



REVIEW OF THE FISCAL YEAR 2012 PROPOSED BUDGET

ANALYSIS BY THE
OFFICE OF THE
INDEPENDENT BUDGET ANALYST



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Mayor's FY 2012 Budget Approach

FY 2012 FUNDING NEEDS TOTAL \$73.2 MILLION

The Mayor's Five-Year Outlook for FY 2012-2016 was issued on February 7, 2011 showing annual General Fund deficits ranging from \$56.7 million for FY 2012 improving to \$8.8 million in FY 2016. The most significant weaknesses to the Outlook identified by both the IBA and the Citizens' Task Force for Fiscal Sustainability were the omission of full payment of the City's retiree health care ARC and insufficient funding to address the City's backlog and ongoing deferred capital needs.

It is anticipated that full funding for the retiree health care ARC will be addressed through retiree health care reform currently being negotiated with labor groups. This issue is expected to be resolved in the next several weeks, and the resolution is not expected to impact the FY 2012 budget beyond the \$57.8 million that has been allocated for this purpose. Should this matter not be resolved by July 1, 2011, an additional \$40.7 million would be needed to pay the full ARC based on our current level of retiree health care, although paying the full ARC is not legally required nor is it the City's current practice.

Since release of his Outlook in February, the Mayor has issued a revision to address concerns that the Outlook did not adequately fund the City's significant deferred and ongoing capital needs. Whereas the

first Outlook provided for two \$100 million bond issuances (FY 2012 and FY 2015) to address an estimated \$840 million need, the revision which was presented to the Budget and Finance Committee on March 16, 2011 added three new \$100 million bond issuances in FY 2013, 2014 and 2016. The first new \$100 million bond will be issued in FY 2012, and the first debt service payment will be due in FY 2013. The Mayor's revision to the Outlook was important as it acknowledged the need to address this critical issue; recognized the magnitude of the problem; and established service level criteria to address it. However, as we discuss in the section on Deferred Capital, significant work lies ahead to fully implement this plan.

In developing his proposed FY 2012 budget, subsequent to issuance of the Five-Year Outlook the Mayor also addressed two major expenditure issues: 1) restoration of all eight browned-out fire engines at a FY 2012 cost of \$8.7 million and 2) corrections to departmental vacancy savings (\$5.4 million) and other technical adjustments (\$2.4 million) which required \$7.8 million. These items together with the original projected deficit of \$56.7 million increased funding needs for FY 2012 to \$73.2 million.

In incorporating the costs to restore the Fire brown-outs, the Mayor responded to the City Council's top service priority identified in their Budget Resolution Number 306758 adopted April 12, 2011. In the sec-

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tion on Options for Revisions to the Mayor's FY 2012 Proposed Budget, the IBA offers for consideration options to phase in the Fire brown-outs over two fiscal years rather than one. While restoring the brown-outs is a clear Council priority, given the significant Library and Park and Recreation reductions, Council members may want to consider this approach in order to release funds for addressing other community needs.

The IBA concurs with the proposed \$7.8 million correction to departmental budgets for FY 2012. The issue of overestimated vacancy savings in several departments was identified by the IBA in our review of the FY 2011 budget last year. We expressed concern this could impact services if departments did not fill positions in order to achieve overestimated salary savings.

FY 2012 GENERAL FUND REVENUE PROJECTIONS REMAIN CONSERVATIVE

The FY 2012 Proposed Budget includes \$1.106 billion in General Fund revenue, an increase of approximately \$9.6 million or 0.9% from the FY 2011 Adopted Budget. Four major revenue sources- property tax, sales tax, transient occupancy tax (TOT) and franchise fees-account for \$731.2 million or roughly 66% of total General Fund revenue. These major revenues reflect an increase of \$20.4 million over the FY 2011 Adopted Budget. This compares to a decline of \$32.8 million from the FY 2010 to FY 2011 budget.

Property tax, the largest General Fund revenue source, is projected at \$380.9 million in the FY 2012 Proposed Budget. This

projection reflects 0% economic growth from the FY 2011 year-end projection, and a reduction of \$9.2 million from FY 2011 budget level. In the Five-Year Outlook property tax revenue was projected to grow by 0.5% in FY 2012. This assumed growth rate has been reduced in the FY 2012 Proposed Budget reflecting continued weakness in the local real estate market, combined with a sustained high level of refunds due to property reassessments. Overall, the property tax projection for FY 2012 is appropriately conservative given the stagnant nature of the real estate market.

The FY 2012 Proposed Budget for sales tax revenue is \$209.5 million, reflecting 3% economic growth from the FY 2011 year-end projection and an increase of approximately \$22.1 million over the FY 2011 Budget. The budgeted growth rate of 3% reflects a slight increase from the 2.4% growth projected for FY 2012 in the Five-Year Outlook. Given the strong growth in sales tax projected in FY 2011 and improving economic conditions, the 3% economic growth rate assumed in FY 2012 represents a fairly conservative projection.

While there are certain risks to future growth, particularly the recent surge in oil and gasoline prices, the economic outlook is general positive. The UCLA Anderson Forecast is projecting healthy growth in personal income, payroll employment and taxable sales. Should economic conditions continue to improve, an upward adjustment in the projected sales tax growth rate may be warranted.

The FY 2012 Proposed Budget projects General Fund transient occupancy tax

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(TOT) at \$73.0 million, a 3% growth rate from the FY 2011 year-end projections, and a \$6.9 million increase from the FY 2011 budget. The assumed 3% growth in TOT is unchanged from the growth rate projected in the Five-Year Outlook, and reflects modest growth in the region's tourism and lodging industry. As with sales tax, TOT receipts have resumed strong growth in FY 2011 after two years of significant declines. Based on receipts through January, TOT revenue is projected to grow by more than 6% in FY 2011.

Overall, the 3% growth rate projected for TOT revenue in FY 2012 appears to be somewhat conservative in light of the robust growth experienced in FY 2011. Given the projected growth in key metrics such as the Average Daily Rate (ADR)-which has improved from a 2.0% decline in FY 2010 to a 4.4% uptick in FY 2011- as well as the continued success of the Tourism Marketing District, the IBA believes that there may be capacity for enhanced growth in TOT revenues for FY 2012. Each additional 1% increase in the projected growth rate would result in an additional \$1.35 million in TOT revenue.

These revenue categories, along with others, are discussed in detail in the section on General Fund Revenues. The City Council included in their budget resolution the option: "Updating revenue projections". We believe a case can be made that the Mayor's revenue projections for sales tax and TOT should be revisited prior to final budget decisions by the Council. This resource option is included in our list of Options for Revisions to the FY 2012 Proposed Budget.

OVERVIEW OF FY 2012 EXPENDITURES

The FY 2012 Proposed Budget totals \$1.1 billion and reflects a net increase of \$9.6 million from the FY 2011 Budget, a 0.9% increase. When compared to the most recent Five-Year Outlook, the Mayor's Budget Proposal clearly reflects a lower level of expenditure due to the inclusion of new reduction proposals required to balance the budget. Salaries and Wages have increased by \$12.9 million, or 2.7% compared to the FY 2011 budget. Adjustments to departmental vacancy savings were necessary to correct the FY 2011 estimates which, in practice turned out to be too large, requiring adjustments so that departments could fill critical positions.

Fringe Benefits have increased by \$1.2 million. The General Fund share of the City retirement payment (ARC) is relatively unchanged compared to FY 2011, however, it is \$1.6 million lower than the estimate in the most recent Outlook. The Fringe category also includes flex benefits, retiree health, workers' compensation, long term disability and risk management. Funding of \$4.9 million for the Workers' Compensation Reserve has been reduced in the Budget as a balancing action. The amounts estimated to be needed for Worker's Compensation claims next year has increased by \$1.4 million. This increase was not anticipated in the Outlook and we recommend it be discussed further to either confirm it is a critical need for FY 2012 or to release it for other priorities.

While contributions to the reserves for the General Fund, Worker's Compensation and

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Public Liability are suspended for FY 2012, a contribution of \$1.6 million to the Long Term Disability reserve remains funded in the Proposed Budget. We recommend this be looked into further as well to understand why this reserve has been treated differently and to determine if these funds might also be released for other priority needs.

Funding for Supplies and Contracts spending has been reduced by \$22.9 million for FY 2012. \$9.0 million of this is in response to Council requests that Non-Personnel Expenses (NPE) be reduced across-the-board by 5-10% as reflected in their Budget Resolution. The Mayor has proposed a 10% reduction to NPE costs identified as discretionary.

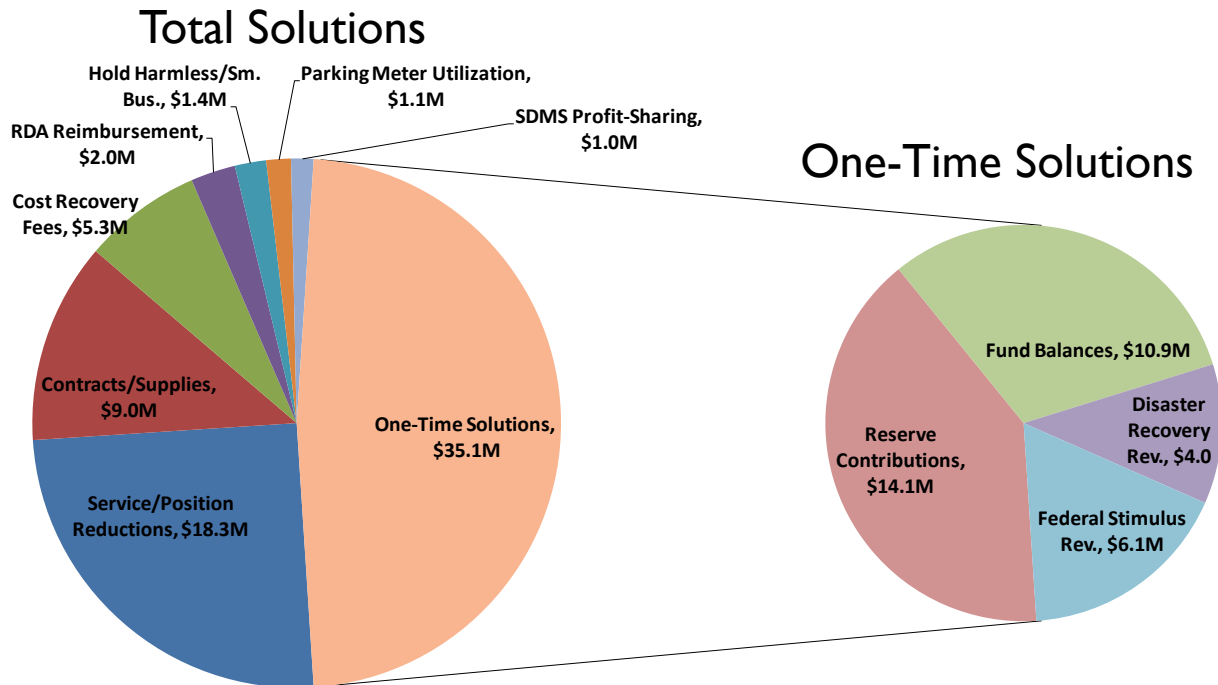
For FY 2012 Information Technology needs across all General Fund departments total \$24.7 million, \$900,000 less than amounts

budgeted for FY 2011. \$13.3 million of this amount is identified as discretionary, which is funding for services needed during the year, that are typically not required to be provided by SDDPC. Due to the discretionary nature of this funding, we have included a 20% reduction to this category (for non-public safety departments) in our list of Options so that these needs can be evaluated against other priorities.

Details about other expenditure categories including Capital Expenditures, Energy Utilities and Debt, as well as additional information on the expenditure categories discussed above, can be found in the Section on General Fund Expenditures.

MAYOR'S BUDGET BALANCING ACTIONS

In balancing the FY 2012 budget, the Mayor has utilized \$38.1 million of ongoing solutions and \$35.1 million of one-time solutions



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tions—see chart to the left, showing total solutions, with one-time solutions on the right. The three major categories of ongoing solutions include: position/service reductions, cuts to supplies and contracts (NPE costs) and new or increased user fees. The major categories identified as one-time solutions include: suspending contributions to the City's reserves for the second year, use of a number of fund balances, disaster recovery reimbursements and one-time TransNet revenue.

Ongoing Resources

Service/Position Reductions

Service/position reductions total \$18.3 million and represent 25% of the proposed total budget balancing actions. Of the 207 positions proposed for reductions, 154 or 74% are coming from two City departments - Library and Park and Recreation. Ninety-one full-time positions are currently filled. The status of the part-time is unknown. These position reductions will result in significant service level impacts. All branch library hours will be reduced by half—from an average of 36 hours per week to 18.5 hours per week. Similarly, recreation center hours will also be reduced by 50% city-wide from an average 40 hours per week to 20 per week. During discussions last fall of the City's ongoing budget challenges, a number of other potential service reductions were identified for Police, Fire, Library, Park and Recreation and Streets. The majority of these proposals have been avoided through improvements in certain revenue categories such as sales tax, as well as a significant use of one-time resources.

In our section on Options for Revisions to Mayor's FY 2012 Budget we offer alternatives for Council consideration for possible restoration of some level of branch library and/or recreation center hours including phasing in the browned-out engines over two years rather than one. Along with restoration of the Fire brown-outs and preservation of public safety, in their budget resolution to the Mayor the Council identified "mitigation of service and staffing reductions to Library and Park and Recreation" as one of four top priorities. The Council may be interested in achieving a greater balance between the restoration of brown-outs and reductions to library and recreation center hours.

Reductions to Supplies and Contracts (NPE)

The Council's budget resolution requested the Mayor to consider a 5-10% reduction to the supplies, services and contracts expense category. The Mayor has incorporated an average 10% citywide reduction to NPE costs for FY 2012. This \$9.0 million action represents 12% of the total budget balancing actions. This follows a \$6.5 million reduction to NPE that was taken in the FY 2011 budget process.

Cost Recovery Fees

New revenue from user fees totals \$5.3 million, 7% of the total budget balancing actions. All of the user fee changes fall within the public safety area. Fire is proposing a new air medical transport fee to recover costs for helicopter transport (\$53,000); a new false alarm fee to recover the expenses associated with responding to false alarms (\$910,000); and partial cost recovery from

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San Diego Medical Services for the City's medical response costs (\$4.0 million). Fire high rise inspection fees, budgeted to be collected in the current year, will be resumed in FY 2012 with no net increase to the budget.

The Police Department is proposing adjusting fees for entertainment permits to cover full costs (\$323,000). Fire false alarm fees and Police entertainment permit fees were included in Council's budget resolution to the Mayor. These proposals are discussed in greater detail in the section on Budget Balancing Actions.

The IBA has long supported recovering full costs of specialized services, created and intended for specific users, rather than the public at large; and we support inclusion of the revenue from these user fees. Each user fee item will need to be approved by City Council as separate actions during the budget adoption process.

We recommend that a more systematic, broad-based user fee review process be implemented as part of the annual budget process.

While departments are asked each year to review their fees and suggest changes to the CFO and Mayor for incorporation into the Proposed Budget, we recommend the Budget and Finance Committee be provided information on current cost recovery levels for the City's user fees in advance of the annual budget process. This would provide the Committee the opportunity to input to this process upfront by reviewing the recovery status of all fees and identifying those fees they may want to consider addressing

during the upcoming budget process. The process as it currently exists only allows the Council the opportunity to review select user fees as determined by the Mayor, and does not allow them effective input to the user fee review process.

Other On-going Resources

The Proposed Budget includes revenue associated with implementation of the new parking meter utilization program which was recently approved by the Council. We would note that the revenue estimate has been increased since Council approval of the item- from \$950,000 to \$1.1 million. We recommend close tracking of this program during the year through updates to the Budget and Finance Committee.

The Mayor proposes to cancel residential and small business hold harmless refuse collection agreements for an estimated \$1.4 million benefit to the General Fund. Also included in the budget is a \$2.0 million reimbursement from the Redevelopment Agency (RDA) to offset a total Convention Center Phase II debt payment next year of \$9.2 million. Finally, an ongoing transfer of \$1.0 million to the City from SDMS profit sharing has also been included. We support all four proposed actions.

One-Time Resources

The Mayor's budget balancing actions include \$35.1 million of one-time resources- close to half of the \$73.1 of balancing solutions. These actions include \$14.1 million in cost savings from suspending the FY 2012 contributions to the City's reserves for the second year; \$10.9 million as a result of using various available fund balances; \$4.0 million recovered from CALFEMA and insur-

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ance providers for clean-up which occurred during the 2007 wildfires; and a \$6.1 million one-time increase from federal stimulus dollars for streets projects in FY 2012. We provide a detailed review of each of these proposals in the section on Budget Balancing Actions. In this section we discuss our concerns regarding the significant use of one-times in this budget proposal. We also discuss that the Mayor has relied on a significant level of one-time solutions in past budgets; our office has written extensively on this topic citing best practices; and the Council has adopted a budget principle to affirm that one-time resources should be used only for one-time expenses.

For several budget years, the Mayor outlined how one-time solutions were matched to one-time expenditures in his budget proposals- this was not done for FY 2011 or for the FY 2012 proposed budget. We would be more comfortable with the significant level of one-time proposals had such information been provided.

With respect to the use of one-time actions, we would raise several other points for Council consideration:

- Each budget cycle, the IBA has confirmed that one-time resources used in the prior year have been appropriately removed as a resource from the upcoming year's budget proposal as well as the Mayor's Five-Year Outlook.
- The Mayor has been forthright in stating that his use of one-time expenditures in FY 2012 will require \$41 million of permanent reductions in FY 2013 as a permanent offset to address the City's

structural deficit.

- We agree that in difficult economic times a balance of both short-term solutions, which can generate savings quickly, and long-term, permanent solutions should be pursued to help the City weather the effects of an economic decline.

While it is difficult to support \$35.1 million of one-time resources, our review of the Mayor's budget has not identified the level of savings or new resources that would allow for replacing the level of proposed one-time solutions used without additional cuts to services.

COMPARING MAYOR'S BUDGET TO COUNCIL'S BUDGET RESOLUTION

The chart on the following page displays each of the budget balancing options that the Council included in their April 12, 2011 Budget Resolution. This is the first time the City Council has taken official action to request the Mayor to incorporate specific proposals into the Proposed Budget in advance of budget release. This chart lists each of the requested actions; identifies whether the item has been included in the budget; notes the related dollar amounts and offers explanatory comments.

The Mayor has incorporated nine of the 23 cost savings/revenue generating actions that Council requested him to consider in the development of the FY 2012 budget. These nine items generated \$29.2 million of General Fund resources. The Council also requested that in the event the Mayor declined to incorporate any of the Council's

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COUNCIL BUDGET RESOLUTION - RESOURCE OPTIONS				
IBA Focused List of Menu Options	In FY12 Funding		Comments	
	Budget?	Included		
18. Comprehensive review of all fund balances	✓	\$9.9m	SDSME, Police Decentralization, Qualcomm, Sick leave	
47a. Transfer unclaimed funds in City Treasury to the General Fund	✓	\$1.0m		
123. Expand use of marketing partnerships		-	Only base of \$0.5m included; no projected expansion	
145. Implement false alarm fees for Fire-Rescue	✓	\$0.9m		
189. Five percent reduction to supplies and services	✓	\$9.0m	Reflects a 10% reduction in discretionary supplies and contracts	
200. RDA payment for Convention Center Phase II debt service	✓	\$2.0m	Approved by Council/Agency on 3/29/11	
14. Implement recovery auditing program		-	Plan to reflect revenue based on audit results	
47b. Fire-Rescue resume billing and retroactively bill for high-rise inspections	✓	-	Revenue for charges going forward already in budget; no retroactive billing (est. \$1.0m)	
61. Eliminate cell phones for non-emergency personnel		-	Up to \$0.7m possible based on IBA estimate	
102. Eliminate Management Flex Benefits		-	Up to \$1.4m possible based on IBA estimate	
142. Sale of underutilized real estate assets		-	Up to \$8.0m possible based on sale of WTC	
202. RDA repayment of General Fund debt		-	Up to \$2.0m possible based on IBA estimate	
1. Accelerate Managed Competition for refuse collection		-	Explore for FY 2013	
11. Expand use of 4/10/5 work schedule		-	Explore for FY 2013	
122. Impose mandatory furlough		-	Explore for FY 2013	
Additional Budgetary Items in Council Resolution				
1. Recover costs associated with entertainment permits for police-regulated businesses	✓	\$0.3m		
2. Acceleration of Publishing and Fleet Services managed competition		-	In process, savings to be reflected upon implementation in FY 2012	
3. Updating revenue projections	✓	\$1.0m	Sales tax growth increased from 2.4% to 3%. Additional review by IBA underway	
4. Savings from permanent elimination of vacant positions	✓	\$5.1m	Of 207 FTE eliminated, 57 were vacant full-time positions. Assumes \$90k/position.	
5. Elimination of take home vehicles for City		-		
6. Review and potential revision of lease payment formula for payments from the Golf Enterprise Fund to the General Fund		-	Explore for FY 2013	
7. Options for budget-neutral funding of the 9th Council District in FY13		-	FY 2013 budget issue; up to \$1.6m possible	
8. Reform of Retiree Health Care benefit		-	Negotiations underway - \$57m included in FY 2012, \$39m less than full ARC payment	
Total Funding Included in Mayor's Proposed Budget		\$29.2m		

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budget proposals, the Mayor or his designee would report to Council on why such proposals were not adopted. This information has not been provided to date. We have included for further Council consideration several of the items the Mayor did not use in the section on Options for Revisions to the Budget.

The Council also identified four specific service priorities in their resolution:

1. Restoration of the Fire brown-outs;
2. Preservation of public safety service in Police, Fire-Rescue and Lifeguard Services departments; and
3. Mitigation of service and staffing reductions to the Library and Park and Recreation departments
4. Funding of the City's deferred capital backlog;

The Mayor has responded to Items 1 and 4. All browned-out engines have been restored in FY 2012. Deferred Capital has

been addressed by including debt service payments for a previous bond issuance in FY 2012; committing to a new \$100 million bond issuance in FY 2012; and revising the Five-Year Outlook to incorporate a total of five \$100 million bond issuances for capital needs in each year of the Outlook. Regarding Item 3, lifeguard reductions made in FY 2011 have not been restored in the budget but no further reductions are proposed. Reductions to Police include twenty vacant sworn positions and four Code Compliance Officers. The department has indicated that service levels will not be impacted.

The Council also requested consideration of Item 3 - mitigation of service and staffing reductions to the Library and Park and Recreation departments. However, significant service and staffing reductions have been proposed for both Library and Park and Recreation including the elimination of 77 positions in Library related to reducing branch library hours by 50% and elimination of 77 positions in Park and Recreation as a result of reducing recreation center hours

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

Options for Revisions to FY 2012 Proposed Budget

In developing resource options for potential revisions to the Mayor's FY 2012 Proposed Budget, we looked to budget actions requested by the Council in their budget resolution- which were not accepted by the Mayor- as well as options identified by the IBA as a result of our review and analysis of the Mayor's budget proposal. We have received no information to date from the Mayor as to why certain Council options were not accepted. One of the approaches we used was looking at expenditure categories that had increased in FY 2012 over FY 2011 or over the Outlook where there was no justification provided in the documents, e.g. workers' compensation claims increased by \$1.4 million. Are increases such as this necessary given the service reductions that have been proposed?

We have also presented options for restoring branch library and recreation center hours proposed for reduction by the Mayor. These potential restorations are addressed in response to concerns about hours' reductions to branch libraries and recreation centers expressed by the public and City Council members. As one of several potential resources, we have presented two alternatives for phasing in the restoration of the eight browned-out engines over

two fiscal years rather than one. This would free up General Funds in FY 2012 for other priorities. The Council may be interested in achieving a greater balance between the restoration of brown-outs and reductions to library and recreation center hours.

Finally, we have proposed two options for available one-time resources including funding the Fire In-Station Alert System and/or replenishing the General Fund Reserve.

We would note that best practice is to try to identify on-going resources for proposed restorations. One-time resources should be tied to one-time expenditures.

The following tables list the options for revisions to the FY 2012 Proposed Budget. The first table outlines ongoing and one-time resource options that were identified in the Council resolution as well as during the IBA review of the Mayor's FY 2012 Proposed Budget.

The second table outlines ongoing and one-time restoration expenditure options for Council consideration. Following the tables, each option is described in greater detail.

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RESOURCE OPTIONS		
Ongoing - Identified in Council Resolution		Total Resources
1	Adjust FY 2012 Revenue Estimates	\$ 3,000,000
2	Expand Marketing Partnerships	500,000
3	Use Land Sales Revenue for Convention Center Phase II Debt Service Costs	2,500,000
4	Eliminate Management Flex Benefits	1,400,000
5	Eliminate Cell Phones for Non-Public Safety Depts	400,000
Sub-Total:		\$ 7,800,000
Ongoing - Identified During IBA Review of Proposed Budget		
6	Reduce Workers' Compensation Funding	\$ 1,400,000
7	Adjust Terminal Leave	400,000
8	Adjust Long Term Disability Reserve Amounts	1,600,000
9	Reduce Overtime for Non-Public Safety Departments	1,250,000
10	Reduce Training and Travel for Non-Public Safety Departments	1,000,000
11	Reduce funding for Arts & Culture by 10%	620,000
12	Reprioritize Mayor & Council TOT Allocations	220,000
13	Reduce IT Discretionary Funding by 20%	1,500,000
Sub-Total:		\$ 7,990,000
Total Ongoing Resource Options:		\$ 15,790,000
One-Time		
		Total Resources
14	Collect Retroactive Fire High-Rise Inspection Fees	\$ 1,000,000
15	Redevelopment Agency Dept Repayment	1,000,000
16	Implement Recovery Auditing	500,000
17	Early Retiree Reinsurance Program (ERRP)	2,000,000
Total One-Time Resource Options:		\$ 4,500,000
Additional Resource Options		
		Total Resources
18-A	Restore six browned-out engines in FY 2012 (three in July 2011 and three in January 2012) and two in FY 2013, in lieu of all eight in FY 2012	\$ 2,200,000
18-B	Restore four browned-out engines in FY 2012 (two in July 2011 and two in January 2012) and four in FY 2013, in lieu of all eight in FY 2012	4,300,000
Total Additional Resource Options:		\$ 2,200,000 - 4,300,000

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

Resource Options

Ongoing Options Identified in Council Resolution

Item 1. Adjust FY 2012 Revenue Estimates-\$3.0 million

The FY 2012 Proposed Budget projects economic growth of 3% for both sales tax and transient occupancy tax (TOT) revenues. In FY 2011, sales tax and TOT revenues are projected to end the year with growth rates of 5.6% and 6.0%, respectively. In addition, the economic outlook for 2011 and 2012 is generally positive. As a result, there may be capacity for enhanced growth for both sales tax and TOT. Each additional 1% growth in sales tax and TOT would generate additional revenue of \$1.7 million and \$1.3 million, respectively.

Item 2. Expand Marketing Partnerships-\$500,000

The City has been generating revenue from marketing partnerships with corporations through its Corporate Partnership Program (CPP) since 1999. The CPP's goals are to generate unrestricted revenue and in-kind support for City services through business arrangements with the corporate community. For example, sponsorship opportunities in and on City beach area public assets (lifeguard towers, information boards, trash cans, etc.) have the potential to generate significant annual revenue to support General Fund activities.

The City Council approved the continuation of a contract with CPP marketing consultant The Pathfinder Group on March 15, 2011. In a memorandum to the City Council

dated March 10, 2011, the CFO indicated that Pathfinder has six potential partnerships in various stages of development (with values estimated to range between \$50,000 and \$5 million) and another five categorical opportunities worth pursuing.

The FY 2012 Proposed Budget continues the practice of annually budgeting \$500,000 in the Office of the CFO for revenue attributable to the CPP. The City hired a new Director of Strategic Partnerships and renewed its contract with Pathfinder in March 2011. As many of the above cited and other CPP opportunities have been under development for some time, the City Council may wish to consider reasonably budgeting an additional amount of CPP revenue in FY 2012. Due to the concerns regarding the uncertainty of generating additional revenue, additional budgeted revenue could be allocated to the City's reserves and not utilized until results are more certain in FY 2012.

Item 3. Use of Land Sales Revenue for Convention Center Phase II Debt Service Costs-\$2.5 million

Pursuant to City Charter Section 77, all proceeds from the sale of City-owned property shall be deposited into the Capital Outlay fund, and used "exclusively for the acquisition, construction and completion of permanent public improvements." The City may also use proceeds from the sale of real estate assets to pay for the principle on capital improvement bonds. The FY 2012 Proposed Budget includes approximately \$12.1 million in bond principle payments

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funded either by the General Fund or the TOT Fund.

On March 1, 2011 the City Council approved the sale of the World Trade Center (WTC) building and attached parking garage at 1250 Sixth Avenue to the Redevelopment Agency for approximately \$8 million. Under the Purchase & Sale Agreement, the close of escrow for the WTC building will occur no later than June 30, 2012. The City may use the \$8 million in sale proceeds on a one-time basis in FY 2012. If this option is pursued, proceeds should be used to fund one-time expenditures. Alternatively, the IBA has identified a mechanism whereby up to \$2.5 million in proceeds from the sale of the WTC building may be used to support ongoing expenditures.

In FY 2011, the Redevelopment Agency will begin making annual payments to the City related to the annual debt service on the Convention Center Phase II expansion bonds. These payments are scheduled to begin at \$2 million in FY 2012, and increase by \$500,000 annually until the annual payment reaches \$9 million. Proceeds from the sale of the WTC building could be used to augment the payments from the Redevelopment Agency over a number of years, declining each year commensurate with the increase in Agency payments. In this manner, a constant level of funding could be achieved in each year, which could be used to fund ongoing expenditures. This is illustrated in the upper right table:

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

Item 4. Eliminate Management Flex Benefits-\$1.4 million

The City's benefits package provides for executives, managers and the legislative branch to receive an additional \$3,000 in their annual flexible benefit allotments to pay for premiums for health care, vision or dental insurance, or for contribution to an IRA account. The management benefits plan was implemented in 1978 as a recruitment incentive for top management positions.

Section 16 of the salary ordinance provides that additional benefit programs may be established upon recommendation of the Mayor, and implemented by Council resolution. Each year, the flexible benefits plan is adopted by separate resolution concurrent with the salary ordinance. This resolution includes the additional \$3,000 in management flexible benefits for eligible unclassified and unrepresented positions, and an attachment that specifies eligible positions. Elimination of this benefit could be implemented through a revision to this resolution, and does not require an amendment to the salary ordinance.

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The annual cost of the management benefits plan is approximately \$2.6 million City-wide, including \$1.8 million in General Fund costs. This estimate includes approximately 139 members of the Deputy City Attorney Association (DCAA) at a cost of \$417,000. However, elimination of this benefit for DCAA members would be subject to meet and confer. The estimated General Fund savings not including DCAA is \$1.4 million. Additionally, for FY 2013 the City could propose to eliminate this benefit for all bargaining units as a part of contract negotiations, which would generate additional savings to the General Fund effective FY 2013.

Item 5. Eliminate Cell Phones for Non-Public Safety Departments-\$400,000

The City currently has contracts with three wireless carriers for cell phone and data services with an estimated annual impact of \$2.7 million to the City (General Fund and Non-General Fund departments). The current contracts do not require an annual minimum revenue commitment. The issuance, monitoring, and use of wireless telephones are governed by City Administrative Regulation 90.20. The issuance of wireless telephones is determined by each department and per Administrative Regulation 90.20 requires a "Deputy Director or higher approval," to issue a cellular phone.

Savings to the City's General Fund could be achieved by eliminating cell phones thus reducing the City's annual expenses. However, it should be noted that the elimination of cell phones could have a negative impact on City operations thus requiring review of each cell phone user's duties which could take time to complete.

In our Menu of Budget Options Reports, we estimated \$700,000 in annual savings if the funding for cell phones was eliminated for all General Fund departments with the exception of Police, Fire-Rescue, Homeland Security and Environmental Services. The \$700,000 estimated savings was based on the average monthly expense per department as provided by staff. However, the funding by department included in the FY 2012 Proposed Budget is different than the monthly expenses provided by the General Services – Communications Division. Based on this, the IBA has adjusted the \$700,000 to a more conservative \$400,000 in savings. The \$400,000 anticipates the elimination of funding for cell phones for all General Fund Departments with the exception of Police, Fire-Rescue, Homeland Security, and Environmental Services. The IBA recommends that staff undertake a review of the actual expenditures compared to budgeted levels to ensure that the budgeted funding reflects actual usage.

Ongoing Options Identified During IBA Review of Proposed Budget

Item 6. Reduce Workers' Compensation Funding-\$1.4 million

The annual amount estimated to be needed for payment of Workers' Compensation claims for FY 2012 totals \$16.3 million for the General Fund (\$20 million Citywide). The General Fund amount has increased by \$1.4 million from the FY 2011 Budget. The IBA understands that Workers' Compensation estimates are based on a three-year average of actual annual payments. Annual rates for each job class are developed each year, based on actual claims experience.

IBA Bottom Line

An increase to the annual costs for Workers' Compensation was not estimated at the time of the Five-Year Outlook. However, the Five-Year Outlook did include a contribution to the Workers' Compensation Reserve, which is now proposed to be suspended. This \$1.4 million increase comprises the bulk of the change to the Fringe Benefits category for the General Fund compared to the FY 2011 Budget.

During our review of the Mayor's Proposed Budget, the IBA has considered various budget strategies to identify and propose options to consider as alternatives. One such strategy is to consider the following:

1. Policies and plans outlined in the Five-Year Outlook should be the basis for the Proposed Budget
2. Variances from the Five Year Outlook should be explained and justified, which can typically be attributed to a change in circumstances or the receipt of new or updated information
3. Where the Five-Year Outlook does not address changes to specific areas or initiatives, budget allocations should remain at FY 2011 levels.

Applying this strategy to Workers' Compensation funding would suggest that the General Fund FY 2012 budget for this should hold steady at FY 2011 levels, and efforts should be made to work within this level of funding.

Item 7. Adjust Terminal Leave-\$400,000

For the FY 2012 Proposed Budget, termination pay annual leave has increased by

\$585,000 in the General Fund to almost \$2.5 million. This reflects an increase of \$400,000 compared to the estimates made at the time of the Five-Year Outlook. This could be considered an area for review and possible reduction.

Item 8. Adjust Long Term Disability Reserve Amounts-\$1.6 million

A Long-Term Disability reserve contribution of \$1.6 million from the General Fund (\$2.3 million Citywide) is included in the FY 2012 Proposed Budget, while other City reserve contributions are suspended. The Reserve Policy states a goal of \$12 million is to be reached, and also describes that a study is to be undertaken to evaluate the feasibility of purchasing insurance instead of continuing the City's self-insurance program.

The IBA inquired with the CFO and the Risk Management Director as to possible impacts of postponing the FY 2012 reserve contribution to the Long-Term Disability reserve. It was discussed that work has begun to negotiate with the City's labor organizations to transition the Long-Term Disability program to an insurance provider. In doing so, the City will need to prepare to continue to pay existing claims, and also to fund costs associated with premiums, for future insurance coverage. The LTD Reserve appears to be the intended source of funds as the City works to make this transition happen; however, this seems to be a major policy change.

The City Council may want to discuss the implications, timing and cost/benefits associated with the proposed plan. It is unclear to the IBA if the \$1.3 million General Fund

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contribution to the LTD Reserve is a high-priority requirement, or if it can be eliminated to allow funding to be directed to other budgetary needs.

Item 9. Reduction to Overtime for Non-Public Safety Departments-\$1.25 million

Reduced budgeted overtime by 50% for all General Fund Departments except for Police and Fire-Rescue; estimated savings of \$1.25 million. Departments could still authorize the use of overtime, as circumstances arise that may require it.

The FY 2012 Proposed Budget includes \$33.58 million in the General Fund for overtime. This includes \$17 million for the Police Department, and almost \$14 million for Fire-Rescue. Excluding Public Safety Departments, the General Fund overtime budget is \$2.51 million. Reducing department overtime allocations by 50% would allow \$1.25 million to become available to fund other high-priority needs.

Budgeted Overtime General Fund Departments (in millions)	
General Fund Department	FY 2012 PROPOSED
Police	\$ 17.14
Fire-Rescue	13.93
Transportation & Storm Water	0.59
Environmental Services	0.49
Park & Recreation	0.41
Public Works - Engineering & Capital Projects	0.41
Public Works - General Services	0.17
City Treasurer	0.16
Financial Management	0.08
Remaining Departments	0.20
TOTAL	33.58
TOTAL (W/O PUBLIC SAFETY)	\$ 2.51

Item 10. Reduction to Training and Travel for Non-Public Safety Departments-\$1 million

Reduce Travel and Training for all General Fund Departments except for Police and Fire-Rescue; estimated savings of \$1 million. Departments could still authorize travel and training, if needed, though efforts to minimize these types of expenditures should be required. The FY 2012 Proposed Budget includes \$1.56 million in the General Fund for travel and training expenses. This includes \$337,123 for the Police Department, and almost \$200,000 for Fire-Rescue. Excluding Public Safety Departments, the General Fund travel and training budget is \$1 million. Reducing the Non-Public Safety department budgets for travel and training would allow \$1 million to become available to fund other high-priority needs.

Budgeted Travel and Training General Fund Departments	
General Fund Department	FY 2012 PROPOSED
Fire-Rescue	\$ 337,123
Police	199,993
Public Works - Engineering & Capital Projects	193,105
Transportation & Storm Water	85,719
City Comptroller	71,706
Park & Recreation	65,400
Office of the Mayor	62,000
City Treasurer	57,225
City Planning & Community Investment	50,238
Remaining Accounts	443,246
TOTAL	1,565,755
TOTAL (W/O PUBLIC SAFETY)	\$ 1,028,639

Item 11. Reduce Arts & Culture Grant Funding by 10% - \$620,000

The FY 2012 Proposed Budget includes a \$7.3 million allocation of transient occupancy tax revenue from the Special Promotional Programs for Arts & Culture. This

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allocation is essentially unchanged from FY 2011, and includes \$875,000 for Arts & Culture administration; \$6.2 million in grant funding for arts and cultural programs, activities and festivals; and \$220,000 in funding for Mayor and City Council TOT allocations.

In FY 2011, the grant funding for arts and cultural programs, activities and festivals was reduced by approximately 10% as a budget balancing measure. No subsequent reduction has been made in the FY 2012 Proposed Budget. Given the service reductions that are currently proposed for libraries and recreation centers, the Council may wish to consider reprioritizing a portion of the Arts & Culture funding. A 10% reduction in the grant funding would free up \$620,000 in ongoing resources.

Item 12. Reprioritize Mayor & Council TOT Allocations-\$220,000

In addition to the arts and culture grant funding discussed in Item 13, the Council may wish to consider reprioritizing the funding that is budgeted for Mayor and City Council TOT allocations. This would result in an additional \$220,000 in ongoing resources.

Item 13. Reduce IT Discretionary Funding by 20%- \$1.5 million

In total, the costs budgeted for FY 2012 for Information Technology needs across all General Fund Departments totals \$24.7 million, which is \$900,000 less than FY 2011 amounts. There are two types of Information Technology budget accounts: Non-Discretionary (which are committed to SDDPC based on agreed upon levels of service) and Discretionary (which are services

typically not required to be provided by SDDPC, but can or SDDPC may help procure from other providers).

Discretionary IT accounts total \$13.3 million in the General Fund. Consideration could be given to reduce funding for discretionary IT allocation for General Fund Departments, excluding Police and Fire-Rescue. A 20% reduction to non-public safety General Fund Departments could provide approximately \$1.5 million in resources for other priority needs. Departmental plans for the use of these funds during upcoming budget hearings could be productive to determine the priority nature and required timing for the use of these funds, and to discuss the potential for reductions.

One-Time Options

Item 14. Collect Retroactive Fire High-Rise Inspection Fees-\$1 million

This was a recommendation in the Fire Prevention Audit released in October 2010. In order to modify its fire inspection fee structure, the Fire Prevention Bureau stopped invoicing for high-rise inspections performed beginning July 1, 2009. The audit reported the Fire Prevention Bureau estimated that approximately \$545,000 in high rise inspection fees was not recovered in FY 2010. If the same amount is assumed for FY 2011, the General Fund has a one-time opportunity to recover high-rise inspection costs in excess of \$1 million.

The Fire-Rescue Department informed the IBA they plan to bring the modified fire inspection fee structure to the Budget & Finance Committee and City Council before fiscal year-end. The Department has fur-

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ther indicated their plan is to retroactively bill for inspections performed in keeping with the audit recommendation.

Based on the information we have received from the Department and assuming City Council approval of the modified fee structure before fiscal year end, the IBA believes it is reasonable to budget the one-time revenue in FY 2012. Given that City Council approval is still pending, this cost reimbursement revenue could be allocated to the City's reserves until its receipt is more certain in FY 2012.

Item 15. Redevelopment Agency Dept Repayment-\$1.0 million

On February 28, the City Council and Redevelopment Agency Board approved a Loan Repayment Agreement for approximately \$188.2 million in long-term debt to the City held by the Agency. While the majority of this debt is composed of CDBG and Section 108 funds, approximately \$12.9 million is from sales tax and other General Fund sources. According to the Loan Repayment Agreement, loan repayment amount will be determined as part of the Agency's and City's respective budget processes.

It has been noted on several occasions that much of the General Fund debt is held by project areas that have the least ability to make payments at this time. However, it may be possible for the Redevelopment Agency to repay \$1-\$2 million of the General Fund debt in FY 2012. It should be noted that any repayment will likely have negative impacts to redevelopment efforts in certain project areas.

Item 16. Implement Recovery Auditing-\$500,000

The City Auditor describes revenue recovery audits as those focusing on identifying missed opportunities to collect revenue, picking up where government revenue collection efforts stop. For example, an audit of accounts payable would look for: overpayments; payments for services not rendered; duplicate payments; or identify unutilized credits from vendors. In reviewing Revenue Recovery Audit programs in other jurisdictions, the City Auditor indicated that recoveries had been made in the following other areas: erroneous payments of sales tax; revenue due from other agencies but not transferred to local government; taxes due but not paid; benefit payments to ineligible persons; and property tax related audits.

In response to a request from Councilmember DeMaio, the City Auditor prepared two memorandums discussing Recovery Auditing for the Audit Committee meetings on January 10th and April 11th, 2011. In the latter memorandum, the City Auditor indicated that while the City currently conducts revenue recovery, there are more opportunities to consider. Specifically, the City Auditor believes the areas of accounts payable, reverse sales tax and municipal court revenue offer potential for cost-effective returns if the City engages outside firms to conduct contingency-based auditing services.

With respect to auditing municipal court revenue, the City Auditor noted that: 1) two prior City audits (performed in 2000 and 2003) of Court fees that identified over \$1 million in misallocated revenue due the City and 2) the most recent State audit of

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the County Court (August 2009) finds the Court under-remitted \$1 million to the City over a six-year period. While the amount and receipt of recovery audit revenue is not certain, the IBA agrees with the City Auditor's belief that recovery auditing should be expeditiously pursued.

While it is not a best practice to budget revenue when its receipt is uncertain, the City Council may wish to consider budgeting a conservative amount based on the reasonable potential for revenue recovery as noted by the City Auditor above. This revenue could be allocated to the City's reserves until audit results are more certain in FY 2012.

Item 17. Early Retirement Reinsurance Program (ERRP)-Preliminary Estimate of \$2.0 million

The City will be applying for funding from this new Federal program created to provide financial help to group health care plans such as the City's that provide health coverage to retirees and their families. It is a temporary program through January 1, 2014 -designed to serve as a bridge until then when additional coverage options will be available through health insurance exchanges. According to Risk Management, this funding could be used to offset retiree health care cost increases incurred by the City in FY 2011 and FY 2012. Very preliminary estimates are that the City could use \$2.0 million— however, the amount and timing of award are both uncertain.

Additional Resource Options

Adjust Fire Brown-Outs

Item 18A. Restore 6 browned-out engines in FY 2012 (3 in July 2011 and 3 in January 2012) and 2 in FY 2013 in lieu of all 8 in FY 2012 - \$2.2 million savings

OR

Item 18B. Restore 4 browned-out engines in FY 2012 (2 in July 2011 and 2 in January 2012) and 4 in FY 2013 in lieu of all 8 in FY 2012 - \$4.3 million savings

The FY 2012 Proposed Budget provides approximately \$8.7 million to restore the brown-out units. The restoral funds have been appropriately budgeted as overtime in FY 2012. As currently proposed by the Mayor, four brown-out units would be placed back into service in July 2011 with the other four units being placed back into service in January 2012.

Items 18A and 18B alternatively propose two scenarios to more slowly phase-in restoration of the browned-out units over a period of two years in order to fund other important public services in FY 2012. While restoring browned-out units is a clear priority, Council members may want to consider this approach in order to release funds to address other community needs (i.e., reductions to the Library and Park & Recreation departments).

Restoration Options

Ongoing Restorations

I. Restore Branch Library Hours

Item A. Fully Restore all branch library hours to current service levels-\$7.4 million

OR

Item B. Partially Restore Hours at Branch Libraries by Implementing 10 Branch Library Pairing and “Express Library” Proposal - \$2.2 million

OR

Item C. Partially Restore Hours at Branch Libraries by Implementing Only “Express Library” Proposal-\$3.4 million

The FY 2012 Proposed Budget reflects the proposal for the pairing of the City’s 35 branch libraries, reducing 77.02 Full-Time Equivalents (FTEs) at a cost-savings of \$7.4 million. Pairing of all of the branch libraries creates an average 18.5-hour per week schedule, approximately 50% of current operating hours. Each branch would be open two days (Tuesday/Thursday, Wednesday/Friday) and an alternate Saturday, coordinated with the nearest branch to which it is “paired”, in an effort to provide daily library services to the community the two branches serve.

All branch libraries are currently closed Sundays and Mondays, except three branches (La Jolla, Point Loma, and Serra which receive private funding for Sunday

hours. The Central Library remains open on Sundays and Mondays.

Item IA would fully restore all branch library hours to current service levels of 36 hours per week, requiring \$7.4 million.

Item IB is an alternative option developed by Library staff to pair 10 branches, and combining with an “Express Library” (one in each Council District.) To accomplish this alternative requires the identification of funding of \$2.2 million.

Item IC is another alternative option developed by Library staff which would implement the “Express Library” concept only. Funding in the amount of \$3.4 million would need to be identified for this option.

Under the Express Library concept, one branch library in each Council District (total of 8) would be open four hours each day, five days a week, offering limited services, most of which would be self-serve. Express Branch libraries were chosen based on size, accessibility of facility, usage statistics and proximity to other branches. Proposed Express Branch locations are:

- University Community
- Ocean Beach
- Kensington-Normal Heights
- Mountain View/Beckwourth
- Carmel Mountain
- Clairemont
- Allied Gardens/Benjamin
- San Ysidro

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Express Libraries would be minimally staffed; services that would be unavailable include:

- Meeting rooms
- Book drops/return
- New material purchase
- Reshelving of materials

As items that are checked out are returned to other locations, collections will decrease.

In the option under Item B, in addition to establishing an Express Branch in each Council District, ten branch libraries will also be paired (instead of all 35 branch locations). At the ten paired branches, libraries will be open three days one week, then two days the next week, so that every two weeks, each paired branch will be open five days.

Proposed Branch Pairings include the following branch libraries:

- Balboa/North Clairemont
- College-Rolando/Tierrasanta
- Mission Hills/University Heights
- Oak Park/Paradise Hills
- Rancho Peñasquitos/Scripps Miramar Ranch

2. Park and Recreation

Item A. Restore Recreation Centers Hours to 40 per Week—\$3.3 million

The FY 2012 Proposed Budget will reduce hours of recreation center operations from 40 to 20 hours each week, and will reduce staffing at the City's recreation centers, open space visitor's centers and gymnasiums. The budget eliminates 48.19 FTEs

with associated cost savings of \$3.3 million. Estimated costs assume a September 6 implementation date, primarily to provide for proper notice, conclude programs which will occur over the summer, and allow time for a proper transition. Item 2A proposes to fully restore recreation center hours to current service levels, requiring the identification of \$3.3 million.

One-Time Expenditure/ Restoration

3. Fire In-Station Alerting System—\$1.7 million in FY 12 and FY 13

The Fire-Rescue Department uses an In-Station Alerting System to alert fire station crews of what and where to respond. As noted in the Citygate Report, the current Alerting System technology "is 21 years old, technically obsolete and, in many cases, inserts unnecessary time delays into the crew dispatching process". The computer-based Alerting System has been out of service since March 7, 2011 due to a hardware issue and staff has had to rely on a radio-based backup system. The backup system requires dispatchers to manually select units to be alerted resulting in longer dispatch times. Citygate recommended the City make it a priority to replace the Alerting System at an approximate cost of \$3.4 million. The Department believes the procurement/installation process would take two fiscal years and require two annual appropriations of approximately \$1.7 million. This expenditure is an appropriate use for available one-time funding.

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4. Replenish General Fund Reserve with Available One-Time Resources- Up to \$3.5 million

For the second year, the Mayor has proposed suspension of contributions to the General Fund, Worker's Compensation and Public Liability Reserves needed to reach policy goals. For FY 2012 the original General Fund Reserves goal (established four years ago) was to achieve a reserve equal to 7 ½ % of General Fund revenues for FY 11 and 8% by FY 2012. With contributions suspended for a second year, the General Fund will remain at 7%. Increasing it to 7 ½% in FY 2012 would require a \$3.5 million contribution. This is an appropriate use for available one-time resources.

Review of General Fund Revenues and Expenditures

General Fund Revenue

The FY 2012 Proposed Budget includes \$1.106 billion in General Fund revenue, an increase of approximately \$9.6 million or 0.9% from the FY 2011 Adopted Budget. Four major revenue sources - property tax, sales tax, transient occupancy tax (TOT) and franchise fees - account for approximately \$731.2 million, or roughly 66% of total General Fund revenue. These major revenues reflect an increase of \$20.4 million over the FY 2011 Adopted Budget. This compares to a decline of \$32.8 million from

the FY 2010 to FY 2011 budget.

Other non-departmental revenue sources, such as property transfer tax, charges for current services and transfers from other funds, total \$71.7 million, a decline of approximately \$30.0 million from FY 2011. The majority of this decline is due to the elimination of several one-time revenues from FY 2011, including a \$24.6 million property tax set-aside and \$9.5 million in undesignated fund balances. In addition,

FY 2012 Proposed Budget - General Fund Revenue

	FY 2011	FY 2012	
GENERAL FUND REVENUE	BUDGET	PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	\$ 390,060,910	\$ 380,908,544	\$ (9,152,366)
Sales Tax	187,471,361	209,529,835	22,058,474
TOT	66,115,157	72,993,739	6,878,582
Franchise Fees	67,185,135	67,808,948	623,813
Other Local Taxes			
Property Transfer	4,685,604	5,147,851	462,247
Safety Sales Tax ¹	6,286,820	-	(6,286,820)
Vehicle License Fees	3,142,922	3,264,364	121,442
Other Non-Departmental			
Interest Earnings	1,655,994	1,731,215	75,221
Transfer from TOT Fund	11,800,938	13,051,589	1,250,651
Gen. Gov't Service Billing	12,640,247	14,020,389	1,380,142
Transfers from Other Funds	51,234,511	24,358,744	(26,875,767)
Other	10,155,754	10,089,914	(65,840)
Departmental Revenues	283,792,798	302,950,720	19,157,922
TOTAL GENERAL FUND	\$ 1,096,228,151	\$ 1,105,855,852	\$ 9,627,701

1. In FY 2012 Safety Sales Tax is budgeted in departmental revenues due to a change in the budget practice.

General Fund Revenue

safety sales tax is budgeted as a departmental revenue in FY 2012, as further explained later. These reductions are partially offset by several ongoing and one-time revenues in FY

Major General Fund Revenue Growth Rates¹				
Revenue Source	FY 2009 Actual	FY 2010 Estimated	FY 2011 Projected	FY 2012 Proposed
Property Tax	3.8%	-1.8%	-2.7%	0.1%
Sales Tax	-9.6%	-9.6%	10.8%	1.5%
TOT	-11.9%	-12.2%	9.4%	3.0%
Franchise Fees	5.0%	-1.3%	-1.6%	2.8%
SDG&E	4.2%	-7.4%	-6.1%	3.0%
Cable	2.6%	3.3%	6.5%	3.0%

1. Reflects year-over-year growth in total revenue, not economic growth rates applied for projection purposes.

2012, including a \$2 million reimbursement from the Redevelopment Agency related to the Convention Center Phase II debt service, \$4 million in reimbursements related to the 2007 wildfires, and a \$1 million transfer of unclaimed funds.

Departmental revenues total \$303 million, an increase of approximately \$19.2 million over FY 2011. This increase is primarily attributable to the budgeting of safety sales tax as a departmental revenue, various fee increases, and various one-time revenues such as the transfer of fund balances from the Emergency Medical Services and Police Decentralization Fund. Changes to departmental revenues are discussed further in the respecting departmental budget sections.

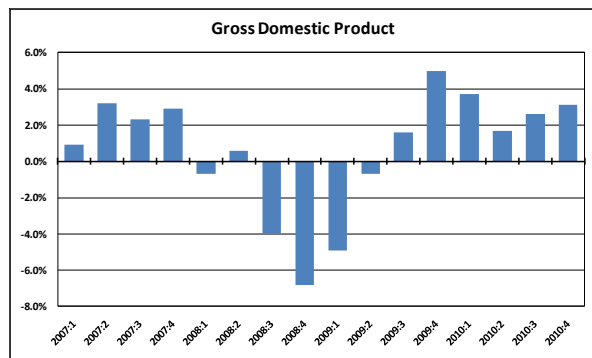
Economic Outlook

In calendar year 2010, the U.S. economy began to show signs of recovery after the nation's worst recession since the Great Depression. Gross Domestic Product (GDP), the broadest measure of the nation's economic health, increased at an annual rate of 2.9% in 2010, following a 2.9% decline in 2009 and flat growth in 2008.

Furthermore, GDP has grown steadily for six straight quarters, following four quarters of decline from mid-2008 to mid-2009.

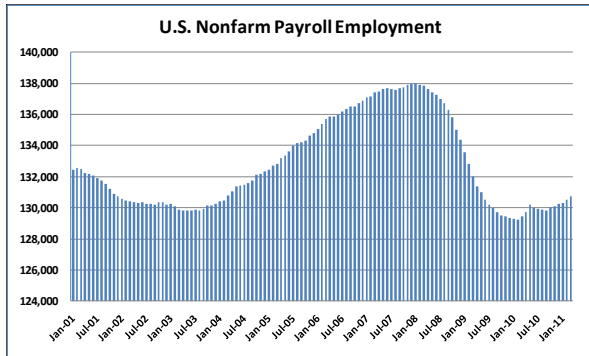
While both the residential and non-residential real estate sectors continued to see declines in 2010, other components of GDP saw marked improvement.

Personal consumption expenditures, which accounts for roughly 70% of total GDP, increased by 1.7% in 2010 following 2 years of decline. In addition, private investment in equipment and software increased by 15.3%, following declines of 15.3% and 2.4% in 2009 and 2008, respectively.



There are also signs of improvement in the nation's labor market. In March 2011, the unemployment rate was 8.8%, down from the peak of 10.1% in October 2009. From February 2010 to March 2011, nonfarm payroll employment increased by nearly 1.5 million jobs. However, this increase is still far short of the 8.75 million jobs lost from January 2008 to February 2010.

General Fund Revenue



Looking forward, economic growth is expected to be steady but modest. The UCLA Anderson Forecast projects moderate growth in GDP for the next several years, with continued annual gains in payroll employment.

Growth in the private sector is projected to be tempered by lower government spending at the state and local levels as a result of persistent budget deficits. Residential construction is expected to resume positive growth in the latter half of 2011, which nonresidential real estate will continue to be negative until mid-2012.

UCLA Anderson Forecast for the U.S.			
	2011	2012	2013
Real GDP	3.0%	2.7%	3.2%
Nonfarm Empl. (mil.)	131.1	133.6	136.4
Unemployment Rate	9.3%	8.9%	8.1%

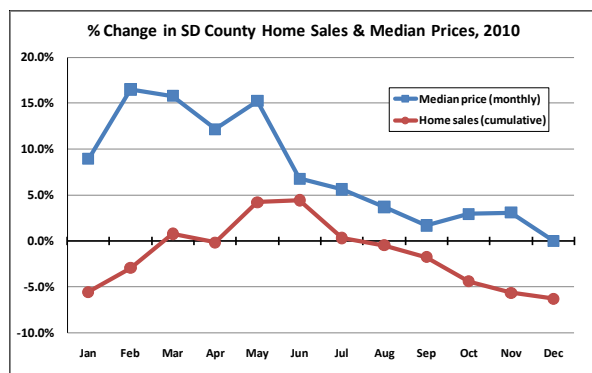
Property Tax

Property tax, the largest General Fund revenue source, is projected at \$380.9 million in the FY 2012 Proposed Budget. This projection reflects 0% economic growth from the FY 2011 year-end projection, and a reduction of \$9.2 million from FY 2011 budget level.

In the Five-Year Financial Outlook for FY 2012 - 2016, property tax revenue was projected to grow by 0.5% in FY 2012. This assumed growth rate has been reduced in the FY 2012 Proposed Budget, reflecting continued weakness in the local real estate market, combined with a sustained high level of refunds due to property reassessment appeals.

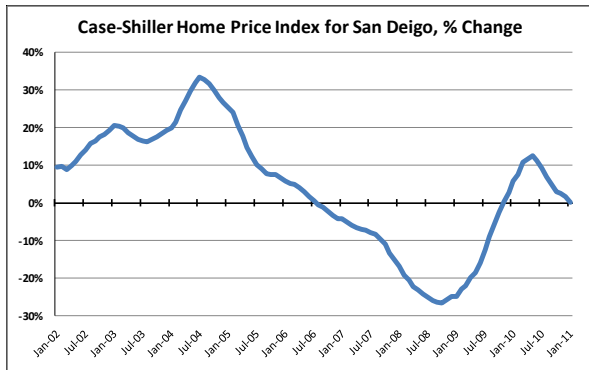
Property tax revenue in FY 2012 is based on assessed valuation as of January 1, 2011, which reflects market activity that occurred in calendar year 2010. In 2010, San Diego's residential real estate market saw mixed results. State and federal homebuyer tax credits fueled the market over the first six months of the year, resulting in a 4.4% increase in countywide home sales and impressive monthly gains in median price.

However, these gains were largely erased in the second half of the year, once the federal tax credits expired. By year-end, countywide home sales totaled 36,829, reflecting a 6.3% decline from the 39,301 sales in 2009. While the growth in median prices remained positive throughout the year, the rate of growth declined significantly as the number of sales continued to fall.



General Fund Revenue

This trend of declining growth in San Diego home prices is also reflected in the Case-Shiller Home Price Index, which is generally regarded as the most accurate measure of home price changes.

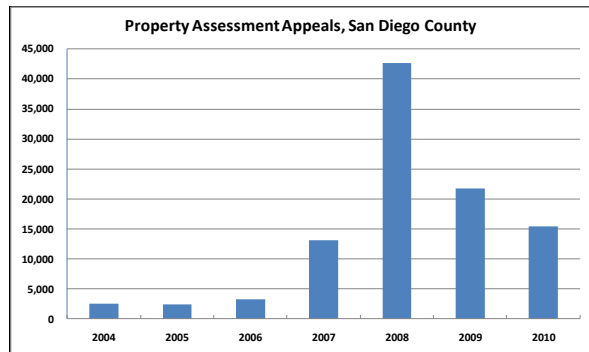


On balance, residential market activity in 2010 is not anticipated to have a significant impact on assessed valuation, as the increases in median price will largely be offset by declines in overall sales.

Property tax revenue has also been negatively impacted by an extraordinarily high number of property reassessments. Under State law, properties may be temporarily reassessed at a lower value if the market value of the property falls below the assessed value. Due to the sharp decline in home prices over the past several years, a significant number of properties have been reassessed at a lower value, contributing to the decline in assessed valuation. According to the County Assessor’s Office, over 196,000 properties have seen a reduction in value as a result of reassessment.

In addition, property owners may also formally appeal the assessed value of their property. Over the past three years, the

number of appeals has surged, resulting in further reductions to assessed value, and significant refunds to property owners. In 2008 and 2009, over 60,000 property assessment appeals were filed with the County Assessor’s Office. While this number declined to just over 15,000 in 2010, a significant backlog of prior year appeals are still being settled. In addition, the trend has shifted toward more appeals for commercial properties, which tend to have a higher value.



On a positive note, the California Consumer Price Index (CCPI) resumed positive growth in 2010. Under Proposition 13, the assessed value for properties that have not been sold or remodeled may be increased annually at the rate of inflation, not to exceed 2%. In 2009, the CCPI was negative for the first time in over five decades, resulting in widespread (though modest) reductions in assessed valuation. In 2010, the CCPI increased by 0.75% for purposes of assessed value adjustment, which should provide a buffer against further declines in assessed valuation.

Overall, the property tax projection for FY 2012 is appropriately conservative given the stagnant nature of the real estate market.

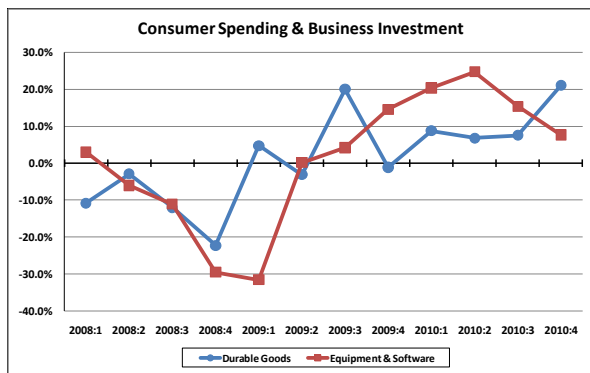
General Fund Revenue

We continue to believe that there is a slight downside risk due to continuing impact of property reassessments and assessment appeals; however, the positive CPI adjustment for 2010 should mitigate much of this risk.

Sales Tax

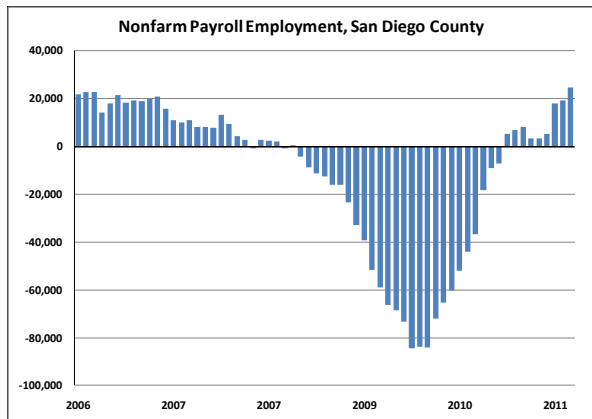
The FY 2012 Proposed Budget for sales tax revenue is \$209.5 million, reflecting 3% economic growth from the FY 2011 year-end projection and an increase of approximately \$22.1 million over the FY 2011 Budget. The budgeted growth rate of 3% reflects a slight increase from the 2.4% growth projected for FY 2012 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 improved, sales tax revenues have responded accordingly. In FY 2011, sales tax receipts began to experience strong growth after two years of significant declines. Based on receipts through March, year-to-date growth in sales tax is approximately 6.4%, while growth at year-end is projected to be 5.6%. This recovery has been fueled by consumer



spending on durable goods and business investment in equipment and software, which increased by 7.7% and 15.3% respectively in 2010. In the 4th Quarter of 2010, purchases of motor vehicles accounted for nearly 1% of the 3.1% growth in GDP.

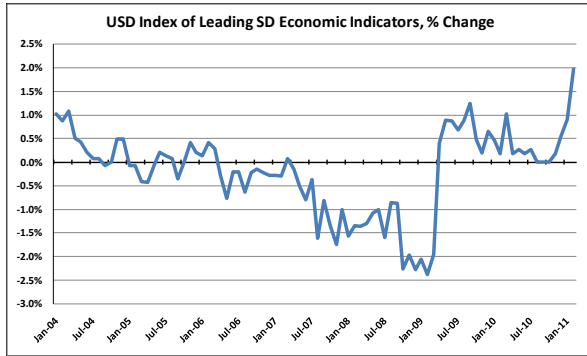
Mirroring the national trend, San Diego County's job market is showing signs of improvement. While the unemployment rate remains above 10%, the region has begun to reclaim some of the jobs that were lost over the past two years. From March 2010 to March 2011, the local economy added 24,700 jobs, the ninth straight month of year-over-year job growth and the largest increase in nearly six years. Since the low point in January 2010, the County has added 33,200 jobs on a non-seasonally adjusted basis. While this is a welcome sign, it represents just a fraction of the 122,100 jobs lost since the peak in December 2007.



The economic outlook for San Diego is generally positive. In February, the USD Index of Leading Economic Indicators for San Diego County increased by 1.9%, the largest one month increase in the history of the Index. February's surge was due to the

General Fund Revenue

largest monthly increase in building permits on record, as well as positive contributions from initial claims for unemployment insurance, consumer confidence, help wanted advertising and the national index of leading economic indicators. The USD Index has now increased or been unchanged for 23 consecutive months.



Given the strong growth in sales tax projected in FY 2011 and improving economic conditions, the 3% economic growth rate assumed in the FY 2012 Proposed Budget represents a fairly conservative projection. While there are certain risks to future growth, particularly the recent surge in oil and gasoline prices, the economic outlook is generally positive. The UCLA Anderson Forecast is projecting healthy growth in personal income, payroll employment and taxable sales. Should economic conditions continue to improve, an upward adjustment in the projected sales tax growth rate may be warranted.

UCLA Anderson Forecast for California				
	2010	2011	2012	2013
Personal Income	1.4%	1.3%	3.7%	4.1%
Nonfarm Employment	-1.5%	1.1%	3.1%	3.7%
Taxable Sales	0.6%	1.2%	5.1%	4.7%

Transient Occupancy Tax

The FY 2012 Proposed Budget projects General Fund transient occupancy tax (TOT) at \$73.0 million, a 3% growth from FY 2011 year-end projections, and a \$6.9 million increase from the FY 2011 Budget. Pursuant to the San Diego Municipal Code, 5.5-cents of the City's 10.5-cent TOT levy is allocated directly to the General Fund, while 5-cents is allocated to the TOT Fund. Citywide, the FY 2012 Proposed Budget for TOT is \$135.4 million.

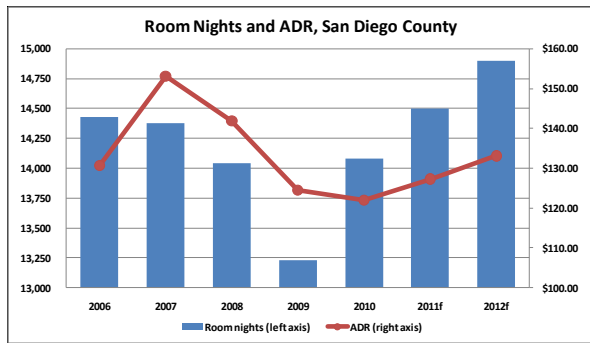
The assumed 3% growth in TOT is unchanged from the growth rate projected in the Five-Year Outlook, and reflects modest growth in the region's tourism and lodging industry. As with sales tax, TOT receipts have resumed strong growth in FY 2011 after two years of significant declines. Based on receipts through January, TOT revenue is projected to grow by more than 6% in FY 2011.

In calendar year 2010, the tourism and lodging industry began to show signs of improvement after several years of decline. According to data from the San Diego Convention and Visitors Bureau (ConVis), total visitors to the region increased 0.9% in 2010 following a 4.8% decline in 2009. Total overnight visitors increased by 4.5% after a similar decline in 2009.

Total room nights sold, a measure of lodging demand, increased 6.4% in 2010 following three years of decline. In addition, the average occupancy rate increased to 66.7% from 63.3% in 2009. However, the average

General Fund Revenue

daily room rate (ADR), which tends to lag changes in room demand, continued to decline in 2010, falling 2% to \$121.93. The ADR has declined by more than 20% since the peak of \$153.06 in 2007, reflecting the sharp downturn in the lodging industry over the past several years.



According to the March 2011 Quarterly Travel Forecast prepared for ConVis by Tourism Economics, San Diego County should continue to see steady growth in the tourism and lodging industry. Total visitors are projected to increase by 3.8% in 2011 and 2.6% in 2012. Room demand is projected to continue growing as well, though more modestly than the 6.4% increase seen in 2010. Importantly, however, ADR is projected to resume positive growth, increasing by 5.0% and 4.6% in 2011 and 2012 respectively.

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

Overall, the 3% growth rate projected for TOT revenue in FY 2012 appears to be somewhat conservative in light of the ro-

bust growth experienced in FY 2011. Given the projected growth in key metrics such as room demand and ADR, as well as the continued success of the Tourism Marketing District, the IBA believes that there may be capacity for enhanced growth in TOT revenue for FY 2012. Each additional 1% increase in the projected growth rate would result in an additional \$1.35 million in TOT revenue.

Franchise Fees

The FY 2012 Proposed Budget for General Fund franchise fees is \$67.8 million, reflecting an aggregate growth of 2.8% over FY 2011 year-end projections, and an increase of \$0.7 million over the FY 2011 Budget. Citywide, franchise fees are budgeted at \$124.6 million, which includes the utility undergrounding surcharge and franchise revenue that is allocated to the Environmental Growth Fund.

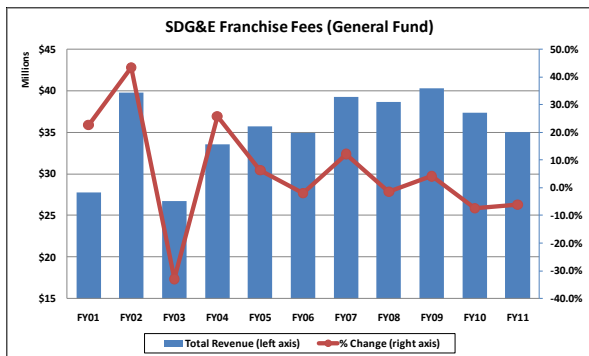
The budget for franchise fees consists of revenue derived from individual franchise agreements with various utility providers for the use of the City's rights of way. The majority of franchise revenue comes from three sources: San Diego Gas & Electric (SDG&E), cable providers, and franchised refuse haulers.

The franchise agreement with SDG&E provides for the largest source of General Fund franchise revenue. In FY 2012, SDG&E franchise revenue is projected to be \$48.2 million, of which \$36.1 million is budgeted in the General Fund. Pursuant to the City

General Fund Revenue

Charter Section 103.1(a), 25% of the franchise revenue from SDG&E is allocated to the Environmental Growth Fund for the purpose of preserving and enhancing the environment.

In FY 2011, SDG&E franchise revenue is projected to end the year \$3 million under budget. As explained in the FY 2011 Midyear Report, this reduction is due to a decrease in the electric surcharge for municipal customers and an overall reduction in electricity usage in calendar year 2010. Historically, SDG&E franchise revenue has been very volatile from one year to the next, with growth rates ranging from 12.2% in FY 2007 to -7.4% in FY 2010.



SDG&E franchise fees are levied as a percentage of gross revenues from gas and electric sales. Given the dearth of information provided by the company with respect to sales and performance forecasts, projecting franchise revenue is inherently challenging. Based on the recent trend of declining growth, the projected 3% increase in FY 2012 may be somewhat aggressive. However, it is still in line with long-term average growth for SDG&E franchise revenue.

City Franchise	FY 2012 Proposed
SDG&E	\$ 36,115,324
Cable Franchises	19,099,914
Refuse Hauler	9,568,710
Sycamore Landfill	2,750,000
Other	275,000
TOTAL	\$ 67,808,948

Franchise revenue from cable providers, including Cox Communications, Time-Warner and AT&T, is projected to be \$19.1 million in FY 2012, an increase of 3% over FY 2011 year-end projections. In FY 2011, cable franchise revenues are projected to grow by 6.1%, following growth rates of 3.3% and 2.4% in FY 2010 and FY 2009, respectively. Based on these growth trends and the improving economic outlook, the FY 2012 budget for cable franchise fees reflects a conservative projection. However, this may hedge against the more aggressive projection for SDG&E franchise fees.

Refuse hauler franchise fees are projected to be \$9.6 million in FY 2012, an increase of \$0.3 million over FY 2011 year-end projections. This increase is attributable to a projected increase in tonnage hauled by private refuse haulers as a result of the Mayor's proposal to eliminate City refuse collection for small businesses and residents on private streets.

Other GF Revenues

Safety Sales Tax

The FY 2012 Proposed Budget for Safety Sales Tax is \$6.65 million, reflecting a 2.5% growth over FY 2011 year-end projections, and an increase of approximately \$0.4 million over the FY 2011 Budget. Safety Sales Tax is based on a half-cent sales tax ap-

General Fund Revenue

proved by California voters in 1993 (Proposition 172) in order to provide funding for local public safety services. Safety Sales Tax revenue is collected by the State, and allocated to counties based on a pro-rata share of statewide taxable sales. The City of San Diego receives approximately 3.18% of the County's annual allocation.

In FY 2012, safety sales tax is budgeted in the newly created Public Safety Needs and Debt Service Fund, which was created to provide greater transparency regarding the use of safety sales tax. In prior years, the revenue was budgeted directly in the General Fund, and a transfer was made to the Fire and Lifeguard Facilities Fund to pay for the annual debt service on the 2002 Fire and Life Safety Facilities Project bond.

Under the new budget practice, safety sales tax revenue is first allocated from the Public Safety Needs and Debt Service Fund first to the Fire and Lifeguard Facilities Fund for the annual debt service payment. The remaining revenue is then transferred to the Police and Fire-Rescue Departments in equal amounts. As a result, General Fund safety sales tax is categorized as a departmental revenue source in the FY 2012 Proposed Budget.

	FY 2012 Proposed
Safety Sales Tax	
Fire & Lifeguard Facilities Fund	\$ 1,629,325
Police Dept. (General Fund)	2,510,496
Fire-Rescue (General Fund)	2,510,496
TOTAL	\$ 6,650,317

General Fund Expenditures

Expenditure Overview

The FY 2012 Proposed Budget totals \$1.1 billion, and reflects a net increase of \$9.6 million from the FY 2011 Budget, or a 0.9% increase. When compared to the most recent Five-Year Outlook, the Mayor's Budget Proposal clearly reflects a lower level of expenditures due to the inclusion of new reduction proposals required to balance the budget.

This section reviews the General Fund budget as a whole, by describing the proposed changes within the expenditure categories that comprise the budget. Variances from the policy assumptions contained in the most recent Five-Year Outlook are also noted.

Budgetary changes are also reflected in the General Fund departments. Many of the 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 Departmental Reviews.

The Mayor's FY 2012 Proposed Budget is the second to be developed using the City's new budget information system, Public Budget Formulation (PBF), a newly developed module of the OneSD SAP integrated system for the City's core Financial, Procurement, Human Resources, and Payroll processes.

The budget document produced as a result of PBF contains a large amount of detailed information. However, some aspects of the information presented could be vastly improved. For example, the "Significant Budget Adjustments" listed in each department section have historically been an exhaustive list of all changes from one budget year to the next. A reader could see the list of all adjustments that comprise the budget change proposal. Unfortunately, in

SUMMARY OF GENERAL FUND BUDGET CHANGES						
(in millions)						
Expenditure Category	FY 2010 BUDGET	FY 2011 BUDGET	FY 2012 PROPOSED	CHANGE	%	FY 2012 OUTLOOK
Salaries and Wages	\$ 516.1	\$ 478.6	\$ 491.5	\$ 12.9	2.7%	\$ 480.4
Fringe Benefits	269.4	311.3	312.5	1.2	0.4%	317.8
Supplies	24.1	22.4	18.5	(3.9)	-17.4%	22.5
Contracts	182.6	161.6	163.6	2.0	1.2%	163.6
Information Technology	30.9	25.6	24.7	(0.9)	-3.5%	25.9
Energy and Utilities	32.4	33.0	33.3	0.3	1.0%	34.6
Other Expenditures	64.3	56.4	53.9	(2.5)	-4.4%	88.0
Capital Expenditures	5.6	3.0	1.8	(1.2)	-38.7%	<i>in Other</i>
Debt	4.3	4.3	6.0	1.7	38.4%	<i>in Other</i>
TOTAL GENERAL FUND	\$ 1,129.7	\$ 1,096.2	\$ 1,105.8	\$ 9.6	0.9%	\$ 1,132.8

General Fund Expenditures

the FY 2012 Proposed Budget, many budgetary system changes implemented in PBF as part of the development of the base budget are not listed or itemized in the department sections. Base budget adjustments could include salary and fringe benefit changes for existing positions, reclassifications, and adjustments to the salary savings/vacancy factor, to name a few.

Also omitted from the budget document are actual revenue and expenditure data for the prior fiscal year. This has been an ongoing issue for many years, and was expected to be corrected once the City caught up on its Comprehensive Annual Financial Reports. However, implementation issues with OneSD have prevented the closing of the FY 2010 financials, and have again delayed the ability to display prior year actual data in the budget document. This is an important feature that provides a helpful comparison to the reader, especially when reported in concert with actual results and targets/goals for departmental performance measures.

It is the hope of the IBA that future budget documents will provide greater clarity and transparency to allow the public and the City Council the ability to fully understand the Mayor's budget proposal.

Salaries and Wages

The General Fund Salaries and Wages category has increased by \$12.9 million, or 2.7% compared to the FY 2011 budget. Adjustments to departmental vacancy savings were made to correct the FY 2011 estimates which, in practice have turned out to be too large, requiring budgetary adjustments during FY 2011 to provide additional funding for specific departments.

Salary/Vacancy Savings

In previous years, as part of the annual budget process, the City has assigned a vacancy factor to departments (with eleven positions or more) in order to reduce budgeted personnel expenditures in anticipation of normal turnover and attrition. The methodology for this process has re-

SUMMARY OF VACANCY SAVINGS BUDGET CHANGES					
Significant General Fund Changes by Department					
(in millions)					
Department	FY 2011		FY 2012		%
	BUDGET	PROPOSED	CHANGE		
Police	\$ 11.5	\$ 8.7	\$ (2.8)	-24.3%	
Public Works - General Services	2.0	0.6	(1.4)	-70.0%	
Library	1.4	0.2	(1.2)	-85.7%	
Park and Recreation	1.8	0.8	(1.0)	-55.6%	
Public Works - Engineering & Cap	2.0	1.1	(0.9)	-45.0%	
Remaining Departments	2.4	2.0	(0.4)	-16.7%	
City Attorney	0.6	0.7	0.1	16.7%	
Fire-Rescue	3.2	3.4	0.2	6.2%	
TOTAL GF VACANCY SAVINGS	\$ 24.9	\$ 17.5	\$ (7.4)	-29.7%	

General Fund Expenditures

cently changed, capitalizing on the benefits of the integrated OneSD system by relying on payroll data, including actual employee salaries, and the current vacancy status of each department.

Based on the status of positions in December 2010, and in consultation with departments regarding hiring plans, positions designated to stay vacant are unfunded in the FY 2012 Proposed Budget. Significant changes to department estimates are shown in the table on the prior page.

Departments also received adjustments to salary and fringe benefits funding to accurately reflect the six percent compensation reduction and SPSP waiver options, agreed to this past fiscal year, which required employees to individually choose how those impacts would be implemented.

In total, FY 2012 Salary Savings for the General Fund is \$17.5 million. In other words, department budgets have been reduced by \$17.5 million, which required the addition

of \$7.4 million to Salaries and Wages.

Termination pay annual leave also has increased by \$585,000 in the General Fund to almost \$2.5 million. This reflects an increase of \$400,000 compared to the estimates made at the time of the Five-Year Outlook. This could be considered an area for review and possible reduction.

Fringe Benefits

In the FY 2012 Proposed Budget, total Fringe Benefits have increased by \$1.2 million in the General Fund. The General Fund share of the City's retirement payment (ARC) is relatively unchanged compared to FY 2011. The Five-Year Outlook had estimated an increase of \$1.6 million for the FY 2012 General Fund payment, which was based on assuming the FY 2011 allocation percentage though applied to the new FY 2012 ARC. Implementing the ac-

SUMMARY OF FRINGE BENEFITS BUDGET CHANGES					
General Fund Changes by Benefit					
(in millions)					
Fringe Benefit Account	FY 2010 BUDGET	FY 2011 BUDGET	FY 2012 PROPOSED	CHANGE	%
Retirement ARC	\$ 124.9	\$ 177.6	\$ 177.8	\$ 0.2	0.1%
Flexible Benefits	39.0	37.7	37.8	0.1	0.3%
OPEB	39.7	40.2	40.2	-	0.0%
Worker's Compensation	20.4	14.9	16.3	1.4	9.4%
Retirement Offset	5.2	4.8	4.5	(0.3)	-6.3%
SPSP	13.5	9.1	8.8	(0.3)	-3.6%
Employee Offset	10.0	9.0	9.0	-	0.0%
Medicare	6.9	5.3	5.4	0.1	1.9%
Risk Management Admin	5.5	6.2	6.4	0.2	2.9%
Long Term Disability	3.0	3.8	3.7	(0.1)	-3.2%
Remaining Fringe Accounts	1.3	2.6	2.7	0.0	1.1%
TOTAL GF FRINGE BENEFITS	\$ 269.4	\$ 311.3	\$ 312.5	\$ 1.2	0.4%

General Fund Expenditures

tual rates by bargaining group provided by the SDCERS actuary, in combination with the position reductions now contained in the budget proposal, the General Fund share of the Retirement ARC has been reduced from the Five-Year Outlook estimate.

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 of \$4.9 million for the Workers' Compensation Reserve has been reduced in the Mayor's Proposed Budget, as compared to the Five-Year Outlook, as a budget balancing solution.

The annual amount estimated to be needed for payment of Workers' Compensation claims during FY 2012 has increased by \$1.4 million from FY 2011, based on a three-year average of actual annual payments, and the determination of rates which have been assigned by job class in the budget system. This is a change from the estimates included in the Five-Year Outlook which did not describe that an increase for Workers Compensation claim costs were expected. This \$1.4 million increase comprises the bulk of the increase to the Fringe Benefits category for the General Fund compared to the FY 2011 Budget.

Funding for OPEB (or retiree health care) remains consistent with prior year levels.

A Long-Term Disability reserve contribution of \$1.6 million from the General Fund (\$2.3 million Citywide) is still planned, while other City reserve contributions are sus-

pending. The Reserve Policy states a goal of \$12 million is to be reached, and also describes a study to be undertaken to evaluate the feasibility of purchasing insurance instead of continuing the City's self-insurance program.

The IBA inquired with the CFO and the Risk Management Director as to possible impacts of postponing the reserve contribution to the Long-Term Disability reserve, and it was discussed that work has begun to negotiate with the City's labor organizations to transition the Long-Term Disability program to an insurance provider. In doing so, the City will need to prepare to continue to pay existing claims, and also to fund costs associated with premiums, for future insurance coverage. The LTD Reserve appears to be the intended source of funds as the City works to make this transition happen; however, this seems to be a major policy change.

The City Council may want to discuss the implications, timing and cost/benefits associated with the proposed plan. It is unclear to the IBA if the \$1.3 million General Fund contribution to the LTD Reserve is a high-priority requirement, or can be eliminated to allow funding to be directed to other needs.

Supplies

The Supplies category is budgeted at \$18.5 million for the General Fund, and reflects a decrease of \$3.9 million or 17.4% compared to FY 2011. This follows a \$3.9 million reduction which took place for the FY 2011 Budget. This category had previously in-

General Fund Expenditures

SUMMARY OF SUPPLIES BUDGET CHANGES				
Largest Dollar Changes by Account				
(in millions)				
Supplies Account	FY 2011	FY 2012	CHANGE	%
	BUDGET	PROPOSED		
Office Supplies	\$ 2.6	\$ 2.0	\$ (0.6)	-23.1%
Dry Goods/Wearing Apparel	2.7	2.3	(0.4)	-14.8%
Pipe Fittings Etc	0.9	0.5	(0.4)	-44.4%
Asphaltic Road Materials	0.7	0.3	(0.4)	-57.1%
Cement & Aggregates	1.3	0.2	(1.1)	-84.6%
Trash Containers	0.5	0.3	(0.2)	-40.0%
Street Materials	1.2	0.9	(0.3)	-25.0%
Electrical Materials	0.6	0.8	0.2	33.3%
Sign Materials/Supplies	0.4	0.9	0.5	125.0%
Remaining Supplies Accounts	11.5	10.3	(1.2)	-10.4%
TOTAL GF SUPPLIES	\$ 22.4	\$ 18.5	\$ (3.9)	-17.4%

cluded a diverse and broad range of expenditure accounts and types, and the budget document did not provide transparency as to what comprised those expenditures. The isolation of the Supplies category is an improvement.

In our review, we determined the largest dollar reduction was to Office Supplies, in the amount of \$600,000. Other large im-

pacts are shown in the summary.

Contracts

The Contracts category totals \$163.6 million for the General Fund, and reflects an increase of \$2 million from the FY 2011 Budget. Besides traditional Contracts, this category also includes funding for motive

SUMMARY OF CONTRACTS BUDGET CHANGES						
General Fund Changes by Account						
(in millions)						
Contracts Account	FY 2010	FY 2011	FY 2012	CHANGE	%	
	BUDGET	BUDGET	BUDGET			
Motive Equipment/Fleet - Usage	\$ 32.4	\$ 30.2	\$ 34.3	\$ 4.1	13.5%	
Motive Equipment/Fleet - Assign	25.8	13.1	15.4	2.3	17.8%	
Landscaping Services	3.5	3.6	4.7	1.1	30.6%	
Refuse Disposal Fees	11.4	11.1	11.9	0.8	7.2%	
Contract Svc - Agency	7.2	7.3	8.0	0.7	9.6%	
Misc Prof/Tech Services	38.6	30.5	31.1	0.6	2.0%	
Contract Svcs Ops	6.1	6.2	6.6	0.4	6.5%	
Repair/Maint Svcs	0.3	2.3	1.7	(0.6)	-26.1%	
Maint - Bldgs, Rds, Equip	7.6	4.7	3.7	(1.0)	-21.3%	
City Services Billed	4.5	5.9	4.6	(1.3)	-22.0%	
SAP Support Allocation	7.6	10.2	8.3	(1.9)	-18.6%	
Construction Contracts	-	3.3	-	(3.3)	-100.0%	
Remaining Contracts Accounts	37.6	33.3	33.3	-	0.0%	
TOTAL GF CONTRACTS	\$ 182.6	\$ 161.6	\$ 163.6	\$ 2.0	1.2%	

General Fund Expenditures

equipment usage and assignment charges, which are rates charged to City departments for the maintenance and repair of City vehicles, as well as for costs for planned scheduled replacements based on the useful life of the vehicle or piece of equipment.

In December 2009, budget reductions included changes to the vehicle replacement schedules to extend them by two years, and rates charged to departments were correspondingly reduced. Reductions to the number of vehicles in the fleet were also made by identifying underutilized vehicles in the fleet. As an additional budgetary

solution, further changes in the fleet operations were made to utilize accumulated fund balance from past departmental charges, vehicle purchases were reviewed and aligned with available funding, both of which further reduced rates, providing additional General Fund savings of \$4.4 million. The use of the Fleet fund balance in FY 2011 requires an increase to departmental rates, for FY 2012 which in turn increase departmental contributions to Fleet of \$4.1 million for usage.

SUMMARY OF INFORMATION TECHNOLOGY BUDGET CHANGES				
General Fund Changes by Account				
(in millions)				
INFO TECHNOLOGY ACCOUNTS	FY 2011 BUDGET	FY 2012 PROPOSED	CHANGE	%
Corporate Overhead - Fixed	\$ -	\$ 0.2	\$ 0.2	n/a
Computer Services - Fixed	0.7	0.2	(0.5)	-71.4%
Document Management Services - Fixed	0.4	0.3	(0.1)	-25.0%
Enterprise GIS - Fixed	0.3	0.5	0.2	53.3%
INet Services - Fixed	0.5	0.5	-	0.0%
MS Office Licensing - Fixed	1.0	1.1	0.1	13.4%
Telephone Services - Fixed	1.5	1.6	0.1	6.7%
Central Support - Fixed	2.0	1.7	(0.3)	-15.0%
Network Access - Fixed	4.3	4.6	0.3	7.0%
Help Desk and Desktop Support	0.8	0.8	(0.0)	-1.3%
Subtotal Non-Discretionary IT	11.4	11.4	(0.0)	-0.2%
Computer Maintenance/Contracts	5.6	4.4	(1.2)	-21.4%
Professional IT Services	4.6	6.1	1.5	32.6%
Hardware/Software - Discretionary	1.2	0.6	(0.6)	-50.0%
Computer Services - Discretionary	0.3	0.4	0.1	40.0%
Investment Projects-Hardware/Software	-	0.3	0.3	n/a
Telephone Services - Discretionary	0.9	1.0	0.1	11.1%
Remaining Discretionary	1.6	0.5	(1.1)	-68.8%
Subtotal Discretionary IT	14.2	13.3	(0.9)	-6.4%
TOTAL GF INFO TECH	\$ 25.6	\$ 24.7	\$ (0.9)	-3.6%

General Fund Expenditures

Information Technology

A large portion of Information Technology services are currently provided to the City by San Diego Data Processing Corporation (SDDPC). The City's Department of Information Technology works closely and coordinates efforts with SDDPC. The SDDPC Budget is also discussed in the City Agencies section of this report. The City begun efforts to seek competitive bids for the services currently provided by SDDPC.

City Council approval was recently obtained for a two-year extension to the current agreement for with En Pointe Technologies for Help Desk & Desktop Support functions.

A Request for Proposals for Information Technology Services for the other services currently provided by SDDPC. Proposals are due June 2, 2011. According to the current schedule, new service providers could

begin in January 2012. These competitive efforts are expected to reduce City IT costs.

In total, the costs budgeted for FY 2011 for Information Technology needs across all General Fund Departments totals \$24.7 million, which is \$900,000 less than FY 2011 amounts. There are two types of Information Technology budget accounts: Non-Discretionary (which are committed to SDDPC based on agreed upon levels of service) and Discretionary (which are services typically not required to be provided by SDDPC, but can or SDDPC may help procure from other providers).

Discretionary IT accounts total \$13.3 million in the General Fund. Plans for these funds will be a productive area to discuss with departments to determine the priority nature and required timing for the use of these funds, and to discuss potential for reductions.

SUMMARY OF ENERGY/UTILITIES BUDGET CHANGES				
General Fund Changes by Account				
(in millions)				
	FY 2011	FY 2012		
Other Accounts	BUDGET	PROPOSED	CHANGE	%
Electric Services	\$ 9.0	\$ 9.0	-	0.0%
Wireless Communication Transfer	6.9	7.5	0.6	8.7%
Water Serv-Incl Hydr Rent	7.0	7.3	0.3	4.3%
Street Lighting/Traf Sig	1.5	3.0	1.5	100.0%
Traffic Signals	4.1	1.5	(2.6)	-63.4%
Cellular Phone Operating Cost	0.9	1.5	0.6	63.3%
Other Motor Fuels	1.4	1.4	-	0.0%
Sewer Service Charge	1.1	1.0	(0.1)	-9.1%
Gas Services	0.8	0.8	-	0.0%
Gasoline	0.1	0.1	-	0.0%
Satellite/Cable Services	-	0.1	0.1	n/a
Remaining Utilities	0.2	0.1	(0.1)	-33.3%
TOTAL	\$ 33.0	\$ 33.3	\$ 0.3	1.0%

General Fund Expenditures

Energy/Utilities

The Energy and Utilities category totals \$33.3 million for FY 2012, and reflects an increase of \$300,000 from FY 2011. Included in this category are accounts for gas and electricity, and water and sewer charges, and new allocations to General Fund departments for the Wireless Communication Transfer (previously budgeted in the Department of Information Technology), which reflects an increase of \$600,000. Funding for the City's traffic signals and street lights are budgeted in the category, and reflect a redistribution between the two accounts because of past mis-allocations or mis-assignment of costs. When considered together, these accounts reflect a net reduction of \$1.1 million, resulting in \$4.5 million budgeted for both together. Included in the assumptions for these estimates are adjustments expected due to the reduction in energy costs for the Broad Spectrum Street Lighting Project, as well as increases for a potential rate adjustments.

Funds budgeted for cellular phones reflect an increase of \$600,000 for the General Fund in total increasing from \$900,000 in FY 2011 to \$1.5 million in FY 2012.

Other

The Other Expenditures category includes transfers of funding between City funds, including the allocation of funds to City reserves, matching funds for donation purposes, and transfers of funding for annual debt service payments for outstanding bonds. In the past, these types of expenditures were included in the Supplies & Services category, and the creation of the Other Expenditure category is an improvement.

Contributions to the City's General Fund and Public Liability Reserves would typically be budgeted in this category, but have not been included in the Mayor's Proposed Budget.

SUMMARY OF OTHER BUDGET CHANGES					
General Fund Changes by Account					
(in millions)					
Other Accounts	FY 2011		FY 2012		%
	BUDGET		PROPOSED	CHANGE	
Taxes - Assessments	\$ 0.5		\$ 0.5	-	0.0%
Taxes - Sales/Use Taxes	0.4		0.4	-	0.0%
Transfer Out	44.5		33.6	(10.9)	-24.5%
Transportation Allowance	1.6		1.7	0.1	5.0%
Transfer Matching Donation	0.9		0.9	-	0.0%
Info Tech Service Transfer	1.7		1.6	(0.1)	-5.9%
Transfer Cash - Bond Payment	6.9		15.3	8.4	121.7%
TOTAL OTHER ACCOUNTS	\$ 56.4		\$ 53.9	\$ (2.5)	-4.5%

General Fund Expenditures

The Library Department's donation matching fund is reflected here, as well as increases to Transportation & Storm Water Department for contributions to the annual debt service payment for the Deferred Capital financing.

Funding for annual payments related to the McGuigan Settlement Financing are included in this category and the General Fund share in the amount of \$7.9 million is reflected in Citywide Program Expenditures.

Capital

Capital Expenditures, previously called Equipment Outlay, include funding for vehicle and equipment purchases not handled by the City's Fleet Services. The FY 2012 Proposed Budget for General Fund Capital Equipment totals \$1.8 million, a \$1.2 million reduction from the FY 2011 Budget. The Police, Fire-Rescue, and Park and Recreation Departments implemented 50% reductions to the FY 2011 budget amounts for capital equipment.

Park and Recreation indicates that these funds are required for lawn mower, weed trimmer and other park maintenance equipment purchases.

It is important to note that the FY 2010 Budget for Capital Equipment was \$5.6 million, and the FY 2012 Proposed Budget is approximately one-third of this amount.

Debt

The Debt category totals \$6 million in the General Fund for FY 2012, an increase of \$1.7 million from the FY 2011 Budget. Payments related to the City's Master Lease Purchase Program for Equipment and Vehicles are reflected here, along with payments for energy efficiency retrofits and improvements to City facilities, including Police Headquarters and the current Central Library. Loans from the California Energy Commission initially funded project costs and multi-year repayments are made from energy savings due to reduced energy consumption.

SUMMARY OF CAPITAL EQUIPMENT BUDGET CHANGES				
General Fund Changes by Account				
(in millions)				
Capital Accounts	FY 2011 BUDGET	FY 2012 PROPOSED	CHANGE	%
Capital Expenditure - Equipment				
Police	0.4	0.2	(0.2)	-50.0%
Fire-Rescue	1.0	0.5	(0.5)	-50.0%
Park and Recreation	0.8	0.4	(0.4)	-50.0%
All Other General Fund Depts	0.4	0.4	-	0.0%
Capital Expenditure - Vehicles				
Park and Recreation	0.3	0.2	(0.1)	-33.3%
Transportation and Storm Water	0.1	0.1	-	0.0%
TOTAL	\$ 3.0	\$ 1.8	\$ (1.2)	-40.0%

General Fund Expenditures

On April 18, 2011, the City issued Qualified Energy Conservation Bonds (QECCBs) for the Broad Spectrum Street Lighting Project in the amount of \$13.1 million to convert approximately 80% of existing low pressure sodium and high pressure sodium street lights citywide to broad spectrum lighting using induction type technology. In addition to the QECCBs, the City will utilize a \$3 million California Energy Commission Loan, and \$2 million in EECBG funds, to fund the total project costs of \$18 million. The project is expected to begin in June 2011 and be completed by August 2012.

Annual payments for the QECCBs will be funded from annual street light energy and maintenance costs savings, which are \$1.53 million each year through FY 2026. Bond payments have been budgeted in Street Division in the amount of \$1.5 million. The City will also receive a federal subsidy of \$474,000 each year towards these payments.

“One-Time” Versus “Ongoing” Solutions

The Mayor's proposed budget solutions include \$35.1 million of one-time savings/new resources and \$38.1 million of ongoing savings/resources. Roughly half of the proposed budget solutions effectively address the City's structural budget deficit while an estimated \$41 million deficit will remain for FY 2013 largely attributable to the use of one-times.

One-time solutions fall into the categories of fund balances; a reserves holiday; and use of unclaimed funds and disaster recovery reimbursements. Ongoing budget solutions include a reduction of 207 positions-154 of which are the result of significant reductions in branch library and recreation center hours-and an average 10% city-wide reduction to non-personnel expenses (NPE). Also included in ongoing solutions are new or adjusted user fees in the Public Safety area; revenue from a new parking meter utilization program; and a \$2.0 million payment by the RDA to help offset Convention Center Phase II debt reserve costs.

Use of One-Time Solutions

Beginning with a report issued in February 2008, the IBA has commented extensively on the City's historic pattern of using one-times- even in healthy economic conditions- which over time has contributed to the City's structural budget deficit. We have advocated during each budget cycle for permanent solutions to address the City's

structural deficit. Following the economic crisis of September 2008 and the significant loss in City revenues, with the City facing a short-term economic crisis coupled with a longer-term structural imbalance, we recognized the need for a combination of appropriate solutions for each of these conditions. In our review of the Mayor's Proposed FY 2010 budget in April 2009 we wrote:

“While our office's position on this matter remains grounded in the best practices set forth in our structural budget deficit report, our position on specific proposals for utilization of one-time resources will be tethered to an analysis of the situation and the related criteria.”

We also noted that best practice is to utilize them solely for one-time expenditures; and using one-times is an acceptable practice provided that one-time expenditures are clearly identified, tracked and removed from the budget the following year. In February 2010, the City Council adopted Resolution Number 305615 “Eleven Guiding Principles for Eliminating the City's Structural Budget Deficit” which included a principle that affirmed the appropriate use of one-time resources:

Since FY 2008, the Mayor has relied on a wide range of one-time budget solutions to balance the annual deficits as shown in the following chart on the next page.

Mayor's Budget Balancing Actions

Fiscal Year	Amount	One-Time Resource
2008	\$26.20	Budget clean up, land sales
2009	\$33.90	FEMA reimbursements, fund balances, land sales
2010	\$22.10	Library fund/Internal stabilization fund balances
2010/11	\$96.50	McGuigan financing, reserves holiday, fleet rates, fund balances
2011	\$14.10	McGuigan deferral, fund balances, disaster recovery
2012	\$35.10	Reserves holiday, fund balances

In December 2008 the IBA also recommended and the Council approved utilizing \$2.4 million from the Library Improvement System fund balance to stave off the closure of seven branch libraries as proposed by the Mayor. The Mayor subsequently allocated ongoing General Funds in FY 2010 for this purpose.

For several years, the Mayor matched recommended one-time solutions to one-time expenditures within the same fiscal year. The IBA confirmed this for Fiscal Years 2008, 2009 and 2010. We disagreed in part with their analysis in the FY 2010/2011 mid-year process. For FY 2011 we could not confirm that one-time resources were tied to one-time expenditures. For FY 2012, this information has not been provided.

The CFO has noted that they were not able to match proposed one-times with one-time expenditures for FY 2012; and that one-time solutions were necessary to avoid additional service reductions. The Mayor has been forthright in stating that his proposed use of one-times for FY 2012 will re-

quire \$41 million of permanent reductions in FY 2013 as a permanent offset in order to address the structural deficit. We would note also that each budget cycle the IBA has confirmed that all one-time resources used in the prior year have been appropriately removed as a resource from the upcoming year's budget proposal as well as the Mayor's Five-Year Outlook.

In discussing our support of the Mayor's FY 2010/11 budget solutions in December 2009, including the one-time solutions used to address the \$172 million projected deficit, we stated:

"The Mayor's proposal provides an 18-month "bridge" so the City can work to achieve further structural reform. We recognize that structural change- such as pension reform- does not happen overnight."

We also reiterated our position that in a fiscal crisis both short-term and long-term solutions should continue to be pursued as they can achieve sizable savings in a relatively short period and help the City weather the effects of this cyclical economic decline. It is difficult to support \$35.1 million of one-time resources 17 months later. Our review, however, has not identified savings or new resources to the level that would allow for replacement of the proposed one-time solutions without further service reductions.

Ongoing Budget Balancing

Actions

Service (Position) Reductions

Since FY 2007 the Mayor has relied heavily on reducing the City's expenditures through position reductions. A net 1400 positions have been eliminated City-wide between FY 2007-2011. The majority of these were vacant at the time of elimination; others became vacant through attrition (planned retirements or separations from the City) and were then eliminated. In cases where positions proposed for reduction were filled, some employees had the opportunity to assume vacant positions in other areas through a seniority-based reduction in force (RIF) process. Only 30+ employees left the City during this period as a direct result of position eliminations.

A frequently asked question is- "how can there be any real savings if a position being eliminated is vacant?" A vacant position does not mean the position is not needed to meet service levels that the City has committed to provide-it means it is vacant at that time. While the vacancy provides savings in the current year, the intention is to fill the vacancy and appropriately include the cost in the following year's budget. If a deficit is projected for the following year based on these service levels, decisions to balance the budget can include service reductions regardless of whether related posi-

tions are vacant or filled.

When positions are vacant other employees often assume the extra work; temporary positions or overtime may have been used; or service levels may start to erode. A position reduction, whether filled or vacant, reduces the budget since the budgeted position is permanently removed from the budget and no longer available to be filled. Service levels are often impacted given that municipal organizations provide labor intensive services such as police, fire, park and recreation, library, trash collection, and water and wastewater.

For the FY 2012 proposed budget, the Mayor is proposing eliminating 207 General Fund positions which will result in an annual savings of \$18.3 million. 74% of the savings from position reductions is coming from two departments- Library (77 positions/\$6.9 million) and Park and Recreation (77 positions/\$4.3 million). Ninety-one full-time positions of the 154 are currently filled. The status of the hourly positions is unknown. These proposed reductions will have significant service level impacts- branch library hours and recreation center hours would be reduced by 50% effective July 1, 2011 and September 6, 2011 respectively.

In December 2008, the Council rejected closing seven branch libraries as proposed by the Mayor and identified alternative re-

Ongoing Budget Balancing Actions

sources to keep them open. The “pairing” of branch libraries now proposed for FY 2012 was seriously considered during FY 2011 budget balancing process but alternatively, branch library hours were reduced from 40 hours per week on average to 36 hours. The “pairing” concept is discussed in greater detail in the Library Department section of this report.

Closure of nine recreation centers was also proposed by the Mayor in December 2008 and was also rejected by the City Council. These renewed proposals to substantially reduce library and recreation center hours are unfortunate developments but may be difficult to avoid two years later.

An additional \$3.4 million of savings would result from eliminating a net 30.35 positions in Police including 22.50 vacant sworn positions and 7.50 civilian positions. This follows the elimination of 133.75 vacant sworn and 82.80 civilian support positions in FY2010/11 including 12 Code Compliance

Officers. The department has indicated that these reductions will not impact response times or, in the case of the Code Compliance Officers, revenue generation. This should be an issue for discussion during the department’s budget hearing.

For your reference, we have provided the following chart which categorizes the FY 2012 proposed position reductions among the City’s bargaining units and shows the change from FY 2011.

Reduction of Public Hold Harmless Agreements

The People’s Ordinance, adopted by San Diego voters in 1919, requires the City of San Diego to collect, transport and dispose residential refuse, and prohibits the City from charging a fee for this service. In general, to be eligible for City-provided refuse collection, the residential property must be located on, addressed on and contiguous to a dedicated public street or dedicated public

General Fund Net FTE Reductions			
BARGAINING UNIT	FY2012	Change	%
Municipal Employees Association	2,456.26	(149.68)	79.6%
SDPOA	1,948.85	(22.50)	12.0%
AFSCME Local 127	846.49	(14.11)	7.5%
DCAA	136.22	(3.10)	1.6%
Teamsters Local 911 (Lifeguards)	133.89	(0.91)	0.5%
Classified/Unrepresented	143.92	1.15	-0.6%
Unclassified/Unrepresented	317.33	0.75	-0.4%
IAFF Local 145 (Fire)	887.00	0.38	-0.2%
Elected Officials	10.00	-	0.0%
TOTAL	6,879.96	(188.02)	100.0%

Ongoing Budget Balancing Actions

alley, in accordance with City regulations. The People's Ordinance prohibits the City from entering a private street to collect residential refuse, unless a hold harmless agreement is in place.

Existing hold harmless agreements have termination clauses, and the Mayor currently has authority to terminate these agreements (upon seven-day notice of such intent). The City exercised the termination clauses of these agreements on February 4, 2011. Refuse collection services to an estimated 14,200 residential units on private streets is scheduled to be eliminated July 1, 2011.

Outreach to the impacted residents and their homeowners' associations is currently being conducted, and work toward the elimination of these services is progressing on schedule.

Annual cost reductions for elimination of trash collection services are included in the Environmental Services Department's (ESD) FY 2012 General Fund budget and total \$818,974. Additionally, a net positive impact of \$66,939 for elimination of recycling and greenery collection services is included in the FY 2012 Recycling Fund budget. Furthermore, a revenue increase in franchise fees from private haulers (\$187,620 in General Fund revenue) is also budgeted. The IBA supports this proposed action for FY 2012.

Reduction of Small Business Customers

Small business collection services can be eliminated by City Council, pursuant to the

People's Ordinance. The People's Ordinance states, "[t]he City shall not collect Nonresidential Refuse, except that Nonresidential Refuse from a small business enterprise may be collected by City Forces if authorized by the City Council and limited to once a week service in an amount no greater than one hundred fifty percent (150%) of the refuse generated by an average City residential dwelling unit."

ESD has been working toward the elimination of refuse collection services for small business customers, which is scheduled to be eliminated July 1, 2011. Originally, it was thought that a termination ordinance would be needed in order to effect the elimination of small business collection services. However, staff has indicated that elimination of these services will be part of the FY 2012 budget process, and therefore does not require separate action.

The elimination of free refuse collection for small businesses (not including home-based businesses) is estimated to affect approximately 4,620 small businesses.

Annual cost reductions for elimination of small business collection services are included in the FY 2012 General Fund budget and total \$355,130. There would be no savings to the Recycling Fund, as small businesses do not receive recycling collection services. However, there is a budgeted revenue increase in franchise fees from private haulers (\$81,090 in General Fund revenue). The IBA supports this proposed action for FY 2012.

Ongoing Budget Balancing Actions

Fire-Rescue User Fees

The FY 2012 Proposed Budget includes two new user fees being implemented by the Fire-Rescue Department - a false alarm permitting fee and an air medical transport fee. In addition, the Department will increase the allocation of medical aid costs to more fully recover City support expenses. Together these fee proposals are estimated to recover approximately \$5 million of City costs from the users of these services.

City Council Policy 100-05 discusses best practices associated with the development of User Fees. The stated purpose of the Policy is to thoughtfully establish user fees “to ensure that the City adequately recovers costs for services it provides to the public.” The City Council’s Budget Policy 000-02 and Guiding Principles for Structural Budget Elimination also embrace cost recovery for programs and services that are intended to be fully or partially recoverable through fees. In keeping with these policies, the IBA supports the following fees:

False Alarm Permitting Fee

This fee was included in the City Council’s Budget resolution. The Fire-Rescue Department was asked to develop a program to recoup the costs associated with permitting and regulating the use of fire alarms. Over the last three years, the Department has responded to approximately 6,300 false alarms a year at an estimated annual cost of \$542,000.

False alarm systems typically result in both burglary and fire noticing. While the Police

Department utilizes a permit/penalty fee system to recover costs and discourage repeat offenses, the Fire-Rescue Department does not have a similar fee to recover their response costs.

If approved by the City Council, the Department estimates a new false alarm permitting fee would recover approximately \$910,000 of related response costs in FY 2012. This estimate assumes mid-year implementation, typical collection rates and third party collection fees.

The IBA understands the structure of the proposed fee may have changed since the FY 2012 Proposed Budget was developed. The Fire-Rescue Department will be prepared to explain modifications to the fee and associated revenue at their budget hearing on May 4, 2011. The modified fee proposal should be compliant with Council Policy 100-05 and Proposition 26.

Air Medical Transport Fee

On July 27, 2007, the City Council approved a request from the Fire-Rescue Department to bill patients and/or insurance companies for emergency air medical transportation provided by the Department Air Operations Division helicopter (Copter 1). The City Council unanimously approved the request. The Fire-Rescue Department is now in the process of selecting a vendor to handle air medical billing. The Department estimates the new fee will recover \$53,625 of air medical transport costs in FY 2012. This estimate assumes one hour per transport at a current cost of \$3,250 per hour, 10 months of billing in FY 2012, typical col-

Ongoing Budget Balancing Actions

lection rates and third party collection fees.

Medical Aid Response Cost Allocation

In responding to serious medical emergencies, the City dispatches an ambulance and a fire engine or truck. Both response units have a paramedic on board and the fire engine/truck is often the first to arrive at the site of the medical emergency. The current medical aid response fee covers all costs associated with the ambulance, but does not recover the cost of the fire engine/truck.

The FY 2012 Proposed Budget proposes the City begin partially recovering costs associated with sending fire engines/trucks to medical emergencies. These costs include fire engine/truck staff (1.00 Captain, 1.00 Engineer, 1.00 Fire Fighter and 1.00 Fire Fighter Paramedic) and vehicle costs.

If approved by the City Council, the Fire-Rescue Department is proposing to assign \$4 million of fire engine/truck response costs to San Diego Medical Services (SDMS). SDMS is a public/private partnership (limited liability company) between the City and Rural/Metro Ambulance. The proposed cost allocation would increase the fees charged to recipients of emergency medical services or their insurance companies.

The FY 2012 Proposed Budget assumes a \$4 million reimbursement to the Fire-Rescue Department as General Fund revenue.

Police

The FY 2012 Proposed Budget includes a

\$323,451 increase related to ensuring full cost recovery for certain user fees. The following is a summary of the proposed fee increases:

- Entertainment Permit Single Occasion <50 People \$189 to \$201
- Entertainment Permit Single Occasion 50+ People \$379 to \$1,252
- Entertainment Permit w Alcohol <50 people \$920 to \$938
- Entertainment Permit w Alcohol and 50+ people \$1,840 to \$3,253
- Entertainment Permit W/O alcohol <50 people \$126 to \$283
- Entertainment Permit W/O alcohol 50+ people \$184 to \$718
- Money Exchange Houses \$505 to \$952

Parking Meter Utilization

The FY 2012 Proposed Budget includes \$1.1 million attributable to implementation of the Parking Meter Implementation Program (PMUP) approved by the City Council on March 22, 2011.

The PMUP was developed to provide tools for improved parking management including flexibility in setting rates, time limits, and hours of operation; to set a parking meter utilization target rate of 85%; and to facilitate a community-driven process to address neighborhood specific issues.

PMUP implementation requires the advisory boards of the respective Community Park-

Ongoing Budget Balancing Actions

ing Districts (CPDs) to analyze meter and on-street parking utilization data and make recommendations on meter locations, rates, time limits, hours of operation and new parking technology.

Required Staffing

In bringing the PMUP implementing ordinance forward for City Council approval, staff indicated additional staffing would be needed to facilitate changes to improve parking management. The FY 2012 Proposed Budget includes 5.00 new FTE positions - 4.00 in the Office of the City Treasurer and 1.00 in the Economic Development Division. These positions include 3.00 Parking Meter Technicians (to perform additional coin collection, parking meter maintenance and repair, and enforcement during non-traditional operating hours), 1.00 Parking Meter Supervisor and 1.00 Senior Traffic Engineer (to analyze parking data meter utilization data, review recommendations, serve as a resource to administrative staff and assist with implementation of parking activities and improvements). The budgeted costs associated with the 5.00 new FTE positions is \$523,252.

FY 2012 Revenue Estimate

The staff report prepared for the City Council meeting on March 22, 2011 estimated PMUP implementation would result in up to \$1.57 million of additional parking meter revenue and \$620,000 of associated implementation costs for net additional revenue of up to \$950,000 annually with changes being phased in over FY 2012.

The FY 2012 Proposed Budget slightly re-

vises these estimates to be approximately \$1.59 million of additional parking meter revenue and \$523,252 of associated staff costs for net additional revenue of \$1.1 million. The \$1.59 million revenue and \$380,000 of total PMUP staffing costs are budgeted in the City Treasurer's Department.

Based on a set of assumptions, the staff report estimated additional parking meter revenue will largely result from three contemplated changes: 1) lowering parking meter rates in certain areas to increase utilization, 2) extending parking meter hours from 6:00 pm to 11:00 pm on Thursday, Friday and Saturday in the busiest 40+ block faces and 3) operating all meters for five hours on Sunday at modified rates.

Reliability of the Revenue Estimate

Although staff has the benefit of pilot program data, it is important to note that it is very difficult to accurately predict increased revenue attributable to modified rates, hours of operation and payment options. Optimal parking management strategies and parking meter utilization will likely result from repeated changes and adjustments over time. The timing of PMUP implementation will also be an important factor.

In IBA Report 11-12, we recommended that while additional parking meter revenue could be prospectively included in the Proposed Budget for FY 2012, the program first be implemented and evaluated with a goal of including additional meter revenue into the budget process once its receipt is more certain.

Ongoing Budget Balancing Actions

As there will now be new staffing and administrative costs to be covered before the City can realize additional revenue, the IBA recommends PMUP implementation and associated revenues be closely monitored in the first half of FY 2012. Revenue projections should be adjusted mid-year if necessary and status reports be provided to the Budget and Finance Committee.

RDA Reimbursement for Convention Center Phase II Debt Service

On March 29, 2011, the City Council and Redevelopment Agency Board entered into a Cooperation Agreement whereby the Agency will reimburse the City for costs related to the debt service on the Convention Center Phase II expansion bonds beginning in FY 2011. This agreement provides for Agency reimbursement of the City's full remaining debt obligation of \$226.8 million. Under the approved schedule of payments, the reimbursement in FY 2011 is \$2 million, which will increase by \$500,000 annually until an annual reimbursement of \$9 million is reached.

In our section on Options for Revisions to the FY 2012 Budget we propose a mechanism to augment RDA debt service payments for the Convention Center Phase II utilizing proceeds from the sale of the World Trade Center over a number of years.

One-Time Budget Balancing Actions

Fund Balance Transfers

Emergency Medical Services

The City provides emergency medical response in part through San Diego Medical Services (SDMS). SDMS is a public/private partnership (limited liability company) between the City and Rural/Metro Ambulance. Fees assessed to recipients of emergency medical services cover costs associated with ambulance response.

After covering ambulance related expenses, any residual monies are deposited into a shared SDMS account. These monies are then divided between Rural Metro and the City. The City places its share of these profits into the Emergency Medical Services (EMS) Fund, also known as the Fire/Emergency Medical Services Transport Program Fund.

The Emergency Medical Services (EMS) Fund balance is projected to be \$4.1 million at the end of FY 2011. The FY 2012 Proposed Budget transfers the \$4.1 million fund balance to the Fire-Rescue Department as General Fund revenue.

Qualcomm Stadium Fund Balance

The FY 2012 Proposed Budget utilizes approximately \$1.0 million in surplus accumulated fund balance in the Qualcomm Stadium Fund. Stadium operations are subsidi-

dized through an allocation of transient occupancy tax (TOT) revenue from the Special Promotional Programs budget. In FY 2012, the Stadium Fund is projected to begin the year with a fund balance of approximately \$1.3 million. To utilize a portion of this fund balance, and to free up resources for other General Fund needs, the TOT allocation has been reduced by approximately \$1.0 million from what would have otherwise been required.

Booking Fees– Transfer to Police Decentralization

The Police Decentralization fund supports the site acquisition, planning and construction of new and permanent 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 of the Police Decentralization fund is Vehicle License Fees (VLF) which are transferred from the General Fund.

For FY 2012, the estimated payment to the County for jail booking fees related to municipal code and misdemeanor violations is \$5.3 million. For FY 2012, a significant portion of the \$5.3 will be paid from savings in the Police Decentralization fund from prior years as a result of the contract with the County being rene-

One-Time Budget Balancing Actions

gotiated and state revenue contributions. Due to the savings in the Police Decentralization Fund, the annual VLF transfer from Police Department has been reduced by \$4.0 million resulting in a onetime resource to the General Fund.

One item of note concerning the booking fees is the impact of the state budget. As discussed in Volume I of the FY 2012 Proposed Budget, in prior fiscal years a portion of the City's booking fees has been offset by funding from the State's \$35.0 million Subventions for the Jail Booking Fees Program. However, as noted in Volume I of the Proposed Budget, the relief from the state may not occur in Fiscal Year 2012. Due to this, the Proposed Budget includes the full \$5.3 million payment without an anticipated backfill from the state. However, if this program is funded by the State, the City could realize onetime savings from the backfill.

Unused Sick Leave

Upon termination, employees hired before July 1, 1975 with accrued sick leave balances are permitted to receive a payment of fifty percent of their sick leave balance, calculated at the current rate of pay. The FY 2012 Proposed Budget includes the transfer of \$700,000 from the unused sick leave fund to the General Fund, based on a review of the total sick leave liability.

Unclaimed Monies

One of the options identified in the Council Budget Resolution that has been included as a Corrective Action in the FY 2012 Proposed Budget is the transfer of unclaimed monies (most often stale dated checks) held over one year into the General Fund.

The FY 2012 Proposed Budget includes a one-time transfer of \$1 million in unclaimed monies in the City Treasury to the General Fund.

In 2009, the City Auditor recommended and the City Comptroller agreed to consider transferring unclaimed funds into the General Fund after a period of one year in accordance with the City Charter. The current practice has been to hold unclaimed funds for three years before releasing to the General Fund in accordance with the California Government Code.

The City Comptroller received a Memorandum of Law (MOL) from the City Attorney concerning the conflict between City Charter Section 86 and California Government Code Section 50050 regarding the disposition of unclaimed public monies. The MOL presented options for the City Comptroller to consider.

Considering information presented in the MOL, the City Comptroller has decided to follow one of the recommended options and begin transferring unclaimed monies into the General Fund after a period of one year in accordance with the City Charter Section 86.

One-Time Budget Balancing Actions

The City Comptroller will continue with current publication of notice practices.

This policy change for returning unclaimed monies to the General Fund results in a one-time revenue transfer to the General Fund. Additionally, the policy change will accelerate General Fund receipt of unclaimed funds in future years.

Disaster Recovery Revenue

The FY 2012 Proposed Budget includes \$4 million in one-time General Fund revenue attributable to reimbursements from private insurance companies, the California Emergency Management Agency (CalEMA) and the Federal Emergency Management Agency (FEMA). The reimbursements are primarily related to clean-up and debris removal services provided by the General Fund during the 2007 wildfires.

Suspension of Reserve Contributions

The Mayor's Proposed FY 2012 Budget postpones planned increases to the General Fund Reserve, the Public Liability Fund, and the Workers' Compensation Fund, and instead utilizes the \$14.1 million contributions as a budget balancing solution for the General Fund.

The Mayor's Proposed FY 2012 Budget reflects a General Fund Reserve of \$77,409,910, which is 7% of the Proposed Budget of \$1,105.9 million.

The City's Reserve Policy calls for increases to the General Fund Reserve to achieve a level of 8% of General Fund Revenues by FY 2012. The reserve calculation includes the Emergency Reserve, the Appropriated Reserve, and the Unassigned (or Unappropriated) Reserve.

The FY 2011 Budget also included the suspension of contributions to the City's reserves, which saved the General Fund a total of \$27.5 million.

Recent Five-Year Outlooks describe postponing achievement of the current reserve policy target of 7.5% for FY 2011 for the General Fund, and instead maintaining the 7% level. The revised plan called for the General Fund Reserve to increase to 7.5% in FY 2012 and then 8% in FY 2013 and thereafter, and it was estimated that \$3.5 million would be required to reach the 7.5% goal for FY 2012.

Significant Citywide Issues

Deferred Capital

At the Budget and Finance Committee (B&FC) meetings on March 16 and 30, 2011, the City's COO and Public Works staff presented information related to the funding required to address the City's "Catch-up" and "On-Going" expenses for Deferred Capital. The information presented was based on condition assessments completed over the last five years for the City's three main asset classes (Streets, Buildings, and Storm Drains) and did not include the following assets:

- Sidewalks
- Alleys
- Bridges
- Drainage channels
- Convention Center
- Qualcomm Stadium
- Petco Park
- Water and Sewer Infrastructure
- Piers, seawalls and related Park & Recreation managed structures
- Right of Way features (signs, signals, and guardrails)

Based on the Condition assessments the total backlog of deferred capital projects is estimated to be:

"Catch-Up" Funding Required for High Service Level	
Funding Amounts	
Asset Class	(Millions)
Streets	\$378.0
Facilities	\$216.0
Storm Drains	\$246.0
<i>Total:</i>	<i>\$840.0</i>

In addition to the total backlog for the three main asset classes, staff presented two funding scenarios for each of the asset types which included funding levels to obtain a specific level of service. Staff delineated the required funding as "Catch-Up" and "On-Going". "Catch-Up" funding is defined as funding required to reach the designated service level and "On-Going" funding as the annual, recurring funding required after "Catch-Up" to maintain the desired service level.

The following sections discuss the funding levels required for "Catch-Up" and "On-Going" for the two alternatives (Alternative I and Alternative II) proposed by the Mayor and how they are addressed in the FY 2012 Proposed Budget. It should be noted that the Mayor is proposing Alternative I as the appropriate funding level. This is based on future funding availability in the context of the City's total budget and also projected staffing capacity. It should also be noted that the City Council has not taken a formal action on the Mayor's proposal.

At the March 30, 2011 B&FC meeting, the Committee members requested that the Mayor come back to the Committee at a later date with a plan to address the City's facilities needs as well as explore a streamlined contracting process to accelerate capital expenditures. The Committee also requested the IBA to provide options to pay for future capital "Catch-Up" costs and to fund future debt service.

Significant Citywide Issues

“Catch-Up” Funding

Comparison of Alternative I & II

The following tables detail the comparison of existing Condition Index scores for Streets and Facilities as compared to the Condition Index proposed by the Mayor in Alternatives I & II. Staff noted in their March 8, 2011 report to the B&F Committee that due to the small percentage of the drainage system that had been inspected a Condition Index for Storm Drains had not yet been calculated.

Streets Service Levels Alternatives			
Service Level	Existing	Alternative I	Alternative II
Good	38%	45%	60%
Fair	45%	40%	30%
Poor	17%	15%	10%

Facilities Service Levels Alternatives			
Service Level	Existing	Alternative I	Alternative II
Good	45%	45%	60%
Fair	22%	40%	30%
Poor	33%	15%	10%

The following table details the necessary funding required to “Catch-Up” to the Condition Index’s proposed for Alternatives I & II. Additionally, the chart also provides the funding alternatives related to Storm Drains. For Storm Drains, Alternative I proposes that pipelines would be targeted for rehabilitation at 45 years and replaced at 90 years. For Alternative II, pipelines would be rehabilitated at 35 years and replaced at 75 years.

“Catch-Up” Funding Required for Alternatives		
Asset Class	Alternative I (Millions)	Alternative II (Millions)
Streets	\$57.0	\$157.0
Facilities	\$47.0	\$70.0
Storm Drains	\$88.0	\$165.0
<i>Total:</i>	<i>\$192.0</i>	<i>\$392.0</i>

Civic Center Plaza

In the May 2009 Facilities Condition Assessment of the Civic Center facilities, AECOM identified \$19.5 million in critical deficiencies (including the City Administration Building (CAB) fire sprinklers) that would need to be addressed to keep the Civic Center Facilities operational for five years and an additional \$20.5 million that would need to be required to extend the buildings’ to ten years.

The \$216 million total “Catch-Up” funding required for City Facilities includes \$100 million that would be necessary to upgrade the Civic Center Facilities. Per City staff, Alternative I includes an estimated \$21 million for Civic Center Facilities and Alternative II includes \$32 million. For FY 2012, staff is anticipating installing the sprinklers in the remaining floors of CAB for a cost of \$4.2 million. Staff anticipates using existing bond funds for this project.

“Catch-Up” Funding included in the FY 2012 Proposed Budget

The proposed budget continues the debt service payments for the \$102.2 million bonds issued in 2008. The debt service payment for the 2008 Bond issuance is \$7.4 million and these funds have been budgeted in the Transportation & Storm Water de-

Significant Citywide Issues

partment (\$5.6 million) and General Services (\$1.8 million) for FY 2012.

The FY 2012 Proposed Budget anticipates an additional bond issuance in April 2012. Staff is projecting to bring the actions for the additional bond issuance in January/February 2012 to meet the April issuance dates. Staff anticipates the debt service payments to begin in Fiscal Year 2013.

“On-Going” Funding

In the future, once the City has achieved a required service level, it will be important that the “On-Going” expenditures are funded at a level to ensure that the City does not fall behind on maintenance. In their March 8, 2011 report to the B&F Committee, Public Works staff presented the required “On-Going “ funding for the two Alternatives. The following table outlines the required funding for the three significant asset classes for the two alternatives as compared to the FY 2012 Proposed Budget funding:

Required "On-Going" Funding (Millions)			
Asset Class	Alternative I	Alternative II	FY 2012 Proposed
Streets	\$70.0	\$89.0	\$26.0
Facilities	\$32.0	\$48.0	\$10.0
Storm Drains	\$45.0	\$45.0	\$9.0
Total:	\$147.0	\$182.0	\$45.0

In addition, the following table outlines the comparison for “On-Going” funding from FY 2011 to FY 2012:

"On-Going" Funding Comparison		
Asset Class	FY 2011 (Millions)	FY 2012 (Millions)
Streets	\$26.0	\$26.0
Facilities	\$10.0	\$10.0
Storm Drains	\$10.0	\$9.0
Total:	\$46.0	\$45.0

It is important to note that the significant funding for “On-Going” expenditures are derived from multiple funding sources. Some of these sources are contingent upon the state and will need to be monitored throughout the year to ensure that the funding is not reduced. The following table compares the funding sources from FY 2011 to what is included in FY 2012:

Funding Source	FY 2011 (Millions)	FY 2012 (Millions)
Streets		
Prop 42	\$13.3	\$15.2
Prop 1B	\$3.2	\$0.0
TransNet	\$6.6	\$10.8
General Fund/Gas	\$2.9	\$0.0
Tax/Other		
Total:	\$26.0	\$26.0
Facilities		
General Fund	\$9.0	\$9.1
TOT	\$0.7	\$0.7
Other	\$0.3	\$0.2
Total:	\$10.0	\$10.0
Storm Drains		
Storm Drain Fund	\$6.0	\$6.0
General Fund	\$4.0	\$3.0
Total:	\$10.0	\$9.0

Significant Citywide Issues

For FY 2012, the majority of the “On-Going” expenses are budgeted in the General Services and Transportation & Storm Water departments.

It should be noted that the \$1.0 million reduction to Storm Drains is related to a reduction to the Storm Water Department’s FY 2012 Proposed Budget.

Issues for Consideration

An item of note is that the FY 2012 Proposed Budget assumes two \$100 million bond issuances in FY 2012 and FY 2015 to address the estimated \$840 million in needs. At the March 16, 2011 B&F Committee meeting, the City’s COO stated that the Mayor plans on increasing the debt issuances to \$100 million for each of the next five years for a total of \$500 million. A revision to the Five-Year Outlook that reflects this plan was provided to the B&F Committee at this meeting. This change was not reflected in the Proposed Budget but it is anticipated to be changed in the Final Budget.

Significant Citywide Issues

General Fund Reserve

The City's Reserve Policy calls for increases to the General Fund Reserve to achieve a level of 8% of General Fund Revenues by FY 2012. The reserve calculation includes the Emergency Reserve, the Appropriated Reserve, and the Unassigned (or Unappropriated) Reserve.

The FY 2011 Budget included the suspension of contributions to the City's reserves, which saved the General Fund a total of \$27.5 million. Of that, \$4.2 million had been estimated to be needed for contribution to the General Fund Reserve.

Recent Five-Year Outlooks describe postponing achievement of the current reserve policy target of 7.5% for FY 2011 for the General Fund, and instead maintaining the 7% level. The revised plan called for the General Fund Reserve to increase to 7.5% in FY 2012 and then 8% in FY 2013 and thereafter, and it was estimated that \$3.5 million would be required to reach the 7.5% goal for FY 2012.

The Mayor's Proposed FY 2012 Budget again postpones the increase to the General Fund Reserve, utilizing the planned \$3.5 million contribution as a budget balancing solution. The Mayor's Proposed FY 2012 Budget reflects a General Fund Reserve of \$77,409,910, based on the Proposed Budget of \$1,105.9 million.

Revisions to the City's Reserve Policy are needed to codify these changes, and are expected to come forward to the Budget and

Finance Committee and the City Council for approval.

The Government Finance Officers Association (GFOA) recommends that general-purpose governments, regardless of size, maintain unreserved fund balance in their general fund of no less than five to 15 percent of regular general fund operating revenues..." The City's current reserve goal of 7% is consistent with GFOA's recommended levels.

Issues to Consider

FY 2011 Reserve Level

The IBA has expressed concern about the delay in the issuance of the FY 2010 Year-End Report from the City Comptroller. A key component of the Year-End Report is the final status of the General Fund reserves for FY 2010. At this time, the City has been unable to report the status of the General Fund reserves, and it is unclear as to whether the current reserve target goal of 7% has been attained and/or maintained.

The CFO has indicated that updated reserve information will be provided as part of the FY 2011 Year-End Budget Monitoring Report and/or the May Revise, both of which are expected to be issued on May 18, and discussed with the Council at its meeting the week of May 23.

The updated reserve status information will be important in evaluating the Mayor's rec-

Significant Citywide Issues

ommended approach for postponing additional contributions to the General Fund Reserve.

Without that key information, the IBA has no ability to assess and determine if additional contribution to the General Fund reserve may be necessary to achieve or maintain the 7% goal, or alternatively, if the target has been surpassed.

Appropriated Reserve

The Reserve Policy indicates that no minimum or maximum funding levels are required for the Appropriated Reserve for a given year. The Reserve Policy also states that the Mayor will include an amount each year in the operating budget to fund the Appropriated Reserve. No Appropriated Reserve allocation has been included in the Mayor's FY 2012 Proposed Budget.

The IBA has typically recommended identifying funds for an Appropriated Reserve to ensure funds are available during the fiscal year to address unexpected/unbudgeted needs that may arise.

However, due to the recent changes in the interpretation of and attempts to harmonize conflicts within the Reserve Policy, the City Charter, and the Statement of Budgetary Principles, the City Council is unable to initiate mid-year adjustments to the budget and cannot recommend uses of the Appropriated Reserve, without the concurrence of the Mayor. Based on these changes, and the difficult decisions already required to achieve a balanced budget, identifying FY 2012 funding for the Appropriated Reserve is not currently considered a high-priority by the IBA.

Significant Citywide Issues

Managed Competition

The Managed Competition Guide was approved by the City Council in October 2010. Since then, the Mayor has identified six functions for Managed Competition. These functions include:

- Publishing Services
- Fleet Services
- Public Utilities Customer Service
- Street Sweeping
- Street and Sidewalk Maintenance and Traffic Pavement Markings
- Landfill Operations

The categories in the table below list the major steps in the Managed Competition process and the status of each function that has been selected for competition. A brief description of the steps and what function, if any, has reached each step is provided in the following sections.

Pre-Competition Assessment

The first step in managed competition is to conduct a Pre-Competition Assessment (PCA). This assessment evaluates whether a function is eligible and appropriate for competition.

Publishing Services, Fleet Maintenance Services, Public Utilities' Customer Service, Street Sweeping and Landfill Operations have undergone pre-competition assessments and have been deemed appropriate for competition.

Preliminary Statement of Work (PSOW)

The PSOW is the first step in the managed competition procurement process. It documents service specifications and requires approval by the Rules, Open Government, and Intergovernmental Relations (Rules) Committee and the full City Council. This is to assure all parties, including the public, that no degradation of service levels will occur as a result of the competition. The

Status of Functions Selected For Managed Competition								
Function	PCA Complete	Draft PSOW- Approved by Committee	Draft PSOW- Approved by Council	RFP Issued	Proposals Received by MCIRB	MCIRB Reports Recommendation to Mayor	Meet and Confer (if necessary)	Recommendation Approved by Council
Publishing Services	√	√	√	√	√			
Fleet Maintenance Services	√	√	√					
Public Utilities' Customer Service	√	<i>Rules Committee on 4/27</i>						
Street Sweeping	√	<i>Rules Committee on 4/27</i>						
Landfill Operations	√							
Sidewalk and Street Pavement Maintenance and Traffic Pavement Markings								

Significant Citywide Issues

PSOW forms the foundation for the final Statement of Work (SOW) which is included in the Request for Proposal (RFP).

The PSOW for Publishing Services and Fleet Maintenance Services were approved by the City Council on December 6, 2010 and February 1, 2011, respectively. The PSOW for Public Utilities Customer Service and Street Sweeping were approved at the Rules Committee meeting on April 27, 2011. However, additional information was requested by the Committee and public prior to them being heard at City Council.

Issuance of the RFP

Once the City Council has approved a PSOW for a function, the City begins preparing for the solicitation. The City's SOW Team works with the Purchasing and Contracting (P&C) Department to develop the RFP.

The RFP for Publishing Services was issued on January 21, 2011 and bids were received in March 2011. The RFP for Fleet Maintenance Services is currently being developed and is scheduled to be issued in May 2011.

MCIRB Review

Once bids are received by the P&C Department and are deemed in compliance with the RFP requirements (i.e. they were received by the submittal date), they are provided to the Managed Competition Independent Review Board (MCIRB). The MCIRB evaluates the technical and cost proposals and makes a recommendation to the Mayor on the service provider that offers the best overall value to the City.

Bids received for the Publishing Services function are currently being reviewed by the MCIRB. The Board is scheduled to meet in mid-May 2011 to review reports from the Technical Evaluation Committee and the Cost Evaluation Committee regarding their results and recommendations. It is possible that savings from this process could be identified prior to final FY 2012 City Council budget decisions.

Meet & Confer

If the MCIRB recommends that an independent contractor be awarded the contract and the Mayor accepts the Board's recommendation, all labor organizations whose members would be impacted, as well as the City's Labor Relations Division, must be notified. Labor organizations are given the opportunity to Meet & Confer on the decision to move the recommendation forward as well as the impact of such a decision in accordance with the Meyers-Milias-Brown Act.

None of the functions have yet to reach this step in the process.

City Council Approval

The City Council shall have the authority to accept or reject in its entirety any proposed agreement submitted by the Mayor upon recommendation of the MCIRB. Once City Council approves the proposed agreement and competition is complete, the selected service provider moves into the "transition and post-competition accountability phase" of the process.

None of the functions have yet to reach this step in the process.

Other Post-Employment Benefits

Retiree health obligations, or Other Post-Employment Benefits (OPEB), total \$57.8 million (\$40.2 million for the General Fund) in the FY 2012 Proposed Budget. The pay-as-you-go (PAYGO) portion of the OPEB budget (for employees already retired) is \$32.8 million. The remaining \$25.0 million will prefund the future payment of benefits that are currently being earned.

Note that PAYGO is budgeted at the same amount in FY 2012 as in FY 2011. If expenditures for PAYGO are more than \$32.8 million for FY 2012, staff has indicated that there would be a decrease in the amount of prefunding sent to CalPERS.

The Annual Required Contribution (ARC) for OPEB in FY 2012 is \$98.5 million, of which the City will be paying \$57.8 million, or 59%. The City is not required to pay the ARC, but beginning FY 2008 an accumulated liability based on unpaid ARC amounts must be booked on the financial statements. The total Unfunded Actuarial Liability (UAL) is approximately \$1.1 billion as of June 30, 2010. Information regarding the ARC and UAL is available in the June 30, 2010 valuation, which was performed by Buck Consultants and provided to the City in November 2010.

Effects of Labor Negotiations

Currently, the City provides a defined benefit plan (DB) for employees hired before July 1, 2005. In the City's DB retiree medical plan, vested employees are provided a spe-

cific health benefit at the time of their retirement.

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

Due to the magnitude of the DB plan's ARC and UAL, a change to OPEB is contemplated in the most recently approved agreements with the City's six labor unions. As part of the process, a retiree medical joint study committee was established. This study group, consisting of DCAA, MEA, IAFF Local 145 and City representatives, evaluated alternatives relating to retiree medical benefits.

The Committee's final report was presented to the City Council September 7, 2010. The report includes a history of the retiree medical benefit, its current status, legal issues, major options studied (benefit changes and alternate funding mechanisms), and articulated interests of the parties — both the City's and the unions' primary interests and motivations.

The City is currently in negotiations with all of its labor unions regarding the appropriate level of retiree health benefit. A modified retiree medical benefits plan is anticipated to be effective July 1, 2011 for all unions — DCAA, MEA, IAFF Local 145, AFSCME Lo-

Significant Citywide Issues

cal 127, POA and Teamsters (Lifeguards)—as well as unrepresented employees. Final impacts of changes to OPEB will be identified through actuarial analysis and an updated actuarial valuation.

As this issue is being evaluated and negotiated, the City has frozen the automatic escalator on the retiree medical benefit for eligible POA and AFSCME Local 127 employees who are not retired as of July 1, 2009. The benefit is frozen at \$8,880 per year.

Additionally, the automatic escalator has been suspended until June 30, 2011 for DCAA, MEA, IAFF Local 145, Teamsters and unrepresented employees who are not retired as of July 1, 2009. If an agreement is not reached, and subsequently, if Council does not impose a last best and final offer regarding retiree medical benefits, the suspension of the escalator will be removed. Currently, the benefit is suspended at \$8,880 per year.

Lastly, effective July 1, 2009 the vesting time period for the DB retiree health benefit plan has doubled.

ARC Change from FY 2011

The FY 2012 ARC of \$98.5 million decreased by \$21.8 million compared with the FY 2011 ARC of \$120.3 million. One significant reason for the decrease is in the following assumptions.

- For the June 30, 2009 valuation, upon which the FY 2011 ARC is based, the retiree health benefit escalator was suspended (for new retirees) at the FY

2009 benefit level (\$8,880 per year) between July 1, 2009 and June 30, 2011 for all unions and unrepresented employees.

- For the June 30, 2010 valuation, upon which the FY 2012 ARC is based, the retiree health benefit escalator was suspended (for new retirees) at the FY 2009 benefit level (\$8,880 per year) between July 1, 2009 and June 30, 2011 for all unions and unrepresented employees, except POA and Local 127 – for which the suspension is assumed in perpetuity (i.e. the escalator is eliminated).
- The difference between the two valuations is as follows: in the June 30, 2009 valuation, the suspension of the escalator is for only two years for POA and Local 127; and in the June 30, 2010 valuation, the suspension is in perpetuity for POA and Local 127.

The other significant reason for the decrease in the ARC is there are fewer people in the June 30, 2010 valuation data. The number of people in the retiree health system valuation decreased by 1,205, and the system is closed to new members as of July 1, 2005.

Significant Funding Area

Pension

The FY 2012 Proposed Budget includes \$231.3 million for the Annual Required Contribution (ARC) for the City's pension. This is an increase of \$2.1 million over the FY 2011 budget of \$229.2 million. The General Fund portion of this payment is \$177.7 million — an increase of \$0.1 million over the FY 2011 budget of \$177.6 million.

As is the case for cities across the country, market downturns during FY 2009 exacerbated the City's pension system Unfunded Actuarial Liability (UAL) — which totals \$2.1 billion as of June 30, 2010. The City's pension system liabilities as of June 30, 2010 are funded at a rate of 67.1% — up from 66.5% at June 30, 2009. The ARC for the City has reached approximately 35% of budgeted salaries and wages and 43% of membership payroll (pensionable salaries) for FY 2012.

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

Retirement Offset Contributions

The City also currently makes partial retirement contributions to the pension system on behalf of eligible employees — referred to as Retirement Offset Contributions. In effect, the City pays a portion of eligible employees' retirement system contribu-

tions, according to rates negotiated with the labor unions.

The FY 2012 Proposed Budget includes \$7.5 million for retirement offsets, down \$404,780 from \$7.9 million in FY 2011. The General Fund portion of \$4.5 million is down \$298,167 from \$4.8 million in FY 2011. These reductions are largely due to the elimination of offsets for unrepresented employees and elected officials, which occurred during FY 2011. Note that retirement offsets were previously eliminated for DCAA, IAFF Local 145, AFSCME Local 127 and POA in FY 2010.

The only labor unions for which budgeted offsets remain are MEA and Teamsters (Lifeguards). Even though these two unions maintain offsets as part of employment benefits, the City was able to negotiate 6% labor concessions with them (as was the case with the City's other unions that did not maintain their retirement offsets). As part of their 6% concessions, MEA and Teamsters negotiated alternate benefit reductions (for example, mandatory furlough) in place of the elimination of offsets.

On April 11, 2011 the City Council approved a Tentative Agreement with Teamsters which contains a provision for reducing the retirement offset from 5.3% to 2.3% of base salary, beginning July 2011. Depending on individual choices regarding labor concessions, this provision could shift 3% of a member's concessions from salaries to fringe benefits.

Significant Funding Area

Additionally, on April 25, 2011, Council approved an Addendum to the MEA labor agreement with the City. This Addendum includes a provision that beginning July 2011, the retirement offset for MEA members will be reduced from 3.4% to 0.4% of base salary. As with Teamsters, depending on individual choices regarding labor concessions, this provision could shift 3% of a member's concessions from salaries to fringe benefits. Consequently, there may be a reclassification adjustment in the May revision to the budget.

Effects of Labor Negotiations

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

This does not necessarily mean that the net ARC payment will be less than the previous year. The ARC reduction that is related to a salary freeze is one effect on the ARC—there are many pension system assumptions for which actual experience can vary from expectations, such as investment return and rates of retirement.

The total reduction incorporated within the FY 2012 ARC for the FY 2011 general salary freeze is approximately \$8 to \$9 million (a more exact figure could not be obtained). SDCERS' actuary (Cheiron) has provided ARC projections through FY 2040, with the general salary freeze assumption included

only for FY 2011. Thereafter, the general 4% salary increase assumption is applied. Subsequent years' ARC reductions are anticipated if the salary freeze assumption were to be applied beyond FY 2011.

Additionally, a new defined benefit pension plan tier went into effect for police and general member employees hired on or after July 1, 2009. An estimated reduction of \$1.0 million, which is largely attributable to the general member plan changes, is incorporated into the FY 2012 ARC. Savings are expected to increase over time, as the proportion of employees in the second tier grows.

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

Other ARC Impacts

Underpriced Purchased Service

Contracts

Also included in the FY 2012 ARC is a reduction based on anticipated SDCERS corrections of underpriced purchased service contracts that occurred during the 2003 "window period." These contracts must be corrected pursuant to a court order, which was upheld on appeal. The related reduction to the FY 2012 ARC equals \$8.8 million, which includes \$4.4 million that is associated with the FY 2011 valuation year but was not incorporated in the FY 2011 ARC. For further information on these underpriced purchased service contracts, see page one of the June 30, 2010 Actuarial

Significant Funding Area

Valuation for the City of San Diego, “Section I, Board Summary,” under the “Valuation Basis” section.

McGuigan Settlement

During FY 2010, the residual amount owed to the pension system resulting from the McGuigan settlement, approximately \$38.3 million, was paid to the pension system. The related FY 2012 ARC reduction is estimated to be \$3 to \$4 million (a more exact figure could not be obtained).

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

Deferred Retirement Option Plan (DROP)

DROP Cost Neutrality

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

The result of the DROP cost neutrality study is that DROP is cost neutral based on the established 2% tolerance level; but it is not cost free. The results of Buck’s analysis show that the cost of the City benefits structure with DROP is 1.6% higher than the cost of the City benefits structure with-

out DROP. It is important to note that this is a complex analysis, based on many assumptions and methods, and changes in those assumptions and methods could change the results of the analysis.

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

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

DROP Changes

For FY 2010, the City imposed DROP eligibility age changes, including an increase from 50 to 55 for POA safety members, and an increase from 55 to 60 for members of AFSCME Local 127. Furthermore, the City intended that certain unrepresented employees would no longer be eligible to enter DROP; and certain members would be ineligible for annuity payments from DROP.

However, at that time, this action was not implemented or enacted in the Municipal Code, as there had been no Charter section 143.1 vote of employee’s who are members of the pension system. It was planned that this vote would take place upon completion of the DROP cost neutrality study.

SDCERS conducted a 143.1 membership vote in March 2011, after the DROP cost

Significant Funding Area

neutrality study was presented to the City Council. The vote failed, and the changes are not being implemented at this time.

Performance Measures

In June 2011 the Mayor announced he was suspending the inclusion of performance measures in the budget document for FY 2012 in order to undertake an update to the City's Strategic Plan, and allow additional time for departments to evaluate the impact of FY 2010 and FY 2011 reductions on existing service levels. In order to continue a basic level of performance measurement for FY 2012, the IBA requested that City management provide "Interim Performance Measures" which would consist of several key performance measures for each department as identified by the Mayor and reviewed by the Budget and Finance Committee. The Mayor agreed to this approach with the understanding that, while FY 2010 and FY 2011 data would be provided for a select set of measures, no FY 2012 targets would be provided. The proposed measures were presented to the Budget and Finance Committee on January 26, 2011.

Performance measures with FY 2010 and FY 2011 data have been included in Volume II of the FY 2012 Proposed Budget. We would note that numerous basic measures- such as branch library hours per week and number of building permits issued- which are typically of interest to the public and decision-makers, are still not captured.

We look forward to seeing a much more robust performance measurement component in FY 2013- with more key measures

and forward-looking goals for City programs and services that tie back to the funding proposed for each area. This information is a critical part of a budget development process; and is of value to departments, management, members of the community, and decision-makers alike. Performance measurements are also critical to a successful Managed Competition Program.

Department Review

Administration

Mayor's FY 2012 Proposed Adjustments

The Administration Department manages the Equal Opportunity Contracting Program, Equal Benefits/Living Wage Program, Citizens' Assistance, the Emergency Medical Services Program, the Commission on Gang Prevention, and the Senior Affairs Advisory Board. The FY 2012 Proposed Budget for the Administration Department is \$2.4 million, a \$37,297 increase, or 2% increase from FY 2011.

The FY 2012 budget includes the reduction of 1.00 Senior Management Analyst from the Equal Opportunity Contracting Program for a savings of \$103,142. This position is currently vacant. Staff has stated that this reduction will impact the turn around timeline related to contract, advertisement and award documents as well as staff's ability to monitor labor and contract compliance. However, the current automation efforts will assist in offsetting the impacts of this

reduction.

The Proposed Budget also includes the transfer of the Gang Commission Executive Director from the Police Department. This position has been reporting to the Administration Director since FY 2011 but the actual position was not transferred as part of last year's budget process. The reason for this transfer is the potential for conflict with the position being budgeted in the Police Department. As noted by Police Department management, the Police are focused on law enforcement against gangs and the gang commission has a focus on gang prevention. This transfer has a net zero impact to the City's General Fund.

In addition, the proposed budget includes the addition of \$166,465 in revenue reimbursement from the San Diego Medical Services Enterprise (SDMSE). This revenue addition will fund the existing Program Manager and .25 Supervision Management Analyst in the Emergency Medical Services

SUMMARY OF ADMINISTRATION BUDGET CHANGES						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	18.47	\$ 1,927,771	\$ 444,406	\$ 2,372,177	\$ 246,000	
Mayor's Fiscal Year 2012 Proposed Budget Changes						
Salaries & Wages & Fringe Benefits	(0.02)	(40,926)		(40,926)		
Supplies			(5,216)	(5,216)		
Contracts			8,175	8,175		
Non-Discretionary and Info Technology Adjustments			3,994	3,994		
Reduction of 1.00 Senior Management Analyst	(1.00)	(103,142)	-	(103,142)		-
Gang Commission Transfer	1.00	174,412	-	174,412		29,151
Revised Revenue Projections						145,314
<i>Subtotal</i>	(0.02)	30,344	6,953	37,297		174,465
Mayor's Fiscal Year 2012 Proposed Budget	18.45	1,958,115	451,359	2,409,474		420,465
<i>Difference from 2011 to 2012</i>	(0.02)	\$ 30,344	\$ 6,953	\$ 37,297		\$ 174,465

Department Review

(EMS) Program.

The State of California Health and Safety Code delegates to each individual County's local Emergency Medical Services (EMS) agency, the responsibility to define an EMS plan. Within the County of San Diego's plan, the City of San Diego is identified as an exclusive operating area and therefore must assure the provision of contract services. The EMS Program Manager and the .25 Supervising Management Analyst are responsible for administering and monitoring the Medical Director and all SDMSE contracts. Currently the EMS Program Manager and .25 Supervising Management Analyst position are paid for by the General Fund but for FY 2012 these positions will be reimbursed by the vendor.

include the doubling the workload being handled by remaining staff. In addition, delays in responding to calls and walk-in inquiries may be common as the staff is also responsible for responding to route slips and assisting with responses to City Attorney inquiries related to historical route slip data.

Proposals not Recommended by Mayor

The following details several of the reductions that were submitted by the department and not taken.

- Reduction of 1.00 Supervising Management Analyst for an estimated (\$118,826) from the Equal Benefits/Living Wage program. The impacts of this reduction include impairing the timeliness of programmatic information via reports and website postings. The program would be monitored on a complaint basis only.
- Reduction of 1.00 Public Information Specialist for an estimated (\$64,865) from the Information Desk located in the City Administration Building's Lobby. The impacts of this reduction

Department Review

Business Office

Mayor's FY 2012 Proposed Adjustments

The Proposed FY 2012 Budget for the Business Office is \$1.02 million, which is a \$140,000 decrease from the Adopted FY 2011 Budget of \$1.16 million.

Adjustments include a \$143,000 reduction in supplies and contract expenditures. Part of this adjustment includes a reduction in a consulting contract for the Managed Competition Program.

Managed Competition

The Managed Competition Guide was approved by the City Council in October 2010. Since then, six functions have been identified for Managed Competition. These functions include:

- Publishing Services
- Fleet Services
- Public Utilities Customer Service
- Street Sweeping

- Street and Sidewalk Maintenance and Traffic Pavement Markings
- Landfill Operations

These functions are in various stages of the Managed Competition process. A table outlining the status of each function is provided in our review of the Managed Competition process, which is in the section on Significant Citywide Issues.

An adjustment included in the Proposed FY 2012 Budget is a reduction of \$140,000 for the Managed Competition consulting contract. In FY 2011 the Business Office entered into an agreement with E.L. Hamm to provide consulting services on an as-needed basis up to \$200,000. The consultant provides services such as support to the Employee Proposal Teams in developing an effective proposal as well as provides market research for pre-competition assessments.

The Business Office has indicated that reducing this contract in FY 2012 should not impact the Managed Competition Program

SUMMARY OF BUSINESS OFFICE BUDGET CHANGES						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	7.25	\$ 876,419	\$ 281,264	\$ 1,157,683	\$ -	
Mayor's Fiscal Year 2012 Proposed Budget Changes						
Salaries & Wages	-	(13,355)		(13,355)		
- Adjustments due to Salary Reductions/Savings/Furlough		113		113		
Fringe Benefits (incl. Retirement ARC)		7,505		7,505		
Supplies			(1,507)	(1,507)		
Contracts			(2,325)	(2,325)		
Reduction in Managed Competition Consulting Contract			(140,000)	(140,000)		
Non-Discretionary and Info Technology Adjustments			8,654	8,654		
Energy and Utilities			1,000	1,000		
Subtotal	-	(5,737)	(134,178)	(139,915)		-
Mayor's Fiscal Year 2012 Proposed Budget	7.25	870,682	147,086	1,017,768		-
Difference from 2011 to 2012	-	\$ (5,737)	\$ (134,178)	\$ (139,915)	\$ -	

Department Review

in FY 2012. Staff indicates the consultant has performed foundational work in FY 2011 that can be used in future years such as market assessments for a variety of functions; a training course for Employee Proposal Teams on how to prepare effective proposals, along with a training manual; and employee proposal team support for Publishing Services, Fleet Maintenance, Street Sweeping, and Public Utilities' Customer Service Office. Because of the work that has been completed in FY 2011 the Business Office indicates the same level of funding should not be needed in FY 2012. The impact of this reduction should be monitored to ensure it does not impede implementation of the managed competition process.

Residents' Opinions on City Services Survey

A community attitude survey was completed in March 2010 and the findings presented to the City Council and the public in April 2010. The survey gauged citizen opinions on the priority of and satisfaction with services being provided by the City and willingness to pay more to maintain City service levels. This survey is an important component for gathering citizen input to inform the development of the Structural Budget Deficit Elimination Plan. In FY 10 the Business Office provided funding of \$24,000 for this undertaking. It was discussed by the IBA and City Council that a citizen survey be administered every two years to track progress and possible shifts in residents priorities and satisfaction levels with regard to City services.

Included in the FY 2012 Council Budget Priorities Resolution, which was adopted by

the City Council on February 14, 2011, it was recommended that a citizen survey be conducted in FY 2012. Funding for the survey has not been identified in the Business Office's FY 2012 Proposed Budget.

Key Performance Indicators

Each department was asked to identify key performance indicators for inclusion in the FY 2012 Proposed Budget. On January 19, 2011 the Business Office presented each department's performance indicators that will be included to the Budget and Finance Committee for review.

The key performance indicators presented to the Budget and Finance Committee for the Business Office have been included in the FY 2012 Proposed Budget. However, staff indicated that a correction needed to be made to the amount of reengineering and efficiency studies completed in FY 2010 from seven to six studies. This figure will need to be corrected for the Final FY 2012 Budget.

Department Review

City Attorney

The FY 2012 Proposed Budget for the City Attorney totals \$42.4 million, a net increase of \$0.5 million, or 1.3% over FY 2011.

Mayor's FY 2012 Proposed Adjustments

The proposed budget includes an increase of \$170,000 to the projected vacancy savings for the Office of the City Attorney, based on a review of vacant positions during budget development.

The FY 2012 budget also includes the addition of \$392,000 due to new departmental allocations and increases for non-discretionary requirements. Most significant of these changes is an increase of \$407,500 for the SAP Support Allocation.

Budget reductions include 1.00 Information Systems Analyst I, currently vacant, and Supplies and Contracts funding reductions

of \$120,000. Reductions to revenue estimates of \$227,000 are proposed to reflect current expectations for service level agreements with other City departments and agencies, which are consistent with FY 2011 projections.

Items to Consider

In the FY 2011 Budget, 1.00 Program Manager was added to support two new case management systems for the office. At the time of the FY 2012 position review, this new position had not yet been filled, which resulted it becoming unfunded in the FY 2012 proposed budget. This position has now been filled, and the City Attorney staff indicate that the vacancy savings may be too high, and difficult too achieve during the fiscal year. The City Attorney expects to request additional funding for this position before the FY 2012 budget is finalized.

SUMMARY OF CITY ATTORNEY BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	348.43	\$ 39,232,663	\$ 2,651,820	\$ 41,884,483	\$ 5,834,720
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(4.08)	316,300		316,300	
- Adjustments due to Salary Reductions/Savings/Furlough		12,733		12,733	
Fringe Benefits (incl. Retirement ARC)		55,537		55,537	
Non-Discretionary and Info Technology Adjustments			392,412	392,412	
Reduction of Information Systems Analyst II (vacant)	(1.00)	(97,483)		(97,483)	
Reduction in Law Library Funding			(10,000)	(10,000)	
Reduction in Supplies and Contracts			(110,990)	(110,990)	
Revised Revenue Projections				-	(227,557)
Subtotal	(5.08)	287,087	271,422	558,509	(227,557)
Mayor's Fiscal Year 2012 Proposed Budget	343.35	39,519,750	2,923,242	42,442,992	5,607,163
Difference from 2011 to 2012	(5.08)	\$ 287,087	\$ 271,422	\$ 558,509	\$ (227,557)

Department Review

City Auditor

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Office of the City Auditor is approximately \$3.5 million, a decrease of \$250,865 from the FY 2011 Budget. Budgeted positions increased by .50 FTE to 19.00 FTEs in FY 2012 to annualize the budgeted mid-year addition of a Principal Auditor in FY 2011.

Budget Recommendation from the Audit Committee

On May 2, 2011, the Audit Committee will forward their FY 2012 budget recommendation for the Office of the City Auditor to the City Council for consideration. The budget hearing for the Office of the City Auditor is scheduled for May 11, 2011.

Budget Reductions

Based on prior conversations with the City's outside auditor Macias Gini & O'Connell (MGO) regarding anticipated invoices for FY 2011 and FY 2012 CAFR audit work, the amount budgeted for the outside auditor contract in FY 2012 was reduced by \$148,635; however, delays in producing the FY 2010 CAFR have delayed the FY 2010 audit. The delayed audit will necessitate an increase in the FY 2012 budget for FY 2010 CAFR audit invoices that were expected to be received and paid in FY 2011. Additionally, preliminary FY 2011 CAFR audit work expected to have been performed and billed in FY 2011 has now pushed into FY 2012. The City Auditor preliminarily estimates an additional \$260,122 will need to be added to their budget to cover actual MGO outside audit expenses incurred in FY 2012.

SUMMARY OF CITY AUDITOR BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	18.50	\$ 2,643,637	\$ 1,117,543	\$ 3,761,180	\$ 222,323
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	0.50	(10,540)		(10,540)	
- Adjustments due to Salary Reductions/Savings/Furlough		47,839		47,839	
Fringe Benefits (incl. Retirement ARC)		(173,623)		(173,623)	
Supplies			-	-	
Contracts			(126,999)	(126,999)	
Non-Discretionary and Info Technology Adjustments			12,458	12,458	
Revised Revenue Projections				-	-
Subtotal	0.50	(136,324)	(114,541)	(250,865)	-
Mayor's Fiscal Year 2012 Proposed Budget	19.00	2,507,313	1,003,002	3,510,315	222,323
Difference from 2011 to 2012	0.50	\$ (136,324)	\$ (114,541)	\$ (250,865)	\$ -

Office of the Independent Budget Analyst

April 2011

Department Review

MGO recently requested additional compensation (above their contract specified not-to-exceed amount) citing unanticipated delays and additional testing required to perform the FY 2010 CAFR audit in progress. This request is currently under review by the City Auditor, City Attorney and IBA. The matter has been docketed for further discussion by the Audit Committee on May 2, 2011.

It should be noted that outside audit expense (for the annual MGO contract) is \$793,739 or 23% of the total FY 2012 Proposed Budget of \$3,510,315 for the Office of the City Auditor. This expense is budgeted in the Office of the City Auditor because they administer the MGO contract; however, the City Auditor's budget is overstated by 23% if this budgetary assignment of expense is not considered.

Budget Additions

As noted above, budgeted positions increased by .50 FTE in FY 2012 to annualize the budgeted mid-year addition of a Principal Auditor in FY 2011. In a personnel adjustment, 1.00 Associate Management Analyst position was eliminated in order to add 1.00 Assistant to the Director position—there are now 2.00 Assistant to the Director positions.

Although there is no change in budgeted revenue, a budgetary adjustment was made in FY 2012 to annualize \$100,000 received from the Public Utilities Department to perform water and wastewater audits in accordance with a Service Level Agreement.

Department Proposals Not Recommended by Mayor

No proposals were submitted.

Key Performance Indicators

The Office of the City Auditor expects to complete 96% of its audit workplan in FY 2011. Additionally, the Office projects that if FY 2011 audit recommendations are implemented approximately \$11 million of monetary benefits could be realized over a five-year period.

Department Review

City Clerk

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Office of the City Clerk totals approximately \$4.8 million, up \$77,021 from the FY 2011 Budget. The number of City Clerk positions remained virtually unchanged at 45.39 FTE, down from 45.43.

Budget Reductions

The FY 2012 Proposed budget includes the following reductions:

- A decrease of \$45,000 for printing, mailing and promotional advertising expenditures.
- A decrease of \$38,395 in revenue related to a Council District 6 Infrastructure Fund reimbursement for FY 2011.

Budget Additions

Additions to the FY 2012 Proposed budget include:

- An increase of \$53,130 for the City Clerk's allocation for SAP support. This newly budgeted amount is the result of a change in methodology for budgeting SAP support for General Fund departments.
- An increase of \$25,000 for potential legal fees related to the upcoming City Attorney election.
- An increase of \$32,970, or 2%, for fringe benefits, in accordance with allocations

of fringe costs for City Clerk employees.

Key Performance Indicators

For FY 2011, the City Clerk anticipates exceeding FY 2010 published performance measures, except in the number of hours provided for City staff training, which shows a slight decline. Additionally, significant progress is anticipated with regard to the implementation of on-line historical City records—which are expected to be increased from 39% in FY 2010 to 79% in FY 2011.

Other Issues

The passage of Proposition D in June 2010 made the Strong Mayor form of governance permanent and added a ninth City Council District. Since the ninth Council District will be included in the June 2012 primary election, there are potential workload impacts for the City Clerk, including processing the candidate nomination packages and handling campaign finance disclosure statements. The extent of these impacts will depend upon the number of candidates seeking to run for office in this District.

Department Review

City Comptroller

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the City Comptroller Department is approximately \$10.2 million, an increase of \$86,922 from the FY 2011 Budget. The FY 2012 Proposed Budget results in a reduction of 1.25 FTE positions from FY 2011 to FY 2012. There is no change in budgeted revenue for the department.

Budget Reductions

The FY 2012 Proposed Budget results in a reduction of 1.25 FTEs for the City Comptroller Department. The proposed reduction consists of the elimination of 1.00 Senior Clerk/Typist and a .25 FTE budget adjustment to reflect an Accountant 4 posi-

tion working a modified schedule. Management expects the loss of the Senior Clerk/Typist to have a slight impact on administrative support for the Department.

Additionally, the training budget for the Department has been reduced by \$57,293 or approximately 48% resulting in a reduction in training opportunities for accounting staff.

Options from Council Budget Resolution

One of the options identified in the Council Budget Resolution that has been included as a Corrective Action in the FY 2012 Proposed Budget is the transfer of unclaimed funds held over one year into the General Fund. The current practice is to hold unclaimed funds for three years in accordance

SUMMARY OF CITY COMPTROLLER BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	81.00	\$ 9,122,813	\$ 957,237	\$ 10,080,050	\$ 2,541,760
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(1.25)	(52,553)		(52,553)	
- Adjustments due to Salary Reductions/Savings/Furlough		51,318		51,318	
Fringe Benefits (incl. Retirement ARC)		87,687		87,687	
Supplies			(2,542)	(2,542)	
Contracts			37,077	37,077	
Non-Discretionary and Info Technology Adjustments			(34,065)	(34,065)	
Revised Revenue Projections				-	-
<i>Subtotal</i>	(1.25)	86,452	470	86,922	-
Mayor's Fiscal Year 2012 Proposed Budget	79.75	9,209,265	957,707	10,166,972	2,541,760
<i>Difference from 2011 to 2012</i>	(1.25)	\$ 86,452	\$ 470	\$ 86,922	\$ -

Department Review

with the California Government Code prior to release into the General Fund. In accordance with City Charter Section 86, the City Comptroller plans to annually transfer unclaimed funds in excess of one year into the General Fund, beginning with \$1 million in FY 2012. The proposed change with respect to unclaimed monies is discussed in the Budget Balancing Actions (One-Time) section of this report.

Department Proposals Not Recommended by Mayor

A departmental reduction suggestion that was requested but not taken was to eliminate the Internal Control section (4.00 FTEs; \$466,174) of the City Comptroller Department.

Key Performance Indicators

The City Comptroller Department has improved the percentage of vendor invoices paid on time from 22% in FY 2010 to an estimate of 70% in FY 2011. Management is striving to improve invoice processing understanding that significant vendor discounts are often available for quicker payment processing.

Department Review

City Council

Council Offices

The FY 2012 Proposed Budget continues each Council Office close to the same funding level as FY 2011. When looking at the City Council budgets collectively, the net change from FY 2011 is \$72,716 or a less than 1% increase. The changes from FY 2011 include a net \$11,418 increase to Salary & Wages and a \$61,298 net increase to Non-Personnel and Information Technology expenses. The changes include a 10% reduction in Supplies and Contracts from FY 2011 levels.

Community Discretionary Programs and Projects funds

On September 24, 2010, the City Attorney issued a Memorandum of Law (MOL) regarding the Budgeting, Appropriation, and Expenditure of Council Infrastructure Funds. This MOL discussed the City's practice of carrying over annual savings from each Council Office budget for use in a subsequent year to allocate to community pro-

jects at the discretion of each Councilmember in their district. The City Attorney opined that this process was inconsistent with the requirements of the budget process as outlined in the City Charter.

Because of this MOL, requested allocations for use of these funds were suspended during Fiscal Year 2011. At the time that the MOL was issued, estimates of the remaining Infrastructure Funds for all Council Offices totaled approximately \$1.3 million.

As described in the MOL, according to City Charter Section 84, any unencumbered balance of an appropriation reverts to the fund from which it was appropriated at the close of each fiscal year. Because of this, prior year funds attributed to the Council Infrastructure Fund reverted to the General Fund Reserve. As a result, the FY 2012 Proposed Budget includes the estimated \$1.3 million from prior years as part of the overall General Fund Reserve calculation. Removing these funds from the reserves

SUMMARY OF CITY COUNCIL AND COUNCIL ADMINISTRATION BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	93.38	\$ 9,161,511	\$ 1,273,040	\$ 10,434,551	\$ 182,698
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	(1.49)	(232,615)	-	(232,615)	
Supplies & Contracts			112,216	112,216	
Non-Discretionary and Info Technology Adjustments			24,429	24,429	
Reduction to Supplies and Contracts	-	-	(59,488)	(59,488)	-
Revenue Adjustments	-	-	-	-	(182,698)
Subtotal	(1.49)	(232,615)	77,157	(155,458)	(182,698)
Mayor's Fiscal Year 2012 Proposed Budget	91.89	8,928,896	1,350,197	10,279,093	-
Difference from 2011 to 2012	(1.49)	\$ (232,615)	\$ 77,157	\$ (155,458)	\$ (182,698)

Department Review

would result in a reduction to the overall reserve target level of 7%.

At the April 21, 2011 Budget and Finance Committee, the committee members heard a report from the IBA on the issue of Council Infrastructure Funds and possible solutions including adding an appropriation within each City Council Office Budget for “Community Discretionary Programs and Projects funds”. To minimize the budgetary impacts, the amounts included in the appropriation would be based on an estimate of projected savings in Council Office Budgets for the current fiscal year (consistent with prior practice).

During the April 21, 2011 B&F Committee meeting, the Committee members asked the IBA to work with City Attorney’s Officer to develop a Council Policy and a method of incorporating prior year savings from each Council Office into a “Community Discretionary Programs and Projects Fund” prior to the approval of the FY 2012 Budget.

Council Administration

The FY 2012 Proposed Budget for Council Administration is \$1.7 million, a 12% decrease from FY 2011. The FY 2012 Proposed Budget includes the reduction of \$146,659 related to one-time funding for annual leave payouts for the termed out City Council offices. In addition, the Proposed Budget includes a vacancy savings of \$42,791 related to .50 of a Committee Consultant, and a reduction of \$7,675 or 6% reduction in Supplies and Contracts from FY 2011.

9TH COUNCIL OFFICE

In anticipation of the 9th Council Office whose term will begin December 4, 2012, Platt/Whitelaw Architectural & Engineering Services has been retained through the Engineering & Capital Projects Department GRC for space planning. The design is expected to be completed in early May 2011. Construction is expected to begin April 2012. An estimated \$41,000 in onetime expenses will be required in FY 2012 for design and construction. These funds have not been included in the FY 2012 Proposed Budget.

An additional \$300,000—\$450,000 will be required in FY 2013 to complete the project. That includes finishing the construction and outfitting the office.

Department Review

City Treasurer

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the City Treasurer's Department is approximately \$10.6 million, an increase of \$1,018,734 from the FY 2011 Budget. The FY 2012 Proposed Budget results in an addition of 6.00 FTE positions from FY 2011 to FY 2012. Budgeted revenue decreased by \$1,450,107 in FY 2012.

Support for Parking Meter Utilization Program

The FY 2012 Proposed Budget includes revenue and staff support for the Parking Meter Utilization Plan (PMUP). The PMUP

was developed to provide tools for improved parking management including flexibility in setting rates, time limits, and hours of operation; to set a parking meter utilization target rate of 85%; and to facilitate a community-driven process to address neighborhood specific issues.

Approximately \$1.6 million of new revenue attributable to PMUP and \$380,000 of staff support costs are budgeted in the City Treasurer's Department in FY 2012. City Treasurer staff support consists of 4.00 new FTE positions — 3.00 Parking Meter Technicians (to perform additional coin collection, parking meter maintenance and repair, and enforcement during non-traditional op-

SUMMARY OF CITY TREASURER BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	110.63	\$ 9,738,628	\$8,333,260	\$ 18,071,888	\$25,804,395
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	2.00	41,354		41,354	
- Adjustments due to Salary Reductions/Savings/Furlough		88,977		88,977	
Fringe Benefits (incl. Retirement ARC)		410,154		410,154	
Supplies			27,000	27,000	
Contracts			(3,341)	(3,341)	
Non-Discretionary and Info Technology Adjustments			74,699	74,699	
Parking Meter Utilization Program (PMUP)	4.00	369,891	10,000	379,891	1,586,736
Removal of PMUP Revenue Budgeted But Not Collected in FY 2011					(2,600,000)
Removal of FY 2011 Busines Tax Non-Compliance Collections					(461,750)
Other Revised Revenue Projections				-	24,907
Subtotal	6.00	910,376	108,358	1,018,734	(1,450,107)
Mayor's Fiscal Year 2012 Proposed Budget	116.63	10,649,004	8,441,618	19,090,622	24,354,288
Difference from 2011 to 2012	6.00	\$ 910,376	\$ 108,358	\$ 1,018,734	\$ (1,450,107)

Department Review

erating hours) and 1.00 Parking Meter Supervisor. Additionally, 1.00 Senior Traffic Engineer is budgeted in the Economic Development Division to further support the program.

It is estimated that the PMUP will generate new net revenue of \$1.1million in FY 2012. The PMUP is discussed in greater detail in the Budget Balancing Actions (Ongoing) section of this report.

Budget Reductions

The Department reclassified 1.00 Senior Management Analyst into 1.00 Program Manager for the Business Tax Program.

Significant reductions in budgeted revenue include:

- Removing \$2.6 million budgeted for PMUP in FY 2011. As PMUP was not implemented in FY 2011, the revenue had to be backed out of City Treasurer's base budget for FY 2012.
- \$462,000 of Business Tax Non-Compliance collections largely received on a one-time basis in FY 2011.
- \$120,000 of transaction fees no longer received by the City because a third party payment processor now handles Web and Interactive Voice Response payment processing.

Budget Additions

In addition to the 4.00 FTE positions added in support of PMUP, the Department added 2.00 positions (1.00 Principal Accountant and 1.00 Administrative Aide 2) to administer citywide accounts receivable responsibilities that were previously administered by the City Comptroller's Department prior

to SAP going live.

Significant additions in budgeted revenue include:

- \$1,586,736 for the PMUP in FY 2012
- \$252,000 in parking citation revenue attributable to PMUP implementation and the receipt of parking citation revenue that was previously deposited with the Police Department.

Department Proposals Not Recommended by Mayor

Departmental reductions were submitted but not taken. The detail of the submitted reductions were not made available.

Key Performance Indicators

The City Treasurer's Department is projected to achieve high percentages on all but one of their performance measures in FY 2011. The one exception being the percentage of delinquent account referrals collected, which is expected to decline by 5% to 77%. Department management has explained that this decline is attributable to SAP related delays in account referrals and the economy's impact on a debtors' ability to pay.

Citywide Program Expenditures

The Citywide Program Expenditures budget is comprised of various programs and activities that provide benefits and services Citywide. General Fund portions of programs or activities whose funding is divided among the General Fund and the Non-General funds, and/or programs or activities that are generally not attributable to any one City department are allocated in this budget.

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget totals \$53.4 million, an increase of \$12.7 million from the FY 2011 budget of \$40.7 million.

Reserves

The contributions to the Public Liability Reserve and General Fund Reserve are typically budgeted in the Citywide Program Expenditures. A \$15.1 million transfer to the Public Liability fund for annual expenses is included in the Proposed FY 2012 budget.

The Mayor's Five-Year Outlook released in February 2011 included an additional \$5.7 million Public Liability reserve contribution which would have met a reserve target of 20% of outstanding claims. Also included in the Five-Year Outlook was a General Fund Reserve contribution for FY 2012 of \$3.5 million. This contribution was the estimated funding needed to reach the reserve target amount of 7.5% of General Fund revenues consistent with the City's reserve policy.

As part of the Mayor's Proposed FY 2012

Budget Balancing Solution, contributions to these reserves are suspended, creating budgetary savings totaling \$9.2 million; \$5.7 million comes as a result of eliminating the Public Liability reserve funding, and \$3.5 million by suspending the General Fund Reserve contribution.

For FY 2012 there are no budgeted contributions in Citywide Program Expenditures for these purposes.

Citywide Election Costs

Costs for Citywide Elections were increased by \$2.7 million to \$2.9 million. Primary election races for Mayor, City Attorney, Council Districts 1, 3, 5, 7 and the new Council District 9 occur in June 2012, which is accounted for in the Proposed FY 2012 Budget. Possible run-offs to these elections occur in November 2012, which will be accounted for in the FY 2013 budget.

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

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

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 use in any municipal

Department Review

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 (25% of excess funds to the Regional Park Improvement Fund and 75% to the Mission Bay Park Improvement Fund).

Revenue from Mission Bay Park rents and concessions is budgeted in the Real Estate Assets Department (see Department Review of Real Estate Assets Department). In FY 2011 there was a \$4.3 million one-time revenue (the transfer of fund balance from the Mission Bay Improvement Park Fund) included in the rents and concessions revenue category. The change in FY 2012 from FY 2011 includes the removal of this one-time revenue.

Aside from the one-time removal, revenue from Mission Bay Park rents and concessions has decreased by \$1.1 million from FY 2011. As explained above, any amount above the \$23 million cap is budgeted in Citywide Program Expenditures to be transferred to the Park Improvement Funds. Because rents and concessions have decreased by \$1.1 million, the amount that is allocated to the improvement funds has decreased accordingly. This is a change from the projections shown in the Five-Year Outlook.

McGuigan Settlement

Another expenditure budgeted in this De-

partment 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 will make annual payments related to the financing of approximately \$9.0 million in FY 2012 through FY 2015. The General Fund's proportionate share of these payments total approximately \$7.9 million annually, which is the amount budgeted in Citywide Program Expenditures.

Outside Legal

The City has retained an outside legal litigation counsel against energy company Kinder Morgan to recover damages for environmental contamination of City-owned and Public Utilities Enterprise Fund-owned lands located at Qualcomm Stadium, and water contamination of an aquifer in Mission Valley. The cost for the retention of outside counsel will be shared equally by the General Fund and the Public Utilities Enterprise Fund. The General Fund cost of the retention is \$1.5 million. This is budgeted as an

Department Review

item in the Special Consulting Services account in the Citywide Program Expenditures.

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

Redistricting Commission

The City Charter requires that the City be redistricted at least once every 10 years, and no later than nine months following the receipts of final Federal Decennial Census information.

The Charter also requires a minimum of four preliminary pre-districting public meetings and a minimum of three final plan public meetings in various geographic areas of the City.

A Redistricting Commission was formed in FY 2011 and has been meeting per City Charter requirements. Funding in FY 2011 for the Commission was \$500,000. The Commission's approved budget has been structured to rely only on a total of \$500,000 for its entire duration, which will continue through Fall 2011. The FY 2012 amount of \$313,500 in Citywide Program Expenditures is the reallocation of funds not used by the Commission during FY 2011.

Special Consulting Services

The Special Consulting Services budget increased by \$2 million. The chart below provides a breakdown of this category:

	FY 2011 Adopted Budget	FY 2012 Proposed Budget	CHANGE
Special Consulting Services			
Actuary Services/DROP Study	\$ 400,000	\$ 340,000	\$ (60,000)
Disclosure Counsel	\$ 200,000	\$ 200,000	\$ -
Labor Related Contracts	\$ 350,000	\$ 360,000	\$ 10,000
Muni Services-Sales Tax Consultants	\$ 650,000	\$ 650,000	\$ -
Contingency	\$ 150,000	\$ -	\$ (150,000)
Outside Legal Contracts	\$ -	\$ 1,000,000	\$ 1,000,000
Kinder Morgan Litigation	\$ -	\$ 1,500,000	\$ 1,500,000
Facility Assessment	\$ -	\$ 200,000	\$ 200,000
Redistriction Commission	\$ 500,000	\$ -	\$ (500,000)
Total	\$ 2,250,000	\$ 4,250,000	\$ 2,000,000

Department Review

Debt Management

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Debt Management Department is approximately \$2.4 million, an increase of \$155,918 from the FY 2011 Budget. There are 18.00 FTE positions which remains unchanged from FY 2011.

Budget Reductions

A \$118,412 reduction in budgeted revenues is primarily attributable to reduced financing staff support to the Public Utilities Department and the Redevelopment Agency.

Department Proposals Not Recommended by Mayor

A department reduction suggestion that was requested but not taken was to elimi-

nate between 2.00 (\$212,600) and 4.50 (\$452,600) analysts. Management indicates that such a reduction significantly weakens the department's ability to perform post issuance debt administration duties.

Key Performance Indicators

The FY 2012 Proposed Budget indicates the department expects to achieve 100% of its performance target for all but one performance measure in FY 2011. The other measure is to complete semi-annual compliance status reports in 45 days—the Department expects to require 46 days in FY 2011.

SUMMARY OF DEBT MANAGEMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	18.00	\$2,042,683	\$ 187,976	\$ 2,230,659	\$ 1,008,057
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	-	97,916		97,916	
- Adjustments due to Salary Reductions/Savings/Furlough		8,822		8,822	
Fringe Benefits (incl. Retirement ARC)		39,261		39,261	
Supplies			500	500	
Contracts			10,835	10,835	
Non-Discretionary and Info Technology Adjustments			(1,416)	(1,416)	
Revised Revenue Projections				-	(118,412)
<i>Subtotal</i>	-	145,999	9,919	155,918	(118,412)
Mayor's Fiscal Year 2012 Proposed Budget	18.00	2,188,682	197,895	2,386,577	889,645
<i>Difference from 2011 to 2012</i>	-	\$ 145,999	\$ 9,919	\$ 155,918	\$ (118,412)

Department Review

Development Services Department

The FY 2012 Proposed Budget for the Development Services Department (DSD) is \$59.8 million. In FY 2012 the City Planning and Community Investment (CPCI) Department was dissolved, and the planning functions - including Facilities Financing - were merged into the Development Services Department. The Economic Development and Redevelopment components of CPCI have been established as independent departments.

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

ning division. This is reflected in the table below.

Due to the complexity of the budget structure under the merged Development Services Department, the analysis of FY 2012 Proposed Budget in this section is organized by major program component.

City Planning

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the City Planning functions of the Development Services Department is \$9.1 million, reflecting a reduction of 4.46 FTE positions and approximately \$1.8 million from the FY 2011

DEVELOPMENT SERVICES DEPARTMENT BUDGET SUMMARY

Division	Facilities		DSD		Total by Division
	General Fund	Financing Fund	Enterprise Fund	LEA Fund	
City Planning ¹	9,062,552	-	-	-	9,062,552
Neighborhood Code	6,106,752	-	-	-	6,106,752
Facilities Financing	-	2,075,425	-	-	2,075,425
Development Services	57,822	-	14,623,114	-	14,680,936
Building & Safety	-	-	14,060,552	-	14,060,552
Entitlements	-	-	13,030,121	-	13,030,121
Solid Waste LEA	-	-	-	829,639	829,639
Total by Fund	15,227,126	2,075,425	41,713,787	829,639	59,845,977

1. Previously included the Planning, Urban Form and Administrative & Technical Services Divisions.

Department Review

Adopted Budget. Department revenues reflect a decline of approximately \$292,000, primarily due to a reduction in reimbursable planning services related to development projects reviews.

Budget Reductions

Position adjustments reflect the elimination of 5.00 FTE, offset by the addition of 0.54 hourly positions. As a result of the merger with the Development Services Department, the CPCI Department Director position has been eliminated. In addition, the Deputy Director of the Urban Form Division has also been eliminated, which will likely require reorganization of this function. Other position reductions include 1.00 Park Designer, 1.00 Associate Planner, and 1.00 Word Processing Operator.

Other significant budget reductions include the following:

- A \$434,000 decrease in funding for the Community Plan Update (CPU) pro-

gram;

- A \$275,000 reduction in funding related to the Phyllis Place road connection analysis;
- A reduction of \$137,000 related to the Las Americas and Imperial Marketplace public use lease payments;
- A \$500,000 reduction due to the elimination of a one-time expenditure in FY 2011.

The reduction in funding for Community Plan Updates brings the total budget for this program to approximately \$900,000, as compared to \$3.4 million that was budgeted in FY 2010. In FY 2012, CPU program funding will be used to complete the Ocean Beach, Otay Mesa and Grantville community plan updates, and to continue work on the Uptown, North Park and Greater Golden Hill community plans.

However, the reduction in funding will

SUMMARY OF CITY PLANNING BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	51.00	\$ 6,094,661	\$ 4,806,970	\$ 10,901,631	\$ 1,626,739
Mayor's FY 2012 Proposed Budget Changes					
Salary & Fringe Adjustments	-	\$ 33,178	\$ -	\$ 33,178	\$ -
Adjustment for Salary Reductions/Vacancy Savings/Furlough		(53,039)	-	(53,039)	-
Non-Discretionary and IT Adjustments	-	-	100,091	100,091	-
Adjustment to Hourly Positions	0.54	14,618	-	14,618	-
Position Reductions	(5.00)	(768,500)	-	(768,500)	-
Reduction for Phyllis Place Road Connection Analysis	-	-	(275,000)	(275,000)	-
Reduction to Community Plan Update Program	-	-	(434,253)	(434,253)	-
Adjustment in RDA Lease Payment	-	-	(137,209)	(137,209)	-
Funding for General Plan Housing Element Update	-	-	175,000	175,000	-
One-Time Reductions	-	-	(500,000)	(500,000)	-
Revenue Adjustments	-	-	-	-	(291,676)
Other Expenditure Adjustments	-	-	6,035	6,035	-
Mayor's Fiscal Year 2012 Proposed Budget	46.54	\$ 5,320,918	\$ 3,741,634	\$ 9,062,552	\$ 1,335,063
<i>Difference from 2011 to 2012</i>	<i>(4.46)</i>	<i>\$ (773,743)</i>	<i>\$ (1,065,336)</i>	<i>\$ (1,839,079)</i>	<i>\$ (291,676)</i>

Department Review

cause other community plan updates to be deferred to future years. In addition, it will also delay preparation of the citywide Parks and Open Space Master Plan, the Facilities Financing Strategy, and the Economic Development Strategic Plan, which are three of the eight key actions for implementation of the General Plan.

Budget Additions

Significant budgetary additions include an increase of approximately \$100,000 related to non-discretionary and Information Technology expenses, and the addition of \$175,000 in non-personnel expense to support an update to the General Plan Housing Element, as required by State law.

Issues to Consider

In FY 2011, \$500,000 was added to CPCI's budget for traffic and environmental analyses related to a proposed road connection between Phyllis Place and Friars Road. Currently, this road connection is included in the Mission Valley community plan, but not in the Serra Mesa community plan, causing a discrepancy in the adjoining plans. These analyses are required by the California Environmental Quality Act (CEQA) prior to amending either of the community plans.

This project was not completed in FY 2011. Staff has indicated that they are still in the process of hiring a consultant to perform these analyses, and that work should begin soon. However, it has been determined that the cost for these analyses will be less than originally anticipated. As a result, funding for this project in FY 2012 has been reduced to \$225,000.

Facilities Financing (Non-General Fund)

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Facilities Financing Division is \$2.1 million, a reduction of approximately \$157,000 from the FY 2011 Adopted Budget. Budgeted revenues declined by \$254,000. The budget also reflects the addition of 1.00 provisional (hourly) Sr. Management Analyst. This reflects the proper budgeting of an hourly position that was filling a vacant Sr. Management Analyst position in FY 2011.

The decline in expenditures is driven by a \$275,000 reduction in non-discretionary and Information Technology expenditures, offset by an \$82,000 increase in salary and fringe adjustments. The reduction in non-discretionary and IT expenditures is due primarily to a \$228,000 reduction in the SAP support allocation, and a \$75,000 reduction in General Government Services Billing. These reductions are largely due to changes in the methodology by which these expenses are allocated to non-General Fund departments.

The FY 2012 work program for Facilities Financing includes continuing work on a number of Financing Plans associated with Community Plan Updates that are underway, including Ocean Beach, Otay Mesa, Uptown, North Park and Golden Hill. In addition, Facilities Financing is working on interim updates to several FBE-based financing plans.

Department Review

Neighborhood Code Compliance

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for Neighborhood Code Compliance (NCC) is \$6.1 million, an increase of approximately \$155,000 from the FY 2011 Adopted Budget. The Proposed Budget includes a reduction of 4.00 FTE positions; however, total expenditures increased due to salary and fringe adjustments, as well as a reduction in budgeted vacancy savings

Budget Reductions

The most significant adjustment in the FY 2012 Proposed Budget for NCC is the reduction of 4.00 Utility Workers, effectively eliminating the Graffiti Removal Team, which is responsible for removing obsolete traffic markings and graffiti within the public right of way. If this reduction is implemented, graffiti removal will be performed by the Urban Corps through an existing contract with the City. The Department has indicated that Urban Corps should be

able to absorb most of the additional workload created by the reduction of NCC's Graffiti Removal Team.

The FY 2012 Proposed Budget for NCC also reflects a \$175,000 reduction in Community Development Block Grant (CDBG) revenue, consistent with the FY 2012 CDBG allocations approved by the City Council on March 21, 2011. In prior years, NCC received an allocation of CDBG funds for proactive code enforcement in highly impacted redevelopment project areas. In FY 2012, NCC did not receive a CDBG allocation, and will discontinue this proactive enforcement.

Budget Additions

The budget reductions proposed for NCC in FY 2012 are offset by an increase of approximately \$440,000 in personnel expense. Of this amount, approximately \$263,000 is due to a reduction in the budgeted vacancy savings. The remaining increase of \$184,000 is due to adjustments in salary and fringe accounts. In addition, non-discretionary and Information Technology expenses increased by approximately \$60,400.

SUMMARY OF NEIGHBORHOOD CODE COMPLIANCE BUDGET CHANGES						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	57.00	\$ 4,946,163	\$ 1,005,624	\$ 5,951,787	\$ 715,250	
Mayor's FY 2012 Proposed Budget Changes						
Salary & Fringe Adjustments	-	\$ 184,301	\$ -	\$ 184,301	\$ -	
Adjustment for Salary Reductions/Vacancy Savings/Furlough		\$ 255,754	\$ -	255,754	-	
Non-Discretionary and IT Adjustments	-	-	60,402	60,402	-	
Elimination of Graffiti Removal Team	(4.00)	(283,617)	(18,000)	(301,617)	-	
Reduction in Supplies and Contracts		-	(43,875)	(43,875)	-	
Revised Revenue Projections		-	-	-	(175,000)	
Mayor's Fiscal Year 2012 Proposed Budget	53.00	\$ 5,102,601	\$ 1,004,151	\$ 6,106,752	\$ 540,250	
<i>Difference from 2011 to 2012</i>	<i>(4.00)</i>	<i>\$ 156,438</i>	<i>\$ (1,473)</i>	<i>\$ 154,965</i>	<i>\$ (175,000)</i>	

Department Review

Development Services (Enterprise Fund)

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Development Services Department (DSD) Enterprise Fund is \$41.7 million, reflecting a net increase of \$568,000 from the FY 2011 Adopted Budget. Budgeted revenues increased by \$685,000, while a base budget reconciliation of authorized positions resulted in the reduction of 3.25 FTE positions.

These position reductions are a result of Financial Management working with departments to determine the amount and detailed classifications of authorized positions prior to the FY 2012 budget development process. As part of this process, the practice of budgeting FTE increments below 0.5 was discontinued as fully benefitted standard hour positions must work at least 20 hours per week. Adjustments were made

to DSD positions to reflect this change in approach and to reconcile to authorized position records.

Budget Additions

The FY 2012 Proposed Budget for DSD is largely unchanged from FY 2011. The \$569,000 increase in expenditures is due to a \$1.15 million increase in personnel expense offset by a \$615,000 reduction in non-discretionary and Information Technology expenses. Much of the increase in personnel expense is due to a \$626,000 reduction in budgeted vacancy savings. Other increases in personnel expense are largely due to the increase in pension contributions, and a sizeable increase in annual leave terminal pay.

Budgeted revenues also increased by \$685,000 based on revised projections related to the sale of publications.

Other Budget Adjustments

Another significant budget adjustment in the FY 2012 Proposed Budget for DSD is a \$2.2 million contribution to the Development

SUMMARY OF DEVELOPMENT SERVICES BUDGET CHANGES (ENTERPRISE FUND)					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	410.00	\$ 29,292,288	\$ 11,852,571	\$ 41,144,859	\$ 45,868,370
Mayor's FY 2012 Proposed Budget Changes					
Salary & Fringe Adjustments	-	\$ 527,379	\$ -	\$ 527,379	\$ -
Adjustment for Salary Reductions/Vacancy Savings/Furlough		625,918	-	625,918	-
Non-Discretionary and IT Adjustments	-	-	(615,250)	(615,250)	-
Base Budget Position Reconciliation	(3.25)	-	-	-	-
Increase in Allocation of CAFR Expense	-	-	36,354	36,354	-
Increase in Revenue from Sale of Publications	-	-	-	-	685,000
Other Expenditure Adjustments	-	-	(2,189,580)	(2,189,580)	-
Transfer to Appropriated Reserve	-	-	2,189,580	2,189,580	-
Other Expenditure Adjustments	-	-	(5,473)	(5,473)	-
Mayor's Fiscal Year 2012 Proposed Budget	406.75	\$ 30,445,585	\$ 11,268,202	\$ 41,713,787	\$ 46,553,370
<i>Difference from 2011 to 2012</i>	<i>(3.25)</i>	<i>\$ 1,153,297</i>	<i>\$ (584,369)</i>	<i>\$ 568,928</i>	<i>\$ 685,000</i>

Department Review

Services Enterprise Fund appropriate reserve. According to the City's Reserve Policy, The 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 Development Services Enterprise Fund has an Appropriated Reserve target of 4% for FY 2012. Based on budgeted operating expenditures of \$41.7 million, this equates to a Reserve of approximately \$1.7 million. The \$2.2 million Appropriated Reserve established in the FY 2012 Proposed Budget is approximately 5.25% of total operating expenditures, well in excess of the reserve target.

Issues to Consider

Over the past several years, the Development Services Enterprise Fund has been negatively impacted by declining revenues due to the prolonged economic downturn and a sharp reduction in development activity. This led to a deficit in the Enterprise Fund that by FY 2009 grew to approximately \$10 million.

To mitigate this imbalance, the Department has reduced staffing levels and implemented other cost savings and efficiencies. In addition, the City Council adopted a fee increase proposal in October 2009, which was estimated to generate an additional \$2.7 million per year. As a result of these efforts, Fund revenues are projected to exceed expenditures in both FY 2010 and FY 2011. However, the Fund still has a deficit that will take several years to fully balance.

In FY 2012, revenues are budgeted to exceed expenditures by approximately \$4.8 million. However, as the IBA noted last year, budgeted revenues and expenditures continue to exceed actual trends by a significant margin. As reflected in the FY 2011 Mid-Year Budget Monitoring Report, revenues and expenditures are projected to be underbudget by \$8.5 million and \$5.1 million, respectively.

While we acknowledge the difficulty in projecting future development activity, as well as the Department's desire to have maximum flexibility, we continue to believe that the budget should be more closely aligned with actual revenue and expenditure trends.

In addition, we recommend that in FY 2013 the Key Performance Measure for DSD include the number of building permits issued and the number of building inspections completed. These measures would help to match budgeted dollars with anticipated activity levels.

Department Review

Disability Services

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Disability Services Department is approximately \$683,000, a decrease of \$316,962 from the FY 2011 Budget. The FY 2012 Proposed Budget results in a reduction of 1.50 FTE positions from FY 2011 to FY 2012. The Department has no budgeted revenue.

Issues to Consider

In the FY 2011 Budget, Disability Services was a program within the Public Works Department. In the FY 2012 Proposed Budget, Disability Services is now a department within the Office of the Assistant COO.

Budget Reductions

The FY 2012 Proposed Budget results in a reduction of 1.50 FTE positions for the Disability Services Department. This reduction represents the elimination of 1.00 Deputy Chief Operating Officer of Public Works and the transfer of .50 Executive Secretary to the Public Works — Engineering & Capital Projects Department. Funding for certain non-personnel expense items tied to these positions has also been removed from the Department's budget.

Funding for ADA Projects

In FY 2008, the Mayor and City Council began budgeting \$10 million annually for ADA projects using proceeds from City land sales. Due to slow property sales, only \$2.2 million of the \$10 million budgeted was available for ADA projects in FY 2010. In

SUMMARY OF DISABILITY SERVICES BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	4.50	\$ 710,064	\$ 289,948	\$ 1,000,012	\$ -
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(1.50)	(188,047)		(188,047)	
- Adjustments due to Salary Reductions/Savings/Furlough		3,955		3,955	
Fringe Benefits (incl. Retirement ARC)		(109,070)		(109,070)	
Supplies			1,800	1,800	
Contracts			(33,258)	(33,258)	
Non-Discretionary and Info Technology Adjustments			7,658	7,658	
Revised Revenue Projections				-	-
Subtotal	(1.50)	(293,162)	(23,800)	(316,962)	-
Mayor's Fiscal Year 2012 Proposed Budget	3.00	416,902	266,148	683,050	-
Difference from 2011 to 2012	(1.50)	\$ (293,162)	\$ (23,800)	\$ (316,962)	\$ -

Department Review

FY 2011, the Department received approximately \$1.3 million in Development Impact Fees and otherwise used prior year project savings to fund ADA projects. There have been no land sale proceeds allocated for ADA projects in FY 2011.

In last year's Revised Five-Year Outlook, management indicated that approximately \$20 million of two future \$120 million bond issues for deferred CIP needs (planned for FY 2012 and FY 2014) would be used to fund ADA projects.

The Mayor's current Revised Five-Year Outlook plans to issue \$100 million of bonds annually for deferred CIP projects beginning in FY 2012. Management has informed the IBA that they intend to allocate an "unspecified" portion of these bonds for ADA projects. Additionally, management hopes CDBG and/or land sale proceeds can be used to fund ADA projects going forward.

Status of Funded ADA Projects

The IBA annually tracks the status of budgeted ADA projects to ensure they are being completed in a reasonable period of time. In the past, it has often taken an excessive amount of time to complete projects. While improvements have been made, a number of CDBG funded projects were cancelled in FY 2010 because allocated funds could not be spent fast enough to comply with CDBG expenditure requirements.

A status update for ADA projects is presented in the following table. The IBA recommends the time required to complete funded ADA projects continue to be monitored.

Status of ADA Construction Projects				
	FY 2008	FY 2009	FY 2010	FY 2011
	BUDGET	BUDGET	BUDGET	BUDGET
ADA Project Phases				
Design/Bid/Award	11 (24%)	14 (44%)	4 (40%)	7 (100%)
In Construction	4 (9%)	2 (6%)	4 (40%)	0 (0%)
Completed	31 (67%)	16 (50%)	2 (20%)	0 (0%)
TOTAL PROJECTS:	46 (100%)	32 (100%)	10 (100%)	7 (100%)

Key Performance Indicators

The Disability Services Department is projecting improvement in most of its key performance indicators in FY 2011. Of note, the number of ADA complaints received by the City has dropped from 149 in FY 2010 to 101 estimated for FY 2011.

Department Review

Economic Development

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Economic Development Department is \$4.5 million, an increase of 21.30 FTE positions and approximately \$1.5 million from the FY 2011 Adopted Budget. Formerly a Division within the City Planning & Community Investment (CPCI) Department, Economic Development has been established as an independent department in FY 2012. In addition, HUD Programs Administration, also formerly a Division in the CPCI Department, has been merged into the Economic Development Department.

Budget Additions

In addition to merging with the new Economic Development Department, HUD Programs Administration has also transferred to the General Fund from the HUD Programs Administration Fund. This trans-

fer accounts for the increase of 14.50 FTE positions and \$1.4 million in personnel expense, as well as \$1.7 million in revenue related to CDBG reimbursements.

Other significant budgetary increases include the addition of 2.00 Community Development Specialist II positions to support CDBG program activities, which are fully reimbursable; the addition of 1.00 Sr. Traffic Engineer to support the Parking Meter Utilization Program; and the addition of 3.80 hourly intern positions.

Budget Reductions

While the transfer of HUD Programs Administration to the General Fund from the HUD Programs Administration Fund reflects a budgetary increase to the Economic Development Department, it actually represents a net expenditure reduction of approximately \$986,000 from the combined FY 2011 Budgets. This net reduction is pri-

SUMMARY OF ECONOMIC DEVELOPMENT BUDGET CHANGES						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	11.00	\$ 1,345,857	\$ 1,334,155	\$ 2,680,012	\$ 877,375	
Mayor's FY 2012 Proposed Budget Changes						
Salary & Fringe Adjustments	-	\$ 29,007	\$ -	\$ 29,007	\$ -	
Adjustment for Salary Reductions/Vacancy Savings/Furlough		\$ (6,516)	\$ -	(6,516)	-	
Non-Discretionary and IT Adjustments	-	-	7,310	7,310	-	
Transfer from HUD Administration Fund	14.50	1,421,783	-	1,421,783	1,695,263	
Support for HUD Programs Administration	2.00	190,346	-	190,346	242,587	
Support for Parking Utilization Program	1.00	129,331	-	129,331	-	
Intern Support for HUD Programs	3.04	79,156	-	79,156	79,156	
Intern Support for Office of Small Business	0.76	19,789	-	19,789	19,789	
Other Revenue Adjustments	-	-	-	-	112,917	
Other Adjustments	-	-	(6,035)	(6,035)	-	
Mayor's Fiscal Year 2012 Proposed Budget	32.30	\$ 3,208,753	\$ 1,335,430	\$ 4,544,183	\$ 3,027,087	
<i>Difference from 2011 to 2012</i>	<i>21.30</i>	<i>\$ 1,862,896</i>	<i>\$ 1,275</i>	<i>\$ 1,864,171</i>	<i>\$ 2,149,712</i>	

Department Review

marily due to the elimination of \$1.3 million in non-personnel expenditures for HUD Programs Administration from the FY 2011 Budget. However, the IBA has been informed that non-personnel expenditures related to CDBG program administration have been budgeted directly in the CDBG Grant Fund, while staff positions and personnel expense has been transferred to the General Fund.

Issues to Consider

In FY 2010, the HUD Programs Administration Fund was created in order to enhance transparency and more closely track expenditures related to CDBG program administration. This was done in response to an audit of the City's CDBG program by HUD, which revealed a number of deficiencies in the City's administration of CDBG grant funds. In prior years, when the CDBG program was budgeted in the General Fund, it was difficult to identify what positions and expenditures were related to CDBG program administration.

According to the City Comptroller's Office, it was not appropriate to budget CDBG administration expenditures in a Special Revenue Fund. However, the IBA is concerned that the change in the budget practice in FY 2012 reduces transparency with respect to the budget for HUD Programs Administration. Based on the information reflected in the FY 2012 Proposed Budget, it is unclear how much funding is being budgeted for administration or the CDBG program, or whether the 20% target has been achieved.

We recommend that the Economic Development staff work with the Comptroller's Office and Financial Management to ensure that the budget for HUD Programs Administration is consolidated into one area and clearly reflected in the budget document.

ECONOMIC DEVELOPMENT NET ADJUSTMENT					
	FTE	PE	NPE	EXP	REV
Fiscal Year 2011					
Economic Dev. Division	11.00	1,345,857	1,334,155	2,680,012	877,375
HUD Programs Admin.	20.00	1,532,074	1,318,492	2,850,566	2,850,566
Total FY 2011 Budget	31.00	2,877,931	2,652,647	5,530,578	3,727,941
Fiscal Year 2012					
Economic Dev. Dept.	32.30	3,208,753	1,335,430	4,544,183	3,027,087
Net Change	1.30	330,822	(1,317,217)	(986,395)	(700,854)

Department Review

Enterprise Resource Planning

Mayor's FY 2012 Proposed Adjustments

The Fiscal Year 2012 Proposed Budget for the Enterprise Resource Planning (ERP) Support Department totals \$20.6 million, an increase of \$3.3 million from FY 2011. These activities are accounted for in a special fund. All City funds and departments contribute to support the various modules of the newly implemented OneSD computer system; support is provided through a combination of City staff and contractual services.

Revenues to be received by ERP Support from other City funds have increased by \$3.4 million. Based on the recent development of new allocation formulas based on specific users of each module, and ensuring all City funds contribute appropriately, the General Fund will contribute 40% of total

funding, and for the first time, departments within the General Fund have been assigned specific allocations resulting in budget increases to all departments. In total, the General Fund's share decreased \$1.9 million for FY 2012, with non-General Fund departments contributing \$5.2 million more. All support costs related to the new Customer Care Solution (CCS) are allocated directly to Public Utilities, and are not shared.

ERP Support includes 20 positions, a net increase of 1.00 FTE from the FY 2011 Budget. Three Program Managers have been added, with a reduction of two Accountants. Other significant budget changes include a \$2.9 million increase in Information Technology; an increase of \$577,000 for Information Technology Services Transfer; and a rent addition of \$288,632 due to the move of staff to Civic Center Plaza.

SUMMARY OF ERP SUPPORT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	19.00	\$ 2,590,420	\$ 14,694,243	\$ 17,284,663	\$ 17,284,663
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages		73,775		73,775	
- Adjustments due to Salary Reductions/Savings/Furlough		(86,883)		(86,883)	
Fringe Benefits (incl. Retirement ARC)		102,644		102,644	
Supplies			13,100	13,100	
Contracts			(16,400)	(16,400)	
Other			3,300	3,300	
Non-Discretionary and Info Technology Adjustments			2,906,159	2,906,159	
Addition of Program Managers	3.00	596,379		596,379	
Reduction of Accountant 4s	(2.00)	(300,904)		(300,904)	
Revised Revenue Projections					3,441,433
<i>Subtotal</i>	1.00	385,011	2,906,159	3,291,170	3,441,433
Mayor's Fiscal Year 2012 Proposed Budget	20.00	2,975,431	17,600,402	20,575,833	20,726,096
Difference from 2011 to 2012	1.00	\$ 385,011	\$ 2,906,159	\$ 3,291,170	\$ 3,441,433

Department Review

Environmental Services

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Environmental Services Department (ESD) reflects \$92.0 million in total expenditures, \$52.3 million in revenue and 410.79 full-time equivalent positions (FTE's). The Department consists of four primary divisions spread across five different funds, as shown in the table below.

Issues to Consider

Mayor's Budget Balancing Actions—Ongoing Solutions

The FY 2012 Proposed Budget includes the following ESD solutions: the Reduction of Public Hold Harmless Agreements and the Reduction of Small Business Customers.

Reduction of refuse collection services to customers with hold harmless agreements is described in detail in the "Mayor's Budget Balancing Actions (Ongoing)" section of this report. Refuse collection services to an estimated 14,200 residential units on private

streets is scheduled to be eliminated July 1, 2011.

Annual cost reductions for elimination of trash collection services are included in the FY 2012 General Fund budget, at \$818,974. Additionally, a net positive impact of \$66,939 for elimination of recycling and greenery collection services is included in the FY 2012 Recycling Fund Proposed Budget.

Reduction of collection services to small business customers is also describe in detail in the "Mayor's Budget Balancing Actions (Ongoing)" section of this report. Collection services to an estimated 4,620 small businesses is scheduled to be eliminated July 1, 2011.

Annual cost reductions for elimination of small business collection services are included in the FY 2012 General Fund budget and total \$355,130. There would be no savings to the Recycling Fund, as small businesses do not receive recycling collection services.

ESD had estimated that it would take ap-

Environmental Services Department - FY 2012 Proposed Budget Expenditures

	General Fund	Energy Conservation Fund	Refuse Disposal Fund	Recycling Fund	Automated Container Replacemnt	TOTAL
Collection Services	\$30.3		\$0.9	\$14.8	0.5	\$46.5
Waste Reduc. & Disposal	0.0		28.4	1.6		30.0
Energy Sust. & Env. Prot.	1.9	2.5	1.2	1.8		7.4
Office of the Director	1.4		4.0	2.7		8.1
TOTAL	\$33.6	\$2.5	\$34.5	\$20.9	\$0.5	\$92.0

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proximately five months to implement the elimination of collection services to small business customers and customers with hold harmless agreements. The implementation schedule included time for outreach to the impacted businesses, as well as the affected residents and their homeowners associations. Work toward the elimination of these services is in progress and is currently on schedule.

Managed Competition for the Landfill

Beginning in 2010, the City explored the concept of selling Miramar Landfill. The end result of this process was that the City will not be further pursuing the sale of the landfill.

However, the City has decided to pursue the managed competition process. In his February 18, 2011 memo to the Council President and City Council Members, the Chief Operating Officer outlined a timetable for managed competition of the landfill. According to this timetable, it is anticipated that Council will consider the Preliminary Statement of Work in June 2011. A recommendation from the Managed Competition Independent Review Board is not expected until April 2012, and any savings from this process are not anticipated to occur until late FY 2012 or early FY 2013.

Financial Health of the Recycling Fund and Refuse Disposal Fund

The Recycling and Refuse Disposal Enter-

prise Funds are mainly supported by fees — AB 939 recycling fees and tipping fees, respectively — that are collected on waste disposed at Miramar Landfill. Over the years, waste has been diverted from the landfill, with increased recycling, composting and source reduction efforts. As a result, the Recycling and Refuse Disposal Funds were collecting less in revenues.

Until 2009, the AB 939 fee, the Recycling Fund's largest source of revenue, had not been increased since originally instituted in 1998, while the number of households receiving recycling service had more than tripled over the same time period. The fiscal imbalance in the Recycling Fund was exacerbated by a decline in trash tonnage upon which AB 939 fees are assessed, a decline in recyclable commodity revenue, and the transfer of the Sycamore Canyon Landfill Facility Franchise Fee to the General Fund. This led to a situation where expenditures were outpacing revenues.

In April 2009, the City Council approved a fiscal mitigation package designed to protect the financial health of the Recycling Fund for FY 2010. Absent corrective action, the Recycling Fund was projected to have an operating deficit at the end of FY 2010.

The fiscal mitigation package approved by City Council in April 2009 included the following elements:

- A \$3 per ton increase in the AB 939 fee;
- Transfer of certain programs from the Recycling Fund to the Refuse Disposal

Department Review

Fund;

- A \$2 per ton increase in the Tipping fee;
- A \$5 per ton discount on the Tipping fee for City forces.

Despite these efforts, the financial health of both the Recycling and Refuse Disposal Funds will need to be closely monitored. The fee increases approved in April 2009 and the 4/10/5 Collection Schedule/Route Reorganization implemented in FY 2011 were designed to support the Recycling Fund, while the program transfers and tipping fee discount for City forces place additional strains on the Refuse Disposal Fund.

Additionally, due to the challenges with the current funding structure for the Recycling and Refuse Disposal Funds, any future fiscal mitigation efforts are likely to have a General Fund impact. Since the General Fund pays tipping fees and AB 939 fees related to residential refuse collection, any increases in these fees that may be necessary to support the financial health of the Recycling and Refuse Disposal Funds will adversely impact the General Fund, as the City is prohibited by the People's Ordinance from passing on the costs of refuse collection to its customers.

The financial health of the Recycling and Refuse Disposal Enterprise Funds has been examined in the past and will need further examination. An analysis of the Recycling and Refuse Disposal Funds' liabilities, available fund balances, reserve policies and financial forecasts will help determine the appropriate disposal fee levels for the op-

erations, long-term maintenance and sustainability of the Recycling and Refuse Disposal Funds.

The IBA has previously recommended, in Report 10-16, that ESD develop and present five-year forecasts for the Recycling and Refuse Disposal Funds and that the reserve policies for these Funds be incorporated into the City Reserve Policy. Financial Management is planning to bring a revised reserve policy forward to the Budget Committee after the FY 2012 budget process. It is anticipated that a reserve policy for the Recycling and Refuse Disposal Funds will be included in the revised City Reserve Policy.

Lastly, upon performing a comparison of projections for actual revenue and expenditures over the past two years for the Recycling and Refuse Disposal Funds, it appears that expenditures could be over-budgeted and revenues (for the Recycling Fund) could be under-budgeted. See the chart on the following page showing this comparison for the Recycling Fund. A similar chart for the Refuse Disposal Fund also appears on the following page.

Note that since the City does not have FY2010 audited figures, we utilized the FY2010 Year-End Budget Monitoring Report projections in this comparison. The FY2011 figures are based on the recent FY2011 Mid-Year Budget Monitoring Report.

The effect of over-budgeting expenditures and under-budgeting revenues would be that the budgeted change in fund balance for these enterprise funds would appear more

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RECYCLING FUND (ESD)			
Projected Revenues and Expenditures Compared to FY 2012 Proposed Budget			
Source Document	Revenues	Expenditures	Revenues Less
			Expenditures
<i>FY 2010 Year-End Budget Monitoring Report Projection</i>	\$18.6	\$19.5	(\$0.9)
<i>FY 2011 Mid-Year Budget Monitoring Report Projection</i>	\$20.5	\$18.9	\$1.6
<i>FY 2012 Proposed Budget</i>	\$17.9	\$20.9	(\$3.0)
<i>Difference Between FY 2012 Proposed Budget and FY 2011 Projection</i>	(\$2.6)	\$2.0	(\$4.6)

unfavorable than actual events.

For example, in Recycling Fund, the FY 2012 revenue budget of \$17.9 million is \$2.6 million lower than the FY 2011 Mid-Year Budget Monitoring Report projection of \$20.5 million; and the FY 2012 expenditure budget of \$20.9 million is \$2.0 million more than the FY 2011 Mid-Year Budget Monitoring Report projection of \$18.9 million. The net change to the fund balance is \$4.6 million more unfavorable in the FY 2012 budget than in the FY 2011 Mid-Year Budget Monitoring Report.

We would note that the FY 2012 Recycling Fund expenditure budget is increasing over FY 2011 by \$1.2 million. For the Refuse Disposal Fund, the expenditure increase over FY 2011 is \$61,308. Refuse Disposal

CIP is budgeted separately, at \$5.7 million, and would be an additional amount to be absorbed by available fund balance.

However, the differences between projected revenues and expenditures and the FY 2012 Proposed Budget are not fully explained at this time. Thus, we recommend that the Department provide forecasts for revenues, expenditures and fund balances for the Recycling and Refuse Disposal Funds, in order to obtain a broader view of the health of these enterprise funds.

Budget Analysis

The following funds are discussed in next sections of this report: General Fund, Recycling Fund, Refuse Disposal Fund and Energy Conservation Program Fund.

REFUSE DISPOSAL FUND (ESD)			
Projected Revenues and Expenditures Compared to FY 2012 Proposed Budget			
Source Document	Revenues	Expenditures	Revenues Less
			Expenditures
<i>FY 2010 Year-End Budget Monitoring Report Projection</i>	\$31.6	\$32.6	(\$1.0)
<i>FY 2011 Mid-Year Budget Monitoring Report Projection</i>	\$29.6	\$30.3	(\$0.7)
<i>FY 2012 Proposed Budget</i>	\$29.7	\$34.5	(\$4.8)
<i>Difference Between FY 2012 Proposed Budget and FY 2011 Projection</i>	\$0.1	\$4.2	(\$4.1)

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General Fund

The FY 2012 Proposed Budget for the ESD portion of the General Fund reflects an expenditure increase from FY 2011 of approximately \$1.1 million, and an increase in revenue of \$113,076.

The increase in expenditures is largely due to increases for vehicle usage and assignment fees. Additions to the FY 2012 Proposed budget include an increase of \$1.8 million, or 27%, for vehicle usage and assignment fees—not including a decrease of \$287,069 related to the planned reduction in collection services to hold harmless and small business customers. Usage and assignment fees are set by Fleet Services, and are increasing for City vehicles for FY 2012, after being reduced in FY 2011 when the Fleet Services fund balance offset fee increases.

Budget Reductions

The FY 2012 Proposed Budget includes the following reductions:

- The decrease in Salary Savings of \$287,590, which increases personnel expenses, is largely attributable to a reduction in the vacancy factor.
- A decrease in expenditures for the elimination of collection service to customers with hold harmless agreements totals \$818,974, including 2.0 Sanitation Driver 2 and 1.0 Sanitation Driver 1 FTE's.
- A decrease in expenditures for the elimination of collection services to small business customers totals \$355,130, including 1.0 Sanitation Driver 2 FTE.
- A reduction in automated refuse container funding, which provides for initial trash collection containers to new hous-

SUMMARY OF BUDGET CHANGES - GENERAL FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	139.21	\$ 12,472,489	\$ 20,089,157	\$ 32,561,646	\$ 994,827
<i>Salary Savings Decrease</i>	-	287,590	-	287,590	-
<i>Hourly Wages Increase</i>	0.58	50,141	-	50,141	-
<i>Termination Pay Increase</i>	-	40,444	-	40,444	-
<i>Reduction of Public Hold Harmless Agreements</i>	(3.00)	(270,837)	(548,137)	(818,974)	-
<i>Reduction of Small Business Customers</i>	(1.00)	(92,298)	(262,832)	(355,130)	-
<i>Other Net Salary and Wages Decrease</i>	(5.55)	(224,215)	-	(224,215)	-
<i>Other Fringe Benefit Increase</i>	-	89,731	-	89,731	-
<i>Supplies</i>	-	-	(303,380)	(303,380)	-
<i>Vehicle Usage and Assignment Fees - Fleet Services</i>	-	-	1,849,810	1,849,810	-
<i>Other Net Contracts Increase</i>	-	-	231,512	231,512	-
<i>Other Increases</i>	-	-	208,129	208,129	113,076
Mayor's FY 2012 Proposed Budget	130.24	\$ 12,353,045	\$ 21,264,259	\$ 33,617,304	\$ 1,107,903
Difference from 2011 to 2012	(8.97)	\$ (119,444)	\$ 1,175,102	\$ 1,055,658	\$ 113,076

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ing developments, appears in the Supplies NPE group. The amount of the decrease is \$300,000 (\$500,000 was budgeted in FY 2011). ESD does not believe that there will be a significant service level impact, as it is anticipated that the need to provide new containers to new developments will remain low during FY 2012.

- A reduction of 1.00 FTE for an Area Refuse Collection Supervisor will impact driver safety and training programs for the Collections Services Division.
- A reduction of 0.50 Hazmat Inspector 2 FTE is anticipated to increase the workload for the remaining employees who handle mandated responsibilities.
- Reductions of 1.85 Utility Worker 2's, 1.35 Administrative Aide 2's and 0.35 Human Resources Analyst FTE's are the result of departmental reorganization

and efficiencies.

- A \$30,000 reduction related to the Community Enhancement Program, which provides for mini-community clean-ups, is included in the FY 2012 Proposed Budget. ESD does not project service level reductions resulting from this budget decrease.

Departmental Budget Proposals Not Recommended by the Mayor

As part of its budget submission, ESD proposed a further reduction of \$144,300 in automated refuse container funding. As discussed previously, the amount of the decrease currently incorporated in the FY 2012 Proposed Budget is \$300,000. If an additional \$144,300 reduction were to be applied to the budget, the total budget for automated refuse containers would decrease from \$500,000 in FY 2011 to \$55,700. At this level, ESD believes that there could be service level impacts.

Recycling Fund

The FY 2012 Proposed Budget for the Recycling Fund reflects an expenditure increase from FY 2011 of approximately \$1.2 million, and a decrease in revenue of \$468,300.

Budget Reductions

The FY 2012 Proposed budget includes the following reductions:

- The decrease in Salary Savings of \$266,190, which increases personnel expenses, is largely attributable to a reduction in the vacancy factor.
- A decrease in expenditures for the elimination of collection services to customers with hold harmless agreements totals \$192,939, including 1.0 Sanitation

Driver 2 FTE. Additionally, a reduction in recycling commodity revenue of \$126,000 has been included in the FY 2012 Proposed Budget, resulting in a net positive impact to the Recycling Fund \$66,939.

- Reductions of 0.31 Utility Worker 2's, 0.31 Administrative Aide 2's and 0.31 Human Resources Analyst FTE's are the result of departmental reorganization and efficiencies.
- The budget for capital expenditures for vehicles has been reduced to zero from the FY 2011 amount of \$750,000. The FY 2011 budget accommodated the purchase of three refuse packers.

Budget Additions

Additions to the FY 2012 Proposed budget include an increase of \$1.7 million, or 46%,

SUMMARY OF BUDGET CHANGES - RECYCLING FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	108.41	\$ 9,030,757	\$ 10,713,289	\$ 19,744,046	\$ 18,403,094
Salary Savings Decrease	-	266,190	-	266,190	-
Hourly Wages Increase	1.34	60,363	-	60,363	-
Termination Pay Increase	-	26,665	-	26,665	-
Reduction of Public Hold Harmless Agreements	(1.00)	(80,364)	(112,575)	(192,939)	(126,000)
Other Net Salary and Wages Decrease	(0.93)	(66,405)	-	(66,405)	-
Other Fringe Benefit Increase	-	230,124	-	230,124	-
Supplies	-	-	(475,000)	(475,000)	-
Vehicle Usage and Assignment Fees - Fleet Services	-	-	1,714,400	1,714,400	-
Other Net Contracts Decrease	-	-	(360,800)	(360,800)	-
Information Technology/Energy and Utilities	-	-	161,634	161,634	-
Capital Expenditures - Vehicles	-	-	(750,000)	(750,000)	-
AB 939 Fees	-	-	-	-	(340,000)
Other Increases/(Decreases)	-	-	567,127	567,127	(2,300)
Mayor's FY 2012 Proposed Budget	107.82	\$ 9,467,330	\$ 11,458,075	\$ 20,925,405	\$ 17,934,794
Difference from 2011 to 2012	(0.59)	\$ 436,573	\$ 744,786	\$ 1,181,359	\$ (468,300)

for vehicle usage and assignment —not including a decrease of \$112,575 related to the planned reduction in collection services to hold harmless customers. Usage and assignment fees are set by Fleet Services, and are increasing for City vehicles for FY 2012, after being reduced in FY 2011 when the Fleet Services fund balance offset fee increases.

Included in the “Other Increases/ (Decreases)” line in the chart on the previous page is an increase of \$480,000 for Appropriated Reserves. In FY 2011, the same amount was budgeted as a “contingency reserve,” within the “Contracts” NPE group. ESD anticipates continued funding of the Appropriate Reserve until it achieves a balance equal to 15% of operating revenues. It is estimated that it will take until FY 2015 to fully fund the reserve.

Refuse Disposal Fund

The FY 2012 Proposed Budget for the Refuse Disposal Fund reflects a \$61,308 increase in expenditures, and a \$524,437 increase in revenues. Additionally, the CIP budget for FY 2012 is \$5.7 million, which would be absorbed by available fund balance.

Budget Reductions

The FY 2012 Proposed budget includes the following reductions:

- The decrease in Salary Savings of \$464,986, which increases personnel expenses, is largely attributable to a reduction in the vacancy factor.
- Reductions of 4.00 Disposal Site Representatives, 1.00 Code Compliance Su-

SUMMARY OF BUDGET CHANGES - REFUSE DISPOSAL FUND (ESD)					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	166.61	\$ 14,111,118	\$ 20,349,336	\$ 34,460,454	\$ 29,183,451
<i>Salary Savings Decrease</i>	-	464,986	-	464,986	-
<i>Hourly Wages Increase</i>	0.04	26,160	-	26,160	-
<i>Termination Pay Increase</i>	-	10,547	-	10,547	-
<i>Other Net Salary and Wages Decrease</i>	(6.77)	(209,538)	-	(209,538)	-
<i>Fringe Benefits</i>	-	257,771	-	257,771	-
<i>Supplies</i>	-	-	(15,500)	(15,500)	-
<i>Vehicle Usage and Assignment Fees - Fleet Services</i>	-	-	496,115	496,115	-
<i>Other Net Contracts Decrease</i>	-	-	(1,403,857)	(1,403,857)	-
<i>Information Technology</i>	-	-	(465,701)	(465,701)	-
<i>Energy and Utilities</i>	-	-	(136,540)	(136,540)	-
<i>Other Increases</i>	-	-	1,036,865	1,036,865	524,437
Mayor's FY 2012 Proposed Budget	159.88	\$ 14,661,044	\$ 19,860,718	\$ 34,521,762	\$ 29,707,888
Difference from 2011 to 2012	(6.73)	\$ 549,926	\$ (488,618)	\$ 61,308	\$ 524,437

pervisor, 2.00 Associate Management Analysts, 1.00 Biologist 2, 0.34 Utility Worker 2's, 0.34 Administrative Aide 2's and 0.34 Human Resources Analyst FTE's are the result of departmental re-organization and efficiencies.

Budget Additions

Additions to the FY 2012 Proposed budget include:

- A \$311,524 increase in refuse disposal fee revenues.
- An increase of \$496,115, or 38%, for vehicle usage and assignment fees. Usage and assignment fees are set by Fleet Services, and are increasing for City vehicles for FY 2012, after being reduced in FY 2011 when the Fleet Services fund balance offset fee increases.
- Included in the "Other Increases" line in the chart on the previous page is an increase of \$920,000 for Appropriated Reserves. In FY 2011, the same amount was budgeted as a "contingency reserve," within the "Contracts" NPE group. ESD anticipates continued funding of the Appropriate Reserve until it achieves a balance equal to 15% of operating revenues. It is estimated that it will take until FY 2015 to fully fund the reserve.

Energy Conservation Program Fund

The purpose of the Energy Conservation Program Fund is to manage energy related

issues for the City including coordinating City energy purchases; identifying, reviewing and overseeing energy conservation, sustainability and green building initiatives throughout the City; and providing energy conservation education to City employees and the public. Revenues are derived from transfers and reimbursements from other funds/departments, as well as federal and state grants.

The FY 2012 Proposed Budget for the Energy Conservation Program Fund totals \$2.5 million, up from \$78,891 from the FY 2011 budget. Revenues are increasing \$1.8 million, from \$1.2 million in FY 2011 to \$3.0 million in FY 2012.

The increase in revenues for FY 2012 is largely due to an increase in transfers from other funds/departments of \$1.9 million, or 376%. In FY 2011, charges to other funds/departments were reduced and the available fund balance in the Energy Conservation Program Fund was utilized to cover program costs. However, for FY 2012 the program must charge other funds/departments for its full costs, as well as to maintain \$500,000 in working capital.

Department Review

Financial Management

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Financial Management Department is approximately \$4.2 million, an increase of \$8,912 from the FY 2011 Budget. There are 31.12 FTE positions which remains unchanged from FY 2011. Budgeted revenue also remains unchanged.

Budget Reductions

The training budget for the Department has been reduced by \$17,621 or approximately 37% resulting in a reduction in training opportunities for Financial Management staff.

Department Proposals Not Recommended by Mayor

A department reduction suggestion that was requested but not taken was to elimi-

nate the Budget Monitoring Team (5.00 FTEs / \$541,316). If taken, management indicates it will no longer be able to produce quarterly reports or comply with Budget Policy/Kroll Report recommendations. Another department reduction suggestion that was not taken was to reduce the size of the Revenue Team by one-third (2.00 FTEs / \$201,793). Management indicates this would result in much less detailed analysis of several revenue categories.

Key Performance Indicators

The FY 2012 Proposed Budget indicates the Department expects to have no variance between actual General Fund expenditures / revenue and revised budgeted expenditures / revenue at the end of FY 2011.

SUMMARY OF FINANCIAL MANAGEMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	31.12	\$3,702,882	\$ 512,799	\$ 4,215,681	\$ 67,180
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	-	58,096		58,096	
- Adjustments due to Salary Reductions/Savings/Furlough		(21,263)		(21,263)	
Fringe Benefits (incl. Retirement ARC)		29,468		29,468	
Supplies			(69)	(69)	
Contracts			19,841	19,841	
Non-Discretionary and Info Technology Adjustments			(77,161)	(77,161)	
Revised Revenue Projections				-	-
Subtotal	-	66,301	(57,389)	8,912	-
Mayor's Fiscal Year 2012 Proposed Budget	31.12	3,769,183	455,410	4,224,593	67,180
Difference from 2011 to 2012	-	\$ 66,301	\$ (57,389)	\$ 8,912	\$ -

Department Review

Fire-Rescue

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Fire-Rescue Department is approximately \$193.9 million, an increase of \$12.0 million from the FY 2011 Budget. The FY 2012 Proposed Budget results in a reduction of 1.20 FTE positions from FY 2011 to FY 2012. Budgeted revenue increased by \$12.6 million in FY 2012.

Budget Reductions

The FY 2012 Proposed Budget presents a net reduction of 1.20 FTEs. Detail is provided for the addition of 5.89 FTEs (discussed below); however, detail was not

available to show corresponding FTE reductions and/or additions resulting in the net 1.20 reduction.

The lack of changed FTE detail is attributable to Financial Management working with departments to determine the amount and detailed classifications of authorized positions prior to the FY 2012 budget development process. As part of this process, the practice of budgeting FTE increments below 0.5 was discontinued as fully benefitted standard hour positions must work at least 20 hours per week. Adjustments were made to Fire-Rescue Department positions to reflect this change in approach and to reconcile to authorized position records.

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	1,146.09	\$ 154,562,500	\$27,339,423	\$ 181,901,923	\$ 15,044,130
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(1.20)	1,442,407		1,442,407	
- Reduction in Hourly Employees		(127,607)		(127,607)	
- Overtime Budgeted to Restore Brownout Engine Companies		8,654,718		8,654,718	
- Adjustments due to Salary Reductions/Savings/Furlough		(43,190)		(43,190)	
Fringe Benefits (incl. Retirement ARC)		(2,159,297)		(2,159,297)	
Supplies			(374,164)	(374,164)	
Contracts			3,649,370	3,649,370	
Non-Discretionary and Info Technology Adjustments			970,324	970,324	
Fire False Alarm Fee (Ongoing)	-	-	-	-	910,000
EMS Fire Engine/Truck Response Cost Allocation (Ongoing)					4,000,000
Air Medical Transport Fee (Ongoing)					53,625
SDMS Profit Sharing Allocation (Ongoing)					1,000,000
EMS Fund Balance Transfer (One-Time)					4,100,000
Public Safety Sales Tax Distribution					2,510,496
Other Revised Revenue Projections				-	14,703
Subtotal	(1.20)	7,767,031	4,245,530	12,012,561	12,588,824
Mayor's Fiscal Year 2012 Proposed Budget	1,144.89	162,329,531	31,584,953	193,914,484	27,632,954
Difference from 2011 to 2012	(1.20)	\$ 7,767,031	\$ 4,245,530	\$ 12,012,561	\$ 12,588,824

Department Review

The FY 2012 Proposed Budget results in a \$127,607 reduction in funding for hourly employees. The Department budgeted for hourly employees based on a zero-based annual review of hourly funding requirements. There are 48.22 hourly Lifeguard I positions shown in the FY 2012 Proposed Budget, a reduction of 3.78 FTEs from FY 2011.

The FY 2011 annual debt service payment of \$1,626,945 for the 2002B Fire and Life Safety Facilities Bonds was removed from the Department's base expenditure budget. The FY 2012 debt service payment of \$1,629,325 is budgeted in the Fire and Lifeguard Facilities Fund.

Budget Additions

The FY 2012 Proposed Budget includes the following new positions for the Department:

3.89 FTEs to provide lifeguard services at Black's Beach through February 2012. The City executed an agreement with UCSD in March 2011 providing for the reimbursement of these positions and related NPE, with options to renew the contract.

1.00 Supervising Management Analyst to supervise the Department's fiscal services section.

1.00 Organizational Effectiveness Specialist 3 to oversee the Lifeguard Division's Junior Lifeguard Program. The position is reimbursable from grants.

Proposed Restoration of Rolling Brown-Outs

Rolling brown-outs were approved as an \$11.5 million cost savings measure for FY

2011 as a part of the December 2009 Adjustments. The Fire-Rescue Department began implementation of rolling brown-outs on February 6, 2010. As executed, the rolling brown-outs involve 13 of the City's 47 fire stations. These 13 stations have more than one fire company, usually housing one fire engine and one truck.

Up to eight fire engines are temporarily closed each day. Three of the 13 stations participate monthly while the remaining 10 stations participate five at a time on an alternating month to month schedule. Displaced firefighters from browned-out companies are then available as relief staff as part of their regular shift. This use of displaced staff mitigates the use of overtime staff, thereby reducing overtime costs. Each brown-out unit saves the General Fund approximately \$1.4 million annually, resulting in projected savings of \$11.5 million for FY 2011 with full execution of the rolling brown-out plan.

Since the implementation of rolling brown-outs, the Fire-Rescue Department has regularly updated the Public Safety & Neighborhood Services (PS&NS) Committee regarding the associated service impacts. In his update to the PS&NS Committee on April 13, 2011, the Fire Chief reported the following service reductions attributable to rolling brown-outs during the year ending March 31, 2011:

- Reduced compliance with national response time standards for 1) first on scene units and 2) assembly of an effective fire force.
- Reduced average citywide first unit re-

Department Review

sponse times by 7 seconds with greater impacts in participating fire station districts.

- Reduced effective fire force response times.
- Reduce firefighter training opportunities.
- Reduced ability to complete fire inspections.

The FY 2012 Proposed Budget provides approximately \$8.7 million to restore the brown-out units. The restore funds have been appropriately budgeted as overtime in FY 2012. As proposed, four browned-out units would be placed back into service in July 2011 with the other four units being placed back into service in January 2012.

Browned-out units could alternatively be restored over a period of two years in order to fund other important public services in FY 2012. While restoring brown-out units is a clear priority, Council members may want to consider this approach in order to release funds to address other community needs (i.e., reductions to the Library and Park & Recreation departments). In our section on “Options for Revisions to FY 2012 Proposed Budget”, the IBA presents this and other options for Council consideration.

Budgeted Revenue Adjustments

As noted above, budgeted revenue for the Department is proposed to increase by approximately \$12.6 million in FY 2012. Most of this revenue increase is attributable to new users fees, a one-time fund balance transfer, proposed ongoing cost recovery and profit sharing related to City EMS response. These revenues are identified below and discussed in more detail in our ear-

lier section on Budget Balancing Actions:

False Alarm Permitting Fee—\$910,000

This fee was included in the City Council’s Budget resolution. The Fire-Rescue Department was asked to develop a program to recoup the costs associated with permitting and regulating the use of fire alarms. If approved by the City Council, the Department estimates a new false alarm permitting fee would recover approximately \$910,000 of related response costs in FY 2012.

Air Medical Transport Fee—\$53,625

On July 27, 2007, the City Council approved a request from the Fire-Rescue Department to bill patients and/or insurance companies for emergency air medical transportation provided by the Department Air Operations Division helicopter (Copter 1). The City Council unanimously approved the request. The Department estimates the new fee will recover \$53,625 of air medical transport costs in FY 2012.

EMS Fund Balance Transfer—\$4.1 million

The City provides emergency medical response in part through San Diego Medical Services (SDMS). SDMS is a public/private partnership (limited liability company) between the City and Rural/Metro Ambulance. After covering ambulance related expenses, SDMS releases one-half of any residual monies to the City’s EMS Fund. The City’s EMS Fund balance is projected to be \$4.1 million at the end of FY 2011. The FY 2012 Proposed Budget transfers the \$4.1 million fund balance to the Fire-Rescue Department as General Fund revenue.

Department Review

EMS Response Allocation Cost—\$4 million

In responding to serious medical emergencies, the City dispatches an ambulance and a fire engine or truck. Both response units have a paramedic on board and the fire engine/truck is often the first to arrive at the site of the medical emergency. The current medical aid response fee covers all costs associated with the ambulance, but does not recover the cost of the fire engine/truck. City Council approval will be sought to begin partially recovering costs associated with sending fire engines/trucks to medical emergencies. The FY 2012 Proposed Budget assumes a \$4 million reimbursement to the Fire-Rescue Department as General Fund revenue.

EMS Profit Sharing Allocation—\$1 million

After covering all ambulance related expenses, any residual monies are deposited into a shared SDMS account. These monies are then divided between Rural Metro and the City. Fire-Rescue staff expects the EMS Fund to receive approximately \$1.5 million from the shared SDMS account in FY 2012. This is a \$1 million increase over the \$500,000 budgeted in FY 2011. The additional \$1 million is projected to be an ongoing annual allocation attributable to continued SDMS profit sharing. The FY 2012 Proposed Budget includes the transfer of the additional \$1 million from the EMS Fund to the Fire-Rescue Department as General Fund revenue.

Other Revised Revenue—\$14,703

Other revenue adjustments includes

\$351,829 from UCSD for Black's Beach lifeguard service, \$106,362 grant reimbursement of 1.00 OES 3 for oversight of Junior Lifeguard Program, (\$340,000) to reflect a reduction in fire inspection fee revenue and (\$103,488) for telecom lease revenue transferred to READ.

Citygate Report Recommendations

On February 16, 2011, the Public Safety and Neighborhood Services Committee (PS&NS) received a comprehensive fire safety study from Citygate Associates, LLC (Citygate).

The Citygate Report refined the findings of a countywide Regional Fire Service Deployment Study; analyzed the appropriateness/achievability of the Fire-Rescue Department's performance measures; and reviewed the existing Fire-Rescue Department deployment and staffing models for efficiency and effectiveness and determine how and where alternative deployment and staffing models could be beneficial to address current and projected needs.

The Report found that the City does not have adequate fire station coverage in all areas and recommended fire stations be added over time as fiscal conditions allow. It suggested improvements could be phased in over time and some alternative approaches (i.e., Fast Response Squads) could be tried for smaller areas. The Report stated that given the number of additional fire stations necessary, alternative measures alone would not mitigate the entire need for more fire stations and/or units if the City wants to deliver fire service to the relaxed performance standards (longer allowable response times) recommended by the study.

Department Review

In addition to recommending revised deployment performance measures, Citygate recommended the following fire-rescue investments be made over time as fiscal conditions allow:

- Restore the 8 brown-out engines.
- Replace the failing fire station alerting system to ensure timely incident notification to emergency responders.
- Fund additional fire resources to address identified coverage gaps; 10 of 19 identified gaps require a fire station and full four-person fire engines, of these 6 are the top priority.
- After a pilot program, consider using two firefighter Fast Response Squads to assist in the 9 smaller deployment gaps where there are high simultaneous incident workloads.
- Four additional ladder trucks.
- Two additional battalion chiefs.

In an effort to develop a plan to begin addressing recommendations contained in the Citygate Report, PS&NS tasked a Working Group to review the Report and return to the Committee with implementation recommendations. At the PS&NS meeting on April 13, 2011, the Working Group presented a five-year plan to begin addressing the most critical recommendations in the Report. The PS&NS Chair asked that the Working Group Report be sent to the City Council without recommendation.

Committee discussion following presentation of the Working Group Report centered on the challenges associated with committing to fiscally address one analyzed budget priority without the benefit of simi-

lar analyses for, and at the possible expense of, other budget priorities.

As noted above, the FY 2012 Proposed Budget would restore the 8 brown-out engines in keeping with a Citygate short-term priority recommendation.

Lifeguard Services

UCSD reimbursement for lifeguard services at Black's Beach restores coverage eliminated by the mid-year budget adjustments in FY 2010. The agreement with UCSD funds lifeguard services for Black's beach through February 2012 with an option to renew for two additional one-year periods.

The FY 2012 Proposed Budget otherwise maintains lifeguard staffing at the same level as FY 2011. The FY 2010 mid-year budget reduction for Lifeguard Services (\$973,439) eliminated 8.00 FTEs. The primary residual impact of the FY 10 staff reductions was a degradation of an excellent lifeguard training program.

Lifeguard training is multi-faceted and includes first aid, law enforcement, marine firefighting cliff and swift water rescue elements. While critical lifeguard training continues, additional budgeted staffing would be required to restore the training program to its previous level.

Department Proposals Not Recommended by Mayor

A departmental reduction suggestion that was requested but not taken was to eliminate the 2nd helicopter currently being operated during the highest fire hazard months from July through December (1.00 FTE; \$1,148,353).

Department Review

Key Performance Indicators

The Department's key performance indicators showed the following for FY 2011 estimates as compared to FY 2010 actuals:

- Relatively unchanged, but deficient, percentages relating to first unit and effective fire force response in accordance with NFPA guidelines.
- EMS response time is estimated to comply with Citywide standards (by service area) 90% of the time in FY 2011, as compared to 92% in FY 2010.
- Ratio of drownings to beach attendance at guarded beaches remains better than the U.S. Lifeguard Association standard. There was only one drowning at guarded City beaches in FY 2010 and FY 2011.

Department Review

Human Resources

Mayor's FY 2012 Proposed Adjustments

The Fiscal Year 2012 Proposed Budget for the Human Resources Department totals \$1.94 million in the General Fund, relatively unchanged from FY 2011.

The proposed budget for Human Resources includes adjustments related to Non-Discretionary and Information Technology accounts, and specifically new allocations for centralized City functions. Other adjustments include the addition of \$15,000 for Vacation Pay In Lieu.

As part of budget balancing actions for FY 2012, Human Resources has reduced Supplies and Contracts by approximately \$24,000.

SUMMARY OF HUMAN RESOURCES BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	13.10	\$ 1,712,713	\$ 210,860	\$ 1,923,573	-
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(0.35)	(20,021)		(20,021)	
- Adjustments due to Salary Reductions/Savings/Furlough		(1,699)		(1,699)	
Fringe Benefits (incl. Retirement ARC)		32,569		32,569	
Addition of Vacation Pay In Lieu		15,000		15,000	
Addition of Cell Phone Cost and Transportation Allowance			9,766	9,766	
Reduction in Supplies/Contracts/Equipment			(36,279)	(36,279)	
Non-Discretionary and Info Technology Adjustments			20,504	20,504	
<i>Subtotal</i>	(0.35)	25,849	(6,009)	19,840	-
Mayor's Fiscal Year 2012 Proposed Budget	12.75	1,738,562	204,851	1,943,413	-
Difference from 2011 to 2012	(0.35)	\$ 25,849	\$ (6,009)	\$ 19,840	-

Department Review

Information Technology

Mayor's FY 2012 Proposed Adjustments

The Department of Information Technology (IT) is comprised of both General Fund and non-general fund components.

Beginning in FY 2012, the General Fund portion of the Department of IT budget has been allocated among all General Fund Departments, as a non-discretionary Information Technology Service Transfer, a SAP Support Allocation (for the ERP Support Department), and the Wireless Communications Transfer. These amounts have been removed from the Department of IT, and because of this change, the General Fund Department of IT reflects a significant reduction of \$18.8 million, resulting in only \$190,000 remaining which represents PC replacement funds for the General Fund.

In large part, Information Technology services are provided by San Diego Data Processing Corporation (SDDPC). The IT Department works closely and coordinates efforts with SDDPC. The SDDPC Budget is also discussed in the City Agencies section of this report.

The City continues its efforts to seek competitive bids for the services currently provided by SDDPC, and City Council approval was recently received for the Information Technology Sourcing Strategy and a two-year extension of the current Help Desk & Desktop Support agreement with En Pointe Technologies, Inc. On April 15, 2011, the City issued a Requests for Proposals for the remaining Information Technology services currently provided by SDDPC. Proposals are due June 2, 2011. Providers selected from this process are expected to begin providing services as early as June 2012

Information Technology Special Fund

The Proposed FY 2012 Budget for the Information Technology Special Fund totals \$4.6 million, and includes 20 positions, an increase of almost \$1.1 million, and the addition of 3.00 FTEs.

Two positions have been added for FY 2012, which are fully reimbursable from

SUMMARY OF INFORMATION TECHNOLOGY DEPARTMENT BUDGET				
	FTE	FY 2011	FY 2012	CHANGE
General Fund				
Department of Information Technology	-	\$ 18,993,847	\$ 190,753	\$ (18,803,094)
Non-General Fund				
Information Technology Fund	20.00	3,513,894	4,603,545	1,089,651
TOTAL INFORMATION TECHNOLOGY	20.00	\$ 22,507,741	\$ 4,794,298	\$ (17,713,443)

Department Review

SanGis. In addition, 1.00 Information System Analyst 3 has also been added to the budget to provide IT support for the City Council Offices and staff and Mayoral executive staff.

Funding for a Service Level Agreement with Publishing Services in the amount of \$59,700 for the assignment of 1.00 FTE Graphic Designer to create/maintain all City of San Diego internet and intranet web sites.

The FY 2012 Budget includes the addition of \$375,000 for contractual services for a Citywide Identity & Access Management System. The current mainframe system, over twenty years old, will be shut down by December 2011. This new system will ensure the City achieves compliance in addressing internal controls. This system manages user identification which is linked with SAP and other systems that contain financial, personnel or other sensitive data.

In total, General Fund departments will contribute \$1.57 million, or 37.6% of the total allocation for the Information Technology Fund, which is only slightly changed from the FY 2011 General Fund share. Non-general fund departments contribute the balance of \$2.6 million.

Departmental allocations in the General Fund have increased each department's budget, most significant is the impact to the Police Department of \$539,000. However, these are not new costs to the City's General Fund.

SUMMARY OF INFORMATION TECHNOLOGY FUND						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	17.00	\$ 2,071,435	\$ 1,442,459	\$ 3,513,894	\$ 3,510,440	
Mayor's Fiscal Year 2012 Proposed Budget Changes						
Salaries & Wages		(2,562)		(2,562)		
- Adjustments due to Salary Reductions/Savings/Furlough		66,506		66,506		
Fringe Benefits (incl. Retirement ARC)		29,096		29,096		
Non-Discretionary and Info Technology Adjustments			273,636	273,636		
Addition for Identity and Access Management System			375,000	375,000		
Addition of SanGIS Positions	2.00	195,303		195,303	195,303	
Addition of Information Systems Analyst 3	1.00	115,247	7,500	122,747		
Addition for Membership Fees			70,225	70,225		
Service Level Agreement with Publishing Services			59,700	59,700		
Reduction in Contracts			(100,000)	(100,000)		
Revised Revenue Projections				-	654,044	
<i>Subtotal</i>	3.00	403,590	686,061	1,089,651	849,347	
Mayor's Fiscal Year 2012 Proposed Budget	20.00	2,475,025	2,128,520	4,603,545	4,359,787	
<i>Difference from 2011 to 2012</i>	3.00	\$ 403,590	\$ 686,061	\$ 1,089,651	\$ 849,347	

Department Review

Library

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Library Department totals \$30.1 million, a decrease of \$3.9 million, or 11.5%, from the FY 2011 Budget of \$34.05 million.

The FY 2011 Budget included a reduction of \$1.4 million in salary savings based on unfunding close to 40 FTEs, 10 percent of the Library's total positions, based on vacancies in December 2009. This adjustment proved to be too large, requiring budgetary adjustments during the fiscal year, and the FY 2012 Proposed Budget reinstates \$1.2 million as a correction.

New departmental allocations for Citywide Information Technology and related transfers for Wireless Communications increased the Library budget by \$480,000 for FY 2012.

Pairing of Branch Libraries (Reduction of \$7.4 million; 77.02 FTEs)

Most significantly, the FY 2012 Proposed Budget reflects the proposal for the pairing of the City's 35 branch libraries, reducing 77.02 Full-Time Equivalents (FTEs) at a cost-savings of \$7.4 million.

Pairing of the branch libraries creates an average 18.5-hour per week schedule, approximately 50% of current operating hours. Each branch would be open two days (Tuesday/Thursday, Wednesday/Friday) and an alternate Saturday, coordinated with the nearest branch to which it is "paired", in an effort to provide daily library services to the community the two branches serve.

All branch libraries are currently closed Sundays and Mondays, except three branches (La Jolla, Point Loma, and Serra

SUMMARY OF LIBRARY BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	358.40	\$ 25,168,627	\$ 8,883,712	\$ 34,052,339	\$ 1,319,707
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	0.83	178,421		178,421	
- Adjustments due to Salary Reductions/Savings/Furlough		1,203,822		1,203,822	
Fringe Benefits (incl. Retirement ARC)		1,313,314		1,313,314	
Supplies			18,000	18,000	
Contracts			25,682	25,682	
Non-Discretionary and Info Technology Adjustments			753,717	753,717	
Branch Library Pairing Reduction Proposal	(77.02)	(6,886,608)	(520,732)	(7,407,340)	(139,500)
Revised Revenue Projections				-	(107,000)
Subtotal	(76.19)	(4,191,051)	276,667	(3,914,384)	(246,500)
Mayor's Fiscal Year 2012 Proposed Budget	282.21	20,977,576	9,160,379	30,137,955	1,073,207
Difference from 2011 to 2012	(76.19)	\$ (4,191,051)	\$ 276,667	\$ (3,914,384)	\$ (246,500)

Department Review

Mesa) which receive private funding for Sunday hours. The Central Library remains open on Sundays and Mondays.

Included in the proposal are cost reductions to janitorial and security services, and reduced funding for books and office supplies, totaling \$515,000, due to reduced operating hours. The Library's Matching Fund program is proposed to remain at the current level of just under \$925,000, and the book materials budget is reduced to \$1.55 million.

This reduction proposal preserves the capacity of the Library system by continuing use of all facilities and equitably shares the reduction in services offered to communities over the entire system. Reductions to operating hours will reduce the availability of meeting rooms to the public and the number and frequency of offered programs.

Alternative Reductions Proposals

Library staff has considered and developed various operating proposals and alternative schedules. An alternative Express Library concept has been prepared and could be considered in place of the Pairing proposal, or with a modified Pairing option. It is important to note that all reduction proposals are subject to the meet and confer process, which may impact the timeline for implementation, and could result in modified pro-

posals.

Alternative: Express Libraries (Reduction of \$4 million; 42.31 FTEs)

Under the Express Library concept, one branch library in each Council District (total of 8) would be open four hours each day, five days a week, offering limited services, most of which would be self-serve. Express Branch libraries were chosen based on size, accessibility of facility, usage statistics and proximity to other branches. Proposed Express Branch locations are:

- University Community
- Ocean Beach
- Kensington-Normal Heights
- Mountain View/Beckwourth
- Carmel Mountain
- Clairemont
- Allied Gardens/Benjamin
- San Ysidro

Express Libraries would be minimally staffed; services that would not be available include:

- Meeting rooms
- Book drops/return
- New material purchase
- Reshelving of materials

As items that are checked out are returned to other locations, collections will decrease.

Current Library Hours of Operations						
CENTRAL LIBRARY						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
1:00-5:00	12 noon - 8:00	9:30-5:30	12 noon - 8:00	9:30-5:30	9:30-5:30	closed
BRANCH LIBRARIES						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
closed	closed	12:30 - 8:00	12:30 - 8:00	9:30-5:30	9:30-5:30	9:30-2:30

Department Review

Alternative: Express Libraries with 10 Branch Pairs

(Reduction of \$5.2 million; 55.81 FTEs)

In addition to establishing an Express Branch in each Council District, ten branch libraries will also be paired. At the paired branches, libraries will be open three days one week, then two days the next week, so that every two weeks, each paired branch will be open five days.

Proposed Branch Pairings include the following branch libraries:

- Balboa/North Clairemont
- College-Rolando/Tierrasanta
- Mission Hills/University Heights
- Oak Park/Paradise Hills
- Rancho Peñasquitos/Scripps Miramar Ranch

Prior Reduction Proposals Not Implemented

Previous reduction proposals for the Library Department included a temporary (18-month) closure of specific branch libraries, one in each Council District. Selected branch locations were chosen based on size of facilities, usage levels, distance from other locations, and attempts to equitably distribute closures throughout the various communities in the City.

Branch libraries proposed for closure were:

- University Community
- Ocean Beach
- University Heights
- MountainView/Beckwourth
- Carmel Mountain Ranch
- Clairemont

- Allied Gardens/Benjamin

The IBA was critical of the proposal at the time because the grim financial outlook did not bode well for the future reinstatement of funding to restore services in the near term. If such a reduction were to become permanent (extending beyond 18 months), the lack of a long-term plan to phase out use of facilities was troublesome. A plan to close City facilities should be given serious consideration, and include an assessment of costs and specific tasks related to moving of building contents, a realistic timeline to phase out services, evaluation of options for decommissioning buildings, and re-use or sale of sites, or alternatively a plan for maintaining and securing buildings to minimize vandalism and disrepair.

In the FY 2011 budget process, Library pairings were proposed but ultimately rejected due to concerns about confusion for the public; staffing inefficiencies; risks in lapses of service and increased risk of vandalism; and public dissatisfaction over the significant loss of service. Library hours were reduced instead from an average of 40 hours per week to an average of 36.

Past Library Reductions

The December 2009 Approved Adjustments for the Library Department included a reduction of \$3.7 million, and 48.68 FTE positions due to the reduction of Branch Library service hours to 36 hours a week. Additionally, all branch libraries closed on Sundays and Mondays, effective March 20, 2010. The

Department Review

Central Library and three branches receiving private funding remain open on Sundays. Savings were realized in janitorial and security contracts due to reduced hours. Additional reductions included a consolidation of public service desks and a reduction of hours to 44 hours a week at the Central Library.

Issues to Consider

Timeline for Implementation

Based on the IBA's review of the cost estimates developed for the proposal to Pair Branch Libraries, it appears that assumptions include a full-year of savings to be achieved, and an implementation date of July 1, 2011. The IBA is concerned that if the pairing proposal is to proceed, or any of the Library alternatives, that consideration should be given for a realistic implementation timeline. Proposals that impact employee wages, hours or working conditions will require meet and confer negotiations with impacted labor organizations. The outcome of those discussions could alter the final reduction plan, and the number and classification of eliminated positions. Following meet and confer negotiations, the Personnel Department will begin a "Reduction in Force" process for impacted employees.

At a minimum, time for these steps should be factored in to the budget proposal so as to not jeopardize a balanced budget as soon as the fiscal year begins. As an example, based on a simple monthly proration of the \$7.4 million pairing reduction proposal, if implementation occurs by September 1

(instead of July 1), that delay could require as much as an additional \$1.2 million, currently not budgeted, depending on the status of the impacted positions.

New Central Library

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

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

Library Ordinance

The Library Ordinance requires the Library Department budget to be equal to no less than 6% of the total General Fund budget. This requirement has been waived since Fiscal Year 2004. Based on the Mayor's Proposed Budget for Fiscal Year 2012, the Library Department budget of \$30.1 million represents 2.73% of the General Fund budget.

Six percent of the General Fund budget as proposed for Fiscal Year 2012 would result in a Library budget of \$66.35 million, an increase of \$36.25 million over the current budget proposal.

Office of the Mayor

Mayor's FY 2012 Proposed Adjustments

The former "Community & Legislative Services Department" has been renamed the "Office of the Mayor." Additionally, the Mayor's position has been transferred from the former "Office of the Mayor and COO" (which is now the "Office of the Chief Operating Officer").

The FY 2012 Proposed Budget for the Office of the Mayor totals approximately \$5.9 million, down \$122,447 from the FY 2011 Budget.

The number of positions increased from 37.19 to 38.17 FTE. Changes include the 1.00 FTE increase for the transfer of the Mayor and a 0.02 FTE decrease for hourly work.

Budget Reductions

The FY 2012 Proposed Budget includes a decrease of \$350,000 in expenditures for the transfer of the sales and use tax rebate program, known as the Business Cooperation Program, to the Citywide Program Expenditures. The Business Cooperation Program is a financial incentive program the City uses to encourage businesses in the City to report their sales and use taxes in a way that results in a greater share of the local tax revenue being allocated to the City by the State Board of Equalization. In return for this cooperative business action, the City shares half of the additional reve-

nue received with participating business. The estimated amount of payments to participating businesses in FY 2012 is \$350,000, but is no longer budgeted in this Office.

Additionally, a \$28,309 decrease in supplies and contracts is offset by a \$43,493 increase in contracts related to the SAP allocation—described in the "Budget Additions" section below.

Budget Additions

Additions to the FY 2012 Proposed budget include:

- An increase of \$121,557 in Salaries and Wages, largely due to the position adjustments described above and changes related to turnover.
- An increase of \$70,162 for fringe benefits, in accordance with allocations of fringe costs for Office of the Mayor employees.
- An increase of \$43,493 for the Office of the Mayor's allocation for SAP support. This newly budgeted amount is the result of a change in methodology for budgeting SAP support for General Fund departments.

Key Performance Indicators

For FY 2011, the Office of the Mayor anticipates issuing 8% more enterprise zone vouchers than in FY 2010. Also, the amount of private investment dollars gener-

Department Review

ated by economic development programs is anticipated to decrease in FY 2011 by 10% - to \$91 million. This decline in private investment dollars does not factor a FY 2010 investment of \$185 million for the Scripps Proton Treatment Center, which is to be invested by Advanced Particle Therapy Corporation.

Department Review

Park & Recreation

Mayor's FY 2012 Proposed Adjustments

The Fiscal Year 2012 Proposed Budget for the Park and Recreation Department totals \$81.4 million in the General Fund, a decrease of \$2.1 million from FY 2011, and a reduction of 78.30 FTEs. Revenues received by the General Fund related to Park and Recreation total \$27.7 million, and reflect a small increase of \$524,000 over the prior year.

The Department is comprised of multiple funding sources, including the Golf Course Fund, Los Penasquitos Reserve, and the Environmental Growth Funds. When combined, the Department budget totals \$108.6 million, a decrease of \$1.9 million from FY 2011.

Park and Recreation operates and maintains the City's recreation centers, playgrounds, athletic fields, swimming pools, regional parks — all of the City's recreational facilities and parks. Recreational programs of all kinds are also offered. With so many facilities, locations, programs, and activities within its purview, budgetary reduction proposals for Park and Recreation can include countless options, each typically with relatively low cost savings. Discontinued or reduced park and recreation functions will have a direct negative impact on services provided to the community.

Previous budget reductions which have been adopted have spared recreational centers and swimming pools operations, and have negatively impacted, for the most part,

SUMMARY OF PARK AND RECREATION BUDGET				
	FTE	FY 2011	FY 2012	CHANGE
General Fund				
Administrative Services	15.00	\$ 2,349,468	\$ 2,171,485	\$ (177,983)
Community Parks I	132.55	19,357,694	18,868,550	(489,144)
Community Parks II	184.46	20,293,719	19,435,728	(857,991)
Developed Regional Parks	295.25	32,995,154	32,429,748	(565,406)
Open Space	51.88	8,530,836	8,489,422	(41,414)
<i>Subtotal General Fund</i>	<i>679.14</i>	<i>83,526,871</i>	<i>81,394,933</i>	<i>(2,131,938)</i>
Non-General Fund				
Environmental Growth Fund 1/3	-	4,168,806	4,007,401	(161,405)
Environmental Growth Fund 2/3	-	8,246,882	8,078,081	(168,801)
Golf Course Fund	97.05	14,283,261	14,894,535	611,274
Los Penasquitos Canyon Preserve Fund	2.00	221,087	201,810	(19,277)
<i>Subtotal Non-General Fund</i>	<i>99.05</i>	<i>26,920,036</i>	<i>27,181,827</i>	<i>261,791</i>
TOTAL PARK AND RECREATION	778.19	\$ 110,446,907	\$ 108,576,760	\$ (1,870,147)

Department Review

park maintenance activities. FY 2011 reductions included the loss of almost 30 FTEs with annual savings of \$3.7 million.

Most significantly, the FY 2012 Proposed Budget will reduce hours of operations from 40 to 20 hours each week, and reduces staffing at the City's recreation centers, open space visitor's centers and gymnasiums. This proposal will eliminate 48.19 FTEs with associated cost savings of \$3.3 million. Estimated costs assume a September 6 implementation date, primarily to provide for proper notice, conclude programs which will occur over the summer, and allow time for a proper transition.

The FY 2012 budget includes the addition of close to \$1 million to reduce the department's vacancy savings, providing additional funding for budgeted staff. Adjustments to vacancy savings were made for FY 2012 as it

has become evident that some departments were impacted too much by the large number of positions that were unfunded in the FY 2011 budget. Budgetary adjustments were needed mid-year to address the problem.

The FY 2012 Proposed Budget includes the following additional budget reductions,:

- Reduction to Turf Mowing Schedule (to bi-weekly)
- Reduction of Swim Team and Water Polo Programs
- Reduction to Kumeyaay Campground (day-use only)
- Elimination of Fire Pit Rings
- Elimination of After School Programs
- Reduction in Pool Operating Hours

SUMMARY OF PARK AND RECREATION BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	757.44	\$ 49,149,714	\$ 34,377,157	\$ 83,526,871	\$ 27,178,063
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(1.10)	447,187		447,187	
- Adjustments due to Salary Reductions/Savings/Furlough		979,752		979,752	
Fringe Benefits (incl. Retirement ARC)		598,416		598,416	
Non-Discretionary and Info Technology Adjustments			2,482,544	2,482,544	
Reduction in Recreation Center Hours of Operation	(48.19)	(2,642,277)	(664,628)	(3,306,905)	(394,006)
Reduction in various Supplies and Contracts			(706,563)	(706,563)	
MRO Reduction			(255,000)	(255,000)	
Reduction to Turf Mowing Schedule (to bi-weekly)	(8.00)	(480,600)	(213,699)	(694,299)	
Reduction of Swim Team and Water Polo Programs	(6.40)	(223,331)		(223,331)	
Reduction to Kumeyaay Campground (day-use only)	(1.13)	(107,896)	(73,768)	(181,664)	
Elimination of Fire Pit Rings	(2.00)	(149,165)		(149,165)	
Elimination of After School Programs	(3.55)	(125,097)	(12,500)	(137,597)	
Reduction in Pool Operating Hours	(1.93)	(63,938)	(43,937)	(107,875)	
All Other Park and Recreation Reductions	(6.00)	(134,042)	(743,396)	(877,438)	
Revised Revenue Projections (TOT and EGF Reimburse, etc.)				-	917,889
Subtotal	(78.30)	(1,900,991)	(230,947)	(2,131,938)	523,883
Mayor's Fiscal Year 2012 Proposed Budget	679.14	47,248,723	34,146,210	81,394,933	27,701,946
Difference from 2011 to 2012	(78.30)	\$ (1,900,991)	\$ (230,947)	\$ (2,131,938)	\$ 523,883

Department Review

In December 2008, reduction proposals included the temporary, 18-month closure of nine of the smallest recreation centers, along with one gym:

- Penn
- Adams
- Azalea
- Cabrillo
- Stockton
- Presidio
- Lopez Ridge
- Cadman
- Tecolote
- Black Mountain Gym

This reduction as proposed in 2008 would have eliminated 22.90 FTEs with annual savings of approximately \$1.5 million.

As with the proposal for the closure of Library branches, the IBA was concerned at that time that a temporary closure plan could become permanent, because of the grim financial outlook the City faced. If permanent closures are to be seriously considered, the development of a long-term plan to address various issues is necessary.

Environmental Growth

The Environmental Growth Funds (EGFs) are projected to receive a total of \$12.1 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees to be received by the City, in accordance with Charter Section 103.1a. This is a reduction of approximately \$330,000. The EGFs are allo-

cated into a one-third and two-thirds portion, to reflect Charter provisions that up to two-thirds of revenues can be pledged for bonds for the acquisition, improvement and maintenance of park or recreational open space.

In FY 2009, the EGF (two-thirds portion) retired the 1994 San Diego Open Space Facilities District No. 1 General Obligation Bonds through a final payment of \$434,600. 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 2012, \$9.6 million is budgeted to reimburse the General Fund, with an additional \$2 million budgeted for Regional Park and Open Space Maintenance costs which would otherwise be funded by the General Fund. Additional funds are budgeted for reimbursement to Maintenance Assessment Districts and for transfer to the Los Penasquitos Canyon Preserve Fund.

Golf Course

The FY 2012 Proposed Budget for the Golf Course Fund totals \$14.9 million, and has increased \$611,000 from FY 2011. In addition, CIP expenses of \$1.8 million are budgeted for FY 2012, half of the FY 2011 amount. Revenue estimates reflect reduc-

Department Review

tions, primarily in green fees, totaling close to \$1.1 million. Included in the FY 2012 budget is salary/vacancy savings of \$192,000 which has been reduced by \$250,000 from the FY 2011 budget, which seemed high.

The FY 2012 Budget reflects non-discretionary increases of \$195,000 related to gas, water, and electrical services, and motive equipment and information technology costs. Also included is a \$9,748 increase to the Golf Course land use payment to the General Fund.

Issues to Consider

Options from Council Budget Resolution

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 generate additional General Fund revenues from the City's golf courses. The report described the formula utilized to determine the land use payment, which was established in 1995. The land use payment formula includes two components: a fixed annual rate of \$1,806 per acre, plus 9.9% of gross revenues, subject to review every five years. The per acre component was adjusted from \$1,500

to \$1,806 in December 2009 based on annual CPI increases 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.

The IBA recommends this option continue to be considered for possible implementation in Fiscal Year 2013, and that the City Council request the Real Estate Assets Department update its appraisals for the golf course properties in order to provide necessary data to further evaluate the lease payment formula.

Department Review

Personnel

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Department of Personnel totals approximately \$6.5 million, down \$146,545 from the FY 2011 Budget.

The number of Personnel positions decreased from 59.73 to 59.05 FTE's. Changes include a 1.00 FTE reduction for an Associate Personnel Analyst, a 0.50 FTE increase for a Word Processing Operator and a 0.18 FTE reduction for hourly clerical work.

Budget Reductions

The FY 2012 Proposed budget includes the following reductions:

- A decrease of \$80,275 in Salaries and Wages, largely due to the position adjustments described above. The net reduction of 0.68 FTE will result in a redistribution of workload among existing employees, which could affect timely delivery of service.
- A decrease of \$86,690 for fringe benefits, in accordance with allocations of fringe costs for Personnel employees.
- A decrease of \$39,375 in supplies and contracts to achieve the 10% reduction goal in these categories. However, this decline is offset by a \$69,854 increase in contracts related to the SAP allocation, described below. In future years, if hiring increases, especially in safety, costs

will increase for services such as pre-employment medical evaluations.

Budget Additions

Additions to the FY 2012 Proposed budget include an increase of \$69,854 for the Personnel Department's allocation for SAP support. This newly budgeted amount is the result of a change in methodology for budgeting SAP support for General Fund departments.

Key Performance Indicators

There is no "Key Performance Indicators" section in the FY 2012 Proposed Budget for the Department of Personnel.

Department Review

Police

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed General Fund Budget for the Police Department is \$394.6 million, an increase of \$9.8 million over the FY 2011 Annual Budget. In addition, the FY 2012 Budget includes a total net reduction of 30.35 FTEs.

Sworn Officer Reductions

The Proposed Budget includes the reduction of 20.00 vacant sworn positions including 12.00 Detectives and 8.00 Sergeant positions for a total of \$2.8 million. Department management has stated that the loss of the 20.00 vacant positions will have a minimal impact on the department at this

time. If the Department determines in the future a need for these positions it will either request that the positions be added back or reclassify other positions.

In addition, 2.50 additional sworn positions including 1.00 Detective, 1.00 Sergeant, .25 Police Lieutenant, and .25 Police Officer II have been reduced from the Proposed Budget.

These reductions are a result of Financial Management working with departments to determine the amount and detailed classifications of authorized positions prior to the FY 2012 budget development process. As part of this process, the practice of budgeting FTE increments below 0.50 was discon-

SUMMARY OF POLICE DEPARTMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	2,538.20	\$ 332,697,689	\$ 52,146,660	\$ 384,844,349	\$39,072,150
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	(1.85)	9,708,469	\$ -	9,708,469	-
Supplies	-	-	(721,675)	(721,675)	-
Contracts	-	0	4,713,865	4,713,865	-
Non-Discretionary and Info Technology Adjustments	-	0	4,819,724	4,819,724	-
Reduction of Sworn Vacant Positions	(20.00)	(2,772,361)	-	(2,772,361)	-
Reduction to Vehicle Abatement Unit (Civilian)	(4.00)	(329,152)	-	(329,152)	-
Reduction of Civilian Positions	(3.50)	(289,205)	-	(289,205)	-
Transfer of Gang Commission Executive Director	(1.00)	(174,412)	-	(174,412)	(29,151)
Reduction to Uniform Allowance	-	-	(200,000)	(200,000)	-
Reduction to transfer to the Police Decentralization Fund	-	-	(4,000,000)	(4,000,000)	-
Increase to Animal Control Contract	-	-	339,012	339,012	-
Reduction to Information Technology due to efficiencies	-	-	(1,322,472)	(1,322,472)	-
Increase to Parking Citation Revenue for State Pass-Through	-	-	-	-	3,155,144
Changes to Revenue for tracking of Safety Sales Taxes	-	-	-	-	2,510,496
Increase to Revenue Accounts due to new or revised User Fees	-	-	-	-	323,451
Revised Revenue Projections (Based on Prior Year Activity)	-	-	-	-	(242,000)
<i>Subtotal</i>	(30.35)	6,143,339	3,628,454	9,771,793	5,717,940
Mayor's Fiscal Year 2012 Proposed Budget	2,507.85	338,841,028	55,775,114	394,616,142	44,790,090
Difference from 2011 to 2012	(30.35)	\$ 6,143,339	\$ 3,628,454	\$ 9,771,793	\$ 5,717,940

Office of the Independent Budget Analyst

April 2011

Department Review

continued as fully benefitted standard hour positions must work at least 20 hours per week. Adjustments were made to Police Department positions to reflect this change in approach and to reconcile to authorized position records. As a result of a review by Financial Management after the Proposed Budget was released, some technical corrections are still needed to reflect the authorized positions in the department. Financial Management has indicated adjustments will be incorporated into the May Revise.

The following table details the budgeted staffing level of sworn officers over the last three fiscal years with the net changes:

Police Department Sworn FTE Changes

Position Type	FY 2010	FY 2011	FY 2012
Sworn	2124.75	1991.00	1968.50
Δ From Prior			
Year	N/A	(133.75)	(22.50)

In reviewing the Police Department's budget, the IBA asked management how they are dealing operationally with the continued reduction of sworn positions. They responded that the Department's number one priority is to respond to emergency calls for service. To achieve this goal, some specialized units have been eliminated through attrition. In addition, the backfilling of some investigative assignments have been delayed in order to keep recommended staffing levels in patrol operations.

The IBA would note that the performance measurements included in the FY 2012 Pro-

posed Budget show increases to response times for the certain call types (E through Priority 4) tracked by the department.

Civilian Position Reductions

The proposed budget includes the reduction of (4.00) positions from the Vehicle Abatement Unit. These positions include 1.00 Police Code Compliance Supervisor and 3.00 Police Code Compliance Officers for a savings of \$329,152. These positions are currently filled.

The Vehicle Abatement Unit is a specialized unit that aggressively enforces municipal and state codes pertaining to abandoned, dismantled, inoperable or improperly stored vehicles on City streets and private property. The Unit investigates and enforces the 72 hour violation section for illegally stored vehicles on City streets; it also enforces illegal auto repair businesses being conducted on private residences. As a result of this reduction, department management has stated that the Vehicle Abatement Unit is being reorganized with other units in the Traffic Division and the duties will be assumed by sworn personnel.

The Vehicle Abatement Unit receives reimbursement revenue from the state and this revenue has not been reduced from the proposed budget due to the sworn personnel assuming the duties. Department management notes that the state reimbursement for this program is based on 50% population and 50% of vehicle abatement activity. The population factor will not be affected by this reduction. However, the 50% based on vehicle abatement activity

Department Review

could be impacted if the same number of abatements is not continued as a result of the sworn personnel assuming the responsibility of the program.

The IBA recommends that during the fiscal year the department update the Public Safety and Neighborhood Services Committee on the impacts of reducing the civilian positions on the program and whether having sworn officers assume the responsibilities has had a negative impact on revenues.

The Proposed Budget also includes the reduction of (.50) Clerical Assistant 2 from the Human Resources Unit for a savings of \$36,729. This position assisted employees with benefits, medical leave, and other human resources services. This position is currently vacant.

(1.00) Associate Management Analyst was reduced from the Fiscal Operations Unit for a savings of \$95,173. The loss of this position will have an impact on the department's ability to insure revenue is being calculated accurately and timely and will reduce the mandated oversight of state and federal grants. This position is currently vacant.

Additionally, (1.00) Administrative Aide 2 was reduced from the Family Justice Center for a savings of \$77,920. This position provided support to the OneSD program and also on-going organizational management support. This position is currently vacant.

(1.00) Multimedia Production Specialist has been reduced from the Video Support Unit for a savings of \$79,383. This unit provides

support to the Department through in-house magazine and training productions. With the reduction of this position, the video work will either not be completed or will be completed using sworn personnel. This position is currently filled.

The Proposed Budget also includes the transfer of the Gang Commission Executive Director to the Administrative Department. This position has been reporting to the Administration Director since FY 2011 but the actual position was not transferred as part of last year's budget process. The reason for this transfer is the potential for conflict with the position being budgeted in the Police Department. As noted by Police Department management, the Police are focused on law enforcement against gangs and the gang commission has a focus on gang prevention. This transfer has a net zero impact to the City's General Fund.

The following table details the budgeted staffing level of Civilians over the last three fiscal years with the net changes:

Police Department Civilian FTE Changes

Position Type	FY 2010	FY 2011	FY 2012
Sworn	630.00	547.20	539.35
Δ From Prior			
Year	N/A	(82.80)	(7.85)

Non-Personnel

Non-Personnel Expense (NPE) changes are a net total of \$3.6 million. Changes of note to the Department's NPE include a reduction of \$440,338 related to various items

Department Review

such as Audio Visual supplies, Building materials, batteries, and periodicals.

In addition, \$200,000 was reduced from the Uniform Allowance account. The reduction in Uniform Allowance is related to the number of sworn vacancies and reductions. However, funding may have to be identified from other sources in order to meet the terms of the City's contractual obligations with sworn personnel.

The Proposed Budget includes a \$339,012 increase for the Animal Control contract. This program is administered by the County of San Diego and the annual contract amount is \$7.9 million (net of revenue). This contract has increased by \$1.8 million, or 29%, from FY 2009. It should be noted that the Office of the City Auditor has included an audit of this Contract in his FY 2011 Work Plan. The focus of the audit is to determine if the service provider is in compliance with the terms of the contract.

Another significant increase is \$1.6 million related to the maintenance, repair and replacement of police vehicles. The department is anticipating purchasing 150 vehicles in FY 2012.

Information Technology

The FY 2012 Proposed Budget includes a net \$1.3 million decrease for Information Technology from FY 2011. The reasons for the decrease include the outsourcing of the Department's Helpdesk functions for a savings of approximately \$250,000 and \$1.1 million in savings for the in sourcing of the Automated Field Reporting (AFR) and Criminal Records Management (CRM) Sys-

tems.

The department has stated that the transition of the helpdesk will result in the department absorbing Tier 2 Calls (higher level problems resolved by Help Desk staff while the caller is on the phone that often require using remote control software). The department is not anticipating any impacts to operations as a result of in sourcing the AFR and CRM systems.

Vacancy Savings

In FY 2011 the vacancy savings adjustment for the Police Department was \$11.5 million. For the FY 2012 Proposed Budget, the Police department's vacancy savings is \$8.7 million, a \$2.8 million decrease from FY 2011. The \$8.7 million vacancy savings projects 111.50 Sworn and 18.50 Civilian positions to remain vacant throughout the fiscal year.

A good indicator whether the vacancy savings is excessive is to analyze how the department is trending in the current fiscal year (2011). A significant overage in salaries in the current fiscal year could indicate that the vacancy savings could be too high. As noted in the FY 2011 Mid-Year report, the Police department is trending to be over budget by \$4.5 million. \$462,000 of the \$4.5 million is attributed to overtime expenses with the majority of the overage (\$3.4 million) attributed to fringe benefits being reallocated among departments due to vacancies citywide.

When comparing the \$462,000 projected overage in overtime to the total FY 2011 personnel expenses of \$205.5 million, the

deviation is less than 1% which would suggest that the vacancy savings projected for FY 2011 is at an acceptable level. As noted, the vacancy savings for FY has been reduced by \$2.7 million but it is important to consider that this adjustment can be attributed in part to the permanent reduction of the 20.00 sworn officers in FY 2012.

Additionally, it is important to reiterate that the FY 2012 projected vacancy savings of \$8.7 million results in 111.50 sworn positions remaining vacant throughout the fiscal year. This could result in staffing challenges for the department. The IBA recommends that the department's sworn staffing levels continue to be closely monitored throughout the fiscal year to ensure that the department is able to continue to meet their staffing needs.

Revenue Adjustments

The Proposed Budget includes a net revenue increase of \$5.7 million. \$3.2 of the increase is attributable to additional revenue related to state mandated pass through surcharges for offenders. In FY 2011 the City Treasurer's office undertook a Parking Performance Review. Part of this study was to examine the Parking revenue allocation process and how the funds were distributed to outside agencies and the County of San Diego. During the exercise, Treasury Accounting staff discovered that various pass-through fees were not being passed on to parking violators. The City's General Fund was absorbing these costs. The addition of the \$3.2 million in revenue reflects the positive impact of the City passing the state pass-through fees to violators.

Another significant revenue change included in the FY 2012 Proposed Budget is a

\$323,451 increase related to ensuring full cost recovery for certain user fees. This fee was included in the Council's Budget Resolution. The following is a summary of the proposed fee increases:

- Entertainment Permit Single Occasion <50 People \$189 to \$201
- Entertainment Permit Single Occasion 50+ People \$379 to \$1,252
- Entertainment Permit w Alcohol <50 people \$920 to \$938
- Entertainment Permit w Alcohol and 50+ people \$1,840 to \$3,253
- Entertainment Permit W/O alcohol <50 people \$126 to \$283
- Entertainment Permit W/O alcohol 50+ people \$184 to \$718
- Money Exchange Houses \$505 to \$952

The FY 2012 Proposed Budget includes \$2.5 million related to Safety Sales Taxes. In FY 2012, Safety Sales tax is budgeted in the newly created Public Safety Needs and Debt Service Fund, which was created to provide greater transparency regarding the use of Safety Sales Tax. In prior years, the revenue was budgeted directly in the General Fund, and a transfer was made to the Fire and Lifeguard Facilities Fund to pay for the annual debt service on the 2002 Fire and Life Safety Facilities Project bond. Under the new budget practice, safety sales tax revenue is first allocated from the Public Safety Needs and Debt Service Fund first to the Fire and Lifeguard Facilities Fund for the annual debt service payment. The remaining revenue is then transferred to the Police and Fire-Rescue Departments in equal

amounts. As a result, General Fund safety sales tax is categorized as a departmental revenue source in the FY 2012 Proposed Budget.

One item of note concerning the Police Department's FY 2012 Revenue projections is that the FY 2011 Mid-Year report, projects the department to conclude the fiscal year with a \$1.8 million deficit in their overall revenue accounts. The department reported this projected negative revenue variance as a result of a decline in traffic citations and alarm permit fees. This could be a result of the reduction in sworn officers or the number that are held vacant.

Adjustments to the Police Decentralization fund

The Police Decentralization fund supports the site acquisition, planning and construction of new and permanent 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 of the Police Decentralization fund is Vehicle License Fees (VLF) which are transferred from the General Fund.

For FY 2012, the estimated payment to the County for jail booking fees related to municipal code and misdemeanor violations is \$5.3 million. For FY 2012, a significant portion of the \$5.3 will be paid from savings in the Police Decentralization fund from prior years as a result of the contract with the County being renegotiated and state revenue contributions. Due to the savings in the Police Decentralization Fund, the annual VLF transfer from Police Department has been reduced by \$4.0 million resulting in a

onetime resource to the General Fund.

One item of note concerning the booking fees is the impact of the state budget. As discussed in Volume I of the FY 2012 Proposed Budget, in prior fiscal years a portion of the City's booking fees has been offset by funding from the State's \$35.0 million Subventions for the Jail Booking Fees Program. However, as noted in Volume I of the Proposed Budget, the relief from the state may not occur in Fiscal Year 2012. Due to this, the Proposed Budget includes the full \$5.3 million payment without an anticipated backfill from the state. However, if this program is funded by the State, the City could realize onetime savings from the backfill.

Recruit Academies

The Police Department has stated that they will have an academy starting in July 2011. The academy is anticipated to include 25 positions and the department is currently conducting testing and backgrounds on candidates to fill these positions. The funding for these positions will come from 37 vacancies that are in addition to the those included in the FY 2012 proposed vacancy savings.

Crime Statistics

At the February 16, 2011 Public Safety and Neighborhood Services Committee, the Police Department presented their January—December 2010 Index Crimes . The Index crimes include murder, rape, robbery, aggravated assault, burglary, larceny, and motor vehicle theft. As noted by department management, the overall percent change in the index crimes from calendar year 2009 is a 4.7% reduction, with significant reductions in murder (29.3%), robbery

(14.1%), and vehicle theft (14.8%).

Departmental Proposals Not Recommended by the Mayor

The following provides examples of reductions that were submitted by the department and not taken, excluding reductions to sworn positions.

- Reduction of 1.00 Crime Analyst position for an estimated savings of \$82,000. This position maintains and utilizes the GIS/mapping data for all department systems, thus enabling mapping for crime analysis and statistical purposes. Reduction of this position would impact the amount of technical data that is made available to investigators which could impact crime trends.
- Reduction of 5.00 positions related to the Department's Information Services Division for an estimated savings of \$480,000. These positions are responsible for all personnel and program functions in Data Systems including CAD, Automated Field Reporting, Criminal Records Management System. They also provide access to over 100 local, regional, State and Federal automated systems. If these positions were reduced a significant impact to response to critical system outages could occur.
- Reduction of 4.00 Latent Print Examiners for an estimated savings of \$356,000. The loss of these positions would have a significant reduction in services to Criminal investigations. The Unit usually receives approximately 1,800 cases/requests per year and has an increasing backlog of 200 cases. Any

reductions to current staffing levels would significantly increase the number of cases that are not prioritized.

Department Review

Public Utilities

On July 1, 2009 the Metropolitan Wastewater Department and the Water Department were merged as one department, the Public Utilities Department.

Operationally, there are four branches which manage the Department: the Business Support Branch, the Water Branch, the Wastewater Branch (containing the Municipal and Metropolitan sub-systems) and the Strategic Programs 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. Furthermore, the Water Branch manages recreational use of the City's reservoirs via the General Fund.

Additionally, there are four business areas in which budget and fiscal transactions are segregated: Business Support, Water, Municipal Wastewater and Metropolitan Wastewater.

FY 2011 was the first year in which this new

budgetary structure was presented. In order to create efficiencies and enhanced services and productivity, certain financial and other administrative functions from the former Water and Wastewater Departments were consolidated. In the initial stages of this consolidation, 31.0 positions were eliminated from the Water and Wastewater Funds prior to FY 2011.

The table below presents the budgetary structure of the Public Utilities Department: funds appear in columns and business areas are shown in rows. The table only shows operating expenditures, and not Capital Improvements Program (CIP) expenditures.

Issues for Consideration

Department Position Changes

In FY 2011, the total number of Public Utilities Department positions increased by 13.42, to 1,626.42. However, this was largely due to the conversion of hourly wages to FTE expenses – 38.91 FTE's that related to hourly workers were added in FY 2011. Removing the hourly workers, FTE's

Public Utilities Department - FY 2012 Proposed Budget Expenditures (in millions)

Branch	Municipal		Water Fund	General Fund	TOTAL
	Sewer Fund	Metropolitan Sewer Fund			
Business Support	\$72.0	\$102.1	\$151.6		\$325.7
Municipal Wastewater	54.7				54.7
Metropolitan Wastewater		100.3			100.3
Water			301.0	\$1.7	302.7
TOTAL	\$126.7	\$202.4	\$452.6	\$1.7	\$783.4

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declined by 25.49 between FY 2010 to FY 2011.

For FY 2012, the Public Utilities Department's positions are declining by 31.94 FTE over FY 2011, from 1,626.42 to 1,594.48. Additionally, positions have been further realigned among the Water and Wastewater Funds, largely due to the reallocation of Business Support FTE's.

Budget Considerations

The FY 2012 Proposed Budget for the Public Utilities Department is divided among the General Fund and three enterprise funds it manages: the Water Utility Operating Fund, the Municipal Sewer Revenue Fund, and the Metropolitan Sewer Utility Fund.

This report addresses the Water Fund, and combines the Municipal and Metropolitan Sewer Funds into the "Sewer Funds." The Capital Improvements Program (CIP) and the Water Branch's General Fund component are also addressed.

Water Fund

Water Fund Sales and Purchases

One of the most significant adjustments to the Department's revenue budget is a \$26.9 million increase in revenue from water sales. This increase is largely due to the March 1, 2011 rate increase due to the County Water Authority (CWA) pass-through — approximately 6.4% for a typical single-family residential customer.

The CWA pass-through will impact the

Water Branch's expenditures as well. The FY 2012 budget for water purchases reflects a \$20.7 million increase over FY 2011, primarily due to the higher rates charged by CWA for wholesale water supplies. It is anticipated that CWA and the Metropolitan Water District will be raising the price of wholesale water in January 2012, which the Department has factored into the water purchases budget.

The Water Branch anticipates a subsequent pass-through to customers in response to these rate increases. This future pass-through increase is not reflected in the FY 2012 budget for water sales.

Other Water Fund Revenues

Other revenue changes for FY 2012 include:

- A \$25.0 million increase relates to state grant proceeds to fund projects at the Miramar and Alvarado Water Treatment Plants.
- Bond revenues have been reduced by \$48.4 million to \$65.0 million (from \$113.4 million in FY 2011). This reduction is largely based on an increase in state grant proceeds, and it aligns bond revenues with anticipated capital project activity.
- The sale of reclaimed water shows a decrease of \$3.1 million, and should only be decreasing by \$1.4 million. The Department anticipates making the appropriate change in the May revision to the budget, which will align the budget with current trends.
- An \$8.5 million decrease in revenues for

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reimbursements between funds/departments relates to reimbursement of expenses for customer service and billing. Formerly, these expenses were incurred by the Water Fund, which billed the Sewer Fund for its share of expenses. For FY 2012 these expenses will be allocated between the Funds, and will not be budgeted as reimbursement revenues.

Other Water Fund Expenditures

Water Fund expenditure adjustments for FY 2012 include:

- An increase of 21.91 FTE's and related increases in Salaries and Wages of \$1.1 million and Fringe of \$1.3 million. As stated previously, this is primarily due to the reallocation of Business Support FTE's among the Water and Sewer Funds.
- A \$2.1 million decrease related to the McGuigan settlement expenditure in FY

2011.

- A \$1.7 million increase for SAP support allocation, which largely relates to the new customer billing system, anticipated to be operational in early FY 2012.
- A \$3.2 million increase in loan repayments for State Revolving Fund loans related to projects at the Alvarado, Otay and Miramar Treatment Plants.
- A \$3.4 million increase in debt service to align with amortization schedules.

Sewer Funds

Sewer Revenues

The Wastewater Branch will not be increasing sewer service charges. The last planned rate increase for infrastructure improvements of 7% went into effect on May 1, 2010. Sewer revenues are projected to be flat when compared to FY 2011.

SUMMARY OF BUDGET CHANGES - WATER FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	704.27	\$ 63,315,044	\$ 361,779,674	\$ 425,094,718	\$ 518,418,000
Salaries and Wages	21.91	1,055,067	-	1,055,067	-
Fringe Benefits	-	1,340,386	-	1,340,386	-
Water Purchases	-	-	20,689,734	20,689,734	-
McGuigan Settlement	-	-	(2,097,200)	(2,097,200)	-
SAP Support Allocation	-	-	1,669,795	1,669,795	-
Loan Repayments	-	-	3,187,162	3,187,162	-
Debt Service	-	-	3,434,257	3,434,257	-
Bond Revenue	-	-	-	-	(48,400,000)
State Grant Proceeds	-	-	-	-	25,000,000
Water Sales	-	-	-	-	26,900,000
Reimbursements Between Funds/Departments	-	-	-	-	(8,500,000)
Sale of Reclaimed Water	-	-	-	-	(3,127,000)
Other Decreases	-	-	(1,734,631)	(1,734,631)	(1,386,000)
Mayor's FY 2012 Proposed Budget	726.18	\$ 65,710,497	\$ 386,928,791	\$ 452,639,288	\$ 508,905,000
Difference from 2011 to 2012	21.91	\$ 2,395,453	\$ 25,149,117	\$ 27,544,570	\$ (9,513,000)

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Increases in revenue include:

- \$8.8 million in State Revolving Fund loan proceeds for the Point Loma Grit Processing project.
- A \$2.5 million increase in groundwater discharge permit fees to align with current trends.
- A \$1.2 million increase in capacity charges – there has been an increase in current year permits for large-scale development projects, and it is projected that there will be an improving outlook for multi-family, commercial and industrial projects.

Bond revenues have been reduced in the FY 2012 budget by 45.0 million, from \$108.8 million to \$63.8 million. This reduction is based on decreased capital projects and an increase in State Revolving Fund loan proceeds.

Sewer Expenditures

The Sewer Funds' expenditure adjustments

for FY 2012 include:

- A decrease of 53.86 FTE's and related decreases in Salaries and Wages of \$3.1 million and Fringe of \$2.1 million. As stated previously, this is primarily due to the reallocation of Business Support FTE's among the Water and Sewer Funds.
- A decrease of \$2.0 million related to chemical purchases.
- A \$2.2 million decrease related to the McGuigan settlement expenditure in FY 2011.
- A \$3.5 million increase for SAP support allocation, which largely relates to the new customer billing system, anticipated to be operational in early FY 2012.
- A \$2.6 million increase in General Government Services Billing (GGSB).
- A \$3.3 million decrease for electric services to align with spending trends.

SUMMARY OF BUDGET CHANGES - SEWER FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	922.16	\$ 88,776,873	\$ 257,175,805	\$ 345,952,678	\$ 505,415,480
Salaries and Wages	(53.86)	(3,102,267)	-	(3,102,267)	-
Fringe Benefits	-	(2,110,720)	-	(2,110,720)	-
Chemical Purchases	-	-	(2,019,293)	(2,019,293)	-
McGuigan Settlement	-	-	(2,182,800)	(2,182,800)	-
SAP Support Allocation	-	-	3,524,066	3,524,066	-
General Government Services Billing (GGSB)	-	-	2,640,819	2,640,819	-
Electric Services	-	-	(3,310,025)	(3,310,025)	-
Debt Service	-	-	(4,528,524)	(4,528,524)	-
CIP Contingency	-	-	(2,102,590)	(2,102,590)	-
Bond Revenue	-	-	-	-	(44,965,000)
State Revolving Fund Loan Revenue	-	-	-	-	8,800,000
Other Increases/(Decreases)	-	-	(3,713,666)	(3,713,666)	3,915,520
Mayor's FY 2012 Proposed Budget	868.30	\$ 83,563,886	\$ 245,483,792	\$ 329,047,678	\$ 473,166,000
Difference from 2011 to 2012	(53.86)	\$ (5,212,987)	\$ (11,692,013)	\$ (16,905,000)	\$ (32,249,480)

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- A \$4.5 million decrease in debt service to align with amortization schedules.
- A \$2.1 million decrease in the CIP Contingency, which relates to the funding of the Operating Reserve.

Capital Improvements Program (CIP)

This Public Utilities capital budget is reflected both in the CIP document (Volume III) and the Department's Revenue and Expense statements.

The FY 2012 CIP budget for the Water Fund is \$109.2 million, a \$3.5 million increase from FY 2011. In FY 2012, the Water's capital program will continue to focus on replacement of pipelines. The Department anticipates awarding 35 miles of cast iron water mains for replacement in FY 2012 — down from an estimated 38 miles in FY 2011.

The FY 2012 CIP budget for the Sewer Funds is \$91.3 million, a \$43.9 million decrease from FY 2011. The Wastewater Branch will continue to focus on replacement and rehabilitation of pipelines. The Department anticipates that 60 miles of sewer mains will be addressed in FY 2012 — up from 40 miles in FY 2011.

Major CIP project groups for FY 2012 include the following:

- \$80.1 million for water main replacements
- \$53.5 million for sewer main replace-

ments

- \$13.0 million for replacement of trunk sewers
- \$8.8 million for water pump station rehabilitations
- \$5.5 million for sewer pipeline rehabilitation

Currently, there is \$ 7.8 million in the FY 2012 CIP budget for "CIS ERP Implementation," which relates to the new customer information and billing system for Water and Sewer. However, the work on this project is ahead of schedule, and a portion of the funding will be needed in FY 2011. Therefore, it is anticipated that there will be a May revision which will reduce the FY 2012 CIP amount for this project to \$2.8 million.

General Fund

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

The FY 2012 Proposed Budget for these activities is \$1.7 million, down \$254,423 from the FY 2011 budget of \$2.0 million. Associated revenues are budgeted at \$1.1 million down from \$1.4 million for FY 2011.

In an effort to reduce negative impacts to the General Fund, the City will be eliminating all City-operated boat rentals at Miramar Reservoir and Murray Reservoir, as well as Wednesday rentals at Otay Reservoir (rentals will only be available at Otay on the weekend). This is anticipated to re-

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duce expenditures by \$157,800, with associated revenue reductions of \$71,500.

Additionally, eliminating certain fish stocking at various reservoirs and reducing the fishing season at Southerland Reservoir will result in reduced expenditures of \$96,623 and reduced revenues of \$38,571.

Other Issues

On April 23, 2009 the County Water Authority announced that water deliveries to member agencies would be reduced by 8% beginning July 1, 2009. At that time, the City was given a water allocation that would meet the 8% reduction. Subsequently, the City moved to Drought Response Level 2, which imposes certain mandatory behavior restrictions on the use of water within the City. San Diegans have been able to stay below the CWA allocation to-date.

The CWA is expected to rescind the City's water allocation reduction for FY 2012 in May 2011. As a result, the Department is recommending cancellation of Drought Response Level 2. The Department is not anticipating substantive changes in citizens' conservation practices, and therefore is not adjusting budgeted purchases and revenues for increased water use. Note that although the Drought Response Level 2 restrictions are recommended to be removed, certain "time of day" watering limitations were codified as permanent restrictions in December 2010.

Financial Issues

It was noted in our review of the Water Fund that FY 2012 expenses, including CIP,

are in excess of revenues by \$52.9 million. Part of the difference is due to the fact that anticipated January 2012 CWA pass-through rate increases are factored into the budget for water purchases, but not the budget for water sales.

The Sewer Funds' revenues are in excess of expenses, including CIP, by \$52.8 million. The difference is largely due to changes in the schedule of CIP projects.

An RFP has been issued for an audit of the Water and Sewer Funds. The agreed-upon procedures will include an analysis of the use of the rate increases, an analysis of the sources and uses of debt proceeds, and an analysis of the deposits and transfers related to the Dedicated Reserve from Efficiencies and Savings.

Lastly, the City has decided to pursue the managed competition process for the Public Utilities Customer Service Office. The Preliminary Statement of Work (PSOW) was presented to the Rules Committee on April 27, 2011. The Rules Committee moved the PSOW to the full City Council without recommendation. Should the Council approve the PSOW, the managed competition process will continue as planned. Proposals in response to RFP's are not expected until November 2011, and any savings from this process are not anticipated to occur until late FY 2012 or early FY 2013.

Rate Increases Related to Capital Improvements

The last planned rate increase for water infrastructure improvements of 6.5% went into effect on July 1, 2010. The Public Utili-

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ties Department had anticipated that an increase in water rates for the capital improvements program would not be necessary for FY 2012. The reason that this type of rate increase will not be needed for FY 2012 is because the capital improvements projects anticipated in the FY 2008 through FY 2011 rate plan will not be fully completed and the funds from the associated rate increases will not be fully expended by the end of FY 2011. Thus, there is future capacity from the capital improvements program's prior rate increases that can address capital improvement projects during FY 2012. A cost of service study is anticipated to begin in FY 2012.

The same scenario is true for sewer infrastructure improvements. The last planned rate increase for infrastructure improvements of 7% went into effect on May 1, 2010. A cost of service study is anticipated to begin in FY 2012.

Water Based Budget Analysis

The Department is also exploring the use of a water based budget billing method, as a possible alternative to the tiered billing method currently utilized. Water budgets incorporate customer characteristics, such as landscaping area, number of people in the household, and local weather factors. Higher rates will be billed when a customer exceeds the water budget. The Department has conducted a pilot study and intends to validate the study and expand the analysis to the entire City customer base. A consultant will be hired to assist in this process. A RFP has been issued, and the Department anticipates contracting with a

consultant within 60 days.

Long-Term Water Supply

Councilmember Lightner is spearheading an effort to produce a comprehensive Council Policy relating to sustainable water supply for the City. The draft policy includes areas such as water quality; conservation; importation and local and regional supply; as well as requirements for monitoring local and regional issues. Council Member Lightner's office is in the process of conducting extensive community outreach and has spoken with various groups, including IROC, the Building Industry Association, the Chamber of Commerce's Energy and Water Committee, the Equinox Center and the San Diego Coast Keeper. The Council Member's office anticipates bringing a revised draft of the Council Policy to the Natural Resources and Culture Committee on May 18, 2011 and to the full Council prior to the August Legislative recess.

Department Review

Public Works— Engineering and Capital Projects

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the General Fund allocation of the Engineering & Capital Projects (E&CP) Department is \$59.97 million, a net \$6.6 million, or 10% decrease from FY 2011. The FY 2012 Proposed Budget includes a net reduction of 59.14 positions.

The majority of the decrease in expenditures, (\$7.3 million) and FTE's (52.00) is attributable to the transfer of the Transportation System Engineering & Operations Division from the E&CP department to the new Transportation & Storm Water Department.

It is important to note that the E&CP General Fund allocation is almost 95% reimbursable from internal and external Funds. Gen-

erally, position reductions to this department require a corresponding revenue reduction resulting in a net zero impact to the General Fund.

The FY 2012 budget includes the reduction of the E&CP Director position for a savings of \$233,031. This position has been reduced as a result of the restructuring associated with the Public Works department. Staff has stated that the Public Works department is in transition and when completed will include the consolidation of the E&CP and General Services Department. The consolidation of the departments is expected to occur with the FY 2013 Proposed Budget. For FY 2012, the Director position for the combined departments is budgeted in the General Services Department.

Additional reductions include 1.00 Clerical Assistant 2 at a savings of \$81,621 and 1.00

SUMMARY OF E&CP GENERAL FUND BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	523.66	\$ 57,307,034	\$ 9,217,151	\$ 66,524,185	\$ 63,455,860
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages & Fringe Benefits	(4.14)	1,693,913	\$ -	1,693,913	
Supplies	-	-	(\$397,196)	(397,196)	
Contracts			(\$286,152)	(286,152)	
Non-Discretionary and Info Technology Adjustments			140,968	140,968	
Transfer of Trans System Eng to Trans & Storm Water Dept.	(52.00)	(5,921,701)	(1,354,428)	(7,276,129)	(8,422,653)
Reduction of E&CP Director Position	(1.00)	(233,031)	-	(233,031)	-
Reduction of 1.00 Clerical Assistant 2 and 1.00 Associate Eng. Civil	(2.00)	(195,669)	-	(195,669)	-
Revised Revenue Projection (Net Zero Impact)	-	-	-	-	1,867,873
<i>Subtotal</i>	(59.14)	(4,656,488)	(1,896,808)	(6,553,296)	(6,554,780)
Mayor's Fiscal Year 2012 Proposed Budget	464.52	52,650,546	7,320,343	59,970,889	56,901,080
Difference from 2011 to 2012	(59.14)	\$ (4,656,488)	\$ (1,896,808)	\$ (6,553,296)	\$ (6,554,780)

Associate Civil Engineer for \$114,048. E&CP Management has stated that the duties of these positions will be absorbed within the department. These positions are currently vacant.

The Proposed Budget also includes a \$367,524 reduction to Non-personnel Expenses. The reduction equates to a 7% reduction in Non-personnel expense from FY 2011. The Non-Personnel reductions include Land Surveying and Materials Lab Testing funding and office supplies. Department management has stated that the impact to the department as a result of these reductions should be minimal.

Revenue Adjustments

The Proposed Budget reflects a net \$6.5 million reduction from FY 2011. The changes from FY 2011 include \$8.4 million associated with the Transportation Systems Engineering & Operations Division being transferred to the Transportation and Storm Water department.

The Proposed Budget also reflects a revenue change of \$1.9 million. However, it should be noted that this change has a net zero impact to the department from FY 2011.

The \$1.9 million revenue change represents adjusting the Department's FY 2012 revenues to the Fiscal Year 2011 budgeted level. Financial Management had originally decreased E&CP revenues in the FY 2012 base budget to reflect lower amounts projected in the Fiscal Year 2012-2016 Five-Year Outlook and Fiscal Year 2011 Mid-Year Report. However, as a result of implementing additional monitoring actions and a lower vacancy savings target, it is projected that Fis-

cal Year 2012 revenues will achieve Fiscal Year 2011 levels.

Project Capacity

The FY 2012 Proposed Budget includes \$1.1 million in anticipated vacancy savings. The vacancy savings is related to 16.00 Engineering positions and 4.00 non-engineering positions. The \$1.1 million is a \$871,042 decrease from FY 2011 levels.

As we have noted in previous IBA reports and reviews of past budgets, the E&CP department is the City's coordinator for Capital Projects and the number of vacant Engineers could impact the department's capacity to handle the design/management of projects. E&CP management has stated that due to the vacant engineering positions being fully reimbursable, E&CP staff will be able to fill the vacant positions in FY 2012.

As noted in the Department's performance measurements, the number and value of projects increased significantly from FY 2010 to FY 2011. A reason the Department states for the significant increase is that client departments have requested increased CIP production to take advantage of a favorable bidding market. In addition, the City is anticipating a second bond issuance related to Deferred Capital which will increase the department's workload. Department management has stated that they, and most likely the other support departments such as Transportation & Storm Water and Purchasing & Contracting, will not have the capacity to handle further increases to deferred capital funding.

To address the lack of capacity, department management is looking at different service delivery methods and changes to the City's

procurement system. One of the contracting initiatives that E&CP is pursuing is the use of Multiple Award Construction Contracts (MACC). The U.S. Army Corps of Engineers and the U.S. Naval Facilities Engineering Command as well as other Federal agencies have been using these contracting methods for years. With a MACC program at the City, City Council would award contracts to multiple design-build contracting entities (typically four or five) and these firms would compete on individual project task orders on a best value basis. The advantage of this approach is that these multiple contracts are awarded in response to a single RFP that would be advertised by Purchasing and Contracting staff. After award, E&CP staff would issue individual project task orders. E&CP staff plans on bringing this forward to the City Council in mid-FY 2012.

***Office of the City Auditor
Performance Audit of Capital
Improvement Projects Process***

The Office of the City Auditor is close to completing their audit of the City Capital Improvement projects process. The objective of the audit is to determine the extent to which the City effectively initiates, prioritizes, and implements CIP projects. The audit will be suggesting process changes to the City's CIP process that could have an impact on E&CP's budget.

Department Review

Public Works—General Services

Mayor’s FY 2012 Proposed Adjustments

The Fiscal Year 2012 Proposed Budget for the General Services Department totals \$15.5 million in the General Fund, a reduction of \$47.8 million, due to the transfer of Street Division to the newly created Transportation and Storm Water Department.

Revenues received by the General Fund related to General Services total \$5.7 million, reduced by \$33 million also due to the restructured Street Division.

In addition to the General Fund, the Department is comprised of various funding sources, including the Wireless Communications Fund, the Publishing Services Fund, and the Fleet Operations and Replacement

Funds. With all funds combined, the General Services Department budget totals \$106.2 million, a decrease of \$52 million from FY 2011, because of the move of Street Division from the department.

The FY 2012 Proposed Budget for the Administrative Division totals \$723,000, including 5.00 FTEs. The FY 2012 Proposed Budget for the Facilities Division totals \$14.8 million, and includes 107.00 FTEs, only slightly more than FY 2011. Facilities Division receives reimbursement for some of its work on various projects.

The FY 2012 budget includes \$632,500 in salary savings (in the General Fund), reflecting an increase of \$318,000 from FY 2011.

No significant reduction proposals were

SUMMARY OF GENERAL SERVICES BUDGET				
	FTE	FY 2011	FY 2012	CHANGE
General Fund				
Administration	5.00	\$ 600,866	\$ 723,102	\$ 122,236
Facilities	107.00	14,373,938	14,788,534	414,596
Street <i>(transferred to Transportation & Storm Water)</i>	-	48,342,639	-	(48,342,639)
Subtotal General Fund	112.00	63,317,443	15,511,636	(47,805,807)
Non-General Fund				
Wireless Communications	50.00	9,699,235	9,953,284	254,049
Publishing Services	25.00	5,843,953	6,144,923	300,970
Fleet Operations	249.00	51,189,151	51,385,314	196,163
Fleet Replacement	-	14,799,955	23,198,758	8,398,803
Proposition 42 Fund	-	13,312,980	-	(13,312,980)
Subtotal Non-General Fund	324.00	94,845,274	90,682,279	(4,162,995)
TOTAL GENERAL SERVICES	436.00	\$ 158,162,717	\$ 106,193,915	\$ (51,968,802)

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included in the FY 2012 Proposed Budget for the Administration and Facilities Division.

Communications

The Communications Division provides life-line voice and data communications to emergency responders in San Diego and coordinates mobile voice and data services for all City departments.

The Communications Division FY 2012 Proposed Budget totals \$9.95 million, with 50 FTEs. This reflects an increase of \$254,000 from FY 2011.

No significant reduction proposals have been included in the FY 2012 Budget for the Communications Division.

This non-general fund department receives funding from other City funds. Approximately 82% of this funding comes from the General Fund in the form of Wireless Communications Transfer, which has been allocated for the first time to each department

within the General Fund as a non-discretionary budgetary addition. Previously these funds were budgeted in the General Fund Department of IT. The share of costs coming from the General Fund has increased from 78% in FY 2011.

Publishing Services

The Publishing Services Division provides full service, in-house reproduction and graphics center, and manages the Citywide Photocopier Program for all City departments.

For FY 2012, the Proposed Budget for Publishing Services totals \$6.1 million, and includes 25.00 FTE. The FY 2012 budget represents a slight increase of \$300,000 from FY 2011. This non-general fund department also receives its funding from benefitting City departments, by charging customer departments for its services.

No significant reduction proposals have been included in the FY 2012 Budget for the Publishing Services Division.

SUMMARY OF GENERAL SERVICES BUDGET CHANGES						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	374.92	\$ 28,675,076	\$ 34,642,367	\$ 63,317,443	\$ 38,648,265	
Mayor's Fiscal Year 2012 Proposed Budget Changes						
Salaries & Wages	(1.00)	(45,567)		(45,567)		
- Adjustments due to Salary Reductions/Savings/Furlough		317,960		317,960		
Fringe Benefits (incl. Retirement ARC)		121,331		121,331		
Adjustments to Supplies/Contracts			50,778	50,778		
MRO Savings			(255,000)	(255,000)		
Non-Discretionary and Info Technology Adjustments			347,330	347,330		
Transfer of Street Division to Transportation & Storm Water Dept	(261.92)	(20,115,483)	(28,227,156)	(48,342,639)	(32,967,922)	
Subtotal	(262.92)	(19,721,759)	(28,084,048)	(47,805,807)	(32,967,922)	
Mayor's Fiscal Year 2012 Proposed Budget	112.00	8,953,317	6,558,319	15,511,636	5,680,343	
Difference from 2011 to 2012	(262.92)	\$ (19,721,759)	\$ (28,084,048)	\$ (47,805,807)	\$ (32,967,922)	

Department Review

Managed Competition—Publishing Services

The Managed Competition Request for Proposal for Publishing Services was issued on January 21, 2011 and bids were received in March 2011.

Bids received for the Publishing Services function are currently being reviewed by the MCIRB. The Board is scheduled to meet in mid-May 2011 to review reports from the Technical Evaluation Committee and the Cost Evaluation Committee regarding their results and recommendations. It is possible that savings from this process could be identified prior to final FY 2012 City Council budget decisions.

Fleet Services

The Fleet Services Division provides maintenance and coordinates the replacement of City vehicles for all City departments. For FY 2012, the Proposed Budget for Fleet Services totals \$51.4 million for operations and maintenance activities, and \$23.2 million for replacement purposes. The division includes 249 positions, which remains unchanged from FY 2011.

The FY 2012 budget represents a large increase of \$8.4 million from FY 2011, for replacement purposes. Previous budget reduction proposals that were implemented included extending the useful life of all vehicles by two years, and reducing the rates charged to customer departments for the replacement of vehicles to postpone purchases.

In addition, the FY 2011 Budget was designed to utilize accumulated fund balance, which would result in the need to increase rates in the following year.

This non-general fund department receives funding from benefitting City departments, with approximately 73% of this funding coming from the General Fund for maintenance and operations, and 64% from the General Fund for replacement costs.

Issues to Consider

Prior budgetary changes included the identification and elimination of underutilized vehicles in the fleet by 20%. Underutilized vehicles are categorized as less than 5,000 miles per year or 500 operational hours per year. Savings would be derived by reducing the size of the fleet and elimination of associated usage fees, which was estimated to generate savings of \$3.38 million, with \$2.4 million in savings to the General Fund.

In addition, reductions to the number of Police and Fire take-home vehicles of 10% to provide annual savings of \$5,000 per vehicle were planned.

Recent FY 2011 budget monitoring reports reported greater than anticipated revenues to Fleet Services because vehicles were not turned in as quickly (or not as many) as originally projected, resulting in customer departments continuing to pay motive equipment charges to the Fleet fund.

Accumulating Fund Balance

If revenue estimates exceed projections, additional fund balance may have accumulated which could again be considered as a

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funding option, with a corresponding reduction to rates charged to departments.

The IBA was unable to verify the status of the Fleet funds based on the fund balance information reflected in the budget document, and the lack of audited financial data.

Managed Competition—Fleet

The Managed Competition RFP for Fleet Maintenance Services is currently being developed and is scheduled to be issued in May 2011. It is possible that this process will be completed during FY 2012 City, though the range of potential savings is unclear at this point.

Department Review

Purchasing & Contracting

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Purchasing & Contracting Department is approximately \$4.1 million, an increase of \$406,338 from the FY 2011 Budget. The FY 2012 Proposed Budget results in an addition of 1.39 FTE positions from FY 2011 to FY 2012. Budgeted revenue increased by \$37,050 in FY 2012.

Budget Additions

As noted above, the Purchasing & Contracting Department added 1.39 FTE positions. These were hourly positions in Public Information Clerk and Senior Civil Engineer job classifications.

The increase in budgeted revenue is primarily explained by reimbursements attributable to additional services provided to other City funds and the County.

Department Proposals Not Recommended by Mayor

Department reduction suggestions that were requested but not taken included the elimination of several positions individually. These positions included: Associate Civil Engineer (1.00 FTE / \$103,207), Process Contracting Clerk (1.00 FTE / \$66,371), Executive Secretary (1.00 FTE / \$83,950) and Program Manager (1.00 FTE / \$162,219). Management indicates that eliminating any of these positions has adverse implications for the Department's operations including contracting and procurement processes.

Key Performance Indicators

The FY 2012 Proposed Budget indicates the Department expects to stay the same or improve upon its key performance indicators in FY 2011. Cost savings/cost avoidance achieved via strategic purchase processes is a new performance indicator for the Department in FY 2011. The current year expectation is \$350,000 of cost savings or cost avoidance.

SUMMARY OF PURCHASING & CONTRACTING BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	37.00	\$3,278,465	\$ 386,562	\$ 3,665,027	\$ 706,500
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	1.39	78,710		78,710	
- Adjustments due to Salary Reductions/Savings/Furlough		136,754		136,754	
Fringe Benefits (incl. Retirement ARC)		144,103		144,103	
Supplies			(1,035)	(1,035)	
Contracts			25,125	25,125	
Non-Discretionary and Info Technology Adjustments			22,681	22,681	
Revised Revenue Projections				-	37,050
<i>Subtotal</i>	1.39	359,567	46,771	406,338	37,050
Mayor's Fiscal Year 2012 Proposed Budget	38.39	3,638,032	433,333	4,071,365	743,550
Difference from 2011 to 2012	1.39	\$ 359,567	\$ 46,771	\$ 406,338	\$ 37,050

Department Review

QUALCOMM Stadium

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

Mayor's FY 2012 Proposed Adjustments

The Fiscal Year 2012 Proposed Budget for Qualcomm Stadium includes \$15.9 million in expenditures. This is an increase of \$1.4 million from FY 2011. A majority of the expenditure increase is due to Non-Discretionary and Information Technology adjustments.

Revenue projected in the FY 2012 Proposed Budget is \$14.9 million, which is an increase of \$348,000 from FY 2011.

The revenue increase is due to an increased amount of Transient Occupancy Tax (TOT)

revenue that is projected to be transferred to this fund.

Issues to Consider

QUALCOMM Stadium continues to operate with a significant deficit. In the Proposed FY 2012 Budget, \$8.6 million in TOT funding is needed to support debt service payments and operating costs for QUALCOMM Stadium operations. As discussed above, this is an increase of approximately \$348,000 from FY 2011.

SUMMARY OF QUALCOMM STADIUM BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	36.75	\$ 3,141,721	\$ 11,392,447	\$ 14,534,168	\$ 14,568,123
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	0.60	46,779		46,779	
- Adjustments due to Salary Reductions/Savings/Furlough		25,291		25,291	
Fringe Benefits (incl. Retirement ARC)		11,408		11,408	
Supplies			-	-	
Contracts			(141,480)	(141,480)	
Non-Discretionary and Info Technology Adjustments			1,487,274	1,487,274	
Energy and Utilities			(2,000)	(2,000)	
Transfer In from TOT				-	348,186
<i>Subtotal</i>	0.60	83,478	1,343,794	1,427,272	348,186
Mayor's Fiscal Year 2012 Proposed Budget	37.35	3,225,199	12,736,241	15,961,440	14,916,309
Difference from 2011 to 2012	0.60	\$ 83,478	\$ 1,343,794	\$ 1,427,272	\$ 348,186

Department Review

Real Estate Assets

Mayor's FY 2012 Proposed Adjustments

The Fiscal Year 2012 Proposed Budget for the General Fund portion of the Real Estate Assets Department (READ) is \$4.3 million, a decrease of approximately \$174,000 from the FY 2011 Budget. A reduction of 1.00 FTE has also occurred. Revenues are budgeted at \$39.7 million, which is a decrease of \$4.1 million from FY 2011.

Budget Reductions

Expenditure adjustments in the General Fund portion of READ includes a reduction of 1.00 Supervising Property Agent position which had an associated personnel expenditure reduction of \$95,173. Non-personnel adjustments include a reduction of \$10,500 for Travel Training and a \$3,500 reduction

in Promotional Advertising.

Reduction in Revenue

READ's proposed FY 2012 budget reflects a net decrease to revenue of \$4.1 million.

Revenue collected from Mission Bay Rents and Concessions shows a decline of \$5.4 million. Included in this decline is the removal of the Council-approved, one-time transfer of \$4.3 million from the Mission Bay Improvement Fund in FY 2011. Since revenue from Mission Bay rents and concessions is budgeted in READ, this one-time transfer of funding was reflected in the Department's FY 2011 revenue. Aside from the removal of the one-time transfer, this revenue category is projected to be down \$1.1 million. Many of the leases in Mission Bay are Percentage of Sales Based. Due to

SUMMARY OF READ BUDGET CHANGES						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	28.00	\$ 3,151,596	\$ 1,360,359	\$ 4,511,955	\$ 43,808,666	
Mayor's Fiscal Year 2012 Proposed Budget Changes						
Salaries & Wages		(5,822)		(5,822)		
<i>Reduction of 1.00 Supervising Property Agent</i>	(1.00)	(95,173)		(95,173)		
- Adjustments due to Salary Reductions/Savings/Furlough		(54,872)		(54,872)		
Fringe Benefits (incl. Retirement ARC)		(40,921)		(40,921)		
Supplies			(14,036)	(14,036)		
Contracts			(12,635)	(12,635)		
<i>Reduction of Travel Expenses</i>			(10,500)	(10,500)		
<i>Reduction in Promotional Advertising</i>			(3,500)	(3,500)		
Non-Discretionary and Info Technology Adjustments			60,009	60,009		
Energy and Utilities			3,500	3,500		
Revised Revenue Projections (not including Mission Bay Rents and Concessions)				-	1,264,158	
<i>Removal of One-Time Mission Bay Improvement Fund Transfer</i>					(4,278,788)	
<i>Reduction of Mission Bay Rents and Concessions</i>					(1,091,245)	
<i>Subtotal</i>	(1.00)	(196,788)	22,838	(173,950)	(4,105,875)	
Mayor's Fiscal Year 2012 Proposed Budget	27.00	2,954,808	1,383,197	4,338,005	39,702,791	
<i>Difference from 2011 to 2012</i>	<i>(1.00)</i>	<i>\$ (196,788)</i>	<i>\$ 22,838</i>	<i>\$ (173,950)</i>	<i>\$ (4,105,875)</i>	

Department Review

the poor economy, leaseholders' projected sales have decreased.

Key Performance Indicators

The performance indicators that were presented to the Budget and Finance Committee on January 19, 2011 have been included in the FY 2012 Proposed Budget. One change includes the addition of reporting the revenue received from antenna facilities located on City-owned property as well as telecommunication facilities.

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 and World Trade Center parking garages.

Proposed FY 2012 expenditure adjustments include a reduction in supplies and contracts of \$37,178. There was also a reduction of \$605,000 in projected revenue from parking garages located around the Concourse and in the World Trade Center Building.

The amount of revenue that is projected to be transferred to the General Fund is \$750,000. This is a decrease of \$737,000 from the FY 2011 amount. Financial Management has indicated that this amount is more appropriate as projected revenue from parking garages are expected to decline.

Additional savings to the Concourse & Parking Garage Fund were anticipated in FY

2011 due to the installation of a new 24-hour automated parking system in the Concourse Parking Garage, which was anticipated to reduce costs and increase revenues, thereby freeing up additional funding that could be transferred to the General Fund.

The automated parking system has not yet been installed, however, the Department has indicated that they are working through the procurement process, and that the system should be installed in FY 2012. This needs to occur as quickly as possible to maximize the potential benefit to the General Fund.

Department Review

Risk Management

Mayor's FY 2012 Proposed Adjustments

The Risk Management Department manages the City's self-insured Workers' Compensation Program; coordinates public liability and loss control measures; and administers employee health and safety programs, employee benefit contracts, and the City's Long-Term Disability Plan.

The FY 2012 Proposed Budget for the Risk Management Department totals \$9.2 million, a reduction of \$421,500 from the FY 2011 Budget., and includes 79.44 FTEs.

All City departments contribute to the Risk Management Administration Fund, on a per employee basis, as part of fringe benefits. Fringe benefits include the payments to the retirements system, funding for flexible benefits, retiree health care, workers' com-

pensation, among other items.

General Fund contributions of \$6.4 million comprise almost 70% of the total revenues to the Risk Management Administration Fund., with Non-General Fund departments contributing the remaining 30%.

In FY 2010, accumulated fund balance was used as a one-time budget balancing solution, which permitted contributions to be reduced achieving savings for all City funds.

Based on a review of current year-monitoring projections for FY 2011, it appears that revenues and expenditures are close to budgeted levels, and no new fund balance is currently expected. This is an area that deserves and receives regular monitoring to ensure spare resources do not go unnoticed or underutilized.

SUMMARY OF FRINGE BENEFITS BUDGET CHANGES						
General Fund Changes by Benefit						
(in millions)						
Fringe Benefit Account	FY 2010 BUDGET	FY 2011 BUDGET	FY 2012 PROPOSED	CHANGE	%	
Retirement ARC	\$ 124.9	\$ 177.6	\$ 177.8	\$ 0.2	0.1%	
Flexible Benefits	39.0	37.7	37.8	0.1	0.3%	
OPEB	39.7	40.2	40.2	-	0.0%	
Worker's Compensation	20.4	14.9	16.3	1.4	9.4%	
Retirement Offset	5.2	4.8	4.5	(0.3)	-6.3%	
SPSP	13.5	9.1	8.8	(0.3)	-3.6%	
Employee Offset	10.0	9.0	9.0	-	0.0%	
Medicare	6.9	5.3	5.4	0.1	1.9%	
Risk Management Admin	5.5	6.2	6.4	0.2	2.9%	
Long Term Disability	3.0	3.8	3.7	(0.1)	-3.2%	
Remaining Fringe Accounts	1.3	2.6	2.7	0.0	1.1%	
TOTAL GF FRINGE BENEFITS	\$ 269.4	\$ 311.3	\$ 312.5	\$ 1.2	0.4%	

Department Review

FY 2012 changes to the Risk Management Budget include reduction of \$640,000 to SAP Support Allocation, likely due to changes to allocation methodologies for the various SAP modules.

Workers' Compensation

The annual amount estimated to be needed for payment of Workers' Compensation claims for FY 2012 has increased by \$1.4 million from FY 2011 for the General Fund, though only \$1.1 million in total, Citywide. This reflects a reallocation of Workers' Compensation costs among the City's funds, more heavily weighted to the General Fund.

Estimated costs are based on a three-year average of actual annual payments, and the determination of rates which are assigned by job class in the budget system, based on actual claims experience. The increase in total claims was not included in the Five-Year Outlook. This \$1.4 million increase comprises the bulk of the increase to the Fringe Benefits category for the General Fund compared to the FY 2011 Budget.

Key Performance Indicators

One of Risk Management's performance indicators is the percent increase/decrease of workers' compensation claims compared to the prior year. Actual results for FY 2009 and estimated results for FY 2010 are reported as -1%, each year, suggesting a reduction in annual claims costs.

It is unclear if the information reported in the performance indicators can be utilized to evaluate if proposed funding levels for workers' compensation claims are appropriate.

Issues to Consider

Long-Term Disability Reserve

A Long-Term Disability reserve contribution of \$1.6 million from the General Fund (\$2.3 million Citywide) is included in the FY 2012 Proposed Budget, while other City reserve contributions for the General Fund and Public Liability are to be suspended. The Reserve Policy states a goal of \$12 million is to be reached, for Long-Term Disability and also describes that a study is to be undertaken to evaluate the feasibility of purchasing insurance instead of continuing

SUMMARY OF RISK MANAGEMENT FUND						
	FTE	PE	NPE	Total	Revenue	
Fiscal Year 2011 Budget	80.16	\$ 7,049,317	\$ 2,616,730	\$ 9,666,047	\$ 8,925,849	
Mayor's Fiscal Year 2012 Proposed Budget Changes						
Salaries & Wages	(1.12)	29,899		29,899		
- Adjustments due to Salary Reductions/Savings/Furlough		34,038		34,038		
Fringe Benefits (incl. Retirement ARC)		100,896		(492,665)		
Non-Discretionary and Info Technology Adjustments			(593,561)	-		
Addition of Administrative Aide I	0.50	34,043		34,043		
Reduction to Employee Assistance Program	(0.10)	(5,051)		(5,051)		
Reduction in Contracts			(21,716)	(21,716)		
Revised Revenue Projections				-	318,746	
Subtotal	(0.72)	193,825	(615,277)	(421,452)	318,746	
Mayor's Fiscal Year 2012 Proposed Budget	79.44	7,243,142	2,001,453	9,244,595	9,244,595	
Difference from 2011 to 2012	(0.72)	\$ 193,825	\$ (615,277)	\$ (421,452)	\$ 318,746	

Department Review

the City's LTD self-insurance program.

The IBA inquired with the CFO and the Risk Management Director as to possible impacts of postponing the reserve contribution to the Long-Term Disability reserve. The IBA learned that work has begun to negotiate with the City's labor organizations to transition the Long-Term Disability program to an insurance provider. In doing so, the City will need to prepare to continue to pay existing claims, and also to fund costs associated with premiums, for future insurance coverage. The LTD Reserve appears to be the intended source of funds as the

City works to make this transition happen; however, this seems to be a major policy change.

The City Council may want to discuss the implications, timing and cost/benefits associated with the proposed plan. It is unclear to the IBA if the \$1.3 million General Fund contribution to the LTD Reserve is a high-priority requirement, or can be eliminated to allow funding to be directed to other needs.

Department Review

Special Promotional Programs

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for Special Promotional Programs is \$66.5 million, an increase of approximately \$6.25 million from the FY 2011 Adopted Budget. This increase is due to projected growth in transient occupancy tax revenue (TOT), as discussed in the section on General Fund revenue.

Per the San Diego Municipal Code, 5 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 cents deposited into the TOT Fund, the Municipal Code requires that 4 cents be used solely for the purpose of promoting the City, while the remaining 1 cent can be used for any purpose as directed by the City Council.

Significant adjustments in FY 2012 TOT al-

SPECIAL PROMOTIONAL PROGRAMS BUDGET SUMMARY

	FY 2011 ADOPTED	FY 2012 PROPOSED	CHANGE
REVENUE			
Transient Occupancy Tax (5.0%)	\$ 60,104,689	\$ 66,357,945	\$ 6,253,256
Special Events Revenue	150,000	150,000	-
TOTAL REVENUE	\$ 60,254,689	\$ 66,507,945	\$ 6,253,256
ALLOCATIONS			
Arts & Culture	\$ 7,252,680	\$ 7,294,889	\$ 42,209
Capital Improvements	22,610,280	22,235,000	(375,280)
<i>Balboa/MB Park Improvements</i>	5,096,466	2,100,000	(2,996,466)
<i>Convention Center Phase II</i>	8,750,000	10,630,000	1,880,000
<i>Qualcomm</i>	8,031,814	8,580,000	548,186
<i>Trolley Extension</i>	732,000	925,000	193,000
Economic Development	1,706,450	1,806,450	100,000
Operating Support	6,594,274	8,981,904	2,387,630
<i>Balboa Park Centennial</i>	150,000	150,000	0
<i>Convention Center</i>	3,400,000	3,405,300	5,300
<i>PETCO Park O&M</i>	2,500,000	4,840,000	2,340,000
<i>Special Events</i>	544,274	586,604	42,330
Discretionary TOT to GF	11,800,938	13,051,589	1,250,651
GF Promotion-Related & Admin.	10,290,067	13,138,113	2,848,046
TOTAL ALLOCATIONS	\$ 60,254,689	\$ 66,507,945	\$ 6,253,256

Department Review

locations include a \$3 million reduction to the Mission Bay/Balboa Park Improvement Fund; a \$1.9 million increase to the Convention Center Expansion Fund; a \$2.3 million increase to the PETCO Park Fund, and a \$2.8 million increase in the allocation to the General Fund for “promotion-related” expenses. These significant adjustments are discussed in greater detail below.

Mission Bay/Balboa Park Improvement Fund

The \$3.0 million reduction in the TOT allocation to the Mission Bay/Balboa Park Improvement Fund is due to a reduction in FY 2012 debt service payments, resulting from retirement of the Series 1996A Certificates of Participation (COPs) in FY 2011, as well as the refunding of the Series 1996 COPs as part of the Master Refunding approved in March 2010.

Convention Center Expansion Fund

The FY 2012 TOT allocation to the Convention Center Expansion Fund is \$10.6 million, an increase of approximately \$1.9 million from FY 2011. This allocation pays for the City’s share of the Convention Center (Phase II) Expansion bonds. In FY 2011, the TOT allocation was lowered due to a surplus of accumulated fund balance. Now that the fund balance has been drawn down, the allocation must be increased in order to balance the fund. This allocation also pays for dewatering expenses pursuant to a Memorandum of Understanding with the Port District.

In March 2011, the City Council and Redevelopment Agency Board approved a reim-

bursement agreement whereby the Agency would reimburse the City for costs related to the debt service on the Phase II expansion bonds beginning in FY 2011. Under the adopted schedule of payments, the reimbursement will be \$2 million in FY 2011, escalating by \$500,000 per year until an annual reimbursement of \$9 million is reached. In FY 2012, this reimbursement is budgeted as a direct transfer to the General Fund, and does not impact the annual TOT allocation to the Convention Center Expansion Fund.

PETCO Park Fund

The FY 2012 TOT allocation to the PETCO Park Fund is \$4.8 million, an increase of \$2.3 million over FY 2011. This allocation is for the City’s share of Stadium operation and maintenance expenses under the Joint Use & Management Agreement. Debt service on the PETCO Park Bonds continues to be paid by the Redevelopment Agency pursuant to a Cooperation Agreement.

As with the Convention Center, the FY 2011 allocation to PETCO Park was reduced on a one-time basis in order to draw down a surplus of accumulated fund balance. However, due to a decline in special event revenues in FY 2010, the accumulated fund balance in FY 2011 was less than anticipated. As a result, the PETCO Park Fund is projected to end the fiscal year with a deficit of approximately \$490,000. The TOT allocation in FY 2012 has been increased in order to mitigate this deficit and build a \$400,000 cushion against further unanticipated fluctuations in revenues or expenditures.

Department Review

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 2012, TOT allocations for General Fund promotion-related expenditures total \$13.1 million, an increase of \$2.85 million from FY 2011. The majority of this funding is allocated to the Park and Recreation Department, as reflected in the table below.

As the IBA has noted in the past, the Municipal Code does not currently define what constitutes promotion for purposes of TOT funding. While certain General Fund expenditures would seem to have a clear nexus with promoting the City, the current practice may be open to interpretation without any guiding definition.

If this practice is anticipated to be continued

in the future as TOT revenue grows, we recommend that the Municipal Code be amended to define what constitutes promotion, or to reduce the amount of TOT funding that is required to be used for promotion. It should be noted that the Five-Year Financial Outlook assumes that all new TOT revenue will be used to the benefit of the General Fund.

Issues to Consider

The FY 2012 Proposed TOT allocation for Arts & Culture is unchanged at \$7.3 million. This includes \$875,000 for Arts & Culture administration; \$6.2 million in grant funding for arts and cultural programs, activities and festivals; and \$220,000 in funding for Mayor and City Council allocations.

Given the drastic service reductions that have been proposed for libraries and recreation centers, the Council may wish to consider reprioritizing a portion of the Arts & Culture funding. A 10% reduction in the grant funding would free up \$620,000 in ongoing resources. If the \$220,000 in Mayor and City Council allocations were also reprioritized, a total of \$840,000 in ongoing funding could be realized.

General Fund Promotion-Related Funding

General Fund Department	FY 2011 Adopted	FY 2012 Proposed	Change
Park & Recreation	\$ 8,327,867	\$ 11,175,913	\$ 2,848,046
Facilities Division	700,000	700,000	-
Street Division	400,000	400,000	-
Development Services	133,200	133,200	-
Office of the Mayor	149,000	149,000	-
TOT Admin/Various	580,000	580,000	-
TOTAL	\$ 10,290,067	\$ 13,138,113	\$ 2,848,046

TransNet

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for TransNet reflects an \$8.1 million, or 36%, increase from FY 2011. The majority of the increase is due to the receipt of \$6.05 million in onetime revenue related to the Federal American Recovery and Reinvestment Act (ARRA) which provided funding for transportation projects including roads and highways through the Federal Highway Administration. As noted in Volume I (Page 40) of the FY 2012 Proposed Budget, the funding from the federal government was received by SANDAG and then SANDAG transferred TransNet funding to the City of San Diego.

It is important to note that the TransNet Ordinance requires that at least 70% of the revenues (\$16.9 million for FY 2012 with the exclusion of 1% Administration expenses) provided for local streets and roads should be used to fund direct expenditures for facilities contributing to congestion relief. In addition, no more than 30% of the revenue (\$7.2 million for FY 2012 with the exclusion of 1% Administration expenses) should be used for local streets and road maintenance purposes. As noted above, the City is able to reduce 1% of the annual allocation for Administrative expenses.

The FY 2012 Proposed Budget reflects the 70/30 distribution with \$16.9 million (\$15.7 million budgeted in TransNet as CIP Expenditures and \$1.2 million as Congestion Relief) and \$7.2 million (total expenditure

budgeted as Street Maintenance in the TransNet fund). The \$243,933 (1%) related to administrative expenses are budgeted in the Comptroller and E&CP Departments.

In addition to the 30% annual allocation for maintenance, the FY 2012 Proposed Budget includes \$6.1 million in additional funding related to the ARRA. Per Resolution Number R-305177 approved by the City Council on August 19, 2009, 30% of the \$20,168,000 million in funding was to be used in maintenance-related projects. The \$6.05 million has been budgeted as Street Maintenance in the TransNet fund.

One other item of note is the requirement of an annual Maintenance of Effort (MOE). As part of the TransNet Act, each local agency that receives funding is required to annually maintain, at a minimum, the same level of local discretionary funds expended for street and road purposes on average over the last three fiscal years prior to the operative date of the Ordinance (FY's 2001, 2002, and 2003). The MOE level is subject to adjustments every three years based on the Construction Cost Index developed by Caltrans. Any increase in the MOE level is not to exceed the growth rate in the local jurisdiction's General Fund revenue over the same time period. Any local agency that does not meet its MOE requirement in any given year shall have its funding reduced in the following year by the amount by which the agency did not meet its required MOE level. For FY 2012, the City's MOE

Department Review

level is \$22.9 million. The City has identified \$23.0 million in eligible expenses for FY 2012 to meet the MOE requirements. However, it is important to note that any additional reductions in FY 2012 for funds related to street and road purposes could jeopardize the City's MOE funding level.

Department Review

Transportation & Storm Water

The Transportation and Storm Water Department was formed in January 2011. It combined the Street Division of the General Services Department, the Transportation Engineering Operations Division of the Engineering and Capital Projects Department, and the Storm Water Department. The new department is comprised of four divisions:

- Administration and Right of Way Coordination
- Storm Water
- Street
- Transportation Engineering Operations (TEO)

Administration and Right of Way Coordination

The Administration and Right-of-Way Coordination Division is currently in development. It will be responsible for right-of-way

planning, control, and coordination between City departments (Transportation and Storm Water, Engineering and Capital Projects, Development Services and Public Utilities) and divisions, franchise utilities developers, and other private entities that perform work within the right-of-way.

Mayor's FY 2012 Proposed Adjustments

The Division has a proposed FY 2012 budget of approximately \$700,000 and 5.00 FTEs. Three positions were transferred from the Storm Water Division, including 1.00 Department Director, 1.00 Executive Secretary, and 1.00 Supervising Management Analyst. Two positions, including 1.00 Horticulturist and 1.00 Assistant Civil Engineer, were transferred from Street Division.

Storm Water

The Storm Water Division leads the City's efforts to protect and improve our waterways and also ensures compliance with the

SUMMARY OF TRANSPORTATION & STORM WATER DEPARTMENT						
	FTE	PE	NPE	Total	Revenue	
FY 2011 Budget						
Storm Water Department	121.82	\$ 10,367,474	\$ 24,815,965	\$ 35,183,439	\$ 10,091,858	
General Services - Street Division	261.92	20,115,483	28,227,156	48,342,639	32,967,922	
Engineering - Transportation Engineering Division	54.00	5,759,651	1,822,154	7,581,805	8,422,653	
Total FY 2011 Budget	437.74	\$ 36,242,608	\$ 54,865,275	\$ 91,107,883	\$ 51,482,433	
FY 2012 Budget						
Administration and Right-of-Way Division	5.00	\$ 651,585	\$ 50,110	\$ 701,695	\$ -	
Storm Water Division	118.68	10,645,418	23,668,175	34,313,593	8,971,746	
Street Division	258.00	21,068,280	26,429,969	47,498,249	37,571,841	
Transportation Engineering Operations Division	60.00	6,541,800	2,557,870	9,099,670	8,016,385	
Mayor's Fiscal Year 2012 Proposed Budget	441.68	\$ 38,907,083	\$ 52,706,124	\$ 91,613,207	\$ 54,559,972	
<i>Difference from 2011 to 2012</i>	3.94	\$ 2,664,475	\$ (2,159,151)	\$ 505,324	\$ 3,077,539	

Department Review

Municipal Storm Water Permit. The Mayor has made Storm Water Permit Compliance a significant funding area since 2007.

The Municipal Storm Water Permit is updated every five years. Since the program was established, storm water regulations under the permit continue to be significantly revised and expanded.

The current permit is set to expire in 2012 and a new permit will become effective during FY 2013. The Storm Water Department has indicated that costs of complying with future storm water regulations set forth in the Municipal Storm Water Permit could increase, which could place greater strains on the General Fund. While it is expected that all permit requirements will be met in FY 2012, it is important to continue monitoring whether any additional permit requirements are mandated in the future.

Mayor's FY 2012 Proposed Adjustments

As displayed in the table below, the Mayor's FY 2012 Proposed Storm Water Division Operating Budget totals \$34.3 million, which is a decrease of \$870,000 from the FY 2011 budget of \$35.2 million. The proposed FY 2012 funding for the Division's Capital Improvement Program (CIP) is \$2.1

million, which is a decrease of \$447,000 from FY 2011.

Budget adjustments include a reduction in Promotional Advertising of \$750,000. This includes media and other materials for the City's Think Blue campaign. The Municipal Permit requires that an education program be implemented to increase the knowledge of target communities regarding impacts of urban runoff on receiving waters. However, the permit does not specify that the City must expend a particular dollar amount on this activity. Therefore, the Division believes that reductions can be made in this area without jeopardizing compliance with the municipal permit.

A reduction of \$975,000 has also been made in the contracts category with an offsetting reduction to revenues. This is due to a decision by Financial Management to place the existing budgeted expense of \$975,000 for dewatering services for the Convention Center into the Convention Center Fund. Adjustments have been made to both the expenditure and revenue budgets of the Division.

Additional reductions of \$533,000 have also been made to supplies and contracts.

Due to restructuring of the Storm Water Department into a Division in the Trans-

Storm Water Funding			
	FY 2011	FY 2012	
	BUDGET	PROPOSED	CHANGE
Operating Budget	\$ 35,183,439	\$ 34,313,593	\$ (869,846)
CIP Budget	\$ 2,572,304	\$ 2,124,918	(447,386)
Total	\$37,755,743	* \$36,438,511 *	\$ (1,317,232)
*Total does not include anticipated CIP funding in FY 2012 or continuing appropriations			

Department Review

portation and Storm Water Department, 3.00 FTEs have been transferred from Storm Water to the newly created Administration and Right-of-Way Coordination Division.

Department Proposals Not Recommended by Mayor

A reduction that was proposed by the Storm Water Division but not taken by the Mayor included reducing the frequency of street sweeping activities to the minimum required under the Municipal Storm Water Permit.

The permit requires the City to implement high, moderate and low levels of street sweeping services depending on volumes of trash and/or debris generated in various areas. Non-posted residential routes generate the lowest levels of trash and debris and are required to be swept at least once per year. As indicated by the Division, the current street sweeping frequency of these routes is every other month. Reducing the frequency for non-posted residential routes

to permit required levels produce a savings estimate of \$933,000. This would also include a reduction of 7.00 FTE.

After reviewing this option further, it was indicated by Financial Management that implementing a street sweeping reduction would reduce the City's ability to meet the FY 2012 Maintenance of Effort (MOE) requirements that must be met in order to receive TransNet funding.

As discussed in the TransNet section of our Department Review, the TransNet Act requires that each local agency that receives funding is required to annually maintain, at a minimum, the same level of local discretionary funds expended for street and road purposes on average over the last three fiscal years prior to the operative date of the Ordinance (FY's 2001, 2002, and 2003). Any local agency that does not meet its MOE requirement in any given year shall have its funding reduced in the following year by the amount by which the agency did not meet its required MOE level.

SUMMARY OF STORM WATER BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2011 Budget	121.82	\$ 10,367,474	\$ 24,815,965	\$ 35,183,439	\$ 10,091,858
Mayor's Fiscal Year 2012 Proposed Budget Changes					
Salaries & Wages	(0.14)	(134,341)		(134,341)	
Transferring of Positions to Admin and ROW Division	(3.00)				
- Adjustments due to Salary Reductions/Savings/Furlough		243,739		243,739	
Fringe Benefits (incl. Retirement ARC)		168,546		168,546	
Supplies			(305,095)	(305,095)	
Contracts			(263,193)	(263,193)	
Storm Water Public Outreach			(750,000)	(750,000)	
Convention Center De-Watering			(975,000)	(975,000)	(975,000)
Non-Discretionary and Info Technology Adjustments			1,145,498	1,145,498	
Revised Revenue Projections				-	(145,112)
Subtotal	(3.14)	277,944	(1,147,790)	(869,846)	(1,120,112)
Mayor's Fiscal Year 2012 Proposed Budget	118.68	10,645,418	23,668,175	34,313,593	8,971,746
Difference from 2011 to 2012	(3.14)	\$ 277,944	\$ (1,147,790)	\$ (869,846)	\$ (1,120,112)

Department Review

Financial Management has indicated street sweeping efforts are included in the MOE requirement and therefore, the Division must maintain this required level of discretionary funding to comply with the MOE. To avoid jeopardizing this funding source it is not recommended to reduce street sweeping activities at this time.

Cost of Service Study

The City of San Diego currently collects a storm drain fee from water and sewer utility customers for the purpose of reimbursing the General Fund in funding for the operation and maintenance of the City's storm drain infrastructure, including compliance with the Municipal Storm Water Permit.

As a "property-related fee" any modification to the storm drain fee must meet Proposition 218 requirements. To determine an accurate fee calculation, a cost of service study is necessary. A cost of service study includes determining a storm water rate structure that is adequate to fund the City's costs of repairing and rehabilitating the storm water drainage infrastructure and complying with the City's NPDES permit as well as a fee structure that is in conformance with requirements of Proposition 218.

The Department indicated that a Cost of Service Study would be complete in December 2010. The Mayor's Office explained that a preliminary study has been completed but had various technical and legal issues that are being worked through.

Street

Street Division maintains and repairs all streets, alleys, sidewalks, bridges, guardrails and fences; administers annual resurfacing and slurry seal contracts; maintains and repairs street lights and traffic signals; performs traffic lane striping; paints and removes traffic markings and legends; maintains and manufactures traffic signs; and maintains street trees.

Mayor's FY 2012 Proposed Adjustments

The Proposed FY 2012 Budget for Street Division totals \$47.5 million and includes 258.00 FTEs. This reflects a net reduction of \$845,000 from FY 2011. Street Division's FY 2012 estimated revenues for the General Fund total \$37.6 million, which is an increase of \$4.6 million over the FY 2011 budget.

Changes to Street Division revenue include the one-time use of TransNet ARRA funds in the amount of \$6.05 million.

Two positions, including 1.00 Horticulturist and 1.00 Assistant Civil Engineer, were transferred from Street Division to create the Administration and Right of Way Division for the new department.

Budgetary reductions include 1.00 Public Works Superintendent, 1.00 Equipment Technician 2, and 1.00 Welder, for cost savings of \$401,000. Some of these functions will be replaced with a Service Level Agreement with Fleet Services.

Department Review

The proposed budget reflects a net reduction of \$1 million for funds budgeted for Street Lights and Traffic Signals, following a correction to the amounts allocated to each account, and including assumptions related to energy savings due to the City's Broad Spectrum Street Light Conversion Program.

According to a memo issued by the CFO on April 18, 2011, the City issued Qualified Energy Conservation Bonds (QECCBs) for the Broad Spectrum Street Lighting Project in the amount of \$13.1 million to convert approximately 80% of existing low pressure sodium and high pressure sodium street lights citywide to broad spectrum lighting using induction type technology. In addition to the QECCBs, the City will utilize a \$3 million California Energy Commission Loan, and \$2 million in EECBG funds, to fund the total project costs of \$18 million. The project is expected to begin in June 2011 and be completed by August 2012.

Annual street light energy and maintenance costs savings are intended to fund the annual debt service payments on the QECCBs, which are \$1.05 million each year through FY 2026. Bond payments have been budgeted in Street Division in the amount of \$1.5 million. The City will also receive a federal subsidy on the QECCBs of \$473,410, reducing the net payment to \$1.05 million. The City Council previously authorized the program and financing plan on October 14, 2009.

Other significant changes included in the FY 2012 Proposed Budget are the addition of \$428,000 for Information Technology and Wireless Communications Transfers, and an

increase of \$268,000 for the deferred capital bond payment.

Transportation Engineering Operations (TEO)

Mayor's FY 2012 Proposed Adjustments

The FY 2012 Proposed Budget for the Transportation Engineering Operations Division totals \$9.1 million, and includes 60 FTEs. The Division estimates revenues of \$8.4 million.

A significant change to revenues is a \$486,191 increase related to the Red Light Photo Enforcement Program. The revenue increase is due to all 15 Red Light Photo Cameras now being installed and fully functioning. The IBA recommends that a City Council Committee be updated on the status of this program in FY 2012.

Issues to Consider

TransNet Maintenance of Effort

As discussed in the Storm Water Division, the City's analysis of the TransNet Maintenance of Effort requirement shows the expenditure levels reflected in the City's FY 2012 Proposed Budget will meet the City's MOE. Additional budgetary reductions in these areas could jeopardize the City's receipt of TransNet fund, and any changes that may impact the analysis should be carefully evaluated.

Proposal for Sale or Lease of City

Department Review

Street Light System

The IBA was asked to review and analyze information received by the City related to the sale or lease of the City's street light system. The IBA intends to work with the Mayor's Office to evaluate the City's current retrofit plans which are underway, as described in this report. The IBA intends to evaluate the proposal and report to the City Council or one of its committees on the outcome of the review.

Other Departments

Airports

The FY 2012 Proposed Budget for the Airports Division is \$4.75 million, an increase of approximately \$1.4 million from the FY 2011 Adopted Budget. This increase primarily reflects \$1.6 million in additional support for maintenance of facilities, runways and taxiways at the Montgomery Field and Brown Field Airports. These maintenance activities are primarily funded by accumulated fund balance in the Airport Fund. This increase is partially offset by a \$245,000 reduction due to removal of FY 2011 one-time expenditures.

Ethics Commission

The FY 2012 Proposed Budget for the Ethics Commission is \$920,951, a 3% increase from FY 2011. Adjustments to the Ethics Commission's FY 2012 Budget include a 10% reduction to Supplies and Contracts from FY 2011 levels.

In addition, the Proposed Budget includes the reallocation of existing personnel budget for the full-time General Counsel position to non-personnel professional services for a net zero impact to the General Fund. The \$207,000 in reallocated funds will be used to pay for a part-time General Counsel, as well as hearing-related costs including administrative law judges, attorneys, and court reporters. This reallocation

will be implemented on a trial basis; the Commission will revert back to the prior funding arrangement if staff is unable to effectively absorb the duties previously performed by a full-time General Counsel.

Office of the Assistant COO

The FY 2012 Proposed Budget for the Office of the Assistant COO is \$314,088, a \$2,268 increase from FY 2011. No position changes have been made to this office. The FY 2012 Proposed Budget includes a reduction of \$3,766 in supplies and contracts.

Office of the CFO

The FY 2012 Proposed Budget for the Office of the CFO is \$898,254, a \$15,379 decrease from FY 2011. No position changes have been made to this office. The Office maintains \$500,000 of budgeted revenue in FY 2012 attributable to the Corporate Partnership Program under the supervision of the CFO. The FY 2012 Proposed Budget includes a reduction of \$98,806 in miscellaneous professional service contract funding. The CFO indicates these funds have been used for labor negotiations, actuarial and other contracts and the reduction could limit her ability to pay for necessary contractual services in the future. \$261,194 remains budgeted for miscellaneous profes-

Other Departments

sional service contracts in FY 2012.

Office of Homeland Security

The FY 2012 Proposed Budget for the Office of Homeland Security is approximately \$1.8 million, a \$79,278 increase from FY 2011. The Office has 13.40 FTE positions budgeted in FY 2012, a (.11) FTE reduction from FY 2011. An additional \$37,780 of revenue has been budgeted in FY 2012 to fully grant fund 1.00 Administrative Aide 2 position that was .50 funded by the General Fund in FY 2011. Of the Office's 13.40 FTE positions, 10.40 FTE positions are grant funded and the other 3.00 FTE positions are supported by the General Fund. Minor adjustments in hourly personnel funding resulted in the (.11) FTE reduction in FY 2012.

Office of the IBA

The FY 2012 Proposed Budget for the Office of the Independent Budget Analyst is \$1.7 million, a 5% increase from FY 2011. The FY 2012 Proposed Budget includes an 10% reduction to Supplies and Contracts from FY 2011 levels.

Office of the COO

The FY 2012 Proposed Budget for the Office of the Chief Operating Officer (COO) is \$547,273, a decrease of \$206,700 from FY 2011. This Office has been restructured from the Office of the Mayor and COO to the Office of the Chief Operating Officer.

Due to the restructure of this Office the position of the Mayor has been transferred to the newly formed Office of the Mayor. A reduction of \$144,570 has been made which includes personnel and associated non-personnel expenditures for the transferring of this position. Additional reductions to supplies and contracts of \$2,699 have also been made.

Special Events

The FY 2012 Proposed Budget for the Special Events Department is \$586,604, an 8% increase from FY 2011. The changes to the department are related to non-discretionary accounts and are determined outside the department's direct control.

City Retirement System

SDCERS' FY 2012 proposed budget was presented as a non-action item to its Business and Governance Committee and full Board of Administration in mid-April 2011. The Committee and full Board will consider the budget in May 2011. Upon approval by the Committee on May 19, 2011, the full Board of Administration will consider the budget on May 20, 2011.

The City's budget document does not reflect the amounts in the SDCERS proposed budget, as it was not available at the time of publication.

The SDCERS proposed budget is scheduled to be presented as an informational item at the May 12, 2011 hearing of the Budget Review Committee.

SDCERS maintains that its budget is approved by its Board of Administration and does not require approval of City Council. Article XVI, Section 17 of the California

Constitution conveys to the Board "plenary authority and fiduciary responsibility for investment of moneys and administration of the [pension] system." However, per City Attorney's Report to Council 2005-18, the City maintains the authority to examine and audit the Board's accounts and records.

FY 2012 Budget Adjustments

The table below presents a summary of the SDCERS proposed budget, by major category.

The \$45.4 million proposed budget presented to the SDCERS Business and Governance Committee and full Board shows an increase of \$1.0 million, or 2.3%, from the \$44.4 million FY 2011 budget. There are 58.0 budgeted positions.

Investment management expenses represent 66.5% of the total SDCERS budget at

SUMMARY OF BUDGET CHANGES

	FY 2011 Budget	FY 2012 Budget	Increase/ (Decrease)	Percent Change
Salaries and Personnel	\$6,927,000	\$7,133,000	\$206,000	3.0%
Data Processing and Special Projects	2,476,000	2,195,000	(281,000)	-11.3%
Legal/External	2,990,000	2,745,000	(245,000)	-8.2%
General Operations	3,350,000	3,187,000	(163,000)	-4.9%
<i>Subtotal Administration</i>	<i>\$15,743,000</i>	<i>\$15,260,000</i>	<i>(\$483,000)</i>	<i>-3.1%</i>
Investment Management Expenses	28,667,000	30,182,000	1,515,000	5.3%
<i>Subtotal Investment Management Expenses</i>	<i>\$28,667,000</i>	<i>\$30,182,000</i>	<i>\$1,515,000</i>	<i>5.3%</i>
TOTAL	\$44,410,000	\$45,442,000	\$1,032,000	2.3%

City Agencies

\$30.2 million. Investment Management Expenses show a net increase over the FY 2011 budget of \$1.5 million, due to several factors, including projected growth in invested assets; an estimated \$1.4 million increase in fees and consulting costs related to new investments in the infrastructure asset category (including utilities, transportation, and energy sectors); and an estimated \$898,000 increase in real estate fees. These increases are partially offset by anticipated fee reductions resulting from a move toward passive equity and fixed income investments.

The Salaries and Personnel category reflects an increase of \$206,000, due to step increases, promotions and the filling of positions that were vacant for part of FY 2011. There are no general salary increases budgeted. Note that the City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

In the Data Processing and Special Projects category, spending is projected to decline by \$281,000; and in the Legal/External category there is a projected decline of \$245,000 related to fees for outside counsel.

In addition to the operating budget, SDCERS also presented a proposed capital budget to its Business and Governance Committee and full Board of Administration. The capital budget is increasing from approximately \$1.4 in FY 2011 to \$2.4 million in FY 2012, with \$2.1 million budgeted for the pension administration system re-

placement project. Note that the Board has approved spending up to \$6.6 million for the new system (including the \$2.1 million budgeted for FY 2012).

Other Issues

SDCERS Staff submitted a benchmark study of comparable public pension systems to the Board on April 15, 2011. One overall observation presented was that SDCERS is neither the highest nor lowest total cost system. It was noted that legal, insurance, actuary and rent costs were generally higher than the other systems, while relative investment fees were generally lower.

City Agencies

San Diego Data Processing

The Fiscal Year 2012 Budget of the San Diego Data Processing Corporation (SDDPC) was approved by its Board of Directors on April 6, 2011. The SDDPC Budget is developed based on the Information Technology needs and requirements of all City Departments, and other non-City customers.

The FY 2012 Budget for SDDPC totals \$40.3 million, an increase of approximately \$704,000 or 1.8%, and a reduction of 18 positions, compared to FY 2011. City funding to SDDPC (excluding SDCERS) represents approximately 84% of total revenues.

The City continues its efforts to seek competitive bids for the services currently provided by SDDPC, and City Council approval was recently received for the Information

Technology Sourcing Strategy and a two-year extension of the current Help Desk & Desktop Support agreement with En Pointe Technologies, Inc. On April 15, 2011, the City issued a Requests for Proposals for the remaining Information Technology services currently provided by SDDPC. Proposals are due June 2, 2011. Providers selected from this process are expected to begin providing services as early as June 2012. The SDDPC budget for FY 2012 reflects the continuation of its relationship with the City for the entire fiscal year. The FY 2012 SDDPC Budget includes additional resources to seek additional customers other than the City of San Diego, in an effort to target other city and municipal departments, as well as commercial customers.

SUMMARY OF SDDPC BUDGET CHANGES				
	FY 2010	FY 2011	FY 2012 PROPOSED	Budget Change
Personnel (FTEs)	280	233	215	(18)
Salaries & Wages	20,230,000	17,607,826	16,971,927	(635,899)
Overtime	166,000	131,447	162,031	30,584
Fringe Benefits	6,604,000	6,119,850	5,758,635	(361,215)
<i>Subtotal</i>	\$ 27,000,000	\$ 23,859,123	\$ 22,892,593	\$ (966,530)
Non-Personnel				
Data/Voice Circuits & Lines	4,556,000	4,001,906	4,351,481	349,575
Professional Services	1,457,000	1,079,472	3,050,498	1,971,026
Equipment & Software Maintenance	5,367,000	4,921,099	4,196,876	(724,223)
Depreciation	4,985,000	3,995,632	4,102,237	106,605
Facilities	1,092,000	1,134,700	1,057,594	(77,106)
Supplies & Others	770,000	631,829	676,151	44,322
<i>Subtotal</i>	\$ 18,227,000	\$ 15,764,638	\$ 17,434,837	\$ 1,670,199
TOTAL	\$ 45,227,000	\$ 39,623,761	\$ 40,327,430	\$ 703,669

The Office of the Independent Budget Analyst



Andrea Tevlin
Independent Budget Analyst



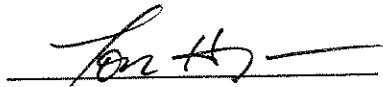
Jeffrey Sturak
Deputy Director



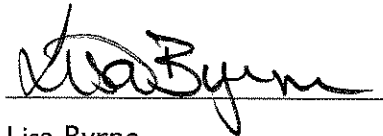
Elaine DuVal
Fiscal & Policy Analyst



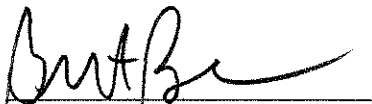
Jeff Kavar
Fiscal & Policy Analyst



Tom Haynes
Fiscal & Policy Analyst



Lisa Byrne
Fiscal & Policy Analyst



Brittany Bermingham
Research Analyst