

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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Item Number: 200

Item: City Council Budget Priorities for Fiscal Year 2008

OVERVIEW

City Charter Section 265(b)(15) requires the Mayor to propose a budget to the City Council and the public by April 15 of each year. The City Council then holds public hearings prior to adopting or modifying the proposed budget before returning it to the Mayor. The Mayor – City Council Transition Committee also recommended that the City Council adopt by resolution its budgetary priorities for submission to the Mayor by February 1 of each year, and the City Council added this step in the process beginning in 2006.

City Councilmembers were requested to submit to the Budget and Finance Committee Chair, Toni Atkins, their priorities for the Fiscal Year 2008 budget by January 22, 2007. These priorities memoranda are intended for discussion and referral to the full City Council and submission to the Mayor. In addition, on January 17, 2007, the entire City Council participated in a two-hour facilitated Strategic Budget Prioritization Process, utilizing polling technology, which quickly and anonymously evaluated Councilmembers' perspectives, in the aggregate, on key City services, critical issues and possible budget solutions.

The purpose of this report and accompanying resolution are to convey to the Mayor the Fiscal Year 2008 budget priorities established by each City Councilmember via their memorandum; to submit the results of the Strategic Budget Prioritization Process to the Mayor; and to discuss the approach that the Office of Independent Budget Analyst (IBA) recommends for preparing a balanced budget for Fiscal Year 2008. The IBA recommends that the City Council endorse the approach outlined below and submit to the Mayor the individual memoranda from each Councilmember, along with the results of the prioritization process, and the accompanying resolution.

DISCUSSION

A.) **Submission to Mayor of Results of Strategic Budget Prioritization Process**

The City Council participated in a visioning process for the first time to discuss future City budget priorities to provide guidance to the Mayor and the City organization in advance of the Fiscal Year 2008 Budget Development Process. The two-hour facilitated Strategic Budget Prioritization Process utilized polling technology to quickly and anonymously evaluate Councilmembers' perspectives, in the aggregate, on key City services, critical issues and possible budget solutions. Attachment 1 to this report contains the Polling Results of the City of San Diego City Council Budget Prioritization Process, as prepared by Strategic Initiatives.

The strategic assessment of City services allowed Councilmembers to rate the long-term importance and current performance of key General Fund services. "Police Services" and "Fire-Rescue Services" on average are considered the most important and are performing well. The performance of "Regular Trash Collection Services" was rated very well by all Councilmembers. The performance of other services such "Park & Recreation Services", "General Services – Streets Division", "City Planning Services", and "Neighborhood Code Compliance" ideally should be improved, based on the results of the polling. It was noted that funding constraints impact the performances of some of these areas.

In assessing the critical issues facing the City, results of the Strategic Budget Prioritization Process indicate that "funding the pension obligation" received the most support for funding followed by "addressing deferred maintenance & capital improvements" and "police officer recruitment and retention."

Based on the results of the polling, on the average, the Councilmembers expressed preferences to pursue alternative revenue enhancement strategies including "new or renegotiated leases" and "program cost-recovery" while indicating "across-the-board percentage reductions, "new or increased taxes" and "land sales" were least preferred options.

B.) **Submission to Mayor of Individual City Council Budget Priorities Memorandum**

Several Councilmembers indicated in their Budget Priorities Memorandum for Fiscal Year 2008 the need to adequately fund public safety, retirement contributions, retiree health, deferred maintenance, and various park and library services, among other things. Additionally, many Councilmembers discussed the

need to maintain or enhance current service levels, either Citywide, or for specific targeted programs. Attachment 2 to this report contains the City Councilmembers Budget Priorities Memoranda for Fiscal Year 2008.

C.) Results of Mayor’s “Customer SERvey”

The City offered its first on-line customer satisfaction survey on the City’s website in June 2006. The “Customer SERvey” contained 38 questions about satisfaction related to a wide range of City services, programs and initiatives. The results of the on-line survey were presented to the Natural Resources & Culture Committee on January 24, 2007. One area highlighted as needing improvement and ranked greatest in dissatisfaction was the maintenance of City streets, with 75% of respondents indicating either “dissatisfied” or “very dissatisfied” while it varied by Council district. Other areas of community concern include sidewalk maintenance and graffiti control and removal. These results should also be considered by the Mayor when making budget recommendations.

D.) City Council Request of Mayor to Provide Program Service Levels for the Fiscal Year 2008 Proposed and Final Budgets

It is anticipated that the Fiscal Year 2008 Proposed Budget will include proposed reductions to current City services and programs in order to balance the budget. The expected impacts to those services and programs should be described in sufficient detail to allow the City Council and members of the public to understand how services and programs may change in the year ahead.

Service levels, also known as performance measures, identify for the citizenry the programs/service delivery/activities that will be performed based on a specified level of funding provided in the annual budget.

The City of San Diego’s Annual Fiscal Year 2006 Budget contained a section entitled “Service Level Impacts”, where service level impacts due to the proposed reductions were identified by department. Specific examples of service level impacts from the FY 2006 budget that illustrate the kind of information that is requested include:

Neighborhood Code Compliance

“The reduction of 5.00 positions and \$563,205 will result in only responding to minor violations that have community-impact, or pose a threat to health and safety. Examples of complaints that will no longer be addressed include noise affecting a limited number of people, over-height fences, and signs and storage not viewable from the public right-of-way. This reduction will decrease minor

violations resolved each year by approximately 150 and add to the current backlog in this section of over 750 cases.”

Community Parks

“The reduction of 10.00 Assistant Center Director positions will result in a reduction of operating hours for recreation centers currently operating 48 hours per week, down to 40 hours per week.”

“Due to the reduction of 9.75 Assistant Recreation Center Director positions, 2.50 Swimming Pool Manager I positions (and the addition of 0.83 Pool Guard II), all recreation centers currently operating 48 hours per week will be reduced to 40 hours per week...In addition, all of the pools except Ned Baumer Miramar Aquatic Center, Clairemont, Memorial, and Vista Terrace will be closed for three and a half months during the fiscal year.”

General Services – Street Division

“Reduction in the Street Sweeping Program of 5.00 Motor Sweeper Operators...will impact residential street sweeping services; routes that currently receive monthly service will be reduced to once every other month.”

Providing this type of information will ensure transparency in decision-making on the budget, since it allows all parties to understand and agree to what services will be provided with the money allocated. It allows citizens to have clear expectations for the expenditure of their tax dollars. The IBA recommends that the City Council request that service level information be provided by the Mayor in the Fiscal Year 2008 Proposed and Final Budgets.

The majority of Councilmembers indicated maintenance of several City service areas in their budget memorandum. The Council will need this service level information to be able to evaluate any proposals that alter service levels.

E.) Continuation of Fiscally Cautious Approach

For Fiscal Year 2007, the IBA recommended a year of “time out” to give the Mayor and City Council the opportunity to understand and review current budget policies, receive an accurate assessment of unfunded needs, identify current and future expenditure requirements, and address many of the issues that have plagued past City budgets. The time out approach set forth that the Fiscal Year 2007 Budget include no new programs, and that funding priorities be given to fiscal and legal obligations.

We recommend that this fiscally cautious approach continue for Fiscal Year 2008 given the significant needs already identified that are competing for very limited

resources. Just as we noted last year, this is not in any way intended to diminish the importance of the specific service and program needs identified by individual Councilmembers. These services and programs are extremely important to the community but the priority for the upcoming fiscal year must again be on addressing the most critical financial issues before other funding needs can be considered.

F.) City Council Request of Mayor to Provide Critical Information Related to Five Year Financial Outlook and Budget Process

Specific information related to the corrective actions and funding priorities contained in the Financial Outlook is required in order to determine the viability of these options for inclusion in the Fiscal Year 2008 Proposed Budget. The IBA recommends that the Mayor provide in advance, if available, or include in the Proposed Budget, sufficient information to be able to critically assess these options and to provide the City Council sufficient time to thoroughly explore the options and any impacts or ramifications on City operations or services to the public.

The IBA recommends that all necessary Council actions to implement these options be brought forward at the time of the budget adoption, and prior to July 1, 2007. In cases where further work is needed, it is recommended that those options and the related budget impacts not be included in the Fiscal Year 2008 Budget, or that specific expenditure items be contingent on the receipt of these funds.

Documentation is needed related to the specific assumptions utilized to estimate amounts contained in the Financial Outlook, specifically in the:

Eight Significant Areas

Information is needed detailing specific projects, cost estimates and timing of implementation for:

- ✓ Deferred maintenance/capital improvements
- ✓ Americans with Disabilities Act (ADA) projects

General Fund Corrective Actions

Information is needed describing the specific departments to be impacted, the expected timing of implementation, impacts to Meet and Confer negotiations, and possible service level changes or community/business impacts related to the:

- ✓ Elimination of positions
- ✓ Business Process Reengineering and Streamlining
- ✓ Employee Benefit Adjustments Furlough
- ✓ Budget Clean-up

- ✓ Establishment of Property Business Improvement District
- ✓ Leveraging Assets/New Leases

In terms of budget and budget estimates, the probability of an outcome of a particular proposal should govern its budget treatment. If there is a high probability that certain revenues will not be received within the fiscal year, then it is more appropriate to present the most likely scenario in the budget. If there is a high probability that the revenues will be received within the fiscal year, then it is appropriate to include them in the budget.

Another factor to consider is the need for Council authorization to implement certain corrective actions. Generally, the City Council should fully consider specific proposals, such as the Property Business Improvement District and land sales, which may be considered controversial, in advance of the budget deliberations and adoption.

RECOMMENDATION

The IBA recommends that the City Council endorse the approach outlined in this report and submit to the Mayor the individual memoranda from each Councilmember, along with the results of the prioritization process, and the accompanying resolution.

[SIGNED]

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[SIGNED]

APPROVED: Andrea Tevlin
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Attachments:

1. "Polling Results of City of the San Diego City Council Budget Prioritization Process"
2. City Council Budget Priorities Memoranda