite the over-inflation of TOT revenue in the FY 2012 Mid-Year Report, revenue has increased consistently over the past two fiscal years, and signs of improvement continue to exist. Information compiled by Tourism Economics for the San Diego Convention and Visitor's Bureau (ConVis) in the Quarterly Travel Forecast, dated March 2012, shows a projected increase in FY 2012 and FY 2013 tourism indicators that directly translate to TOT revenue received by the City. This information compiled for ConVis reflects continued growth for overnight visitors since 2010, and continue to project growth for the full FY 2012 and FY 2013. Overnight visitors are projected to increase 6.0% for the full FY 2012 over FY 2011, and are then projected to increase 1.3% in FY 2013. Additionally, the average daily rate (ADR) paid by overnight visitors is projected to increase in both FY 2012 and FY 2013.

ConVis Quarterly Travel Forecast

	2010	2011	2012	2013
Total Visitors	0.9%	4.1%	1.9%	2.5%
Overnight Visitors	4.5%	0.1%	6.0%	1.3%
Room Demand	6.4%	3.0%	3.4%	1.3%
Average Daily Rate	-2.3%	3.4%	2.6%	4.0%
Occupancy Rate	66.7%	68.9%	70.3%	71.0%

ADR is the amount paid on average for an overnight stay within the City and is based on the supply and demand of hotel rooms available. The projected ADR for FY 2012 is forecasted to increase 2.6% and then grow an additional 4.0% in FY 2013.

Based on the improving ADR and overnight visitors projected in the ConVis report (in addition to the positive growth in other tourism related economic indicators, as shown above), the 5.0% growth rate included in the FY 2013 Proposed Budget appears to be appropriate. Also, the actual amount of revenue budgeted in FY 2013 also reflects the corrections in the amount of revenue that should have been reported in the FY 2012 Mid-Year Report and correctly reflects the revised FY 2012 TOT projection with a 5.0% growth rate applied to it.

Franchise Fees

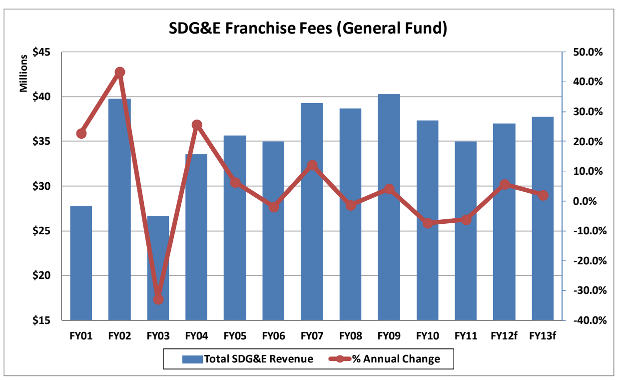
The FY 2013 Proposed Budget projects General Fund franchise fees at $71.7 million, which is $3.9 million or 5.7% above the FY 2012 Adopted Budget. This proposed budget level for franchise fees is also $3.6 million or 5.3% above the projection included in the FY 2012 Mid-Year Report. This proposed revenue level exceeds the Five Year Financial Outlook projected FY 2013 revenue of $69.1 million by $2.6 million or approximately 3.8%. Total franchise fees Citywide, which include the utility undergrounding surcharge and revenue allocated to the Environmental Growth Fund, is $133.2 million.

GENERAL FUND FRANCHISE FEES

CITY FRANCHISE	FY 2012 ADOPTED	FY 2013 PROPOSED
SDG&E	$ 36,115,325	$ 37,736,863
Cable Franchises	19,099,914	19,365,448
Refuse Hauler	9,568,710	9,950,000
Sycamore Landfill	2,750,000	2,800,000
Other	275,000	1,826,205
TOTAL	**$ 67,808,949**	**$ 71,678,516**

Franchise fee revenue is derived primarily from three sources: 1.) a 3.0% San Diego Gas & Electric (SDG&E) surcharge on total gross sales; 2.) a 5.0% surcharge on cable television providers in the City; and 3.)

charges to private refuse haulers based on tonnage of refuse disposed. The largest source in General Fund franchise fee revenue is the surcharge on SDG&E, which accounts for $37.7 million of the budgeted revenue amount. This is $1.6 million and 4.5% above the FY 2012 Adopted Budget, and approximately $740,000 or 2.0% of the FY 2012 Mid-Year. Additionally, there is $12.6 million of non-General Fund revenue generated from SDG&E that is deposited in the Environmental Growth Funds, which is spent to preserve and enhance the environment of the City of San Diego as deemed appropriate by City Council.



Revenues derived from SDG&E are difficult to forecast due to the City's inability to review their financial forecasts for electricity and natural gas rates and sales volume due to the fact that they are publicly traded (as their parent company, Sempra energy). In addition to this difficulty, the annual percent change in total revenue received from SDG&E has been very unstable, as can be seen in the chart above.

The budgeted growth rate in SDG&E revenue is 2.0%, which is appropriate based on the projected continuation of local economic growth (which is correlated to an increase total energy usage) and conservative enough based on this revenue's volatility.

The second largest portion of revenue is from cable television franchise fees, which totals $19.4 million and is based on a budgeted 4.0% growth rate. This is approximately $270,000 or 1.4% above the FY 2012 Adopted Budget, and approximately $540,000 or 2.9% above the FY 2012 Mid-Year Report. Cable television franchise fee revenue has averaged 4.0% historical growth since 2006 and did not decline during the recession from 2007 to 2009, which justifies the budgeted growth rate for FY 2013.

Refuse hauler franchise fees and revenue generated from the Sycamore landfill are based on total refuse tonnage hauled and disposed of, respectively. Tonnage is directly tied to recovery in the residential housing market and general economic activity as homeowners remodel their homes, purchase new consumer goods, and replace older items that are discarded. The City's refuse hauler franchise fee is projected to increase 4.0% from the FY 2012 Adopted Budget and 7.0% from the FY 2012 Mid-Year Report. Fees generated from the Sycamore landfill are projected to increase approximately 1.8% over the prior year's budgeted amount and from the mid-year. Based on the projected continued local economic recovery and discussions with the Environmental Services Department, we believe that this revenue source is appropriately budgeted for FY 2013.

Expenditure Overview

Mayor's FY 2013 Proposed Adjustment

The FY 2013 Proposed Budget totals $1.15 billion, and reflects a net increase of $21.8 million from the FY 2012 Adopted Budget, or a 1.9% increase. A summary of changes by expenditure category appears in the table below.

Compared to the most recent Five-Year Outlook, the Mayor's FY 2013 budget proposal has declined by $12.2 million, largely due to the $18.1 million reduction in the City's retirement contribution, or Annual Required Contribution (ARC). The Five-Year Outlook contained an estimated ARC of $198.0 million, based on previous projections by the pension system's actuary. The actual FY 2013 General Fund ARC of $179.9 million that is incorporated into the FY 2013 Proposed Budget was determined after the Five-Year Outlook was produced.

Issues to Consider

The Mayor's FY 2013 Proposed Budget is the third to be developed using the City's Public Budget Formulation (PBF) system, a module of the OneSD SAP integrated system for the City's core Financial, Procurement, Human Resources, and Payroll processes.

This Expenditure Overview section reviews the proposed changes to the General Fund expenditure budget as a whole. Changes within the budget expenditure categories that are listed in the table on the previous page (such as Salaries and Wages, Fringe Benefits, Supplies and Contracts) are discussed in this section.

Many of the FY 2013 Proposed Budget changes reflect the implementation of a Citywide policy or direction that can be de-

SUMMARY OF GENERAL FUND BUDGET CHANGES
(in millions)

EXPENDITURE CATEGORY	FY 2011 Actuals	FY 2012 Budget	FY 2013 Proposed	CHANGE	%	FY 2013 OUTLOOK
Salaries and Wages	$ 490.1	$ 504.5	$ 509.0	$ 4.5	0.9%	$ 506.8
Fringe Benefits	317.9	308.9	321.1	12.2	3.9%	336.4
Supplies	18.5	17.9	20.6	2.7	15.1%	18.4
Contracts	160.5	174.9	152.7	(22.2)	-12.7%	161.2
Information Technology	25.4	23.1	25.1	2.0	8.7%	24.3
Energy and Utilities	26.7	33.7	42.8	9.1	27.0%	36.0
Other Expenditures	5.2	4.5	6.9	2.4	53.3%	79.3
Transfers Out	31.5	53.1	64.4	11.3	21.3%	*in Other*
Capital Expenditures	0.5	1.8	1.8	-	0.0%	*in Other*
Debt	4.1	6.0	5.8	(0.2)	-3.3%	*in Other*
TOTAL GENERAL FUND	**$ 1,080.4**	**$ 1,128.4**	**$ 1,150.2**	**$ 21.8**	**1.9%**	**$ 1,162.4**

scribed globally, while specific impacts to operations are discussed in our Department Review section.

The budget document presented for FY 2013 has been improved from the FY 2012 submission. For example, the "Significant Budget Adjustments" now contains a complete list of changes from one budget year to the next. Additionally, the budget document now includes actual revenue and expenditure data for the prior fiscal year (FY 2011). This is an important feature that provides a helpful comparison to the reader, especially when reported in concert with targets/goals for departmental performance measures. Further context and transparency could be achieved by including actual prior year (FY 2011) expenditure data and current budget year (FY 2012) data for the fringe, specialty pay, overtime and termination pay annual leave categories.

Salaries and Wages

The General Fund Salaries and Wages category has increased by $4.5 million, or 0.9% compared to the FY 2012 Adopted Budget. The calculation of budgeted salaries is based on a November 2011 snapshot of payroll data, including actual employee salaries.

General Fund FTE's have increased by 68.8, from 7,036.6 to 7,105.4 FTE's. A listing of FTE changes by department appears on the next page.

Salary Savings and Vacancy Savings
Salary Savings are a reduction in Salaries and Wages and are a combination of estimated Vacancy Savings (associated with turnover, attrition, and under-filled positions) and savings that are the result of labor concessions (for example mandatory furlough and other salary reductions).

In total, FY 2013 Salary Savings for the General Fund is $24.3 million. Note that Salary

SALARIES AND WAGES - BUDGET AND ACTUAL CHANGES
Significant General Fund (GF) Changes by Type
(in millions)

SALARY AND WAGE TYPE	FY 2011 Actuals	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
Salary Savings (includes vacancy savings)	*in Salaried Wages*	$ (18.7)	$ (24.3)	$ (5.6)	29.9%
Salaried Wages	397.2	443.8	446.0	2.2	0.5%
Vacation Pay in Lieu	7.2	1.9	1.9	-	0.0%
Termination Pay/Annual Leave	2.5	2.1	1.5	(0.6)	-28.6%
Specialty Pay	31.2	30.5	30.0	(0.5)	-1.6%
Hourly Wages	10.4	9.3	10.8	1.5	16.1%
Overtime	41.6	36.2	43.4	7.2	19.9%
Budget Adjustment	-	(0.6)	(0.3)	0.3	-50.0%
TOTAL GF SALARIES AND WAGES	**$ 490.1**	**$ 504.5**	**$ 509.0**	**$ 4.5**	**0.9%**

Savings lowers the General Fund Budget by $24.3 million, as shown in the "Salaries and Wages—Budget and Actual Changes" table on the previous page. As compared to the FY 2012 Adopted Budget, the FY 2013 Proposed Budget for Salary Savings increased by $5.6 million, which, again, decreases total Salaries and Wages by $5.6 million. The increase in Salary Savings is split between increases in Vacancy Savings and increases in salary reductions.

As mentioned above, Vacancy Savings are included in the Salary Savings line item. In previous years, as part of the annual budget process, the City has assigned a vacancy factor to departments (with eleven positions or more) in order to reduce budgeted personnel expenditures in anticipation of normal turnover and attrition. As a result of the implementation of OneSD, the Vacancy Savings included in the Proposed Budget are based on a November 2011 data snapshot of the vacancy status of positions, as well as consultations with departments regarding hiring plans. Using this information, certain budgeted positions are unfunded, producing the Vacancy Savings in the FY 2013 Proposed Budget. A table of Vacancy Savings budget changes, by department, appears on the next page.

FTE CHANGES				
General Fund (GF) Changes by Department				
DEPARTMENT	**FY 2012 BUDGET**	**FY 2013 PROPOSED**	**CHANGE**	**%**
Administration	18.45	20.45	2.00	10.8%
Business Office	7.25	8.25	1.00	13.8%
City Attorney	343.35	344.99	1.64	0.5%
City Auditor	19.50	20.00	0.50	2.6%
City Treasurer	116.63	118.63	2.00	1.7%
Development Services	100.54	104.79	4.25	4.2%
Environmental Services	129.80	135.01	5.21	4.0%
Ethics Commission	6.00	5.00	-1.00	-16.7%
Fire-Rescue	1,148.89	1,144.40	-4.49	-0.4%
Human Resources	12.75	16.00	3.25	25.5%
Library	359.23	385.16	25.93	7.2%
Office of the Chief Financial Officer	3.00	3.75	0.75	25.0%
Office of the Mayor	38.17	41.32	3.15	8.3%
Park and Recreation	741.21	762.93	21.72	2.9%
Police	2,514.85	2,513.85	-1.00	0.0%
Public Works - Engineering & Cap. Proj.	469.03	479.67	10.64	2.3%
Public Works - General Services	112.00	116.00	4.00	3.6%
Purchasing and Contracting	39.39	30.39	-9.00	-22.8%
Real Estate Assets	27.00	28.00	1.00	3.7%
Transportation and Stormwater	441.68	438.56	-3.12	-0.7%
Remaining Departments	387.90	388.27	0.37	0.1%
TOTAL GF FTE CHANGES	**7,036.62**	**7,105.42**	**68.80**	**1.0%**

In addition to the Vacancy Savings, the Salary Savings budget includes reductions to personnel expenditures resulting from continuing employee labor concessions. The effect on employees is dictated by parameters established through labor negotiations. Personnel expenditure reductions resulting from labor concessions are in the form of furlough and/or 3% salary reductions for certain employees.

Based on a recent tentative labor agreement with the Municipal Employees Association (MEA), it is likely that MEA employees (and unrepresented employees) will no longer have a choice in labor concessions. In FY 2012, MEA employees could choose between waiving their Supplemental Pension Savings Plan (SPSP) employer mandatory match or taking 52 hours of mandatory furlough. Unrepresented employees could choose between waiving their SPSP employer mandatory match and a 3% pay reduction. For FY 2013, it is likely that MEA's non-hourly employees will be required to take 52 hours of unpaid furlough and unrepresented employees will be required to take a 3% pay reduction; and the option of waiving SPSP will no longer be available for FY 2013 .

The impact of this change in the implementation of labor concessions is not incorporated in the FY 2013 Proposed Budget and will not be incorporated in the May Revision unless City Council approves the tentative agreement or memorandum of understanding with MEA prior to the May Revision. Without a change to the FY 2013 Budget, SPSP costs, in the Fringe category, will be higher than the budget, but there will be a corresponding decrease to Salaries and Wages.

Other Salary and Wages Adjustments

Other Salary and Wages expenditure changes between the FY 2013 Proposed

VACANCY SAVINGS - BUDGET CHANGES

Significant General Fund (GF) Changes by Department

(in millions)

DEPARTMENT	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
City Attorney	$ 0.7	$ 1.0	$ 0.3	42.9%
Environmental Services	0.1	0.2	0.1	100.0%
Fire-Rescue	3.4	5.1	1.7	50.0%
Library	0.2	0.7	0.5	250.0%
Park and Recreation	0.8	0.9	0.1	12.5%
Police	8.8	8.8	-	0.0%
Public Works - Engineering & Cap. Proj.	1.1	1.1	-	0.0%
Public Works - General Services	0.6	0.5	(0.1)	-16.7%
Transportation & Stormwater	0.7	0.8	0.1	14.3%
Remaining Departments	1.2	1.2	-	0.0%
TOTAL GF VACANCY SAVINGS	**$ 17.6**	**$ 20.3**	**$ 2.7**	**15.3%**

Budget and the FY 2012 Adopted Budget are highlighted in the following paragraphs .

First, Salaried Wages are increasing by approximately $2.2 million. There are a number of increases affecting this line item. These include position reclassifications, career advancements, and some service restorations, including:

- 3.00 added FTE's in Park & Recreation for weekly mowing of lighted athletic fields;
- 5.00 new positions in Purchasing & Contracting, which are offset by 14.00 position transfers to Engineering & Capital Projects (E&CP), Contracting;
- 5.00 added FTE's in E&CP, along with 1.00 FTE in the Administration Department and 1.00 FTE in the Transportation and Storm Water Department, to support the City's deferred capital program;
- 8.00 added Fire Prevention Inspectors.

Termination Pay/Annual Leave has decreased from approximately $2.1 million to $1.5 million, or $600,000 in the General Fund. This reflects an increase of $300,000 compared to the estimates in the Five-Year Outlook. These estimates are based on anticipated retirements and annual leave data for DROP employees.

Hourly wages are increasing by approximately $1.5 million, largely due to the following: the Park & Recreation Department has a $300,000 increase, largely due to the planned increase in recreation center operating hours; and the Library Department has a $1.2 million increase, largely due to the planned increase in branch library operating hours.

Overtime is increasing by approximately $7.2 million. The Fire-Rescue Department's overtime has increased by $6.7 million, which is intended to bring budget categories in line with historic actual expenditures. Fire-Rescue's overtime is partially offset by increases in vacancy savings and related fringe. The Transportation and Storm Water Department's overtime is increasing by $500,000, also to adjust the budget to actual overtime needs.

Fringe Benefits

In the FY 2013 Proposed Budget, total Fringe Benefits have increased by $12.2 million in the General Fund. The General Fund share of the City's retirement payment (ARC) is relatively unchanged compared to FY 2012, increasing from $178.3 million to $179.9 million, or by $1.6 million. The ARC represents over half of the General Fund fringe benefits.

In addition to the City's retirement payment, fringe benefits include funding for flexible benefits, retiree health care, workers' compensation, and risk management administration, among other items. A table of Fringe Benefit budget changes is shown on the next page.

Funding for retiree health benefits, or Other Post-Employment Benefits, is increasing by $1.8 million, from $39.1 million to $40.9 million. This is largely due to a $1.4 million reduction made to the FY 2012 Adopted Budget for anticipated federal reimbursements from the Early Retiree Reinsurance Program. Funding has run out for this program, and the City does not expect to receive any reimbursements for FY 2012.

Worker's Compensation funding has been increased by $6.5 million, from $16.5 million to $23.0 million. This is largely due to the reinstatement of the $4.9 million General Fund reserve contribution for the Workers' Compensation Reserve—the Citywide reserve contribution is $5.9 million.

Additionally, the annual amount estimated to be needed for payment of Workers' Compensation claims during FY 2013 has increased by $1.6, based on a three-year average of actual annual payments.

Retirement Offset Contributions (ROC's) are paid to the retirement system for a portion of employees' pension contribution obligations. The only remaining ROC's paid by the City are for MEA employees and Lifeguards represented by Teamsters, Local 911. The City pays the pension system 0.4% of MEA employees' salaries and 2.3% of Local 911 salaries. The General Fund portion of such ROC's are budgeted at approximately $600,000 in the FY 2013 Proposed Budget.

The budget for SPSP has increased by $2.0 million, from $9.0 million in the FY 2012 Adopted Budget to $11 million. As mentioned previously in the Salaries and Wages discussion, because of potential changes in the implementation of labor concessions, there will likely be increased SPSP costs and corresponding decreases to Salaries and Wages in FY 2013. However, because the relevant labor agreement has not yet been approved by Council, a budget adjustment will not likely occur.

The Long-Term Disability (LTD) budget is increasing by $0.4 million, from $2.5 million to $2.9 million. The General Fund portion of the LTD reserve contribution is increasing by $1.0 million to $1.4 million (total Citywide LTD reserve contribution is $1.9

SUMMARY OF FRINGE BENEFITS BUDGET AND ACTUAL CHANGES

General Fund (GF) Changes by Benefit

(in millions)

FRINGE BENEFIT ACCOUNT	FY 2011 Actuals	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
Retirement ARC	$ 181.5	$ 178.3	$ 179.9	$ 1.6	0.9%
Flexible Benefits	37.4	38.5	38.3	(0.2)	-0.5%
Retiree Health Benefits	42.0	39.1	40.9	1.8	4.6%
Worker's Compensation	16.3	16.5	23.0	6.5	39.4%
Retirement Offset Contribution	4.0	0.5	0.7	0.2	40.0%
SPSP	9.0	9.0	11.0	2.0	22.2%
Employee Offset Savings	8.9	9.1	9.1	0.0	0.0%
Medicare	6.0	5.5	5.6	0.1	1.8%
Risk Management Administration	6.1	6.5	6.7	0.2	3.1%
Long Term Disability	4.2	2.5	2.9	0.4	16.0%
Remaining Fringe Accounts	2.5	3.4	3.0	(0.4)	-11.8%
TOTAL GF FRINGE BENEFITS	**$ 317.9**	**$ 308.9**	**$ 321.1**	**$ 12.2**	**3.9%**

million). The increase in the General Fund LTD reserve contribution is offset by a $0.6 million decrease in funding for claims.

The City's Reserve Policy goal for LTD is $12 million, which the City anticipates achieving by FY 2014; and the Reserve Policy also mentions that the City is evaluating the feasibility of purchasing insurance for this benefit instead of continuing the City's self-insurance program.

To accomplish this endeavor, the City will need to prepare to continue to pay existing claims while also funding costs associated with premiums for future insurance coverage. The LTD reserve appears to be the intended source of funds for existing claims. Additionally, further analysis must be done to ensure compliance with the Meyers-Milias-Brown Act, which governs labor-management relations and collective bargaining in California.

Supplies

The Supplies category is budgeted at $20.6 million for the General Fund, and reflects an increase of $2.7 million or 15.1% compared to the FY 2012 Adopted Budget. The Supplies category contains a variety of relatively smaller accounts, and we discuss a few of the larger changes below.

In our review, we determined the largest dollar increase is to Asphaltic Road Materials and Cement and Aggregates, in the combined amount of approximately $1.2 million.

Additionally, the increase to Building Materials and Electrical Materials accounts is approximately $700,000. Safety Supplies also increased by over $600,000. There are a number of additional increases and offsetting decreases in various Supplies accounts.

Contracts

The Contracts category totals $152.7 million for the General Fund, and reflects a decrease of $22.2 million from the FY 2012 Adopted Budget. A table of changes in the larger line items of the Contracts category appears on the next page. A few changes are noted below.

Besides traditional contracts, this category also includes funding for motive equipment usage and assignment charges, which are rates charged to City departments for the maintenance and repair of City vehicles, as well as for costs for planned scheduled replacements based on the useful life of the vehicle or piece of equipment. For FY 2013, $10.7 million in fuel costs are being transferred from the motive equipment usage line item in the Contracts category to the Energy and Utilities category.

There is also a reduction in FY 2013 of $11.8 million for street-related work that was funded in FY 2012 through Gas Tax reimbursement savings from FY 2011. Election costs have decreased by $1.1 million (see Citywide Program Expenditures Department Review for more detail). Also, $1 million in cost reductions for photocopy services has been made—attributable to the new copier contract with Sharp Business Systems.

Lastly, the Miscellaneous Professional/ Technical Services includes an increase of

$6.0 million, which is earmarked for transition costs related to the anticipated new IT services contracts.

Information Technology

A large portion of Information Technology (IT) services are currently provided to the City by San Diego Data Processing Corporation (SDDPC). The City's Department of Information Technology works closely and coordinates efforts with SDDPC.

The City has been working on a comprehensive IT Services Sourcing Strategy, intended to provide savings to the City. This process has led to the Mayor's Office requesting that City Council approve the replacement of SDDPC with new outside vendors. On April 18, 2012, the Rules Committee voted to move the proposed actions forward to the Council for discussion, with requests for further analysis and information regarding the implementation of these substantial changes.

Specifically, Mayoral staff is seeking approval for contracts with new vendors for the Data Center, Service Desk & Desktop Support Services and Application Development & Maintenance Services. Note that the City currently utilizes En Pointe Technologies for Help Desk & Desktop Support functions.

According to the current estimates, the transition timelines for transfer of the service areas under consideration varies. The transition for application support is esti-

SUMMARY OF CONTRACTS BUDGET CHANGES
General Fund (GF) Changes by Account
(in millions)

CONTRACTS ACCOUNT	FY 2011 Actuals	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
Misc. Professional/Technical Services	$ 22.1	$ 31.4	$ 37.2	$ 5.8	18.5%
Motive Equipment/Fleet - Usage	29.1	33.6	20.8	(12.8)	-38.1%
Motive Equipment/Fleet - Assign	12.7	15.1	13.5	(1.6)	-10.6%
Refuse Disposal Fees	12.1	11.9	11.9	0.0	0.0%
Rent Expense (Non-Discretionary)	10.0	9.5	11.5	2.0	21.1%
SAP Support Allocation	10.2	8.9	11.1	2.2	24.7%
Contract Svc - Agency	7.7	8.0	8.0	0.0	0.0%
Contract Svc Operations	6.7	6.6	6.4	(0.2)	-3.0%
City Services Billed	20.3	4.6	4.2	(0.4)	-8.7%
Landscaping Services	3.6	4.7	4.5	(0.2)	-4.3%
Maint - Buildings, Roads, Equipment	1.3	15.4	2.4	(13.0)	-84.4%
Maintenance & Janitorial Services	1.6	2.1	2.2	0.1	4.8%
Legal Fees	0.7	3.5	1.9	(1.6)	-45.7%
Repair & Maintenance Services	2.1	1.7	1.5	(0.2)	-11.8%
Security Services	1.4	1.8	1.5	(0.3)	-16.7%
Remaining Contracts Accounts	18.9	16.1	14.1	(2.0)	-12.4%
TOTAL GF CONTRACTS	**$ 160.5**	**$ 174.9**	**$ 152.7**	**$ (22.2)**	**-12.7%**

mated to take six months; service desk and desktop support is expected to take four months; and the data center migration is anticipated to require a full year. Further discussion regarding the IT transition costs can found in the Information Technology Department Review section of this report.

In total, the FY 2013 Proposed Budget for IT needs across all General Fund Departments totals $25.1 million, which is $2.0 million more than FY 2012 amounts. The table below shows the major changes in budget amounts.

Approximately $310,000 of the increase in IT costs is attributable to replacement of PC's that have reached the end of their useful lives; and approximately $626,000 of the increase is attributable to the purchase of Police Department parking citation handheld devices.

Also, various accounts in the budget have been restructured to better identify cost components. For example, there are $1.9 million in increased costs for the Data Center line item, which are largely offset by the $1.8 million in reduced costs for the Licensing/Maintenance Contracts line.

Energy/Utilities

The Energy and Utilities category totals $42.8 million for FY 2013, and reflects an increase of $9.1 million from the FY 2012 Adopted Budget. Included in this category are accounts for gas and electricity, water and sewer charges, and allocations to General Fund departments for the Wireless Communication Transfer.

A table of changes in the larger line items of the Energy/Utilities category appears on the next page. A couple changes are also noted below.

First, an increase for the transfer of $10.7 million in Fleet fuel costs from the motive equipment usage line item in the Contracts category is coupled with an increase in estimated costs for fuel of $1.0 million, for a total increase of $11.7 million.

SUMMARY OF INFORMATION TECHNOLOGY BUDGET CHANGES
General Fund (GF) Changes by Account
(in millions)

INFO TECHNOLOGY ACCOUNT	FY 2011 Actuals	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
Hardware / Software	1.9	$ 0.6	$ 1.5	$ 0.9	150.0%
Telephone and Network Access	6.7	7.3	7.9	0.6	8.2%
Professional IT Services/IT Support	5.5	5.4	5.9	0.5	9.3%
Data Center	1.9	1.4	3.3	1.9	135.7%
Licensing/Maintenance Contracts	9.4	8.3	6.5	(1.8)	-21.7%
Other	0.0	0.1	0.0	(0.1)	-100.0%
TOTAL GF INFO TECH	**$ 25.4**	**$ 23.1**	**$ 25.1**	**$ 2.0**	**8.7%**

General Fund Revenue and Expenditure Overview

SUMMARY OF ENERGY/UTILITIES BUDGET CHANGES General Fund (GF) Changes by Account (in millions)					
ENERGY/UTILITIES ACCOUNTS	FY 2011 Actuals	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
Fleet Fuel (Non-Discretionary)	$ -	$ -	$ 11.7	$ 11.7	100.0%
Electric Services	6.9	9.3	7.9	(1.4)	-15.1%
Water Serv-Includes Hydr Rent	6.1	7.4	6.7	(0.7)	-9.5%
Wireless Communication Transfer	6.9	7.4	6.7	(0.7)	-9.5%
Street Lighting/Traf Sig	0.3	3.0	2.9	(0.1)	-3.3%
Traffic Signals	1.0	1.6	1.8	0.2	12.5%
Cellular Phone Operating Cost	1.9	1.3	1.4	0.1	7.7%
Other Motor Fuels	1.8	1.4	1.4	0.0	0.0%
Sewer Service Charge	0.9	1.0	1.0	0.0	0.0%
Remaining Energy/Utilities Accounts	0.9	1.3	1.3	0.0	0.0%
TOTAL GF ENERGY/UTILITIES	**$ 26.7**	**$ 33.7**	**$ 42.8**	**$ 9.1**	**27.0%**

Second, the Electric Services line item is decreasing by $1.4 million, largely due to the expected reduction in energy costs resulting from the Broad Spectrum Street Lighting Project. The street lighting project is discussed at the end of this section, under the Debt category.

Other

Changes in the Other expenditures category are shown in the table below. The most notable increase is to the Preservation of Benefits (POB) account. The POB funds amounts for employees' retirement benefits that exceed IRS limits for annual benefits. This amount is paid to the San Diego Employees' Retirement System, and the General Fund portion for FY 2013 is $1.7 million. This was previously budgeted in what is now the Transfers Out category.

Transfers Out

Transfers Out is a new expenditure category for FY 2013. This category contains transfers of funding between City funds, including the allocation of funds to City re-

SUMMARY OF OTHER BUDGET CHANGES General Fund (GF) Changes by Account (in millions)					
OTHER ACCOUNTS	FY 2011 Actuals	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE	%
Information Technology Services Transfer	1.7	2.0	2.6	0.6	30.0%
Transportation Allowance	1.7	1.7	1.8	0.1	5.9%
Preservation of Benefits Expense	1.4	0.0	1.7	1.7	100.0%
Taxes - Sales/Use & Assessments	0.4	$ 0.8	$ 0.8	-	0.0%
TOTAL GF OTHER	**$ 5.2**	**$ 4.5**	**$ 6.9**	**$ 2.4**	**53.3%**

serves and transfers of funding for annual debt service payments for outstanding bonds.

The Transfers Out category totals $64.4 million for the General Fund, and reflects an increase of $11.3 million from the FY 2012 Adopted Budget amount of $53.1 million. Budget adjustments are discussed in the related Department Review sections and highlighted below.

Listed below are some of the main increases to the Transfers Out category:

- In the Citywide Program, a $6.1 million Public Liability Fund reserve contribution increase, as well as an increase in $600,000 to be transferred to the claims fund.
- Also, in the Citywide Program, a $5.1 million increase in deferred capital debt service for the anticipated $75 million deferred capital program bond issuance in FY 2013.
- In the Police Department there is $2.4 million added for the Police tow program, as well as $1.3 million in increased funding for amounts to be transferred to the Decentralization Fund.
- In Transportation & Storm Water, $1.6 million is budgeted to be transferred to the Capital Improvements Program to support Regional Water Quality Control Board permit requirements related to bacteria total maximum daily loads (TMDL).

Reductions to Transfers Out include the following:

- $1.7 million related to the Fire Alert system that was funded in FY 2012.
- $1.5 million due to the removal of a one-time expenditure for Disability Services transfer for ADA capital projects in FY 2012.
- $900,000 due to the removal of a one-time Purchasing & Contracting transfer to capital projects for the Supplier Relationship Management module for SAP.
- A reduction of $1.6 million that was budgeted in FY 2012 in the Transfers Out budget category for the Preservation of Benefits expenditure. This budgeted item was moved to the Other category on the previous page, and is budgeted at $1.7 million for FY 2013.

Citywide Program contributions of $5.4 million to cover the annual debt service payment for the $100 million in 2009 deferred capital financing is included in the Transfers Out category. Also, funding for annual payments related to the McGuigan Settlement financing are included in this category, and the General Fund share of $8.0 million is reflected in Citywide Program Expenditures.

Capital

Capital Expenditures include funding for vehicle and equipment purchases not handled by the City's Fleet Services. The FY 2013 Proposed Budget for General Fund Capital Equipment is $1.8 million, for both the FY 2013 Proposed Budget and FY 2012 Adopted Budget.

Debt

The Debt category totals $5.8 million in the General Fund for FY 2013, a decrease of $0.2 million from the FY 2012 Budget.

Certain payments related to the City's Master Lease Purchase Program for Police and Fire Equipment and Vehicles are reflected here, along with payments for energy efficiency retrofits. Loans from the California Energy Commission initially funded project costs and multi-year repayments are made from energy savings due to reduced energy consumption.

Additionally, $1.5 million is budgeted in the Transportation & Storm Water Department Street Division for Qualified Energy Conservation Bonds (QECB) bond payments related to the Broad Spectrum Street Lighting Project, along with approximately $300,000 for payments on a related California Energy Commission (CEC) Loan.

The Broad Spectrum Street Lighting Project is an endeavor to convert approximately 80% of existing low pressure sodium and high pressure sodium citywide street lights to broad spectrum lighting using induction type technology.

Total project costs of $18.1 million are funded by $13.1 million in QECB's, a $3 million CEC Loan, and $2 million in EECBG funds.

Annual payments for the QECB's and CEC loan will be funded from annual street light energy and maintenance costs savings, anticipated to be approximately $1.8 million annually, once the project is completed. Additionally, the City will receive a federal subsidy each year towards payments of the QECB's ($468,000 in FY 2012). The project is anticipated to be completed in March 2013 and is currently about 50% complete.

Deferred Capital

Five-Year Funding Plan

The most significant issue raised in our review of the Mayor's Five-Year Financial Outlook for FY 2013-2017 related to the funding assumptions for addressing deferred capital expenditures. We agreed with the magnitude of the problem—estimated to be a backlog of $898 million for streets, facilities, and storm drains. We also agreed that that deferred capital should be a top funding priority over the next five years and beyond. However, we were concerned with the level of cash versus bond funding, staffing capacity to expend this level of funding based on experience with the first deferred capital bond issuance (FY 2009), and the timing and uncertainty of the impacts of pending Capital Improvement Program (CIP) streamlining proposals.

On February 8, 2012, the Mayor's Office issued a report which presented a Status Quo Option that showed the funding level necessary to prevent further deterioration and funding Options A and B, which would achieve the Status Quo funding level over a longer period of time. Both Options A and B provided:

- lower funding amounts in the early years and gradually ramped up investment over the five-year period, and
- total investment of $713 million for deferred capital over the five-year period.

However, Option B represented greater cash contributions relative to capital bond requirements.

In our February 6, 2012 report, our office recommended Option B over Option A or the Status Quo Option because it began to address several of our concerns. Option B increased total cash funding for operations and maintenance related to deferred projects by 30% from $229 million in the Mayor's original Outlook to $298 million over five years and decreased total spending of bond funds from $500 million in the Outlook to $415 million.

As part of the Mayor's FY 2012 Mid-Year Budget Report, our office recommended to

DIFFERENCES IN FUNDING BETWEEN STATUS QUO OPTION AND ENHANCED OPTION B

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Status Quo Option/Preventing Further Deterioration						
Operations and Maintenance (Cash Funding)	$ 53.8	$ 54.9	$ 56.0	$ 57.1	$ 58.2	$ 280.0
Net Bond (for Capital Projects)	105.2	105.2	105.2	105.2	105.2	526.0
Total	**$ 159.0**	**$ 160.1**	**$ 161.2**	**$ 162.3**	**$ 163.4**	**$ 806.0**
Enhanced Option B						
Operations and Maintenance (Cash Funding)	$ 54.1	$ 50.0	$ 62.0	$ 66.0	$ 73.8	$ 305.9
Net Bond (for Capital Projects)	75.0	80.0	81.0	90.0	89.4	415.4
Total	**$ 129.1**	**$ 130.0**	**$ 143.0**	**$ 156.0**	**$ 163.2**	**$ 721.3**
Difference	$ (29.9)	$ (30.1)	$ (18.2)	$ (6.3)	$ (0.2)	$ (84.7)

the Budget and Finance Committee that $8.3 million of the projected $16.5 million Mid-Year revenue fund surplus be used to further increase cash funding of deferred capital projects in FY 2013. This addition would increase cash funding from $45.8 million to $54.1 million to achieve the Status Quo Funding Option for operations and maintenance for FY 2013. This proposal is now referred to as Enhanced Option B.

While the Mayor indicated support for this proposal during the Mid-Year discussion, these surplus funds have not been included in the FY 2013 Proposed Budget. The Mayor's Office has indicated that they will address this matter in the May Revision after they have had an opportunity to reaffirm the FY 2012 surplus amount.

At the February 29, 2012 meeting, the Budget and Finance Committee voted to forward Enhanced Option B to full Council for consideration. The City Council approved Enhanced Option B as the Five-Year Deferred Capital Program Funding Plan on March 20, 2012. Subsequently, on April 9th Council authorized the issuance of $75 million in lease revenue bonds for deferred capital projects. This represents the City's second deferred capital bond issuance.

Anticipated funds from these bonds and planned projects were included as an amendment to the FY 2012 CIP Budget on April 9, 2012. Debt Management anticipates that the bonds will be priced in June 2012

SUMMARY OF DEFERRED CAPITAL BOND PROJECTS AND FY 2012 BUDGET DISTRIBUTION

ASSET TYPE/PROJECTS	AMOUNT	PERCENT
Americans with Disabilities Act (ADA)	**$ 8,200,000**	**11**
Park & Recreation	**$ 1,550,000**	**2**
Open Space Improvements (Annual Allocation)	550,000	
Mission Beach Boardwalk Bulkhead	1,000,000	
Streetlights Circuit Upgrade (Loma Portal, Pacific Beach, Sunset Cliffs, Talmadge)	**$ 2,653,000**	**4**
Streets	**$ 30,633,000**	**41**
Street Resurfacing (Annual Allocation)	30,568,200	
Midway Street Bluff Repair	65,000	
Facilities	**$ 16,397,000**	**21**
Facilities Improvement (Annual Allocation)	5,176,371	
Firestation No. 17 (Mid City) - Replacement	50,000	
Firestation No. 05 (Hillcrest) - Reconstruction	50,000	
La Jolla Cove Lifeguard Station - Replacement	1,320,279	
City Administration Building - Fire Safety Sprinkler System	3,000,000	
Skyline Hills Library - Repair and Expansion	5,000,000	
San Ysidro Library - Repair and Expansion	1,800,000	
Storm Drains	**$ 15,567,000**	**21**
Storm Drain Replacement (Annual Allocation)	14,553,150	
San Diego River Dredging Qualcomm Way to SR-163 - Sediment Removal	639,000	
San Remo Way Storm Drain - Improved Flood Control	75,000	
Manhassett Drive Storm Drain - Improved Flood Control	125,000	
Coolidge Street Storm Drain - Improved Flood Control	175,000	
Total	**$ 75,000,000**	**100**

and proceeds received in early July 2012. This will allow projects to begin about two months earlier than if they had been included in the FY 2013 CIP Budget.

The Second Deferred Capital Bond Issuance

As of March 19, 2012, the estimated True Interest Cost for the Second Deferred CIP Bonds (FY 2012) is about 4.66%. At this rate, the City's estimated lease payment would be $5.1 million in FY 2013, followed by an average annual lease of about $5.0 million in subsequent years. The maximum effective interest rate established under the financing ordinance is 7.00% which would result in an average annual lease payment of about $6.2 million. Given current market conditions, this is not expected to occur.

The FY 2013 Proposed Budget includes an estimated debt service payment of $5.1 million for the second bond issuance in the Citywide Program Expenditures Department. Deferred capital debt service payments are now centralized in this Department.

The First Deferred Capital Bond Issuance

In March 2009, the City issued $103 million in Deferred Capital General Fund-backed lease revenue bonds to fund $102.7 million for deferred CIP projects. These bonds were refunded as long-term bonds in mid 2010 as part of the 2010 Master Refunding lease revenue bond issue.

Public Works - E&CP reports that about $95.4 million of bond proceeds and earnings from the First Deferred Capital Bond issuance will be expended by the end of June 2012. The majority of the remaining $8.3 million will be expended by December 2012.

The debt service payment for the first bond issuance is $6.9 million in FY 2013. As shown in the table below, this includes $1.5 million in principal from the Capital Outlay Fund and $5.4 million in interest from the Citywide Program Expenditures Department. In FY 2012, the interest of $4.1 million and $1.3 million were included in the Transportation & Storm Water and General Services budgets, respectively.

Issues for Consideration

May Revision

As part of Enhanced Option B, City Council approved the use of up to $8.3 million of the Mid-Year revenue fund surplus to in-

PAYMENTS FOR FIRST DEFERRED CAPITAL BOND ISSUANCE

	FY 2012	FY 2013
Principal		
Capital Outlay Fund	$ 1,900,000	$ 1,480,000
Interest		
Transportation & Storm Water Department	4,100,000	-
General Services Department	1,300,000	-
Citywide Program Expenditures Department	-	5,400,000
TOTAL	**$ 7,300,000**	**$ 6,880,000**

crease cash funding of deferred capital projects in FY 2013 to achieve the Status Quo Funding Option for FY 2013 and prevent further deterioration of infrastructure. As the Mayor's Office has an opportunity to reaffirm the FY 2012 surplus amount, it is important that these funds be included in the May Revision of the FY 2013 Proposed Budget.

CIP Streamlining

In conjunction with CIP streamlining measures, a new Council Policy was developed to increase transparency to enable the City Council and the public to provide oversight of the City's CIP (Capital Improvement Program Transparency , 000-31) . Per the Policy, Public Works - E&CP will make information readily available by using a combination of presentations to City Council, stakeholder meetings, and media, including the City's new CIP website that is expected to be operational on May 3, 2012.

Two important items that are required by the new Council Policy have not been included in the FY 2013 Proposed Budget, but Public Works - E&CP reports that these will be provided before the scheduled budget hearings begin.

- List of consultant contracts for approval - Public Works - E&CP will provide this information to City Council in a Memorandum before the May 3, 2012 budget discussion on the CIP. In addition, all consultant contracts will be posted on the CIP website.
- List of streets that will be resurfaced - The Proposed Budget includes planned resurfacing contracts to be awarded in FY 2013, and Transportation & Storm Water's Street Division will provide alignment (specific streets) by the May 3rd budget discussion. In addition, at a later date, the resurfacing projects will be posted on the CIP website.

Public Works - E&CP will also provide status updates of projects to City Council twice annually. When the Mayors Office brings forward future deferred capital bond issuances and annual cash funding recommendations, Council will have the opportunity to reassess planned investments in deferred capital based on the Department's ability to successfully implement projects and financial conditions and priorities. Based on this information, Council can determine whether to increase funding beyond planned levels to more aggressively address the backlog.

General Fund Reserve

The City of San Diego's General Fund reserve is comprised of three separate components that are defined by Charter section 91: 1.) the emergency reserve; 2.) unassigned General Fund balance; and 3.) the appropriated reserve. The City formally adopted a Reserve Policy in 2008 for the General Fund reserve, among others, which was subsequently revised in 2011. The updated Reserve Policy requires the City to maintain 8.0 percent of total General Fund revenue in balance that is calculated by combining all three of the aforementioned accounts that comprise the General Fund reserve. Additionally, the Reserve Policy separately requires that the emergency reserve must be equal to or greater than 5.0 percent of General Fund revenue, with an ultimate target of 8.0 percent. When the emergency reserve reaches 8.0 percent, the appropriated reserve and unassigned balance will not be included in the overall 8.0 percent calculation. The Reserve Policy does not specifically state a date in which the 8.0 percent target for the emergency reserve should be achieved.

As presented in the FY 2012 Mid-Year Budget Monitoring Report, the City's financial performance and fiscal solutions implemented in the current and prior fiscal years has led to a rise in the General Fund balance above policy levels. The total General Fund reserve was reported as approximately \$130.4 million or 11.4 percent of projected FY 2012 General Fund revenue at that time. Based on Ordinance 20084, the Mayor may re-budget any amount of a projected mid-year surplus, which Council may amend up to 50 percent of the surplus or \$5.0 million in expenditures (whichever is less). The General Fund reserve was reduced by the Mayor's recommended and Council approved budgeting of \$5.0 million of the projected surplus for expenditures in FY 2012. Additionally, \$3.2 million was rebudgeted for FY 2013 (which is included in the proposed budget) and a projected savings of \$1.4 million to the General Fund was forecasted to not be received after the Mid-Year Report was released.

The reported \$130.4 million General Fund reserve was then reduced by the total of these three items (\$9.6 million) to what is shown in the Mayor's FY 2013 Proposed Budget for ending fund balance of \$120.8 million or 10.5 percent of revenue.

Based on a \$3.3 million reporting error for TOT revenue in the Mid-Year Report (which has since been corrected), the FY 2013 General Fund projected year-end reserve level is estimated to be \$117.5 million or 10.2 percent of total projected revenue. After accounting for this, General Fund reserves still exceed the City's Reserve Policy requirements by \$25.7 million.

It should also be noted that this updated year-end General Fund reserve of \$117.5 million does not incorporate additional IBA recommendations made for utilizing up to \$8.3 million of the remaining surplus, identified in the FY 2012 Mid-Year Budget Monitoring Report, for deferred capital. The

Mayor has not included any funds from the surplus to achieve the "Status Quo" funding level for O&M deferred capital projects, as approved by City Council. However, the Mayor has indicated that this matter will be addressed in the May Revise, which would reduce the General Fund reserve level.

Issues to Consider

City of San Diego Credit Ratings

In April 2012, Standard & Poor's and Fitch Ratings reviewed various City of San Diego debt issuances for any potential update on their credit rating. Both agencies affirmed the stable financial outlook of the City of San Diego and maintained or improved the credit ratings for each individual bond issuance they reviewed. Maintenance of a high credit rating for City debt is an important fiscal priority due to the cost savings associated with reduced interest costs and continued access to public debt markets.

Standard & Poor's noted in their comments that they have increased the rating of their reviewed City debt from 'A-' to 'A+' due to "proactive budget adjustments that have contributed to improved reserve levels even as the City managed fiscal pressures related to a sluggish economic cycle and rising pension costs." In the report from Fitch Ratings, they noted "Prudent Policies: the City continues to demonstrate a commitment to conservative financial management policies, multi-year budget planning, and general fund balance and reserves preservation."

Other Post-Employment Benefits

Retiree health obligations, or Other Post-Employment Benefits (OPEB), total $57.8 million ($40.9 million for the General Fund) in the FY 2013 Proposed Budget. The pay-as-you-go (PAYGO) portion of the OPEB budget (for employees already retired) is $39.5 million. The remaining $18.3 million will cover new defined contribution payments that are part of the restructured benefit (discussed under the Effects of Labor Negotiations heading of this section) and prefund the future payment of benefits that are currently being earned.

Currently, the City provides a defined benefit plan (DB) for employees hired before July 1, 2005. This benefit was restructured for employees retiring on or after April 1, 2012. Again, this restructure is discussed later under the Effects of Labor Negotiations section.

In the City's DB retiree medical plan, vested employees are provided a specific health benefit at the time of their retirement. Effective July 1, 2009 the vesting time period for the full DB retiree health benefit plan is 20 years.

For employees retiring before the DB retiree health benefit restructure became effective (April 1, 2012), the City has frozen the automatic escalator on the retiree medical benefit for POA and AFSCME Local 127 employees retiring on or after July 1, 2009 and before April 1, 2012. The benefit is frozen at $8,880 per year. The suspension of the escalator for other retirees retiring on or after July 1, 2009 and before April 1, 2012 has been lifted or will be lifted on July 1, 2012, depending on the date of retirement.

Additionally, for General Members there is a separate defined contribution Retiree Medical Trust for employees hired on or after July 1, 2009. The plan requires both an employee contribution and a City match of 0.25 percent, based on an employee's base compensation.

Annual Required Contribution (ARC)

The DB plan ARC for FY 2013 is $97.4 million, based on the June 30, 2011 actuarial valuation. However, this figure does not reflect the restructured benefit, as it had not been finalized prior to the valuation work. Had the benefit restructure been included in the valuation, the ARC would be significantly lower. However, the costs for the "Option C" benefit (discussed under the Effects of Labor Negotiations heading of this section) would significantly offset the savings associated with the reduced ARC.

Despite its name, the City is not required to pay the ARC, but beginning FY 2008 an accumulated liability based on unpaid ARC amounts must be booked on the financial statements. The total Unfunded Actuarial Liability (UAL) is approximately $1.1 billion as of June 30, 2011. Information regarding the ARC and UAL is available in the June 30, 2011 valuation, which was performed by

Buck Consultants and provided to the City in November 2011.

Effects of Labor Negotiations

During the second half of FY 2011, the City negotiated with its six labor unions to modify the retiree health benefit for eligible active employees. Objectives of the negotiations included reducing the retiree health benefit UAL and ARC, and the related cash flow pressures.

At the end of FY 2011, the City reached agreement with its six labor unions regarding a restructured benefit level that became effective April 1, 2012.

There are three options associated with the restructured retiree health benefit: Option A is a defined benefit with a full annual allowance (at 20 years of service) equal to $8,883 per year, with a 2% annual escalator beginning FY 2014; Option B is a defined benefit with a full annual allowance (at 20 years of service) equal to $5,500 per year, with no escalator; Option C is a defined contribution plan for which a full funding level (at 20 years of service) would be approximately $100,000. Options A and B require that employees make nonrefundable contributions.

The agreement with the labor unions also provided that the City does not anticipate paying more than $57.8 million annually for the retiree health benefit through FY 2015, and thereafter does not anticipate increasing the payment by more than 2.5% annually. The Five-Year Outlook is budgeted accordingly. Note that the duration of the agreement with the labor unions is 15 years, but it can be modified after June 30, 2014.

Fiscal Effects of Restructuring the Retiree Health Benefit

It was most recently estimated that there would be a cumulative cash flow savings of $802 million over 25 years due to the restructuring. The savings is produced by a combination of reduced retiree health benefits and a cap on the cash flow payouts over 25 years.

Additionally, it was recently estimated that the effect on the June 30, 2011 UAL would be a reduction from $1.1 billion to $567 million (reduction of $564 million), and there would be an estimated $48.9 million ARC reduction. However, the ARC and UAL reductions, which apply to the defined benefit Options A and B, do not include the costs associated with Option C (which is a defined contribution plan). Such costs will significantly offset the savings associated with the reduced ARC and UAL. However, the overall savings to the City would still be significant.

Pension

The FY 2013 Proposed Budget includes $231.2 million for the Annual Required Contribution (ARC) for the City's defined benefit pension. The FY 2012 Adopted Budget for the ARC was also $231.2 million. The General Fund portion of the FY 2013 budgeted payment is $179.9 million — an increase of approximately $1.6 million over the FY 2012 Adopted Budget of $178.3 million.

As is the case for cities across the country, market downturns during FY 2009 exacerbated the City's pension system Unfunded Actuarial Liability (UAL) — which totals $2.2 billion as of June 30, 2011. The City's pension system liabilities as of June 30, 2011 are funded at a rate of 68.5% — up from 67.1% at June 30, 2010. The ARC for the City is approximately 35% of FY 2013 budgeted salaries and wages and 47% of membership payroll (pensionable salaries) at June 30, 2011.

The City's new budgeting system provides a more accurate allocation of the ARC, and other fringe benefits, among employees. The ARC budget distribution is now based on actual filled positions and is calculated based on percentages of salaries, from information contained in the pension system's actuarial valuation.

Retirement Offset Contributions (ROC's)

The City also currently makes partial retirement contributions to the pension system on behalf of eligible employees — referred to as ROC's. In effect, the City pays a portion of eligible employees' retirement system contributions, according to rates negotiated with the labor unions.

The only remaining ROC's paid by the City are for MEA employees and Lifeguards represented by Teamsters, Local 911. The City pays the pension system 0.4% of MEA employees' salaries and 2.3% of Local 911 salaries. The FY 2013 Proposed Budget amount for Citywide ROC's is approximately $1.0 million, and the General Fund portion is approximately $600,000.

Even though MEA and Local 911 employees maintain ROC's as part of employment benefits, the negotiated labor concessions for these employees yield comparative savings to the concessions for employees in the City's other unions. As part of their concessions, MEA and Local 911 negotiated alternate benefit reductions (for example, mandatory furlough) in place of the total elimination of offsets.

Effects of Labor Negotiations

The City's negotiated salary freezes have the effect of reducing the ARC and UAL. This is because salary increases are assumed in the pension system's projections. Salary increases result in a higher liability due to higher expected pension payouts. When salary increases do not occur, a lower ARC and UAL will result.

This does not necessarily mean that the net ARC payment will be less than the previous year. The ARC reduction that is related to a salary freeze is one effect on the ARC—

there are many pension system assumptions for which actual experience can vary from expectations, such as investment return and rates of retirement.

The total reduction incorporated within the FY 2013 ARC for the FY 2012 general salary freeze is approximately $8 million to $9 million. The FY 2012 general salary freeze saves approximately $8 million to $9 million per year for 15 years.

Additionally, a new defined benefit pension plan tier went into effect for police and general member employees hired on or after July 1, 2009. An estimated reduction of $1.7 million, which is largely attributable to the general member plan changes, is incorporated into the FY 2013 ARC. Savings are expected to increase over time, as the proportion of employees in the second tier grows.

Firefighters and Lifeguards have also negotiated a second tier of the defined benefit pension plan, applicable to employees hired on or after July 1, 2011 for Lifeguards and on or after January 1, 2012 for Firefighters.

Other ARC Impacts

Underpriced Purchased Service Contracts

Also included in the FY 2013 ARC is a reduction based on anticipated SDCERS corrections of underpriced purchased service contracts that occurred during the 2003 "window period." These contracts must be corrected pursuant to a court order, which was upheld on appeal. The related reduction to the FY 2013 ARC is approximately $5.4 million. At the time of this report, SDCERS has completed the corrections process with approximately 95% of the affected employees and retirees.

For further information on these underpriced purchased service contracts, refer to the June 30, 2010 Actuarial Valuation for the City of San Diego, "Section I, Board Summary," under the "Valuation Basis" section (page 1). Additional information is contained in the June 30, 2011 Actuarial Valuation, under "Section I, Board Summary," (page 5).

McGuigan Settlement

During FY 2010, the residual amount owed to the pension system resulting from the McGuigan settlement, approximately $38.3 million, was paid to the pension system. The related FY 2013 ARC reduction is estimated to be $3 to $4 million (a more exact figure could not be obtained).

Approximately $32.8 million of the McGuigan payment to the pension system was financed. The four-year debt service payments on the financing related to the McGuigan settlement are approximately $9.1 million annually (FY 2012 through FY 2015), of which approximately $8.0 million would be paid from the General Fund.

Deferred Retirement Option Plan (DROP)

DROP Cost Neutrality

Beginning in FY 2010, the City utilized the services of Buck Consultants actuaries for the preparation of a DROP cost neutrality study. DROP is intended to be cost neutral, per the San Diego Municipal Code. The cost neutrality study was presented to the City Council on March 7, 2011.

The result of the DROP cost neutrality

study is that DROP is cost neutral based on the established 2% tolerance level; but it is not cost free. The results of Buck's analysis show that the cost of the City benefits structure with DROP is 1.6% higher than the cost of the City benefits structure without DROP. It is important to note that this is a complex analysis, based on many assumptions and methods, and changes in those assumptions and methods could change the results of the analysis. With that in mind, the City is in the process of revising the DROP cost neutrality study.

In IBA report 11-13, dated March 4, 2011, we indicated support for efforts that bring DROP toward the goal of being cost free. Additionally, we noted that it would be even better if DROP were to produce cost savings for the City, while providing an advantageous benefit for City employees.

Furthermore, our report recommended that the City consider obtaining a periodic DROP cost neutrality analysis – within two years if the City implements retiree healthcare reform, and possibly once every five years, thereafter.

The City is in the process of negotiating DROP with its labor unions to make the benefit cost-free.

Experience Study

In June 2011, the San Diego City Employees' Retirement System (SDCERS) actuary, Cheiron, completed an experience study for the City's pension plan. The experience study involves historical analysis of pension plan assumptions, including the rate of investment return, salary inflation and retirement and mortality rates. The plan experience study is the basis for recommended changes to the plan's actuarial assumptions, and is required to be completed at least once every five years.

On September 30, 2011 the SDCERS Board voted to adopt Cheiron's recommended assumption changes. Those changes include lowering the investment return assumption from 7.75% to 7.50% and lowering the inflation assumption from 4.00% to 3.75% after a two-year freeze on inflationary pay increases. These and other approved assumptions were used by Cheiron to prepare the June 30, 2011 actuarial valuation, which provides the City with the FY 2013 ARC. This is the ARC amount incorporated into the FY 2013 budget

Redevelopment Dissolution

Background

California's expansive use of redevelopment has been the cause of controversy. Advocates believe it is a much needed tool to promote local economic development in blighted urban areas. Critics counter that redevelopment diverts property tax revenues from core government services, increases state education costs, and that the scale and location of many projects areas bear little relationship to the program's intended mission.

Ultimately, in January 2011 California Governor Edmund G. Brown put forward a plan for dissolving redevelopment agencies and distributing their funds to other local agencies. Assembly Bills (AB) 26 and AB 27 were passed by the California State Legislature and signed by Governor Brown in June 2011.

AB 26 - Barred redevelopment agencies from engaging in new business and provided for their windup and dissolution by October 1, 2011.

AB 27 - Provided an alternative whereby redevelopment agencies could continue to operate if the cities and counties that created them agreed to make payments into funds benefitting schools and special districts.

The California Redevelopment Agency, the League of California Cities, and other affected parties sought relief from the legislation, arguing that the constitutionality of each measure. The California Supreme Court partially stayed the measures while the case was heard. During this time, in August 2011 the City of San Diego's City Council voted to "opt in" and comply with AB 27 requirements which would provide for the continued operation of its redevelopment agency.

However, in December 29, 2011, the Court issued its final opinion upholding AB 26 as constitutional and striking down AB 27 as unconstitutional. The ruling set in motion short timeframes for agencies and legislative bodies to take necessary actions to comply with AB 26 dissolution and unwinding requirements.

In January 2012, the City Council designated the City of San Diego to serve as the redevelopment agency's successor agency for purposes of winding down its operations; making payments on enforceable obligations; and liquidating the agency's unencumbered assets for distribution to the county, school districts, and other local public agencies. The City also chose to retain the redevelopment agency's affordable housing assets and assume related responsibilities.

California Redevelopment Agencies were dissolved on February 1, 2012, and their rights, powers, duties, and obligations were vested in the successor agencies.

Enforceable Obligations

A large part of winding down activities includes making payments on enforceable obligations of the former redevelopment agency. An enforceable obligation is generally defined as written contracts for specific performance with parties that are not the sponsoring agency. Per AB 26, as Successor Agency the City is required to prepare a schedule of enforceable obligation payments that are allowed to be made during each applicable six-month period.

The Enforceable Obligation Payment Schedule (EOPS) serves as the initial authority of disbursements until the Recognized Obligation Payment Schedule (ROPS) is approved. On April 10, 2012, as the Successor Agency, the City Council approved the EOPS and initial ROPS for January-June 2012 and the second ROPS for July-December 2012.

Given that AB 26 does not provide specific direction for the administration of the dissolution and wind up activities, there are many unknown factors as the City moves the EOPS and ROPS forward for review and approval to the governing entities, including:

- Successor Agency Oversight Board;
- County Auditor and Controller;
- State Department of Finance (DOF); and
- State Controller.

See timeline below for review and approval

Date	Required Action	City of San Diego Status
April 15, 2012	County Auditor-Controller must certify the initial ROPS. *Note: It is not likely that the County can certify the ROPS by this deadline given that certification will rely on completion of the Agreed Upon Procedures Audit which is not expected to be completed until the July 1, 2012 deadline.*	Successor agency forwarded Initial Draft ROPS I (January-June, 2012) to the County on February 28, 2012.
May 1, 2012	Successor Agency's Oversight Board begins operations, files report of membership with the State Department of Finance (DOF).	First meeting of the Oversight Board was held on April 25, 2012. The Board voted to forward the Initial Draft ROPS, Second ROPS, and Third Amended and Restated EOPS to DOF without making any amendments.
May 11, 2012	Successor Agency must send the adopted Second ROPS (July-December 2012) that has been approved by the Oversight Board, to the State Controller and State Department of Finance for approval. *Note: DOF has three business days to notify the Successor Agency if it intends to challenge any enforceable obligations. If DOF challenges enforceable obligations, it has 10 days to provide explanation.*	Pending.
July 1, 2012	County Auditor and Controller intends to complete agreed-upon procedures audit to certify initial ROPS and provide to State Department of Finance and State Controller for approval. Subsequent ROPS are not subject to this requirement.	Pending.

schedule.

The fiscal impact on the City will not be fully known until these governing entities review and potentially challenge enforceable obligations in the Third Amended EOPS and Initial Draft ROPS and any dispute is resolved.

The Successor Agency Oversight Board held its first meeting on April 25, 2012. The Board voted to forward the Initial Draft ROPS, Second ROPS, and Third Amended and Restated EOPS to DOF without any amendments. However, the Board noted its right to make future adjustments to these documents after more detailed discussions of enforceable obligations at subsequent meetings, since several payments included may not be allowed under AB 26.

For example, several enforceable obligations are based on agreements between the City and former Redevelopment Agency which could be disputed, such as $11.3 million in annual debt service for improvements to Petco Park; $2 million annual payment for reimbursement of costs associated with the expansion of the Convention Center Phase II; and $1 million annual repayment for general long-term debt owed to the City.

Obligations that are disputed could become an obligation of the City's General Fund. The impact to the General Fund will be offset by increased property tax revenues distributed to the City after all enforceable obligations have been paid. The property tax revenue allocation to cities in San Diego County is about 17.0%, but the potential amount that the City of San Diego will receive is difficult to calculate until the review of the ROPS is complete.

The results of the ROPS review is also needed for the City to calculate the administrative allowance for the Successor Agency. AB 26 specifies that the allowable budget is 5.0% of the City's share of tax increment in the first year and 3.0% in subsequent years.

State Controller Review of Asset Transfers

The State Controller is reviewing activities of redevelopment agencies to determine whether agency assets were transferred to the City or County that created the agency after January 1, 2011. AB 26 does not allow such transfers unless the City, County, or agency contractually committed to a third party for an expenditure or encumbrance of a specific asset prior to June 28, 2011. The Controller issued an Order on April 20, 2012, requiring that any asset transfers not allowed by AB 26 immediately be reversed and all applicable assets returned to the successor agency.

Transition of City's Redevelopment Agency

Another important component of dissolution is the disposition of former Redevelopment Agency staff. The City's Redevelopment Agency included three operating entities:

- **City's Redevelopment Department** - Administered the affordable housing program and 11 of the Redevelopment Agency's 14 project areas.

- **Centre City Development Corporation (CCDC) -** Administers two of the project areas—Centre City and Horton Plaza.
- **Southeastern Economic Development Corporation (SEDC) -** Administers the Southeastern San Diego merged project area.

The City's Redevelopment Department is not included in the FY 2013 Proposed Budget, since it is currently undergoing a reduction in force for all 24.00 classified positions. The reduction in force is expected to be completed on April 27, 2012. To the extent possible, the City's Personnel Department is reassigning staff to vacant positions in various City departments, such as Economic Development and Transportation & Storm Water, based on position classifications and related information.

The City has operating agreements with the two nonprofit corporations—CCDC and SEDC—which will be in effect until July 1, 2012. Both corporations have significantly reduced staff levels and neither submitted a budget for FY 2013. The Mayor's Office will evaluate how to move forward with CCDC and SEDC based on the results of DOF's review of the ROPS and amount of ongoing work each nonprofit ultimately has. A proposal for restructuring could potentially be brought to City Council in May 2012.

Administration

Mayor's FY 2013 Proposed Adjustments

The Administration Department manages the Equal Opportunity Contracting Program, Equal Benefits/Living Wage Program, Citizens' Assistance, the Emergency Medical Services Program, the Commission on Gang Prevention, The Citizens Equal Opportunity Commission, and the Senior Affairs Advisory Board. The FY 2013 Proposed Budget for the Administration Department is $2.6 million, a $238,705 or 10% increase from FY 2012.

The FY 2013 budget includes the addition of 1.00 Program Manager position for $170,629 to coordinate citywide grant opportunities. This includes identifying potential funding sources and develop strategies to maximize grant opportunities. The IBA asked staff if any revenue will be associated with this position and they responded that none has been identified as of yet but there might be possibilities in the future.

The FY 2013 Proposed Budget also includes the addition of 1.00 Associate Management Analyst Position for $95,054 to support the City's Deferred Capital Program. This position will be located in the Equal Opportunity Contracting Program and will be responsible for pre and post award contract compliance related to the Multiple Award Construction Contract (MACC) Program and the Equal Opportunity reporting requirements associated with the CIP transparency policy. This position includes $95,054 in revenue related to the reimbursements from departments/projects that this position will support.

In addition, the FY 2013 Proposed Budget includes a reduction of $5,000 related to the funds budgeted to hire hearing officers for permit denials, revocations, adult entertainment and false alarms. Staff has stated that this reduction is due to a decrease in the number of permits issued, fewer impounds, and more compliance.

SUMMARY OF ADMINISTRATION BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	18.45	$ 1,947,218	$ 448,655	$ 2,395,873	$ 420,465
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		(47,595)	-	(47,595)	-
Supplies		-	-	-	-
Contracts		-	8,267	8,267	8,189
Non-Discretionary and Info Technology Adjustments		-	12350	12,350	-
Addition of 1.00 Program Manager for Citywide Grants Coordination	1.00	170,629	-	170,629	-
Additon of 1.00 Associate Management Analyst to support Deferred Capital	1.00	95,054	-	95,054	95,054
Increase to Revenue related to the Emergency Medical Services Contract	-	-	-	-	47,982
Subtotal	2.00	218,088	20,617	238,705	151,225
Mayor's Fiscal Year 2013 Proposed Budget	**20.45**	**2,165,306**	**469,272**	**2,634,578**	**571,690**
Difference from 2012 to 2013	*2.00*	*$ 218,088*	*$ 20,617*	*$ 238,705*	*$ 151,225*

The FY 2013 Proposed Budget also includes a $47,982 increase in revenue related to the Emergency Services Contract.

Business Office

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Business Office is $1.16 million, which is an increase of approximately $150,000 from the FY 2012 Adopted Budget of $1.01 million.

Additions

The FY 2013 Proposed Budget includes the transfer of 1.00 Executive Secretary from the General Services Department with associated personnel expenditures of $91,507. This position will provide required administrative support to the Business Office. The Business Office's budget currently reflects 0.50 of an Executive Secretary, and this position will be transferred to the Administration Department as part of the May Revision. After this is completed, the Business Office will have a net 1.00 Executive Secretary position budgeted for FY 2013.

Additional funding for Professional Consultant Services of $80,000 was included, doubling the department's FY 2012 funding from $80,000 to $160,000. In FY 2012 a reduction of $140,000 was made to these services, and the department states that based on recent observations, consulting funding costs twice what was originally projected. Staff cites that this request of an additional $80,000 is necessary to meet actual costs related to funding for Managed Competition consulting.

Issues to Consider

Managed Competition

Since the Managed Competition Guide was approved by City Council in October 2010, nine functions have been identified to undergo the Managed Competition process. These functions include:

- Publishing Services
- Fleet Maintenance Services
- Street Sweeping
- Landfill Operations

SUMMARY OF BUSINESS OFFICE BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	7.25	$ 866,299	$ 146,580	$ 1,012,879	
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages					
- Transfer of 1.00 Executive Secretary from General Services	1.00	91,507		91,507	
- Adjustments due to Salary Reductions/Savings/Furlough/Fringe		(22,051)		(22,051)	
Contracts				-	
- Addition of Managed Competition Consulting Services			80,000	80,000	
- Copier Savings			(2,337)	(2,337)	
Non-Discretionary and Info Technology Adjustments			1,817	1,817	
Subtotal	1.00	69,456	79,480	148,936	-
Mayor's Fiscal Year 2013 Proposed Budget	**8.25**	**935,755**	**226,060**	**1,161,815**	**-**
Difference from 2012 to 2013	*1.00*	*$ 69,456*	*$ 79,480*	*$ 148,936*	*$ -*

- Public Utilities Customer Service
- Sidewalk & Street Maintenance & Pavement Markings
- Capital Improvement Program Delivery
- Storm Water Facilities Operations
- Traffic Engineering & Operations

Publishing Services has completed the process, and the bid was won by City employees. Savings of approximately $1.1 million were incorporated in the FY 2012 Adopted Budget.

Fleet Maintenance Services and Street Sweeping bids have also both been won by City employees, and savings have been incorporated into the FY 2013 Proposed Budget, subject to the City's obligations under the Meyers-Milias-Brown Act and City Council Policy 300-06. An expenditure reduction of approximately $5.3 million was included for Fleet Services and a reduction of about $667,000 was included for Street Sweeping as a result of Managed Competition. A total reduction of 86.50 FTEs are associated with these expenditure decreases. Both of these incorporated savings projections for FY 2013 exceed the Mayor's previously stated estimates of annual savings.

The chart below outlines the status of the remaining functions scheduled for the Managed Competition Process.

Key Performance Measures

For the FY 2013 Proposed Budget, the Business Office has included 279 performance measures, 186 of which are department specific measures, and 93 performance standards for Managed Competition that were compiled from related functions' Preliminary Statements of Work (PSOWs).

STATUS OF FUNCTIONS SELECTED FOR MANAGED COMPETITION

FUNCTION	PCA Complete	Draft PSOW Approved by Committee	Draft PSOW Approved by Council	RFP Issued	Proposals Received by MCIRB	MCIRB Reports Recommendation to Mayor	Meet & Confer (if necessary)	Recommendation Approved by Council
Publishing Services	√	√	√	√	√	√	√	*N/A* [1]
Fleet Maintenance Services	√	√	√	√	√	√	*Currently Ongoing*	*N/A*
Street Sweeping	√	√	√	√	√	√	*Currently Ongoing*	*N/A*
Landfill Operations	√	√	√	√	*Expected April 2012*			
Public Utilities Customer Service	√	√	√	*Currently on hold until July 2012*				
Sidewalk & Street Maintenance & Pavement Markings	√	√	√	*Expected April 2012*				
Capital Improvement Program Delivery	*Expected April 2012*							
Storm Water Facilities Operations	*Development Underway*							
Traffic Engineering & Operations	*Development to begin June 2012*							

[1] *City Council approval not required when the City team wins the process*

On March 14, 2012, the Business Office presented these performance measures to the Budget and Finance Committee. The Committee requested that the performance measures identified in the FY 2013 City Council Budget Priorities document also be included in the Mayor's Proposed Budget.

Twenty-eight of the 66 Council proposed performance measures are already tracked by the Business Office, and, therefore, have been included in the FY 2013 Proposed Budget. Departments are currently being contacted regarding the 38 new Council measures, and they are reviewing the feasibility of including them. Financial Management plans to include the measures in the final FY 2013 Budget document.

City Attorney

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Office of the City Attorney is approximately $42.7 million, an increase of approximately $686,000 from the FY 2012 Budget. The department has a net addition of 1.64 FTE positions. Budgeted revenue is reduced by approximately $951,000 from FY 2012.

Additions

The FY 2013 Proposed Budget adds 2.00 Assistant City Attorneys for a total of 6.00 in the department, The 2.00 new Assistant City Attorneys were requested for the department's Criminal Division. This addition combined with a nominal .36 FTE reduction in hourly personnel requirements results in a net addition of 1.64 FTE positions for the department in FY 2013.

Reductions

The department estimates a revenue reduction of approximately $951,000. The primary component of this reduction is a reduction in Prop. 64 funding ($813,000). The City occasionally receives funds resulting from civil cases against businesses for false advertising, unfair competition, etc. The Office of the City Attorney supports these cases on behalf of consumers and the resulting judgments are used to further support consumer protection. Other significant components of the $951,000 revenue reduction include reduced funding in the Civil Penalties Enforcement Fund ($79,000) and a net reduction of grant/SLA revenue ($59,000).

Issues to Consider

In reviewing certain line items of personnel expense (i.e., Termination Pay), the depart-

SUMMARY OF CITY ATTORNEY BUDGET CHANGES	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	343.35	$ 39,127,324	$ 2,905,259	$ 42,032,583	$ 5,607,163
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(0.36)	259,952		259,952	
- Adjustments due to Salary Reductions/Savings/Furlough		(390,510)		(390,510)	
Fringe Benefits (incl. Retirement ARC)		199,375		199,375	
Supplies			41,632	41,632	
Contracts			(37,519)	(37,519)	
Non-Discretionary and Info Technology Adjustments			123,652	123,652	
Addition of 2.00 Assistant City Attorneys for the Criminal Division	2.00	489,904		489,904	
Revised Revenue Estimate - primarily an expected reduction in Prop. 64 Funds					(950,994)
Subtotal	1.64	558,721	127,765	686,486	(950,994)
Mayor's Fiscal Year 2013 Proposed Budget	**344.99**	**39,686,045**	**3,033,024**	**42,719,069**	**4,656,169**
Difference from 2012 to 2013	*1.64*	*$ 558,721*	*$ 127,765*	*$ 686,486*	*$ (950,994)*

ment's historical actual experience is higher than budgeted. Additionally, the department was assigned a 38% increase in salary savings over FY 2012. The department is concerned the combined effect of these two budget circumstances could impact their ability to either fill budgeted positions or stay within budget.

City Auditor

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Office of the City Auditor is approximately $3.6 million, an increase of approximately $11,000 from the FY 2012 Budget. The department has 20.00 FTE positions which represents a .50 FTE position increase. The .50 FTE increase annualizes the Principal Auditor position approved as a mid-year add in the FY 12 Budget.

Reductions

A decision was made to eliminate the department's Service Level Agreement (SLA) with the Public Utilities Department (PUD) in FY 2013. It was noted that the PUD was already being billed for a share of citywide audit services through the General Government Services Billing (GGSB) process. Additionally, the department indicated that an independent City Auditor should not be compelled to perform a certain number of audits in accordance with a SLA. The City Auditor should be free to focus audit resources on those City operations assessed to have the highest risk. The IBA concurs that it is appropriate for benefitting enterprise departments to be charged a pro-rata share of the cost for citywide audit services through the GGSB. The elimination of the SLA with the PUD reduces the department's budgeted revenue by approximately $222,000.

Issues to Consider

The City Auditor has yet to discuss his budget with the Audit Committee. That discussion is scheduled for May 7, 2012, two days before the department's City Council Budget Hearing. Prior to the development of the FY 2013 Proposed Budget, the City Auditor presented his budget re-

SUMMARY OF CITY AUDITOR BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	19.50	$ 2,577,544	$ 975,980	$ 3,553,524	$ 222,323
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		14,286		14,286	
- Adjustments due to Salary Reductions/Savings/Furlough		(16,168)		(16,168)	
Fringe Benefits (incl. Retirement ARC)		(63,030)		(63,030)	
Supplies			(18,063)	(18,063)	
Contracts			25,263	25,263	
Non-Discretionary and Info Technology Adjustments			9,332	9,332	
Annualization of Principal Auditor position added mid-year in FY 2012	0.50	58,957		58,957	
Elimination of the SLA with the Public Utilities Dept. (using GGSB instead)					(222,323)
Subtotal	0.50	(5,955)	16,532	10,577	(222,323)
Mayor's Fiscal Year 2013 Proposed Budget	**20.00**	**2,571,589**	**992,512**	**3,564,101**	**-**
Difference from 2012 to 2013	*0.50*	*$ (5,955)*	*$ 16,532*	*$ 10,577*	*$ (222,323)*

quests to the Financial Management Department for consideration. Those requests were not incorporated into the FY 2013 Proposed Budget.

In lieu of seeking to add additional Performance Auditors, the City Auditor submitted the following budget requests to the Financial Management Department:

- Automation Software to help reduce the amount of time audit staff must spend manually tracking and referencing work papers, which will allow them to focus on more value-added audit activities. Estimated cost—$68,000 one-time purchase expense plus approximately $10,000 for annual maintenance thereafter.
- Restore Travel and Training Budget to FY 2011 levels—approximately $39,000. Approximately $14,000 was budgeted in FY 2012 and is proposed for FY 2013. Estimated annual cost—$25,000.

The City Auditor additionally informed the IBA of the following budget requests that he plans to present to the Audit Committee on May 7th.

- Administrative Assistant to facilitate optimal internal reorganization following the recent departure of one of the two Assistant City Auditors. Estimated annual cost—$50,000.
- Additional Budgeted Personnel Expense to create career path opportunities for junior staff and better attract/retain experienced auditors. Estimated annual cost—$30,000.

The Audit Committee will hear and discuss the City Auditor's budget requests on May 7th. The Committee will then make and forward their budget recommendations to the City Council for consideration at the City Auditor's Budget Hearing on May 9th.

Key Performance Measures

Notable performance measures include:

- Percent of audit work plan completed during the fiscal year—estimated to achieve 91% in FY 2012 and targeted to achieve 90% in FY 2013.
- Ratio of City's monetary benefits from audit activities to operational audit costs —estimated to be 5:1 in FY 2012 and targeted to be 4:1 in FY 2013. (Monetary benefits are calculated considering cost savings or enhanced revenues over a five-year period if audit recommendations are implemented).

City Clerk

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Office of the City Clerk totals approximately $4.7 million, down $72,869 from the FY 2012 Budget. The number of City Clerk positions remain virtually unchanged at 45.12 FTE, down from 45.39.

Budget Reductions

The FY 2013 Proposed Budget includes the following reductions:

- $33,268 in one-time expenditures. $20,000 is related to outside counsel for elections.
- $21,612 in copier savings related to the new copier contract
- $12,160 reduction in information technology funding
- $10,000 reduction in overtime
- $10,732 reduction due to a zero-based budgeting review of their hourly personnel funding.

Budget Additions

Additions to the FY 2013 Proposed Budget include:

- $15,886 for salary and fringe adjustments.
- A $52 adjustment to user fee revenue relating to the proposed elimination of cassette tape fees, and increases to fees associated with the request for CD-Roms and hard copies of the City Charter.

Issues to Consider

The City Clerk has raised concerns about an existing filled Associate Management Analyst position in her office which has not been funded in the Mayor's FY 2013 Proposed Budget. The City Clerk is requesting that $107,000 in funding for this position be addressed in the Mayor's May Revise.

SUMMARY OF CITY CLERK DEPARTMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	45.39	$ 3,865,900	$ 911,151	$ 4,777,051	
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Benefit Adjustments		15,886		15,886	
-Overtime		(10,000)			
-Hourly Personnel Funding	(0.27)	(10,732)			
Non-Discretionary and Info Technology Adjustments			(13,143)	(13,143)	
Copier Savings			(21,612)	(21,612)	
Onetime Adjustments			(33,268)	(33,268)	
User Fees				-	52
Subtotal	(0.27)	(4,846)	(68,023)	(52,137)	52
Mayor's Fiscal Year 2013 Proposed Budget	**45.12**	**3,861,054**	**843,128**	**4,724,914**	**52**
Difference from 2012 to 2013	*(0.27)*	*$ (4,846)*	*$ (68,023)*	*$ (52,137)*	*$ 52*

City Clerk

The City Clerk also notes that there is a significant workload for her office associated with dissolution of the Redevelopment Agency that will likely need to be addressed early next fiscal year if not sooner. Successor Agency administrative funding should be considered for this purpose.

City Comptroller

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the City Comptroller Department is approximately $10.1 million, an increase of approximately $48,000 from the FY 2012 Budget. The department has 79.75 FTE positions which remains unchanged from FY 2012. The department does not have any significant budget additions or reductions in FY 2013.

Issues to Consider

Unclaimed Monies and Accounts Payable Audit

The FY 2012 Budget included $1.5 million of one-time revenue resulting from accelerated receipt of unclaimed monies ($1.0 million) and implementation of revenue recovery auditing ($500,000). The department oversees processes related to each of these one-time revenues.

Owing to unanticipated implementation delays, the $1.5 million was not realized in FY 2012. Approximately $920,000 of this revenue is now expected to be received in FY 2013; however, this revenue has not been included in FY 2013 Proposed Budget.

The Comptroller's decision to shorten the hold on unclaimed public monies (after public noticing) from three years to one year was made in accordance with City Charter Section 86 and an opinion from the Office of the City Attorney. Due to this policy change, $1 million of one-time revenue was expected to be realized in FY 2012 (budgeted under Major Revenues in the General Fund); however, an unanticipated need to reprogram the SAP system precluded the Comptroller from being able to transfer all of the expected unclaimed monies into the General Fund. SAP reprogramming is now underway and the one-year transfer policy is planned for FY 2013. After reviewing the latest information on unclaimed monies, the Comptroller believes it

SUMMARY OF CITY COMPTROLLER BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	79.75	$ 9,197,742	$ 870,482	$ 10,068,224	$ 2,541,760
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		31,691		31,691	
- Adjustments due to Salary Reductions/Savings/Furlough		(39,841)		(39,841)	
Fringe Benefits (incl. Retirement ARC)		153,369		153,369	
Supplies			(1,116)	(1,116)	
Contracts			(15,200)	(15,200)	
Non-Discretionary and Info Technology Adjustments			(80,737)	(80,737)	
Revenue Projection - No Change					-
Subtotal	-	145,219	(97,053)	48,166	-
Mayor's Fiscal Year 2013 Proposed Budget	**79.75**	**9,342,961**	**773,429**	**10,116,390**	**2,541,760**
Difference from 2012 to 2013	-	*$ 145,219*	*$ (97,053)*	*$ 48,166*	$ -

is reasonable to estimate that an additional $420,000 of one-time revenue will be received in FY 2013. This revenue is not reflected in the FY 2013 Proposed Budget.

Two revenue recovery audits were initiated in FY 2012: 1) The City Treasurer initiated a review of Court fees the City receives monthly from the County of San Diego and 2) The Council recently authorized the Comptroller to enter into an agreement with an independent auditor to perform an audit of the City's accounts payable over the last three years. Although $500,000 was estimated and budgeted (in the Police Department budget) to result from these audits in FY 2012, the receipt of this one-time revenue is now more probable in FY 2013. This revenue has not been included in the FY 2013 Proposed Budget.

Budgeting for an Independent Audit of the City's Internal Controls

The Audit Committee has repeatedly discussed and reaffirmed their interest in an independent audit of the City's internal controls to begin in FY 2013. An independent audit of internals controls was initially recommended in the 2006 Kroll Report given concerns about substantive weaknesses in the City's internal controls. Funding for an audit has not been included in the FY 2013 Proposed Budget.

In IBA Report 12-14, we discuss scope and cost considerations with respect to an independent audit of internal controls. We recommend the City pursue an internal controls audit provided there is reasonable assurance from the City Comptroller that all or a portion of the City's internal control environment is ready for a successful audit.

At the Audit Committee's request, the IBA continues to evaluate audit readiness and scope of work options with the City Comptroller and outside audit firms. Although outside audit firms are understandably reluctant to estimate audit costs without a well defined scope of work, the Office of the City Auditor estimated internal control audit costs could range from $250,000 to over $1 million. The City Council may wish to consider budgeting funds for an internal controls audit in FY 2013 after further discussion by the Audit Committee.

Key Performance Measures

The department appears to be meeting its performance goals in FY 2012. With respect to the measure for completed and posted process narrative documents, the goal is to complete 360 of the 415 internal control process narratives currently identified in FY 2013. The Audit Committee intends to implement an independent audit of the City's internal controls as soon as the Comptroller believes the City's internal control environment is ready for a successful audit - perhaps as soon as November 2012. As the completion and posting of process narratives is one critical element of audit readiness, the Council may wish to discuss the sufficiency or allocation of Comptroller resources to achieve audit readiness in FY 2013.

Recommendation

As discussed earlier, the IBA recommends the City budget $920,000 of revenue attributable to the anticipated one-time receipt of unclaimed monies ($420,000) and revenue recovery audit funds ($500,000) in FY 2013.

City Council

Council Offices

The FY 2013 Proposed Budget maintains each of the Council Offices at close to the same levels as FY 2012. The City Council budgets collectively include a net $41,714 increase, or less than a 1% from FY 2012. The changes from FY 2012 include a net zero change to salary & wages and a $41,714 increases to Non-Personnel and Information Technology expenses.

Community Projects, Programs, and Services (CPPS) funds

The FY 2013 Proposed Budget includes a collective total of $1.3 million for CPPS funds. This results in a $308,497, or 19%, decrease from FY 2012 levels. As detailed in Council Policy 100-06, the CPPS funding level for each of the City Council offices is based on the previous year's savings from their office budgets.

9th Council Office

The FY 2013 proposed budget includes $500,000 in CIP Project ABT00001 "City Facilities Improvements" to build out the City Administration Building's 10th floor to accommodate the addition of the 9th Council district. This item was initially approved as part of the FY 2012 Mid-Year Appropriations adjustments approved on March 14, 2012.

The FY 2013 Proposed Budget does not include funding for the 9th Council District's operating budget which is estimated to be $1.0 million for a full fiscal year. During the Mayor's April 16, 2012 presentation of the FY 2013 Proposed Budget to the City Council, the Chief Operating Officer stated that $500,000 will be included in the Mayor's May Revise to fund the 9th Council district for FY 2013 (December 2012—July 2013).

Council Administration

The FY 2013 Proposed Budget for Council Administration includes a $181,920, or 11% increase from the FY 2012 Budget. The FY 2013 Proposed Budget includes $63,883 in funding related to the addition of 0.50 of a Committee Consultant position to support the Economic Development and Strategies

SUMMARY OF CITY COUNCIL AND COUNCIL ADMINISTRATION BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	91.89	$ 4,936,701	$ 5,287,348	$ 10,224,049	
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	(0.09)	150,085	-	150,085	
Supplies & Contracts	-	-	(20,376)	(20,376)	
Non-Discretionary and Info Technology Adjustments	-	-	30,042	30,042	
Addition of 0.50 Committee Consultant	0.50	63,883	-	63,883	-
	-	-	-	-	
Subtotal	0.41	213,968	9,666	223,634	-
Mayor's Fiscal Year 2013 Proposed Budget	**92.30**	**5,150,669**	**5,297,014**	**10,447,683**	**-**
Difference from 2012 to 2013	*0.41*	*$ 213,968*	*$ 9,666*	*$ 223,634*	*$ -*

Committee. The FY 2012 Council Administration budget included 0.50 of a Committee Consultant position and the addition of the 0.50 position in FY 2013 will make this position whole.

City Treasurer

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the City Treasurer's Department is approximately $19.5 million, an increase of approximately $555,000 from the FY 2012 Budget. The department has 118.63 FTE positions which reflects a net addition of 2.00 FTE positions from FY 2012. Budgeted revenue increased by approximately $374,000 in FY 2013.

Additions

The department has been working with other City departments to develop and implement a Centralized Business Regulatory Program. This Program will centralize city-wide regulatory permits/billing processes in the Office of the City Treasurer and enable online permitting.

The Program is targeted for implementation in January 2013. In order to assist with the implementation and administration of the Program, the department is adding 1.00 Senior Management Analyst, 1.00 Public Information Clerk and associated NPE in the FY 2013 Proposed Budget.

In the Revenue Collections Division, the department adds 2.00 Program Managers (Delinquent Accounts Manager and Parking Manager) and eliminates 1.00 Collections Manager and 1.00 Clerical Assistant II. Following Council action to exempt these new Program Manager positions from classified service, the positions were filled in the fall of FY 2012. In order to cover the annual salary differential between the added and

SUMMARY OF CITY TREASURER BUDGET CHANGES					
	FTE	**PE**	**NPE**	**Total**	**Revenue**
Fiscal Year 2012 Budget	116.63	$ 10,563,575	$ 8,347,189	$ 18,910,764	$ 24,672,674
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		83,916		83,916	
- Adjustments due to Salary Reductions/Savings/Furlough		(101,595)		(101,595)	
Fringe Benefits (incl. Retirement ARC)		159,211		159,211	
Supplies			107,384	107,384	
Contracts			200,858	200,858	
Non-Discretionary and Info Technology Adjustments			(59,573)	(59,573)	
2.00 FTEs to support the Centralized Business Regulatory Program	2.00	164,341		164,341	
Estimated Revenue Changes related to Business Tax and Parking Meters					1,303,515
Reducing Revenue Budgeted in FY 12 for the Parking Meter Utilization Plan					(1,206,845)
Revenue associated the installation of 80 new Multi-Space Parking Meters					300,000
Other Revenue Adjustments					(22,869)
Subtotal	2.00	305,873	248,669	554,542	373,801
Mayor's Fiscal Year 2013 Proposed Budget	**118.63**	**10,869,448**	**8,595,858**	**19,465,306**	**25,046,475**
Difference from 2012 to 2013	*2.00*	*$ 305,873*	*$ 248,669*	*$ 554,542*	*$ 373,801*

eliminated positions, approximately $134,000 of additional personnel expense was included in the department's budget in FY 2013.

Net Increase in Budgeted Revenue

The FY 2013 Proposed Budget shows approximately $25 million of budgeted revenue for the department, a net increase of approximately $374,000. The major components of this net increase are:

- A projected increase of approximately $1.3 million attributable to estimated changes in Business Tax and Parking Meter revenue accounts. Of note, large business tax revenue decreased while revenue from the small business tax and rental unit business tax increased.
- A $1.2 million reduction of revenue budgeted in FY 2012 from approximately $1.6 million to $380,000. This revenue was to have resulted from the implementation of the Parking Meter Utilization Plan (PMUP). In anticipation of PMUP implementation, the department was budgeted $1.6 million of revenue in FY 2012; however, the plan has yet to be implemented. Given questions about estimated revenues and the timing of implementation, budgeted revenue has been significantly reduced in FY 2013 to simply cover the PE (4.00 new positions) and NPE expense added in FY 2012 to support PMUP implementation.
- An estimated $300,000 to reflect additional revenue associated with the installation of new multi-space parking meters in FY 2012. These meters replaced older pre-existing meters on certain streets in the Uptown and Downtown areas.

Issues to Consider

Expectations for the Parking Meter Utilization Plan (PMUP)

In an effort to support PMUP implementation in FY 2012, the City Treasurer (4.00 FTEs) and Economic Development (1.00 FTE) departments were budgeted positions that were to be reimbursable with revenue expected to result from PMUP. As PMUP has yet to be implemented, no revenue has been received and the budgeted positions remain vacant. Staff expects PMUP implementation will begin in FY 2013 and they will fill vacant positions as needed.

In IBA Reports 11-12 and 11-25, we raised questions about the ability to accurately predict or measure additional parking meter revenue resulting from PMUP implementation. For more background, please reference the aforementioned IBA reports or see the PMUP discussion in the Economic Development Department section of this report.

We recommend the Council be updated on PMUP implementation by the Mayor's Office to include a discussion of anticipated revenues, how they will be accounted for and associated PMUP expense. Before significant personnel expense is incurred in support of PMUP, the IBA suggests the Council have a means of tracking whether the program is cost recoverable.

If it is not, General Fund support would be needed to continue the program; and the value and priority of this program compared to other City needs should be reevaluated.

Review of County Court Revenues

The Office of the City Auditor conducted an citywide audit of the City's major revenues in March of 2010. One of their audit recommendations was for the City Treasurer to consider performing audits of court-distributed revenues. In discussing revenue recovery auditing, the Audit Committee has also requested the City pursue court revenue, accounts payable and other types of revenue recovery audits.

In FY 2012, the City Treasurer initiated a review of County Court fees paid to the City. The Treasurer's Revenue Audit Program is reviewing 1) the different categories of fees remitted to the City and 2) audits of the County Court system performed by other agencies (State Controller's Office and Administrative Office of the Courts) to ensure the City is receiving the appropriate amount of funds due from the County Court system. Revenue recovered from this audit, if any, would likely be received in FY 2013.

Recommendation

As discussed earlier, the IBA recommends the City budget $500,000 of revenue attributable to the expected receipt of revenue recovery audit funds in FY 2013. This amount would include any recoveries resulting from the City Treasurer's audit of County Court revenues due the City and the Accounts Payable Audit being performed by an independent audit firm.

Citywide Program Expenditures

The Citywide Program Expenditures budget is comprised of various programs and activities that provide benefits and services Citywide. Programs or activities that are generally not attributable to any one City department are allocated in this budget. The Citywide Program Expenditures budget includes only those expenditures that are funded by the General Fund.

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget totals $77.7 million, an increase of $24.8 million from the FY 2012 budget of $52.9 million.

Reserves

The contributions to the Public Liability Reserve and General Fund Reserve are typically budgeted in the Citywide Program Expenditures. As part of the Mayor's FY 2012 budget balancing solution, contributions to the Public Liability reserve were suspended.

A General Fund Reserve contribution is not budgeted for FY 2013, as the reserve target of 8% of General Fund revenues is currently satisfied.

However, a Public Liability Reserve contribution transfer of $6.1 million is budgeted in FY 2013 Proposed Budget. Additionally, a $15.1 million transfer to the Public Liability fund for FY 2013 public liability claims expenditures is included in for FY 2013, up $600,000 from the FY 2012 Adopted Budget of $14.5 million.

Citywide Election Costs

Costs for Citywide Elections in the FY 2013 Proposed Budget are decreased by $1.1 million, from $2.9 million to $1.8 million. Costs are estimated to decrease for FY 2013 because typically, General Election costs are lower than those in Primary Elections; and there will be a General Election in FY 2013 and a Primary Election in FY 2012.

One reason General Election costs are typically lower than Primary Election costs is that there are often fewer races to be decided in the General election, because some results may have been determined in the Primary Election. For instance, in the November 2012 General Election, the City Attorney, and Districts 3, 5 and 9 will not have run-off races. Additionally, more jurisdictions historically participate in November elections, so more jurisdictions share in the County's costs, reducing costs for each individual jurisdiction.

Primary election races for Mayor, City Attorney, Council Districts 1, 3, 5, 7 and the new Council District 9 occur in June 2012, which is accounted for in the FY 2012 Budget. Possible run-offs to these elections occur in the November 2012 General Election, which will be accounted for in the FY 2013 budget.

Costs for Citywide Elections could increase or decrease from the budgeted amount depending on factors such as number of candidates for each Council District election and the number of items each jurisdiction in the County places on the ballot.

The amount included in Citywide Elections also includes estimated ballot proposition costs.

Transfer to Park Improvement Funds

The City Charter sets the minimum threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for any municipal purpose, without restriction, at $23.0 million.

Pursuant to public action on a November 2008 ballot measure, this threshold will remain at the same level until FY 2015, at which time it will be reduced to $20.0 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Park Improvements Fund each year.

The amount above the $23 million threshold to be transferred to the Park Improvement Funds is budgeted in Citywide Program Expenditures. That amount has increased in the FY 2013 Proposed Budget by $700,000 (from $2.3 million to $3.0 million). Note that revenue from Mission Bay Park rents and concessions is budgeted in the Real Estate Assets Department.

McGuigan Settlement

Another expenditure budgeted in this department is payment for the General Fund portion of the McGuigan Settlement financing.

Under this settlement, the City was obligated to pay $173.0 million into SDCERS by June 2011 to address previous underfunding, which occurred between 1996 and 2005. The McGuigan Settlement was modified, as approved by the City Council on March 9, 2010, allowing the City to prepay to SDCERS approximately $38.3 million, the remaining settlement balance as of June 30, 2010. Under the terms of the modification and in order to direct a final payment to SDCERS, the City made a cash payment of approximately $5.5 million and financed the balance, approximately $32.8 million, through a third party financial institution.

The City's annual payments related to the financing are approximately $9.1 million in FY 2012 through FY 2015. The General Fund's proportionate share of these payments totals approximately $8.0 million annually, which is the amount budgeted in Citywide Program Expenditures.

Outside Legal

The City has retained an outside legal litigation counsel against energy company Kinder Morgan to recover damages for environmental contamination of City-owned and Public Utilities Enterprise Fund-owned lands located at Qualcomm Stadium, and water contamination of an aquifer in Mission Valley. The cost for outside counsel will be shared equally by the General Fund and the Public Utilities Enterprise Fund.

The $1.5 million General Fund cost for this legal counsel was budgeted in FY 2012. However, litigation fees have been delayed, and the General Fund remaining cost related to this legal counsel is now budgeted at $1.2 million in FY 2013. This amount is budgeted as an item in the Special Consulting Services account in the Citywide Program Expenditures, for which there is a table of expenditures on the next page.

Typically outside counsel costs where the City defends itself are paid by the Public Liability Fund. In this case the City has initiated the action, and costs are ineligible for the Public Liability Fund.

Public Use Leases

The budget for payment of public use lease expenditures related to Las Americas and the Imperial Marketplace has been transferred from Development Services to Citywide Program Expenditures in FY 2013. The amount in the FY 2013 Proposed Budget is $1.5 million.

Deferred Capital Debt Service

The debt service payment for the $100 million 2009 deferred capital financing issuance is $6.9 million in FY 2013. This includes $1.5 million in principal that will be paid from the Capital Outlay Fund and $5.4 million in interest to be paid from the Citywide Program Expenditures Department. In FY 2012, the interest of $4.1 million and $1.3 million were included in the Transportation & Storm Water and General Services budgets, respectively.

Additionally, there is a $5.1 million increase in the Citywide Program Expenditures budget to cover debt service for the anticipated $75 million deferred capital program bond issuance in FY 2013.

Special Consulting Services

The Special Consulting Services budget increased by $5.7 million for FY 2013. The chart below provides a breakdown of this category.

Note that $6.0 million has been budgeted for IT transition costs related to acquiring new IT vendors. See the Information Technology Department Review for further information.

Also, the Kinder Morgan Litigation is discussed on the previous page, under the Outside Legal heading.

SPECIAL CONSULTING SERVICES

	FY 2012 ADOPTED	FY 2013 PROPOSED	CHANGE
Actuary Services/DROP Study	$ 340,000	$ 320,000	$ (20,000)
Disclosure Counsel	$ 200,000	$ 200,000	$ -
Labor Related Contracts	$ 360,000	$ 380,000	$ 20,000
Muni Services-Sales Tax Consultants	$ 650,000	$ 650,000	$ -
Outside Legal Contracts	$ 950,000	$ 950,000	$ -
Kinder Morgan Litigation	$ 1,500,000	$ 1,200,000	$ (300,000)
Facility Assessment	$ 200,000	$ -	$ (200,000)
Park and Recreation Fee Study	$ -	$ 200,000	$ 200,000
New IT Svc Provider Transition Costs	$ -	$ 6,000,000	$ 6,000,000
TOTAL	$ 4,200,000	$ 9,900,000	$ 5,700,000

Debt Management

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Debt Management Department is approximately $2.3 million, a decrease of approximately $35,000 from the FY 2012 Budget. The department has 18.00 FTE positions which remains unchanged from FY 2012.

Reductions

Budgeted revenue is reduced by $184,000 to reflect reduced financing-related staff support for the Public Utilities Department in FY 2013. This is the department's only significant budget reduction.

Key Performance Measures

The department expects to meet all but one of its performance goals in FY 2012. The one exception relates to the objective to provide 100% of all updated City financial disclosures (those submitted to the EMMA System) to the City's Investor Information web page within two business days. The department explained the difficulty of meeting this goal in FY 2012 was attributable to competing with other departments for IT assistance in web related matters. Efforts are underway to streamline the process with Information Technology staff to achieve the goal (to post within two business days 100% of the time) beginning in FY 2013.

SUMMARY OF DEBT MANAGEMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	18.00	$ 2,182,639	$ 190,090	$ 2,372,729	$ 889,645
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		(4,693)		(4,693)	
- Adjustments due to Salary Reductions/Savings/Furlough		(32,290)		(32,290)	
Fringe Benefits (incl. Retirement ARC)		(850)		(850)	
Supplies			(855)	(855)	
Contracts			10,632	10,632	
Non-Discretionary and Info Technology Adjustments			(6,838)	(6,838)	
Revised Revenue Projections - Reduction in SLA with Public Utilities Department					(184,000)
Subtotal	-	(37,833)	2,939	(34,894)	(184,000)
Mayor's Fiscal Year 2013 Proposed Budget	**18.00**	**2,144,806**	**193,029**	**2,337,835**	**705,645**
Difference from 2012 to 2013	-	*$ (37,833)*	*$ 2,939*	*$ (34,894)*	*$ (184,000)*

Development Services

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Development Services (DSD) Department is $59.9 million, an increase of approximately $470,000 and an increase of 21.14 FTEs from the FY 2012 Adopted Budget. In FY 2012 the City Planning and Community Investments (CPCI) Department was dissolved, and the planning functions, including Facilities Financing, were merged into the Development Services Department. The Economic Development and Redevelopment components of CPCI have been established as independent departments.

As a result of this reorganization, DSD has a complex budget structure, with nine divisions and four different funds. Three of these divisions, Planning, Urban Form and Administration & Technical Services, comprise what was formerly the City Planning component of CPCI. For simplicity, these divisions are regarded as a single City Planning division. This is reflected in the table below.

Due to the complexity of the budget structure under the merged Development Services Department, the analysis of the FY 2013 Proposed Budget in this section is organized by major program component.

City Planning

The FY 2013 Proposed Budget for the City Planning functions of the Development Services Department is approximately $7.1 million, reflecting an increase of 2.25 FTEs and a reduction of $1.8 million from the FY 2012 Adopted Budget. Department revenues reflect an increase of approximately $1.3 million, primarily due to proposed ad-

DEVELOPMENT SERVICED DEPARTMENT BUDGET SUMMARY

DIVISION	GENERAL FUND	FACILITIES FINANCING FUND	DSD ENTERPRISE FUND	LEA FUND	TOTAL BY DIVISION
City Planning	6,214,600				**6,214,600**
Neighborhood Code	7,071,607				**7,071,607**
Facilities Financing		2,052,595			**2,052,595**
Development Services			16,231,726		**16,231,726**
Building & Safety			14,914,270		**14,914,270**
Entitlements			12,606,977		**12,606,977**
Solid Waste LEA				844,589	**844,589**
TOTAL BY FUND	**13,286,207**	**2,052,595**	**43,752,973**	**844,589**	**59,936,364**

justments to various user fees.

The proposed user fee adjustments include an increase to the General Plan Maintenance Fee and a reduction to three fees related to the Mills Act. The General Plan Maintenance Fee adjustment will have the largest impact on the proposed revenue for FY 2013. The General Plan Maintenance Fee is being proposed to increase from $108 per permit application to $275 per permit application, an increase of $167 per permit application. The Mills Act Fees reductions range from $134 per item to $260 per item. The net increase in revenue from the four proposed adjustments is approximately $942,000. The majority of these fees have not been reviewed and adjusted since 2004. The proposed fee adjustments are consistent with the User Fee Policy and the cost recovery guidelines. The proposal to adjust the various fees was to be discussed at the Budget and Finance Committee on April 25, 2012.

An important function of the Planning Division is reviewing and updating community plans. The Planning Division anticipates to be in different phases of reviewing and updating 10 community plan during FY 2013. The FY 2013 Proposed Budget adds 1.50 FTEs at a cost of approximately $40,000 to supplement the Planning Division's efforts directly related to the community plan updates. In FY 2013, the Planning Division plans to re-evaluate the current process undertaken to review and update the community plans to determine if efficiencies and/or streamlining could be implemented.

Additionally, the Planning Division continues preparation of the Parks & Open Space Master Plan, the Facilities Financing Strategy, and the General Plan Housing Element. The Planning Division has applied for a grant to fund the Parks & Open Space Master Plan through completion, the Facilities Financing Strategy is currently being discussed with City staff, and the General Plan Housing Ele-

SUMMARY OF CITY PLANNING BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	47.54	$ 5,320,918	$ 3,578,158	$ 8,899,076	$ 1,335,063
Mayor's FY 2013 Proposed Budget Changes					
Salary & Fringe Adjustments	1.00	$ 269,548	$ -	$ 269,548	$ -
Reduction to various Supplies and Contracts			$ (30,472)		
Information Technology and other Non-Discretionary Adjustments	-	-	(212,513)	(212,513)	-
			-	-	-
Transfer of 1.00 Associate Engineer from Trans & Storm Water	1.00	110,703	36,987	147,690	-
Increase of three-quarter Senior Planner to full-time	0.25	28,795		28,795	-
Reduction of planning support	-	-	(528,029)	(528,029)	-
Transfer of public use lease expenditures			(1,502,488)		
Additional revenue from revised user fee charges	-	-		-	924,147
Revised revenue projections	-	-	-	-	330,294
Mayor's Fiscal Year 2013 Proposed Budget	**49.79**	**$ 5,729,964**	**$ 1,341,643**	**$ 7,071,607**	**$ 2,589,504**
Difference from 2012 to 2013	*2.25*	*$ 409,046*	*$ (2,236,515)*	*$ (1,827,469)*	*$ 1,254,441*

ment is on schedule to meet the State mandated update deadline. Previously, DSD was reviewing the Economic Development Strategic Plan, however, that responsibility has been removed from DSD.

Significant Budget Adjustments

Significant budget adjustments include the following:

- A $1.5 million decrease in public use lease payments related to the Las Americas and Imperial Marketplace; these payments are being transferred to the Citywide Program Expenditures Department;
- An approximately $528,000 reduction in non-personnel expenditures related to community plan updates and special projects; reduction reflects reduced workload from consultants in FY 2013;
- An increase of approximately $925,000 in revenues related to proposed adjustments to various user fees;
- An increase of approximately $330,000 in revenues related to increased billable services.

Issues to Consider

The FY 2013 Proposed Budget includes approximately $925,000 in revenue related to proposed user fee adjustments. Should these adjustments not be approved, related revenue will need to be reduced.

Per the passage of Assembly Bill 26, the Redevelopment Agency of the City was dissolved in February 2012, with the City assuming the role of its Successor Agency. The fiscal impact on the City will not be fully known until governing agencies review and resolve enforceable obligations as included in the Recognized Obligation Payment Schedule (ROPS). In the FY 2013 Proposed Budget, the Planning Division includes approximately $280,000 in revenue from services provided to the City's former Redevelopment Agencies, which may need to come from the City's General Fund if not

SUMMARY OF NEIGHBORHOOD CODE COMPLIANCE BUDGET CHANGES					
	FTE	**PE**	**NPE**	**Total**	**Revenue**
Fiscal Year 2012 Budget	53.00	$ 5,102,601	$ 967,882	$ 6,070,483	$ 540,250
Mayor's FY 2013 Proposed Budget Changes					
Salary & Fringe Adjustments	1.00	$ 10,453	$ -	$ 10,453	$ -
Reduction to various Supplies and Contracts			$ (6,225)		
Information Technology and other Non-Discretionary Adjustments	-	-	18,441	18,441	-
Reduction of Graffiti Removal Team	(4.00)	(279,582)		(279,582)	
Addition of Grafaffiti Removal Team	4.00	279,582		279,582	
Addition of Senior Zoning Investigator with offsetting revenue	1.00	106,448		106,448	106,448
Addition of city services billed expenditures			15,000	15,000	
Additional revenue from revised user fee charges				-	11,707
Revised revenue projections		-	-	-	(15,900)
Mayor's Fiscal Year 2013 Proposed Budget	**55.00**	**$ 5,219,502**	**$ 995,098**	**$ 6,214,600**	**$ 642,505**
Difference from 2012 to 2013	*2.00*	*$ 116,901*	*$ 27,216*	*$ 144,117*	*$ 102,255*

approved in the ROPS.

Neighborhood Code Compliance

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for Neighborhood Code Compliance (NCC) is $6.2 million, an increased of 2.00 FTEs and an increase of approximately $145,000 from the FY 2012 Adopted Budget. Department revenues increase approximately $100,000 from FY 2012 primarily due to additional revenue from the Civil Penalties Fund.

In late FY 2012, it is anticipated that the City Council will hear the proposed Vacant/ Abandoned Property Ordinance (APO). The proposed APO will amend the City's existing Vacant Property Ordinance by expanding the types of structures addressed by the existing ordinance. NCC is adding 1.00 FTE to be responsible for the administration of the proposed program.

Significant Budget Adjustments

Significant budget adjustments include the following:

- Initially, positions and expenses related to the Graffiti Removal Team were eliminated from the proposed budget. However, following staff discussion, the Graffiti Removal Team was added back into the proposed budget, resulting in a net zero impact from the FY 2012 Adopted Budget;
- Addition of 1.00 FTE and approximately $106,000 in expenditures and offsetting revenues to support the Vacant/ Abandoned Property Ordinance; revenue from Civil Penalties Fund is anticipated to be one-time revenue, funding in future years would need to be to identified or become General Fund expense.

Issues to Consider

In the FY 2013 Proposed Budget, similar to the Planning Division, the Neighborhood Code Compliance Division includes approximately $200,000 in revenues from services provided to the City's former Redevelopment Agencies. As described previously, with the dissolution of the City's Redevelopment Agency, there is uncertainty as to the funding source of this revenue until the governing agencies resolve the issues related to ROPS.

The charges for these services may fall to the General Fund as the City has assumed the role of successor agency for the former Redevelopment Agency, depending upon the outcome of the of this issue.

Facilities Financing (Non-General Fund)

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Facilities Financing Division is approximately $2.1 million, a reduction of 0.11 FTEs and a decrease of approximately $15,000 from the FY 2012 Adopted Budget. Department revenues decrease by approximately $15,000 from FY 2012.

As the Planning Division enters the latter stages of their community plan updates, the Facilities Financing Division coordinates initiating their preliminary review of the corresponding financing plans. In FY 2013, Facilities Financing anticipates conducting the preliminary analysis for several plans, including Black Mountain and Scripps Ranch.

Budget adjustments for the FY 2013 Proposed Budget include a decrease of approximately $70,000 in non-discretionary and Information Technology expenditures; and an increase of approximately $46,000 in Personnel costs.

Development Services (Enterprise Fund)

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Development Services Department (DSD) Enterprise Fund is approximately $43.8 million, an increase of 17.00 FTEs and an increase of approximately $2.2 million from the FY 2012 Adopted Budget. Department revenues decrease by approximately $972,000 from FY 2012.

The majority of the increase in FTEs is related to the transfer of 11.00 FTE in response to a Fire Prevention Bureau (FPB) Efficiency Study, dated July 6, 2011. The FPB has multiple responsibilities, including processing plans, performing plan checks, and inspections of new construction ("Plan and Inspection Services"). In FY 2000, the Plan and Inspection Services were restructured to DSD from the FPB through an Memorandum of Understanding. In FY 2010, through a Service Level Agreement (SLA), the Plan and Inspection Services were transferred back to the FPB. The FY 2013 Proposed Budget reflects the transfer of the Plan and Inspection Services back to DSD. In the SLA, the Plan and Inspection Services have a corresponding revenue of

SUMMARY OF DEVELOPMENT SERVICES BUDGET CHANGES (ENTERPRISE FUND)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	402.75	$ 30,297,974	$ 11,250,136	$ 41,548,110	$ 46,553,370
Mayor's FY 2013 Proposed Budget Changes					
Salary & Fringe Adjustments	1.00	$ 565,420		$ 565,420	$ -
Reduction to various Supplies and Contracts			(56,047)	(56,047)	-
Information Technology and other Non-Discretionary Adjustments			1,132,524	1,132,524	-
Increase of a three-quarter Sr. Traffic Engineer to full-time with offest revenue	0.25	27,987		27,987	27,987
Recategorization of Rental Expenditures as non-discretionary expense			(940,262)	(940,262)	
Transfer of plan reviews from Public Works to DSD	4.75	671,628		671,628	
Transfer of plan review from Fire-Rescue Department	11.00	767,277	44,689	811,966	2,536,963
Revised revenue and expenditure projections			(8,353)	(8,353)	(3,536,963)
Mayor's Fiscal Year 2013 Proposed Budget	**419.75**	**32,330,286**	**11,422,687**	**43,752,973**	**45,581,357**
Difference from 2012 to 2013	*17.00*	*$ 2,032,312*	*$ 172,551*	*$ 2,204,863*	*$ (972,013)*

approximately $2.3 million being generated from these services. The $2.3 million is shown in the table on the previous page as an offsetting revenue. However, as DSD is the agency that has historically collected the revenue and then forwarded the appropriated amount to the FPB, DSD already accounted for the anticipated revenue in the FY 2013 Proposed Budget. Therefore, there is a corresponding reduction of the added $2.3 million to only credit the initial receipt of the revenue with DSD.

Significant Budget Adjustments

Significant budget adjustments include the following:

- An increase in 11.0 FTEs and an increase of approximately $812,000 in expenditures, with an increase of approximately $2.3 million in revenue for the Plan and Inspection Services;
- Transfer of 4.75 FTEs and approximately $672,000 in expenditures from Public Works; workload to include plan reviewed related to civil, traffic, and land surveyor projects;
- An increase of approximately $1.1 million in Information Technology and other non-discretionary expenditures; primarily due to re-categorization of rent as a non-discretionary item;
- Reduction of approximately $940,000 in rental expenditures related to re-categorization of rent expenditures;
- Reduction of approximately $2.3 million related to corrective accounting for the Plan and Inspection revenue;
- Reduction of $1.0 million in revenue due to waiver of General Fund reimbursements related to building permitting fees for wildfire victims.

Reserves

According to the City's Reserve Policy, the Development Services Department Appropriated Reserve is intended to provide financial stability during economic downturns, and may be used to meet current expenditures following an unanticipated decline in workload resulting in decreased revenues.

The DSD Enterprise Fund has an Appropriated Reserve target of 3.50% by June 30, 2013. Based on the budgeted operating expenditures of $43.8 million, this equates to a Reserve of approximately $1.5 million. The approximately $2.4 million Appropriated Reserve for the FY 2013 Proposed Budget represents approximately 5.0% of the total operating expenditures, well in excess of the reserve target.

Disability Services

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Disability Services Department is approximately $495,000, a decrease of approximately $1.5 million from the FY 2012 Budget. The department has 3.38 FTE positions which reflects a nominal .38 FTE reduction from FY 2012 attributable to changes in hourly personnel requirements.

Reductions

In the Mayor's May Revision to the FY 2012 Proposed Budget, approximately $1.5 million of additional General Fund monies were identified and allocated for ADA projects. These one-time monies were subsequently budgeted in the department's operating budget in FY 2012; however, the $1.5 million should have been budgeted in the department's annual ADA project fund rather than its operating budget. The FY 2013 Proposed Budget appropriately removes the one-time $1.5 million budgeted expenditure from the department's operating budget.

Complying with ADA

The Americans with Disabilities Act of 1990 (ADA) addresses the rights of people with disabilities to obtain equal access to services, programs, buildings and employment. All cities are required to have a Transition Plan documenting noncompliant facilities/ infrastructure and plans for continued progress towards retrofitting these projects. The City submitted its Transition Plan in 1997.

SUMMARY OF DISABILITY SERVICES BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	3.00	$ 413,974	$ 1,612,030	$ 2,026,004	$ -
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	0.38	(590)		(590)	
- Adjustments due to Salary Reductions/Savings/Furlough		(4,861)		(4,861)	
Fringe Benefits (incl. Retirement ARC)		4,613		4,613	
Supplies			-	-	
Contracts			(1,759)	(1,759)	
Non-Discretionary and Info Technology Adjustments			(1,528,412)	(1,528,412)	
CDBG Revenue for .38 FTE hourly Administrative Aide I					15,415
Subtotal	0.38	(838)	(1,530,171)	(1,531,009)	15,415
Mayor's Fiscal Year 2013 Proposed Budget	**3.38**	**413,136**	**81,859**	**494,995**	**15,415**
Difference from 2012 to 2013	*0.38*	*$ (838)*	*$ (1,530,171)*	*$ (1,531,009)*	*$ 15,415*

Status of ADA Construction Projects by Fiscal Year					
	FY 2008 BUDGET	FY 2009 BUDGET	FY 2010 BUDGET	FY 2011 BUDGET	FY 2012 BUDGET
Allocated Funds (millions):	$13.8	$11.3	$2.3	$1.5	$1.5
ADA Project Phases					
Design/Bid/Award:	6 (10%)	7 (22%)	2 (22%)	4 (57%)	8 (100%)
In Construction:	4 (7%)	6 (19%)	4 (45%)	0 (0%)	0 (0%)
Completed:	48 (83%)	19 (59%)	3 (33%)	3 (43%)	0 (0%)
TOTAL PROJECTS:	58 (100%)	32 (100%)	9 (100%)	7 (100%)	8 (100%)

ADA Funded Project Status

The IBA continues to track the status of funded ADA projects to ensure projects are being completed in a reasonable period of time (see above table). It should be noted that the project total for FY 2008 expanded from 46 to 58 projects to reflect the unbundling of grouped projects (i.e., group sidewalk or curb ramp projects). In FY 2010, another project had to be cancelled thereby reducing that year's total to nine projects. Funds from the cancelled project were redirected to another ADA project.

In FY 2012, approximately $1.5 million of one-time General Fund monies were budgeted for eight ADA projects. These funds are being used to address five ADA facility projects identified in the 1997 Transition Plan. The remainder of the FY 2012 funds will be used to address public right-of-way projects (audible traffic signals, curb ramps, missing sidewalks, etc.). The selection of right-of-way projects is typically driven by resident complaints.

In FY 2013, the City plans to use $8.2 million of the planned $75 million deferred CIP bond issuance to address ADA project needs.

Issues to Consider

The City Auditor conducted an audit of the City's Capital Improvement Program in June of 2011. Recommendation #6 in the audit suggested the City "effectively prioritize ADA projects by identifying funding sources and requiring the office to monitor and report progress made on the ADA Transition Plan". The audit noted 1) a reduction in dedicated ADA project funding in FY 2011 and 2) that approximately 28% of the ADA projects identified in the 1997 Transition Plan had yet to be initiated.

Despite considerable fiscal challenges, the Mayor and City Council allocated significant funding (over $11 million) for ADA compliance in FY 2008 and FY 2009. In fiscal years 2010 through 2012, ADA funding has been reduced (under $2.3 million annually). The go-forward expectation is that more robust funding for ADA projects will be facilitated through the issuance of annual CIP bonds beginning with $8.2 million of the $75 million issuance planned for early FY 2013.

The IBA believes a consistent annual ADA funding plan is the prudent approach going forward. Steady annual progress in addressing identified/needed ADA projects best demonstrates a good-faith effort to both the U.S. Department of Justice and the City's disability community.

Economic Development

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Economic Development Department is approximately $4.8 million, an increase of approximately $44,000 from the FY 2012 Budget. The department has 33.30 FTE positions which reflects a nominal .04 FTE reduction from FY 2012 attributable to a change in hourly personnel requirements.

Additions

The department has a net increase in budgeted revenue of approximately $125,000 for FY 2013. This amount is almost entirely comprised of revenue expected from the Parking Meter Utilization Plan (PMUP) to reimburse 1.00 Senior Traffic Engineer position ($124,793) that was added in FY 2012. The small balance of the revenue change is the difference in reimbursable annual intern expense. The department had 3.80 Interns in FY 2012 versus 3.76 FTEs in FY 2013.

Issues to Consider

Expectations for the Parking Meter Utilization Plan (PMUP)

The PMUP was developed by staff and first approved by Council in December of 2009. The Plan called for: providing tools for improved parking management including flexibility in setting rates, time limits, and hours of operation; establishing a target rate for parking meter utilization of 85%; and facilitating a community-driven process to address neighborhood specific issues.

The primary goal of the PMUP is to better manage the supply and demand of parking in metered areas. Economic Development staff estimated a secondary outcome of PMUP implementation could be increased

SUMMARY OF ECONOMIC DEVELOPMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	33.30	$ 3,310,065	$ 1,421,519	$ 4,731,584	$ 3,142,715
Mayor's FY 2013 Proposed Budget Changes					
Salaries & Wages	(0.04)	60,152		60,152	
- Adjustments due to Salary Reductions/Savings/Furlough		(50,370)		(50,370)	
Fringe Benefits (incl. Retirement ARC)		9,966		9,966	
Supplies			8,059	8,059	
Contracts			(4,030)	(4,030)	
Non-Discretionary and Info Technology Adjustments			20,710	20,710	
Revised Revenue - for interns & 1.00 PMUP Sr. Traffic Engineer					223,579
One-Time Revenue Reduction - Removes FY 2012 Revenue for Interns					(98,945)
Subtotal	(0.04)	19,748	24,739	44,487	124,634
Mayor's Fiscal Year 2013 Proposed Budget	**33.26**	**$ 3,329,813**	**$ 1,446,258**	**$ 4,776,071**	**$ 3,267,349**
Difference from 2012 to 2013	*(0.04)*	*$ 19,748*	*$ 24,739*	*$ 44,487*	*$ 124,634*

parking meter revenue attributable to higher meter utilization. Based on staff's preliminary analysis of potential PMUP related changes, $2.6 million of additional parking meter revenue was budgeted in FY 2011. It subsequently became apparent that PMUP could not be implemented in FY 2011 and a mid-year adjustment removed the $2.6 million from the FY 2011 budget.

In developing the FY 12 budget, PMUP revenue (approximately $1.6 million) was again budgeted along with approximately $523,000 of expense (5.00 FTEs and some NPE) to support PMUP implementation. The budgeted expense was to be reimbursable from new revenue derived from PMUP implementation. As the implementation of parking meter changes has yet to occur in FY 2012, no revenue has been realized or expense incurred as the budgeted positions remain vacant.

In the FY 2013 Proposed Budget, budgeted PMUP revenue remains but has again been significantly reduced from the $1.6 million anticipated in FY 2012 to $505,000 in FY 2013 (budgeted in the City Treasurer and Economic Development departments). Staff indicates the plan is to budget just enough PMUP revenue in FY 2013 (approximately $505,000) to cover the expense associated with supporting Plan implementation.

In IBA Reports 11-12 and 11-25, we recommended "that the program first be implemented and evaluated with a goal of including additional meter revenue into the budget process once its receipt is more certain." We continue to question whether additional meter revenue will be realized once PMUP implementation begins. Additionally, based on prior conversations with City Treasurer staff, we are not certain that changes in parking meter revenue attributable to PMUP implementation can be accurately accounted for.

Given these concerns, we recommend the Council be updated on PMUP implementation by the Mayor's Office to include a discussion of anticipated revenues, how they will be accounted for and associated PMUP expense. As both the Economic Development (1.00 FTE) and City Treasurer (4.00 FTEs) departments begin to incur General Fund expense in support of PMUP, the IBA recommends the Council have a means of tracking whether the program is cost recoverable. If it is not, General Fund support would be needed to continue the program; and the value and priority of this program compared to other City needs should be reevaluated.

Key Performance Measures

The department had two performance measures for FY 2012. One of the measures, relating to CDBG reform and policy development, was completed in FY 2012. The remaining performance measure for FY 2013 is the number of small businesses assisted.

Recommendation

The IBA recommends the department consider developing additional performance measures to reflect their annual activity. These measures/goals might focus on the performance of small business assistance programs, CDBG administration, contract management or special district (BID, PMD, TMD, MADs) administration.

Environmental Services

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Environmental Services Department (ESD) is $94.8 million, an increase of $2.9 million in expenditures and 2.79 FTEs from the FY 2012 Adopted Budget.

ESD has a complex budget structure, with four primary divisions spread across five different funds, as shown in the table below. Due to the complexity of the budget structure, the analysis of the FY 2013 Proposed Budget in this section is organized by major program component.

Managed Competition for the Landfill

Beginning in 2010, the City explored the concept of selling the Miramar Landfill. The end result of this process was that the City is no longer pursuing the sale of the landfill.

Alternatively, the City decided to pursue a managed competition process for landfill operations. The Request for Proposals was issued on February 28, 2012, with responses due back April 18, 2012, for landfill operations. The Managed Competition Independent Review Board is expected to conduct their review over the next several weeks. Any savings from this process are anticipated to occur in late FY 2012 or early FY 2013, and are not incorporated in the FY 2013 Proposed Budget.

Financial Health of the Refuse Disposal Fund and the Recycling Fund

The Refuse Disposal Fund is funded through fees paid by private haulers, City forces, and other customers, including the public. These fees include Tipping Fees, Construction and Demolition Disposal Fees, and Green/Wood Fees. The Recycling Fund is primarily funded through the collection of AB 939 (Recycling) Fees and revenue generated from the sale of recyclable materials collected by the City (Curbside Collection).

Due to increased source reduction efforts, a slowed economy, and an increase in recycling and composting, increased amounts of waste have been diverted from the landfills.

ESD FY 2013 PROPOSED BUDGET EXPENDITURES

	General Fund	Energy Conservation Fund	Refuse Disposal Fund	Recycling Fund	Automated Container Replacement	TOTAL
Collection Services	$ 31.0		$ 1.0	$ 17.3	$ 0.5	$ 49.8
Waste Reduction & Disposal	0.0		28.6	1.6		30.2
Energy Sust. & Environomental Protection	1.8	2.3	1.1	1.7		6.9
Office of the Director	1.6		3.7	2.6		7.9
TOTAL	$34.4	$2.3	$34.4	$23.2	$0.5	$94.8

As fees are based upon trash tonnage, the reduction in waste has created a situation where expenditures were outpacing revenues.

In 2009, the City Council approved a fiscal mitigation package designed to protect the financial health of the Recycling Fund. The approved package included:

- A $3 per ton increase in the AB939 fee;
- Transfer of certain programs from the Recycling Fund to the Refuse Disposal Fund;
- A $2 per ton increase in the Tipping Fee; and
- A $5 per ton discount on the Tipping fee for City forces.

As part of the approved package, ESD was required to meet with various stakeholders to explore possible savings from efficiencies. As a result of these discussions, ESD implemented a "4/10/5" work schedule, which was anticipated to produce savings for not only the Refuse Disposal and Recycling Funds, but also the General Fund. The structure of the fiscal mitigation package was to provide relief to the Recycling Fund but it also provided additional strain on the Refuse Disposal Fund.

In FY 2011, the Refuse Disposal Fund's revenues exceeded expenditures by approximately $1.0 million, however, from the FY 2012 Mid-Year Budget Monitoring Report and the FY 2013 Proposed Budget, it is anticipated that expenditures will exceed revenues in FY 2012 and FY 2013 by $2.9 million and $5.2 million respectively.

In FY 2011, the Recycling Fund's revenues exceeded expenditures by approximately $3.0 million but from the FY 2012 Mid-Year Budget Monitoring Report and the FY 2013 Proposed Budget, it anticipated that expenditures will exceed revenues in FY 2012 and FY 2013 by $1.4 million and $3.8 million respectively.

The IBA has previously recommended, in Report 10-16, that ESD develop and present five-year forecasts for the Refuse Disposal and Recycling Funds, in order to assess the financial health of these Funds and determine the appropriateness of the current charges and fees.

ESD has indicated that the five-year forecasts are being revisited to incorporate identified savings from the managed competition process and they plan to present them to the Natural Resources and Culture Committee as part of a financial package in September 2013. The financial package is anticipated to include identified revenue requirements, potential revenue enhancements alternatives, and identify potential impacts. The results of the five-year forecast will be incorporated into the Long-term Resource Management Options Strategic Plan.

Any future fiscal mitigation efforts are likely to have General Fund impacts as the General Fund pays tipping fees and AB 939 fees related to residential refuse collection due to the People's Ordinance.

General Fund

The FY 2013 Proposed Budget for the ESD portion of the General Fund is estimated at $34.4 million, an increase of approximately $1.1 million and an increase of 5.21 FTEs from the FY 2012 Adopted Budget. Department revenues are projected to total approximately $1.3 million, an increase of approximately $106,000 from FY 2012.

Significant Budget Adjustments

Significant budget adjustments include the following:

- An increase of approximately $1.5 million in Information Technology and other non-discretionary expenditures; primarily due to the re-categorization of several expenses such as rent as a non-discretionary item;
- Reduction of approximately $807,000 in rental expenditures related to re-categorization of rental expenditures;
- Increase of 4.55 FTEs and approximately $303,000 in expenditures due to a transfer of positions among ESD in order to better reflect services with expenditures;
- An increase of approximately $106,000 in additional revenue due to revised revenue projections and adjustments to the department's collection process.

SUMMARY OF BUDGET CHANGES - GENERAL FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	129.80	$ 12,154,187	$ 21,179,661	$ 33,333,848	$ 1,157,903
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	0.66	31,973		31,973	
Fringe Benefits (incl. Retirement ARC)		92,530		92,530	
Supplies and Contracts			(10,494)	(10,494)	
Information Technology and other Non-Discretionary Adjustments			1,490,030	1,490,030	
Transfer of positions with ESD divisions to increse efficiencies	4.55	303,164		303,164	
Reduction in Rental Expenditures due to re-categorization of expense			(807,434)	(807,434)	
Revised revenue projections and improved collections				0	106,197
Mayor's Fiscal Year 2013 Proposed Budget	**135.01**	**12,581,854**	**21,851,763**	**34,433,617**	**1,264,100**
Difference from 2012 to 2013	*5.21*	*$ 427,667*	*$ 672,102*	*$ 1,099,769*	*$ 106,197*

Recycling Fund

The FY 2013 Proposed Budget for the Recycling Fund is approximately $23.2 million, an increase of approximately $2.4 million and an increase of 0.11 FTEs from the 2012 Adopted Budget. Department revenues are budgeted at $19.4 million, an increase of approximately $105,000 from FY 2012.

The FY 2013 Proposed Budget includes an addition of 2.00 FTEs and approximately $1.8 million in expenditures. These additional positions and funding are an attempt to increase participation in the household curbside recycling to increase the City's diversion rate and extend the life of the landfills. It is estimated that there are 39,000 City residents that are not currently participating in the City mandated recycling effort. The additional funding would be for the purchase and deliver of approximately 15,000 additional automated recycling containers and provide for two drivers and packers.

Significant Budget Adjustments

Significant budget adjustments include the following:

- An increase of 2.00 FTEs and approximately $1.8 million in expenditures to increase curbside recycling service;
- A decrease of 2.08 FTEs and approximately $59,000 in expenditures as a result of departmental adjustments to better match services with funding sources;
- An increase of approximately $586,000 in Information Technology and other non-discretionary expenditures, primarily due to re-categorization of charges;
- An increase of approximately $105,000 in additional revenue due to revised revenue projections.

SUMMARY OF BUDGET CHANGES - RECYCLING FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	108.23	$ 9,446,512	$ 11,355,235	$ 20,801,747	$ 19,320,794
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	0.19	23,927		23,927	
Fringe Benefits (incl. Retirement ARC)		119,589		119,589	
Supplies and Contracts			(10,034)	(10,034)	
Information Technology and other Non-Discretionary Adjustments			586,309	586,309	
Additions for additional curbside recycling	2.00	159,445	1,656,942	1,816,387	
Transfer of positions with ESD divisions to increse efficiencies	(2.08)	(59,711)		(59,711)	
Revised revenue and expenditure projections			(41,765)	(41,765)	105,200
Mayor's Fiscal Year 2013 Proposed Budget	**108.34**	**9,689,762**	**13,546,687**	**23,236,449**	**19,425,994**
Difference from 2012 to 2013	*0.11*	*$ 243,250*	*$ 2,191,452*	*$ 2,434,702*	*$ 105,200*

Refuse Disposal Fund

The FY 2013 Proposed Budget for the Refuse Disposal Fund is approximately $34.4 million, an decrease of approximately $131,000 and a decrease of 2.33 FTEs from the 2012 Adopted Budget. Department revenues are budgeted at $29.2 million, an decrease of approximately $520,000 from FY 2012.

Significant Budget Adjustments

Significant budget adjustments include the following:

- A decrease of 2.47 FTEs and a decrease of approximately $243,000 in expenditures as a result of departmental adjustments (transfers);
- An decrease of approximately $520,000 in revenue primarily due to revised revenue projections related to interest earnings.

Energy Conservation Program Fund

The FY 2013 Proposed Budget for the Energy Conservation Program Fund is approximately $2.3 million, a decrease of approximately $205,000 from the 2012 Adopted Budget. Department revenues are budgeted at $2.1 million, a decrease of approximately $961,000 from FY 2012.

The driving factor for the reduction in revenue is a result of the Energy Conservation and Management Program closing the Energy Efficiency and Conservation Block Grant (EECBG). There is no anticipated programmatic impact from the closure of the EECBG as projects funding through this program are being completed. However, if no future grants are identified and awarded, future projects will need to be re-evaluated.

SUMMARY OF BUDGET CHANGES - REFUSE DISPOSAL FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	160.91	$ 14,687,632	$ 19,874,443	$ 34,562,075	$ 29,707,888
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(0.06)	(4,454)		(4,454)	
Fringe Benefits (incl. Retirement ARC)		128,939		128,939	
Supplies and Contracts			(14,786)	(14,786)	
Information Technology and other Non-Discretionary Adjustments			2,385	2,385	
				0	
Transfer of positions with ESD divisions to increse efficiencies	(2.47)	(243,453)		(243,453)	
Revised revenue and expenditure projections				0	(520,000)
Mayor's Fiscal Year 2013 Proposed Budget	**158.38**	**14,568,664**	**19,862,042**	**34,430,706**	**29,187,888**
Difference from 2012 to 2013	*(2.53)*	*$ (118,968)*	*$ (12,401)*	*$ (131,369)*	*$ (520,000)*

Financial Management

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Financial Management Department is approximately $4.2 million, an increase of approximately $13,000 from the FY 2012 Budget. The department has 31.03 FTE positions which reflects a nominal .09 FTE reduction from FY 2012 attributable to a change in hourly personnel requirements.

Reductions

Budgeted revenue is reduced by approximately $62,000 to reflect revised projections. This is the department's only significant budget reduction.

SUMMARY OF FINANCIAL MANAGEMENT BUDGET CHANGES					
	FTE	**PE**	**NPE**	**Total**	**Revenue**
Fiscal Year 2012 Budget	31.12	$ 3,735,660	$ 422,637	$ 4,158,297	$ 67,180
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(0.09)	37,068		37,068	
- Adjustments due to Salary Reductions/Savings/Furlough		(29,242)		(29,242)	
Fringe Benefits (incl. Retirement ARC)		(6,352)		(6,352)	
Supplies			(1,571)	(1,571)	
Contracts			4,114	4,114	
Non-Discretionary and Info Technology Adjustments			8,653	8,653	
Revised Revenue Projections					(62,180)
Subtotal	(0.09)	1,474	11,196	12,670	(62,180)
Mayor's Fiscal Year 2013 Proposed Budget	**31.03**	**3,737,134**	**433,833**	**4,170,967**	**5,000**
Difference from 2012 to 2013	*(0.09)*	*$ 1,474*	*$ 11,196*	*$ 12,670*	*$ (62,180)*

Fire-Rescue

Mayor's FY 2012 Proposed Adjustments

The FY 2013 Proposed Budget for the Fire-Rescue Department is $199.7 million, an increase of $1.9 million from the FY 2012 Budget. The FY 2013 Proposed Budget results in a net reduction of 4.49 FTE. Budgeted revenue totaling $27.3 million represents a decrease of $1.9 million.

Budget Additions

The FY 2013 Proposed Budget includes the addition of:

- $6.7 million in overtime budget
- 8.00 FTE Fire Prevention Inspector 2s at a cost of $1.2 million
- $582,398 in non-personnel expenditures to support a 30 recruit fire academy
- $454,794 for non-discretionary information technology costs
- 4.00 FTE Lifeguard 2s at a cost of $385,589 to provide lifeguard services at Black's Beach on a cost recovery basis
- $94,550 for the payment of sales tax for the lease/purchase of three lifeguard vessels
- $15,000 for lifeguard scheduling software program enhancements.

Budget Reductions

The FY 2013 Proposed Budget reductions

SUMMARY OF FIRE-RESCUE BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	1,148.89	$ 164,657,509	$ 33,195,692	$ 197,853,201	$ 38,783,205
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages				-	
- Addition of Overtime		6,740,821		6,740,821	
- Vacancy Savings/Salary & Fringe Adjustments/Labor Negotiation Adjustment	(2.67)	(2,600,163)		(2,600,163)	
- Fire Prevention Inspector 2s	8.00	1,220,916		1,220,916	1,220,916
-Lifeguard Services at Black's Beach	4.00	367,458	18,131	385,589	385,589
-Hourly Personnel Adjustment	(1.82)	(35,558)		(35,558)	
Non-Discretionary and Info Technology Adjustments			(1,593,259)	(1,593,259)	
				-	
Fire Academy	-	318,666	263,732	582,398	
Lifeguard Rescue Vessels			94,550	94,550	
Lifeguard Scheduling program server upgrade			15,000	15,000	
Copier Savings			(47,458)	(47,458)	
Transfer to the Junior Lifeguard Program Fund	(1.00)	(118,268)		(118,268)	
Inspection and Plan Review Transfer	(11.00)	(811,966)		(811,966)	(2,536,963)
One-Time Reductions and Annualizations			(1,961,278)	(1,961,278)	(5,051,829)
Transfer of Emergency Medical Services Revenue				-	3,260,000
Revised Revenue				-	404,797
User Fees				-	373,957
Misc Adjustment		(155,311)	155,311		
Subtotal	(4.49)	4,926,595	(3,055,271)	1,871,324	(1,943,533)
Mayor's Fiscal Year 2013 Proposed Budget	**1,144.40**	**169,584,104**	**30,140,421**	**199,724,525**	**36,839,672**
Difference from 2012 to 2013	*(4.49)*	*$ 4,926,595*	*$ (3,055,271)*	*$ 1,871,324*	*$ (1,943,533)*

include:

- An increase of budgeted vacancy savings of $1.8 million
- $2.0 million in non-discretionary adjustments primarily attributed to lower motive usage and assignment fees and less vehicle debt service payments.
- The removal of $1.9 million in one-times related to the Station Alerting Systems ($1.7 million) and lifeguard training ($200,000).
- $811,966 for the transfer of 11.00 FTEs related to new construction inspections and plan checks to the Development Services Department (DSD).
- $118,268 for the transfer of 1.00 FTE Organization Effectiveness Specialist to the Junior Lifeguard Program Fund.

Budgeted Revenue Adjustments

Budgeted revenue for the Department is proposed to decrease by $1.9 million in FY 2013. Revenue reductions in the department are primarily comprised of a $5.0 million decrease related to the removal of FY 2012 one-times and the transfer of $2.5 million in budgeted revenue related to new construction inspections and plan checks to DSD.

Major revenue additions consist of $3.3 million in revenue from the transfer of Emergency Services revenue from the Fire/Emergency Medical Services Transport Fund, $385,589 from the Black's Beach Lifeguard Services Contract, and approximately $779,000 in adjustments to revenue projections and fees.

The revenue projection adjustments include the removal of $53,625 in budget related to the Air Medical Transport Fee given that the City will not be able to charge this fee due to an FAA ruling, a $106,790 reduction in Highrise Fee revenue budget to align it with program costs, and a $565,212 increase due to growth in safety sales tax revenue.

Additions

Overtime Expense Adjustment

The FY 2013 Proposed Budget includes the addition of $6.6 million in overtime expenses. This addition includes overtime increases in the following areas: $4.0 million for Fire Suppression, $1.0 million for Boating Safety, $706,573 for Dispatch, $222,302 for Facilities, $212,713 for the Metro Arson Strike Team, $194,341 for Emergency Medical Services, $173,897 for Inspection Services, and $78,147 for the Professional Standards Unit. The increase in the budgeted overtime levels is intended to meet the department's true operational needs and reflect historical trends. In the FY 2012 Mid-Year Report, the Fire-Rescue Department was projected to end the year $4.8 million over budget in personnel costs. Projected expensive overages in overtime, hourly wages, special pays, vacation pay in lieu, industrial leave, and other non-production time categories (e.g. vacation, sick leave, etc.) fell short of savings in salaried wages and fringe costs. The over budget personnel costs highlighted a need to reevaluate the constant staffing budgeting methodology employed by the department. In theory, overtime and personnel expense overages are to be fully offset by savings in salary and fringe benefits, which was not happening.

Financial Management and Fire-Rescue have worked together to conduct an historical trend analysis to identify the cause of the over budget personnel expenses, resulting in the proposed increase in the overall overtime budget for the department. This increase in the overtime budget is partially offset by a $1.8 million increase in the department's budgeted vacancy savings, bringing the related net adjustment in the personnel expense budget to $4.8 million. This budget adjustment is part of a phased approach to addressing personnel budget overages. The department has expressed that the increase in the overtime budget still may not meet the actual overtime needs of the department. The coming fiscal year will provide an opportunity to see whether any additional adjustments are warranted.

Fire Inspector FTE Additions

A 2010 Office of the City Auditor performance audit of fire prevention activities and a 2011 Fire Prevention Bureau Efficiency Study highlighted the need to increase resource levels in the Fire Prevention Bureau to meet fire inspection goals. In specific, the 2011 Efficiency Study recommends the addition of 8.00 FTE inspectors to enable the Bureau to inspect all Combustible Explosive and Dangerous Materials (CEDMAT) businesses annually. These inspections are critical given the fire and environmental risks associated with these businesses.

The FY 2013 Budget includes the addition of 8.0 FTE Fire Inspector 2s that will be assigned to the CEDMAT Inspections Unit at an expense of $1.2 million, with $1.2 million in related cost recovery revenue. With more inspectors, the section will increase its ability to meet its inspection goals.

Fire Academies

The budget includes the addition of approximately $582,000 to fund one 30 member fire academy. This amount will cover the costs of overtime, supplies, and services for the academy, but does not include the personnel costs associated with the recruits of approximately $606,000. The cost of the recruits was not added to the budget given that they will be funded through salary savings from current and anticipated department vacancies. The department has expressed that a second academy may be required in FY 2013 to meet staffing needs due to attrition. An additional 30 member academy would cost $560,000, accounting for non-personnel expenditures and the personnel costs associated with an additional 16 recruits that would not be covered by department vacancy savings.

Lifeguard Services at Black's Beach

The FY 2013 Budget includes $385,589 in expense and revenue for the addition of 4.00 FTE Lifeguard IIs and non-personnel expenditures to provide lifeguard services at Black's Beach. The City executed an agreement with UCSD in March 2011 providing for the reimbursement of these positions and related non-personal expenses, with an option for annual renewal for two years, ending in FY 2014. The contract has been renewed for another year.

Lifeguard Vessels

At the April 11, 2012 Budget & Finance Committee meeting, a FY 2013 Master Lease Purchase agreement was approved and forwarded to Council that included the lease purchase of one fireboat and two surf rescue vehicles. These rescue vessels were identified for replacement due to nearing or exceeding their life expectancy. In being alerted to the worn condition of one of the two fireboats, a number of Councilmembers requested the funding for its replacement in their budget priorities memos. The FY 2013 Proposed Budget includes $94,550 to cover the sales tax for the lease/purchase of one fireboat and two surf rescue boats. The estimated cost for the fireboat is $1.0 million and the two surf rescue vehicles, $110,000 each. The debt service for the vessels will not begin until FY 2014, and is estimated at $192,700 for seven years.

Included in the Five-Year Outlook was $644,286 to create a Lifeguard Marine Vessel Replacement Fund to fund the replacement of aging marine vessels in the lifeguard fleet. The FY 2013 budget does not include funding to create a Replacement Fund. This fund would have been used to replace 11 lifeguard vessels that will need to be replaced in future fiscal years.

Lifeguard Training

Lifeguard training budget of $200,000 that was added to the FY 2012 Budget during the budget process is removed from the FY 2013 budget as a one-time expense. This overtime budget was added as part of the FY 2012 May Revision and subsequently increased by $40,000 by the Council. Our office has concerns regarding the removal of the $200,000 training budget given that it was not identified as a one-time addition during the FY 2012 Budget approval process. The removal of this funding will undermine Wednesday training for lifeguards that includes training on vehicle operations, cliff rescue, scuba rescue, and boat training.

Fire-Rescue and Development Services Department (DSD) Restructuring

It has been determined though discussions between DSD and Fire-Rescue that DSD should again house the New Construction inspections group. In FY 2010, a restructuring effort moved the New Construction inspection group back to Fire-Rescue through a Service Level Agreement, after the group was transferred to the Development Services Department (DSD) in FY 2000 though an MOU. This inspection unit is responsible for processing plan checks, permits, reviewing plans, and conducting inspections for new construction and remodel projects. The new restructuring, is intended to enhance customer service and the timeliness of inspections and plan checks by placing all construction staff under single management within one department. With this restructuring, $811,966 in expenditures associated with the transfer of 11.00 FTEs and $2.5 million in revenue budget will be removed from Fire-Rescue and transferred to DSD. The 11.00 FTEs are comprised of 9.00 FTE Fire Prevention Inspector 2s, 1.00 FTE Fire Prevention Supervisor, and 1.00 FTE Public Information Clerk. The $2.5 million in transferred revenue is the total amount that was originally transferred to Fire-Rescue from DSD with the FY 2010 restructuring.

Fire Alert System

$1.7 million was adopted as a one-time expenditure in FY 2012 to fund the first half of the Fire Alert System replacement project. The Five-Year Outlook contained the addition of $2.6 million in capital expenditures related to complete the project. The $2.6 million one-time allocation in FY 2013 represented a $900,000 increase in the original estimated cost for the replacement of the station alerting system, with the increase being related to additional engineering and contingency costs. The full cost of the replacement of the Fire Alert System is now projected at $4.4 million, an $100,000 increase. The FY 2013 Proposed Budget does not include funding for the fire station alerting system due to the anticipated use of the FY 2012 General Fund surplus to fund the remaining costs of the project. $2.7 million will be transferred to the capital improvement project in FY 2012 to fully fund it.

Revenue Adjustments

Emergency Medical Services Contract

The City formerly provided emergency medical response through San Diego Medical Services (SDMS) as a public/private partnership between the City and Rural/Metro Ambulance. In June of 2011, the City Council approved an interim two-year agreement with Rural/Metro reflecting a traditional contractual relationship with the City for the provision of ambulatory services. In accordance with the terms of this agreement, the FY 2013 Proposed Budget includes revenue for the payment of a $10.0 million operational fee by Rural Metro for the second year of the contract. The operational fee will be received within the Fire/Emergency Medical Services Transport Program (EMS) Fund, and the net, after covering administrative and ambulatory operations within the fund, will be transferred to the General Fund. A $8.26 million total transfer into the General Fund from the EMS Fund will include the General Fund share of the operations fee, profit sharing from FY 2012, and the remaining funds from the Rural Metro buyout of $5.0 million received in the EMS Fund in FY 2012. The total transfer is comprised of the following: 1) a $1.6 million one-time payment for the transfer of FY 2012 EMS Fund balance to the General Fund for the City's share of residual monies from FY 2012 after covering ambulance related expenses, 2) a $5.0 million reimbursement to Fire-Rescue for the partial recovery of the costs associated with medical emergency response in FY 2013, and (3) a one-time buyout of $1.66 million.

User Fees

The fee changes proposed by Fire-Rescue will provide approximately $374,000 in additional revenue. The fee adjustments are proposed for fees in the following areas:

- Fire Inspection Program
- CEDMAT Permits and Inspections
- Special Events Permits and Inspections
- Technical Services Permits and Inspections
- Miscellaneous Inspection Services
- Lifeguard Services

In total, 88 fee adjustments are proposed. The adjustments are intended to ensure full cost recovery.

Issues to Consider

Citygate Working Group Five-Year Implementation Plan

In November of 2011, the City Council approved the recommendations in the Citygate Working Group Report outlining a five-year implementation plan for addressing the most critical fire-rescue resource and deployment recommendations in the 2011 Citygate Associates, LLC (Citygate) report .

The chart below details the departmental needs identified to be addressed in the first and second years of the plan and corresponding estimated costs, with their current status.

Fuel Costs

As of the 2012 Midyear Report, the Fire-Rescue Department diesel fuel costs for fire trucks and engines was $1.0 million over-budget. The potential for a similar overage in diesel fuel costs is not addressed in the FY 2013 Proposed Budget. The Office of the IBA recommends that the need for additional funding for fuel costs in FY 2013 is evaluated for consideration in the May Revision.

False Alarm Revenue

The FY 2012 Adopted Budget included $910,000 in fee revenue associated with the midyear implementation of the Fire-Rescue Alarm Permit Fee program. The department anticipates that this program will not meet budgeted expectations in FY 2012 due to a lower number of permits issued than originally estimated by between 52-64% and penalty billings below original assumptions. The FY 2013 Proposed Budget does not contain a reduction in the False Alarm revenue to reflect a continuance of the FY 2012 trends. The total $910,000 in budgeted revenue from FY 2012 is comprised of two

Citygate Working Group Five-Year Implementation Plan

Identified Needs	Cost (In Millions)	Status
Year 1 Plan		
Adopted revised deployment (response time) measures	$0.0	Completed
Adopt revised fire station location measures and create revised fire station CIP projects	$0.0	Partially Completed
Adopt aggregate population definitions	$0.0	Completed
Add back (restore) the 8 browned out fire engines	$11.5	Completed
Adopt Citygate priorities for adding needed resources	$0.0	Completed
Review and adopt dispatch process improvements	$0.0	In Process
Develop Fast Response Squad Pilot Program and Corporate Partnership Program to ID 100% funding	$0.0	Not Completed
Replace fire station alerting system (Phase 1)	$1.7	In Process
Purchase Truck for East Mission Valley Fire Station 45	$1.1	Not Completed
Design and planning for Home Ave. Fire Station	$0.8	Not Completed
Year 2 Plan		
Staffing and capital for one Battalion Chief Unit	$0.5	Pending
Replace fire station alerting system (Phase 2)	$2.7	In Process
Completion of East Mission Valley Fire Station 45	$3.0	Pending
Staffing of East Mission Valley Fire Station 45	$2.2	Pending
Fund Construction of Home Ave. Fire Station	$8.0	Pending
Purchase of fire engine for Home Ave Fire Station	$0.8	Pending
Design and planning for Paradise Hills Fire Station	$0.8	Pending
Total Project Costs	**$33.0**	
Completed & In Process Project Costs	**$15.9**	
Outstanding Costs	**$17.1**	

components: $370,440 in permit revenue and $540,000 in penalty billings. Our office recommends that this revenue is adjusted in the May Revision to reflect current projections. Based on the number of permits issued year-to-date, permit revenue budget should be reduced to $160,000, a reduction of approximately $210,000. There is uncertainty regarding the appropriate adjustment to budget related to penalty billings. The department has expressed that since the program has not been in operation for a year, there is not enough trending data available to project FY 2013 penalty activity, the largest component of the budgeted revenue. (It is noted that the $716,000 revenue addition included in the Five-Year Outlook for the annualization of the program in FY 2013 is foregone in the FY 2013 Proposed Budget.)

Fire and Lifeguard Facilities Fund

Safety sales tax revenue is deposited into the Fire and Lifeguard Facilities Fund to cover the cost of the debt service payment for the 2002 Fire and Life Safety Facilities Lease Revenue Bonds (2002 F&LS Bonds), and then the remaining revenue is split between the Fire-Rescue and Police Departments as a revenue transfer into their departments. In April 2012, the City Council authorized the issuance of a Series 2012 B Lease Revenue Refunding Bonds to refund the outstanding 2002 F&LS Bonds. The successful issuance of the refunding bonds is projected to save over $100,000 annually. This will increase the transfer to Fire-Rescue and the Police Department for the same amount. Since these bonds have not been issued as of yet, the FY 2013 Proposed Budget does not reflect this anticipated savings.

San Diego Service Authority for Freeway Emergencies (SAFE) Funding

The San Diego Service Authority for Freeway Emergencies (SAFE) collects an annual charge totaling $2.6 million that is used to manage roadside yellow call boxes. The fee is collected through a $1 addition to registration fees for county vehicles. Costs supported by the authority include those related to support call box maintenance and emergency response to freeway motorists. The use of yellow call boxes has declined significantly over the years.

Recent attention has been given to the fact that the authority as amassed a reserve of $12.8 million. As members of the SAFE Board overseeing the program, Council Members Zapf and Alvarez have raised concerns regarding the continued collection of the fee despite a reduction in program use and the availability of a large reserve that could be otherwise used to fund other public safety needs within the County.

On February 1st, 2012 Assembly Members Nathan Fletcher and Marty Block introduced AB1572, a bill that would dissolve the SAFE board and transfer the oversight of the program to the San Diego Association of Governments (SANDAG). As a part of the bill, the collection of the annual SAFE fee would be put on hold through 2014 with approximately $9.0 million in available reserves to by divvied up among County local governments to support Police and Fire Protection. Councilmembers Zapf and Alvarez actively supported this legislation. This could possibly result in $3.0-$4.0 million to the City in FY 2013. The Bill was passed unanimously by the Assembly Transportation Committee and will next be heard by the Assembly Appropriations Committee.

Junior Lifeguard Program

The budgeted expenditures and revenue for the Junior Lifeguard Program within the Junior Lifeguard Program Fund. The total expenditures are budgeted at $531,863, with the revenue budgeted at $567,937, which differs from the amount approved by Council of $572,775. The Department has explained that these discrepancies are related to a recalculation of labor and overhead rates for FY 2013. Approximately $5,000 in costs were removed from the cost recovery calculation for the program, resulting in the change in the revenue budget. Load and overhead rates were not included in the expenditure budget. The total FY 2013 Proposed expenditure represents an approximate reduction of $41,000 in program costs. The department has expressed that they may request a correction for the expenditure budget in the May Revision.

Performance Measures

The Fire-Rescue Department response measures have been modified to reflect recommendations in the Citygate Report to revise deployment performance measures to reflect all three components of response time and incorporate realistic goals for dispatch, turnout, and travel time that starts from the point of call receipt by fire dispatch. The previous reported performance measures did not incorporate dispatch time and reflect realistic crew turnout and travel time goals. The initial unit emergency response and effective fire force performance measures have been revised as follows:

- Percent of effective fire force emergency response arrival within National Fire Protection Agency (NFPA) 1710 guideline of 9 minutes →

Percent of time that a multiple-unit response of at least 17 personnel arrives (within 10:30 minutes/seconds from the time of the 911 call receipt in fire dispatch) to confine fires near the room of origin, keep wildland fires to under 3 acres when noticed promptly, and to treat up to 5 medical patients at once

- Percent of initial unit emergency response arrival within NFPA 1710 guideline of 5 minutes or less →

Percent of time the fire-due unit arrives (within 7 minutes and 30 seconds from the time of the 911 call receipt in fire dispatch) to treat medical patients and control small fires

An improvement in Fire-Rescue response times is expected in FY 2013 due to the implementation of recommendations resulting from a recent City Auditor performance audit. The audit found that a change in dispatch procedures can reduce Fire-Rescue response time by up to one minute. This can be accomplished through assigning Fire-Rescue units to medical calls at the same time as ambulances. The current practice is to immediately assign an ambulance for medical calls, but delay assigning Fire-Rescue until after a series of questions are asked to determine the severity of the call. The Fire-Rescue Department targets an implementation date of before or by July 1, 2012.

Gasoline Tax

Gas tax revenue is generated by an 18 cents per gallon tax on the sale of gasoline. The funding is used to maintain street lighting, traffic signals, and marking including the City's share of the Gaslamp Quarter Lighting and San Diego Street Lighting Number One. The Gas Tax also funds street maintenance, median landscaping, tree trimming, and waste removal in the public right-of-way.

Gas Tax revenues are generally allocated to four departments:

- Transportation & Storm Water (TSW)
- Park & Recreation
- Economic Development
- City Comptroller

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget includes $20.9 million in total expenditures for Gas Tax, a decrease of $13.1 million or 38.4% since FY 2012. The decrease is largely attributable to the removal of $11.8 million in one-time expenditures implemented in FY 2012 for street resurfacing projects.

Gas Tax revenues total $20.9 million and have been revised by about ($1.3 million) based on State of California Gas Tax projections.

SUMMARY OF CHANGES IN GAS TAX EXPENDITURES AND REVENUE

	FY2012	FY 2013	CHANGE	PERCENTAGE
Expenditures				
Administration - City Comtroller	$ 95,000	$ 95,000	$ -	0.0%
Economic Development - Market Assessment Districts	45,671	46,933	1,262	2.8%
Park & Recreation - Market Assessment Districts	1,279,795	1,268,498	(11,297)	-0.9%
Park & Recreation - Street Median Maintenance Program	774,382	774,382	-	0.0%
TSW - Street Division	27,717,275	14,675,647	(13,041,628)	-47.1%
TSW - Transportation Engineering Division	4,059,546	4,059,546	-	0.0%
Total Expenditures	**$33,971,669**	**$20,920,006**	**$(13,051,663)**	**-38.4%**
Revenue				
Gas Tax - Section 2105	$ 7,255,837	$ 6,651,677	$ (604,160)	-8.3%
Gas Tax - Section 2106	4,841,310	4,453,732	(387,578)	-8.0%
Gas Tax - Section 2107	9,656,002	9,546,077	(109,925)	-1.1%
Gas Tax - Section 2107.5	20,000	20,000	-	0.0%
Interest Earnings	250,000	100,000	(150,000)	-60.0%
Lease Revenue - Gas Tax	28,450	28,450	-	0.0%
Other Land/Building Leases	120,070	120,070	-	0.0%
Total Revenue	**$22,171,669**	**$20,920,006**	**$ (1,251,663)**	**-5.6%**

Human Resources

Mayor's FY 2013 Proposed Adjustments

The Fiscal Year 2013 Proposed Budget for the Human Resources Department totals $2.4 million in the General Fund, an increase of $465,149 million from the $1.9 million FY 2012 Adopted Budget. The FY 2013 Budget includes 16.00 FTE's.

The major change to the Human Resources budget is the addition of 4.00 FTE's, translating to a combined Salary and Fringe increase of $520,514. Also, 0.75 hourly FTE's and corresponding $18,204 in hourly wages are being reduced, yielding a net increase in FTE's of 3.25.

The four position increases are as follows:

- An Associate Management Analyst that will support the Citizens' Review Board on Police Practices, as well as the Human Relations Commission.
- A Program Coordinator to be the City wide Volunteer Coordinator. The Volunteer Coordinator will increase outreach efforts, acting as a liaison with City Council and the departments, tracking needs and achievements and ensuring consistency with City policies.
- A Program Manager to Act as an ADA Coordinator. This position entails dealing with issues such as reasonable accommodation for disabilities and assisting departments in this endeavor, as well as ensuring compliance with ADA.
- A second Program Manager to be a Labor Relations Officer, whose duties will include participating in labor negotiations, acting as a liaison for the departments and labor union point of contact, and dealing with grievances.

SUMMARY OF HUMAN RESOURCES CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	12.75	$ 1,730,615	$ 189,038	$ 1,919,653	$ -
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(9,918)		(9,918)	
Added Department Positions (Includes Fringe)	4.00	520,514		520,514	
Decrease in Hourly Wages	(0.75)	(18,204)		(18,204)	
Increase in Vacation Pay In Lieu		7,000		7,000	
Other Salaries & Wages		1,843		1,843	
Other Fringe Benefits (Includes Retirement ARC)		(32,907)		(32,907)	
SAP Support Allocation			5,216	5,216	
Copier Savings			(3,820)	(3,820)	
Info Technology Adjustments			3,255	3,255	
Other Adjustments			(7,830)	(7,830)	
Subtotal	3.25	468,328	(3,179)	465,149	-
Mayor's Fiscal Year 2013 Proposed Budget	**16.00**	**2,198,943**	**185,859**	**2,384,802**	**-**
Difference from 2012 to 2013	*3.25*	*$ 468,328*	*$ (3,179)*	*$ 465,149*	*$ -*

Information Technology

Mayor's FY 2013 Proposed Adjustments

The Department of Information Technology (IT) is comprised of both General Fund and non-general fund components. The non-general fund components include the Information Technology Fund, OneSD Support Fund (formally know as the Enterprise Resource Planning Department), Wireless Communications Technology Fund, and the GIS Fund.

The FY 2013 Proposed Budget for the Department of IT (General Fund and Non-General Fund components) is $41.7 million, a net $3.1 million increase from FY 2012. It should be noted that the FY 2013 Proposed Budget Document reflects a net $35.9 million increase from FY 2012 for the Department of IT. This majority of this increase is a result of the transfers of the OneSD Support and Wireless Communications funds ($31.2 million) and the inclusion of the GIS Fund in the Budget Document ($1.4 million) for FY 2013. The chart below reflects the net changes from FY 2012 with the exclusion of the $32.6 million in expenses related to the transfers and inclusion of the GIS fund.

Change to the City's Outside IT Vendors

It is important to note that the City of San Diego is currently in the process of changing the vendors that provide IT services for the City of San Diego with the City Council expected to hear the proposal in April or May. As a result of changing vendors, the City is anticipating a total of $15.2 million in one-time costs with $12.75 million expected in FY 2013. $6.0 million of the $12.75 has been budgeted in the FY 2013 Proposed Budget as part of Citywide Program Expenditures for the General Fund transition expenses. The remaining $6.75 million has not been identified but is expected to be from non-general fund departments. More information on the allocation of one-time transition costs and the specific department allocations will be provided in the Mayor's May Revise.

General Fund

The FY 2013 Proposed Budget for the General Fund component is $500,000, a $309,547 increase from FY 2012. The

SUMMARY OF INFORMATION TECHNOLOGY DEPARTMENT BUDGET						
	FY 2012 FTE	FY 2013 FTE	CHANGE	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE
General Fund						
General Fund Computer Replacement	-	-	-	$ 190,453	$ 500,000	$ 309,547
Non-General Fund						
Information Technology Fund	26.00	27.00	1.00	$ 5,578,211	$ 7,318,891	$ 1,740,680
OneSD Support Fund	20.00	18.00	(2.00)	$ 21,242,793	$ 22,528,876	$ 1,286,083
Wireless Communications Fund	50.00	47.00	(3.00)	$ 10,043,210	$ 9,677,195	$ (366,015)
GIS Fund	-	2.00	2.00	$ 1,429,981	$ 1,593,628	$ 163,647
TOTAL INFORMATION TECHNOLOGY	**96.00**	**94.00**	**(2.00)**	**$ 38,484,648**	**$ 41,618,590**	**$ 3,133,942**

$500,000 is for the replacement of PCs for General Fund departments. Staff states that for the last three years the City has only been replacing computers that are broken. With the increase in funding to $500,000, the City will be able to proactively replace 270 units that are Five years or older and also continue to replace broken units.

Information Technology Fund

The FY 2013 Proposed Budget for the Information Technology Fund is $7,318,891, a $1,740,680, or 31% increase from FY 2012.

Budget Additions and Restructures

The FY 2013 Proposed Budget includes the addition of 1.00 Program Manager for a cost of $169,112 to provide support for SAP development and security environment.

In addition, the FY 2013 Proposed Budget includes the transfer of 1.00 Graphic Designer position from the Public Works-Publishing Services Division. Previously this position was included in a Service Level Agreement between the Department of IT and Publishing Services. This position provides a variety of services including web site design , on-going maintenance, and the oversight of documentation of files. The cost of the position is $89,736 but due to the inclusion of an overhead rate, the actual cost to the Department of IT was $139,500. As a result of the position transferring to the Department of IT, thus not requiring the overheard rate to be charged, the department is expected to save $49,764 annually.

The FY 2013 Proposed Budget includes a $2.1 million increase in expenditures for equipment and support for Information Technology. This increase is primarily due to labor support and contracts for applications that were previously budgeted by SDDPC and passed on to the City as part of SDDPC's rates. Previously these costs were budgeted in each department. For FY 2013 these expenses will be expended directly out of the IT fund instead of each separate department. IT staff states that by making this change they will have better oversight of these expenses and this is a

SUMMARY OF INFORMATION TECHNOLOGY FUND

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	26.00	$ 3,451,914	$ 2,126,297	$ 5,578,211	$ 5,585,381
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	1.00	17,982	-	17,982	-
Supplies	-	-	175	175	-
Contracts	-	-	(314,594)	(314,594)	-
Non-Discretionary and Info Technology Adjustments	-	-	28,753	28,753	-
Addition of Program Manager for SAP Security	1.00	169,112	-	169,112	-
Transfer of Graphic Designer from Publishing Services	1.00	89,736	(139,500)	(49,764)	-
Increase in equipment and support for IT previously in SDDPC rates	-	-	2,068,417	2,068,417	-
Transfer of positions to GIS Fund	(2.00)	(179,401)	-	(179,401)	-
Net Revised Revenue Adjustments	-	-	-	-	2,232,779
Subtotal	1.00	97,429	1,643,251	1,740,680	2,232,779
Mayor's Fiscal Year 2013 Proposed Budget	**27.00**	**3,549,343**	**3,769,548**	**7,318,891**	**7,818,160**
Difference from 2012 to 2013	*1.00*	*$ 97,429*	*$ 1,643,251*	*$ 1,740,680*	*$ 2,232,779*

cost-neutral change to the City.

Revenue Adjustments

The FY 2013 Proposed Budget includes a net $2.2 million increase in revenue with the majority of the increase related to transfers from other departments and funds to reimburse the IT fund for the services previously provided by SDDPC.

We would note that the total projected revenue for the IT fund is $7.8 million and expenditures are estimated to be $7.3 million. Typically the revenue matches the expenses for the IT Fund. The IBA asked Department of IT staff why the revenue did not match the expenditures and they stated that they will be working with the Financial Management Department to correct any discrepancies in the May Revise. In addition, staff stated that if the contracts with the new IT vendors are approved they will need to evaluate how the $12.75 million in one-time funds are allocated between departments, and this could impact the IT fund's revenues.

OneSD Support Fund

The FY 2013 Proposed Budget for the OneSD Support Fund is $22,528,876, a $1,286,083 or 6% increase from FY 2012.

Budget Additions and Reductions

The FY 2013 Proposed Budget includes a $1,057,129 million expenditure increase related to the replacement of 46 servers and equipment that have reached the end of their service life.

The FY 2013 Proposed Budget also includes the reduction of 2.00 positions due to efficiencies. This includes the reduction of 1.00 Assistant Engineer—Civil and 1.00 Program Manager position for a total savings of $240,507. Both of these positions are vacant.

In addition, as a result of the ERP Department becoming a division of the Department of IT (now know as OneSD Support) the Director position from the ERP Department has now been reclassified as a Deputy Director. This is a net zero FTE change to the City.

SUMMARY OF ONESD SUPPORT FUND

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	20.00	$ 2,910,295	$ 18,332,498	$ 21,242,793	$ 21,250,474
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	-	454	-	454	-
Supplies	-	-	-	-	-
Contracts	-	-	11,581	11,581	-
Non-Discretionary and Info Technology Adjustments	-	-	457,426	457,426	-
Increase in expenditures for server replacement and equipment	-	-	1,057,129	1,057,129	-
Reduction of Assistant Engineer Civil and Program Manager	(2.00)	(240,507)	-	(240,507)	-
Revised Revenue Adjustments	-	-	-	-	4,388,383
Subtotal	(2.00)	(240,053)	1,526,136	1,286,083	4,388,383
Mayor's Fiscal Year 2013 Proposed Budget	**18.00**	**2,670,242**	**19,858,634**	**22,528,876**	**25,638,857**
Difference from 2012 to 2013	*(2.00)*	*$ (240,053)*	*$ 1,526,136*	*$ 1,286,083*	*$ 4,388,383*

Revenue Adjustments

The FY 2013 Proposed Budget includes a $4.4 million increase in revenue with $1.1 million related to the Enterprise Asset Management (EAM) Function. The expenditures related to this $1.1 million are budgeted in CIP project #S13013—Enterpise Asset Management . This project will merge the EAM functions from General Services' SAP system and integrate them into the City's core SAP financial system.

The additional $3.3 million in revenue is related to the change in outside IT vendors. It should be noted that the corresponding expenditures related to the $3.3 million have not been included in the proposed budget and will be reflected in the Mayor's May Revise.

Wireless Communications Fund

The FY 2013 Proposed Budget for the Wireless Communications Fund is $9,677,195 a $366,015 or 4% decrease from FY 2012.

Budget Reductions

The FY 2013 Proposed Budget includes the reduction of 2.00 Senior Communications Technicians for a total savings of $220,199. These positions are vacant and staff states that the impact of these reductions will be minimal due to recent upgrades to infrastructure and devices resulting is less repair and maintenance requests.

In addition, the FY 2013 Proposed Budget includes the transfer of 1.00 unfunded Communications Technician to the Office of the Mayor. More information regarding this transfer is included in the Office of the Mayor Department Review of this report.

Revenue Adjustments

The FY 2013 Proposed Budget includes a $909,237 reduction in revenue related to rate charges. The Wireless Communications fund reflects a $2.3 million fund balance from FY 2012 and staff states that they will use this balance to reduce the FY 2013 wireless allocation rates charged citywide.

GIS Fund

It should be noted that the GIS fund has been in existence for many years but has not been included in the City's Budget documents. To be more transparent, the

SUMMARY OF WIRELESS COMMUNICATIONS FUND

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	50.00	$ 5,167,417	$ 4,875,793	$ 10,043,210	$ 9,530,218
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	-	5,858	-	5,858	-
Supplies	-	-	(4,010)	(4,010)	-
Contracts	-	-	(141,298)	(141,298)	-
Non-Discretionary and Info Technology Adjustments	-	-	(6,366)	(6,366)	-
Reduction of Senior Communications Technicians	(2.00)	(220,199)	-	(220,199)	-
Revised Revenue Adjustments	-	-	-	-	(909,237)
Transfer of unfunded Communications Technician to the Office of the Mayor	(1.00)	-	-	-	-
Subtotal	(3.00)	(214,341)	(151,674)	(366,015)	(909,237)
Mayor's Fiscal Year 2013 Proposed Budget	**47.00**	**4,953,076**	**4,724,119**	**9,677,195**	**8,620,981**
Difference from 2012 to 2013	*(3.00)*	*$ (214,341)*	*$ (151,674)*	*$ (366,015)*	*$ (909,237)*

GIS fund is being included in the Budget Document for FY 2013.

The FY 2013 Proposed Budget for the GIS Fund is $1,593,628. In previous years the 2.00 positions (1.00 Application Programmer 2 and 1.00 Information Systems Technician) that supported GIS were budgeted in the Information Technology Fund ($179,401). The GIS fund only included the Non-Personnel Expenditures and corresponding revenue related to the contracts with internal and external agencies. For FY 2013, the 2.00 GIS support positions have been transferred to the GIS fund for a net zero impact.

Library

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Library Department totals approximately $37.6 million, an increase of approximately $391,000 and an increase of 25.93 FTEs from the FY 2012 Adopted Budget.

City Ordinance 20084 requires the Mayor to report a projected mid-year deficit or surplus and provide recommendations to the City Council as to how to address the deficit or surplus. In March 2012, the City Council approved the Mayor's recommendations for the surplus, including allocating an additional $237,000 to the Library Department in FY 2012 to add five hours to the service hours for all branch libraries effective May 2012. The average number of service hours at each branch library will increase from 36 hours per week to 41 hours per week per this Council action. Resources identified in FY 2013 allow for the restored service hours at all the branch libraries to be continued through FY 2013.

During the development of the FY 2012 Budget, alternative service models were considered to reduce expenses by reducing hours or reducing service levels. Ultimately, resources were identified to keep current service models in place. One of the concepts considered last year was Express Libraries, where only limited services (primarily self-serve) would be provided at certain libraries but service hours would be maintained or potentially expanded. This concept was included in the FY 2013 City Council Budget Priorities Resolution to explore as a way to extend hours without increasing resources.

In a separate effort, the Library Department is in the process of working to create more

SUMMARY OF LIBRARY BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	359.23	$ 27,561,316	$ 9,640,901	$ 37,202,217	$ 1,212,707
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		(936,720)		(936,720)	
Fringe Benefits (incl. Retirement ARC)		342,477		342,477	
Reduction to various Supplies and Contracts			(20,532)	(20,532)	
Non-Discretionary and Info Technology Adjustments			97,190	97,190	
Restoration of operational hours at 35 branch libraries from 36 to 41 hours	23.10	830,208	199,623	1,029,831	
Reduction (exchange) of 8.00 vacant Library Aide positions	(8.00)	(357,560)		(357,560)	
Addition (exchange) of 15.18 Library Aide - hourly positions	15.18	353,339		353,339	
Addition of privately funded positions for Sunday hours at specific libraries	3.65	132,650		132,650	132,453
Reduction of positions due to centralization of the City's delivery functions	(8.00)	(484,584)	(7,455)	(492,039)	
Addition of utility expenditures and offsetting revenue for New Central Library			242,599	242,599	242,599
Reduction of State Grant revenue				-	(70,548)
Mayor's Fiscal Year 2013 Proposed Budget	**385.16**	**27,441,126**	**10,152,326**	**37,593,452**	**1,517,211**
Difference from 2012 to 2013	*25.93*	*$ (120,190)*	*$ 511,425*	*$ 391,235*	*$ 304,504*

flexibility within their personnel. The FY 2013 Proposed Budget includes a proposal to exchange 8.00 Library Aide FTEs for 15.18 Library Aide-Hourly FTEs. This adjustment is being pursued to allow for flexibility within the scheduling of staff. The Library Department has previously used savings from the vacant 8.00 Library Aide positions to fund hourly positions. This switch has been included in the FY 2013 Proposed Budget. The Library Department believes that this exchange of positions better reflects the services provided. This change will require the meet and confer process with the impacted employee's labor organizations.

Other Budget Adjustments

The FY 2013 Proposed Budget includes the following significant budget adjustments:

- An increase of 23.10 FTEs and approximately $1.0 million in expenses to fund the restoration of branch library hours from 36 hours per week to 41 hours per week;
- A reduction of 8.00 Library Aide FTEs and approximately $358,000 in expenditures in exchange for an increase of 15.18 Library Aide-Hourly FTEs and increase of approximately $353,000 in expenditures;
- A reduction of 8.00 FTEs and approximately $493,000 in expenditures related to the centralization of the City's delivery functions to improve Citywide delivery services;
- An increase of $242,599 in expenses and $242,599 in offsetting revenue for utility expenses related to the New Central Library;
- An addition of 3.65 FTEs and approximately $132,000 in expenditures and offsetting revenues from donations to fund Sunday library hours at several branch libraries.

Service Hours

Partial Restoration of Hours

As previously described, as a result of the Council action to restore five hours per week to all the branch libraries, each branch library will be open an average of 41 hours per week. Since the December 2009 budget actions closed all the branch libraries on Sundays and Mondays, the Library Department is considering two scenarios for scheduling restored hours. The first scenario adds hours on Mondays with the specific schedule to be determined. This

Library Hours of Operations*

(as of April 23, 2012)

CENTRAL LIBRARY						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
1:00-5:00	12 noon - 8:00	9:30-5:30	12 noon - 8:00	9:30-5:30	9:30-5:30	closed
BRANCH LIBARIES						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
closed	closed	12:30 - 8:00	12:30 - 8:00	9:30-5:30	9:30-5:30	9:30-2:30

*Restoration of hours for Branch Libraries to begin in May 2012. Adjustment to Hours of Operation for Branch Libraries still to be determined.

action would establish a five hour window for the branch libraries to be open on Mondays.

The second scenario is to schedule the five restored hours on Mondays and possibly shorten other week day hours in order to further increase Monday hours. Should the current schedule of hours be changed, the Library Department will need to consider any meet and confer issues that may need to be addressed.

The restoration of hours to the branch libraries is also driving an increase for the FY 2013 Proposed Budget in security costs of approximately $76,000 from the FY 2012 Adopted Budget, and an increase in Maintenance and Janitorial Services of approximately $65,000 from the FY 2012 Adopted Budget.

There were no additional funding or hours made available for the Central Library, which remains closed on Saturdays. To restore eight hours of service on Saturdays for the Central Library would cost approximately $781,000.

Issues to Consider

New Central Library

In June 2010, the City Council approved project construction for the New Central Library with a project budget of $185 million. Construction began in August 2010. The Library grand opening is currently scheduled for July 2013, which is the beginning of Fiscal Year 2014.

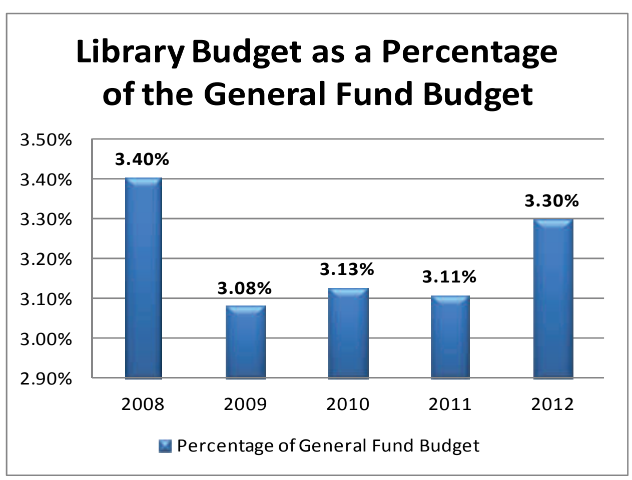
Current estimates for the operations of the new Central Library anticipate an increased need of $2.7 million annually. These needs are planned to be met with a $10 million donation already pledged to cover $2 million per year for the first five years. In addition, the new facility is expected to generate new revenues from parking, cafes, space rentals and store sales, currently projected at $825,000.

Any operational expenses needed prior to the official opening, such as the utility expenses, are anticipated to be funded through the private donations pledged to cover up to $2 million per year in operating costs for the first five years. The transfer costs of property from the current Central Library location to the New Central Library are already incorporated in the capital costs for the New Central Library.

Library Ordinance

The Library Ordinance requires the Library Department budget to be equal to no less than 6% of the total General Fund budget. This requirement has been waived since Fiscal Year 2004. Based on the Mayor's Proposed Budget for Fiscal Year 2013, the Library Department Budget of $37.6 million represents 3.3% of the General Fund budget.

Six percent of the General Fund budget as proposed for Fiscal Year 2013 would result



in a Library budget of approximately $69.0 million, an increase of approximately $31.4 million over the current budget proposal.

Office of the CFO

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Office of the CFO is approximately $840,000, a decrease of approximately $45,000 from the FY 2012 Budget. The department has a net addition of .75 FTE positions. Budgeted revenue has been reduced by $200,000 from FY 2012.

Additions

The FY 2013 Proposed Budget adds .38 FTE for a hourly Management Intern and .37 FTE for a three-quarter time Associate Management Analyst to be added mid-year, for a net .75 FTE position increase. The intent is to develop a permanent support position for the Corporate Partnership Program (CPP) to help manage contract fulfillment, an important factor in fostering the continued growth of corporate partnerships.

Reductions

The $200,000 reduction in CPP budgeted revenue leaves a $600,000 target for new revenue in FY 2013. The CPP revenue goal in FY 2012 was $800,000 and the CPP Director reports that approximately $695,000 has been achieved to date. It should be noted that there was $220,000 of guaranteed revenue from a prior agreement with Pepsi to jump start the CPP revenue total in FY 2012. Based on feedback from the CPP Director, the IBA believes a new revenue goal of $600,000 is appropriate and sufficiently aggressive for FY 2013.

Issues to Consider

It appears the CFO position may be vacant for the first half of FY 2013. If so, there will be associated salary savings that could be considered to provide the desired support position for the CPP in FY 2013.

SUMMARY OF OFFICE OF CFO BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	3.00	$ 575,054	$ 309,845	$ 884,899	$ 800,000
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	0.75	32,395		32,395	
- Adjustments due to Salary Reductions/Savings/Furlough		(4,671)		(4,671)	
Fringe Benefits (incl. Retirement ARC)		(18,020)		(18,020)	
Supplies			1,000	1,000	
Contracts			(57,854)	(57,854)	
Non-Discretionary and Info Technology Adjustments			2,050	2,050	
Reduction in Estimated Revenue from the Corporate Partnership Program					(200,000)
Subtotal	0.75	9,704	(54,804)	(45,100)	(200,000)
Mayor's Fiscal Year 2013 Proposed Budget	**3.75**	**584,758**	**255,041**	**839,799**	**600,000**
Difference from 2012 to 2013	*0.75*	*$ 9,704*	*$ (54,804)*	*$ (45,100)*	*$ (200,000)*

Office of the Mayor

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Office of the Mayor is $6.2 million, a $358,314 or a 6% increase from FY 2012.

The FY 2013 Proposed Budget includes the addition of 1.00 Community Development Coordinator and 1.00 Program Manager for $307,973 in Economic Growth Services. These positions are being added to replicate the Cleantech Initiative model of success for other industry clusters and provide Business Expansion Attraction and Retention (BEAR) Team support for companies in the area anticipated to be approved by the State for the Enterprise Zone expansion. In addition, these positions will respond to inquiries from the newly created Economic Development & Strategies Committee.

The FY 2013 Proposed Budget also includes the transfer of 1.00 unfunded Communications Technician from the Wireless Department of IT's Wireless Communications Division. This vacant Communications Technician will support CityTV and funding for this position will be included in the Mayor's May Revise.

Staff has stated that there is a significant need in CityTV for additional staff support. This position will provide in-house staff with engineering skills to perform audio/video engineering services, resulting in the ability to more quickly trouble-shoot routine issues that may arise with projection equipment during televised public meetings. Maintaining this ability in-house will reduce the reliance on an off-site contractor, and allow for a substantial reduction of the engineering services contract currently in place.

SUMMARY OF OFFICE OF THE MAYOR

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	38.17	$ 4,836,316	$ 983,445	$ 5,819,761	$ 1,355,700
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	0.15	393	-	393	-
Supplies		-	-	-	-
Contracts		-	17,110	17,110	31,000
Non-Discretionary and Info Technology Adjustments		-	32838	32,838	-
Addition of 2.00 Positions for Economic Growth Services	2.00	307,973	-	307,973	-
Additon of 1.00 Unfunded Communications Technician for CityTV	1.00	-	-	-	-
Subtotal	3.15	308,366	49,948	358,314	31,000
Mayor's Fiscal Year 2013 Proposed Budget	**41.32**	**5,144,682**	**1,033,393**	**6,178,075**	**1,386,700**
Difference from 2012 to 2013	*3.15*	*$ 308,366*	*$ 49,948*	*$ 358,314*	*$ 31,000*

Park & Recreation

Mayor's FY 2013 Proposed Adjustments

The Fiscal Year 2013 Proposed Budget for the Park and Recreation Department totals approximately $84.6 million in the General Fund, a decrease of $205,000 and an increase of 21.72 FTEs from the FY 2012 Adopted Budget. Department revenues are projected to total $36.5 million, reflecting an increase of $6.3 million from FY 2012.

Additionally, the Department includes several other funds including the Golf Course Fund, Los Penasquitos Reserve, and the Environmental Growth Funds. When combined, the Department budget totals $112.0 million, an increase of approximately $66,000 from FY 2012.

The Park and Recreation Department operates and maintains the City's recreation centers, playgrounds, athletic fields, swimming pools, regional parks, and all of the City's recreational facilities. A large variety of recreational programs are offered at the recreational centers and parks. With the vital roles that these facilities and programs play within the communities, the City Council has made it a priority to restore some previously reduced service hours due to budgetary reductions in prior years.

Previous budget reductions have attempted to minimize the impact to operations at swimming pools and recreation centers, with the majority of the impact falling to park maintenance activities.

Due to conservative estimates for FY 2012 and a rebound in several economic factors, during the FY 2012 Mid-Year Budgeting Monitoring Report, a revenue surplus was

SUMMARY OF PARK AND RECREATION BUDGET

	FTE	FY 2012 BUDGET	FY 2013 PROPOSED	CHANGE
General Fund				
Administrative Services	15.00	$ 2,152,894	$ 2,225,168	$ 72,274
Community Parks I	162.19	20,182,236	20,498,820	316,584
Community Parks II	229.35	21,474,739	21,239,122	(235,617)
Developed Regional Parks	304.14	32,426,772	32,188,444	(238,328)
Open Space	52.25	8,520,676	8,399,929	(120,747)
Subtotal General Fund	*762.93*	*84,757,317*	*84,551,483*	*(205,834)*
Non-General Fund				
Environmental Growth Fund 1/3	-	4,007,476	4,404,971	397,495
Environmental Growth Fund 2/3	-	8,078,081	8,078,081	-
Golf Course Fund	97.00	14,848,817	14,721,541	(127,276)
Los Penasquitos Canyon Preserve Fund	2.00	200,738	202,154	1,416
Subtotal Non-General Fund	*99.00*	*27,135,112*	*27,406,747*	*271,635*
TOTAL PARK AND RECREATION	**861.93**	**$ 111,892,429**	**$ 111,958,230**	**$ 65,801**

projected for FY 2012. As required by City Ordinance 20084, the Mayor is required to report any anticipated deficit or surplus and provide recommendations as to how to address the anticipated deficit or surplus. In March 2012, the Mayor brought forth his recommendations as to how to address the anticipated FY 2012 surplus, including allocating an additional $63,000 to the Park and Recreation Department to increase the operational hours at all 55 recreation centers from 40 hours to 45 hours in FY 2012. The FY 2013 Proposed Budget continues these restorations through FY 2013. The recommendation to increase the recreation hours was approved by the City Council.

Significant Budget Adjustments

The FY 2013 Proposed Budget includes the following additional budget adjustments:

- An increase of 13.80 FTEs and approximately $394,000 in expenditures to continue the restored operational hours at all the recreation centers to 45 hours per week for the entire year;
- An increase of $35,000 in expenditures for funding for the completion of the permitting process to close the beach at the Children's Pool during the seals' pupping season;
- An increase of $22,500 in expenditures for funding to ensure compliance with federal regulations regarding disabled access for public pools (additional pool lifts are needed at three pools);
- An addition of 0.23 FTEs and an increase in expenditures of approximately $16,000 for funding for operational expenses related to new facilities at West Lewis and Falcon Streets and the Language Academy;
- An addition of 3.00 FTEs and approximately $514,000 in expenditures to partially restore weekly mowing for lighted athletic fields to prevent damage or closure of the field (partial restoration of FY 2012 reduction);

SUMMARY OF PARK AND RECREATION BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	741.21	$ 50,073,201	$ 34,684,116	$ 84,757,317	$ 30,141,660
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	3.69	(152,300)		(152,300)	
Fringe Benefits (incl. Retirement ARC)		799,295		799,295	
Reduction to various Supplies and Contracts			(109,007)	(109,007)	
Information Technology and other Non-Discretionary Adjustments			(1,865,263)	(1,865,263)	
Addition of Light Equipment Operators	3.00	199,639	314,700	514,339	514,339
Restoration of Recreation Center Service/hours	13.80	383,935	10,000	393,935	
General Benefit Contribution to MADs (State-mandated)	-		76,869	76,869	
Addition of Nursery Gardener	1.00	67,952		67,952	
Addition of funding for Children's Pool Permit Processing			35,000	35,000	
Addition of funding for ADA Compliance at Swimming Pools			22,500	22,500	
Funding for New Facilities (West Lewis and Falcon, Language Academy)	0.23	7,834	7,854	15,688	
Transfer of Antenna Lease Fund balance					641,782
Revised Revenue and Expenditure Projections (TOT and EGF Reimbursements, etc.)			(4,842)	(4,842)	5,155,810
Mayor's Fiscal Year 2013 Proposed Budget	**762.93**	**51,379,556**	**33,171,927**	**84,551,483**	**36,453,591**
Difference from 2012 to 2013	*21.72*	*$ 1,306,355*	*$ (1,512,189)*	*$ (205,834)*	*$ 6,311,931*

- An increase of approximately $514,000 in revenue from the Environmental One Third Fund to offset expenses related to restoring mowing of lighted athletic fields;
- An increase of 2.00 FTE and approximately $171,000 in expenditures for maintaining restoration of the Fire Ring Program;
- A one-time addition of approximately $642,000 in revenue related to the transfer of a balance within the Antenna Lease Fund;
- An increase of revenue of approximately $5.3 million for additional reimbursements for expenditures related to the safety and maintenance of Visitor-related Facilities.

Issues to Consider

While several Park and Recreation Department services are proposed to be partially restored or increased, many more are being maintained at the same service levels as FY 2012, including the continued rotational pool closures during non-summer months and seasonal restroom hours. Should additional restorations be considered, it would be necessary to evaluate the necessary personnel required to manage the additional services.

User Fees

In FY 2013, the Park and Recreation Department will engage a consultant to assist in a comprehensive study of all the Department's fees, with the exception of those related to the Golf Division. Funding of $200,000 for a consultant has been included in the Proposed FY 2013 Budget under Citywide expenditures to assist with this analysis. Findings and any recommendations for this comprehensive study are anticipated to be presented in Spring 2013. The Proposed FY 2013 Budget does not include any proposed fee revisions for Park and Recreation pending the outcome of this study.

Special Events / Projects

The FY 2013 Proposed Budget for the Park and Recreation Department does not include any funding for the 2015 Centennial Celebration at Balboa Park. For FY 2013, funding and strategic planning for this event will flow through the Office of Special Events.

Additionally, the FY 2013 Proposed Budget does not include any funding for any of the proposed Plaza de Panama projects. The environmental impact report for the Plaza de Panama project has been released and a discussion on the issue is anticipated at the City Council in the Summer of Calendar 2012.

Capital Improvement Projects

It is anticipated that approximately $9.8 million will be expended on capital improvement projects related to the Park and Recreation Department in FY 2013. The projects span a scope of projects that includes facilities and greens at Balboa and Mission Bay golf courses, lighting at several athletic fields, ADA upgrades, community park upgrades and improvements, and design planning for a new pool. Two of the largest single projects include design work for a new aquatic facility center at the Naval Training Center, approximately $1.0 million in costs in FY 2013, and the development of the Torrey Hills Neighborhood Park, approximately $1.0 million in expenses in FY 2013.

Environmental Growth

The Environmental Growth Funds (EGFs) are projected to receive approximately $12.4 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees to be received by the City, in accordance with Charter Section 103.1a. This is a reduction of approximately $758,000 from FY 2012. The EGFs are allocated into a one-third and two-thirds portion, to reflect Charter provisions that up to two-thirds of revenues can be pledged for bonds for the acquisition, improvement and maintenance of park or recreational open space.

In FY 2009 the EGF (two-thirds portions) retired the 1994 San Diego Open Space Facilities District No. 1 General Obligation Bonds. To the extent funds exist over and above the requirements for debt service, the Charter provides that they may be used for other purposes so long as it preserves and enhances the environment and is approved by the City Council.

Since the time the bonds have been repaid, available revenues have been utilized to reimburse the General Fund for eligible park and open space maintenance activities. For FY 2013, $9.8 million is budgeted to reimburse the General Fund, with $2.3 million budgeted for Regional Park and Open Space Maintenance costs which would otherwise be funded by the General Fund. Additional funds are budgeted for reimbursement to Maintenance Assessment Districts and for transfer to the Los Penasquitos Canyon Preserve Fund.

Golf Course

The FY 2013 Proposed Budget for the Golf Course Fund totals $14.7 million, a decrease of 0.05 FTEs and a decrease of approximately $127,000 from the FY 2012 Adopted Budget. In addition, CIP expenses of $1.0 million are budgeted for FY 2013, a decrease of $700,000 from FY 2012. Department revenues increase by approximately $600,000 to approximately $16.6 million from approximately $16.0 million in FY 2012.

Significant Budget Adjustments

Significant budget adjustments for the FY 2013 Proposed Budget include a Non-Discretionary expense increase of approximately $2.2 million, primarily due to the recategorization of rental expenses and a decrease of approximately $2.4 million in rental expenditures.

Issues to Consider

In preparation of the FY 2012 budget, the City Council adopted a resolution requesting that the Mayor report to the Council on the feasibility, reasonableness and/or potential cost savings associated with eight specific budgetary proposals, including the review and potential revision of the lease payment formula for payments from the Golf Enterprise Fund to the General Fund.

On March 16, 2011, the City Attorney presented a report to the Budget and Finance Committee on options to general additional

General Fund revenues from the City's golf courses. The report described the formula utilized to determine the land use payment, which was established in 1995. The land use payment formula includes two components: a fixed annual rate of $1,806 per acre, plus 9.9% of gross revenues, subject to review every five years. The per acre component was adjusted from $1,500 to $1,806 in December 2009 based on annual CPI increase since 2003 when it was last reviewed.

According to the City Attorney report, the annual rate component is comparable to the revenue expected under a lease arrangement similar to the one at Mission Trails. The gross revenue percentage was developed to replace the revenue the General Fund would have received from the operation of the Torrey Pines and Balboa Park Golf Courses as municipal facilities.

The report also noted that other factors could be considered if the formula was to be revisited, including the fair market value of the property.

Though discussed at the March 16, 2011 Budget and Finance Committee meeting, no follow up action was requested. Should the City Council continue to be interested in this concept, the Real Estate Assets Department would need to update its appraisals for the golf properties in order to evaluate the lease payment formula.

Five-Year Business Plan Update

The Five-Year Business Plan is used primarily to develop guidelines related to Golf Division principals, a five year golf course fee structure, fair and equitable distribution of tee times for all stakeholders, and to outline a Five Year Capital Improvement Program. The Business Plan Update Committee (an Ad Hoc Committee) has been working to propose recommendations for the updated Business Plan. It is anticipated that the updated plan will be available for discussion in Summer 2012. The FY 2013 Proposed Budget does not take into consideration any changes in fees or revenues associated with the updated plan.

Personnel

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Department of Personnel totals approximately $6.5 million, and is nearly the same amount as the FY 2012 Budget.

The number of Personnel positions is unchanged from the FY 2012 Budget, at 59.04 FTE's.

Budget Reductions

The FY 2013 Proposed Budget includes the following reductions:

- A net decrease of $54,440 in Salaries and Wages, largely due to the following adjustments: An increase in Salary Savings of $35,320 (which reduces Salaries), and a decrease in Salaries of $40,573, largely due to turnover. These Salary decreases are offset by an increase in termination pay of $21,453.
- A decrease of $14,972, reflecting savings related to the new convenience copier contract. However, staff has indicated that expenses have increased for their department, and these budgeted savings will not be realized.

Budget Additions

The FY 2013 Proposed Budget includes an increase of $75,923 for fringe benefits, in accordance with allocations of fringe costs for Personnel employees.

Key Performance Indicators

The department's performance measures are not incorporated into the FY 2013 Proposed Budget.

SUMMARY OF PERSONNEL BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	59.05	$ 5,760,323	$ 685,922	$ 6,446,245	$ 6,000
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(35,320)		(35,320)	
Salaries & Wages	(0.01)	(40,573)		(40,573)	
Increase in Termination Pay		21,453		21,453	
Fringe Benefits (Including Retirement ARC)		75,923		75,923	
SAP Support Allocation			26,729	26,729	
Copier Savings			(14,972)	(14,972)	
Info Technology Adjustments			(21,382)	(21,382)	
Other Adjustments			(2,906)	(2,906)	
Subtotal	(0.01)	21,483	(12,531)	8,952	-
Mayor's Fiscal Year 2013 Proposed Budget	**59.04**	**5,781,806**	**673,391**	**6,455,197**	**6,000**
Difference from 2012 to 2013	*(0.01)*	*$ 21,483*	*$ (12,531)*	*$ 8,952*	*$ -*

Police

Mayor's FY 2012 Proposed Adjustments

The FY 2013 Proposed General Fund Budget for the Police Department is $404.6 million, an increase of $10.8 million over the FY 2012 Adopted Budget. The FY 2013 Proposed Budget results in a net reduction of 1.00 FTE. Budgeted revenue totaling $42.4 million represents a decrease of $3.4 million.

Budget Additions

The FY 2013 Proposed Budget includes the addition of:

- $6.2 million in salary and benefits. This increase is primarily due to a $5.9 million increase in fringe benefits. The increase in fringe benefit costs are related to a $3.5 million increase in workers compensation costs, a $1.3 million increase in retiree health benefits, and an approximate $1.0 million increase in pension costs.
- $4.0 million in one-time expense removed from the FY 2012 Budget related to a reduction in the General Fund transfer to the Decentralization Fund. Available fund balance within the Decentralization Fund reduced the amount needed from the General Fund to cover the fund's expenses.
- $160,000 for the inclusion of budget for the payment of the DMV hold fee that was previously netted out of parking

SUMMARY OF POLICE DEPARTMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	2,514.85	$ 337,805,106	$ 56,015,995	$ 393,821,101	$ 51,802,559
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		6,234,773		6,234,773	
-Associate Department Human Resources	1.25	122,934		122,934	
-Hourly Personnel Adjustment		45,085		45,085	
-Parking Enforcement Officer I	0.50	27,610		27,610	288,000
-Clerical Assistant 2	0.25	11,288		11,288	
-Records Personnel Overtime		(50,000)		(50,000)	
-Delivery Services Consolidation	(3.00)	(177,735)		(177,735)	
Non-Discretionary and Info Technology Adjustments			1,025,433	1,025,433	
One-Time Reduction and Annualizations			3,990,528	3,990,528	(1,447,940)
Family Justice Center Operations			90,000	90,000	
Tow Program Pass-Thorough			2,442,984	2,442,984	2,442,984
Parking Citation DMV Hold Fee			160,000	160,000	160,000
Reorganization of Narcotic Unit			(37,500)	(37,500)	
Copier Savings			(387,188)	(387,188)	
Reduction of Police Decentralization Fund Transfer			(700,000)	(700,000)	
Booking Fee Transfer			(2,000,000)	(2,000,000)	
COPS Grant				-	800,000
Parking Citations				-	(5,357,993)
User Fees				-	(117,463)
Revised Revenue				-	(184,863)
Subtotal	(1.00)	6,213,955	4,584,257	10,798,212	(3,417,275)
Mayor's Fiscal Year 2013 Proposed Budget	**2,513.85**	**344,019,061**	**60,600,252**	**404,619,313**	**48,385,284**
Difference from 2012 to 2013	*(1.00)*	*$ 6,213,955*	*$ 4,584,257*	*$ 10,798,212*	*$ (3,417,275)*

citation revenue.

- $90,000 for contractually required parking expenses for the Family Justice Center.

Budget Reductions

The FY 2013 Proposed reductions include:

- A $2.7 million decrease in the General Fund transfer into the Police Decentralization Fund to cover fund expenses.
- $2.4 million in pass-through expenditures related to the new Towing Program.
- A $37,500 reduction in non-personnel expenditures due to eliminating up to 7 police vehicles in the Narcotic Units.
- A $50,000 reduction in overtime budget though implementing an automated pawn slip system. Pawn shop operators can now enter property information directly into the system, eliminating the need for City personnel to manually enter it.
- A $123,344 reduction related to utilities, insurance, and rent.
- $387,188 in copier savings related to the new copier contract.

FTE Adjustments

The Proposed Budget includes a 1.00 FTE net reduction with a net increase of $29,182 in personnel expenses. This is comprised of:

- 1.00 FTE Associate Department Human Resources Analyst resulting from the reclassification of a position that was originally budgeted as a Sergeant.
- 0.25 FTE Associate Department Human Resources Analyst to increase a position currently budgeted at 0.75 FTE to full-time.
- 0.25 FTE Clerical Assistant 2 to increase a position currently budgeted at 0.75 to a fulltime position for the Parking Enforcement Unit.
- 0.50 FTE Parking Enforcement Officer I to increase a position to fulltime.
- Elimination of 3.00 FTE Auto Messenger I due to the centralization of the City's delivery functions.
- An additional $45,085 increase in personnel budget for hourly personnel.

Revenue Adjustments

As noted earlier, Police Department proposed revenues are $42.4 million, representing a $3.4 million decline over the FY 2012 Budget. The revenue adjustments include the following:

- A $5.3 million reduction in parking citation revenue related to revised projections based on current parking citation revenue trends and the reallocation of budget to the Transportation & Storm Water Department.
- $2.4 million in pass-through revenue related to the new Tow Program.
- The removal of $1.4 million in one-time revenue related to delinquent parking citation revenue recovery and an anticipated audit recovery of $500,000 in municipal court fee revenues. The City Treasurer initiated efforts in FY 2012 to recover monies due to the City related

to previous fiscal years.

- An $800,000 anticipated increase in the State Citizens Option for Public Safety (COPS) Grant revenue. This will increase the budgeted COPS revenue to $2.3 million.
- A net reduction of $750,000 due to the implementation of the department's new Towing Program. Negligent Impound and Tow Co-Referral fees are no longer being collected (totaling $3.2 million) and are replaced by a new Franchise Fee and Tow Impound Cost Recovery (TICR) Fee totaling $2.4 million.
- An increase of approximately $565,000 in safety sales tax revenue that will be transferred into the department from the Fire & Lifeguard Facilities Fund related to assumed growth in safety sales tax collections in FY 2013.
- $288,000 in revenue associated with the addition of 0.50 FTE Parking Enforcement Officer I.
- A $271,000 one-time removal of revenue related to vehicle code violations received by the court due to an expected lower collection rate in FY 2013.
- $160,000 for the DMV hold fee budgeting adjustment.
- A $117,463 net reduction in user fees based on the FY 2013 Comprehensive User Fee Analysis presented at the Budget & Finance Committee on April 25th, 2011.

Reductions

Transfer to Decentralization Fund

The Police Decentralization Fund supports the site acquisition, planning and construction of new and permanent jail facilities, and annual debt payments for permanent facilities. In addition, the program supports payments for jail services per a negotiated contract with the County of San Diego. The primary funding source for the Police Decentralization fund is a transfer in from the General Fund. This transfer in was previously supported by Vehicle License Fees (VLF). In 2011, the State passed SB89 that effectively eliminated VLF revenues for local governments and redirected the revenue to support COPS grants and provide offsets to booking fees required to be paid by the City to the County.

For FY 2013, the expenses related to debt service, booking fees, and other administrative costs within the Police Decentralization Fund total $7.2 million. For FY 2013, it is expected that $2.0 million of the expenses will be offset by fund balance from State grant relief received in 2011 and 2012. This will effectively reduce the necessary transfer in from the General Fund by a like amount.

In addition to State grant relief, there is a $700,000 reduction in the expenditures related to housing misdemeanor inmates within the Decentralization Fund that will reduce the necessary transfer in from the General Fund. This expenditure reduction is related to an overall decline in crime rates, the renegotiation of contract terms with the County, and the operation of a regional detox center that handles intoxication related misdemeanants at a lower net cost. The remaining expense in the Decentralization Fund amount will be covered by a General Fund transfer into the fund of $5.1 million.

Revenue Adjustments

User Fees

The fee changes proposed by the Police Department result in a revenue decrease of approximately $117,000. The Department analyzed 43 different permit fees related to police regulated businesses (not including burglar alarm permits that are being reviewed in a separate study). From the review, 18 fees are proposed for reduction, 16 for increase, and seven for elimination. Proposed revenue increases total approximately $211,000, while revenue decreases total approximately $329,000. The adjustments pertain to the following permits:

- Adult Entertainer
- Arcade
- Auto Dismantler
- Bingo
- Card Room
- Casino Party
- Entertainment
- Firearms Dealer
- Going out-of-business
- Holistic Health Practitioner
- Massage
- Money Exchange
- Nude Entertainment
- Pawnshops
- Peep Show
- Poolroom/Bowling Alley
- Promoter
- Secondhand Dealer
- Solicitor
- Swap Meet
- Tobacco Retailer

With a reduction in budgeted civilian support positions over the past few fiscal years, the Police Department has made operational changes to adjust to the eliminations. As deemed appropriate, the department has reassigned sworn patrol officers to those duties once performed by civilian personnel. The FY 2013 proposed user fees reflect the operational changes resulting from the elimination of 10.0 FTE civilian staff from the department's Permits & Licensing Unit. Currently 6.00 FTE sworn officers and 3.00 civilian positions are assigned to the Unit. In general, cost recovery associated with hourly staff rates have increased where sworn officers now assume work that was formerly performed by civilian employees.

The FY 2013 budget priority memorandums of a number of Councilmembers expressed a desire to explore the restoration of civilian positions in the Police Department. At the April 25th, 2012 Budget & Finance Committee presentation for the department's proposed user fees, the Committee requested that the IBA work with the Police Department to examine this issue.

Parking Citations

In FY 2012, $18.4 million in parking citation revenue was budgeted within the Police Department. This represented an increase of $3.9 million over the previous year budget due to the addition of $3.2 million in revenue related to the pass-through of State mandated surcharges to offenders, and the addition of approximately $948,000 in one-time revenue relating to delinquent parking citation collections.

The FY 2012 Mid-Year Report forecasted citywide parking citation revenue from the Police to come in $5.3 million under budget. In the report, the under budget performance was attributed to offenders not paying fines, over budgeted parking citation revenues, and a decrease in the number of citations written. Data collected by the IBA from the Police Department demonstrates an overall increase in the volume of citations written, the number of paid citations, and the value of citations in FY 2012.

A review of parking citation revenue citywide has found that the Police Department parking citation budget is inflated primarily due to mistakenly attributing revenue to the Police Department that should have been attributed to Transportation & Storm Water. Based on an examination of FY 2012 citation activity and new data collected, it has been determined that the Police Department citation revenue should be reduced by $5.4 million.

Issues to Consider

Towing Program

The Police Department has communicated that the new Towing Program fee structure for police initiated towing is structured to ensure full cost recovery, the collection of accurate towing data, fee enforcement, and protect citizens from being taken advantage of by towing and impound providers. With the restructuring of the program, AutoReturn, a Tow Dispatch provider, was selected through a competitive RFP process to perform dispatch services to the City. Tow and impound providers were selected through an RFQ process. Early in FY 2012, the City issued contracts with eight pre-selected Licensed Impound Provider (LIP) locations relating to three companies, and 13 companies to provide Licensed Tow Provider (LTP) operations. AutoReturn is also responsible for billing and management of the towing operations. They dispatch the LTP through random computer selection, and the vehicle is then picked up by the LTP and taken to a pre-designated LIP depending of the location of the tow.

The components of the new Towing Program fee structure are the following:

Towing Impound Cost Recovery (TICR)($54 per tow) - This fee is paid by the owner of the vehicle to the LIP to claim it and is remitted to the City. It recovers the City's expense for the administration of the Tow Program.

Franchise Fee ($96 per tow) - Is due from the LIP and paid to the City for the privilege to receive towed vehicles and be able to generate revenue from storage fees and lien sales. The fee is intended to recover the cost of the City's law enforcement expenses.

Towing Management Fee ($22 per tow) - It is due from the LIP and paid to Auto Return for managing the dispatch system and other oversight. This fee is paid by the LIP and passed through the City for remittance to Auto Return.

Tow Service Fee ($65 per tow) - This fee is paid to the LTP for the pick-up and delivery of the vehicle. The fee payment is due from the LIP and passed through the City for remittance to the LTP.

The Tow Service Fee ($65), Towing Management Fee ($22), and the Franchise Fee ($96) are all due by the LIP and remitted to the appropriate entities. The LIP recovers these costs and generates revenue by charging the vehicle owner storage fees, a standard tow charge, and other miscellaneous fees.

The City's estimated expenses for the towing program in FY 2013 total $6.8 million. These expenses are comprised of city administrative/support costs, contracted dispatch services (pass-through), enforcement costs, and contracted tow services to tow providers. The TICR fee, contracted tow services (pass-through), and franchise fee revenue are intended to ensure recovery of these expenses.

The $2.4 million expense and revenue adjustments to the FY 2013 Proposed Budget account for the City's receipt of revenue from the LIP for the Tow Service Fee ($65 per tow) and the Towing Management Fee ($22 per tow) totaling $2.4 million, and the expense related to the remittance of this revenue to AutoReturn ($22 per tow) and the LTP ($65 per tow). Other adjustments in the Proposed Budget netting to a reduction of $750,000 are the removal of $2.9 million for the Negligent Impound Fee and $350,000 for the Tow Co-Referral Fee from the old Towing Program fee structure and their replacement by Franchise Fee revenue of $1.6 million and TICR fees of approximately $898,720.

Annual Contracts

The Police Department's requested budget adjustments included a request of approximately $750,000 to fund annual contractual requirements. The department has expressed that past year budget reductions have impacted its ability to conduct normal operations. These contracts pertain to psychological services, medical services for juveniles and victims of sexual assault, criminal investigation support, interpreting services, and canine services. Funding for these contracts could be considered for inclusion in the May Revise.

Uniform Allowance & Other Supplies

In the FY 2012 Budget, the Police supplies budget was reduced by approximately $922,000, including a $200,000 reduction in the Uniform Allowance account. This was part of a citywide effort to identify savings in the supplies, contracts, and services expenditures categories. The reduction in Uniform Allowance was related to the number of sworn vacancies and reductions. In our IBA Review of the FY 2012 Proposed Budget, our office noted that there was a possibility that funding would have to be identified from other sources in order to meet the terms of the City's contractual obligations with sworn personnel. In the 2012 Mid-Year Report, Uniform Allowances and other necessary supplies were projected to exceed budget by $967,000. This was in large part related to over budget expenditures of $443,000 related to Uniform Allowances, with the remaining overage being related to equipment and lab medical supplies. The Department's request for additional funding for the Uniform Allowance budget was not approved for inclusion in the FY 2013 Proposed Budget. The IBA recommends that consideration is given to funding the contractual Uniform Allowance expense obligation, currently projected at approximately $340,000, in the May Revision to reflect the true expense obligation.

Public Safety Communication Bonds Fund

The Public Safety Communication Bonds Fund was established to account for the repayment of the 1991 San Diego General Obligation Bonds (Public Safety Communications Project). The 1991 general obligation bonds were paid off at the beginning of FY 2012. There is remaining fund balance of approximately $537,000 in the fund. Our office has been informed that the fund balance will either be transferred into the General Fund in FY 2012 as part of a year-end adjustment, or will be added to the FY 2013 Proposed Budget in the May Revision.

Abandoned Vehicle Abatement Program

The Abandoned Vehicle Abatement (AVA) Program is a State funded program for vehicle abatements, focusing on inoperable vehicles on public or private property within public view. It is funded through the collection of an $1 fee as part of annual vehicle registrations. The Abandoned Vehicle Abatement Fund is administered and managed by a County board (AVA Board).

The ten year State authorization from 2002 to collect the $1 DMV registration fee funding the AVA program expired in April 2012. Agencies wishing to continue to participate in the program are required to reauthorize their participation by passing resolutions. In addition to this, San Diego County Counsel and the City Attorney's Office determined that, in consideration of Proposition 26, reinstating the fee would be considered a tax, and would require 2/3rds voter approval as a dedicated revenue source. The County AVA board decided not to pursue a vote. With this, the AVA Program could cease to exist once available fund balance for the program is depleted.

AVA fund balance of $1.7 million is available to support the program for the next 18-24 months. After the use of the fund balance, the program will have to be funded by another source or have to cease.

8.00 civilian and 1.00 sworn positions in the Traffic Division are funded through the AVA Program. The Department has expressed that given the availability of fund balance, the impact to the FY 2013 budget is minimal, however, this may be an issue for FY 2014.

Academies

The 2012 Midyear Report recommended the use of $1.0 million of the projected year-end surplus to fund an additional 15 recruits in the April police academy and was approved by Council. The additional recruits were intended to allow the department to fill the department's vacancies sooner.

In FY 2013, the Police Department will conduct four 25 recruit academies, at a total cost of approximately $5.0 million. Of the total cost, $4.1 million is related to salary and fringe costs for the recruits and approximately $900,000 is related to staff overtime and equipment to support the academies. The funding for these recruits will come from salary savings from the sworn vacancies within the department above those included in the FY 2013 proposed vacancy savings of $8.8 million. The FY 2013 proposed vacancy savings assumes 125.5 sworn vacancies. As of mid-April 2012, the department has 42 sworn vacancies above those assumed in the proposed vacancy savings for FY 2012 of 111.5, with sworn attrition averaging seven officers per month.

Licensing and Permits Unit Audit

In October of 2011, the Office of the City Auditor issued a performance audit of the Police Department's Licensing and Permits Unit. Included in the report were recommendations pertaining to vice administration operations, the alarm program, the business regulatory consolidation project, permit processing, background investigations, and pawn slips. The department has made substantial progress toward a July 2012 goal of addressing all of the City Auditor recommendations. The fiscal impacts of some of their recommendations are apparent in the FY 2013 proposed budget with the department's proposed user fee schedule and with the $50,000 reduction in overtime due to the implementation of an automated pawn slip system, which is consistent with Recommendation 15 in the report.

The department is still undergoing efforts to address issues related to the Burglar Alarm Permit Program that include exploring policy changes to support a reduction in false alarms, ensure alarm permit compliance, and evaluate the penalties to recover false alarm costs from offenders. Alarm Permit revenue is currently budgeted at $3.1 million, with a projected shortfall of approximately $700,000 in FY 2012, as reported in the Mid-Year Report. The FY 2013 Proposed Budget does not contain any modification to the revenues budgeted for Alarm Permits or the current alarm fee structure, but it is anticipated that the department will come forward with recommended modifications to the program in FY 2013 that may have budgetary impacts.

Take Home Vehicle Audit

In June of 2011, the Office of the City Auditor released their performance audit of take-home vehicles. The audit found that the City could possibly save up to $718,000 annually by reducing its take-home vehicle fleet by 99 vehicles within the Police and Fire-Rescue Departments. Of the total proposed reduction in the number of take-home vehicles, 81 are assigned to the Police Department. The Department conducted an analysis of their take-home vehicle policies in response to the audit report. As a result of this analysis, at least 45 vehicles are no longer used routinely as take-home vehicles.

Serious Traffic Offenders Program (STOP) Fund

In the FY 2013 Proposed Budget, the Serious Traffic Offenders Program Fund is being closed out due to the re-directing of resources for the STOP program to other areas, namely Patrol. The enforcement activities supported by the program related to removing unlicensed drivers off the road, traffic offenders, vehicle impounds, and vehicle forfeitures. The department has expressed that since all officers department-wide are familiar with how to deal with these offenses, it no longer makes sense to maintain the specialized team.

With the closeout of the fund, it is projected that approximately $692,000 is available in fund balance. The department is working with the City Attorney's Office to determine the possible use of this available funding given that the revenue in the fund was provided through unlicensed driver (ULD) fees that are, by resolution, to be used for STOP and related traffic safety programs.

Helicopter Expenses

The 2012 First Quarter Monitoring Report identified the need for $900,000 in additional funding for the General Fund to support the overhaul of the Police Department's two helicopters due to insufficient monies available in the Seized Assets Funds to support the expenses. This projected increase in General Fund expenditures was removed from the Mid-Year Report given that COPS funding was identified as a funding source for the overhauls. The department has conveyed that funding has not been identified in the FY 2013 budget to support the overhaul of the second helicopter at a cost of approximately $900,000.

Animal Control Contract

In March 2009, the City Council approved an agreement with the County to continue providing all animal services within the City of San Diego to include field enforcement, sheltering, medical services, and dog licensing services for the period of Fiscal Year 2009 though 2013. The agreement calls for cost-sharing of the County program among the County and client cities, based on population and each city's service demand, reduced by revenues collected on the behalf of each city. The Animal Services Contract is estimated to cost the City $8.2 million in FY 2013 (net of revenue), an increase of approximately $392,000 over the previous year. The FY 2013 Proposed Budget does not include a budget increase related to the Animal Services Contract costs.

It should be noted that the Office of the City Auditor issued their audit report on the Animal Services Contract in June of 2011. The report outlines that the terms within the agreement with the County are unfavorable to the City, leading to costs totaling $1.85 million over the three year period between FY 2008 and FY 2010. The Police Department, City Administration, and the City Attorney's Office are working to review and address the audit findings.

Crime Statistics

At the February 7, 2012 Public Safety and Neighborhood Services Committee, the Police Department presented their January—December 2011 Index Crimes . The Index crimes include murder, rape, robbery, aggravated assault, burglary, larceny, and motor vehicle theft. As noted by department management, the overall percent change in the index crimes from calendar year 2010 is a 4.3% reduction, with significant reductions in aggravated assault (9.1%), robbery (11.0%), and burglary (8.6%). An increase in murder instances (31.0%) was the only area of increase.

Public Utilities

Operationally, there are four branches which manage the Public Utilities Department: the Business Support Branch, the Water Branch, the Wastewater Branch (containing the Municipal and Metropolitan Sub-Systems) and the Strategic Branch.

The budgetary structure is slightly different. There are three major funds which support the Public Utilities Department: the Municipal Sewer Revenue Fund, the Metropolitan Sewer Utility Fund and the Water Utility Operating Fund. Additionally, the Water Branch manages recreational use of the City's Reservoirs via the General Fund.

There are four business areas in which budget and fiscal transactions are segregated: Business Support, Municipal Wastewater, Metropolitan Wastewater and Water. The breakout of the proposed funding for each of these four business areas is below. This chart is for operating expenditures only, and does not include capital improvement projects undertaken by the Public Utilities Department. The FY 2013 proposed CIP will be reviewed separately in this section.

For purposes of analyzing operating departments in the FY 2013 Proposed Budget, we will consider Metropolitan and Municipal Wastewater together, while the Water Fund will be reviewed separately.

Issues for Consideration

Department Capital Funding

Both Water and Wastewater Fund have an overall budgeted decrease in revenue from the FY 2012 Adopted Budget to the FY 2013 Proposed Budget, with the main factor being the reduction in borrowing for capital projects. The Wastewater Funds had budgeted a borrowing of $63.8 million through bond proceeds in FY 2012, while no proceeds are budgeted from bond issuances in FY 2013. However, they are projecting to borrow $33.5 million through the State Revolving Fund (SRF), which offers lower rates on funds as compared to bond offerings in addition to a shorter maturity. The net reduction of $30.3 million in borrowing is reflected in a total revenue reduction, without factoring in fund balance and reserves. The reduction in borrowing will be offset by utilizing fund balance in the Wastewater Fund, which is projected to reduce CIP continuing appropriations from $216.7 million at the

Branch	Municipal Sewer Fund	Metropolitan Sewer Fund	Water Fund	General Fund	TOTAL
Business Support	$ 75.5	$ 111.2	$ 143.0		$ 329.7
Municipal Waste Water	52.2				52.2
Metropolitan Waste Water		104.4			104.4
Water			294.7	1.7	296.4
TOTAL	**$ 127.7**	**215.6**	**437.7**	**1.7**	**$ 782.7**

beginning of FY 2013 to $171.9 million at the end of FY 2013 (a reduction of $44.8 million).

The Water Fund also has reduced borrowing as compared to FY 2012 budgeted levels; decreasing from a budgeted $65.0 million in borrowing in FY 2012 to a proposed $38.5 million in FY 2013, a decrease of $26.5 million. The reduction in borrowing will be offset by utilizing fund balance in the Water Fund, which is projected to reduce continuing appropriations from a beginning balance of $111.5 million at the beginning of the fiscal year to $91.7 million at the end of the fiscal year.

Continuing Appropriations and DRES Impact

The Public Utilities Department has also begun a review of continuing appropriations for the CIP in FY 2012, starting with the Water Fund. Based on the department's review, in combination with the Office of the City Comptroller, they have determined that a number of continuing appropriations from prior fiscal years could have their funding released. All de-appropriated projects fund balance is returned to the Dedicated Reserve from Efficiencies and Savings (DRES). The beginning balance of the Water Department's DRES has increased from a budgeted amount in FY 2012 of $15.1 million to a FY 2012 mid-year projection of $32.2 million, or 100.0 percent growth from original projections. The starting FY 2013 proposed DRES equals this FY 2012 mid-year projection.

The Public Utilities Department has stated they will continue to review continuing appropriations in the Water Fund and begin to review appropriations in the Wastewater fund (whose DRES has not changed from FY 2012 budgeted amounts as compared to the FY 2013 Proposed Budget).

Water Sales / Rate Stabilization Reserve

In the FY 2012 Adopted Budget, the Water Fund budgeted $208.3 million for water purchases from the County Water Authority (CWA); however, the mid year projection for water purchases is $15. 7 million less than the budget or approximately $192.7 million. One of the primary reasons attributable to the savings associated with the cost of water purchases in FY 2012 projections is the utilization of water from City reservoirs in lieu of purchased water from the CWA. The department stated that due to the abnormally high amount of rainfall in calendar year 2011, the City had excess reservoir water available for utilization. Based on this excess water, the department is projecting to utilize 31,600 acre feet of water from the reservoir system in FY 2012. The department is also projecting to utilize approximately 20,700 acre feet of reservoir water in FY 2013.

Of the projected $15.7 million in water purchase savings in FY 2012, $14.8 will be deposited into the Water Fund's rate stabilization reserve. The department then projects the utilization of $11.8 million of this $14.8 million rate stabilization reserve addition to be utilized in operating expenditures in FY 2013. Despite the continued utilization of reservoir water and the utilization of $14.8 million in savings from FY 2012 deposited into the rate stabilization reserve, the department has proposed the same budget for water purchases in FY 2013 as the FY 2012 Adopted Budget.

The department's rationale behind utilizing projected savings in FY 2012, from water purchases offset by reservoir usage, is based on their need to maintain debt service coverage ratios per the Reserve Policy and for rating agency review while absorbing increased water costs from increases implemented in March 2011, January 2012, and cost increases planned by The Metropolitan Water District of Southern California (MWD) . The MWD will increase costs by 5.0 percent in FY 2013 and FY 2014 (see "Other Issues" section for a further rate increase discussion) . Based on the continued utilization of reservoir water in the proposed FY 2013 operations of the Water Fund, it can be reasonably estimated that savings in FY 2013 may be realized from the amount budgeted for water purchases, which would then be placed into the rate stabilization reserve for continued utilization in FY 2014.

However, continued utilization of local reservoir waters, to achieve operational savings to offset the lack of the pass-through of increases in water rates to consumers, is a temporary fix and should be addressed. The department is currently undertaking a cost of service study to potentially address water rates.

Public Utilities Reserve Policy

The City's Reserve Policy (Council Policy 100-20), which was reviewed and modified as of December 15, 2011, contained updates to the City's Water and Wastewater Fund reserve requirements such as an increase operating reserve targets. As illustrated by recent debt service coverage analysis conducted by Fitch Ratings and Moody's Investor Services for the refunding of current outstanding bonds (in addition to our office's review), the Public Utilities Department is currently in compliance and exceeding required reserve ratios.

However, this updated Reserve Policy also clarified what monies should specifically be sent to the DRES at the end of the fiscal year for both the Water and Wastewater Funds. The policy states for both funds that *"Annual savings not required to comply with established policies or legal documents will be transferred into the DRES based on the department's approved procedures."*

Based on the aforementioned utilization of reservoir water in offsetting purchases to increase the rate stabilization reserve, it is unclear if this transfer of savings abides by the Reserve Policy. Currently, the projected savings from water purchases are transferred as an expense, which counts against debt service ratios (as noted by Fitch Ratings) as a regular expense would, but does not fund CIP projects as intended by the Reserve Policy and the DRES. In order to absorb water cost increases while maintaining debt service coverage ratios, the department is transferring savings from water purchases into the rate stabilization reserve.

Water Fund Operating Results

The Water Fund budgets for both FY 2012 and FY 2013 are operating at a projected loss when proceeds from bond issuances and State Revolving Loan funds (which are dedicated to CIP) are excluded. As can be seen in the table below, the FY 2012

Adopted Budget projected a losses of approximately $33.5 million and the FY 2013 Proposed Budget projects an operating loss of $9.2 million.

When reviewing the Water Fund's FY 2012 mid-year operating projections, an operating surplus of $16.9 million is identified. However, as previously outlined, the department's use of reservoir water creates $15.7 million in water purchase savings; which accounts for the majority of this operating surplus. Additionally, $11.8 million of this savings is budgeted in FY 2013 to be used as an operating resource. Excluding this resource carried over from FY 2012, the FY 2013 Proposed Budget would reflect an operating loss of approximately $21.1 million.

	FY 2012 Adopted Budget	FY 2012 Mid-Year Report	FY 2013 Proposed Budget
Water Fund			
Revenue	$ 418,155,000	$ 424,531,800	$ 428,507,000
Expense	451,642,397	407,663,489	437,745,229
Variance	(33,487,397)	16,868,311	(9,238,229)

** Does not include bond financing or State Revolving Fund (SRF) loans to evaluate operating performance year-to-year*

Water Fund

Water Fund Revenues

Water Fund revenue adjustments for FY 2013 include:

- As previously mentioned, the Water Fund projects a reduction of $26.5 million in bond fund financing from the FY 2012 Adopted Budget, for a total projected borrowing of $38.5 million.
- The elimination of $25.8 million in State Grant funds that were expended in FY 2012 to upgrade and expand the Miramar and Alvarado treatment plant.
- Forecasted water sales for FY 2013 increased by $8.3 million due to a forecasted increase in overall water usage, and is not related to an increase in water costs passed on to consumers.
- Reclaimed water sales are expected to increase $1.6 million above FY 2012 budgeted levels based on current trends. Based on the $5.0 million FY 2012 mid-year projection for the sale of reclaimed water, this figure could increase above budgeted levels.

Water Fund Expenditures

Water Fund expenditure adjustments for FY 2013 include:

- A reduction of 11.43 FTE's due to operational efficiencies identified within the department. The total PE reduction associated with these positions was approximately $0.9 million, which was offset by other PE increases in the department for a net effect of approximately $44,500 in reductions.
- An increase of $0.8 million in expenditures related to the pilot project for advance metering infrastructure (AMI) or "smart meters". The total cost for the pilot project to evaluate any potential cost savings associate with AMI implementation is $5.1 million. The total cost is being financed through a proposed lease purchase agreement, of which $0.8 million will be expended for the financing in FY 2013.

- A reduction of $7.5 million of carry over budget from FY 2010 SAP transitions. During the transition from legacy systems to SAP, budget allocated to the department was carried over to the new cost structure associated with SAP and remained unutilized throughout FY 2010 through 2012. The department has monitored this budget and determined that this allocation is not needed for operations and has eliminated it in the FY 2013 Proposed Budget.
- The department has identified a number of operational efficiencies in the department through studies conducted by outside consultants and through efficiencies identified by the department staff. This has led to a reduction in contract and IT expenditures of $6.0 million from the FY 2012 Adopted Budget.

Wastewater Fund

Wastewater Fund Revenues

Wastewater Fund revenue adjustments for FY 2013 include:

- As previously stated, the Wastewater Fund has reduced the amount of borrowing projected for FY 2013 as compared to the FY 2012 Adopted Budget. Total projected borrowing in the FY 2012 Adopted Budget totaled $72.6 million, with $63.8 million in bond proceeds and $8.8 million in State Revolving Fund (SRF) loans. As proposed for FY 2013, the department has projected no funds through bond proceeds and $33.5 million in SRF proceeds. The total reduction associated with borrowing for CIP in FY 2013 is $39.2 million.
- The department has reduced their projected sewer service charges for FY

SUMMARY OF BUDGET CHANGES - WATER FUND

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	718.87	$ 64,807,274	$ 386,835,123	$ 451,642,397	$ 508,905,000
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(11.43)	(44,495)		(44,495)	
Copier Contract Savings			(30,450)	(30,450)	
Efficiency Savings in Technical Service Expenditures			(831,889)	(831,889)	
AMI Pilot Project Financing			800,000	800,000	
Carryover Budget From SAP Transition Not Needed			(7,500,000)	(7,500,000)	
One-time Purchase of Filtration Equipment for Regulatory Compliance			1,062,000	1,062,000	
Reduced Contract Expenditures			(5,122,566)	(5,122,566)	
Other Decreases			(2,229,768)	(2,229,768)	
Elimination of FY 2012 One-Time Grant Funding					(25,750,000)
Planned Bond Issuances					(26,500,000)
Interest Forecast Based on Current Market Environment					(2,050,000)
Forecasted Water Sales (non-rate increase)					8,280,000
Reclaimed Water Sales					1,600,000
Water System Capacity Charges					1,900,000
Other Increases					622,000
Subtotal	(11.43)	(44,495)	(13,852,673)	(13,897,168)	(41,898,000)
Mayor's Fiscal Year 2013 Proposed Budget	**707.44**	**64,762,779**	**372,982,450**	**437,745,229**	**467,007,000**
Difference from 2012 to 2013	*(11.43)*	*$ (44,495)*	*$ (13,852,673)*	*$ (13,897,168)*	*$ (41,898,000)*

2013 by $25.3 million due to savings realized in the previous fiscal year(s), which has positively impacted their rate model forecast. Additionally, the reduction is also partially associated with the completion of the Shames Settlement that increased sewer rate charges from 2007 to 2012. The settlement was a class action lawsuit filed against the City in 2005 that forced the department to reimburse single-family residential customers a total of $40 million over a four year period.

Wastewater Fund Expenses

Wastewater Fund expense adjustments for FY 2013 include:

- Combined, the Metro and Municipal sewer funds have a reduced count of 6.28 FTE's. The Municipal Fund had a reduction of 13.20 FTE's for a total savings of $1.9 million; which was offset by an increase 6.92 FTE's in the Metro Fund or an increase of $1.5 million in personnel expense. The offset of these two results in the FTE reduction and savings of $0.5 million in personnel expense.
- An increase of $6.0 million in budgeted refunds issued to agencies that are a part of the Metropolitan Wastewater Fund. These refunds occur on an annual basis based on the reconciliation of charges issued to the participating agencies throughout a fiscal year and the actual cost after auditing the expenses incurred by the City. However, due to the delay in the City's Comprehensive Annual Financial Report (CAFR) for FY 2010, the Metropolitan Fund was not able to obtain audited figures to reconcile the actual cost associated with services provided. The FY 2010 and FY 2011 CAFR's have been issued by the City and the department has budgeted $6.0 million in refunds for both FY 2010 and FY 2011.
- The department has identified a required $7.0 million in one-time expenses to purchase new motors for wastewater facilities and to rehabilitate other equipment throughout Metropoli-

SUMMARY OF BUDGET CHANGES - WASTEWATER FUND	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	865.61	$ 82,970,906	$ 245,391,706	$ 328,362,612	$ 473,166,000
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(6.28)	(465,907)		(465,907)	
Efficiency Savings			(1,824,251)	(1,824,251)	
Existing Project Design Increases			774,559	774,559	
State Revolving Fund Debt Service Reserve Requirement			4,107,375	4,107,375	
Refunds to Metro Sewer Participating Agencies for FY10 & FY11			6,000,000	6,000,000	
One-Time Expenses for Motor and Equipment Cleaning			7,021,328	7,021,328	
Other Decreases			(669,645)	(669,645)	
Planned Bond Issuance					(63,831,000)
Sewer Service Charges					(25,260,000)
State of California Revolving Loan Fund Proceeds					24,650,000
Other Increases					1,236,000
Subtotal	(6.28)	(465,907)	15,409,366	14,943,459	(63,205,000)
Mayor's Fiscal Year 2013 Proposed Budget	**859.33**	**82,504,999**	**260,801,072**	**343,306,071**	**409,961,000**
Difference from 2012 to 2013	*(6.28)*	*$ (465,907)*	*$ 15,409,366*	*$ 14,943,459*	*$ (63,205,000)*

tan Wastewater Fund facilities.

- With the increased borrowing of State Revolving Fund loans, the City is required to keep a reserve of two semi-annual principal payments. This amounts to $4.1 million in reserves that the City will maintain.

Capital Improvement Program (CIP)

The Public Utilities Department has budgeted $151.7 million in CIP projects for FY 2013. This is an increase of approximately $42.5 million from FY 2012. For FY 2013, the department is projecting to replace or rehabilitate 45 miles of sewer pipeline and award 20 miles of water pipeline replacement projects. Both water and wastewater pipeline replacement estimates are below FY 2012 budget levels (both are down 15 miles from FY 2012 estimates).

Additionally, the department has made it a priority to install six backup diesel generators at key sites throughout the City. Based on the power outage experienced on September 8, 2011, the City incurred two wastewater spills related to wastewater pump station shutdowns. To mitigate this potential of a wastewater spill from a power outage, the City acquiring these generators for $7.9 million.

Approximate additional CIP spending for FY 2013 includes:

- $61.0 million for water pipeline replacements
- $20.4 million for replacement of trunk sewers
- $8.5 million for water pump station rehabilitations
- $18.0 million for sewer pipeline rehabilitation
- $19.4 million for sewer treatment plant rehabilitation
- $9.8 million for sewer pump station upgrades

General Fund

The City offers public recreational use of its reservoirs, collecting various fees from recreational patrons. Revenues and expenses associated with recreational use of reservoirs are General Fund transactions.

The FY 2013 budget for these activities is $1.7 million, which is approximately the same level as the FY 2012 budget. Approximately $34,000 in personnel costs were eliminated in FY 2013 for hourly lake aide workers. Revenue projections have declined from $1.1 million in FY 2012 to $1.0 million for FY 2013. This is mainly due to a reduction in user fees associated with the elimination of boat rentals at certain City reservoir locations.

Other Issues to Consider

Comprehensive Policy for a Sustainable Water Supply in San Diego

The City Council adopted Policy 400-15 on October 25, 2011 to replace all existing policies on water supply, water conservation, and water reclamation. This created a single, comprehensive policy that would guide future efforts to create a sustainable water supply for residential and business use.

The City Council approved the formation of a task force to implement the Council's comprehensive water policy, which will consist of 11 different members with different interests in creating a sustainable water supply for the City. This includes members from groups such as: environmental advocacy, hospitals and healthcare, hotel / restaurants / tourism, business and economic development, etc.

A final report from this task force will be presented to the Independent Rates Oversight Committee (IROC), the Natural Resource & Culture Committee, and the full City Council after one year after the taskforce's formation.

MWD / CWA Rate Increases

The Metropolitan Water District of Southern California (MWD) supplies the majority of water provided to the San Diego County Water Authority (CWA), which in turn provides 90 percent of the water the City of San Diego utilizes. On April 10, 2012, the MWD voted in favor of raising "average" water rates 5.0 percent in calendar years 2013 and 2014.

This additional cost will be incurred by the CWA to provide water throughout the County of San Diego. The CWA has approved passing these costs on to each City provided with water. The City of San Diego Public Utilities Department will not raise rates in FY 2013, despite the increase in wholesale water costs.

Water Budget Analysis

The department is also exploring the use of a water budget billing method as a possible alternative to the tiered billing method currently being utilized. A water budget incorporates customer characteristics, such as landscaping area, number of people in the household, and local weather factors. Higher rates will be billed when a customer exceeds their individual water budget. The department has conducted a pilot study and hired a consultant in February 2012 to continue to look at the feasibility of the water based system. The results from the consultant are expected to be available in October 2012.

Use of Funds and Cost of Service Studies

The City of San Diego Public Utilities Department has issued two requests for proposal (RFP) for a water cost of service study (COSS) and a use of funds independent account financial review and analysis.

The COSS will "develop recommendations for the establishment of fair and equitable water and sewer rates for the City's users and a revenue program that will follow accepted industry standards". The COSS will determine if any potential rate adjustments should be made to both water and wastewater rates. This COSS will take into account all factors in a potential rate adjustment including increases in wholesale water costs and CIP requirements. The COSS RFP was awarded to the firm of Black & Veatch.

The previous COSS was completed in 2006, which was provided to the department and resulted in City Council approving a 6.5 percent annual increase in water rates from 2007 to 2011. Additionally, the City Council approved varying increases in wastewater rates that were implemented from 2007 to 2010. The use of funds study will determine the following: 1.) analysis of the use of the water rate increase; 2.) analysis of the use of the wastewater rate increase; 3.) analysis of the sources and uses of water revenue bond debt proceeds; 4.) analysis of the sources and uses of wastewater revenue bond debt proceeds; and 5.) analysis of the dedicated reserve from efficiencies and savings (DRES). This RFP has not been awarded as of yet.

Public Works

The Public Works Department was created in FY 2012 and consolidated two former departments—Engineering & Capital Projects (E&CP) and General Services.

- **E&CP** - Provides engineering services for implementing the City's Capital Improvement Program (CIP) and quality control and inspection of private work permitted in the public right-of-way.
- **General Services** - Provides maintenance and repair for the City's facilities and fleet and provides publishing services for City departments.

While the two units report to one Director, E&CP and General Services maintain separate information technology, payroll, and budget staff. This is primarily because the units have differing functions and fund sources and it is simpler to retain E&CP and General Services reporting components.

The table below provides a summary of budget changes for the units.

In the first quarter of FY 2012, the Public Works Contracting Team was restructured from the Purchasing & Contracting Department to Public Works. Although Public Works - Contracting is presented in the FY 2013 Proposed Budget as part of E&CP, it is intended to be a division within Public Works reporting directly to the Director. Public Works - Contracting provides services and support specifically for CIP projects. We include Public Works - Contracting in our discussions of E&CP since this is the way they are presented in the Proposed Budget.

SUMMARY OF PUBLIC WORKS BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
E&CP					
Approved Fiscal Year 2012 Budget	469.03	$ 52,726,451	$ 7,143,927	$ 59,870,378	$ 57,287,009
Mayor's Fiscal Year 2013 Proposed Budget	479.67	53,746,047	6,766,933	60,512,980	56,188,544
Difference from 2012 to 2013	*10.64*	*$ 1,019,596*	*$ (376,994)*	*$ 642,602*	*$ (1,098,465)*
General Services					
Approved Fiscal Year 2012 Budget	425.33	$ 37,149,144	$ 67,143,155	$ 104,292,299	$ 100,906,297
Mayor's Fiscal Year 2013 Proposed Budget	294.50	25,842,065	$ 58,404,129	84,246,194	83,568,069
Difference from 2012 to 2013	*(130.83)*	*$ (11,307,079)*	*$ (8,739,026)*	*$ (20,046,105)*	*$ (17,338,228)*

Public Works - Engineering & Capital Projects

Engineering & Capital Projects (E&CP) provides engineering services for the Capital Improvement Program (CIP)—the City's program for installing new and replacing deteriorating capital infrastructure. E&CP's responsibilities include planning, design, project management, and construction management of capital improvement projects for client departments, such as Transportation & Storm Water (TSW) and Park & Recreation. E&CP also conducts quality control and inspection of private work permitted in the right of way and surveying and materials testing.

E&CP is comprised of four divisions:

- Architectural Engineering & Parks
- Field Engineering
- Project Implementation & Technical Services
- Right-of-Way Design

Although included as a separate division in the FY 2013 Proposed Budget, Public Works plans to restructure Business & Support Services under the Project Implementation & Technical Services Division. This restructuring does not have a budgetary impact. Additionally, although also included as part of E&CP in the FY 2013 Proposed Budget, Public Works - Contracting is intended to be a separate division reporting directly to the Public Works' Director.

SUMMARY OF PUBLIC WORKS - E&CP BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	469.03	$ 52,726,451	$ 7,143,927	$ 59,870,378	$ 57,287,009
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	0.39	(933,937)	-	(933,937)	
Transfer of Contracting Team from P&C	14.00	1,409,143	49,000	1,458,143	407,000
Additions Related to Deferred Capital Program	5.00	438,974	-	438,974	438,974
Addition of Convention Center Expansion Support	1.00	128,633	-	128,633	128,633
Transfer out of E&CP Position to General Services	(1.00)	(72,668)	(3,500)	(76,168)	
Transfer out of TransNet Administration to TSW	(4.00)	(420,635)	-	(420,635)	(148,922)
Transfer out of Plan Review to Development Services	(4.75)	(671,628)		(671,628)	
Fringe		1,141,714		1,141,714	
Non-Personnel Expenditures			(141,101)	(141,101)	
Supplies	-	-	(97,487)	(97,487)	
Contracts	-	-	(234,976)	(234,976)	
Energy and Utilities	-	-	98,953	98,953	
Non-Discretionary and Info Technology Adjustments	-	-	(47,883)	(47,883)	
Revised Revenue Projection (Net Zero Impact)	-	-	-	-	(1,924,150)
Subtotal	10.64	1,019,596	(376,994)	642,602	(1,098,465)
Mayor's Fiscal Year 2013 Proposed Budget	**479.67**	**53,746,047**	**6,766,933**	**60,512,980**	**56,188,544**
Difference from 2012 to 2013	*10.64*	*1,019,596*	*(376,994)*	*642,602*	*(1,098,465)*

We include Public Works - Contracting in our discussions of E&CP since this is how they are presented in the FY 2013 Proposed Budget.

It is important to note that E&CP's General Fund allocation is about 92.8% reimbursable due to revenues earned through charges for services to other City departments. Generally, position reductions to E&CP require a corresponding revenue reduction resulting in a net zero impact to the General Fund.

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the General Fund allocation of E&CP is $60.5 million, a decrease of $642,601 or 1.1% from FY 2012. The Proposed Budget also includes a 2.0% net increase of 10.64 positions. Fringe benefits have increased by about $1.1 million or 5.9% due to increases in ARC, SPSP, and Workers Compensation.

The FY 2013 Proposed Budget for E&CP reflects adjustments to supplies, contracts, and energy and utilities expenditures to more accurately reflect actual charges. Increases of $98,953 or 33.5% over FY 2012 energy and utilities expenditures are also attributed to fuel costs which were formerly included in Fleet usage fees. The change is because fuel expense was not included in the Fleet Services Managed Competition. Beginning in FY 2013, Fleet Services will bill customers directly on either a monthly or quarterly basis for fuel costs.

Restructuring

The FY 2013 budget includes transfers in and out of the Department to improve functionality and increase capacity to implement CIP projects. For example, the Administration for the TransNet Fund—including 4.00 FTEs and $420,635 in expenditures—is being transferred from E&CP to the Transportation & Storm Water (TSW)

SUMMARY OF CHANGES IN E&CP EXPENDITURES BY CATEGORY

	FY2012	FY 2013	DOLLAR	PERCENTAGE
Personnel				
Salaries and Wages	$ 33,312,015	$ 33,189,897	$ (122,118)	-0.4%
Fringe Benefits	19414436	20556150	$ 1,141,714	5.9%
Personnel Subtotal	**$ 52,726,451**	**$ 53,746,047**	**$ 1,019,596**	**1.9%**
Non-Personnel				
Supplies	691,314	593,827	(97,487)	-14.1%
Contracts	1,884,471	1,649,495	(234,976)	-12.5%
Information Technology	3,052,185	2,991,010	(61,175)	-2.0%
Energy and Utilities	295,166	394,119	98,953	33.5%
Other	890,045	926,109	$ 36,064	4.1%
Transfers Out	233,018	113,545	(119,473)	-51.3%
Capital Expenditures	97,255	98,355	1,100	1.1%
Debt	473	473	-	0.0%
Non-Personnel Subtotal	**$ 7,143,927**	**$ 6,766,933**	**$ (376,994)**	**-5.3%**
Total	**$ 59,870,378**	**$ 60,512,980**	**$ 642,602**	**1.1%**

Department which is the primary user of these funds.

In addition, as part of CIP streamlining measures recently approved by City Council, the Proposed Budget adds 5.00 reimbursable positions with expenditures and revenues of $438,974. One of these positions will be dedicated to maintaining E&CP's new CIP website that is coming online on May 3, 2012 as part of CIP streamlining. The FY 2013 Proposed Budget does not include other expenditures associated with the new website, because Public Works expects them to be minimal and absorbed by savings from CIP streamlining.

Revenue Adjustments

The FY 2013 Proposed Budget revenues of $56.2 million in charges for services, a decrease of $1.1 million or 1.9% from FY 2012. The FY 2013-2017 Five Year Outlook projected E&CP charges for services to be $37.7 million for FY 2013 which is about the same as FY 2012.

The net variance of about $18.4 million represents charges that were previously aligned in the wrong billing code due to mapping errors of legacy charges when SAP was developed. During the FY 2013 budget development process, the revenue was realigned to represent services rendered. Essentially this is a redistributed budget among revenue categories and did not increase the total revenue.

As we reported in our Mid-Year Budget Review for FY 2012, E&CP has over-budgeted revenue in previous years, primarily due to the methodology used by Financial Management to estimate charges for services. For FY 2013, revenue rates have been projected based on trends from previous years and calculated as a ratio of budgeted salary. E&CP believes these projections will be more in line with actual revenues. Ultimately, E&CP's revenue is based on project delivery costs (soft costs), consultant invoices, and other non-personnel expenses and may be difficult to accurately project.

Issues to Consider

Public Works - Contracting

A City Auditor report on the CIP (OCA-11-027) found that the lengthy contracting bid and award process was increasing the time it took to complete projects. The report recommended that the Administration streamline the contracting process for CIP projects. In the first quarter of FY 2012, the Mayor's Office restructured Public Works Contracting, transferring 14.00 FTEs and about $1.5 million in personnel and associated non-personnel expenditures from the Purchasing & Contracting Department to Public Works.

Following the transfer, Public Works convened a workshop with stakeholders to flowchart the contracting process, identify ways to reduce duplication, and obtain com-

SUMMARY OF CHANGES IN E&CP REVENUE

	FY2012	FY 2013	DOLLAR	PERCENTAGE
Charges forServices	$ 37,748,507	$ 56,188,544	$ 18,440,037	48.8%
Transfers In	$ 19,533,002	$ -	$ (19,533,002)	-100.0%
Total Revenue	**$ 57,287,009**	**$ 56,188,544**	**$ (1,098,465)**	**-1.9%**

mitment on turnaround time from offices involved, such as City Attorney and Equal Employment Opportunity Commission. The Department also established goals for reducing bid and award time and began tracking progress. Public Works reports that the time for contract bid and award for CIP projects has been reduced from 6-8 months to 2-3 months.

Advantages to having the process in-house in Public Works rather than in Purchasing & Contracting include the ability to:

- tailor the process for consultant and construction contracts for CIP projects rather than the general purchase of goods and services, and
- provide additional resources when needed.

Given the success of the Public Works - Contracting restructure thus far, it is important to complete the final stage in FY 2013 by physically relocating staff to the Public Works Department. In addition, from a structural standpoint it is important that the Public Works FY 2013 budget accurately reflect the reporting structure of Contracting as a division of Public Works reporting directly to the Department Director. Structuring contracting under E&CP could lead to the perception that the entity seeking bids is unduly influencing the process.

CIP Streamlining and Capacity

On March 20, 2012, the City Council approved Public Works' CIP streaming initiatives, including the:

- Increase of City Council approval thresholds for various contracts and agreements;
- Modification of Municipal Code to allow for Multiple Award Construction Contracts; and
- Authorization of automatic transfers of project savings at project completion to other CIP projects.

The Department expects these measures to reduce project cycle time by 3-12 months, but this is dependent on expeditiously filling vacancies. E&CP currently has 30 vacant positions, including 9.00 due to recent retirements. E&CP has started holding interviews for positions vacated due to retirements and anticipates filling 9.00 of these positions. However, staff reported that two candidates recently declined the Department's offer of employment for a contract specialist position based on insufficient compensation.

E&CP has primary responsibility for implementing the City's CIP—projected to be $194 million in FY 2013 with $3.5 billion in prior years' projects and $3.5 billion in future years. Challenges filling vacancies could impact the Department's capacity to complete projects. In particular, E&CP needs the capacity to implement deferred capital projects. City Council approved the Five-Year Deferred Capital Funding Plan on March 20, 2012, which plans increased bond and cash funding over the next five years to address the $898 million backlog.

Public Works - General Services

General Services provides direct support to other City departments, including vehicle maintenance, facilities repair, and publishing services. To accomplish its mission, General Services includes four divisions:

- Facilities
- General Services Administration
- Fleet Services
- Publishing

The Communications Division, formerly part of General Services, is being transferred to the Department of Information Technology (IT) as part of a restructuring in FY 2013.

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for General Services is about $84.2 million, a reduction of $20.0 million or 19.2 percent. The FY 2013 budget includes 294.50 FTEs, a reduction of 130.83 positions or 30.8 percent from FY 2012. The decreases are primarily due to the:

- transfer of the Communications Division to the Department of IT including $10.0 million and 50.00 FTEs, and
- projected savings from the managed competition for Fleet Services of about $5.3 million and 77.50 FTEs.

The FY 2013 Proposed Budget also includes a transfer about $1.3 million of deferred capital debt service expenditures to the Citywide Program Expenditure Department.

Revenues received by General Services total about $83.6 million including revenues from the General Fund, Fleet Services Operations Fund, Fleet Services Replacement Fund, and Publishing Services Fund as shown in the table on the next page. This represents a decrease of about $17.4 million from FY 2012. The decrease includes:

- ($9.5 million) due to the transfer of re-

SUMMARY OF GENERAL SERVICES EXPENDITURES

	FY2012 FTE	FY 2013 FTE	CHANGE	FY 2012 $	FY 2013 $	CHANGE
General Fund						
Administration	5.00	9.00	4.00	$ 706,114	$ 1,169,449	$ 463,335
Facilities	107.00	107.00	-	13,926,739	12,861,844	(1,064,895)
Subtotal General Fund	112.00	*116.00*	4.00	*14,632,853*	*14,031,293*	*(601,560)*
Non-General Fund						
Wireless Communications Technology Fund	50.00	-	(50.00)	10,043,210	-	(10,043,210)
Publishing Services Fund	14.33	10.00	(4.33)	5,158,804	3,367,944	(1,790,860)
Fleet Services Operating Fund	249.00	168.50	(80.50)	51,258,674	47,903,792	(3,354,882)
Fleet Services Replacement Fund	0.00		-	23,198,758	18,943,165	(4,255,593)
Subtotal Non-General Fund	*313.33*	*178.50*	(134.83)	*89,659,446*	*70,214,901*	*(19,444,545)*
TOTAL GENERAL SERVICES	**425.33**	**294.50**	**(130.83)**	**$104,292,299**	**$84,246,194**	**$ (20,046,105)**

SUMMARY OF CHANGES IN CHARGES FOR SERVICES				
	FY2012	FY 2013	DOLLAR	PERCENTAGE
General Fund (Facilities)	$ 4,924,543	$ 4,001,183	$ (923,360)	-18.8%
Fleet Services Operating Fund	50,706,576	46,884,093	(3,822,483)	-7.5%
Fleet Services Replacement Fund	24,258,715	22,583,138	(1,675,577)	-6.9%
Publishing Services Fund	5,158,804	3,772,214	(1,386,590)	-26.9%
Total Revenue	**$ 85,048,638**	**$ 77,240,628**	**$ (7,808,010)**	**-9.2%**

imbursable Communications positions to the Department of IT,

- ($3.8 million) in Fleet charges for services due to decreases in user fees based on managed competition, and
- ($1.4 million) in Publishing revenues related to the savings per the Convenience Copier contract.

General Fund Divisions

Facilities

The Facilities Division provides day-to-day maintenance and repair services for City libraries, park and recreation centers, and buildings where other government services are provided. This includes building maintenance, custodial service, and emergency repairs when needed on roofs, HVAC systems, and electrical systems.

Changes to Budget

The Proposed FY 2013 Budget for Facilities totals about $12.9 million, and includes 107.00 FTEs. This represents a decrease in expenditures of about $1.1 million or 7.6% from FY 2012. Facilities has 37.00 positions that are reimbursable, generally through work performed on small-scale CIP projects. Charges for services are about $4.0 million in the FY 2013, a decrease of $923,360 from FY 2012.

This decrease is an adjustment to more realistically reflect Division charges for services and is based on FY 2011 and FY 2012 year-to-date revenue trends. In previous years, vacancies in Facilities have impacted the Division's ability to perform work on reimbursable projects. The Division currently has 22.00 vacancies or 20.6% of total

SUMMARY OF GENERAL FUND BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Facilities					
Approved Fiscal Year 2012 Budget	107.00	$ 8,233,596	$ 5,693,143	$ 13,926,739	$ 4,924,543
Mayor's Fiscal Year 2013 Proposed Budget	107.00	8,319,468	4,542,376	12,861,844	4,001,183
Difference from 2012 to 2013	*-*	*$ 85,872*	*$ (1,150,767)*	*$ (1,064,895)*	*$ (923,360)*
Administration					
Approved Fiscal Year 2012 Budget	5.00	$ 657,214	$ 48,900	$ 706,114	$ -
Mayor's Fiscal Year 2013 Proposed Budget	9.00	1,117,896	$ 51,553	$ 1,169,449	-
Difference from 2012 to 2013	*4.00*	*$ 460,682*	*$ 2,653*	*$ 463,335*	*$ -*
General Fund Total Budget Changes	*4.00*	*$ 546,554*	*$ (1,148,114)*	*$ (601,560)*	*$ (923,360)*

positions vacant. The Division faces challenges filling trades positions due to the limited amount of time that supervisors can devote to hiring and City hiring procedures. General Services reports that the turnaround time for certification requests to fill positions has been lengthy. For example, from initiating the Request-to-Fill Memorandum to Clearing Personnel has taken 10-11 months for a Refrigeration Mechanic and 9 months for an Assistant Civil Engineer.

Charges for services for Facilities also depends on the availability of appropriate smaller-scale CIP projects that can be performed by staff.

Administration

The FY 2013 Proposed Budget for the Administrative Division totals $1.2 million, including 9.0 FTEs. The $707,114 increase over FY 2012 is largely due to increases in personnel and related non-personnel expenditures for the addition of 4.00 positions, including the transfer of

- 1.00 Information Systems Analyst 2 and 2.00 Information Systems Technicians from Fleet Services, and
- 1.00 Information System Analyst 2 from Publishing.

Fleet Services Operating and Replacement Funds

Fleet Services provides City departments with motive equipment and support, including vehicle acquisition, maintenance, and repair and provision of fuel. Fleet Services is a non-General fund division funded by the Fleet Services Operating Fund and Fleet Services Replacement Fund.

Changes to Budget

Fleet Services went through a managed competition in FY 2012 and the employee team was successful. The FY 2013 budget reflects decreases to implement the Most Efficient Government Organization. The FY 2013 Proposed Budget for Fleet Services includes 168.5 positions, which represents a decrease of 80.5 FTEs or 32.3% from FY 2012.

The Proposed Budget is about $66.8 mil-

SUMMARY OF FLEET SERVICES BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fleet Services Operations Fund					
Approved Fiscal Year 2012 Budget	249.00	$ 21,976,196	$ 29,282,478	$ 51,258,674	$ 51,914,527
Mayor's Fiscal Year 2013 Proposed Budget	168.50	15,586,911	32,316,881	47,903,792	48,092,044
Difference from 2012 to 2013	*(80.50)*	*$ (6,389,285)*	*$ 3,034,403*	*$ (3,354,882)*	*$ (3,822,483)*
Fleet Services Replacement Fund					
Approved Fiscal Year 2012 Budget	-	$ -	$ 23,198,758	$ 23,198,758	$ 29,378,205
Mayor's Fiscal Year 2013 Proposed Budget	-	-	$ 18,943,165	$ 18,943,165	27,702,628
Difference from 2012 to 2013	*-*	*$ -*	*$ (4,255,593)*	*$ (4,255,593)*	*$ (1,675,577)*
General Fund Total Budget Changes	*(80.50)*	*$ (6,389,285)*	*$ (1,221,190)*	*$ (7,610,475)*	*$ (5,498,060)*

lion—$47.9 million for operations and maintenance activities and $18.9 million for replacement purposes. For the Fleet Services Maintenance Fund, this represents a $3.4 million or 7.0% decrease in expenditures from FY 2012. Fleet Services Operating Fund expenditures also decreased from FY 2012 by about $4.3 million or 18.0%.

Corresponding revenues have also decreased by 7.0% and 6.0% for the Fleet Services Operations and Replacement Funds, respectively. Decreases for FTEs, expenditures, and revenues over FY 2012 are primarily due to the streamlining of operations through Fleet Services' managed competition which reduced vehicle usage fees by 39.9%, from $46.7 million in FY 2012 to $28.1 million in FY 2013.

For FY 2013, fuel costs will no longer included in usage fees since fuel expense was not included in the Fleet Services Managed Competition. Fuel costs are now included in City departments' non-personnel expenditures for energy and utilities. Fleet Services will bill customers directly on either a monthly or quarterly basis for fuel costs.

Note that the FY 2013 fuel budget is $16.5 million which includes an increase of $1.9 million for unleaded gasoline over FY 2012. Financial Management decreased the diesel fuel allocation for FY 2013 by about $500,000.

While the Fleet Services Operating Fund is projecting a fund balance of $4.9 million in FY 2012, it is important to note that any fund balance above the required contingency amount will be calculated into usage fees and returned to customers in the form of a rate reduction in the following year.

FY 2013 Proposed Budget vehicle cash replacement funding estimates for the Fleet Service Vehicle Replacement Fund have been reduced by about $4.4 million due to the anticipated increased use of debt financing for General Fund vehicles. The City Council approved a two-year debt financing contract on February 22, 2012.

Fleet Services currently has 29 vacancies, but only expects to fill one position. The Division is anticipating an upcoming reduction in force to implement the Most Efficient Government Organization as part of Managed Competition.

Managed Competition Savings

Meet & confer with labor is currently ongoing for Fleet Services Managed Competition with no anticipated deadline. Meet & Confer must be completed in order for employees to implement the Most Efficient Government Organization—the basis for which the Business Office is projecting savings. Further delays could impact Fleet Services' ability to achieve the $5.3 million in savings included in the FY 2013 Proposed Budget.

Publishing Services Fund

The Publishing Services Division is a non-General Fund department funded by charging customer departments for its services. Publishing provides full service, in-house reproduction and graphics center, and manages the Citywide Photocopier Program for all City departments.

Changes to Budget

Publishing Services went through a managed competition in FY 2011 and the employee team was successful. The FY 2013 budget reflects decreases to implement the Most Efficient Government Organization. For FY 2013, the Proposed Budget for Publishing Services totals $3.4 million, a 34.7% decrease over FY 2012. The Proposed Budget includes 10.00 positions, a decrease of 4.33 FTEs from FY 2012.

The FY 2013 budget includes about $3.8 million in revenues, a $1.4 million or 26.9 percent decrease in charges for services from FY 2012.

Decreases in expenditures and revenues, in addition to being due to Managed Competition, are also attributable to an adjustment of ($1.3 million) in non-personnel expenditures and ($1.4 million) in revenue related to the new Convenience Copier Contract for the City. Publishing reports that anticipated savings from the copier contract are being realized. For example, monthly production copier expenses averaged $24,000 in FY 2011 under the previous contract. In the first complete month of the new contract, expenses totaled $7,500.

Decreases in charges for services are also due to declining demand for large-scale copier production services provided by Publishing. The success of Publishing and continued copier savings will depend on City departments minimizing copier use for larger-scale jobs that can be more cost-effectively completed by Publishing.

Publishing Services intends to keep a small fund balance to cover fixed costs in future fiscal years in the event that revenue from print shop operations or the Convenience Copier Contract continues to decrease. If the balance exceeds the expected reserve, the Print Shop and Convenience Copier Program will lower rates accordingly.

Issues to Consider

Reactive Maintenance and Deferred Capital for Facilities

Expenditures for Facilities maintenance and repair has declined by about 14.3% from $15.0 million in FY 2009 to $12.9 million in FY 2013. The number of facilities serviced and number of work orders processed also decreased by 47% and 45%, respectively.

Given the declining resources and 20.6% vacant positions in Facilities, only about 10.0% of all work conducted is preventative maintenance. Reactive maintenance and emergency repairs are generally more expensive than preventative maintenance and

FACILITIES DIVISION SUMMARY, FY 2009-2012

	FY 2009	FY 2010	FY2011	FY 2012	FY 2013	TOTAL	PERCENT CHANGE
Budget							
FTE	109.00	107.00	108.00	107.00	107.00		-2%
Total Expenditures	$ 15,001,085	$ 14,697,779	$ 14,373,938	$ 13,926,739	$ 12,861,844	$ 70,861,385	-14%
Revenues	$ 3,354,100	$ 3,758,734	$ 5,680,343	$ 4,924,543	$ 4,001,183	$ 21,718,903	19%
Workload Data (as of March 2012)							
Number of Work Orders Processed for City Faciltities	9,483	8,800	7,638	5,013	N/A		-47%
Number of Work Orders on City Facilities Completed	9,709	8,900	7,635	5,366	N/A		-45%

will ultimately cost the City more as building infrastructure deteriorates and more extensive repairs are required.

The City has $185.0 million in deferred capital for facilities based on condition assessments of City buildings completed in FY 2009. Public Works plans to conduct a new assessment for buildings in FY 2014 which will likely show an increase in deferred capital given the level of funds invested in maintenance and repair since FY 2009.

The City's Five-Year Deferred Capital Program, approved by the City Council on March 20, 2012, provides about $13.8 million or 22.0% of the first bond issuance of $75 million for capital facilities projects. Investments made over the five-year period are expected to slow the rate of deterioration.

While much of the attention has been focused on improving City streets, safe, well-maintained libraries, recreation centers, and other City buildings are also important to meet needs of our residents and visiting tourists.

As the economy begins to recover and more funds become available, it is important to recognize the increasing need for addressing deteriorating facilities by making it a priority to provide:

- sufficient resources for Facilities staff to conduct preventative maintenance, and
- bond proceeds or other available funding for facilities' deferred capital projects.

MROs Impact on Facilities

MROs (Maintenance, Repair, and Operation) are competitively bid cooperative agreements with vendors to purchase equipment and supplies. The intent behind these agreements is to increase purchasing efficiencies in ordering and delivery, among other things. The FY 2012 Budget for Facilities included a $255,000 reduction in non-personnel expenditures due to anticipated savings resulting from the purchase of supplies through MROs. However, as we reported in our FY 2012 Mid-Year Budget Review, over-budget projections for supply expenditures is due in part to unrealized savings in some Departments from MROs.

In March 2012, the City Auditor reported that Facilities is paying high price markups for supplies and purchases under MRO agreements. This is because MRO vendors do not directly sell many of the supplies and equipment necessary for Facilities Operations. As a result, General Services reports that the costs of supplies purchased in the first and second quarters of FY 2012 is 20-30% higher than what had been expended in FY 2011 for similar items. Examples include:

- Raypak Pool Heater - The cost from the MRO vendor is $25,704 versus $14,336 from an alternative supplier.
- Vehicle Charger - The cost from the MRO vendor is $131 versus $111 from an alternative vendor.

MRO savings are not included in the FY 2013 Proposed Budget for Facilities, but the Division anticipates that the $1.3 million increase in supplies for FY 2013 could be absorbed by the high-price markups.

Given increasing needs for Facilities maintenance and limited resources, it is important that the Purchasing & Contracting Department expeditiously identify a solution to ensure that Facilities and other City departments impacted by MROs are able to obtain needed supplies and equipment at the most economical price.

Purchasing & Contracting

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Purchasing & Contracting Department is approximately $3.1 million, a decrease of approximately $1.9 million or 38% from the FY 2012 Budget. The department has a net reduction of 9.00 FTE positions from FY 2012. Budgeted revenue for the department is reduced by approximately $364,000 from FY 2012.

Additions

The department adds 1.00 Deputy Director to support the new Department Director and lead key departmental initiatives (i.e., SAP / SRM procurement system implementation) in an effort to improve overall operational effectiveness and efficiency.

In 2011, the City transferred IT procurement activity from SDDPC to the department. This responsibility involves approximately 273 maintenance/software license agreements and 31 service/consultant contracts. There are approximately 143 vendors providing services to 24 City departments and programs. The FY 2013 Proposed Budget adds 1.00 Senior Procurement Specialist and 1.00 Procurement Specialist to assist in reviewing and managing these agreements /contracts.

The Maintenance Repair and Operation (MRO) program was initiated in 2011 to replace the Citywide Open Purchase Order process that was terminated in June 2011. The current MRO program uses five suppliers (tying into multi-State Cooperative Purchasing Agreements) and provides access to a pre-determined market basket of 600

SUMMARY OF PURCHASING & CONTRACTING BUDGET CHANGES	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	39.39	$ 3,704,913	$ 1,313,195	$ 5,018,108	$ 893,550
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		(96,718)		(96,718)	
- Adjustments due to Salary Reductions/Savings/Furlough		51,085		51,085	
Fringe Benefits (incl. Retirement ARC)		4,139		4,139	
Supplies			(7,214)	(7,214)	
Contracts			(38,891)	(38,891)	
Non-Discretionary and Info Technology Adjustments			(950,444)	(950,444)	
Addition of 1.00 Deputy Director	1.00	190514		190,514	
Addition of 2.00 Procurement Specialists (IT Procurement Activity)	2.00	150763		150,763	
Addition of 1.00 Procurement Specialist, 1.00 Contract Processing Clerk (MRO)	2.00	209469		209,469	
Transfer of Contracting Team to Public Works - E&CP Department	(14.00)	(1,409,143)		(1,409,143)	(407,000)
Revised Revenue Projections					42,950
Subtotal	(9.00)	(899,891)	(996,549)	(1,896,440)	(364,050)
Mayor's Fiscal Year 2013 Proposed Budget	**30.39**	**2,805,022**	**316,646**	**3,121,668**	**529,500**
Difference from 2012 to 2013	*(9.00)*	*$ (899,891)*	*$ (996,549)*	*$ (1,896,440)*	*$ (364,050)*

items used across City departments.

Preliminary analysis by the department suggests City staff may require additional training to effectively use the MRO program. Additionally, the market basket of items may need to be thoughtfully expanded to meet the City's needs. To date, anticipated MRO savings have been less than expected and there have been a few instances of unacceptably high mark-ups for non-market basket items sourced through MRO suppliers. In order to assist the department in evaluating and improving the MRO program, 1.00 Procurement Specialist and 1.00 Contracts Processing Clerk have been added to the FY 2013 Proposed Budget.

Reductions

In June of 2011, the COO announced his decision to transfer public works construction and professional architect/engineer contracting responsibilities and resources from the Purchasing & Contracting Department to the Public Works—Engineering & Capital Projects Department. The COO stated that the change would "result in better organizational alignment and will reduce and streamline the contracting process and timeline, resulting in improved capital project delivery".

The Proposed FY 2013 Budget reflects the decision to transfer the Contracting Team to the Engineering & Capital Projects Department. The department's budget shows a transfer out of the 14.00 FTE positions on the Contracting Team ($1,409,143) along with associated NPE ($49,000) and budgeted revenue ($407,000).

In FY 2012, the department received $900,000 of one-time NPE to implement the electronic vendor registration phase of the Supplier Relationship Management (SRM) Module of SAP. These funds have yet to be expended as the department continues to evaluate the City's system needs and SRM capabilities/costs.

The $900,000 of NPE budgeted in the department's FY 2012 operating budget is being transferred to the Information Technology Department's CIP budget in FY 2013. Once the objectives and functionality for SRM implementation have been clarified, the IT Department will work with Purchasing & Contracting staff to effectively expend the $900,000 to develop the SAP / SRM procurement system.

Although the above FTE and NPE reductions are partially offset by the addition of 5.00 FTE positions, these two large transfers out account for the significant reduction in the department's total budget.

Issues to Consider

While $900,000 has been budgeted to implement the electronic vendor registration phase of the SAP/SRM Module in FY 2013, the Assistant COO and CFO have advised the Rules Committee that the cost to fully implement the SAP/SRM Module would be approximately $3 million. The department continues to evaluate whether full SRM implementation will provide the City with the level of functionality it desires.

Recommendation

The Rules Committee has repeatedly expressed interest in successful implementation of an electronic vendor registration system that is SAP integrated, offers a high level of functionality and can help the City meet supplier diversity objectives. Before the final FY 2013 budget is adopted in June, the IBA recommends the Council request the Purchasing & Contracting Department advise them on whether they believe additional funding, beyond the $900,000, will be required in FY 2013. With the benefit of this feedback, the Council may elect to allocate additional funding for this purpose following the release of the May Revise and prior to adoption of the final FY 2013 budget.

QUALCOMM Stadium

Qualcomm Stadium is a special revenue fund that support the daily operations at the stadium. Management of Qualcomm Stadium is provided by the Real Estate Assets Department.

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget includes $16.5 million in total expenditures, which is an increase of approximately $600,000 over the prior year's budget. Additionally, revenue has stayed the same from the prior fiscal year, increasing the deficit the fund operates from approximately $1.0 million in the prior year's budget to $1.6 million in this proposed budget.

The increase in expenditures is due primarily to an increase in contract expenditures to increase maintenance costs to necessary levels for upkeep.

Revenue in the Qualcomm Stadium fund comes from two main sources: revenue generated from the operation of the facility and a transfer of Transient Occupancy Tax (TOT) revenue from the General Fund. Approximately 57.5 percent of the revenue budgeted in the fund comes from the TOT transfer, and the remaining 42.5 percent comes from operation of the stadium. The TOT revenue is used to support debt service on the rehabilitation of the stadium that occurred in 1996 in addition to operating expenses.

Issues to Consider

Qualcomm Stadium continues to operate at a significant deficit without TOT revenue transferred to support operations. This reduces special promotional TOT revenue available to General Fund departments by $8.6 million.

SUMMARY OF QUALCOMM STADIUM BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	37.35	$ 3,208,718	$ 12,730,509	$ 15,939,227	$ 14,916,309
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(0.35)	(18,709)		(18,709)	
Fringe Benefits (incl. Retirement ARC)		62,108		62,108	
Supplies			321,300	321,300	
Contracts			440,187	440,187	
Energy & Utilities			(158,950)	(158,950)	
Other			(49,341)	(49,341)	
				-	
Subtotal	(0.35)	43,399	553,196	596,595	-
Mayor's Fiscal Year 2013 Proposed Budget	**37.00**	**3,252,117**	**13,283,705**	**16,535,822**	**14,916,309**
Difference from 2012 to 2013	*(0.35)*	*$ 43,399*	*$ 553,196*	*$ 596,595*	*$ -*

Real Estate Assets

Mayor's FY 2012 Proposed Adjustments

The Fiscal Year 2013 Proposed Budget for the General Fund portion of the Real Estate Assets Department (READ) is $4.5 million, an increase of approximately $246,000 and increase of 1.00 FTE from the Fiscal Year 2012 Adopted Budget. Revenues are budgeted at approximately $41.0 million, an increase of approximately $1.3 million from FY 2012.

Budget Adjustments

Expenditure adjustments in the General Fund portion of READ include an addition of 1.00 Program Manager position which has an associated personnel expenditure of approximately $179,000. The additional position is being added as a result of the City becoming the successor agency for the former City Redevelopment Agency. The Redevelopment Agency of the City was dissolved in February 2012 per Assembly Bill 1X26. The City is serving as the successor agency per Resolution No. R-307238 and has assumed the former Agency's assets, including multiple properties. The added Program Manager position will manage the additional properties acquired from the Redevelopment Agency.

The FY 2013 Proposed Budget reflects a net increase in revenues of approximately $1.3 million.

The decreases in revenue, totaling approximately $676,000, are related to several terminated leases, market fluctuations affecting rents and concessions, and less services being requested of READ staff per City service level agreements. The primary reduction in requested services is related to the Public Utilities Department.

The increase in revenues, totaling approximately $1.9 million, are related to scheduled rent increases, adjusted projections, and the expiration of rent credits. The pri-

SUMMARY OF READ BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	27.00	$ 2,900,516	$ 1,365,551	$ 4,266,067	$ 39,702,791
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages		14,894		14,894	
Fringe Benefits (incl. Retirement ARC)		39,555		39,555	
Supplies and Contracts			(10,420)	(10,420)	
Non-Discretionary and Info Technology Adjustments			22,894	22,894	
Addition of Program Manager to accommodate acquired properties from RDA	1.00	178,780		178,780	
Revised revenue projections from Pueblo Lands					(98,129)
Revised revenues projections related to Mission Bay Park rents and concessions					721,662
Net revenue adjustment due to various lease and rent adjustments					723,094
Mayor's Fiscal Year 2013 Proposed Budget	**28.00**	**3,133,745**	**1,378,025**	**4,511,770**	**41,049,418**
Difference from 2012 to 2013	*1.00*	*$ 233,229*	*$ 12,474*	*$ 245,703*	*$ 1,346,627*

mary contributor to the increase in revenues are the revised revenue projections related to Mission Bay Park rents and concessions, which accounts for approximately $720,000 in increased revenue.

Concourse & Parking Garage Operating Fund

READ provides management of the rental and use of the Community Concourse facilities (Concourse), as well as management for the Evan V. Jones Parkade parking garage.

The FY 2013 Proposed Budget for the Concourse and Parking Garage Operating Fund is approximately $2.6 million, which reflects a decrease of approximately $149,000 from the FY 2012 Adopted Budget. Revenue projections are budgeted at approximately $2.6 million, a decrease of approximately $263,000 from FY 2012.

Proposed FY 2013 expenditure adjustments include a reduction of $55,000 in expenditures as a result of the closure of the World Trade Center Parking Structure and a reduced amount transferred to the General Fund. The reduction related to the transfer to the General Fund is approximately $105,000. In FY 2012, the transfer to the General Fund was approximately $752,000 while the FY 2013 Proposed Budget is anticipated a transfer of approximately $647,000.

A decrease in anticipated revenue of approximately $263,000 is related to revised revenue projections. The primary contributor to the reduced revenues is anticipated to be reduced revenues from the parking garages, approximately $134,000.

Risk Management

Mayor's FY 2013 Proposed Adjustments

The Risk Management Department manages the City's self-insured Workers' Compensation Program; coordinates public liability and loss control measures; and administers employee health and safety programs, employee benefit contracts, and the City's Long-Term Disability Plan.

The FY 2013 Proposed Budget for Risk Management Administration Fund expenditures totals $9.4 million, an increase of $136,483 from the FY 2012 Budget, and includes 79.44 FTEs. Revenues in the FY 2013 Proposed Budget total $9.7 million.

The FY 2013 changes to the Risk Management Budget include a reduction of approximately $200,000 related to completed or rescheduled IT projects from FY 2012.

Also, there is a $250,000 increase in both revenues and expenditure for the following purpose. Revenues from Flexible Benefits fringe contributions paid by City departments will be transferred to the Risk Administration fund to pay for the City's health benefits consultant, which provides actuarial and brokerage services and assistance with regulatory compliance. These revenues and expenditures were formerly included in a separate fund administered by Risk Management.

Issues to Consider

Contributions to the Risk Management Administration Fund

City departments contribute to the Risk

SUMMARY OF RISK MANAGEMENT ADMINISTRATION CHANGES					
	FTE	**PE**	**NPE**	**Total**	**Revenue**
Fiscal Year 2012 Budget	79.44	$ 7,204,255	$ 2,021,506	$ 9,225,761	$ 9,225,761
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Increase in Contributions from City Departments				-	252,278
Revenue and Expenditures for Health Benefits Consultant			250,000	250,000	250,000
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(42,944)		(42,944)	-
Decrease in Termination Pay		(8,175)		(8,175)	-
Increase in Overtime		35,000		35,000	-
Other Salaries & Wages		10,694		10,694	-
Fringe Benefits (Includes Retirement ARC)		17,284		17,284	-
SAP Support Allocation			38,657	38,657	-
Copier Savings			(14,575)	(14,575)	-
Info Technology Adjustments			37,827	37,827	-
Reduction for Completed/Rescheduled IT Projects			(200,000)	(200,000)	-
Other Adjustments			12,715	12,715	-
Subtotal	-	11,859	124,624	136,483	502,278
Mayor's Fiscal Year 2013 Proposed Budget	**79.44**	**7,216,114**	**2,146,130**	**9,362,244**	**9,728,039**
Difference from 2012 to 2013	-	*$ 11,859*	*$ 124,624*	*$ 136,483*	*$ 502,278*

Management Administration Fund, on a per employee basis, as part of Fringe Benefits. Fringe benefits are non-wage related costs related to personnel, such as Worker' Compensation, Long-Term Disability, the Annual Required Contribution pension payment, Flexible Benefits, and Medicare.

General Fund contributions of $6.7 million comprise approximately 70% of the contributions to the Risk Management Administration Fund, with Non-General Fund departments contributing $2.8 million, or approximately 30%. These contributions make up 97% of the revenues to the Risk Management fund.

Risk Management Administration Fund Balance

In the FY 2013 Proposed Budget the $9.7 million in Risk Management Administration Fund revenues are $365,795 higher than the $9.4 million in expenditures. If this difference occurs in actuality, the higher revenues would increase fund balance. The department had indicated that it intends to pay down the fund's portion of the Net Pension Obligation and Net Other Post Employment Benefit Obligation over the next five years, for which the department would need to increase fund balance.

Note that in FY 2010, accumulated fund balance was used as a one-time budget balancing solution, which permitted contributions to be reduced for all City funds.

Based on the Mid-Year Budget Monitoring Report projections for FY 2012, revenues and expenditures are close to budgeted levels, and fund balance is not currently expected to increase for FY 2012. As with other Internal Service Funds, fund balance is an area that deserves regular monitoring to ensure available resources do not go unnoticed or underutilized.

Workers' Compensation Fund

Estimated costs for Workers' Compensation are based on a three-year average of actual annual payments. Workers' Compensation rates are applied to employees' salaries and reflect a blend of claims cost estimates (which are allocated by job class) and the allocated reserve contribution. The estimated costs are distributed accordingly in the budget system and categorized as Fringe expenditures.

The $27.8 million budgeted in the FY 2013 Proposed Budget for Citywide Fringe payments to the Workers' Compensation fund has increased by $7.6 million, from $20.2 million in the FY 2012 Adopted Budget. This is largely due to the increased funding of $5.9 million for the Workers' Compensation reserve. As part of the budget balancing actions in FY 2012, there was no contribution budgeted for this reserve.

The remainder of the increase in Citywide Fringe payments to the Workers' Compensation fund is $1.7 million, which is due to estimated increased needs for claims funding.

For the General Fund the increased reserve contribution totals $4.9 million, and the increase for claims is $1.6 million. The percent of total Workers' Compensation Fringe costs attributable to the General Fund budget is 83%.

With the FY 2013 total reserve contribution of $5.9 million, the reserve is expected to reach the City's Reserve Policy target for FY 2013 of $40.3 million, or 27% of the value of outstanding Workers' Compensation claims. The overall target of 50% funding of these liabilities is estimated to be achieved in FY 2019.

Long-Term Disability Fund

Estimated costs for Long-Term Disability (LTD) are also based on a three-year average of actual annual payments combined with the annual reserve contribution. A single LTD rate is determined and applied to all employees' salaries. Estimated costs are distributed accordingly in the budget system and categorized as Fringe expenditures.

The $3.9 million budgeted in the FY 2013 Proposed Budget for Citywide Fringe payments to the LTD fund has increased by $500,000, from $3.4 million in the FY 2012 Adopted Budget.

The portion relating to funding the LTD reserve is increasing by $1.3 million, from $600,000 to $1.9 million. Partially offsetting this increase is a $800,000 decrease in funding for FY 2013 LTD expenditures, from $2.8 million in the FY 2012 Budget to $2.0 million for FY 2013.

The $2.9 million General Fund portion of the $3.9 million total LTD Fringe expenditures is categorized as follows: the reserve contribution is budgeted at $1.4 million; and the amount related to FY 2013 LTD expenditures totals $1.5 million. The percent of total LTD Fringe costs attributable to the General Fund budget is 74%.

During our review of the FY 2013 Proposed Budget, the department indicated that current projections for FY 2012 warrant a reduction in the LTD contribution amount paid by City departments. Based on FY 2012 projections, it appears that the $8.1 million reserve target for FY 2012 will be exceeded. Further analysis with the department would be beneficial in making a final determination of the amount. The department has proposed that the FY 2013 Citywide LTD contribution of $3.9 million be reduced by $1.5 million to $2.4 million as part of the May Revision.

The City's Reserve Policy goal for LTD is $12 million, anticipated to be reached by FY 2014. The Reserve Policy also mentions that the City is evaluating the feasibility of purchasing insurance for this benefit instead of continuing the City's self-insurance program.

To accomplish this endeavor, the City will need to prepare to continue to pay existing claims while also funding costs associated with premiums for future insurance coverage. The LTD reserve appears to be the intended source of funds for existing claims. Additionally, further analysis must be done to ensure compliance with the Meyers-Milias-Brown Act, which governs labor-management relations and collective bargaining in California.

Public Liability Fund

The Public Liability fund is supported by transfers from the General Fund, specifically in the Citywide Program Expenditures Department. The FY 2013 Proposed Budget includes $15.1 million to support FY 2013 public liability claims expenditures. This is an increase of $600,000 over the $14.5 million included in the FY 2012 Adopted Budget.

Additionally, $6.1 million in the Citywide Program is budgeted for the Public Liability Fund reserve. As part of the budget balancing actions in FY 2012, there was no contribution budgeted for this reserve.

With the FY 2013 total reserve contribution of $6.1 million, the reserve is expected to reach the City's Reserve Policy target for FY 2013 of $23.2 million, or 19% of the value of outstanding public liability claims. The overall target of 50% funding of these liabilities is estimated to be achieved in FY 2019.

Key Performance Indicators

The performance measure related to Workers' Compensation costs shows a decline from $21.2 million actual expenditures in FY 2011 to $20.0 million for the FY 2012 estimate and FY 2013 target. The estimates were based on projections early in the budget process and the department has indicated they will be adjusted as part of the May Revision, showing a modest increases for FY 2012 and FY 2013.

Special Promotional Programs

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for Special Promotional Programs is $73.3 million, an increase of approximately $5.2 million from the FY 2012 Adopted Budget. This increase is due to projected growth in transient occupancy tax revenue (TOT), as discussed in the section on General Fund revenue.

Per the San Diego Municipal Code, 5.0 cents of the City's 10.5-cent TOT levy are deposited into the TOT Fund, and allocated for various purposes via the Special Promotional Programs budget. Of the 5.0 cents deposited into the TOT Fund, the Municipal Code requires that 4.0 cents be used solely for the purpose of promoting the City, while the remaining 1.0 cent can be used for any purpose as directed by the City Council.

Change in Transfers to Reduce Fund Balance

The FY 2013 TOT allocation to the PETCO Park Fund is $4.2 million, a decrease of $640,000 from the FY 2012 Adopted

SUMMARY OF SPECIAL PROMOTIONAL PROGRAMS BUDGET	FY 2012 ADOPTED	FY 2013 PROPOSED	CHANGE
REVENUE			
Transient Occupancy Tax (5.0%)	$ 67,988,329	$ 73,149,016	$ 5,160,687
Special Events Revenue	150,000	150,000	-
TOTAL REVENUE	**$ 68,138,329**	**$ 73,299,016**	**$ 5,160,687**
ALLOCATIONS			
Arts & Culture	$ 7,291,683	$ 7,375,808	$ 84,125
Capital Improvements	16,016,269	15,328,873	(687,396)
Balboa/MB Park Improvements	*1,093,319*	*1,600,000*	*506,681*
Convention Center Phase II	*9,200,688*	*8,697,275*	*(503,413)*
Qualcomm	*4,797,262*	*4,752,882*	*(44,380)*
Trolley Extension	*925,000*	*278,716*	*(646,284)*
Economic Development	1,806,450	1,805,000	(1,450)
Balboa Park Centennial	150,000	150,000	0
Operating Support	14,463,841	13,562,722	(901,119)
Balboa/Mission Bay Park	*415,888*	*0*	*(415,888)*
Convention Center	*4,834,612*	*4,852,725*	*18,113*
PETCO Park O&M	*4,840,000*	*4,200,000*	*(640,000)*
Qualcomm	*3,782,738*	*3,827,118*	*44,380*
Special Events	*590,603*	*682,879*	*92,276*
Discretionary TOT to GF	13,377,666	14,395,303	1,017,637
GF Promotional-Related	15,032,420	20,681,310	5,648,890
TOTAL ALLOCATIONS	**$ 68,138,329**	**$ 73,299,016**	**$ 5,160,687**

Budget. This allocation is for the City's share of park operations and maintenance expenses under the Joint Use & Management Agreement. Debt service on the PETCO Park Bonds continues to be paid by the Redevelopment Agency pursuant to a Cooperation Agreement. The decline in the annual transfer from FY 2012 was projected to reduce the excess PETCO Park fund balance of $1.1 million. However, based on the projected operating surplus for the fund in FY 2013, the fund balance is projected to remain unchanged.

Additionally, the transfer to the trolley extension reserve fund was decreased from FY 2012 Adopted Budget levels by approximately $650,000 to reduce an accumulation of fund balance.

Transfer to Convention Center

The transfer to the convention center expansion and facility funds has been reduced by $485,000 due to a reduction in debt service lease payments. The convention center expansion bonds, which TOT helps to support was refunded to achieve a more beneficial interest rate, which reduced the overall debt service payment by approximately $500,000 as compared to the FY 2012 Adopted Budget.

Discretionary TOT to the General Fund

In addition to the 5.5 cent General Fund TOT addressed in the major revenues section of this report, the General Fund receives 1.0 cent of additional TOT revenue as a discretionary transfer. Due to the sizeable increase in the total 10.5 cent TOT projection, the discretionary TOT transfer to the General Fund has increased $1.0 million from the FY 2012 Adopted Budget. These funds are used to support overall operating expenditures for the General Fund.

Mayor & Council Discretionary Funds

The total amount of Mayor & City Council discretionary funds are increasing from $220,000 in the FY 2012 Adopted Budget to $234,500 in the FY 2013 Proposed Budget. The increase of $14,500 is the prorated increase for the implementation of Council District 9 (CD9) in FY 2013. This amount will then be increased in FY 2014 to a full $25,000 of funding for discretionary funds for CD9.

Mission Bay / Balboa Park Fund

The FY 2013 Proposed TOT allocation for the Mission Bay / Balboa Park Fund is $1.6 million, an increase of approximately $91,000 from the FY 2012 Adopted Budget. The increase in the proposed budget is due to an increase in debt service expense.

Arts & Culture Funding

The FY 2013 Proposed TOT allocation for Arts & Culture is $7.4 million, an increase of approximately $84,000 over FY 2012. The Proposed Budget includes $941,308 for the Commission for Arts and Culture Department; $6.2 million in grant fund for arts and cultural programs, activities and festivals; and $234,500 in funding for Mayor and City Council allocations.

The Commission for Arts and Culture Department budget represents an increase of approximately $70,000. This is primarily related to a $50,000 increase in workshop expenses and grant match requirements. An increase of $50,000 is budgeted separately within the Public Art Fund for artwork care and conservation.

The Arts & Culture Commission is requesting a 5.0% increase in the arts and culture allocation of $6.2 million included in the FY 2013 Proposed Budget. This increase would equate to $310,000. This 5.0% increase is intended to reflect the projected growth in TOT revenues that is assumed in the FY 2013 Proposed Budget.

General Fund "Promotion-Related" Expenditures

In FY 2009, the City began allocating TOT revenues for promotion-related expenses within the General Fund, such as maintenance of parks and facilities in frequently visited areas. In this manner, the City was able to comply with the Municipal Code requirement for promotional funding while still benefitting the General Fund.

Over the past several years this practice has been continued and expanded. In FY 2013, TOT allocations for General Fund promotion-related expenditures total $20.7 million, an increase of $5.6 million from FY 2012. The majority of this funding is allocated to the Park and Recreation Department, as reflected in the table below.

As the IBA has noted in the past, the Municipal Code does not currently define what constitutes promotion for purposes of TOT funding. While certain General Fund expenditures would seem to have a clear nexus with promoting the City, the current practice may be open to interpretation without any guiding definition.

If this practice is anticipated to be continued in the future as TOT revenue grows, we recommend that the Municipal Code be amended to define what constitutes promotion, or to reduce the amount of TOT funding that is required to be used for promotion.

Issues to Consider

Transient Occupancy Fund Balance

In FY 2012, it is projected that the TOT Fund will conclude the year with a fund balance of $10.7 million that will carry over to FY 2013. Through our office's discussion with Financial Management, we have been informed that this substantial fund balance is due to FY 2011 TOT collections exceeding budget that were not reallocated out to special promotional programs and expenses during the fiscal year (due to a delay in the City's comprehensive annual financial reports), which is the cur-

General Fund Promotion-Related Funding

General Fund Department	FY 2012 ADOPTED	FY 2013 PROPOSED	CHANGE
Park & Recreation	$ 13,190,220	$ 18,644,110	$ 5,453,890
Facilities Division	700,000	700,000	-
Street Division	400,000	400,000	-
Development Services	133,200	332,200	199,000
Office of the Mayor	149,000	180,000	31,000
TOT Admin / Various	460,000	425,000	(35,000)
TOTAL	**$ 15,032,420**	**$ 20,681,310**	**$5,648,890**

rent practice. Financial Management has expressed that this available funding will be kept in the TOT Fund balance and utilized for any future unanticipated obligations that may come up in FY 2012 or FY 2013. Council Policy 100-03 and the FY 2012 Adopted Budget Appropriations Ordinance, limits the use of TOT Fund revenue to tourism and promotions related expenses. Within these limits, the TOT Fund balance can be utilized to offset General Fund obligations that are related to tourism and promoting the City. Given the size of this fund balance, we recommend that City Council request further clarification from staff as to:

- Why this fund balance was not allocated out to eligible operations for FY 2013
- What uses are planned for this fund balance
- What the process will be for identifying and approving expenditures during the next fiscal year

TransNet

TransNet revenues are provided by a one-half cent increase to local sales tax to be used for transportation improvements that relieve congestion, increase safety, and improve air quality. The City's share of this revenue is based on population and the number of local streets and miles maintained (about 2,800 miles of streets).

Restrictions on the use of TransNet funds require that at least 70% be used for capital improvements, including construction of new or expanded facilities and major rehabilitation or reconstruction of roadways. The maximum allowed for street maintenance is 30%.

Mayor's FY 2013 Proposed Adjustments

TransNet funds are primarily utilized by the Transportation & Storm Water (TSW) Department and so the Administration for TransNet, including 4.00 FTEs and $420,635 in expenditures, is being transferred from Public Works—Engineering & Capital Projects (E&CP) to TSW in FY 2013

The FY 2013 Proposed Budget includes $9.5 million in total expenditures for TransNet, a decrease of $5.2 million or 35.3% since FY 2012. The decrease is primarily attributable to the $6.1 million adjustment to the TransNet/ARRA (American Recovery and Reinvestment Act of 2009) Exchange Fund to reflect the removal of one-time revenues and expenditures that were implemented in FY 2012.

Note that the City did not allocate TransNet/ARRA funds for resurfacing in FY 2010, but placed the maximum amount allowable under the TransNet ordinance—$6.1 million—in reserve in case the State of California eliminated Gasoline Tax Funds. The TransNet/ARRA funds were intended to be expended for street operations and maintenance in FY 2011, but the projects were not conducted until FY 2012 due to contracting delays. TSW staff report that these delays have been resolved.

SUMMARY OF CHANGES IN TRANSNET EXPENDITURES AND REVENUE BY FUND

	FY2012	FY 2013	CHANGE	PERCENTAGE
Expenditures				
TransNet/ARRA Exchange Fund	$ 6,050,400	$ -	$ (6,050,400)	-100.0%
TransNetExtention Administration & Debt Fund	$ 243,922	$ 271,352	$ 27,430	11.2%
TransNet Expension Congestion Relief Fund	1,200,000	1,200,000	$ -	0.0%
TransNet Extension Maintenance Fund	$ 7,244,493	$ 8,059,163	$ 814,670	11.2%
Total Expenditures	**$ 14,738,815**	**$ 9,530,515**	**$ (5,208,300)**	**-35.3%**
Revenue				
TransNet/ARRA Exchange Fund	$ 6,050,400	$ -	$ (6,050,400)	-100.0%
TransNetExtention Administration & Debt Fund	$ 243,922	$ 271,352	$ 27,430	11.2%
TransNet Expension Congestion Relief Fund	16,903,818	18,804,714	$ 1,900,896	11.2%
TransNet Extension Maintenance Fund	$ 7,244,493	$ 8,059,163	$ 814,670	11.2%
Total Revenue	**$ 30,442,633**	**$ 27,135,229**	**$ (3,307,404)**	**-10.9%**

The FY 2013 Budget also includes adjustments to TransNet allocations due to the projected increase of TransNet revenue:

- $1.9 million increase in the TransNet Congestion Relief Fund which primarily affects Transportation & Storm Water – Congestion Relief (Transportation Engineering Operations Division).
- $814,670 increase in the TransNet Extension Maintenance Fund which impacts TSW Street Maintenance (Street Division).

Transportation & Storm Water

Transportation & Storm Water (TSW) is responsible for the operation and maintenance of streets, sidewalks, and storm drains, and plans and coordinates work in the City's right-of-way. The Department also performs traffic and transportation engineering and leads efforts to protect and improve water quality of rivers, creeks, bays, and the ocean. To accomplish these missions, TSW has four divisions:

- Administration & Right-of-Way
- Storm Water
- Street
- Transportation Engineering Operations (TEO)

In addition to the General Fund, the Department receives both operating and Capital Improvement Program (CIP) funds from various sources, including the Prop 42 Replacement - Transportation Relief Fund, Underground Surcharge Fund, Gasoline Tax, TransNet, and the Storm Drain Fund.

Mayor's FY 2013 Proposed Adjustments

The FY 2013 Proposed Budget for the Transportation and Storm Water Department is $149.6 million, a decrease of $23.9 million or 14.0% from FY 2012. The FY 2013 Proposed Budget also includes a net reduction of 3.12 positions.

The FY 2013 Budget includes a 33.7% or $15.7 million decrease in contracts from FY 2012. The Proposed Budget also includes about $113.1 million in total reve-

SUMMARY OF TSW BUDGET CHANGES	FTE	PE	NPE	Total	Revenue
Fiscal Year 2012 Budget	443.68	$ 38,670,439	$ 134,848,383	$ 173,518,822	$ 125,136,227
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Salaries & Wages	(1.12)	$ (360,699)	$ -	$ (360,699)	$ -
Savings from Managed Competition and Copier Contract	(9.00)	(666,909)	45,062	(621,847)	
Transfer ofTransNet Administration	4.00	420,635	-	420,635	148,922
Addition of Parking Enforcement Officers	2.00	141,695	65,500	207,195	207,195
Addition of Civil Engineer to Support Deferred Capital Program	1.00	100,227	-	100,227	100,227
Adjustments for Overtime		450,000	-	450,000	
Fringe Benefits (incl. Retirement ARC)		382,758	-	382,758	
Non-Personnel Expenditures			3,252,682	3,252,682	
Supplies			1,170,212	1,170,212	
Contracts			(15,689,666)	(15,689,666)	
Non-Discretionary and Info Technology			(281,432)	(281,432)	
Energy and Utilities			1,815,968	1,815,968	
Transfer to CIP to Support Regional Water Quality Control Reqts			1,550,000	1,550,000	
One -Time Reductions and Annualizations			(12,224,096)	(12,224,096)	(17,850,400)
Deferred Capital Debt Service Transfer			(4,078,812)	(4,078,812)	
Revised Revenue			-	-	5,377,977
Subtotal	(3.12)	$ 467,707	$ (24,374,582)	$ (23,906,875)	$ (12,016,079)
Mayor's Fiscal Year 2013 Proposed Budget	**440.56**	**$ 39,138,146**	**$110,473,801**	**$ 149,611,947**	**$ 113,120,148**
Difference from 2012 to 2013	*(3.12)*	*$ 467,707*	*$ (24,374,582)*	*$ (23,906,875)*	*$ (12,016,079)*

SUMMARY OF CHANGES IN TSW GENERAL FUND EXPENDITURES				
	FY2012	FY 2013	DOLLAR	PERCENTAGE
Personnel				
Salaries and Wages	$ 23,171,203	$ 23,228,817	$ 57,614	0.2%
Fringe Benefits	15,260,654	15,643,412	382,758	2.5%
Personnel Subtotal	**$ 38,431,857**	**$ 38,872,229**	**$ 440,372**	**1.1%**
Non-Personnel				
Supplies	3,649,969	4,820,181	1,170,212	32.1%
Contracts	43,228,882	27,539,216	(15,689,666)	-36.3%
Information Technology	1,074,179	1,065,632	(8,547)	-0.8%
Energy and Utilities	5,053,151	6,869,119	1,815,968	35.9%
Other	338,225	356,704	18,479	5.5%
Transfers Out	5,922,121	3,255,154	(2,666,967)	-45.0%
Capital Expenditures	289,668	289,668	-	0.0%
Debt	1,526,066	1,865,767	339,701	22.3%
Non-Personnel Subtotal	**$ 61,082,261**	**$ 46,061,441**	**$ (15,020,820)**	**-24.6%**
Total	**$ 99,514,118**	**$ 84,933,670**	**$ (14,580,448)**	**-14.7%**

nue, a $112.0 million or 9.6% decrease since FY 2012.

Decreases in both expenditures and revenues are primarily attributed to two one-time adjustments made to the FY 2012 budget for Street projects that will not be included in FY 2013:

- $11.8 million in for Gas Tax funding not spent in FY 2011 and re-budgeted for street work in FY 2012, and
- $6.1 million increase in TransNet and ARRA (American Reinvestment and Recovery Act of 2009) revenue to reimburse streets-related maintenance.

The FY 2013 Budget also includes a 35.9% increase of $1.9 million in energy and utilities expenditures from the prior fiscal year. Fleet Services reduced usage fees as a result of Managed Competition, but fuel expense was not included. Beginning in FY 2013, fuel is no longer included in the usage fee, and TSW will be directly billed.

TSW requested $900,000 in additional overtime for Street and Storm Water staff for FY 2013 to more accurately reflect his-

SUMMARY OF CHANGES IN TSW REVENUES BY FUND				
	FY2012	FY 2013	DOLLAR	PERCENTAGE
General Fund	$ 12,279,921	$ 15,065,769	$ 2,785,848	22.7%
(Other Funds included in Charges for Services and Transfers In)				
Gas Tax	31,776,821	18,735,193	(13,041,628)	-41.0%
TransNet	14,494,893	9,259,163	(5,235,730)	-36.1%
Storm Drain Fund	5,981,746	5,381,746	(600,000)	-10.0%
Subtotal General Fund	$ 64,533,381	$ 48,441,871	$ (16,091,510)	-24.9%
Non-General Fund				
Prop 42 Replacement - Transportation Relief Fund	15,248,190	15,248,190	-	0.0%
Undergroung Surcharge Fund	45,354,656	49,430,087	4,075,431	9.0%
Subtotal Non-General Fund	$ 60,602,846	$ 64,678,277	$ 4,075,431	6.7%
Total Revenue	**$ 125,136,227**	**$ 113,120,148**	**(12,016,079)**	**-9.6%**

SUMMARY OF CHANGES IN TSW CIP BY PROJECT TYPE				
	FY2012	FY 2013	CHANGE	PERCENTAGE
Transportation (Street and TEO)	$ 35,111,076	$ 19,836,364	$ (15,274,712)	-43.5%
Flood Control (Storm Water)	-	-	$ -	-
Drainage	2,124,918	3,533,350	$ 1,408,432	66.3%
Total CIP	**$ 37,235,994**	**$ 23,369,714**	**$(13,866,280)**	**-37.2%**

torical expenditures. The Proposed Budget includes half of this amount. Staff reported that overtime that exceeds the budgeted amounts will be funded by additional vacancies.

CIP Budget

TSW's FY 2013 CIP budget is about $22.8 million or 10.2% of the City's total CIP budget. This represents a decrease of $14.5 million or 38.2% from the FY 2012 Adopted Budget. The decrease for FY 2013 is because TSW anticipates receiving an additional $48.9 million for deferred capital projects as part of the Second Deferred Capital Bond issuance. The City Council approved this bond issuance and amended the FY 2012 CIP Budget to include $75.0 million in bond funds on April 9, 2012. Debt Management anticipates that bond proceeds will be received in early July 2012.

Administration and Right-of-Way Coordination

The Administration and Right-of-Way Division is responsible for right-of-way planning, control, and coordination between City departments, franchise utilities, developers, and other private entities that perform work in the public right of way. The Division also plans and manages the Utilities Undergrounding Program, which is funded through the Underground Surcharge Fund.

Changes to Budget

For FY 2013, the Proposed Budget for Administration and Right-of-Way totals about $1.3 million and includes 10.00 FTEs. The FY 2013 budget represents an increase of $596,925 or 86 percent and 4.00 FTEs from FY 2012.

SUMMARY OF TSW BUDGET CHANGES BY FUND AND DIVISION						
	FY2012 FTE	FY 2013 FTE	CHANGE	FY 2012 $	FY 2013 $	CHANGE
General Fund						
Administration & Right of Way	6.00	10.00	4.00	$ 696,972	$ 1,293,897	$ 596,925
Storm Water	118.68	111.56	(7.12)	33,790,451	33,787,656	(2,795)
Street	257.00	258.00	1.00	55,982,613	41,136,611	(14,846,002)
Transportation Engineering Operations	60.00	59.00	(1.00)	9,044,082	8,715,506	(328,576)
Subtotal General Fund	441.68	438.56	(3.12)	$ 99,514,118	$ 84,933,670	$ (14,580,448)
Non-General Fund						
Prop 42 Replacement - Transportation Relief	-	-	-	15,248,190	15,248,190	-
Underground Surcharge Fund	2.00	2.00	-	58,756,514	49,430,087	(9,326,427)
Subtotal Non-General Fund	2.00	2.00	-	$ 74,004,704	$ 64,678,277	$ (9,326,427)
TOTAL TSW	**443.68**	**440.56**	**(3.12)**	**$173,518,822**	**$149,611,947**	**$(23,906,875)**

The increase is largely due to the restructure of TransNet Administration from Public Works – Engineering & Capital Projects to TSW and includes revenue of $148,942.

Storm Water

The Storm Water Division leads the City's efforts to protect and improve the quality of rivers, creeks, bays, and the ocean. A large part of the Division's efforts are conducted to ensure compliance with the Municipal Storm Water Permit and other surface water quality regulations issued by the State of California.

Changes to Budget

The FY 2013 Proposed Budget for Storm Water totals about $33.8 million, remaining relatively stable from FY 2012. The FY 2013 Budget also includes a net reduction of 7.12 FTEs. This is largely due to streamlining resulting from the Managed Competition for street sweeping services, including:

- a reduction of 9.00 Motor Sweeper Operator positions; and
- savings of $666,909 in personnel and related non-personnel expenditure (including equipment and landfill fees).

The department reports that 6.00 of the 9.00 positions are currently vacant. In previous budgets, a proposed decrease in street sweeping frequency was a concern for the Maintenance of Effort requirement for TransNet funding. But TSW staff report that the Division will meet Maintenance of Effort requirements because the Pre-Competition Assessment requires that street sweeping service levels must be maintained at pre-managed competition levels despite any staff reductions.

Storm Water's reduction in FTE's is slightly offset by the addition of 2.00 Parking Enforcement Officer positions, including annual personnel expenditures of $141,695 and a one-time non-personnel expense of $65,500 for two scooters. The 2.00 position are needed to improve enforcement of posted street sweeping routes and assist in clearing vehicles so that sweepers can access the curb line.

The FY 2013 Proposed Budget includes an increase of approximately $2.2 million for parking citation revenue associated with the Division's street sweeping efforts. This increase is related to the enhanced tracking of citation revenue, resulting in more accurate allocation to TSW rather than to the Police Department's budget. This increase also includes the reimbursement of $207,195 for the two additional Parking Enforcement Officers previously discussed.

Storm Drain Fund revenue was decreased in the FY 2013 budget by $600,000 due to the City's ongoing efforts to conserve water, which has resulted in the decline of related fees over the past two years.

CIP Budget

Storm Water's CIP includes projects to:

- comply with requirements for the Municipal Storm Water Permit, and
- replace aged and deteriorating storm drain pipes and other infrastructure as part of the Deferred Capital program.

The FY 2013 Proposed Budget for the Storm Water's CIP is $3.5 million, which is an increase of $1.4 million from FY 2012. This is primarily due to the transfer of approximately $1.5 million to comply with a newly adopted permit associated with the Bacteria Total Maximum Daily Load (TMDL) requirements.

For FY 2013, $2.8 million is allocated for Best Management Practices for watershed projects done annually to remove pollutants from storm water before it enters public waterways. These projects satisfy watershed-based water quality activity requirements outlined in the Municipal Storm Water Permit. Additionally, $723,000 has been allotted for drainage projects.

TSW anticipates an additional $37.7 million for storm drain projects before the end of FY 2012 from the Second Deferred Capital Bond issuance.

Key Performance Measures

Performance measure targets for FY 2013 are expected to remain consistent with the FY 2012 levels, with the exception of the amount of storm drain pipes that are cleaned annually. The FY 2013 level for this measure is expected to decrease in comparison to FY 2012 due to the FY 2012 level being much higher than usual. This is due to the Division shifting its resources to clean additional storm drain pipes while environmental concerns prohibit the City from working on storm drain channels.

For the first time the FY 2013 Budget includes Managed Competition performance measures for the division's street sweeping services as requested by the City Council.

Street

Street Division maintains and repairs all streets, alleys, sidewalks, bridges, guardrails and fences. This includes administering annual resurfacing and slurry seal contracts; performing traffic lane striping; and painting and removing traffic markings and legends. Street Division also maintains and repairs street lights and traffic signals, signs and street trees.

In addition to the General Fund, Street Division receives funds for operation and maintenance from other sources, including:

- Prop 42 Replacement—Transportation Relief Fund;
- TransNet, and
- Gasoline Tax.

Changes to Budget

The FY 2013 Proposed Budget for the Street Division includes 258.00 FTEs, a net increase of 1.00 FTE over FY 2012. The budget also includes about $41.1 million in expenditures, a decrease of about $14.8 million from FY 2012. FY 2013 projected revenues for Street Division, including transfers in and charges for services to other City departments, have also decreased over the FY 2012 budget by about $18.2 million or 38.0%.

As discussed earlier in this section, the decreases are primarily attributed to two one-time adjustments for Gas Tax and TransNet/ARRA funds made to the FY 2012 budget that will not be included in FY 2013.

PLANNED RESURFACING BY FUNDING SOURCE				
	FY 2012 $	FY 2012 MILES	FY 2013 $	FY 2013 MILES
Slurry Seal				
Prop 42	$3,448,190	32	$15,248,190	145
Asphalt Overlay				
Gas Tax	11,800,000	23	-	-
TransNet	13,377,060	26	-	-
Second Deferred Capital Bond	30,568,000	62	-	-
Anticipated Portion of General Fund Surplus	-	-	2,290,000	4
Anticipated Third Deferred Capital Bond	-	-	41,793,868	83
TOTAL	**$59,193,250**	**143**	**$ 59,332,058**	**232**

Street Resurfacing Program

The Street Division's resurfacing program for asphalt streets includes two primary treatments:

- **Slurry Seal** - An application of a thin layer of up to one-quarter inch thick seal coat treatment used to preserve the state of asphalt in good condition. Slurry sealing is considered to be maintenance, funded from the Operating Budget, and recommended to be applied at years 7 and 14.
- **Asphalt Overlay** - The placement of a new layer of asphalt at a thickness of 1-3 inches over an old worn out street surface. Overlay is considered to be a capital project, funded from the CIP budget, and generally applied at year 21.

Budgeting for the resurfacing program includes various funding sources, many of which have restrictions on their use. For example, TransNet requires that no more than 30.0% of revenues for local streets and roads be used for maintenance purposes, such as slurry seal. When budgeting for resurfacing, Street Division staff estimate "funded miles" based on level of funding as shown in the table above.

Funded miles represent a rough estimate based on a rule of thumb of about $100,000 per mile for slurry seal and $500,000 per mile for overlay. This is not equivalent to actual miles completed (which are shown in the figure on the next page). Actual miles completed will depend on many variables, including the condition of the roadway and whether projects are completed within the fiscal year.

Planned resurfacing for FY 2012 includes about $30.6 million of the Second Deferred Capital Bond (2012) issuance for asphalt overlay projects. Anticipated funds from these bonds and planned projects were included as an amendment to the FY 2012 CIP Budget on April 9, 2012. Debt Management anticipates that the bonds will be priced in June 2012 and proceeds received in early July 2012. This will allow projects to begin about two months earlier than if they had been included in the FY 2013 CIP Budget.

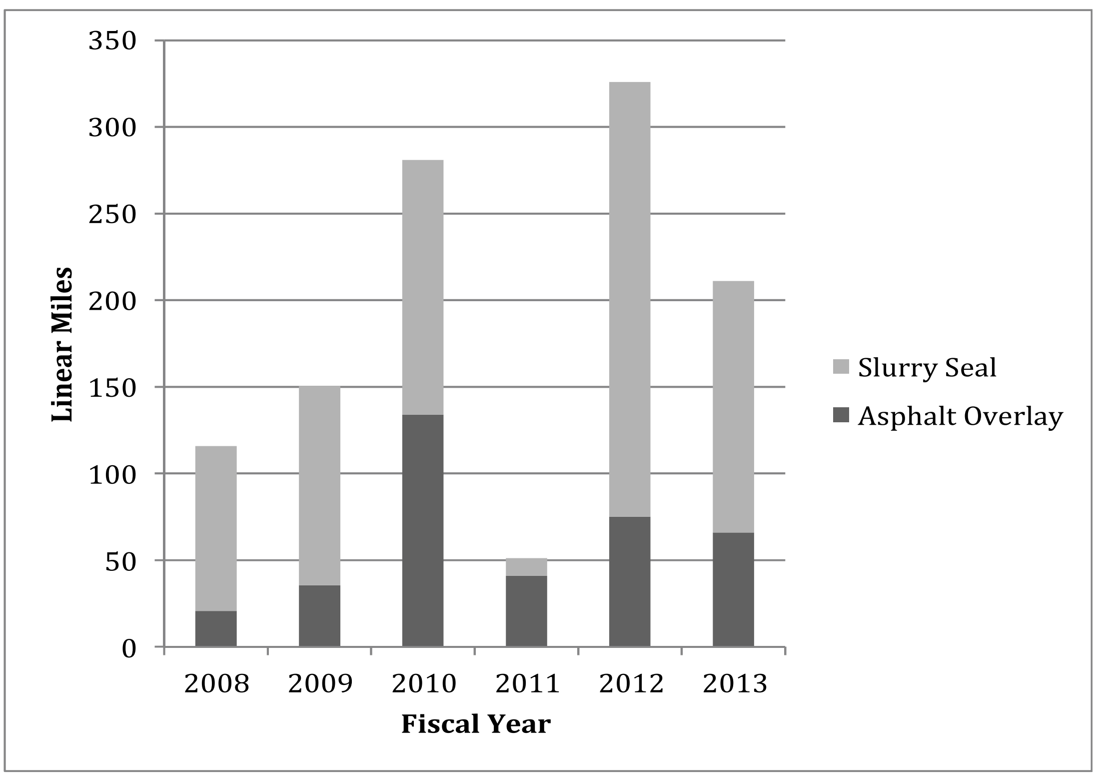
For FY 2013, the Street Division anticipates receiving about $2.3 million from the FY 2012 Mid-Year revenue fund surplus. The surplus funds have not been included in the FY 2013 Proposed Budget, but the Mayor's Office has indicated that they will address this matter in the May Revision after they have had an opportunity to reaffirm the surplus amount.

Planned resurfacing for FY 2013 also includes about $41.8 million from the anticipated Third Deferred Capital Bond Issuance (FY 2013) which is included in the Five-Year Funding Plan for Deferred Capital. This plan was approved by the City Council on March 20, 2012.

The figure below shows actual linear miles completed for FY 2009-2011 and estimates of actual miles to be completed in FY 2012-2013. Although FY 2013 represents a 28.8% decrease over FY 2012, this is largely due to resurfacing that was originally scheduled for prior years not being conducted until FY 2012. The delay was primarily cause by contracting issues which have been resolved.

To prioritize and select streets to be resurfaced, Street Division uses its computerized Pavement Management System. This system stores current and historical data on the overall condition of streets, such as potholes and cracking and information about ride quality. The software determines the best method to maintain each section of street and analyzes the entire City street network to find the most cost effective plan given specific budgetary constraints.

The new Council Policy on transparency (Capital Improvement Program Transparency , 000-31) requires that the list of streets that will be resurfaced each year be



provided in budget documents. The FY 2013 Proposed CIP Budget includes planned resurfacing contracts to be awarded in FY 2013, and Street Division will provide alignment (specific streets) by the May 3rd budget discussion. In addition, at a later date, the resurfacing projects will be posted on the CIP website.

Transportation Engineering Operations

The Transportation Engineering Operations (TEO) Division serves as the asset manager of the City's roadway infrastructure within the public right of way. These responsibilities include performing operational functions for the City's transportation systems and planning and programming CIP projects.

Changes to Budget

The FY 2013 Proposed Budget for the TEO Division is relatively stable over FY 2012. Expenditures total about $8.7 million, a decrease of $328,576 or 4.0 percent from FY 2012. TEO's budget also includes 59.00 FTEs—1.00 less than last fiscal year. Budgeted revenues are $8.1 million, about 1.0% higher than FY 2012. Changes in revenues are due to increases in Pedicab Permits of $74,773.

TSW Departmental Issues for Consideration

Storm Water Permit Requirements

Complying with requirements for the Municipal Storm Water Permit is becoming an increasing challenge for the City. Since the program was established, storm water regulations under the permit continue to be significantly revised and expanded. The current permit, which must be renewed every five years, will expire in 2012 and a new permit will be adopted in December 2012.

After adoption of the new permit, the City will have a year to make changes in order to meet new requirements. These new requirements and mandates will likely have an impact on the FY 2014 Budget.

Although the Storm Water Division requested an addition of 1.00 FTE for an Assistant Civil Engineer, and it was not received, staff believe that the FY 2013 budget will allow the City to remain in compliance with the Municipal Storm Water Permit and the newly adopted requirements associated with Bacteria Total Maximum Daily Load (TMDL). However, costs of complying with storm water regulations set forth in the Municipal Storm Water Permit effective in FY 2014 may increase, along with project needs for compliance with TMDLS. Both issues may place greater strains on the General Fund in FY 2014.

Other cities that have failed to comply with permits are under a consent decree with the U.S. Environmental Protection Agency to complete specific projects and annually report progress. To prevent such legal actions for Storm Water, the City may need to provide additional resources in FY 2014 to comply with upcoming, more stringent requirements.

Impact of Vacancies and Retirements

As noted in our office's FY 2012 Mid-Year Budget Monitoring Report, TSW continues to have a high number of vacancies. The

Department currently has 66 vacant positions which is 15.5% of total FTEs in the FY 2013 Proposed Budget. This includes:

- 42 in the Street Division,
- 12 in Storm water, and
- 12 in TEO.

Although staff reported that their ability to shift resources enables them to maintain service levels, vacancies will continue to be a challenge in FY 2013.

Managed Competition

TSW will have four functions in various stages of Managed Competition in FY 2013. While the purpose of Managed Competition is to streamline operations and identify savings, having four ongoing could divert TSW staff time and energy from mission-related responsibilities.

- Street Sweeping Services are currently in Meet & Confer. Estimated savings of $666,909 for FY 2013 have been incorporated into the FY 2013 Proposed Budget, but this amount will not be finalized until Meet & Confer is complete. TSW staff reported that if Meet & Confer is not completed by July 1, 2012, then savings will need to be prorated.
- Street & Sidewalk Maintenance is currently undergoing the process, and a Request for Proposals is expected to be released by the end of April 2012.
- Storm Water Facilities Operations and Traffic Engineering & Operations are the two most recent functions for Managed Competition, added by the Mayor in February 2012. Their Pre-Competition Assessments will undergo development in FY 2013.

Street Division Tree Maintenance Services

As part of corrective actions to mitigate the projected FY 2011 and FY 2012 budget deficits, the Mayor's Office eliminated Street Division's services related to trimming trees impacting the public right-of-way. In FY 2011, $200,000 budgeted for partial shade tree trimming was eliminated, and in FY 2012, $300,000 budgeted for partial palm tree trimming was eliminated. Full restoration of these services would be about $2.4 million annually, including about:

- $1.0 million to have all 32,000 palm trees trimmed every year, and
- $1.4 million to trim all 28,000 shade trees every seven years.

Restoration of tree maintenance has been a City Council budget priority due to the potential public safety hazard of untrimmed trees in the public right-of-way.

Other Departments

Airports

The FY 2013 Proposed Budget for the Airports Division is approximately $5.9 million, an increase of approximately $1.1 million from the FY 2012 Adopted Budget. The increase primarily reflects $1.2 million in additional operational maintenance projects. These projects are considered operational in nature as they do not extend the life of an existing capital asset. Additionally, the FY 2013 Proposed Budget includes $150,000 for the maintenance of facilities, runways, and taxiways at Montgomery Field and Brown Field Airports. The increase in expenditures is partially offset by an increase of approximately $214,000 in revenues primarily related to leasing revenues.

Ethics Commission

The FY 2013 Proposed Budget for the Ethics Commission is $923,641, a 1% increase from FY 2012. Adjustments to the Ethics Commission's FY 2013 Budget include a net $1,142 increase to personnel expenses and a net $7,529 increase to non-personnel expenses.

In addition, the Proposed Budget makes permanent the reallocation of existing personnel budget for the full-time General Counsel position to non-personnel professional services for a net zero impact to the General Fund. The $207,142 in reallocated funds will be used to pay for a part-time General Counsel, as well as hearing and enforcement related costs including attorneys, administrative law judges, and court reporters.

Office of the Assistant COO

The FY 2013 Proposed Budget for the Office of the Assistant COO is $313,872, a $2,668 increase from FY 2012. No position changes have been made to this office. The FY 2013 Proposed Budget includes a $778 increase in Fringe Benefits and a $1,890 increase in non-discretionary expenses.

Office of the IBA

The FY 2013 Proposed Budget for the Office of the IBA is $1.7 million a $10,766 or less than 1% increase from FY 2012. No position changes have been made to this office. The FY 2013 Proposed Budget includes a net $10,993 increase in Salary and Fringe Benefits and a $227 decrease in Non-Personnel expenses.

Office of the COO

The FY 2013 Proposed Budget for the Office of the COO is $536,975, a $3,019 decrease from FY 2012. No position changes have been made to this office. The FY 2013 Proposed Budget includes a $1,279 increase in Fringe Benefits and a $4,298 decrease in non-discretionary expenses.

Office of Homeland Security

The FY 2013 Proposed Budget for the Office of Homeland Security is approximately $1.7 million, a $127,339 decrease from 2012. The Office has 13.39 FTE positions budgeted in FY 2013.

Budget additions totaling approximately $76,000 relate to information technology increases, the replacement of Emergency Operations Center video teleconference equipment, the maintenance of satellite phones, and radio batteries. Budget reductions totaling approximately $203,000 pertain to a $180,718 reduction in salary and benefits (part of which relates to the assignment of a vacancy factor to the department of $66,768 for the first time), copier savings, and non-discretionary adjustments. The vacancy factor pertains to a position that is currently vacant that the Office is authorized to fill, but due to the hiring process, will only need funding for part of the year.

A $58,763 reduction in grant revenue is related to the planned migration of 0.50 FTE Senior Management Analyst to General Fund Support. This migration was included in the Five-Year Outlook. The Office continues to monitor reimbursements to the City for past disasters relating to winter storms and wildfires. If additional reimbursements are anticipated beyond that currently included in the FY 2013 Proposed Budget (a $2.3 million one-time for 2004-2005 winter storms) it will be incorporated into the May revise.

Petco Park

The FY 2013 Proposed Budget for the Petco Park Fund is approximately $17.5 million, an increase of approximately $104,000 from the FY 2012 Adopted Budget. Fund revenue is budgeted at approximately $17.7 million, a decrease of approximately $563,000 from FY 2012. The primarily reasons for the reduction in revenues are related to a downward adjustment for interest earnings to better reflect earning earned the last several years, and a reduced transfer of Transient Occupancy Tax funds.

Issues to Consider

In February 2012, per the passage of Assembly Bill 26, the City's Redevelopment Agency was dissolved, with the City assuming the role of it's successor agency. The FY 2013 Proposed Budget includes approximately $11.3 million in revenue from the City's former Redevelopment Agency to address the debt service payment related to bonds issued for the construction of Petco Park. Depending upon the final outcome of the State legislation and the City's administrative response, some or all of this expense may fall to the General Fund. Additional information is provided in the Redevelopment Dissolution section.

On February 1, 2011 the Rules Committee heard a proposal by the San Diego Padres to make several adjustments to the Joint Use and Management Agreement (JUMA). This item is expected to be heard by the City Council in the next couple of months. If approved, minor adjustments to Petco Park's revenues would need to be incorporated into the FY 2013 Budget.

Special Events

The FY 2013 Proposed Budget for Special Events is $682,879, a $92,276 increase from FY 2012.

The FY 2013 Proposed Budget includes a $101,753 increase to expenditures. An estimated $21,000 is related to on-going maintenance needs for the City's current Special Events software systems.

The additional $80,000 will be used to implement Share Point which would replace the City's current permit review/document management system. Staff states that the use of the current outdated permit review and document management system will hamper the City's ability to communicate/coordinate between departments and agencies related to special event permit review. In addition, the current system will require enhancements to meet the new permitting procedures resulting from the current CEQA litigation. Staff also notes that if the existing system was upgraded it still would not be as robust as the new Share Point solution.

Budget Review for City Agencies

The IBA will be releasing budget reviews of the City Retirement System, San Diego Data Processing, and the Housing Commission on May 4, 2012 in preparation of budget hearings on these agencies scheduled for May 10, 2012.

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