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## OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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**Date Issued:** June 10, 2010

**IBA Report Number:** 10-47

**City Council Docket Date:** June 14, 2010

**Item Number:** 152

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# Approval of the Fiscal Year 2011 Budget

## OVERVIEW

The IBA presented Report No. 10-43 “Fiscal Year 2011 Final Budget Report and Recommendations” to the Special Joint Meeting of the Committee on Budget and Finance and the City Council Committee of the Whole on May 26, 2010. This was the first of two Charter-required public hearings on the Mayor’s Proposed Budget prior to final City Council budget decisions and approval, which is necessary by June 15 each year.

At the May 26 Special Joint Meeting, the Council moved to continue discussion of this item to the City Council meeting of June 14, 2010, and directed the Independent Budget Analyst to include additional options for resources, including \$500,000 in funding proposed in the Mayor’s May Revise for the Phyllis Place road connection study.

This report reviews outstanding FY 2011 budget issues as identified in IBA Report 10-43 and discussed on May 26<sup>th</sup>, and updates previously identified resource options. We have also provided as Attachment A, a memo issued by the CFO in response to Council requests, which lists expenditure reductions proposed by some departments in December but not taken. Finally, in Attachment B, we have listed all of the recommendations from the individual City Council budget priorities memos and reported the status of each. We will continue to follow up on these items and update their status through the annual review of the Council’s Policy Matrix.

Our final recommendations for the FY 2011 budget are as follows:

1. Approve the Mayor's FY 2011 Proposed Budget released on April 15, 2010.
2. Approve the Mayor's May Revise to the FY 2011 Proposed Budget as presented in the COO's May 14<sup>th</sup> memorandum.
3. Approve \$3.8 million in new resources as part of the FY 2011 Budget:
  - a. Debt service savings on 2010A Lease Revenue Refunding Bonds of \$1.2 million General Fund savings
  - b. Reduction in the FY 2011 pension ARC as a result of SDCERS' May 28<sup>th</sup> action on "Substantially Equal" proposals of \$2.6 million General Fund savings
4. Approve \$62,000 in net new funding from the resources identified above for the City Auditor's FY 2011 Budget, to reflect the following Audit Committee recommendations:
  - a. Add 0.50 Principal Auditor mid-year at a cost of \$76,500
  - b. Restore vacancy factor of \$85,500
  - c. Transfer Public Utilities funds of \$100,000 to City Auditor to conduct water and wastewater audits
5. Approve the addition of the following items to the Park and Recreation FY 2011 Budget, totaling \$199,700 in expenditures, offset by \$199,700 in donations and other sources:
  - a. La Jolla Children's Pool Park Ranger
  - b. Restoration of Fire Pits
6. Appropriate the remaining new resources of \$3,738,000 (\$3.8 M discussed in Item 3 minus \$62,000 in net costs for City Auditor's budget discussed in Item 4). Two options for the remaining \$3.7 million are discussed below:

**Option 1-Restore in FY 2011 \$3.0 M for Four Storm Drain Projects Proposed to be De-Appropriated in FY 2010 Year-End Actions; Put Remaining Funds in Reserves**

The FY 2010 Year-End Report proposes to eliminate the remaining current year deficit of \$7.8 million through a combination of new one-time resources (\$2.6 million) and de-appropriation of several capital projects (\$5.2 million). \$2.2 million of this amount has been determined by staff to have no negative impact on the related projects as they are either recently completed or near completion and no further funding is required. However, the four storm drain projects proposed to be de-appropriated in the Year-End report, which total \$3.0 million, are deemed by staff to be critical. In the Year-End report, the CFO also recommends that the Council utilize \$3.0 million, of the \$3.7 million available, to re-appropriate funds to these four projects due to their critical nature. They recommend the remaining \$700,000 go into the General Fund reserves.

**Option 2- Establish an Appropriated Reserves of \$3.7 M for FY 2011**

The Appropriated Reserves (AR) is intended as a contingency for unanticipated, non-emergency needs identified during the year. Per the policy, the AR can also be used to alleviate revenue shortfalls or for funding one-time, high priority programs/activities. Proposals to use these funds can be brought forward by either the Mayor or the City Council and require approval (by resolution) by a majority of the City Council.

There is currently no AR included in the FY 2011 Budget. This new funding would be appropriated separately but would be considered as part of the City's overall General Fund reserves, when determining the reserve goal. This action would provide a small amount of flexibility for the City Council to address critical issues that may arise during the course of the fiscal year.

There are a number of outstanding issues which warrant creating an Appropriated Reserves with the funding available rather than appropriating it at this time including: the possibility of increased elections costs should ballot propositions be approved for the November 2010 ballot; potential revenue shortfalls- property tax revenues being of particular concern; potential mitigation of impacts of public safety reductions; and uncertainty of redistricting expenses to name a few. Additionally, if later in the year, alternatives have not been identified to address the storm drain projects, this funding could be reconsidered for that purpose.

The IBA recommends Option 2. Option 1 to appropriate \$3.0 million to the four storm drain projects for FY 2011 is not recommended as this time. The IBA has suggested that the City Council may wish to request alternative projects for reduction as part of the Year-End Adjustments, or request additional review of the Storm Water capital projects to review the priority nature of the projects proposed for reinstatement. Regardless, actions to provide funding for these projects could be taken at a later date, and after the Council completes its review of the FY 2010 Year-End Adjustments. The FY 2010 Year-End Adjustments are expected to be docketed for a second public hearing and adoption on Monday, June 21.

**Outstanding Budget Issues**

***Fire-Rescue Brownouts***

Consideration of restoring browned-out Fire Engines was the only specific budget issue that was mentioned in a majority of the City Council budget priorities memos. Individual Council Members requested the Mayor to provide resource options to allow for consideration of the restoration of 1, 3, or 8 fire engines due to concerns about impacts on response times. To date the Mayor has not responded to this request. Restoration of 1, 3,

or 8 engines would require funding of \$1.4 million, \$4.2 million, and \$11.5 million respectively. As discussed in our Final Report, we recommend no restorations at this time due to the tentativeness of the General Fund budget.

### ***November 2010 Special Election Funding***

On June 16<sup>th</sup>, the Rules Committee will consider ballot proposals for the November 2010 Special Election ballot. Pending the recommendation of the Rules Committee, ballots will have to be approved by the City Council by the end of July to meet a designated Registrar of Voters deadline for the November election.

Only \$200,000 has been budgeted in the FY 2011 Proposed Budget within Citywide Program Expenditures for elections costs. Based on most recent estimates of the number of registered voters in Council Districts 6 and 8, the cost of the run-off election for the two Council Districts is estimated at approximately \$42,000. The budgeted amount is sufficient to cover this cost, however, it is not sufficient to cover the costs if Council votes to place ballot proposals on the November ballot. The City Clerk estimates each five-page ballot proposal would increase election costs by \$250,000.

We recommend that any ballot proposals approved by Council in July include a provision recommending a transfer of required funding from the General Fund reserves.

### **Other Resource Options**

We presented the following additional General Fund resource options in our Final Report for Council consideration.

1. ***Elimination of free Hold Harmless Residential Refuse Collection Service- \$432,000 savings*** (This figure has been revised since our Final Report to reflect a six-month implementation period)
2. ***Elimination of free Small Business Refuse Collection Service- \$350,000 savings*** (This figure has also been revised to reflect a six-month implementation period.)
3. ***Park and Recreation fee increases- \$123,000 new revenue*** (This item is scheduled to be heard by the Budget and Finance Committee on June 23, 2010.)
4. ***Additional 5% reduction to Supplies - \$1.1 million savings.*** (Department budgets would need to be reviewed separately to determine impacts.)
5. ***Additional 5% reduction to Contracts- \$5.8 million savings*** (Department budgets would need to be reviewed separately to determine impacts.)
6. ***Elimination of funding for Phyllis Place road extension study- \$500,000*** (This item was included in the motion made by Council Member Frye on May 26, 2010 for consideration during final budget decisions.)

These items total \$8.3 million in savings/new resources. We do not recommend these items as this time.

## RECOMMENDATION

The IBA recommends City Council approval of Items 1-6 on page 2 of this report including Option 2 of Item 6. We further recommend that General Fund Appropriated Reserves be considered as the priority funding source to pay for additional election costs if and when the Council votes to place ballot propositions on the November ballot.

[SIGNED]

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Elaine Duval  
Fiscal & Policy Analyst

[SIGNED]

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APPROVED: Andrea Tevlin  
Independent Budget Analyst

### Attachments:

- A) Reduction Items Proposed by Departments December 2009, Not Taken
- B) Recommendations from Individual City Council Budget Priorities Memos and Status



## THE CITY OF SAN DIEGO

## M E M O R A N D U M

DATE: June 9, 2010

TO: Honorable Members of the City Council

FROM: Mary Lewis, Chief Financial Officer *Mary Lewis*

SUBJECT: Expenditure Reductions from December 2009

This memorandum is in response to the request for additional information on the expenditure reductions that were proposed by departments for the December 2009 budget actions but not included in the FY 2010 Revised Budget or the FY2011 Proposed Budget.

In December 2009, the City Council passed two budget resolutions: the revision to the Fiscal Year 2010 Adopted Budget and the Fiscal Year 2011 General Fund Budget. In developing these budget actions, departments were asked to prepare proposed budget reductions that amounted to 27% of their *discretionary expenditures*. Discretionary expenditures are determined by excluding fixed costs, such as, pension, retiree health, workers' compensation, and debt service payments. Overall, City Council approved budget reductions that resulted in savings of 8% of total General Fund discretionary expenditures.

The follow information was discussed in the December 2009 budget presentations. The associated expenditure savings for each of these expenditure reduction options (that were not taken) are listed below.

Police

1. Eliminate Recruits and Sworn Officers - \$55.5 million
  - Police Recruits – 80.00 FTE
  - Police Officer I – 249.00 FTE
  - Police Officer II – 242.00 FTE
  - Police Detective – 57.50 FTE
  - Police Lieutenant – 12.00 FTE
  - Police Sergeant – 57.50 FTE
2. Eliminate Retired Senior Volunteer Patrol Program - \$556,202
3. Close Northwestern Area Command Station - \$253,330
4. Eliminate Remaining Canine Units - \$603,224
5. Eliminate 27.50 FTE High-Priority Civilian Positions - \$1.6 million
6. Displace Homeless Outreach and Multi-Cultural Programs - \$482,904

Fire-Rescue

1. Close 20 Fire Stations - \$23.7 million
2. Reduce Firefighting Helicopters - \$613,302
3. Eliminate Brush Management Program - \$381,814
4. Reduce Lifeguards serving Pacific Beach and Mission Bay - \$488,397
5. Scale back Boating Safety Program - \$295,406
6. Eliminate Night Emergency Response Team (Lifeguard) - \$506,185
7. Eliminate Metro Arson Strike Team - \$501,401

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Honorable Members of the City Council

June 9, 2010

Park & Recreation

1. Close 10 Recreation Centers - \$913,296
2. Reduce Recreation Center hours from 40 to 30 a week - \$810,742
3. Reduce all Pools to a 6-Month Schedule (April-Sept) - \$1.3 million
4. Close 4 Swimming Pools (remaining 6 months) - \$236,912
5. Close Mount Hope Cemetery to New Burials - \$18,371
6. Cease all After-School and Teen Center Programs - \$417,908
7. Reduce hours of Balboa Park Public Buildings - \$61,742

Library

1. Close 11 Libraries - \$3.1 million
2. Reduce Family and Adult Literacy Programs - \$113,890
3. Reduce Funding for New Books - \$101,473

Environmental Services

1. Eliminate Refuse Collection from Hold Harmless Customers - \$865,000
2. Eliminate Refuse Collection from Small Businesses - \$707,000

City Planning & Community Investment

1. Eliminate the Small Business Enhancement Program - \$1.3M

Mary Lewis  
Chief Financial Officer

ML/bb

cc: Honorable Mayor Jerry Sanders  
Jan Goldsmith, City Attorney  
Jay M. Goldstone, Chief Operating Officer  
Wally Hill, Assistant Chief Operating Officer  
Andrea Tevlin, Independent Budget Analyst  
Kevin Casey, Director of Council Affairs  
William Lansdowne, Chief of Police  
Javier Mainar, Fire Chief  
Stacey LoMedico, Park and Recreation Director  
Deborah Barrow, Library Director  
Chris Gonaver, Environmental Services Director

# Fiscal Year 2011 City Council Budget Priority Memos

#	Fiscal Year 2011 City Council Budget Priority Memos	Status
1	<u>Councilmember Sherri Lightner</u>	
2	Explore options to restore browned-out fire engines	Resource options provided for consideration in IBA Reports #10-43 and #10-47
3	Provide year-round lifeguards at Torrey Pines City Beach	Resource options provided for consideration in IBA Reports #10-43 and #10-47
4	Oppose spending to amend Coastal Development Permit for year-round rope barrier at Children's Pool	On Monday, May 17, 2010, the City Council adopted resolutions requesting, among other things, that the Mayor seek amendment to the CDP to keep the rope barrier in place year-round.
5	Reinstate funding for fire pits	Donations allow for reinstatement, final budget action is needed during final decisions
6	Reclassify City Trails Manager position	Due to December 2009 reductions, the elimination of a Project Officer II resulted in demotion of incumbent to Senior Park Ranger. If the Council desires to reinstate a Project Officer II position to Park and Recreation, the salary for the position ranges from \$77K to \$93K, excluding fringe benefits and non personnel costs.
7	Provide analysis on impact of library attendance due to hour reduction	IBA to request data from Library Director through COO
8	Cost recovery for fire false alarm fee	Being studied by Fire-Rescue, recommendations expected by December 2010
9	Cost recovery for police false alarm fee	Being studied by Police as part of a comprehensive review of all Police fees.
10	Cost recovery for inspections and gun dealer permits	Being studied by Police as part of a comprehensive review of all Police fees.
11	Corporate sponsorships	Being studied by PS&NS. Councilmembers Demaio/Lightner recently issued proposal.
12	Increase news rack permit fees for cost recovery of one full-time code compliance position	Newsrack Permit Fees increased from \$10 to \$15 on April 20, 2009, and covers the cost of 0.50 Code Compliance Officer. Further increases may be requested in the future to fund 1.00 Code Compliance Officer.
13	IBA to analyze revenue that could be collected from public educational institutions within the City from shared use of traffic, parking, or Fire-Rescue response services	
14	Utilize 4/10 or 4/10/5 work schedules where possible	Refer to COO for management review
	<u>Councilmember Kevin Faulconer</u>	
15	Implement Managed Competition	Negotiations underway
16	Continue growth of auditing functions	Additional auditor position recommended by Audit Committee, final budget action is needed during final decisions
17	Lift the Centre City Redevelopment project area CAP	Being studied. Preliminary actions heard by Redevelopment Agency on April 27, 2010; continued to June 22, 2010.
18	Freeze retiree healthcare costs	Retiree healthcare study expected July/August 2010; negotiations with labor groups to follow.
19	Continue monitoring public safety needs-look to restore browned-out fire engines	Resource options provided for consideration in IBA Reports #10-43 and #10-47
	<u>Councilmember Todd Gloria</u>	
20	Explore restoring browned-out fire engines by reviewing the following resource options:	
21	- Termination of Hold Harmless Agreements for refuse collection	Proposed for consideration by IBA in Final Report #10-43

# Fiscal Year 2011 City Council Budget Priority Memos

#	Fiscal Year 2011 City Council Budget Priority Memos	Status
22	- Utilize unrestricted monies in Mission Bay Improvement Fund	Considered but rejected at this time due to project impacts
23	- Bring forward Parking Meter Utilization Plan	Request that management bring this plan forward
24	- Increase Entertainment Permit Fees	Being studied by Police as part of a comprehensive review of all Police fees.
25	- Implement Fire False Alarm Fee	Being studied by Fire-Rescue, recommendation expected by December 2010
26	- Bring forward a new proposal for a First Responder Service Fee	Being discussed by Citizens Commission
27	Bring forward to Council updated Public Facilities Financing Plans	Refer to COO
28	IBA to analyze potential revenue by reinstating the Senior Planner Position for Historic Preservation	Being Studied by IBA
29	Utilize balance in Seized and Forfeited Assets Fund to restore Police Service Officers	Studied by IBA. Not an eligible expense, per federal guidelines.
30	Update of BPRs to Council	Scheduled for BFC July 14, update memo recently issued by Business Office
31	IBA analysis on impacts to department contract spending due to elimination of carry-forward funds and zero-based review	Refer to CFO
32	Select revenue options for city to pursue	Being studied by Citizens Commission
	<u>Councilmember Tony Young</u>	
33	Adopt Structural Budget Deficit Elimination Plan	Guiding principles and timetable have been adopted by Council, Mayor to issue plan September 2010
34	Receive and act on recommendations of CRRECC	Recommendations expected in August 2010, will be brought to BFC, then Council
35	Merge City Treasurer's Audit Division with Office of the City Auditor	Being studied, Audit Committee to consider in July, awaiting City Attorney opinion
36	Continue "Priority Driven Budgeting" process	Department prioritization continues to be part of annual budget process
	<u>Councilmember Carl DeMaio</u>	
37	Include the City's retiree healthcare and infrastructure liabilities in deficit calculations	IBA will include as a scenario in next review of Five Year Outlook
38	Reform the City's pension, retiree health and deferred infrastructure liabilities	DROP neutrality study expected June 2010; lawsuit filed against SDCERS May 2010 regarding substantially equal sharing of investment losses; pension-related benefit reductions pending labor negotiations; retiree healthcare study expected July/August 2010; retiree healthcare negotiations with labor groups to follow completion of study.
39	Proceed with Managed Competition	Negotiations underway
40	Continue proposing performance audits	Work plan going to Audit Committee in July, numerous audits requested
41	Enhance Marketing Partnerships	Being studied by PS&NS. Councilmembers Demaio/Lightner recently issued proposal.
42	Eliminate Terminal Leave for all bargaining units	Ordinance amending terminal leave for POA, Local 127 and unrepresented employees adopted by Council April 20, 2010. Pending future negotiations for remaining bargaining units.
43	Reject tax and fee increases	
44	Improve small business efforts	Being studied by Citizens Commission

# Fiscal Year 2011 City Council Budget Priority Memos

#	Fiscal Year 2011 City Council Budget Priority Memos	Status
	<u>Councilmember Donna Frye</u>	
45	Reallocate funds for Phyllis Place Road Connection Study to help offset cuts to public safety	Added to resource options list at request of CM Frye
46	Retain PSO and police support staff positions when funds available	Future budget issue as resources allow
47	Explore funding options to restore browned-out fire engines	Resource options provided in IBA Final Report for consideration
48	Identify funding for DROP Neutrality Study	Partial funding available in Citywide, refer to COO, contract approval for actuary expected to come to Council soon
49	Consolidate City Treasurer's Revenue Audit Program into the office of the City Auditor	Being studied, scheduled for Audit Committee June 14, awaiting City Attorney's Office memo
	<u>Councilmember Marti Emerald</u>	
50	IBA to review reductions made to management level positions and front-line worker positions and compare position reduction rates	IBA to request data from Personnel
51	IBA to conduct \$100,000+ salary study	Completed and issued as IBA Report #10-46, May 25, 2010
52	Amend CCDC FY11 budget to include up to \$750,000 for purchase and installation of six downtown public restrooms	Being studied by CCDC. FY 2011 Redevelopment Agency budget tentatively scheduled for adoption on June 21, 2010.
53	Review Employees/Residents Suggestions Memos	Some suggestions implemented, review continues
54	Audit consultant and other outside contracts	Refer to Auditor to consider in annual work plan
55	Explore revenue options to restore browned-out fire engines and police protection	Resource options provided for consideration in IBA Final Report
56	Reduce Community and Legislative Services Department by \$2M and increase its transparency	Refer to Mayor and Director of Community and Legislative Services
57	IBA to review activities and structure of the RA to see if cost savings can be realized by consolidating City Redevelopment Department, CCDC and SEDC	Recommend allowing some time for implementation of new operating agreement reports and hiring of new executive director
	<u>Council President Ben Hueso</u>	
58	Additional funding for Community Plan Updates in general and for Otay Mesa and Barrio Logan	Future budget issue as resources allow
59	Support Deferred Capital/Deferred Maintenance funding plan- incorporate Guiding Principles	Scheduled for BFC June 23
60	Prioritize restoration of browned-out fire engines	Resource options provided in IBA Final Report
61	Restore Senior Management Analyst and Administrative Aide position in Office of Homeland Security	Included in Mayor's May Revise
62	Keep libraries open and maintain current hours of operation	Future budget issue as resources allow
63	Consider restoring youth services librarian positions in Otay Mesa/Nestor library	Future budget issue as resources allow
64	Allocate additional \$125,000 to Silver Wing Neighborhood Park using DIF funds for Pequena Street storm drain system	Not recommended by Engineering staff

## Fiscal Year 2011 City Council Budget Priority Memos

#	Fiscal Year 2011 City Council Budget Priority Memos	Status
65	Allocate \$550,000 for Villa Montezuma improvements and restoration	The City Council could consider the reallocation of funding from existing capital projects or other budgeted programs, if it is determined that these requests for funding are of a higher priority. It is possible that these projects could be considered for deferred capital bond funding.
66	Allocate \$900,000 for completion of Memorial Pool repairs	same as 65
67	Prioritize design and construction of Riviera del Sol Park	same as 65
68	Oppose Park and Rec Fee schedule that increases fees to programs and services	Scheduled for Budget and Finance Committee meeting of June 23
69	Make annual payments to pension as per the Guiding Principles	Current practice since FY06
70	Increase number of academies to increase police force	Future budget issue as resources allow
71	Maintain Mayoral and Council allocations for art and cultural district events	Mayor and Council TOT allocations currently maintained in FY 2011 Budget.