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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** February 10, 2010

**IBA Report Number:** 10-12

**City Council Docket Date:** February 22, 2010

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# Adoption of Guiding Principles for Structural Budget Deficit Elimination Plan

## OVERVIEW

At the Budget and Finance Committee meeting of January 6, 2010, the IBA presented IBA Report No. [10-01](#), “Developing a Structural Budget Deficit Elimination Plan”. In this report, the IBA compiled guiding principles and key elements of recommendations from varied sources to identify common elements deemed necessary to effectively address a structural budget deficit. The IBA suggested eleven guiding principles for consideration by the Mayor and City Council.

## FISCAL/POLICY DISCUSSION

At the Budget and Finance Committee meeting of January 6, 2010, Councilmember Faulconer requested information on how the guiding principles addressed budgetary recommendations from the 2006 Kroll Report. In addition, Budget and Finance Committee Chair Young requested all Councilmembers to submit their ideas on the Structural Budget Deficit Elimination Plan in writing by January 25, 2010. These proposals will be considered for inclusion in the action plan that will be developed following approval of the guiding principles.

At the Budget and Finance Committee meeting of January 27, 2010, the Proposed Guiding Principles on the Structural Deficit Elimination Plan were again discussed. The

IBA presented IBA Report No. 10-08 which describes the relation of the Kroll Recommendations to the Guiding Principles, and Councilmembers also had an opportunity to discuss ideas as presented in their memorandums. The Committee voted unanimously to forward the Guiding Principles to the full City Council with changes in the following language: 1) Principle 10 “in a manner compliant with City Charter”; and 2) Principle 3 “including managed competition”, as reflected below.

***Suggested Guiding Principles (as amended):***

1. Eliminate the General Fund structural budget deficit through a balanced approach of ongoing expenditure reductions and revenue generation, including identifying new revenue sources.
2. Maintain General Fund Reserve levels at no less than 7% of the City’s General Fund.
3. Actively pursue alternative service delivery methods, including managed competition, efficiency improvements and elimination of service duplications.
4. Prepare a Five-Year Outlook that is structurally balanced each year of the Outlook.
5. One-time resources should be matched to one-time expenditures.
6. Achieve 100% cost recovery for programs and services that are intended to be fully cost recoverable through fees.
7. Reduce pension and retiree health care liability and annual City costs through the meet and confer process.
8. New facilities or programs should only be considered if there is no new impact on the City’s General Fund.
9. Prioritize City services expenditures based on results of Citizen Survey, benchmarking studies and departmental goals and performance data.
10. Maintain funding of full annual contributions for pension obligations in a manner compliant with City Charter, and begin to fund full annual contributions for retiree health care obligations.
11. Adequately fund deferred infrastructure and maintenance needs annually to ensure that the problem is not growing, and to reduce the potential of increased costs.

At the Audit Committee meeting of February 1, 2010, a report was presented from the Streets Division of the General Services Department and the Independent Budget Analyst regarding the Performance Audit of the City's Street Maintenance Functions.

The Audit Committee voted unanimously to move the recommendations contained in the IBA Report with the following two modifications:

- 1) Recommendation to Adopt Structural Budget Deficit Elimination Principle #11. At the time that the City Council takes up the "Structural Budget Deficit Elimination Principles," issuing an Audit Committee Recommendation that the Council adopt IBA Structural Budget Deficit Elimination Principle #11, which states: "Adequately funding deferred infrastructure and maintenance needs annually to ensure that the problem is not growing, and to reduce the potential of increased costs."
- 2) Recommendation on Creation of Council Policy Regarding Deferred Maintenance Calculation and Budgeting: At that same hearing, recommend that the City Council direct staff and the IBA to work together to draft a City Council Policy for producing a deferred maintenance calculation for all asset categories (e.g. with specific policy guidelines for Streets, Facilities, Storm Drains, and Sidewalks), as well as clearly identifying the necessary policy decisions that must be made by the City Council to facilitate these calculations. These calculations should include identification of the entire maintenance and infrastructure backlog, identification of the annual cost of routine maintenance, verifying that routine asset maintenance is no longer being deferred to add to the backlog, and identifying the required funding and time horizons for reducing the backlog to desired levels.

The IBA has begun work on developing the information requested by the Audit Committee regarding a deferred maintenance policy and related cost calculations, and intends to bring items forward for review and approval by the appropriate Council committees and the City Council.

## CONCLUSION

In January 2010, the IBA presented IBA Report No. 10-01, "Developing a Structural Budget Deficit Elimination Plan", in response to Council direction at the time actions were taken related to budgetary reductions earlier in the fiscal year. The report included guiding principles and key elements of recommendations from varied sources to identify common elements deemed necessary to effectively address a structural budget deficit. The IBA suggested eleven guiding principles as a starting point for consideration by the Mayor and City Council. The Budget and Finance Committee recommended minor changes, and the Audit Committee recommended its support for the principle related to funding of deferred maintenance.

Once the guiding principles are adopted, an action plan, implementation steps and timeframes can be developed and adopted for each principle to bring the structural budget deficit elimination plan to fruition. Proposals described in the memos from Councilmember will be considered for inclusion in the action plan.

**[SIGNED]**

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**[SIGNED]**

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APPROVED: Andrea Tevlin  
Independent Budget Analyst

Attachment: Councilmember Memos re: Structural Budget Deficit Elimination Plan