

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

Date Issued: Friday, April 21, 2006

IBA Report Number: 06-16

City Council Agenda Date: April 24, 2006

Item Number: 201

Item: Appropriation of Funding for Storm Water Pollution Prevention Division

OVERVIEW

Item 201, *Appropriation of Funding for Storm Water Pollution Prevention Program*, requests Council action to increase General Fund appropriations by \$1.5 million to fund required expenditures by the Storm Water Pollution Prevention Program (Storm Water Program). These expenditures were approved by the City Council on October 10, 2005, but a formal increase in appropriation was never brought forth.

FISCAL/POLICY DISCUSSION

On May 6, 2005, the City of San Diego received a Notice of Violation (NOV) from the San Diego Regional Water Quality Control Board (Regional Board) for failure to conduct follow-up investigations of dry weather field screening results, as required by the Regional Board. In addition, three other areas were identified as having the potential to cause significant costs or fines if not immediately addressed. These areas, described in Attachment 1 in greater detail, are Chollas Creek TMDLs, Areas of Special Biological Significance, and a Cleanup and Abatement Order. Storm Water determined that \$1.5 million was required to address these issues: \$1.1 million to hire as-needed consultant services to perform follow-up investigations as mandated by the Regional Board, and \$400,000 to address the three additional areas.

On October 10, 2005, City Manager Report 05-202, *The Fiscal Year 2006 General Fund Financial Status and Budgetary Update* (Budget Update Report) was presented to the City Council. The original intent of the report was to identify a solution for the loss of \$5.2 million in booking fee revenue from the state. However, due to several occurrences early in the fiscal year, the report ultimately took on a broader scope, identifying other revenue shortfalls, known immediate spending needs, and anticipated future spending needs.

The \$1.5 million required by the Storm Water Program was identified in the Budget Update Report as an "Immediate Spending Need". The City Manager recommended that

funding for \$10.1 million of the immediate spending needs be achieved by making budget cuts to the non-public safety departments. The City Council adopted the report (R-300928) with several directions for the City Manager:

1. Only move forward with the immediate spending needs;
2. Impound the \$10.1 million in budget cuts to ensure funding for these needs;
3. Return to Council with a list of recommended budget cuts and the corresponding impacts on city services.

However, due to the uncertainty revolving around the resignation of the City Manager and the election of Mayor Sanders on November 8, the list of recommended budget cuts was never developed. Subsequent revisions to the major revenue projections, largely due to new information received from the state, may have given the indication that budget cuts were not necessary to fund the immediate spending needs identified in the Budget Update Report.

Since the budget cuts were not made, the current action requests that the sales tax allocation to the Street Division be reduced by \$1.1 million, with the balance of the \$1.5 million request to be funded from the unappropriated reserve. The reduced sales tax allocation to the Street Division will be covered with savings carried over from Fiscal Year 2005, allowing the Division to continue meeting all Maintenance of Effort requirements.

In the past, it was common practice for departments to fund over-budget projects and expenses from within their existing budget. Increases in appropriations were then formally approved in the 4th Quarter Adjustment. Following approval of the Budget Update report on October 10th, it was simply assumed that the necessary increase to the General Fund appropriation for the Storm Water expenditures would be handled in a similar fashion. However, if Storm Water were to expend these funds at the present time without an increase in appropriations, the department would be close to deficit status. In addition, the City is trying to change the practice of relying on the 4th Quarter Adjustment to “clean up” the Fiscal Year’s appropriations by requiring department to gain approval for appropriation increases at the time that over-budget projects are approved or expenditure incurred.

QUESTIONS/COMMENTS

While the IBA has no issue with increasing General Fund appropriations to allow for the Storm Water expenditures, it is unclear why the Street Division has been identified as a partial funding source. Given that \$400,000 is already recommended to be funded with the unappropriated reserve, the IBA sees no reason why the entire \$1.5 million should not be funded likewise. This would allow for more accurate and transparent accounting of the over-budget expenditures, and avoid the confusion associated with reducing the sales tax allocation to the Street Division.

CONCLUSION

The IBA supports the request to increase General Fund appropriations by \$1.5 million to fund the required Storm Water expenditures, with the recommendation that the entire \$1.5 million be funded out of the unappropriated reserve. Additionally, the IBA supports discontinuing the past practice of “cleaning up” appropriation increases via the 4th Quarter Adjustment. Finally, it should be noted that the unappropriated reserve has already been accessed for several other expenditures in the current fiscal year, and the potential impact on the FY 2007 budget is unknown at this time.

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