OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA REVIEW OF THE MAYOR'S PROPOSED FY2010/2011 BUDGET SOLUTIONS

INTRODUCTION

On November 24, 2009 the Mayor issued a plan to address a FY 2011 General Fund deficit of $179 million as projected in his October Five-Year Financial Outlook FY 2011-2015. The Mayor's report requests Council approval of budget amendments for FY 2010 of $24.5 million and approval of a resolution to implement budget solutions of $154.6 million for FY 2011.

The IBA supports the Mayor's overall plan for FY 2010 and FY 2011 to address the immediate shortfall recognizing it as another critical step toward immediate financial survival and ultimately long-term financial stability. The Mayor's proposal provides an 18-month "bridge" so the City can work to achieve further structural reforms. We further agree with the urgency of Council approval and timely implementation in order to minimize more employee layoffs and further service cuts to the community.

The FY 2011 budget is balanced to the Mayor's projected $179.0 million deficit through one-time solutions of $96.5 million and recurring resources of $82.6 million resulting from budget reductions and revenue increases. The IBA acknowledges that the use of one-time funds is generally not an effective budgeting solution. Our Office initiated the first serious discussion of this matter in IBA Report 08-14 issued February 14, 2008, "City of San Diego Structural Budget Deficit". This was the first internal report that made the case that the City is indeed facing a structural budget deficit characterized by a persistent pattern of ongoing expenditures exceeding ongoing revenues, even in healthy economic conditions.

We have since emphasized on numerous occasions and in a multitude of reports the need for structural changes to effectively address the City's fiscal challenges. We recognize that structural change - such as the pension reform put into place for new employees - does not happen overnight. Structural changes take time, effort, education and consensus building to effectuate. We have also noted that in an economic crisis one-time resources have their place:

> *"Some one-time or short-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."- IBA Report 08-118 issued November 17, 2008*

We also realize that the City exists for the sole purpose of providing services to our citizens and we are therefore obligated to do so. If the Mayor's plan is implemented, the City of San Diego will have the fewest number of General Fund employees per 1,000 population in the last 41 years (as shown in the chart below); yet the City will continue to provide core services to its residents. One-time resources in this economic climate are allowing the City to provide critical services until further structural reforms can be implemented. Structural changes are the key to the City's long-term financial stability.

General Fund Employees Per 1,000 Population

Year	General Fund	City Population	General Fund Employees Per 1,000
1970	4,570	697,027	6.56
1980	5,246	875,538	5.99
1990	6,565	1,110,623	5.91
2000	6,650	1,223,400	5.44
2005	6,955	1,300,343	5.35
2010	7,397	1,371,000	5.40
2011 (Proposed)	6,915	1,365,130	5.07

In our review of the Mayor's proposal we have analyzed all of the Mayor's one-time and ongoing solutions and all of the proposed reductions and revisions. While we support the Mayor's plan overall, we have raised a number of issues where we believe more discussion and consideration of the matter is warranted. In other areas, we have clarified or provided additional information for the Council and the public where determined necessary.

We have also addressed several important areas that were not fully discussed in the Mayor's report including: General Fund Revenue Analysis; Service Impacts; Meet and Confer Issues; Risks to the Mayor's Proposal; and Structural Budget Deficit and

Structural Reforms. Finally, along with recommending Council support of the Mayor's budget proposal, we offer 24 recommendations for Council consideration in the following areas:

-Programmatic Budget Reduction Proposals
-Technical Budget Issues
-Budget Process
-Monitoring of Service Level Impacts
-Citizen Input
-Structural Reforms

REVIEW OF NON-PROGRAMMATIC SOLUTIONS

Adopt Parking Utilization Study
$2.6 million (Ongoing Resource)

On October 7, 2009, staff presented a proposed Parking Meter Utilization Improvement Plan to the Budget and Finance Committee. The Committee recommended that the proposal be forwarded to the City Council for consideration; however, the implementing ordinance has yet to be docketed. City Planning and Community Investment Department staff has informed the IBA they anticipate docketing this item for City Council in January 2010.

Drawing from staff research and favorable results from the 2004 Downtown Parking Pilot Program, the proposed ordinance would establish an optimal target utilization rate of 85% for parking meters. In an effort to achieve the target utilization rate, the ordinance would authorize variable rate pricing (ranging from $.25 to $2.50 an hour) and flexible operating hours (within the range of 7 days a week between 7 a.m. to 11 p.m.). As proposed, parking advisory boards for the City's respective Community Parking Districts, in collaboration with City staff, would analyze utilization/occupancy data and make recommendations for adjustments to meter rates, time limits, and hours of operation to achieve the target utilization rate. Based on staff analysis to date, contemplated changes to City parking meters would increase annual parking meter revenue by $2.6 million.

In response to a question from Councilmember Lightner, the Office of the City Attorney addressed the proper use of funds generated by the City's parking meters in a memorandum dated April 29, 2009. The memorandum detailed numerous parking related expenses (regulation and control of traffic, enforcement, street signage, maintenance, etc.) in parking meter areas which are appropriate for the use of parking meter funds. Budget and Finance Committee members requested that staff analyze and provide qualifying parking related expense data for new parking meter revenue before bringing the proposed ordinance to City Council. Staff indicates they are currently working with the City Attorney's office on the list/scope of eligible expenses and plan to incorporate this information into their January 2010 staff report to the City Council.

As was mentioned at the Budget and Finance Committee meeting, this proposal is intended to increase parking meter space utilization by the public and support commercial district. Given these objectives, community participation in the proposed changes, and the potential for increased revenue, the IBA supports City Council consideration of this proposal provided that 1) staff identifies how these revenues plan to be utilized as requested by the Budget and Finance Committee in October 2009 and 2) the plan is consistent with the City Attorney's Office memorandum on this matter.

Adjustment to Pension Annual Required Contribution (ARC)

FY 2011 - $9.7 million (Ongoing Resource)

The $9.7 million estimated reduction to the FY 2011 ARC budgeted in the FY 2011-2015 Five-Year Financial Outlook is reasonable based on currently available information. This estimate is based on negotiated salary freezes for FY 2010 but includes neither the effects of interest rate reductions for Deferred Retirement Option Plan (DROP) accounts nor the offsetting effects of greater than anticipated retirements at FY 2009 year-end. The San Diego City Employees' Retirement System actuary, Cheiron, will release the actual FY 2011 ARC figure in mid-December, which can then be budgeted accordingly. Any adjustments related to ARC, we recommend be included in Mayor's April 15th FY 2011 Proposed Budget.

City Administration Building (CAB) Sprinklers

FY 2011 - $5.5 million (One-Time Resource)

The Mayor's proposed FY 2010/2011 budget solutions include the indefinite postponement of the installation of fire sprinklers and spot asbestos treatment for CAB. This would result in a one-time savings of $5.5 million.

On March 10, 2009 the City Council approved extending the required compliance date for sprinkler retrofitting of high rise buildings to February 1, 2010. Currently, the City Administration Building (CAB) lacks a fire sprinkler system on ten of the building's fifteen floors. As part of the motion that was approved on March 10th, the City Council required the Mayor to issue a Request for Proposal (RFP) to install sprinklers in CAB by June 1, 2009. In addition, the City Council required the Mayor to return to the City Council with a report on the Civic Center Complex Redevelopment and retrofit by December 1, 2009.

On October 12, 2009 the City Council approved the execution of an Exclusive Negotiation Agreement with Gerding Edlen Development Corporation for the development of the Civic Center Complex including a new City Hall. CCDC staff estimates that negotiations with Gerding Edlen should be completed by May 2010. In light of the on-going negotiations with Gerding Edlen, and the funding of the sprinklers would require additional service level reductions, the IBA agrees with postponing the installation of the sprinklers. The delay of the installation of fire sprinklers in CAB has been a known risk for many years and will continue to be so, but progress has been made recently on providing the City with a long-term solution for the facility.

De Anza Operating Fund Transfer

FY 2011 - $7.5 million (One-Time Resource)

As part of the one-time release of undesignated fund balances, the Mayor has proposed to transfer $7.5 million in surplus fund balance from the De Anza Operating Fund to the General Fund. The De Anza Operating Fund was established to fund the transition plan for relocation of residents living in the De Anza mobile home park.

In November 2003, the property at De Anza Point in Mission Bay Park was returned to the City by the previous leaseholder, De Anza Harbor Resort and Golf (DHRG). At that time, the property was being used primarily as a permanent mobile home residential park. In the late 1970’s, the City Attorney opined that the use of State tidelands and dedicated park for permanent private residences was not a legal use. In 1981, recognizing the hardships to residents that would have resulted from immediate relocation, the State adopted legislation that permitted continued residential use at De Anza until November 23, 2003, when the lease with DHRG was scheduled to expire.

To be consistent with the State legislation, the City approved a lease amendment with DHRG in 1982 that required the use of the property as a residential mobile home park to cease upon lease expiration. However, as expiration of the lease approached, the City was unable to reach an agreement with DHRG for the removal of tenants and structures from the property. As a result, the property was returned to the City, and a transition plan was approved in November 2003 to facilitate the departure of the mobile home residents, removal of the mobile homes, and return of the property to legal park and recreation use.

As part of the transition plan, De Anza residents were allowed to select from a series of scheduled departure dates, beginning November 23, 2003 through May 31, 2008. Residents would be responsible for the removal of their units (with the exception of income-qualified residents who would receive financial assistance), but would receive a cash payment of $4,000 to $8,000 from the City, depending on the selected departure date. Until departure, residents would be required to continue paying their current monthly rent. In addition to the expenses associated with the cash payments and financial assistance for income qualified residents, the City anticipated significant expenses related to maintenance and repair of damaged gas, electrical, water and sewer lines; improvement of safety and security on the property; and oversight of the proper removal of units. These maintenance and repair efforts are summarized in City Manager Report 04-111.

Currently, the City contracts with Newport Pacific Capital Company for the day to day operation and management of the De Anza Mobile Home park, including accounting, billing, collections, resident legal compliance services, litigation support, maintenance, on-site staffing, and operation and management of the recreational vehicle park ("RV Park") area. Newport Pacific collects all rental payments and revenues from the RV Park, and remits net revenues to the City once all expenses and management fees are paid. These revenues then accrue to the De Anza Operating Fund, which has built up a significant unobligated fund balance over the past several years.

Any current or future expenses related to the relocation of De Anza residents, which has been largely held up by pending litigation, will be funded out of a separate De Anza Settlement Fund.

Deferred Maintenance Debt Service

FY 2011 - $3.6 million (One-Time Resource)

The Mayor's proposed FY 2010/2011 budget solutions includes the use of $3.6 million from the Capital Outlay fund to pay a portion of the estimated $9.5 million in deferred maintenance bond debt service scheduled for FY 2011.

On March 19, 2009 the City executed a private placement Bond Purchase Agreement for $102.7 million. Before the end of FY 2010, staff plans to bring proposed actions/ documents to the City Council to facilitate refinancing the initial $102.7 million private placement bonds with more traditional long-term bonds sold in the public capital markets. This switch from shorter-term debt with interest only payments to longer-term debt with annual principal and interest payments is estimated to increase annual debt service from $4.9 million to $9.5 million. It is important to note that $4.9 million was included in the FY 2010 Adopted Budget to cover the interest only payments for the initial private placement bonds.

Revenue for the Capital Outlay fund is derived from the sale of public properties. As detailed in Charter Section 77, funds from the Capital Outlay fund can only be used for:

> *"…the acquisition, construction, and completion of permanent public improvements, including public buildings and such initial furnishings, equipment, supplies, inventory and stock as will establish the public improvement as a going concern. This fund may also be used for the acquisition, construction and completion of real property, water and sewer mains and extensions, and other improvements of a permanent character and also the replacement or reconstruction of the same, but not the repair or maintenance thereof, and shall*

not be used for any other purpose or transferred from said fund, except with the consent of two-thirds of qualified electors of said City, voting at a general or special election."

Since FY 2008, $53.9 million has been budgeted in revenue from the sale of underperforming City properties to address facilities ($23.9 million) and ADA ($30.0 million) improvements through FY 2010. As of November 2009, only $26.5 million of City property sale proceeds has been realized. Staff has stated that due to the availability of the deferred maintenance bond funds for facilities, revenue generated from land sales has been prioritized for ADA projects. Staff has also stated that by obligating $3.6 million of land sale proceeds for the bond debt service payment, less funding will be available for ADA projects. However, it is unclear what planned ADA projects will not be funded due to this action.

The City's Financial Management Department recently asked the City Attorney's Office to review the use of Capital Outlay funds to pay debt service on the Deferred Maintenance Bonds. The City Attorney's Office concluded that the use of the Capital Outlay Fund to pay the principal portion of the debt service (not the interest) for Deferred Maintenance Bonds falls within the purpose for which the Capital Outlay Fund was created and is therefore an appropriate expense. The Debt Management Department has estimated the principal portion of the total $9.5 million debt service to be approximately $3.25 million. (This is an estimate and actual debt service numbers could change up or down by the time the bonds are priced in late FY 2010.) If interest rates remain at current levels, the proposal to use $3.6 million of Capital Outlay funds for deferred maintenance debt service in FY 2011 is overstated by approximately $375,000. The difference will have to be found elsewhere in the General Fund possibly requiring additional service level reductions for FY 2011.

One other item for the City Council to consider is that the Mayor's Five-Year Outlook proposes an additional $110.0 million in Deferred Maintenance Bond financing late in FY 2011, with debt service payments starting in FY 2012. It is worth noting that the proposal to use Capital Outlay funds to reduce the General Fund debt service burden is presented under the Ongoing Expenditure Reductions section of the staff report. The proposal suggests the City's continued use of one-time revenue sources (land sales) to partially cover debt service for longer-term capital improvement projects. The IBA suggests one-time revenue sources are not appropriate to cover long-term debt service obligations. If this same practice were to be envisioned for the planned FY 2011 Deferred Maintenance Bond financing, perhaps these bonds should be postponed until annual funding can be identified elsewhere within the General Fund.

Information Technology Savings General Fund

FY 2011 - $3.0 million (Ongoing Resource)

In September 2009, the Mayor announced that a competitive bidding process would begin for the City's information technology needs, currently provided by the San Diego Data Processing Corporation. At that time, it was stated that the cost savings to be achieved through this process was unknown and that Requests for Proposals (RFPs) would be issued in phases, starting with the Help Desk and Desktop Support, and selected providers could begin in July 2010. Preliminary information related to the first phase of proposals indicates that costs savings is very likely.

More recently, the City issued an RFP for Technical Advisory Services related to Data Center Services. The deadline for proposals was November 27, 2009. The RFP, which contemplates a one-year contract, included a timeline for the outsourcing plan related to the Data Center, including a vendor selection in June 2010, and a transition in September 2010.

The IBA is supportive of the process to subject IT services to a competitive bidding process, in hopes of improving services and/or reducing costs. This process has just begun, and involves many different services and vendors, and also requires the assistance of outside consultants in order to develop strategies and negotiate contracts. Our office is interested in seeing the results of the competitive bidding process, and expects that this process will result in cost savings when concluded.

INFORMATION TECHNOLOGY	General Fund	Non General Fund
Application Support	4,866,833	11,117,565
Computer Services	1,410,401	2,494,943
Desktop and Managing Services	17,460	73,779
Network Access	5,362,426	4,108,522
Equipment/Support	2,242,760	3,268,722
Hardware Lease	5,720,626	4,781,946
Services Billed	2,577,598	8,161,331
Telephone Services	2,582,468	1,696,998
TOTAL FY 2010 IT	**$24,780,572**	**$35,703,806**
Proposed IT Reduction	**$3,000,000**	
Reduction as Percent of FY 2010 Budget	*12%*	

The Department of Information Technology is also in the process of consolidating the Microsoft Enterprise agreement, for a three-year term, with Council approval to be sought in December. This new agreement is expected to result in savings of $500,000, with $144,000 estimated to be saved in FY 2010.

The budget reduction proposal includes an estimated $3 million reduction in IT costs for the General Fund. This represents approximately 12% of the total amount budgeted for the General Fund for Information Technology, for those services currently provided by SDDPC. The IT budget is allocated among the various City departments based on specific needs and number of computers and users, and budgetary reductions will be applied to all City departments. The IBA also notes that corresponding reductions would occur in Non General Fund departments, which has not been quantified or reflected in the budget reduction proposal. Separate from this proposal are additional reductions to the Department of IT.

Library System Improvement Fund Transfer

FY 2011 - $2.0 million (One-Time Resource)

The FY 2010/FY 2011 reduction proposal includes a request to authorize the Chief Financial Officer to transfer $2.0 million from the Library System Improvement Program Fund to the General Fund. According to the Report, the current fund balance exceeds the funding requirements for current projects.

In November 2008, as part of the IBA "Recommended Actions on FY 2009 Budget Adjustment Proposal", the IBA recommended and the Council approved the use of the available balance of this fund in order to defer the closure of branch libraries. At this time, a transfer of $3.1 million from the Fund was approved. An additional transfer of $95,600 was approved in February 2009 as an action to amend the FY 2009 Appropriation Ordinance, resulting in approximately $3.2 million of transfers for FY 2009. Also at the time of the FY 2009 Budget Amendment action, the IBA recommended that the City and the community explore options with the Mayor for the future use of the Library System Improvement Program Fund. This recommendation was rooted in the fact that this fund was established as part of the Library Facilities Improvement Program approved in 2002 and the program has not been updated since that time to reflect budget priorities.

Following the FY 2009 Budget Adjustment process, the FY 2010 Budget included another transfer from this fund in the amount of $4.3 million. This amount, together with the $2.0 million transfer in the current proposal, results in a total of $9.5 million being transferred from this fund in the past year. This raises the question whether or not any remaining funds are committed to projects that are currently moving forward.

The original objective of this fund was to provide for lease payments related to debt issuances, for project costs, and project management costs related to the Library System Improvement Program. Some funding for projects and related costs, such as cost increases for branch projects have been provided from the Fund, most recently funding to support additional costs associated with the construction of the new Logan Heights Library.

The definitive status of this fund – the current balance after approved transfers and any remaining funding commitment should be reported to Council prior to this action being taken.

Reserves Holiday

FY 2011 - $27.5 million (One-Time Resource)

In IBA Report No. 09-75, the IBA identified potential solutions to mitigate the projected deficits reflected in the Five-Year Financial Outlook, including consideration of delaying contributions to the City's reserves.

The Outlook reflected the annual contributions needed to meet the increasing reserve policy targets for the reserves for the General Fund, Workers' Compensation, and Public Liability. The Reserve Policy requires the General Fund Reserve to reach 8% of total General Fund revenues by Fiscal Year 2012, and that both the Workers' Compensation and Public Liability reserves reach 50% of the respective outstanding claims by Fiscal Year 2014.

In order to achieve these goals, the Outlook included $27.5 million in reserve contributions from the General Fund for Fiscal Year 2011, declining to $3.2 million in Fiscal Year 2015, as shown below.

Forecast - Annual Reserve Contributions (in millions)	FY 2010 Budget	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
General Fund Reserve	$ -	$ 4.2	$ 7.9	$ 2.5	$ 2.5	$ 3.2
Workers' Compensation Reserve	4.1	8.1	5.9	8.3	9.4	-
Public Liability Reserve	7.1	15.2	12.9	12.9	6.5	-
TOTAL	**$ 11.2**	**$ 27.5**	**$ 26.7**	**$ 23.7**	**$ 18.4**	**$ 3.2**

Because of the significant financial constraints facing the General Fund in Fiscal Year 2011, the IBA suggested that consideration could be given to extend the period of time to reach the reserve policy goals, specifically for the Workers' Compensation and Public Liability Reserves, providing budgetary relief of $23.3 million.

The FY 2010/2011 Budget Reduction Proposal includes a "Reserves Holiday" which would eliminate the FY 2011 contribution to all three reserves, providing one-time funding for other purposes totaling $27.5 million.

In the IBA's previous proposal, it was suggested that the goals within the Reserve Policy could be postponed by one year, extending the time to achieve the 50% of claims funding level for the Workers' Compensation and Public Liability Reserve to FY 2015 (from FY 2014). The annual percentage of funding would also decrease from levels stated in the policy.

As discussed in the budget reduction proposal, the General Fund Reserve would remain at 7% of total General Fund revenues for FY 2011, instead of increasing to 7.5% as required by the Reserve Policy. However, in the First Quarter Budget Report it was noted that the General Fund Reserve could drop to $70 million by year-end as a result of having to balance the current year budget. This would reduce the current year reserves level to 6.49%, below the 7% policy goal set by Council in the FY2010 Budget. While we support the proposed “Reserves Holiday” with respect to FY 2011, we do not support allowing the current year General Fund Reserve to drop below the 7% goal set for the current year. To achieve a $77.4 million and 7% reserve level for FY 2010, it is projected that an additional $7.5 million of reductions will likely be needed during FY 2010. These reductions do not need to be made now as the current year budget is in flux. However, the status of this issue should be reported in the Mid-Year Report expected in late February.

Our support for the “Reserves Holiday” for FY 2011 is predicated on maintaining the current year General Fund Reserve level at 7% of General Fund revenues as stated in the Mayor’s budget reduction proposal. We further recommend that the CFO review the General Fund Reserve Policy and advise the Council of any amendments to the policy necessary to effectuate the proposal including amendments to timeframes and annual funding levels tied to the revised goals.

Restructure the McGuigan Settlement

FY 2011 - $25.2 million (One-Time Expenditure Reduction)

If paid on the June 8, 2011 deadline, the McGuigan Settlement results in a one-time City-wide expense of approximately $39.5 million (this includes principal and simple interest at 7%). If the settlement is pre-paid on April 1, 2010, this amount is reduced to approximately $37.1 million. The Water and Wastewater departments are responsible for approximately $3.4 million of the $37.1 million prepayment and have available funds to pay off their portion of the settlement on April 1, 2010. The resulting restructure proposal involves financing the remaining settlement balance of $33.7 million over 5 years (at roughly 4% annual interest).

The City’s total annual debt service payment for the proposed financing would be approximately $7.6 million. Of that amount, approximately $6.8 million would be paid annually by the General Fund and $800,000 paid pro-rata by other governmental funds. The $25.2 million expenditure reduction cited in the report is the difference between the General Fund portion of the settlement if paid in June 2011 ($32.0 million) and the General Fund portion of the proposed annual debt service ($6.8 million).

Total financing costs are estimated to be approximately $4.3 million ($7.6 million annual debt service for five years equals $38.0 million less the $33.7 million being financed); however, this expense is reduced by approximately $2.4 million due to the reduction in interest costs attributable to paying off the settlement in April 2010 instead of June 2011. Additionally, as the prepayment proposal results in an earlier infusion of settlement proceeds into the City's retirement portfolio of assets, the IBA roughly estimates the City will realize a reduction in the FY 2012 ARC in excess of $3.0 million that it would not otherwise receive. Combined with the interest savings, the reduction in the FY 2012 ARC should offset the financing costs of this proposal. Given a favorable estimated interest rate on the restructure proposal, negligible costs of financing and the certainty that the settlement obligation will be extinguished over the next five years, the IBA supports this financing proposal in order to avoid further reductions to critical services to the public of approximately $25.2 million in FY 2011.

In order to facilitate the financing plan, the IBA has been informed that the City Council will need to adopt a resolution 1) authorizing the proposed financing plan, and 2) finding that if the entire McGuigan settlement were to be paid in FY 2011 it would result in an "unreasonable hardship" to the City. Additionally, the City and the McGuigan plaintiff class would have to agree to the proposed pre-payment plan of finance. Following possible adoption of the necessary City Council resolution in January 2010, a judicial court hearing must be held to concur with the City's "unreasonable hardship" finding and the settlement restructure proposal. The aforementioned actions must happen expeditiously if the settlement is to be pre-paid as proposed on April 1, 2010.

Special Promotional Programs/TOT Fund

FY 2010 - $261,551/FY 2011 - $2.14 million (Ongoing Resource)

Per Municipal Code Section 35.0128, five cents of the City's 10 ½ cent TOT levy are required to be deposited in the TOT Fund. Of this amount, four cents must be used for the purposes of promotion, while the remaining one cent is discretionary. Since FY 2008, the City has transferred the full one cent discretionary TOT back to the General Fund. In addition, beginning in FY 2009, a portion of the dedicated promotional TOT funding has been allocated for "promotion-related" expenses in the General Fund.

Any reduction in TOT allocations for non-General Fund purposes would free up additional funding that may be used for the benefit of the General Fund. As part of the budgetary solution, reductions have been proposed for several non-General Fund departments that rely on TOT funding, as well as to the TOT allocations for several outside organizations. These proposed reductions are described below.

QUALCOMM Stadium
FY 2010 - $144,500; FY 2011 - $789,000
Proposed reductions for QUALCOMM Stadium in FY 2010 and FY 2011 are expected to result in a net General Fund impact of $933,500. As described in the Budget Amendment report, these reductions include a delay in equipment purchases; reduction in funding for landscaping, cement and asphalt projects; and a reduction in security personnel. Additional revenue is also proposed through a Service Level Agreement with the Airports Division.

In addition to the proposed reductions, the Debt Management Department has identified potential refunding opportunities for a number of outstanding debt issuances, including the Stadium Bonds. The City's Debt Policy specifies that a refunding should be considered when a net present value savings of at least 3 percent can be achieved. Based on tax exempt rates as of November 17, 2009, Debt Management has estimated that refunding of the Stadium Bonds could achieve approximately 18.4 percent in NPV savings, resulting in annual debt service savings of approximately $850,000. These potential savings are not currently reflected in the budget outlook.

Arts & Culture Administration
FY 2010 - $81,700; FY 2011 - $81,700
Proposed reductions for Arts & Culture administration in FY 2010 and FY 2011 are expected to result in a net General Fund impact of $163,400. These reductions include eliminating the allocation to the Public Art Fund, reduction in funding for the EMBARK art collection management program, and reduction in other non-personnel expense.

Arts & Culture Organizational Support
FY 2011 - $700,000
Transient Occupancy Tax funding for arts and cultural organizations is proposed to be reduced by 10 percent beginning in FY 2011. This reduction would result in a net General Fund impact of approximately $700,000.

Convention Center Operating Subsidy
FY 2011 - $500,000
The annual allocation to the San Diego Convention Center Corporation (SDCCC) is proposed to be reduced by $500,000 beginning in FY 2011. In FY 2010, approximately $4.2 million is budgeted in the Special Promotional Programs for this purpose. This funding is separate from the $9.5 million that is budgeted for the debt service payment on the Convention Center Expansion Bonds.

In May 2005, the City Council approved a Third Amended and Restated Agreement between the City and the San Diego Convention Center Corporation (SDCCC). Prior to this amendment, the City provided an annual operating subsidy to the SDCCC based largely on financial projections developed by the consulting firm Public Financial Management (PFM). Under the terms of the amended Agreement, the City would no longer provide an operating subsidy based on the PFM projections, but instead allocate funding for specific promotional programs and capital improvements based on annual budgetary requests made by SDCCC. It was the intention of this amendment that City funding would not be used to fill a gap in operations, but rather to fund programs that would generate a high return on investment.

Under the terms of the amended Agreement, SDCCC was to submit a rolling five year projection of its marketing/promotional program and capital improvement needs no later than January 1st of each year, so that the City could plan it's funding appropriately.

Special Events
FY 2010 - $35,351; FY 2011 - $70,702
Proposed reductions in the Special Events budget in FY 2010 and FY 2011 are expected to result in a net General Fund impact of $106,053. Reductions are primarily in miscellaneous non-personnel expense. No significant service impacts are anticipated.

Transfer Mission Bay Revenue
FY 2011 - $4.3 million (One-Time Resource)

In our May 2009 report on the FY 2010 Final Budget Report and Recommendations, the IBA identified approximately $11.0 million in Mission Bay lease revenues that had been or were expected to be allocated to the Mission Bay and Regional Park Improvement Funds prior to the July 1, 2009 effective date of Proposition C, but which had not yet been expended. During a Budget Review Committee meeting, Council member Frye requested that the IBA provide information on the projects for which this funding was allocated, and reasons why it had not been expended.

In response to that request, our office presented IBA Report No. 09-57 regarding "Mission Bay and Regional Park Improvement Fund Projects" in June 2009 to the Natural Resources and Culture Committee. That report summarized the status of these two funds, and changes to the allocations and impacts expected from Proposition C, which was approved by voters in November 2008, and is intended to guarantee funding from Mission Bay lease revenues for park improvements for the next thirty years.

Prior to Proposition C, funding that was allocated to the Mission Bay and Regional Park Improvement Funds was designated for capital improvements in Mission Bay Park, and for capital improvements, planning deferred maintenance and land acquisition for regional parks. Specific projects were approved by the City Council in the annual budget. Since FY 2007, approximately $13.8 million had been budgeted for various Mission Bay and regional park improvement projects. However, to-date, much of that funding has not been spent. At the time of our report, it was estimated that approximately $10.2 million remained in these funds; $5.66 million in the Mission Bay Fund, and $4.55 million in the Regional Park Fund. While some of the delay in project execution is due to the timing of lease revenue receipts, other factors such as staffing needs, organization and CIP prioritization have also been identified as playing a role.

The FY 2010/2011 budget reduction proposal includes the transfer of Mission Bay lease revenues received prior to July 1, 2009, from the Mission Bay Improvement Fund to the General Fund, totaling $4.28 million. This proposal does not extend to the Regional Park Improvement Fund, and is considered a one-time action that is not expected to be available again in future years.

Prior to Proposition C, the allocation of Mission Bay lease revenues was guided by the Municipal Code, which outlined the amount of funds to be directed to the General Fund, the Mission Bay Improvement Fund, and the Regional Parks Improvement Fund, for a ten year period starting in 2004. The Municipal Code permitted a temporary suspension in any year if it was determined that insufficient revenues would be available to maintain existing services.

The budget reduction proposal recommends the reduction of funding for ten projects, with the transfer of those funds to the General Fund. The report suggests that these projects would receive future Mission Bay funding. Unfortunately, since Proposition C has become effective, the process for funding projects is now guided by the City Charter, which specifically outlines a prioritization for Mission Bay projects, and requires an oversight board to make funding recommendations. It is problematic to characterize this proposal as a delay in the funding of these projects, and it is possible that some of these projects will not receive future funding.

PROGRAMMATIC/EXPENDITURE REDUCTIONS

While the IBA has reviewed all proposed reductions, we have identified the following departments or areas as requiring further discussion or clarification:

Business Office

FY 2010 - $160,119/ FY 2011 - $320,237

Under the FY 2010/2011 budget reduction proposal, the Business Office will reduce its Personnel Expenses and Non-Personnel expenses by $160,119 in FY 2010 and $320,237 in FY 2011.

Proposed Personnel Expense reductions include eliminating the Department Director position, which would result in $63,027 of savings in FY 2010 and $126,053 in FY 2011. The Assistant Chief Operating Officer has been serving as the department’s director and will continue to do so under this proposal.

Included in the Non-Personnel reduction proposal are funds for performing a resident satisfaction survey in FY 2011. However, a survey will be undertaken in the current year utilizing FY 2010 funding. This is part of the work plan for the Citizen's Revenue Review and Economic Competitiveness Commission and results are expected in late spring. It is therefore reasonable to eliminate FY 2011 funding.

Environmental Services

FY 2011 - $3.3 million

4/10/5 Work Schedule/Reorganization of Service Delivery – Collection Services Division

Efficiencies could be achieved in FY 2011 via route reorganization and work schedule adjustment from 8 hours per day, 5 days a week, to 10 hours per day, 4 days a week. Trucks will be utilized 10 hours per day, 5 days a week. Less "ramp-up/ramp-down" time will be expended by workers, as one day's worth of such activities per week will be eliminated. Additionally, consolidated routes, incorporated into longer shifts, will result in savings.

A decrease in truck utilization and related vehicle maintenance costs, combined with the elimination of positions – 8 vacant and 4.35 non-vacant – is estimated to result in $2.4 million General Fund savings. Related savings of $191,000 are estimated for the Refuse Disposal Enterprise Fund, and a similar initiative in the Recycling Enterprise Fund is anticipated to garner approximately $2 million in savings – combined position elimination for these funds includes 17.08 vacant and 11.15 non-vacant.

There will be no service reductions associated with this change. The implementation date is estimated for July 12, 2010 in order to allow for meet and confer to take place. Additionally, the Office of the City Attorney is reviewing whether a Municipal Code change allowing a 6:00 am collections start time is necessary for implementation of this initiative. The IBA supports this initiative, as it will create efficiencies in operations.

Extend Repayment of Miramar Place OPS – Collection Services Division

This proposal will extend – from 2013 to 2016 – the existing loan agreement for the General Fund repayment of Refuse Disposal Fund borrowed monies used to purchase the Miramar Place Operations Station. The annual payment is anticipated to be reduced from $1.8 million to $900,000. This General Fund expenditure reduction will not start until FY 2011, as the FY 2010 payment has already been made. While this will result in savings through FY 2013, additional payments will be required FY 2014 through FY 2016. In addition, total interest costs will increase as a result of a longer repayment schedule.

Fire-Rescue Department

FY 2010 $7.0 million/ FY 2011 $17.8 million (14.1 million + $3.7 million included in vacancy factor)

The Fire-Rescue Department FY 2011 proposed budget reductions total $17.8 million. Given that $3.7 million of the reductions is accounted for in the department's assumed vacancy factor for FY 2011, the net savings from the reductions is only $14.1 million. $7.0 million of the identified reductions are proposed for implementation in FY 2010. The fire service reductions include the implementation of rolling "brown-outs", the elimination of 50.00 FTE vacant firefighter positions, the cancellation of fire academies, the elimination of 1.00 FTE Fire Dispatch Administrator, the elimination of night detail inspections, and the suspension of an increase in the department's reserve fleet. Proposed lifeguard service cuts comprise of a reduction in service at the Torrey Pines and Windansea beaches, a two-thirds reduction in lifeguard training, and the elimination of 1.00 FTE Lifeguard Sergeant and 1.00 FTE Marine Safety Lieutenant. Other proposed cuts are reductions to uniform allowance, company evaluations, the New Construction/Plan Check Program, and the elimination of the extended warranty for Zoll monitors due to equipment replacement.

Implementation of Rolling "Brown Outs" & Elimination of Vacant Positions

The proposed rolling "brown-outs" will impact those stations that house more than one company. There are 13 of these stations within the City of which 8 will be selected for participation in the rolling "brown-outs". The Fire-Rescue Department has identified the following stations for possible inclusion in the implementation plan:

Station 1: Downtown	Station 21: Pacific Beach
Station 4: Downtown	Station 28: Kearny Mesa
Station 10: College/SDSU	Station 29: San Ysidro
Station 11: Golden Hill	Station 35: University City
Station 12: Lincoln Park	Station 40: Rancho Penasquitos
Station 20: Midway	Station 44: Mira Mesa

The IBA recommends that additional information be provided regarding the implementation plan for the rolling "brown-outs" before Council approval.

As of the release date of this report, the Fire-Rescue Department is still evaluating and deciding upon an appropriate implementation plan for the rolling "brown-outs". With the proposal as it currently stands, the rolling "brown-outs" for 8 engine companies would impact 96 firefighters. These 96 displaced firefighters would be available as relief staff for the department as a part of their regular shift before the use of overtime staff when firefighters take leave. This mitigates the need for "constant staffing" overtime assignments beyond firefighter's regular shifts and equates to $11.5 million in overtime savings.

To further account for the budgetary savings that would be associated with the use of 96 firefighters as relief staff, 50.00 FTE vacant sworn positions are proposed for elimination from the FY 2011 Budget. As a part of the department's "constant staffing" model, these vacant positions have been used to pay for the overtime costs necessary to provide "constant staffing". The "constant staffing" concept utilizes overtime in lieu of permanent hires to maintain minimum staffing for fire emergency vehicles. The 96 firefighters that will become available as a result of the rolling brownouts will now backfill in this "constant staffing" capacity, significantly reducing the need for overtime costs.

As identified by the Fire-Rescue Department Station Master Plan, the City has a need for an additional 22 fire stations in order to meet National Fire Protection Association (NFPA) service and response standards. The current proposal for rolling "brown-outs" would compromise City fire services even more. This is a cause for concern, but, with the current budget deficit, there are few, if any other alternatives. In their evaluation of a potential implementation plan, the Fire-Rescue Department is making every effort to minimize negative service impacts where possible.

Lifeguard Service Reductions

The reductions proposed for lifeguard services total $973,439, which is a reduction of 6.5% over the division's FY 2010 General Fund Budget of $14.9 million. $328,312 of this cut is related to a two-thirds reduction in lifeguard training. The remainder of the cut is related to the elimination of 7.00 FTE filled positions, including 1.00 FTE Lifeguard Sergeant assigned to scheduling, 1.00 FTE Lifeguard II assigned to training, and the elimination of 1.00 FTE vacant Marine Safety Lieutenant position responsible for overseeing daily and emergency operations. 4.00 FTE position eliminations are related to the reduction of lifeguard services at the Torrey Pines and Windansea beaches.

The IBA has concerns regarding the impact of the reduction of the lifeguard services provided by the City, particularly related to the reductions in lifeguard services at the Torrey Pines beach. 3.00 FTE Lifeguard II positions are proposed for elimination during the non-peak season (from September through May), and 1.00 FTE Lifeguard II and 4.00 Daily Lifeguard positions (temporary help) for elimination during the peak season (June through August). The lifeguard reductions during the off-peak season would eliminate the on-scene response to beach and water emergencies. During this period in 2008, this beach had an estimated 400,000 visitors and 25 rescues. Without any on-scene lifeguards, delayed emergency response increases the risk of injury and death. There are also concerns regarding crime at the beach with the absence of any supervisorial authority. Similar concerns arise regarding the reduction during summer months given only 2.00 hourly lifeguards will remain to patrol the area, eliminating capacity for active water observation according to the Department. Patrol, without lifeguard posts for rescue, would delay the response to beach emergencies. During the summer months in FY 2009, Torrey Pines had 323,120 visitors and 50 rescues.

Reserve Fleet Increase Suspension
The 2003 and 2007 Wildfire Action Reports identified the Fire-Rescue Department's need for additional surge capacity to handle major fire emergencies. In adherence to report recommendations, the department has made efforts over the past few years to increase its reserve fleet. The department planned to increase its reserve fleet by 10 in FY 2011, but is proposing to postpone this increase in capacity for budgetary savings totaling $600,000 relating to service and maintenance. There are currently 22 apparatus in the reserve fleet. The proposed reduction will defer the increase to 32 apparatus.

General Services
FY2010 - $2.1 million/FY 2011 - $4.4 million

Rather than significantly reducing personnel or expenditures in the General Fund, the General Services Department will reprioritize and reassign employees to deferred maintenance projects in the area of tenant improvements and ADA.

Facilities Division
For Facilities Division, costs related to 28 positions, totaling $1.2 million in FY 2010 and $2.5 million in FY 2011 will be reimbursed from projects that have funding available from the Deferred Maintenance bond financing. This reprioritization of work will negatively impact response times for general facilities repairs, and will diminish preventive maintenance work. However, this proposal will allow the retention of employees, will have a positive impact on the City's General Fund, and will accomplish other priority work of the City. In addition to the reassignment, four positions are proposed for elimination, along with a reduction in contractual services, totaling $135,000 in FY 2010, and $346,000 in FY 2011.

Street Division
The reduction target for Street Division was minimized due to the exclusion of funding required to meet the City's Maintenance of Effort (MOE). The City must expend General Fund dollars for street maintenance to meet the MOE on an annual basis to ensure continued receipt of State Gas Tax and local TransNet funding. This exclusion, along with others, reduced expenditures eligible for reduction from $44.0 million to $5.7 million. The reduction proposal includes budget changes totaling $722,000 in FY 2010, and almost $1.5 million in FY 2011.

Like Facilities Division, the budget reduction proposal consists of reassigning positions to reimbursable projects for disability services, and General Services' bond-funded capital improvement projects. The reassignment of a 10-position concrete crew will increase workload for the remaining two concrete crews and will result in delayed response times of three months. This reassignment allows reimbursement to the General Fund of $436,000 in FY 2010 and $872,000 in FY 2011.

Other reductions will eliminate planned palm tree trimming; reducing the root pruning and broadleaf tree trimming contracts; and reduction of a horticulturist position, with its work reassigned to the Public Works Supervisor.

Library

FY 2010 - $1.7 million/FY2011 - $3.8 million

The budget reduction proposal includes a elimination of 53.26 FTE positions, generating a net savings of $1.7 million for FY 2010 and a net impact of $3.8 million for FY 2011. However, at the December 2, 2009 meeting of the City Council, the Mayor announced modifications to the Library Department's proposed reductions resulting in a cost neutral reduction of 48.68 FTE. A memorandum from the Chief Operating Officer dated December 2, 2009 detailed the amendment changes as following:

1. No longer recommending the pairing of 16 libraries
2. All branch library hours will be reduced from 41 hours per week to 36 hours per week
3. Consolidating the Central Library service points from 11 to 5
4. Reduce hours at the Central Library from 56 hours per week to 44 hours per week.

The previously recommended pairings of 16 of the 35 branch libraries were estimated to generate a reduction of 41.26 FTE and $1.1 million in savings for FY 2010 and $2.5 million for FY 2011. To achieve the same level of savings as the original proposal, the Mayor has recommended reductions in library hours at all libraries, a consolidation of service points (public service desks) at the Central Library and an additional reduction to Library Matching funds. Our office has also confirmed that Central Library hours are currently at 52 rather than 56 (as stated in the Chief Operating Officer's December 2, 2009 memorandum) and are therefore being reduced by 8 hours weekly rather than 12 hours.

According to information provided to the IBA by Financial Management, the savings are as following:

- The consolidation of Central Library service points and reducing hours of operation from 52 to 44 hours a week is estimated to generate a reduction of 21.68 FTE and $532,865 in savings for FY 2010 and approximately $1.1 million for FY 2011.

- The reduction of hours from 41 to 36 hours a week at all 35 branch libraries is estimated to generate a reduction of 15.00 FTE and a total of $642,283 for FY 2010 and a reduction of $1.3 million for FY 2011.

- An additional FY 2011 reduction of approximately $170,000 in Library Matching funds bringing the total FY 2011 Library Matching Funds reduction to approximately $400,000.

These proposals total approximately $1.2 million in reductions for FY 2010 and $2.5 million for FY 2011. Together with reductions originally submitted and taken by the Mayor, total department reductions are $1.7 million for FY 2010 and $3.8 million for FY 2011, achieving the same level of savings as initially proposed. In prior reports the IBA recommended pursuing options for reducing branch library hours as preferable to library closures. We concur with the Mayor that the revised proposal to reduce hours system-wide is preferable to the proposed "library pairings."

Library Ordinance

With the above proposed reductions, the Library budget will equal 3.3% of the City General Fund expenditures - about half the Library Ordinance requirement of 6%.

In prior reports, the IBA has recommended that this 6% requirement is not realistic now or for the future and this Ordinance should be revisited to reflect the economic environment to set more realistic expectations for likely expenditures. The table below notes the required level of funding as required by the Library Ordinance and the actual allocations for the Library Department since its enactment. As the table illustrates, the percentage stipulated in the Ordinance was last met in FY 2003 and has declined until FY 2010.

Library Ordinance vs. Library Budget									
	FY 2002	**FY 2003**	**FY 2004**	**FY 2005**	**FY 2006**	**FY 2007**	**FY 2008**	**FY 2009**	**FY 2010**
Library Ordinance Requirement	4.5%	5.0%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%	6.0%
General Fund Budget(1)	$722.6	$729.3	$743.0	$817.4	$864.9	$1,021.2	$1,106.3	$1,192.6	$1,129.7
Library Dept. Budget (1)	$32.8	$36.7	$35.9	$35.6	$36.6	$38.7	$37.6	$37.0	$37.1
Actual % of GF Budget	4.5%	5.0%	4.8%	4.4%	4.2%	3.8%	3.4%	3.1%	3.3%
(1) in millions									

Park and Recreation

FY 2010 - $972,616/FY 2011 - $3.9 million

The FY 2011 budget reduction proposal includes a net expenditure reduction to Park and Recreation's General Fund budget of $3.7 million, and the net elimination of 31.68 FTEs. An additional $174,000 is expected in revenue. This represents approximately 6.8% of the Park and Recreation's adjusted FY 2010 General Fund budget, which totals $54.1 million (excluding fixed benefits and non-discretionary items).

The proposal consists of 25 various items, including the use of antenna lease revenues and beverage vending machine revenues for General Fund purposes, the cessation of park turf fertilization, the removal of beach fire rings, the reorganization of park maintenance functions, and a reduction to Shoreline Beach and Mission Bay beach maintenance, among other items.

Two of the items, the Street Median Maintenance Program and Sports Turf Maintenance, had previously been reimbursed from the City's Gas Tax and Environmental Growth Funds, respectively. With revenues strained in both of these sources, reductions in the General Fund for these programs will allow those funding sources to experience reduced costs, and/or reprioritize reduced revenues to other priority projects/activities.

Initial departmental proposals not recommended for reduction at this time totaled $15.0 million, and included the closure of 10 recreation centers, reduction of recreation center hours from 40 to 30 hours per week, closure of four swimming pools, reduction of remaining pools to six-month schedule, and closing Mount Hope Cemetery to new burials.

Police Department

FY 2010 $4.3 million/FY 2011 $23.3 million ($11.9 million + $11.4 million included in vacancy factor)

The Police Department FY 2011 Proposed Budget reductions total $23.3 million. Of this reduction, $11.4 million is already accounted for in the Five-Year Outlook for FY 2011, thus the net new savings is $11.9 million. $4.3 million of the reductions are proposed for implementation in FY 2010. The department's reductions include the elimination of the Mounted Enforcement Program, the Harbor Patrol Unit, a reduction in Canine Operations, the elimination of 41.00 FTE vacant and 81.00 FTE filled civilian positions, and 133.75 FTE vacant sworn positions. Other reductions include the removal of double-budgeted vacation and industrial leave, a 10% reduction in data services, non-personnel expense reductions, the elimination of public information and videography services, and motor cleaning pay. Reductions are also proposed for department youth programs, with the elimination of the School Safety Camp and Police staff for Star/PAL. The proposed reductions maintain a key mayoral goal not to layoff any sworn police officers, but still have service and budgetary implications that are of concern, primarily with of the elimination of non-sworn support staff and the budgetary impacts of vacant sworn officer eliminations.

Vacancy Eliminations and Civilian Layoffs
The FY 2011 budget proposal includes the elimination of 41.00 FTE vacant and 82.00 FTE filled civilian support positions for a total reduction of $6.6 million. $2.4 million of the reduction pertains to the elimination of vacancies and $4.2 million to the layoff of 82.00 FTE personnel. The 41.00 FTE vacant positions cover a wide range of support positions including Dispatcher II's, Analysts, and Clerks. The filled civilian support classifications being proposed for elimination are 49.00 FTE Police Services Officers, 21.00 FTE Police Investigative Aides, and 12.00 FTE Police Code Compliance Officers. This reduction eliminates all budgeted Police Investigative Aides and leaves funding for 8.00 FTE Police Service Officers who staff the Multicultural Storefront in City Heights, and 7.00 FTE Police Code Compliance Officers. The remaining Code Compliance Officers are assigned tasks that are reimbursed by the State, and thus are not eliminated as part of the budget proposal. Overall, these classifications are responsible for assisting sworn officers in work involving non-emergency cases so that sworn officers can be deployed for high priority calls and patrol.

The impact of eliminating 82 of 97 filled police civilian positions is a concern since it will increase administrative and case back-log and could affect police response times, as sworn officers take on the work formerly performed by civilian support staff. In FY 2007 during the budget process, the department made the case that adding civilian personnel was the fastest and most effective way to put sworn officers on the street by freeing up officer's time for patrol activities. The IBA recommended, and the City Council approved, the addition of 30 civilian positions in the FY 2007 Budget. Due to budget constraints, this approach is now being reversed through their elimination. The position layoffs will effectively take officers away from patrol to handle duties previously done by non-sworn civilians at a lower cost, for a higher cost with sworn personnel. Also, there is a possibility for an increase in overtime costs as sworn officers take on additional duties that are currently not addressed in the Proposed Budget.

The City Attorney has also expressed concerns regarding the potential impact of the proposed reductions to Police Investigative Aides, Police Services Officers, and Police Code Compliance Officers on his office's ability to prosecute cases tied to the work that they perform. He plans to meet with the Police Department to determine the possible impacts.

Other issues that have been raised regarding the civilian position reductions pertain to the potential adverse impact that the reductions could have on revenue generation within the City. Police Code Compliance Officers and Police Investigative Aides, to a lesser extent, assist in the collection of licensing and permit fees for security alarms and police regulated businesses. In FY 2009, licensing and permit activity generated $2.7 million in revenue for the City. $4.2 million is budgeted in this revenue category for FY 2010. The Police Department does not anticipate an impact to this revenue category, despite the position eliminations, given that the permits will still be issued, though collections may be impacted. The department plans to continue to work to increase collection efforts through automation and efficiencies associated with OneSD implementation. There are other impacts that the elimination of Police Service Officers could have on parking citation revenue that has not been addressed. The IBA recommends that additional information be provided on the potential revenue impacts related to the elimination of these positions prior to Council decision.

The IBA is exploring the possible restoration of some civilian positions with the use of departmental vacancy savings unaccounted for in the FY 2011 Proposed Budget. According to preliminary IBA estimates, these additional savings could approximate $2.9 million, which could equate to about half of the filled civilian positions depending on the positions restored. Financial Management and the Police Department would need to verify these numbers if this is considered further. The potential savings identified are described in more detail in the next section.

Reduction of Sworn Vacant Personnel

The FY 2011 Proposed Budget includes the elimination of 133.75 sworn officers, equating to a reduction of $11.4 million in costs relating to salary and variable fringe benefits. This would leave approximately 100 vacant sworn positions in the budget, for an estimated savings of $10.4 million, which is already included as a part of the department's FY 2011 vacancy factor of $22.4 million. According to Financial Management Department staff, the elimination of 133.00 FTE officers was already accounted for in the Five-Year Outlook assumptions for FY 2011. Thus, the $11.4 million in reduced costs associated with the elimination of the 133.00 FTE vacant sworn positions is not being counted as a budget reduction for the department.

Preliminary IBA estimates reveal that additional savings above the vacancy factor maybe available to count as an actual budget reduction for the department. The vacancy factor of $22.4 million assumes a vacancy total of approximately 196 sworn officers. Per a November 30, 2009 Police Department weekly staffing update, sworn vacancies total 231.75. If these sworn vacancies were held constant through FY 2011, related vacancy savings would total an estimated $25.3 million, $2.9 million more than the assumed vacancy factor. This $2.9 million is additional cost savings related to vacancies that are possibly available above and beyond the vacancy factor that remains within the department budget. This estimate requires further analysis and verification with Financial Management and the Police Department.

The IBA is concerned about the complexities and confusion that have developed in the Police Department's budget between the vacancy factor and the budget for salaries and wages, and understand that Financial Management will be clarifying this matter in final FY 2011 budget numbers.

Police Academies

As proposed, the FY 2011 Budget still allows for Police academies. The size and number of these academies will be based on the department's attrition rate in the upcoming fiscal year.

Reductions to the Harbor Patrol Unit

The proposed reduction to the Harbor Patrol Unit only totals $67,548. The savings associated with this reduction is related to savings incurred with rent, fuel, equipment repair, materials & supplies, vehicle maintenance, insurance, and janitorial reductions. The 6.00 FTE Police Officer II's and 1.00 FTE Sergeant currently assigned to harbor patrol would be reassigned to other Police Department units. The calls for service that are handled by the Harbor Patrol Unit would be transferred to the Lifeguard Service or the Coast Guard. Adverse service impacts will include a reduction in pro-active monitoring of boating under the influence (BUI) and the general absence of police presence on the water.

Storm Water Pollution Prevention

FY 2010 - $1.25 million/ FY 2011 - $2.5 million

Under the FY 2010/2011 budget reduction proposal, the Storm Water Pollution Prevention Department will have its funding levels for contractual services reduced by $1.25 million in FY 2010, and $2.5 million in FY 2011. For FY 2011, the resultant Storm Water budget will be $35.46 million.

The budget reduction proposal restates the Mayor's eight significant areas, including Storm Water permit compliance, and that permit compliance will still be achieved even at the reduced funding level.

In response to the Mayor's request, the Storm Water Department prepared reduction proposals amounting to 27 percent of its discretionary budget, or approximately $9 million. Many of the proposed reductions would have reduced funding for various contractual services, which could result in a slowdown in the completion of projects. Also proposed was a reduction in the frequency of street sweeping in non-posted areas to once per year. Despite the reductions offered, the department noted they would still remain in compliance.

The funding forecast in the Mayor's Outlook included a budget of $37.7 million for FY 2011 and each year thereafter. This reflected a significant reduction in projected funding when compared to prior versions of the Outlook. For example, in the Five-Year Outlook for FY 2008-2012, funding in FY 2009 was projected to reach $57.8 million before leveling off in subsequent years. However, in FY 2009 the Department's budget was just $48.8 million. This program continues to require greater definition and clarity with respect to mandated service levels and funding levels.

The Storm Water Department was subject to nearly $12 million in budget reductions in the FY 2009 First Quarter Adjustments and the FY 2010 Budget. These reductions were implemented to help better align allocated funding with spending trends. Despite the reductions that have been taken, together with the decrease in projected funding from prior Outlooks as explained above, the Storm Water Department continues to indicate that the City will remain in compliance with the current Municipal Storm Water Permit.

It is important to note, the Municipal Permit was issued by the San Diego Regional Water Quality Control Board and became effective on March 24, 2008. It has a five-year life span and expires in the middle of the Outlook's forecast period. Once the new Municipal Permit is issued, the City may become subject to additional regulations. Storm water funding should continue to be closely monitored in future years, as any additional regulations that are imposed may result in added costs to the City.

In addition to the amounts budgeted in the General Fund, Storm Water is also utilizing a portion of the $102 million Deferred Maintenance bond that was issued in March 2009. Of this amount, Storm Water received $13.9 million in order to complete twenty-eight storm drain replacement/repair projects.

We recommend that the Mayor initiate a cost of service study for this area to prepare for a future fee.

Fleet Operations Fund/Vehicle Replacement Fund

FY 2010 - $3.5 million/FY 2011 -$7.03 million

General Services Fleet Division is responsible for providing scheduled maintenance, unscheduled repair, extraordinary repair and fueling for the City's motive fleet, and for administering the City's equipment replacement funds. Motive Equipment Usage and Replacement charges are allocated based on the equipment inventory for each department. Replacement charges are collected to fund replacement of equipment at the end of each vehicle's projected lifecycle.

Motive Equipment Usage charges are calculated by taking the labor, parts, and fuel costs in the last completed prior year for each equipment type, applying annual inflation on parts, and adding fuel surcharges and overhead to arrive at estimated operating expenses for each equipment type. The Motive Equipment Replacement fee calculation is accomplished by taking the estimated replacement cost, based on 2 percent annual inflation for each vehicle type, and dividing the cost by the estimated years of efficient use. Biweekly rates are devised and charges are made to customer departments which result in the transfer of funding to provide revenues to the Fleet Division.

For FY 2010, Motive Equipment Usage charges totaled $44.2 million citywide, with $32.4 million from General Fund departments, mostly Police, Fire-Rescue, and Environmental Services Departments. Motive Equipment Replacement fees totaled $36.8 million for FY 2010, with $25.8 million budgeted for General Fund departments. Together, 72% of the funds for motive equipment usage and replacement come from General Fund departments.

FY 2010 FLEET/VEHICLE BUDGET	USAGE	REPLACEMENT	% OF TOTAL
GENERAL FUND			
Police Department	12,701,076	6,279,117	23%
Fire Department	5,186,629	8,009,716	16%
Environmental Services Department	6,160,461	3,747,185	12%
Park and Recreation Department	3,493,616	2,759,971	8%
General Services Department	2,807,333	3,012,384	7%
Storm Water Department	1,691,571	1,803,308	4%
Other	352,408	200,785	1%
Subtotal General Fund	**$32,393,094**	**$25,812,466**	**72%**
NON GENERAL FUND			
Environmental Services Department	4,197,295	2,853,459	9%
Water Department	2,955,528	2,761,057	7%
Wastewater Department	3,692,912	4,508,322	10%
Other	997,064	898,742	2%
Subtotal Non General Fund	**$11,842,799**	**$11,021,580**	**28%**
TOTAL	**$44,235,893**	**$36,834,046**	**100%**
PROPOSED REDUCTION	**$2,010,000**	**$8,200,000**	
% OF TOTAL BUDGET	*5%*	*22%*	

The budget reduction proposal includes the reduction of underutilized vehicles, a reduction in the number of City vehicles to be allowed for personal use by the Police and Fire-Rescue Departments, and an increase by two years in vehicle replacement lifecycles. In total, these proposals are estimated to reduce costs for motive equipment usage and replacement by $5.0 million in FY 2010, and $10.2 million in FY 2011. Approximately 72% of this impact is estimated to benefit the General Fund. While these two areas represent a significant component of the budget reduction proposal, when compared to the total amount budgeted for motive equipment, the usage reduction comprises just 5%, and the replacement reduction amounts to 22% of the amounts budgeted for these purposes.

Savings will be achieved by delaying the purchase of new vehicles, and reducing charges to customer departments. The Fleet Division will be working with City departments to identify underutilized vehicles, and to determine any reduction in equipment needs related to departmental budget reductions, which can then be removed from the inventory. It should be noted that increased repair costs for an aging fleet can be expected, as vehicles will be kept longer than originally planned.

NON-MAYORAL DEPARTMENTS PROGRAMMATIC/EXPENDITURE REDUCTIONS

The Mayor originally requested Non-Mayoral departments to submit reductions equal to 27% of each of their budgets consistent with all Mayoral departments. The average reduction now taken for all Mayoral departments is 8% of budget. This section discusses the original reduction requested of Non-Mayoral Departments, the submittal from the department where applicable and the recommended reductions now included in the Mayor's budget reduction proposal, also where applicable.

City Auditor

No Reductions Proposed

The Mayor requested the City Auditor to submit a 27% reduction totaling $442,000. Per the City Charter, the City Auditor reports directly to the Audit Committee which recommends the annual budget for the City Auditor's Office to the City Council. At the Audit Committee meeting of November 9, 2009 the City Auditor discussed with the members of the Audit Committee the impacts of reducing the City's internal auditing program by the proposed amount. The City Auditor noted that a $442,000 reduction would require the elimination of three of 15 auditors and a corollary 20% reduction in the number of audit hours and audits completed. At the meeting, the Audit Committee directed the City Auditor to request the Mayor's Office to freeze the fiscal year FY 2010 budget and maintain full funding for existing staffing levels for FY 2011. No reductions have been proposed for the City Auditor in the Mayor's recommended budget reduction package. An 8% reduction for the City Auditor, to match to the City-wide average would equate to $128,000.

City Clerk

FY 2010 - $108,000/FY2011 - $67,000

The Mayor requested the City Clerk to submit a 27% reduction totaling $668,000. The Clerk submitted reductions of $87,000 for FY 2010 and $47,000 for FY 2011 all within the category of Non Personnel Expenses. The Clerk did not propose any position reductions in her memo to the Mayor based on her priorities and the identification of NPE savings. However, the Mayor is now proposing the elimination of a vacant Deputy City Clerk I position which the Clerk notes has been filled from within the department effective November 30, 2009. This personnel action has created a Clerical Assistant II position which could be substituted at slightly lesser savings. NPE savings originally identified by the Clerk could also be considered. An 8% reduction for the City Clerk would equate to $352,000.

City Council

No Reductions Proposed

The Mayor requested the City Council to submit a 27% reduction totaling $1,297,000 or $162,000 per Council Office. As the branch of government with ultimate budget authority, it is City Council's prerogative to determine funding priorities for the City including their own office budgets. Based on the adjusted City Council department expenditures of $4,755,000 (as calculated by Financial Management for determining the original 27% target amount), if the Council were to take an 8% reduction equal to the City-wide average, this would equate to $380,000 or $47,500 per Council Office. While an 8% reduction is the average City-wide, some other offices such as Financial Management and the Office of the Mayor and Chief Operating Officer have taken 3.9% and 0% respectively.

Office of the City Attorney

FY 2011 - $1.5 million

In response to the request for budget reduction proposals, the City Attorney issued a memo to the Chief Operating Officer and Chief Financial Officer outlining steps taken by his office to proactively eliminate waste, streamline operations and implement innovative cost saving measures, totaling $7 million. These include reducing the number of attorneys by 10% and maintaining vacancies as appropriate, closing an inherited budget deficit, shifting General Fund expenses to eligible special funds, consolidating office space, and minimizing the use of outside counsel. It is important to note that the City Attorney is obligated under Charter Section 40 to provide all City legal services.

The FY 2010/2011 budget reduction proposal includes an increase to the City Attorney's vacancy factor of $1.5 million. This proposal does not include the actual reduction of positions from the City Attorney's budget. With an average annual salary of approximately $134,000, this reduction could equate to the elimination of eleven Deputy City Attorney positions, absent other departmental cost savings. It is possible that savings could be achieved through other means, and/or the reduction of other classifications. This reduction represents approximately 6.5% of the total FY 2010 budget for the City Attorney. Achieving these savings will be at the discretion of the City Attorney, and he has indicated his commitment to operating within approved budgetary levels, and to achieve cost savings, where possible. An 8% reduction to the adjusted FY 2010 budget for the City Attorney would be approximately $2.04 million.

Office of the Independent Budget Analyst

FY 2011 - $84,000 (Proposed/Not Included in Mayor's Savings Projections)

The Mayor requested the IBA to submit a 27% reduction totaling $286,000. Per the City Charter the IBA operates independently of the Mayor, and the City Council is responsible for establishing the annual budget for the Office. Based on the City-wide average of 8% of adjusted department expenditures of $1,050,000 (as determined by Financial Management), the adjusted target for our office is $84,000. To achieve this savings we propose to freeze, but not eliminate, the Council Representative II position through attrition for a nine month period beginning July 1, 2010. This position currently serves as the Executive Assistant to the IBA and the incumbent will be retiring from the City effective June 30, 2010.

Ethics Commission

FY 2010 - $25,285/FY 2011 - $75,854

The Mayor requested the Ethics Commission to submit a 27% reduction totaling $173,000. To comply with the request, the Executive Director submitted a memo which offered the reduction of 1 City Attorney Investigator with a related savings of $25,285 in FY 2010 and $75,854 in FY 2011. This position is currently filled and could result in a lay-off. An 8% reduction, matching the City-wide average, would equate to $51,000.

GENERAL FUND REVENUE

In the FY 2010 First Quarter Budget Monitoring Report, General Fund revenues were projected to decline by $50.4 million from the FY 2010 Adopted Budget. Of this decline, $32.7 million represented a decline in major General Fund revenues, and $17.6 million, a decline in departmental revenue. This decline was $28.7 million more than that forecasted in the 2011-2015 Five-Year Outlook. The chart below summarizes the Outlook FY 2010 projections and the revisions presented in the First Quarter Report.

General Fund Revenue (in millions)

GF Revenue (in millions)	FY 2009 Actuals[1]	FY 2010 Budget	FY 2010 Outlook Projection	Over Budget/ (Under Budget)	FY 2010 1st Quarter Projection	Over Budget/ (Under Budget)
Property Tax	$ 398.7	$ 382.6	$ 391.6	$ 9.0	$ 392.7	$ 10.1
Sales Tax	$ 206.1	$ 210.1	$ 185.4	$ (24.7)	$ 184.4	$ (25.7)
TOT	$ 74.2	$ 75.9	$ 71.2	$ (4.7)	$ 66.8	$ (9.1)
Franchise Fees	$ 65.1	$ 73.7	$ 73.7	$ -	$ 70.2	$ (3.5)
Other Revenue	$ 379.2	$ 387.4	$ 386.1	$ (1.3)	$ 365.2	$ (22.2)
Total GF	**$ 1,123.3**	**$ 1,129.7**	**$ 1,108.0**	**$ (21.7)**	**$ 1,079.3**	**$ (50.4)**
Growth Over FY 09	-	*0.6%*	*-1.4%*		*-3.9%*	

1. Unaudited actual

The FY 2011 Budget, as currently proposed by the Mayor, is based on FY 2011 revenue projections from the 2011-2015 Five-Year Outlook. Although the FY 2010 baseline projections from the Outlook were modified in the First Quarter Budget Monitoring Report, FY 2011 revenue projections have not been updated to reflect the impact of the changes to the FY 2010 baseline. The Mayor proposed in his report to incorporate these changes in a June revision. (In another section of this report, we recommend this revision take place in April or May per the regular budget process.) The following chart provides a summary of the FY 2011 growth projected for General Fund revenues in the Outlook as contrasted with what is being proposed in the current FY 2011 Proposed Budget.

General Fund Revenue (in millions)

GF Revenue (in millions)	FY 2009 Actuals[1]	FY 2010 Outlook Projection	FY 2011 Five-Year Forecast	FY 2010 First Qtr Projection	FY 2011 Proposed Budget
Property Tax	$ 398.7	$ 391.6	$ 391.6	$ 392.7	$ 391.5
Growth		*0.0%*	*0.0%*	*-1.5%*	*-0.3%*
Sales Tax	$ 206.1	$ 185.4	$ 176.3	$ 184.4	$ 176.3
Growth		*5.2%*	*-4.9%*	*-10.5%*	*-4.4%*
TOT	$ 74.2	$ 71.2	$ 71.9	$ 66.8	$ 71.9
Growth		*-1.0%*	*1.0%*	*-10.0%*	*7.6%*
Franchise Fees	$ 65.1	$ 73.7	$ 75.0	$ 70.2	$ 75.0
Growth		*-1.7%*	*1.8%*	*7.8%*	*6.8%*
Other Revenue	$ 379.2	$ 386.1	$ 346.8	$ 365.4	$ 393.4
Growth		*-1.9%*	*-10.2%*	*-3.6%*	*7.7%*
Total GF	**$ 1,123.3**	**$ 1,108.0**	**$ 1,061.6**	**$ 1,079.3**	**$ 1,108.1**
FY Growth	-	*-1.4%*	*-4.2%*	*-3.9%*	*2.7%*

The Mayor's Five-Year Outlook forecasted growth of -4.2% over the then $1.108 billion FY 2010 revised baseline, for a total General Fund revenue budget of $1.061 billion. Much of the -4.2% decline in revenues from FY 2010 to FY 2011 was related to the removal of $39.2 million in FY 2010 one-time revenue from the FY 2011 Budget. If the $39.2 million in one-times were excluded from the FY 2010 revised projection, the decline in the FY 2011 forecast over FY 2010 would have only been 0.07%, which implied that there was only a 0.07% decline in actual year-over-year growth for structural revenues. The Proposed Budget of $1.108 billion assumes growth of 2.7% over the FY 2010 First Quarter projections of $1.079 billion. The FY 2011 Proposed Budget is $46.5 million more than the forecasted FY 2011 Budget in the Outlook due to the proposed budget modifications. The underlying revenue forecast for major General Fund Revenue unrelated to current proposed budget modifications remained unchanged.

IBA Report 09-88 outlined the potential impact of the First Quarter Report revenue forecast on the Outlook. In using the First Quarter Report revenue projections as a baseline for the Five-Year Outlook, and keeping constant all Outlook revenue and expenditure growth assumptions, the FY 2011 deficit was shown to increase by $26.7 million in FY 2011, $27.5 million in FY 2012, $28.0 million in FY 2013, $28.4 million in FY 2014, and $28.8 million in FY 2015.

Scenario	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
Mayor's Outlook	$ 1,061.6	$ 1,094.1	$ 1,125.4	$ 1,156.8	$ 1,196.6
Impact of Current Projections	$ 1,034.9	$ 1,066.6	$ 1,097.4	$ 1,128.4	$ 1,167.8
Difference	$ (26.7)	$ (27.5)	$ (28.0)	$ (28.4)	$ (28.8)

Though the economy is showing signs of a recovery from the recession, economists caution that the recovery will be a prolonged one due to high unemployment levels, low personal income growth, increased savings, and a tightened credit market. As the economy begins a path toward recovery, these factors will continue to negatively impact discretionary spending. Weak momentum in consumer spending, which comprises approximately 70% of economic activity, will weaken the recovery. This will translate to a slow recovery for related economically sensitive revenues.

Property Tax

As discussed in IBA Report 09-75, the assumed growth rate for property tax revenue in FY 2011 remains a concern. While the residential housing market is currently showing signs of stabilization with the median sales price of homes within San Diego County remaining constant at $325,000 between August and September (per MDA DataQuick), looming foreclosures continue to pose a threat. Per October data from MDA Dataquick, notices of defaults are up in the County by 17% year-to-date as compared to the same period last year. Year-to-date foreclosures are down by 26% from the same period last year, while the month of October showed an uptick from last year. The statistics still do not reflect the true reality of the threat given that banks are working with borrowers in default and forestalling foreclosing on properties. If and when these properties enter the market, they will put downward pricing pressure on the market and impact property value growth.

Another risk to the proposed property tax budget is the possibility of a larger decline in growth than the proposed -0.3% due to negative CPI growth and reassessments. Every year the County Assessor is allowed to apply a CPI increase of up to 2% on the property tax roll value of those properties that have not changed ownership or had structural improvements, per Proposition 13. The preliminary estimate for the California Consumer Price Index that the CPI increase is based on is -0.237. If the CPI remains unchanged, it will lower the values of properties on the property tax roll once applied. This reduction would be in addition to reassessments that will also take place for the FY 2011 Assessed Valuation. The County Assessor is still in the process of evaluating the FY 2011 Assessed Valuation and will not close this process until before July 1st of 2010. The actual valuation for the city of San Diego will not be known until then.

SERVICE IMPACTS

A wide range of services currently being provided to the community are proposed for revision, reduction or elimination in the Mayor's proposal. Some of the proposals such as the 4/10/5 work schedule in Environmental Services will result in significant savings through operational changes without affecting service levels - residents' trash will continue to be picked up once a week. While the number of hours that branch libraries will remain open can be easily quantified, it is much more difficult to identify the direct and indirect impacts of the reductions in library hours on those who rely on these services. The impacts of other reductions, such as the impact of the proposed rolling "brown-outs" on Fire Rescue response times, are difficult to quantify without experiencing many months of implementation. The Mayor's budget reduction proposal attempts to anticipate and characterize the related service level impacts to the best of staff's ability given the short timetable and other unknowns.

The Assistant Chief Operating Officer, who is responsible for overseeing the City's Strategic Plan and related performance measures, has indicated that once Council has acted on the Mayor's proposal, they will immediately begin a process to revise and update the City's Strategic Plan, goals, objectives and performance measures. The Council should be update on this process through the Budget and Finance Committee. This process was put on hold in October when it was learned that the City's budget and City services would be changing dramatically due to revenue shortfalls. Ideally, updated and quantifiable performance measures would be integrated with specific budget proposals and be available to inform the Council„s budget decisions. However, the City's performance measurements are not that embedded in the budget process; and the compression of the budget reduction schedule combined with other work priorities made this an impossible task to accomplish in the short time available.

Implementation of the reductions will take place beginning January 2010 through July 2010 depending on meet and confer requirements, employee reduction in force process and transition steps associated with implementation. Data will have to be collected for several months following implementation to get a sense of impacts. While we would normally expect the Mayor to provide an annual performance report to the Council in March 2010 to inform the FY 2011 budget process, data provided at this time will not reflect recent budget actions and will not be meaningful. Furthermore, the majority of decisions on the FY 2011 Budget are expected to be made in the next two weeks.

Based on the varying implementation schedules for the budget reductions and the time needed to collect meaningful data, we recommend that the Mayor's Office provide a mid-FY 2011 comprehensive and updated performance status report in January 2011 based on activity through December 31, 2010. In the interim, the Mayor should communicate with the City Council in the Strategic Plan revision process; and after reductions have been implemented for several months, Council Committees may want to separately docket discussions of various programs that have taken reductions in order to learn more about the impacts being felt by the community as well as the departments.

MEET AND CONFER ISSUES

Meet and confer obligations may exist with the City's impacted labor organizations. Meet and confer obligations with respect to the budget reduction proposals fall within two categories: decisional bargaining and impact bargaining. Both types of bargaining are generally referred to as the "meet and confer" process.

Decisional bargaining requires that the parties engage in the meet and confer process over any decision that falls within the scope of representation, as defined under government code 3504 of the Meyers-Milias-Brown Act (MMBA). Wages, hours, or other terms and conditions of employment are considered to be mandatory subjects of bargaining under the MMBA. Decisional bargaining, for example, applies to a change in work hours such as the 4/10/5 schedule proposed for Environmental Services.

Impact bargaining permits the employer to make a decision that falls outside of the scope of representation and only requires meet and confer when it substantially impacts mandatory subjects of bargaining under the MMBA. For example, when a position is proposed for elimination, the City would meet with the impacted labor organization and discuss the impacts the elimination of the position would have on the work unit. It is the responsibility of the labor organization to identify such impacts.

The chart below shows the total proposed General Fund position reductions by bargaining unit:

Position Reductions By Bargaining Unit

Bargaining Unit	Total Reductions	% of Total Reductions
MEA	239.33	45.4%
Lifeguard	7.00	1.3%
POA	131.75	25.0%
IAFF LOCAL 145	54.00	10.2%
ASFCME LOCAL 127	66.81	12.7%
Unrepresented	11.00	2.1%
Unclassified	17.50	3.3%
Total:	**527.39**	**100.0%**

The Labor Relations Division of the Human Resources Department is in the process of determining which items will require decisional or impacts bargaining. However, a preliminary review indicates that most of the proposals may require impacts bargaining and some of those may require decisional bargaining. Meet and confer requirements have been taken into consideration in determining implementation dates and the related savings projections. The City Council should be updated throughout the meet and confer processes on these matters and any adjustments in implementation timetables or specific proposals should be reported to the Council as soon as known.

RISKS TO THE MAYOR'S PROPOSAL

While the Mayor has issued a plan to address a FY 2011 General Fund deficit for $179 million as projected in his October Five-Year Financial Outlook, this section identifies some risks to the proposal which could necessitate further adjustments to achieve a FY 2011 balanced budget. We are not recommending that these issues be addressed today. The Mayor's Proposed Budget for FY 2011 goes a long way toward addressing the fiscal challenges before us for the coming year. However, we recommend that the Mayor consider and address all of the following issues as he develops his final FY 2011 Proposed Budget for submission to the City Council by April 15. We further recommend that the Mayor incorporate any additional impacts in a May Revise as called for in the recently adopted City Budget Policy.

1. **Projected Deficit for FY 2010 - Potential Loss of $7.5 million**
   The First Quarter FY 2010 Budget Report from Financial Management projects a deficit in the current year budget by year-end of $7.5 million. With the pending changes to the current year budget, FM did not recommend adjustments to address this shortfall at this time. However, $5.6 million of this shortfall is attributable to funding for reserves that is necessary in the current year just to bring the reserves up to 7% of General Fund revenues which is the policy level adopted by the Council during the FY 2010 budget process. The Mayor's proposal for the Reserves Holiday for FY 2011 is predicated on achieving a 7% reserves level for FY 2010.

2. **First Quarter Revenue Projections and Impact on FY 2011 - Potential Loss of $26.7 million**
   IBA Report 09-88, issued on November 23, 2009 presented our review of the Mayor's First Quarter Monitoring Report, and showed the following results of applying First Quarter revenue results and projections to the Mayor's FY 2011 projection:

Scenario	FY 2011 Forecast	FY 2012 Forecast	FY 2013 Forecast	FY 2014 Forecast	FY 2015 Forecast
Mayor's Outlook	$ 1,061.6	$ 1,094.1	$ 1,125.4	$ 1,156.8	$ 1,196.6
Impact of First Qtr Projections	$ 1,034.9	$ 1,066.6	$ 1,097.4	$ 1,128.4	$ 1,167.8
Difference	$ (26.7)	$ (27.5)	$ (28.0)	$ (28.4)	$ (28.8)
Impact	FY 2011 Deficit	FY 2012 Deficit	FY 2013 Deficit	FY 2014 Deficit	FY 2015 Deficit
Mayor's Projection	$ (179.1)	$ (158.8)	$ (155.9)	$ (165.9)	$ (136.5)
IBA Projection	$ (205.8)	$ (186.3)	$ (183.9)	$ (194.3)	$ (165.3)

The potential $26.7 million revenue shortfall, in keeping constant all Outlook revenue and expenditure growth assumptions, increases the Mayor's $179.1 million deficit to $205.8 million in FY 2011.

3. **New Property Tax Information - Impact in FY 2011 Undetermined**
   Also discussed in IBA Reports 09-75 and 09-88 was our concern regarding the assumed growth rate for property tax revenue in FY 2011. A risk to the proposed property tax budget is the possibility of a larger decline in growth than the proposed -0.3% due to negative CPI growth and reassessments. Each year the County Assessor is allowed to apply a CPI increase of up to 2% on the property tax roll value of those properties that have not changed ownership or had structural improvements, per Proposition 13. The preliminary estimate for the California Consumer Price Index that the CPI is based on is -0.237. If the CPI remains unchanged, it will lower the values of properties on the property tax roll once applied. This reduction would be in addition to reassessments that will also take place for the FY 2011 Assessed Valuation. Each 1% decline in the growth rate equates to a loss of approximately $3.9 million.

4. **Holiday Sales Tax Outlook and Other Mid-Year Budget Issues - Potential Impacts Undetermined**
   The City will learn the results of Holiday sales tax collections for the month of December in March 2010. The outcome could impact sales tax projections for both the current year and next year. Preliminary results from "Black Friday" and the Thanksgiving weekend shopping period indicate that consumer spending held steady or even posted a slight increase compared to last year. Research firm ShopperTrak reported that retail sales for the three-day holiday weekend rose 1.6 percent. However, widespread optimism remains muted. The National Retail Federation is forecasting a 1 percent decline in holiday sales compared to last year.

   In addition, more holiday purchases are being made online. Consulting firm Deloitte estimates that 38 percent of Southern California residents plan to do their holiday shopping online, compared to 24 percent last year. According to internet research firm comScore, online sales this past Monday, termed “Cyber Monday,” were up 5 percent from the prior year. This trend has negative implications for state and local governments, as online retailers are not required to pay sales taxes on out-of-state shipments. The Board of Equalization has estimated that California loses an average of $1.1 billion in sales tax revenue annually due to online sales. For the City of San Diego, each 1% decline in sales tax growth rates equates to a loss of approximately $1.8 million.

5. **Projected Deficit in FY 2012 - $77.0 million**
   The Mayor’s October Five -Year Outlook projected a deficit of $159.0 million for FY 2012, while the IBA has projected a $186.0 million deficit based on differing revenue projection. Offsetting these projections with $82.0 million in ongoing solutions included in the Mayor’s Proposal could leave a deficit ranging from $77.0 million to $106.0 million in FY 2012. The Mayor plans to update his Five-Year Outlook based on the most recent data.

ADDRESSING THE CITY’S STRUCTURAL BUDGET DEFICIT AND STRUCTURAL REFORMS

We emphasized earlier in our report that structural solutions to the City’s budget deficit are the key to the City’s long-term financial stability. We also noted that many structural changes can take time to implement often spanning several fiscal years. Structural changes can be achieved through permanent expenditure reductions; long-term fiscal reforms such as pension changes; and new revenue sources. Expenditure reductions can be extremely difficult for the community in that they often result in reduced service levels as has been the case in the City of San Diego. Expenditure reductions that result from operational efficiencies while maintaining service levels, such as the proposed 4/10/5 work schedule for Environmental Services, are most desirable but often hard to achieve.

Every City employee took a 6% reduction in salary and/or benefits effective July 2009, other structural changes such as pension reforms have been extremely challenging. The Mayor and Council recently implemented pension reforms for new employees hired on or after July 1, 2009 including reduced retirement calculation factors and a reduced cap-from 90% to 80% of the average highest three years’ salaries (rather than highest one year) for General Members. New employees also have reduced benefits for health care and can no longer participate in the Deferred Retirement Option Plan (DROP). In addition, under the new plan, sworn officers are required to reach the age of 55 (rather than 50) before a 3% retirement calculation factor can be achieved.

These are important steps toward reducing our liabilities in the future but do not affect pension costs for most existing City employees. Generally understood guiding principles from case law and the California Constitution Contracts Clause may preclude reducing

City employee pension benefits. However, two areas being explored, that have been determined to not be vested benefits, are retiree health care and the DROP program. The IBA is working with the City Attorney's office to evaluate outstanding issues related to pension and retiree health care.

New revenue sources are another structural solution that should be seriously considered to help address the City's structural budget deficit. In IBA Report 06-10 issued March 7, 2006, we noted the following:

> *"The IBA believes that now is not the appropriate time to consider ballot measures to raise taxes and fees but this will be an important issue to address in the years to come. Before such measures can realistically be considered, the City must first work diligently to restore its financial credibility with the public through such means as fixing its budget; getting a handle on its pension requirements; returning to the bond market; and creating internal efficiencies through restructuring and reorganization."*

While more work needs to be done in many of these areas, we believe that the time has come to explore new resources. In our "Review of the Mayor's FY 2010 Proposed Budget", IBA Report 09-37, issued last April, we recommended that a Storm Water fee and a Refuse Collection fee be considered by a citizens' committee for implementation in FY 2011. We further noted last April that:

> "*…if revenue options are not recommended for FY 2011 budget that the Mayor and City Council should advance the budget balancing process for FY 2011 to the First Quarter and implement cost reductions as soon as potential shortfalls are projected in order yield greater savings and help mitigate the impact on City services and help mitigate the impact on City services and employees."*

IBA RECOMMENDATIONS

While we recommend Council approval of the Mayor's budget reduction proposal, we also recommend Council adoption of the following IBA recommendations:

Programmatic Budget Reduction Proposals:

1. Consider restoration of some Police civilians through a commensurate reduction in vacant sworn officer positions and related savings not yet accounted for in the budget proposal;
2. Request the Mayor to provide an implementation plan for Fire-Rescue rolling "brown outs" proposal prior to final decisions;

3. Request further clarification regarding the lifeguard eliminations at Torrey Pines particularly during the summer months; and explain the operational impacts of moving from active water observation to patrol only;
4. Staff identify how the new revenue from the Parking Utilization Study Plan is to be utilized and ensure consistency with City Attorney's memo on this matter;
5. Keep Council informed about meet and confer progress related to budget reduction proposals;

Technical Budget Issues:

6. Comptroller complete study of outstanding and/or extinct funds throughout the City and present results to the Budget and Finance Committee, including an update on the funding commitments and remaining fund balance in the Library System Improvement Fund;
7. FM ensure maintenance of current year reserves at 7% prior to implementing Reserves Holiday or discuss as policy issue in the May Revise;
8. Pursue refinancing outstanding General Fund backed bonds to achieve long-term cost savings in annual debt service payments;

Budget Process:

9. Provide updated FY 2011 Budget Proposal on April 15^{th} to reflect updated revenue and expenditure information, updated ARC requirement, and any changes to budget reduction proposals as a result of meet and confer or other implementation issues;
10. Provide Revise in May rather than June consistent with the City's recently adopted Budget Policy;

Monitoring of Service Level Impacts:

11. Assistant Chief Operating Officer to provide comprehensive and updated performance measurement report by January 2011; reflecting data associated with the implementation of budget reductions through 12/31/10;
12. In the interim, Council Committees could invite departments as warranted to provide updates on implementation of budget reductions and impacts being experienced;
13. Assistant Chief Operating Officer to report to the Budget and Finance Committee the results of the Strategic Plan Revisioning process and related goals, objectives and performance measures;

Citizen Input:

14. The Citizen's Revenue Review and Economic Competitiveness Commission will hold its inaugural meeting on Tuesday, December 15^{th};
15. Hear the Final Report of the Mayor's Task Force on City Finances at Budget and Finance Committee;

16. Continue “San Diego Speaks” program and continue to review citizen suggestions;
17. Complete citizen survey of City services;

Structural Reforms:

18. Chief Operating Officer provide date for completion and presentation to City Council on the DROP neutrality study;
19. Mayor provide report to City Council on the work and timeline of the Mayor’s Retiree Health Care Study Group which has been meeting since September;
20. The IBA is working with the City Attorney’s office to evaluate issues related to pension and retiree health care matters;
21. Complete managed competition negotiations;
22. Mayor explore opportunities for implementing 4/10/5 work schedule in other work areas in light of the significant efficiencies demonstrated by the Environmental Services;
23. Mayor initiate cost of service study for storm water operations and/or refuse collection to prepare for a future fee;
24. IBA review and update the Council-Approved Fiscal Reforms Matrix approved during FY 2010 budget process and present to the Budget and Finance Committee.

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