

**OFFICE OF INDEPENDENT BUDGET ANALYST
CITY OF SAN DIEGO
M E M O R A N D U M**

No. 06-9

DATE: May 26, 2006

TO: City Council President Scott Peters and City Council Members

FROM: Andrea Tevlin, Independent Budget Analyst

SUBJECT: Final Recommended Modifications to the Fiscal Year 2007 Budget

On Wednesday, May 24, 2006, the Budget & Finance Committee had its final meeting to consider the FY 2007 Proposed Budget. The action of the Committee was to tentatively approve the recommendations of the IBA as contained in IBA Report 06-26 and forward recent City Attorney and CFO information to the IBA for analysis. The motion was passed by a vote of 4-1 by the Committee with Council Members Faulconer and Hueso also supporting the action.

This memo summarizes the proposed action for the City Council's budget deliberation on May 30 and provides further analysis and information as requested by the committee.

IBA Report 06-26

The Committee supported the recommendations as provided in the IBA report dated May 19. Attachment I to this memorandum is provided to summarize these proposals. Since the publication of the May 19 report, the IBA has been informed that Tweet Street Park, which will be completed in FY 2007, will require funding of \$33,071 and 0.33 Grounds Maintenance Worker. As recommended in the IBA report, this funding should be included in the FY 2007 Budget. Attachment I to this report reflects the IBA recommendations from May 19, modified to include this expense. A corresponding reduction has been identified in the contribution to the General Reserves.

CFO's Technical Corrections

The CFO presented a final list of technical corrections via his memo of May 23 (Attachment II). The corrections result in an additional \$652,384 available in the General Fund. In addition, the CFO has captured the Council-approved payment by CCDC as a revenue of \$620,000.

The IBA has reviewed the items recommended for inclusion in the FY 2007 budget as introduced by the CFO. The IBA recommends that the CCDC payment of \$620,000 be approved, as well as the items as listed on Attachment 1 to that memo, with the following exceptions:

1. Line item 5 for Community & Legislative Services: Remove \$127,706 in revenue from the Water Department due to elimination of the Binational Affairs Liaison to Mexico Service Level Agreement with the Water Department, as identified in the Chief Financial Officer's May 23,

2006 Memorandum to Councilmember Frye.

2. Line item 4 for Citywide Program Expenditures: this should be modified to reflect a reduction of (\$243). The funding correction for Accessible San Diego is already accounted for in the IBA's report 06-26, so approving this item would "double count" that funding. However, this reduction of (\$243) in the transfer to Special Promotional Programs is still required because the Proposed Budget inadvertently transferred excess funding to Special Promotional Programs.

The CFO has also provided a summary of departments and activities that have been restructured for FY 2007 (see Attachment II).

Service Level Agreement Modifications

It is clear that the City of San Diego must reform its practices with respect to the use of Service Level Agreements (SLAs). In response to the finding of a Grand Jury investigation of the Water and Sewer Enterprise Funds, the Mayor has recommended elimination of several SLAs that currently provide revenue to the General Fund. It is not appropriate to continue to budget this revenue in light of the reforms that must be enacted. However, a full report has not yet been made to the City Council on the grand jury findings, current proposed actions, or strategies for future actions. As previously recommended by the IBA, the City Council should be briefed on these plans, to include a comprehensive package of reforms that require City Council approval. Nevertheless, the IBA does support the recommendation made in the CFO's May 23rd memo (Attachment II) to take immediate steps to eliminate practices that are deemed to be inappropriate in the FY 2007 Budget. As a result, approximately \$3.0 million in revenue from Enterprise Funds that is currently budgeted in General Fund Departments will be removed. In addition, the elimination of these SLAs should result in corresponding expenditure savings for all of the appropriate Non-General Fund Departments.

In accordance with the recommended modifications described above, the CFO's memo proposes to remove all of the Water Fund revenue to the Park and Recreation Department for the operations of concessions at reservoirs. While the memo does not recommend removal of the associated General Fund expenditures in the Park and Recreation budget, the Mayor's Press release of May 15 states that the Water Department will establish a contract with a vendor to operate these concessions by June 1 and through September 30, and that a long-term cost-neutral program through a private vendor should be in place after that. Since Park and Recreation will no longer operate these concessions in FY 2007, the expense of that operation should be removed as well. The IBA recommends removal of 19.58 FTE and \$1,692,858 from the Park and Recreation budget. The savings realized through this action should be redirected to the General Fund Reserve. The Park and Recreation Department is in the process of placing staff that formerly operated reservoir concessions into vacancies elsewhere in the Department.

All other impacts to existing programs that result from the loss of revenues associated with the SLA corrections should be reported to the City Council.

Final General Fund Modifications

The table below summarizes the recommended actions taken above, and directs excess available funds to the General Reserves.

GENERAL FUND MODIFICATIONS		
	<u>Expense</u>	<u>Revenue</u>
IBA Recommended Modifications Report 06-26	(\$364,665,820)	(\$364,665,820)
Add'l IBA Recommended Modifications (Tweet Street)	\$33,071	-
CFO Technical Modifications (as recommended by IBA)	\$536,032	\$1,072,422
CCDC Revenue	-	\$620,000
SLA Revenue Adjustment (as recommended by IBA)	-	(\$2,842,201)
SLA Expenditure Adjustment (Reservoir Concessions)	(\$1,692,858)	-
Adjustment to General Fund Reserve	(26,024)	
Subtotal Revised Modifications	(\$365,815,599)	(\$365,815,599)

If approved as proposed, the final contribution to the General Reserves will be as follows:

IBA Recommended General Reserve Contribution (Report 06-26)	\$7,226,121
Adjustment to General Fund Reserve (see above)	(26,024)
Final Proposed General Reserve Contribution	\$7,200,097

Deferred Maintenance Projects

The IBA recommends that the City Council adopt the attached list of deferred maintenance projects (Attachment III) to be executed in FY 2007 with the \$10.6 million available in the Proposed Budget. Of the Mayor's original plan for \$20 million funding for deferred maintenance projects, the General Services Department has created a prioritized list of projects totaling \$10.6 million.

Environmental Growth Fund Projects

In accordance with Report 06-26, the IBA recommends that the City Council appropriate funds from

the balance of the Environmental Growth Fund 2/3. This onetime source of revenue could be utilized for one or more projects that preserve and enhance the environment. The Park and Recreation Department has identified a prioritized list of needs for City Council consideration (Attachment IV). The IBA recommends that the City Council approve these projects to be included in the FY 2007 Budget.

Funding for Police Recruitment and Retention

The City Council recognizes that the recruitment and retention of Police Officers is critical to public safety in the City of San Diego. Currently, a comprehensive recruitment and retention plan has not been identified by the Police department. The Police Chief has indicated that a plan is forthcoming and will be presented to the Public Safety & Neighborhoods Services Committee in June. The IBA recommends that funding not be allocated for recruitment and retention until a specific action plan is brought forward by the Mayor and Police Chief, and is approved by Council. We recommend this be done as soon as possible. If the City Council deems the recruitment and retention plan acceptable, then funding should be identified for these efforts from additional General Fund revenues or reserves.

Arts & Culture Council Discretionary Funds

The IBA continues to recommend that funding not be increased or reallocated at this time to augment City Council discretionary funding. Consistent with the "time-out" approach suggested by our office, it is not recommended that major reductions or additions to programs be implemented in FY 2007. The policy objectives of the Special Promotional Programs, including Arts & Culture funding, should be discussed in anticipation of the FY 2008 budget process.

QUALCOMM Parking Fee Increase

Consistent with Report 06-26, the IBA recommends that the issue of parking fees at QUALCOMM be revisited by the City Council as soon as possible. This item has been docketed for Tuesday, May 30th. If parking fees are increased, the General Fund subsidy for that stadium would be reduced, freeing up approximately \$312,000 for the General Fund Reserve.

Take Back the Streets

In IBA Report 06-26, we recommended including \$300,000 for the Alpha Project's Take Back the Street Program. If this recommendation is approved, the Environmental Services Department will administer the contract with the Alpha Project, and will make recommendations to the City Council regarding the types of services and the service areas that will be covered by the Program.

Retirement System Proposed Additional Positions

At the Budget & Finance Committee Meeting on May 24th, the Retirement System Administrator, David Wescoe, informed the committee that he will be asking that the Retirement Board of Administration approve the addition of several new positions to the Retirement System Administration

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budget. Three of these positions currently exist in the City Auditor & Comptroller's budget. Since the Retirement Board is not scheduled to review or approve the Administrator's Proposed Budget prior to the passage of the City's budget, the IBA does not recommend the removal of the positions and associated revenue from the Auditor's budget at this time. However, should the Retirement Board approve the addition of these positions, they should be removed from the Auditor's budget at the next opportunity.

Non-General Fund Modifications

This memorandum has largely been focused on General Fund modifications. However, there are several Non-General Fund modifications that were identified by the CFO in his May 23rd memo, and are recommended by the IBA. Refer to Attachment II for more information on these modifications.

[SIGNED]

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Attachments