Review of the Fiscal Year 2014 Proposed Budget

IBA Report 13-19 April 29, 2013

Analysis by the Office of the Independent Budget Analyst

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Overview of the Mayor's Proposed Budget & Discussion of Significant Issues

Two Major Issues Contribute to FY 2014 Deficit

The FY 2014 budget process began in October 2012 with Mayor Sander's release of the FY 2014-2018 General Fund Five-Year Outlook, the seventh and final outlook prepared under his administration. This Outlook showed surpluses in each of the five years beginning with a $4.9 million surplus in FY 2014 increasing to a $94.2 million surplus projected for FY 2018. In our review of the Mayor's Five-Year Outlook (IBA Report #12-48, issued 11/19/12), we identified a number of significant issues and related costs that were not addressed in the Mayor's Outlook and presented a Revised FY 2014-2018 Outlook.

Most notably, in our Revised Outlook we reflected two potential budget impacts that were expected to be confirmed in early CY 2013 and, if so, would have the following significant budgetary impacts over this five-year period: 1) increased annual pension payments, attributable to investment experience losses and the impacts of Proposition B and 2) impacts of redevelopment dissolution which would require the General Fund to begin paying annual debt service for Petco Park and Convention Center Phase II in FY 2014. Our Revised Outlook, after reflecting the cost impacts of these two issues, resulted in a projected deficit for FY 2014 of $37 million. Revised deficits were also projected for FY 2015 and FY 2016 of $37.6 and $12.4 million, respectively; with FY 2017 and FY 2018 showing surpluses of $17.2 and $49.6 million, respectively.

As these two events were later confirmed and cost impacts were validated, the deficit was reset at $38.4 million for FY 2014. Changes to the ARC increased projected costs in FY 2014 by $29 million, while the redevelopment impacts were estimated at $14.3 million, totaling $43.3 million for FY 2014. These costs were offset by a $4.9 million surplus identified in the original Outlook, leaving a $38.4 million deficit for FY 2014.

Mayor Filner's Approach to Addressing the Shortfall

The FY 2014 budget was balanced by using approximately $19.6 million (44%) in ongoing resources and $23.7 million (56%) in one-time resources which netted a $5.5 million surplus (used to fund new expenditures in the Proposed Budget). The ongoing resources include the use of several fund balances (TOT, EMS and Police Decentralization) that are allocated over a three-year period. Other ongoing revenue increases are in Major Revenues and the Redevelopment Property Tax Trust Fund (RPTTF). Over half of the projected deficit has been addressed by removing $21.6 million in one-time SDGE settlement funds from the Public Liability Reserve. No new ongoing revenues are proposed and no user fee increases are recommended to address cost recovery. Savings from five awarded managed competition processes continue in the budget; five new processes remain on hold as the Mayor studies the process over the summer. No new efficiencies or reforms

that produce significant savings are included in the budget.

The reliance on one-time solutions to balance the budget is a concern. In our section Potential Revisions to the Mayor's Proposed Budget, we have identified some options for generating a small amount of new resources that could be used to partially mitigate the use of one-times, but not to the level of $23.7 million. The City has been diligent over the past seven years about structurally balancing the budget even during the most challenging times in FY 2009 and FY 2010, when the City was making cumulative reductions of more than $200 million. When one-times were used, the vast majority, if not all, were matched to one-time expenditures. The reliance on one-time solutions is contrary to the Council-adopted Structural Budget Principles which call for addressing a deficit through "a balanced approach of ongoing expenditure reductions and revenue generation including identifying new revenues sources" and "matching one-time resources with one-time expenditures." The Principles also advocate "actively pursuing alternative service delivery methods including managed competition and efficiency improvements" and "reviewing user fees for cost recovery levels as part of the budget process."

The Mayor has noted that this budget is a "transitional budget" in that it crosses over from the previous administration to his new administration. The Mayor points to the short time he has been in office, and has stated that he and his staff will be undertaking departmental efficiency studies to identify FY 2015 savings to mitigate the use of one-time resources in his budget proposal. Funds have been included in the budget for Park and Recreation to complete a comprehensive user fee study, the results of which are expected to be available for FY 2015 budget decisions as well. For FY 2015 we would expect to see a budget proposal which falls in line with the City's adopted budget principles for maintaining a structurally balanced budget.

New Expenditures Funded Through Reductions Including Delays in Council Infrastructure Funding Plan

Approximately $15 million of proposed new expenditures have been funded through an equal amount of programmatic reductions, $11.3 million of which are proposed as ongoing. This includes a reduction in infrastructure funding of $5.6 million in debt service payments for new bonds and a $1.0 million reduction to M&R deferred capital costs (formerly known as O&M costs). The impacts of this are discussed on the next page and in the Infrastructure section. Other reductions include 13 positions eliminated in the City Attorney's Office; a one-time reduction to Storm Water funding (to be replaced with bond funding); and a reduction in the annual contribution to the Public Liability Fund made possible by lower outstanding public liability claims over the last three years. This issue is also discussed in further detail in the Public Liability Fund section.

Newly funded programs with significant ongoing costs include Penny for the Arts, Civic and Urban Initiatives, and the Supplemental COLA program. The costs for these programs are estimated at $25 million over the next five years; and they will need to be carefully evaluated by the City Council relative to their community benefit as compared to allocating additional funding for other priorities, such as infrastructure and public safety.

Other important additions to the budget include funding to increase all four Police academies from 30 to 34 recruits next year; purchase new Police equipment; add 12 new Lifeguard seasonal employees and a new Cliff Rescue Vehicle; increase tree trimming; continue community plan updates; add maintenance and repair positions in Facilities; implement a Balboa Traffic Management Plan; and extend the Single Adult Emergency Winter Shelter to year-round service.

The chart on the next page shows how the Mayor's Budget Proposal lines up with the FY 2014 City Council Budget Priorities Resolution adopted by Council on March 18, 2013. All of these items are discussed in detail in the appropriate departmental sections.

Impacts of the Mayor's Proposed Budget on Infrastructure

The most significant and concerning budget reduction is the Mayor's proposal to delay the next $80 million deferred capital bond issuance from Spring of FY 2013 to January 2014, and also delay all planned subsequent issuances to achieve annual debt service savings of $5.6 million for five years. Deferred M&R funding has also been reduced by $1.0 million (from $50 million to $49 million) over what was scheduled in the Deferred Capital Funding Plan- Enhanced Option B approved by City Council on March 20, 2012. Also, since the Council increased M&R funding last year to $54.1million, the revised amount of $49 million is $5.1 million less than what was budgeted in the current year.

The budget also does not include any funding for undertaking critical condition assessments. The Public Works Department had requested $1.0 million for a facilities assessment which was not funded. While not requested, a sidewalk assessment is also needed at a cost of $1.0 million and about $264,000 is needed to conduct an assessment of Park and Recreation Facilities. These studies are vital to understanding the full extent of our deferred capital backlog and addressing it by focusing limited bond funds on high priority areas. Condition assessments are one-time costs which should be considered a priority for new one-time resources as they are identified.

While the Enhanced Option B funding plan adopted last year did not provide the level of funding that was desired by the Council or was necessary to stop deterioration, it was determined through significant review and analysis and numerous public hearings that it was the most realistic and fiscally responsible approach to begin to address the

Overview of the Mayor's Proposed Budget & Discussion of Significant Issues

COMPARISON OF CITY COUNCIL FY 2014 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET			
BUDGET PRIORITY		IN FY 2014 BUDGET	COMMENTS
Enhancing Public Safety			
1	Restoration of Civilian Positions	-	
2	Increased Number of Police Academies / Recruits in Academy	X	4 academies, with 34 recruits funded
3	Increased Number of Lifeguard Recruits	P	Increased hourly staffing in summer
4	Increased Number of Fire Academy Recruits / Add a Second Academy	-	One academy budgeted in 2014
5	Funding for Lifeguard Vehicles & Increased Training	P	Rescue vehicle funded, no new training funds
6	Lifeguard Wellness Program	X	Funded in FY 2013
Infrastructure & Deferred Capital			
7	Updated Asset Condition Assessment	-	$1.0 million requested by department for Facilities Condition Assessment; $264,000 requested for Park Assets; Sidewalk assessment estimated at $1.0 million
8	Efficiency Consultant for Infrastructure Delivery; Other Studies	-	
9	Deferred Capital Borrowing On Schedule	-	2014 $80 million bond delayed to January 2014 / M&R funding reduced by $1.0 million over Plan
Park & Recreation / Library Hours / Penny for the Arts			
10	Maintaining Library Branch Hours	X	
11	Maintaining Park & Recreation Center Hours	X	
12	Increasing Library Branch Hours	-	
13	Increasing Park & Recreation Center Hours	-	
14	Funding for the Penny for the Arts Blueprint	P	$1.6 million funded of $3.7 million request
Increased Funding for Neighborhood Services			
15	Community Plan Update Funding	X	Additonal funding of $0.8 million included
16	Twice Per Week Refuse Pick-Up in Mission Beach from Memorial Day to Labor Day	-	
17	Neighborhood Code Compliance Improvements	-	Property Value Protection Ordinance funding of $0.1 million included
18	Establishment of an Urban Forestry Program	-	Additional $0.5 million included for palm tree trimming
Reforms, Efficiencies, Partnerships, and Adherence to Fiscal Policies			
19	Ongoing Expenditures Funded By Ongoing Revenue	P	
20	Adherence to City Reserve Policy / Maintenance of High Level of Reserves	X	General Fund exceeds goal, others are anticipated to be on target
21	Continued Growth of Marketing Partnerships	-	Reduction of revenue of $150,000 in FY 2014
22	Purchasing & Contracting Department Staffing / Resources / Efficiency	-	EOC transferred back to P&C, additional position added
23	Enhanced City Website Functionality for Business and Citizens	-	
24	Alternative Work Schedules	-	
25	Continuation of Managed Competition	-	No new managed competition savings, savings from awarded processes continue
26	Labor Relations Officer to Negotiate Efficiencies Identified by Employees	-	

- Not included in the budget
X Included in budget, full funding
P Included in budget/ partial funding

City's deferred capital backlog. While it will not prevent deterioration, the approved funding plan represents a significant new investment and is expected to slow the rate of deterioration of our assets to 5-10%. Since we are not at the desired funding level and the City's goal is to ramp up infrastructure funding in the future as soon as is practical and affordable, it is imperative that the City stay on course and not backtrack on current funding plans.

In the Potential Revisions to the Mayor's Proposed Budget and Infrastructure sections, we propose a Catch-Up Program to come closer to achieving the original funding goals of Enhanced Option B through FY 2017 than the Mayor's budget allows. This proposal involves increasing the size of the bonds from $80 to $100 million for FY 2014 through FY 2017. This will have no FY 2014 budgetary impact, and debt service savings can still be achieved in those years, although by a slightly lesser amount than what the Mayor proposed.

We have also identified some one-time funding options for your consideration that could be used to increase M&R funding for FY 2014 more in line with FY 2013 levels. Depending on the desired funding level for M&R, there may be some one-time funding available for part of the condition assessments.

Public Safety Funding in Mayor's Proposed Budget

The Proposed Budget addresses public safety needs in a number of ways. For Police $1.2 million has been added to support the addition of 16 police academy recruits which will the bring the total number of recruits for each of the four budgeted academies from 30 to 34. We strongly support this increase to address the Department's current attrition of 9 officers per month. However, we would note in the past the department, at times, has had to adjust the number of recruits they put through the academies as they move through the fiscal year, in order to stay within budget. We have mentioned in past budget reviews our concerns that their personnel expenditures are not "right-sized" to fill existing civilian vacancies, consistently fill academy classes at budgeted levels and achieve their budgeted vacancy savings. If the budget sets the policy goal of 34 recruits per academy, that number should not vary as a result of budget constraints. If this becomes an issue in FY 2014 it needs to be brought to the attention of the Public Safety and Neighborhood Services Committee.

$1.1 million in General Funds has been budgeted for police equipment of the $2.1 million requested by the Department. In a memo issued April 16, 2013, the Mayor also proposes to use $1.3 million of the $4.1 million in new SAFE funds (not included in the Proposed Budget) to pay for helicopter maintenance, fuel and equipment. The Department requested $2.76 million for helicopter maintenance and fuel costs for FY 2014. With the Mayor's proposal, one-time SAFE funds combined with Seized Asset funds would be used to supplement helicopter costs for FY 2014. This has been an underfunded area of the department's budget in recent years that will likely need to be

addressed structurally in future budgets.

As of the Proposed Budget, a $6.9 million one-time County refund received in the Fall of 2012 has been earmarked in the CIP budget for future CAD costs. Because the majority of funds are not expected to be needed for CAD until FY 2016 or FY 2017, we discuss the option of releasing the County refund to increase M&R funding for deferred capital. We support lease purchase financing CAD when funding is needed.

For the Fire Department, personnel costs have been increased by $2.5 million- $2.1 million is for increased termination pay annual leave based on anticipated retirements next year and $400,000 is to support hourly wages for seasonal lifeguards that equate to 12.00 FTEs. The Department's vacancy savings has been reduced by $500,000 to address under budgeting of personnel costs in the current year. However, other adjustments have offset this reduction. In the FY 2013 Mid-Year Report, the Department was projected to end the $2.8 million over budget in personnel costs. Even with the proposed personnel expenditure increases for FY 2014, we believe that this budget has not been sufficiently "right-sized" to meet operational needs, and further evaluation of this issue, working with Financial Management, is needed.

One Fire Academy is budgeted for FY 2014. While several Council members identified a second Fire Academy for FY 2014 or increasing the number of recruits per academy as a priority, the Department has indicated that a second academy is not a budget priority for FY 2014. Funding in the budget for the one Fire academy allows for 30 recruits. In discussing potentially increasing the number of recruits in that academy, the Department indicated that each academy can accommodate up to 36 recruits. We have included the costs for 6 additional recruits as a potential revision to the budget for discussion with the department during the hearing process. Another expenditure issue that is not addressed in the Proposed Budget is the under budgeting of fuel costs. As of the FY 2013 Mid-Year Report, the department's diesel fuel costs for fire trucks and engines was $1.0 million over budget. There is a high potential for this to occur again in FY 2014 but it is not addressed in the Proposed Budget. We have identified this as a potential addition to the Mayor's Proposed Budget as well.

Lifeguards have been allocated funding to support hourly wages for seasonal lifeguards equivalent to 12.00 FTE, as noted above; and $500,000 in funds have been budgeted for a new Cliff Rescue Vehicle.

Status of Public Liability Fund After $27.0 Million Withdrawal

The City deposited $27.0 million related to a wildfire settlement with SDG&E into the Public Liability Fund in FY 2012. When Mayor Sanders recommended the funds be deposited in the Public Liability Fund, it was with the intention to reduce required annual General Fund Contributions from $6.1 million to $1.6 million. However, as part of the budget balancing actions, the Mayor's

Proposed Budget transfers the General Fund portion ($21.6 million) back to the General Fund, and uses it as a significant resource for balancing the FY 2014 deficit of $38.4 million. The remaining $5.4 million is expected to be transferred to the appropriate Enterprise Funds as part of the May Revise.

Some conditions have changed with regard to this fund since the Fall of 2012. The annual contribution amount, needed to keep the reserve balance on target (with the removal of the $27 million) has been reduced from $6.1 to $4.8 million. It is now estimated that existing fund balance of $4.7 million can be used to cover most of the required $4.8 million FY 2014 contribution. An additional $102,000 has been budgeted in Citywide to cover the difference. With the $4.8 million contribution in FY 2014, it is estimated that the reserve level will exceed the policy target of 24% of outstanding claims for FY 2014. This is the case because the latest three years of actuarial valuations, used to establish the new reserve target, show lower outstanding public liability claims.

The Liability Fund Reserve Policy target of achieving 50% of funding of liabilities by FY 2019 is expected to be achieved with reduced annual contributions of $4.8 million. While the $27 million one-time cash contribution would have allowed for achieving this goal with smaller annual required contributions, the City is still on course to achieve the City's stated policy goals by FY 2019. While the use of this sizable one-time source to balance the FY 2014 budget remains a concern, the removal of $27 million from the Fund is not an overriding concern at this time given that there is a reasonable funding plan, for achieving the Fund's reserve goals, consistent with the City's Reserve Policy.

IBA Review of FY 2014 General Fund Revenue Projections

The General Fund FY 2014 Proposed Budget includes $1.196 billion in revenues, which is an increase of $45.2 million or 3.9% above the FY 2013 Adopted Budget. The four major General Fund revenues (Property Tax, Sales Tax, Transient Occupancy Tax and Franchise Fees) total $808.0 million which equals 67.5% of General Fund revenues. This is an increase of $31.2 million over the FY 2013 Adopted Budget due to increases in property tax, sales tax and transient occupancy tax. The increase in property tax revenue is partially attributable to revenue distribution from the Redevelopment Property Tax Trust Fund (RPTTF) from the County Auditor and Controller, due to the elimination of the City's Redevelopment Agency, that are categorized as property tax receipts.

Given revenue receipt trends and economic forecasts of modest growth in the economy in FY 2014, it is anticipated that the performance of economically sensitive revenue such as property tax, sales tax, TOT and franchise fee will reflect similar growth trends. The General Fund revenue projections in the FY 2014 Proposed Budget are

appropriate given current revenue performance and economic forecasts. While we recommend no change at this time, the IBA reserves caution regarding the Franchise Fee projections in consideration of historical trends. Details of our review of the Major Revenues and departmental revenues are discussed in the General Fund Overview section.

IBA Review of FY 2014 General Fund Expenditure Projections

The Mayor's Proposed Budget totals $1.20 billion, and reflects a net increase of $36.4 million from the FY 2013 Adopted Budget, or a 3.1% increase. Compared to the most recent Five-Year Outlook, the Mayor's FY 2014 budget proposal has increased by $27.9 million, largely due to the $29.0 million increase in the City's annual retirement contribution or ARC. Another significant change from the Outlook is a $5.6 million decrease in expenditures due to the delay of the FY 2014 $80 million planned bond issuance for deferred capital as noted earlier. We have analyzed all of the major expenditure categories and have no significant concerns with expenditure estimates. The General Fund Overview section discusses these expenditure categories in detail including Salaries and Wages, Fringe Benefits, Supplies, Contracts, Information Technology and Energy /Utilities.

Funds Included in Proposed Budget to Study Bringing Services "In-House"

A significant policy and fiscal issue embedded in the Mayor's Proposed Budget is the idea of potentially bringing two major services, currently provided by outside agencies, "in-house." The two services under consideration by the Mayor are Taxicab Administration currently provided by the Metropolitan Transit System (MTS), and Emergency Medical Services currently provided by Rural/ Metro. Included in the FY 2014 budget is $100,000 in General Funds (see Citywide section) to study the feasibility of the City taking over Taxicab Administration from MTS. The current contract with MTS expires June 2013.

An additional $100,000 is budgeted within the EMS Fund to pay for an EMS operations study to be performed by a consultant. The current contract for Emergency Medical Services with Rural/Metro expires June 2013. We understand that the Mayor intends to seek City Council and County approvals in May to extend the current agreement for another year, during which time the in-house delivery of EMS services will be explored. These funds will also be used to assist Fire-Rescue in the development of a competitive bid for in-house EMS services. The RFP is expected to be let within the next year.

The City has made great strides in recent years in reducing its overall costs and focusing the City budget on core City services. We raise this as an issue that the leg-

islative body needs to be fully apprised of by the Mayor and involved in as these studies evolve, given the potential significant impact on the City's budget and service quality, particularly in the case of EMS. This could work out to be cost effective; alternatively, it could result in significant additional costs for the City as well as an administrative burden in a City that is already stretched in its administrative capacity.

Potential Impact on FY 2014 Budget of a Five-Year Agreement with the City Labor Unions

The City is currently involved in negotiations with its six labor unions regarding the terms and conditions of employment that will apply after the current Memorandums of Understanding (MOU's) expire on June 30, 2013. The Mayor has expressed publically his desire to reach five-year agreements with the unions that would include pensionable salary freezes (excluding merit increases and promotions) over the term. City Council members have also publicly expressed their support for a five-year proposal with modest increases and conditions that protect the General Fund.

According to the actuary for the San Diego City Employees' Retirement System (SDCERS), the City's FY 2014 ARC payment could potentially be reduced if a five-year agreement includes a five-year pensionable pay freeze. A number of events would need to occur which are discussed in greater detail in our Pension section. Most notably, the SDCERS actuary would need to recommend, and the SDCERS Board would need to approve, a revision to the June 30, 2012 actuarial valuation. If this transpired, ARC savings of approximately $25 million citywide ($19 million General Fund) could be incorporated into the FY 2014 Budget via the May Revise.

If instead freezes to pensionable pay are achieved via annual agreements, ARC savings would accrue on a year-by-year basis, which could begin in FY 2016.

Potential Revisions to the Mayor's Budget

As part of our review of the Mayor's Proposed Budget, we look for issues that the Council may want to consider for revisions to the Mayor's budget proposal largely based on the City Council Budget Priorities Resolution. In the next section, we have identified potential one-time resources for your consideration that could be matched with one-time expenditures such as funding condition assessments and increasing M&R deferred capital funding. We have also identified a small amount of ongoing resources; options for reducing or eliminating new programs currently in the budget, that have significant multi-year impacts; and options for service/programmatic additions to the budget that Council believes are not sufficiently addressed in the Mayor's budget. These are preliminary proposals which require further vetting with the Administration and City departments as well as full discussion during the public budget hearings.

Next Key Dates in the Budget Process

Following are the next major steps in the budget process following the release of this report:

Wednesday, May 1
Capital Improvements Program hearing.

Monday, May 6 - Friday, May 10
Budget Review Committee hearing with Departments. IBA report presented at first hearing.

Tuesday, May 21
Mayor issues May Revise and FY 2013 Year-End Report.

Wednesday, May 22
City Council reviews May Revise and Year-End Report.

Friday, May 31
City Council budget memos due to IBA.

Wednesday, June 5
IBA's final report issued on recommendations to the Mayor's budget.

Monday, June 10
City Council decisions on Final Budget Modifications.

Following City Council final decisions, the City Clerk will transmit the resolution to the Mayor within forty hours of passage and the Mayor's veto period will begin on Wednesday, June 12. The Mayor veto period will end on Tuesday, June 18 and if appropriate Council has five business days to override the Mayor's veto. On July 17, the Budget and Finance Committee will review the Appropriation Ordinance.

We appreciate the assistance that the Mayor's staff, particularly Financial Management, and the City departmental staff have provided us throughout our two-week review period. We look forward to working with the City Council and the community in the final development of a FY 2014 budget that, within our fiscal constraints and with our budget policies in mind, meets the needs and priorities of the legislative body, the community and the Mayor.

One-Time Revisions

The chart below reflects potential one-time revisions to the Mayor's Proposed budget.

Potential Additional One-Time Resources

1. Release $6.9 million County Refund Currently Earmarked in the CIP for CAD - $6.9 million

On March 11, 2013, the Council approved a plan to authorize the set-aside of $6.9 million in one-time reimbursement monies from the County to contribute toward the CAD system replacement. At the time this item was discussed at Council, the IBA recommended that it would be appropriate to lease-purchase finance the CAD system when the funds are needed and free up the County refund for more immediate needs. This would free up $6.9 million in one-time funding to address immediate critical needs within the City, spreading the costs of the system out over time. The majority of CAD funding will not be needed until FY 2016 or FY 2017. This option is still available for the Council.

The Proposed Budget has reduced deferred capital M&R funding in FY 2014 by $1.0 million, from the $50 million scheduled in the Council's adopted funding plan to $49 million, and $5.1 million less than the $54.1 million funded in FY 2013. County Refund monies could be used for this purpose, and could also be used to fund one-time condition assessments, also vital to effectively carrying out the deferred capital funding plan.

2. SAFE Funds - $4.1 million

Assembly Bill 1572, as approved by the Governor on September 13, 2012, dissolved

Potential One-Time Revisions to the Mayor's FY 2014 Proposed Budget ($ in millions)		
Potential Additional One-Time Resources		
1	Release County Refund currently earmarked in the CIP	6.9
2	Safe Funds	4.1*
3	Utilize remaining EMS fund balance not expended in Proposed Budget	0.7
4	Utilize remaining FY 2013 budget surplus	0.2
5	Utilize Risk Management Administration fund balance	0.7
6	Reduce funding for computer acquisition and replacement	0.5
	Total	$ 13.1
Potential One-Time Expenditures		
7	Increase FY 2014 M&R deferred capital funding to catch up to FY 2013 funding level	(5.1)
8	Provide one-time funding for condition assessments: a. Facilities ($1.0m); b. sidewalks ($1.0m); and c. park assets ($.3m)	(2.3)
	Total	$ (7.4)

**The Mayor has proposed several uses in Police, Fire and Transportation Engineering which we are currently evaluating; SAFE funds have tight restrictions*

the San Diego County SAFE Board, and transferred the oversight of the program to the San Diego Association of Governments (SANDAG). As a part of the bill, approximately $9.0 million in available reserves were divvied up among County local governments for use for motorist aid related services or support. This resulted in $4.1 million to the City in FY 2013. The receipt of this one-time funding is not included in the FY 2014 Proposed Budget.

On April 16, 2013, the Mayor issued a memorandum outlining his proposal for the use of the $4.1 million in one-time SAFE funding for incorporation into the FY 2014 Proposed Budget May Revision. Included were proposed allocations for expenditures identified as qualifying for SAFE funding, such as the upgrade of the City's Traffic Control System and Police helicopter expenses. It is proposed that the Transportation & Storm Water, Police, and Fire-Rescue Departments receive, $2.4 million, $1.5 million, and $245,000 of the funding, respectively. We support using SAFE funds for helicopter related expenditures, and are still reviewing the other proposals in the Mayor's April 16 memo. The City Council may wish to explore other uses for the SAFE funding.

3. Utilize Remaining EMS Fund Balance Not Expended in Proposed Budget - $700,000

Based on updated projections by Financial Management, it is projected that $2.7 million in Fire/Emergency Medical Services Transport Program (EMS) Fund balance will be available at the end of FY 2014. The Mayor currently proposes that the remaining fund balance will be used to support a $1.0 million transfer into the General Fund in FY 2015 and FY 2016. This would leave approximately $700,000 remaining in the fund balance which we have identified as a potential one-time resource that is available as a potential revision to the budget.

4. Utilize remaining FY 2013 Budget Surplus - $243,000

The FY 2013 Mid-Year Budget Monitoring Report projected a year-end surplus of $3.6 million (excluding $1.9 million that was used to re-budget CPPS and community plan update funding in FY 2014). At that time, the Mayor and City Council approved utilizing $1.05 of this surplus to fund Portland Loos, extension of the Winter Homeless Shelter, and additional funding for the Balboa Park Centennial Celebration. Subsequent to this action, $250,000 was also appropriated from this surplus to fund the Homeless Veterans Winter Shelter for the remainder of FY 2013.

These actions left $2.3 million to be utilized in FY 2014 or to be deposited in the General Fund reserve. The Mayor's FY 2014 Proposed Budget includes utilizing $2.1 million of this remaining surplus to fund Police Department equipment purchases, a Lifeguard cliff rescue vehicle, funding for the Balboa Park traffic management plan and MTS student bus fare program. These FY 2014 proposed actions leave $242,697 in remaining FY 2013 projected year-end surplus to be utilized for additional one-time funding of expenditures or to be deposited into the General Fund reserve.

5. Utilize Risk Management Administration Fund Balance - $700,000

In the FY 2014 Proposed Budget the $10.0 million in Risk Management Administration Fund revenues are $224,000 higher than the $9.7 million in expenditures. If this difference occurs in actuality, the higher revenues would increase fund balance. The Department had indicated that it intended 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. However, recent analysis has led to a change in this approach.

Not considering the long-term liabilities in the Risk Management Administration fund—including the Net Pension Obligation and Net Other Post-Employment Benefit Obligation—Risk Management Administration has indicated that available fund balance is projected to be $1.0 million at the end of FY 2014.

Because of this, Risk Management has communicated to the IBA that the May Revision to the Budget will include a $1.0 million reduction in the FY 2014 citywide fringe contributions that support Risk Management Administration operations. This will provide a one-time General Fund resource of approximately $700,000 for FY 2014.

6. Reduce Funding for Computer Acquisition and Replacement to Match to Revised per Unit Cost - $500,000

The Department of Information Technology's (IT) General Fund budget includes $2.6 million in one-time funding to replace desktop computers that are over four years old as of July 1, 2013. The City is required to upgrade its computers to support the switch to Windows 7 from the Windows XP operating system. Microsoft will end support of XP, including security patches, as of April 2014, making the replacement of these PCs a necessity. Due to the City's financial situation, City computers have not been updated regularly, thus requiring substantial one-time investment for FY 2014.

The $2.6 million of one-time funding was a previous estimate based on the PCM (formerly known as SARCOM) contract managed by San Diego Data Processing Corporation (SDDPC), which is set to expire on June 30, 2013. The IT department brought an item to the Budget & Finance Committee on April 17, 2013 which proposed a new agreement with HP to replace these computers. Based on new estimates (contingent upon Council approval of this agreement) the price per desktop computer falls from $708 per PC to $562, before tax. The estimated number of PCs to be replaced has also fallen from 3,530 PCs to 3,440, due to the fact that the department was able to replace more machines in FY 2013 than was originally estimated. Based on these new figures, it is estimated that only $2.1 million of one-time funding is needed, for a one-time savings of $500,000.

Potential One-Time Expenditure Revisions to the Proposed Budget

7. Increase FY 2014 Maintenance & Repair (M&R) Funding Related to Deferred Capital from $49.0 million to FY 2013 Funding Level of $54.1

million - ($5.1 million)

Annual M&R is vital for maintaining the condition of assets. When ongoing M&R is not fully funded, it contributes to deferred maintenance and ultimately increases the deferred capital backlog. The Five-Year Outlook included $50 million for M&R for streets, facilities/buildings, and storm drains. The FY 2014 Proposed Budget reduces this by $1 million to $49 million. This is about $5.1 million below the $54.1 million funded in FY 2013. Given the importance of annual M&R funding, our office has identified the one-time expenditure of $5.1 million to restore funding to FY 2013 levels as a potential Council revision to the Mayor's Proposed Budget.

8. Provide One-time Funding for Condition Assessments - ($2.3 million)

A. Facilities/Buildings ($1.0 million)

The City reported an $898 million deferred capital backlog in February 2012 for streets, facilities/buildings, and storm drains. The estimates for streets and storm drains are considered to be accurate since they are based on comprehensive condition assessments conducted in 2010 through 2012. The deferred capital for facilities/buildings is anticipated to be significantly higher than the estimated $185 million since it is based on condition assessments conducted in 2007 and 2009 on 443 or 30% of the City's 1,600 facilities (or about half of the City's building space in square feet). Facilities condition assessments should be conducted about every 4 years. The Public Works Department's FY 2014 budget request included $1.0 million for a comprehensive assessment of about 600 buildings. In addition, Public Utilities requested $600,000 to include water and wastewater facilities/ buildings in the Facilities Condition Assessment. Neither of these requests was funded in the Mayor's Proposed Budget. Public Utilities staff told us that their portion of the assessment is a priority of the Department and potentially may be added during the May Revise.

Our office has identified the $1.0 million Facilities Condition Assessment as a potential Council revision to the Mayor's Budget. Conducting a comprehensive, updated assessment for facilities is particularly important since the City is providing deferred capital bond funding for facilities projects, but lacks a full and accurate picture of facilities needs and priorities.

B. Park Assets ($264,000)

The Park & Recreation Department is responsible for a significant number of assets and it has been recommended since 2002 that the City conduct a formal condition of its park system as a first step for developing a Parks Master Plan. Based on an informal and limited staff observations, the Department estimate its deferred maintenance and capital to be at least $121 million. The Department does not have a significant, dedicated funding source to fund capital projects and relies on limited funding sources, such as Development Impact Fees (DIF) and Regional Park Improvements Fund to fund projects. For FY 2014, Parks represent only about $16.1 million or 6.3% of projects in the Proposed CIP Budget.

Park & Recreation requested $264,000 and 0.53 FTEs for a Citywide parks and open space inventory and conditions assessment

to be performed by internal staff as the first phase of a Park System Master Plan. This request was not funded in the Mayor's FY 2014 Proposed Budget. Our office has identified this expense as a potential Council revision to the Mayor's Budget. It is important that formal condition assessments be conducted so that the Department has a comprehensive, valid list of deferred capital projects and can take advantage of future bond funding, similarly to streets, buildings, and storm drains.

C. Sidewalks ($1.0 million)

The City has not conducted a condition assessment of sidewalks. Note that per California Streets and Highway Code (5610 through 5618), sidewalks are owned and maintained by adjacent property owners. However, the City is often held liable when a citizen is injured due to sidewalk disrepair. Transportation & Storm Water Department (TSW) staff estimate that the deferred maintenance backlog just for lifted/raised sidewalks, for example sidewalk segments pushed up by tree roots, is about $4-5 million.

Although not included in its FY 2014 budget request, Street Division has developed a $1.0 million estimate for conducting a sidewalk assessment using in-house staff. TSW staff have indicated that this assessment is a priority for the Department. Our office has identified the $1.0 million Sidewalks Assessment as a potential Council revision to the Mayor's Budget. It is important to note that, if the City moves forward with this assessment, the estimated backlog will likely be very large and it will be important to develop a policy for how the information will be used. For example, will the City be taking responsibility for repairing sidewalks or will adjacent property owners be held accountable?

Ongoing Revisions

The following chart reflects potential ongoing revisions to the Mayor's FY 2014 Proposed Budget.

Potential Resource Changes to Proposed Budget

1. Utilize Street Damage Fund to Fund Additional Maintenance Required Due to Trenching, Consistent with the Fund's Criteria - $1.1 million

The FY 2014 Proposed Budget does not reflect $1.1 million estimated revenues from the Street Damage Fee; an increase in the fee to 25% of full cost recovery was approved by Council in December 2013. This increase will be effective July 1, 2014. This revenue will be included in the Street Dam-

Potential Ongoing Revisions to the Mayor's FY 2014 Proposed Budget ($ in millions)		
	Potential Ongoing Resources	
1	Utilize Street Damage Fund to fund trenching portion of streets deferred captial, consistent with the Fund's criteria	1.1
2	Increase RPTTF revenue for FY 2014 in Proposed Budget from $3.1 million to $5.2 million	2.1
	Total	$ 3.2
	Potential Reduction/Elimination of New Ongoing Expenditures in Proposed Budget	
3	Supplemental COLA	1.4
4	Civic and Urban Initiative	1.0
5	Penny for the Arts Blueprint	1.6
	Total	$ 4.0
	Potential Ongoing Expenditures	
6	"Catch-up" Program for Enhanced Option B - Deferred Capital Funding Plan to achieve funding goals through FY 2018, impacts in FY 2015 - 2017 for small increases to debt service	-
7	Increase funding for Fire-Rescue diesel fuel costs	(1.0)
8	Increase Fire-Rescue personnel budget to further align with operational needs	TBD
9	Increase Fire Academy budgeted for FY 2014 from 30 - 36 recruits	TBD
10	Restore branch library and Central Library hours	(3.0)
11	Begin phasing in restoration of recreation center hours	TBD
12	Extend operations of Homeless Veterans Emergency Shelter in FY 2014:	
	a. 4 months to 7 months **OR** b. 4 months to 12 months	(0.3) - (0.6)
13	Provide funding for efficiency consultant for department efficiency studies to identify savings and mitigate deficits in future years	TBD
	Total	*$4.3 - $4.6*

age Fund and can only be used for additional maintenance needed as a result of trenching on a street prior to resurfacing. Note that the $1.1 million estimate will vary depending on the amount of trenching in the streets. Our office is recommending the inclusion of the $1.1 million projected revenue as a potential Council Revision to the Mayor's Proposed Budget. Note that projected revenue from the Street Damage Fund will go to 50% of full cost recovery in FY 2015, projected to be $2.1 million.

Additionally, given tight budgetary constraints, Council may want to revisit increasing the fee to full cost recovery, as discussed during the Council meeting on the Street Damage Fee. If the fee were full cost recovery, Street Damage Fund revenue is estimated to be $4.1 million, which could increase the amount of resurfacing performed in FY 2014.

2. Increase Redevelopment Property Tax Trust Fund (RPTTF) Revenue for FY 2014 from $3.1 million in the Proposed Budget to $5.2 Million Based on IBA Review - $2.1 million

The Five Year Outlook included $4.8 million for FY 2014 in annual ongoing revenue from pass-through and residual distributions of RPTTF to the City. The FY 2014 Proposed Budget includes an additional $3.1 million of anticipated RPTTF above the Outlook. Financial Management's estimate is based on cash flow projections developed by Successor Agency staff in February 2013. These projections included a flat RPTTF deposit of $75 million.

Based on RPTTF estimates recently provided by the County Auditor and Controller (CAC) which include an initial deposit of RPTTF for the ROPS 4 period (July 1- December 31, 2013) of $95 million, our office is projecting an additional $3.1-3.2 million per year over the $8.4 million included in the Outlook. Our office has conservatively identified $2.1 million of the additional $3.1 million as a potential ongoing resource change to the proposed budget, increasing RPTTF revenue from $3.1 million in the Proposed Budget to $5.2 million.

Potential Reductions/ Elimination of New Expenditures in Proposed Budget

The following expenditures from the Mayor's Proposed Budget have been identified for further review because they are new and ongoing and have significant five-year costs.

3. Supplemental COLA - $1.4 million

This benefit is for certain retirees who retired before July 1, 1982. When the benefit was created, $35.0 million was set aside in a special pension reserve that would fund the benefit. The reserve is anticipated to be depleted in October 2013, and once the reserve is depleted, SDCERS cannot continue to pay this benefit. See the Citywide Program Expenditures section for additional information.

The FY 2014 Proposed Budget includes $1.4 million in the General Fund to support the Supplemental COLA on a "pay as you go" basis. The Mayor recommends that the City fund the Supplemental COLA benefit on an annual basis, and the Proposed Budget considers the FY 2014 budgeted

amount to be an ongoing expenditure. However, the IBA believes that this expenditure may be more appropriately reflected as a one-time expenditure, given that the City is not legally obligated to fund this benefit, and the decision to do so should be made annually based on the City's budget outlook.

4. Civic and Urban Initiative - $1.0 million

This new program will be tasked with coordinating and linking fragmented urban and civic policies, and provide support to various working groups. Six positions with the cost of approximately $613,000 annually are proposed, as is approximately $337,000 in non-personnel expenses.

5. Penny for the Arts Blueprint - $1.6 million

$1.6 million is allocated in the FY 2014 Proposed Budget for funding the Penny for the Arts Blueprint. The $1.6 million in funding partially funds the full $3.7 million need outlined in the Blueprint for FY 2014. The original request was for $1.0 million in FY 2013 and an additional $2.7 million in FY 2014. The Commission for Arts & Culture is recommending that $750,000 of the $1.6 million is allocated to the Arts & Culture Festivals Revolving Fund for use to support current Commission contractor's planning efforts for Centennial activities and events.

Potential Service Additions to Proposed Budget from Council Priorities Resolution/Other Pending Issues (Items not in the Proposed Budget)

6. "Catch-Up" Program to Close the Funding Deficit and More Closely Achieve Enhanced Option B (The Five-Year Deferred Capital Funding Plan) Levels through FY 2017- $0 impact in FY 2014

Enhanced Option B was considered to be a realistic approach to beginning to address the backlog and slow the rate of deterioration of assets to 5-10% over five years. The schedule for Enhanced Option B includes the next deferred capital bond issuance (DC 3) planned for late FY 2013. The Mayor's Proposed FY 2014 Budget defers this bond issuance by about 6 to 9 months to January 2014. All subsequent planned bond issuances will also be pushed back. This results in a reduction of approximately $5.6 million in debt service from the General Fund for five years—one year of savings for each of the bond issuances. The delay of the DC 3 issuance reduces debt services by about $23.5 million over the five-year period compared with Enhanced Option B. However, it also provides $85.5 million less in bond and cash funding than Enhanced Option B and $170.7 million less than the Status Quo Option for preventing further deterioration of assets.

As long as E&CP continues with expeditious spending of existing and future bond funds, the City may want to consider an alterna-

tive for getting back on track with funding for deferred capital. Our office has provided a potential Catch-Up Funding Option for consideration. Beginning with DC 3 in FY 2014, the four remaining bonds are increased to $100 million each. This provides about $65 million in additional bond funding during the five-year period over the FY 2014 Budget Proposal, only about $19.4 million less than Enhanced Option B. Additional debt service for the Catch-Up Option is only a total of $7.5 million for FY 2015, FY 2016, and FY 2017 over the FY 2014 Budget Proposal, and no additional debt service funds are required in FY 2014 to implement this Catch-Up Option. The Mayor's FY 2014 Budget Proposal includes $5.6 million in debt service savings which are anticipated to recur each year through FY 2018. The Catch-Up Option includes the following savings:

- FY 2014 - $5.6 million
- FY 2015- $4.2 million
- FY 2016 - $2.9 million
- FY 2017 - $2.2 million

7. Increase Funding for Fire-Rescue Fuel Costs - ($1.0 million)

As of the 2013 Mid - Year 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 2014 Proposed Budget.

8. Increase Fire-Rescue Personnel Costs to Further Adjust its Personnel Budget to Align with Operational Needs - (TBD)

In the FY 2013 Mid-Year Report, the Fire-Rescue Department was projected to end the year $2.8 million over budget in personnel costs. The over budget personnel costs highlighted a need to continue to evaluate the constant staffing budgeting methodology employed by the department in an effort to align the overtime and other personnel expenditures budget with actual experience.

The FY 2014 Proposed Budget includes a $2.5 million increase in the Fire-Rescue Department personnel expenditures. This increase is primarily due to a $2.1 million increase in termination pay relating to anticipated retirements.

After communicating with the Fire-Rescue and Financial Management Department's, the IBA has concerns that the adjustments in the department's personnel expenditures in the FY 2014 Proposed Budget will not fully address the department's budgetary needs. The remaining need could be up to approximately $2.5 million.

9. Increase Fire Academy budgeted for FY 2014 from 30 - 36 recruits - TBD

The Council Priorities Resolution identifies the potential for increasing the number of recruits in the single fire academy that is included in the budget. The Fire-Rescue Department has communicated to our office that the maximum capacity for each academy is 36 recruits. Increasing the size of the academy is an option Council may wish to consider and discuss with the Fire Chief in the upcoming hearings.

10. Restore Branch Library and New Central Library hours - ($3.0 million)

A. This item would restore 4 hours per week per branch library (35 branch librar-

ies) for the additional cost of approximately $2.8 million annually. Restoration of service hours has been a high interest to the City Council.

B. This item would restore 3 hours per week for the Central Library for the additional cost of approximately $240,000 annually. Restoration of service hours has been a high interest to the City Council.

11. Begin Phasing in Restoration of Recreation Center Hours - (TBD)

Council members have had a high interest in restoring past reductions to recreation center hours. If there is interest in doing so in FY 2014, we will work with the department to identify costs associated with a first phase of restoration.

12. Extend Operations of Homeless Veterans Emergency Winter Shelter in FY 2014 - ($250,000 - $600,000)

On April 23, 2013, the City Council approved use of $250,000 of the FY 2013 projected year-end surplus to extend the operations of the Homeless Veterans Emergency Winter Shelter, by three months. This followed the approval of the extension of the Single Adult Homeless Emergency Shelter by three months as proposed by the Mayor as a mid-year budget adjustment in the Mid-Year Report.

The FY 2014 Proposed Budget includes year-round funding for the Single Adult Homeless Emergency Shelter. If the City Council wishes to extend the Veterans Shelter by three months in FY 2014, it would cost approximately $250,000. Funding for extending operations by eight months for year round operations would be approximately $600,000.

13. Provide Funding for Efficiency Consultant for Department Efficiency Studies to Identify Savings and Help Mitigate Deficits in Future Years - (TBD)

The City Council Budget Priorities Resolution included the Council's desire to continue to focus on reforms and efficiencies that improve City processes and produce savings Citywide. Some Council members suggested contracting with an efficiency expert to assist departments in this effort, noting that the one-time contract costs could be offset by savings. This would be similar to the type of consultant the City has provided in the past to assist Employee Teams prepare proposals for Managed Competition. The ACOO's FY 2014 budget includes $160,000 for a managed competition consultant, these funds may be available for an efficiency consultant if managed competition remains on hold. The Mayor has expressed a strong interest in undertaking departmental efficiency studies in FY 2014 in order to generate potential savings to mitigate the FY 2015 projected deficit.

Revenue Overview

The General Fund FY 2014 Proposed Budget includes $1.196 billion in revenues, which is an increase of $45.2 million or 3.9 percent above the FY 2013 Adopted Budget. The four major General Fund revenues (Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees) total $808.0 million, which equals 67.5 percent of General Fund revenues. This is an increase of $31.2 million over the FY 2013 Adopted Budget due to increases in property tax, sales tax, and transient occupancy tax. The increase in property tax revenue is partially attributable to revenue distributions from the County due to the elimination of the City's Redevelopment Agency that are categorized as property tax receipts. This increase in property tax and other changes in major revenue forecasts included in the Proposed Budget are detailed further in the following sections.

Major General Fund Revenue Growth Rates				
Revenue Source	FY 2011 Actual	FY 2012 Actual	FY 2013 Projected	FY 2014 Proposed
Property Tax	-1.9%	6.4%	-1.7%	0.1%
Sales Tax	12.2%	5.3%	6.3%	6.0%
TOT	12.5%	6.6%	7.6%	6.0%
Franchise Fees	-2.8%	5.4%	-3.9%	1.0%
SDG&E	-6.4%	6.3%	-6.4%	2.0%
Cable	2.8%	1.1%	0.5%	4.0%

** Reflects growth in revenue year-to-year, not budgeted revenue growth rates*

Other local taxes and non-departmental revenues have increased by $15.3 million or 22.1 percent over the FY 2013 Adopted Budget primarily due to the $13.5 million increase in the "other" category of non-departmental revenue. This $13.5 million

FY 2014 Proposed Budget - General Fund Revenue			
GENERAL FUND REVENUE	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	$ 387,134,682	$ 402,168,856	$ 15,034,174
Sales Tax	236,258,330	248,138,819	11,880,489
Transient Occupancy Tax	81,710,904	89,244,498	7,533,594
Franchise Fees	70,007,311	67,049,845	(2,957,466)
Other Local Taxes			
Property Transfer Tax	6,359,105	6,968,111	609,006
Safety Sales Tax[1]	7,781,541	8,450,759	669,218
Other Non-Departmental			
Interest Earnings	1,354,233	859,389	(494,844)
Transfer from TOT Fund	14,493,278	15,846,272	1,352,994
General Gov't Service Billings	25,192,557	24,601,720	(590,837)
Other	15,829,253	29,298,508	13,469,255
Departmental Revenues	305,093,951	303,755,506	(1,338,445)
TOTAL GENERAL FUND REVENUE	**$ 1,151,215,145**	**$ 1,196,382,283**	**$ 45,167,138**

1 Safety Sales Tax is deposited into the Public Safety Needs and Debt Service Fund and used to pay oustanding debt on the Fire and Lifeguard Facilities and the remainder equally transferred to the Fire and Police Departments.

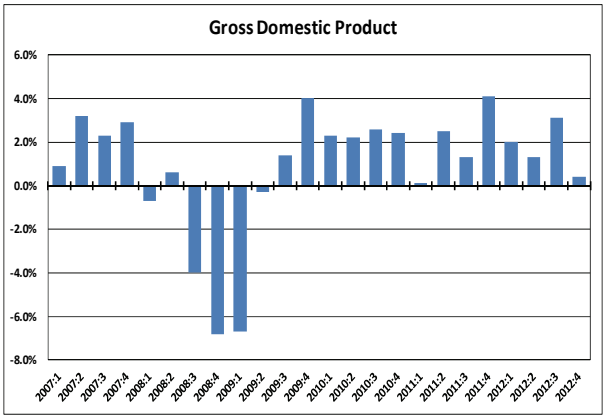
increase is attributable to the $21.6 million in revenue transferred to the General Fund from the San Diego Gas & Electric settlement funds that were previously held in the City's Public Liability Fund being received in this category of revenues. This $21.6 million increase is offset by approximately $5.0 million in revenue that will not be received in FY 2014 from the Redevelopment Agency that was budgeted in previous years and the elimination of $2.5 million in one-time revenues included in the FY 2013 Adopted Budget, among others.

Departmental revenues in the FY 2014 Proposed Budget have declined $1.3 million from the FY 2013 Adopted Budget. Declines in the Fire & Rescue and Park & Recreation Department are offset by increases in other departments, such as Real Estate Assets and Police, resulting in a minimal or 0.4 percent decline in departmental revenue from the FY 2013 Adopted Budget. Details of individual department revenue forecasts are also outlined in following sections of this report.

Economic Outlook

Despite a slowing of growth in the U.S. economy in the fourth quarter of 2012, the economy is expected to continue to improve, although at a moderate pace. Economists site continued improvements in employment, the housing market, and personal income as positive indications of a continued momentum within the economy.

Gross Domestic Product (GDP), the broadest measure of the nation's economic health, increased at an annual rate of 2.2% in 2012, following a 1.8% increase in 2011. GDP grew by 0.4% in the fourth quarter of 2012 according to a third estimate released in March. Although recent GDP growth is slow, the economy has seen growth for fourteen straight quarters, following four quarters of decline from mid-2008 to mid-2009 during the Great Recession.



According to Beacon Economics' Spring 2013 Economic Forecast, GDP will grow by a quarterly average of 3.1% in FY 2014. Similarly, the March 2013 UCLA Anderson Forecast for the Nation and California projects GDP quarterly growth averaging 2.9% in FY 2014. The impacts of sequestration, higher taxes, issues related to the implementation of the Patient Protection and Affordable Care Act, and inflation have been incorporated into the forecasts, and as such, do not pose risks.

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 2013 is 7.7% according to initial estimates. This is an decrease over February's rate of 8.0%, but represents an 1.9% improvement over the March 2012 unemploy-

ment rate of 9.6%. Beacon Economics forecasts that unemployment rates in the County will continue to improve to 7.3% by the end of FY 2014.

Alongside improvements in the unemployment rate, continual personal income growth countywide will support growth in consumer spending, and thus taxable sales. Beacon forecasts growth of 5.4% in taxable sales in FY 2014 over FY 2013.

The real estate market is no longer a weak spot in the economy. According to data from DataQuick, the average monthly median sales price for homes in San Diego County grew by 5.9% in 2012 when compared with 2011. Beacon forecasts average year over year quarterly growth of 14.7% in median housing values in FY 2014 and an increase of 31.3% in sales.

Given current trends and economic forecasts of modest growth in the economy in FY 2014, 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 2014 Proposed Budget are appropriate given current revenue performance and economic forecasts. While we recommend no change at this time, the IBA reserves caution regarding the Franchise Fee projections in consideration of historical trends. 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 $402.2 million in the FY 2014 Proposed Budget. This projection reflects 0.1% growth from the FY 2013 year-end projection, and an increase of $15.0 million from the FY 2013 Budget level, or 3.9%.

This $402.2 million budget is comprised of base property tax from the 1.0% levy on the assessed valuation of real property, property tax "in-lieu" of Motor Vehicle License Fees (MVLF), and tax sharing distributions that the City now receives as a result of the dissolution of redevelopment agencies in California.

For the purposes of this section, the 1.0% levy and property tax "in-lieu" of VLF will be spoken about separately from redevelopment dissolution revenues due to a difference in how projections are determined for these revenue categories. The Successor Agency section of this report will provide more detail regarding the projections for redevelopment dissolution related property tax revenues.

Property Tax Revenue ($ in millions)	
Base 1% Levy	$288.6
"In-Lieu" of MVLF	105.7
Tax Sharing Distribution	2.6
Residual Tax Sharing	5.3
Total Property Tax	**$402.2**

Base property tax and property tax "in-lieu" of MVLF are projected at $394.3 million in the FY 2014 Proposed Budget. This projec-

tion demonstrates an effective growth rate of 1.8% above the FY 2013 Budget, and 1.9% over the FY 2013 year-end projection. (The 1.8% effective growth rate is the result of a 1.5% economic growth applied to FY 2013 base property tax and the "in-lieu" of MVLF receivables, net of projected refunds). In the Five-Year Financial Outlook for FY 2014 - 2018, property tax revenue was projected to grow by 1.8% in FY 2014 over the FY 2013 Adopted Budget, representative of an economic growth rate of 1.5%

Property tax revenue in FY 2014 is based on assessed valuation as of January 1, 2013, which reflects market activity that occurred in calendar year 2012. In 2012, San Diego's residential real estate market saw growth in valuation and sales. According to MDA DataQuick housing data, the median sales price of homes within San Diego County increased from $315,000 in December of 2011 to $366,000 in December 2012, an increase of 16.2%. This is substantially improved from a 5.4% decline experienced year-over-year for December 2011. This 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. Home sales also experienced notable improvements in 2012, demonstrating growth of 14.7% over 2011. These year-over-year improvements in both home values and sales will positively impact property tax receipt growth in FY 2014.

FY 2014 property tax receipts will also experience some positive growth from the adjustment of temporary assessments. Over the past few years, the County Assessor's Office proactively reviewed the values of properties sold during the peak of the real estate boom for a temporary reduction in assessed valuation based on the current market value. Those properties for which the assessed valuation were temporarily lowered can be automatically increased back up to the original purchase price of the home, plus an allowable Proposition 13 California Consumer Price Index (CCPI) increase of 2%, once their market value increases back to the original sale price. These temporary reassessments are reviewed on an annual basis by the Assessor's Office. For the FY 2014 property tax roll, some increases have been applied to properties previously experiencing reductions.

Property tax growth in FY 2014 will also be supported by a reduction of refunding activity resulting from assessment appeals filed by property owners. While the number of appeals cases filed for 2011 showed a 22% uptick, cases filed for 2012 declined by 25.2%. In addition to a reduction in the number of cases filed, the amount of refunds resulting from the appeals have been experiencing declines. Refunds resulting from appeals filed for 2011 showed a decline of approximately 50% over 2010. The FY 2014 property tax projection assumes a 32.2% reduction in refunding activity in FY 2014.

Also positively impacting the growth in property tax in FY 2014 is the 2.0% CCPI. 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. A 2.0% increase will be applied to 60% of the FY 2014 property tax roll.

The County Assessor is still in the process of evaluating the FY 2014 Assessed Valuation and will not close this process until before July 1st of 2013. Although the actual valuation for the City of San Diego will not be known until then, preliminary data from the County Assessor's office conveys that it likely that property tax growth will be slightly over 1.0%. This growth is not extensive due to factors such as the overall impact of reassessments and the net valuation increase for sold properties on the roll. Despite growth in sales activity and value in the market, the resulting change in value over that assumed in the property tax roll may not be as significant.

If the 1.5% economic growth in property tax projected for FY 2014 is lowered to 1.0%, this would equate to an approximate $2.0 million reduction in the FY 2014 projection. Given the uncertainty regarding the growth in assessed valuation for the FY 2014 property tax roll at this time, a more conservative projection for property tax is not recommended at this time.

The City can expect to receive additional property tax revenue from the Redevelopment Property Tax Trust Fund (RPTTF), formerly known as tax increment, in the form of pass-through payments, residual distributions, and other one-time payments. The Five-Year Outlook included $4.8 million for FY 2014 in annual ongoing revenue from pass-through and residual distributions of RPTTF to the City. The FY 2014 Proposed Budget includes an additional $3.1 million of anticipated RPTTP above the Outlook. Our office is projecting an additional $3.1 million per year over the $8.4 million included in the Outlook. The Redevelopment Dissolution section of this report provides further detail regarding redevelopment dissolution related property tax revenue.

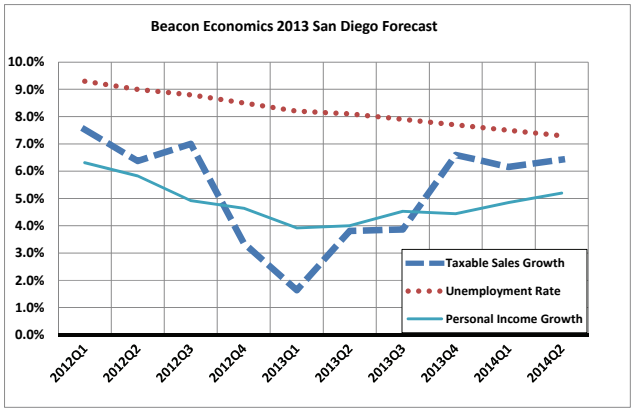
Sales Tax

The FY 2014 Proposed Budget for sales tax revenue is $248.1 million, reflecting 5.5% economic growth from the FY 2013 year-end projection, and an increase of approximately $11.9 million over the FY 2013 Budget. (The effective growth over the current year-end projection is 6.0%). The budgeted economic growth rate of 5.5% reflects the growth projected for FY 2014 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. Sales tax continues to experience growth that began in FY 2011 after two years of significant declines. Based on receipts through February, year-to-date growth in sales tax is 6.3%, with growth at year-end projected to be 5.4% due to slowed growth in third quarter receipts. For the most recent quarter, growth was due to gains in all sectors, with the largest gains being experienced in new auto sales and business services.

The projected sales tax revenue growth for

FY 2014 aligns with Beacon forecasts of countywide growth in employment and personal income that will support a boost in consumer spending, and thus taxable sales. The unemployment rate is forecast to continue to decline incrementally from its current level of 7.7% in March 2013 to 7.3% by the end of FY 2014. Personal income levels are forecast to increase by 5.2% in the fourth quarter of FY 2014 over the same period in FY 2013. Accordingly Beacon forecasts a 5.4% increase in taxable sales countywide in FY 2014.



Given the growth in sales tax projected in FY 2013 of 5.4% and the forecasted continual improvements in the economy, the 5.5% economic growth rate assumed in the FY 2014 Proposed Budget is appropriate. Slowed growth of 4.5% show in the third quarter receipts in FY 2013 is not anticipated to continue. However, if a slowed growth trend does continue through the remainder of FY 2013, this would pose a risk to the FY 2014 sales tax projection.

The FY 2014 Proposed Budget projects

Transient Occupancy Tax

General Fund transient occupancy tax (TOT) at $89.2 million, which is $7.5 million or 9.2% above the FY 2013 Adopted Budget and $5.6 million above the Mid-Year Report projection for year-end TOT revenue. Subsequent to the Mid-Year Report, a revised projection for 2013 year-end revenue was completed based on additional revenue distributions received, totaling $84.2 million. The FY 2014 Proposed Budget for TOT revenue is $5.0 million or 6.0% higher than this FY 2013 revised projection.

The proposed budget of $89.2 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 $170.4 million.

In FY 2008, at the beginning of the period in which dramatic declines in General Fund revenues occurred, TOT revenue was $83.7 million and declined to $65.2 million by FY 2010. However, since FY 2010, TOT revenue has increased 29.1% or an average of 8.9% per year based on the revised revenue projection for FY 2013. Additionally, the fiscal year-to-date growth in TOT revenue is 6.8%, which currently exceeds the 6.0% forecasted rate for the remainder of FY 2013.

In addition to strong increases in previous years revenue, future travel indicators also reflect positive growth. Information compiled by Tourism Economics for the San Diego Convention and Visitor's Bureau (ConVis) in the Quarterly Travel Forecast,

dated December 2012, shows a projected increase in CY 2013 and 2014 tourism indicators that directly translate to TOT revenue received by the City. This information compiled for ConVis reflects continued actual growth for overnight visitors since 2010, and continue to project growth. Overnight visitors are projected to increase 3.8% in 2013 and 5.7% in 2014. Additionally, the average daily rate (ADR), which 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, paid by overnight visitors is projected to increase in 3.1% 2013 and then growing further to a 5.7% increase in 2014.

ConVis Quarterly Travel Forecast - December 2012				
Measure	*2011*	*2012*	*2013*	*2014*
Total Visitors	3.7%	3.6%	1.7%	2.4%
Overnight Visitors	5.7%	7.0%	3.8%	5.7%
Room Demand	3.7%	3.6%	1.7%	2.4%
Average Daily Rate	3.5%	4.5%	3.1%	5.2%
Occupancy Rate	3.5%	3.5%	1.0%	1.4%

Based on the improving ADR and overnight visitors projected in the ConVis report, in addition to the positive growth in FY 2013 revenue and strong growth since FY 2010, the 6.0% growth rate included in the FY 2014 Proposed Budget appears to be appropriate.

Franchise Fees

The FY 2014 Proposed Budget projects General Fund franchise fees at $67.0 million, which is a reduction of $3.0 million or 4.2% from the FY 2013 Adopted Budget. This does not include $1.3 million in towing Police franchise fees and $120,000 in Escondido Disposal (EDCO) revenue, which are budgeted in the Police and Environmental Services Department, respectively. The Police towing franchise fee is discussed in the departmental budget section of this report.

The FY 2013 Mid-Year Report projected total franchise fee revenue of $66.3 million has been revised to $66.4 million. The FY 2014 Proposed Budget level for franchise fees is $770,000 or 1.2 percent above the projection included in the FY 2013 Mid-Year Report and $696,000 or 1.0 percent above the revised projection.

Five Year Average Franchise Fee Growth Rates (2008-2013 Projected)	
Total Franchise Fees	0.5%
San Diego Gas & Electric	-2.1%
Cable Franchise Fees	2.6%
Refuse Collection *	0.2%

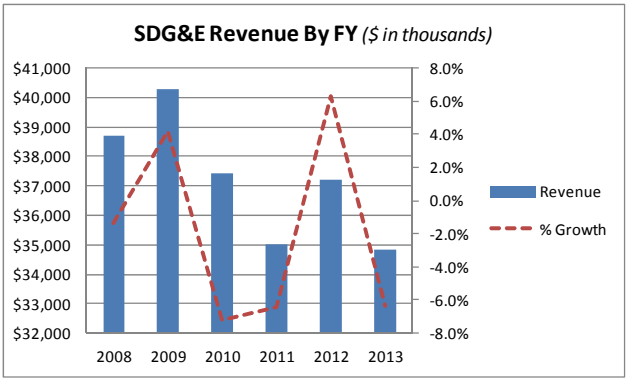
** Excludes one time 2013 revenue*

Total franchise fees Citywide, which include the utility undergrounding surcharge and revenue allocated to the Environmental Growth Fund, are projected in FY 2014 at $129.1 million, which is $4.1 million lower than the FY 2013 Adopted Budget.

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 ac-

counts for $35.6 million of the FY 2014 budgeted revenue amount. This is $2.2 million and 5.8% below the FY 2013 Adopted Budget, but is approximately $817,000 or 2.0% above the FY 2013 revised projection. Additionally, there is $11.9 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 previous chart), with a –2.1% annual growth rate in revenue over the last five years.



The revised FY 2013 projection for SDG&E revenue is $34.9 million, which is $672,000 below the Adopted Budget. The decrease in revenue is attributable to a decline in natural gas prices, SDG&E revenue, and subsequent payments to the City based on this commodity. The FY 2014 forecast for SDG&E revenue is 2.0% above this revised projection, for total revenue of $35.6 million. However, based on the volatility of this revenue source, the projected decline in revenue in FY 2013, and a negative average annual growth rate, projecting growth in this revenue above the FY 2013 revised projection presents a risk to both General Fund SDG&E franchise fee revenue and the Environmental Growth Funds (1/3 & 2/3). We suggest continuing to monitor revenue distributions from SDG&E, as compared to projected levels in FY 2013 and potentially revisit the revenue projection in the May Revise.

The second largest portion of franchise fee revenue is from cable television franchise fees, which totals $19.4 million, which is approximately $100,000 or 0.4% above the FY 2013 Adopted Budget, and approximately $700,000 or 3.8% above the FY 2013 Mid-Year Report. The revised revenue projection for franchise fees in FY 2013 is approximately $50,000 higher than the projection included in the Mid-Year Report. The FY 2014 Proposed Budget is based on a 4.0% growth rate above this revised projection.

Cable television franchise fee revenue has averaged an annual 2.6% historical growth rate over the previous five years, with no year-over-year decline in revenue during this period. However, cable television revenue growth in FY 2013 based on the revised projection is only 0.5% over actual revenue received in FY 2012. Based on small growth in the current fiscal year and the

average annual growth rate below the projected 4.0% for FY 2014, revenue growth for cable franchise fee revenue may be slightly high. As with SDG&E revenues, we suggest continuing to monitor cable revenue distributions for any potential revision in the May Revise.

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 decline $850,000 from the FY 2013 Adopted Budget, or 8.5%. The decline is due to the elimination of a projected $850,000 one-time revenue in FY 2013 that is not a recurring revenue source. Projected growth in revenue included in the FY 2014 Proposed Budget is currently 0% excluding this one-time revenue from the FY 2013 Adopted Budget. Fees generated from the Sycamore landfill are also projected to show no growth in FY 2014 over the FY 2013 Adopted Budget. Based on the five year growth in refuse collection franchise fee revenue of near 0%, we believe that the projected growth for the FY 2014 Proposed Budget is prudent.

Based on this franchise fee information, we believe the projections in FY 2014 may need to be slightly reduced from $67.0 million to $66.0 million.

Expenditure Overview

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget totals $1.20 billion, and reflects a net increase of $36.4 million from the FY 2013 Adopted Budget, or a 3.1% 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 2014 budget proposal has increased by $27.8 million, largely due to the $29.0 million increase in the City's retirement contribution, or Annual Required Contribution (ARC). The Five-Year Outlook contained an estimated ARC of $183.7 million, based on previous projections by the pension system's actuary. The FY 2014 General Fund ARC of $212.7 million that is incorporated into the FY 2014 Proposed Budget was determined after the Five-Year Outlook was produced.

Another significant change from the Outlook to the FY 2014 Proposed Budget is a $5.6 million decrease in expenditures due to the delay of the FY 2014 $80 million planned bond issuance for deferred capital– see the Infrastructure section of this report for more information.

Issues to Consider

The Mayor's FY 2014 Proposed Budget is the fourth 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, Procure-

SUMMARY OF GENERAL FUND BUDGET CHANGES

(in millions)

EXPENDITURE CATEGORY	FY 2012 Actuals	FY 2013 Budget	FY 2014 Proposed	CHANGE	%	FY 2014 OUTLOOK
Salaries and Wages	$ 502.4	$ 511.5	$ 516.0	$ 4.5	0.9%	$ 514.5
Fringe Benefits	311.3	321.1	358.5	37.4	11.6%	325.6
Supplies	22.1	21.4	23.2	1.8	8.4%	21.7
Contracts	156.2	136.8	144.2	7.4	5.4%	138.2
Information Technology	30.8	42.9	39.0	(3.9)	-9.1%	39.4
Energy and Utilities	31.2	42.8	43.0	0.2	0.5%	45.6
Other Expenditures *	5.6	6.9	10.4	3.5	50.7%	87.5
Appropriated Reserve	-	3.9	-	(3.9)	-100.0%	-
Transfers Out	70.5	68.4	59.0	(9.4)	-13.7%	*in Other*
Capital Expenditures	0.8	2.4	2.1	(0.3)	-12.5%	*in Other*
Debt	5.6	5.8	4.9	(0.9)	-15.5%	*in Other*
TOTAL GENERAL FUND	**$ 1,136.5**	**$ 1,163.9**	**$ 1,200.3**	**$ 36.4**	**3.1%**	**$ 1,172.5**

* For the FY 2014 Outlook, includes not only the Other Expenditures category, but also Transfers Out, Capital Expenditures, Debt, and estimated savings associated with the Street and Sidewalk Maintenance Managed Competition.

ment, 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 2014 Proposed Budget changes reflect the implementation of a Citywide policy or direction that can be described globally, while specific impacts to operations are discussed in our Department Review section.

The budget document presented for FY 2014 has been improved over time. For example, the budget document now includes actual revenue and expenditure data for the prior fiscal year (FY 2012). 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 2012) expenditure data and current budget year (FY 2013) data for the specialty pay, overtime and termination pay annual leave categories. This comparative data has been added for fringe in the FY 2014 Proposed Budget—an enhancement from FY 2013

Additionally, the City Council's and all departments' performance measures have been included in Volume I of the Proposed Budget for the first time, which makes them more visible to the public.

Salaries and Wages

The General Fund Salaries and Wages category has increased by $4.5 million, or 0.9% compared to the FY 2013 Adopted Budget. The calculation of budgeted salaries is based on an October 29, 2012 snapshot of payroll data, including actual employee salaries.

SALARIES AND WAGES - BUDGET AND ACTUAL CHANGES

Significant General Fund (GF) Changes by Type

(in millions)

SALARY AND WAGE TYPE	FY 2012 Actuals	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Salary Savings (includes vacancy savings)	*in Salaried Wages*	$ (23.8)	$ (24.7)	$ (0.9)	3.8%
Salaried Wages	389.8	447.1	448.6	1.5	0.3%
Vacation Pay in Lieu	6.7	1.9	1.9	-	0.0%
Termination Pay/Annual Leave	4.0	1.5	5.2	3.7	246.7%
Specialty Pay	30.4	30.1	29.6	(0.5)	-1.7%
Hourly Wages	11.4	11.5	12.1	0.6	5.2%
Overtime	60.1	43.7	43.4	(0.3)	-0.7%
Budget Adjustment	-	(0.5)	(0.1)	0.4	-80.0%
TOTAL GF SALARIES AND WAGES	**$ 502.4**	**$ 511.5**	**$ 516.0**	**$ 4.5**	**0.9%**

General Fund FTEs have increased by 60.29, from 7,152.15 to 7,212.44 FTEs. A listing of FTE changes by department appears in the next section of this report (entitled, "FTE Changes").

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 2014 Salary Savings for the General Fund is $24.7 million. Note that Salary Savings lowers the General Fund Budget by $24.7 million, as shown in the "Salaries and Wages—Budget and Actual Changes" table on the previous page.

As compared to the FY 2013 Adopted Budget, the FY 2014 Proposed Budget for Salary Savings increased by $975,000, which, decreases total Salaries and Wages by $975,000. This is largely due to the following: an enhancement to the SAP Public Budget Formulation module to more accurately budget for salary savings, and the removal of the remaining instances where employees were budgeted as waiving the SPSP benefit rather than incurring a salary reduction.

As mentioned in the discussion above, vacancy savings are included in the Salary Savings line item. Vacancy savings are a result of the following: the FY 2014 Budget includes the positions that are authorized to be filled; however, not all authorized positions are funded within the budget. A certain number of positions are unfunded in order to account for savings that routinely occur due to turnover, leaves of absence and incidence of newly hired employees that fill vacancies at lower salaries than budgeted. The unfunding of a portion of the City's positions results in vacancy sav-

VACANCY SAVINGS - BUDGET CHANGES

Significant General Fund (GF) Changes by Department

(in thousands)

DEPARTMENT	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
City Attorney	$737	$753	$16	2.2%
City Council	61	304	243	398.4%
Environmental Services	221	237	16	7.2%
Fire-Rescue	4,865	4,362	(503)	-10.3%
Library	646	537	(109)	-16.9%
Park and Recreation	932	955	23	2.5%
Police	8,810	8,718	(92)	-1.0%
Public Works - Engineering & Capital Projects	1,011	1,057	46	4.5%
Public Works - General Services	515	190	(325)	-63.1%
Transportation & Stormwater	816	734	(82)	-10.0%
Remaining Departments	1,108	1,190	82	7.4%
TOTAL GF VACANCY SAVINGS	**$19,722**	**$19,037**	**($685)**	**-3.5%**

ings that reduce overall budgeted salaries and wages.

Since 2007, as part of the annual budget process, the City has assigned a vacancy factor to departments in order to reduce budgeted personnel expenditures in recognition of normal turnover and salary savings. The vacancy savings included in the FY 2014 Budget are based on an October 29, 2012 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 budget. Vacancy savings lowers the FY 2014 General Fund Budget by $19.0 million, or 3.6% of the $535.0 million in salaries and wages before vacancy savings is deducted. A table of vacancy savings budget changes, by department, appears on the previous page.

Leaving the unfunded positions in the budget keeps the authorized positions transparent. A department can fill unfunded positions during the year; however, the department must monitor hiring, salaries and wages, and all budget expenditures to keep within the department's bottom line budget. Budgeting for vacancy savings is not intended to restrict hiring of authorized positions.

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. Salary expenditure reductions resulting from labor concessions are in the form of furlough and/or 3% salary reductions for certain employees.

Other Salary and Wages Adjustments

Other Salary and Wages expenditure changes between the FY 2014 Proposed Budget and the FY 2013 Adopted Budget are highlighted in the following paragraphs.

First, Salaried Wages are increasing by approximately $1.5 million—from $447.1 million in FY 2013 to $448.6 million in FY 2014. There are a number of increases affecting this line item. These include position reclassifications, career advancements, and some service increases, including:

- 6.00 FTEs in Development Services for the Mayor's Civic and Urban Initiatives Program;
- 12.00 FTEs in the Fire-Rescue Department for hourly seasonal lifeguards;
- 2.00 Fire Dispatchers and 1.00 Information Systems Analyst II in Fire-Rescue which are related to new dispatch contracts with other cities;
- 4.50 FTEs in the Library Department to support the new Central Library;
- 1.00 Director of Open Government and 1.00 Community Affairs Representative in the Mayor's Office;
- 8.01 added FTEs in Park & Recreation for support of maintenance and operations in recreation areas, including parks and open space;
- 3.00 FTEs in Park & Recreation to support the Balboa Centennial Celebration 2015;

- 8.67 FTEs for additional Police Recruits –partial year funding;
- 2.50 FTEs in the Police Department to annualize the five Civilian positions that were funded for one-half year in FY 2013;
- 4.00 engineering positions in Public Works-Engineering and Capital Projects for maintaining storm water compliance on construction projects; and
- 9.00 trade position FTEs in Public Works-General Services to provide maintenance and repair support for the deferred capital backlog.

The largest departmental reductions in FTEs are the following:

- 13.00 FTEs in the City Attorney's Office;
- 8.17 FTEs in Transportation and Storm Water reflecting a half-year of Street and Sidewalk Maintenance Managed Competition savings, subject to negotiations obligations under the Meyers-Milias-Brown Act.

Note that there is a summary of FTE changes, by department, in the FTE Changes section of this report, which follows this section.

Additionally, there are a number of FTE transfers between departments that produce no overall General Fund increase or decrease in FTEs. Further, a transfer may reduce a particular department's FTEs (or reduce FTE increases for a department), but the transfer would have a corresponding increase to another General Fund department—so there would be no net impact to the General Fund.

There are two instances of departmental transfers that yield a General Fund increase in FTEs:

- 1.00 Development Project Manager 2 from the Development Services Fund to the Economic Development Department's CDBG Division; and
- 2.25 Hazardous Substance Enforcement Team FTEs from the Refuse Disposal Fund to the General Fund in the Environmental Services Department.

Other specific Salary and Wage adjustments include Termination Pay/Annual Leave, which has increased by $3.7 million—from $1.5 million to $5.2 million. Of this increase, the Fire-Rescue Department's portion is $2.1 million and the Police Department's portion is $1.3 million. The estimate for Termination Pay is based on anticipated retirements and annual leave data for DROP employees.

Hourly wages are increasing by $591,000, largely due to a $443,000 increase for seasonal lifeguards in the Fire-Rescue Department.

Overtime is decreasing by approximately $307,000. This is due to the Fire-Rescue Department's overtime budget decrease of $319,000, which is offset by small increases in a couple other departments.

Fringe Benefits

In the FY 2014 Proposed Budget, total Fringe Benefits have increased by $37.4 million in the General Fund—see the table of

fringe benefits on the following page. This is largely due to the $33.0 million increase in the General Fund's share of the City's retirement payment (ARC)—from $179.7 million to $212.7 million. The ARC represents almost 60% of the General Fund fringe benefits. Note that the Pension section of this report contains further information.

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.

Funding for retiree health benefits, or Other Post-Employment Benefits, is almost unchanged—increasing from $41.0 million to $41.1 million. Retiree health benefits are discussed in the Other Post-Employment Benefits section of this report.

Worker's Compensation funding has been increased by $2.7 million, from $23.1 million to $25.8 million. This is partly due to estimated increased needs for claims funding. The remainder of the increase is related to the reserve contribution.

The General Fund portion of the reserve contribution is approximately $6.1 million, with General Fund claims funding being approximately $19.7 million. The reason for the reserve contribution increase is described in the Workers Compensation Fund section of this report.

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 the ROC's are budgeted at $650,000 in the FY 2014 Proposed Budget.

The Long-Term Disability (LTD) budget is

SUMMARY OF FRINGE BENEFITS BUDGET AND ACTUAL CHANGES

General Fund (GF) Changes by Benefit

(in millions)

FRINGE BENEFIT ACCOUNT	FY 2012 Actuals	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Retirement ARC	$ 180.4	$ 179.7	$ 212.7	$ 33.0	18.4%
Flexible Benefits	36.7	38.6	39.2	0.6	1.6%
Retiree Health Benefits	38.6	41.0	41.1	0.1	0.2%
Worker's Compensation	16.9	23.1	25.8	2.7	11.7%
Retirement Offset Contribution	0.7	0.7	0.7	0.0	0.0%
SPSP	10.8	11.1	11.5	0.4	3.6%
Employee Offset Savings	8.6	9.1	9.2	0.1	1.1%
Medicare	6.4	5.6	5.8	0.2	3.6%
Risk Management Administration	6.4	6.7	6.9	0.2	3.0%
Long Term Disability	2.5	2.5	2.4	(0.1)	-4.0%
Remaining Fringe Accounts	3.3	3.0	3.2	0.2	6.7%
TOTAL GF FRINGE BENEFITS	**$ 311.3**	**$ 321.1**	**$ 358.5**	**$ 37.4**	**11.6%**

almost unchanged—decreasing from $2.5 million to $2.4 million. The LTD Fund is discussed in the Long-Term Disability Fund section of this report.

Supplies

The Supplies category is budgeted at $23.2 million for the General Fund, and reflects an increase of $1.8 million or 8.4% compared to the FY 2013 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 Safety Supplies of $1.0 million. Additionally, the increase to Building Materials and Electrical Materials accounts is $689,000. There are a number of additional increases and offsetting decreases in various Supplies accounts.

Contracts

The Contracts category totals $144.2 million for the General Fund, and reflects an increase of $7.4 million from the FY 2013 Adopted Budget. Below is a table of changes in the larger line items of the Contracts category. A few changes are also noted in the discussion 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

SUMMARY OF CONTRACTS BUDGET CHANGES

General Fund (GF) Changes by Account

(in millions)

CONTRACTS ACCOUNT	FY 2012 Actuals	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Misc. Professional/Technical Services	$ 26.2	$ 32.0	$ 35.1	$ 3.1	9.7%
Motive Equipment/Fleet - Usage	34.0	20.8	23.4	2.6	12.5%
Motive Equipment/Fleet - Assign	15.6	13.5	13.2	(0.3)	-2.2%
Refuse Disposal Fees	12.2	11.9	12.4	0.5	4.2%
Rent Expense (Non-Discretionary)	9.9	11.5	12.0	0.5	4.3%
Contract Svc - Agency	8.0	8.0	8.0	0.0	0.0%
Contract Svc Operations	6.7	6.4	5.3	(1.1)	-17.2%
City Services Billed	18.3	4.2	4.1	(0.1)	-2.4%
Landscaping Services	3.4	4.5	3.8	(0.7)	-15.6%
Repair & Maintenance Services	1.1	1.5	2.4	0.9	60.0%
Maint - Buildings, Roads, Equipment	2.6	2.4	2.3	(0.1)	-4.2%
Maintenance & Janitorial Services	1.4	2.3	2.3	0.0	0.0%
Legal Fees	1.0	2.1	2.1	0.0	0.0%
Security Services	1.3	1.6	1.7	0.1	6.2%
Fire Insurance	1.1	1.3	1.5	0.2	15.4%
Remaining Contracts Accounts	13.4	12.8	14.6	1.8	14.1%
TOTAL GF CONTRACTS	**$ 156.2**	**$ 136.8**	**$ 144.2**	**$ 7.4**	**5.4%**

well as for costs for planned scheduled replacements based on the useful life of the vehicle or piece of equipment. For FY 2014, the usage expenditures are increasing by $2.6 million, which is related to increased expenditures in the Fleet Operating Fund—including $1.3 million related to the new Global Positioning System (GPS) contract and $449,000 related to tire purchases.

There is also an increase in FY 2014 of $3.1 million in the miscellaneous professional and technical services account. Some of the larger increases include the following:

- $831,000 for Community Plan Updates, of which $700,000 is needed solely for the Environmental Impact Report portion of the South Eastern San Diego Community Plan Update (see the Development Services section for more information on the Community Plan Updates);
- $337,000 to support the Mayor's Civic and Urban Initiatives program (see the Development Services section of this report);
- $491,000 for maintenance of the new central library facility (see the Library section of this report);
- 300,000 for the Balboa Park Traffic Management Plan (see the Park and Recreation section of this report);
- $254,000 for the San Dieguito River Park Joint Powers Authority; and
- $2.0 million for compliance with the bacteria Total Maximum Daily Load (TMDL) and the new Municipal Storm Water Permit, which is expected to be adopted in Spring 2013 (see the Transportation and Storm Water section of this report for more information).

Some of the larger decreases to miscellaneous professional and technical services include the following:

- $727,000 for the discontinued red light photo enforcement program; and
- $185,000 reduction in the contribution to support the operations of the Business Improvement District (BID) Council (see the Economic Development section of this report).

There are a number of additional increases and offsetting decreases in various Contracts accounts.

Lastly, we would note that tree trimming services account has been funded at $750,000 in FY 2014.

Information Technology

A large portion of Information Technology (IT) services has been historically provided to the City by San Diego Data Processing Corporation (SDDPC).

At the end of FY 2012, the City Council approved changes to the way the City obtains IT services. Specifically, it approved contracts with three different vendors for data and voice network services, data center services, service desk and desktop support services, and application development and maintenance services.

A discussion on the transition to outside vendors and the dissolution of SDDPC is

located in the Department of Information Technology section of this report.

In total, the FY 2014 Proposed Budget for IT costs across all General Fund Departments totals $39.0 million, a decrease of $3.9 million from the FY 2013 Budget of $42.9. The table below shows the major changes in budget amounts.

Budget adjustments from FY 2013 to FY 2014 include the following:

- The $2.2 million increase in the Hardware/Software line is largely due to $2.6 million added for personal computer replacement and the MS Windows 7 upgrade across departments. This is offset by a decrease related to one-time expenditures in FY 2013.
- The $2.1 million decrease in the Telephone and Network Access line is largely due to the removal of one-time transition costs.
- The $593,000 decrease in the Professional IT Services line is partly due to the removal of one-time transition costs and partly due to decreased costs associated with the new vendor, which in combination total an $881,000 budget reduction. Offsetting these decreases are $288,000 in additional costs for discretionary departmental projects.
- The $1.4 million decrease in the Data Center line includes the removal of one-time transition costs of $3.2 million. Offsetting this decrease are budget increases which are largely due to $1.3 million additional costs for Data Center equipment upgrades that normally occur on an annual basis but were not budgeted in FY 2013 due to the transition from SDDPC to an outside vendor.
- The $40,000 decrease in the Licensing/Maintenance line includes the removal of one-time transition costs of $725,000, which are largely offset by departmental discretionary licensing/maintenance costs.
- The $1.9 million decrease in the SAP

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

INFO TECHNOLOGY TYPE	FY 2012 Actuals	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Hardware / Software	$1.2	$ 1.5	$ 3.7	$ 2.2	146.7%
Telephone and Network Access	7.0	10.3	8.2	(2.1)	-20.4%
Professional IT Services	5.3	6.2	5.6	(0.6)	-9.7%
Data Center	1.2	6.5	5.1	(1.4)	-21.5%
Licensing/Maintenance Contracts	7.0	7.3	7.2	(0.1)	-1.4%
SAP Support Allocation	8.9	11.1	9.2	(1.9)	-17.1%
SDDPC Procurement Services	0.2	0.0	0.0	0.0	0.0%
TOTAL GF INFO TECH	**$ 30.8**	**$ 42.9**	**$ 39.0**	**$ (3.9)**	**-9.1%**

Support Allocation is related to the $4.5 million decrease in the OneSD Support Fund's FY 2014 Budget, which is allocated citywide. The decrease for the OneSD Support Fund is primarily due to the removal of one-time transition costs (largely in the Data Center) and reductions in non-discretionary expenses, one-time hardware costs, and consultant support.

Energy/Utilities

The Energy and Utilities category totals $43.0 million for FY 2014, and reflects an increase of $260,000 from the FY 2013 Adopted Budget of $42.8 million. 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 below.

A decrease to the Street Lighting/Traffic Signals line item of $1.9 million is due to the reallocation of budget to the Traffic Signals line item.

Other

Changes in the Other expenditures category are shown in the table on the next page. The most notable changes from FY 2013 to FY 2014 are discussed below.

- The $2.1 million Information Technology Services Transfer increase is directly related to the Information Technology Fund expense budget. This increase is partly due to the increase in the Information Technology Fund's expenditure budget and the decreased use of fund balance to cover expenditures.
- An addition of $1.4 million for the Supplemental COLA benefit—this benefit is for certain retirees who retired before

SUMMARY OF ENERGY/UTILITIES BUDGET CHANGES
General Fund (GF) Changes by Account
(in millions)

ENERGY/UTILITIES ACCOUNTS	FY 2012 Actuals	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Fleet Fuel (Non-Discretionary)	$0.0	$ 11.7	$ 11.9	$ 0.2	1.7%
Electric Services	6.8	7.9	8.3	0.4	5.1%
Water Serv-Includes Hydr Rent	6.8	6.7	7.1	0.4	6.0%
Wireless Communication Transfer	7.4	6.7	5.9	(0.8)	-11.9%
Street Lighting/Traf Sig	1.2	2.9	1.0	(1.9)	-65.5%
Traffic Signals	3.5	1.8	3.7	1.9	105.6%
Cellular Phone Operating Cost	1.2	1.4	1.5	0.1	7.1%
Other Motor Fuels	2.4	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	1.0	1.3	1.2	(0.1)	-7.7%
TOTAL GF ENERGY/UTILITIES	**$ 31.2**	**$ 42.8**	**$ 43.0**	**$ 0.2**	**0.5%**

July 1, 1982. When the benefit was created, $35.0 million was set aside in a special pension reserve that would fund the benefit. The reserve is anticipated to be depleted in October 2013, and once the reserve is depleted, SDCERS cannot continue to pay this benefit. See the Citywide Program Expenditures Department section for additional information.

Transfers Out

The Transfers Out category contains transfers of funding between City funds, including the allocation of funds to City reserves and transfers of funding for annual debt service payments for outstanding bonds. 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.

The Transfers Out category totals $59.0 million for the General Fund, and reflects a decrease of $9.4 million from the FY 2013 Adopted Budget amount of $68.4 million. Budget adjustments are discussed in the related Department Review sections and highlighted below.

Listed below are some of the main decreases to the Transfers Out category.

- Removal of the one-time $8.3 million maintenance and repair funding that was funded through surplus for FY 2013;
- In the Citywide Program Expenditures Department, a $6.0 million Public Liability Fund reserve contribution decrease;
- In Transportation and Storm Water (TSW), a decrease of $2.9 million for CIP contributions for Storm Water– note that in the $35 million bond issuance anticipated at the end of FY 2013 there will be $5.0 million for Storm Water CIP;
- In the Police Department, a $2.4 million decrease, moving the Police tow program from the Transfers Out category to the Contracts category;
- In the Police Department, a decrease of $1.4 million in the transfer to the Police Decentralization Fund due to use of

SUMMARY OF OTHER BUDGET CHANGES

General Fund (GF) Changes by Account/Type

(in millions)

OTHER ACCOUNTS	FY 2012 Actuals	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Information Technology Services Transfer	$2.1	$2.6	$4.7	$2.1	80.8%
Transportation Allowance	1.5	1.8	1.8	0.0	0.0%
Preservation of Benefits Expense	1.0	1.7	1.7	0.0	0.0%
Supplemental COLA	0.0	0.0	1.4	1.4	100.0%
Taxes - Sales/Use & Assessments	0.9	0.8	0.8	0.0	0.0%
Other Expenditures	0.1	0.0	0.0	0.0	0.0%
TOTAL GF OTHER	**$ 5.6**	**$ 6.9**	**$ 10.4**	**$ 3.5**	**50.7%**

fund balance.

Increases to the Transfers Out category include the following:

- In TSW, an increase of $2.3 million for operations and maintenance support for street resurfacing and storm drain related capital requirements.
- In Citywide Program an increase in $2.6 million to be transferred to the park improvement funds.
- In Citywide Program an increase in $2.3 to be transferred to the Public Liability claims fund.
- In Citywide Program an increase of $2.0 for debt service related to the $35 million CIP bond issuance anticipated at the end of FY 2013
- In Economic Development, a $1.3 million increase related to operations for the emergency winter shelter year-round (see the Economic Development section of this report for more information).
- In the City Treasurer's Office, an increase of $390,000 related to parking meters (see the City Treasurer section for more information).

Capital

Capital Expenditures include funding for vehicle and equipment purchases not handled by the City's Fleet Services. The FY 2014 Proposed Budget for General Fund Capital Equipment is $2.1 million, a decrease of $0.3 million from the FY 2013 Budget of $2.4 million.

Debt

The Debt category totals $4.9 million in the General Fund for FY 2014, a decrease of $0.9 million from the $5.8 million in the FY 2013 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 (CEC) 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 $350,000 for payments on a related 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 $16 million are funded by $11 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 ($466,000 in FY 2013). The project is anticipated to be completed in May 2013 and is currently about 98% complete.

FTE Changes

Below is a summary of General Fund Full Time Equivalent (FTE) changes between the FY 2013 Adopted Budget and the FY 2014 Proposed Budget. The next few pages outline the additions and reductions for each department.

DEPARTMENT	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE	%
Administration	22.95	12.00	-10.95	-47.7%
Business Office	7.75	0.00	-7.75	-100.0%
City Attorney	345.99	332.86	-13.13	-3.8%
City Comptroller	79.75	81.75	2.00	2.5%
City Council	98.13	102.30	4.17	4.2%
City Treasurer	118.63	119.63	1.00	0.8%
Debt Management	18.00	19.00	1.00	5.6%
Department of Information Technology	0.00	5.00	5.00	100.0%
Development Services	111.07	113.75	2.68	2.4%
Economic Development	44.42	46.00	1.58	3.6%
Environmental Services	135.01	137.69	2.68	2.0%
Financial Management	31.03	30.00	-1.03	-3.3%
Fire-Rescue	1,146.40	1,162.52	16.12	1.4%
Library	408.06	410.93	2.87	0.7%
Multimedia Services	4.00	0.00	-4.00	-100.0%
Office of the Assistant COO	1.00	8.00	7.00	700.0%
Office of the Chief Financial Officer	3.75	5.00	1.25	33.3%
Office of the Mayor	24.16	26.16	2.00	8.3%
Park & Recreation	769.15	782.06	12.91	1.7%
Personnel	59.04	60.36	1.32	2.2%
Police	2,515.35	2,524.79	9.44	0.4%
Public Works - Contracting	0.00	19.00	19.00	100.0%
Public Works - Engineering & Capital Projects	479.67	469.88	-9.79	-2.0%
Public Works - General Services	116.00	123.00	7.00	6.0%
Purchasing & Contracting	30.39	39.59	9.20	30.3%
Transportation & Storm Water	438.56	437.40	-1.16	-0.3%
Remaining Departments	143.89	143.77	-0.12	-0.1%
TOTAL GF FTE CHANGES	**7,152.15**	**7,212.44**	**60.29**	**0.8%**

Administration (10.95 FTE Decrease)

- Transfer of the EOC Program to Purchasing & Contracting—9.0 FTEs
- Transfer 1.0 Program Manager to the Office of the CFO
- Transfer 0.25 Supervising Management Analyst to the Office of the Assistant COO
- 0.70 FTE reduction in non-standard hourly personnel

Business Office (7.75 FTE Decrease)

- Transfer 7.75 FTEs to the Office of the Assistant COO

City Attorney (13.13 FTE Decrease)

- 13.00 FTEs which the Executive Branch has stated is to reflect position reductions experienced by other City departments over the past five years
- 0.13 FTE reduction in non-standard hourly personnel

City Comptroller (2.00 FTE Increase)

- Transfer from Purchasing & Contracting 1.00 Administrative Aide 2 and 1.00 Associate Management Analyst related to the P-Card Program (no General Fund increase in FTE with this transfer)

City Council (4.17 FTE Increase)

- Annualization of District 9 FTEs

City Treasurer (1.00 FTE Increase)

- Transfer 1.00 Financial Operations Manager from the Financial Management Department (no General Fund increase in FTE with this transfer)

Debt Management (1.00 FTE Increase)

- 1.00 Program Coordinator to perform post-issuance administration and credit support related to the former Redevelopment Agency bond program

Department of Information Technology (5.00 FTE Increase)

- Transfer of the Multimedia Services Division's 4.00 FTEs (no General Fund increase in FTE with this transfer)
- 1.00 new Multimedia Coordinator

Development Services (2.68 FTE Increase)

Additions—8.00 FTEs

- 6.00 FTEs for the Mayor's Civic and Urban Initiatives program
- 1.00 Administrative Aide I to support the Property Value Protection Ordinance
- Transfer 1.00 Code Compliance Officer from Transportation & Storm Water

(no General Fund increase in FTE with this transfer)

Reductions—5.32 FTEs

- Transfer 4.00 Graffiti Team FTEs to Transportation & Storm Water
- 1.32 FTE reduction in non-standard hourly personnel

Economic Development (1.58 FTE Increase)

Additions—2.00 FTEs

- Transfer 1.00 Development Project Manager 2 from the Development Services Fund to the CDBG Division (an increase in FTE to the General Fund)
- 1.00 Administrative Aide II to support the Enterprise Zone Hiring Tax Credit Programs

Reductions—0.42 FTEs

- 0.42 FTE reduction in non-standard hourly personnel

Environmental Services (2.68 FTE Increase)

- Transfer 2.25 Hazardous Substance Enforcement Team FTEs from the Refuse Disposal Fund (an increase in FTE to the General Fund)
- 0.43 FTE addition in non-standard hourly personnel

Financial Management (1.03 FTE Decrease)

- Transfer 1.00 Financial Operations Manager to the City Treasurer
- 0.03 FTE reduction in non-standard hourly personnel

Fire-Rescue (16.12 FTE Increase)

- 12.00 FTEs for hourly seasonal lifeguards
- 2.00 Fire Dispatchers and 1.00 Information Systems Analyst II related to new dispatch contracts with other cities
- 1.12 FTE addition in non-standard hourly personnel

Library (2.87 FTE Increase)

Additions—5.50 FTEs

- 4.50 FTEs to support the new Central Library
- 1.00 Library Clerk

Reductions—2.63 FTEs

- 2.63 FTE reduction in non-standard hourly personnel

Multimedia Services (4.00 FTE Decrease)

- Transfer the Multimedia Services Division's 4.00 FTEs to the Department of Information Technology

Office of the Assistant COO (7.00 FTE Increase)

- Transfer of the 6.75 FTEs in the Business Office to the Office of the Assistant COO (no General Fund increase in FTE with this transfer)
- Transfer 0.25 Supervising Management Analyst from the Administration De-

partment (no General Fund increase in FTE with this transfer)

Office of the Chief Financial Officer (1.25 FTE Increase)

Additions—1.63 FTEs

- Transfer of 1.00 Program Manger from the Administration Department (no General Fund increase in FTE with this transfer)
- 0.63 FTE to increase the Associate Management Analyst position to 1.00 FTE

Reductions—0.38 FTE

- 0.38 FTE reduction in non-standard hourly personnel

Office of the Mayor (2.00 FTE Increase)

- 1.00 Director of Open Government
- 1.00 Community Affairs Representative

Park & Recreation (12.91 FTE Increase)

Additions—13.09 FTEs

- 5.0 FTEs to support maintenance and operations in Mission Trails Regional Park
- 3.0 FTEs to support the Balboa Park Centennial Celebration 2015
- 2.0 FTEs to support the maintenance and operations of new open space acreage
- 0.75 FTE to support maintenance and operations of the Memorial Pool expansion
- 0.22 FTE to reinstate restroom service in winter months at South Kellogg and North Mission Beach
- .04 FTE to support maintenance and operations of the West Maple Canyon Mini-Park
- 2.08 FTE addition in non-standard hourly personnel

Reductions—0.18 FTE

- 0.18 FTE reduction in the Grounds Maintenance Worker 2 job classification

Personnel (1.32 FTE Increase)

Additions—1.50 FTEs

- 1.00 Associate Personnel Analyst and 0.50 Test Monitor II to assist with safety examinations

Reductions—0.18 FTE

- 0.18 FTE reduction in non-standard hourly personnel

Police (9.44 FTE Increase)

Additions—11.17 FTEs

- 2.50 FTEs to annualize the five Civilian positions that were funded for one-half year in FY 2013
- 8.67 FTEs for 16 additional Police Recruits—partial year funding

Reductions—1.73 FTE

- 1.73 FTE reduction in non-standard hourly personnel

Public Works—Contracting (19.00 FTE Increase)

- Transfer of 17.00 Contracting Team

FTEs from Public Works—Engineering & Capital Projects (no General Fund increase in FTE with this transfer)

- 1.00 Administrative Aide 2 and 1.00 Clerical Assistant 2 for administrative and budget support

Public Works—Engineering & Capital Projects (9.79 FTE Decrease)

Additions—8.46 FTEs

- 4.00 engineering positions for maintaining storm water compliance on construction projects
- Transfer 1.00 Information Systems Analyst 2 and 1.00 Information Systems Technician from Public Works—General Services (no General Fund increase in FTE with this transfer)
- 2.46 FTE addition in non-standard hourly personnel

Reductions—18.25 FTE

- Transfer of 17.00 Contracting Team FTEs to Public Works—Contracting
- Transfer 1.00 Administrative Aide 2 position related to grant invoicing to Transportation & Storm Water
- 0.25 FTE reduction in the Assistant Engineer—Civil job classification

Public Works—General Services (7.00 FTE Increase)

Additions—9.00 FTEs

- 9.00 trade position FTEs to provide maintenance and repair support for the deferred capital backlog

Reductions—2.00 FTE

- Transfer 1.00 Information Systems Analyst 2 and 1.00 Information Systems Technician to Public Works—Engineering & Capital Projects

Purchasing & Contracting (9.20 FTE Increase)

Additions—11.20 FTEs

- Transfer of the EOC Program (9.00 FTEs) from the Administration Department (no General Fund increase in FTE with this transfer)
- Transfer 1.00 Assistant Management Analyst from the Business Office
- 1.00 new Supervising Management Analyst to support the EOC Program
- 0.20 FTE addition in non-standard hourly personnel

Reductions—2.00 FTE

- Transfer to the City Comptroller 1.00 Administrative Aide 2 and 1.00 Associate Management Analyst related to the P-Card Program

Transportation & Storm Water (1.16 FTE Decrease)

Additions—8.01 FTEs

- Transfer 4.00 Graffiti Team FTEs from Development Services (no General Fund increase in FTE with this transfer)
- Transfer of 1.00 Administrative Aide 2 position related to grant invoicing from Public Works—Engineering & Capital Projects (no General Fund increase in FTE with this transfer)

- 1.00 Senior Civil Engineer and 1.00 Associate Planner for compliance with the Bacteria Total Maximum Daily Load and municipal storm water permit requirements
- 1.00 Program Manager to oversee the citywide Bicycle Program
- 0.01 FTE addition in non-standard hourly personnel

Reductions—9.17 FTEs

- 8.17 FTE reduction reflecting a half-year of Street and Sidewalk Maintenance Managed Competition savings, subject to negotiations obligations under the Meyers-Milias-Brown Act
- Transfer 1.00 Code Compliance Officer to Development Services

Balboa Park Centennial

In 1915, Balboa Park was the venue for the Panama - California Exposition to celebrate the opening of the Panama Canal and the City of San Diego as the first U.S. port-of-call for northbound maritime trade. The 1915 Exposition was a driving influence in developing many of the cultural institutions and architectural style of Balboa Park.

The California Tower and dome, which houses the San Diego Museum of Man, the Cabrillo Bridge (historic 1,500-foot-long bridge) and the Spreckels Organ Pavilion (one of the world's largest outdoor pipe organs) were built for the 1915 Exposition-some of the few permanent structures designed for the fair. The San Diego Museum Association was established in 1915 as a museum of anthropology - its name changed in 1942 to the Museum of Man (with "San Diego" added in 1978).

The former Food & Beverage Building (today's Casa de Balboa, which houses the Balboa Art Conservation Center, Museum of Photographic Arts, Museum of San Diego History & Archives and San Diego Model Railroad Museum), the Casa del Prado (San Diego Botanical Foundation, San Diego Civic Youth Ballet, San Diego Floral Association, San Diego Junior Theater and the San Diego Youth Symphony) and the House of Charm (Mingei International Museum and San Diego Art Institute: Museum of the Living Artist) were also built for the 1915 Exposition as temporary wood-and-plaster structures and have all since been reconstructed.

To celebrate the 100th anniversary of the 1915 Exposition, the City desired to create a year-long multi-faceted celebration ("Centennial Celebration") to be centered around Balboa Park.

To plan, organize, and implement the desired celebration, the City entered into an agreement with Balboa Park Celebration, Inc. ("2015 Committee") to be the official and sole organizer of the Centennial Celebration. The intended scope, quality, and impact of the Centennial Celebration, are such that the interests of the City are better served by the 2015 Committee being the lead entity organizing and managing the Centennial Celebration, rather than the City.

The 2015 Committee has taken steps to initialize the planning of the events to be undertaken during the Centennial Celebration including discussing the core programming of events with Balboa Park institutions, developing the venue allocation methodology, entering into an agreement with an internationally-known production firm, awarded $325,000 in planning grants to Balboa Park institutions, and developed an overall timeline and initial implementation schedule.

The majority of the funding for the Centennial Celebration is anticipated to be corporate sponsorships, private donations, and some City funds. The City has approved approximately $1.2 million to be directed to the 2015 Committee through various actions. The most recent action was the ap-

proval of $300,000 in the FY 2013 Mid-Year Budget adjustments. This funding was to initiate the Sponsorship Development component and create sponsor-ready presentation packages based on the premier programming content currently developed from input from park stakeholders and institutions.

The FY 2014 Proposed Budget does not include any direct funding to assist in the planning or development of events for the Centennial Celebration. However, of the $1.6 million allocated for funding the Penny for the Arts Blueprint, the Commission for Arts & Culture is recommending that $750,000 is allocated to the Arts & Culture Festivals Revolving Fund for use to support current Commission contractor's planning efforts for Centennial activities and events.

The FY 2014 Proposed Budget does include three additional limited FTE positions to support the logistical coordination of the events in Balboa Park working with other City departments and outside agencies such as San Diego Gas & Electric (SDG&E). An example of this coordination would be to ensure that the electric needs of the events are able to be provided by SDG&E and that the City has the capacity within Balboa Park to accommodate any SDG&E requirements.

2015 Centennial Initial Implementation Plan

The following are highlights from the Initial Implementation Plan developed by the 2015 Committee:

May 2013

- Initial access, transportation & parking management plan
- Updated activities and programming schedule
- Business plan & budget adjustments
- Initial production schedule

July 2013

- Program and planning refinements
- Operating budget refinement
- Secure 30% funding for projects

November 2013

- Comprehensive Master Calendar
- Comprehensive Implementation Plan
- Updated business plan, budget & strategic plan

January 2014

- Secure second 30% funding for projects

June 2014

- Updates to Comprehensive Master Calendar
- Final Venue Allocation Plan
- Final Access, Transportation and Parking Management Plan
- Final Activities and Programming Schedule

July 2014

- Secure final 40% funding for project (project to be 100% funded)

December 2014

- Test and Adjust Show Systems, Lighting, Operational Systems

General Fund Reserve

Reserve Policy

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% 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% of General Fund revenue, with an ultimate target of 8%. When the emergency reserve reaches 8%, the appropriated reserve and unassigned balance will not be included in the overall 8% calculation.

FY 2013 Ending Fund Balance Estimate

The FY 2013 Mid-Year Budget Monitoring Report reflects a FY 2013 beginning fund balance of $166.9 million. This figure was subsequently revised by the Office of the City Comptroller to $167.2 million based on certain unneeded fund balance falling to the General Fund reserve.

The original FY 2013 Adopted Budget anticipated the utilization of $13.2 million in this General Fund reserve balance. However, as of the FY 2013 Mid-Year Report, the General Fund was forecasted to only require the utilization of $7.7 million in reserves. This reduced need for the utilization in reserves led to a $5.5 million budgetary surplus that was projected in the FY 2013 Mid-Year Report.

Based on the Mayor's recommendation for the utilization of the $5.5 million surplus in the Mid-Year Report and Council action, $1.1 million of the FY 2013 projected surplus was appropriated for three new budgetary items ($400,000 for "Portland loos", $350,000 for Balboa Park Centennial Celebration funding, and $300,000 for the Emergency Winter Homeless Shelter extension) via Resolution 308030. This appropriation left approximately $4.4 million of the projected FY 2013 surplus. Additionally, on April 23, City Council approved the extension of the Veterans Homeless Emergency Winter Shelter for the final three months of FY 2013. This approved action requires $250,000 to also be appropriated from the projected FY 2013 surplus.

The total $1.3 million FY 2013 appropriation of surplus reduced the estimated surplus of $5.5 million to $4.2 million. Based on Mid-Year Report projected need for $7.7 million in General Fund reserves to balance the General Fund budget, in addition to $1.3 million in new appropriations, the projected FY 2013 year-end reserve balance is $158.2 million.

FY 2014 Ending Fund Balance Estimate

The Mayor's FY 2014 Proposed Budget utilizes $4.0 million of the remaining $4.2 mil-

lion in the FY 2013 surplus, $2.1 million of which will be utilized for Police Department equipment purchases, the acquisition of a new Lifeguard cliff rescue vehicle, funding for the Balboa Park Traffic Management Plan (which was originally estimated at $500,000 during the FY 2013 Mid-Year Budget Monitoring Report, but funding has been reduced to $300,000 in the FY 2014 Proposed Budget), and the MTS student bus pass program. The remaining $1.9 million will be utilized for continued funding of Community Plan Updates and City Council Community Plans, Projects, and Services.

Based on this utilization of $4.0 million in General Fund reserves in the FY 2014 Proposed Budget, the year-end projection for the General Fund reserve is $154.2 million, which is 12.9% (based on FY 2014 Proposed Budget General Fund total revenue). This is $58.5 million above reserve policy levels.

Potential Impacts of Redevelopment Dissolution

State Controller Clawback - The estimated FY 2014 year-end General Fund reserve balance includes $28.5 million for potential impacts due to the dissolution and wind up of the City's Redevelopment Agency (RDA). The State Controller is anticipated to order the City to reimburse the Successor Agency for $28 million in payments made since January 1, 2011 under agreements between the City and former RDA that were denied by the State Department of Finance (DOF) on the Recognized Obligations Payment Schedule (ROPS) 3. The State Controller has this right under the Clawback provision of AB 26. Denied agreements include repayment of debt service for PETCO Park improvements and Convention Center Phase II expansion and an agreement to repay long-term general/ start-up debt. Based on the timeframe of the State Controller's audits, the Clawback is anticipated to include two payments—$14.2 million for the first payment which could be required in FY 2013 and $13.8 million for the second payment which will likely occur in FY 2014.

Based on these required payments, the estimated year-end FY 2014 General Fund reserve balance would be reduced to $126.2 million or 10.5% of the FY 2014 General Fund revenue budget. This reduces the total amount in excess of policy levels from $58.5 million to $30.5 million.

Successor Agency Administrative Budget - As outlined in the Redevelopment Dissolution section of this report, The Administrative Budget—which is calculated as 3% of the Successor Agency's distribution of Redevelopment Property Tax Trust Fund (RPTTF) monies—was reduced by about $1.64 million due to items that were disallowed by the DOF. The Successor Agency is anticipated to seek approval for up to a $1.64 million loan from the City's General Fund to be able to pay the portion of the budget that is not covered by RPTTF. If approved, this $1.64 million would be funded through General Fund Reserves.

The Successor Agency will seek recovery of the $1.64 million by including it as an enforceable obligation on ROPS 5 (January 1-June 30, 2014). However, there is no guarantee that the Oversight board and the

DOF will approve this repayment as an enforceable obligation. If not approved, this would reduce General Fund reserves to $124.6 million (if the "claw-back" also occurs), which would equal 10.4% of the FY 2014 Proposed Budget General Fund total revenue.

Note that the loan agreement requested by the Successor Agency may include an additional $2.3 million which is part of the $13.2 million that the Successor Housing Agency must remit to the County Auditor and Controller per the Due Diligence Review of unobligated housing funds. This additional loan will be from the City's share of the RPTTF received from making an initial payment of $11 million; therefore is not anticipated to impact the General Fund Reserve Balance.

Other potential impacts on the General Fund reserve may arise due to two anticipated one-time payments from RPTTF based on the housing fund and non-housing fund Due Diligence Reviews, as discussed in the Redevelopment Dissolution section of this report.

Public Liability Fund

The Public Liability fund is supported by transfers from the General Fund, specifically in the Citywide Program Expenditures Department. The FY 2014 Proposed Budget includes $14.5 million to support FY 2014 public liability claims expenditures. This is an increase of $2.3 million over the $12.2 million included in the FY 2013 Adopted Budget.

Additionally, $102,000 in the Citywide Program is budgeted for the Public Liability Fund reserve. This reserve contribution amount to be paid by the General Fund for FY 2014 has decreased by $6.0 million from the FY 2013 Adopted Budget amount of $6.1 million.

Note that during FY 2012, the City deposited $27.0 million related to a wildfire settlement with SDG&E into the Public Liability Fund. However, as part of the budget balancing actions, the FY 2014 Proposed Budget transfers $21.6 million from the Public Liability Fund to the General Fund. The remaining $5.4 million is expected to be transferred to the appropriate Enterprise Funds as part of the May Revision.

Even with the removal of the $27 million from the Public Liability Fund, it is estimated to have enough fund balance for $4.7 million of fund balance to cover part of the FY 2014 reserve contribution. With the $102,000 General Fund contribution from Citywide Program Expenditures, the $4.7 million of fund balance enables a $4.8 million FY 2014 reserve contribution—see the table below, showing the current City Reserve Policy's target contributions and projected reserve balances, as well as updated target contributions and reserve balance projections.

Note that the reserve contribution amount needed to keep the reserve balance on target has been reduced from $6.1 million to $4.8 million for FY 2014. With the $4.8

Public Liability Fund Reserve Targets
($'s in Millions)

	Target Contribution		Projected Reserve Balance		Balance as % of Total Outstanding Actuarial Liability**	
Target Date	Reserve Policy	Updated Target	Reserve Policy	Updated Projection	Reserve Policy	Updated Projection
June 30, 2012	--*	--*	$17.1	$17.1	14%	17%
June 30, 2013	6.1	6.1	23.2	23.2	19%	22%
June 30, 2014	6.1	4.8	29.3	28.0	24%	27%
June 30, 2015	6.1	4.8	35.4	32.8	30%	32%
June 30, 2016	6.1	4.8	41.5	37.6	35%	36%
June 30, 2017	6.1	4.8	47.6	42.4	40%	41%
June 30, 2018	6.1	4.8	53.7	47.2	45%	46%
June 30, 2019	$6.1	$4.8	$59.8	$52.0	50%	50%

*Reserve contribution was suspended for FY 2012.

**Based on the average value of the annual actuarial liability for the three fiscal years 2008 through 2010, or $119.6 million, for the current City Reserve Policy, and for the three fiscal years 2010 through 2012, or $103.6 million, for the Updated Target and Updated Projection.

million contributed in FY 2014, it is estimated that the reserve balance will still exceed the City Reserve Policy target of 24% of outstanding claims for FY 2014. This is the case because the latest three years of actuarial valuations used to establish the reserve target show lower outstanding public liability claims than the current Reserve Policy.

The City's Reserve Policy overall target of 50% funding of these liabilities is estimated to be achieved in FY 2019.

The Executive Branch is planning to update the Reserve Policy schedule to reflect the latest outstanding liability numbers.

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 classification) and the allocated reserve contribution. The estimated costs are distributed accordingly in the budget system and categorized as fringe expenditures.

The $32.0 million budgeted in the FY 2014 Proposed Budget for citywide fringe payments to the Workers' Compensation (WC) Fund has increased by $4.1 million, from $27.9 million in the FY 2013 Adopted Budget. This is partly due to estimated increased needs for claims funding of $2.5 million.

The remainder of the increase in citywide fringe payments to the WC fund is related to the reserve contribution, which is increasing by $1.6 million—from $5.9 million in FY 2013 to $7.5 million in the FY 2014 Proposed Budget.

The reason for the reserve contribution increase is as follows: the projection in the Proposed Budget for the reserve balance at June 30, 2013 is $35.5 million—$4.8 million less than the target amount of $40.3 million. This is primarily due to medical costs being higher than anticipated over the past couple years.

The Proposed Budget indicates that this $4.8 million will be paid over the next three years, which will add $1.6 million to the $5.9 million contribution amount listed in the City Reserve Policy—for a total reserve contribution of $7.5 million in FY 2014 (and again in FY 2015 and FY 2016). See the table below for the City Reserve Policy amounts, as well as updated targets and projections.

With this new reserve payment amount for FY 2014 through FY 2016, the reserve bal-

Workers' Compensation Fund Reserve Targets ($'s in Millions)

	Target Contribution		Projected Reserve Balance		Balance as % of Total Outstanding Actuarial Liability**	
Target Date	Reserve Policy	Updated Target	Reserve Policy	Updated Projection	Reserve Policy	Updated Projection
June 30, 2012	--*	--*	$34.3	$34.3	23%	23%
June 30, 2013	5.9	1.2	40.3	35.5	27%	23%
June 30, 2014	5.9	7.5	46.2	43.0	30%	28%
June 30, 2015	5.9	7.5	52.2	50.5	34%	33%
June 30, 2016	5.9	7.5	58.1	58.0	38%	38%
June 30, 2017	5.9	5.9	64.1	63.9	42%	42%
June 30, 2018	5.9	5.9	70.0	69.8	46%	46%
June 30, 2019	$5.9	$5.9	$76.0	$75.7	50%	50%

* Reserve contribution was suspended for FY 2012.

** Based on the average value of the annual actuarial liability for the three fiscal years 2009 through 2011, or $151.9 million.

ance is projected to be back on target by the end of FY 2016.

The Executive Branch is planning to update the Reserve Policy schedule and request Council approval to reflect these adjustments. The IBA supports this funding approach for achieving the overall target of 50% funding of outstanding workers' compensation liabilities in FY 2019, as the current City Reserve Policy prescribes.

Note that the General Fund portion of the $7.5 million FY 2014 reserve contribution is $6.1 million, and the cost for claims is $19.7 million—for a total of $25.8 million. The percent of total workers' compensation fringe costs attributable to the General Fund budget is 80.5%.

Long-Term Disability Fund

Estimated costs for Long-Term Disability (LTD) are 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 $3.2 million budgeted in the FY 2014 Proposed Budget for citywide fringe payments to the LTD Fund has decreased by $200,000, from $3.4 million in the FY 2013 Adopted Budget. This is due to a decrease in funding for anticipated LTD expenditures, from $1.5 million in the FY 2013 Budget to $1.3 million for FY 2014.

The portion of citywide fringe payment for the LTD reserve is $1.9 million for both the FY 2014 Proposed Budget and the FY 2013 Adopted Budget.

The $2.4 million General Fund portion of the $3.2 million total LTD fringe expenditures is categorized as follows: the reserve contribution is budgeted at $1.4 million; and the amount related to FY 2014 LTD expenditures totals $1.0 million. The percent of total LTD fringe costs attributable to the General Fund budget is 74%.

Based on current projections, it appears that the City Reserve Policy's $12.0 million reserve target for FY 2014 will be exceeded, as the reserve balance is projected to be $13.8 million. However, the City's Reserve Policy target is outdated, and the cost related to existing claims is estimated to be higher than the $12 million reserve target. The average annual actuarial liability based on fiscal years 2010 through 2012 is $17.5 million.

Furthermore, the Reserve Policy mentions that the City is evaluating the feasibility of purchasing insurance for the LTD benefit, instead of continuing the City's self-insurance program. To accomplish this endeavor, the City will need to prepare to fund existing claims while also paying costs associated with premiums for future insurance coverage. Again, the average annual actuarial liability based on fiscal years 2010 through 2012 is $17.5 million.

The LTD reserve is the intended source of funds for existing claims, and if more funds are needed, the City will need to develop a plan to achieve an appropriate target. With this in mind, the City may want to update the Reserve Policy to accommodate such reserve needs.

Lastly, with regard to purchasing insurance for the LTD benefit instead of continuing the City's self-insurance program: further analysis must be done to ensure compliance with the Meyers-Milias-Brown Act, which governs labor-management relations and collective bargaining in California.

Infrastructure

The City of San Diego owns and maintains a large and complex network of infrastructure assets. Underinvestment in infrastructure due to tight financial constraints in the City has resulted in deteriorating assets and a significant backlog of deferred maintenance and capital projects, currently estimated to be $898 million just for street, facilities, and storm drains. However, this estimate is likely much higher since it is based on an outdated and partial condition assessment of the City's facilities/buildings as discussed later in this section. Infrastructure issues impact the public health, safety, and the quality of life for San Diego communities as well as the tourism industry which is an important part of the City's economy. Addressing infrastructure issues is clearly one of the highest priorities for the City.

Over the past year and a half, City staff and the Council have made significant headway toward addressing infrastructure challenges, including approving the City's first multi-year financing program for deferred capital; adopting and implementing Capital Improvements Program (CIP) streamlining reform to help accelerate project implementation and transparency; establishing a community input process for the CIP budget; and creating a City Council Infrastructure Committee in December 2012 to work towards identifying solutions.

The Infrastructure Committee has been working with City staff to move forward on important next steps, including establishing Citywide Asset Management, a recommended process for effectively and sustainably managing assets at a desired level of service for the lowest life cycle cost. The Committee is also working with staff to begin development of a Citywide Multi-Year Capital Improvements Plan, similar to other cities that have successful infrastructure programs, such as San Francisco, CA and San Antonio, TX. Such a plan will incorporate existing departmental capital plans, identify deficiencies or gaps, identify available funding, and assess strategies for financing priority unfunded needs.

The Mayor's Proposed FY 2014 Budget includes funding for a number of neighborhood services, including $2.0 million in debt

Infrastructure within the City's Area of Responsibility

Enterprise-Funded Assets:

- Airports (Brown and Montgomery Fields)
- Golf Courses
- Landfill (Miramar)
- Water Treatment and Distribution System
- Wastewater Collections and Treatment System
- QUALCOMM Stadium

General- Funded Assets:

- Streets and Related Assets
- Facilities/Buildings
- Storm Drain Systems
- Parks and Recreation
- Libraries
- Public Safety
  - Fire Protection
  - Lifeguard
  - Law Enforcement

service for the $35 million CIP bonds which will be issued in this fiscal year. However, the FY 2014 Proposed Budget provides the following setbacks for infrastructure relating to Asset Management and Deferred Capital:

- Condition assessments for facilities, sidewalks, and parks totaling about $2.3 million have not been funded.
- Starting with the next deferred capital bond issuance, DC 3, which was initially planned for June 2013, all deferred capital bond issuances are pushed back by six to nine months.
- Maintenance & Repair (M&R) (formerly called Operations & Maintenance) funding related to deferred capital is decreased from $50 million in the Five-Year Outlook to $49 million, about $5.1 million less than the $54.1 million funded in FY 2013.

Given the sheer size of infrastructure problems in the City, tight budgetary constraints, and valid and competing needs, it is critical that the City take a holistic and methodical approach to identifying Citywide priorities for infrastructure and public services.

Asset Management

Asset Management incorporates two main concepts, including a: (1) business practice for making decisions on infrastructure based on quality data and information and (2) software system for optimizing asset maintenance, repair, rehabilitation, and replacement—also referred to as Enterprise Asset Management (EAM). The Infrastructure Committee and the City's EAM Steering Committee are working toward implementing Asset Management business practices Citywide because it will provide key data and information on assets so that decision makers can identify the most effective M&R and CIP investment strategies.

Core Asset Management Questions:

1. What is the current state of my assets?
2. What is my required level of service?
3. Which assets are critical to sustained performance?
4. What are my best operations and maintenance and CIP investment strategies?
5. What is my best long-term funding strategy?

Condition Assessments

Knowing the current condition of assets is an important first step to determine the maintenance, repair, and replacement or capital projects that will be needed to meet desired service levels as well as to provide a full picture of the current backlog. The City has updated information on the condition of a limited number of its infrastructure assets, including streets, storm drains, and certain water and wastewater assets. In our March report on Asset Management (IBA-13-16) we reported that the City's biggest gaps in identifying conditions of existing assets are facilities/buildings, the park system, and sidewalks. None of these received funding in the FY 2014 budget.

In addition, the Public Utilities Department's FY 2014 budget request included $7.6 million to assess major water and wastewater assets, including $600,000 for facilities/buildings. Although the $7.6 request was not funded in the FY 2014 Proposed

Asset	Estimated Backlog	Basis for Estimate
Facilities/ Buildings	$185 million	Three condition assessments conducted on (1) 31 public safety buildings in 2007; (2) the 5 Civic Center Complex facilities condition assessments in 2008 (Staubach Report); and (3) 443 major facilities in 2009 (Parsons Report).
Streets	$478 million	Comprehensive condition assessment of 100% of streets completed in November 2011.
Storm Drains	$235 million	Assessments/inspections conducted between 2010 and 2012 for all pump stations and corrugated metal pipe (CMP). Risk-based modeling for reinforced concrete pipe (RCP).
Total	$898 million	

Budget, Public Utilities staff noted that these potentially may be added to the budget in the May Revise.

Facilities/Buildings

The City reported an $898 million deferred capital backlog in February 2012 for streets, facilities/buildings, and storm drains. The estimates for streets and storm drains are considered to be accurate since they are based on comprehensive condition assessments conducted in 2010 through 2012. The deferred capital for facilities/buildings is anticipated to be significantly higher than the estimated $185 million since it is based on condition assessments conducted in 2007 and 2009 on 443 or 30% of the City's 1,600 facilities (or about half of the City's building space in square feet). Facilities condition assessments should be conducted about every 4 years. The Public Works Department's FY 2014 budget request included $1.0 million for a comprehensive assessment of about 600 buildings. In addition, Public Utilities requested $600,000 to include water and wastewater facilities/ buildings in the Facilities Condition Assessment. Neither of these requests was funded in the Mayor's Proposed Budget. Public Utilities staff told us that this assessment is a priority and the $600,000 potentially may be added to Public Utilities budget during the May Revise.

Our office has identified the $1.0 million Facilities Condition Assessment as a potential Council revision to the Mayor's Budget in this report. We have also identified potential resources which may be available for all or a portion of the condition assessments. Conducting a comprehensive, updated assessment for facilities is particularly important since the City is providing deferred capital bond funding for facilities projects, but lacks a full and accurate picture of facilities needs and priorities.

The Park System

The Park & Recreation Department is responsible for a significant number of assets and it has been recommended since 2002 that the City conduct a formal condition of its park system as a first step for developing a Parks Master Plan. Based on staff visual site observations, aerial photography and square footage costs for a typical projects, the Department estimates its deferred maintenance and capital to be at least $121 million. This estimate excludes buildings and new parks and does not factor in Americans with Disability Act (ADA) accessibility or environmental requirements. Park & Recreation has some deferred capital, such as basketball courts, that are deteriorating to a point that could cause them to be unsafe

GENERAL FUND CONDITION ASSESSMENTS				
	FTE	PE	NPE	TOTAL
Facilities/Buildings	-	-	$ 1,000,000	$ 1,000,000
Park System	0.53	13,901	250,000	263,901
Sidewalks	14.00	697,280	326,300	1,023,580
Total	**14.53**	**$ 711,181**	**$ 1,576,300**	**$ 2,287,481**

and need to be closed, which is a disservice to community members who use the facilities and a decline in service levels.

The Department does not have a significant, dedicated funding source for capital projects and relies on limited funding sources, such as Development Impact Fees (DIF) and Regional Park Improvements Fund to fund projects. For FY 2014, Parks represent only about $16.1 million or 6.3% of projects in the Proposed CIP Budget.

Park & Recreation requested about $264,000 and 0.53 FTEs for a Citywide parks and open space inventory and conditions assessment to be performed by internal staff as the first phase of a Park System Master Plan. This request was not funded in the Mayor's FY 2014 Proposed Budget. Our office has identified the $264,000 as a potential Council revision to the Mayor's Budget and we have identified potential resources which may be available. It is important that a formal condition assessment be conducted so that the Department has a comprehensive, valid list of deferred capital projects and can take advantage of future bond funding, similarly to streets, buildings, and storm drains.

Park System Assets:

- developed parkland-9,180 acres
- open spaces -26,280 acres
- recreation centers-56
- aquatic centers -13
- athletic fields-190
- athletic fields with lighting-87
- golf courses-3
- cemetery-1
- playgrounds -300
- skateparks-5
- dog parks-15
- outdoor basketball courts-200
- tennis courts-150
- comfort stations-160
- ball diamonds-300
- oceanfront beach shoreline-25.9 miles
- fishing piers-2

Sidewalks

The City has not conducted a condition assessment of sidewalks. Note that per California Streets and Highway Code (5610 through 5618), sidewalks are owned and maintained by adjacent property owners. However, the City is often held liable when a citizen is injured due to sidewalk disrepair, and recent media coverage has heightened awareness of deteriorating sidewalks across the City. In addition, Transportation & Storm Water Department's (TSW) Street Division staff estimate that the deferred maintenance backlog just for lifted/raised sidewalks, for example sidewalk segments pushed up by tree roots, to be about $4-5 million.

Although not included in its FY 2014 budget request, the Street Division has developed a $1.0 million estimate for conducting a sidewalk assessment using in-house staff. This

PUBLIC UTILTITIES CONDITION ASSESSMENT PROGRAM			
$ in millions	FIVE-YEAR	FY 2013	FY 2014
Wastewater			
As-Needed Wastewater Facilities	$ 5.00	$ 0.05	$ 1.60
Programmatic Pipelines	8.00	0.03	0.80
Operation Optimization	2.50	0.10	1.65
Wastewater Subtotal	$ 15.50	$ 0.18	$ 4.05
Water			
System-Wide AC Water Main Replacement	$ 2.00	$ 0.13	$ -
Water Reservoirs and Standpipes	1.30	0.05	-
Water Transmission Pipelines (3)	3.00	0.08	0.70
Programmatic Water Transmission Pipelines	9.00	-	0.60
Operation Optimization	2.50	0.10	1.65
Water Subtotal	$ 17.80	$ 0.35	$ 2.95
EAM Facilities/Buildinsg	$ -	$ -	$ 0.60
Total	**$ 33.30**	**$ 0.53**	**$ 7.60**

would include about $697,000 for 14.00 FTEs (2.00 limited junior civil engineering and 12.00 student engineering positions) for the approximate one-year duration of the assessment. The estimate also includes $326,000 for related non-personnel costs, such as hand-held GPS devices.

TSW staff have indicated that this assessment is a priority for the Department. Our office has identified the $1.0 million Sidewalks Assessment as a potential Council revision to the Mayor's Budget. We have also identified potential resources which may be available for all or a portion of the condition assessments. It is important to note that, if the City moves forward with this assessment, the estimated backlog will likely be very large and it will be important to develop a policy for how the information will be used. For example, will the City be taking responsibility for repairing sidewalks or will adjacent property owners be held accountable?

Water and Wastewater Assets

Public Utilities has a Five-Year Condition Assessment Program (FY 2013-2017) and is planning to spend about $33.3 million over this period to assess various water and wastewater assets. The Department requested $7.6 million to fund various assessments of water and wastewater assets, as shown in the table above. While these assessments were not funded in the FY 2014 Proposed Budget, Department staff have indicated that these assessments plus an additional $1.9 million for water mains, reservoirs, and standpipes may be added as part of the May Revise.

Asset Management System

An asset management system helps staff use information on assets, such as current conditions, to develop optimal maintenance and CIP investment strategies. Public Utilities has started an effort to replace its three existing maintenance management systems which are obsolete, nonstandard, and frag-

$ in millions	FY2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Public Utiltities SAP EAM Project	8.40	5.47	1.75	1.75	1.75	19.12

mented with SAP EAM. The new system will cost about $20 million over five years, beginning in FY 2014, as shown below. The FY 2014 Proposed Budget includes $8.4 million for this project, including $5.6 million for CIP projects and $2.8 million for Operations & Maintenance. Currently three staff are working on the project and the Proposed Budget includes additional 2.00 FTEs.

There are several departments participating in the Public Utilities-led SAP EAM project that are being asked to provide dedicated resources at appropriate milestones in the project, such as during blueprinting. However, no specific funds were requested for this purpose in the FY 2014 Budget. For example, TSW plans to assign a dedicated liaison to represent Streets and Storm Water for about 4-6 weeks out of the fiscal year. This will be absorbed in TSW's operating budget. Note that Public Utilities is leading the effort but other departments involved are required to provide their own resources for this effort.

Deferred Capital Funding

The City has been working to address its deferred capital backlog over the past several years. In March 2012, the City Council approved the City's first Five-Year Deferred Capital Funding Plan, known as Enhanced Option B, to begin to address the $898 million deferred capital backlog for streets, facilities/buildings, and storm drains. Enhanced Option B provided a mix of bond funding for capital projects and cash funding for ongoing Maintenance & Repair and is anticipated to slow the rate of deterioration of assets to 5-10%. Note that the cash funding was previously referred to as Operations & Maintenance (O&M), but we are correcting this terminology since the funds are not for operations but are for Maintenance and Repair (M&R) of the infrastructure assets. Public Works staff agree with this correction.

Mayor's FY 2014 Proposed Adjustments

The schedule for Enhanced Option B includes the next deferred capital bond issuance (DC 3) planned for late FY 2013 as shown in the table on the next page. The Mayor's Proposed FY 2014 Budget defers this bond issuance by about six to nine months to January 2014. According to Financial Management staff, all subsequent planned bond issuances will also be pushed back. This results in a reduction of approximately $5.6 million in debt service from the General Fund for five years—one year of savings for each of the bond issuances. The delay of the DC 3 issuance reduces debt service by about $23.5 million over the five-year period compared with Enhanced Option B. However, it also provides $85.5 million less in bond and cash funding than Enhanced Option B and $170.7 less than the Status Quo Option for preventing further deterioration of assets.

The FY 2014 Proposed Budget also reduces the M&R funding by about $1 million from the Five-Year Outlook, from $50 million to $49 million. This is about $5.1 million less than the $54.1 million funded in FY 2013 for

M&R for streets, facilities/buildings, and storm drains. Of the $3.2 million in new M&R funding (above the base schedule in the Outlook of $45.8 million), $2.3 million is budgeted for street resurfacing and storm drains in TSW's budget and $873,000 for M&R support in Public Works - General Services' Facilities Division.

Issues for Consideration

In addition to the financial capacity of the General Fund, a number of factors should be considered when determining the best timing for issuing deferred capital bonds, including the urgency or need for the funds to conduct high priority projects in the $898 million backlog, capacity of the Engineering & Capital Projects (E&CP) Department to implement these projects, and spend down of existing deferred capital bond proceeds.

The City is planning an additional bond issuance of $35 million in late FY 2013 that is not part of the original deferred capital bond schedule. About $20.5 million will go toward projects that reduce the deferred capital backlog for streets, facilities, and storm drains. However, pushing back DC 3 and subsequent bonds will delay some high priority capital projects that do not have

DEFERRED CAPITAL OPTIONS AND SCHEDULE

$ in millions	FY 2012	FY 2013	FY2014	FY 2015	FY 2016	FY 2017	TOTAL
Status Quo/Preventing Further Deterioration (Staff analysis reported in March 2012)							
Deferred Capital Net Bond (Capital Projects)	$ 105.5	$ 105.2	$ 105.2	$ 105.2	$ 105.2	$ 105.2	$ 631.5
Maintenance and Repair (previously called O&M)	59.1	53.8	54.9	56.0	57.1	58.2	339.1
Total	**$ 164.6**	**$ 159.0**	**$ 160.1**	**$ 161.2**	**$ 162.3**	**$ 163.4**	**$ 970.6**
Cumulative Debt Service	*$ -*	*$ 7.5*	*$ 15.0*	*$ 22.4*	*$ 29.9*	*$ 37.4*	*$ 112.2*
Enhanced Option B/Council-Approved Five-Year Deferred Capital Funding Plan (March 20, 2012)							
Deferred Capital Net Bond (Capital Projects)	$ 75.0	$ 80.0	$ 81.0	$ 90.0	$ 84.2	$ 84.2	$ 494.4
Portion of $35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
Total	**$ 134.1**	**$ 154.6**	**$ 131.0**	**$ 152.0**	**$ 150.2**	**$ 163.2**	**$ 885.1**
Difference (Enhanced Option B minus Status Quo)	**$ (30.5)**	**$ (4.4)**	**$ (29.1)**	**$ (9.2)**	**$ (12.1)**	**$ (0.2)**	**$ (85.5)**
Cumulative Debt Service	*$ -*	*$ 4.6*	*$ 11.4*	*$ 17.1*	*$ 23.4*	*$ 29.3*	*$ 85.8*
FY 2014 Budget Proposal							
Deferred Capital Net Bond (Capital Projects)	$ 75.0	$ -	$ 80.0	$ 81.0	$ 90.0	$ 84.2	$ 410.2
Portion of $35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	49.0	62.0	66.0	79.0	369.2
Total	**$ 134.1**	**$ 74.6**	**$ 129.0**	**$ 143.0**	**$ 156.0**	**$ 163.2**	**$ 799.9**
Difference (FY 2014 Budget Proposal minus Status Quo)	**$ (30.5)**	**$ (84.4)**	**$ (31.1)**	**$ (18.2)**	**$ (6.3)**	**$ (0.2)**	**$ (170.7)**
Cumulative Debt Service	$ -	*$ 4.6*	*$ 5.8*	*$ 11.4*	*$ 17.1*	*$ 23.4*	*$ 62.3*
Difference *(FY 2014 Budget Proposal minus Enhanced Option B)*	**$ -**	**$ -**	***$ (5.6)***	***$ (5.7)***	***$ (6.3)***	***$ (5.9)***	***$ (23.5)***

alternate funding sources. For example, TSW staff have identified the replacement of 3 miles of corrugated metal pipes (part of the storm drain system) as high risk due to the existing condition of the pipes and potential for failure. Storm Water staff told us that if the corrugated metal pipe fails, the cost for emergency repairs is about 35% higher than a typical planned repair, in part due to the additional damage to private property and slope or streets repairs that need to be addressed.

Capacity for Implementing Projects

E&CP staff told us that the Department currently has the capacity to implement about $100 million of bond-funded projects per year. Capacity is a balancing act for E&CP. If the Department takes on too much work too quickly, then projects cannot be implemented in a timely manner and bond funds spent expeditiously. On the other hand, if the Department lacks sufficient funding for projects, then it will face challenges keeping staff working on projects and meeting revenue targets, since many E&CP staff are revenue reimbursable. The Department's FY 2014 Proposed Budget includes $56.4 million in charges for services to other departments.

Status of DC Bond Spending

The City issued $103 million in Deferred Capital General Fund-backed bonds (DC 1) in March 2009, which were refunded as long-term bonds in mid-2010 as part of the Master Refunding lease revenue bond issuance. E&CP reports that about $96.7 million or 93.3% of DC 1 bond proceeds have been expended, encumbered, or pre-encumbered (projects in the process of being awarded). Most of the remaining funding has been allocated to the Juan Street Improvement Project, which will begin construction in summer 2013, and City Administration Building (CAB) Fire Sprinklers Project, which is nearly complete. Note that the CAB Fire Sprinkler Project had about $725,000 in savings which were reallocated to other capital projects (approved by Council on April 9, 2013).

The first bond issuance as part of the Enhanced Option B Five-Year Deferred Capital Funding Plan (DC2) was for about $75 million and issued in the summer of 2012. E&CP received the proceeds from DC 2 in August of 2012 and currently have expended, encumbered, or pre-encumbered about $27.9 million or 37.2% of the total. Staff told us that their goal is to spend down the bond within two years (August 2014), although the bond requirements provide for three years for the bond proceeds to be expended without incurring a penalty.

UPDATE ON DEFERRED CAPITAL BOND SPENDING (DC 1 AND DC2)

	DC 1 (2009/2010)	DC 2 (2012)
Total Bond Proceeds (including accrued interest to date)	$ 103,678,000	$ 75,000,000
Expended	91,208,664	3,377,526
Encumbered	5,410,965	10,000,000
Pre-Encumbered (contracts to be awarded)	125,528	14,500,000
Total Draw Down	$ 96,745,157	$ 27,877,526
Percentage	*93.3%*	*37.2%*

Catch-Up Option

One of the Guiding Principles for Structural Budget Deficit Elimination, adopted by Council in February 2010, includes developing a plan to fund deferred capital and infrastructure needs to reduce the current backlog and identifying the funding needed to prevent the problem from growing larger. Enhanced Option B was considered to be a realistic approach to beginning to address the backlog. The addition of the $35 million bond issuance for CIP projects planned for later this fiscal year—$20.5 million of which addresses deferred capital—may lessen the impact of deferring the issuance of DC 3. However, the City is still providing about $85 million less in funding during the five-year period.

As long as E&CP continues with expeditious spending of existing and future bond funds, the City may want to consider an alternative for getting back on track with funding for deferred capital. As shown below, our office has provided a potential Catch-Up Funding Option for consideration. Beginning with DC 3 in FY 2014, the four remaining bonds are increased to $100 million each. This provides about $65 million in additional bond funding during the five-year period over the FY 2014 Budget Proposal, only about $19.4 million less than Enhanced Option B. As shown in the bottom row on the table below, additional debt service for the Catch-Up Option is only a total of $7.5 million for FY 2015, FY 2016, and FY 2017 over the FY 2014 Budget Proposal. No additional debt service funds are required in FY 2014 to implement this Catch-Up Option. The Mayor's FY 2014 Budget Proposal includes $5.6 million in debt service savings which are anticipated to recur each year through FY 2018. The Catch-Up Option includes the following savings:

- FY 2014 - $5.6 million
- FY 2015- $4.2 million

$ in millions	FY 2012	FY 2013	FY2014	FY 2015	FY 2016	FY 2017	TOTAL
FY 2014 Budget Proposal							
Deferred Capital Net Bond (Capital Projects)	$ 75.0	$ -	$ 80.0	$ 81.0	$ 90.0	$ 84.2	$ 410.2
Portion of $35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	49.0	62.0	66.0	79.0	369.2
Total	**$ 134.1**	**$ 74.6**	**$ 129.0**	**$ 143.0**	**$ 156.0**	**$ 163.2**	**$ 799.9**
Difference (FY 2014 Budget Proposal minus Enhanced Opti	**$ -**	**$ (80.0)**	**$ (2.0)**	**$ (9.0)**	**$ 5.8**	**$ -**	**$ (85.2)**
Cumulative Debt Service	$ -	*$ 4.6*	*$ 5.8*	*$ 11.4*	*$ 17.1*	*$ 23.4*	*$ 62.3*
Difference (FY 2014 Budget Proposal minus Enhanced Option B)	***$ -***	***$ -***	***$ (5.6)***	***$ (5.7)***	***$ (6.3)***	***$ (5.9)***	***$ (23.5)***
IBA Catch-Up Option							
Deferred Capital Net Bond (Capital Projects)	$ 75.0	$ -	$ 100.0	$ 100.0	$ 100.0	$ 100.0	$ 475.0
Portion of $35 million CIP Bonds for Deferred Capital	-	20.5	-	-	-	-	20.5
Maintenance and Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
Total	**$ 134.1**	**$ 74.6**	**$ 150.0**	**$ 162.0**	**$ 166.0**	**$ 179.0**	**$ 865.7**
Difference (Catch-Up Option minus Enhanced Option B)	**$ -**	**$ (80.0)**	**$ 19.0**	**$ 10.0**	**$ 15.8**	**$ 15.8**	**$ (19.4)**
Cumulative Debt Service	$ -	*$ 4.6*	*$ 5.8*	*$ 12.8*	*$ 19.8*	*$ 26.8*	*$ 69.8*
Difference *(Catch-Up Option minus FY 2014 Budget Proposal)*	***$ -***	***$ -***	***$ -***	***$ 1.4***	***$ 2.7***	***$ 3.4***	***$ 7.5***

DEBT SERVICE RELATED TO DEFERRED CAPITAL						
$ in millions	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	TOTAL
Existing Debt Service						
DC 1 (2009A/2010A) ($103 million)	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 7.3	$ 36.5
DC 2 (2012) ($75 million)	4.6	4.6	4.6	4.6	4.6	$ 23.0
Projected Issuances						$ -
CIP Bond (2013) ($20.5 of $35 million) *	1.2	1.2	1.2	1.2	1.2	$ 6.0
DC 3 (2014) ($80 million)	-	5.6	5.6	5.6	5.6	$ 22.4
DC 4 (2015) ($81 million)	-	-	5.7	5.7	5.7	$ 17.1
DC 5 (2016) ($90 million)	-	-	-	6.3	6.3	$ 12.6
DC 6 (2017) ($84.2 million)	-	-	-	-	5.9	$ 5.9
Total	**$ 13.1**	**$ 18.7**	**$ 24.4**	**$ 30.7**	**$ 36.6**	**$ 123.5**

* Total debt service for the $35 million CIP bond issuance is $2.0 million. Our calculations includes debt service only on the $20.5 million of the proceds used for deferred capital projects.

- FY 2016 - $2.9 million
- FY 2017 - $2.2 million

Debt Service and Impact to General Fund

The FY 2014 Proposed Budget includes deferred capital-related debt service (principal and interest) of $13.1 million, including $7.3 million for DC 1, $4.6 million for DC2, and $1.2 million for the CIP Bond, as shown above. Note that the full debt service for the CIP Bond is estimated to be about $2.0 million, but we are including only the portion of the debt service for deferred capital—$1.2 million.

Principal for debt service on DC 1 has been included in the Capital Outlay Fund since FY 2011, and the FY 2014 Proposed Budget includes an adjustment to move $1.2 million in principal for DC 2 to be paid from the Capital Outlay Fund for three years (FY 2014-2016), which helps to offset the burden to the General Fund. The interest for DC 1 and DC 2 and both principal and interest for the CIP Bond Issuance of $35 million are included in Citywide Department Expenditures and paid from the General Fund.

The issuance of lease revenue bonds to fund deferred capital and other infrastructure projects will continue to be an important source of funding for the City, especially given the current low interest rates. However, it is important to consider that revenue bonds are backed by the General Fund and typically issued for a term of 20 to 30 years. Since debt payments are made from the General Fund, each time the City issues this type of bond, it adds a long-term obligation to the already overburdened General Fund.

Further, there is a limit to the General Fund -backed debt service as a percentage of available revenue—known as the lease burden—that the City can carry. Rating agencies generally consider lease burden percentages over 10% to be above average or high. Debt Management recently reported that our lease burden is about 4.4%. If the Deferred Capital Funding plan is implemented as shown in the table above which is estimated to slow the rate of deterioration of assets to 5-10%, our office estimates

that the lease burden will grow to 6%.

Maintenance & Repair

Annual Maintenance & Repair (M&R) is vital for maintaining the condition of assets. When ongoing maintenance is not fully funded, it contributes to deferred maintenance and ultimately increases the deferred capital backlog. In addition, as assets continue to deteriorate, the cost of repair will exponentially increase and can result in peripheral damage. For example, deferring roof replacement could later result in needing to replace the roof structure members, walls, and floors of a building.

The Five-Year Outlook included $50 million for M&R for streets, facilities/buildings, and storm drains; $4.2 million above the base schedule of $45.8 which is included in the Five-Year Outlook. The FY 2014 Proposed Budget reduces this by $1 million and funds $3.2 million above the base for a total of $49 million. This includes $2.3 million for M&R related to street resurfacing and storm drains in TSW's budget and $873,000 for M&R support in Public Works - General's Service's Facilities Division. Note that the FY 2014 Proposed funding is $5.1 million less than the $54.1 million funded in FY 2013. Our office has proposed the increase of $5.1 million to return to the FY 2013 $54.1 million funding level for M&R as a potential Council revision to the Mayor's Proposed Budget. We have also identified potential funding sources.

Facilities

Public Works staff anticipate that the actual backlog of deferred capital for facilities/ buildings is significantly higher than the current $185 million estimate, and chronic underfunding of Facilities Division's M&R is a contributing factor. Facilities Division provides M&R services for Park & Recreation facilities, the City Administration Build complex, and varying levels of support to the other General Fund departments. Facilities also charges for M&R services for enterprise-funded departments, like Public Utilities.

Current funding for Facilities Division is significantly below the level needed to keep up with necessary M&R of City facilities/ buildings largely due to a 23.2% reduction in budgeted positions since FY 2004. The impact of chronic underfunding of the Division has resulted in:

- Over 90% of work focused on reactive break-down repair rather than scheduled preventative maintenance;
- A backlog of 1,759 M&R work order requests, up from 1,554 uncompleted works orders in January 2013; and
- About $2.5 million in deferred maintenance projects.

Facilities Division has developed a sustainability model to recommend appropriate funding levels. The model is based on the premise put forward by the National Research Council that annual routine M&R should be between 2-4% of the current replacement value of City General Fund facilities. Current funding of $17 million across all General Fund departments as a percentage of current replacement value is 0.7%.

Annual funding at the lower end of 2% would yield a requirement of $47 million for M&R annually—a $30 million deficiency. It is important to note that this increases

> "An appropriate budget allocation for routine M&R [maintenance and repair] for a substantial inventory of facilities will typically be in the range of two to four percent of the aggregate current replacement value of those facilities (excluding land and major associated infrastructure). In the absence of specific information upon which to base the M&R budget, this funding level should be used as an absolute minimum value. Where neglect of maintenance has caused a backlog of needed repairs to accumulate, spending must exceed this minimum level until the backlog has been eliminated."
>
> - National Research Council *Stewardship of Federal Facilities* (1998)

the M&R funding level for the Status Quo Funding Option for preventing further deterioration of assets, which essentially serves as a baseline or target for deferred capital funding, from $54.9 to $84.9 in FY 2014. This means that the City is underfunding M&R by $40.4 million with the Enhanced Option B funding level and by $41.4 million with the FY 2014 Budget Proposal.

Facilities Division proposed to address the deficiency with a ramp up of $6 million over five years beginning with its FY 2014 budget request. This request included 39.00 FTEs and $3.1 million in personnel expenses as well as $2.9 million in related non-personnel expenses for contracts, materials, and supplies.

The FY 2014 Proposed Budget increases Facilities Division budget by only $873,000, including 9.00 additional FTEs and related personnel and non-personnel costs. The Proposed Budget also includes a vacancy savings adjustment of $300,000 which will enable the Division to fill 8.00 vacant positions. Even with the additional $1.2 million added to the FY 2014 budget, the City is still at a current replacement value significantly below the minimum 2% target.

New Central Library

The Central Library is maintained by a combination of City staff (Library maintenance staff included) and outside contractors. The Library Department currently has contracting services ($491,000) including security, janitorial services, and elevator maintenance. Facilities Division requested an additional 10.00 FTEs to provide M&R for the New Central Library. The FY 2014 Proposed Budget includes 1.00 FTE for a Build-

FACILITIES M&R FUNDING

$ in millions	FACILITIES' REQUEST	FY 2014 BUDGET	DIFFERENCE
FTES	39.00	9.00	(30.00)
Existing positions to be filled per Vacancy Savings Adjustment	-	8.00	8.00
Total FTE	**39.00**	**17.00**	**(22.00)**
			-
Personnel Expense	$ 3.1	$ 0.7	(2.40)
Vacancy Savings Adjustment	-	0.3	0.30
Non-Personnel Expense	2.9	0.2	(2.70)
Total	**$ 6.0**	**$ 1.2**	**$ (4.8)**

ing Services Superintendent in the Library Department, but does not provide funding for Facilities M&R. The Library Department anticipates expanding the current service contract to address the additional needs of the new Central Library, potentially to include M&R.

Public Works staff noted that much of the dynamic equipment in the building, such as HVAC, will be under warranty for the first year, and that the Division will do its best to cover any issues that arise, but will need to receive additional positions in order to properly maintain the new library beginning in FY 2015 should the library require M&R services from Facilities.

CIP Budget

The CIP is the City's program for installing new and replacing or rehabilitating existing infrastructure. Decisions made regarding the CIP are very important because capital improvement projects are generally large and expensive and the assets they create will be required for decades of public use.

The CIP has two major constraints related to funding. The City's infrastructure needs greatly exceed available resources and there are competing priorities for limited funds. Second, in part due to competing priorities in the Operating Budget, the General Fund is not a primary source of funding for the CIP. Instead capital projects are funded by various sources that have restrictions on how they can be used, for example based

SUMMARY OF CHANGES IN CIP BUDGET BY DEPARTMENT

$ in millions	FY2013	FY 2014	$ CHANGE	% CHANGE
Enterprise Funded Departments				
Airports	2.4	-	(2.4)	-100.0%
Environmental Services	4.6	0.6	(4.0)	-87.0%
Public Utilities	161.6	119.7	(41.9)	-25.9%
QUALCOMM Stadium	-	0.8	0.8	100.0%
Subtotal Enterprise Funded Departments	168.6	121.1	(47.5)	-28.2%
			-	
General Fund Departments			-	
Department of Information Technology	1.1	-	(1.1)	-100.0%
Fire-Rescue	1.0	0.2	(0.8)	-80.0%
Library	-	1.1	1.1	100.0%
Park & Recreation	10.7	16.1	5.4	50.5%
Public Works - General Services	3.6	1.2	(2.4)	-66.7%
Transportation & Storm Water	30.0	31.8	1.8	6.0%
General Fund Subtotal	46.4	50.4	4.0	8.6%
Total	**$ 215.0**	**$ 171.5**	**$ (43.5)**	**-20.2%**

on the type of project or geographic location. It is important to note that enterprise funds—including airports, golf courses, and water and sewer funds—can only be spent on projects. As a result of these restrictions, there is relatively little discretionary funding available and some asset types, particularly water and wastewater, have significantly more funds than others.

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the CIP is $171.9 million, a decrease of 20.2% or $43.5 million over FY 2013. The reduction is largely due to a $34.3 million decrease in budgeted water projects. Public Utilities staff told us that this reduction is due to the availability of $177.7 million in prior-year continuing appropriations that the Department plans to draw down for water pipeline and other projects.

The FY 2014 Proposed CIP Budget includes $9.3 million for 12 new projects, and increase of $1 million over FY 2013. The Proposed Budget also includes $162.3 million for 95 continuing or ongoing projects which represents a decrease of $43.3 million from the previous fiscal year.

It is important to note that the Proposed CIP Budget does not include proceeds from three anticipated bond issuances:

- The $35 million bond issuance for CIP projects is anticipated to be issued in FY 2013. Debt Management plans to amend the FY 2013 CIP Budget to include these funds once the issuance is completed.
- A bond issuance of about $53 million for the Convention Center Expansion Phase III is anticipated to be completed in FY 2014.
- The third deferred capital bond issuance of $80 million is planned is for January 2014. Both the Convention Center bonds and DC 3 could potentially be added to the FY 2014 Budget in Mid-Year Adjustments.

Public Input for the FY 2014 CIP Budget and Multi-Year Capital Improvements Plan

E&CP worked with the Community Planners Committee (CPC) to facilitate public input on ongoing and needed capital projects for the FY 2014 Budget. In late November, the CPC submitted about 225 projects recommended by 42 Community Planning Groups to E&CP. The recommendations were passed on to asset-owning departments for consideration in their FY 2014 CIP Budgets.

The Transportation & Storm Water Department's (TSW) Transportation Engineering Operations (TEO) Division included 10 of these requested projects for sidewalks and streetlights in their Proposed Budget for Annual CIP Allocations. TEO staff told us that, for project requests that included a specific location, they conducted a site investigation, prepared cost estimates, and prioritized projects.

E&CP staff are currently working to determine the total number of project requests made through the CPC that are being funded in the FY 2014 Proposed CIP Budget

CPGs Recommended Projects Included in the Proposed Budget:

Sidewalk

- 63rd St from Broadway to Imperial Ave (Both Sides)- Install new sidewalk
- Bernardo Center Dr from Bernardo Center Ct to Escala Dr(East Side)-Install new sidewalk
- Rancho Bernardo Rd from Via Del Campo to Matinal Rd (South Side)- Install new sidewalk
- Genesee Ave from Mt Herbert Ave to Chateau Dr (East Side)- Install new sidewalk

Streetlights

- Beyer Boulevard west of Fantasy Lane 175', north side streetlight
- East Beyer Boulevard north of Hill (SB) Street 175', east side streetlight
- Hill (SB) Street north of Beyer Boulevard 150', east side streetlight
- Kelton Road north of Kelton Place 250', west side- streetlight
- Kelton Road north of Kelton Place 500', west side- streetlight
- Kelton St at Kelton Crt- streetlight

and will likely be prepared to address this issue during CIP budget hearings. Since there is relatively little discretionary funding and only 12 new projects in the Proposed CIP Budget, it is anticipated that only a few of the requested projects will be implemented in FY 2014. As the City moves forward with development of a Multi-Year Capital Improvements Plan, City staff will be able to more effectively plan to include community requests over five years rather than in an annual budget.

As reported by the City Auditor in June 2011 (OCA-11-027) the City does not have an office to oversee and coordinate CIP activities. Currently, E&CP donates about 4.00 FTEs on a part-time basis to provide administrative support to the CIP Review and Advisory Committee (CIPRAC), such as organizing meetings, recording minutes, analyzing data and generating reports. E&CP staff noted that one of the biggest challenges will be identifying staff with the needed skills to coordinate among various departments involved in the CIP and develop the Multi-Year Capital Improvements Plan. When the time comes, the City may want to consider forming a task force of staff from relevant departments to work on this project on a part-time or as-needed basis to ensure that all perspectives are covered and E&CP does not have to bear the entire burden of the task.

Managed Competition

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

- Publishing Services
- Street Sweeping
- Fleet Maintenance
- Landfill Operations
- Street & Sidewalk Maintenance
- Public Utilities Customer Service
- Storm Water Facilities Operations & Maintenance
- Capital Improvement Program Delivery
- Traffic Engineering & Operations
- Solid Waste Collection

The chart below depicts the current status of these ten functions. Of the ten, five have been awarded contracts, with Publishing Services and Street Sweeping implemented in FY 2012 and FY 2013, respectively. The other three competitions are currently undergoing the meet and confer process, but are expected to realize some savings in FY 2014.

Fleet Maintenance was originally expected to realize savings in FY 2013. However, due to a longer than expected meet and confer process, and the subsequent time needed to put contracts in place for proposed outsourced work, the savings may not be realized until sometime in FY 2014. The full estimated savings amount of $4 million, with approximately $2.8 million for departmental savings within the General

STATUS OF FUNCTIONS SELECTED FOR MANAGED COMPETITION

FUNCTION	PCA Complete	PSOW Approved by Committee	PSOW Approved by Council	RFP Issued	Proposals Received by MCIRB	MCIRB Reports Recommendation to Mayor	Meet & Confer	Implemented	Annual Savings (estimate) Incorporated into Budget	First FY Savings Incorporated
Publishing Services	√	√	√	√	√	√	√	√	*Total = $1m* *GF = $0.3m*	*FY 2012*
Street Sweeping	√	√	√	√	√	√	√	√	*Total = $0.5m* *GF = $0.5m*	*FY 2013*
Fleet Maintenance Services	√	√	√	√	√	√	*ongoing*	N/A	*Total = $4.0m* *GF = $2.8m*	*FY 2014*
Landfill Operations	√	√	√	√	√	√	*ongoing*	N/A	*Total = $3.5m* *GF = $0*	*FY 2014*
Street & Sidewalk Maintenance	√	√	√	√	√	√	*ongoing*	N/A	*Total = $0.8m* *GF = $0.8m*	*FY 2014*[1]
Storm Water Facilities Operations	√	√	√	*on hold*						
Public Utilities Customer Service	√	√	*on hold*							
Capital Improvement Program Delivery	√	*on hold*								
Traffic Engineering & Operations	√	*on hold*								
Solid Waste Collection	√	*on hold*								

[1] *Six to seven months of savings of approximately $600,000 were included in FY 2014 based on the estimated time of implementation*

Fund, were included in the FY 2014 Proposed Budget.

The Environmental Services Department expects that the Landfill Operations managed competition will be fully implemented beginning FY 2014. Estimated annual savings of $3.5 million has been included in the FY 2014 Proposed Budget. It should be noted that there are no General Fund savings associated with the Landfill Operations managed competition in FY 2014. However, these savings to the Environmental Services Department within the Refuse Disposal Fund may help to mitigate future costs to the General Fund by allowing the department to reduce the proposed FY 2015 tipping fee increase, mitigating the impact to the General Fund.

Approximately $600,000 was included in FY 2014 for the Street and Sidewalk Maintenance competition. This reflects six to seven months of savings based on the estimated time of implementation. Full savings in FY 2015 are expected of about $800,000.

If meet and confer negotiations impact savings to any of the previously mentioned competitions, or if a delay in implementation occurs, savings included for FY 2014 will need to be revised appropriately.

Storm Water operations and maintenance, Public Utilities Department (PUD) customer service, Transportation Engineering Operations (TEO), Capital Improvement Program (CIP) delivery, and solid waste collection have also been proposed for the managed competition process. These five functions are currently on hold in their current status due to Mayoral review of the managed competition.

Mayoral Review of Managed Competition

Mayor Filner has initiated a review of the managed competition process. Input on process improvements for the Managed Competition Guide is currently being solicited from various stakeholders including City department management, impacted labor organizations, the IBA and the City Attorney. The Mayor is expected to make recommendations to the City Council based on this review in early FY 2014. Depending upon the outcome of this review, a renegotiation of the Managed Competition Guidebook may be necessary.

Other Post-Employment Benefits

Retiree health obligations, or Other Post-Employment Benefits (OPEB), total $57.8 million ($41.1 million for the General Fund) in the FY 2014 Proposed Budget. From the budgeted amount, defined contribution and pay-as-you-go (PAYGO) expenses will be paid first, with any remaining budget balance prefunding the future payment of retiree health benefits.

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. 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.

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.

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 Unfunded Actuarial Liability (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, effective April 1, 2012.[1] The agreement 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 percent annually. Note that the duration of the agreement with the labor unions is 15 years, but it can

(1)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 percent 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 projected to yield $8,500 annually (with 20 years of service). Options A and B require that employees make nonrefundable contributions.

be modified after June 30, 2014.

Fiscal Effects of Restructuring the Retiree Health Benefit

The effect of the retiree health benefit restructure on the City's *defined benefit* retiree health plans is evident in the most recent actuarial valuation for the City, for the period ending June 30, 2012. The OPEB Unfunded Actuarial Liability (UAL) at June 30, 2012 is $449.1 million, down from $1.1 billion at June 30, 2011. Additionally, the June 30, 2012 valuation establishes the OPEB Annual Required Contribution (ARC) for FY 2014 at $33.9 million, a decrease from the FY 2013 ARC of $97.4 million.

However, the ARC figure does not reflect the payment components the City plans to make with respect to its retiree health benefits. In addition to the defined benefit retiree health plans, there is also a *defined contribution* plan that must be funded.

The table below shows the different retiree health payment components the City estimates it will make over the next five years. As mentioned previously, this reflects the citywide fiscal impact of the newly restructured retiree health benefit at $57.8 million through FY 2015, increasing by 2.5 percent thereafter. The General Fund portion is approximately $41 million through FY 2015, increasing by approximately 2.5 percent thereafter.

The table below shows the citywide impact, which is based on estimates provided by Buck Consultants in the June 30, 2012 actuarial valuation.

- The first row contains the pay-as-you-go (PAYGO) estimates associated with retiree health benefit payments for eligible retirees under the City's retiree health *defined benefit* plans. Note that there is a defined benefit plan for eligible employees retiring before April 1, 2012, as well as the restructured defined benefit options for eligible employees retiring on or after April 1, 2012.
- The second row contains estimated amounts that will either be paid into or withdrawn from the CalPERS OPEB Trust Fund for the City's retiree health benefits. When funds are needed to cover expenses above the City's budgeted retiree health contribution amount, they will be withdrawn from the trust fund (to fund PAYGO). During the next five years, this occurs in FY 2015 through 2018.
- The third row contains estimated City contributions to Health Reimbursement Arrangement (HRA) accounts. These amounts will fund HRA accounts for

OPEB/Retiree Health Forecast (in millions)	FY 2013 Budget	FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast
PAYGO	$ 36.3	$ 39.7	$ 42.3	$ 44.1	$ 45.4	$ 46.1
CalPERS Trust Contribution/(Withdrawal)	$ 16.0	$ 2.6	$ (8.5)	$ (7.7)	$ (12.2)	$ (7.2)
Contribution to HRA Accounts	$ 7.5	$ 17.3	$ 25.6	$ 24.3	$ 28.9	$ 24.6
Less: Employee Contributions	$ (2.0)	$ (1.8)	$ (1.6)	$ (1.4)	$ (1.3)	$ (1.2)
Total City Contribution	***$ 57.8***	***$ 57.8***	***$ 57.8***	***$ 59.3***	***$ 60.8***	***$ 62.3***

eligible employees retiring on or after April 1, 2012 who selected the *defined contribution* retiree health plan (restructured retiree health benefit Option C).

- The fourth row contains estimates for contributions that will be made by employees retiring on or after April 1, 2012 who selected the *defined benefit* retiree health plan options (restructured retiree health benefit Options A and B).
- The last row is the sum of the first four rows and equals the total citywide payments to be made for each fiscal year.

Annual Required Contribution (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. Information regarding the ARC and Unfunded Actuarial Liability and a 25 year cash flow projection are available in the June 30, 2012 valuation—which was performed by Buck Consultants and provided to the City in October 2012.

Pension

The FY 2014 Proposed Budget includes $275.4 million for the Annual Required Contribution (ARC) for the City's defined benefit pension. This is an increase of $44.3 million from the FY 2013 Adopted Budget amount of $231.1 million. The General Fund portion of the FY 2014 budgeted payment is $212.7 million — an increase of $33.0 million over the FY 2013 Adopted Budget of $179.7 million.

The pension system Unfunded Actuarial Liability (UAL) totals $2.3 billion as of June 30, 2012. The City's pension system liabilities as of June 30, 2012 are funded at a rate of 68.6% — close to the 68.5% funding ratio at June 30, 2011. The ARC for the City is 40% of FY 2014 budgeted salaries and wages and 59% of membership payroll (pensionable salaries) at June 30, 2012.

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

Increases to the ARC

The $44.3 million increase in the ARC from FY 2013 to FY 2014 is due to a number of factors. First, there is the $27 million impact related to the June 2012 Proposition B ballot measure.

This increase is largely due to a change in the way the UAL is estimated to be paid over the years because of the partial closure of the defined benefit plan – the plan is closed to all employees except police officers. Increased ARC payments due to the UAL payment change are anticipated for the short-term: in the initial years after Proposition B implementation, ARC payments are projected to be higher than without Proposition B implementation, but succeeding years would have lower ARC payments.

The second factor leading to the increase in the ARC is the lower than assumed investment return for FY 2012. The assumed investment rate of return for FY 2012 was 7.5%, whereas the actual FY 2012 return was 0.9%. This caused the ARC to increase by $8.3 million.

There are a few other components to the change in the ARC, including a liability experience loss, which produced a $4.7 million ARC increase.

Impact of a Five-Year Agreement With the City's Labor Unions

The City is currently involved in negotiations with its six labor unions regarding the terms and conditions of employment that will apply after the current Memorandums of Understanding (MOU's) with each of the unions expire on June 30, 2013.

The Mayor had expressed publicly his desire to reach five-year agreements with the unions that would include pensionable salary freezes over the term. City Council members have also publicly expressed their support for a five-year proposal with modest

increases and conditions that protect the General Fund.

According to the actuary for the San Diego City Employees' Retirement System (SDCERS), the City's FY 2014 ARC payment could potentially be reduced if a five-year agreement includes a five-year pensionable pay freeze (excluding merit increases and promotions).

Note that in order for such savings to accrue to the City in FY 2014, the City and labor unions must reach five-year agreements to freeze pensionable salaries at compensation levels established in the current salary ordinance—which does not freeze each individual employee's pay, as merit increases and promotions can still occur. Furthermore, based upon these agreements, the SDCERS actuary would need to recommend, and the SDCERS Board would need to approve, a revision to the June 30, 2012 actuarial valuation. It is important to note that this is solely an SDCERS Board decision in which the City has no role.

If these events were to transpire, ARC savings of approximately $25 million citywide ($19 million General Fund) could be incorporated into the FY 2014 Budget via the May Revision to the Proposed Budget.

If instead, freezes to pensionable pay are achieved via five annual agreements, ARC savings would accrue on a year-by-year basis and would be anticipated to first impact the FY 2016 Budget.

The two approaches—five-year upfront agreement versus year-by-year agreements over five years—differ in the yearly recognition of savings. Nevertheless, the time value of money largely resets both approaches to have similar values in today's dollars. Note however that a five-year agreement will result in a portion of the savings accruing to the members via lowered contribution rates, whereas year-by-year deals result in all of the savings going toward reducing the City's UAL.

Retirement Offset Contributions (ROC's)

The City 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 2014 Proposed Budget amount for Citywide ROC's is approximately $1.0 million, and the General Fund portion is $650,000.

Even though MEA and Local 911 employees maintain ROC's as part of employment benefits, the previously negotiated labor concessions (beginning FY 2010) for these employees yield comparative savings to the concessions for employees in the City's other unions (and for unrepresented employees). 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.

Note that under Proposition B passed in June 2012, Charter section 141.2 states that "the City shall not pay, cap the employee contribution rate, or otherwise compensate for any portion of a contribution to the Retirement System by a City Officer or employee." However, adjustments to the ROC's must be implemented in a manner consistent with the Meyers-Milias-Brown Act.

Pension Impacts of Proposition B

Below is a brief summary of some of the pension effects of Proposition B, which was approved by voters in June 2012.

Employees hired on or after July 20, 2012, except police officers, are no longer eligible to participated in the defined benefit pension plan. Instead they participate in the SPSP-H plan, which was modified to include these new participants. Both the City and employees contribute 9.2% and 11% of eligible compensation for general members and safety members, respectively.

This change was negotiated with the City's unions (except the Police Officers Association), and the agreement for an interim defined contribution plan was approved by the City Council on October 1, 2012. This plan is anticipated to be in effect until a permanent plan can be negotiated.

Some terms of this interim plan include that employee contributions are mandatory and post-tax, employees are 100% vested at all times and the terms of future negotiated disability and death benefits will be retroactive.

Additionally, although new sworn officers continue to be eligible for the defined benefit plan, Proposition B prescribes pension plan changes for new sworn officers hired on or after July 1, 2013, subject to compliance with the Meyers-Milias-Brown Act. Provisions in Proposition B include a cap on sworn officer pensions: 80% of the average of the highest 36 consecutive months compensation. This cap is reduced by 3% for each year the employee retires prior to age 55. Proposition B also eliminates the City Charter section 143.1 members' right to vote on pension changes for employees hired on or after July 1, 2013.

Note that Proposition B has been legally challenged, in litigation before the Public Employment Relations Board (PERB).

Redevelopment Dissolution

Per AB 26, enacted on June 28, 2011, California Redevelopment Agencies (RDA) were dissolved on February 1, 2012, and their rights, powers, duties, and obligations were vested in the successor agencies. The City Council designated the City of San Diego to serve as the former RDA'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, City, school districts, and other local taxing entities. The City also chose to serve as the Housing Successor Entity and retain the former RDA's affordable housing assets and assume related responsibilities. An additional dissolution law—AB 1484—was passed as a trailer bill to the FY 2013 State Budget on June 27, 2012. AB 1484 took immediate effect and requires successor agencies to learn and implement significant rules of conduct and includes deadlines and severe late penalties.

A large part of winding down activities includes making payments on enforceable obligations of the former RDA. Enforceable obligations are generally defined to include several categories, such as bond obligations and written contracts for specific performance with parties that are not the sponsoring entity, such as the City. Per AB 26, successor agencies are required to prepare Recognized Obligation Payment Schedules (ROPS) for enforceable obligations allowed to be made during each applicable six-month period (January 1-June 30 and July 1-December 31) until all obligations are fulfilled. AB 26 includes restrictions on what constitutes an enforceable obligation and each ROPS must be approved by the:

- City Council as the Successor Agency approval body;
- Successor Agency Oversight Board; and
- State Department of Finance (DOF).

Sources of funds for making payments on ROPS include the Redevelopment Property Tax Trust Fund (RPTTF), formerly known as tax increment; bond proceeds; reserve balances; and the housing fund. RPTTF is distributed by the County Auditor and Controller (CAC) in January and June for each related ROPS period.

From the State's perspective, a primary goal of dissolution and unwinding activities is to maximize the amount of property tax revenue—previously provided to former RDA's in the form of tax increment—for distribution to local taxing entities.

Challenges and Risks to the General Fund

Successor Agency staff are continuing to make notable progress moving forward with dissolution and unwinding activities despite significant and ongoing challenges. It is clear, given the DOF's adverse determinations on various items in ROPS 3 and the Due Diligence Review of the Housing Fund that there will continue to be a high level of risk to the City's General Fund. Many of these

risks are based on a number of factors that are not fully known, such as future DOF rulings, the outcome of ongoing and future litigation, and any potential clean-up legislation.

Final Determination on ROPS 3

The DOF issued its revised final determination on ROPS 3 for the period January 1 through June 30, 2013, on December 27, 2012. The final determination included several major impacts to the City's General Fund including denial of certain agreements for repayment of debt between the City and the former RDA and reduction of the Successor Agency Administrative budget.

Agreements between the City and Former RDA Denied

Debt repayment agreements between the City and former RDA have been denied, including agreements for repayment of debt service for Petco Park Improvements and the Convention Center Expansion Phase II and an agreement to repay long-term general/startup debt. The Petco and Convention Center payments will be the responsibility of the General Fund beginning in FY 2014. The Five-Year Outlook included the $14.3 million ($11.3 million for Petco Park and $3 million for Convention Center) payment to be part of the $39 million projected budget deficit for FY 2014. The Mayor's Proposed Budget uses the Transient Occupancy Tax (TOT) fund balance and other sources to fund these payments, as discussed in the Special Promotional Programs section of this report. Note that the Convention Center payment increases by $0.5 million each year until it reaches $9 million in FY 2026 (and then continues until FY 2042 when a final payment of $2 million is made in FY 2043).

Administrative Budget Significantly Reduced

Due to items that were disallowed by the DOF, the Administrative Budget— which is calculated as 3% of the Successor Agency's distribution of RPTTF—was reduced by about $1.6 million. The Successor Agency sought but was denied immediate injunctive relief with respect to the funding shortfall. The Successor Agency will seek approval from Council likely on May 13, 2013 for a loan from the City's General Fund for up to $1.64 million to cover this deficiency. Successor Agency staff indicated that the actual amount expended is likely to be much lower. The City can seek recovery of the loan repayment by including it on ROPS 5 (January 1-June 30, 2014), but there is no guarantee that the Oversight Board and DOF will approve this repayment as an enforceable obligation. Further, if approved, the loan would not be repaid until the next allocation of RPTTF in January 2014.

State Controller Asset Transfer Review and Clawback

Since the DOF has denied the debt repayment agreements, the State Controller is likely to exercise its right under the Clawback provision of AB 26 to order the City to reimburse the Successor Agency for any payments previously made under those agreements dating back to January 1, 2011. If this occurs, the City will have to rely on the General Fund to make the total $28 million payments. Based on the timeframes for which the State Controller is conducting

its audits, this would likely include two payments:

- ***For payments made January1, 2011-January 31, 2012*** - $14.2 million likely to be clawed back by the end of CY 2013 ($11.3 million for Petco Park, $2 million for Convention Center, and $867,407 for general/startup debt); and
- ***For payments made after February 1, 2012*** - $13.8 million likely to be made in FY 2014 ($11.3 million for Petco and $2.5 million for Convention Center).

The City currently has $28.5 million available in the General Fund Reserve to mitigate these and other risks to the General Fund. As noted below, there continues to be clawback risks when agreements between the City and former RDA are denied.

Initial Response on ROPS 4

The DOF responded to ROPS 4 for the period July 1 through December 31, 2013, on April 15, 2013. The potential impact of DOF's objections in ROPS 4 will not be as severe as those in ROPS 3. The total risk to the General fund is about $1.56 million, but these risks may be significantly reduced during the Successor Agency's meet & confer with the DOF, scheduled for May 1, 2013. Current risks include:

- Objection to three debt-related agreements between the City and former RDA. The cumulative amount during FY 2014 is about $900,000, but about $238,000 is attributable to the City Heights Section 108 loan agreement under which a private developer makes payments to the Successor Agency. The Successor Agency will dispute the DOF's objections to all three agreements. However, if the DOF continues to deny these as enforceable obligations, the State Controller could clawback any payments made under the agreements starting in January 2011.
- The DOF objects to payment of an invoice of about $664,000 from the Development Services Department Construction Management and Inspection Services that were provided on the now completed Harbor Drive Pedestrian Bridge Project. The Successor Agency will dispute the DOF's objection on the basis that the invoice is payable under a memorandum of understanding executed by the City and the former RDA several years ago and qualifies as project management expenses for an enforceable obligation which is allowable per redevelopment dissolution law.
- The DOF will change the source of funding from reserve balances to RPTTF on the basis that the Due Diligence Review (DDRs) of housing and non-housing funds will extract all uncommitted reserve balances within the next few months. The Successor Agency agrees with this position, particularly since the CAC's projections show the RPTTF monies should be sufficient to pay all of the Successor Agency's enforceable obligations in the near future.
- The increase in RPTTF distributions to the Successor Agency will result in an increase of about $140,000 in the 3% cost allowance for ROPS 4. Unlike in ROPS 3, the DOF has approved all of

the requested funding for anticipated administrative and project management costs in ROPS 4.

Due Diligence Reviews

Redevelopment dissolution law requires two DDRs—one of the Low and Moderate Income Housing Funds (Housing Funds) and the second for non-housing funds. The purpose of the reviews is to identify unobligated funds that are available for remittance to the County Auditor and Controller (CAC) for distribution to local taxing entities.

Final Determination on Housing Fund DDR Requires $13.3 Million Remittance

The DOF's final determination on the Housing Fund DDR on March 27, 2013 required that the Housing Successor Agency immediately remit about $13.3 million, including accrued interest to the CAC. This item was heard at Council on April 8, 2013. The Successor Agency is disputing about $3 million of this amount—$1.2 million of this was used to purchase the LaFornara site as part of a settlement the City made relating to a lawsuit against the former RDA. The Housing Successor Agency does not have this cash to remit to the CAC.

The Successor Agency sought but was denied immediate injunctive relief from having to make the $13.3 million payment. The Successor Agency will make the payment under protest and with a full reservation of rights. It is likely that the payment will be made in two installments. The first installment of $11.0 million will be remitted to the CAC within the next week or so, based on Council's recent authorization. The City will receive its 21% share of the funds, about $2.3 million. The Successor Agency plans to seek a loan for this amount, as part of the loan agreement to be brought to Council for approval in May, to use for the second payment installment to the CAC. The City can seek repayment of the loan on ROPS 5 if the Successor Agency's lawsuit on this item is successful. Note that the second installment needs to be paid by the end of May since the DOF has indicated that it will withhold any deficiency from the RPTTF distribution on June 3, 2013. The City will receive its 21% share of the second payment, about $483,000 in the form of additional property tax revenue.

Non-Housing DDR Is Pending

The non-housing DDR is anticipated to be completed by Macias, Gini, and O'Connell (MGO) by the end of April 2013 and then considered by the Oversight Board during two required sessions in May. The timing could be delayed if any new issues arise in report preparation. The amount of uncommitted non-housing funds will not be fully known until the DDR is completed and approved by the Oversight Board and DOF. Note that once the funds are remitted, the City will receive its 21% share of the funds in the form of additional property tax revenue.

Finding of Completion

Following the remittance of non-housing funds, the DOF will issue a Finding of Completion. The Successor Agency will subsequently be eligible to retain former RDA properties and spend excess non-housing bond proceeds on eligible projects (that ful-

fill the intended purpose of the bonds).

Affordable Housing Coalition Pending Lawsuit

The Affordable Housing Coalition of San Diego County has a pending lawsuit alleging that all successor agencies in the County must fulfill any historical, unmet affordable housing production obligations under California Community Redevelopment Law despite the dissolution of RDAs and elimination of tax increment revenue. The Successor Agency was seeking to retain the $13.3 million of unobligated housing funds in the event that the Coalition prevails. If the Coalition prevails and the court does not allow the Successor Agency any new source of funds to fulfill these obligations, the City's General Fund could be exposed to substantial liability of an undetermined amount.

Additional Property Tax Revenue

The City can expect to receive additional property tax revenue from RPTTF in the form of pass-through payments, residual distributions, and other one-time payments. The Five-Year Outlook included $4.8 million for FY 2014 in annual ongoing revenue from pass-through and residual distributions of RPTTF to the City. The FY 2014 Proposed Budget includes an additional $3.1 million of anticipated RPTTF above the Outlook. Financial Management's estimate is based on cash flow projections developed by Successor Agency staff in February 2013. These projections included a flat RPTTF deposit of $75 million.

Based on RPTTF estimates recently provided by the CAC which include an initial deposit of RPTTF for the ROPS 4 period (July 1- December 31, 2013) of $95 million, our office is projecting an additional $3.1-3.2 million per year over the $8.4 million included in the Outlook. We also adjusted the anticipated residual balance per the DOF's initial response on ROPS 4 which increases the amount of RPTTF to be used for enforceable obligations. Our office has conservatively identified $2.1 million of the additional $3.1 million as a potential ongoing resource change to the proposed budget, increasing RPTTF revenue from $3.1 million in the Proposed Budget to $5.2 million.

As discussed earlier in this section, the City can also expect to receive two one-time payments in FY 2013, including:

- up to $2.8 million from the housing fund DDR (although $2.3 million of this amount could potentially be loaned to the Successor Agency) and
- a yet to be determined amount from the non-housing DDR.

Issues for Consideration

There continues to be a high level of risk to the City's General Fund, although the full impact depends on many yet unknown variables, including future DOF rulings, the outcome of ongoing and future litigation, and any potential clean-up legislation. We continue to believe it is important to preserve the $28.5 million in the General Fund reserve for the potential Clawback. Further, the City may want to consider setting aside all or a portion of one-time RPTTF payments from the housing fund and non-

housing fund DDRs to mitigate future risks.

Administration

The Administration Department in FY 2014 is responsible for the support and oversight of the City's Emergency Medical Services contract, living wage ordinance, Commission on Gang Prevention and Intervention, and the Senior Affairs Advisory Board.

In the FY 2014 Proposed Budget, the Equal Opportunity Contracting program will be transferred to the Purchasing and Contracting Department.

Mayor's FY 2014 Proposed Adjustments

- The FY 2014 Proposed Budget for the Administration Department expenditures totals $1.8 million, which is a $1.1 million decrease or 38.8% decrease. The decrease is attributable to the transfer of the department's staff, who are responsible for the oversight and continued development of the City's Equal Opportunity Contracting (EOC) to the Purchasing and Contracting Department (P&C). This transfer moves 9.00 FTEs from the department to P&C, which reduces total costs in the Administration Department by $1.0 million, and reduces associated service level agreement revenue by $175,000. Prior to 2008, the EOC Program was housed within the Purchasing & Contracting Department. In response to concerns about the Program at the time, the Mayor transferred the EOC Program to the Administration Department beginning in 2008.

  When we inquired about the rationale for transferring the Program back to the Purchasing & Contracting Department, the IBA was informed the Mayor considers the Program a high priority and wants to take advantage of the new department director's (Dennis Gakunga) EOC expertise. Mr. Gakunga's first day with the department was April 15, 2013.

- Additionally, the department is transferring 1.00 FTE to the Office of the Chief Financial Officer to assist in the Corporate Partnership Program division. The Manager will coordinate with staff to identify and seek out grant and donation

SUMMARY OF ADMINISTRATION BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	22.95	$ 2,435,902	$ 495,369	$ 2,931,271	$ 571,690
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Transfer of Equal Opportunity Contracting to Purchasing and Contracting Dept	(9.00)	(990,395)	(64,026)	(1,054,421)	(175,054)
Transfer of Grants Program Manager to the Office of the CFO	(1.00)	(192,015)		(192,015)	
Transfer of Supervising Management Analyst to Office of the COO	(0.25)	(35,278)			
Reduction of Hourly Employees not Needed for FY 2014 Operations	(0.70)	(18,392)			
Decrease in IT Costs			(45,472)	(45,472)	
Other	-	202,973	4,971	154,274	7,125
Mayor's Fiscal Year 2014 Proposed Budget	**12.00**	**1,402,795**	**390,842**	**1,793,637**	**403,761**
Difference from 2013 to 2014	*(10.95)*	*$ (1,033,107)*	*$ (104,527)*	*$ (1,137,634)*	*$ (167,929)*

funding opportunities to support City initiatives, as well as facilitate communication and collaboration for multi-departmental/multi-agency grant opportunities. The position will also be responsible for managing non-department specific donations.

City Attorney

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Office of the City Attorney is approximately $44.5 million, an increase of approximately $927,000 from the FY 2013 Budget. The department has a net reduction of 13.00 FTE positions. There was no change in budgeted revenue.

Reductions

A reduction of 13.13 FTE positions and associated personnel expense of approximately $1.4 million is included in the FY 2014 Proposed Budget. An equity argument has been offered as the rationale for the proposed FTE position reductions. A look at the change in all City positions, excluding positions in the Office of the City Attorney, over the five-year period from the FY 2008 Budget through the FY 2013 Budget shows a net reduction of 674.99 positions or approximately -6.50%. Over the same period of time, the Office of the City Attorney in isolation experienced an increase of 7.77 FTE positions, or approximately 2.30%. The IBA has reviewed and confirmed this data.

Issues to Consider

In reviewing the proposed personnel reductions for the Office of the City Attorney, the City Council may wish to consider the following comments while evaluating the department's budget:

- The proposed FTE reduction does not provide any information about associated service level reductions. Before any staff reductions are made, the IBA recommends the City Attorney be asked to comment on associated service level reductions, if any.
- City Charter Section 40 may provide the elected City Attorney with sole dis-

SUMMARY OF CITY ATTORNEY BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	345.99	$ 40,180,235	$ 3,421,796	$ 43,602,031	$ 4,656,169
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages	(0.13)	436,209		436,209	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(99,182)		(99,182)	
Fringe Benefits (incl. Retirement ARC)		2,225,204		2,225,204	
Supplies			(8,736)	(8,736)	
Contracts			10,776	10,776	
Non-Discretionary and Info Technology Adjustments			(204,087)	(204,087)	
Proposed Position Reductions	(13.00)	(1,433,228)		(1,433,228)	
Mayor's Fiscal Year 2014 Proposed Budget	**332.86**	**41,309,238**	**3,219,749**	**44,528,987**	**4,656,169**
Difference from 2013 to 2014	*(13.13)*	*1,129,003.00*	$ *(202,047)*	$ *926,956*	$ -

cretion regarding all personnel decisions within his department. If this is the case and if staffing reductions are to be made, the IBA recommends the City Attorney be asked to 1) suggest how he proposes to meet the identified budget reduction amount and 2) describe the service level implications associated with those reductions, if any.

- As of April 16, 2013, the Office of the City Attorney reported having 25.50 FTE position vacancies. The IBA was informed that some of these positions are critical and in the process of being filled while others are being held open to meet budgeted salary savings in FY 2013.

- Legal services provided by the Office of the City Attorney often save the General Fund (i.e., Public Liability Fund) significant amounts of money. The City Attorney should be asked if identified budget reductions will result in the City needing to hire outside legal counsel to provide critical legal services currently performed by staff. If so, the Office has informed the IBA that the hourly cost of outside legal counsel ranges from $250 to $500 an hour versus an average cost of approximately $75/hour for a Deputy City Attorney.

- The justification for the proposed $1.4 million reduction in personnel expense is based on a simple FTE comparison over a five-year period. It compares the FTE experience in the City Attorney's office to the FTE experience for the rest of City including the General Fund, Enterprise Funds, Internal Service Funds and all Other Funds. It does not account for departmental differences or the fact that FTE counts will change when services are added, expanded, abandoned or transferred between various departments. A few other departments experienced an increase in FTEs over the same five-year period.

- The budget hearing for the Office of the City Attorney will provide an opportunity for the City Council to better consider Financial Management's justification for the proposed budget reduction. It will also be an opportunity for the City Attorney and the City Council to discuss service level impacts.

Budget Hearing Discussion

If the City Council elects to approve all or a portion of the proposed reduction in personnel expense for the Office of the City Attorney, the IBA recommends the City Attorney be asked to determine the necessary personnel reductions and identify associated service level implications, if any.

If the City Council wishes to reduce all or a portion of the proposed reduction in personnel expense for the Office of the City Attorney, it will be necessary to identify a corresponding amount of ongoing savings in the FY 2014 Proposed Budget or, alternatively, find an equal amount of new ongoing revenue to restore the proposed cuts.

City Auditor

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Office of the City Auditor is approximately $3.7 million, a decrease of approximately $67,000 from the FY 2013 Budget. The department has no change in FTE positions and no budgeted revenue. There were no other noteworthy budget adjustments in the FY 2014 Proposed Budget.

Issues to Consider

The City Auditor has requested that his budget be increased by approximately $600,000 in FY 2014. In explaining his budget request to the Audit Committee of March 28th and April 8th, the City Auditor cited a need "to improve the efficiency and effectiveness of his Office and to maintain and retain skilled auditors to continue producing high impact audits with significant results."

Excluding the portion of the City Auditor's budget added for outside auditor contracts (approximately $944,000), the $600,000 request is a 21% increase to the City Auditor's FY 2013 Budget. The component parts of the requested increase include the following:

- $473,574 for 2.00 Performance Auditors, 1.00 Administrative Assistant and .50 FTE for hourly personnel. If approved, City Auditor staff will grow from 20.0 to 23.5 positions in FY 2014, a 214% increase in staffing levels since establishment of the Office in FY 2009.
- $70,767 to restore personnel expense to the level of the FY 2013 base budget.
- $29,944 to restore their training budget to the FY 2011 level ($25,000) and to provide training funds ($4,944) for the additional 3.50 FTEs requested above.

SUMMARY OF CITY AUDITOR BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	20.00	$ 2,567,720	$ 1,241,385	$ 3,809,105	$ -
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		(68,133)		(68,133)	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(2,634)		(2,634)	
Fringe Benefits (incl. Retirement ARC)		73,771		73,771	
Supplies			7,564	7,564	
Contracts			(25,250)	(25,250)	
Non-Discretionary and Info Technology Adjustments			(52,209)	(52,209)	
Mayor's Fiscal Year 2014 Proposed Budget	**20.00**	**2,570,724.00**	**1,171,490.00**	**3,742,214.00**	**-**
Difference from 2013 to 2014	-	$ *3,004*	$ *(69,895)*	$ *(66,891)*	$ -

- $20,401 for maintenance and licensing costs associated with the electronic workpaper system added to the Office's budget in FY 2013. The system is currently in the process of being purchased.
- $5,000 for their Peer Review - a review of the Office's internal quality control system that is required every three years by Government Auditing Standards.

$599,686 - Total FY 2014 Budget Request

On April 8, 3013, the Audit Committee discussed the City Auditor's request for additional funding and recommended approving and forwarding the request to the City Council excluding the request for $70,767 to restore the FY 2013 personnel base budget.

Excluding the FY 2013 personnel base budget component, the additional budget request is for $528,919. This represents an increase of approximately 18% over the City Auditor's FY 2013 Budget.

With the exception of $5,000 for a Peer Review, the balance of the budget request represents an ongoing budget commitment. As the requested increases are not included in the FY 2014 Proposed Budget, any increase would require the identification of new ongoing funding or a reduction of other General Fund commitments.

City Clerk

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Office of the City Clerk totals approximately $5.2 million, a $421,807 increase from the FY 2013 Budget. The number of City Clerk positions remain virtually unchanged at 45.00 FTE, a reduction of 0.12 FTE.

Budget Additions

The FY 2014 Proposed Budget includes the following additions:

- A $250,386 increase in personnel expenditures. $162,429 of this increase is related to an increase in fringe costs.
- $131,485 for 1.00 FTE Information Systems Analyst 3 for daily information technology operations support and the department's paperless initiatives.
- $129,895 for information technology expenditures. This is due to an increase in Data Center costs. The department's overall information technology allocation has increased due to a more accurate cost allocation methodology.
- $10,000 for the add back of overtime removed in FY 2013.

Budget Reductions

- $4,839 reduction due to a zero-based budgeting review of the department's hourly personnel funding, resulting in an 0.12 FTE decrease.
- $61,032 reduction in 1.00 FTE Clerical Assistant 2 position from the Legislative Services Division. This position is currently vacant, with no plans to fill it. Due to this, the position was proposed for elimination by the City Clerk to mitigate the overall personnel budget increase associated with the addition of 1.00 FTE Information Systems Analyst 3 position.

SUMMARY CITY CLERK BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	45.12	$ 3,854,102	$ 955,704	$ 4,809,806	$ 18,404
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salary & Benefit Adjustments	-	250,386		250,386	
- Information Systems Analyst 3	1.00	131,485		131,485	
- Overtime		10,000		10,000	
-Hourly Personnel Funding	(0.12)	(4,839)		(4,839)	
-Clerical Assistant 2	(1.00)	61,032		61,032	
-Other Adjustments		52,708		52,708	
Non-Discretionary and Info Technology Adjustments			171,421	171,421	
Mayor's Fiscal Year 2014 Proposed Budget	**45.00**	**4,104,488**	**1,127,125**	**5,231,613**	**18,404**
Difference from 2013 to 2014	*(0.12)*	*$ 250,386*	*$ 171,421*	*$ 421,807*	$ -

Issues to Consider

Archival Project

As a part of the City Clerk's budget requests for FY 2014, $377,000 in funding was requested to fund costs associated with expanding the city's existing Archival space given that the current volume of significant historical records exceeds current capacity. The total cost of the project included planning and design, an RFP process, and construction costs for structural modifications.

This request was not approved for inclusion in the FY 2014 Proposed Budget. The City Clerk has since modified the project plans to a more phased implementation of the archival project, with planned use of less costly out of state storage space for historical documents that do not need to be available onsite. The revised plan for the project would cost $50,000 annually for four years. The City Clerk has requested that funding for the project is included in the May Revise.

Passport Services

The City Clerk's Office continues to move forward with efforts to partner with the U.S. Department of State to become a Passport Acceptance Facility. The Office won a grant to purchase camera and printer equipment for the Facility. Once the Acceptance Facility is operating, the City would be able to collect fees to cover the costs associated with the program's implementation. One Deputy City Clerk I would be dedicated to providing passport services, at an annual personnel cost of approximately $73,000. Currently the City Clerk anticipates that the Passport facility will begin operating at the beginning of FY 2014.

City Comptroller

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the City Comptroller Department is approximately $10.9 million, an increase of approximately $690,000 from the FY 2013 Budget. The department adds 2.00 FTE positions and budgeted revenue has been reduced by $355,000.

Additions

An audit of the Procurement Card (P-Card) Program in August 2012 pointed out deficiencies in program management and oversight. To address these issues, the COO subsequently made a decision to transfer the P-Card Program from the Purchasing & Contracting Department to the City Comptroller Department beginning in February 2013. The decision to transfer the Program followed discussions with involved departments.

The FY 2014 Proposed Budget reflects the decision to transfer the P-Card Program to the City Comptroller Department. The P-Card Program is staffed by 2.00 FTE positions (1.00 Associate Management Analyst and 1.00 Administrative Aide 2). The FY 2014 Proposed Budget shows these positions and associated budget expense of approximately $211,000 transferring into the City Comptroller Department.

Additionally, $70,000 in budgeted revenue associated with rebates paid to the City by the P-Card provider bank will transfer into the City Comptroller Department's budget.

Reductions

The City Comptroller informed the IBA that his budget is typically assigned the

SUMMARY OF CITY COMPTROLLER BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	79.75	$ 9,326,022	$ 869,201	$ 10,195,223	$ 2,716,760
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		11,662		11,662	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(7,767)		(7,767)	
Fringe Benefits (incl. Retirement ARC)		557,982		557,982	
Supplies			(5,033)	(5,033)	
Contracts			(1,061)	(1,061)	
Non-Discretionary and Info Technology Adjustments			(77,454)	(77,454)	
				-	
Transfer of Procurement Card Program/Staff from Purchasing & Contracting	2.00	211,191		211,191	70,000
Reduction in Reimbursment for Comptroller Services from Other Departments					(250,000)
Other Miscellaneous Revenue Adjustments					(175,000)
Mayor's Fiscal Year 2014 Proposed Budget	**81.75**	**10,099,090**	**785,653**	**10,884,743**	**2,361,760**
Difference from 2013 to 2014	*2.00*	*$ 773,068*	*$ (83,548)*	*$ 689,520*	*$ (355,000)*

maximum amount allowed by Service Level Agreements (SLAs) with other departments. In practice, the City Comptroller Department is not asked to provide the maximum level of services to other departments in a year. This results in revenue being overbudgeted for the department each fiscal year. In an effort to more accurately reflect the amount of reimbursement revenue received for City Comptroller services provided to other departments, net budgeted revenue for the department has been reduced by $355,000.

Issues to Consider

The City Comptroller's Department continues to oversee a contract with an outside revenue recovery auditor (Moody Associates). With assistance from City Comptroller staff, the outside audit firm is in the process of concluding an Accounts Payable audit that resulted in net revenue recoveries for the City of approximately $200,000 in FY 2013.

In an audit status report to the Audit Committee in November 2012, the City Comptroller recommended utilizing the outside auditor to review contract compliance with the City's larger vendors. He estimated that there may be a revenue recovery opportunity of as much as $2 million.

The City Comptroller has already begun to coordinate the logistics for reviewing contract documentation with the new director of the Purchasing & Contracting Department. The IBA recommends the City continue to pursue contract compliance and excise and use tax audits as a means to recover revenue.

It may be necessary to extend the term of the contract with Moody Associates in FY 2014 in order to proceed with additional revenue recovery audits. The City Council and/or the Audit Committee may wish to request an update from the City Comptroller on the status of these revenue recovery audit opportunities.

City Council

Council Offices

The City Council budget in FY 2014 encompasses each of the nine City Council district offices and the Council Administration department. The FY 2014 Proposed Budget for the City Council is $13.0 million, which is $287,162 above the FY 2013 Adopted Budget, which is an increase of 2.3%. Personnel expenditure changes in FY 2014 are due mainly to District Nine annualized costs and vacancy savings in Districts 2 and 3. Non personnel expenditures decreases are primarily due to information technology savings due to the elimination one-time transition costs and budgeted savings due to new vendor contracts.

District Nine Annualized Costs

District Nine was created in FY 2013 based on Citywide re-districting. Funding for this new Council district office was provided in the FY 2013 Adopted Budget for December 2012 to July 2013. A full year funding will be required for FY 2014, which is an increase of $514,631 over the FY 2013 Adopted Budget and an increase of 4.17 FTEs. This brings the district's budget in-line with the other eight Council district budgets.

Community Projects, Programs, and Services (CPPS) funds

The FY 2014 Proposed Budget includes a collective total of $1.4 million for CPPS funds. This results in a $78,742 or 5.4%, decrease from the FY 2013 Adopted Budget. 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. The CPPS funding for each Council district office is based on estimated FY 2013 savings included in the FY 2013 Mid-Year Report. The estimated amount of funds could change based on year-end actual savings.

Council Administration

Funding for Council Administration in the FY 2014 Proposed Budget totals $1.9 million, which is a decrease of $116,344 or 5.8% from the FY 2013 Adopted Budget. The decrease in funding is due to the elimination of one-time expenditures of

SUMMARY OF CITY COUNCIL AND COUNCIL ADMINISTRATION BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	98.13	$ 9,604,690	$ 3,137,205	$ 12,741,895	$ -
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		410,929	-	410,929	
Fringe Benefits (incl. Retirement ARC)		212,877		212,877	
Information Technology	-	-	(210,947)	(210,947)	
Other Expenditure Adjustments	-	-	(125,697)	(125,697)	
Annualization of Council District 9 FTEs	4.17				
Mayor's Fiscal Year 2014 Proposed Budget	**102.30**	**10,228,496**	**2,800,561**	**13,029,057**	**-**
Difference from 2013 to 2014	*4.17*	*$ 623,806*	*$ (336,644)*	*$ 287,162*	$ -

$119,000 in the FY 2013 Adopted Budget. Of this, $100,000 was for a transfer to the San Diego Workforce Partnership and $19,000 in payment of accrued leave balances for personnel that exited City employment when Council districts were transitioned during the fiscal year.

City Treasurer

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the City Treasurer's Department is approximately $20.4 million, an increase of approximately $721,000 from the FY 2013 Budget. The department has a net addition of 1.00 FTE position. Budgeted revenue has been increased by $517,000.

Additions

The FY 2014 Proposed Budget reflects the transfer of 1.00 vacant Financial Operations Manager position, and approximately $155,000 of associated personnel expense, from the Financial Management Department. The City Treasurer's department received and filled the vacant position in November 2012, assigning the position a working title of Treasury Systems Manager. The position will be responsible for overseeing the management of approximately 34 information systems needed for department operations.

A new Rental Unit Business Tax (RUBT) billing system was implemented in FY 2011 that allows the City to more frequently process master parcel data received from the County Assessor's Office. This data enables the City to issue more RUBT billing statements stemming from County re-

SUMMARY OF CITY TREASURER BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	118.63	$ 10,851,296	$ 8,797,233	$ 19,648,529	$ 25,046,475
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		(592)		(592)	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(30,268)		(30,268)	
Fringe Benefits (incl. Retirement ARC)		422,707		422,707	
Supplies			(26,921)	(26,921)	
Contracts			(114,308)	(114,308)	
Non-Discretionary and Info Technology Adjustments			(52,202)	(52,202)	
Financial Operations Manager transfer from Financial Management Dept.	1.00	155,363		155,363	
Savings from new Core Banking Services Contract with Bank of America			(169,406)	(169,406)	
PROJECTED CHANGES IN REVENUE:				-	
Revenue attributable to new Rental Unit Business Tax Billing System					800,000
Increased Parking Meter Revenue/Expense for CPDs attributable to new Multi-Space Meters			390,000	390,000	390,000
Projected Increase in Parking Meter Expense/Revenue - Install 1,000 New Meters			147,000	147,000	100,000
Decreased Collection Interest Revenue due to Council approved interest rate reduction					(250,000)
Reversing out one-time revenue added in FY 2013 for collection of Old Parking Citation Debt					(250,000)
Projected Reduction in Parking Citation Revenue					(141,000)
Investment Services to disbanded Redevelopment Agencies no longer reimbursable					(132,000)
Mayor's Fiscal Year 2014 Proposed Budget	**119.63**	**11,398,506**	**8,971,396**	**20,369,902**	**25,563,475**
Difference from 2013 to 2014	*1.00*	*$ 547,210*	*$ 174,163*	*$ 721,373*	*$ 517,000*

corded ownership changes. This improved billing process is expected to increase budgeted revenue for the RUBT by $800,000 in FY 2014.

The FY 2014 Proposed Budget for the City Treasurer's Department has a Significant Budget Adjustment (entitled Parking Meter Utilization Plan) which shows $390,000 of new revenue and expense. The title of this adjustment was a mistake as the change does not relate to the parking Meter Utilization Plan. The budgetary change instead reflects the portion of additional revenue attributable to 81 new multi-space meters to be shared with the Community Parking District in accordance with Council Policy 100-18.

The department plans to replace some of the City's older parking meters by installing 1,000 single-head meters (estimated ongoing banking costs of $87,000 annually) and 200 parking meter sensors (one-time cost of $60,000) in FY 2014. It is expected that these new meters will generate additional parking meter revenue of $100,000 annually.

Reductions

The City recently approved a new contract with Bank of America for core banking services. The new contract results in reduced annual fees of approximately $19,000 and a one-time loyalty credit of $150,000 in FY 2014. This results in reduced banking fees/ expenses of approximately $169,000 for the department in FY 2014.

Reductions in Budgeted Revenue

City Council approved Ordinance O-20036 in March 2011 limiting the amount of interest the City Treasurer can charge delinquent accounts (referred to the City for collection) to the highest rate of interest allowed by law. The City Treasurer believes this change has reduced collection interest by $250,000 annually. A corresponding reduction in budgeted revenue has been made in the FY 2014 Proposed Budget.

In the FY 2013 Budget, the City Treasurer Department added $250,000 of one-time revenue with the expectation that enhanced collection efforts could recover old parking citation debt. This one-time revenue add needs to be reversed out of the department's budget in FY 2014 and this has been done.

Due to a change in departmental staff assignments which impact the amount of parking citation revenue collected, parking citation revenue has been reduced by $141,000 in the FY 2014 Proposed Budget.

The department has historically provided reimbursable investment services (i.e., the investment of idle bond proceeds) to the City's redevelopment agencies. Now that redevelopment has been dissolved by the State, the department no longer receives reimbursement from redevelopment. This circumstance is reflected by a $132,000 reduction of budgeted revenue in FY 2014.

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. Significant areas related to Citywide Expenditures are discussed in the next few pages.

Citywide Program Expenditures
Budget Changes by Expenditure Category & Type

Description	FY 2013 Adopted	FY 2014 Proposed	Change	%
Contracts	**$23,999,717**	**$22,654,647**	**($1,345,070)**	**-5.6%**
Citywide Elections	*1,800,000*	*1,800,000*	*0*	*0.0%*
Corporate Master Lease Rent	*10,671,204*	*11,212,869*	*541,665*	*5.1%*
Insurance	*1,281,700*	*1,562,879*	*281,179*	*21.9%*
Memberships	*630,000*	*630,000*	*0*	*0.0%*
Property Tax Administration	*5,102,711*	*4,084,720*	*(1,017,991)*	*-20.0%*
Special Consulting Services	*4,050,000*	*2,700,000*	*(1,350,000)*	*-33.3%*
Transportation Subsidy	*459,102*	*659,179*	*200,077*	*43.6%*
Employee Personal Property Claims	*5,000*	*5,000*	*0*	*0.0%*
Energy & Utilities - Corp. Master Lease	**11,819**	**758**	**(11,061)**	**-93.6%**
Other Expenditures	**2,513,235**	**3,955,058**	**1,441,823**	**57.4%**
Assessments to Public Property	*463,235*	*504,200*	*40,965*	*8.8%*
Business Cooperation Program	*350,000*	*350,000*	*0*	*0.0%*
Preservation of Benefits	*1,700,000*	*1,700,000*	*0*	*0.0%*
Supplemental COLA Benefit	*0*	*1,400,858*	*1,400,858*	*100.0%*
Transfers Out	**40,413,194**	**40,826,400**	**413,206**	**1.0%**
*Deferred Capital Debt Svc. - DC1 (2009A Issuance *)*	*5,377,870*	*5,299,443*	*(78,427)*	*-1.5%*
Deferred Capital Debt Svc. - DC2 (2012A Issuance)	*3,500,000*	*3,400,376*	*(99,624)*	*-2.8%*
CIP Debt Svc. - 2013 Anticipated Issuance	*0*	*2,000,000*	*2,000,000*	*100.0%*
McGuigan Settlement	*7,973,053*	*8,007,675*	*34,622*	*0.4%*
Park Improvement Funds	*3,003,095*	*5,614,678*	*2,611,583*	*87.0%*
Public Liability Claims Fund	*12,206,208*	*14,506,208*	*2,300,000*	*18.8%*
Public Liability Reserve Fund	*6,100,000*	*101,700*	*(5,998,300)*	*-98.3%*
Public Use Leases	*1,502,488*	*1,582,144*	*79,656*	*5.3%*
Special Consulting Services - Civic San Diego	*250,000*	*0*	*(250,000)*	*-100.0%*
TRANS Interest Expense	*500,000*	*314,000*	*(186,000)*	*-37.2%*
Interfund Environmental Services - Corp. Master Lease	*480*	*176*	*(304)*	*-63.3%*
TOTAL	**$66,937,965**	**$67,436,863**	**$498,898**	**0.7%**

* The 2009A deferred capital issuance was refinanced with the 2010A Master Refunding Bonds.

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Citywide Program Expenditures Department totals $67.4 million, an increase of $499,000 from the FY 2013 budget of $66.9 million.

Reserves

The contributions to the Public Liability Reserve and General Fund Reserve are typically budgeted in the Citywide Program Expenditures.

A General Fund Reserve contribution is not budgeted for FY 2013, as the reserve target of 8% of General Fund revenues is currently satisfied. See the General Fund Reserve section of this report for more information.

A Public Liability Reserve contribution transfer of $102,000 is budgeted in the FY 2014 Proposed Budget. The reserve contribution amount has decreased by $6.0 million from the FY 2013 Adopted Budget amount of $6.1 million.

Additionally, a $14.5 million transfer to the Public Liability fund for FY 2014 public liability claims expenditures is included for FY 2014, up $2.3 million from the FY 2013 Adopted Budget of $12.2 million.

See the Significant Citywide Issues, Public Liability Fund section of this report for more information.

Citywide Elections

The Citywide Elections amount in the FY 2014 Proposed Budget is unchanged from the FY 2013 Adopted Budget—at $1.8 million.

The $1.8 million budget for elections costs is anticipated to allow for the June 2014 Primary election, including two to three ballot measures. The June 2014 Primary election races will be for Council Districts 2, 4, 6, and 8. Possible run-offs to these elections will occur in the November 2014 General Election, which will be included in the FY 2015 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 county jurisdiction places on the ballot.

Property Tax Administration

Beginning in FY 2007, the County of Los Angeles began charging additional property tax administration fees to each city in the county. This was based on legislative ambiguity associated with property taxes used to backfill city revenue associated with the "triple-flip" and "VLF swap". The County of San Diego also instituted this property tax administration fee calculation methodology starting in FY 2009.

In FY 2008, the City of Alhambra (et al.) filed a petition against the County of Los Angeles disputing the way in which the property tax administration fee calculation had recently been modified. After extensive litigation, the Supreme Court of California issued its opinion on the validity of the increase in property tax administration charges on November 16, 2012—rulling in favor of the City of Alhambra (et al.) and nullifying the increase in property tax administration charges.

As a result, the County of San Diego has

returned to the methodology utilized prior to FY 2009 to calculate ongoing administration charges per fiscal year. The FY 2014 budget is $4.1 million, which represents $1.0 million in savings to the City.

Special Consulting Services

The Special Consulting Services budget decreased by $1.6 million for FY 2014—from $4.3 million to $2.7 million. See the table below for breakdown for Special Consulting Services.

The Kinder Morgan Litigation budget has been eliminated—from a budget of $1.4 million in FY 2013. However, the City Attorney's Office has indicated that $700,000 will be needed in FY 2014. This is anticipated to be addressed in the May Revision.

Additionally, $100,000 is included in the budget to study the feasibility of the City taking over Taxicab Administration from Metropolitan Transit System (MTS). The current contract with MTS expires June 2013. This is a significant fiscal and policy issue of which the Council should be fully apprised.

Note that of the FY 2013 $4.3 million Special Consulting Services budget, $4.1 million was budgeted in the Contracts category, and $250,000 was budgeted in the Transfers Out category. For FY 2013 this $250,000 supported Civic San Diego expenditures. For FY 2014 the same $250,000 has been transferred to the Economic Development Department's budget to continue support of Civic San Diego's efforts to explore and identify new funding sources (New Market Tax Credits, SANDAG Grants, etc.) for economic development and neighborhood revitalization activities throughout the City.

Transportation Subsidy

The Transportation Subsidy budget is increasing by $200,000 in the FY 2014 Proposed Budget to provide funding for a bus pass program for low-income students.

Supplemental COLA Benefit

In 1999 the Supplemental Cost of Living Adjustment (COLA) benefit was created for certain retirees who retired before July 1,

SPECIAL CONSULTING SERVICES

	FY 2013 ADOPTED	FY 2014 PROPOSED	CHANGE
Actuary Services/DROP Study	$ 320,000	$ 320,000	$ -
Disclosure Counsel	200,000	200,000	-
Labor Related Contracts	380,000	380,000	-
Muni Services-Sales Tax Consultants	650,000	650,000	-
Contingency	-	100,000	100,000
Outside Legal Contracts	950,000	950,000	-
Kinder Morgan Litigation	1,350,000	-	(1,350,000)
Park and Recreation Fee Study	200,000	-	(200,000)
Civic San Diego	250,000	-	(250,000)
Taxi Cab Study	$ -	$ 100,000	$ 100,000
TOTAL	$ 4,300,000	$ 2,700,000	$ (1,600,000)

(1) This amount was transferred to the Economic Development Department in FY 2014.

1982. Those retirees' benefits had dropped below 75% of their original purchasing power.

When the benefit was created, $35.0 million was set aside in a special pension reserve that would fund the benefit. The reserve is anticipated to be depleted in October 2013, and once the reserve is depleted SDCERS cannot continue to pay this benefit. The number of recipients for this benefit as of June 30, 2012 was 683.

This benefit is not a vested benefit, and the City is not required to provide for continuance of the benefit. Additionally, San Diego Municipal Code section 24.1504 would need to be amended to provide for continuation of the benefit.

The FY 2014 Proposed Budget includes $1.9 million citywide ($1.4 million in the General Fund) to support the Supplemental COLA on a "pay as you go" basis. The estimated cost of this benefit over the next five years is $10.5 million citywide.

The Mayor recommends that the City fund the Supplemental COLA benefit on an annual basis, and the Proposed Budget considers the FY 2014 budgeted amount to be an ongoing expenditure. However the IBA believes that this expenditure may be more appropriately reflected as a one-time expenditure, given that the City is not legally obligated to fund this benefit, and the decision to do so should be made annually based on the City's budget outlook.

Deferred Capital Debt Service

The debt service payment for the $100 million 2009 deferred capital financing issuance (known as "DC1") is $7.3 million in FY 2014. This includes $2.0 million in principal that will be paid from the Capital Outlay Fund and $5.3 million in interest to be paid from the Citywide Program Expenditures Department.

There is also a debt service payment budgeted in FY 2014 for the $75 million 2012 deferred capital financing issuance (known as "DC2"), which is $4.6 million. This includes $1.2 million in principal that will be paid from the Capital Outlay Fund and $3.4 million in interest to be paid from the Citywide Program Expenditures Department.

Lastly, there is a $2.0 million increase in the Citywide Program Expenditures budget in FY 2014 to cover debt service for the anticipated $35 million deferred capital program bond issuance, which is anticipated to occur at the end of FY 2013.

McGuigan Settlement

Another expenditure budgeted in the Citywide Program Expenditures 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.

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 2014 Proposed Budget by $2.6 million—from $3.0 million to $5.6 million. Note that revenue from Mission Bay Park rents and concessions is budgeted in the Real Estate Assets Department.

Public Use Leases

The public use lease expenditures are related to the use of parking lots in Las Americas and Imperial Marketplace for the park and ride program. The FY 2014 Proposed Budget for the public use leases is $1.6 million, up from $1.5 million in FY 2013.

Debt Management

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Debt Management Department is approximately $2.4 million, an increase of approximately $75,000 from the FY 2013 Budget. The department has a net addition of 1.00 FTE position. Budgeted revenue has been reduced by $112,000.

Additions

The FY 2014 Proposed Budget adds 1.00 Program Coordinator position to perform post issuance debt administration and credit agency support for the former Redevelopment Agency bond program. The former Redevelopment Agency's bond program has 16 outstanding bond issuances that require annual reporting, investment administration of bond proceeds and periodic credit agency interaction. It is anticipated that this position will continue to be supported by the administrative budget of the Successor Agency which is primarily funded by Redevelopment Property Tax Trust Fund (RPTTF) monies.

Reductions

Budgeted revenue is reduced by $112,000 to reflect an anticipated reduction in reimbursable financing-related staff support to City departments and programs.

Issues to Consider

Anticipated Borrowings in FY 2014

In their March report on the City's Debt Policy, the department briefly discussed a forward calendar for borrowing activity in FY 2014. After the expected closing on the $35 million CIP bond issue in June, the FY 2014 Tax and Revenue Anticipation Notes

SUMMARY OF DEBT MANAGEMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	18.00	$ 2,141,051	$ 215,805	$ 2,356,856	$ 660,645
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		(45,473)		(45,473)	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(23,671)		(23,671)	
Fringe Benefits (incl. Retirement ARC)		17,629		17,629	
Supplies			1,534	1,534	
Contracts			(324)	(324)	
Non-Discretionary and Info Technology Adjustments			(34,718)	(34,718)	
Addition of Program Coordinator to perform Post Issuance Debt Administration	1.00	160,466		160,466	
Revised Revenue based on Projection of Services Performed in FY 2014					(112,000)
Mayor's Fiscal Year 2014 Proposed Budget	**19.00**	**2,250,002**	**182,297**	**2,432,299**	**548,645**
Difference from 2013 to 2014	*1.00*	*$ 108,951*	*$ (33,508)*	*$ 75,443*	*$ (112,000)*

are expected to close on July 1st to meet General Fund cash flow needs in FY 2014.

The first phase of the plan of finance for the Convention Center Phase III Expansion Project involves the issuance of short-term Bond and Revenue Anticipation Notes to finance design, engineering, pre-construction and initial construction. These Notes are expected to be sold in the summer of 2013.

The FY 2014 Proposed Budget plans for the third issuance of bonds (DC 3) to address the deferred capital project backlog early in calendar year 2014. This is a delay from the original Council approved deferred capital financing schedule of Spring 2013.

A need for bonds to address the capital requirements of the Water enterprise program is anticipated for early FY 2015. If so, the department will be working to prepare for that borrowing in the second half of FY 2014.

General Fund Debt Capacity

As noted in the City's Debt Policy, the most important affordability ratio used in analyzing the City's debt position with respect to General Fund supported debt is debt service (i.e., payments on lease revenue bonds) as a percentage of available revenue or expenditures. This ratio, which only pertains to the City's general fund backed debt, is often referred to as the "lease burden". The City's current lease burden percentage is under 5%.

Credit rating agency guidelines consider lease burden percentages above 10% to be above average or high. Given that the current lease burden percentage is under 5%, the IBA believes the City has considerable capacity to prudently issue additional General Fund backed bonds; however, we also note the City's significant capital infrastructure needs which will require additional borrowing in the years ahead.

Department of Information Technology

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

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Department of IT (General Fund and non-General Fund components) is $45.4 million, a net $1.4 million decrease from FY 2013. The decrease is mainly attributable to expenditure reductions in the OneSD Support Fund and the Wireless Communications Technology Fund as described in the following sections. This is partially offset by the restructure of the Multimedia Services Division into the Department of IT and an addition of $2.6 million of one-time funding for General Fund PC replacement. The chart below reflects the net changes from FY 2013 to each of the funds within the department.

General Fund

The FY 2014 Proposed Budget for the General Fund component is approximately $3.8 million, a $3.3 million increase over FY 2013.

Budget Additions

The chart on the next page details the following significant budget adjustments. The increase to the General Fund budget is mainly attributable to:

- 4.00 FTEs and $555,300 associated expenditures for the restructure of the Multimedia Services Division into the Department of IT;
- 1.00 FTE addition of a Multimedia Coordinator position with associated personnel expenditure of $90,330 to support increased City TV activities; and
- $2.6 million in one-time funding for the replacement of General Fund departments' PCs.

It should be noted that the $2.6 million in

SUMMARY OF INFORMATION TECHNOLOGY DEPARTMENT BUDGET

	FY 2013 FTE	FY 2014 FTE	CHANGE	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE
General Fund	-	5.00	5.00	$ 500,000	$ 3,785,632	$ 3,285,632
Non-General Fund						
GIS Fund	2.00	2.00	-	$ 1,640,459	$ 1,679,327	$ 38,868
Information Technology Fund	32.00	39.00	7.00	$ 9,085,716	$ 9,858,715	$ 772,999
OneSD Support Fund	18.00	17.50	(0.50)	$ 25,678,944	$ 21,171,869	$ (4,507,075)
Wireless Communications Technology Fund	48.00	44.76	(3.24)	$ 9,869,693	$ 8,853,902	$ (1,015,791)
TOTAL INFORMATION TECHNOLOGY	**100.00**	**108.26**	**8.26**	**$ 46,774,812**	**$ 45,349,445**	**$ (1,425,367)**

one-time funding will replace desktop computers that are over four years old as of July 1, 2013. The City is required to upgrade its computers to support the switch to Windows 7 from the Windows XP operating system. Microsoft will end support of XP, including security patches, as of April 2014, making the replacement of these PCs a necessity. The remaining $500,000 allotted for PC replacement was carried over from FY 2013, and will be used annually to update or replace computers that break or are aging. Due to the City's financial situation, City computers have not been updated regularly thus requiring substantial one-time investment for FY 2014.

The $2.6 million of one-time funding was a previous estimate based on the PCM (formerly known as SARCOM) contract managed by San Diego Data Processing Corporation (SDDPC), which is set to expire on June 30, 2013. The IT department brought an item to the Budget & Finance Committee on April 17, 2013 which proposed a new agreement with HP to replace these computers. Based on new estimates (contingent upon Council approval of this agreement) the price per desktop computer falls from $708 per PC to $562, before tax. The estimated number of PCs to be replaced has also fallen from 3,530 PCs to 3,440, due to the fact that the department was able to replace more machines in FY 2013 than was originally estimated. Based on these new figures, it is estimated that only $2.1 million of one-time funding is needed, for a one-time savings of $500,000. The department concurs with this reduction. Our office has noted this $500,000 reduction as a recommended one-time revision. This reduction may also appear in the Mayor's May Revise.

GIS Fund

The FY 2014 Proposed Budget for the GIS fund is $1.7 million. This is an increase of about $40,000 over FY 2013 which is mostly due to salary and benefit adjustments to reflect changes in fringe benefits for FY 2014.

SUMMARY OF GENERAL FUND CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	-	$ -	$ 500,000	$ 500,000	$ -
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits			-	-	-
Supplies	-	-		-	-
Contracts	-	-		-	-
Non-Discretionary and Info Technology Adjustments	-	-	39,858	39,858	-
Transfer of Multimedia Services Division to Dept. of IT	4.00	482,197	73,103	555,300	113,300
Addition of Multimedia Coordinator	1.00	90,330		90,330	-
One-time funding for General Fund PC replacement	-	-	2,600,000	2,600,000	-
New GPS Contract			144	144	-
Mayor's Fiscal Year 2014 Proposed Budget	**5.00**	**572,527**	**3,213,105**	**3,785,632**	**113,300**
Difference from 2013 to 2014	*5.00*	*$ 572,527*	*$ 2,713,105*	*$ 3,285,632*	*$ 113,300*

Information Technology Fund

For the FY 2014 Proposed Budget, the Information Technology (IT) Fund is approximately $9.9 million and 39.00 FTEs, an increase of about $800,000 and 7.00 FTEs from FY 2013.

Significant Additions

Significant adjustments to this fund include:

- 1.00 FTE and $147,489 transferred from the OneSD Support Fund and 5.00 FTEs and 340,113 from the Wireless Communications Fund to consolidate administrative staff into one fund;
- Half-year funding of $450,000 for operational expenditures associated with maintaining an added facility which will revert to the City upon SDDPC's dissolution;
- Addition of 1.00 Information System Analyst III and associated personnel expenditures of $111,788 to support the Mayor and Council Customer Relationship Management (CRM) system; and
- $30,000 in Windows 7 consulting services for the Microsoft upgrade.

With regard to the $450,000 half year funding for the added facility, it should be noted that ongoing funding of $900,000 is estimated for future fiscal years to fund the operations and facilities maintenance. The $900,000 projection is based on numbers provided by SDDPC, and is the net cost to operate and maintain the facility after income received by the current tenant. Once the department obtains direct experience with the facility, this estimate may be revised.

The addition of the Information System Analyst III will support the CRM system, as Council has requested that their current system (Complete Gov) be replaced. By replacing this system, the Mayor's Office and Council Office's will be using one system.

SUMMARY OF INFORMATION TECHNOLOGY FUND CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	32.00	$ 4,365,438	$ 4,720,278	$ 9,085,716	$ 7,818,160
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		281,255		281,255	-
One-Time Reductions & Annualizations	-	-	(472,900)	(472,900)	-
Non-Discretionary Adjustments	-	-	686,326	686,326	-
Info Technology Adjustments			(801,072)	(801,072)	
Transfer of position from OneSD Support Fund	1.00	147,489		147,489	-
Transfer of positions from Wireless Communications Fund	5.00	324,799	15,314	340,113	
Addition of Information System Analyst III	1.00	111,788		111,788	
Half-year funding for operations & maintenance of former SDDPC facility	-	-	450,000	450,000	-
Windows 7 Consulting Services			30,000	30,000	-
Revised Revenue Projections	-	-	-	-	1,271,690
Mayor's Fiscal Year 2014 Proposed Budget	**39.00**	**5,230,769**	**4,627,946**	**9,858,715**	**9,089,850**
Difference from 2013 to 2014	*7.00*	*$ 865,331*	*$ (92,332)*	*$ 772,999*	*$ 1,271,690*

Significant Reductions

In an effort to increase transparency and centralize Data Center cost allocations, a reduction of approximately $800,000 was made to equipment and support for Information Technology. The reduction reflected in this fund moves these costs to the citywide allocation for the Data Center.

Revenue Adjustments

The revenue increase of approximately $1.3 million is largely due to the personnel increase of 7.00 FTEs.

Departmental Requested Addition

The Department of IT requested $300,000 for SAP Security Consulting as a contingency to support staffing gaps related to high turnover for positions related to this work. This funding request was not included in the FY 2014 Proposed Budget. This funding would support approximately 1200 hours annually for SAP security consulting.

OneSD Support Fund

The OneSD Support Fund includes $21.2 million and 17.50 FTEs for its FY 2014 Proposed Budget. This is a decrease of approximately $4.5 million and 0.5 FTEs from FY 2013.

Significant Budget Adjustments

The $4.5 million decrease is mainly attributable to an approximate $1.2 million decrease in non-discretionary adjustments and about $3.4 million adjustment made for equipment and support for information technology, with a corresponding revenue adjustment. Of the $3.4 million reduced for information technology, $2.4 million was related to reallocating Data Center costs from this fund to the citywide allocation, as described in the IT Fund section. Other reductions included a decrease in hardware and enhanced consultant support costs.

Approximately $150,000 and 1.00 FTE was transferred to the IT Fund, as previously described in the IT Fund section. The OneSD Fund also adds 0.5 FTEs for hourly personnel funding in order to support administrative functions.

SUMMARY OF ONESD SUPPORT FUND CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	18.00	$ 2,666,289	$ 23,012,655	$ 25,678,944	$ 25,638,857
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		219,333	-	219,333	-
Non-Discretionary Adjustments	-		(1,188,274)	(1,188,274)	-
Information Technology Adjustments			(3,406,663)	(3,406,663)	
Transfer of position to IT Fund	(1.00)	(147,489)		(147,489)	-
Addition of hourly personnel funding	0.50	16,018		16,018	
Revised Revenue Adjustments	-	-	-	-	(4,537,614)
Subtotal	(0.50)	87,862	(4,594,937)	(4,507,075)	(4,537,614)
Mayor's Fiscal Year 2014 Proposed Budget	**17.50**	**2,754,151**	**18,417,718**	**21,171,869**	**21,101,243**
Difference from 2013 to 2014	*(0.50)*	*$ 87,862*	*$ (4,594,937)*	*$ (4,507,075)*	*$ (4,537,614)*

Wireless Communications Fund

The FY 2014 Proposed Budget for the Wireless Communications Technology Fund is $8.9 million and 44.76 FTEs, a decrease of about $1 million and 3.24 FTEs. The decrease is mainly attributable to reduction of a debt payment for this fund. Corresponding revenue has been adjusted.

Significant Budget Adjustments

Other significant budget adjustments for the Wireless Communications Fund include:

- One-time funding of $250,000 from fund balance to replace aging radio equipment for the public safety communications network;
- Personnel funding of $68,898 to fund 1.76 FTEs that will help relieve peak workload demand for mobile installations and assistance with the backlog of radio repair tasks; and
- A transfer of 5.00 FTEs and associated expenditures of $340,113 to the IT Fund.

The City is currently in the process of converting the aging analog equipment for the public safety communications network to a digital system. The department expressed that approximately half of this equipment has been upgraded. They expect to present a plan to the Mayor for how to address the remaining replacement of this equipment.

Recent B&FC Discussions

In discussions at the March 27, 2013 and April 17, 2013 Budget & Finance Committee (B&FC) meetings, the IBA was directed to provide clarification regarding a "$1.4 million budget gap" that the Department of IT referred to during the March 27, 2013 meeting. Additionally, committee members inquired about one-time IT transition costs budgeted in comparison to actual costs, and the value of SDDPC's assets and the plan for its dissolution. The IBA has followed up with the Department of IT, the Comptrol-

SUMMARY OF WIRELESS COMMUNICATIONS FUND CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	48.00	$ 5,089,871	$ 4,779,822	$ 9,869,693	$ 8,621,354
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		143,735	-	143,735	-
Non-Discretionary Technology Adjustments	-	-	(1,078,110)	(1,078,110)	-
Information Technology Adjustments			(61,137)	(61,137)	
Transfer of positions to IT Fund	(5.00)	(324,799)	(15,314)	(340,113)	
Addition of hourly personnel funding	1.76	68,898		68,898	
GPS Contract			936	936	-
Radio Equipment for Public Safety	-	-	250,000	250,000	
Revised Revenue Adjustments		-	-	-	(1,086,505)
One-Time Reductions and Annualizations					(373)
Mayor's Fiscal Year 2014 Proposed Budget	**44.76**	**4,977,705**	**3,876,197**	**8,853,902**	**7,534,476**
Difference from 2013 to 2014	*(3.24)*	*$ (112,166)*	*$ (903,625)*	*$ (1,015,791)*	*$ (1,086,878)*

ler's Office, Financial Management, SDDPC and the City Attorney's Office regarding these issues.

IT Transition to Outside Vendors

On May 14, 2012 and June 25, 2012 the City Council approved changes to the City's vendors that provide IT services. Contracts with Atos IT Solutions & Services, Inc. (Atos), CGI Technologies & Solutions, Inc. (CGI) and Xerox State & Local Solutions, Inc. (Xerox) were approved totaling approximately $183.9 million over five years. A two-year option is available for each contract totaling approximately $63.7 million total for all contracts. By transitioning to these new vendors, the Department of IT estimated savings of approximately $13.2 million over the five-year contract period, or about $36.0 million over 7 years if the two-year options are approved for all three vendors. These savings are outlined in the table below, and reflect the estimates presented to Council in May and June of 2012.

One-Time Costs for the Transition

To implement the transition, the City anticipated $14.1 million in total one-time funding during the first two years. In FY 2013, $13.7 million ($6.6 million General Fund) of one-time costs were included in the Adopted Budget for this purpose.

For FY 2014, one-time costs associated with the transition are much less, at approximately $400,000 for the Data and Voice Network Services provided by Xerox. These costs are included in the Network fixed-cost and are allocated citywide. No one-time costs are expected in future fiscal years, as FY 2014 is the last year of contractual transition costs.

For FY 2013, the actual one-time cost for FY 2013 is $15.1 million. This is $1.4 million over the original $13.7 million projection that was included in the FY 2013 Adopted Budget. The variance stems from underestimating the amount of the City's payment to SDDPC for provided services and one-time transition costs, as described in the following section. Other one-time costs associated with the other three ven-

One - Time IT Transition Costs (in millions)

	Year 1 FY 2013	Year 2 FY 2014	Total
Budget	$ 13.7	$ 0.4	$ 14.1
Actual	$ 15.1	N/A	$ 15.1
Variance	***$ (1.4)***	***N/A***	***$ (1.4)***

Projected Costs and Savings of Transitioning to Outside IT Vendors IT as by the Department of IT to the City Council (in millions)

	Year 1 FY 2013	Year 2 FY 2014	Year 3 FY 2015	Year 4 FY 2016	Year 5 FY 2017	Year 6[1] FY 2018	Year 7[1] FY 2019
Baseline Projected Costs	$ 44.5	$ 41.9	$ 42.7	$ 43.6	$ 44.5	$ 45.4	$ 46.3
RFP Vendor Costs	49.2	41.7	39.1	37.7	36.3	34.8	34.1
Savings Over Baseline	***(4.7)***	***0.2***	***3.6***	***5.9***	***8.2***	***10.6***	***12.2***
Cumulative Savings	***(4.7)***	***(4.5)***	***(0.9)***	***5.0***	***13.2***	***23.8***	***36.0***

[1] *Year 6 and 7 represent costs and savings from exercising a two-year option for IT vendor contracts*

dors were included in their contracts and do not vary.

City Payment to SDDPC Underestimated by $1.4 million in FY 2013

Prior to FY 2013, SDDPC billed City departments separately for its IT services. In an effort to centralize payment to DPC during the first year of the IT transition, the City planned to make two payments to SDDPC. For FY 2013, the budget included approximately $11.7 million for this purpose. This amount was estimated by the Department of IT by estimating SDDPC hourly costs (including overhead and other loaded costs) based on prior year SDDPC charges to City departments, in addition to the total number of hours required to provide services for FY 2013. The department was not able to base their estimate on SDDPC's FY 2013 transitional budget since it was not approved by its Board of Directors until late June, after the City's Adopted Budget was already approved. The estimated $11.7 million of service delivery and one-time costs associated with the transition were included in the cost projections presented to the City Council in May and June during items related to IT outsourcing.

Following budget adoption and after working with SDDPC, the Department of IT determined that their actual annual payment would be approximately $14.8 million. Based on the $11.7 million that was included in FY 2013 for SDDPC, this resulted in about a $3.1 million deficit. The Department of IT first worked with SDDPC to identify reductions and/or savings to close the deficit. By identifying various costs savings from the data center tower, the network tower, and professional IT services (among other things), approximately $1.7 million in annual savings were identified. Those savings reduced the City's payment to SDDPC from $14.8 million to $13.1 million, leaving a $1.4 million deficit.

City's Original Payment to SDDPC (in millions)	
SDDPC Original Annual Payment	$ 14.8
FY 2013 City Budget for SDDPC	$ 11.7
FY 2013 Original Deficit	*$ (3.1)*

City's Revised Payment to SDDPC (in millions)	
SDDPC Original Annual Payment	$ 14.8
Identified Savings	$ (1.7)
Revised SDDPC Annual Payment	$ 13.1
FY 2013 City Budget for SDDPC	$ 11.7
FY 2013 Revised Deficit	*$ (1.4)*

In FY 2013, the City will need to make this $1.4 million payment to SDDPC above budgeted amounts (the impact to the General Fund is approximately $550,000), which will be addressed in the FY 2013 year-end report with a corresponding appropriation request.

SDDPC Dissolution and Assets

Mayoral staff is expected to bring a resolution to the City Council for the dissolution of SDDPC. Contingent upon Council approval of dissolution, SDDPC's assets will revert to the City. Information from the City Attorney's Office indicates that at the time of dissolution, SDDPC's assets will revert to the City, and the Mayor may propose recommendations to Council for the utilization of these assets. Staff anticipates

SDDPC to be dissolved by sometime within October – December of 2013.

Preliminary estimates of SDDPC's assets as of February 2013 are based on information from the City Comptroller's Office and a recent statement of SDDPC's assets:

Approximately $4.8 million of property and equipment after accumulated depreciation - This estimate may be revised after SDDPC is dissolved and fair market value is assessed at that time.

Approximately $8.4 net cash after taking into account liabilities; Estimated $4.4 to $5.4 million upon dissolution - The $8.4 million February balance does not reflect the estimate of cash assets projected after dissolution. At a previous SDDPC board meeting, management stated they would expend approximately $0.5 million per month through the remainder of the fiscal year, or about $2 million. Additionally, the Comptroller's Office estimated about $1 to $2 million to be utilized for the closing costs of the corporation. This brings the estimated cash balance to approximately $4.4 to $5.4 million upon dissolution.

Approximately $9 - $10 million total estimated value of 2 buildings owned by SDDPC - The value of these two buildings are not included in the previous estimate of property and equipment due to the fact they have already been fully depreciated. However, the $9 - $10 million reflects a preliminary estimate of the value of the buildings, and may need to be revised upon dissolution for their fair market value.

Development Services

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Development Services (DSD) Department is $64.6 million, an increase of approximately $3.3 million and an increase of 13.14 FTEs from the FY 2013 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 budget is reported separately from DSD although the current organizational structure has Economic Development reporting to the Director of DSD.

DSD has a complex budget structure, with seven divisions and four different funds. The City Planning division, as shown below, is comprised of three previous divisions: Planning, Urban Form, and Administration & Technical Services. DSD is continuing to evaluate the functions within their department and continue to realign personnel and work function to better match "like" work functions. These efforts are to streamline processes and increase efficiencies within the department.

Due to the complexity of the budget structure, the analysis of the FY 2014 Proposed Budget in this section is organized by the separate funds: General Fund, Facilities Financing Fund, DSD Enterprise Fund, and the Local Enforcement Agency Fund.

Development Services General Fund (City Planning & Neighborhood Code)

The General Fund portion of DSD includes the City Planning and Neighborhood Code

DEVELOPMENT SERVICED DEPARTMENT BUDGET SUMMARY

DIVISION	GENERAL FUND	FACILITIES FINANCING FUND	DSD ENTERPRISE FUND	LEA FUND	TOTAL BY DIVISION
City Planning	9,300,552				**9,300,552**
Neighborhood Code	6,626,970				**6,626,970**
Facilities Financing		2,099,947			**2,099,947**
Administration & Support Services			15,951,750		**15,951,750**
Building & Safety			18,028,246		**18,028,246**
Entitlements			11,744,919		**11,744,919**
Solid Waste LEA				876,910	**876,910**
TOTAL BY FUND	**15,927,522**	**2,099,947**	**45,724,915**	**876,910**	**64,629,294**

Compliance divisions. The FY 2014 Proposed Budget is approximately $15.9 million, reflecting an increase 2.68 FTEs and approximately $1.7 million from the FY 2013 Adopted Budget. Department revenues reflect an increase of approximately $121,000, primarily due to increased project plan reviews.

City Planning

An important function of the Planning Division is reviewing and updating community plans. The FY 2014 Proposed Budget includes an increase of approximately $831,000 for continued work on the Phyllis Place project and continued work or completion of updates to the Mission Valley, Otay Mesa, Southeastern San Diego, Uptown, North Park, Golden Hill, Ocean Beach, and Barrio Logan community plans; with grant funding providing a portion of the funding for the Barrio Logan community plan update. The Barrio Logan community plan update is targeted to be presented to the City Council by late - FY 2013 and the Otay Mesa and Ocean Beach community plan updates are anticipated to be presented to the City Council for consideration in FY 2014.

As stated in the Mayor's State of the City, a focus of the new administration will be neighborhood services. As such, the FY 2014 Proposed Budget includes $950,000 for the establishment of the Civic and Urban Initiatives Program. As described in the Volume I of the FY 2014 Proposed Budget, this program will be tasked with coordinating and linking fragmented urban and civic policies, research, and projects on both sides of the border to produce new platforms of collaboration between local governments, institutions, and neighborhood organizations. The program will help establish and provide support to various working groups, internships, incubators, and a Council on Civic Imagination and Urban Initiatives.

Of the $950,000 in funding, approximately $613,000 will pay for 6.00 new FTEs (2.00 Program Managers and 4.00 Mayor Repre-

SUMMARY OF DEVELOPMENT SERVCIES - GENERAL FUND CHANGES (CITY PLANNING & NEIGHBORHOOD CODE COMPLIANCE)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	111.07	$11,270,870	$2,973,015	$14,243,885	$3,291,864
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		377,548		$377,548	
Non-Discretionary and Info Technology Adjustments			(203,795)	($203,795)	
Support for Civic and Urban Initiatives	6.00	613,238	336,762	$950,000	
Funding for Community Plan Updates (CPUs)			831,074	$831,074	
Support for Property Value Protection Ordinance	1.00	72,217	3,000	$75,217	75,217
Non-Standard Hour Personnel Funding	(1.32)	16,658		$16,658	
Transfer of Graffiti Team (3.00 FTE) to Transportation & Stormwater, 1.00 Code Enforcement Officer to DSD from Transportation & Stormwater	(3.00)	(137,310)	(15,500)	($152,810)	
New Global Positioning System Contract			288	$288	
One-time reductions and annualizations			(210,543)	($210,543)	(226,207)
Revised Revenue					271,838
Mayor's Fiscal Year 2014 Proposed Budget	**113.75**	**$12,213,221**	**$3,714,301**	**$15,927,522**	**$3,412,712**
Difference from 2013 to 2014	*2.68*	*$ 942,351*	*$ 741,286*	*$ 1,683,637*	*$ 120,848*

sentatives) and approximately $337,000 will be associated with Non-Personnel expenditures.

Neighborhood Code Compliance

In FY 2013, the City Council approved the Property Value Protection Ordinance. The program requires lenders to register defaulted and foreclosed residential properties with the City. The FY 2014 Proposed Budget reflects the addition of 1.00 FTE and approximately $75,000 to administer the program; with matching revenue of approximately $75,000 as this program is to be revenue/expense neutral. The revenue for this program is generated from the $76 fee to register the properties with the City.

The FY 2014 Proposed Budget includes the transfer of the Graffiti Team (2.00 Utility Workers 1s and 2.00 Utility Workers 2s) from the DSD Department to the Transportation and Storm Water Department; and the transfer of 1.00 Code Compliance Officer from the Transportation and Storm Water Department to the DSD Department. The transfers result in a net reduction of 3.00 FTEs and approximately $153,000 from the DSD Department.

The transfers will combine "like" functions to improve efficiencies within DSD and the Transportation and Storm Water Department. The transfers will remove all the utility workers from DSD and increase the number of code enforcement officers in DSD to six for land use code enforcement. DSD will no longer have staff to remove graffiti from the right-of–way; however the department will continue to manage the agreement with Urban Corp for removal of graffiti from private property.

The FY 2014 Proposed Budget shows the Storm Water and Transportation Department with 5.75 Code Compliance Officers and 1.00 Code Compliance Supervisor to continue to conduct enforcement related to the their department, such as compliance with the Municipal Storm Water Permit, surface water requirements, and storm water development regulations.

Significant Budget Adjustments

The FY 2014 Proposed Budget includes an increase of revenue of approximately $272,000. The increase is the net impact of multiple actions including projected increases in billable charges related to an increase in planning projects and reviews, and a reduction of revenues related to services associated with the former Redevelopment Agency.

Issues to Consider

During the FY 2013 budget development process, DSD committed to stakeholders and City Council to include an independent analysis of the General Plan Maintenance Fee during the department's next comprehensive fee study. DSD is anticipating entering into a contract for fee consulting services in FY 2014 to examine, update, create, and advise on all building, permit and service fees including the General Plan Maintenance Fee. The FY 2014 Proposed Budget includes funding for DSD to enter into this agreement. Any recommendations from this study which is expended to be completed late FY 2014, will be presented to the City Council for consideration.

Facilities Financing (Non-General Fund)

The FY 2014 Proposed Budget for the Facilities Financing Division is approximately $2.1 million, reflecting a reduction of 0.54 FTEs and an increase of approximately $33,000 from the FY 2013 Adopted Budget. Department revenues increase by approximately $32,000 from FY 2013.

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 2014, Facilities Financing anticipates conducting the preliminary analysis for several plans, including Barrio Logan, Carmel Valley, College, Golden Hill, Greater North Park, Mid-city, Mira Mesa, Otay Mesa, Otay Mesa Nestor, Rancho Bernardo, Rancho Penasquitos, and Uptown.

Development Services (Enterprise Fund)

The FY 2014 Proposed Budget for the Development Services Department (DSD) Enterprise Fund is approximately $45.7 million, an increase of 11.00 FTEs and an increase of approximately $1.6 million from the FY 2013 Adopted Budget. Department revenues decrease by $4,725 from FY 2013.

Job Classification Change

In FY 2013, in response to a Fire Prevention Bureau (FPB) Efficiency Study, dated July 6, 2011, the FPB transferred the fire and life safety plan review and inspection responsibilities previously undertaken by the FPB to DSD. Over the years, the fire and life safety plan review and inspection responsibilities had been moved between the FPB and DSD several times.

For the FY 2014 Proposed Budget, DSD evaluated the job classifications (Fire Prevention classifications) that performed the fire and life safety plan review and inspec-

SUMMARY OF DEVELOPMENT SERVICES BUDGET CHANGES (ENTERPRISE FUND)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	419.75	$ 32,275,940	$ 11,863,186	$ 44,139,126	$ 45,586,082
Mayor's FY 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		988,066		988,066	
Non-Discretionary and Info Technology Adjustments			(750,381)	$ (750,381)	
Transfer of Plan Review function from Public Utilities	12.00	1,408,172		1,408,172	
Transfer of Development Project Manager	(1.00)	(140,363)		(140,363)	
Supplemental Cost of Living Adjustment (COLA)			80,223	80,223	
Global Positioning System Contract			72	72	
One-Time Reductions and Annualizations				-	(4,725)
Mayor's Fiscal Year 2014 Proposed Budget	**430.75**	**$34,531,815**	**$11,193,100**	**$45,724,915**	**$45,581,357**
Difference from 2013 to 2014	*11.00*	*$ 2,255,875*	*$ (670,086)*	*$ 1,585,789*	*$ (4,725)*

tions in FY 2013, and determined that an Engineer job classification was a better fit for the duties of these specific positions. In discussions with the Fire Department and after engaging in the meet and confer process, DSD and the Fire Department supported the job classification change for the FY 2014 Proposed Budget.

The FY 2014 Proposed Budget reflects the reduction of 10.00 positions within the Fire Prevention job classification and a corresponding increase in the Engineer job classification. This transaction will have no net impact to the number of positions within DSD as these positions are only being reclassified.

Transfer of Development Plan Review

The FY 2014 Proposed Budget includes the transfer of 12.00 FTEs (1.00 Sr. Civil Engineer, 2.00 Associate Civil Engineers, 7.00 Assistant Civil Engineers, 1.00 Jr. Civil Engineer, and 1.00 Clerical Assistant 2) related to the Development Plan Review function within Public Utilities to DSD. The transfer of the Public Utilities' Development Plan Review function to DSD will allow for "like" job functions to be housed within the same location and promote efficiencies. The Public Utilities Department will continue to receive the same services from these personnel.

For the FY 2014 Proposed Budget, the transfer of positions will increase DSD by 12.00 FTEs and approximately $1.4 million. The transfer is to the DSD Enterprise Fund from the Public Utilities Fund (Enterprise Fund), therefore, there is no General Fund impact as a result of these transfers.

DSD is the agency that has historically collected the fees related to the plan reviews and forwarded the appropriate revenues to the Public Utilities Department, as the tasks being performed were being completed by Public Utilities staff. For FY 2014, DSD will continue to collect the fees related to the plan review tasks, however, as the personnel expenses will be charged to DSD, there will be no transfer of funds to the Public Utilities Department. DSD will see an increase to personnel expenses and a corresponding reduction in transfers out to other funds.

Other Budget Adjustments

Other budget adjustments include a reduction of 1.00 Development Program Manger 2 position and approximately $140,000 in personnel expenses. This position is being transferred to the Community Development Block Grant Division of the Economic Development Department.

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 4.50% by June 30, 2014. Based on the budgeted operating expenditures of $45.8 million, this equates to a reserve of approximately $1.6 million. The approximately $2.1 million Appropriated Reserve for the FY 2014 Proposed Budget represents approximately 4.6% of

the total operating expenditures, slightly exceeding the reserve target.

Disability Services

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Disability Services Department is approximately $625,000, an increase of approximately $49,000 from the FY 2013 Budget. The department has 4.37 FTE positions reflecting a nominal .01 FTE reduction in hourly personnel funding.

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.

ADA Funding in FY 2013

In FY 2013, $12.8 million was allocated to fund 67 ADA projects. This was a significant increase in ADA project funding over the three previous fiscal years. Funding came from the following sources:

- $8.2 million from the $75 million Deferred Capital Bonds issued in June of 2012;
- $2.5 million from Development Impact Fees; and
- $2.1 million for the Capital Outlay Fund (proceeds from land sales).

The 67 ADA projects identified for FY 2013 were selected from 1) the unfunded list of City facilities in the 1997 ADA Transition Plan and 2) unfunded locations in the public right of way for which the City has received ADA complaints from residents.

SUMMARY OF DISABILITY SERVICES BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	4.38	$ 488,540	$ 87,209	$ 575,749	$ 15,415
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages	(0.01)	10,550		10,550	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(1,300)		(1,300)	
Fringe Benefits (incl. Retirement ARC)		42,405		42,405	
Supplies					
Contracts			5,000	5,000	
Non-Discretionary and Info Technology Adjustments			(7,251)	(7,251)	
Revised Revenue Projection					(299)
Mayor's Fiscal Year 2014 Proposed Budget	**4.37**	**540,195**	**84,958**	**625,153**	**15,116**
Difference from 2013 to 2014	*(0.01)*	*$ 51,655*	*$ (2,251)*	*$ 49,404*	*$ (299)*

Status of ADA Construction Projects by Fiscal Year							
	FY 2008 BUDGET	FY 2009 BUDGET	FY 2010 BUDGET	FY 2011 BUDGET	FY 2012 BUDGET	FY 2013 BUDGET	TOTALS
Allocated Funds (millions):	$13.8	$11.3	$3.3	$2.4	$1.5	$12.8	$45.1
ADA Project Phases							
Design/Bid/Award:	0 (0%)	1 (3%)	2 (25%)	3 (33%)	6 (100%)	67 (100%)	79
In Construction:	2 (4%)	3 (10%)	0 (0%)	2 (22%)	0 (0%)	0 (0%)	7
Completed:	54 (96%)	25 (86%)	6 (75%)	4 (45%)	0 (0%)	0 (0%)	89
TOTAL PROJECTS:	56 (100%)	29 (100%)	8 (100%)	9 (100%)	6 (100%)	67 (100%)	

The general criteria for project prioritization are highest public use, locations for which the City has received an official ADA complaint from residents, and the severity of the ADA barrier. Depending on the type of asset (building, curb ramp, sidewalk, audible pedestrian signal) more detailed criteria may also be applied to determine the overall priority.

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. The table above provides a history of ADA funding since FY 2008 and also shows the percentage of projects completed in each fiscal year.

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.

City ADA projects compete with a significant backlog of deferred capital projects for limited funding. In the FY 2014 Proposed CIP Budget, approximately $1.2 million of Development Impact Fee (DIF) funding has been budgeted for City facilities and public right-of-way improvements related to ADA. No additional funding has been allocated for ADA projects in FY 2014; however, an $80 million Deferred Capital Bond issuance (DC 3) is planned for early 2014 and a portion of the proceeds could be allocated to ADA projects as was done this year.

The previous administration suggested that more robust funding for ADA projects would be facilitated through the issuance of annual CIP bonds. The City Council may wish to inquire about the availability of bond funding for identified ADA projects.

The IBA continues to believe that 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 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Economic Development Department is approximately $8.0 million, an increase of approximately $1.1 million from the FY 2013 Budget. The department has a net addition of 1.58 FTE positions. Budgeted revenue has been reduced by approximately $254,000.

Additions

The department is receiving 2.00 additional positions in FY 2014. The first position is a transfer of 1.00 Development Project Manager 2 from the Development Services Department (DSD). Management indicates the employee in this position is a former Economic Development employee who has been on loan to the department to address a need in the HUD Programs group. The transfer of the position, and the associated personnel expense, is supported by DSD and Economic Development.

The second position involves the addition on 1.00 Administrative Aide 2 to support the Enterprise Zone Hiring Tax Credit Programs. As this position is expected to be fully cost recoverable from vouchering fees paid by benefitting businesses, approximately $76,000 of new revenue has been added to offset the expense of this position.

The department is budgeted for 4.50 hourly FTEs, a .42 FTE decrease from FY 2013. This .42 FTE decrease coupled with the addition of the 2.00 new positions yields a net

SUMMARY OF ECONOMIC DEVELOPMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	44.42	$ 4,645,836	$ 2,175,894	$ 6,821,730	$ 4,232,349
Mayor's FY 2014 Proposed Budget Changes					
Salary & Wage Adjustments	(0.42)	(61,285)		(61,285)	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(43,375)		(43,375)	
Fringe Benefits (incl. Retirement ARC)		331,739		331,739	
Supplies			(9,131)	(9,131)	
Contracts			(313,716)	(313,716)	
Non-Discretionary and Info Technology Adjustments			(347,154)	(347,154)	
Development Project Manager 2 from DSD to CDBG Division	1.00	140,363		140,363	
Addition of Administrative Aide 2 to support Enterprise Zone Activity	1.00	80,640		80,640	76,012
Added Expense for Year-Round Emergency Winter Shelter			1,300,000	1,300,000	
Added Expense for Neighborhood Redevelopment Initiatives			250,000	250,000	
Reduction of SBEP Expense for BID Council Support			(185,000)	(185,000)	
Other Revenue Adjustrments					(329,876)
Mayor's Fiscal Year 2014 Proposed Budget	**46.00**	**$ 5,093,918**	**$ 2,870,893**	**$ 7,964,811**	**$ 3,978,485**
Difference from 2013 to 2014	*1.58*	*$ 448,082*	*$ 694,999*	*$ 1,143,081*	*$ (253,864)*

increase of 1.58 FTE positions for the department.

Homeless Emergency Winter Shelter

In order to support year-round operations of the Homeless Emergency Winter Shelter, $1.3 million has been added to the department's expense budget. The extension of the operating months of the Homeless Emergency Winter Shelter will not apply to the 150-bed Homeless Veterans Emergency Winter Shelter, which will operate from the beginning of December 2013, and end operations in early April 2014. CDBG and Emergency Solutions Grant (ESG) funding has been allocated to support four months of operations for the Veterans Shelter in FY 2014. Extending operations would cost approximately $75,000 per month. Our office is also aware that the Connections Housing year-round permanent interim bed facility may need additional funding to support operations through FY 2014.

Neighborhood Redevelopment Initiatives

The FY 2014 Proposed Budget transfers Neighborhood Redevelopment Initiatives funding of $250,000 from the Citywide Program Expenditures Department to Economic Development Department budget. These funds support Civic San Diego's efforts to explore and identify new funding sources (New Market Tax Credits, SANDAG Grants, etc.) for economic development and neighborhood revitalization activities throughout the City.

Reductions

Bid Council Reduction

Council Policy 900-15 establishes a Small Business Enhancement Program (SBEP) that is funded with an annual General Fund appropriation equal to $20 per small business (defined as 12 or fewer employees) registered with the City. The Council Policy specifies how SBEP funds are to be allocated and $315,000 is provided annually to the BID Council. CP 900-15 specifies that $185,000 of the $315,000 cover BID Council staff and operating costs. The BID Council is required to use the remaining $130,000 to support Micro-Districts and Commercial Neighborhoods and technical assistance for small businesses.

The FY 2014 Proposed Budget plans to cut $185,000 of contractual expense normally awarded to the BID Council and have the City assume responsibility for administering grants to Micro-Districts and Commercial Neighborhoods and technical assistance for small businesses. As the contract expense reduction involves SBEP funds, it is unclear how or if these funds will be redeployed.

The City Council may wish to ask 1) if the proposed cut represents a reduction in total SBEP funding as defined in Council Policy 900-15 and 2) if Economic Development staff has the capability and capacity to effectively administer these small business programs? If so, will they require additional staff or other resources to perform the additional responsibilities?

Budgeted Revenue

There are other revenue adjustments of approximately ($330,000). The majority of this adjustment enables the department to match revenues to projected CDBG administration expenditures.

Issues to Consider

Departmental Vacancies

The department currently has 8.00 budgeted vacant positions, approximately 17% of all budgeted FTEs. Some of these positions have been vacant for several months. Five of the 8.00 positions provide support to the HUD Programs group. Department management has informed the IBA that a few of these positions are in various stages of being filled while others require managerial approval or Personnel action.

Given the importance of properly administering the City's annual allocation of CDBG funds, the IBA recommends necessary approvals be obtained ASAP. Full staffing of the HUD Programs group will better enable the City to comprehensively manage annual CDBG funding from the federal government.

Environmental Services

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Environmental Services Department (ESD) is $93.7 million, a decrease of $1.8 million in expenditures and reduction of 6.94 FTEs from the FY 2013 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 2014 Proposed Budget in this section is organized by major fund.

ESD's Five-year Financial Outlook

On November 13, 2012, the ESD presented the City Council a five-year financial outlook for two of the ESD enterprise funds: the Refuse Disposal Fund and the Recycling Fund. The financial outlook presented information on the funds, information on cost reductions efforts already implemented (not including managed competition efforts), and recommendations to protect the financial health of the funds.

The City Council approved several actions related to the five-year financial outlook. These actions were to become effective over several years.

In FY 2013, the approved financial outlook allows for:

- De-appropriation of $5 million in the Refused Disposal fund as a result of the re-evaluation of the fund's short-term CIP needs;
- Establishment of a fee of $20/load for acceptance of clean fill dirt at Miramar Landfill; and
- Modification to the methodology on determining the AB939 Recycling Fee.

In FY 2014, the approved actions include:

- Establishing a $20/load fee for acceptance of Construction and Demolition Inert residue at Miramar Landfill;

ESD FY 2014 PROPOSED BUDGET EXPENDITURES

	General Fund	Automated Refuse Container Fund	Energy Conservation Fund	Refuse Disposal Fund	Recycling Fund	TOTAL
Collection Services	$ 32.2	$ 0.8		$ 1.0	$ 16.9	$ 50.9
Waste Reduction & Disposal	0.0			26.2	1.9	28.1
Energy Sust. & Environomental Protection	2.1		2.3	0.0	1.8	6.2
Office of the Director	1.7			4.1	2.6	8.4
TOTAL	$36.0	$0.8	$2.3	$31.3	$23.2	$93.6

- Elimination of nonprofit organization fee exemption for disposal and AB939 Fees; and
- Adjusting the Landfill Greenery tipping fees to be more cost recoverable.

In FY 2015, there will be an increase of $3/ton on the Disposal Fee for all weighted loads delivered to Miramar Landfill

In FY 2016, the approved financial outlook established automatic CPI rate adjustments for Recycling fees and the Disposal fees for weighted loads delivered to Miramar Landfill.

Managed Competition for the Landfill

During FY 2013, the Landfill Operations underwent the managed competition process. Landfill Operation activities include Landfill Operations, Greenery Operations, Hazmat Landfill Load Check, Fee Booth Operations, and Landfill Maintenance and Monitoring for the City.

Landfill Operations was awarded to the Landfill Operations Employee Proposal Team with an implementation date scheduled for July 1, 2013, pending the outcome of required processes including the meet and confer process.

The FY 2014 Proposed Budget reflects approximately $3.5 million in reduced expenditures in the Refuse Disposal Fund (Enterprise Fund) as a result of the implementation of managed competition.

It is anticipated that the General Fund will benefit from this managed competition process through mitigated costs in FY 2015 as the General Fund pays tipping fees related to residential refuse collection due to the People's Ordinance.

General Fund

The FY 2014 Proposed Budget for the General Fund portion of the ESD is estimated at $36.0 million, an increase of approximately $1.5 million and an increase of 2.68 FTEs from the FY 2013 Adopted Budget. Department revenues are projected to total approximately $1.3 million, a slight de-

SUMMARY OF BUDGET CHANGES - GENERAL FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	135.01	$ 12,560,529	$ 21,932,077	$ 34,492,606	$ 1,264,100
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		609,752		609,752	
Non-Discretionary and Info Technology Adjustments			717,846	717,846	
Reallocation of Hazardous Substance Enforcement support team	2.25	196,629		196,629	34,229
Non-Standard Hour Personnel Adjustment	0.43	(5,820)		(5,820)	
Global Positioning System Contract			10,200	10,200	
FY 2014 revenue adjustment				0	(38,500)
Mayor's Fiscal Year 2014 Proposed Budget	**137.69**	**$ 13,361,090**	**$ 22,660,123**	**$ 36,021,213**	**$ 1,259,829**
Difference from 2013 to 2014	*2.68*	*$ 800,561*	*$ 728,046*	*$ 1,528,607*	*$ (4,271)*

crease of approximately $4,200 from FY 2013.

Position Restructure and Reallocation

For the FY 2014 Proposed Budget, ESD reviewed and reallocated certain positions based upon the anticipated work and the fund/division that was expected to receive the benefit of the work performed.

In review of the administrative and managerial staff which provides support to the Hazardous Substance Enforcement function within the Department, it was determined that reallocation of several positions for the FY 2014 Proposed Budget would be appropriate. No increase or decrease to staffing is proposed, only a reallocation of costs to better match work functions with the appropriate cost center.

As a result of the cost reallocation, the FY 2014 Proposed Budget shows an increase of 2.25 FTEs (shown below) for the General Fund portion of ESD.

- 0.45 Deputy Director
- 0.25 Program Manager
- 0.20 Supervising Management Analyst
- 0.20 Associate Management Analyst
- 0.30 Senior Clerk/Typist
- 0.10 Administrative Aide
- 0.75 Word Processing Operation

The reallocation of staff increases the General Fund expenditures by approximately $197,000 and increases the revenue by approximately $34,000.

Energy Conservation Program Fund

The FY 2014 Proposed Budget for the Energy Conservation Program Fund is approximately $2.3 million, a slight decrease of approximately $18,000 from the 2013 Adopted Budget. Department revenues are budgeted at $2.3 million, a decrease of approximately $1.6 million from FY 2013.

The primary factor to the reduction in revenue is the anticipated completion of the Street Light Retrofit project. As fewer light retrofit projects will be undertaken in FY 2014 as compared to FY 2013, less rebate revenue is anticipated to be received from San Diego Gas & Electric. The reduction in rebate revenue is projected to be approximately $1.6 million.

Significant Budget Adjustments

Significant budget adjustments include the following:

- A net reduction of 0.60 FTE and approximately $42,000 in expenses and an increase of approximately $43,000 in revenue related to reallocation of the Hazardous Substance Enforcement support team. The changes in FTEs are outlined below:

  <u>Increase in FTEs</u>
  0.50 FTE Program Manager
  0.40 Administrative Aide I
  0.20 Associate Management Analyst
  0.15 Senior Clerk/Typist
  <u>Decrease in FTEs</u>
  0.50 FTE Deputy Director
  0.10 FTE Senior Mgmt. Analyst

0.40 FTE Supervising Mgmt. Analyst
0.85 FTE Word Processing

Recycling Fund

The FY 2014 Proposed Budget for the Recycling Fund is approximately $23.2 million, a decrease of approximately $82,000 and a decrease of 1.01 FTEs from the 2013 Adopted Budget. Department revenues are budgeted at $17.7 million, a decrease of approximately $1.0 million from FY 2013.

Significant Budget Adjustments

Significant budget adjustments include the following:

- An increase of $510,000 in expenditures to purchase automated yard waste containers to be provided to residents in compliance with the Automated Container Policy and enable the Collection Division to review converting manual yard waste collection routes to automated collection;
- An increase of $500,000 for equipment for public space recycling projects throughout the City; and additional education and outreach programs focused on recycling programs;
- A net increase of 0.30 FTEs and approximately $34,000 in expenses and an increase of approximately $9,000 in revenue related to reallocation of the Hazardous Substance Enforcement support team. The changes in FTEs are outlined below:

  Increase in FTE
  0.10 Deputy Director
  0.05 Senior Clerk/Typist
  0.10 Senior Mgmt. Analyst
  0.20 Supervising Mgmt. Analyst
  0.10 Word Processing Operator
  Decrease in FTE
  0.25 Program Manager;
- A reduction of 1.00 FTE (Recycling Specialist 2) and reduction of $138,445 related to recycling efficiencies;
- A reduction of $1.4 million related to one-time reductions and annualizations; contributing to this reduction is an ad-

SUMMARY OF BUDGET CHANGES - RECYCLING FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	108.34	$ 9,673,454	$ 13,626,573	$ 23,300,027	$ 18,826,994
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		191,814		191,814	
Non-Discretionary and Info Technology Adjustments			193,039	193,039	
Purchase of Automated Yard Waste Containers			510,000	510,000	
Recycling/Outreach Projects			500,000	500,000	
Reallocation of Hazardous Substance Enforcement support team	0.30	33,718		33,718	8,557
Cost of Living Adjustment			19,732	19,732	
Non-Standard Hour Personnel Adjustment	(0.31)	747		747	
Global Positioning System Contract			7,560	7,560	
Efficiency Savings	(1.00)	(98,445)	(40,000)	(138,445)	
One-Time reductions and annualization			(1,400,000)	(1,400,000)	(1,000)
FY 2014 revenue adjustment					(1,056,900)
Mayor's Fiscal Year 2014 Proposed Budget	**107.33**	**$ 9,801,288**	**$ 13,416,904**	**$ 23,218,192**	**$ 17,777,651**
Difference from 2013 to 2014	*(1.01)*	*$ 127,834*	*$ (209,669)*	*$ (81,835)*	*$ (1,049,343)*

justment for a one-time purchase of two side loading vehicles in FY 2013;

- Reduction in revenue of $1,056,900 primarily related to decreased market value of commodities collected through the Curbside Recycling Program.

Issues to Consider

The Department is developing a pilot program to review and evaluate the conversion of manual yard waste collection routes to automated collection routes. Upon review of the information collected via this pilot program, a long-term financial analysis should be conducted to evaluate the long-term benefit of this program as there may be a considerable capital outlay and cost associated with the initial conversion of these routes.

Refuse Disposal Fund

The FY 2014 Proposed Budget for the Refuse Disposal Fund is approximately $31.3 million, an decrease of approximately $2.5 million and a decrease of 8.36 FTEs from the FY 2013 Adopted Budget. Department revenues are budgeted at approximately $29.4 million, an increase of approximately $1.7 million from FY 2013.

Savings from Managed Competition

The Landfill Operations was awarded to the Landfill Operations Employee Proposal Team. For the FY 2014 Proposed Budget, the Refuse Disposal Fund shows a net reduction of 6.00 FTEs (reduction of 24.0 FTEs and addition/re-classification of 18.00 FTEs) and reduced expenditures of approximately $3.5 million (approximately $763,000 in personnel expenses and approximately $2.7 million in non-personnel expenses). The savings in the non-personnel expenses are primarily related to equipment rental and fuel expenses.

Post-Closure Fund Transfer

The California Department of Resources Recycling and Recovery (CalRecycle) requires that solid waste facilities in California demonstrate financial responsibility for the closure and/or post closure maintenance of

SUMMARY OF BUDGET CHANGES - REFUSE DISPOSAL FUND (ESD)					
	FTE	**PE**	**NPE**	**Total**	**Revenue**
Fiscal Year 2013 Budget	158.38	$ 14,543,779	$ 20,004,277	$ 34,548,056	$ 27,674,497
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		815,005		815,005	
Non-Discretionary and Info Technology Adjustments			107,333	107,333	
Post Closure Fund Transfer			1,000,000	1,000,000	
Recycling/Outreach Projects					
Reallocation of Hazardous Substance Enforcement support team	(1.95)	(188,385)		(188,385)	(85,573)
Cost of Living Adjustment			29,692	29,692	
Non-Standard Hour Personnel Adjustment	(0.41)	(7,293)		(7,293)	
Global Positioning System Contract			11,280	11,280	
Regulatory Fees Reduction			(1,505,525)	(1,505,525)	
Reduction due to Managed Competition for Landfill operations	(6.00)	(762,813)	(2,740,116)	(3,502,929)	
One-Time reductions and annualization					(350)
FY 2014 revenue adjustment					1,780,173
Mayor's Fiscal Year 2014 Proposed Budget	**150.02**	**$ 14,400,293**	**$ 16,906,941**	**$ 31,307,234**	**$ 29,368,747**
Difference from 2013 to 2014	*(8.36)*	*$ (143,486)*	*$ (3,097,336)*	*$ (3,240,822)*	*$ 1,694,250*

landfills. As such, the Post-Closure Fund was established to set aside funds to be used to cover Miramar Landfill and to monitor and maintain the landfill site until potential environmental risks are abated. Annually, CalRecycle provides the methodology and calculations used in determining a minimum fund balance for the Post-Closure Fund. Based upon investment earnings of the fund, the annual transfer from the Refuse Disposal Fund to the Post-Closure Fund has varied in the previous years, with the highest annual transfer being approximately $1.0 million. In previous years, funding from realized savings within the Refuse Disposal Fund had addressed the required transfer.

The FY 2014 Proposed Budget shows an increase of $1.0 million to establish a budget appropriation for this anticipated expense. This will be shown as an increase for the FY 2014 Proposed Budget as no budget appropriation had been established in FY 2013, although the transfer had occurred in previous years. The transfer amount is anticipated to be approximately $1.0 million, not an increase of $1.0 million over the FY 2013 transfer.

Significant Budget Adjustments

Significant budget adjustments include the following:

- A reduction of 1.95 FTEs and approximately $188,000 in expenses and a decrease of approximately $86,000 in revenue related to reallocation of the Hazardous Substance Enforcement support team. The changes in FTEs are outlined below:

  Decrease in FTEs
  0.05 Deputy Director
  0.50 Program Manager
  0.50 Administrative Aide I
  0.40 Associate Mgmt. Analyst
  0.50 Senior Clerk/Typist;

- Reduction of approximately $1.5 million in expenditures related to evaluation of previous fee amounts paid to regulatory agencies (CalRecycle, Local Enforcement Agency, and County of San Diego) for the projected tons of refuse disposed at the Miramar Landfill for FY 2014;

- An increase of approximately $1.8 million in revenues as a net result of: increased disposal revenues (approximately $1.2 million) and positive actions approved in the five-year financial outlook (approximately $1.0 million); and decreased revenue related to projected investment returns (approximately $400,000).

Financial Management

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Financial Management Department is approximately $4.1 million, a reduction of approximately $132,000 from the FY 2013 Budget. The department has a net reduction of 1.03 FTE positions. Budgeted revenue is unchanged.

Reductions

1.00 vacant Financial Operations Manager position is being transferred to the Office of the City Treasurer where the position will serve as a Treasury Systems Manager. Additionally, there is a nominal 0.03 FTE position reduction reflecting a decrease in hourly personnel funding.

Issues to Consider

The department began FY 2013 with 3.00 Financial Operations Managers. Two of these managers were reclassified to be Deputy Directors in FY 2013 and this change is reflected in the FY 2014 Proposed Budget.

One of the Financial Operation Manager positions accepted a position with another department and this position was held vacant in FY 2013. Related salary savings were used to fund salary increases for other senior departmental positions. The department's total budgeted personnel expense remains unchanged in FY 2014 at approximately $3.7 million after accounting for the transfer of personnel expense for the Financial Operations Manager to the Office of the City Treasurer.

SUMMARY OF FINANCIAL MANAGEMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	31.03	$ 3,730,600	$ 478,430	$ 4,209,030	$ 5,000
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages	(0.03)	(53,947)		(53,947)	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(8,431)		(8,431)	
Fringe Benefits (incl. Retirement ARC)		200,008		200,008	
Supplies			(2,206)	(2,206)	
Contracts			5,284	5,284	
Non-Discretionary and Info Technology Adjustments			(117,291)	(117,291)	
Financial Operations Manager transfer to Office of City Treasurer	(1.00)	(155,363)		(155,363)	
Mayor's Fiscal Year 2014 Proposed Budget	**30.00**	**3,712,867**	**364,217**	**4,077,084**	**5,000**
Difference from 2013 to 2014	*(1.03)*	*$ (17,733)*	*$ (114,213)*	*$ (131,946)*	$ -

Fire-Rescue

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Fire-Rescue Department is $220.2 million for the General Fund, an increase of $18.6 million from the FY 2013 Budget. The FY 2014 Proposed Budget results in a net increase of 16.12 FTE. Budgeted revenue totaling $23.9 million represents a decrease of $3.8 million.

Budget Additions

The FY 2014 Proposed Budget includes the addition of $18.1 million in salary and benefit adjustments. $15.6 million of this increase is due to an increase in fringe benefits related to pension, flex benefit plan, and workers compensation costs. Personnel costs comprise $2.5 million of the total $18.1 million increase. Personnel increases include:

- A $2.1 million increase in termination pay annual leave based on anticipated retirements in FY 2014
- An approximate increase of $503,000 in budgeted vacancy savings
- An approximate $443,000 increase to support hourly wages for seasonal lifeguards. The hourly increase equates to 12.00 FTEs.
- The addition of $243,000 in budget to match actual urban search & rescue personnel costs.

These increases are offset by reductions that include an approximate $319,000 decrease in the department's overtime budget and a $290,000 decrease in salaried wages.

Other budget additions include:

- $272,793 for 2.00 Fire Dispatchers and 1.00 Information Systems Analyst II to

SUMMARY OF FIRE-RESCUE BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	1,146.40	$ 170,364,367	$ 31,197,746	$ 201,562,113	$ 27,673,921
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		17,664,025		17,664,025	
- Hourly Lifeguard Support	12.00	442,897		442,897	
- Fire Dispatch Contracts	3.00	272,793		272,793	272,793
- Hourly Personnel Adjustment	1.12	8,710		8,710	
				-	
Non-Discretionary and Info Technology Adjustments			335,162	335,162	
Lifeguard Cliff Rescue Vehicle			500,000	500,000	
Global Positioning System Contract			12,672	12,672	
Transfer of Emergency Medical Services Revenue				-	1,000,000
Safety Sales Tax				-	330,666
Revised Revenue				-	(601,250)
One-Time Removal			(597,398)	(597,398)	(4,825,396)
Mayor's Fiscal Year 2014 Proposed Budget	**1,162.52**	**188,752,792**	**31,448,182**	**220,200,974**	**23,850,734**
Difference from 2013 to 2014	*16.12*	*$ 18,388,425*	*$ 250,436*	*$ 18,638,861*	*$ (3,823,187)*

support the increased call volume and radio traffic associated with new dispatch contracts with two other city agencies. This expense is offset by a like amount of revenue from the contract. While the Proposed Budget assumes two new contracts, only one has been negotiated. Due to this, these staff additions may need to be adjusted in the May Revise.

- $500,000 for the purchase of one lifeguard cliff rescue vehicle.
- $388,126 in non-discretionary adjustments that includes costs related to utilities, insurance, and rent.
- $12,672 for GPS contract related expenditures.
- A $8,710 increase representative of an adjustment in non-standard hourly personnel resulting from a zero-based budget review.

Budget Reductions

The FY 2014 Proposed Budget reductions include:

- A net $52,964 reduction in equipment/ support for information technology due to non-discretionary cost adjustments.
- The removal of $15,000 in one-time costs for a lifeguard scheduling software program enhancement in FY 2013.
- The removal of $582,398 in one-time non-personnel costs relating to the second 30 member firefighter academy conducted in FY 2013.

Budgeted Revenue Adjustments

Budgeted revenue for the Department is proposed to decrease by $3.8 million in FY 2014. The revenue reduction in the department is primarily net of:

- A $1.0 million increase in the transfer into the General Fund from the Fire/ Emergency Medical Services Transport Program (EMS) Fund supported by existing EMS fund balance. This increase is offset by the removal of $4.6 million in one-time revenue budgeted in FY 2013 related to the transfer of available FY 2012 year-end fund balance from San Diego Medical Services Enterprise (SDMSE) profit sharing and operating fee revenue exceeding budget. The over budget revenues were primarily due to the new two year interim agreement with Rural/Metro. These adjustments net to a $3.6 million reduction in the EMS Fund transfer into the General Fund.
- A $330,666 increase in safety sales tax transferred into the department from the Fire & Lifeguard Facilities Fund based on a 5.5% annual growth projection for safety sales tax. The transfer is revenue remaining after Fire and Life Safety Facilities Refunding Bonds debt service is paid, with the net revenue being split between the Police and Fire-Rescue Departments. This increase offsets a $232,500 reduction in one-time safety sales tax that was incorporated in the FY 2013 budget, bringing the net increase to less than $100,000.
- A $601,250 net reduction in other departmental revenue. This includes reductions of approximately $400,000 in CEDMAT and $200,000 in alarm fee

revenue.

- $272,793 in revenue from the new dispatch contracts with two other cities. While the Proposed Budget assumes two new contracts, only one new contract has been negotiated. This revenue should be adjusted accordingly in the May Revise.

Additions

Personnel Expenditure Adjustments

The FY 2014 Proposed Budget includes a reduction in the Fire-Rescue budgeted vacancy savings of approximately $503,000 to $4.4 million, which effectively increases the department's budgeted personnel expenditures by this amount. This new vacancy savings assumes a total of 75.00 FTE, with 68.00 FTE being sworn vacancies, as compared to the total of 84.00 FTE, with 70 being sworn, incorporated in the vacancy savings assigned to the department in FY 2013. Financial Management has expressed that the decrease is intended to address continual overage trends in the department's personnel expenditures related to the constant staffing budgeting methodology employed by the department.

The adjustment to the vacancy savings budget is accompanied by other adjustments in the personnel budget in an attempt to further align the Fire-Rescue personnel expenditures budget with actuals. Major components of these adjustments are: a $2.1 million increase in termination pay, a $243,000 increase in urban search and rescue personnel costs, an approximate $319,000 decrease in the department's overtime budget, and a $290,000 decrease in salaried wages. Overall, the increase in the personnel expenditures budget is $2.5 million.

In the FY 2013 Mid-Year Report, the Fire-Rescue Department was projected to end the year $2.8 million over budget in personnel costs. Projected expense overages in overtime, termination pay, and pay-in-lieu of annual leave attributed to the over budget projections. The over budget personnel costs once again highlighted a need to continue to evaluate the constant staffing budgeting methodology employed by the department in an effort to align the overtime and other personnel expenditures budget with actual experience. Ideally, with the constant staffing budgeting model employed by the department, over budget expenditures are to be fully offset by savings in salary and fringe benefits.

In FY 2012, Financial Management and Fire-Rescue worked together to conduct a historical trend analysis to identify the cause of over budget personnel expenses within Fire -Rescue that resulted in a recommended increase in the overall overtime budget of $7.1 million. This increase in the overtime budget was partially offset by a $1.5 million increase in the department's budgeted vacancy savings, bringing the related net adjustment in the personnel expense budget to $5.7 million. This budget adjustment was part of a phased approach to addressing personnel budget overages. At the time, the department expressed that the increase in the overtime budget still may not meet the actual overtime needs of the department, and that FY 2013 would provide an opportunity to see whether any additional adjustments were warranted.

The IBA has concerns that the adjustments

in the department's personnel expenditures in the FY 2014 Proposed Budget will not fully address department's budgetary needs. The need could be up to $2.5 million.

Cliff Rescue Vehicle Replacement

The FY 2014 Proposed Budget includes the use of $500,000 in projected FY 2013 surplus to fund the replacement of a lifeguard rescue vehicle. The vehicle is a multi-purpose rescue apparatus used for coastal cliff and swift-water rescues. The current vehicle in use by the department is in its 19th year of life, with a recommended life cycle of 15 years. The department has identified the replacement of the rescue vehicle as a critical equipment need.

The Mayor recommended use of the FY 2013 projected surplus to fund the lifeguard rescue vehicle as a part of the Mid-Year Report. This action was not adopted by the City Council, and deferred for consideration in the FY 2014 Proposed Budget as recommended by the IBA.

Revenue Adjustments

CEDMAT Revenue

The FY 2014 Proposed Budget incorporates an approximate $400,000 reduction in Combustible, Explosive, and Destructive Material (CEDMAT) inspection fee revenue. In the Mid-Year Report, CEDMAT fees were projected to come in under budget in part attributed to an overstated budget from an increase to the revenue during the development of the FY 2013 Budget. For FY 2014, a reduction of approximately $900,000 was requested by the Fire-Rescue Department to correct the budget which was not granted.

False Alarm Program

The FY 2014 Proposed Budget includes a reduction of approximately $200,000 in False Alarm revenue to reflect a continuance of under budget receipt trends. The program's under budget performance is due to fewer permits being issued than originally anticipated at the program's inception and penalty billings that are not trending as budgeted. The budget reduction only represents the approximate $703,000 reduction request submitted as a part of Fire-Rescue's departmental requests for the FY 2014 Proposed Budget.

Emergency Medical Services Program

The City formerly provided emergency medical response through San Diego Medical Services (SDMSE) 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. This two-year agreement will expire at the end of FY 2013. Our Office understands that the Mayor intends to seek Council approval to extend the current agreement for another year, during which time the in-house delivery of EMS services will be explored. $100,000 has been budgeted in FY 2014 within the EMS Fund to pay for an EMS operations study by a consultant. This study will inform a competitive bid by Fire-Rescue for the providence of in-house EMS Services. The RFP is anticipated to be let within the next year.

Funding for the operations of the city's EMS

program is budgeted within the Fire/ Emergency Medical Services Transport Program (EMS) Fund. The total FY 2014 Proposed Budget for the fund is $11.1 million which is a reduction of $3.9 million over the FY 2013 Budget, with a net decrease of 4.00 FTE to 29.00 FTE. Budgeted revenue of $10.8 million remains unchanged from the previous year. Notable changes in the budget include:

- The removal of $4.6 million in FY 2013 one-time expenditures. The one-time revenue budgeted in FY 2013 related to FY 2012 year-end fund balance from San Diego Medical Services Enterprise profit sharing and operating fees revenue exceeding budget. This was due to the new two-year interim agreement with Rural Metro.
- A $1.0 million increase in the EMS revenue transfer to the General Fund from EMS Fund balance, with $3.0 million in fund balance projected to remain at the end of FY 2013.
- An approximate $431,000 reduction in personnel expenses related to the elimination of 4.00 Paramedic 2 positions. These positions are currently vacant due to retirements. The vacant positions are being eliminated from the budget, but will be replaced and funded by Rural/Metro.

The FY 2014 Proposed Budget for the EMS Fund includes revenue for the payment of a $10.0 million operational fee by Rural Metro. The operational fee will be received within the EMS Fund, and the net, after covering administrative and ambulatory operations within the fund, will be transferred to the General Fund. A proposed $4.7 million total transfer into the General Fund from the EMS Fund will include $3.2 million for the General Fund share of the operations fee, $1.0 million in EMS Fund fund balance, and $512,900 to reimburse the General Fund for EMS related specialty pay.

It is projected that $2.7 million in EMS Fund balance will be available at the end of FY 2014. The Mayor currently proposes that the remaining fund balance will be used to support a $1.0 million transfer into the General Fund in FY 2015 and FY 2016. This would leave approximately $700,000 remaining in the fund balance which we have identified as a potential one-time resource that is available as a potential revision to the budget.

Issues to Consider

Fire Academies

The FY 2014 Proposed Budget includes $1.2 million to fund one 30-member fire academy. This amount includes the personnel costs associated with the recruits of approximately $594,000 and covers the cost of overtime, supplies, and services for the academy. The actual cost for the academy may vary depending on attrition levels that either exceed or fall below those assumed by the $1.2 million budgeted amount. Currently the department anticipates attrition of at least 36 sworn personnel in FY 2014.

Although only one fire academy is proposed for FY 2014, conducting two fire academies could be beneficial for the department. An additional 30 member academy would further mitigate Fire-Rescue overtime staffing costs related to maintaining constant staffing. Deferring the hiring of additional staff

to meet constant staffing needs, and backfilling operational needs with overtime, can strain existing staff and create low morale. An additional 30-member academy would cost $1.2 million. The Fire-Chief has expressed to us that there is not a need for a second academy at this time.

The City Council Priorities Resolution also identifies the potential for increasing the number of recruits in the single academy that is included in the budget. The Department has communicated to our office that the maximum capacity for each academy is 36 recruits. Increasing the size of the academy is an option Council may wish to consider and discuss with the Fire Chief in the upcoming hearings.

It is worth noting that from FY 2009 to the current, the Fire-Rescue Department has lost over 200 personnel due to attrition. The two academies being held in FY 2013 are projected to add 53 sworn personnel to the force.

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. As requested from the department as a part of the approval of the plan, the Fire-Rescue Department has provided annual updates to the Public Safety & Neighborhood Services Committee (PS&NS) with regular updates regarding the City's progress in implementing components of the plan. Recommendations that are not implemented by the end of FY 2013 have been added to FY 2014 as

Citygate Working Group Five-Year Implementation Plan - Years 1 and 2

Identified Needs	Cost (In Millions)	Status
Year 1		
Adopted revised deployment (response time) measures	$0.0	Completed
Adopt revised fire station location measures and create revised fire station CIP projects	$0.0	In Process
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	In Process
Replace fire station alerting system (Phase 1)	$1.7	In Process
Purchase Truck for East Mission Valley Fire Station 45	$1.2	Not Completed
Design and planning for Home Ave. Fire Station	$0.8	Not Completed
Year 2		
Staffing and capital for one Battalion Chief Unit	$0.5	Not Completed
Replace fire station alerting system (Phase 2)	$2.6	In Process
Completion of East Mission Valley Fire Station 45	$3.7	In Process
Staffing of East Mission Valley Fire Station 45 for second crew	$2.2	Not Completed
Fund Construction of Home Ave. Fire Station	$8.0	Not Completed
Purchase of fire engine for Home Ave Fire Station	$0.8	Not Completed
Design and planning for Paradise Hills Fire Station	$0.8	Not Completed
Total Project Costs	**$33.7**	
Completed & In Process Project Costs	**$19.5**	
Outstanding Costs	**$14.2**	

the "second year" of the implementation plan.

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

It is worth noting that the $3.7 million identified for completing the construction of the East Mission Valley Station (Fire-Station #45) will be funded as a part of the $35 million 2013 A Lease Revenue Bond authorized for issuance by the City Council in March 11, 2013. It does not fund the purchase of a truck for Station #45, at a cost of $1.2 million. This truck would support a second fire company at the station, which is not anticipated at this time. Funding a second company at the station would cost approximately $2.2 million.

Diesel Fuel Costs

As of the 2013 Mid-Year 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 2014 Proposed Budget. The Office of the IBA recommends that the need for additional funding for fuel costs in FY 2014 is discussed during the budget hearing and considered by the Mayor in the May Revision and in final City Council budget decisions.

Freeway Emergencies (SAFE) Funding

Assembly Bill 1572, as approved by the Governor on September 13, 2012, dissolved the San Diego County SAFE Board, and transferred the oversight of the program to the San Diego Association of Governments (SANDAG). As a part of the bill, approximately $9.0 million in available reserves were divvied up among County local governments to support motorist aid services or support. This resulted in $4.1 million to the City in FY 2013. The proposed use of this one-time funding is not included in the FY 2014 Proposed Budget.

On April 16, 2013, the Mayor issued a memorandum outlining his proposal for the use of the $4.1 million in one-time SAFE funding for incorporation into the FY 2014 Proposed Budget May Revision. Included was a proposed allocation of $250,000 to the Fire-Rescue Department to fund the following expenses that are not currently budgeted:

- $90,000 for a Copter 1 tail boom allowing for increased payload and flight safety
- $90,000 for cutting and spreading tools used to dismantle vehicles and extricate victims
- $65,000 for 13 sets of strut systems for all trucks and heavy rescue units used to stabilize vehicles after a collision

Performance Measures

Based on national performance standards, a multiple-unit response of at least 17 personnel is to arrive on scene within 10:30 minutes/seconds 90% of the time. The first-due unit is to arrive within 7:30 minutes/seconds 90% of the time. These responses times are measured from the time of the 911 call receipt in fire dispatch.

The Fire-Rescue Department estimates that it will meet its multiple-unit response target 64% of the time and its first-due unit response target 68% of in FY 2013. Without new fire stations in areas identified as priorities by the department, little improvement in response times can be anticipated in FY 2014.

Human Resources

Mayor's FY 2014 Proposed Adjustments

The Fiscal Year 2014 Proposed Budget for the Human Resources Department totals $2.5 million in the General Fund, an increase of $127,000 from the $2.4 million FY 2013 Adopted Budget. The FY 2014 Budget includes 16.00 FTE's, unchanged from FY 2013.

The largest changes to the Human Resources budget are in Personnel Expenditures, including the following adjustments.

- An increase of $84,000 in salaries and wages due to increased salaries, turnover and employees being hired at higher salaries than were included in the FY 2013 budget in order to compensate new hires for their experience and skill levels.
- An increase in fringe benefits allocated to the Department of $106,000.
- These increases are offset by an increase in salary savings of $72,000. However, the Department has indicated that it intends to fill all authorized positions, and it will be requesting that the position which is not funded in the Proposed Budget be funded in the May Revision.

Increases in non-personnel expenditures include cellular phone operating costs and office supplies, as funding for these costs—which are related to the addition of 4.00 new positions added in FY 2013—was not provided in the FY 2013 budget.

Lastly, Human Resources requested an increase of 0.38 FTE's for two paid interns, which was not included in the FY 2014 Proposed Budget. These interns would be graduate level students who would conduct surveys of other agencies throughout the state to determine compensation levels—including salaries, special pays, retirement and healthcare benefits. Comparable data is

SUMMARY OF HUMAN RESOURCES BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	16.00	$ 2,195,983	$ 208,581	$ 2,404,564	$ -
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		84,089		84,089	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(72,148)		(72,148)	
Fringe Benefits (Includes Retirement ARC)		105,906		105,906	
Increase in Vacation Pay In Lieu		4,800		4,800	
Cellular Phone Operating Cost Increase			13,250	13,250	
Information Technology Services Transfer			7,208	7,208	
Other Information Technology Adjustments			(24,234)	(24,234)	
Other Adjustments			7,729	7,729	
Mayor's Fiscal Year 2014 Proposed Budget	**16.00**	**2,318,630**	**212,534**	**2,531,164**	**-**
Difference from 2013 to 2014	-	*$ 122,647*	*$ 3,953*	*$ 126,600*	$ -

needed for labor negotiations. Additionally, should the City have to participate in a Fact Finding procedure (AB 646), this data would serve, in part, to demonstrate the City's positions with respect to negotiations.

Library

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Library Department totals approximately $43.6 million, an increase of approximately $4.3 million and 2.87 FTEs over the FY 2013 Adopted Budget.

A significant factor to the increase in the Library Budget and addition of FTEs is the anticipated opening of the New Central Library in early FY 2014.

New Central Library

The new 294,673 square feet Central Library will be a significant expansion from the current 144,524 square feet facility and will have nine stories as compared to the current three story facility. Additionally, the new facility will house a charter high school, several exhibit spaces, and multiple meeting/study spaces; expand the collection size; and increase the number of public access computers.

In preparation of the opening of the New Central Library, the Library Department established a chilled water service contract and added 3.50 FTE staff positions (1.00 Associate Management Analyst, 1.00 Library Clerk, 0.50 Librarian 4, and 1.00 Building Services Supervisor) in FY 2013. The contractual service expenses are being funded with previously identified donations from the Library Foundation dedicated to the incremental expenses related to the operation of the New Central Library. The additional personnel costs related to the additional staffing are being addressed through vacancy savings within the Library personnel budget for FY 2013. The additional 3.50 FTE positions were identified and approved during the FY 2013 Mid-Year Budget Moni-

SUMMARY OF LIBRARY BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	408.06	$ 28,399,345	$ 10,892,297	$ 39,291,642	$ 1,543,719
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		1,419,443		1,419,443	
Non-Discretionary and Info Technology Adjustments			(135,413)	(135,413)	
New Central Library					
– Addition of 4.50 positions for operation of New Central Library	4.50	455,782		455,782	455,782
– Contracts, utilities, and supplies associated with New Central Library			1,958,471	1,958,471	1,958,471
Funding for replacement of Public Access Computers			226,000	226,000	
Addition of 1.00 Library Clerk	1.00	84,448		84,448	
Conversion of 2.73 Hourly positions	(2.73)	(79,395)		(79,395)	
New Global Positioning System Contract			216	216	
Non-Standard Hour Personnel Funding	0.10	927		927	
One-time reductions and annualizations			375,000	375,000	257,401
Revised Revenue related to funding Sunday hours for two branch libraries				-	(89,620)
Mayor's Fiscal Year 2014 Proposed Budget	**410.93**	**$ 30,280,550**	**$ 13,316,571**	**$ 43,597,121**	**$ 4,125,753**
Difference from 2013 to 2014	*2.87*	*$ 1,881,205*	*$ 2,424,274*	*$ 4,305,479*	*$ 2,582,034*

toring Report.

The service contract and the additional staff established in FY 2013 are reflected as new costs and positions in the FY 2014 Proposed Budget. In addition to the 3.50 FTE positions added in the FY2013 budget, one Information Analyst 2 position is proposed; as well as additional service contracts. All additional costs in FY 2014 associated with the operation of the New Central Library will be addressed through donations from the Library Foundation and new revenues generated from the operation of the New Central Library. The Library Foundation has donated $10 million dollars toward the additional operational costs of the New Central Library, with $2 million to be used annually for the first five years of operation. The table below illustrates the anticipated additional operational costs and revenue sources for the new facility.

Replacement of Public Access Computers

The FY 2014 Proposed Budget shows an increase of $226,000 to fund the replacement of public use computers at all the branch libraries. Due to operating requirements of upgraded computer software, the Library Department is working to replace/ upgrade the computers available for public access at the branch libraries. Approximately $250,000 from the FY 2013 budget funded the initial replacement of these computers. The department has a goal of replacing 800 computers.

Historically the Library Department had replaced computers on an as-needed basis or as recycled City computers became available. However, due to the unusual circumstances, the department is proceeding with replacing all the public access computers in a short period of time.

Other Budget Adjustments

The FY 2014 Proposed Budget includes the

New Central Library

Costs

Position	Personnel Cost
Associate Mgmt Analyst	$131,062
IS Analyst II	$112,144
Building Services Supervisor*	$85,324
Library Clerk	$70,721
Librarian IV (0.50 FTE)	$56,531
Sub-total	$455,782
Contracts/Services	**Non-Personnel Costs**
Chilled Water Service	$535,247
Cable upgrade	$77,250
Utility contracts	$454,501
Supplies	$321,000
Contigency	$325,000
Misc Service contracts	$780,720
	$2,493,718
Increase costs related to NCL	$2,949,500

Revenue

Revenue sources	Revenue
Adult Library Fines	$37,000
Rents/Concessions	$38,000
Parking Garage Fees	$600,000
Meeting Room Rental	$150,000
Library Foundation	$2,000,000
Reim. from Chilled Water service**	$94,649
Reim. from utility service**	$28,500
	$2,948,149

*Position will likely be lower position, resulting in lower personnel cost

**Reimbursement from Charter School for portion of service related to charter school.

following significant budget adjustments:

- A conversion of 2.73 hourly FTEs to 1.00 full-time Library Clerk at the Central Library; resulting in a net reduction of 1.73 FTEs. The conversion to a full-time position is anticipated to assist in the recruitment and retention of this position;
- An increase of $375,000 in expenditures and $257,401 in revenues to annualize the costs and revenues associated with the chilled water service agreement established in FY 2013;
- A reduction in $89,620 in revenue associated with donations related to Sunday hours at the Logan Heights and City Heights branch libraries. Despite the reduction in donations, through efficiencies and scheduling, the Library Department anticipates being able to continue Sunday hours at these facilities.

Service Hours

Since the beginning of FY 2012, eight service hours per week were restored to each branch library's hours of operation and five hours per week were restored to the service hours of the Central Library. These actions established an average of 44 service hours per week for each branch library and 49 hours of service per week for the Central Library. Established services hours are maintained in the FY 2014 Proposed Budget. The table below shows the hours of operation for the branch libraries and the Central Library. It should be noted that several branch libraries have limited Sunday hours and are not reflected in the table.

Restoration of service hours has been a high interest to the City Council. If there is interest in doing so in FY 2014, we have shown as potential revisions to the budget, what it would cost to increase branch library hours from 44 hours per facility per week to 48 hours per facility per week, and Central Library hours from 49 hours per week to 52 hours per week.

Issues to Consider

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.

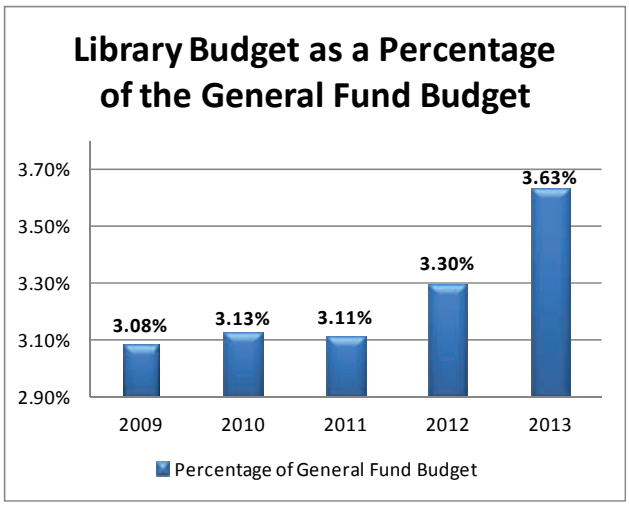
Based on the Mayor's Proposed Budget for FY 2014, the Library Department Budget of $43.6 million represents approximately 3.6% of the General Fund budget. Six per-

Library Hours of Operations
(as of December 1, 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	9:30 - 2:30
4	8	8	8	8	8	5
BRANCH LIBARIES						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
closed*	9:30 - 5:30	12:30 - 8:00	12:30 - 8:00	9:30-5:30	9:30-5:30	9:30-2:30
0	8	7.50	7.50	8	8	5

*Several branch libraries have Sunday hours

cent of the Proposed FY2014 General Fund budget would result in a Library budget of approximately $72.0 million. The Library budget as a percentage of the General Fund's budget from FY 2009 to FY 2013 is illustrated in the following table.



Office of the Assistant COO

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Office of the Assistant Chief Operating Officer (ACOO) is approximately $1.28 million, an increase of about $970,000. The number of FTEs has increased from 1.00 to 8.00 for a net increase of 7.00 FTEs.

Additions

Budgetary additions are mainly attributable to the restructure of the Business Office to the Office of the ACOO. As shown below, 6.75 FTEs and about $930,000 of related expenditures are associated with this reorganization. Currently, three of the positions that were moved from the Business Office are vacant and the ACOO indicates that he is actively recruiting for them.

Other additions include a transfer of 0.25 FTE and about $35,000 in associated personnel expenditures from the Administration Department, and a reclassification of an Executive Secretary position to an Assistant to the Director for a net increase of about $15,000 in personnel expenditures. This is an unclassified position and will perform similar duties as an Executive Secretary. The Executive Secretary was previously within the former Business Office.

Issues to Consider

The former Business Office was charged with managing a variety of efficiency programs and studies to improve the fiscal soundness and effectiveness of the City. These efforts will now be in the purview of the Office of the ACOO. The ACOO has indicated that the transferred positions are necessary to carry out activities of the office including conducting city performance measure analysis, updating the City's strategic plan, efficiency savings studies, assisting the City Auditor in implementing efficiencies within City departments, and administering the managed competition program if it moves forward.

Also included in the ACOO's budget is $160,000 in non-personnel expenditures

SUMMARY OF ASSISTANT COO BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	1.00	$ 286,190	$ 27,846	$ 314,036	
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits		(59,454)		(59,454)	-
Non-Discretionary and Info Technology Adjustments		-	50,870	50,870	-
Transfer of the Business Office to the ACOO	6.75	761,862	169,640	931,502	-
Transfer of Supervising Management Analyst from Administration	0.25	35,278	-	35,278	
Reduction of Executive Secretary transferred from Business Office	(1.00)	(81,922)	-	(81,922)	
Addition of Assistant to the Director position (reclassification)	1.00	96,910		96,910	
	-	-	-	-	
Mayor's Fiscal Year 2014 Proposed Budget	**8.00**	**1,038,864**	**248,356**	**1,287,220**	**-**
Difference from 2013 to 2014	*7.00*	*$ 752,674*	*$ 220,510*	*$ 973,184*	$ -

(NPE) for managed competition consulting services. In prior fiscal years, this specific funding was reduced when fewer managed competition activities were occurring. Due to the fact that managed competition is on hold pending Mayoral review of the process, the Office of the ACOO may not need this $160,000 of funding designated for this purpose. While significant staffing resources are dedicated to this office for FY 2014, there is no discussion in the budget as to what efficiency studies are planned for FY 2014.

Office of the CFO

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Office of the CFO is approximately $992,000, an increase of approximately $150,000 from the FY 2013 Budget. The department has a net addition of 1.25 FTE positions. Budgeted revenue has been reduced by $150,000.

Additions

The FY 2014 Proposed Budget transfers 1.00 Program Manager position from the Administration Department to the Office of the CFO to serve as a Grants Program Manager. The Grants Program Manager position was added to the Administration Department in the FY 2013 Budget to identify, coordinate, and provide assistance with citywide grant and donation opportunities; however, the position was never filled and remains vacant. The CPP Director indicates efforts are underway to hire the Grants Program Manager for FY 2014.

Additionally, the department receives a .25 FTE position increase for an Associate Management Analyst to work full time (the position was budgeted for three-quarter time in FY 2013). This position provides a permanent support position for the CPP to help manage contract fulfillment, an important factor in fostering the continued growth of corporate partnerships.

Reductions

The proposed $150,000 reduction in budgeted revenue leaves a $450,000 target for CPP revenue in FY 2014. The CPP revenue goal in FY 2013 was $600,000 and the CPP Director indicates that, excluding in-kind and other non-monetary benefits, approximately $192,000 has been realized to date

SUMMARY OF OFFICE OF CFO BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	3.75	$ 583,833	$ 258,163	$ 841,996	$ 600,000
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages	0.25	(43,707)		(43,707)	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		6,301		6,301	
Fringe Benefits (incl. Retirement ARC)		19,707		19,707	
Supplies			1,000	1,000	
Contracts			(24,844)	(24,844)	
Non-Discretionary and Info Technology Adjustments			(508)	(508)	
Transfer of Program Manager from Administration Department - Grants	1.00	192,015		192,015	
Reduction in Estimated Revenue from the Corporate Partnership Program					(150,000)
Mayor's Fiscal Year 2014 Proposed Budget	**5.00**	**758,149**	**233,811**	**991,960**	**450,000**
Difference from 2013 to 2014	*1.25*	*$ 174,316*	*$ (24,352)*	*$ 149,964*	*$ (150,000)*

in FY 2013.

On February 13, 2013, the CPP Director informed the Budget & Finance Committee that the CPP revenue shortfall in FY 2013 was primarily due to unforeseen challenges in fully initiating certain partnerships (i.e., vending and water/sewer line warranty partnerships).

After discussing implementation delays and reviewing current CPP revenue projections with the CPP Director, the IBA believes the new revenue goal of $450,000 is appropriate for FY 2014.

Key Performance Measures

The department has performance measures for grant dollars awarded and grants applied for. The City Council may be interested in having similar performance measures for new corporate partnerships initiated and corporate partnership dollars received.

While the above activities can be measured and reported, it is important to note that the CPP generates substantial in-kind contributions (i.e., Toyota lifeguard vehicles), revenue to support City department operations (i.e., efforts to solicit partners for the Library's Literacy Program) and other non-monetary (i.e., tourism promotion) benefits for the City. The IBA believes it would be useful to develop a performance measure to reflect these important activities as well.

Office of the Mayor

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Office of the Mayor Reflects a total savings of $577,874 from the FY 2013 Adopted Budget. The largest source of savings in the Proposed Budget over FY 2013 is from personnel expense. Although total Full Time Equivalent employees increased by 2.00, actual personnel expenditures were reduced by $480,652, with $251,757 from salaries and wages. Approximately $120,000 of this decrease is attributable to one-time expenditures budgeted in FY 2013 to properly fund payouts from accrued leave balances for members of the previous administration. Eliminating this one-time cost, the actual on-going savings in salaries and wages based on FY 2014 projected staffing is $131,905. Additionally, fringe benefits were reduced by $228,895, primarily due to new members of the current administration not being eligible for the current pension plan based on the implementation of Proposition B in FY 2013.

The two positions that are added in FY 2014 are for one Director of Open Government and one Mayoral Representative for public outreach. Other than these two additions, the position classifications that were included in the FY 2013 Adopted Budget have remained unchanged. New programmatic areas are being emphasized, including bi-national affairs, Veterans' affairs, housing and homelessness, and open government.

An issue of Council concern has been the absence of a City lobbyist to address significant City legislative matters at the State and Federal level. The FY 2014 budget includes $348,000 in contractual expenditures for payment of lobbyist expenses, of which $128,000 is non-General Fund. The Mayor's Office indicates that they continue to interview firms and hope to issue a contract before the end of the fiscal year. Members of the Mayor's policy staff are currently handling State and Federal matters impacting San Diego and are also working closely with the "Big Ten Mayors", the Na-

SUMMARY OF OFFICE OF THE MAYOR					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	24.16	$ 3,271,045	$ 831,534	$ 4,102,579	$ 308,400
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		(251,757)		(251,757)	
Fringe Benefits		(228,895)		(228,895)	
Contracts			(5,446)	(5,446)	
Info Technology Adjustments			(101,168)	(101,168)	
Non-Discretionary and Other Adjustments		-	9,392	9,392	-
Addition of 1.00 Positions for Open Government Director	1.00		-	-	-
Addition of Mayor Representative 2	1.00	-	-	-	-
Mayor's Fiscal Year 2014 Proposed Budget	**26.16**	**2,790,393**	**734,312**	**3,524,705**	**308,400**
Difference from 2013 to 2014	*2.00*	*$ (480,652)*	*$ (97,222)*	*$ (577,874)*	$ -

tional League of Cities, and the League of California Cities.

Park & Recreation

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Park and Recreation Department totals approximately $89.2 million in the General Fund, an increase of approximately $3.2 million and 12.91 FTEs over the FY 2013 Adopted Budget. Department General Fund revenues are projected to total $34.1 million, reflecting a decrease of approximately $3.2 million from the FY 2013 Adopted Budget.

The Department has several other funds including the Golf Course Fund, the Los Penasquitos Reserve Fund, and the Environmental Growth Funds. When all the departmental funds are combined, the Department budget totals $117.2 million, an increase of approximately $3.7 million from the FY 2013 Adopted Budget.

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. 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 constraints in prior years.

During FY 2012 mid-year budget actions, five additional hours were added to the weekly hours for each recreation center, increasing the average weekly hours from 40 hours to 45 hours. The FY 2014 Proposed Budget proposes to continue to fund the recreation centers to provide an average of 45 service hours per week for every recreation center.

Balboa Park

In 1915, Balboa Park was the venue for the Panama - California Exposition to celebrate the opening of the Panama Canal and the City of San Diego as the first U.S. port-of-call for northbound maritime trade. To celebrate the 100th anniversary of the 1915

SUMMARY OF PARK AND RECREATION BUDGET

	FTE	FY 2013 BUDGET	FY 2014 PROPOSED	CHANGE
General Fund				
Administrative Services	15.00	$ 2,254,732	$ 2,367,288	$ 112,556
Community Parks I	162.43	20,546,140	21,136,926	590,786
Community Parks II	231.51	21,387,139	21,100,774	(286,365)
Developed Regional Parks	313.87	33,356,203	34,886,977	1,530,774
Open Space	59.25	8,427,636	9,665,098	1,237,462
Subtotal General Fund	*782.06*	*85,971,850*	*89,157,063*	*3,185,213*
Non-General Fund				
Environmental Growth Fund 1/3	-	4,408,198	3,962,339	(445,859)
Environmental Growth Fund 2/3	-	8,078,081	8,229,966	151,885
Golf Course Fund	98.00	14,757,337	15,623,529	866,192
Los Penasquitos Canyon Preserve Fund	2.00	201,804	219,902	18,098
Subtotal Non-General Fund	*100.00*	*27,445,420*	*28,035,736*	*590,316*
TOTAL PARK AND RECREATION	**882.06**	**$ 113,417,270**	**$ 117,192,799**	**$ 3,775,529**

Exposition ("Centennial Celebration"), the City of San Diego entered into an agreement with Balboa Park Celebration, Inc. ("2015 Committee") to be the official and sole organizer of the Centennial Celebration. The 2015 Committee has been tasked with planning, organizing, and implementing the planned events related to the Centennial Celebration. See the Balboa Park Centennial section for additional information related to the Centennial Celebration.

The FY 2014 Proposed Budget includes 3.00 limited FTEs (1.00 Program Manager, 1.00 District Manager, and 1.00 Clerical Assistant II) to support the logistical coordination of the Centennial Celebration within Balboa Park. It is anticipated the additional positions will prepare for and carry out the events working with other City departments and necessary outside agencies such as San Diego Gas & Electric. They will report directly to the Deputy Director of Developed Regional Parks (which includes Balboa Park).

Traffic Management Plan

The FY 2014 Proposed Budget includes $300,000 for a traffic management plan related to vehicle traffic within Balboa Park.

On April 24, 2013, the Mayor provided preliminary details on the proposed traffic management plan ("Traffic Plan") to the Balboa Park Committee. On weekdays, the Traffic Plan proposes to restrict vehicular traffic to the southwest corner of the Plaza de Panama, while allowing for two-way traffic to cross the Cabrillo Bridge. On weekends and holidays, the Cabrillo Bridge would be closed to vehicle traffic and vehicles would not be allowed in the Plaza de Panama. Vehicles traveling north on the Pan American Road would have to perform a U-turn just south of the Plaza de Panama fountain.

The current ADA accessible parking located

SUMMARY OF PARK AND RECREATION BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	769.15	$ 51,609,831	$ 34,362,019	$ 85,971,850	$ 37,280,754
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments	(0.18)	2,168,301		2,168,301	
Non-Discretionary and Info Technology Adjustments			204,271	204,271	
Addition staff to support the Balboa Park Centennial Celebration	3.00	364,545	21,000	385,545	
Support for the Balboa Park Traffic Management Plan			300,000	300,000	
Addiition staff for additional acreage at North Missioin Trails Regional Park	5.00	386,643	241,000	627,643	
Addition staff for additional Open Space Acreage (East Elliot and Otay)	2.00	173,756	48,000	221,756	49,700
Support for the Children's Pool Permit Processing			25,000	25,000	
Additional staff to support the expansion of Memorial Pool	0.75	21,989	5,000	26,989	2,500
Additional staff to support the West Maple Canyon Mini-Park	0.04	1,404	1,200	2,604	
New Global Positioning System Contract			25,200	25,200	
General Benefit Contribution to the Maintenance Assessment District			123,122	123,122	
Restoration of Winter Restroom Service	0.22	6,974		6,974	
One-Time Reductions and Annualizations			(958,700)	(958,700)	(742,982)
Revenue adjustment				-	(2,510,864)
Non-Standard Hour Personnel Funding	2.08	26,508		26,508	
Mayor's Fiscal Year 2014 Proposed Budget	**782.06**	**$ 54,759,951**	**$ 34,397,112**	**$ 89,157,063**	**$ 34,079,108**
Difference from 2013 to 2014	*12.91*	*$ 3,150,120*	*$ 35,093*	*$ 3,185,213*	*$ (3,201,646)*

in the Plaza de Panama would be relocated to the Alcazar Parking lot and valet parking would be relocated from the Plaza de Panama to the parking lot located south of the Casa de Balboa.

Transportation via the new trams would be available from the Inspiration Point Parking lot to the Plaza de Panama, with multiple stops in route; however the trams will not travel beyond the Plaza de Panama.

Additional signage is anticipated as well as distinctive borders to separate vehicle routes from pedestrian areas. New landscaping (trees) and tables are planned for the cleared area within the Plaza de Panama.

As this is the preliminary Traffic Plan, the definitive details are still to be determined. However an outline of the proposed implementation phases has been developed.

Summarily, the first phase of the Traffic Plan is to commence closing the Cabrillo bridge on weekends and holidays. This is intended to commence on May 25, 2013.

The second phase is to eliminate the parking from the Plaza de Panama by diverting traffic solely through the southwest corner of the Plaza de Panama. It is the anticipated that this would occur by late June / early July 2013.

The third phase would be to expand / reconfigure the Alcazar Parking lot to accommodate ADA accessible parking. No time estimate was provided for the completion of this phase.

No detailed cost estimates were provided beyond the request of $300,000 in the FY 2014 Proposed Budget. Cost estimates have been reduced from the $500,000 originally requested by the Mayor in the FY 2013 Mid-Year budget adjustments. The Mayor has indicated that he plans to provide many additional opportunities for public input into the Traffic Plan though no timeline was provided.

Our office can only provide a limited review of the Traffic Plan for this report. As additional details are developed through the public input process and presented by the Mayor's Office, our office will conduct additional review.

In anticipation of the undertaking of the Plaza de Panama Project, several new pedestrian trams were ordered to assist in the transportation of pedestrians throughout the parking lots and the Plaza de Panama. The new trams are incorporated into the new Traffic Plan. The annual lease payment of $150,000 is included in the FY 2014 Proposed Budget, however the operation of the trams, the operational costs, and the corresponding funding to address the operational costs of the trams has yet to be determined.

Other Budget Adjustments

The FY 2014 Proposed Budget includes the following significant budget adjustments:

- An increase of 7.00 FTEs (5.00 Park Rangers, 1.00 Drafting Aide, and 1.00 Pesticide Applicator) and approximately $850,000 in expenditures to support additional open space acreage acquired by the City. According to a study conducted by the department, other large cities have open space acreage to park ranger ratio of approximately 650 acres

to one park ranger. The City's current open space acreage to park ranger ratio is approximately 1,500 acres to one park ranger. The Drafting Aide positions will be partially funded by the Maintenance Assessment Districts (MADs) and will support the City and the MADs in defining, mapping, and zoning of land parcels;

- An increase of $25,000 in expenditures related to the completion of the permitting process to close the beach at the Children's Pool during seal pupping season. Funding of $30,000 was provided for this process during the FY 2012 Mid-Year Budget adjustments; however, any unexpended funds from this funding will revert to the General Fund at the end of FY 2013. The additional funding will ensure funds are available in FY 2014 for the completion of the permitting process.
- An increase of 0.79 FTEs (0.75 Pool Guard II and 0.04 Grounds Maintenance Worker II) and $29,593 in expenditures to support the expansion of the Memorial Pool (40 year old pool) and additional acreage at the West Maple Canyon Mini-Park;
- An increase of 0.22 FTEs (Ground Maintenance Worker position) to reinstate restroom service in the winter months (November 1 to March 30) for the restrooms located at South Kellogg and North Mission Beach; and
- A revenue reduction of approximately $2.5 million to reflect FY 2014 revenue projections. The largest items contribution to the reduced revenue is a reduction of approximately $1.7 million of TOT funding for tourist-related expenditures and a reduction of $650,000 from the transfer from the Environmental Growth Fund 1/3 to the General Fund per revised projections.

Issues to Consider

Parks System Master Plan

The priority for the department in the FY 2014 Proposed Budget is securing the current service levels and service hours in the FY 2014 Proposed Budget, however a potentially beneficial strategic tool that should be considered is the development of a Park System Master Plan.

A Park System Master Plan would provide comprehensive evaluations of the parks and open space systems' existing conditions. IT would also identify opportunities and constraints; articulate a method and prioritization for the equitable distribution of facilities and services citywide; recommend recreation programming; and define capital improvements and funding strategies to meet the needs of our residents and visitors. The last Park System Master Plan that was done for the City of San Diego was completed in 1956. Currently the citywide parks and open space inventory and conditions assessment is performed by internal staff in conjunction with the Development Services Department.

Recreation Center Hours

Recreation center hours continue at 45 hours per week, per recreation center, in the FY 2014 Proposed Budget. Council members have had a high interest in restor-

ing past reductions to recreation center hours which were budgeted at 62.3 hours per week in FY 2001. If there is interest in considering some level of restoration for FY 2014, we have included this on the list of potential revisions to the Proposed Budget and will work with the department to identify costs.

User Fees

In FY 2013, the Park and Recreation Department engaged a consultant to assist in a comprehensive study of all the Department's fees, with the exception of those related to the Golf Division. Findings and recommendations from this comprehensive study are anticipated to be ready for Council consideration in mid-FY 2014. The FY 2014 Proposed Budget does not include any proposed fee revisions for the Park and Recreation Department pending the outcome of this study.

Capital Improvements

It is anticipated that approximately $16.1 million will be expended on capital improvement projects related to the Park and Recreation Department in FY 2014. The projects include facilities at Balboa and Torrey Pines golf courses, ADA upgrades (Chicano Park), and community park upgrades and improvements. Projects anticipated to expend large dollar amounts in FY 2014 include the North Park mini-park and streetscape improvement projects for construction/document work (approximately $2.2 million); and construction work on the Central Avenue mini-park (approximately $1.2 million).

Environmental Growth

The Environmental Growth Funds (EGFs) are projected to receive approximately $11.8 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees received by the City, in accordance with Charter Section 103.1a. This is a reduction of approximately $842,000 from FY 2013. The reduction in revenue is attributed to a decline in natural gas prices. Addition information related to the franchise fees can be found in the Franchise Fee portion of the General Revenues Section in Volume I of the FY 2014 Proposed Budget.

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 acquisition, improvement and maintenance of park or recreational open 1space.

In FY 2009 the EGF (two-thirds portion) 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 2014, $9.2 million is budgeted to reimburse the General Fund for park expenses, with $2.3 million budgeted for Regional

Park and Open Space Maintenance which that 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 2014 Proposed Budget for the Golf Course Fund totals $15.6 million, an increase of 1.00 FTE and approximately $866,000 over the FY 2013 Adopted Budget. Department revenues are anticipated to increase by approximately $1.8 million to $18.4 million from $16.6 million in FY 2013.

Significant Budget Adjustments

The FY 2014 Proposed Budget includes the following budget adjustments:

An increase of 1.00 FTE (Public Information Officer) and $102,446 in expenditures to develop and implement a marketing plan to increase golf play at City-operated golf courses. The 2013 Golf Plan, approved by the City Council in November 2012, provided rate flexibility for the Golf Division to entice additional rounds. Additional revenue of $200,000 is projected as a result of the Public Information Officer position implementing a new marketing plan and increasing usage of the rate flexibility within the City-operated golf courses to optimize golf play/rounds.

An increase of approximately $1.6 million in revenue projections due to facility and course improvements and improvements in the financial environment. The revenue projections do not anticipate any increase in golf rates to achieve the increase in revenue.

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 increase 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.

Personnel

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Department of Personnel totals approximately $6.9 million, up from $6.5 million in the FY 2013 Budget.

The largest change to the Personnel budget is an increase in the fringe benefits allocation to the Department of $388,000.

The number of Personnel positions increased by 1.32 FTE's, from 59.04 in the FY 2013 Budget to 60.36 in the FY 2014 Proposed Budget. FTE changes are as follows:

- Addition of 1.00 Associate Personnel Analyst and 0.50 Test Monitor II to assist with safety examinations; and
- 0.18 FTE reduction in non-standard hourly personnel.

During the budget process, the Personnel Department requested an increase of 3.00 Associate Personnel Analysts, but only received a budget increase of 1.00 FTE for that job classification. One of the other 2.0 Associate Personnel Analysts requested would have provided further assistance with safety examinations, and the other would have been a liaison to City Departments with respect to the hiring process.

The Personnel Department also made a request for increased funding for its medical examination and random drug testing contract. This request was partly funded with a $25,000 increase. However, over the past couple years hiring has increased and contract costs are currently trending higher than in the past. The Department plans to revisit this issue during the May Revision process.

Issues to Consider

During the March 13, 2013 Budget and Fi-

SUMMARY OF PERSONNEL BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	59.04	$ 5,772,251	$ 774,339	$ 6,546,590	$ 6,000
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages	1.32	73,159		73,159	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(15,734)		(15,734)	
Hourly Wages		(5,387)		(5,387)	
Fringe Benefits (Includes Retirement ARC)		388,325		388,325	
Increase in Termination Pay		8,499		8,499	
Medical Examination & Random Drug Testing Contract			25,000	25,000	
SAP Support Allocation			(16,393)	(16,393)	
Information Technology Services Transfer			21,377	21,377	
Other Information Technology Adjustments			(103,571)	(103,571)	
Other Adjustments			(24)	(24)	
Mayor's Fiscal Year 2014 Proposed Budget	**60.36**	**6,221,113**	**700,728**	**6,921,841**	**6,000**
Difference from 2013 to 2014	*1.32*	*$ 448,862*	*$ (73,611)*	*$ 375,251*	$ -

nance Committee meeting, the IBA presented report 13-14, entitled "General Fund Vacancy Status." In addition to a discussion on vacancy issues for certain General Fund departments, the report speaks to the process of filling classified City vacancies and the Personnel Department's role in that process.

At the March 13 Budget and Finance Committee meeting, the Personnel Director was asked to identify ways to streamline the Civil Service hiring process, including providing a "wish list" for needed changes. Additionally, Council President Pro Tem Lightner agreed to examine the City's Civil Service recruitment and hiring process at the Rules and Economic Development Committee.

On April 17, 2013, the Personnel Director sent a memorandum to Council President Pro Tem Lightner regarding hiring process issues and suggestions for ways to enhance the process—which include the creation of a Departmental unit for new-hire processing, and reinstatement of Personnel Department staff support in certain City departments.

To accomplish the recommendations Personnel has for enhancing the hiring process, they would request the following resources.

- For Recruitment/Exam Management (for NEOGOV system maintenance and reporting, and training departments on their hiring process): 1.00 Information Technology position and 2.00 Associate Personnel Analysts
- For Background and Medical (for new-hire processing): 1.00 Administrative Aide 2 and 1.00 Payroll Audit Specialist 2
- For the Outstation Program (reinstating Personnel Department staff support in certain City departments): 1.00 Supervising Personnel Analyst and 3.00 Associate Personnel Analysts

Key Performance Indicators

The department's performance measures are not incorporated into the FY 2014 Proposed Budget.

Police

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed General Fund Budget for the Police Department is $411.2 million, an increase of $4.6 million over the FY 2013 Adopted Budget. The FY 2014 Proposed Budget results in a net increase of 9.44 FTE. Budgeted revenue totaling $44.1 million represents an increase of $1.2 million.

Budget Additions

The FY 2014 Proposed Budget includes the addition of:

- $5.6 million in salary and benefits. This increase is largely due to an increase in fringe benefits related to an increase in pension and workers compensation costs. A net 2.5 FTE increase is a result of various personnel adjustments that includes annualizing funding for 5.0 FTE civilian positions included in the FY 2013 Adopted Budget at half-year funding.
- $1.2 million total in personnel and non-personnel expenditures to support the addition of 16 police academy recruits. $108,500 of the expenditure is related to recruit equipment costs. This will bring the total number of recruits for each of the department's four academies from 30 to 34. Due to the timing of the academies, the new recruits will have a fiscal impact of 8.67 FTE.
- $1.1 million for police equipment replacement.
- $635,041 in non-discretional adjustments that includes costs related to utilities, insurance, and rent.

Budget Reductions

The FY 2014 Proposed reductions include:

- A $48,888 reduction representative of an adjustment in non-standard hourly

SUMMARY OF POLICE DEPARTMENT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	2,515.35	$ 343,407,383	$ 63,122,262	$ 406,529,645	$ 42,860,136
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	2.50	4,554,659		4,554,659	
-Police Academy Recruits	8.67	1,072,896	108,500	1,181,396	
-Non-Standard Hourly Personnel Funding	(1.73)	(48,888)		(48,888)	
Equipment for Sworn Personnel			1,100,000	1,100,000	
Non-Discretionary and Info Technology Adjustments			(766,785)	(766,785)	
Reduction of Police Decentralization Fund Transfer			(1,374,883)	(1,374,883)	
Revised Revenue				-	700,000
Parking Citation Revenue				-	618,769
Safety Sales Tax Revenue				-	330,666
One-Time Reductions and Annualizations				-	(407,500)
Mayor's Fiscal Year 2014 Proposed Budget	**2,524.79**	**348,986,050**	**62,189,094**	**411,175,144**	**44,102,071**
Difference from 2013 to 2014	*9.44*	*$ 5,578,667*	*$ (933,168)*	*$ 4,645,499*	*$ 1,241,935*

personnel resulting from a zero-based budget review.

- A $1.4 million decrease in the General Fund transfer into the Police Decentralization Fund to cover fund expenses. Available fund balance within the Decentralization Fund reduces the amount needed from the General Fund to cover the fund's expenses.
- A $1.4 million reduction in equipment/ support for information technology due to savings realized from the transition of information technology services from SDDPC to outside vendors.

Revenue Adjustments

As noted earlier, Police Department proposed revenues are $44.1 million, representing a $1.2 million increase over the FY 2013 Budget. The revenue adjustments include the following:

- A $618,789 million increase in parking citation revenue based on current FY 2013 parking citation revenue trends.
- A $330,666 increase in safety sales tax transferred into the department from the Fire & Lifeguard Facilities Fund based on a 5.5% annual growth projection for safety sales tax. The transfer is revenue remaining after Fire and Life Safety Facilities Refunding Bonds debt service is paid, with the net revenue being split between the Police and Fire-Rescue Departments. This increase offsets a $232,500 reduction in one-time safety sales tax that was incorporated in the FY 2013 budget, bringing the net increase to less than $100,000.
- $700,000 in adjustments to various departmental revenues to align the budget with actual performance, including reductions in alarm permit fees of $393,821 and towing fees totaling $835,476 that are offset by various adjustments in other departmental revenues such as revenue from other agencies and charges for services. Towing fee adjustments are related to a decrease in the number of police initiated tows and a reduction in the time officers spend at tows due to operational efficiencies.
- A $175,000 reduction in court fee revenue budgeted as a one-time in FY 2013 associated with revenue recovery audits.

Additions

Police Academy Recruits

The $1.2 million total in personnel and non-personnel expenditures to support the addition of 16 police academy recruits will bring the total number of recruits for each of the department's four academies from 30 to 34. Due to the timing of the academies, the new recruits will have a fiscal impact of 8.67 FTE.

For FY 2014, the department has a vacancy factor of $8.7 million, which is approximately $100,000 less than its FY 2013 vacancy factor. The vacancy factor assumes that the department will achieve salary savings within the department in FY 2014 equivalent to 109.00 FTE sworn and 21.50 FTE civilian vacancies.

As of mid-April 2013, the department has 131.5 FTE vacancies which is 4.5 FTE more than the number of sworn vacancies as-

sumed in the departments FY 2013 vacancy factor of 127.0. Sworn attrition currently averages 9 officers per month. For FY 2014, it is assumed that the department will experience attrition of 8 officers per month. The Proposed Budget states that funding is provided to increase each FY 2014 academy class from 30 to 34 recruits. However, the department plans to adjust the numbers of academy recruits in FY 2014 based on any fluctuations in its attrition assumptions. The IBA recommends that if the Police Department determines it does not have sufficient funding to have 34 recruits in each academy due to budget constraints, the department should raise this issue at PS&NS and the City Council to attain the necessary budgetary authority to maintain the budget policy of 34 recruits in each academy.

The Police Department and Financial Management have communicated that the $1.2 million in funding added to the budget to support 16 additional recruits is sufficient, based on their analysis. However, the IBA has expressed concerns regarding this.

Equipment for Sworn Personnel

The Police Department Five-Year Plan presented to the Public Safety & Neighborhood Services Committee (PS&NS) on July 18, 2012, outlined a funding need of $2.1 million in FY 2014 for the replacement of outdated police equipment. The department has expressed that due to the deferral of equipment purchases for many years, a critical need exists. Equipment purchases include portable radios, ballistic equipment (vests, helmets and shields), tasers, shotguns, and etc. Consistent with the Police Five-Year Plan, the Department requested $2.1 million in funding to address its equipment needs for the FY 2014 Budget. The FY 2014 Proposed Budget includes the use of $1.1 million of the projected FY 2013 year-end surplus to fund half of the requested funding for the replacement of Police equipment.

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 2014, the expenses related to debt service, booking fees, and other administrative costs within the Police Decentralization Fund total $5.1 million, a $2.1 million reduction over the $7.2 million budgeted for FY 2013. This is due to a reduction in the City's payment to the County for debt service.

The transfer from the General Fund to cover the Decentralization Fund's expenditures is reduced by $1.4 million in FY 2014, to $3.7 million. This reduction in the transfer in from the General Fund is proposed to be offset by $1.4 million in fund balance that

currently totals $4.1 million.

Over the past few fiscal years, this $4.1 million fund balance has accumulated from the receipt of unbudgeted State grant relief by the County to support jail "booking" expenses which has offset the City's payment obligation to the County for these expenditures. It is proposed that approximately $1.4 million of the remaining FY 2014 year-end projected fund balance of $2.7 million is utilized in FY 2015 and the remaining $1.4 million, in FY 2016, to reduce the required transfer in from the General Fund to support Decentralization Fund expenditures in those fiscal years.

Issues to Consider

Police Five-Year Plan Implementation

The Police Department's Five-Year Plan was presented to PS&NS on July 18, 2012. The Committee accepted the report and forwarded it to City Council for approval. The Council approval of the Five-Year Plan is anticipated for a future date.

The Five-Year Plan outlines the Police Department's funding needs through FY 2018 to address service areas adversely impacted by budget reductions since FY 2009. Outlined are needs relating to sworn and civilian staffing, equipment, facilities maintenance, and the Computer Aided Dispatch (CAD) System replacement costs. The FY 2014 Proposed Budget provides funding for 16 additional recruits and $1.1 million for Police equipment replacement. These additions address half of the recruit and equipment requests outlined in the Five-Year Plan. Other outstanding needs not addressed in the FY 2014 Budget include funding for 20 civilian staffing positions, new police vehicles, the restoral of Canine Unit and ABLE hours, and facilities maintenance. See the chart below summarizing the first year of the Police's Five-Year Plan as originally presented in July 2012. It is important to note that some current projections vary from those originally presented, based on more up to date information. This particularly relates to the cost projections for adding additional sworn and civilian staffing.

First Year of Police Five-Year Plan		
		FY 2014
Staffing		
Sworn		
Number of New Positions		32
Cost of New Positions	$	5,664,000
Civilian		
Number of New Positions		20
Cost of New Positions	$	2,020,000
Equipment		
New Recruit Equipment	$	217,000
New Police Vehicles		616,000
Restore Canine Unit & ABLE Hours		382,000
Replace Outdated Equipment		2,132,000
Replace CAD System		-
Maintain Existing Facilities	$	600,000
Total	**$**	**11,631,000**

Although the Council has not yet formally adopted the Five-Year Plan, some of its components were incorporated into the previous administration's Five-Year Outlook. This included an increase in the number of recruits per year of 20 annually, bringing academy sizes from 30 to 35. This planned increase in recruits partially addressed the need outlined in the Five-Year Plan of an additional 31 or 32 recruits annually. The Outlook also proposed funding the CAD system through a lease purchase program, with debt service beginning in FY 2017.

Recently, as a part of the FY 2013 Mid-Year Budget Monitoring Report, the Mayor proposed the use of $1.1 million of the projected FY 2013 year-end surplus to partially fund equipment needs outlined for FY 2014 in the Five-Year Plan. This proposal was not adopted by the City Council. Instead, the proposal was deferred for consideration in the FY 2014 Proposed Budget, as was recommended by the IBA.

On March 11, 2013 the City Council approved a plan to authorize the set-aside of $6.9 million in one-time reimbursement monies from the County of San Diego to contribute toward the CAD System replacement. These monies were received by the City in November 2012 as a reimbursement of Property Tax Administration Fees (PTAF) charged to the City that the California State Supreme Court ruled as unauthorized.

At the time that this item was discussed at Council, the IBA recommended, that in consideration of the need to address a deficit in FY 2014, it would be appropriate to lease-purchase the CAD system when the funds are needed. This would free-up the $6.9 million to address immediate critical needs within the City, and spread the costs of the system out over time. This option is still available for the Council and is presented as a potential revision to the Mayor's Budget.

With the current preliminary timeline for full implementation of the Police CAD System, it is anticipated that $366,000 in funding is needed in FY 2014 for project management and consulting related expenditures. Annual project costs for the remaining years of the project are still very preliminary at this time, with current estimates that $2.5 million could potentially be needed in FY 2015, and a total of $5.3 million between FY 2016 and 2017. The $6.9 million in funds set-aside for the CAD will cover the majority of these costs associated with the full implementation of the CAD system. Currently, $8.0 million in costs are anticipated to replace the Police CAD system, with an expanded citywide dispatch system, integrating Fire-Rescue, Public Utilities, Environmental Services, and General Services anticipated to cost more.

Civilian Staffing

As of mid-April 2013, the Police Department had 55.0 civilian vacancies out of 504.75 budgeted civilian positions. Civilian vacancies remain relatively unchanged from the 52.75 civilian vacancies at the beginning of the fiscal year. These vacancies compound the impact from reductions in civilian staffing since FY 2009, straining the department's support resources. About half of these vacancies are in the Communications Division and the Records Unit. There are a number of issues with keeping civilian positions filled, including retirements, resignations, transfers to other City Departments, and recruitment process issues.

The Police Department Five-Year Plan adds an additional 20 civilian staff annually to address civilian support resource needs, beginning with the following divisions and units: Communications, Crime Laboratory, Records, and Property Room. No civilian employees are added as a part of the FY 2014 Proposed Budget.

Helicopter Expenses

The FY 2013 Mid-Year Budget Monitoring Report identified the need for $2.5 million in additional funding for the General Fund to support the unbudgeted Police Air Support maintenance and fuel costs transferred to the General Fund due to inadequate funding available in Seized Assets and various Grants previously used to fund Air Support operations. As a part of its FY 2014 Proposed Budget Request, the department requested $2.76 million to support Police Air Support maintenance and fuel expenses. The FY 2014 Proposed Budget does not include this request. The Department has communicated that a combination of Seized Assets and one-time SAFE reserve funds totaling $3.2 million will be available to support these costs in FY 2014. As discussed in the preceding section, the Mayor has proposed the use of $650,000 of the $4.1 million in SAFE reserve funds for helicopter fuel and maintenance costs. In addition to this, anticipated Seized Assets Fund balance of $1.5 million resulting from FY 2013 revenue performance and an anticipated receipt of $1.0 million in revenue within the fund in FY 2014 will be used to support the helicopter operations.

SAFE Reserve Distribution

Assembly Bill 1572, as approved by the Governor on September 13, 2012, dissolved the San Diego County SAFE Board, and transferred the oversight of the program to the San Diego Association of Governments (SANDAG). As a part of the bill, approximately $9.0 million in available reserves were divvied up among County local governments for use for motorist aid related services or support. This resulted in $4.1 million to the City in FY 2013. The use of this one-time funding is not included in the FY 2014 Proposed Budget.

On April 16, 2013, the Mayor issued a memorandum outlining his proposal for the use of the $4.1 million in one-time SAFE funding for incorporation into the FY 2014 Proposed Budget May Revision. Included was a proposed allocation of $1.5 million to the Police Department to fund the following:

- $650,000 for helicopter fuel maintenance costs
- $640,000 for one FLIR camera, 4 mounts, and 4 mapping systems for the Police helicopters
- $12,500 for 500 reflective safety vests
- $40,000 for 100 kits containing turbo and electric road flares for police vehicles and on-hand inventory
- $60,000 for 9 mobile generator powered lighting systems for DUI checkpoints and traffic accidents
- $50,000 for 4 mobile generator powered LED programmable traffic information signs
- $60,000 for enclosed trailers with 500 traffic cones and 50 stop signs located in North and South San Diego.

The department has communicated that $122,500 of these expenditures relating to safety vests, road flares, and traffic information signed are budgeted. The remaining $1.4 million in expenditures relating to the police helicopters, lighting system, and trailers are not budgeted.

We support using SAFE funds for helicopter related expenses, and are still reviewing the other proposed uses for the SAFE funding in the Mayor's April 16th memo.

Alarm Permit Program

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. According to Mid-Year Report projections, alarm permit revenue continues to perform below budgeted expectations. The FY 2014 Proposed Budget includes a reduction of approximately $394,000 to align budgeted alarm permit revenue with actual revenue trends. This reduces the budget from $3.1 million to $2.8 million. It is anticipated that the department will come forward with recommended modifications to the program in FY 2014 that may have further budgetary impacts.

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 a $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, re-instating 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.

The Police Department has communicated that AVA fund balance of $1.7 million is available to support the program for FY 2014, and possibly FY 2015 and FY 2016. After the use of the fund balance, the program will have to be funded by the General Fund.

Currently 8.00 civilian and 1.00 sworn positions in the Traffic Division are funded through the AVA Program. Two of these positions are being held vacant by the department to reduce the program costs.

Serious Traffic Offenders Program (STOP) Fund

In FY 2013, the Serious Traffic Offenders Program Fund was 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 held that since all officers department-wide are familiar with how to deal with these offenses, it no longer made sense to maintain the specialized team.

$467,386 in fund balance remains from the close-out of the fund. The use of the monies is restricted to STOP and related traffic safety programs by resolution. The department will continue to use the monies for qualified expenditures until the fund balance is exhausted.

Performance Measures

Targeted average response times in all priority call areas are projected to go up in FY 2014 up over FY 2012 actuals. In comparison with FY 2013, response times remain the same with the exception of a reduction in response times for priority 3 calls. The department has communicated that the increase in response times over FY 2012 actuals is related to a reduction of proactive policing time for officers. The department holds that an increase in the total number of sworn officers on the force can increase proactive policing time and reduce response times.

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 shown in the chart below. This chart is for operating expenditures only, and does not include capital improvement projects undertaken by the Public Utilities Department. The FY 2014 proposed CIP will be reviewed separately in the CIP program review portion of this report.

For purposes of analyzing operating departments in the FY 2014 Proposed Budget, we will consider Metropolitan and Municipal Wastewater together, while the Water Fund will be reviewed separately.

Water Fund

The FY 2014 Proposed Budget for the Water Enterprise Fund operating expenditures totals $434.3 million, which is a decrease of $2.6 million or 0.1% over the FY 2013 Adopted Budget. The Proposed Budget for departmental revenues in FY 2014 total $436.9 million, which is a decrease of $30.1 million or 6.4% over the FY 2013 Adopted Budget. This section will outline the main causes for revenue and expenditure variances from FY 2013 and other issues for consideration in the Water Fund.

Issues for Consideration

Revenue Review

- In the FY 2014 Proposed Budget, $7.2 million in borrowings are included from the California Clean Water State Revolving Loan Fund Program (SRF). These borrowings offer more favorable financing terms to the Department than traditional bond funding. However, in FY 2012, City of San Diego voters approved Proposition A, which banned the

Branch	Municipal Sewer Fund	Metropolitan Sewer Fund	Water Fund	General Fund	TOTAL
Business Support	$ 49.0	$ 87.7	$ 137.2	$ -	$ 273.9
Municipal Waste Water	82.7	-	-	-	82.7
Metropolitan Waste Water	-	116.8	-	-	116.8
Water	-	-	297.1	2.0	299.1
TOTAL	**$ 131.7**	**$ 116.8**	**$ 297.1**	**$ 2.0**	**$ 772.5**

City from requiring project labor agreements (PLAs).

In FY 2012, the State of California passed Senate Bill 829 (SB 829), which prohibits State funding or financial assistance for any city construction project, if any charter provision, initiative or ordinance "prohibits, limits, or constrains in any way" the use of PLAs for some or all of the city's projects. The City Attorney's Office issued Memorandum of Law ML-2012-10 on November 30, 2012 that the implementation of Proposition A would not preclude the City of San Diego from State funds, including borrowing from the SRF program. Neither the Water nor Wastewater Funds have received any official written correspondence from the State denying access to this program or any other potential funding source. Additionally, the City of San Diego PUD executed agreements with the State of California for the receipt of these SRF proceeds prior to December 31, 2012, when Proposition A took effect. However, the Public Utilities Department has pending applications and no funding agreements have been issued by the SWRCB since December 2012.

- Projected water sales in the FY 2014 Proposed Budget are $400.9 million, which is $4.0 million or approximately 1.0% below levels included in the FY 2013 Adopted Budget. Projections compiled by the PUD during the FY 2013 Mid-Year Budget Monitoring process in February showed a year-end projection for water sales of $379.6 million. Based on this projection, water sales in FY 2013 are estimated to be $25.3 million or 6.3% below FY 2013 budgeted levels. In the FY 2014 Proposed Budget, water sales included in PUD revenue is based on no growth in rates to customers.

SUMMARY OF BUDGET CHANGES - WATER FUND

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	708.44	$ 64,799,366	$ 372,124,823	$ 436,924,189	$ 467,014,802
Mayor's Fiscal Year 2013 Proposed Budget Changes					
Transfer of Personnel to Development Services Department	(6.04)	(740,754)		(740,754)	
Reduction in Hourly Positions	(4.15)	(183,960)		(183,960)	
Increase in Retirement ARC		2,488,205		2,488,205	
Increase in Water Commodity Purchase Costs due to 1/1/13 Rate Increase			4,283,286	4,283,286	
Reduction in Debt Service			(2,777,932)	(2,777,932)	
Decrease in Fixed Costs for Water Purchases			(1,312,895)	(1,312,895)	
Reduction in Contributions to Reserve due to Target Being Met in FY 2013			(4,754,520)	(4,754,520)	
Reduction in One-Time Expenditures for FY 2014			(2,805,435)	(2,805,435)	
Capacity Charge Increased Forecast due to Improvement in Local Economy				-	2,652,000
Reduction In Bond Funding				-	(38,500,000)
Increase in State Revolving Loan Fund Proceeds				-	7,187,000
Decreased Sale of Water due to Increasing Customer Conservation				-	(4,000,000)
Reduced Interest Earnings				-	(1,200,000)
Increased Sale of Reclaimed Water				-	1,200,000
Other Changes	(2.25)	739,600	2,420,997	3,160,597	2,576,198
Mayor's Fiscal Year 2014 Proposed Budget	**696.00**	**67,102,457**	**367,178,324**	**434,280,781**	**436,930,000**
Difference from 2013 to 2014	*(12.44)*	*$ 2,303,091*	*$ (4,946,499)*	*$ (2,643,408)*	*$ (30,084,802)*

Growth in water sales has remained flat over the last two fiscal years, so the growth projected in revenue, from the FY 2013 projection of $379.6 million to $400.9 million included in the FY 2014 Proposed Budget, seems to be optimistic. Based on the FY 2013 projected water sales, minimal growth required in the purchase of water, and no rate increase to customers, the PUD water sales forecast could be overstated by approximately $20.0 million.

- The PUD Water Fund estimated a beginning rate stabilization balance for the FY 2014 Proposed Budget of $38.5 million, which is an increase of $18.0 million from the actual beginning fund balance in FY 2012. The increase in fund balance that occurred at the end of FY 2012 is based on a $15.0 million operating surplus during that fiscal year due to the utilization of local reservoir water, to reduce expense for water purchases in FY 2012, while maintaining forecasted levels of water sales.

  This surplus was then deposited into the rate stabilization reserve specifically for the utilization in FY 2014 operations (along with a projected additional contribution of $3.0 million in FY 2013) to allow for sufficient debt service coverage. The Water Fund's budget of $436.9 million in revenue does not reflect the planned utilization of $18.0 million of this rate stabilization reserve in the FY 2014 Proposed Budget. Including the $18.0 million in reserves that will be utilized in departmental operations, total projected resources for FY 2014 increase to $454.9 million (before considering the potential overstatement of water sales).

Expenditure Review

- In January 1, 2013 the San Diego County Water Authority (CWA) increased wholesale, untreated water prices to member agencies (including the City of San Diego) by 9.7% for calendar year 2013. Water purchases in FY 2013 will reflect six months of this increase, while FY 2014 will reflect a full year of this 9.7% increase. The FY 2014 Proposed Budget includes total water purchases of $184.7 million, which is an increase of 2.9% from the FY 2013 Mid-Year Report's projected total water sales of $179.6 million. The impact to rates from July 1, 2013 to December 31, 2013 (first half of FY 2014) will be an increase in purchase costs of 4.9% above the rates charged by CWA for the same comparable period in FY 2013. Based on the increase in the water purchase costs include in the Proposed Budget, and approximately the same usage in FY 2014 as in FY 2013, the price increase from this CWA rate increase is appropriately budgeted.

  However, the PUD has stated that CWA's intention is to raise rates again between 5% and 9% effective January 1, 2014. The FY 2014 Proposed Budget does not include any effect of this price change in the water purchase budget. Based on any price increase implemented by CWA (which will be announced in late June 2013), water purchases will potentially be under budgeted by one-half of the upcoming rate increase during FY 2014 (due to the rate

increase only being effective for six months of FY 2014).

- Total operating Water Fund non-personnel expenditures (NPE) in the FY 2014 Proposed Budget are $158.4 million. The department's operations have been continuously reviewed by management for efficiencies, and savings have been identified on an annual basis, as compared to originally budgeted levels. Based on this, Water Fund management believes that the $158.4 million in NPE included in the budget may be overstated and could be more comparable to the FY 2013 Mid-Year Report projection of $147.4 million. Based on actual departmental expenditures coming in under budget levels for the last three fiscal years, savings may be anticipated from these non-personnel expenditures.

  However, despite all efforts Water Fund management can take in FY 2014 to keep actual expenditures in-line with FY 2013 projected levels, the Annual Required Contribution (ARC) to San Diego City Employee Retirement System will increase $2.5 million in FY 2014. If costs remain flat in FY 2014 above FY 2013 projected levels, the total operations cost for the Water Fund will be $150.0 million, which would still be a savings of $8.4 million over the FY 2014 Proposed Budget.

- Included in the FY 2014 Proposed Budget is the transfer of 5.04 Water Fund FTEs to the Development Services Department (Development Services Division, which is non-General Fund) to enable individuals who are applying for a varied number of permits to have a centralized location for all needs to comply with City of San Diego requirements. The total PUD transfer to the Development Services Department is 12.00 FTEs (the FY 2014 Proposed Budget significant adjustments only reflects 11.00 FTEs transferred; however, budgeted personnel expenditures correctly reflect the proper amount). The The total expenditure reduction to the Water Fund based on this transfer is $741,000.

Cost of Service Study / Rate Case

Currently, the Public Utilities Department (PUD) is undertaking a cost of service study for Water and Wastewater (COSS) by employing an outside consultant, Black & Veatch. The COSS objective is to perform a comprehensive analysis of the true cost of services provided by the PUD and a rate study that accomplishes:

- An operating financial plan that fully supports ongoing operations and maintenance expenditures, a portion of capital improvements, and debt service.
- Analysis of cost allocations that allow for equitable rates among customer classifications.
- Accomplishing this while meeting City policies and complying with Proposition 218.

The completed COSS will potentially address any additional funding the PUD will need to maintain proper debt service coverage ratios and fund the entire department's multi-year capital improvement program. The analysis is expected to be finalized within the next few months.

Debt Service Coverage Ratio

The Water Fund is required under bond covenants to maintain an aggregate 1.0X debt service coverage ratio. This requirement stipulates that the net proceeds from operations of the Water Fund (excluding debt borrowing from revenue and debt service payments from expenditures) must equal the amount of debt service required to be repaid by the Department in that fiscal year. While this may be the minimum coverage ratio, the Department and credit rating agencies look for a stronger coverage ratio that implies robust operations that will have no trouble repaying debt obligations in the current and future fiscal years.

Total revenue in the FY 2014 Proposed Water Fund budget is $447.7 million, including the previously outlined transfer of $18.0 million in rate stabilization reserves to operations, less $7.2 million in SRF proceeds (since new bond proceeds can not pay for the retirement of previous borrowings). As outlined in the revenue section of this Department outline, water sales are estimated to be $20.0 million too high based on the FY 2013 mid-year projections. Reducing total revenue by this $20.0 million potential overstatement of revenues leaves a total revenue estimate of $427.7 million. Departmental operating expenditures included in the FY 2014 Proposed Budget, less debt service and the potential overstated operating expenditures of $8.4 million, equals $359.4 million. This leaves $68.3 million in net revenue from the Water Fund operations.

Total debt service on bonds and SRF loans in FY 2014 equals $66.8 million. Based on the revised projections of $68.3 million in net revenue, this yields a debt coverage ratio of 1.02X. While sufficient, this coverage ratio is marginally above the bond covenant levels and is also based on the utilization of $18.0 million in reserves. Without the utilization of this $18.0 million, the debt coverage ratio would fall below required levels.

The Public Utilities Department actively manages their coverage ratios to comply with all bond covenants and maintain a quality credit rating. This marginal coverage ratio has also been presented to the City of San Diego's Independent Rate Oversight Committee (IROC). Based on this coverage ratio calculated using FY 2014 Proposed Budget information, PUD management provided the following additional information on upcoming efforts to further address this point: "The Mayor has authorized the Department to start briefing individual Council Members and IROC about the possibility of having to raise rates under certain scenarios in order to meet our obligations. No date has been set to bring this to full Council or committee, but we are scheduled to brief each individual Councilmember on the status of the cost of service study, including revenue requirements under certain scenarios."

Wastewater Fund

The FY 2014 Proposed Budget for the Wastewater Enterprise Fund operating expenditures totals $336.2 million, which is a decrease of $8.5 million or 2.5% over the FY 2014 Adopted Budget. The Proposed Budget for departmental revenues in FY 2014 total $409.1 million, which is a decrease of $800,000 or 0.2% over the FY 2013 Adopted Budget. This section will

outline the main causes for revenue and expenditure variances from FY 2013 and any other issues for consideration in the Wastewater Fund.

Issues for Consideration

Revenue Review

- As previously stated, total revenue for the Wastewater Fund is comparable with little variation from the FY 2013 Adopted Budget. Additionally, the FY 2013 Mid-Year Budget Monitoring information for departmental revenues reports less than 1.0% variation from the FY 2013 Adopted Budget. Only two categories of revenues included in the monitoring information vary significantly from Adopted Budget figures: interest earnings and capacity charges. Capacity charges increased $2.5 million above FY 2013 budgeted amounts to $9.0 million in total revenue due to an increase in local economic activity. Additionally, due to the continued low interest rate environment, total interest income was revised downward in FY 2013 monitoring projections from $4.9 million in budgeted revenue to $1.5 million in projected year-end revenue.

  For the FY 2014 Proposed Budget, total revenue has been revised to closely align with revised revenue amounts in the FY 2013 Mid-Year Budget Monitoring Report. Total capacity charges remain at $9.0 million in the Proposed Budget, while interest income has been revised downward further from the FY 2013 mid-year information to $1.2 million in the FY 2014 Proposed Budget.

- Total loan proceeds included in the FY 2014 Proposed Budget closely match FY 2013 Adopted Budget levels, with $33.7 million in SRF loan proceeds. Just as discussed in the Water Fund (details included in that section of this report), SRF loans included in the FY 2014 Proposed Budget for the Wastewater Fund were executed prior to December 31, 2012.

SUMMARY OF BUDGET CHANGES - WASTEWATER FUND

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	866.08	$ 82,594,502	$ 262,138,675	$ 344,733,177	$ 410,300,578
				-	
Mayor's Fiscal Year 2014 Proposed Budget Changes				-	
Transfer of Personnel To DSD Enterprise Fund	(4.96)	(562,988)		(562,988)	
Reduction of FTE Funding Not Required After Review of Operations	(9.34)			-	
Enterprise Asset Management Funding	1.22	205,228		205,228	
Increase in Retirement ARC		3,164,657		3,164,657	
Reduction in One-Time Expenditures for FY 2014			(9,910,360)	(9,910,360)	
Efficiency Savings			(4,678,310)	(4,678,310)	
State Revolving Fund Debt Service Increase & Reserve Requirement Increase			2,385,744	2,385,744	
Increase in State Revolving Loan Fund Borrowing				-	244,000
Decreased Interest Earnings Projection				-	(3,700,000)
Increase in Capacity Charges				-	2,500,000
Other Changes	1.10	163,446	726,509	889,955	(207,578)
Mayor's Fiscal Year 2014 Proposed Budget	**854.10**	**85,564,845**	**250,662,258**	**336,227,103**	**409,137,000**
Difference from 2013 to 2014	*(11.98)*	*$ 2,970,343*	*$ (11,476,417)*	*$ (8,506,074)*	*$ (1,163,578)*

Expenditure Review

- Expenditures for the Wastewater Fund in the FY 2014 Proposed Budget are $336.2 million or approximately $8.5 million or 2.5% below the FY 2013 Adopted Budget. However, the FY 2013 Mid-Year Budget Monitoring Report projects year-end total expenditures at $311.4 million.

  In reviewing Wastewater Fund expenditures included in the FY 2014 Proposed Budget, there are few significant expenditure increases in either the Municipal or Metro Wastewater Funds that would account for this $24.8 million or 8.0% increase in expenditures from FY 2013 mid-year projections to FY 2014 projected expenditures.

  FY 2012 actual audited expenditures for the combined Wastewater Fund totaled $309.2 million. Projected FY 2013 operating expenditures based on actual expenditures through six months are $311.4 million or only $2.2 million above actual FY 2012 expenditures. Based on this minimal increase in projected expenditures, it can be estimated that projected expenditures in the FY 2014 Proposed Budget would closely resemble amounts projected for FY 2013 (due to the fact that no significant operation expenditure additions are included in the Proposed Budget above FY 2013 projected levels). The largest expenditure increase is $3.2 million in additional expense due to a required increase in the combined Wastewater Fund annual required contribution for retirement benefits. Assuming a normal price index inflator for Wastewater Fund contracts and other purchases of 2.3% (based on the latest California Consumer Price Index increase), with the actual increase in overall personnel costs, the projected expenditures for FY 2014 would be approximately $319.0 million or $17.0 million lower than the FY 2014 Proposed Budget.

- Included in the FY 2014 Proposed Budget is the transfer of 4.96 Wastewater Fund FTEs to the Development Services Department (Development Services Division, which is non-General Fund) to enable individuals who are applying for a varied number of permits to have a centralized location for all needs, in order to comply with City of San Diego requirements. The total PUD transfer to the Development Services Department is 12.00 FTEs (the FY 2014 Proposed Budget significant adjustments only reflects 11.00 FTEs transferred; however, budgeted personnel expenditures correctly reflect the proper amount). The total expenditure reduction to the Wastewater Fund based on this transfer of personnel is $563,000.

General Fund

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

The FY 2014 Proposed Budget expenditure amount for these activities is $2.0 million, which is $263,000 or 13.8% above the FY 2013 Adopted Budget. This increase is primarily due to a $254,000 increase in funding

for the San Dieguito Joint Powers Authority. Total revenue in the Proposed Budget is $940,000, which is approximately $50,000 or 5.1% lower than the FY 2013 Adopted Budget.

Based on the Proposed Budget revenue and expense for the operation of recreation activities on PUD reservoirs, operations are projected to end FY 2014 with a $1.0 million deficit that directly impacts the General Fund.

Public Works

The Public Works Department was created in FY 2012 and consolidated two former departments—Engineering & Capital Projects (E&CP) and General Services. In addition, the Public Works Contracting Group was restructured from the Purchasing & Contracting Department to Public Works in the first quarter of FY 2012. The Contracting Group is a separate entity reporting directly to the Public Works Director, but was presented in the FY 2013 Proposed Budget as part of E&CP. The FY 2014 Proposed Budget appropriately transfers Contracting to reflect it as a separate unit from E&CP. Public Works staff noted that this separation is important to avoid any appearance of collusion, undue influence, or other improprieties with E&CP. Additionally, the Contracting Group provides support to other departments unrelated to E&CP, for example, Transportation & Storm Water procures resurfacing services through Public Works Contracting.

While the three units report to one Director, each maintains 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 existing reporting components.

- **Contracting Group** - Provides services and support specifically for CIP projects.
- **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 (M&R) for the City's facilities and fleet as well as publishing services for City departments.

SUMMARY OF PUBLIC WORKS BUDGET CHANGES

	FTE	PE	NPE	TOTAL	REVENUE
Contracting Group					
Approved FY 2013 Budget	15.39	1,501,968	137,219	1,639,187	470,189
Mayor's FY 2014 Proposed Budget	19.00	1,936,549	160,916	2,097,465	1,053,393
Difference FY 2013-2014	*3.61*	*$ 434,581*	*$ 23,697*	*$ 3,736,652*	*$ 1,523,582*
Engineering & Capital Projects (E&CP)					
Approved FY 2013 Budget	479.67	$ 53,653,739	$ 7,432,550	$ 61,086,769	$ 56,188,544
Mayor's FY 2014 Proposed Budget	469.88	54,916,303	6,551,662	61,468,435	56,409,139
Difference FY 2013-2014	*(9.79)*	*$ 1,262,564*	*$ (880,888)*	*$ 381,666*	*$ 220,595*
General Services (General Fund)					
Approved FY 2013 Budget	294.50	$ 25,799,771	$ 59,759,979	$ 85,559,750	$ 83,575,169
Mayor's FY 2014 Proposed Budget	302.50	28,114,460	65,006,278	$ 93,120,738	86,487,611
Difference FY 2013-2014	*8.00*	*$ 2,314,689*	*$ 5,246,299*	*$ 7,560,988*	*$ 2,912,442*

Public Works - Contracting

The Public Works Contracting Group was restructured from the Purchasing & Contracting Department to Public Works in the first quarter of FY 2012. The Contracting Group is a separate entity reporting directly to the Public Works Director, but the Contracting Group was presented in the FY 2013 Proposed Budget as part of E&CP. The FY 2014 Proposed Budget appropriately transfers Contracting to reflect the Contracting Group as a separate unit from E&CP. Public Works staff noted that this separation is important to avoid any appearance of collusion, undue influence, or other improprieties with E&CP. Additionally, the Contracting Group provides support to other departments unrelated to E&CP, for example, Transportation & Storm Water procures resurfacing services through Public Works Contracting.

The FY 2014 Proposed Budget shows the Contracting Group as a transfer from E&CP and does not include a FY 2013 budget history. We are showing the FY 2013 budget for the Group as it existed within E&CP to highlight changes, as shown in the table below.

Public Works Contracting is responsible for the procurement and contract management of CIP construction and associated professional consultant services contracts, including managing the bid and award process.

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the General Fund allocation of the Contracting Group is about $2.1 million, an increase of about $500,000 from FY 2013. This includes an increase of $142,000 for 2.00 Administrative positions. The Proposed Budget also includes about $88,000 for information technology to support the new online bid software contract—PlanetBids—which is anticipated to be launched in early FY 2014.

Revenue Adjustments

The FY 2014 Proposed Budget includes revenue for the Contracting Group to

SUMMARY PUBLIC WORKS CONTRACTING GROUP BUDGET CHANGES

	FTE	PE	NPE	TOTAL	REVENUE
FY 2013 Budget	15.39	$ 1,501,968	$ 137,219	$ 1,639,187	$ 470,189
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries and Fringes					
Transfer Contracting Group from E&CP	17.00	$ 1,794,877	$ 49,000	$ 1,843,877	$ 470,189
Addition of Administrative Positions	2.00	141,672	-	141,672	141,672
Non-Personnel Expenditures					
Non-Discretionary and Information Technology Adjustments	-	-	111,916	111,916	
Revenue Adjustment	-	-	-	-	441,532
Mayor's Fiscal Year 2014 Proposed Budget	19.00	$ 1,936,549	$ 160,916	$ 2,097,465	$ 1,053,393
Difference from FY 2013 to FY2014	**3.61**	**$ 434,581**	**$ 23,697**	**$ 458,278**	**$ 583,204**

charge other departments for the services it provides, similarly to E&CP. Revenue targets included in the budget of $1.1 million or about 50% of budgeted expenditures. This is because the positions are not fully reimbursable. Administrative staff, management analysts, and junior contract specialist positions are about 80% reimbursable and senior contract specialist are up to 20% reimbursable. Revenue estimates are based on the contracts projected to be executed in FY 2014. Revenue estimates will likely improve in future years once the Group has a history of actual revenue to include as a basis for calculations.

Issues to Consider

Reducing Time for Bid and Award

Since the Group was transferred to Public Works in FY 2012, the time for contract bid and award for CIP projects has been reduced from 6-8 months to 90 days, which is the industry standard. This has been accomplished through identifying ways to reduce duplication and obtain commitment on turnaround time from offices involved, such as the City Attorney and Equal Employment Opportunity Commission (EOC). The Department also established goals for reducing bid and award time and began tracking progress. Public Works staff told us they continually strive to improve the 90-day target, but the amount of time it takes to award a contract is influenced by many variable outside of the Group's control, such as bid protests. Recent changes per the new administration which limit contract signature authority to the Public Works Director and the Chief Operating Officer could continue to have an impact on the execution of the bid and award process. Note that, as part of CIP streamlining and transparency efforts, approved by the City Council in March 2012, projects to be awarded are no longer required to be brought back to Council for approval. This change was instituted to avoid delays in the awarding of contracts for projects that have already been approved in

SUMMARY OF CHANGES IN PUBLIC WORKS CONTRACTING

	FY2013	FY 2014	$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	$ 929,067	$ 1,113,399	$ 184,332	19.8%
Fringe Benefits	572,901	823,150	250,249	43.7%
Personnel Subtotal	$ 1,501,968	$ 1,936,549	$ 434,581	28.9%
Non-Personnel				
Supplies	$ 19,600	$ 19,614	$ 14	0.1%
Contracts	14,800	20,300	5,500	37.2%
Information Technology	87,731	108,562	20,831	23.7%
Energy and Utilities	5,288	5,340	52	1.0%
Other	7,100	7,100	-	0.0%
Capital Expense	2,700	-	(2,700)	-100.0%
Non-Personnel Subtotal	$ 137,219	$ 160,916	$ 23,697	17.3%
Total Expenditures	**$ 1,639,187**	**$ 2,097,465**	**$ 458,278**	**28.0%**

the budget.

Awarded Contracts on CIP Website

In compliance with the Sunshine Act/Prop A, all construction, architectural/ engineering, and professional services contracts are listed as they are awarded in a PDF document on the of the CIP Website (http://www.sandiego.gov/cip/pdf/awardedconstandprosvcs010213.pdf).

In the future as Public Works improves the CIP Website, it will be important to extend these improvements to include the awarded contracts lists to ensure that the information is transparent, easily accessible, and understandable to the public. It will also be important to identify how long contract information should be retained on the website.

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 public right of way and surveying and materials testing.

E&CP is comprised of four divisions:

- Architectural Engineering & Parks
- Field Engineering
- Project Implementation
- Right-of-Way (ROW) Design

It is important to note that E&CP's General Fund allocation is about 95.9% 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 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the General Fund allocation of E&CP is $61.5 million, an increase of about $382,000 or 0.6% from FY 2012. The Proposed Budget also includes 469.88 FTEs, a net increase of 9.79 positions. About 405.00 FTEs are reimbursable. Salary and benefits have been adjusted by about $2.4 million to reflect the annualization of the negotiated salary compensation schedule, vacancy savings adjustments, retirement contributions, and retiree health

SUMMARY - PUBLIC WORKS E&CP BUDGET CHANGES

	FTE	PE	NPE	TOTAL	REVENUE
FY 2013 Budget	479.67	$ 53,653,739	$ 7,432,550	$ 61,086,289	$ 56,188,544
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries and Wages and Fringe	483.88	$ 56,357,003	$ -	$ 56,357,003	$ 56,288,544
Transfer of Contracting Group from E&CP	(17.00)	(1,794,877)	(49,000)	(1,843,877)	(470,189)
Addition of Civil Engineering Positions for Storm Water Compliance	4.00	448,899	-	448,899	590,784
Transfer of Grant Invoicing Position to TSW	(1.00)	(94,722)	(1,000)	(95,722)	-
Non-Personnel Expenditures	-	-	7,427,770	7,427,770	-
Information Technology Adjustments		-	(826,118)	(826,118)	-
Mayor's Fiscal Year 2014 Proposed Budget	469.88	$ 54,916,303	$ 6,551,652	$ 61,467,955	$ 56,409,139
Difference from FY 2013 to FY2014	*(9.79)*	*$ 1,262,564*	*$ (880,898)*	*$ 381,666*	*$ 220,595*

contributions.

The FY 2014 Proposed Budget for E&CP includes the addition of 4.00 FTEs and personnel expenditures of about $449,000 for civil engineering positions to provide support for Storm Water CIP projects needed for plan review of public projects to ensure they are within standards. TSW staff have indicated that without these positions, the Department would not have the ability to keep up with storm water permit requirements as projects are constructed. In this case, buildings may have to be retrofitted to comply with the requirements, which is more costly. The City is currently facing in negotiations with the Regional Water Quality Control Board for previous violations of public buildings. TSW staff anticipate that the City could pay a fine of $750,000 for these violations. Also note that the 4.00 positions include offsetting revenue of $591,000.

Restructuring

The FY 2014 includes a transfer of 17.00 FTEs, $1.8 million in expenditures, and $470,00 in revenue to budgetarily separate Public Works Contracting, which is a separate group reporting directly to the Director of Public Works. Public Works staff indicated that this separation is important to avoid any appearance of collusion, undue influence, or other improprieties with E&CP.

The FY 2014 Proposed Budget includes the transfers in and out of the Department to improve efficiency and functionality and increase capacity to implement CIP projects. For example, a Grant Invoicing position (1.00 FTE and $95,700 in personnel and associated non-personnel expenditures) is being transferred from E&CP to TSW to improve the efficiency of grant invoicing.

SUMMARY OF CHANGES IN E&CP EXPENDITURES BY CATEGORY

	FY2013	FY 2014	$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	$ 33,189,898	$ 32,408,426	$ (781,472)	-2.4%
Fringe Benefits	20,463,841	22,507,877	2,044,036	10.0%
Personnel Subtotal	53,653,739	54,916,303	1,262,564	2.4%
Non-Personnel				
Supplies	$ 593,827	$ 574,817	$ (19,010)	-3.2%
Contracts	882,399	860,796	(21,603)	-2.4%
Informaiton Technology	4,423,723	3,451,961	(971,762)	-22.0%
Energy and Utilities	394,119	364,346	(29,773)	-7.6%
Other	926,109	1,117,517	191,408	20.7%
Transfers Out	113,545	107,016	(6,529)	-5.8%
Capital Expenditures	98,355	74,726	(23,629)	-24.0%
Debt	473	473	-	0.0%
Non-Personnel Subtotal	$ 7,432,550	$ 6,551,652	$ (880,898)	-11.9%
Total Expenditures	**$ 61,086,289**	**$ 61,467,955**	**$ 381,666**	**0.6%**

Revenue Adjustments

The FY 2014 Proposed Budget includes revenues of $56.4 million in charges for services, an increase of $221,000 or 0.4% from FY 2013. Charges for services are based on a number of factors, including the number of projects and funding in the CIP Budget. While the FY 2014 Proposed CIP Budget is $171.6 million, 20% less than in FY 2013, there are a significant number of continuing projects. It is also anticipated that additional funding will be added to the budget later in the fiscal year for the $80 million third deferred capital bond issuance (DC 3) and Convention Center expansion bond issuance of $53 million. Based on the number of planned construction contracts to be awarded in the FY 2014 CIP Budget, the CIP could be amended to increase to about $330 million during the fiscal year. E&CP staff did note that the award of the target 175-185 contracts (included on pp. 19-24 of Volume 3 of the FY 2013 Proposed Budget) will be a challenge.

E&CP has over-budgeted revenue in previous years, primarily due to the methodology used by Financial Management to estimate charges for services. Beginning in FY 2013, revenue rates have been projected based on trends from previous years and calculated as a ratio of budgeted salary. For FY 2014, E&CP believes these projections will be more in line with actual revenues. Note that E&CP's revenue is based on variable costs including project delivery costs (soft costs), consultant invoices, and other non-personnel expenses.

Issues to Consider

Performance Measures

E&CP's key performance indicators include CIP-related goals. For example, one measure is to complete CIP projects within 66 working days of their baseline schedule 85% of the time. However, E&CP does not include performance measure for completing projects on time. E&CP staff told us this is because over 80% of all project costs are from outside the Department, such as contractor, consultant, land acquisition, and permits, which are outside the control of E&CP. For example, E&CP does not have direct control over changes to the project scope; this is within the control of the asset -owning departments. In addition, E&CP staff noted that the initial project budgets are often set without their involvement.

Given that project budgets are not the sole responsibility of E&CP, the Department has included some cost-related measures in the FY 2014 Proposed CIP Budget, such as the percentage of available CIP funds that have been expended, but there is no measure related to keeping projects on budget. We agree that keeping project costs within budget is not the sole responsibility of E&CP. However, the City should consider the importance of establishing a measure that holds appropriate staff involved in a project accountable for keeping projects within a reasonable budget as established by the engineer's estimate.

Capacity to Implement Projects

E&CP staff told us that, as stated since the deferred capital bond program began, the Department currently has the capacity to implement about $100 million of bond-

funded projects per year. It is important to consider that the Department must balance its current workload with existing staff. Capacity is a balancing act for E&CP. If the Department takes on too much work, then projects cannot be implemented in a timely manner. On the other hand, if the Department lacks sufficient funding for projects, then it will face challenges keeping staff working on projects and meeting revenue targets, since many E&CP staff are revenue reimbursable. The FY 2014 Proposed Budget includes $56.4 million in charges for services to other departments, a slight increase over FY 2013.

As shown below, E&CP has expended , encumbered, or pre-encumbered (which means projects are in process of being awarded) about $96.7 million or 93.3% of bond proceeds from DC 1. E&CP received the proceeds from DC 2 in August of 2012 and currently have expended , encumbered, or pre-encumbered about $27.9 million or 37.2% of the total $75 million. Staff told us that their goal is to spend down the bond within two years (August 2014), although the bond requirements provide for three years for bond proceeds to be expended without incurring a penalty.

As discussed in more detail in the Infrastructure section of this report, Starting with the next deferred capital bond issuance, DC 3, which was initially planned for June 2013, all deferred capital bond issuances are pushed back by 6 to 9 months. E&CP staff indicated that the addition of the $35 million bond issuance for CIP projects and pending $53 million issuance for the Convention Center may tide the Department over until January 2014, but believe they have the capacity to get back on track with subsequent deferred capital bond issuances.

Support for CIP Review and Advisory Committee (CIPRAC) and Development of Multi-Year Plan

As reported by the City Auditor in June 2011 (OCA-11-027) the City does not have an office to oversee and coordinate CIP activities. Currently, E&CP donates about 4.00 FTEs on a part-time basis to provide administrative support to CIPRAC, such as organizing meetings, recording minutes, analyzing data and generating reports. As the City moves forward with a much needed Multi-Year Capital Improvements Plan, E&CP staff noted that one of the biggest challenges will be identifying staff with the needed skills to coordinate among various departments involved in the CIP and develop the plan. When the time comes, the City may want to consider forming a task force of staff from relevant departments to work on this

UPDATE ON DEFERRED CAPITAL BOND SPENDING (DC 1 AND DC2)

	DC 1 (2009/2010)	DC 2 (2012)
Total Bond Proceeds (including accrued interest to date)	$ 103,678,000	$ 75,000,000
Expended	91,208,664	3,377,526
Encumbered	5,410,965	10,000,000
Pre-Encumbered (contracts to be awarded)	125,528	14,500,000
Total Draw Down	$ 96,745,157	$ 27,877,526
Percentage	*93.3%*	*37.2%*

project on a part-time or as-needed basis to ensure that all perspectives are covered and E&CP does not have to bear the entire burden of the task.

CIP Website Improvements

E&CP supports the CIP Website (http://www.sandiego.gov/cip/) from its operating budget. The Department is currently working on setting up a live link to the City's financial system, SAP, so that up-to-date detailed financial information can be provided. Currently this information has to be input by E&CP staff. The website is important for providing transparency over the CIP for decision makers and the public. Moving forward it will be essential to support efforts to improve the website and ensure that E&CP has needed resources since the website is currently funded through the Department's operating budget.

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

Facilities and Administration Divisions are General Funded. Fleet Services is funded by the Fleet Services Operating and Replacement Funds, and Publishing is funded by the Publishing Services Fund.

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for General Services is about $93.1 million, an increase of $7.6 million or 8.8%. The FY 2014 budget includes 302.5 FTEs, an addition of 8.00 positions or 2.7 percent from FY 2013. The increases are primarily attributable to increases in expenditures for Fleet Services Operating Fund, including the:

- Restoration of 12.50 FTEs and about $1.3 million in related personnel and non-personnel expenditures associated with the Automotive Parts Supplying; this was part of the Fleet Service's Managed Competition Employee Team's Alternate Proposal;
- Addition of $1.3 million related to implementation of the new Global Positioning System (GPS) Citywide contract; and
- Increase of $449,000 in non-personnel expenditures for the purchase of new tires due to rising petroleum costs which have affected the tire industry.

Increases in General Services' expenditures are also due to the addition of 9.00 positions and $721,000 in personnel expenses and $152,000 in related non-personnel ex-

SUMMARY - GENERAL SERVICES EXPENDITURES

	FY 2013 FTE	FY 2014 FTE	CHANGE	FY 2013 $	FY 2014 $	CHANGE
General Fund						
Administration	9.00	7.00	(2.00)	$ 1,170,300	$ 1,146,878	$ (23,422)
Facilities	107.00	116.00	9.00	14,021,545	14,564,447	$ 542,902
General Fund Subtotal	**116.00**	**123.00**	7.00	**15,191,845**	**15,711,325**	$ 519,480
			-			$ -
Non-General Fund			-			$ -
Fleet Services Operating Fund	168.50	169.50	1.00	$ 48,036,589	$ 51,647,391	$ 3,610,802
Fleet Services Replacement Fund	-	-	-	18,943,165	22,461,956	$ 3,518,791
Publishing Services Fund	10.00	10.00	-	3,388,151	3,300,066	$ (88,085)
Non-General Fund Subtotal	**178.50**	**179.50**	1.00	**$ 70,367,905**	**$ 77,409,413**	$ 7,041,508
Total General Services	**294.50**	**302.50**	8.00	**$ 85,559,750**	**$ 93,120,738**	**$ 7,560,988**

SUMMARY OF CHANGES IN REVENUE				
	FY2013	FY 2014	$ CHANGE	% CHANGE
General Fund (Facilities)	$ 4,001,183	$ 3,881,596	$ (119,587)	-3.0%
Fleet Services Operating Fund	48,098,089	51,647,391	3,549,302	7.4%
Fleet Services Replacement Fund	27,702,628	27,545,583	(157,045)	-0.6%
Publishing Services Fund	$ 3,773,269	$ 3,413,041	$ (360,228)	-9.5%
Total Expenditures	**$ 83,575,169**	**$ 86,487,611**	**$ 2,912,442**	**3.5%**

penses for Facilities Division to provide Maintenance & Repair (M&R) related to deferred capital as well as a vacancy savings adjustment of $300,000 so that Facilities can fill 8.00 vacant positions.

The FY 2014 Proposed Budget also includes a transfer about 2.00 Information Systems Analyst positions and $208,000 in related expenditures to Engineering & Capital Projects to increase functional efficiency.

Revenues included in the FY 2014 Proposed Budget total about $86.5 million as shown in the table above. This represents an increase of 3.5% or about $2.9 million over FY 2013. The increase is primarily attributable to an increase of 7.4% or about $3.5 million for Fleet Services Operating Fund to reflect FY 2014 revenue projections.

Facilities

The Facilities Division provides day-to-day M&R services for 1,600 City facilities/ buildings, including libraries, Park & Recreation facilities, Police and Fire-Rescue facilities, and the City Administration Building (CAB) complex. Services provided include building maintenance, custodial service, and emergency repairs when needed on roofs, HVAC systems, and electrical systems.

Changes to Budget

The FY 2014 Proposed Budget for Facilities totals about $14.9 million and includes 116.00 FTEs, representing an increase for the first time since FY 2007 when budgeted FTEs were 130.50. This includes an increase in expenditures of 3.9% or $1.5 million, and an addition of 9.00 FTEs or 8.4% over FY 2013. These 9.00 positions and $873,000 in personnel and related non-personnel expenses are for much needed M&R staff. Note that the Mayor's Proposed Budget includes this as part of the $49 million that is being budgeted for M&R relating to deferred capital. The Proposed Budget for Facilities Division also includes a reduction to vacancy savings of $300,000 to give the Di-

SUMMARY - GENERAL FUND BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
Facilities					
Approved FY 2013 Budget	107.00	$ 8,305,093	$ 5,716,452	$ 14,021,545	$ 4,001,183
Mayor's FY 2014 Proposed Budget Changes	116.00	9,814,296	4,750,151	$ 14,564,447	3,881,596
Difference from FY 2013 to FY2014	9.00	$ 1,509,203	$ (966,301)	$ 542,902	$ (119,587)
Administration					
Approved FY 2013 Budget	9.00	$ 1,115,884	$ 54,416	$ 1,170,300	$ -
Mayor's FY 2014 Proposed Budget Changes	7.00	983,139	163,739	$ 1,146,878	-
Difference from FY 2013 to FY2014	*(2.00)*	*$ (132,745)*	*$ 109,323*	*$ (23,422)*	$ -

vision the opportunity to fill 8.00 additional positions needed to provide ongoing M&R services. Note that adjustments to vacancy savings are generally based on the salary amounts for each position and excludes fringe. Financial Management staff indicated that fringe costs will automatically be budgeted based on the positions funded and has no impact on the Division's ability to fill the positions.

Facilities has 28.00 positions that are reimbursable, generally through work performed on small-scale CIP projects or for enterprise-funded departments like Public Utilities. Charges for services are $3.9 million in the FY 2014 Proposed Budget, a decrease of 3% or about $120,000 over FY 2013. Based on previous years, this revenue target will be challenging for the Division to attain.

General Services Administration

This Division provides administrative and technical support to the Public Works Director and General Services Division. The FY 2014 Proposed Budget for the Administrative Division totals $1.1 million, including 7.00 FTEs. This is net decrease of about $23,000 and 2.00 FTEs over FY 2013. This includes the transfer of 2.00 Information Systems positions to Engineering & Capital Projects to improve efficiencies.

Fleet Services

Fleet Services provides City departments with motive equipment and support, including vehicle acquisition, maintenance, 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.

Managed Competition

Fleet Services went through a Managed Competition in FY 2012 and the employee team was successful. Due to a lengthy meet & confer process, which resulted in an Alternate Employee Proposal related to Automobile Parts Supply, Fleet has a few remaining steps to complete before implementation can occur. This includes the bid and award of four service contracts; reduction-in-force; and final meet & confer on heavy tire maintenance.

The FY 2013 Adopted Budget for Fleet Services included a reduction of 80.5 FTEs in positions relating to the Managed Competition from 249.00 FTEs in FY 2012 to 168.50

SUMMARY - FLEET SERVICES BUDGET CHANGES

	FTE	PE	NPE	TOTAL	REVENUE
Fleet Services Operting Fund					
Approved FY 2013 Budget	168.50	$ 15,562,479	$ 32,474,110	$ 48,036,589	$ 48,098,089
Mayor's FY 2014 Proposed Budget Changes	169.50	16,468,063	35,179,328	$ 51,647,391	51,647,391
Difference from FY 2013 to FY2014	1.00	$ 905,584	$ 2,705,218	$ 3,610,802	$ 3,549,302
Fleet Services Replacement Fund					
Approved FY 2013 Budget	-	$ -	$ 18,943,165	$ 18,943,165	$ 27,702,628
Mayor's FY 2014 Proposed Budget Changes	-	-	22,461,956	$ 22,461,956	27,545,583
Difference from FY 2013 to FY2014	-	$ -	$ *3,518,791*	$ 3,518,791	$ (157,045)

FTEs in FY 2013. The FY 2014 Proposed Budget includes the restoration of 12.50 FTEs in accordance with the City's agreement with MEA regarding the Employees' Alternate Proposal for Automotive Parts Supply. Formal implementation of the Most Efficient Government Organization (MEGO) is anticipated to begin in FY 2014 and $4 million savings have been included in the FY 2014 budget; $2.8 million of this is General Fund savings.

Changes to Budget

The FY 2014 Proposed Budget for Fleet Services includes $51.6 million the Fleet Operating Fund, an increase of $3.6 million over FY 2013. As noted earlier, this increase includes $1.3 million for implementation of the new citywide Global Positioning System (GPS) contract; $1.3 million to restore 12.50 FTE positions and related non-personnel expenses for the Automotive Parts Supply function per the Alternate Employee Proposal; and about $449,000 for the purchase of new tires for the City's fleet. In addition, the FY 2014 Proposed Budget includes about $22.5 million for the Fleet Services Replacement Fund, a net increase of about $3.5 million. This reflects a $3.7 million estimated increase for vehicle cash replacement funding and non-discretionary adjustments of about $200,000.

The FY 2014 Proposed Budget includes increases in revenue for the Fleet Services Operating Fund by about $3.5 million over FY 2013 to about $51.6 million. This includes about a $1 million increase in usage fee adjustments, to recoup various costs, including GPS costs, tires, and inflation for non-personnel expenditures. Note that beginning with the FY 2013 budget, fuel costs are no longer included in usage fees since fuel costs were not part of the Managed Competition. Fuel costs are now included in City departments' non-personnel expenditures for energy and utilities. Fleet Services bills customers directly on either a monthly or quarterly basis for fuel costs.

Revenue for the Fleet Services Operations and Replacement Fund has decreased by $157,000 over FY 2013 to about $27.5 million.

Performance Measures

Note that the target for percent of non-safety light duty fleet vehicles classified as low emissions II is an error in the Proposed Budget. The correct target is 76%.

GPS Project

Fleet Services staff indicated that the Citywide GPS deployment and implementation is on schedule and within budget. The vehicle modems have been ordered and all departments with assigned City vehicles are participating. This is evidenced through GPS related non-personnel costs across participating City departments. Note that the budgeted amounts vary depending on the number of vehicles and level of participation by each department.

Publishing Services

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

Managed Competition Savings
Publishing Services went through a managed competition in FY 2011 and the employee team was successful. The MEGO was implemented in FY 2012; both FY 2012 and FY 2013 budgets included $967,000 in anticipated savings—$337,000 was General Fund savings.

Changes to Budget
The FY 2014 Proposed Budget for Publishing Services totals $3.3 million, a slight decrease of $88,000 over FY 2013. Positions have remained at 10.00 FTEs—constant from the previous fiscal year. The FY 2013 budget includes $3.4 million in revenues, a 9.5% or $360,000 decrease from FY 2013 primarily due to an adjustment of $359,000 associated with the full implementation of the Convenience Copier Contract.

Convenience Copier Contract
A little over a year after implementation, Fleet Services staff have indicated that the City is realizing anticipated savings from the new contract. In the last year of the previous contract (Konica Minolta), convenience copier expenses averaged $160,000 per month. Based on the third quarter of FY 2013, average costs under the new contract are half of that—$80,000. Average monthly costs for production copiers have also been reduced from $24,000 to $7,300 per month. Consistent with the estimated contract savings, the annualized savings rate for the third quarter is $1.16 million per year.

Issues to Consider

Facilities Division Challenges
The Facilities Division has important M&R responsibilities for the City's facilities/ buildings. These issues are discussed in more detail in the Infrastructure section of this report.

Condition Assessment to Identify Deferred Capital Backlog for Facilities/ Buildings - The deferred capital for facilities/buildings is anticipated to be significantly higher than the current estimate of $185 million, since it is based on condition assessments conducted in 2007 and 2009 on 30% of the City's 1,600 facilities. Facilities Division's FY 2014 budget request included $1.0 million for a comprehensive assessment of about 600 buildings, but this request was not funded in the Proposed Budget. Conducting a comprehensive, updated assessment for facilities is particularly important since the City is providing deferred capital bond funding for facilities projects, but lacks a full and accurate picture of facilities needs and priorities. Our office has identified the $1 million for a Facilities Condition Assessment as a potential Council revision to the Mayor's Proposed Budget. We have also identified potential resources which may be available for all or a portion of needed condition assessments.

M&R Funding - Current funding for Facilities Division is significantly below the level needed to keep up with necessary M&R of City facilities/buildings largely due to a 23.2% reduction in budgeted positions since FY 2004. The impact of chronic underfunding of the Division has resulted in:

- Over 90% of work focused on reactive, break-down repair rather than scheduled preventative maintenance;
- A backlog of 1,759 M&R work order requests, up from 1,554 uncompleted works orders in January 2013; and

- About $2.5 million in deferred maintenance projects.

To recommend appropriate funding levels, Facilities Division developed a sustainability model based on the premise put forward by the National Research Council that annual routine M&R should be between 2-4% of the current replacement value of City General Fund facilities. Current funding of $17 million across all General Fund departments as a percentage of current replacement value is 0.7%. Annual funding at the lower end of 2% would yield a requirement of $47 million for M&R annually—a $30 million deficiency.

Facilities Division proposed to address the deficiency with a ramp up of $6 million over five years beginning with its FY 2014 budget request. This request included 39.00 FTEs and $3.1 million in personnel expenses as well as $2.9 million in related non-personnel expenses for contracts, materials, and supplies. The FY 2014 Proposed Budget funded about 20% of the requested increase, including 9.00 FTEs and related personnel and non-personnel costs of $873,000. The Proposed Budget also includes a vacancy savings adjustment of $300,000 which will enable the Division to fill 8.00 vacant positions. Even with the additional $1.2 million added to the FY 2014 budget, the City is still significantly below the 2% minimum goal.

New Central Library M&R - The Central Library is maintained by a combination of City staff (Library maintenance staff included) and outside contractors. The Library Department currently has contracting services ($491,000) including security, janitorial services, and elevator maintenance. Facilities Division requested an additional 10.00 FTEs to provide M&R for the New Central Library. The FY 2014 Proposed Budget includes 1.00 FTE for a Building Services Superintendent in the Library Department, but does not provide funding for Facilities M&R. The Library Department anticipates expanding the current service contract to address the additional needs of the new Central Library, potentially to include M&R.

Public Works staff noted that much of the dynamic equipment in the building, such as HVAC, will be under warranty for the first year, and that the Division will do its best to cover any issues that arise, but will need to receive additional positions in order to properly maintain the new library beginning in FY 2015 should the library require M&R services from Facilities.

Revenue Targets - The Facilities Division requested a revenue reduction of $900,000 to better reflect the actual revenue trend. Financial Management staff indicated that this amount was adjusted to $3.9 million based on filling 8.00 positions that are currently vacant. However, the revenue trend is due to the decline in the availability of reimbursable work for small-scale CIP projects and enterprise funded departments like Public Utilities. The Division will likely be challenged to meet the $3.9 million revenue target which has not been achieved in four years. Further, as we report in our report on Citywide vacancies (IBA-13-14), the revenue targets resulted in Facilities prioritizing M&R services for enterprise-funded departments over General Fund departments.

Purchasing & Contracting

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for the Purchasing & Contracting Department is approximately $4.5 million, an increase of approximately $1.3 million from the FY 2013 Budget. The department has a net addition of 9.20 FTE positions. Budgeted revenue has been increased by approximately $130,000.

Additions

The FY 2014 Proposed Budget transfers the Equal Opportunity Contracting (EOC) Program from the Administration Department to the Purchasing & Contracting Department. There are 10.00 FTE positions being transferred into the department in support the EOC program (9.00 FTE positions from the Administration Department and 1.00 Assistant Management Analyst position from the Business Office).

Additionally, another 1.70 FTE positions are being added to further support the EOC Program including 1.00 new Supervising Management Analyst and .70 Management Intern. In total, the EOC Program will have 11.70 FTE positions, an increase of 2.70 FTEs over the staffing level of 9.00 FTEs in the Administration Department.

The IBA was informed the additional 2.70 positions are being added to the EOC program to address the following: 1) the program has historically been understaffed; 2) CIP streamlining has resulted in additional work; and 3) EOC staff has increasingly been requested to participate in other bid contracting and procurement processes.

SUMMARY OF PURCHASING & CONTRACTING BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	30.39	$ 2,800,660	$ 366,087	$ 3,166,747	$ 529,500
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages	0.20	53,549		53,549	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(37,969)		(37,969)	
Fringe Benefits (incl. Retirement ARC)		133,329		133,329	
Supplies			770	770	
Contracts			6,998	6,998	
Non-Discretionary and Info Technology Adjustments			154,273	154,273	
Transfer of Equal Opportunity Contracting Program from Administration Dept.	9.00	918,133	72,262	990,395	175,054
Transfer of Assistant Management Analyst from Business Office for EOC	1.00	94,339		94,339	
Addition of Supervising Management Analyst to support EOC	1.00	123,553		123,553	
Transfer of Procurement Card Program/Staff to City Comptroller Dept.	(2.00)	(211,191)		(211,191)	(70,000)
New Revenue Attributable to Rebates from Staples and other Vendors					25,000
Mayor's Fiscal Year 2014 Proposed Budget	*39.59*	*3,874,403*	*600,390*	*4,474,793*	*659,554*
Difference from 2013 to 2014	*9.20*	*$ 1,073,743*	*$ 234,303*	*$ 1,308,046*	*$ 130,054*

The EOC Program will be comprised of the following classifications:

1.00 Program Manager
1.00 Supervising Management Analysts
3.00 Senior Management Analysts
3.00 Associate Management Analysts
1.00 Assistant Management Analyst
1.00 Management Trainee
0.70 Hourly Management Intern
11.70 Total EOC Positions

The transfer of the EOC Program to the Purchasing & Contracting Department also includes the addition of approximately $175,000 of budgeted revenue.

Prior to 2008, the EOC Program was housed within the Purchasing & Contracting Department. In response to concerns about the Program's effectiveness at the time, the Mayor transferred the EOC Program to the Administration Department beginning in 2008. Numerous position and program changes were implemented with improved results.

When we inquired about the rationale for transferring the Program back to the Purchasing & Contracting Department, the IBA was informed the Mayor considers the Program a high priority and wants to take advantage of the new department director's (Dennis Gakunga) EOC expertise. Mr. Gakunga's first day with the department was April 15, 2013.

Including the 0.70 FTE position for an EOC hourly Management Intern, the department has 1.59 FTE positions budgeted in FY 2014, a .20 FTE position increase in hourly staffing from FY 2013.

Depending on purchase volume or the timing of payments, the City receives rebates from Staples and other vendors. Additional revenue of $25,000 has been budgeted in FY 2014 to account for these rebates.

Reductions

An audit of the Procurement Card (P-Card) Program in August 2012 pointed out deficiencies in program management and oversight. The COO subsequently made a decision to transfer the P-Card Program to the City Comptroller Department in February 2013 following discussions with involved departments.

The FY 2014 Proposed Budget reflects the decision to transfer the P-Card Program from the Purchasing & Contracting Department to the City Comptroller Department. The P-Card Program is staffed by 2.00 FTE positions (1.00 Associate Management Analyst and 1.00 Administrative Aide 2). The FY 2014 Proposed Budget shows these positions and associated budget expense of approximately $211,000 transferring to the City Comptroller Department.

Additionally, $70,000 in budgeted revenue associated with rebates paid to the City by the P-Card provider bank will transfer to the City Comptroller Department's budget.

Central Stores Fund

Central Stores purchases supplies for City operations, manages inventories of supplies and centralizes citywide mailroom services. Central Stores is an internal service fund supported by charges to all benefitting City departments. Although the Central Stores Fund is part of the Purchasing & Contracting Department, it is not considered part of

the General Fund Budget.

The Central Stores Fund is approximately $13.3 million in the FY 2014 Proposed Budget, relatively unchanged from FY 2013. There are 23.34 FTE positions budgeted in the Central Stores Fund, a reduction of 3.01 FTE positions from FY 2013. The reduction in staffing is attributed to efficiencies gained with implementation of the SAP inventory management module and the closure of the Citywide Open Purchase Order System.

QUALCOMM Stadium

Qualcomm Stadium is a special revenue fund that supports the day-to-day operations at the stadium. Management of Qualcomm Stadium is provided by the Real Estate Assets Department.

Mayor's FY 2014 Proposed Adjustments

The largest variance in the FY 2014 Proposed Budget is the increase in the required transfer of revenue from the General Fund to the Qualcomm Stadium Fund to support operations. The General Fund transfer supports debt service on the stadium in addition to operational support. General Fund transfers to the Qualcomm Stadium Fund have ranged from $8.1 million to $11.8 million over the last four fiscal years, dependant upon planned improvements and repairs (among other items) at the stadium.

Debt service decreased marginally from FY 2013, so the $1.6 million increase in the transfer from the General Fund is required for funding maintenance of non-capital items in the stadium that have been deferred and need to be addressed in FY 2014. Additionally, despite the increase of $1.6 million in the General Fund transfer in FY 2014, the Qualcomm Stadium Fund is projected to operate at an approximate $587,000 deficit. The fund currently has an estimated beginning FY 2014 fund balance of $1.3 million that will be utilized to offset the operating deficit. The remaining fund balance of approximately $713,000 is projected to be utilized to fund CIP expenditures during FY 2014. The other main cost increase in the fund is an increase of $166,828 in fringe benefits. This is primarily due to an increase of $133,572 in the required retirement ARC contribution from the fund to SDCERS.

Issues to Consider

Despite a sizeable increase in the General Fund transfer, the fund is projected to operate at a $587,000 deficit in FY 2014, which is offset by fund balance, a one-time source of revenue. With the fund balance pro-

SUMMARY OF QUALCOMM STADIUM BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	37.00	$ 3,246,889	$ 13,302,185	$ 16,549,074	$ 14,922,801
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Wages		(2,492)		(2,492)	
Fringe Benefits (incl. Retirement ARC)		166,828		166,828	
Supplies			211,534	211,534	
Contracts			101,812	101,812	
Energy & Utilities			86,991	86,991	
Increase in Transient Occupancy Tax Transfer from General Fund				-	1,620,000
Other			(49,047)	(49,047)	(64,992)
				-	
Mayor's Fiscal Year 2014 Proposed Budget	**37.00**	**3,411,225**	**13,653,475**	**17,064,700**	**16,477,809**
Difference from 2013 to 2014	-	$ *164,336*	$ *351,290*	$ *515,626*	$ *1,555,008*

jected to be fully utilized by FY 2014 year-end and the need for continued investment in repairs, maintenance, and supplies, the General Fund contribution will likely continue to increase in future fiscal years. An audit of Qualcomm Stadium, prepared by the Office of the City Auditor in May 2009, concluded that stadium operations are not self sustaining. This is an ongoing issue that continues to be a risk to the General Fund.

Real Estate Assets

Mayor's FY 2014 Proposed Adjustments

The Real Estate Assets Department manages the City's real estate portfolio, including the administration of over 500 of the City's existing leases, permits, operating agreements, and sub-leases.

The FY 2014 Proposed Budget for the General Fund portion of the Real Estate Assets Department (READ) is $4.8 million, an increase of approximately $288,000 from the FY 2013 Adopted Budget. Revenues are budgeted at approximately $43.3 million, an increase of approximately $2.3 million from FY 2013.

Significant Budget Adjustments

The FY 2014 Proposed Budget includes an increase of approximately $2.6 million in revenue related to the Mission Bay Park rents and concessions. Per City Charter Article V, Section 55.2, revenues received from Mission Bay Park rents and concessions, up to a certain threshold ($23.0 million for FY 2014), shall be deposited into the General Fund, with any excess revenues above the threshold to be divided between the Regional Park Improvement Fund and the Mission Bay Park Improvement Fund. The excess revenue shall be divided such that 25% of the revenue, or the first $2.5 million, whichever is greater, of the excess revenue will be deposited with the Regional Park Improvement Fund. The remaining 75% or any remaining funds will be deposited with the Mission Bay Improvement Fund.

The Regional Park Improvement received $2.5 million in FY 2013 and the same funding amount is continued in the FY 2014 Proposed Budget. The entire increase in revenues from the Mission Bay Park rents and concessions in the FY 2014 Proposed Budget ($2.6 million) will flow to the Mission Bay Improvement Fund.

For the FY 2014 Proposed Budget, the Mission Bay Park rents and concession total approximately $28.6 million; with $23.0 million going to the General Fund; $2.5 million going to the Regional Park Improvement Fund; and $3.1 million going to the Mission Bay Park Improvement Fund.

SUMMARY OF READ BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	28.00	$ 3,128,947	$ 1,412,803	$ 4,541,750	$ 41,049,418
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries & Benefit Adjustments		300,124		300,124	
Non-Discretionary and Info Technology Adjustments			(12,130)	(12,130)	
Increase in Mission Bay Park Rents and Concessions				-	2,611,583
Revenue Adjustment for FY 2014					(316,704)
Mayor's Fiscal Year 2014 Proposed Budget	**28.00**	**3,429,071**	**1,400,673**	**4,829,744**	**43,344,297**
Difference from 2013 to 2014	-	$ *300,124*	$ *(12,130)*	$ *287,994*	$ *2,294,879*

Per the City Charter Article V, Section 55.2, the usage of funds within the Mission Bay Improvement Fund needs to follow the prioritization list identified in Section 55.2 of the City Charter; and the Regional Park Improvement Funds may be expended only for non-commercial public capital improvements for the San Diego Regional Parks and only for park use.

In addition to the adjustment related to the Mission Bay Park rents and concessions, the FY 2014 Proposed Budget includes a reduction of revenue of approximately $317,000. This reduction is the net impact of multiple lease and concession projections.

- The decreases in revenue, totaling approximately $906,000, are related to several terminated leases and market fluctuations affecting rents.
- The increase in revenues, totaling approximately $589,000 are related to scheduled rent increases and adjusted projections.

Issues to Consider

Mission Bay Park rents

Per the City Charter Article V, Section 55.2, excess revenue collected from the Mission Bay Park rents and concessions above a specific threshold will flow to the Regional Park Improvement Fund and the Mission Bay Improvement Fund ("Improvement Funds"). For FY 2014, the threshold is set at $23.0 million, however, per the City Charter, that threshold will be reduced to $20.0 million in FY 2015. The reduced threshold will reduce the amount of funding available to the General Fund in FY 2015 and increase the funds available to the Mission Bay Improvement Fund. The reduction to the General Fund will be $3.0 million and the increase to the Improvements Funds will be determined by the FY 2015 Proposed Budget.

Facilities Strategies Plan

On November 28, 2012, READ presented the Land Use and Housing Committee a Facility Strategies Plan (FSP) to optimize the City's ability to provide workspace for its employees and to provide staff with a strategic tool to support lease negotiations.

The strategies within the FSP include: (1) standardizing work space and furniture based on work performed; supported by a new workplace guideline; (2) consolidation of work space based upon new standards; allowing for reduced leased footprint; (3) vacating subleased space; (4) performing financial cost/benefit analysis based upon lease term/price and potential capital outlay; and (5) financial benefit analysis of purchasing currently leased properties. In addition to using work space more efficiently, the goal of the FSP is to reduce the City's current lease obligation; potentially by up to $2 million annually.

The Mayor has recently added Jason Hughes as a Special Assistant to advise the Mayor's Office on the City's downtown office real estate needs. As the City has several large leases set to expire in the next couple years, the strategies outlined in the FSP should be considered during lease negotiations.

San Diego Square Ground Lease

On February 6, 2013, READ presented the Land Use & Housing Committee with a pro-

posed ground lease with Housing Development Partners of San Diego for use of the City-owned property known as San Diego square. The ground lease would be a transfer and renewal of an existing lease with San Diego Kind Corporation. The leased property is currently used for affordable housing and will continue with the renewal.

One of the terms of the proposed lease is a one-time payment of $4 million to the City of San Diego. Per an opinion from the City Attorney's Office, as this payment would be generated from a lease of city-owned property, this payment would be deposited into the General Fund.

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 2014 Proposed Budget for the Concourse and Parking Garage Operating Fund is approximately $2.7 million, which reflects a increase of approximately $24,000 from the FY 2013 Adopted Budget. Revenue projections are budgeted at approximately $2.7 million, an increase of approximately $22,000 from FY 2013.

Risk Management

Mayor's FY 2014 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 benefits contracts, employee savings plans, the Long-Term Disability Plan, and the Employee Assistance Program (EAP).

The FY 2014 Proposed Budget for Risk Management Administration Fund expenditures totals $9.7 million, an increase of $212,000 from the FY 2013 Budget, and includes 79.88 FTEs. Revenues in the FY 2014 Proposed Budget total $10.0 million.

The number of FTE's in the FY 2014 Proposed Budget has increased by 0.94 over the FY 2013 Adopted Budget as follows:

- A 0.50 increase for the Employee Assistance Counselor position, which makes this a full-time position (1.00 FTE)—the only other staff in the Employee Assistance Program (EAP) is the Employee Assistance Program Manager;
- 0.50 increase to annualize the Workers Compensation Claims Representative 2 that was funded for one-half year in FY 2013; and
- 0.06 FTE reduction in non-standard hourly personnel.

Non Personnel Expense increases include $63,000 for labor costs for various discretionary information technology projects. These include projects related to new state mandates–capturing and reporting Subsequent Report of Injury (SROI) data and detailed components of salary continuation benefits, as well as adapting other reports

SUMMARY OF RISK MANAGEMENT ADMINISTRATION CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2013 Budget	78.94	$ 7,242,320	$ 2,287,860	$ 9,530,180	$ 9,728,039
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Increase in Contributions from City Departments				-	227,659
Revenue and Expenditures for Health Benefits Consultant			10,000	10,000	10,000
Salaries & Wages	0.94	61,111		61,111	
Salary Savings Adjustment (Vacancy Savings/Pay Reductions/Furlough)		(91,191)		(91,191)	-
Increase in Termination Pay		15,463		15,463	-
Fringe Benefits (Includes Retirement ARC)		422,650		422,650	-
SAP Support Allocation			(20,601)	(20,601)	-
Discretionary Information Technology Labor Costs			62,710	62,710	-
Information Technology Services Transfer			52,203	52,203	
Other Information Technology Adjustments			(299,119)	(299,119)	-
Other Adjustments			(1,383)	(1,383)	-
Mayor's Fiscal Year 2014 Proposed Budget	**79.88**	**7,650,353**	**2,091,670**	**9,742,023**	**9,965,698**
Difference from 2013 to 2014	*0.94*	*$ 408,033*	*$ (196,190)*	*$ 211,843*	*$ 237,659*

requiring electronic submission to the State. Additional projects include those related to interfaces involving the Workers' Compensation, Long-Term Disability and Public Liability systems.

Issues to Consider

In previous years, this section contained information not only with regard to Risk Management Administration, but also for the Public Liability, Workers' Compensation, and Long-Term Disability Funds. In this report, information on the latter three funds is presented in separate sections, as part of Significant Citywide Issues.

Contributions to the Risk Management Administration Fund

City departments contribute to the Risk 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 $6.9 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 2014 Proposed Budget the $10.0 million in Risk Management Administration Fund revenues are $224,000 higher than the $9.7 million in expenditures. If this difference occurs in actuality, the higher revenues would increase fund balance. The Department had indicated that it intended 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. However, recent analysis has led to a change in this approach.

Not considering the long-term liabilities in the Risk Management Administration fund—including the Net Pension Obligation and Net Other Post-Employment Benefit Obligation—Risk Management Administration has indicated that available fund balance is projected to be $1.0 million at the end of FY 2014.

Because of this, Risk Management has communicated to the IBA that the May Revision to the Budget will include a $1.0 million reduction in the FY 2014 Citywide fringe contributions that support Risk Management Administration operations. This will provide a one-time General Fund resource of approximately $700,000 for FY 2014, which we have included in our list of potential revisions to the Mayor's Budget.

Key Performance Indicators

The performance measure related to workers' compensation costs is $25.3 million for FY 2014 as compared to the $24.5 million projection used for FY 2014 Proposed Budget.

Additionally the Workers Compensation Reserve balance is shown as meeting the target of $46.2 million in FY 2014, when it is currently projected to only reach $43.0 mil-

lion for FY 2014.

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.

The FY 2013 estimates will also be reevaluated for the May Revision.

Special Promotional Programs

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for Special Promotional Programs is $88.9 million, an increase of approximately $14.4 million from the FY 2013 Adopted Budget. This increase is due to projected growth in transient occupancy tax revenue (TOT) of 6.0%, in addition to the use of TOT Fund balance to offset expenditures in FY 2014. Total fund revenue is proposed to increase by $6.8 million. $7.6 million in TOT Fund balance will be used for expenditures not supported by projected 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.

SUMMARY OF SPECIAL PROMOTIONAL PROGRAMS BUDGET

	FY 2013 ADOPTED	FY 2014 PROPOSED	CHANGE
REVENUE			
Transient Occupancy Tax (5.0%)	$ 74,282,640	$ 81,131,361	$ 6,848,721
Grant and Other Revenue	150,000	150,000	-
TOTAL REVENUE	**$ 74,432,640**	**$ 81,281,361**	**$ 6,848,721**
ALLOCATIONS			
Arts & Culture	$ 7,822,218	$ 9,511,372	$ 1,689,154
Capital Improvements	15,328,873	15,647,539	318,666
Balboa/MB Park Improvements	*1,600,000*	*1,689,234*	*89,234*
Convention Center Phase II	*8,697,275*	*8,057,450*	*(639,825)*
Qualcomm	*4,752,882*	*4,748,556*	*(4,326)*
Trolley Extension	*278,716*	*1,152,299*	*873,583*
Economic Development	1,805,000	1,805,000	-
Major Events-Balboa Park Centennial	150,000	150,000	-
Operating Support	13,124,798	25,865,979	12,741,181
Balboa Park	-	*370,766*	*370,766*
Convention Center	*4,375,488*	*4,722,550*	*347,062*
PETCO Park O&M	*4,200,000*	*14,515,750*	10,315,750
Qualcomm	*3,827,118*	*5,451,444*	*1,624,326*
Trolley Extension Reserve	-	18,985	*18,985*
Special Events Department	*722,192*	*786,484*	*64,292*
Discretionary TOT to GF	14,493,278	15,846,272	1,352,994
GF Promotional-Related	21,708,473	20,031,509	(1,676,964)
TOTAL ALLOCATIONS	**$ 74,432,640**	**$ 88,857,671**	**$ 14,425,031**

PETCO Park Fund

The FY 2014 TOT allocation to the PETCO Park Fund is $14.5 million, a increase of $10.3 million from the FY 2013 Adopted Budget. Debt service on the PETCO Park Bonds previously paid by the redevelopment Successor Agency (pursuant to a Co-operation Agreement with the former Redevelopment Agency) has been determined to be an unenforceable Successor Agency obligation. For FY 2014, TOT Fund balance and additional TOT revenue from year-over-year growth will be used to support the $11.3 million debt-service. The remaining $1.0 million of the total debt-service will be supported by the use of PETCO Park Fund balance.

Mission Bay / Balboa Park Improvement Fund

The FY 2014 Proposed TOT allocation for the Mission Bay / Balboa Park Fund is $2.1 million, an increase of approximately $460,000 from the FY 2013 Adopted Budget. In FY 2013, fund balance was used to support expenditures within the fund. The increase in the proposed allocation to the fund is due to the unavailability of fund balance to support fund expenses in FY 2014.

Qualcomm Stadium Operations Fund

The budgeted transfer to the Qualcomm Stadium Operations Fund increases by $1.6 million for a total transfer of $10.2 stadium operating expenses million. This increase is due to an increase in maintenance costs of approximately $360,000, an approximate $750,000 increase in CIP expenditures, and the availability of minimal fund balance to fund expenditures. In FY 2013, fund balance was used to partially offset expenditures within the fund.

Trolley Extension Reserve Fund

The budgeted transfer to the trolley extension reserve fund represents an increase of $892,568. This increase will support trolley related debt-service. In the FY 2013 Budget, this transfer was reduced to allow for the use of accumulated fund balance to support the debt service.

Transfer to Convention Center Administration and New Convention Facilities Funds

The transfer to the convention center expansion and facility funds has been reduced by $292,763 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. The FY 2014 debt-service is approximately $163,000 less than in FY 2013. With this, approximately $130,000 of the transfer will fall to fund balance.

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 TOT revenue as a discretionary transfer. Due to an increase in the total 10.5 cent TOT projection, the discretionary TOT transfer to the General Fund has increased $1.4 million from the FY 2013 Adopted Budget. These funds are used to support overall operating expenditures in the General Fund.

Mayor & Council Discretionary Funds

The total amount of Mayor & City Council discretionary funds are increasing from $363,250 in the FY 2013 Adopted Budget to $380,000 in the FY 2014 Proposed Budget. The increase of $16,750 is to annualize the discretionary funds for Council District 9 (CD9) in FY 2014. A prorated amount was added to the FY 2013 budget.

Arts & Culture Funding

The FY 2014 Proposed TOT allocation for Arts & Culture is $9.5 million, representing an increase of approximately $1.7 million over FY 2013. The Proposed Budget includes $1.0 million for the Commission for Arts and Culture Department; $6.5 million in grant funds for arts and cultural programs, activities and festivals; $1.6 million in funding for the Penny for the Arts Blueprint; and $380,000 in funding for Mayor and City Council allocations.

The Commission for Arts and Culture Department budget within the TOT Fund represents an increase of approximately $72,000. This is primarily related to an increase in fringe costs. An increase of $43,700 is budgeted separately within the Public Art Fund for artwork care, conservation, and restoration to support the Balboa Park 2015 Centennial Celebration.

$1.6 million is allocated in the FY 2014 Proposed Budget for funding the Penny for the Arts Blueprint. The Penny for the Arts Five-Year Blueprint (Blueprint) was adopted by the City Council on October 22, 2012. The Blueprint restores Arts, Culture, and Community Festivals allocations within the annual Special Promotional Programs budget to FY 2002 funding levels. Fully implementing the Blueprint would incrementally increase Commission funding by $10.1 million over the next four fiscal years, bringing the total annual Arts, Culture, and Community Festivals allocation to 1.0 cent, from the current 0.5 cent allocation within the Transient Occupancy Tax (TOT) Fund. The $1.6 million in funding partially funds the full $3.7 million need outlined in the plan for 2014, assuming a $1.0 million mid-year budget adjustment in FY 2013 and an additional increase of $2.7 million in FY 2014.

The Commission recommends that the $1.6 million is used to increase Arts & Culture categorical funding as follows:

- $352,589, for the Organization Support Program (OSP)
- $247,411, for the Creative Communities San Diego Program (CCSD)
- $750,000, for the Arts & Culture Festival Revolving Fund
- $150,000, for Cultural Tourism Promotions
- $100,000, to fund an online application system for Commission contractors.

The $750,000 allocated to the Arts & Culture Festivals Revolving Fund will be used to augment funding to current Commission contractors to support planning efforts for Centennial activities and events. Commission staff has indicated that these organizations may not be able to start the necessary planning for these events or execute them if funding support is not acquired. Forty-five organizations requested funding in response to a Commission September 7, 2012 Re-

quest for Proposals (RFP) deadline.

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 2014, TOT allocations for General Fund promotion-related expenditures total $20.0 million, an decrease of $1.7 million from FY 2013. The majority of this funding is allocated to the Park and Recreation Department, as reflected in the table below. The $1.7 million decrease in General Fund tourism and promotions funding is due to a reduction in the allocation to the Parks & Recreation Department.

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

Use of Transient Occupancy Fund Balance

Based on projections from the FY 2013 Mid-Year Budget Monitoring Report, $1.4 million in TOT revenue exceeding budgeted expectations would not be reallocated out to offset tourism and promotions related expenditures in the General Fund as is the typical practice. Due to this, $1.4 million would fall to fund balance at the end of FY 2013. This $1.4 million would be added to the $11.8 million in the available TOT Fund balance remaining from unallocated collections from previous fiscal years, bringing the projected TOT Fund balance at the end of FY 2013 to $13.2 million. Financial Management has since communicated that $1.0 mil-

General Fund Promotion-Related Funding

General Fund Department	FY 2013 ADOPTED	FY 2014 PROPOSED	CHANGE
Park & Recreation	$ 19,671,273	$ 17,994,309	$ (1,676,964)
Facilities Division	700,000	700,000	-
Street Division	400,000	400,000	-
Development Services	332,200	332,200	-
Office of the Mayor	180,000	180,000	-
TOT Admin / Various	425,000	425,000	-
TOTAL	**$ 21,708,473**	**$ 20,031,509**	**$(1,676,964)**

lion of the $1.4 million originally planned to be added to fund balance is anticipated for use in FY 2013. This will leave approximately $400,000 remaining in unallocated TOT expenditures at the end of FY 2013 that will fall to fund balance, for a total year-end fund balance of $12.2 million. Council Policy 100-03 and the annual Appropriations Ordinance limit the use of TOT Fund revenue to tourism and promotion 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.

As proposed for FY 2014, $7.6 million of the $12.2 million in fund balance will be used to mitigate the General Fund impact related to the dissolution of the City's redevelopment agency. Of the $7.6 million, the use of $5.3 million in fund balance is considered a one-time use, with $2.3 million of it being proposed as a structural.

As discussed previously, the TOT allocation to the PETCO Park Fund will increase by $10.3 million from FY 2013 to take the place of the $11.3 million previously supported by redevelopment monies. The remaining $1.0 million of the total $11.3 million debt service obligation will come from PETCO Park fund balance.

The use of $7.6 million in fund balance will leave $4.6 million remaining unused in FY 2014. The Mayor proposes that $2.3 million of the fund balance is allocated out annually through FY 2016.

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:

- Right-of-Way (ROW) Management
- 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 Storm Drain Fund.

Mayor's FY 2014 Proposed Adjustments

The FY 2014 Proposed Budget for TSW is $151.9 million, a decrease of $5.2 million or 3.3% from FY 2013. The Proposed Budget also includes a net reduction of 1.16 FTEs. Department General Fund revenues are budgeted at $47.3 million for FY 2014, a reduction of $1.2 million over FY 2013. Decreases in revenues are largely attributable to a $1.9 million decrease in Fines, Forfeitures, and Penalties; this includes a $1.7 million reduction in revenue associated with the Red Light Photo Enforcement Program which was discontinued by the Mayor in early 2013. This is partially offset by an estimated $484,900 increase in projected

SUMMARY - TSW BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
FY 2013 Budget	440.56	$ 39,071,866	$ 118,042,770	$ 157,114,636	$ 113,134,616
Mayor's Fiscal Year 2014 Proposed Budget Changes					
Salaries and Wages and Fringe	440.57	$ 40,086,011	$ 99,214,365	$ 139,300,376	
Maintenance & Repair (M&R) Related to Deferred Capital	-	-	2,334,744	2,334,744	
Addition of Staff for Storm Water Permit Compliance	2.00	240,033	2,000,000	2,240,033	
Addition of Citywide Bicycle Program Manager	1.00	120,744	-	120,744	
Increase for Palm Treet and Shade Tree Trimming	-	-	500,000	500,000	
Transfer of Graffiti Team from Development Services	3.00	152,810	-	152,810	-
Transfer of Grant Invoicing Position to TSW	1.00	(94,722)	(1,000)	(95,722)	-
Street/Sidewalk Maintenance Managed Competition Savings	(8.17)	627,334	-	627,334	590,784
Non-Personnel Expenditures	-	-	7,427,770	7,427,770	-
Adjustment for Discontinued Red Light Phot Enforcement Program	-	-	(727,020)	(727,020)	(1,680,000)
Revenues	-	-	-	-	112,191,193
Adjustments to reflect FY 2014 Projections	-	-	-	-	499,227
Mayor's Fiscal Year 2014 Proposed Budget	439.40	$ 41,132,210	$ 110,748,859	$ 151,881,069	$ 111,601,204
Difference from FY 2013 to FY2014	*(1.16)*	$ *2,060,344*	$ *(7,293,911)*	$ *(5,233,567)*	$ *(1,533,412)*

SUMMARY OF CHANGES IN TSW GENERAL FUND EXPENDITURES				
	FY2013	FY 2014	$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	$ 23,228,817	$ 23,300,950	$ 72,133	0.3%
Fringe Benefits	15,577,612	17,544,472	1,966,860	12.6%
Personnel Subtotal	38,806,429	40,845,422	2,038,993	5.3%
Non-Personnel				
Supplies	$ 4,820,181	$ 5,173,405	$ 353,224	7.3%
Contracts	26,816,757	28,251,198	1,434,441	5.3%
Information Technology	2,153,112	1,559,248	(593,864)	-27.6%
Energy and Utilities	6,869,119	6,227,278	(641,841)	-9.3%
Other	356,704	346,645	(10,059)	-2.8%
Transfers Out	10,444,154	3,050,718	(7,393,436)	-70.8%
Capital Expenditures	289,668	249,668	(40,000)	-13.8%
Debt	1,865,767	1,837,381	(28,386)	-1.5%
Non-Personnel Subtotal	$ 53,615,462	$ 46,695,541	$ (6,919,921)	-12.9%
Total Expenditures	**$ 92,421,891**	**$87,540,963**	**$(4,880,928)**	**-5.3%**

charges for services per FY 2014 revised revenue projections developed by Financial Management.

The FY 2014 Proposed Budget for TSW includes a 70.8% or $7.4 million decrease in Transfers Out over FY 2013; this adjustment reflects the removal of one-time General Fund transfer to CIP for TSW's share of the $8.3 million increase to Maintenance & Repair (M&R) (formerly Operations & Maintenance) funding related to Deferred Capital using part of the FY 2012 surplus. The $7.2 million, included the following projects:

- $2.4 million for concrete streets;
- $2.2 million for resurfacing (asphalt overlay);
- $1.4 million for watershed; and
- $1.7 million for drainage.

ROW Management

The ROW Management 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 2014, the Proposed Budget for ROW Management totals about $1.4 million, a slight increase of $92,900 over FY 2013. The Proposed Budget includes 11.00 FTEs, an increase of 1.00 FTE from the previous fiscal year due to the transfer of a Grant Invoicing Administrative Aid position from Public Works - Engineering & Capital Projects to improve efficiency of the function.

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.

In April 2011, Indicator Bacteria Total Maximum Daily Load (TMDL) regulations issued by the San Diego Regional Water Quality Control Board were adopted. This requires a gradual 100% reduction of dry weather bacteria in City watersheds within 10 years and a 100% reduction of wet weather bacteria within 20 years. Additionally, Chollas Creek Dissolved Metals TMDL, adopted in 2008, must achieve 80% of the reduction target by 2018 and 100% by 2028. These reductions and cost estimates are addressed in the Comprehensive Load Reduction Plans (CLRPs) that the City submitted to the Regional Board in October 2012. Current estimates included in the CLRPs for compliance range from $1.5-$2.7 billion over the next 20 years. However, these regulations are constantly evolving and the Division continues to negotiate for more favorable standards which will be easier to attain and more cost effective.

In addition to TMDL regulations, the new Municipal Storm Water Permit is expected to be adopted in spring of 2013. The City has one year after adoption to become compliant with new mandates set forth in the permit.

Managed Competition

The Storm Water operations and maintenance function was previously identified to undergo managed competition by former Mayor Sanders. The City Council approved its preliminary statement of work (PSOW) in September 2012. Development of the request for proposal (RFP) and statement of work (SOW) have been placed on hold, pending review of the managed competition process.

Changes to Budget

The FY 2014 Proposed Budget for the Storm Water Division totals $34.5 million,

SUMMARY OF TSW BUDGET CHANGES BY DIVISION AND FUND

	FY2013	FY 2014	$ CHANGE	% CHANGE
General Fund				
ROW Management	$ 1,296,235	$ 1,389,164	$ 92,929	7.2%
Storm Water	36,474,242	34,502,894	(1,971,348)	-5.4%
Street	45,833,710	43,163,971	(2,669,739)	-5.8%
Transportation Engineering Operations (TEO)	8,817,704	8,484,934	(332,770)	-3.8%
General Fund Subtotal	92,421,891	87,540,963	$ (4,880,928)	-5.3%
Non-General Fund				
Prop 42 Replacement - Transportation Relief Fund	$ 15,248,190	$ 15,248,190	$ -	0.0%
Underground Surcharge Fund	49,444,555	49,091,916	(352,639)	-0.7%
Non-General Fund Subtotal	$ 64,692,745	$ 64,340,106	$ (352,639)	-0.5%
Total Revenue	**$157,114,636**	**$151,881,069**	**$ (5,233,567)**	**-3.3%**

about a $2 million decrease from FY 2013. The decrease is mostly attributable to a $2.9 million reduction in General Fund contribution for CIP projects and removal of other one-time contributions to the CIP that were made in FY 2013. This is offset mainly by a $2.2 million addition for contracts and positions included to support TMDL compliance and other storm water regulations.

Budget Additions

Significant adjustments for the FY 2014 Proposed Budget include the increase or addition of:

- $2 million in contract funding for pollution prevention to assist with TMDL and Municipal Storm Water Permit compliance ($1 million for Watershed Planning and $1 million for Policy and Enforcement);
- 1.00 Senior Civil Engineer and 1.00 Associate Planner and associated expenditures of $240,033 for Storm Water regulation compliance; and
- $769,516 for Storm Water operations & maintenance support to be used primarily for a pipe lining contract.

The addition of $2.0 million of contract funding to assist with regulation compliance is consistent with the Mayor's Five-Year Outlook for FY 2014. Although the Division originally requested $3.3 million for this purpose, staff indicated that the $2 million should be sufficient for compliance in FY 2014 as long as funding is ramped up in future fiscal years.

Of the 8.57 FTE positions requested for FY 2014, 2.00 FTEs were added to the Division, as described previously. It should be noted that 4.00 FTEs were added to the Public Works - Engineering & Capital Projects department to support storm water compliance during the construction of projects. The $5 million of anticipated bond funding for CIP projects expected in June 2013 will also help mitigate the impact of not fully funding the Division's position requests. However, without the additional requested positions the division indicates that it will be challenging to meet the Chollas Creek TMDL targets by 2018. Additionally, TMDL reductions are not required until later dates, and Storm Water staff indicated that it is unlikely the City will be found noncompliant during FY 2014.

The Division expects to request additional positions in FY 2015 as the City will need to be in compliance with the new Municipal Storm Water Permit beginning in late FY 2014 or early FY 2015 and as TMDL target dates get closer. Additionally, increased funding for contracts and infrastructure will be needed in future fiscal years.

Budget Reductions

Significant reductions for the FY 2014 Proposed Budget are mainly related to reductions in General Fund contributions to the CIP for storm water projects. Reductions include approximately:

- $2.9 million to reflect a decrease in FY 2014 expected General Fund contributions to CIP due to the anticipation of $5 million in CIP bond funding expected for June 2013;
- $2.6 million reduction to reflect the re-

moval of one-time funding for Storm Water's share of the $8.3 million increase to M&R funding related to Deferred Capital, which was part of the FY 2012 surplus; and

- one-time funding of $65,400 for the purchase of a street sweeping parking enforcement vehicle in FY 2013.

Revenue Adjustments

Revenue received from the Storm Drain Fund was increased by $250,000 while parking citation revenue was decreased by about $180,000, consistent with updated projections. The net adjustment equates to an overall increase of about $70,000 for this Division.

CIP Budget

Storm Water's CIP includes projects to comply with regulatory requirements such as those mandated by the Municipal Storm Water Permit and to replace aged and deteriorating storm drain pipes and other infrastructure.

The FY 2014 Proposed Budget for Storm Water's CIP includes no funding. However, $5 million of bond funding is anticipated in June 2013 and will be allocated to the Watershed CIP. The watershed CIP includes projects that remove pollutants from storm water, satisfying watershed-based water quality requirements in the Municipal Storm Water Permit as well as TMDL requirements.

It should be noted that this $5 million funding is used in lieu of the $2.9 million of General Fund contribution that was reduced in the Division's General Fund budget.

Street

The 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 operations & maintenance from other sources, including:

- Prop 42 Replacement - Transportation Relief Fund;
- TransNet; and
- Gasoline Tax.

Managed Competition

Street/Sidewalk Maintenance went through a managed competition in FY 2013 and the employee team was successful. The FY 2014 budget reflects decreases to implement the Most Efficient Government Organization, including a reduction of 8.17 positions and related personnel and non-personnel costs of about $627,300. This represents seven months of savings based on anticipated implementation in December 2013. TSW staff anticipate beginning the meet & confer process in July 2013.

Changes to Budget

The FY 2014 Proposed Budget for the Street Division totals about $43.2 million, a decrease of 5.8% or $2.7 million from FY 2013. The Proposed Budget includes 258.00

FTEs, a net increase of 1.00 FTE over FY 2013. Decreases are primarily related to managed competition for Street/Sidewalk Maintenance. These are slightly offset by the transfer of the 4.00 Graffiti Removal Team positions from Development Services to consolidate all right-of-way graffiti removal in TSW. Note that the net transfer is 3.00 positions due to the transfer of 1.00 Code Compliance Officer to Development Services.

The FY 2014 Proposed Budget includes revenues for Street Division, including Transfers In and Charges for Services to other City departments, of about $29.7 million, a $373,400 decrease over the previous fiscal year, largely due to the reduction in reimbursable positions per the Street/ Sidewalk Maintenance management competition.

Tree Maintenance and Trimming Services

Street Division provides maintenance for trees in the public right of way, including trimming, removal, planting, and stump grinding as well as emergency trimming and removal of fallen trees during rain and wind storms. Note that Park & Recreation also provides tree maintenance for trees in parks, open spaces, greenbelts, golf courses, and other turf areas. The previous Mayor significantly reduced Street Division's tree maintenance budget as part of corrective actions to mitigate the projected FY 2011 and FY 2012 budget deficits.

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. In FY 2013, Council provided $257,000 of Appropriated Reserves for tree trimming, and Street Division budgeted an additional $300,000 for various tree services. These services were initially anticipated to be procured through a Citywide Tree Services contract that was to be managed by Park & Recreation. However, the proposed contract award was cancelled by Purchasing & Contracting staff. TSW anticipates a discussion with labor unions regarding contracting out of tree services, likely after current labor negotiations conclude. In the meantime, Street Division is performing critical palm tree trimming using a sole source contract and expects to trim about 6,600 palm trees by the end of the fiscal year.

As part of the May Revise, Street Division will request that any remaining tree services funds, anticipated to be between $100,000-200,000, be rolled forward into the FY 2014 Budget. Note that Gas Tax revenues are combined with General Fund money to fund a variety of right of way maintenance operations, including tree trimming. For FY 2104, the tree services contractual budget is $800,000. This includes $700,000 for tree trimming—$200,000 for broadleaf trimming and an ongoing $500,000 for palm tree trimming.

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.

Funding Sources - 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.

Rule of Thumb - Funded miles represent a rough estimate based on:

- $100,000 /mile for slurry seal;
- $500,000/mile for asphalt overlay; and
- $1 million/mile for concrete since it requires full replacement (note that the concrete program is separate from the asphalt resurfacing program).

Funded miles is not equivalent to actual miles completed, which depend on many variables including the condition of the roadway and whether projects are completed within the fiscal year.

FY 2014 Proposed Budget - We requested information from TSW on planned FY 2014 resurfacing, but staff were in the process of developing these projections and the information was not provided in time for this report. Council may want to consider requesting that updated resurfacing projections be provided by TSW during their budget presentation on May 10, 2013.

Methodology for Prioritizing Streets - 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.

Resurfacing Plan - Street Division's website includes a list of streets to be resurfaced in the next six months and an interactive Pavement Condition Map which shows current OCI for each street segment (http://www.sandiego.gov/street-div/.

Transportation Engineering Operations (TEO)

The 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.

Managed Competition

A planned managed competition for the TEO function was put on hold by the Mayor

in early 2013 pending further review of managed competition.

Changes to Budget

The FY 2014 Proposed Budget for TEO is about $8.5 million, a 3.8% or $332,800 decrease over FY 2013. Budgeted revenues are $6.4 million, about $1.7 million or 20.8% less than FY 2013. Decreases in revenues are due to the Mayor's elimination of the Red Light Enforcement Program in early 2013. Note that the elimination of this program also included a reduction of $727,000 in non-personnel expenses.

The Proposed Budget includes 60.00 FTEs, an increase of 1.00 position and about $120,700 in personnel expenses for a Bicycle Program Manager. TEO currently has a Senior Engineer who manages the Multimodal Program (Pedestrian and Bicycle). The additional position is anticipated to reach out to the public and promote the Mayor's priorities.

TEO's budget request included a $712,109 decrease due to overbudgeted revenue, including $613,125 due to an FY 2011 error in Gas Tax budgeting; a reduction of $98,984 from other funding sources based on FY 2013 mid-year reimbursement trends; and $21,047 decreases for pedicab permit revenue based on recent declines in the number of permit applications. This adjustment was not included in the FY 2014 Proposed Budget. TSW staff indicated that the most significant impact is that TEO will be overbudgeted by $613,125 for revenue from Gas Tax. This correction was also requested in FY 2013 and noted in quarterly monitoring projections.

Taxicab Administration

The City potentially may not renew the contract with the Metropolitan Transit System (MTS), which expires in June 2013, for the administration of the City's taxicab industry. Citywide Program Expenditures include $100,000 for special consulting services to study the feasibility of the City taking over the Taxicab Administration beginning in FY 2014. TEO staff will be working with the consultant, since the Division potentially would manage the program. This is a significant issue and Council should be fully apprised as the study is completed.

Mayor's Proposal for SAFE Funds

The San Diego County SAFE Board was dissolved per AB 1572 on September 13, 2012 and oversight of the program transferred to the San Diego Association of Governments (SANDAG). About $9.0 million in reserves were divided among local governments in the County, including $4.1 million for the City. The Mayor issued a memorandum on April 16, 2013 outlining his proposal for the use of these funds, which are limited to use for motorist aid services or support. Note that the $4.1 million in revenue and Mayor's proposal are not included in the FY 2014 Proposed Budget.

The Mayor's proposal would provide about $2.4 million for TEO, including $2.0 million to begin the upgrade of the City's Traffic Control System and $383,500 to fund changeable message signs. TEO staff indicated that they are planning to conduct a Traffic Signal Communications Master Plan, which will determine the next steps needed to upgrade the Traffic Control System and assist with estimates and phasing options.

The estimated cost for the Master Plan is about $200,000. Our office is still assessing the Mayor's proposal for SAFE Funding and we have noted in this report that the City Council may wish to explore other uses for this funding.

Issues for Consideration

Storm Water Compliance Challenges

Complying with requirements for the Municipal Storm Water Permit and other surface water quality regulations 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, is expected to be adopted in the spring of 2013. The City has one year to become compliant with regulations once the new permit is adopted.

Although the Proposed Budget includes increased funding for FY 2014, additional funding for contracts, positions and infrastructure will be needed in order to comply with new permit regulations and to meet TMDL requirements by target dates, as previously described. These increasingly stringent requirements are expected to place a greater strain on the General Fund in the upcoming fiscal years.

Storm Water Fee

The City collects revenue from a small fee via the water service billing process to help fund a portion of the design, operation, and maintenance of the storm drain system. Revenue from this fee is allocated through the Storm Drain Fund, with the Storm Water Division receiving the bulk of the funding. The revenue transferred to TSW for FY 2014 is approximately $5.6 million. Given the challenges facing the division regarding new and more stringent compliance requirements, staff have indicated that the fee is currently set at a level that is short of full cost recovery. Increasing the Storm Water Fee may create additional revenue for the City's storm drain system, reducing the General Fund impact.

Street Division Sidewalk Assessment

The City has not conducted a condition assessment of sidewalks. Per California Streets and Highway Code (5610 through 5618), sidewalks are owned and maintained by adjacent property owners. Street Division estimates a backlog of $4-5 million for concrete repair, including replacement of sidewalks that have been temporarily ramped with asphalt to minimize tripping hazards. Delayed repair of sidewalks can create a safety concern for the public and subject the City to potential liability.

Although not included in its FY 2014 budget request, the Division has developed an estimate for conducting a sidewalk assessment using in-house staff of $1.0 million. This would include about $697,000 for 14.00 FTEs (2.00 limited junior civil engineering and 12.00 for student engineering positions) for the approximate one-year duration of the assessment. The estimate also includes $326,000 for related non-personnel costs, such as hand-held GPS devices. Our office identified the Sidewalk Condition Assessment as a potential Council revision to the Mayor's budget in this report. We have also identified potential resources which may be available for all or a portion of needed con-

dition assessments.

TSW staff have indicated that this assessment is a priority for the Department, but noted that if the City moves forward with this assessment, the estimated backlog will likely be very large and it will be important to develop a policy for how the information will be used. For example, will the City be taking responsibility for repairing sidewalks or will adjacent property owners be held accountable?

Street Maintenance Funding for Concrete-Related Projects

As noted above, Street Division estimates a backlog of $4-5 million for concrete maintenance due to insufficient annual funding. The annual budget for concrete projects is $400,000, and the estimated schedule backlog is 18-20 months. Street Division recommends increasing the annual funding for concrete-related projects to $2 million. As a potential Council Revision to the Mayor's Proposed Budget, we identified a $5.1 million increase to the deferred capital Maintenance & Repair (M&R) funding from $49 million to $54.1 million to match FY 2013 funding levels. One potential option for the use of a portion of this funding would be to increase the FY 2014 budget for concrete repairs by $1.6 million from $400,000 to $2 million.

Street Damage Fee

The FY 2014 Proposed Budget does not reflect $1.1 million estimated revenues from the Street Damage Fee; an increase in the fee to 25% of full cost recovery was approved by Council in December 2013. This increase will be effective July 1, 2014. Revenue from the fee will be deposited in the Street Damage Fund and can only be used for additional maintenance needed as a result of trenching on a street prior to resurfacing. Note that the $1.1 million estimate will vary depending on the amount of trenching in the streets. Our office is recommending the inclusion of the $1.1 million projected revenue as a potential Council Revision to the Mayor's Proposed Budget in this report. Projected revenue will increase to 50% of full cost recovery in FY 2015, projected to be about $2.1 million.

Additionally, given tight budgetary constraints, Council may want to revisit increasing the fee to full cost recovery, as discussed during the Council meeting on the Street Damage Fee. If the fee were full cost recovery, Street Damage Fund revenue is estimated to be $4.1 million, which could increase the amount of resurfacing performed in FY 2014 and FY 2015.

Purchasing & Contracting

TSW and Park & Recreation staff noted that the procurement of services, supplies, and materials via the contracting process, which is managed by the Purchasing & Contracting Department, is lengthy and has frequently resulted in delays. In some cases. The process has resulted in bid rejections, rebidding, and additional administrative costs. This can impact the scope and schedule of the project as well as public perceptions of the City.

Purchasing & Contracting has a new Director, and City staff are hopeful that streamlining and efficiencies will be implemented to improve the existing process and enhance project oversight. Given the impact on TSW and other City Departments, it will be important to continue to monitor Pur-

chasing & Contracting procurement processes to ensure that improvements are made.

Other Departments

Airports

The FY 2014 Proposed Budget for the Airports Division is approximately $5.8 million, a decrease of approximately $100,000 from the FY 2013 Adopted Budget. Fund revenues are projected to remain consistent with FY 2013 at approximately $4.7 million. The Fund balance of approximately $2.7 million, Federal Aviation Administration Reserve ($850,000) and the Reserve Fund Balance ($675,000) are available to address budgetary shortfalls in FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- An increase of $1.2 million in one-time expenditures related to the maintenance of facilities, runways, and taxiways for Montgomery Field and Brown Field Airports.
- An increase of $200,000 to replace the heating, ventilating and air conditioning system for the Montgomery Field offices.
- A reduction of approximately $1.5 million in one-time reductions and annualizations, primarily due to the reduction of $1.2 million related to operational maintenance projects in FY 2013.

Ethics Commission

The Ethics Commission department funding included in the FY 2014 Proposed Budget increased by $45,044 from the FY 2013 Adopted Budget, or 4.8 percent. This increase is primarily attributable to the required increases in retirement contributions from each City department, with the Ethics Commission contribution increasing $30,353.

As noted in our Office's review of the FY 2013 Proposed Budget, there was a reallocation of personnel budget to contractual expenditures for a net zero impact. This was to fund part-time legal counsel and costs associated with court hearings, including administrative law judges and court reporters, among others. This shift in expenditures remains unchanged in the FY 2014 Proposed Budget.

Office of the COO

The Office of the COO funding included in the FY 2014 Proposed Budget increased by $26,130 from the FY 2013 Adopted Budget, or 3.9 percent. This increase in solely attributable to an increase in fringe benefits, including the retirement contribution and supplemental pension savings plan (SPSP), totaling $36,275.

Office of Homeland Security

The FY 2014 Proposed Budget for the Office of Homeland Security (OHS) is $1.7 million, remaining relatively that same as the FY 2013 Budget with a slight reduction of $13,059. The Office has 13.40 budgeted FTE positions in FY 2014, remaining relatively unchanged from FY 2013. Budget additions totaling $98,894 relates to adjustments to personnel expenditures of which the majority is related to an increase in fringe costs. Expenditure reductions totaling $111,893 are related to non-discretionary and information technology cost decreases. The reductions also include the removal of $530 in one-time funding for radio battery replacements in FY 2013. Revenue adjustments totaling $97,558 are related to a reduction in grant revenue to support a Senior Management Analyst and Administrative Analyst 2 position. Due to year-over-year trends in grant funding reductions, OHS has a multi-year phased plan in place to slowly migrate over positions previously supported by grant funding over to the General Fund. The multi-year plan is included in the 2014-2018 Five-Year Outlook.

Office of the IBA

The Office of the IBA funding included in the FY 2014 Proposed Budget increased by $66,565 from the FY 2013 Adopted Budget, or 3.9 percent. This increase in primarily attributable to an increase in fringe benefits, including the retirement contribution and supplemental pension savings plan (SPSP), totaling $65.076.

PETCO Park

The FY 2014 Proposed Budget for the Petco Park Fund is approximately $17.4 million, a decrease of approximately $63,000 from the FY 2013 Adopted Budget. Fund revenue is budgeted at approximately $16.5 million, a decrease of approximately $903,000 from FY 2013.

Issues to Consider

In FY 2013, $4.2 million in Transient Occupancy Tax (TOT) funding was allocated to Petco Park to support the operational expenses of the ballpark, including the annual debt service related to the bonds issued to constructed the facility.

The FY 2014 Proposed Budget shows a contribution of approximately $14.5 million from TOT funding to assist in the annual expenses of the ballpark. The additional $10.3 million in TOT funding has been made available from TOT revenue growth and approximately $7.6 million from the TOT fund balance. The increase in TOT funding is necessary a result of the dissolution of the former Redevelopment Agency and the Department of Finance failing to recognize the debt payment for the Petco Park bonds on their recognized obligation payment schedule.

It should be noted that the operational expenditures, including the annual debt service payments, are re-occurring annual expenses.

Special Events

The Special Events budget is funded by a General Fund transfer of transient occupancy tax revenue and is responsible for management and coordination of various events that take place on public property. The FY 2014 Proposed Budget for Special Events is $786,484, which is an increase of $64,292 from the FY 2013 Adopted Budget. The increase is attributable to a larger required pension contribution under fringe personnel benefits in addition to aligning slight increases in actual to budget expenditures.

Budget Review for City Agencies

The IBA will be releasing budget reviews of the City Retirement System, San Diego Data Process, the Housing Commission, Civic San Diego and the Convention Center on May 6, 2013 in anticipation of their budget hearings.

The Office of the Independent Budget Analyst

Lisa Byrne
Fiscal & Policy Analyst

Seth Gates
Fiscal & Policy Analyst

Jeff Kawar
Fiscal & Policy Analyst

Melinda Nickelberry
Fiscal & Policy Analyst

Erin Noel
Fiscal & Policy Analyst

Chris Ojeda
Fiscal & Policy Analyst

Nicole Nelson
Research Analyst

Andrea Tevlin
Independent Budget Analyst