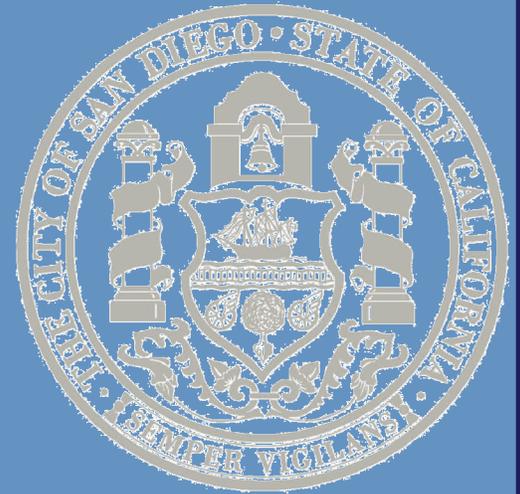




REVIEW OF THE FISCAL YEAR 2015 PROPOSED BUDGET



IBA REPORT 14-15 APRIL 28, 2014

ANALYSIS BY THE
OFFICE OF THE INDEPENDENT BUDGET ANALYST



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Section One: Bottom Line

Strength: Mayor's Proposed Budget Assumptions Are Sound, Budget Includes Significant Investments in Public Safety, Restores/Adds Other Priority Community Services

Weakness: Current Infrastructure Funding Sources Are Not Sustainable and Will Not Meet City's Significant Capital Funding Needs, Forecasted Surpluses for FY 2016—2019 are Likely Optimistic

The Mayor's FY 2015 Proposed Budget is a sensible budget proposal with appropriate revenue assumptions; a healthy General Fund reserve of 14%; improvements in the City's management structure; and incremental restoration of many of the service reductions taken during FY 2009 and FY 2010 including library hours, Police civilians, Fire academies, the number of Police recruits per academy, community plan updates, brush management, neighborhood enforcement officers, and facilities maintenance staff.

New programs have been added as well including a "Do Your Homework @ the Library" after school pilot program; a pilot program in Fire to test the effectiveness of a two-person Fast Response Squad; expansion of Police body worn cameras; the beginnings of an open data program; and a multi-faceted, coordinated approach for addressing homelessness beyond shelter services as recently proposed by Council President Gloria, which focuses on maximizing City resources through partnerships

with several existing homelessness efforts. A new temporary Skyline Fire Station will be opened and operating in FY 2015 to be replaced by a permanent facility in FY 2019, and 11 new parks and recreation-related facilities will be available for use by our residents.

The FY 2015 Proposed Budget benefits substantially from an improved economy as well as recent implementation of financial reforms including restructuring retiree health care benefits and implementing a five-year pensionable pay freeze for all employees. **With negligible use of one-time resources and sound revenue assumptions, this proposed budget and its corresponding service levels are likely more sustainable than those proposed over the past eight years.**

The FY 2015 Proposed Budget includes significant investments in public safety. These newly committed resources, which total about \$19.0 million, have the potential to noticeably improve service delivery according to both Police and Fire leadership. Examples include:

- Preliminary estimates suggest the Fire Fast Response Squad (FRS) pilot program could reduce emergency response times in certain deployment areas by one to three minutes.
- Completion and operation of the Skyline Temporary Fire Station will also increase service in an area of critical need.
- Increasing Police Academy size from 34 to 43 recruits could result in the de-

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partment meeting its sworn staffing goals in July 2018 instead of April 2027 based on attrition and hiring assumptions.

Police attrition currently continues at a high rate of nine officers per month, and recruitment and retention measures continue to be a high priority. The Proposed Budget funds the second year of an ongoing Police recruitment and retention program. As a part of this, a sworn officer salary survey is currently underway and is expected to be completed by this summer. Future actions taken to increase sworn officer salaries, if determined appropriate as a result of this survey, could add significant costs to the budget in the future.

The updated Five-Year Outlook provided by the Mayor as part of the Proposed Budget shows sizable surpluses ranging from \$25.1 million in FY 2015 to \$117.0 million in FY 2019. However, this is prior to the inclusion of several categories of known costs for FY 2016-FY 2019 such as costs for new facilities coming on line, new debt service requirements for planned future infrastructure bonds, and planned increases in General Fund maintenance and repair costs per the approved Council funding plan. As a result, these surpluses are likely optimistic. A comprehensive Five-Year Outlook for FY 2016-2020 is expected to be issued in November 2014 which should provide a more accurate picture of future budgets.

While the Proposed Budget appropriately addresses numerous needs and employs sound financial practices, the most signifi-

cant outstanding financial matter facing the City, which bears no easy solution, continues to be the City's deferred capital and infrastructure funding requirements, currently believed to be in excess of \$2.0 billion. The City has made progress in recent years by earmarking more General Funds and issuing lease revenue bonds for deferred capital and infrastructure, however, neither of these sources are sufficient or sustainable. Due to limitations on available leasable properties and, more importantly, the resulting 30-year obligation placed on the General Fund, the use of lease revenue bonds is not a sustainable or recommended solution. Cash funding for maintenance and repair from the General Fund competes with other critical General Fund obligations and service priorities.

The Mayor pledged to dedicate 50% of General Fund revenue growth annually to infrastructure and deferred capital including condition assessments, maintenance and repair, debt service and related staff costs. For FY 2015 major revenue growth over FY 2014 projections is estimated at \$33.3 million - 50% of that equaling about \$16.6 million. The Mayor exceeded his pledge by increasing funding for infrastructure by about \$22 million, or 64% of major revenue growth, FY 2015 over FY 2014. In any given year however, this commitment is apt to generate a small amount of funding as compared to the City's substantial needs. Furthermore, priority services including Police, Fire, Lifeguards, Park and Recreation, and Libraries, to name a few, must also rely on this funding source to maintain/improve ser-

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vice levels and meet future service needs. Every General Fund dollar spent on infrastructure reduces the amount available for these services.

New requirements for complying with storm water regulations are also increasing infrastructure costs significantly, as well as placing a further burden on our General Fund for FY 2015 and future years. Although the FY 2015 budget adds \$11.8 million for this purpose, this funding falls far short of current estimates for achieving compliance. The City continues to negotiate for more reasonable standards and timetables as well as research new technologies to mitigate the fiscal impacts of these requirements. Based on regulations as they currently stand, it is estimated that \$882 million would be needed for this program over the next five years. Until some level of regulatory relief is provided or a new funding source is identified, such as increasing the current storm drain fee, the City's General Fund will continue to be the primary funding source.

FY 2015 will be an important year for infrastructure as the City gains a more accurate and comprehensive understanding of the scope and magnitude of the problem when various condition assessments are completed, the CIP Multi-Year Plan is issued, and as storm water regulatory negotiations and research efforts continue. To comprehensively address infrastructure over the long term, it is clear the City must consider pursuing alternative revenue sources and develop a full scale infrastructure financing strategy.

The IBA looks forward to continuing to work with the City Council, the Mayor's Office, City staff, Boards and Commissions and members of the community to develop a final FY 2015 budget that meets the needs and priorities of the community while adhering to the City's financial policies, principles and best practices.

Section Two: Discussion

Comparing Council and Mayoral Funding Priorities

On February 4, 2014, the City Council adopted the FY 2015 Council Budget Priorities Resolution No. 308041 which was forwarded to Interim Mayor Gloria for his consideration during his budget preparation, and subsequently provided to Mayor Faulconer to consider during his final decisions on the FY 2015 Proposed Budget. As shown on the chart on the next page, the Mayor's expenditure priorities for FY 2015 align closely with those identified by the City Council. Partial or full funding has been included in the Proposed Budget for 13 of the Council's 17 priority expenditure areas.

Funding priorities not reflected in the Proposed Budget include additional funding for Police Computer Aided Dispatch (CAD) (the department has indicated it does not need additional resources for CAD in FY 2015 and future lease purchase funding remains an option), establishment of an Urban Forestry Program, a Program Manager to advance the City's Climate Action Plan, and

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positions to increase monitoring of the Living Wage Ordinance.

Interim Mayor Gloria's Financial Outlook for FY 2015-2019 Commences FY 2015 Budget Process

For the past eight years, the first major step in the budget development process has been the Mayor's release of a Five-Year Financial Outlook in November, which not

only provides an early snapshot of the City's fiscal condition for the upcoming fiscal year but also forecasts the budget status for the next four years based on a set of assumptions. Each year the Independent Budget Analyst (IBA) prepares an analysis of the Mayor's Outlook and issues a report which may include recommended revisions to the Outlook based on our review. This Outlook, together with the IBA analysis, have

COMPARISON OF CITY COUNCIL FY 2015 BUDGET PRIORITIES RESOLUTION TO MAYOR'S PROPOSED BUDGET			
BUDGET PRIORITY		IN FY 2015 BUDGET	COMMENTS
<i>Enhancing Public Safety</i>			
1	Police Department Five-Year Plan	P	\$5.7 million in funding
	Addition of Sworn Personnel	Y	4 academies at 43 recruits each plus full year funding for 9 recruits added to the May 2014 academy through FY 2014 Mid-Year actions
	Addition of Civilian Personnel	Y	17 new positions
	Vehicles & Equipment	P	\$244,000 equipment for new recruits, no funding for vehicles
	Computer Aided Dispatch System Funding	-	To be determined whether remaining CAD acquisition costs will be cash or lease-purchase financed
2	Police Department Retention Program	Y	\$3.2 million included
3	Continued Implementation of Citygate Report Recommendations (Eastside Mission Valley, Skyline Drive, and Home Avenue Fire Stations)	Y	\$950,000 funding included for Skyline temporary station operations. Construction funding of Eastside Mission Valley station, partial funding for permanent Skyline station and Home Avenue station is provided through deferred capital bonds and other sources
4	Restoring Lifeguard Headquarters to Full Use for Public Safety	Y	\$500,000 for facility renovations
5	Expansion of Boating Safety Unit	Y	4 new lifeguard positions
<i>Community Services</i>			
6	Increase Hours for Central and Branch Libraries	Y	4 new hours at all branch libraries, 5 new hours at Central Library for a total of 48 and 54 hours, respectively
7	Continuation and Expansion of Funding for Homeless Services	Y	\$1.9 million for comprehensive solutions
8	Establishment of Urban Forestry Program & Citywide Tree Maintenance	-	
<i>Infrastructure & Deferred Capital</i>			
9	Address Critical Sidewalk Repair Needs (Sidewalk Condition Assessment, Construction of Sidewalks, Increase Funding of City's 50/50 Program)	P	\$1.5 million for sidewalk assessment / sidewalk and street light improvements
<i>Operational & Policy Funding</i>			
10	Creation of Chief Data Officer Position	Y	Funding of \$202,000 included - additional resources may be needed (see discussion in Analytics and Performance Management Department)
11	Improvement of City of San Diego Website	Y	FY 2014 Mid-Year funding of \$258,000 provided
12	Program Manager Position to Advance City's Climate Action Plan	-	
13	2.0 FTE's for Increased Compliance Monitoring of the Living Wage Ordinance	-	
<i>Revenue</i>			
14	Addition of Residual Property Tax Trust Fund Revenue	Y	\$11.4 million in RPTTF revenue

- Not included in the budget
Y Included in budget, full funding
P Included in budget/ partial funding

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been extremely helpful in informing City officials early in the year if the City is likely facing a deficit or surplus situation for the upcoming fiscal year, as well as several years in the future. This allows for timely corrective action in the event of deficit projections or sufficient opportunity for identifying and prioritizing critical funding needs in City service areas, in the event of a surplus projection.

Due to a change in administrations in August 2013, Interim Mayor and Council President Todd Gloria led the development of the FY 2015-2019 Five-Year Financial Outlook. This latest Outlook was notable for its transparency and full disclosure of relevant and detailed budget information, which had not been readily available in the past, and it will raise the transparency bar for future Outlooks. As Interim Mayor at the time and in recognizing a new Administration would be assuming office in March 2014, Interim Mayor Gloria’s Outlook provided a comprehensive “menu” of future City funding needs and related costs rather than a vision for the Outlook period.

The chart at the bottom of this page shows the results of the November 2013 Mayor’s Outlook for FY 2015-2019 as compared to the IBA’s version.

Our revisions included adjustments to sales tax and property tax assumptions based on our analysis, and the inclusion of known expenditures in future years, which were not

reflected in the Outlook, such as new facilities coming on line; increased storm water mandates; commitments to enforce new ordinances; safety needs including brush management; and future years funding of the Public Safety Radio System infrastructure. Most of these items have now been funded in the FY 2015 Proposed Budget.

Mayor Faulconer Finalizes and Issues FY 2015 Proposed Budget and Updates FY 2015-2019 Financial Outlook

As a result of the special Mayoral election in February 2014, Mayor Kevin Faulconer took office on March 3, 2014. While Mayor Gloria began the work of developing the FY 2015 budget in October 2013 and continued that work through February 2014, in his first several weeks in office Mayor Faulconer worked with his staff to finalize and issue the FY 2015 Proposed Budget in accordance with the City Charter-imposed deadline of April 15th. With the FY 2015 budget balanced, Mayor Faulconer’s staff also updated the Outlook for FY 2016-2019 based on the FY 2015 funding proposals. This update can be found in Volume One of the Proposed Budget.

The Update reflects the FY 2015 Proposed Budget as the base year and forecasts operating costs for FY 2016-2019 using growth rates for revenues and expenditures from the original Outlook. The Update also incorporates the recently calculated Actuarially Determined Contribution (ADC) re-

November 2014 Mayor’s FY 2015 Five-Year Financial Outlook Baseline / IBA Revised Baseline

<i>\$ in millions</i>	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019
Outlook Baseline Budget Surplus / (Deficit)	\$ (19.1)	\$ 13.1	\$ 47.2	\$ 73.0	\$ 104.0
IBA Revised Baseline Budget Surplus / (Deficit)	\$ (34.1)	\$ (7.6)	\$ 31.8	\$ 55.9	\$ 80.6

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leased subsequent to the Outlook’s development. Based on this, the Update now projects the following General Fund surpluses for FY 2016 – 2019:

	FY 2016	FY 2017	FY 2018	FY 2019
Net Surplus	\$ 25.1	\$ 60.7	\$ 86.9	\$ 117.0

While results show a favorable future Outlook, we would note that significant known expenditures have **not** been included in this Update. Examples of such expenditures are:

- Operating costs for future fire stations coming on line
- Operating costs for future branch libraries opening
- Increases to maintenance and repair cash funding for deferred capital per Council approved Enhanced Option Plan B
- Debt service for future lease revenue bonds beyond 2015
- Increased costs related the new defined compensation plan for new employees that will come on line in the future

Also, this table reflects the surplus available before accounting for new mandates, or increased costs of mandates, included in the FY 2015 Proposed Budget. A comprehensive Five-Year Outlook is expected to be issued in November 2014 for FY 2016-2020 which will be reviewed by our Office at that time.

Creation of New Internal & Special Revenue Funds
Both Public Works – Engineering & Capital

Projects (E&CP) and Parking Meter Operations were restructured out of the General Fund for FY 2015. E&CP was established as an internal service fund, while Parking Meter Operations was established as a special revenue fund in the FY 2015 Proposed Budget.

Restructuring E&CP into an internal service fund will allow charges for services to be more transparent and easier to track. It will also help to hold E&CP accountable for charging reasonable project delivery costs that are in line with industry standards. The transparency will also make it easier for E&CP to adjust staffing levels to be appropriate for the size of the CIP which drives the Department’s workload.

The Parking Meter Operations special revenue fund was created in order to improve transparency of parking meter related operations and revenue collections and allocations because parking meter revenue can only be used for parking and traffic-related purposes which impact parking within the parking meter zones. Segregating this revenue into a separate fund will also allow greater tracking and transparency of all revenues and their utilization.

We would once again note that by restructuring E&CP and Parking Meter Operations in FY 2015, comparing the total General Fund projected operations and total FTE’s between the FY 2014 Adopted Budget, the Outlook, and the FY 2015 Proposed Budget can be difficult. These two areas combined total approximately 500 FTE’s, \$65.0 million in revenue and \$65.0 million in expen-

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ditures in the FY 2015 Proposed Budget, which skews total General Fund figures in FY 2015 as compared to prior fiscal years.

How the FY 2015 Budget was Balanced

In our Office's review of the FY 2015-2019 Five-Year Financial Outlook, we noted that the FY 2015 projected baseline deficit of \$19.1 million in the Outlook for the "baseline" projection did not accurately reflect known commitments and mandates that were projected to occur in FY 2015. Based on this, we estimated that \$34.1 million was a more accurate deficit projection for General Fund operations in FY 2015 based on revenue and expenditure forecasts developed at that time.

Based on this estimate, the FY 2015 Proposed Budget was balanced through a number of actions and revised projections for revenues and expenditures that eliminated this estimated deficit. Total General Fund revenues increased approximately \$27.5 million in FY 2015 as compared to the Outlook (after adjusting for the transfer of Parking Meter Operations and Public Works – E&CP out of the General Fund).

The greatest contributor to this change was an increase in property tax revenue projections. As noted in our Outlook review, the projection for FY 2015 did not include any Redevelopment Property Tax Trust Fund (RPTTF) residual revenues; however, \$11.4 million has now been included in the FY 2015 Proposed Budget. Other revenues that increased from the Outlook projection for FY 2015 include an increase of \$5.4 mil-

lion in one-time use of Transient Occupancy Tax fund balance, \$2.2 million in Office of Homeland Security revenue reimbursements, and a \$1.1 million increase in TransNet/gas tax funding, among a number of other revenue changes.

Most revenue increases since the Outlook are considered ongoing revenue sources, but several non-recurring revenues are also incorporated into the FY 2015 Proposed Budget, as there are several non-recurring expenditures.

The expenditure change that aided in balancing the budget from the FY 2015 projection included a \$4.6 million reduction in the ADC and \$8.5 million reduction in the Worker's Compensation contribution (net of any changes related to the transfer of E&CP from General Fund operations). This increase in revenues and decrease in expenditures eliminated the projected deficit in FY 2015 and resulted in the ability to add services and programs to the FY 2015 Proposed Budget.

With increasing revenues, a relatively flat projected ADC contribution in coming years based on the latest valuation, and a better estimate of required salary increases due to existing contracts with the City's various bargaining units – General Fund operations are more stable than in prior fiscal years.

IBA Review of FY 2015 General Fund Revenue Projections

The FY 2015 Proposed Budget includes \$1.18 billion in revenues, which is a decrease of \$25.8 million or 2.1% below the

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FY 2014 Adopted Budget. That decrease is largely accounted for by the transfer of revenues from Parking Meter Operations and Engineering and Capital Projects out of the General Fund. The four major General Fund revenues (Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees) total \$856.9 million, which equals 72.7% of General Fund revenues. This is an increase of \$47.5 million over the FY 2014 Adopted Budget due to increases in all major revenue categories.

Given revenue receipt trends and economic forecasts of modest growth in the economy in FY 2015, it is anticipated that the performance of economically sensitive revenues such as property tax, sales tax, TOT, and franchise fees will reflect similar growth trends. The General Fund revenue projections in the FY 2015 Proposed Budget are appropriate given current revenue performance and economic forecasts. While we recommend a small revision to Franchise Fee projections and we propose no additional changes to the revenues at this time, the Council may wish to consider examining the projected property tax growth rates included in the FY 2015 Proposed Budget. Details on this and our review of other Major Revenues and departmental revenues are discussed later in this section.

No Significant Revenues From New or Increased Fees for FY 2015/ User Fee Policy Requires Full Fee Review in FY 2016

The FY 2015 Proposed Budget does not include any significant revenues from new or increased revenue sources such as user

fee adjustments. Based on a consultant review of their fees, the Park and Recreation Department had planned to bring proposed fee adjustments to the Budget and Government Efficiency Committee in July for possible mid-FY 2015 implementation. However, this process has now been delayed. Other General Fund departments will also need to undergo a review of their user fees during FY 2015 to ensure full cost recovery. Per the City's User Fee Policy, a comprehensive review of all user fees must be undertaken every three fiscal years. The last comprehensive review was conducted in FY 2012 and implemented in FY 2013.

During the comprehensive review of user fees in FY 2012, the proposed adjustments were presented to the then Budget and Finance Committee on April 25, 2012 and approved by City Council on June 11, 2012. Proposed user fee adjustments were included in the FY 2013 Proposed Budget though Committee review did not occur until after the Proposed Budget was published. Per the City's User Fee Policy, Financial Management and other City departments will be required to begin a comprehensive review of user fees in FY 2015. We recommend that this process be completed early enough in the upcoming fiscal year so that the Committee on Budget and Government Efficiency will have an opportunity to review and weigh in on the proposed user fee adjustments prior to their inclusion in the FY 2016 Proposed Budget.

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New Council Policy Increases General Fund Reserve from 8% to 14% of General Fund Revenues—Policy for Use of “Excess Equity” is Needed

On February 10, 2014, the City Council approved modifications to the City Reserve Policy which increased the General Fund reserve commitment from 8% to 14% of General Fund revenues. The new 14% target is comprised of an 8% Emergency Reserve (to sustain City operations in the event of a public emergency) and a 6% Stability Reserve (to mitigate service delivery and financial risks in an economic downturn). Fund balance in excess of the 14% commitment that is available for budgeting and appropriation of one-time expenditures is defined as excess equity.

At the time the Proposed Budget was released, excess equity for FY 2015 was estimated at \$14.1 million (1.3% of the General Fund budget) after accounting for all proposed expenditures and the funding necessary to meet the new 14% reserve target. The updated figure is \$12.3 million after adjusting for \$1.8 million that is dedicated to Community Projects, Programs, and Services (CPPS) funding. (Note: This \$1.8 million is funded through savings projected in Council Office budgets in FY 2014.)

The City's current Reserve Policy does not address how or if excess equity should be expended. If not expended or needed to address year-end shortfalls, the funding carries forward to the next fiscal year where it can again be considered for a variety of one time priority expenditures. Absent a policy, purposes and priorities for its use

have been discussed since the CFO recommended at Mid-Year that the estimated remaining equity (\$14.1 million at that time) be sequestered as a buffer, to ensure the 14% reserve is met if revenues do not meet projections.

Our office believes the City has established a healthy 14% reserve goal and has shown a commitment to fully funding the General Fund reserve goal as a first priority for several years. In consideration of this commitment and our adopted Policy, there are other one-time funding priorities that Council may want to consider other than one-time funding priorities for use of excess equity. These include increasing funding of our other reserves, including the Public Liability Reserve and Long-Term Disability (LTD) Reserve, in order to meet overall established goals earlier, or dedicating additional one-time funding to our critical infrastructure needs.

The Mayor's Proposed Budget reflects the CFO's original proposal for excess equity, however, at the Mayor's budget press conference on Monday, April 14, 2014 and his budget presentation to City Council on Tuesday, April 15, 2014, the CFO announced that the Mayor would be recommending in the May Revision that excess equity be used to increase the Public Liability and LTD Reserves. This is consistent with City Council's action, during the discussion of the Mid-Year Budget on March 4, 2014, that excess equity be utilized for this purpose. It should be noted that if excess equity is less in the May Revision than expected, there will likely not be sufficient ex-

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cess equity to fully fund the Public Liability and LTD reserves.

In fact, it is possible due to significant pending liability claims, excess equity may be needed to replenish the Public Liability reserve just to meet FY 2015 targeted goals.

In the near future, the City's Reserve Policy should be revised to define the purposes, uses and timing of decisions regarding the use of excess equity. For discussion purposes, we would recommend the following revisions be considered to address this issue:

As part of the May Revision, the Mayor will identify the amount of excess equity projected to be available at year-end based on the most recent revenue and expenditure projections and full funding of the 14% General Fund Reserves; and will recommend to the Council one-time uses for the excess equity based on consideration of the following priorities: 1) Allocating funding to meet General Fund reserve goals; 2) Allocating funding to the City's infrastructure needs based on project prioritization.

Potential Resources Revisions for Council Consideration, Not in the Proposed Budget

The following items, suggested as potential new resources for the FY 2015 Budget have been identified by our office for further discussion. Upcoming budget hearings, results

of the May Revision and additional Council discussion of priorities for FY 2015 will further inform final FY 2015 Council budget decisions.

1. Potential Increase in Property Tax Growth Rate from 3.5% to 4% - About \$2.0 Million

As discussed in the General Fund revenues overview section, property tax revenue projections for the FY 2015 Proposed Budget are estimated using a 3.5% growth rate above the current FY 2014 year-end revenue projection. The San Diego residential real estate market continues to show strong growth currently but small indications of a potential slow down have begun to appear recently. Previously, we recommended increasing the property tax revenue growth rate in the FY 2015-2019 Five-Year Outlook to 4.0% for FY 2015; however based on these recent indications we recommend that property tax revenues and the residential real estate market be monitored closely in FY 2014 and a potential increase to the FY 2015 revenue growth rate to 4.0% be discussed. Increasing the growth rate from 3.5% to 4.0% is estimated to generate an additional \$2.0 million.

2. Moving to Full Cost Recovery for Street Damage Fees- About \$2.0 Million

In December 2012, Council approved a phased plan for increasing the Street Damage Fee to full cost recovery over 3 years. Beginning in FY 2014, the fee was increased to achieve 25% of full cost recovery. The fee will go to 50% of full cost recovery in FY 2015 and then to full cost recovery in FY

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2016. Transportation and Storm Water (TSW) budgeted \$2.0 million in FY 2014 based on the estimated miles of water and sewer projects, undergrounding projects, and permits issued by the Development Services Department (DSD), though we do note that the actual revenues received have been below initial projections.

Council has the authority to amend the fee at any time by resolution if it would like to achieve full cost recovery sooner than FY 2016. Note that part of the Street Damage Fee discussion included agreement by TSW to conduct an update to the Engineering Study that served as the basis for the fee, and this study will likely be completed in January 2015.

3. Potential for Reduced Debt Service Needs in FY 2015 - About \$2.0 Million

The Council has authorized the issuance up to \$130 million of bonds (to be sold in one or more series) for deferred capital projects. As the first series of the bonds (\$66.4 million) was intended to be sold late in FY 2014 or early in FY 2015, a full year of debt service (\$4.2 million) has been budgeted in the FY 2015 Citywide Program Expenditures budget. However, owing to an unanticipated legal challenge, the City has elected to wait for the legal challenge to be resolved before proceeding to sell the bonds. While the timing of the court decision is currently unknown (the City has requested a trial date in June), the bond sale could be delayed until the fall. If so, the City would only need to make one of two planned debt service payments in FY 2015

thereby freeing up approximately \$2.0 million in the FY 2015 Proposed Budget.

Potential Expenditure Revisions for Council Consideration, Not in the Proposed Budget

1. Staff for Effective Enforcement of Living Wage Ordinance (LWO)

In the Council budget priority memos for FY 2015, five Council members expressed interest in adding two additional staff to enhance administration, monitoring and enforcement of the City's LWO. Although funding of approximately \$280,000 for two additional staff was requested by the department, the Proposed Budget does not include funds for this purpose.

2. Program Manager for Climate Action Plan

The FY 2015 Proposed Budget does not include funding for continued development or implementation of an updated Climate Action Plan (CAP). The City's current CAP supplements the City's General Plan to aid in addressing the impacts of long-range climate change, reducing greenhouse gas emissions from power generation, transportation, and waste, and in improving the local economy. Several drafts of an updated comprehensive CAP were completed by previous Mayoral administrations, though none was finalized and released. Five Council members included the addition of a Program Manager position to support an updated CAP in their budget priority memos.

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Costs for this position are estimated at \$122,000.

3. Civic San Diego Funding Requests

Civic San Diego (CivicSD) assists the City with its role as Successor Agency for purposes of winding down the former Redevelopment Agency's operations, provides permitting and planning functions downtown, and manages the downtown parking district. Civic San Diego also conducts some economic development activities and worked to secure new funding for neighborhoods, such as New Market Tax Credits. For FY 2015, CivicSD is requesting funding of \$300,000, including:

- \$100,000 to conduct long-range and other planning activities Downtown, including updating the Parks, Open Space, and Recreation Chapter of the Downtown Community Plan area; assessing parking ratios and policies, reviewing employment required overlay zones; and researching and preparing grant applications for continuing to implement the Downtown Community Plan.
- \$25,000 for maintenance of the public restroom (Portland Loos) located adjacent to Tailgate Park in the East Village.
- \$100,00 for community engagement and communications to effectively inform, update, and communicate with community stakeholders, residents, businesses, and organizations about the status of former redevelopment projects, community needs, and priorities, and potential new funding that could benefit their neighborhoods.

- \$75,000 for adaptive reuse of the former Downtown Main Library to become an active and vibrant neighborhood center, resulting in increased property value for the City.

4. Helicopter Maintenance General Fund Support

The FY 2015 Proposed Budget does not include General Fund support for helicopter maintenance and fuel expenditures related to the Police Department's Air Support Unit. In FY 2014, the department is projected to use a combination of Seized Assets Funds and one-time Service Authority for Freeway Emergencies (SAFE) funds for a total of approximately \$3.2 million for this purpose. However, in FY 2015, SAFE funds and Seized Assets Funds will continue to be unreliable.

The department runs the risk of incurring significant unbudgeted expenses for the Air Support Unit if no other funding source is identified. Based on the department's FY 2015 budget request, those expenses could reach \$3.3 million. Financial Management has indicated that it is working with the Police Department to identify a new ongoing funding source for Air Support, which could be included in the May Revision.

5. Traffic Engineer for Planning

The Planning, Neighborhoods, and Economic Development Department requested 1.00 FTE and \$103,000 to add an Assistant Traffic Engineer to assist with the Mobility section's increased workload and responsibilities. However, this position was not included in the FY 2015 Proposed Budget.

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Technical expertise is needed to conduct travel forecasts and traffic modeling which is critical for plan updates. This has caused a bottleneck for moving forward with grants, such as Chollas Triangle and North Bay Urban Greening Plan among others, as well as causing delays to Community Plan updates and amendments. Planning risks losing awarded grant funding if it is unable to meet deadlines.

6. Urban Forestry Program

Establishment of an Urban Forestry Program was included as a priority in the Council's Budget Priority Resolution in order to improve the City's commitment to providing uniform tree maintenance and trimming in the City's rights-of-way. The priority memos note that the program should include an Urban Forestry Coordinator position, and would require \$150,000 in related expenses, in addition to an additional \$100,000 for Citywide tree maintenance. The City has an inventory of over 250,000 street trees, which require periodic care, trimming, and maintenance.

The Street Division of the Transportation Storm Water Department manages some tree trimming services, and the Park and Recreation Department coordinates its own tree trimming contracts through its Citywide Maintenance group. However, there is no dedicated Urban Forestry Program included in the FY 2015 Proposed Budget.

7. General Fund Costs for Enterprise Asset Management (EAM) System Implementation

The Proposed Budget does not include \$1.4 million in General Fund O&M expenditures

that were projected in February 2014 by the SAP EAM Project Management Office. This office is currently evaluating and finalizing the FY15 project budget and will provide a revised projection of additional funds needed for General Fund departments. FM anticipates receiving the updated budget information in time for inclusion in the May Revise. In addition, the Department of IT is transferring \$1.1 million from the original EAM CIP project into the consolidated EAM CIP Project and this will support the General Fund departments. It is important to ensure that needed General Fund expenditures for SAP EAM in FY 2015 will be fully funded with no negative impacts to General Fund departments.

Summary of Policy/Budget Issues Requiring Attention in FY 2015

The following list presents issues that are in early stages of discussion or review; likely require further analysis public input, and Council deliberation; and could impact future budgets and/or result in new City policies or processes:

- Mayor's plans for continuing the Managed Competition program or pursuing alternative efficiency studies
- Implementation of Mayor's quarterly City service performance reports and user-friendly dashboard of key performance measures
- Recommendations for improving and accelerating City hiring processes

Overview of the Mayor's Proposed Budget & Discussion of Significant Issues

- Continuing to implement Purchasing and Contracting efficiencies including identification of SAP system requirements and training to correct underutilization (Huron Report)
- Assessing the need and costs associated with reinstating a City-wide SAP training program
- Identifying and implementing improvements to the Real Estate Services Department recommended in Huron report
- Addressing the role of Civic San Diego
- Adopting the Mayor and Council FY 2015 Statement of Budgetary Principles
- Determining the need for and timing of a potential Charter Review process
- Completing next comprehensive user fee analysis on a timely basis to ensure readiness for FY 2016 budget implementation
- Completing the Police Sworn Officer salary survey on a timely basis to continue to address recruitment and retention
- Continuing to focus on City's Economic Development activities and finalizing Economic Development Strategy
- Completing the streets, facilities, sidewalks, park assets and public utilities condition assessments on a timely basis to identify magnitude of deferred capital funding needs
- Completing the Multi-Year Capital Improvement Plan
- Including new performance measures in the FY 2015 final budget to measure for Capital Improvement Projects being on time and on budget
- Discussing of potential new resources for funding deferred capital and infrastructure (including storm water) such as a voter approved bond program
- Addressing solutions to the linkage fee
- Completing cost of service study necessary to consider increases to City's storm drain fee to support new storm water requirements
- Revising the City's Reserve Policy to address use of excess equity
- Monitoring and addressing the ongoing challenges faced by the Successor Agency in conducting redevelopment dissolution and wind-down activities for the former Redevelopment Agency which continue to pose a high-level of risk to the General Fund

Overview of the Mayor's Proposed Budget & Discussion of Significant Issues

Next Key Dates in the Budget Process

Following are the next major steps in the budget process following the release of this report:

Monday, May 5-Friday, May 9

City Council Budget Review Committee hearing with City departments. IBA review of the Mayor's Proposed Budget presented on Monday, May 5 at 9:00 a.m.

Tuesday, May 20

Mayor issues May Revision and FY 2014 Year-End Report

Wednesday, May 21

City Council reviews May Revision and Year-End Report

Friday, May 23

City Council budget memos due to IBA

Wednesday, June 4

IBA's final report issued on recommendations to the Mayor's budget

Monday, June 9

City Council decisions on Final Budget

BUT WAIT..... THERE'S MORE

General Fund Overview

Revenue Overview

The General Fund FY 2015 Proposed Budget includes \$1.177 billion in revenues, which is a decrease of \$25.8 million or 2.1 percent below the FY 2014 Adopted Budget. The four major General Fund revenues (Property Tax, Sales Tax, Transient Occupancy Tax, and Franchise Fees) total \$857.0 million, which equals 72.8 percent of General Fund revenues. This is an increase of \$44.6 million over the FY 2014 Adopted Budget due to increases in all four major revenues.

Major General Fund Revenue Growth Rates ¹				
Revenue Source	FY 2012 Actual	FY 2013 Actual	FY 2014 Projected	FY 2015 Proposed
Property Tax ²	6.4%	0.8%	11.1%	-4.6%
Sales Tax	5.3%	5.7%	4.7%	5.4%
TOT	6.6%	7.2%	3.4%	5.0%
Franchise Fees	5.4%	-2.0%	1.2%	5.1%

¹ - Reflects growth in revenue year-to-year, not budgeted revenue growth rates

² - Property Tax decline in FY15 due to one-time Non-Housing DDR payment receipt in FY14 of \$34.9 million. Excluding this one-time payment in FY14, property tax revenue growth would be approximately 3.2 percent

FY 2015 Proposed Budget - General Fund Revenue			
GENERAL FUND REVENUE	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	\$ 408,003,167	\$ 436,710,892	\$ 28,707,725
Sales Tax	248,138,819	257,106,087	8,967,268
Transient Occupancy Tax	87,857,500	91,125,835	3,268,335
Franchise Fees	68,430,845	72,043,949	3,613,104
Licenses & Permits			
Business Tax	6,953,129	7,477,368	524,239
Rental Unit Tax	6,785,000	7,271,794	486,794
Parking Meters ¹	8,369,891	-	(8,369,891)
Other Revenue	9,718,743	9,784,825	66,082
Fines, Forfeitures, & Penalties			
Parking Citations	18,298,430	19,723,478	1,425,048
Municipal Court	6,945,761	6,157,700	(788,061)
Other Revenue	4,105,802	4,448,000	342,198
Revenue from Money & Property			
Interest & Dividends	859,389	1,414,251	554,862
Mission Bay & Pueblo Lands Lease Revenue	33,432,906	34,911,806	1,478,900
Other Revenue	10,646,497	10,999,936	353,439
Other Departmental Revenues ²	284,502,471	218,061,302	(66,441,169)
TOTAL GENERAL FUND REVENUE	\$ 1,203,048,350	\$ 1,177,237,223	\$ (25,811,127)

¹ - Parking Meter Operations program was restructured from General Fund to a Special Revenue Fund

² - Significant change in revenue from FY 2014 Budget to FY 2015 Proposed due primarily due to restructure of Public Works - Engineering & Capital Projects from General Fund to an Internal Service Fund. Public Works - E&CP revenue in FY2014 Budget was \$56.3 million and is projected at \$64.5 million for FY 2015 Proposed.

Office of the Independent Budget Analyst

April 2014

General Fund Overview

The decline in total General Fund revenues is due primarily to the restructure of Parking Meter Operations from the City Treasurer Department to a Special Revenue Fund in addition to the Public Works—Engineering and Capital Projects transitioning to an Internal Service Fund. Total revenue for these two areas of operations in the FY 2014 Budget totaled approximately \$64.7 million and further detail about these funds can be found in the City Treasurer and Public Works—Engineering and Capital Projection sections of this report.

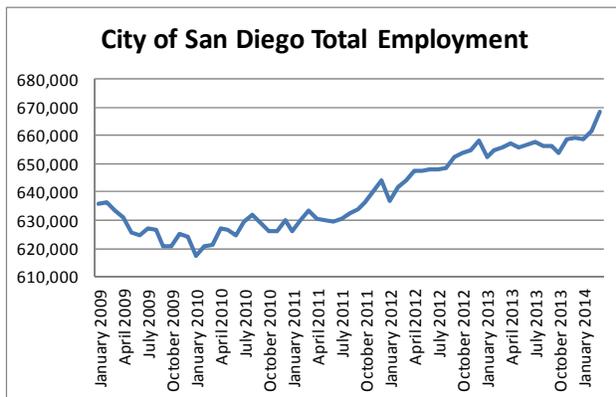
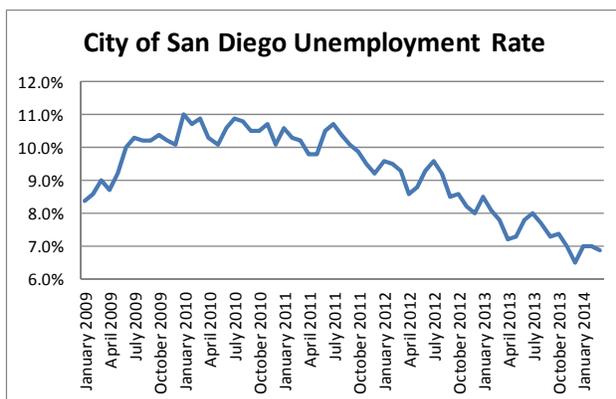
in housing prices, business and leisure travel to the area, employment, and consumer spending, among others. The primary driver of a continued economic expansion is employment in the City of San Diego and the region. The local unemployment rate has dropped to 6.9% as of March 2014, which is the lowest level it has been since November 2008. However, unemployment rates during times of economic expansion prior to the onset of the recession in 2008 ranged between 3.5% and 5.0%.

Additionally, the total number of people employed in the local economy as of March 2014 is estimated at approximately 668,000, which establishes the record for the highest number of individuals employed in the City since 2000. The UCLA Anderson School of Management forecast for the County of San Diego for 2014 predicts that the local unemployment rate will continue to decline and total employment will rise throughout their outlook period (2018).

Alongside improvements in the unemployment rate, continual personal income growth countywide will support growth in consumer spending, and thus taxable sales. UCLA Anderson forecasts growth of approximately 5.0% per year in taxable sales in calendar year 2014 and 2015 in the County of San Diego.

The residential real estate market has showed continued growth in median prices. According to DataQuick News the March 2014 San Diego County median price of \$427,000 is a 12.4% increase above the comparable 2013 median price. However, home sales have dipped recently, with March 2014 home sales totaling 3,057,

Economic Outlook



The City of San Diego's economic expansion has continued in FY 2014, with growth

General Fund Overview

which is a decrease of 18.7% from March 2013. However, foreclosures are continuing to decline and interest rates continue to remain at low levels, allowing for greater residential home purchasing power.

Given current trends and economic forecasts of modest growth in the economy in FY 2015, it is anticipated that the performance of economically sensitive revenues such as property tax, sales tax, TOT, and franchise fees will reflect similar growth trends. In total, General Fund revenue projections in the FY 2015 Proposed Budget are appropriate given current revenue performance and economic forecasts. While we recommend no change at this time, property tax revenue may potentially require an upward adjustment based on revenue growth in FY 2014 and positive indicators for FY 2015. We would note that property tax projections may have potential for increasing above the FY 2015 Proposed Budget level; however, we also caution that Franchise Fee projections may be slightly elevated when considering historical growth trends for cable television fees. The following sections discuss each of the major revenue projections in greater detail.

Property Tax

Property tax, the largest General Fund revenue source, is projected at \$436.7 million in the FY 2015 Proposed Budget. This projection reflects an increase of \$28.7 million from the FY 2014 Budget, or 7.0%.

This \$436.7 million budget is comprised of \$308.6 million in base property tax from the 1.0% levy on the assessed valuation of

real property, \$112.2 million in property tax “in-lieu” of Motor Vehicle License Fees (MVLFF), and \$15.9 million in tax sharing and residual distributions that the City now receives as a result of the dissolution of redevelopment agencies in California.

PROPERTY TAX (\$ in millions)	
Base 1% Levy	\$ 308.6
"In-Lieu" of MVLFF	112.2
RPTTF Tax Sharing Distribution	4.5
RPTTF Residual Tax Sharing	11.4
TOTAL PROPERTY TAX	\$ 436.7

Base 1% Levy & “In-Lieu” of MVLFF

Base property tax and property tax “in-lieu” of MVLFF are projected at \$420.8 million in the FY 2015 Proposed Budget. This projection is an effective growth rate of 6.1% above the FY 2014 Adopted Budget. The FY 2014 year-end projection (which serves as the base forecast for the development of the FY 2015 Proposed Budget property tax projection) is \$9.1 million or 2.3% above the FY 2014 Budget due to a larger increase in assessed valuation than originally anticipated in the budget. The FY 2015 Proposed Budget reflects 3.7% growth over this latest FY 2014 year-end projection.

Property tax revenue in FY 2015 is based on assessed valuation as of January 1, 2014, which reflects market activity that occurred in calendar year 2013. In 2013, San Diego’s residential real estate market saw substantial growth in median home values. According to MDA DataQuick housing data, the median sales price of homes within San Diego County was approximately \$416,000 as of December 2013, which was a year-

General Fund Overview

over-year increase of approximately 18.1%. This continues the trend of substantial growth that was experienced in 2012 as compared to the 2011 (16.2%). This growth in San Diego home prices is also reflected in the Case-Shiller Home Price Index, which is generally regarded as the most accurate measure of home price changes. The Index increased 18.0% for San Diego from December 2012 to December 2013.

Positively impacting the growth in property tax in FY 2015 is the annual California Consumer Price Index adjustment. Under Proposition 13, the assessed value for properties that have not been sold or remodeled may be increased annually at the rate of inflation, not to exceed 2%. A 0.5% increase will be applied to approximately 60% of the FY 2015 property tax roll. The County Assessor is still in the process of determining what the FY 2015 assessed valuation change will be for the City of San Diego and finalized figures will only be available after the adoption of the FY 2015 Budget. Although the actual valuation for the City of San Diego will not be known until then, preliminary discussions with the County Assessor's Office conveys that assessed value growth for the County of San Diego is estimated between 3.0% and 4.0%.

In our Office's review of the FY 2015-2019 Five-Year Financial Outlook, we recommended that the base property tax projection growth rate for FY 2015 be increased from 3.5% as included in the Outlook to 4.0% based on strong growth in assessed valuation during 2013, the long-run growth rate of property taxes of 5.4% from FY

1999 to the projection in FY 2014, and forecasted strong growth in home sales and prices by Beacon Economics (as shown in the following table).

	FY 2015
Nonresidential Permit Values	9.8%
Residential Permits	32.0%
Single-Family Home Sales	3.8%
Median Home Price	6.7%

Despite these positive indications, as previously noted, mixed signals have been seen recently with home sales. Total San Diego County home sales in March 2014 were approximately 20% below the same time period in 2013. We recommend that property tax revenues and the residential real estate market be monitored closely in FY 2014 and a potential increase to the FY 2015 revenue growth rate to 4.0% be considered in the May Revision or final Council budget actions. This would increase the total projected property tax revenue by approximately \$2.0 million.

Redevelopment Property Tax Trust Fund (RPTTF)

Per the dissolution of California redevelopment agencies (RDA) in February 2012, the City receives additional on-going property tax revenue from the Redevelopment Property Tax Trust Fund (RPTTF - formerly tax increment), including both tax sharing and residual payments in association with each Recognized Obligation Payment Schedule (ROPS) period.

We would note that in the FY 2015-2019 Five-Year Financial Outlook, no residual distributions were projected to be received in FY 2015. Our Office modified this figure to approximately \$5.0 million for FY 2015 dur-

General Fund Overview

ing our review of the Outlook. For the FY 2015 Proposed Budget, this residual distribution is projected at \$11.4 million, which is an increase of \$3.2 million over the FY 2014 Adopted Budget. The FY 2015 Proposed Budget also includes \$4.4 million in tax-sharing payments, which is an increase of approximate \$1.5 million over the FY 2014 Adopted Budget.

Civic San Diego, Financial Management, and the Office of the IBA are currently undertaking a review of this projection based on updated information received by the California Department of Finance on April 14, 2014. Any update to these RPTTF projections for FY 2015 based on this analysis will be included in the May Revision to the FY 2015 Proposed Budget.

Transient Occupancy Tax

General Fund transient occupancy tax (TOT) for the FY 2015 Proposed Budget totals \$91.1 million, which is an increase of \$3.3 million or 3.7% from the FY 2014 Budget of \$87.9 million. This is based on the General Fund allocation of 5.5 cents of the City's total 10.5 cent TOT rate, pursuant to San Diego Municipal Code. The total 10.5 cent City TOT revenue in the FY 2015 Proposed Budget is approximately \$174.0 million.

The projection for the 5.5 cent General Fund TOT revenue was decreased in FY 2014 from the Budget, with the latest projection (which serves as the base projection for the development of the FY 2015 Proposed Budget) at \$86.4 million, which reflects a year-to-date growth rate of 4.2%

and results in a decrease of \$1.5 million. The FY 2015 Proposed Budget TOT revenue of \$91.1 million is a growth of \$4.8 million or 5.5% from this revised projection. In our Office's discussions with Financial Management, subsequent to the development of the FY 2015 Proposed Budget, an additional TOT distribution was received above budgeted levels, which increased year-to-date growth in FY 2014 to 5.5%.

In addition to good revenue growth year-to-date in FY 2014, travel indicators also reflect positive growth. Information compiled by Tourism Economics for the San Diego Tourism Authority (SDTA) in December 2013 shows continued growth for the most important indicators that drive TOT growth: total visitors to San Diego, total overnight visitors, room demand, occupancy rate, and average daily room rate paid. The following table outlines the amount of growth in calendar years 2013, 2014, and 2015.

Measure	2013	2014	2015
Total Visitors	2.2%	1.6%	2.1%
Overnight Visitors	1.7%	2.1%	1.7%
Room Demand	2.2%	2.8%	2.3%
Occupancy Rate	1.3%	1.4%	1.6%
Average Daily Rate	2.9%	4.0%	4.3%

Based on the updated growth year-to-date in TOT revenue in 2014 of 5.5% and the positive growth forecasted in the future for indicators that drive revenue growth, the growth rate utilized in the FY 2014 Proposed Budget appears to be appropriate.

General Fund Overview

Sales Tax

The FY 2015 Proposed Budget for sales tax revenue is \$257.1 million, reflecting 4.5% economic growth from the FY 2014 year-end projection, and an increase of approximately \$9.0 million over the FY 2014 Adopted Budget. The budgeted economic growth rate of 4.5% is consistent with the growth rate in the Five-Year Outlook.

Sales tax revenue is highly sensitive to economic conditions, including job growth, consumer spending, and business investment. As economic conditions have continued to improve, sales tax revenues have responded accordingly. Sales tax continues to experience growth that began in FY 2011 after two years of significant declines. Based on receipts through March, year-to-date growth in sales tax is 4.9%, with growth at year-end projected to be 4.6%. For the most recent quarter, growth was due to gains in the general retail, food products, business-to-business, and health-and-government sectors, with the largest gains being experienced in health-and-government and food products.

The projected sales tax revenue growth for FY 2015 aligns with the most recent forecasts from UCLA Anderson, which project growth in employment and personal income that will support a boost in consumer spending and taxable sales. The unemployment rate is forecast to continue to decline incrementally from its current level of 7.6% to 6.6% in calendar year 2014 and 5.7% percent in 2015. Personal income levels are forecast to increase by 3.3% in calendar

year 2014 and 3.1 percent in 2015.

Given the City's projected growth in sales tax in FY 2014 of 4.6% and forecasted economic growth throughout the region in future years, the 4.5% growth rate included in the FY 2015 Proposed Budget is appropriate. Actual receipts should be monitored throughout FY 2015, with the proposed growth rate for future quarters adjusted as required should receipts significantly exceed or fall short of projections.

Franchise Fees

The FY 2015 Proposed Budget projects General Fund franchise fees at \$72.0 million, which is an increase of \$3.6 million or 5.2% from the FY 2014 Adopted budget. This does not include \$1.3 million in Police towing franchise fees and \$125,000 in Escondido Disposal (EDCO) revenue, which are budgeted in the Police and Environmental Services Department, respectively.

FY 2014 franchise fee revenues are currently projected at \$70.4 million, \$2.0 million above franchise fee revenues in the FY 2014 Adopted Budget. The projected General Fund franchise fees in the FY 2015 budget represent a 2.3% increase over expected FY 2014 revenues.

Total franchise fees Citywide in FY 2015, which include the utility undergrounding surcharge and revenue allocated to the Environmental Growth Fund, are projected at \$136.1 million, which is \$7.0 million above revenues in the FY 2014 Adopted Budget. Based on our review of proposed franchise fee revenue, we believe a reduction of ap-

General Fund Overview

proximately \$610,000 – from projected cable television franchise receipts – is appropriate.

Franchise fee revenue is derived primarily from three sources: 1) A 3.0% San Diego Gas & Electric (SDG&E) surcharge on total gross sales; 2) A 5.0% surcharge on cable television providers in the City; and 3) charges to private refuse haulers based on tonnage of refuse disposed.

SDG&E

The largest source in General Fund franchise fee revenue is the surcharge on SDG&E, which accounts for \$40.0 million of the FY 2014 budgeted revenue amount. This is \$4.5 million or 11.5% above the FY 2014 Adopted Budget, and approximately \$780,000 or 2.0% above current year-end projections for FY 2014. Additionally, there is \$13.3 million of non General Fund revenue generated from SDG&E that is deposited in the Environmental Growth Fund, which is spent to preserve and enhance the environment of the City as deemed appropriate by the City Council.

Revenues derived from SDG&E are difficult to forecast due to the City’s inability to review SDG&E’s financial forecasts for electricity and natural gas rates and sales volume, as SDG&E is a publicly traded company (under its parent company, Sempra Energy). Additionally, the annual percent change in total revenue received from SDG&E has been unstable, with an average 1.8% growth rate in revenue over the previous 5 years, with individual year growths ranging from –7.4% in FY 2010 to 12.6% projected in FY 2014.

Cable

The second largest portion of franchise fee revenue is from cable television franchise fees, which total \$18.1 million in the FY 2015 Proposed Budget. This represents a decrease of approximately \$1.3 million or 6.7% from the FY 2014 Adopted Budget, but an increase of approximately \$610,000 or 3.5% over currently projected FY 2014 receipts.

% GROWTH IN CABLE FRANCHISE REVENUE				
FY 2011	FY 2012	FY 2013	FY 2014 (projected)	FY 2015 (proposed)
2.80%	1.10%	0.50%	-0.60%	3.5%

Growth in cable television franchise fee revenue has shown year-over-year declines since 2011, as illustrated in the above table, and FY 2014 receipts are currently projected to decrease from actual 2013 receipts. Given this, we believe the 3.5% growth rate assumed in the FY 2015 Proposed Budget may not be appropriate. The City may wish to instead consider projecting no growth to cable franchise fees in FY 2015, and continuing to monitor actual revenues received throughout FY 2015, making adjustments to projected receipts as necessary. This would reduce expected revenues in the FY 2015 Proposed Budget by approximately \$610,000.

Refuse Hauling

Refuse hauler franchise fees and revenue generated from the Sycamore landfill are based on total refuse tonnage hauled and disposed of, respectively. Tonnage is directly tied to recovery in the residential housing market and general economic activity as homeowners remodel their homes,

General Fund Overview

purchase new consumer goods, and replace older items that are discarded. The City's refuse hauler franchise fee is projected to increase \$400,000 or 4.4% from the FY 2014 Adopted Budget, and \$100,000 or 1.0% from currently projected revenues. We believe this projected growth rate to be appropriate given the continuing economic recovery.

General Fund Overview

Expenditure Overview

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget totals \$1.18 billion, and reflects a net decrease of \$46.4 million from the FY 2014 Adopted Budget, or a 3.8% decrease. A summary of changes by expenditure category appears in the table below.

A major change in FY 2015 is a \$61.9 million decline in expenditures due to the restructure of Engineering & Capital Projects (E&CP) to a newly established internal service fund, removing E&CP from the General Fund—see the E&CP section for more information on its restructure. Following are other notable changes:

- A \$9.1 million decrease in the General Fund contribution to the retirement Actuarially Determined Contribution (ADC)—this amount is \$8.8 million when accounting for the removal of the Parking Meter Operations Program from the General Fund.
- A \$6.0 million decrease in Workers' Compensation.
- A \$1.0 million decrease in Information Technology expenditures.
- An \$8.9 million increase in Transfers Out category (not including the \$14.5 million decrease due to the reallocation of the Public Liability claims budget from the Transfers Out category to the Con-

SUMMARY OF GENERAL FUND EXPENDITURES - BUDGET AND ACTUAL							
(in millions)							
EXPENDITURE CATEGORY	FY 2013 Actual	FY 2014 Budget	FY 2015 Proposed	CHANGE	%	FY 2015 OUTLOOK	
Salaries and Wages	\$ 505.6	\$ 515.9	\$ 491.2	\$ (24.7)	-4.8%	\$ 515.5	
Fringe Benefits	321.5	370.5	338.5	(32.0)	-8.6%	368.1	
5-Year Employee Org. Agreements	-	-	-	-	0.0%	7.3	
Supplies	23.6	25.0	26.0	1.0	4.0%	22.9	
Contracts	151.8	148.5	169.6	21.1	14.2%	147.3	
Information Technology	31.0	29.6	25.7	(3.9)	-13.2%	26.6	
Energy and Utilities	33.5	38.7	40.4	1.7	4.4%	40.4	
Other Expenditures *	3.9	5.7	5.4	(0.3)	-5.3%	107.3	
Appropriated Reserve	-	2.0	-	(2.0)	-100.0%	-	
Transfers Out	91.5	81.9	75.0	(6.9)	-8.4%	<i>in Other</i>	
Capital Expenditures	1.2	2.7	3.1	0.4	14.8%	<i>in Other</i>	
Debt	5.1	4.9	4.1	(0.8)	-16.3%	<i>in Other</i>	
TOTAL GENERAL FUND	\$ 1,168.7	\$ 1,225.4	\$ 1,179.0	\$ (46.4)	-3.8%	\$ 1,235.4	

* For the FY 2015 Outlook, includes not only the Other Expenditures category, but also Transfers Out, Capital Expenditures and Debt.

General Fund Overview

tracts category).

- A \$5.5 million increase in flexible benefits.
- Salaried Wages, Overtime and Hourly Wages increase of \$3.7 million, \$2.2 million, and \$1.5 million, respectively.
- A \$7.5 million increase in Contracts (not including the \$14.5 million increase due to the reallocation of the Public Liability claims budget to the Contracts category from the Transfers Out category).

Compared to the most recent Five-Year Outlook, the Mayor's FY 2015 budget proposal has decreased by \$56.4 million, largely due to a decline in personnel expenditures (Salaries and Wages and Fringe) of approximately \$61.2 million. The decline in personnel expenditures is due in large part to the removal of E&CP from the General Fund. Additionally, there are decreases in the pension ADC and Workers' Compensation expenditures—approximately \$4.6 million and \$8.5 million, respectively. These declines allow for service level enhancements that are addressed throughout our review of the FY 2015 Proposed Budget.

Issues to Consider

Changes within the budget expenditure categories shown in the table on the previous page (such as Salaries and Wages, Fringe Benefits, Supplies and Contracts) are discussed in this section.

Many of the FY 2015 Proposed Budget changes reflect the implementation of a Citywide policy or direction that can be de-

scribed globally, while specific impacts to operations are discussed in our Department sections.

Salaries and Wages

The General Fund Salaries and Wages category has decreased by \$24.7 million, or 4.8% compared to the FY 2014 Adopted Budget. The calculation of budgeted salaries is based on an November 25, 2013 snapshot of payroll data, including actual employee salaries.

General Fund FTEs have decreased by 320.19, from 7,267.50 to 6,947.31 FTEs. A listing of FTE changes by department appears in the next section of this report (entitled, "FTE Changes").

Salary Savings and Vacancy Savings

Salary Savings are a reduction in Salaries and Wages and are a combination of items:

- Estimated vacancy savings (associated, for example, with turnover and under-filled positions), which is the largest component of salary savings (93% of salary savings)
- Salary savings from other labor savings (for example 3.2% salary reductions for DCAA and POA DROP participants)
- Salary savings from voluntary furlough

In total, FY 2015 Salary Savings for the General Fund is \$20.0 million. Note that Salary Savings reduces the General Fund Budget by \$20.0 million, as shown in the "Salaries and Wages—Budget and Actual" table on the next page. This compares with salary savings of \$21.8 million in FY 2014. This is

General Fund Overview

largely due to the removal of E&CP from the General Fund.

In addition to the removal of E&CP from the General Fund and offsetting departmental vacancy savings increases, another component of the Salary Savings decrease is due to adjustments to labor concessions for employees. The effect on employees is dictated by parameters established through labor negotiations.

For FY 2014, salary expenditure reductions resulting from continuing labor concessions were in the form of furlough or salary reductions for certain employees.

With the current five-year (FY 2014-2018) labor agreements with the City's six employee organizations, labor concessions that generate Salary Savings have largely been eliminated. What remains for FY 2015 is a 3.2% salary reduction for DCAA and POA DROP participants.

As mentioned previously, vacancy savings are included in the Salary Savings line item.

Vacancy savings are a result of the following: the FY 2015 Budget includes the positions that are authorized to be filled; however, not all authorized positions are funded within the budget. A certain number of positions are not funded in order to account for savings that routinely occur due to turnover, leaves of absence and incidence of newly hired employees that fill vacancies at lower salaries than budgeted. The non-funding of a portion of the City's positions results in vacancy savings that reduce overall budgeted salaries and wages.

The vacancy savings included in the FY 2015 Budget are based on a November 25, 2013 data snapshot of the vacancy status of positions, as well as consultations with departments regarding hiring plans. Using this information, certain budgeted positions are not funded, producing the vacancy savings in the budget.

Vacancy savings lowers the FY 2015 General Fund Budget by \$18.6 million, or 3.6% of the \$509.8 million in salaries and wages

SALARIES AND WAGES - BUDGET AND ACTUAL						
Includes Significant General Fund (GF) Expenditure Types						
(in millions)						
SALARY AND WAGE TYPE	FY 2013 Actual	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE	%	
	<i>in Salaried</i>					
Salary Savings (includes vacancy savings)	<i>Wages</i>	\$ (21.8)	\$ (20.0)	\$ 1.8	8.3%	
Salaried Wages	397.2	451.1	423.1	(28.0)	-6.2%	
Vacation Pay in Lieu	7.7	1.9	5.1	3.2	168.4%	
Termination Pay/Annual Leave	2.8	5.2	2.1	(3.1)	-59.6%	
Specialty Pay	30.3	29.7	28.2	(1.5)	-5.1%	
Hourly Wages	12.3	12.3	13.2	0.9	7.3%	
Overtime	55.3	38.1	40.0	1.9	5.0%	
Budget Adjustment	-	(0.6)	(0.5)	0.1	16.7%	
TOTAL GF SALARIES AND WAGES	\$ 505.6	\$ 515.9	\$ 491.2	\$ (24.7)	-4.8%	

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before vacancy savings is deducted. A table of vacancy savings budget changes, by department, appears below.

Leaving the non-funded positions in the budget keeps the authorized positions transparent. A department can fill non-funded positions during the year; however, the department must monitor hiring, salaries and wages, and all budget expenditures to keep within the department's bottom line budget. Budgeting for vacancy savings is not intended to restrict hiring of authorized positions.

Other Salary and Wages Adjustments

Other Salary and Wages expenditure changes between the FY 2015 Proposed Budget and the FY 2014 Adopted Budget

are highlighted in the following paragraphs.

First, Salaried Wages are decreasing by \$28.0 million—from \$451.1 million in FY 2014 to \$423.1 million in FY 2015. The decrease is largely due to the removal of E&CP from the General Fund, for which FY 2014 budgeted Salaried Wages totaled \$31.7 million.

Additionally, the Fire-Rescue Department Salaried Wages budget is decreasing by \$1.4 million, which is more than offset by a \$3.0 million increase in overtime.

Increases in other departments total \$5.1 million. There are a number of increases affecting this line item. These include position reclassifications, career advancements, and some service increases. Service in-

VACANCY SAVINGS - BUDGET CHANGES					
Significant General Fund (GF) Changes by Department					
(in thousands)					
DEPARTMENT	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE	%	
City Comptroller	\$ 159	\$ 235	\$ 75	47.2%	
City Planning	-	160	160	100.0%	
City Council	304	-	(304)	-100.0%	
Environmental Services	237	304	67	28.3%	
Financial Management	65	125	59	90.8%	
Fire-Rescue	4,362	4,686	324	7.4%	
Library	537	607	70	13.0%	
Park & Recreation	955	1,402	447	46.8%	
Police	8,718	8,282	(436)	-5.0%	
Public Works - Engineering & Capital Projects	1,057	-	(1,057)	-100.0%	
Public Works - General Services	190	254	64	33.7%	
Transportation & Storm Water	734	930	196	26.7%	
Remaining Departments	1,660	1,607	(53)	-3.2%	
TOTAL GF VACANCY SAVINGS	\$ 18,978	\$ 18,592	\$ (388)	-2.0%	

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creases are discussed in the Department Reviews section of this report. Below is a abbreviated listing of increases in departmental positions.

- 9.33 FTEs in City Planning, including 3.00 management positions and 3.00 Associate Planners for community plan updates and Historic Resources Planning;
- 4.10 FTEs in the City Treasurer Department, including 2.00 Public Information Clerks for the Neighborhood Parking Protection Ordinance and 1.00 Collections Manager for the Delinquent Accounts Program;
- 7.75 FTEs in the Fire-Rescue Department, including 4.00 Lifeguard 3s for the Boating Safety Unit and 3.00 Information System Analysts;
- 3.00 FTEs for Infrastructure/Public Works, including 1.00 Deputy COO, 1.00 Executive Secretary and 1.00 Asset Manager. These positions were part of the ACOO's recommended improvements to the City's management structure—see Report to Council 13-076. On October 28, 2013 the recommendations were approved by the Council, including increased funding for the FY 2014 Budget.
- 1.00 Deputy COO and 0.50 Executive Secretary for Internal Operations, also part of the ACOO's recommended City management structure improvements.
- 1.00 Deputy COO and 0.50 Executive Secretary for Neighborhood Services, also part of the ACOO's recommended City management structure improve-

ments.

- 16.19 FTEs to support expanded service hours at all Library locations
- 11.37 FTEs in Park & Recreation, for support of maintenance and operations in recreation areas; expansion of pool services; restoral of overnight camping at the Kumeyaay Campground; and support for condition/needs assessment of park assets;
- 58.73 FTEs to support additional Police Recruits, as well as to provide civilian support for the Department;
- 7.00 FTEs in Public Works-General Services to provide facilities maintenance support;
- 7.00 FTEs in Purchasing & Contracting for the monitoring and enforcement of Prevailing Wage requirements and 4.00 FTEs to provide support for Public Utilities; and
- 18.67 FTEs in Transportation & Storm Water, with a plan to support street resurfacing projects; compliance with storm water permit requirements; and the completion of the sidewalk assessment that began in FY 2014.

Again, there is a summary of FTE changes, by department, in the FTE Changes section of this report, which follows this section.

Additionally, there are a number of FTE transfers among departments that produce no overall General Fund increase or decrease in FTEs.

Instances of departmental transfers that yield General Fund changes in FTEs include

General Fund Overview

the following:

- Removal of 452.75 E&CP FTEs from the General Fund as part of its restructure into an internal service fund;
- Transfer of the Parking Meter Operations Program from the General Fund to a Special Revenue Fund (15.00 FTEs); and
- Transfer of Associate Planners for CEQA and Urban Design from the Development Services Fund to the General Fund (7.00 FTEs).

Other specific Salary and Wage adjustments include Vacation Pay in Lieu, which is increasing by \$3.2 million—from \$1.9 million to 5.1 million—to be more in line with historical trends. Of this increase, the Police Department's portion is \$1.8 million, the Fire-Rescue Department's portion is \$0.7 million and Park & Recreation's is \$0.5 million.

Over the past five fiscal years (including the FY 2014 projection), pay in lieu of annual leave expenditures have averaged approximately \$7.1 million and been over-budget by approximately \$5.2 million—far exceeding the budgets for those years, which averaged \$1.9 million. In our review of the Mid-Year Budget Monitoring report, we recommended that the City examine potential methodologies for estimating pay in lieu, so that a more accurate budget for those expenditures can be established. Pay in lieu should not continue to be paid with funds budgeted for other purposes. We understand that pay in lieu of annual leave is a difficult expenditure type to forecast; and this increase in pay in lieu budget brings the

budget closer to historical trends.

Termination Pay/Annual Leave is decreasing by \$3.1 million—from \$5.2 million to \$2.1 million. Of this decrease, the Police Department's portion is \$1.2 million and the Fire-Rescue Department's portion is \$1.4 million. The estimate for Termination Pay is based on anticipated retirements and annual leave data for DROP employees.

The Specialty Pay budget decrease of \$1.5 million—from \$29.7 million to \$28.2 million—is largely due to the removal of E&CP from the General Fund.

Lastly, overtime is increasing by \$1.9 million—from \$38.1 million to \$40.0 million. Contributing to this increase is the Fire-Rescue Department's budget increase of \$3.0 million, which is largely due to two additional fire academies, operation of the Skyline Temporary Fire Station, and the pilot Fast Response Squad. The Fire-Rescue overtime increase is partially offset by a decrease of \$0.7 million for Police, due to the reversal of a one-time increase for FY 2014 (related to AB 109 overtime), and a decrease of \$0.3 million from the removal of E&CP from the General Fund.

Fringe Benefits

In the FY 2015 Proposed Budget, total Fringe Benefits have decreased by \$32.0 million in the General Fund—see the table of Fringe Benefits on the next page. This is largely due to the \$21.8 million decrease in the General Fund's share of the City's retirement payment (ADC)—from \$212.7 million to \$190.9 million. The ADC repre-

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sents 56% of the General Fund fringe benefits.

Of the \$21.8 million decrease in the ADC, \$13.0 million is largely due to removal of E&CP from the General Fund. The remaining \$8.8 million of the decrease is due to changes in the latest actuarial valuation, which produce a combination of increases and decreases to the ADC. These changes include an additional assumed four-year freeze on pay inflation, higher than assumed investment return for FY 2013, SDCERS Board-approved changes in actuarial assumptions and a liability experience loss. Note that the Pension section of this report contains further information on ADC changes from FY 2014.

In addition to the City's retirement payment, fringe benefits include funding for flexible benefits, retiree health care, workers' compensation, and risk management administration, among other items.

Flexible benefits are increasing by about \$2.5 million, due to the following factors. First, a \$5.5 million increase which is largely due to the partial restoral of the 6% employee compensation reductions in the employee organizations' labor contracts. Second, a \$3.0 million reduction due to the removal of E&CP from the General Fund.

Funding for retiree health benefits, or Other Post-Employment Benefits, is decreasing from \$41.1 million to \$38.1 million, largely due to the removal of E&CP from the General Fund. Retiree health benefits are discussed in the Other Post-Employment Benefits section of this report.

Workers' Compensation funding is decreasing by \$6.7 million, from \$24.8 million to \$18.1 million. This is largely due to the reserve target becoming fully funded upon adoption of the revised City Reserve Policy in February 2014. See the Workers' Compensation Fund section of this report for

SUMMARY OF FRINGE BENEFITS - BUDGET AND ACTUAL					
Includes Significant General Fund (GF) Fringe Benefit Types					
(in millions)					
FRINGE BENEFIT ACCOUNT	FY 2013 Actual	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE	%
Retirement ADC	\$ 180.6	\$ 212.7	\$ 190.9	\$ (21.8)	-10.2%
Flexible Benefits	36.7	53.1	55.6	2.5	4.7%
Retiree Health Benefits	41.2	41.1	38.1	(3.0)	-7.3%
Worker's Compensation	23.9	24.8	18.1	(6.7)	-27.0%
Supplemental Pension Savings Plan	11.4	11.6	11.2	(0.4)	-3.4%
Employee Offset Savings	8.2	9.5	8.0	(1.5)	-15.8%
Medicare	6.6	5.8	5.9	0.1	1.7%
Risk Management Administration	6.6	6.2	6.5	0.3	4.8%
Long-Term Disability	2.5	2.4	1.4	(1.0)	-41.7%
Retirement Offset Contribution	0.5	-	-	-	0.0%
Remaining Fringe Accounts	3.3	3.3	2.8	(0.5)	-15.2%
TOTAL GF FRINGE BENEFITS	\$ 321.5	\$ 370.5	\$ 338.5	\$ (32.0)	-8.6%

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additional information.

The budget for the Supplemental Pension Savings Plan (SPSP) is decreasing by \$0.4 million—from about \$11.6 million to \$11.2 million. This is from a combination of factors. First, there is a decrease of \$1.7 million due to the removal of E&CP from the General Fund. This decrease is largely offset with increases from the inclusion of more interim defined contribution plan employees in the calculation of the projection.

However, the interim defined contribution plan includes funding only to the extent that employee participants existed on November 25, 2015. There is no forecast for additional employees hired during the remainder of FY 2014 or during FY 2015. Because of this, the budget for the interim defined contribution plan employees could potentially be too low by one to two million dollars.

The Employee Offset Savings (EOS) budget is decreasing by \$1.5 million (from \$9.5 million to \$8.0 million), which is largely due to the removal of employees initially hired on or after July 1, 2009 from the budget calculation for EOS. Financial Management has made this enhancement to the calculation mechanism which will more closely align the budget with actual outcomes.

The General Fund portion of the Long-Term Disability (LTD) budget is decreasing from \$2.4 million to \$1.4 million. This is largely due to the elimination in funding for a reserve contribution. In FY 2014, the LTD budget covered both the annual LTD expenditures for FY 2014 and a reserve contribution. Since the FY 2015 reserve

contribution—\$1.2 million General Fund (\$1.6 million Citywide)—is anticipated to be prefunded in FY 2014 (as part of the Mid-Year Budget Adjustments), there has been no amount budgeted for a reserve contribution in FY 2015.

Thus, the entire FY 2015 LTD budget is allocated for annual LTD expenditures—\$1.4 million General Fund (\$2.1 million citywide). The annual expenditures portion of the budget is increasing by \$0.4 million for the General Fund (\$0.8 million citywide), which partially offsets the decrease for eliminating the reserve contribution for FY 2015. The LTD Fund is discussed in the Long-Term Disability Fund section of this report.

Supplies

The Supplies category is budgeted at \$26.0 million for the General Fund, and reflects an increase of \$1.0 million or 4.0% compared to the FY 2014 Adopted Budget of \$25.0 million. The Supplies category contains a variety of relatively smaller accounts, and we discuss a few of the larger changes below.

In our review, we determined the largest dollar increase, of \$3.2 million, is in relation to the Police retention program. Additionally, there is a \$1.7 million reduction in Other Safety Supplies for the Police Department. This is largely due to removal of one-time budget amounts for equipment in FY 2014.

There are a number of additional increases and decreases in various Supplies accounts.

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Contracts

The Contracts category totals \$169.6 million for the General Fund, and reflects an increase of \$21.1 million from the FY 2014 Adopted Budget. Below is a table of changes in the larger line items of the Contracts category. A few changes are noted in the discussion that follows.

The largest change in contracts is in the Reimbursement Agreements account, which is increasing by \$14.5 million. This is due to the transfer of the Public Liability budget that covers annual claims funding to the Contracts category from the Transfers Out

category. The budget is \$14.5 million for both FY 2014 and FY 2015 and is included in Citywide Program Expenditures.

In Transportation & Storm Water (TSW) there is a \$4.9 million increase to the Miscellaneous Professional/Technical Services account for compliance with storm water permit requirements.

In Citywide Program Expenditures there is a \$2.0 million increase in the City Services Billed account for engineering services performed by E&CP for General Fund departments that are not directly related to a capital project—see the Engineering & Capital Projects department section of this report for additional information.

SUMMARY OF CONTRACTS - BUDGET AND ACTUAL						
Includes Significant General Fund (GF) Expenditure Accounts						
(in millions)						
CONTRACTS ACCOUNT	FY 2013 Actual	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE	%	
Misc. Professional/Technical Services	\$ 30.8	\$ 40.6	\$ 46.0	\$ 5.4	13.3%	
Motive Equipment/Fleet - Usage	23.2	23.4	23.7	0.3	1.3%	
Reimbursement Agreements	1.1	0.2	14.7	14.5	7250.0%	
Refuse Disposal Fees	11.3	12.4	13.5	1.1	8.9%	
Motive Equipment/Fleet - Assign	13.5	13.2	13.0	(0.2)	-1.5%	
Contract Svc - Other Agencies	8.4	8.0	8.7	0.7	8.7%	
Rent Expense (Non-Discretionary)	11.6	10.4	7.9	(2.5)	-24.0%	
City Services Billed	17.0	4.3	6.2	1.9	44.2%	
Contract Svc Operations	4.9	5.1	4.8	(0.3)	-5.9%	
Landscaping Services	2.5	3.8	3.5	(0.3)	-7.9%	
Repair & Maintenance Services	1.5	2.4	2.6	0.2	8.3%	
Fire Insurance	1.6	1.5	2.2	0.7	46.7%	
Maintenance & Janitorial Services	1.5	2.4	2.0	(0.4)	-16.7%	
Security Services	1.4	1.7	2.0	0.3	17.6%	
Other Non-Personnel Expense	-	1.4	1.9	0.5	35.7%	
Maint - Buildings, Roads, Equipment	2.6	2.3	1.8	(0.5)	-21.7%	
Legal Fees	1.2	2.1	1.7	(0.4)	-19.0%	
Remaining Contracts Accounts	17.7	13.3	13.4	0.1	0.8%	
TOTAL GF CONTRACTS	\$ 151.8	\$ 148.5	\$ 169.6	\$ 21.1	14.2%	

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A notable decrease in the Contracts category is in the Rent Expense (Non-Discretionary) account—a \$2.5 million decrease for City leases for various facilities.

There are a number of additional increases and decreases in various Contracts accounts.

Besides traditional contracts, this category also includes funding for motive equipment usage and assignment charges, which are rates charged to City departments for the maintenance and repair of City vehicles, as well as for costs for planned scheduled replacements based on the useful life of the vehicle or piece of equipment. For FY 2014, changes to these accounts for the General Fund on the whole are minor.

Information Technology

A large portion of Information Technology (IT) services has been historically provided to the City by San Diego Data Processing Corporation (SDDPC).

At the end of FY 2012, the City Council approved changes to the way the City ob-

tains IT services. Specifically, it approved a transition from SDDPC to contracts with three different vendors for data and voice network services, data center services, service desk and desktop support services, and application development and maintenance services.

A discussion on the dissolution of SDDPC is located in the Department of Information Technology section of this report.

In total, the FY 2015 Proposed Budget for IT costs across all General Fund Departments totals about \$25.7 million, a decrease of \$3.9 million from the FY 2014 Budget of \$29.6 million. The table below shows major changes in the budget amounts.

Budget adjustments from FY 2014 to FY 2015 include the following:

- A \$2.2 million decrease in the Hardware/Software line is largely due to the removal of one-time FY 2014 funding of \$2.1 million for personal computer replacement and the MS Windows 7 upgrade across departments.
- The \$901,000 decrease in the Telephone and Network Access line is

SUMMARY OF INFORMATION TECHNOLOGY - BUDGET AND ACTUAL					
Includes Significant General Fund (GF) Expenditure Types					
(in millions)					
INFO TECHNOLOGY TYPE	FY 2013 Actual	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE	%
Hardware / Software	\$ 1.8	\$ 3.4	\$ 1.2	\$ (2.2)	-64.7%
Telephone and Network Access	10.1	8.1	7.2	(0.9)	-11.1%
Professional IT Services	6.5	5.7	6.3	0.6	10.5%
Data Center	6.4	5.1	4.4	(0.7)	-13.7%
Licensing/Maintenance Contracts	6.2	7.3	6.6	(0.7)	-9.6%
TOTAL GF INFO TECH	\$ 31.0	\$ 29.6	\$ 25.7	\$ (3.9)	-13.2%

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largely due to the removal of E&CP from the General Fund.

- The \$626,000 increase in the Professional IT Services line is largely due to the following areas:
 - City Treasurer—\$690,000 increase based on actual usage from the previous year and \$200,000 increase for discretionary software enhancements;
 - TSW—\$497,000 for various upgrades of the Geographic Information System for the Streets Division;
 - Police—\$349,000 for vendor support for various custom applications;
 - Purchasing & Contracting—\$200,000 for a SAP enhancement to help simplify purchase requisition processing;
 - Partially offsetting these increases is \$1.4 million decrease related to the removal of E&CP from the General Fund.
- The \$690,000 decrease in the Data Center line is largely due to implementation of the virtual server model, which reduced management and licensing fees associated with the servers. Also, \$209,000 of the decrease is due to removal of E&CP from the General Fund.
- The \$740,000 decrease in the Licensing/Maintenance Contracts line is partly due to a \$384,000 decrease in help desk and desktop support resulting from the

transfer of costs to the Hardware/Software line. Additionally, there is a \$457,000 decrease related to the removal of E&CP from the General Fund.

Energy/Utilities

The Energy and Utilities category totals \$40.4 million for FY 2015, and reflects an increase of \$1.7 million from the FY 2015 Adopted Budget of \$38.7 million. Included in this category are accounts for gas and electricity, water and sewer charges.

The next page includes a table of changes in the larger line items of the Energy/Utilities category. Larger variances include the following:

- A \$1.7 million decrease in Fleet Fuel (Non-Discretionary) results from utilizing historical expenditures with a 5% inflationary factor for the FY 2015 budget amount.
- A \$1.5 million increase in Electric Services is largely due to increased rates.
- A \$2.3 million increase in Water Service Including Hydrant Rent is largely due to increased water rates approved by Council—effective January 1, 2014 and January 1, 2015 (7.25% and 7.50%, respectively). Additionally in the Park & Recreation Department there are five new parks and an expansion of the Memorial Pool.

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SUMMARY OF ENERGY/UTILITIES - BUDGET AND ACTUAL						
Includes Significant General Fund (GF) Expenditure Accounts						
(in millions)						
ENERGY/UTILITIES ACCOUNTS	FY 2013	FY 2014	FY 2015	CHANGE	%	
	Actual	BUDGET	PROPOSED			
Fleet Fuel (Non-Discretionary)	\$ 8.6	\$ 11.9	\$ 10.2	\$ (1.7)	-14.3%	
Electric Services	7.4	8.3	9.8	1.5	18.1%	
Water Service Including Hydrant Rent	7.7	7.1	9.4	2.3	32.4%	
Street Lighting/Traffic Signal	1.0	1.0	1.2	0.2	20.0%	
Traffic Signals	3.2	3.7	3.9	0.2	5.4%	
Cellular Phone Operating Cost	1.0	1.5	1.3	(0.2)	-13.3%	
Other Motor Fuels	2.1	2.4	2.4	-	0.0%	
Sewer Service Charge	1.0	1.0	1.0	-	0.0%	
Remaining Energy/Utilities Accounts	1.5	1.8	1.2	(0.6)	-33.3%	
TOTAL GF ENERGY/UTILITIES	\$ 33.5	\$ 38.7	\$ 40.4	\$ 1.7	4.4%	

Other

Changes in the Other expenditures category are shown in the table below.

Transfers Out

The Transfers Out category contains transfers of funding between City funds, including the allocation of funds to City reserves and transfers of funding for annual debt service payments for outstanding bonds. Also,

funding for annual payments related to the McGuigan Settlement financing are included in this category, and the General Fund share of \$8.0 million is reflected in Citywide Program Expenditures. FY 2015 is the final year for McGuigan financing repayment. See the Citywide Program Expenditures section of this report for additional information.

The Transfers Out category totals \$75.0 million for the General Fund, and reflects a decrease of \$6.9 million from the FY 2014

SUMMARY OF OTHER EXPENDITURES - BUDGET AND ACTUAL						
Includes Significant General Fund (GF) Expenditure Types						
(in millions)						
OTHER ACCOUNTS	FY 2013	FY 2014	FY 2015	CHANGE	%	
	Actual	BUDGET	PROPOSED			
Transportation Allowance	\$ 1.6	\$ 1.7	\$ 1.2	\$ (0.5)	-29.4%	
Preservation of Benefits Expense	1.4	1.7	1.7	-	0.0%	
Supplemental COLA	-	1.4	1.6	0.2	14.3%	
Taxes - Sales/Use & Assessments	0.9	0.9	0.9	-	0.0%	
TOTAL GF OTHER	\$ 3.9	\$ 5.7	\$ 5.4	\$ (0.3)	-5.3%	

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Adopted Budget amount of \$81.9 million. Budget adjustments are discussed in the related Department Reviews sections and highlighted below.

Listed below are some of the main decreases to the Transfers Out category.

- A decrease of \$14.5 million related to the following budget reallocation: the Public Liability budget that covers annual claims funding has been moved from the Transfers Out category to the Contracts category. The budget is \$14.5 million for both FY 2014 and FY 2015 and is included in Citywide Program Expenditures.
- For the City Treasurer, a \$3.8 million decrease related to the transfer of the Parking Meter Operations Program from the General Fund to a Special Revenue Fund.
- For TSW, a decrease of 2.4 million related to a one-time transfer to CIP of monies from the Service Authority for Freeway Emergencies (SAFE) Fund reserve balance. This transfer was to CIP for traffic control upgrades.
- For Fire-Rescue, a \$1.8 million decrease related to redistribution of budget.
- A decrease of \$1.3 million due to the removal of E&CP from the General Fund.

Increases to the Transfers Out category include the following:

- In TSW, a \$2.9 million increase for CIP drainage projects.

- In TSW, a \$2.1 million increase related to improvements at the South Chollas Landfill.
- In TSW, a \$1.4 million increase for improvements to the City's sidewalks and street lights.
- In Citywide Program Expenditures an increase of \$4.4 million to be transferred to the park improvement funds.
- In Citywide Program Expenditures an increase of \$5.5 million to be transferred for deferred capital bond payments, including \$4.2 million in funding for the anticipated DC 3 issuance.
- In Park & Recreation an increase of \$2.0 million for contributions to Maintenance Assessment Districts.

Capital

Capital Expenditures include funding for vehicle and equipment purchases not handled by the City's Fleet Services. The FY 2015 Proposed Budget for General Fund Capital Expenditures is \$3.1 million, an increase of \$0.4 million from the FY 2014 Budget of \$2.7 million.

Debt

The Debt category totals \$4.1 million in the General Fund for FY 2015, a decrease of \$0.8 million from \$4.9 million in the FY 2014 Budget.

The decline is largely due to the elimination of approximately \$1.0 million for Police

General Fund Overview

helicopter lease payments.

Certain payments related to the City's Master Lease Purchase Program for Police and Fire Equipment and Vehicles are reflected here, along with payments for energy efficiency retrofits. Loans from the California Energy Commission (CEC) initially funded project costs and multi-year repayments are made from energy savings due to reduced energy consumption.

In the TSW Street Division, \$1.5 million is budgeted for Qualified Energy Conservation Bonds (QECCB) payments related to Phase I of the Broad Spectrum Street Lighting Project, along with \$346,000 for payments on a related CEC Loan.

The Broad Spectrum Street Lighting Project is an endeavor to convert approximately 80% of existing low pressure sodium and high pressure sodium citywide street lights to broad spectrum lighting.

Phase I of the project used induction type technology for 33,000 street lights. Total vendor contract costs of \$15.2 million were funded by \$10.2 million in QECCBs, a \$3.0 million CEC Loan, and \$2.0 million in Energy Efficiency & Conservation Block Grant (EECCBG) funds. The project was completed in May 2013.

The plan for Phase I of the project is that annual payments for the QECCBs and CEC loan will be funded from annual street light energy and maintenance costs savings upon project completion. Additionally, the City receives a federal subsidy each year towards payments of the QECCB's (\$408,000 in FY 2015).

Phase 2 of the project will use LED technology for 3,000 pedestrian street lights. The new contracts for these street lights is anticipated to be funded with the remaining QECCBs of \$2.7 million, a \$2.0 million CEC loan, and approximately \$460,000 in SDG&E rebates, for a total of \$5.2 million.

An additional contract change order for 500 pedestrian street lights is anticipated to be funded with \$800,000 of EECCBG funds and \$300,000 in SDG&E rebates.

The only additional financing payments needed for Phase 2, including the change order, is \$167,000 for the new CEC loan, which is budgeted in FY 2015. Approval of this change order is anticipated to be scheduled for Council approval in May 2014. Phase 2 is anticipated to be completed in calendar year 2014.

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FTE Changes

Below is a summary of General Fund Full Time Equivalent (FTE) changes between the FY 2014 Adopted Budget and the FY 2015

Proposed Budget. The next few pages outline the additions and reductions for each department.

FTE CHANGES					
General Fund (GF) Changes by Department					
DEPARTMENT	FY 2014 BUDGET	Transfers Within Gen. Fund	Transfers To/(From) Gen. Fund	Net Other Changes	FY 2015 PROPOSED
Administration	12.00	(11.00)	(1.00)	-	-
City Attorney	345.86	-	-	1.99	347.85
City Council	102.30	-	-	0.83	103.13
City Planning	-	45.75	7.00	9.33	62.08
City Treasurer	119.63	-	(15.00)	3.10	107.73
Civic & Urban Initiatives	6.00	-	-	(6.00)	-
Communications	5.00	-	-	1.00	6.00
Dept. of Analytics & Performance Mgmt.	-	6.00	-	1.00	7.00
Development Services	107.75	(46.75)	-	-	61.00
Economic Development	46.00	1.00	-	1.70	48.70
Environmental Services	137.69	-	0.73	(0.63)	137.79
Fire-Rescue	1,165.52	-	-	7.75	1,173.27
Human Resources	18.00	1.00	-	0.75	19.75
Infrastructure/Public Works	4.37	-	-	2.98	7.35
Internal Operations	-	-	-	1.50	1.50
Library	410.93	-	-	24.59	435.52
Neighborhood Services	-	4.00	-	1.50	5.50
Office of the Assistant COO	8.00	(2.00)	-	-	6.00
Office of the Chief Financial Officer	5.00	(3.00)	-	-	2.00
Office of the Chief Operating Officer	2.00	2.00	-	0.35	4.35
Office of the Mayor	26.16	1.00	-	(0.16)	27.00
Park & Recreation	782.84	-	-	14.24	797.08
Personnel	60.36	-	-	0.95	61.31
Police	2,528.79	-	-	58.73	2,587.52
Public Works - Engineering & Capital Projects	470.88	-	(454.75)	(16.13)	-
Public Works - General Services	123.00	-	-	7.00	130.00
Purchasing & Contracting	41.59	2.00	-	10.61	54.20
Transportation & Storm Water	464.40	-	(1.00)	16.93	480.33
Remaining Departments	273.43	-	-	(0.08)	273.35
TOTAL GF FTE CHANGES	7,267.50	-	(464.02)	143.83	6,947.31

General Fund Overview

Administration (12.00 FTE Decrease) - office dissolved

- Transfer of the Docket Office to the Office of the Chief Operating Officer — 2.00 FTEs (no General Fund FTE reduction)
- Transfer of the Citizen's Assistance Program to Human Resources — 3.00 FTEs (no General Fund FTE reduction)
- Transfer of the Gang Commission to Neighborhood Services — 1.00 FTE (no General Fund FTE reduction)
- Transfer of the Living Wage Program to Purchasing & Contracting — 2.00 FTEs (no General Fund FTE reduction)
- Transfer of a Department Director position to the Office of the ACOO — 1.00 FTE (no General Fund FTE reduction)
- Transfer 1.00 Mayor Representative 2 to the Office of the Mayor (no General Fund FTE reduction)
- Transfer of 1.00 Paramedic Coordinator for EMS contract administration to the Fire/Emergency Medical Services Transport Program Fund (a decrease of FTE to the General Fund)
- Transfer 1.00 FTE to Neighborhood Services for the Human Relations Commission and the Citizens' Review Board

Analytics & Performance Management (7.00 FTE Increase)

- 1.00 Program Manager as the Open Data Officer
- Transfer of the Business Office Section from the ACOO — 6.00 FTEs (no General Fund FTE increase)

City Attorney (1.99 FTE Increase)

- 1.99 FTE increase in non-standard hourly personnel

City Council Administration (0.83 FTE Increase)

- 0.83 FTE increase in non-standard hourly personnel

City Planning (62.08 FTE Increase)

- Transfer the City Planning Division from Development Services — 45.75 FTEs (no General Fund FTE increase)
- Transfer Associate Planners for CEQA and Urban Design from the Development Services Fund — 7.00 FTEs (an increase in FTEs to the General Fund)
- 1.00 Planning Director
- 1.00 Assistant Planning Director
- 1.00 Deputy Planning Director
- 2.00 Associate Planners for community plan updates
- 1.00 Associate Planner for Historic Resources Planning
- 1.00 Word Processing Operator to support CEQA and Urban Design staff

General Fund Overview

- 2.33 FTE increase in non-standard hourly personnel

City Treasurer (11.90 FTE Decrease)

Additions — 4.10 FTEs

- 2.00 Public Information Clerks for the Neighborhood Parking Protection Ordinance
- 1.00 Collections Manager for assistance with the Delinquent Accounts Program
- 1.10 FTE increase in non-standard hourly personnel

Reductions — 16.00 FTEs

- Transfer of the Parking Meter Operations Program from the General Fund to a Special Revenue Fund — 15.00 FTEs (a decrease of FTE to the General Fund)
- 1.00 Senior Management Analyst reduction related to departmental efficiencies

Civic & Urban Initiatives (6.00 FTE Decrease) - office dissolved

Communications (1.00 FTE Increase)

- 1.00 FTE increase in non-standard hourly personnel

Development Services (46.75 FTE Decrease)

Additions — 5.00 FTEs

- 1.00 Program Manager to oversee the Land Development Review Section

- 1.00 Program Manager to oversee the Building and Housing Section
- 1.00 Compliance Officer for the Utilities Undergrounding Program
- 1.00 Word Processing Operator for the Utilities Undergrounding Program
- 1.00 Zoning Investigator II to support the Property Value Protection Ordinance.

Reductions — 51.75 FTEs

- Transfer the City Planning Division to City Planning — 45.75 FTEs (no General Fund FTE reduction)
- Transfer 1.00 Program Manager to Economic Development for the Office of Small Business Program (no General Fund FTE reduction)
- 1.00 Senior Zoning Investigator from the Neighborhood Code Compliance Division
- 4.00 FTE reduction in non-standard hourly personnel

Economic Development — under the Planning, Neighborhoods & Economic Development Department (2.70 FTE Increase)

- 1.00 Community Development Coordinator to manage the compliance and monitoring section of HUD Programs
- 0.50 increase to Word Processing Operator (from half-time to full-time) for the Small Business Enhancement Pro-

General Fund Overview

gram

- Transfer 1.00 Program Manager from Development Services for the Office of Small Business Program (no General Fund FTE increase)
- 0.20 FTE increase in non-standard hourly personnel

Environmental Services (0.10 FTE Increase)

Additions — 0.73 FTEs

- 0.50 Transfer of Program Manager from the Energy Conservation Program Fund to support the Collection Services Division (an increase of FTE to the General Fund)
- 0.23 Transfer of Supervising Management Analyst from the Refuse Disposal Fund to support the Office of the Director Division (an increase of FTE to the General Fund)

Reductions — 0.63 FTEs

- 0.63 FTE reduction in non-standard hourly personnel

Fire-Rescue (7.75 FTE Increase)

- 4.00 Lifeguard 3s for the Boating Safety Unit
- 2.00 Information Systems Analyst 2s for critical needs, including those related to the Computer Aided Dispatch (CAD) system
- 1.00 Information Systems Analyst 3 for database analysis and critical needs, including those related to the CAD sys-

tem

- 0.75 FTE increase in non-standard hourly personnel

Human Resources (1.75 FTE Increase)

Additions — 3.75 FTEs

- Transfer of the Citizen's Assistance Program from Administration — 3.0 FTEs (no General Fund FTE increase)
- 0.75 FTE increase in non-standard hourly personnel

Reductions — 2.00 FTEs

- Transfer of the Human Relations Commission and the Citizens' Review Board to Neighborhood Services — 2.00 FTEs (no General Fund FTE reduction)

Infrastructure/Public Works (2.98 FTE Increase)

Additions — 3.00 FTEs

- 1.00 Deputy Chief Operating Officer
- 1.00 Executive Secretary
- 1.00 Asset Manager position

Reductions — 0.02 FTEs

- 0.02 FTE reduction in non-standard hourly personnel

Internal Operations (1.50 FTE Increase)

- 1.00 Deputy Chief Operating Officer
- 0.50 Executive Secretary

Library (24.59 FTE Increase)

Additions — 27.09 FTEs

General Fund Overview

- 16.19 FTEs to support expanded service hours at all Library locations
- 6.90 FTEs for the after-school program (2.00 Librarian 2s and 4.90 non-standard hourly positions)
- 4.00 Custodian II positions, which is offset by a decrease in contractual janitorial services

Reductions — 2.50 FTEs

- 2.50 Library Aides that have remained vacant since FY 2012

Neighborhood Services (5.50 FTE Increase)

- 1.00 Deputy Chief Operating Officer
- 0.50 Executive Secretary
- Transfer of the Human Relations Commission and the Citizens' Review Board from Human Resources — 2.0 FTEs (no General Fund FTE increase)
- Transfer 1.00 additional FTE for the Human Relations Commission and the Citizens' Review Board from Administration (Note that this 1.00 FTE combined with the 2.00 FTEs above will be allocated as follows: 1.40 FTE for the Human Relations Commission and 1.60 FTE for the Citizens' Review Board.)
- Transfer of the Gang Commission from Administration — 1.00 FTE (no General Fund FTE increase)

Office of the Assistant COO (2.00 FTE Decrease)

Additions—4.00 FTEs

- Transfer of a Department Director po-

sition from Administration — 1.00 FTE (no General Fund FTE increase)

- Transfer of the Corporate Partnerships and Development Program from the Office of the CFO — 3.00 FTEs (no General Fund FTE increase)

Reductions—6.00 FTEs

- Transfer the Business Office Section to Analytics & Performance Management — 6.00 FTEs (no General Fund FTE decrease)

Office of the Chief Financial Officer (3.00 FTE Decrease)

- Transfer of the Corporate Partnerships and Development Program to the Office of the ACOO — 3.00 FTEs (no General Fund FTE reduction)

Office of the Chief Operating Officer (2.35 FTE Increase)

- Transfer of the Docket Office from Administration — 2.00 FTEs (no General Fund FTE increase)
- 0.35 FTE increase in non-standard hourly personnel

Office of the Mayor (0.84 FTE Increase)

Additions — 1.00 FTE

- Transfer 1.00 Mayor Representative 2 from Administration (no General Fund FTE increase)

Reductions — 0.16 FTEs

- 0.16 FTE reduction in non-standard

General Fund Overview

hourly personnel

Park & Recreation (14.24 FTE Increase)

- 3.00 Pool Guard 2s-Hourly to support the expansion of the Memorial Pool
- 2.00 FTEs to support maintenance and operation of the Memorial Pool expansion and other park forestry and aquatics needs (1.00 Tree Trimmer and 1.00 Aquatics Technician I)
- 1.50 FTEs to support the condition/needs assessment of park assets (1.00 Park Designer and 0.50 Management Intern-Hourly)
- 1.50 FTEs to restore overnight weekend camping at the Kumeyaay Campground (1.00 Park Ranger and 0.50 Recreation Center Director I)
- 2.00 Grounds Maintenance Worker 2s, which is offset by a decrease in contractual expenditures
- 1.00 Grounds Maintenance Worker 2 to support the maintenance and operations at Balboa Park Central Mesa
- 1.00 Park Ranger to support the maintenance and operation of new open space acreage
- 1.37 FTEs to support maintenance and operations of various neighborhood parks
- 0.50 FTE's to implement the online registration system and other IT projects (1.00 Information Systems Analyst 2, which is offset by a reduction of 0.50 Recreation Specialist)

- 0.37 FTE increase in non-standard hourly personnel

Personnel (0.95 FTE Increase)

Additions — 1.00 FTE

- 1.00 Associate Personnel Analyst to administer the bilingual retest program for Police and Fire-Rescue

Reductions — 0.05 FTE

- 0.05 FTE reduction in non-standard hourly personnel

Police (58.73 FTE Increase)

Additions — 60.73 FTEs

- 1.00 Assistant Police Chief
- 18.00 FTEs to support an increase in Police Recruits from 34 to 43 for each of the four academies (annualized increased FTEs include 7.00 Police Sergeants, 7.00 Police Detectives, 2.00 Police Officer 3s and 20.00 Police officer 2s, for a total of 36.00 annualized FTEs)
- 9.00 Police Officer 2s for Police Recruits that were added for the May 2014 academy
- 17.00 civilian FTEs to support Police Department operations as part of the 5-year staffing plan, including enforcement of the Neighborhood Parking Protection Ordinance
- 7.33 FTEs to annualize funding for 16.00 additional Police Recruits that had partial year funding in FY 2014
- 8.40 FTE increase in non-standard hourly personnel

General Fund Overview

Reductions — 2.00 FTEs

- 2.00 Police Code Compliance Officers that have remained vacant since FY 2012

Public Works — Engineering & Capital Projects (470.88 FTE Decrease)

- Transfer of Engineering & Capital Projects from the General Fund to an Internal Service Fund — 452.75 FTEs (a decrease of FTEs to the General Fund)
- Transfer 2.00 FTEs to Transportation & Storm Water Underground Surcharge Fund — 1.00 Principal Engineering Aide and 1.00 Junior Engineering Aide (a decrease of FTEs to the General Fund)
- 16.13 FTE reduction in non-standard hourly personnel

Public Works—General Services (7.00 FTE Increase)

- 7.00 FTEs to provide facilities maintenance support

Purchasing & Contracting (12.61 FTE Increase)

Additions — 13.00 FTEs

- 7.00 FTE's for the monitoring and enforcement of Prevailing Wage requirements
- 4.00 FTEs to provide procurement services for Public Utilities
- Transfer of the Living Wage Program from Administration — 2.00 FTEs (no General Fund FTE increase)

Reductions — 0.39 FTE

- 0.39 FTE reduction in non-standard hourly personnel

Transportation & Storm Water (15.93 FTE Increase)

Additions — 32.67 FTEs

- 14.00 FTEs to support the efficiencies related to the Street and Sidewalk Maintenance alternative to managed competition proposal (offset with a decrease in contractual expenditures)
- 9.67 FTEs for compliance with the Bacteria Total Maximum Daily Load and municipal storm water permit requirements
- 5.00 FTEs for the completion of the sidewalk assessment that began in FY 2014
- 4.00 FTEs to support street resurfacing projects (2.00 Principal Engineering Aide and 2.00 Assistant Engineering-Civil positions)

Reductions — 16.74 FTEs

- 5.83 FTE reduction related to position reallocations
- Transfer 1.00 Associate Engineer-Civil from the General Fund to the Underground Surcharge Fund
- 9.91 FTE reduction in non-standard hourly personnel

General Fund Reserve

Updated Reserve Policy

On February 10, 2014, the City Council reviewed and approved proposed amendments to the City's Reserve Policy. These amendments increased the General Fund reserve target from 8% to 14% of the most recent three year average of annual audited General Fund operating revenues. The new 14% target is comprised of an 8% Emergency Reserve (to sustain General Fund operations in the event of a public emergency) and a 6% Stability Reserve (to mitigate extraordinary financial and service delivery risk due to unexpected revenue shortfalls in an economic downturn or from unanticipated one-time expenditures). Unrestricted fund balance not assigned to these reserves that is available for budgeting and appropriation for one-time expenditures is defined as excess equity.

As defined, excess equity either serves as a non-recurring source of revenue or as a financial cushion above the 14% reserve target, or both. The Reserve Policy does not stipulate how much, if any, excess equity should be appropriated for expenditure or discuss any recommended use of it. To the extent excess equity is not appropriated, funds are available when 1) actual revenues are lower than projected or 2) expenditures are higher than expected. If excess equity is not appropriated and subsequently not needed to cover unexpected revenue/expenditure variances in the current year, it carries forward into the next fiscal year where it can again be considered for a variety of budgetary purposes (one-time prior-

ity expenditures, funding to meet reserve requirements, etc.).

When appropriated, excess equity is to be used primarily for unanticipated circumstances such as a General Fund revenue shortfall affecting programs included in the current year budget or for one-time priority expenditures. In keeping with the City Attorney memorandum to the then Committee on Budget and Finance, dated March 28, 2011, only the Mayor may propose utilization of any General Fund reserve amount, with approval and / or modification by the City Council up to the amount of funds proposed to be appropriated.

FY 2014 Ending Fund Balance Estimate and CPPS Deduction

The FY 2014 Mid-Year Report forecasts approximately \$37.0 million of excess equity. The Mayor proposed appropriating \$22.9 million for critical one-time expenditures and leaving approximately \$14.1 million (1.3% of the three year average of audited annual General Fund revenue) unappropriated "to account for variances in projected financial activity through the end of the fiscal year as a buffer to maintain the 14% General Fund reserve target."

However, the projected excess equity of \$14.1 million does not account for the re-budgeting of savings in City Council departmental budgets in FY 2014 for Community Projects, Programs, and Services (CPPS) funding in FY 2015. The total amount of CPPS funding that is being re-budgeted in the FY 2015 Proposed Budget, based on

Significant Citywide Issues

	Estimate	% of GF Operating Revenues*
FY 2013 Ending GF Fund Reserve Balance	\$ 179.5	16.8%
Loan to City Successor Agency for Non-Housing DDR "Clawback"	(21.1)	
FY 2014 GF Mid-Year Projected Surplus	28.4	
FY 2014 GF Projected Reserve Balance	\$ 186.8	17.5%
14.0% Minimum Reserve Per Policy	\$ 149.8	14.0%
Excess Equity Above Policy Minimum	37.0	
FY 2014 Mid-Year Proposed Use of Excess Equity	(22.9)	
Remaining Excess Equity Projected at End of FY 2014	\$ 14.1	1.3%
Re-Budget of Council CPPS Funds in FY 2015	\$ (1.8)	
Remaining Excess Equity Projected at End of FY 2015	\$ 12.3	1.1%

*Operating revenues are derived from the most recent three year average of audited operating revenues, as prescribed by the City's Reserve Policy. Percentage of remaining excess equity at the end of FY 2015 shown above will change based on new audited operating revenues released in the City's Comprehensive Annual Financial Report anticipated in the fourth quarter of CY 2014.

projections for City Council office savings in the FY 2014 Mid-Year Report, totals \$1.8 million. After deducting for CPPS funding in FY 2015, the total excess equity is projected at \$12.3 million or 1.1% above the Reserve Policy target of 14%.

Recommendation that the City Further Address Excess Equity Treatment Within the Reserve Policy

It is important to note that there is no requirement or best practice for the use of excess equity as defined in the City's Reserve Policy. The recommended amount of un-appropriated excess equity, if any, should be expected to vary from one fiscal year to the next based on a number of factors (confidence or uncertainty about forecasted financial activity, the need for critical one-time expenditures, the amount of excess equity, etc.).

We noted in our review of the FY 2014 Mid-Year Report that the decision to leave available excess equity in FY 2014 to account for potential variances in financial ac-

tivity is a conservative practice. During their review of the Mid-Year Report, City Council approved the recommendation to the Mayor that if there were excess equity at the end of FY 2014 that it be utilized to advance funding goals outlined in the City's Reserve Policy for Public Liability, Worker's Compensation, and Long-Term Disability reserves (Risk Management Reserves). Additionally, the CFO plans to return to the Committee on Budget and Government Efficiency in 2014 with proposed revisions to reserve policies for Enterprise Funds and discuss any potential further adjustments to the City's General Fund Reserve Policy.

Subsequent to the release of the FY 2015 Proposed Budget, the Mayor announced that his May Revision to the FY 2015 Proposed Budget will recommend placing this excess equity in the Risk Management Reserves. This issue is discussed in greater detail in the Overview section of this report.

Significant Citywide Issues

Public Liability Fund

The Public Liability Fund is supported by transfers from the General Fund, specifically in Citywide Program Expenditures. The FY 2015 Proposed Budget includes \$14.5 million to support FY 2015 public liability claims expenditures, unchanged from the FY 2014 Adopted Budget. Note, however, that due to increased claims estimates at the time of the Mid-Year Budget Monitoring report, an additional \$10.1 million was approved by City Council as part of the Mid-Year Budget Adjustments.

The \$3.2 million anticipated reserve contribution for FY 2015 was also prefunded in FY 2014 as part of the Mid-Year Budget Adjustments, and therefore, no additional amount has been budgeted for this contribution in FY 2015. At that time of the Mid-Year Budget Adjustments, it was anticipated that the overall reserve target of 50% funding of outstanding actuarial liabilities, or \$48.3 million, could be achieved by FY 2019 (with \$3.2 million in contributions each year from FY 2016 through FY 2019). City Council also recommended fully funding the overall target earlier with the use of General Fund excess equity.

We would note that it has been determined that the Public Liability Reserve may be required to be utilized for recently estimated unanticipated Public Liability claims, which would potentially reduce the amount of Public Liability Reserve below the FY 2015 target amount of \$35.4 million. The Mayor's Office and CFO are currently working to determine the impacts.

Subsequent to the release of the FY 2015 Proposed Budget, the Mayor announced that his May Revision to the FY 2015 Proposed Budget will recommend placing General Fund excess equity in the Public Liability Reserve per Council recommendation. With the potential reduction in the Public Liability Reserve due to the unanticipated claims, excess equity may not be enough to fully fund the overall Public Liability Reserve target.

Workers' Compensation Fund

Estimated costs for Workers' Compensation are based on a three-year average of actual annual payments. Workers' Compensation rates are applied to employees' salaries and reflect a blend of claims cost estimates (which are allocated by job classification) and the allocated reserve contribution, as appropriate. The estimated costs are distributed accordingly in the budget system and categorized as Fringe Benefit expenditures.

The \$22.8 million budgeted in the FY 2015 Proposed Budget for citywide fringe payments to the Workers' Compensation (WC) Fund has decreased by \$7.6 million, from \$30.4 million in the FY 2014 Adopted Budget. This is largely due to the reserve target—25% funding of outstanding actuarial liabilities, or \$43.0 million—becoming fully funded upon adoption of the revised City Reserve Policy in February 2014.

This reserve target is actually anticipated to be overfunded by approximately \$2.2 million for FY 2014. Because of this overfunding, the requested funding for the estimated FY 2015 claims cost of \$25.0 million is only at \$22.8 million. The estimated claims cost for FY 2015 is close to the FY 2014 budgeted and current projected amount.

For the General Fund, Workers' Compensation funding is decreasing by \$6.7 million, from \$24.8 million to \$18.1 million. The percent of total workers' compensation fringe costs attributable to the General Fund budget is 79.0%.

Significant Citywide Issues

Long-Term Disability Fund

Estimated costs for Long-Term Disability (LTD) are based on a three-year average of actual annual payments combined with the annual reserve contribution, as appropriate. A single LTD rate is determined and applied to employees' salaries. Estimated costs are distributed accordingly in the budget system and categorized as Fringe Benefit expenditures.

The \$2.1 million budgeted in the FY 2015 Proposed Budget for citywide fringe payments to the LTD Fund has decreased by \$1.1 million, from \$3.2 million in the FY 2014 Adopted Budget. This is largely due to the elimination in funding for a reserve contribution.

In FY 2014, the LTD budget covered both the annual LTD expenditures for FY 2014 and a reserve contribution. Since the FY 2015 reserve contribution—\$1.6 million citywide (\$1.2 million General Fund)—was prefunded in FY 2014 (as part of the Mid-Year Budget Adjustments), there has been no amount budgeted for a reserve contribution in FY 2015.

Thus, the entire FY 2015 LTD budget is allocated for annual LTD expenditures—\$2.1 million citywide (\$1.4 million General Fund). The annual expenditures portion of the budget is increasing by \$0.8 million citywide (\$0.4 million General Fund), which partially offsets the decrease for eliminating the reserve contribution for FY 2015.

Based on current projections, it appears that the City Reserve Policy's \$15.4 million

reserve target for FY 2015 will be met. The overall reserve target of \$17.0 million can be met with the Reserve Policy's anticipated FY 2016 contribution of \$1.6 million. Alternatively, the City may be able to prefund the FY 2016 contribution depending on how much excess equity is available, per Council recommendation.

Furthermore, the Reserve Policy mentions that the City is evaluating the feasibility of purchasing insurance for the LTD benefit, instead of continuing the City's self-insurance program. To accomplish this endeavor, the City would need to be prepared to fund existing claims while also paying costs associated with premiums for future insurance coverage. The average annual actuarial liability for LTD, based on fiscal years 2011 through 2013, is \$17.0 million; and the LTD reserve is the intended source of funds for existing claims.

Lastly, with regard to purchasing insurance for the LTD benefit instead of continuing the City's self-insurance program: the City must negotiate this item with its employee organizations in accordance with the Meyers-Milias-Brown Act, which governs labor-management relations and collective bargaining in California. The City has issued an RFP for insuring and administering the LTD program and is currently evaluating responses. Additionally, the City has begun discussions with the City's employee organizations in conjunction with the RFP process.

Other Post-Employment Benefits

Retiree health obligations, or Other Post-Employment Benefits (OPEB), total \$57.8 million (\$38.1 million for the General Fund) in the FY 2015 Proposed Budget. From the budgeted amount, defined contribution and pay-as-you-go (PAYGO) expenses will be paid first, with any remaining budget balance prefunding the future payment of retiree health benefits.

Currently, the City provides a defined benefit plan (DB) for employees hired before July 1, 2005. This benefit was restructured for employees retiring on or after April 1, 2012. This restructure is discussed later under the Effects of Labor Negotiations section.

In the City's DB retiree medical plan, vested employees are provided a specific health benefit at the time of their retirement. Effective July 1, 2009 the vesting time period for the full DB retiree health benefit plan is 20 years.

For employees retiring before the DB retiree health benefit restructure became effective (April 1, 2012), the City has frozen the automatic escalator on the retiree medical benefit for POA and AFSCME Local 127 employees retiring on or after July 1, 2009 and before April 1, 2012. The benefit

is frozen at \$8,883 per year.

Additionally, for General Members there is a separate defined contribution Retiree Medical Trust for employees hired on or after July 1, 2009. The plan requires both an employee contribution and a City match of 0.25 percent, based on an employee's base compensation.

Effects of Labor Negotiations

During the second half of FY 2011, the City negotiated with its six labor unions to modify the retiree health benefit for eligible active employees. Objectives of the negotiations included reducing the retiree health benefit Unfunded Actuarial Liability (UAL) and Annual Required Contribution (ARC), and the related cash flow pressures.

At the end of FY 2011, the City reached agreement with its six labor unions regarding a restructured benefit level, effective April 1, 2012.⁽¹⁾ The agreement also provided that the City does not anticipate paying more than \$57.8 million annually for the retiree health benefit through FY 2015, and thereafter does not anticipate increasing the payment by more than 2.5% annually. Note that the duration of the agreement with the labor unions is 15 years, but it can be modified after June 30, 2014.

(1) There are three options associated with the restructured retiree health benefit: Option A is a defined benefit with a full annual allowance (at 20 years of service) equal to \$8,883 per year, with a 2 percent annual escalator beginning FY 2014; Option B is a defined benefit with a full annual allowance (at 20 years of service) equal to \$5,500 per year, with no escalator; Option C is a defined contribution plan projected to yield \$8,500 annually (with 20 years of service). Options A and B require that employees make nonrefundable contributions.

Significant Citywide Issues

Fiscal Effects of Restructuring the Retiree Health Benefit

The effect of the retiree health benefit restructure on the City's *defined benefit* retiree health plans is evident in the most recent actuarial valuation for the City, for the period ending June 30, 2013. The OPEB Unfunded Actuarial Liability (UAL) at June 30, 2013 is \$444.1 million, down from \$1.1 billion at June 30, 2011 (and down from \$449.1 million at June 30, 2012).

The June 30, 2013 OPEB Annual Required Contribution (ARC) projected for FY 2015 is \$38.1 million, an increase from the June 30, 2012 valuation's projected FY 2014 ARC of \$33.9 million. The increase is largely due to the change in amortization method.

The FY 2012 valuation used a 30-year amortization period on an open basis (similar to refinancing every year). The FY 2013 valuation is more conservative, utilizing a 23-year amortization period on a closed basis (the amortization period does not start over again in following years).

The reason for this change is to ensure sufficient contributions to cover expected PAYGO costs and provide for the accumulation of trust assets in the early years of the projection. Additionally, this change is

intended to limit required funding to the worklife of existing plan members, as this plan is closed to new members.

However, the ARC figure does not reflect the payment components the City plans to make with respect to its retiree health benefits. In addition to the defined benefit retiree health plans, there is also a *defined contribution* plan that must be funded.

The table below shows the different retiree health payment components the City estimates it will make through FY 2019. As mentioned previously, this reflects the citywide fiscal impact of the newly restructured retiree health benefit at \$57.8 million through FY 2015, increasing by 2.5% thereafter. The General Fund portion is approximately \$38.1 million in FY 2015.

The table below shows the citywide impact, which is based on estimates provided by Buck Consultants.

- The first row contains the pay-as-you-go (PAYGO) estimates associated with retiree health benefit payments for eligible retirees under the City's retiree health *defined benefit* plans. Note that there is a defined benefit plan for eligible employees retiring before April 1, 2012, as well as the restructured defined benefit

OPEB/Retiree Health Forecast (in millions)		FY 2014 Forecast	FY 2015 Forecast	FY 2016 Forecast	FY 2017 Forecast	FY 2018 Forecast	FY 2019 Forecast
1	PAYGO	\$ 37.6	\$ 39.4	\$ 40.5	\$ 42.1	\$ 43.9	\$ 45.4
	CalPERS Trust						
2	Contribution/(Withdrawal)	7.6	(5.1)	(6.3)	(10.5)	(7.3)	(13.6)
3	Contribution to HRA Accounts	13.9	24.6	25.9	29.8	26.2	32.5
4	Benefit Administration by SDCERS	0.5	0.5	0.6	0.6	0.6	0.6
5	Less: Employee Contributions	(1.8)	(1.6)	(1.5)	(1.3)	(1.2)	(1.1)
	Total City Contribution	\$ 57.8	\$ 57.8	\$ 59.2	\$ 60.7	\$ 62.2	\$ 63.8

Significant Citywide Issues

options for eligible employees retiring on or after April 1, 2012.

- The second row contains estimated amounts that will either be paid into or withdrawn from the CalPERS OPEB Trust Fund for the City's retiree health benefits. When funds are needed to cover expenses above the City's budgeted retiree health contribution amount, they will be withdrawn from the trust fund (to fund PAYGO). During the next five years, this occurs in FY 2015 through 2019.
- The third row contains estimated City contributions to Health Reimbursement Arrangement (HRA) accounts. These amounts will fund HRA accounts for eligible employees retiring on or after April 1, 2012 who selected the *defined contribution* retiree health plan (restructured retiree health benefit Option C).
- The fourth row contains cost estimates for administration payments to SDCERS to manage the retiree health benefit program.
- The fifth row contains estimates for contributions that will be made by employees retiring on or after April 1, 2012 who selected the *defined benefit* retiree health plan options (restructured retiree health benefit Options A and B).
- The last row is the sum of the first five rows and equals the total citywide payments to be made for each fiscal year.

Annual Required Contribution (ARC)

Despite its name, the City is not required

to pay the ARC, but as of FY 2008 an accumulated liability based on unpaid ARC amounts has been booked on the financial statements in accordance with Governmental Accounting Standards Board (GASB) requirements. Information regarding the ARC and Unfunded Actuarial Liability are available in the June 30, 2013 valuation—which was performed by Buck Consultants and provided to the City in November 2013.

Significant Citywide Issues

Pension

Defined Benefit (DB) Pension

The FY 2015 Proposed Budget includes \$263.6 million for the Actuarially Determined Contribution⁽¹⁾ (ADC), which is the City's defined benefit pension contribution requirement. This is a decrease of \$11.8 million from the FY 2014 Adopted Budget amount of \$275.4 million. The General Fund portion of the FY 2015 budgeted payment is \$190.9 million—a decrease of \$21.8 million over the FY 2014 Adopted Budget of \$212.7 million.

Part of the General Fund decline, approximately \$13.0 million, is largely due to the removal of Public Works-Engineering & Capital Projects from the General Fund. The remaining \$8.8 million decrease is due to factors discussed next under the “Decreases to the Defined Benefit ADC” subsection.

The pension system Unfunded Actuarial Liability (UAL) totals \$2.2 billion as of June 30, 2013. The City's pension system liabilities as of June 30, 2013 are funded at a rate of 70.4% — increased from the 68.6% funding ratio at June 30, 2012. The ADC for the City is 37.7% of FY 2015 budgeted salaries and wages and 59.6% of membership payroll (pensionable salaries) at June 30, 2013.

The City's budgeting system provides a relatively precise allocation of the ADC, and other fringe benefits, among employees. The ADC budget distribution is based on actual filled positions and is calculated based on percentages of salaries, from information contained in the pension system's actuarial valuation.

Decreases to the Defined Benefit ADC

The \$11.8 million net decrease in the ADC from FY 2014 to FY 2015 is due to a number of offsetting factors.

Decreases to the ADC include the following:

- \$24.6 million related to an additional assumed four-year freeze on pay inflation. This decrease is related to the five-year agreements with the City's employee organizations (FY 2014-2018), which include a five-year pensionable pay freeze (excluding merit increases and promotions). Since the first year of the pay freeze had already been assumed in the prior valuation, the impact was only related to the last four years of the agreed-upon pay freeze.
- \$7.0 million decrease related to a higher

(1) The FY 2014 required pension contribution calculated by the pension system actuary (in the June 30, 2012 actuarial valuation) was called the Annual Required Contribution, or ARC. Beginning in FY 2014 for SDCERS and FY 2015 for the City, pension accounting and financial reporting will be changing in accordance with Governmental Accounting Standards Board (GASB) Statement changes. As such, the ARC concept is no longer used and guidance for plan funding is not provided. In response, the SDCERS Board adopted its existing pension funding practices into a formal funding policy which will be used to determine the required pension contribution. This contribution will now be known as the Actuarially Determined Contribution, or ADC.

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than assumed investment return for FY 2013. The assumed investment rate of return for FY 2013 was 7.25%, whereas the actual FY 2013 return was 13.6%.

The ADC decreases above were partly offset with the following increases:

- \$9.3 million related to SDCERS Board-approved changes in actuarial assumptions. This \$9.3 million is the net effect of the reduction in the actuarial discount rate from 7.5% to 7.25%, and the reduction in the long-term wage inflation rate from 3.75% to 3.3% (applied after the 0% wage inflation rate through FY 2018 that is associated with the pensionable pay freeze).
- \$4.0 million in liability experience loss—arising from the difference between assumptions and actual experience. The largest contributing factors for these differences are people living longer than expected and higher merit increases than expected.

Defined Benefit Contribution Decrease from the Five-Year Outlook

The FY 2015 pension ADC of \$263.6 million is \$5.7 million lower than the pension contribution estimated in the FY 2015-2019 Five-Year Outlook. The \$5.7 million decrease is largely due to the following:

- \$3.0 million decrease to the ADC when considering the net effect of a \$7.0 million investment experience gain and a \$4.0 million liability experience loss.
- \$2.6 million decrease to the ADC for additional pensionable pay freeze savings over the previous estimate that was

used in the Five-Year Outlook.

Pension Impacts of Proposition B

Below is a brief summary of some of the pension effects of Proposition B, which was approved by voters in June 2012.

The following pension changes were negotiated with the City's employee organizations and agreement for an interim defined contribution plan was reached. This interim plan is anticipated to be in effect until a permanent plan can be negotiated.

Employees hired on or after July 20, 2012, except police officers, are no longer eligible to participate in the defined benefit pension plan. Instead they participate in the Supplemental Pension Savings Plan H (SPSP-H), which was previously for hourly employees but was modified to include these new participants. Both the City and employees contribute 9.2% and 11.0% of eligible compensation for general members and safety members, respectively.

The FY 2015 proposed SPSP-H budget for the interim defined contribution plan includes funding only to the extent that employee participants existed at November 25, 2015. There is no forecast for additional employees hired during the remainder of FY 2014 or during FY 2015. Because of this, the budget for the interim defined contribution plan employees could potentially be too low by one to two million dollars.

Some terms of the interim defined contribution plan include that employee contributions are mandatory and post-tax, employees are 100% vested at all times and the terms of future negotiated disability and death benefits will be retroactive.

Significant Citywide Issues

Additionally, although new sworn Police Officers continue to be eligible for the defined benefit plan, Proposition B prescribes pension plan changes for new sworn officers hired on or after July 1, 2013. Provisions in Proposition B include a cap on sworn officer pensions: 80% of the average of the highest 36 consecutive months compensation. This cap is reduced by 3% for each year the employee retires prior to age 55.

Note that Proposition B has been legally challenged, in litigation before the Public Employment Relations Board (PERB).

Significant Citywide Issues

Infrastructure & Financing Issues

The City of San Diego owns and maintains a large and complex network of infrastructure assets including streets, sidewalks, parks, fire stations, and water and wastewater systems. Underinvestment in infrastructure due to tight financial constraints in the City over many years has resulted in deteriorating assets and a significant backlog of deferred maintenance and capital projects. The current estimated backlog is \$898 million just for streets, facilities, and storm drains. However, this estimate is based on outdated and partial condition assessments of the City's facilities/buildings, and staff have surmised that the backlog of deferred capital projects needed could be more than \$2 billion. This amount does not include the City's significant needs for new infrastructure assets, such as fire stations.

Infrastructure issues impact the public health, safety, and the quality of life for San Diego communities as well as the tourism industry which is an important part of the City's economy. Addressing infrastructure issues is clearly one of the highest priorities for the Mayor, City Council, and citizens.

Summary of Key Issues

Improvements in the City's financial situation since the Five-Year Financial Outlook (FY 2015-2019) was released in November 2013 has enabled the Mayor to include some funding for important infrastructure programs in the Proposed FY 2015 Budget. This includes:

- \$11.2 million for condition assessment for various assets (\$2.1 million General Fund);
- \$10.8 million for SAP EAM;
- \$4.2 million in debt service for an anticipated deferred capital bond issuance of about \$66.4 million (the first series of DC 3);
- \$5.9 million to meet the Enhanced Option B FY 2015 goal of \$62.0 million for Maintenance & Repair (M&R); and
- \$3.2 million for 35.85 additional E&CP staff to support expansion of the Capital Improvements Program (CIP) (which are reimbursable from charges to capital projects).

Providing funding for infrastructure programs like Asset Management, M&R, and Deferred Capital show the City's commitment and recognition of their importance. However, it is clear from the Proposed Budget that even with improved financial conditions, the City has significant, credible priorities competing for limited funds.

As the FY 2015 Proposed Budget reflects, these tight financial constraints have resulted in the City essentially providing minimum funding for these programs. For example, despite an increase of \$707,000 and 7.00 positions in FY 2015, budgeted Facilities' M&R continues to be more than \$30 million below the industry standard. Underfunding M&R ultimately will allow assets to continue to deteriorate, and increase risks to public health and safety; the backlog of

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deferred capital projects; and future costs to repair the assets. Funding M&R continues to be a challenge because it must be funded with cash, cannot be funded with bonds, and available sources have restrictions on how much can be used for M&R.

SAP Enterprise Asset Management (EAM) is another important infrastructure program that is not fully funded in the FY 2015 Proposed Budget. Public Utilities is funding its \$10.3 million portion of the SAP EAM program with water and sewer funds; however, only about \$526,000 from the General Fund is budgeted to include General Fund departments in the design of SAP EAM. This is \$1.4 million less than requested by the Infrastructure/Public Works Department which would have allowed General Fund department staff to participate in the program design to ensure that the SAP EAM system will be compatible with their departments' business needs.

Additionally, even though outside of the City's control, the first series of the third issuance of deferred capital bonds (DC 3 Series 1) initially planned for FY 2014 has been delayed at least until the first half of FY 2015 due to litigation filed by a third party. This could also delay the second series of DC 3 which was planned for April/May 2015. Even in the best case scenario with both series of DC 3 (totally about \$120 million) being issued in FY 2015, the City is \$85 million behind in the funding the Five-Year Deferred Capital Funding Plan (known as Enhanced Option B) which was anticipated to slow the rate of deterioration of streets, facilities, and storm drains to 5-10% over the five-year period.

FY 2015 will be an important year for infrastructure as the City gains a more accurate and comprehensive understanding of the scope and magnitude of the problem. The Multi-Year Capital Improvements Plan, anticipated to be issued in July 2014, will provide an overall, transparent view of where the City is with regard to infrastructure, including needed projects for existing and new assets. In FY 2015, the City will also update the deferred capital backlog and develop an M&R plan when ongoing condition assessments for facilities, park assets, and sidewalks are completed in December 2014.

The key is...what will the City do with this information given the current funding constraints? Even when the lease-revenue bond issue is successfully resolved in court, the exclusive use of lease-revenue bonds is not a sustainable or recommended solution to address the City's significant infrastructure needs. This is due to limitations on available leasable properties and more importantly the 30-year obligation placed on the General Fund which essentially locks down a large portion of the fund and significantly limits discretionary spending over the long term.

The Mayor has pledged informally to dedicate half of major General Fund growth to infrastructure and neighborhood repair efforts. However, this will likely provide relatively small funding compared with the City's significant infrastructure needs. For example, in FY 2015 the Mayor actually contributed 64% or \$22 million of the major General Fund growth (based on projections in the FY 2014 Mid-Year Report and excluding one-time revenues).

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To comprehensively address infrastructure over the long term, it is clear that the City must consider pursuing alternative revenue sources. It is of paramount importance that the City begin now to discuss and develop an infrastructure financing strategy. A successful financing strategy will require commitment and united leadership among the Mayor, Council, community groups, public interests groups, business groups, and citizens.

As we have discussed previously, one potential solution is a General Obligation (GO) Bond Program, which includes the ability to raise taxes to make debt financing payments. A GO Bond proposal requires a significant, strategic, and lengthy (12-18 month) effort, since two-thirds voter approval is required. Such initiatives are typically citizen-led and include Citizens' GO Bond Oversight Committees to develop community priorities and provide independent oversight of bond fund spending. The benefit of such programs, as evidenced in cities like Phoenix, San Francisco, and San Antonio, is that they can provide significant new funding for high priority infrastructure for communities.

Asset Management

Asset Management incorporates two main concepts, including a: (1) business practice for making decisions on infrastructure based on quality data and information and (2) software system for optimizing asset maintenance, repair, rehabilitation, and replacement—also referred to as Enterprise Asset Management (EAM). While all City departments may not require asset management

Core Asset Management Questions:

1. What is the current state of my assets?
2. What is my required level of service?
3. Which assets are critical to sustained performance?
4. What are my best operations and maintenance and CIP investment strategies?
5. What is my best long-term funding strategy?

systems or plans, working toward implementing Asset Management business practices Citywide will provide key data and information on assets so that decision makers can identify the most effective M&R and CIP investment strategies.

In November 2013, Council Policy 800-16 on Citywide Asset Management was approved by the City Council. The FY 2015 Proposed Budget includes \$155,000 for an Asset Manager position which is critical to lead the implementation of this policy and coordinate General Fund departments Asset Management efforts, including the future implementation of SAP EAM as discussed later in this section.

Condition Assessments

Knowing the current condition of assets is an important first step to determine the maintenance, repair, and replacement or capital projects that will be needed to meet desired service levels as well as to provide a full picture of the current backlog. The City only has updated information on the condition of a few of its infrastructure assets. For example, storm water assets have recently been assessed as part of the Watershed Asset Management Plan. However, the City made a substantial investment in funding

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SUMMARY OF CONDITION ASSESSMENTS			
	FY 2014	FY 2015	TOTAL
General Fund Assets			
Facilities/Buildings	\$ 1,000,000	\$ 1,000,000	\$ 2,000,000
Facilities/Building Capacity for Solar Panels (Energy Conservation Program Fund)	\$ -	\$ 200,000	\$ 200,000
Park Assets	263,901	406,684	670,585
Sidewalks	1,000,000	104,964	1,104,964
Streets	-	560,000	560,000
Total General Fund Assets	\$ 2,263,901	\$ 2,271,648	\$ 4,535,549
Public Utilities Assets			
Wastewater (Sewer Fund)	\$ 4,050,000	\$ 5,050,000	\$ 9,100,000
Water (Water Fund)	2,950,000	3,930,000	6,880,000
EAM Facilities/Buildings (allocated across both Sewer and Water Funds)	600,000	120,000	720,000
Total Public Utilities Assets	\$ 7,600,000	\$ 9,100,000	\$ 15,980,000
TOTAL CONDITION ASSESSMENTS	\$ 9,863,901	\$ 11,371,648	\$ 20,515,549

condition assessments in FY 2014. The FY 2014 Adopted Budget included about \$9.9 million for much needed condition assessments of facilities/buildings, park assets, sidewalks, and water and wastewater assets. The FY 2015 Proposed Budget provides about \$11.4 million to continue these ongoing assessments and to update the 2011 street condition assessment, as shown in the table above.

Facilities/Buildings and Park Assets

The FY 2014 Adopted Budget provided about \$1.7 million to assess General Fund facilities/buildings, Park & Recreation facilities, and Public Utilities facilities. To conduct these assessments, the City planned three 5-year as-needed consulting contracts with a not-to-exceed cost of \$5.0 million each.

1. General Fund Facilities/Buildings - The as-needed consulting contract was awarded to Alpha Facilities, LLC, which began the assessment in February 2014. About 220 facilities (1,288,978 square feet) have been assessed thus far. Staff indicated that they

anticipate fully expending the \$1.0 million budgeted in FY 2014 before the end of the fiscal year. A report with preliminary results from the first year of the facilities/buildings assessment will likely be provided to the Infrastructure Committee in the fall of 2014.

An additional \$1.0 million has been budgeted in FY 2015 to assess General Fund facilities/buildings. Also, \$200,000 has been budgeted in FY 2015 from the Energy Conservation Program Fund to assess City facilities' capacity for solar panels. An additional aspect of the facilities assessment will include whether the City needs the facility, which could ultimately result in reducing the square footage needing to be maintained.

2. Park Assets - The \$264,000 budgeted in FY 2014 was used to assess conditions of playgrounds and parking lots. The FY 2015 Proposed Budget includes \$407,000 to assess an estimated 30 community parks throughout the City. Community parks are being assessed due to the high level of public usage and variety of park assets included,

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such as playgrounds and comfort stations. The parks selected for assessment are those in which the City has received complaints about one or more of the assets within the park. The as-needed consulting contract for assessment of park assets is being awarded to Kitchell CEM, Inc and currently is routing for contract signatures. The Notice to Proceed is anticipated in May 2014.

Public Utilities Facilities - Public Utilities budgeted \$600,000 in FY 2014 to conduct assessments of water and wastewater facilities. The FY 2015 Proposed Budget includes \$120,000 to continue those assessments. The as-needed consulting contract for Public Utilities Facilities is being awarded to AECOM Technical Services, Inc and is currently routing for contract signatures. The Notice to Proceed is anticipated in May 2014.

Sidewalks

The FY 2014 Adopted Budget included \$1.0 million for TSW's Street Division to conduct a sidewalk assessment using in-house staff (engineering students) to walk the City's estimated 5,000 miles of sidewalks. This included about \$697,000 for 14.00 FTEs (2.00 limited junior civil engineering and 12.00 for student engineering positions) for the approximate one year duration of the assessment. The estimate also included \$326,000 for related non-personnel costs, such as hand held GPS devices. Staff indicated that hardware costs were less than anticipated and will likely result in a \$150,000 savings in FY 2014. The FY 2015 Proposed Budget includes \$105,000 for completing the assessment.

The assessment was started in January

2014, and staff have walked 660 miles so far. The biggest challenges that staff are facing is curious property owners, but the assessment is on track to be completed in December 2014. After the first data upload into SAP which is anticipated to be in early June 2014, staff will address any safety issues that are identified.

Given that the assessment is likely to result in a large backlog of deferred capital projects for sidewalks, it is important to understand who is responsible for repairing sidewalks. Per California Streets and Highway Code (Sections 5610 through 5618), sidewalks are owned and maintained by adjacent property owners. However, the City currently has a 50/50 cost share program to repair sidewalks (based on Council Policy 200-12). Additionally, the City is often held liable when a citizen is injured due to sidewalk disrepair.

At the request of the Council Infrastructure Committee, the City has formed a Sidewalk Policy Working Group to assess the City's current sidewalk policy. The Group anticipates reporting its findings/potential recommendations to the Infrastructure Committee in summer/fall 2014.

Streets

The most recent assessment of streets was concluded in March 2011 and included 100% of the City's improved streets. Street condition assessments are recommended to be conducted every four years, and the FY 2015 Proposed Budget includes \$560,000 for the updated assessment which is anticipated to begin in March 2015. One potential change to the condition assessment will be to include the City's unimproved right-of-way. Staff are currently assessing the ex-

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PUBLIC UTILITIES CONDITION ASSESSMENT PROGRAM (FY 2013-2017)				
\$ in millions	FIVE-YEAR	FY 2013	FY 2014	FY 2015
Wastewater Assets				
As-Needed Wastewater Facilities	\$ 5.00	\$ 0.05	\$ 1.60	\$ 0.70
Programmatic Pipelines	8.00	0.03	0.80	2.88
Operation Optimization	2.50	0.10	1.33	1.47
Wastewater Subtotal	\$ 15.50	\$ 0.18	\$ 3.73	\$ 5.05
Water Assets				
System-Wide AC Water Main Replacement	\$ 2.00	\$ 0.13	\$ -	\$ -
Water Reservoirs and Standpipes	1.30	0.05	-	-
Water Transmission Pipelines (3)	3.00	0.08	0.70	1.05
Programmatic Water Transmission Pipelines	9.00	-	0.60	1.40
Operation Optimization	2.50	0.10	1.65	1.48
Water Subtotal	\$ 17.80	\$ 0.35	\$ 2.95	\$ 3.93
EAM Facilities/Buildings*	\$ -	\$ -	\$ 0.60	\$ 0.12
TOTAL CONDITION ASSESSMENTS	\$ 33.30	\$ 0.53	\$ 7.28	\$ 9.10

*Allocated across Muni, Metro, and Water Funds.

tent of the City's unimproved streets to determine whether including them in the condition assessment would be feasible.

Water and Wastewater Assets

Public Utilities has a Five-Year Condition Assessment Program (FY 2013-2017) and is planning to spend about \$33.3 million over this period to assess various water and wastewater assets. The FY 2014 Adopted Budget included \$7.3 million; however, staff indicated that it is likely that all of these funds will not be expended by the end of the fiscal year. As shown in the table on the next page, the FY 2015 Proposed Budget includes \$9.1 million to continue these assessments. Note that this includes Public Utilities facilities/buildings assessments which were also discussed under Facilities/Buildings assessments.

Asset Management System - SAP EAM

An asset management system helps staff use information on assets, such as current conditions, to develop optimal maintenance and CIP investment strategies. Public Utilities began a project in FY 2014 to replace its three existing maintenance management systems (which are obsolete, nonstandard, and fragmented) with SAP EAM. The new system will be developed over five years and cost a total of \$22.7 million for CIP costs as well as additional operating costs. Public Utilities' FY 2014 Budget provided \$8.4 million for this project, including \$2.8 million for Operations & Maintenance and \$5.6 million for CIP projects. The anticipated carry forward of the CIP funding is \$5.2 million. As shown in the table on the next page, the FY 2015 Proposed Budget for Public Utilities includes an additional \$5.6 million for CIP and \$4.6 million for

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FY 2015 PROPOSED BUDGET - SAP EAM PROJECT				
	FTE	PE	NPE	TOTAL
PUBLIC UTILITIES				
Public Utilities Operations & Maintenance	4.00	\$ 479,699	\$ 4,165,125	\$ 4,644,824
Public Utilities CIP	-	-	5,634,875	5,634,875
Subtotal Public Utilities	4.00	\$ 479,699	\$ 9,800,000	\$ 10,279,699
GENERAL FUND				
General Fund	-	-	371,160	371,160
General Fund Asset Manager Position	1.00	155,325	-	155,325
Subtotal General Fund	1.00	\$ 155,325	\$ 371,160	\$ 526,485
Total SAP EAM	10.00	\$ 635,024	\$ 10,171,160	\$ 10,806,184

Operations & Maintenance.

This system is particularly important given the large number of assets and significant amount of information that must be collected and analyzed to implement cost-effective Asset Management strategies. This has also provided the opportunity for General Fund departments to replace existing legacy systems and leverage their own SAP EAM roll out in the future.

In FY 2014, the SAP EAM Governance Committee determined that merging the SAP legacy system, called Synergy, (currently used by Street, Storm Water, Publishing, and Communications) will save the General Fund about \$1.1 million over the project duration and provide enhanced business services two years earlier than separate phased projects. Further, the Information Technology Business Leadership Group (ITBLG) recommended that the City should proceed with a unified citywide SAP EAM solution. Additionally, the decision was recently made to include the replacement of Facilities Division iMaint (building maintenance software system) in the scope of the SAP EAM project. This will move the City toward a fully-integrated citywide SAP EAM

system.

No specific funding was provided in the FY 2014 Budget for General Fund departments to participate in this effort, although TSW and other departments provided staff to be involved in project planning at appropriate milestones. For the General Fund portion of the SAP EAM project, the FY 2015 Proposed Budget includes:

- 1.00 FTE and \$155,325 for an Asset Manager position that will coordinate General Fund departments' involvement in SAP EAM, among other duties; and
- \$371,000 in NPE for the project design contract.

The Proposed does not include \$1.4 million in General Fund O&M expenditures that were projected in February 2014 by the SAP EAM Project Management Office. This office is currently evaluating and finalizing the FY15 project budget and will provide a revised projection of additional funds needed for General Fund departments. Financial Management anticipates receiving the updated budget information in time for inclusion in the FY 2015 May Revise. In addition, the IT department is moving \$1.1

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million from the *original* EAM CIP project into the *consolidated* EAM CIP Project and this will support the General Fund departments. It is important to ensure that needed General Fund expenditures for SAP EAM in FY 2015 will be fully funded with no negative impacts to General Fund departments.

Deferred Capital Funding

The City has been working to address its deferred capital backlog over the past several years. In March 2009, the City issued \$103 million in General Fund backed lease-revenue bonds (known as DC 1) to fund deferred capital projects. In March 2012, the City Council approved the City's first Five-Year Deferred Capital Funding Plan (FY 2013-2017) known as Enhanced Option B, to begin to address the \$898 million deferred capital backlog for streets, facilities/buildings, and storm drains. Enhanced Option B provided a mix of lease-revenue bond funding for capital projects and cash funding for ongoing M&R and is anticipated to slow the rate of deterioration of assets to 5-10% over the five-year period.

Bond Issuances

The first bond issuance as part of Enhanced Option B (known as DC 2) was issued in June 2012 for \$75.0 million. The City Council

approved an additional bond issuance for capital improvement projects (known as DC 2a) for \$35.0 million in FY 2013 that was not part of the original deferred capital bond schedule. The status of the spend down for existing bond funding is shown in the table on the below.

However, the scheduled third deferred capital bond issuance (known as DC 3) of \$80.0 million was delayed from FY 2013 to reduce debt service for the General Fund in the FY 2014 Budget. As part of the Five-Year Financial Outlook in November 2013, the City anticipated increasing DC 3 from \$80.0 million to \$120.0 million. This issuance was approved by Council in January 2014 and planned to be split into two series (or tranches) with about \$66.4 million issued in April/May 2014 and \$53.6 million in April/May 2015. This split was intended to make funds available when needed by the Public Works Department based on a projected 80% spend down of existing bond funds.

The initial planned split of funds is shown in the table on the next page. However, this split will be reassessed and is likely to change due to the delay in the issuance of DC 3.

UPDATE ON DEFERRED CAPITAL BOND SPENDING (as of March 2014)			
millions of \$	DC 1 (2009/2010)	DC 2 (2012)	DC 2a (2013)
Total Bond Proceeds (including accrued interest to date)	\$ 103.3	\$ 75.0	\$ 35.0
Expended	100.6	28.4	0.5
Encumbered	2.6	12.2	8.0
Total Draw Down	\$ 103.2	\$ 40.6	\$ 8.5
Draw Down as a Percentage of Total	99.9%	54.1%	24.3%

Note: Public Works is actively working to spend the remaining DC 1 funding. As a result, encumbrance balances for DC 2 and DC 2a may be reduced.

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Delay in DC 3

Although it is outside of the City's control, the first series of DC 3 initially planned for FY 2014 has been delayed due to litigation filed by a third party. The City has elected to wait for the legal challenge to be resolved before proceeding to sell the bonds. The City Attorney's office expects the pending litigation currently delaying the issuance of the DC 3 bonds to be resolved by the Superior Court in the early part of Fiscal Year 2015. Assuming no additional delays are encountered, including appeals, bond proceeds should be available sometime in the first half of Fiscal Year 2015.

In the meantime, several projects planned to be funded with the first series are ready and in need of funding to move forward. Delays to some projects could cause additional project costs, for example if a new Environmental Impact Review is required. Financial Management and Engineering & Capital Projects (E&CP) staff are reviewing additional funding sources to try to identify funding that may be eligible and available to support projects on the DC3 list, particularly for projects that are on a critical path. Planned street resurfacing projects could be delayed as they were anticipated to be funded with \$20.0 million of the first

SUMMARY OF PLANNED PROJECTS FOR DC 3			
	1st Series	2nd Series	TOTAL
FACILITIES			
Facilities Annual Allocation	\$ 5,121,188	\$ 4,758,812	\$ 9,880,000
Reconstruction/Replacement and New Facilities			
Point Loma Fire Station (FS 22)	\$ 2,600,000	\$ -	\$ 2,600,000
Hillcrest Fire Station (FS 5)	8,200,000	-	8,200,000
Mid-City Fire Station (FS 17)	11,200,000	-	11,200,000
Home Avenue Fire Station	1,000,000	1,000,000	2,000,000
Skyline/Paradise Hills Fire Station (FS 51)	1,000,000	-	1,000,000
South Mission Beach Station	2,100,000	-	2,100,000
Lajolla Cove Life Guard Station	250,000	-	250,000
Mission Hills/Billcrest Branch Library	4,000,000	-	4,000,000
San Carlos Library	1,000,000	-	1,000,000
Skyline Library	500,000	2,300,000	2,800,000
San Ysidro Library	-	3,000,000	3,000,000
University Village Tot Lot	150,000	-	150,000
TOTAL FACILITIES	\$ 37,121,188	\$ 11,058,812	\$ 48,180,000
ADA IMPROVEMENTS	\$ 700,000	\$ 4,000,000	\$ 4,700,000
MISSION BEACH BOARDWALK IMPROVEMENTS	600,000	-	\$ 600,000
MIDWAY STREET BLUFF REPAIR	100,000	-	\$ 100,000
STREETS ANNUAL ALLOCATION	\$ 20,947,961	\$ 22,512,039	\$ 43,460,000
SIDEWALKS	\$ 200,000	\$ 800,000	\$ 1,000,000
STORM DRAINS	\$ 6,778,920	\$ 15,181,080	\$ 21,960,000
TOTAL	\$ 66,448,069	\$ 53,551,931	\$ 120,000,000

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\$ in millions	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	TOTAL
Preventing Further Deterioration (Status Quo Option) (Staff analysis reported in March 2012)							
Deferred Capital Net Bond (Capital Projects)	\$ 105.5	\$ 105.2	\$ 105.2	\$ 105.2	\$ 105.2	\$ 105.2	\$ 631.5
Maintenance & Repair (previously called O&M)	59.1	53.8	54.9	56.0	57.1	58.2	339.1
Total	\$ 164.6	\$ 159.0	\$ 160.1	\$ 161.2	\$ 162.3	\$ 163.4	\$ 970.6
Council-Approved Plan (Enhanced Option B) (March 20, 2012)							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ 80.0	\$ 81.0	\$ 90.0	\$ 84.2	\$ 84.2	\$ 494.4
Maintenance & Repair (previously called O&M)	59.1	54.1	50.0	62.0	66.0	79.0	370.2
Total	\$ 134.1	\$ 134.1	\$ 131.0	\$ 152.0	\$ 150.2	\$ 163.2	\$ 864.6
Difference (Enhanced Option B minus Status Quo)	\$ (30.5)	\$ (24.9)	\$ (29.1)	\$ (9.2)	\$ (12.1)	\$ (0.2)	\$ (106.0)
Five-Year Outlook (FY 2015-2019)							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ 35.0	\$ 120.0	\$ 90.0	\$ 84.2	\$ 84.2	\$ 488.4
Maintenance & Repair (previously called O&M)	59.1	54.1	55.2	62.0	66.0	79.0	375.4
Total	\$ 134.1	\$ 89.1	\$ 175.2	\$ 152.0	\$ 150.2	\$ 163.2	\$ 863.8
Difference (Five-Year Outlook minus Status Quo)	\$ (30.5)	\$ (69.9)	\$ 15.1	\$ (9.2)	\$ (12.1)	\$ (0.2)	\$ (106.8)
Mayor's FY 2015 Proposed Budget							
Deferred Capital Net Bond (Capital Projects)	\$ 75.0	\$ 35.0	\$ -	\$ 120.0	\$ 90.0	\$ 84.2	\$ 404.2
Maintenance & Repair (previously called O&M)	59.1	54.1	55.2	62.0	66.0	79.0	375.4
Total	\$ 134.1	\$ 89.1	\$ 55.2	\$ 182.0	\$ 156.0	\$ 163.2	\$ 779.6
Difference (FY 2015 Proposed Budget minus Status Quo)	\$ (30.5)	\$ (69.9)	\$ (104.9)	\$ 20.8	\$ (6.3)	\$ (0.2)	\$ (191.0)
Difference (FY 2015 Proposed Budget minus Enhanced Option B)	\$ -	\$ (45.0)	\$ (75.8)	\$ 30.0	\$ 5.8	\$ -	\$ (85.0)

tranche. It is not yet known how much, if any, alternative funds will be identified for these projects.

Our updated schedule for Enhanced Option B (above) shows both series being issued in FY 2015; however, this will depend on the availability of interim funding, timing of the first series, and E&CP's readiness for the funds. We believe it is likely that the second series could be delayed to FY 2016. Even in the best case scenario with both series of DC 3 (totaling \$120.0 million) being issued in FY 2015, the City is \$85.0 million behind in the planned bond funding for Enhanced Option B and \$191.0 million behind the Status Quo Option for preventing further deterioration of assets.

Debt Service

The FY 2015 Proposed Budget includes

\$4.2 million for a full year of debt service for the first series of DC 3, since it was anticipated to be sold in late FY 2014/early FY 2015. While the timing of the trial date is currently unknown (the City requested a trial date for June 2014), the bond sale could be delayed until the fall. If so, the City would only need to make one of two planned debt service payments in FY 2015, so would only expend \$2.2 million of the \$4.2 million. Note that even if the second series is issued in FY 2015, the projected debt service payment of \$3.5 million would not be due until FY 2016.

The deferred capital lease-revenue bonds have provided a significant new investment and source of funds for capital projects. However, as discussed later in this section, debt service for lease-revenue bonds places

Significant Citywide Issues

M&R FOR ENHANCED OPTION B	
FY 2014 Budget	\$56,108,369
Removal of One-time Prop 42 Replacement Funding	\$ (5,092,280)
Facilities Maintenance (7.00 positions)	\$ 705,756
Streets Resurfacing (2.00 positions)	\$ 182,429
Storm Water Infrastructure (2.00 positions)	\$ 4,297,006
Concrete Bus Pad Improvements	\$ 100,000
South Chollas Landfill Improvements	\$ 2,134,000
South Chollas Wash Rack	\$ 450,000
Drainage Projects	\$ 2,850,000
Fringe and Other Adjustments	\$ 286,991
Total Additions	\$ 5,913,902
TOTAL FY 2015 M&R	\$62,022,271

a long-term obligation on the General Fund and is not a sustainable or recommended solution for comprehensively addressing the City's significant infrastructure needs.

Maintenance & Repair

The FY 2015 Proposed Budget includes \$62.0 million for M&R of facilities, streets, and storm drains which is \$5.9 million above the \$56.1 million included in the FY 2014 Adopted Budget. This funding level achieves the M&R goal set in Enhanced Option B to slow the rate of deterioration of streets, facilities, and storm drains to 5-10% over the five-years of the plan. As shown in the table above, this includes about \$9.7 million for storm water activities, \$282,000 for streets, and \$705,000 for facilities. Note that the total amount funded is offset by a removal of about \$5.1 million in one-time Prop 42 Replacement funding.

Funding annual M&R is vital for maintaining the condition of assets. When ongoing M&R

is not fully funded, it contributes to deferred maintenance and capital, raises risks to public health and safety, increases the backlog, and ultimately increases the cost of repairs. However, funding M&R continues to be a challenge because it must be cash funded and cannot be paid for with bonds. Further, many available funding sources have restrictions on how much of the funds can be used for M&R. For example, Trans-Net limits M&R to 30% of the total funds received by the City.

Facilities M&R

Facilities Division provides M&R services for Park & Recreation facilities, the City Administration Build complex, and varying levels of support to the other General Fund departments. Facilities also charges for M&R services for enterprise-funded departments, like Public Utilities. Public Works staff anticipate that the actual backlog of deferred capital for facilities/buildings is significantly higher than the current \$185 million esti-

Significant Citywide Issues

mate, and chronic underfunding of Facilities Division's M&R is a contributing factor.

As part of budget balancing measures, Facilities Division experienced a 23.2% reduction in budgeted positions since FY 2004, and FY 2014 was the first year since 2007 that the Division's budget was increased. The FY 2014 Budget provided 9.00 additional positions and about \$1.2 million for the Facilities Division (including \$873,000 for PE and NPE costs and a vacancy savings adjustment of \$300,000 which enabled the Division to fill 8.00 vacant positions). The additional staff and funding in FY 2014 helped Facilities Division to:

- Reduce the backlog of work orders from 1,759 to 1,440; and
- Increase the focus on preventative maintenance from 10% to 27% of total workload.

The Facilities Division requested a total of 52.00 positions for FY 2015, including 39.00 for achieving the minimum industry standard and 13.00 for the New Main Library. Largely due to tight budgetary constraints, the FY 2015 Proposed Budget includes only 7.00 FTEs and \$706,000 requested for the Library (which will reach the end of the warranty period over the first half of FY 2015). As a result, the Division plans to reassess and may reclassify these positions in accordance with citywide priority M&R needs for FY 2015.

Even with the additional positions, current funding for the Facilities Division continues to be more than \$30.0 million below the low end of the standard recommended by the National Research Council that annual routine M&R should be between 2-4% of

the current replacement value of City General Fund facilities. The City is funding Facilities Division at about 0.7%. Staff have indicated that achieving even the minimum of 2% is a difficult for the City as well as other jurisdictions given tight budgetary constraints.

Results from the first round of conditions assessment for General Fund facilities are anticipated to be presented to the Council Infrastructure Committee in the fall of 2014. The goal of the Facilities Division will be to utilize information from completed condition assessments in the coming year to:

- Update the deferred capital and maintenance backlog;
- Work with the Mayor and Council to establish appropriate target service levels; and
- Determine needed M&R and capital projects to achieve these targets.

Ultimately, the Public Works Department intends to develop an M&R report with this information which will provide transparency and help to establish funding goals. However, given existing budgetary constraints and competing priorities, the City will continue to face challenges funding M&R unless other sources of revenue are identified.

The Capital Improvement Program (CIP)

The CIP is the City's program for installing new and replacing or rehabilitating existing infrastructure. The CIP Budget is separate

Significant Citywide Issues

from the City's Operating Budget because capital infrastructure projects generally are large and expensive, take multiple years to complete, and require special funding sources. In part due to competing priorities in the Operating Budget, the General Fund is not a primary source of funding for the CIP. Instead capital projects are funded by various sources that have restrictions on how they can be used.

Decisions made regarding the CIP are very important because capital improvement projects are generally large and expensive and the assets they create will be required for decades of public use.

Effective Implementation of Capital Projects

Public Works - Engineering & Capital Projects (E&CP) provides engineering services for the Capital Improvement Program (CIP), including planning, design, project management, and construction management of capital improvement projects for asset-owning departments, such as Public Utilities, Transportation & Storm Water (TSW) and Park & Recreation.

As discussed in more detail in the Public Works - E&CP section of this report, the FY 2015 Proposed Budget reflects several important changes that will increase capacity and make E&CP's operations more transparent. Since E&CP is not reliant on the General Fund, the FY 2015 Budget transfers E&CP from the General Fund (including both expenditures and offsetting revenue) to a new E&CP Internal Service Fund. E&CP Staff will continue to charge projects for services and will be reimbursed directly from capital fund sources, as appro-

priate. This will make E&CP's charges for services easier to track. It will also make it easier for E&CP to adjust staffing levels to be appropriate for the size of the CIP which drives the Department's workload.

The FY 2015 Proposed Budget for E&CP also includes 35.85 additional staff to support expansion and anticipated future expansion of the CIP.

Major Capital Programs

In addition to the deferred capital bond program discussed earlier in this section, there are a number of other major capital programs ongoing or ramping up or anticipating a ramp up in FY 2015 and beyond.

Storm Water - With the adoption of the new Municipal Storm Water Permit in May 2013 which includes more stringent and costly requirements, the City developed the Watershed Asset Management Plan (July 2013) which includes costs for both permit compliance and flood risk management activities. The plan projects a \$642 million ramp up in capital infrastructure projects over the next five years (FY 2015 to FY 2019). A significant portion of this funding represents necessary capital projects in response to upcoming 2018 interim compliance deadlines for water quality regulations. Although regulations may be refined in the future that potentially decrease costs, this will not apply to projects in the near term and only begin after 2018. A significant storm water infrastructure program will be needed to comply with mandated regulations.

Street Resurfacing - The TSW Department's CIP includes roadway infrastructure maintenance and improvements in the pub-

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lic right-of-way; City roadway infrastructure includes 2,659 miles of asphalt streets and 115 miles of concrete streets. The Department plans to resurface 95 miles of roads in FY 2015, up from 80 miles in the FY 2014 Adopted Budget.

Wastewater - In FY 2015, Public Utilities plans to replace and rehabilitate 45 miles of sewer mains, which is consistent with its plans from the FY 2014 Adopted Budget. The Department has assessed over 1,780 miles of sewer mains to date, and has identified 579 miles which require replacement or rehabilitation.

Water - Public Utilities is ramping up the water replacement program for cast iron pipeline from 23 miles completed in FY 2014 to 28 miles completed in FY 2015. This is consistent with the assumptions of the Cost of Service Study. The Department plans to ramp up to 40 miles in FY 2016. Once the cast iron pipeline replacement program is completed, the Department will begin a program to replace asbestos concrete pipes.

Public Input for the FY 2015 CIP Budget

Public input is necessary for understanding desired levels of service for infrastructure as well as community priorities. Recognizing the importance of this input, Council approved Council Policy 000-32 on Neighborhood Input and Priorities in June 2013.

FY 2015 is the second year that E&CP worked with the Community Planners Committee (CPC)/Community Planning Groups (CPGs), and other public interest

groups to facilitate public input on ongoing and needed capital projects for the CIP. The CPC recommended about 225 projects for the FY 2014 CIP Budget. Of these, about 12 were included. The CPC submitted 330 recommended projects for FY 2015, and 43 of these projects are budgeted in the Proposed CIP Budget. Staff noted that there could potentially be more recommended projects that are budgeted throughout the year. E&CP will provide feedback to the CPC regarding the recommended projects in May 2014.

City staff are also reviewing the recommended projects for potential inclusion in the Multi-Year Capital Improvements Plan which is currently being developed and will cover FY 2015-2019. As was outlined in Council Policy 000-32, future public input will be provided for the Multi-Year Capital Plan rather than the annual budget process. This will lighten the workload of both community groups and City staff. Additionally, City staff will be able to more effectively include community requests over five years rather than in an annual budget.

The Multi-Year Capital Improvements Plan

City staff are currently developing the City's first Multi-Year Capital Improvements Plan for FY 2015-2019 which will include all major infrastructure assets except information technology. The FY 2015 CIP Budget is the first year of the plan. E&CP staff indicated that this has been a significant effort in organizing and assessing large amounts of data and information. E&CP anticipates obtaining stakeholder input on service levels in April/

Significant Citywide Issues

May 2014 which are needed for prioritizing projects in the plan. The draft plan will be presented to the Council Infrastructure Committee in July 2014. It is important to note that this will be a dynamic, living document.

We believe this plan will be an important tool for comprehensively assessing infrastructure needs and priorities, determining existing funding, and ultimately identifying strategy for financing priority unfunded needs.

Financing Infrastructure

The City clearly has significant infrastructure needs on the horizon. FY 2015 will be an important year for gaining a better understanding of the scope and magnitude of infrastructure needs through condition assessments and the Multi-Year Capital Plan. And, it is evident that the City continues to face significant financial constraints and competing priorities for the General Fund.

Lease-Revenue Bonds

Even when the lease-revenue bond issue is successfully resolved in court, the exclusive use of lease-revenue bonds is not a sustainable or recommended solution to address the City's significant infrastructure needs. This is due to limitations on available leaseable properties and more importantly the 30-year obligation placed on the General Fund which essentially commits a large portion of the fund and significantly limits discretionary spending over the long term.

There is a limit to the essential unencumbered properties available to the City to

pledge for these bonds. Debt Management staff indicated that pledgeable assets are available for the remaining three deferred capital bond issuances (totaling about \$260 million). Beyond that there is a concern regarding both available properties to address significant infrastructure needs and whether the City would want to pledge all of its assets, which would limit flexibility.

Revenue bonds place a 30-year debt service obligation on the General Fund which essentially locks down a large portion of the fund. And, debt service is only one component of the City's non-discretionary long-term obligations. When combined, these long-term obligations, including the Actuarially Determined Contribution (ADC) and Other Post Employment Benefits (OPEB) coupled with the City's outstanding debt, account for about 26% of General Fund revenue in FY 2015. It is apparent that continuing to layer on additional debt service obligations over 30 years will significantly reduce the General Fund's financial flexibility and limit discretionary spending over the long term.

General Fund Growth

The Mayor has pledged to informally dedicate half of major General Fund growth to infrastructure and neighborhood repair efforts. However, this will likely provide relatively small funding compared with the City's significant infrastructure needs which are likely more than \$2 billion. For example, in FY 2015, the Mayor contributed 64% or \$22 million of major General Fund growth.

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A General Obligation Bond Program

To comprehensively address infrastructure over the long term, it is clear that the City must consider pursuing alternative revenue sources. It is of paramount importance that the City begin now to discuss and develop an infrastructure financing strategy. A successful financing strategy will require commitment and united leadership among the Mayor, Council, community groups, public interests groups, business groups, and citizens.

As we have discussed previously, one potential solution is a General Obligation (GO) Bond Program, which includes the ability to raise taxes to make debt financing payments. A GO Bond proposal requires a significant, strategic, and lengthy (12-18 month) effort, since two-thirds voter approval is required. Such initiatives are typically citizen-led and include Citizens' GO Bond Oversight Committees to develop community priorities and provide independent oversight of bond fund spending. The benefit of such programs, as evidenced in cities like Phoenix, San Francisco, and San Antonio, is that they can provide significant new funding for high priority infrastructure for communities.

Storm Water Compliance

Impact of the New Municipal Storm Water Permit

The challenges of complying with requirements of the Municipal Storm Water Permit (permit) and other surface water quality regulations has been a consistent topic of discussion as regulations continue to be revised and become more stringent. As a result of these regulations, the City's Storm Water Division, which administers San Diego's storm water program, has required a significant increase in funding over the last several years. As new requirements are adopted and more funding is necessary for compliance, a greater strain is placed on the General Fund, as it is currently the primary source of funding for the Division and its activities.

On May 8, 2013, the new Municipal Storm Water Permit was adopted. The adoption of this new permit by the Regional Water Quality Control Board (Regional Board) effectively consolidates storm water regulations, combining permit compliance and a variety of Total Maximum Daily Load (TMDL) and Areas of Special Biological Significance (ASBS) requirements. With the adoption of the new permit, the City worked during FY 2014 to determine and incorporate costs of both compliance and flood risk management activities into the Watershed Asset Management Plan (WAMP) which was released in July 2013.

The WAMP is used by the division as a planning tool to project how much funding may be needed for permit compliance, and

also includes estimates to address their deferred capital backlog and operations for all storm water activities. Costs estimated by the WAMP include costs associated with compliance, including storm water maintenance and capital requirements. Current estimates projected by the WAMP for General Fund operating costs and necessary capital projects are about \$882 million (FY 2015 through FY 2019), and about \$3.9 billion over the next 17 years.

How the City is Addressing Compliance

Watershed Asset Management Plan

As previously discussed, the City released a Watershed Asset Management Plan in July 2013. This was an important step in estimating the impact of new regulations, as it puts these estimates into the context of all storm water related needs. Although the costs in the WAMP may be revised as technology and standards are updated, this is an important planning tool for the City and the Division when making funding decisions.

Many other jurisdictions are also facing the reality of significant compliance costs, and the City is one of the first to put together a plan with cost estimates such as those found in the WAMP. The City has had the opportunity to present the WAMP to the Regional Board and representatives from Region 9 of the Environmental Protection Agency (EPA). Both agencies have supported the City's approach, and may use the City's WAMP as an example for other jurisdictions when guiding them with their

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approach.

Increased Funding in the FY 2015

Proposed Budget

General Fund

The FY 2015 budget process is the first since the adoption of the new permit and development of the WAMP. During this year's budget process, the Division and City were able to use more concrete cost estimates as a framework to base funding decisions. This Proposed Budget represents the City's effort in beginning to address compliance costs in the face of limited General Fund resources and competing priorities.

The proposed FY 2015 budget for the General Fund includes: increased funding for storm water compliance, including storm drain and channel maintenance and repair; contributions to the CIP for drainage projects; and funding for water quality related improvements to the South Chollas Landfill and facilities. The chart below shows an increase of 9.67 FTE and approximately \$11.8 million for storm water compliance efforts. Most of this funding is within the Storm Water Division's budget. However, the Street Division also shares the cost of the South Chollas projects, which are

needed in response to a Notice of Violation from the Regional Board and Local Enforcement Agency, as described in the Environmental Services Department review of this report.

With this Proposed Budget the City is making an effort to ramp up funding contributions to address compliance, and staff continue to balance the needs outlined in the WAMP with limited available funding. In the face of significant cost estimates associated with new mandated permit regulations, the City must prioritize compliance needs and continue to balance the risk of deferring compliance and flood risk management activities with limited available funding. Although increased funding has been included in the FY 2015 Proposed Budget, under current regulations funding falls short of current cost estimates. This may leave the City liable for penalties levied by regulating bodies, potential for third party litigation, and possible mandates to build missing projects.

CIP Budget

The CIP Budget for storm water projects includes \$3.3 million from General Fund contributions, \$22 million in anticipated bond funding from Deferred Capital Bond 3

FY 2015 SIGNIFICANT GENERAL FUND STORM WATER COMPLIANCE INCREASES

ADDITION	FTE	FY 2015 Funding
Positions and Funding for Permit Compliance		
- Positions and NPE to Support Storm Water M&R	2.00	\$ 4,297,006
- Positions, Vehicles and NPE for Increased Street Sweeping	3.00	\$ 1,153,679
- Positions and NPE for Professional/Technical Services for Compliance Activities	4.67	\$ 884,746
South Chollas Landfill Storm Water Improvements	-	\$ 2,134,000
South Chollas Facility Upgrades	-	\$ 450,000
General Fund CIP Contribution to Drainage Projects	-	\$ 2,850,000
Total	9.67	\$ 11,769,431

Significant Citywide Issues

(DC 3), and \$50,000 from the Public Utilities Department (for the South Chollas facility upgrades). It should also be noted that a majority of planned CIP projects for the current fiscal year (FY 2014) were to be funded originally by DC 3. These projects have been delayed due to complications with the Deferred Capital Bond 3 (DC 3) issuance and have effectively been rolled over to FY 2015. More information regarding the DC 3 bond issuance is described in the “Infrastructure & Financing Issues” section of this report.

Long Term Changes to Regulations and Technology

The Division has stated that beyond the scope of the next five fiscal years, cost estimates will continue to be revised and could potentially decrease from currently projected levels. Regulations and technology are constantly evolving and the Division continues to negotiate for more favorable standards which will be easier to attain and more cost effective in the long-term. Staff are currently working on the following regulatory reforms that may produce cost savings in later years of the WAMP:

- Water Effects Ratio - Potential cost savings of \$880 million
- Bacteria Total Maximum Daily Load (TMDL) - Potential cost savings of \$350 million

- Area of Special Biological Significance (ASBS) Dilution Factor - Potential cost savings of \$7 million
- Receiving Water Limitations - Potential for reduced liability

These cost savings, if accepted by the Regional Board in full, could reduce estimates by about \$1.2 billion in the long-term. Although this is significant, it only represents 31% of the \$3.9 billion in needs identified in the WAMP. Barring technological advances or changes to regulations, \$2.7 billion will still be needed over the next 17 years after taking the \$1.2 billion of cost savings into account.

Looking Forward to 2018

Compliance Milestones

In IBA Report #13-44 and #13-54, our office discussed the General Fund and CIP needs of the storm water program based on the WAMP. A significant ramp up in funding needs for operations, maintenance, and infrastructure projects were estimated and are largely attributable to projects needed for upcoming interim compliance milestones for TMDL requirements. There is a concern that the City will be out of compliance in 2018 since some infrastructure projects outlined in the WAMP have been deferred beyond FY 2015.

FY 2015 STORM WATER CIP BUDGET				
	FY 15 General Fund Contribution	FY15 Anticipated Bond Funding	Water Utility	Total
Coolidge St. Drainage Project	\$ -	\$ 294,000	\$ -	\$ 294,000
Drainage Projects	\$ 2,850,000	\$ 18,822,255	\$ -	\$ 21,672,255
Watershed CIP	\$ 450,000	\$ 2,843,745	\$ 50,000	\$ 3,343,745
Total	\$ 3,300,000	\$ 21,960,000	\$ 50,000	\$ 25,310,000

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Originally, the division had anticipated \$27 million for CIP funding in FY 2014 to support storm water infrastructure. Only \$5 million was received in FY 2014 via DC 2a, leaving \$22 million in unfunded projects that were originally planned for FY 2014. Unfunded projects for FY 2014 and FY 2015 will rollover to future years, increasing funding needs in later years as many of the projects are needed to meet TMDL requirements in 2018.

Deferring storm water compliance related infrastructure is a significant issue when determining whether or not the City will be able to meet 2018 interim compliance deadlines. As discussed in IBA Report #13-44 and #13-54, the storm water infrastructure needs outlined in the WAMP are estimated at about \$642 million over the next five years (FY 2015 - FY 2019). Beyond the current \$2.9 million General Fund contribution and anticipated bond issuances, there is currently no plan to address about \$547 million of that estimate. While regulations may be refined in the future, current mandates will make it challenging for the City to meet TMDL interim compliance deadlines by 2018. This may result in penalties, including potential mandates for constructing missing projects.

Although non-compliance with water quality targets established by TMDLs is a significant risk, the City may be able to demonstrate good faith efforts by ramping up funding in an effort to begin complying with these regulations. These efforts may be demonstrated to the Regional Board through an alternative compliance methodology referred to as Best Management Practice

(BMP)-based compliance.

The BMP-Based Compliance Option

The permit provides a few methods for determining final TMDL compliance. In addition to achieving compliance by meeting the specific water quality targets established in TMDLs, the permit allows discretion for the Regional Board to determine that the City is in compliance with TMDL targets (even if the water quality targets are exceeded) provided that the City is implementing the activities identified in its Comprehensive Load Reduction Plans (CLRPs). The CLRP activities are included in the Storm Water Division's WAMP.

BMP-based compliance opens up the potential for projects to be less costly as regulations and technology evolve over time. This is possible under the interpretation that the City is tied to the types of projects that must be done, however, if a more cost effective way can be shown to achieve the same water quality outcome, the City may submit these findings to the Regional Board. If approved by the Regional Board, cost savings may be achieved. The Storm Water Division is implementing pilot programs, such as pilot street sweeping studies, specifically for this purpose. Additionally, if the City can demonstrate that projects and efforts are underway to address TMDLs, it may increase the timeframe in which the City can work to achieve these standards.

Consequences of Non-Compliance and Deferring Flood Risk Management

As discussed in IBA Report #13-44, con-

Significant Citywide Issues

tinuing to underfund compliance activities, such as necessary storm water infrastructure, puts the City at risk of falling into non-compliance. Penalties may be assessed for non-compliance which can amount to \$10,000 per day per violation from the State, and federal EPA penalties of \$27,500 per day per violation. Each storm drain outfall that flows to a receiving water body may be assessed as a separate violation. Additionally, mandates may be imposed that would require the City to build necessary projects in addition to any assessed fines.

Unlike compliance activities, flood risk management does not have regulatory requirements. However, continuing to defer these activities creates a higher risk of asset failure, potentially resulting in sinkholes and/or damage to private property when pipes fail.

Funding Sources and Strategies

The General Fund is currently the primary funding source for the Storm Water Division and infrastructure. With many competing priorities for City General Funds and the significant estimates surrounding storm water compliance, the City will need to find a dedicated funding source for storm water activities to address these more stringent and costly regulations. If no alternative funding is identified, the City's General Fund will have to continue to contribute increased funding in order begin to address compliance, which, in turn, reduces funding for other priorities and services. If funding is not identified from either a dedicated revenue stream or the General Fund, the City may fall out of compliance and/or have to

continue to defer flood risk management, which exposes the city to a variety of penalties and risks. Even if regulations are refined in a way that decreases compliance estimates in the long term, significant costs are still expected.

Storm Drain Fee

The City of San Diego currently collects a storm drain fee from water and sewer utility customers for the purpose of partially reimbursing the General Fund for storm water activities, however, the revenue from this fee is drastically short of full cost recovery. For the FY 2015 Proposed Budget, the storm drain fee is projected to collect approximately \$5.7 million, which represents about 13% of the Division's FY 2015 proposed operating budget.

Raising the Storm Drain Fee

IBA Reports #10-29 and #13-44 discuss the possibility of storm drain fee increases based on a variety of assumptions, and the impact that the additional funding would have on the General Fund. Although these reports help to illustrate the need for an alternative funding source to alleviate the General Fund's increasing contribution, the next step for increasing the storm drain fee would require a cost of service study. Division staff have indicated that a cost of service study is planned for FY 2015. The City has appropriate as-needed contracts for consultants that can perform this study, and staff have indicated that funding has been identified for this purpose.

Other Revenue Sources & Strategies

The Storm Water Division plans to explore the idea of a region-wide revenue approach for funding storm water activities and infra-

Significant Citywide Issues

structure, such as through a parcel tax. The funding needs reflected in the WAMP only depict the City of San Diego's portion of compliance costs; however, it should be noted that other municipalities are affected by increased storm water mandates as well, since the regulated watersheds span over multiple jurisdictions. On a statewide level, staff have indicated that some legislation has been proposed that may favorably change regulations and allocate some funding for storm water programs statewide.

In addition to approaches and funding sources already discussed, the Division and City staff continue to evaluate a variety of strategies to address compliance. Some of these include: monitoring and lobbying for legislation that may affect the City's storm water program; pilot studies to determine more cost effective ways for achieving required water quality outcomes; and focusing on education, pollution prevention and source control strategies which may be more cost effective.

City's Capacity to Deliver Projects

Effective implementation of an infrastructure program and financing strategy requires strong staff capacity to deliver future projects on time and within budget. Right-sizing is important not only for Public Works/Engineering & Capital Projects, but for other departments involved in the CIP process, including Financial Management, Debt Management, and Equal Opportunity Contracting. The "Infrastructure & Financing Issues" section provides more detail about the City's efforts to expand capacity

in anticipation of a larger citywide infrastructure program.

Additionally, new as-needed contracts with Tetra Tech and RBF Consulting for engineering and consultant services may assist with capacity issues. These contracts were approved by Council on April 15, 2014 and span over a five year period, totaling a not-to-exceed amount of \$42.5 million. These consultants provide a variety of services to support the City's storm water program. The new contracts provide the Division flexibility in planning for infrastructure projects, maintenance, and other permit compliance activities.

Department Review

Analytics & Performance Mgmt

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the new Analytics and Performance Management Department is approximately \$1.2 million. There are 7.00 budgeted FTE positions in the department. The department does not have budgeted revenue in FY 2015.

Issues to Consider

On October 28, 2013, the City Council approved a resolution in support of recommendations from the Assistant Chief Operating Officer to facilitate improvements to governmental operations. The recommendations were to be implemented in two phases, with the first phase being implemented in FY 2014 and the second phase being implemented on July 1, 2014 (FY 2015). The second phase called for the

creation of two new departments: the Communications Department and the Department of Analytics and Performance Management.

Phase Two of the plan called for hiring new directors for the two new departments; however, the department directors have not been included in the FY 2015 Proposed Budget. The IBA understands that the Mayor may propose to add these 2.00 director positions in his May Revise Report.

As noted in the department description in the FY 2015 Proposed Budget, this new department is responsible for “supporting the improvement of City operations through long-term strategic initiatives, including strategic planning, performance measurement and management, operational excellence initiatives, and Managed Competition.” It further states that the department will work

SUMMARY OF ANALYTICS AND PERFORMANCE MANAGEMENT DEPARTMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	-	\$ -	\$ -	\$ -	\$ -
Mayor's FY 2015 Proposed Budget Changes					
<i>Transfer in of the Business Office from the Office of the ACOO</i>	6.00	828,157		828,157	
<i>Addition of Program Manager to serve as Open Data Officer</i>	1.00	201,992		201,992	
<i>Supplies</i>			1,650	1,650	
<i>Contracts</i>			165,490	165,490	
<i>Non-Discretionary and IT Adjustments</i>			23,605	23,605	
<i>Subtotal</i>	7.00	1,030,149	190,745	1,220,894	-
Mayor's Fiscal Year 2015 Proposed Budget	7.00	\$ 1,030,149	\$ 190,745	\$ 1,220,894	\$ -
<i>Difference from 2014 to 2015</i>	<i>7.00</i>	<i>\$ 1,030,149</i>	<i>\$ 190,745</i>	<i>\$ 1,220,894</i>	<i>\$ -</i>

Department Review

“with all Mayoral departments to implement data driven solutions and improve the efficiency and effectiveness of the City’s service delivery practices and management structures.” The staff report regarding the proposal for improved governmental operations indicates that the department will also provide additional citywide services focused on research, succession planning and special projects.

In the FY 2015 Proposed Budget, department staffing is comprised of 6.00 FTEs transferred in from the Office of the Assistant COO (Business Office Section) and the addition of 1.00 Open Data Officer. The transfer of the Business Office section includes personnel expense of approximately \$828,000 and non-personnel expense of approximately \$170,000. The addition of the Open Data Officer position includes personnel expense of approximately \$202,000 (\$120,000 salary and approximately \$82,000 of fringe) without any discretely assigned non-personnel expense.

Open Data Program

The IBA understands the City’s efforts to initiate an open data program will be overseen by the Open Data Officer position in this department. We note the budgeted salary for this position of \$120,000 has increased significantly from the \$77,000 initially identified in the Five-Year Financial Outlook and should now be sufficient to hire a qualified manager to begin implementing the emerging program.

In order to make public data sets available, the open data program will require a public portal (preferably with helpful analytical and communications tools for public users). We roughly estimate the annual cost for a

public portal of this type to be approximately \$60,000. As there are no funds budgeted for a public portal in the department, it is unclear whether resources are available elsewhere for this purpose.

In IBA Report #13-50 (issued when there was a draft Open Data policy which called for posting all public data sets on the web within a year), we roughly estimated the annual cost of implementation (including an Open Data Officer and a public portal) to be approximately \$1.0 million. The additional estimated cost was for 5.00 new data management positions to assist the Open Data Officer with inventorying, preparing, posting and maintaining all of City’s releasable data sets.

The draft Open Data Policy currently under development by the Open Data Advisory Group envisions a more gradual implementation and allows more time for the release of all public data sets. Until an implementation plan is developed and presented to the Council, it is unclear if additional personnel will be needed to initiate an effective open data program or if existing staff can be used for this purpose without taking away from their pre-existing workload.

The City Council may wish to ask about the Mayor’s plans to: 1) add a department director; 2) fund the open data public portal; and 3) facilitate the initial implementation of an open data program in FY 2015 (i.e., will additional staff resources be needed?).

Department Review

City Attorney

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Office of the City Attorney is \$45.9 million, a decrease of approximately \$180,000 from the FY 2014 Adopted Budget. The FY 2015 Proposed Budget results in a net increase of 1.99 FTE. Budgeted revenue totaling \$4.7 million represents a decrease of \$925,000.

Additions

An adjustment of \$508,000 in personnel expenditures is included in the FY 2015 Proposed Budget to restore funding that was removed as part of a budget reduction in FY 2014. The FY 2014 Mid-Year Budget Adjustments included a partial restoration of \$300,000 for this purpose.

The Office of the City Attorney requested an increase of 2.86 FTE and \$300,000 for non-standard hour personnel funding in FY 2015. The office uses provisional and hourly

employees to carry out mandated duties during vacancies and when permanent staff are on leave. A review of the past four years of expenditures for hourly personnel indicated that the office exceeded its annual budget for this purpose by an average of approximately \$185,000. The FY 2015 Proposed Budget includes the addition of 1.99 FTE and \$181,000 for increased non-standard hour personnel funding, in accordance with the review of past expenditures.

Issues to Consider

The City Council may wish to consider the following comments while evaluating the Office of the City Attorney's budget:

- As of April 17, 2014, the Office of the City Attorney reported having 14.5 vacant positions. The IBA was informed that approximately 10 of these positions are critical and are in the process of being filled. Filling these positions would reduce budgeted vacancy savings and

SUMMARY OF CITY ATTORNEY BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	345.86	\$ 42,469,694	\$ 3,219,749	\$ 45,689,443	\$ 5,581,169
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries, Wages & Fringe Benefits		(490,657)		(490,657)	
- Personnel Expenditures Adjustment		508,228		508,228	
- Non-Standard Hour Personnel Funding	1.99	181,066		181,066	
Supplies			13,160	13,160	
Contracts			4,557	4,557	
Non-Discretionary and Info Technology Adjustments			(19,315)	(19,315)	
Other Non-Personnel Expenditures			(16,996)	(16,996)	
One-Time Reductions and Annualizations					(925,000)
Subtotal	1.99	198,637	(18,594)	180,043	(925,000)
Mayor's Fiscal Year 2015 Proposed Budget	347.85	\$ 42,668,331	\$ 3,201,155	\$ 45,869,486	\$ 4,656,169
Difference from 2014 to 2015	1.99	\$ 198,637	\$ (18,594)	\$ 180,043	\$ (925,000)

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Department Review

essentially increase personnel expenditures in FY 2015.

- The FY 2015 Proposed Budget includes approximately \$1.7 million in revenue from Fines, Forfeitures, and Penalties. The Office of the City Attorney has expressed concern that this revenue source is difficult to project and may not be budgeted at a sustainable level. The FY 2014 Adopted Budget included the same amount of revenue for this category of \$1.7 million. However, the Office of the City Attorney projects that current revenue for this category at year-end will be approximately \$81,000, leaving a potential deficit of \$1.6 million.

Department Additions Requested but Not Added

In addition to the increased hourly personnel expenditure described earlier, the Office of the City Attorney requested the following additions that were not included in the FY 2015 Proposed Budget:

- An increase of 1.0 FTE and approximately \$169,000 to support an additional Assistant Deputy Director position.
- An increase of 6.0 FTE and approximately \$824,000 to support an expansion of the Neighborhood Community Courts Program.

Department Review

City Auditor

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Office of the City Auditor is approximately \$3.6 million, a decrease of approximately \$309,000 from the FY 2014 Adopted Budget. Budgeted positions in the Office remain unchanged at 21.00 FTEs. The Office has no budgeted revenue.

Reductions

There are two significant reductions in non-personnel expense for the Office in the FY 2015 Proposed Budget.

In response to a recommendation in the 2006 Kroll Report, \$150,000 has been budgeted in prior years to perform a limited audit of the City's internal controls. The internal controls audit has not been per-

formed to allow the City Comptroller additional time to further develop the City's internal control processes. Given limited funding for the audit and noting that significant progress has been made in the development and testing of internal controls, this funding is being removed from the City Auditor's budget.

In December of 2013, the Council approved a new contract with Macias Gini & O'Connell to perform annual audits of the City's Comprehensive Annual Financial Report (CAFR) for fiscal years 2014 through 2018. The expense for this contract is included in the City Auditor's budget. In order to reflect lower negotiated fees in the new contract and the amount actually billed each year, this expense has been reduced by approximately \$187,000 in the FY 2015 Proposed Budget.

SUMMARY OF CITY AUDITOR BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	21.00	\$ 2,692,295	\$ 1,196,490	\$ 3,888,785	\$ -
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages		63,421		63,421	
Vacancy Savings/Salary Reductions/Voluntary Furlough		19,546		19,546	
Fringe Benefits (Includes Retirement ADC)		(35,340)		(35,340)	
Supplies			165	165	
Contracts			0	0	
Non-Discretionary and Info Technology Adjustments			(19,894)	(19,894)	
Reduction of NPE budgeted for an Internal Controls Audit			(150,000)	(150,000)	
Reduction of NPE for the CAFR Audit Contract			(187,116)	(187,116)	
<i>Subtotal</i>	-	47,627	(356,845)	(309,218)	
Mayor's Fiscal Year 2015 Proposed Budget	21.00	\$ 2,739,922	\$ 839,645	\$ 3,579,567	\$ -
<i>Difference from 2014 to 2015</i>	-	\$ 47,627	\$ (356,845)	\$ (309,218)	\$ -

Department Review

Issues to Consider

In a memorandum to the Audit Committee dated April 16, 2014, the City Auditor presented his budget request for FY 2015. The City Auditor indicated his current staffing level of 21.00 FTEs is adequate for FY 2015. In addition to what is included in the FY 2015 Proposed Budget, the City Auditor requested an addition \$15,000 in training funds to: 1) improve the efficiency and effectiveness of his Office and 2) maintain audit skills to continue producing high impact audits with significant results. This request has not been included in the FY 2015 Proposed Budget.

Audit Committee Recommendation

On April 21, 2014, the Audit Committee considered the City Auditor's budget request memorandum. The Committee raised concerns about getting budget information (i.e., quarterly budget to actual reports) earlier in the budget development process and regularly during the fiscal year. They also wanted information on certain costs allocated to the City Auditor in the FY 2015 Proposed Budget (for example, assigned information technology budget line items). Staff indicated they would provide this information to the Committee going forward.

Following their discussion of the City Auditor's budget, the Committee unanimously recommended that the FY 2015 Proposed Budget be approved and that it also include a \$15,000 increase in training funds as requested by the City Auditor.

Department Review

City Clerk

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Office of the City Clerk totals approximately \$5.3 million, an approximately \$23,000 increase from the FY 2014 Adopted Budget. The number of City Clerk positions remains virtually unchanged at 45.00 FTE, a reduction of 0.28 FTE.

Significant Budget Adjustments

The FY 2015 Budget includes the following adjustments:

- An increase in expenditures of approximately \$33,000 for equipment and information technology due to a zero-based budgeting review of the department's information technology funding requirements.
- \$24,000 in increased revenues, and \$2,700 in increased expenditures related to operations of the new Passport Acceptance Facility,

- \$14,500 in increased expenditures related to records management.
- A reduction of approximately \$10,000 resulting from a zero-based annual review of the department's hourly personnel funding, resulting in a 0.28 FTE decrease.
- A reduction of approximately \$45,000 in personnel expenditures to reflect negotiated salary compensation, vacant positions, and fringe benefits.

Issues to Consider

Non-Standard Hourly Personnel

The FY 2015 Proposed Budget includes the elimination of 0.28 FTEs of non-standard hourly personnel, representing approximately \$10,000 in personnel costs. The City Clerk has indicated that having a small amount of hourly personnel budgeted is critical to the Department's ongoing operations, and that the Department periodically needs to provisionally hire hourly personnel to meet time-sensitive deadlines—including

SUMMARY CITY CLERK BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	45.28	\$ 4,137,582	\$ 1,177,125	\$ 5,314,707	\$ 18,404
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salary & Benefit Adjustments	-	(55,417)		(55,417)	
Administrative Aide 1	(1.00)	(44,553)			
Administrative Aide 2	1.00	51,334			
Deputy City Clerk 1 - Hourly	(0.28)	(10,063)			
Fringe Benefits (includes Retirement ADC)		12,104			
Non-Discretionary and Info Technology Adjustments			61,690	61,690	
Records Management			14,150	14,150	
Passport Acceptance Facility			2,700	2,700	\$ 24,000
Mayor's Fiscal Year 2015 Proposed Budget	45.00	\$ 4,090,987	\$ 1,255,665	\$ 5,346,652	\$ 42,404
Difference from 2014 to 2015	(0.28)	\$ (46,595)	\$ 78,540	\$ 31,945	\$ 24,000

Department Review

Brown Act posting requirements—when full-time staff is not available or is out of the office, and has requested restoration of this funding.

Department Review

City Comptroller

Mayor's FY 2015 Proposed

Adjustments

The FY 2015 Proposed Budget for the City Comptroller is approximately \$10.8 million, a decrease of about \$282,000 from the FY 2014 Adopted Budget. The department has 82.75 FTEs, which remains unchanged from the previous fiscal year.

Additions

For FY 2015, \$217,000 was added to the Comptroller's budget for a consultant to create SAP reports in response to departmental requests for reports tailored to their specific needs. The Comptroller's Office is currently working with the Department of IT to move forward with a plan to address these requests.

This addition is offset by personnel expenditure decreases of about \$422,000 which is mostly attributable to a \$311,000 decrease in fringe benefits, as shown in the chart below.

SUMMARY OF CITY COMPTROLLER BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	82.75	\$ 10,250,192	\$ 785,653	\$ 11,035,845	\$ 2,468,547
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages				-	
- Vacancy Savings/Salary Reductions/Voluntary Furlough		(111,359)		(111,359)	
- Fringe Benefits (Includes Retirement ADC)		(311,523)		(311,523)	
Non-Discretionary and Info Technology Adjustments			(75,905)	(75,905)	
Addition of Consulting Services to develop SAP reports			217,000	217,000	
				-	-
Mayor's Fiscal Year 2015 Proposed Budget	82.75	\$ 9,827,310	\$ 926,748	\$ 10,754,058	\$ 2,468,547
Difference from 2014 to 2015	-	\$ (422,882)	\$ 141,095	\$ (281,787)	\$ -

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Department Review

City Council

Council Offices

The City Council FY 2015 Proposed Budget encompasses each of the nine City Council district offices and totals \$9.7 million, which is approximately \$70,000 below the FY 2014 Adopted Budget, which is a nominal decrease of 0.7%. Personnel expenditure changes in FY 2015 are due mainly to a decline in fringe benefits (retirement ADC and worker's compensation) and salary savings. Non personnel expenditures increases are primarily due to information technology costs for the implementation of IQ (Intranet Quorum) Software which will help to improve communication and services to each Council District's constituents.

Community Projects, Programs, and Services (CPPS) funds

The FY 2015 Proposed Budget includes a combined total of \$1.8 million for CPPS funds. This results in approximately \$440,000 or 32.1% increase from the FY 2014 Adopted Budget. As detailed in Council Policy 100-06, the CPPS funding level for each of the City Council offices is based on the previous year's savings from

their office budgets. The CPPS funding for each Council district office is based on estimated FY 2014 savings included in the FY 2014 Mid-Year Report. The estimated amount of funds could change based on year-end actual savings.

Council Administration

Funding for Council Administration in the FY 2015 Proposed Budget totals \$1.9 million, which equals the level of funding included in the FY 2014 Adopted Budget. Increases in information technology expenditures related to the implementation of IQ Software were offset by a decrease in fringe personnel expenditures due to the reduction in the retirement ADC.

SUMMARY OF CITY COUNCIL AND COUNCIL ADMINISTRATION BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	102.30	\$ 10,243,570	\$ 1,415,471	\$ 11,659,041	\$ -
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Funding for Additional Hourly Employees - Council Administration	0.83	26,369		26,369	
Salaries & Wages Savings in Council District Offices		(170,767)		(170,767)	
Fringe Benefits (incl. Retirement ARC)		(164,767)		(164,767)	
Information Technology			192,688	192,688	
Other Expenditure Adjustments		6,467	27,682	34,149	
<i>Subtotal</i>	0.83	\$ (302,698)	\$ 220,370	\$ (82,328)	\$ -
Mayor's Fiscal Year 2015 Proposed Budget	103.13	\$ 9,940,872	\$ 1,635,841	\$ 11,576,713	\$ -
<i>Difference from 2014 to 2015</i>	0.83	\$ (302,698)	\$ 220,370	\$ (82,328)	\$ -

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Department Review

City Treasurer

For the FY 2015 Proposed Budget the City Treasurer is comprised of the General Fund and the Parking Meter Operations Fund. Historically, the City Treasurer's Department has only consisted of the General Fund. The Parking Meter Operations Program previously budgeted within the General Fund has been restructured into a new special revenue fund called Parking Meter Operations Fund. This fund was created in order to improve transparency of parking meter related operations and revenue collections and allocations. This is an important consideration because parking meter revenue can only be used for parking and traffic-related purposes which impact parking within the parking meter zones.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the City Treasurer (all funds) is \$24.7 million and 122.73 FTEs. This is an overall \$4.2 million and 3.10 FTE increase over FY 2014. The chart below reflects the net changes from FY 2014 to both funds within the department.

General Fund

The Proposed Budget for the General Fund component includes \$15.5 million and 107.73 FTEs, a \$4.9 million decrease and 3.10 FTE increase over FY 2014. The main factor contributing to the decrease in the General Fund budget is the restructuring of the Parking Meter Operations Program from the City Treasurer's General Fund budget to the new Parking Meter Operations special revenue fund, as previously described. This restructure resulted in the reduction of 15.00 FTEs and \$5.9 million in associated personnel (PE) and non-personnel expenditures (NPE) from the City Treasurer's General Fund budget.

Significant Additions

The significant decrease resulting from the restructuring of parking meter operations is partially offset by the following additions to the General Fund:

- 2.00 Public Information Clerks and associated \$148,000 in PE and \$15,000 in NPE to support for the Neighborhood Parking Protection Ordinance implementation (O-20281);
- Addition of 1.00 Collections Manager

SUMMARY OF CITY TREASURER BUDGET						
	FY 2014 FTE	FY 2015 FTE	CHANGE	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
General Fund Expenditures	119.63	107.73	(11.90)	20,495,483	15,548,098	\$ (4,947,385)
Parking Meter Operations Fund Expenditures	-	15.00	15.00	-	9,111,535	\$ 9,111,535
TOTAL CITY TREASURER EXPENDITURES	119.63	122.73	3.10	\$ 20,495,483	\$ 24,659,633	\$ 4,164,150
General Fund Revenue	-	-	-	25,963,475	18,370,281	\$ (7,593,194)
Parking Meter Operations Fund Revenue	-	-	-	-	9,111,535	\$ 9,111,535
TOTAL CITY TREASURER REVENUE	-	-	-	\$ 25,963,475	\$ 27,481,816	\$ 1,518,341

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Department Review

and \$141,000 in associated PE to handle high balance collections accounts, oversee collections investigation staff, and assist the Program Manager;

- \$215,000 for the reclassification of IT systems/software used by the City Treasurer's office that were previously budgeted in the Department of IT; and
- \$75,000 addition for contractual expenditures related to compliance requirements for the Payment Card Industry (PCI) in order to protect cardholder information.

Significant Reductions

Significant reductions include:

- A reduction of 15.00 FTEs and associated \$1.5 million in PE and \$4.4 million in NPE (total of \$5.9 million) related to the restructure of parking meter operations to the Parking Meter Operations

Fund, as previously discussed; and

- A reduction of 1.00 Senior Management Analyst and associated \$128,000 in PE due to the department realizing increased efficiencies.

Revenue Adjustments

Significant revenue adjustments have been made to the General Fund and are mostly related to restructuring activities. Approximately \$9.1 million was decreased in the General Fund and transferred to the Parking Meter Operations Fund. This revenue includes:

- About \$8.4 million in parking meter collection revenue;
- \$600,000 in revenue from the Parking Meter Alternative Program; and
- About \$116,000 in parking citation revenue.

SUMMARY OF GENERAL FUND BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	119.63	\$ 11,484,087	\$ 9,011,396	\$ 20,495,483	\$ 25,963,475
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries/Wages & Fringe Adjustments		(311,355)		(311,355)	
Non-Discretionary, Info Technology Adjustments & One-Time Reductions/Annualizations			743,849	743,849	
Restructure of Parking Meter Operations Program to Special Revenue Fund	(15.00)	(1,467,989)	(4,438,807)	(5,906,796)	(9,085,691)
Neighborhood Parking Protection Ordinance Support	2.00	148,260	15,000	163,260	150,000
Addition of Collections Manager	1.00	140,935		140,935	100,000
Reduction of Senior Management Analyst due to efficiencies	(1.00)	(128,262)		(128,262)	
Adjustment of Hourly Personnel Funding	1.10	56,184		56,184	
Reclassification of IT Expenditures from Dept of IT			215,000	215,000	
Contractual services for Payment Card Industry (PCI) compliance requirements			75,000	75,000	
Additional security expenditures			4,800	4,800	
PROJECTED CHANGES IN REVENUE:					
- Rental Unit Business Tax Revenue Increased Projection				-	524,239
- Business Tax Revenue Increase Projection				-	486,794
- Collection Referral Fee increase due to DMV/Collection Referral Fee project					250,000
- Other Revenue adjustments					(18,536)
Mayor's Fiscal Year 2015 Proposed Budget	107.73	\$ 9,921,860	\$ 5,626,238	\$ 15,548,098	\$ 18,370,281
Difference from 2014 to 2015	(11.90)	\$ (1,562,227)	\$ (3,385,158)	\$ (4,947,385)	\$ (7,593,194)

Department Review

This \$9.1 million decrease in revenue is offset by the following increases:

- \$150,000 that is projected to be received through the permitting process associated with the Neighborhood Parking Protection Ordinance;
- \$100,000 added to account for anticipated higher collections activities produced by the new high balance Collections Manager;
- \$524,000 increase in projected Rental Unit Business Tax collections based on FY 2013 actual receipts;
- \$487,000 increase in projected Business Tax Revenue due to compliance efforts and a gradually improving economy; and
- \$250,000 estimated increase in collection referral fee revenue due to the implementation of the DMV / Collection Referral Fee project in FY 2014.

Parking Meter Operations Fund

The Parking Meter Operations Fund is a new special revenue fund that was created for the FY 2015 Proposed Budget in order to increase transparency of parking meter operations and revenue.

Significant Additions

Being that this is the first year in this fund's existence, the bulk of the adjustments relate to the restructuring of the 15.00 FTEs, \$5.9 million in expenditures, and \$9.1 million in revenue from the General Fund. Other additions to this fund include:

- \$2.3 million to increase the transfer out expense that goes to Community Parking Districts, the Parking Meter District Administration Fund and City departments collecting this revenue for qualifying reimbursable expenses; and
- A \$230,000 increase to reflect administrative support from the Economic Development Division billed to this fund.

SUMMARY OF PARKING METER OPERATIONS FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	-	\$ -	\$ -	\$ -	\$ -
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Restructure of Parking Meter Operations to Special Revenue Fund from General Fund	15.00	1,467,989	\$ 4,438,807	5,906,796	
- Parking Meter Collections Revenue (transfer from General Fund)					8,369,891
- Parking Meter Alternative Program Revenue (transfer from General Fund)					600,000
- Parking Citation Revenue (transfer from General Fund)					115,800
Non-Discretionary and Info Technology Adjustments			639,699	639,699	
Parking Meter Operations Revenue to Increase Transfer Out Expense			2,335,040	2,335,040	
Economic Development Administrative Costs			230,000		
Revised Revenue projections to Parking Meter Collections					25,844
Subtotal	15.00	1,467,989	7,643,546	8,881,535	9,111,535
Mayor's Fiscal Year 2015 Proposed Budget	15.00	\$ 1,467,989	\$ 7,643,546	\$ 8,881,535	\$ 9,111,535
Difference from 2014 to 2015	15.00	\$ 1,467,989	\$ 7,643,546	\$ 8,881,535	\$ 9,111,535

Department Review

Citywide Program Expenditures

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Citywide Program Expenditures Department totals \$75.3 million, an increase of \$9.2 million from the FY 2014 budget of \$66.1 mil-

lion.

Citywide Elections

The Citywide Elections amount in the FY 2015 Proposed Budget is unchanged from the FY 2014 Adopted Budget—at \$1.8 million.

Description	FY 2014 Adopted	FY 2015 Proposed	Change	%
Contracts	\$ 21,289,585	\$ 35,205,334	\$ 13,915,749	65.4%
Citywide Elections	1,800,000	1,800,000	-	0.0%
Corporate Master Lease Rent	9,569,184	7,072,970	(2,496,214)	-26.1%
Insurance	1,562,879	2,206,891	644,012	41.2%
Memberships	630,000	730,000	100,000	15.9%
Property Tax Administration	3,823,343	3,505,086	(318,257)	-8.3%
Special Consulting Services	3,240,000	2,920,000	(320,000)	-9.9%
Transportation Subsidy	659,179	459,179	(200,000)	-30.3%
Employee Personal Property Claims	5,000	5,000	-	0.0%
Reimbursements for E&CP Services	-	2,000,000	2,000,000	100.0%
Public Liability Claims Fund (moved from Transfers Out)	-	14,506,208	14,506,208	100.0%
Energy & Utilities - Corp. Master Lease	758	5,378	4,620	609.5%
Other Expenditures	3,955,058	4,206,150	251,092	6.3%
Assessments to Public Property	504,200	567,800	63,600	12.6%
Business Cooperation Program	350,000	350,000	-	0.0%
Preservation of Benefits	1,700,000	1,700,000	-	0.0%
Supplemental COLA Benefit	1,400,858	1,588,350	187,492	13.4%
Transfers Out	40,826,400	35,844,544	(4,981,856)	-12.2%
Deferred Capital: Series 2010A Refunding - DC 1	7,314,444	7,312,893	(1,551)	0.0%
Deferred Capital: Series 2012A - DC 2	4,595,376	4,590,326	(5,050)	-0.1%
Deferred Capital: Series 2013A - DC 2A	2,000,000	2,152,306	152,306	7.6%
Less: Principal Amounts Paid from Capital Outlay Fund	(3,210,001)	(2,046,419)	1,163,582	36.2%
CIP Debt Service for 2015 Anticipated Issuance - DC 3	-	4,200,000	4,200,000	100.0%
McGuigan Settlement	8,007,675	8,007,674	(1)	0.0%
Park Improvement Funds	5,614,678	10,045,411	4,430,733	78.9%
Public Liability Claims Fund (moved to Contracts)	14,506,208	-	(14,506,208)	-100.0%
Public Liability Reserve Fund	101,700	-	(101,700)	-100.0%
Public Use Leases	1,582,144	1,582,144	-	0.0%
TRANS Interest Expense	314,000	-	(314,000)	-100.0%
Interfund Environmental Services - Corp. Master Lease	176	209	33	18.8%
TOTAL	\$ 66,071,801	\$ 75,261,406	\$ 9,189,605	13.9%

Department Review

The \$1.8 million budget for elections costs is anticipated to allow for the November 2015 General election, including ballot measures. The June 2014 Primary election races will be for Council Districts 2, 4, 6, and 8. Possible run-offs to these elections will occur in the November 2015 General Election, for which funding is included in the FY 2015 budget.

There is the potential that Citywide Elections actual costs could end up lower than the \$1.8 million included in the FY 2015 Proposed Budget, depending on the number of ballot measures.

Corporate Master Lease Rent

The City leases various facilities, such as office space and warehouses, from private parties to house some City employees and support the daily operations of the City. In review of these leases over the past year, the City has been able to negotiate lower lease rates. Consequently, the budgeted amount for corporate master lease rent is decreasing by \$2.5 million, from \$9.6 million in FY 2014 to \$7.1 million in the FY 2015 Proposed Budget.

For information on some of the issues surrounding a couple City leases, see IBA report 13-55, “City Lease of 1010 Second Avenue Office Space” and report 13-25, “City Lease of 525 B Street Office Space.”

Special Consulting Services

The Special Consulting Services budget decreased by \$0.3 million for FY 2015—from \$3.2 million to \$2.9 million. See the table below for breakdown for Special Consulting Services.

Reimbursements for E&CP Services

The FY 2015 Proposed Budget includes an addition of \$2.0 million for engineering services performed by E&CP for General Fund departments that are not directly related to a capital project. For example, this includes seed money for potential capital projects. Of the \$2.0 million, the CIP Review and Advisory Committee (CIPRAC) will allocate \$1.0 million among General Fund departments.

The remaining \$1.0 million will be used as a reserve in case additional funding is needed for engineering services not directly linked

SPECIAL CONSULTING SERVICES			
	FY 2014 ADOPTED	FY 2015 PROPOSED	CHANGE
Consulting & Actuary Services (Long-Term Disability Benefits)	\$ 320,000	\$ 320,000	\$ -
Disclosure Counsel	200,000	200,000	-
Labor Related Contracts	220,000	250,000	30,000
Sales Tax Consultant	650,000	650,000	-
Contingency	100,000	100,000	-
Outside Legal Contracts	950,000	950,000	-
Kinder Morgan Litigation	700,000	450,000	(250,000)
Taxi Cab Study	\$ 100,000	\$ -	\$ (100,000)
TOTAL	\$ 3,240,000	\$ 2,920,000	\$ (320,000)

Department Review

to capital projects. See the Engineering & Capital Projects department section of this report for additional information.

Reserves

Any contributions to the Public Liability Reserve and General Fund Reserve are typically budgeted in the Citywide Program Expenditures.

A General Fund Reserve contribution is not budgeted for FY 2015, as the reserve target of 14.0% of General Fund revenues is currently satisfied. See the General Fund Reserve section of this report for more information.

Additionally, the FY 2015 Proposed Budget does not include a contribution to the Public Liability Reserve, since the \$3.2 million anticipated reserve contribution for FY 2015 was prefunded in FY 2014 as part of the Mid-Year Budget Adjustments.

However, a \$14.5 million transfer to the Public Liability fund for FY 2015 public liability claims expenditures is included for FY 2015, unchanged from the FY 2014 Adopted Budget.

See the Public Liability Fund section of this report (under Significant Citywide Issues) for more information.

Deferred Capital Debt Service

The debt service payment for the \$100 million 2010A Refunding deferred capital financing issuance (known as “DC1”) is \$7.3 million in FY 2015. There is also debt service budgeted in FY 2015 for the \$75 million 2012A issuance (known as “DC2”), which is \$4.6 million. Further, the debt service budgeted in FY 2015 for the \$35 mil-

lion 2013A issuance (known as “DC2A”) is \$2.2 million.

The total of these debt service payments is approximately \$14.1 million. The General Fund Citywide Program Expenditures budget for this debt service is \$12.0 million; and approximately \$2.1 million in principal amounts will be paid from the Capital Outlay Fund.

Lastly, there is a \$4.2 million increase in the Citywide Program Expenditures budget in FY 2015 to cover debt service for the first series of the anticipated \$120.0 million deferred capital program bond issuance (DC 3). The first series is estimated to be around \$66.4 million and is anticipated to occur mid-year of FY 2015.

McGuigan Settlement

Another expenditure budgeted in the Citywide Program Expenditures Department is payment for the General Fund portion of the McGuigan Settlement financing.

Under this settlement, the City was obligated to pay \$173.0 million into SDCERS by June 2011 to address previous underfunding, which occurred between 1996 and 2005. The McGuigan Settlement was modified, as approved by the City Council on March 9, 2010, allowing the City to prepay to SDCERS approximately \$38.3 million, the remaining settlement balance as of June 30, 2010. Under the terms of the modification and in order to direct a final payment to SDCERS, the City made a cash payment of approximately \$5.5 million and financed the balance, approximately \$32.8 million, through a third party financial institution.

The City’s annual payments related to the

Department Review

financing are approximately \$9.1 million in FY 2012 through FY 2015. Thus, FY 2015 is the final year of payment for this financing.

The General Fund's proportionate share of these payments totals approximately \$8.0 million annually, which is the amount budgeted in Citywide Program Expenditures.

Transfer to Park Improvement Funds

The City Charter formerly set the minimum threshold amount of Mission Bay rents and concession revenues that are to be placed into the General Fund for any municipal purpose, without restriction, at \$23.0 million.

Pursuant to public action on a November 2008 ballot measure, this threshold will be reduced in FY 2015 to \$20.0 million. The remainder of funds greater than the threshold amount will be allocated to the San Diego Regional Park Improvements Fund and the Mission Bay Park Improvements Fund each year.

The amount above the \$20 million threshold to be transferred to the Park Improvement Funds is budgeted in Citywide Program Expenditures. That amount has increased in the FY 2015 Proposed Budget by \$4.4 million—from \$5.6 million to \$10.0 million. Of this \$3.0 million is due to the threshold change, and \$1.4 million is due to anticipated increase in Mission Bay Park lease revenues. Note that revenue from Mission Bay Park rents and concessions is budgeted in the Real Estate Assets Department.

Public Use Leases

The public use lease expenditures are related to the use of parking lots in Las

Americas and Imperial Marketplace for the park and ride program. The FY 2015 Proposed Budget for the public use leases is \$1.6 million, unchanged from FY 2014.

Department Review

Communications

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the new Communications Department is approximately \$786,000. There are currently 6.00 budgeted FTE positions in the department. The department has approximately \$113,000 of budgeted revenue in FY 2015.

Issues to Consider

On October 28, 2013, the City Council approved a resolution in support of recommendations from the Assistant Chief Operating Officer to facilitate improvements to governmental operations. The recommendations were to be implemented in two phases, with the first phase being implemented in FY 2014 and the second phase being implemented on July 1, 2014 (FY 2015). The second phase called for the

creation of two new departments: the Communications Department and the Department of Analytics and Performance Management.

Phase Two of the plan called for hiring new directors for the two new departments; however, the department directors have not been included in the FY 2015 Proposed Budget. The IBA understands that the Mayor may propose to add these 2.00 director positions in his May Revise Report.

In describing the new Communications Department, the FY 2015 Proposed Budget and the staff report regarding the proposal for improved governmental operations discuss consolidating all communications-related functions into one department. These functions include the Cable Office, City TV, Internal Communications, Multimedia Services and Public Information. In

SUMMARY OF COMMUNICATIONS DEPARTMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	5.00	\$ 575,886	\$ 113,105	\$ 688,991	\$ 113,000
Mayor's FY 2015 Proposed Budget Changes					
Salary & Wages		34,791		34,791	
Vacancy Savings/Salary Reductions/Voluntary Furlough		2,480		2,480	
Fringe Benefits (Includes Retirement ADC)		8,039		8,039	
Supplies			330	330	
Contracts			1,040	1,040	
Non-Discretionary and IT Adjustments			50,786	50,786	
Addition of Hourly Management Intern Position	1.00				
<i>Subtotal</i>	1.00	45,310	52,156	97,466	-
Mayor's Fiscal Year 2015 Proposed Budget	6.00	\$ 621,196	\$ 165,261	\$ 786,457	\$ 113,000
<i>Difference from 2014 to 2015</i>	<i>1.00</i>	<i>\$ 45,310</i>	<i>\$ 52,156</i>	<i>\$ 97,466</i>	<i>\$ -</i>

Department Review

an effort to best meet the City's internal and external communications needs, the Phase Two plan called for making all City Public Information Officers (there are currently 22.00 PIOs spread over seven departments) part of the new Communications Department. This change is not included in the FY 2015 Proposed Budget. In IBA Report #13-48, we concurred with the rationale for consolidating PIOs into a centralized organization, but noted that some PIOs (such as those for Police and Fire-Rescue) may need to remain with their departments to be most effective.

In the FY 2015 Proposed Budget, the Communications Department is comprised of 5.00 FTEs from the Multimedia Services Division as shown in the FY 2014 Budget. Hourly funding for 1.00 Management Intern position has also been added to the new department for a total of 6.00 FTEs. Although the department's mission statement is currently that of the former Multimedia Services Division, there is a footnote in the FY 2015 Proposed Budget indicating that a new mission statement will be developed in the final budget process to reflect the Internal Communications and Public Information functions.

The City Council may wish to ask about the Mayor's plans to: 1) add a department director; 2) consolidate departmental PIOs into the new Communications Department and 3) develop a media relations training program for the City's management team and other employees having periodic contact with the media. These actions were all discussed in the report presented to the City Council on October 28, 2013.

Department Review

Debt Management

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Debt Management Department is approximately \$2.4 million, a decrease of approximately \$48,000 from the FY 2014 Budget. Budgeted positions in the department remain unchanged at 19.00 FTEs. The department has approximately \$684,000 of budgeted revenue in FY 2015, an increase of \$135,000 over the FY 2014 Budget.

Additions

Budgeted revenue for the department is increasing by \$135,000 in FY 2015 in anticipation of reimbursements from other funds for: 1) increased post issuance administration activities related to outstanding redevelopment bonds (\$60,000); 2) increased

activity in the Equipment Vehicle Financing Program (\$5,000); and 3) an increase in post issuance administration activities for Community Facilities District and Assessment District financings (\$70,000).

SUMMARY OF DEBT MANAGEMENT DEPARTMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	19.00	\$ 2,265,514	\$ 182,297	\$ 2,447,811	\$ 548,645
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages		(25,356)		(25,356)	
Vacancy Savings/Salary Reductions/Voluntary Furlough		41,975		41,975	
Fringe Benefits (Includes Retirement ADC)		(75,967)		(75,967)	
Supplies			(1,335)	(1,335)	
Contracts			737	737	
Non-Discretionary and Info Technology Adjustments			12,108	12,108	
Increased Reimbursement for Services Provided to Other Agencies/Programs					65,000
Reimbursement for Administration Services to Special District Financings					70,000
<i>Subtotal</i>	-	(59,348)	11,510	(47,838)	135,000
Mayor's Fiscal Year 2015 Proposed Budget	19.00	\$ 2,206,166	\$ 193,807	\$ 2,399,973	\$ 683,645
<i>Difference from 2014 to 2015</i>	-	\$ (59,348)	\$ 11,510	\$ (47,838)	\$ 135,000

Department Review

Department of Information Technology

The Department of Information Technology (IT) is comprised of both General Fund and non-General Fund components. The non-General Fund components includes the GIS Fund, the Information Technology Fund, the OneSD Support Fund, and the Wireless Communications Technology Fund.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Department of IT (General Fund and non-General Fund components) is \$40.9 million, a net \$3.6 million decrease from FY 2014. The decrease is mainly attributable to expenditure reductions in the General Fund and the Information Technology Fund as described in the following sections. The amount of FTEs across departments has remained relatively unchanged when compared to FY 2014. The chart below reflects the net changes from FY 2014 to each of the funds within the department.

General Fund

The Department of IT's General Fund is used to budget for the replacement of personal computers (PCs) in General Fund departments. The FY 2015 Proposed budget for the General Fund is \$500,000, a \$2.1 million decrease from FY 2014. The \$2.1 million decrease is a result of the elimination of \$2.1 million in one-time funding in the FY 2014 Adopted Budget for the replacement of General Fund department PCs. Last year, this was requirement in order to support the switch to the Windows 7 operating system. The \$500,000 remaining in the General Fund will continue to be used annually to update or replace computers that break or are aging, similar to previous fiscal years.

GIS Fund

The Geographical Information System (GIS) Fund was created to support the management of a common enterprise GIS environ-

SUMMARY OF INFORMATION TECHNOLOGY DEPARTMENT BUDGET						
	FY 2014 FTE	FY 2015 FTE	CHANGE	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
General Fund	-	-	-	2,600,000	500,000	\$ (2,100,000)
Non-General Fund						
<i>GIS Fund</i>	2.00	2.00	-	1,585,038	1,905,926	\$ 320,888
<i>Information Technology Fund</i>	39.00	39.00	-	10,233,304	9,349,652	\$ (883,652)
<i>OneSD Support Fund</i>	17.50	17.00	(0.50)	21,185,217	20,733,869	\$ (451,348)
<i>Wireless Communications Technology Fund</i>	44.76	44.76	-	8,869,368	8,421,039	\$ (448,329)
TOTAL INFORMATION TECHNOLOGY	103.26	102.76	(0.50)	\$ 44,472,927	\$ 40,910,486	\$ (3,562,441)

Department Review

ment and Applications for the City of San Diego. The operational cost of these applications is allocated on an annual basis to departments that use GIS.

The FY 2015 Proposed Budget for the GIS Fund is \$1.9 million. This is an increase of \$320,000 over FY 2014 which is mostly due to increased support and equipment for IT equipment, and an increase in contracts.

Information Technology Fund

The Information Technology (IT) Fund supports the operational budget for Department of IT staff that provide a variety of information technology related activities for the City. Departments who use IT services are assigned a budgetary allocation each year based upon their prior-year IT spending in order to reimburse the IT Fund for costs incurred to provide citywide IT support.

For the FY 2015 Proposed Budget, the IT

Fund budget is \$9.3 million, which is a decrease of about \$884,000 from FY 2014.

Significant Adjustments

Significant additions to the IT Fund include a 1.00 FTE and \$107,000 increase for an Information Systems Analyst 3 to support GIS applications. This increase is offset by the reduction of 1.00 Graphic Designer and \$81,000. The net increase to the budget is 0.00 FTE and about \$26,000. Additionally, a \$40,000 addition for SAP system and IT security training was added in order to support protection of the City's network and financial systems.

A significant reduction within the IT Fund includes a \$323,000 decrease to reflect a reduction of building maintenance expenses for a building that was transferred to the City from San Diego Data Processing (SDDPC) in FY 2014.

Additionally, a revenue adjustment of about \$417,000 was made to reflect FY 2015 revenue projections.

Funding for Email Archiving

The FY 2015 Proposed Budget includes

SUMMARY OF INFORMATION TECHNOLOGY FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	39.00	\$ 5,248,057	\$ 4,985,247	\$ 10,233,304	\$ 9,089,850
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries/Wages & Fringe Benefits Adjustments		(472,004)		(472,004)	-
One-Time Reductions & Annualizations	-		420,000	420,000	-
Info Technology Adjustments	-	-	(465,395)	(465,395)	-
Non-Discretionary Adjustments			(109,847)	(109,847)	
				-	-
Addition of Information Systems Analyst	1.00	107,469		107,469	
Reduction of Graphics Designer	(1.00)	(80,875)		(80,875)	
SAP system and IT Security Training	-	-	40,000	40,000	-
Reduction of Building Maintenance			(323,000)	(323,000)	-
Revised Revenue Adjustment	-	-	-	-	(416,532)
Mayor's Fiscal Year 2015 Proposed Budget	39.00	\$ 4,802,647	\$ 4,547,005	\$ 9,349,652	\$ 8,673,318
Difference from 2014 to 2015	-	\$ (445,410)	\$ (438,242)	\$ (883,652)	\$ (416,532)

Department Review

\$500,000 (\$255,000 General Fund) to establish an email archiving and retention policy, which represents a preliminary estimate. This is a citywide allocation via the IT services transfer that is made to the IT Fund, and staff have communicated that it is budgeted in the FY 2015 Proposed IT Fund budget.

OneSD Support Fund

The OneSD Support Fund supports staff that manage and support the City's Enterprise Resource Planning (ERP) Systems, or SAP. Revenues for this fund are collected based on an annual allocation to departments that use SAP.

The FY 2015 Proposed Budget for the OneSD Support Fund is \$20.7 million, a decrease of about \$450,000.

Significant Adjustments

Significant adjustments to expenditures are related to about \$494,000 decrease for non-discretionary expenditures such as debt decreases and IT equipment and support. Of the non-discretionary decrease, about \$311,000 decrease in debt is due to lower payments for OneSD SAP software.

Wireless

Communications Fund

This Fund supports the Communications and Network Services Division of the Department of IT which manages the service delivery for wireless communications technologies. The revenue for this fund mostly comes from the annual Wireless Communications transfer that is allocated to departments based on a variety of criteria including the amount of employees within a department, amount and types of communication equipment, and the dollar amount of expenditures in operating costs and equipment purchases. Less than 10% of the revenue also comes from external municipal agencies for the use of the public safety communications systems.

For the FY 2015 Proposed Budget, the Wireless Communications Fund is \$8.4 million, a \$448,000 decrease from the FY 2014 Adopted Budget.

Significant Additions

Significant expenditure additions include:

- \$422,000 related to the P25 Radio System project as described in the following narrative;
- \$80,000 of one-time costs to retain consultants to support the 3Cs project

SUMMARY OF ONESD SUPPORT FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	17.50	\$ 2,767,499	\$ 18,417,718	\$ 21,185,217	
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries/Wages & Fringe Benefits Adjustments	(0.50)	42,490	-	42,490	-
Non-Discretionary and Info Technology Adjustments	-		(182,835)	(182,835)	-
Debt			(311,003)	(311,003)	
Revenue Adjustment					(1,183,175)
Mayor's Fiscal Year 2015 Proposed Budget	17.00	\$ 2,809,989	\$ 17,923,880	\$ 20,733,869	\$ (1,183,175)
Difference from 2014 to 2015	(0.50)	\$ 42,490	\$ (493,838)	\$ (451,348)	\$ (1,183,175)

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which is being transitioned to City staff at the end of FY 2014; and

- \$45,000 of non-personnel expenditures to support the Enterprise Asset Management project.

The P25 Radio System total project cost estimate for FY 2015 has been updated to about \$680,000, which is budgeted within this fund. About \$422,000 of that is included for an adjustment to the Motorola maintenance contract to support the system (\$250,000), one-time expenditures for sales tax associated with the financing (\$160,000), and site fees related to maintaining P25 radio system equipment on land outside of the City (\$12,000). The remaining \$258,000 is budgeted for debt payments related to this project.

Significant Reductions

Significant reductions include a \$640,000 reduction for a non-discretionary adjustment that is largely attributable to the decrease in a debt service payment for communications equipment which expired in FY 2014.

Issues to Consider

City Website Update

During the FY 2014 Mid-Year Budget process, \$258,000 in General Funds (\$450,000 total cost) were allocated to perform a city-wide website update. The IT Department has started implementing some website updates during FY 2014, and they are currently working with the Purchasing & Contracting Department to finalize an RFP for a consultant to create a design for the website. Staff are also currently working with the Mayor's Office to potentially incorporate suggestions from open data discussions.

The department does not anticipate the need for additional funding at this time. However, the final requirements of the website update and how the project will be phased is currently under evaluation. These factors will ultimately determine if increased funding is necessary for this project.

SAP Training

In IBA Report #14-11, our office reviewed the Huron Consulting Group reports on efficiency improvements. In this review we

SUMMARY OF WIRELESS COMMUNICATIONS FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	44.76	\$ 4,993,171	\$ 3,876,197	\$ 8,869,368	
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries/Wages & Fringe Benefits		(130,961)		(130,961)	-
- Adjustment to hourly funding		15,836		15,836	
Info Technology Adjustments	-		10,174	10,174	-
One-Time Reductions/Annualizations			(250,000)	(250,000)	
Non Discretionary Adjustments			(213,580)	(213,580)	
Debt			(426,698)	(426,698)	
Expenditures to support P25 Radio System Infrastructure	-				-
- Motorola Maintenance Contract			250,000	250,000	
- Sales tax associated with P25 Radio System financing			160,000	160,000	
- Site Fees			12,000	12,000	
Regional 3Cs Network addition			80,000	80,000	
Enterprise Asset Management project support			44,900	44,900	
Other		20,000	(20,000)		-
Revised Revenue Adjustment					97,766
Mayor's Fiscal Year 2015 Proposed Budget	44.76	\$ 4,898,046	\$ 3,522,993	\$ 8,421,039	\$ 97,766
Difference from 2014 to 2015	-	\$ (95,125)	\$ (353,204)	\$ (448,329)	\$ 97,766

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identified the potential underutilization and lack of thorough SAP training as key issues based on SAP issues identified in these reports.

The City has invested approximately \$50 million in the City's ERP (Enterprise Resource Planning) System, commonly referred to as the "OneSD Project" or SAP. Given the major investment the City has made in implementing SAP technology, it is important to fully prioritize and utilize its functionality where appropriate and cost effective, and where opportunities exist for improving process efficiencies throughout the City.

Based on SAP issues identified in the Huron Reports and other issues that we identified in IBA Report #14-11, this may be an opportune time to reassess the unrealized capabilities of the City's \$50 million investment in the current SAP system. The IBA understands that SAP capabilities are best realized when 1) senior management is committed to having staff use the system to achieve process efficiencies and 2) department staff is motivated to extract and analyze their data to better understand where processes can be improved. With a better understanding of their data, departments are better able to communicate system challenges and opportunities to the City's SAP personnel for technical assistance.

There appears to be many reasons why SAP is being underutilized by departments to better evaluate workflow data and develop ideas for process efficiencies. A few of the reasons we've heard include: SAP may not be appropriate for certain functions; staff may be resistant to necessary process

changes; and competing priorities preclude evaluation of SAP capabilities. However, the most significant issue may be the lack of training to help employees sustain and build upon their knowledge of SAP as it relates to their work processes. Since the initial implementation of the SAP system, City resources appear to have been focused on keeping systems going rather than building upon and improving those systems. The City does not have a formalized training program or useful resources for employees. The IBA recommends the Council request a staff report which evaluates SAP training needs and discusses how the City could best provide employees with effective ongoing SAP training, with a focus on using the system to develop work process efficiencies within and between departments.

San Diego Data Processing Corporation (SDDPC) Dissolution

As discussed in the FY 2014 Mid-Year Budget Monitoring Report and IBA Report #14-10, the dissolution of SDDPC was completed on December 30, 2013. All assets have been transferred to the City, which included buildings, property, equipment, and cash. The assets are valued at approximately \$8.7 million and the cash received was \$9.8 million.

As part of the property transfer, the City will retain two former SDDPC buildings, which are managed by the Real Estate Assets Department (READ). It is important to note that the City is obligated to house approximately 125 third party vendor employees per their service agreement. When evaluating the potential sale of one or both of these properties, READ continues to balance any reasonable offers against the

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cost of potentially relocating these employees if one or both buildings are sold. Any revenue from the potential sale of these buildings would go to the Capital Outlay Fund per City Charter Section 77, and are restricted for use towards "the acquisition, construction, and completion of permanent public improvements".

Update Regarding Outside IT Vendors

On May 14, 2012 and June 25, 2012 the City Council approved changes to the City's vendors that provide IT services. Contracts with Atos IT Solutions & Services, Inc., CGI Technologies & Solutions, Inc., and Xerox State & Local Solutions, Inc. were approved for a five year period. With this approval, the City moved away from utilizing services from SDDPC which was dissolved as of December 2013.

Now that the IT transition is effectively complete, this may be an opportune time for the Council to request the Department of IT to provide an update regarding the successes and challenges of migrating IT services to the new vendors.

Department Review

Development Services

The Development Services Department provides review, permit, inspection, and code enforcement for private and public development projects. To effectively manage these responsibilities, the Department is divided into five primary divisions in three different funds.

- The Neighborhood Code Division administers an enforcement program to correct violations of property conditions and land use requirements.
- The Administration & Support Services, Building & Safety, and Entitlement Divisions are responsible for managing the majority of the construction and development project review services for the City.
- The Solid Waste Local Enforcement Agency (LEA) enforces federal and state laws and regulations for the safe and proper handling of solid waste.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the De-

velopment Services (DSD) Department is \$57.3 million, a decrease of approximately \$6.7 million and a decrease of 66.10 FTEs from the FY 2014 Adopted Budget.

City Planning Transfer

In FY 2012 the City Planning and Community Investments Department was dissolved, and the planning functions, including Facilities Financing, were merged into the Development Services Department. In October 2013, in an attempt to create a proactive environment, encourage greater collaboration between departments, and create opportunities for greater operational efficiencies, the City adopted several organizational changes, including transferring the Planning and Facilities Financing divisions from the Development Services Department to the new Department of Planning, Neighborhoods, and Economic Development. The Department of Planning, Neighborhoods, and Economic Development is now responsible for the long-range planning of San Diego's communities and neighborhoods.

Due to the complexity of the budget structure, the analysis of the FY 2015 Proposed

DEVELOPMENT SERVICES DEPARTMENT BUDGET SUMMARY				
DIVISION	GENERAL FUND	DSD ENTERPRISE FUND	LEA FUND	TOTAL BY DIVISION
Neighborhood Code	6,814,718			6,814,718
Administration & Support Services		18,069,449		18,069,449
Building & Safety		19,115,311		19,115,311
Entitlements		12,516,567		12,516,567
Solid Waste LEA			758,106	758,106
TOTAL BY FUND	6,814,718	49,701,327	758,106	57,274,151

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Budget in this section is organized by major funds.

General Fund

The FY 2015 Proposed Budget is approximately \$6.8 million, a decrease of 46.75 FTEs and approximately \$8.2 million from the FY 2014 Adopted Budget. Department revenues are projected to total approximately \$630,000, a decrease of approximately \$2.8 million from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- *Addition of Land Development Program Manager and Building and Housing Code Program Manager* - The FY 2015 Proposed Budget shows an increase of 2.00 FTEs (Program Managers) and ap-

proximately \$360,000 in expenditures related to re-establishing appropriate supervisory structure. The additional positions will improve management span of control and timely decision-making.

- *Support for Property Value Protection Ordinance (PVPO)* - The FY 2015 Proposed Budget includes the addition of 1.00 FTE (Zone Investigator II), approximately \$100,000 in expenditures and approximately \$93,000 in revenue to assist in the enforcement of the PVPO. In December 2012 the City adopted the PVPO requiring lenders to register defaulted and foreclosed residential properties with the City.
- *Support for the Utilities Undergrounding Program* - The FY 2015 Proposed Budget includes the addition of 2.00 FTEs (1.00 Compliance Office and 1.00 Word Processing Operator) and approxi-

SUMMARY OF DEVELOPMENT SERVICES - GENERAL FUND CHANGES NEIGHBORHOOD CODE COMPLIANCE					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	107.75	\$11,671,221	\$3,377,539	\$15,048,760	\$3,412,712
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Benefit Adjustments		(415,161)		(\$415,161)	
Non-Discretionary Adjustments			(123,161)	(\$123,161)	
Equipment/Support for Information Technology			(163,678)	(\$163,678)	
Land Development Program Manager	1.00	178,660	1,000	\$179,660	
Building and Housing Code Program Manager	1.00	178,660	1,000	\$179,660	
Utilities Undergrounding Program Enforcement Support	2.00	137,729	2,000	\$139,729	139,729
Support for Property Value Protection Ordinance	1.00	91,992	9,550	\$101,542	93,260
Reduction of Senior Zoning Investigator	(1.00)	(124,281)		(\$124,281)	
Office of Small Business Program Manager Transfer	(1.00)	(142,840)		(\$142,840)	
City Planning Transfer	(45.75)	(5,651,444)	(1,557,386)	(\$7,208,830)	(2,971,769)
Non-Standard Hour Personnel Funding	(4.00)	(156,682)		(\$156,682)	
One-time reductions and annualizations			(500,000)	(\$500,000)	(86,008)
Revised Revenue					41,900
Mayor's Fiscal Year 2015 Proposed Budget	61.00	\$5,767,854	\$1,046,864	\$6,814,718	\$629,824
Difference from 2014 to 2015	(46.75)	\$ (5,903,367)	\$ (2,330,675)	\$ (8,234,042)	\$ (2,782,888)

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mately \$140,000 in expenditures and revenue to support the Transportation and Storm Water Department in noticing and enforcing provisions of the Municipal Code. The expenses are to be fully cost recoverable from the Transportation and Storm Water Department.

- *Office of Small Business Program Manager Transfer* - The FY 2015 Proposed Budget shows a reduction of 1.00 FTE (Program Manager) and approximately \$143,000 in expenditures due to the transfer of the position to the Economic Development Division of the Planning, Neighborhoods & Economic Development Department.
- *One-Time Reductions and Annualizations* - The FY 2015 Proposed Budget includes a reduction of \$500,000 in expenditures primarily due to reductions related to one-time funding for community plan updates and special projects.

Development Services (Enterprise Fund)

The FY 2015 Proposed Budget for the Development Services Department (DSD) Enterprise Fund is approximately \$49.7 million, an decrease of 4.00 FTEs and an increase of approximately \$3.8 million from the FY 2014 Adopted Budget. Department revenues are projected to remain constant from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- *Management Reorganization* - The FY 2015 Proposed Budget includes 3.00 FTEs (Deputy Directors) and approximately \$630,000 in expenditures to manage, improve operational functions, and facilitate policy decisions in the Administrative Financial Services, Building Inspection, and Engineering sections of the Department.

SUMMARY OF DEVELOPMENT SERVICES BUDGET CHANGES (ENTERPRISE FUND)					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	430.75	\$ 34,722,363	\$ 11,193,100	\$ 45,915,463	\$ 45,581,357
Mayor's FY 2015 Proposed Budget Changes					
<i>Salaries & Benefit Adjustments</i>		3,165,223		3,165,223	
<i>Non-Discretionary Adjustments</i>			380,652	\$ 380,652	
<i>Equipment/Support for Information Technology</i>			309,412	\$ 309,412	
<i>Management Reorganization</i>	3.00	629,311		629,311	
<i>CEQA and Urban Design Transfer</i>	(7.00)	(520,668)	(190,000)	(710,668)	
<i>Supplemental Cost of Living Adjustment (COLA)</i>			11,934	11,934	
Mayor's Fiscal Year 2015 Proposed Budget	426.75	37,996,229	11,705,098	49,701,327	45,581,357
<i>Difference from 2014 to 2015</i>	<i>(4.00)</i>	<i>\$ 3,273,866</i>	<i>\$ 511,998</i>	<i>\$ 3,785,864</i>	<i>\$ -</i>

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- *CEQA and Urban Design Transfer* - The FY 2015 Proposed Budget reflects the reduction of 7.00 FTEs (Associate Planners) and approximately \$710,000 in expenditures due to the transfer of CEQA review and Urban Design responsibilities to the Planning, Neighborhoods & Economic Development Department.

Reserves

According to the City's Reserve Policy, the Development Services Department Appropriated Reserve is intended to provide financial stability during economic downturns, and may be used to meet current expenditures following an unanticipated decline in workload resulting in decreased revenues.

Based upon the Projected Reserve Balance schedule for the DSD Enterprise Fund within the City's Reserve Policy, the DSD Enterprise Fund has an Appropriated Reserve Balance goal of approximately \$2.4 million by June 30, 2015. The approximately \$2.6 million Appropriated Reserve for the FY 2015 Proposed Budget slightly exceeds the goal amount.

Issues to Consider

Fee Adjustment

In July 2009, the Development Services Department and a hired consultant completed a comprehensive review of the fees charged by Development Services for development review and inspection services. The review completed in 2009 (2009 Study) determined increases in external factors such as labor costs and overhead from the previously established rates had created in-

equities between fees and costs. The 2009 Study recommended rate adjustments to re-establish cost recoverable fees. Additionally, the adjusted fees, could be revised annually based upon an annual cost inflator at the beginning of each fiscal year for direct cost increases or decreases based on City Council approved changes in staff salary and fringe benefits costs, and on increases or decreases in direct overhead costs passed on to the Department by the Office of the Comptroller.

For the FY 2015 Proposed Budget, based on the provisions adopted upon the findings of the 2009 Study, the Department intends to propose fee increases to address increased costs related to City Council approved adjustments to fringe benefits for City staff. The proposed fee adjustments and the projected increase in revenue are not included in the FY 2015 Proposed Budget but will be presented to the City Council prior to the adoption of the FY 2015 Budget.

The Department has engaged a consultant to conduct an updated review of the current fees. The study is anticipated to be completed in mid-FY 2015.

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Environmental Services

The Environmental Services Department provides San Diego residents with properly disposed municipal solid waste; pursues waste management strategies that emphasize waste reduction and recycling; manages landfills and long-term disposal needs; oversees the management of the City’s energy programs, and explores options to increase energy independence. To manage these responsibilities, the Department is divided into four primary divisions spanning five different funds.

- The Collections Division provides refuse, recyclables, and yard waste collection service throughout the City.
- The Waste Reduction and Disposal Division is responsible for the City’s solid waste and diversion programs as well as managing the disposal operations at Miramar Landfill.
- The Energy, Sustainability & Environmental Protection Division manages programs related to energy use, sustainability, climate change and hazardous

and universal wastes.

- The Office of the Director provides administrative and regulatory support, fiscal management, and customer service support for the department.

Mayor’s FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Environmental Services Department (ESD) is \$92.4 million, a decrease of approximately \$2.2 million in expenditures and a slight increase of 0.23 FTE from the FY 2014 Adopted Budget.

ESD has a complex budget structure as shown in the table below. Due to the complexity of the budget structure, the analysis of the FY 2015 Proposed Budget in this section is organized by major fund.

Zero Waste Initiatives

In December 2013, the City Council adopted a Zero Waste objective for the City of San Diego with an initial goal of diverting 75% of waste generated in the City

ESD FY 2015 PROPOSED BUDGET EXPENDITURES						
Divisions	General Fund	Automated Refuse Container Fund	Energy Conservation Fund	Refuse Disposal Fund	Recycling Fund	TOTAL
Collection Services	\$ 31.3	\$ 0.7		\$ 0.9	\$ 16.0	\$ 48.9
Waste Reduction & Disposal	0.0			25.8	1.9	27.7
Energy Sust. & Environmental Protection	2.1		2.5	0.0	1.8	6.4
Office of the Director	1.8			4.4	2.8	9.0
TOTAL	\$35.2	\$0.7	\$2.5	\$31.1	\$22.5	\$92.0

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from landfill disposal by 2020 and a goal of Zero Waste by 2040, via the elimination of waste from landfill disposal and the diversion of recyclable materials to reprocessing into usable forms with minimal transport, energy use, and harm to society and the environment.

The Department is currently working with a consultant on developing appropriate policies, programmatic initiatives, and strategies to implement the Zero Waste objective. Additionally, the Department is developing alternative funding options to address potential expenditures related to implementing the objective and ensuring the financial stability of the ESD funds. Revenue generating opportunities are limited by the People's Ordinance. The Department anticipates presentation of the developed implementation and funding strategies in early FY 2015.

eral Fund portion of the ESD is approximately \$35.2 million, an decrease of approximately \$920,00 and a slight increase of 0.10 FTE from the FY 2014 Adopted Budget. Department revenues are projected to total approximately \$1.2 million, a slight decrease of approximately \$65,000 from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- *Transfer of Program Manager* - The FY 2015 Budget shows an increase of 0.50 FTE (Program Manager) and approximately \$93,000 in expenditures due to the reallocation of resources amongst departmental funds.
- *Transfer of Supervising Management Analyst* - The FY 2015 Proposed Budget reflects an increase of 0.23 FTE and approximately \$34,000 in expenditures related to continued restructuring effort from Managed Competition.

General Fund

The FY 2015 Proposed Budget for the Gen-

SUMMARY OF BUDGET CHANGES - GENERAL FUND (ESD)					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	137.69	\$ 13,459,722	\$ 22,710,123	\$ 36,169,845	\$ 1,259,829
Mayor's Fiscal Year 2015 Proposed Budget Changes					
<i>Salaries & Benefit Adjustments</i>		(187,349)		(187,349)	
<i>Non-Discretionary Adjustments</i>			(854,516)	(854,516)	
<i>Equipment/Support for Information Technology</i>			9,927	9,927	
<i>Program Manager Transfer</i>	0.50	93,146		93,146	
<i>Supervising Management Analyst Transfer</i>	0.23	33,517		33,517	
<i>Non-Standard Hour Personnel Adjustment</i>	(0.63)	(15,784)		(15,784)	
<i>Revenue Adjustment</i>				0	(65,115)
Mayor's Fiscal Year 2015 Proposed Budget	137.79	\$ 13,383,252	\$ 21,865,534	\$ 35,248,786	\$ 1,194,714
<i>Difference from 2014 to 2015</i>	<i>0.10</i>	<i>\$ (76,470)</i>	<i>\$ (844,589)</i>	<i>\$ (921,059)</i>	<i>\$ (65,115)</i>

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- *Non-Discretionary Adjustments* - The FY 2015 Proposed Budget includes a reduction of approximately \$850,000 related to non-discretionary expenditures. The primary drivers of the adjustments include reductions in motive usage and fleet fuel costs.
- *Revenue Adjustment* - The FY 2015 Proposed Budget includes a reduction of approximately \$65,000 in revenue due to multiple factors including reduced hazardous materials training and the expiration of an existing grant.

Energy Conservation Program Fund

The FY 2015 Proposed Budget for the Energy Conservation Program Fund is approximately \$2.5 million, an increase of approximately \$195,000 from the 2014 Adopted Budget. Department revenues are budgeted at \$2.3 million, a decrease of approximately \$65,000 from FY 2014.

Facility Condition Assessments and Alternative Energy Options

The FY 2015 Proposed Budget includes \$350,000 for expenditures related to facility condition assessments for solar opportunities and the review and development of alternative energy sources and supply options.

In FY 2014, Citywide facility condition assessments were initiated including assessing the capacity of facilities to incorporate solar energy options. With funding provided in FY 2014, it is anticipated that 58 facilities would undergo this type of evaluation in FY 2014. The FY 2015 Proposed Budget allocates \$200,000 to continue this type of facility assessment. It is anticipated that approximately 140 facilities would be able to be evaluated in FY 2015.

The FY 2015 Proposed Budget includes \$150,000 for consultant services related to the review and development of alternative energy sources and supply options.

Other Budget Adjustments

Other budget adjustments include the following:

SUMMARY OF BUDGET CHANGES - ENERGY CONSERVATION PROGRAM FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	12.60	\$ 1,608,970	\$ 742,758	\$ 2,351,728	\$ 2,319,443
Mayor's Fiscal Year 2015 Proposed Budget Changes					
<i>Salaries & Benefit Adjustments</i>		(19,680)		(19,680)	
<i>Non-Discretionary Adjustments</i>			4,797	4,797	
<i>Equipment/Support for Information Technology</i>			53,734	53,734	
<i>Facility Condition Assessments and Alternative Energy Options</i>			350,000	350,000	
<i>Program Manager Transfer</i>	(1.00)	(186,213)		(186,213)	
<i>Non-Standard Hour Personnel Adjustment</i>	1.00	(6,832)		(6,832)	
<i>Revenue Adjustment</i>				0	(65,559)
Mayor's Fiscal Year 2015 Proposed Budget	12.60	1,396,245	1,151,289	2,547,534	2,253,884
<i>Difference from 20143 to 2015</i>	-	\$ (212,725)	\$ 408,531	\$ 195,806	\$ (65,559)

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- *Transfer of Program Manager* - The FY 2015 Budget reflects a reduction of 1.00 FTE (Program Manager) and approximately \$186,000 in expenditures due to the reallocation of resources amongst departmental funds. Due to the anticipated needs within the Collection Division for several large projects such as the implementation of Zero Waste initiatives and the conversion of the fleet to compressed natural gas (CNG), 1.00 FTE from the Waste Reduction and Disposal Division in the Energy Conservation Program Fund is being reallocated to the Collection Division across several departmental funds (General Fund, Recycling Fund, and Refuse Disposal Fund).

budgeted at \$18.4 million, an increase of approximately \$650,000 from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- *Purchase of Automated Yard Waste Containers* - The FY 2015 Proposed Budget includes \$250,000 to purchase automated yard waste containers to be provided to residents in compliance with the Automated Container Policy and enable the Collection Division to continue converting manual yard waste collection routes to automated collection.
- *Transfer of Program Manager* - The FY 2015 Budget shows an increase of 0.50 FTE (Program Manager) and approximately \$93,000 in expenditures due to the reallocation of resources amongst departmental funds.
- *One-Time Reductions and Annualizations* - The FY 2015 Proposed Budget includes a reduction of \$510,000 in expenditures primarily due to the removal of one-

Recycling Fund

The FY 2015 Proposed Budget for the Recycling Fund is approximately \$22.6 million, a decrease of approximately \$700,000 and an increase of 1.27 FTEs from the 2014 Adopted Budget. Department revenues are

SUMMARY OF BUDGET CHANGES - RECYCLING FUND (ESD)					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	107.33	\$ 9,875,393	\$ 13,416,904	\$ 23,292,297	\$ 17,777,651
Mayor's Fiscal Year 2015 Proposed Budget Changes					
<i>Salaries & Benefit Adjustments</i>		26,231		26,231	
<i>Non-Discretionary Adjustments</i>			(559,959)	(559,959)	
<i>Equipment/Support for Information Technology</i>			(61,097)	(61,097)	
<i>Purchase of Automated Yard Waste Containers</i>			250,000	250,000	
<i>Program Manager Transfer</i>	0.50	93,067		93,067	
<i>Supervising Management Analyst Transfer</i>	0.31	45,201		45,201	
<i>Non-Standard Hour Personnel Adjustment</i>	(0.14)	11,872		11,872	
				0	
<i>Cost of Living Adjustment</i>			2,370	2,370	
<i>One-Time reductions and annualization</i>			(510,000)	(510,000)	
<i>Revenue adjustments</i>				0	650,000
Mayor's Fiscal Year 2015 Proposed Budget	108.60	\$ 10,051,764	\$ 12,538,218	\$ 22,589,982	\$ 18,427,651
<i>Difference from 2014 to 2015</i>	<i>1.27</i>	<i>\$176,371</i>	<i>(\$878,686)</i>	<i>(\$702,315)</i>	<i>\$ 650,000</i>

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time expenditures related the purchase of yard waste containers (\$500,000) in FY 2014.

- *Non—Discretionary Adjustments* - The FY 2015 Proposed Budget includes a reduction of approximately \$560,000 related to non-discretionary expenditures. The primary drivers of the adjustments include reductions in motive usage and fleet fuel costs.
- *Revenue Adjustment* - The FY 2015 Proposed Budget includes an increase of approximately \$650,000 in revenue primarily due to revised projections related to AB939 fees.

Capital Improvement Projects

CNG Refueling Station for Refuse and Recycling In FY 2015, the Department will allocate \$1.2 million toward the design and construction of a compressed natural gas (CNG) fueling station at the ESD Operations Station. It will service refuse and recycling vehicles that have been converted from diesel fuel or new vehicles which run on CNG. The total estimated cost for the

fueling station is approximately \$3.0 million. The Recycling Fund will contribute \$1.2 million in FY 2015 to initiate the project, with the ESD General Fund contributing \$900,000 in FY 2016 and FY 2017 to complete the project.

Refuse Disposal Fund

The FY 2015 Proposed Budget for the Refuse Disposal Fund is approximately \$31.2 million, an decrease of approximately \$760,000 and a decrease of 1.14 FTEs from the 2014 Adopted Budget. Department revenues are budgeted at approximately \$28.2 million, an increase of approximately \$362,000 from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- *One-Time Reductions and Annualizations* - The FY 2015 Proposed Budget includes a reduction of \$510,000 in expenditures primarily due to the removal of costs associated with a one-time roofing pro-

SUMMARY OF BUDGET CHANGES - REFUSE DISPOSAL FUND (ESD)					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	149.02	\$ 14,390,572	\$ 17,542,424	\$ 31,932,996	\$ 27,874,301
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Benefit Adjustments	(0.60)	(246,166)		(246,166)	
Non-Discretionary Adjustments			(89,087)	(89,087)	
Equipment/Support for Information Technology			285,816	285,816	
Supervising Management Analyst Transfer	(0.54)	(78,718)		(78,718)	
Cost of Living Adjustment			1,792	1,792	
Non-Standard Hour Personnel Adjustment		1,092		1,092	
One-Time reductions and annualization			(635,483)	(635,483)	(5,554)
Revenue adjustments				0	367,687
Mayor's Fiscal Year 2015 Proposed Budget	147.88	\$ 14,066,780	\$ 17,105,462	\$ 31,172,242	\$ 28,236,434
Difference from 2014 to 2015	(1.14)	\$ (323,792)	\$ (436,962)	\$ (760,754)	\$ 362,133

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ject at the Ridgehaven facility.

- *Revenue Adjustment* - The FY 2015 Proposed Budget includes an increase of approximately \$367,000 in revenue primarily due to a fee increase of \$3/ton on the Disposal Fee for all weighted loads delivered to Miramar Landfill, as scheduled in the Department's Five-Year Financial Outlook.

Capital Improvement Projects

South Chollas Landfill Improvements - The City has been issued a Notice of Violation by the Regional Water Quality Control Board (RWQCB) and the Local Enforcement Agency (LEA) related to ponded water and poor surface drainage at the South Chollas Landfill. The Department has submitted a Corrective Plan to the RWQCB and LEA which includes the proposed improvements as long-term solutions to preventing future violations.

The total project cost is anticipated to be approximately \$11.5 million. As the Operational Yard at the South Chollas Landfill is shared by multiple departments, a preliminary cost sharing estimate was developed and presented to each participating department. The preliminary cost estimate allocated to the Refuse Disposal Fund is approximately \$1.3 million.

Through previous actions, the Refuse Disposal Fund has allocated their share to the project and there is no anticipated fiscal impact to the fund in FY 2015 related to this project. As ESD is responsible for the landfill, ESD will lead the development of this project. The funding provided by the Refuse Disposal Fund will address the initial costs associated with the project. The General Fund allocated \$3.0 million toward

the project during the FY 2014 Mid-Year actions. Multiple funds have allocated funding to this project for the FY 2015 Proposed Budget.

- The General Fund (Transportation & Storm Water Department) has included an additional \$2.1 million (transfer) to this project in the FY 2015 Proposed Budget.
- The Water Utility CIP Fund has budgeted \$2.7 million in the FY 2015 Proposed Budget for this project.
- The (Fleet Services) Equipment Division CIP Fund has allocated \$1.7 million toward this project in the FY 2015 Proposed Budget.

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Financial Management

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Financial Management Department is approximately \$4.1 million, which is a reduction of approximately \$30,000 from the FY 2014 Budget. This reduction is due primarily to an increase in vacancy savings and fringe benefits in the department.

During FY 2014, four Supervising Budget Analyst positions were eliminated; however, personnel in these eliminated positions were placed into four newly created, unclassified, Budget Coordinator positions. The four Budget Coordinator positions are responsible for managing the coordination and development of the capital improvement and operational budgets; budget monitoring and projections; and multi-year financial forecasting. They are also responsible for developing and implementing policies such as citywide budget balancing solutions.

This action added approximately \$65,000 in personnel expenditures, which was partially offset by approximately \$60,000 in additional vacancy savings above FY 2014 Budget levels.

Additionally, there was an approximate \$21,000 decrease in energy and utilities expenses in FY 2015. This reduction was an incorrect adjustment and will be restored in the May Revision. The approximate increase of \$35,000 in information technology expenditures is due to an increase in the voice data network allocation to the Financial Management Department based on their current staffing.

SUMMARY OF FINANCIAL MANAGEMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	30.00	\$ 3,727,387	\$ 364,217	\$ 4,091,604	\$ 5,000
Mayor's Fiscal Year 2015 Proposed Budget Changes					
<i>Elimination of 4.0 Supervising Budget Development Analyst FTE's</i>	(4.00)	(335,722)		(335,722)	
<i>Addition of 4.0 Budget Coordinator FTE's</i>	4.00	400,000		400,000	
<i>Increase in Vacancy Savings</i>		(59,467)		(59,467)	
<i>Fringe Benefits (Includes Retirement ADC)</i>		(51,672)		(51,672)	
<i>Supplies</i>			165	165	
<i>Contracts</i>			(6,998)	(6,998)	
<i>Energy & Utilities</i>			(20,827)	(20,827)	
<i>Non-Discretionary and Info Technology Adjustments</i>			35,310	35,310	
<i>Other</i>		16,258	(6,561)	9,697	
<i>Subtotal</i>	-	(30,603)	1,089	(29,514)	
Mayor's Fiscal Year 2015 Proposed Budget	30.00	\$ 3,696,784	\$ 365,306	\$ 4,062,090	\$ 5,000
<i>Difference from 2014 to 2015</i>	-	\$ (30,603)	\$ 1,089	\$ (29,514)	-

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Fire-Rescue

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Fire-Rescue Department is \$217.7 million for the General Fund, a decrease of \$4.9 million from the FY 2014 Budget. The FY 2015 Proposed Budget results in a net increase of 7.75 FTEs. Budgeted revenue totaling \$26.9 million represents an increase of \$2.9 million.

The largest changes to the Fire-Rescue budget are in salary and benefit adjustments, with a net reduction of approximately \$4.4 million in total expenditures composed of an approximate increase of \$641,000 in personnel costs and an approximate decrease of \$5.0 million in fringe benefits.

Significant personnel increases include:

- A \$3.0 million increase in budgeted

overtime pay. Over half this amount is attributable to overtime increases related to new programs in the FY 2015 Proposed Budget, including \$533,000 for two additional fire academies, \$751,000 for the Skyline Temporary Fire Station, and \$527,000 to support a Fast Response Squad.

- An approximate increase of \$307,000 in budgeted vacancy savings.
- A \$700,000 increase in vacation pay-in-lieu, based on a review of prior years' expenditures. This type of pay was not budgeted in FY 2014. Actual expenditures for vacation pay-in-lieu in FY 2013 were approximately \$712,000.
- The addition of approximately \$462,000 in budget to support new lifeguard positions for the Lifeguard Division's Boating Safety Unit.

SUMMARY OF FIRE-RESCUE BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	1,165.52	\$ 189,442,458	\$ 33,236,848	\$ 222,679,306	\$ 23,966,763
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries, Wages & Fringe Benefits		(8,084,510)		(8,084,510)	
- Addition of Two Fire Academies		656,387	429,724	1,086,111	
- Skyline Temporary Fire Station Operations		751,489	200,000	951,489	
- Fast Response Squad Program		527,000	72,000	599,000	
- Addition of Lifeguard Positions for Boating Safety Unit	4.00	461,583		461,583	
- Vacation Pay-in-Lieu		700,000		700,000	
- Other Personnel Adjustments	3.75	626,390		626,390	
Non-Discretionary and Info Technology Adjustments			92,104	92,104	
Lifeguard Facility Improvement			500,000	500,000	
Other Non-Personnel Expenditures			(907,712)	(907,712)	
Transfer of Emergency Medical Services Revenue					596,156
Safety Sales Tax Revenue					124,889
One-time Reductions and Annualizations			(970,000)	(970,000)	(116,029)
SAFE Revenue					2,315,665
<i>Subtotal</i>	7.75	(4,361,661)	(583,884)	(4,945,545)	2,920,681
Mayor's Fiscal Year 2015 Proposed Budget	1,173.27	\$ 185,080,797	\$ 32,652,964	\$ 217,733,761	\$ 26,887,444
<i>Difference from 2014 to 2015</i>	<i>7.75</i>	<i>\$ (4,361,661)</i>	<i>\$ (583,884)</i>	<i>\$ (4,945,545)</i>	<i>\$ 2,920,681</i>

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- An approximate \$307,000 increase to support three additional Information Systems Analysts to maintain critical computer systems, including the Computer Aided Dispatch (CAD) system.

These increases are offset by reductions that include an approximate \$1.4 million decrease in salaried wages and a \$1.4 million decrease in termination pay annual leave.

Budgeted Revenue Adjustments

Budgeted revenue for the department is proposed to increase by approximately \$2.9 million. The revenue increase in the department is due primarily to:

- An approximate \$2.3 million increase in Service Authority for Freeway Emergencies (SAFE) revenue, the majority of which is a one-time transfer. This funding is received from SANDAG and deposited into the City's Pilot Helicopter Program Fund. The FY 2015 Proposed Budget includes a one-time transfer of \$1.9 million from the fund balance to the General Fund. Financial Management has indicated that the one-time transfer is a result of several years' worth of accumulated SAFE revenue that had not been transferred previously to the General Fund. This one-time transfer depletes the Pilot Helicopter Program Fund balance. The remaining \$375,000 of the SAFE transfer is ongoing revenue. The department anticipates continuing to receive up to \$375,000 in SAFE revenue annually over the next five years, pending renewal of a memorandum of understanding (MOU) with SANDAG.

- An approximate \$596,000 increase in the transfer of Emergency Medical Services revenue from the Fire/Emergency Medical Services Transport Fund into the General Fund.
- An approximate \$124,000 increase in Safety Sales Tax Revenue transferred into the department from the Public Safety Needs & Debt Service Fund based on an overall growth projection for sales tax. The transfer is made up of revenue remaining after debt service is paid for the Fire and Lifeguard Facilities Fund, with net revenue being split between the Police and Fire-Rescue Departments.

Emergency Medical Services Contract Administration Transfer

The FY 2015 Proposed Budget includes a transfer of 1.00 FTE Paramedic Coordinator, associated non-personnel expenditures, and revenue from the former Administration Department to the Fire-Rescue Department's Emergency Medical Services Division. Because this position is not supported by the General Fund, it is not included in the addition of 7.75 FTEs noted in the Summary of Fire-Rescue Budget Changes table.

Additions

Fire Academies

The FY 2015 Proposed Budget includes \$1.1 million to fund two additional 30-member fire academies, for a total of three 30-member academies to be held throughout the fiscal year. The budget assumes the cost of a regular single academy carried forward from the previous fiscal year. The cost

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of the additional two academies includes approximately \$656,000 in personnel costs and \$430,000 in costs for supplies and equipment. Personnel costs related to the academies include \$532,000 for instructors and other overhead costs, and \$124,000 to conduct pre-employment activities such as interview panels and physical abilities testing.

The department has expressed that the increased hiring of fire recruits associated with holding three academies in FY 2015 is intended to counterbalance the effects of sworn vacancies due to attrition. Currently, the department is experiencing 14 sworn vacancies above budgeted vacancy savings and anticipates further attrition of at least 29 sworn personnel in the remainder of FY 2014. These figures combined represent a loss of 43 firefighters in FY 2014. The primary cause of attrition has been mandatory retirements due to DROP. Of the attrition totals described above, 27 firefighters are anticipated to leave the department due to DROP in May and June 2014 alone.

The department's staffing projections for FY 2015 include the attrition of 30 firefighters. Of that number, 25 are known future retirements due to DROP. Taking into account all attrition projected between now and the end of FY 2015, the department expects to lose 59 sworn firefighter personnel during that time period. When added to the 14 sworn vacancies above budgeted vacancy savings that the department is currently experiencing, the department is projected to have a total of 73 vacancies in excess of FY 2015 budgeted levels by the end of FY 2015.

By holding three fire academies of 30 re-

cruits each in FY 2015, the department expects to add 90 sworn personnel in FY 2015. Assuming that the department would otherwise have 73 vacancies in excess of budgeted levels by the end of FY 2015, the academies could result in a net overage of 17 funded firefighter FTEs by year-end.

New sworn staff hired in excess of funded positions would reduce the department's vacancy savings, which would in effect increase overall personnel expenditures. This could be mitigated by decreased over-budget overtime costs if the new hires reduce overtime needs. It is also worth noting that the additional fire recruits will join the department at staggered intervals throughout FY 2015 and will not incur a full year of personnel costs. Fire recruits also receive a lower level of pay while they are in the academy than they do as Firefighter 2s upon graduation.

As we have mentioned in previous reports, the department's constant staffing model continues to warrant review. Ideally, this budgeting model balances over-budget personnel expenditures, including those for overtime, with budgeted vacancy savings. In actuality, however, this strategy has not yielded that desired balance. In the FY 2014 Mid-Year Report, the Fire-Rescue Department was projected to end the year \$4.1 million over budget in overtime expenditures, partially offset by \$2.6 million in salary savings.

Financial Management and Fire-Rescue have worked together since FY 2012 to more closely align the overtime and other personnel expenditures budget with actual experience. One of the results of this work that has been effectuated in the FY 2015 Pro-

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posed Budget is the addition of \$700,000 in previously unbudgeted vacation pay-in-lieu. This analysis continues as Fire-Rescue works to identify the primary drivers of overtime costs. The FY 2015 Proposed Budget includes \$26.7 million in budgeted overtime. Based on current staffing levels, the department projection for overtime costs is \$28.0 million. The addition of new fire recruits as a result of holding three fire academies in FY 2015 should reduce the department's usage of overtime.

The IBA has concerns that holding three fire academies in FY 2015 may result in the department exceeding funded sworn positions by up to 17.00 FTEs by year-end. New sworn personnel hired in excess of funded positions would reduce the department's vacancy savings, which would increase personnel expenditures beyond budgeted levels.

Skyline Temporary Fire Station Operations

The FY 2014 Mid-Year Budget Adjustments included a \$420,000 expenditure for demolition, site preparation, and related construction costs for the Skyline Temporary Fire Station. This is a critical public safety need as identified in the Citygate Report. The FY 2015 Proposed Budget includes approximately \$951,000 in personnel and non-personnel expenses for the operation of the Skyline Temporary Station. Because the station is anticipated to be completed in January 2015, this proposed expenditure would support six months of station operations. A permanent Skyline Fire Station is anticipated to open in FY 2019.

The proposed expenditure includes ap-

proximately \$751,000 in budgeted overtime pay to support the equivalent of 12.00 FTEs at the station, although no positions are added. \$200,000 is included for other safety supplies. No expenditure is budgeted for an additional fire apparatus, as the department plans to use an existing reserve engine at the site. Utilizing a reserve engine will reduce the department's reserve count by one, but will not affect the number of ready-reserve engines available to the department.

Fast Response Squad Program

The 2011 Citygate Working Group Report outlined a five-year implementation plan for addressing the City's most critical fire-rescue needs. Among the recommendations was the development of a pilot Fast Response Squad (FRS) program. The primary goal of the FRS is to improve emergency response times within geographic service area gaps identified by the Citygate Report, and to be an auxiliary support unit capable of rendering medical aid and/or initial fire-rescue incident mitigation. The FY 2015 Proposed Budget includes the addition of \$599,000 of personnel and non-personnel expenditures to implement the City's first FRS.

The FRS will consist of a unit staffed by one captain and one firefighter/paramedic per shift. During the pilot program, selected personnel will be assigned to the FRS for the entire year to provide consistency of operations and data collection for a more accurate evaluation of the program. The department has indicated that staffing of the FRS will have no service impact on existing fire stations. Vacancies created by staffing

Department Review

FRS crews will be filled on a funded overtime basis.

The proposed FRS is anticipated to be stationed in Encanto for the first six months of FY 2015 and in Liberty Station for the following six months. The department has indicated this may change based on its ability to capture enough data to accurately evaluate the program. The FRS will be staffed twelve hours a day from 8:00 a.m. to 8:00 p.m. When in service, the FRS is expected to be posted near the center of its designated response area. When out of service, the FRS will be housed at Fire Station 12, Lincoln Park / Valencia Park.

Councilman Kersey has expressed interest in exploring the possibility of a second FRS unit to be located in the area of the San Diego Zoo Safari Park. The department has indicated that staffing and equipment for a second FRS would cost an additional \$600,000 plus \$170,000 for the purchase of an additional vehicle. Procurement of the FRS vehicle would take several months.

The department has expressed that FRS units are not intended to replace the need for Fire-Rescue response using an engine or truck company for medical or other all-hazard incidents. Instead, FRS crews are intended to arrive quickly to the scene of an emergency incident and determine whether there is a need for other units to continue their response. The department has indicated that a very preliminary estimate of response time improvement that could be anticipated for FRS-response incidents is one to three minutes.

Addition of Lifeguards for Boating Safety Unit

The FY 2015 Proposed Budget includes the addition of 4.00 FTE Lifeguard 3s to increase staffing for the Lifeguard Division's Boating Safety Unit (BSU). The addition of 4.00 FTEs equates to one daily 24-hour shift at the BSU. The BSU conducts a wide variety of boating rescue and enforcement functions. The additional staffing will increase the size of BSU crews from two to three lifeguards. Currently, when the BSU responds to a rescue incident in open water, one lifeguard is deployed into the water to assist the victim while the other lifeguard remains on the vessel. The division has expressed that this exposes the sole lifeguard in the water and the victim being rescued to excessive safety risk, particularly at night. A third member of the BSU will allow for two lifeguards enter the water while one remains on the vessel.

This additional staffing was included in Year One of the Lifeguard Division Five-Year Needs Assessment as the second-highest priority need for the division.

Lifeguard Facility Improvement

A one-time non-personnel expenditure of \$500,000 is included in the FY 2015 Proposed Budget to convert the existing carpenter garage at Quivira Basin into a locker room and sleep facility for members of the Boating Safety Unit (BSU). BSU personnel are currently housed in trailers.

This expenditure was included in Year One of the Lifeguard Division Five-Year Needs Assessment as the highest priority need for the division.

Department Review

Issues to Consider

Citygate Working Group Five-Year Implementation Plan

In November 2011, the City Council approved the recommendations of the Citygate Working Group (CWG), which outlined a five-year implementation plan for addressing the most critical fire-rescue needs identified by the Citygate Report. Following the release of the CWG plan, the Fire-Rescue Department has provided annual updates to the Public Safety and Livable Neighborhoods Committee on the City's progress in implementing the components of the plan. Although FY 2015 represents "Year 4" of the CWG plan, the City is currently in the process of implementing steps identified in "Year 2."

The table below details the departmental needs identified to be addressed in the first two years of the CWG plan, with each item's corresponding estimated cost and status. Additional information is provided for the Skyline Temporary Fire Station, which was originally included in the fourth year of the CWG plan as a permanent station but has since been reclassified as a temporary station. The temporary station is anticipated to open in January 2015, with a permanent station planned for FY 2019.

The FY 2015 Proposed Budget makes progress in meeting the needs identified by the CWG plan. Both the Skyline Fire Station and the FRS pilot program are significant components of the CWG plan that are included in the Proposed Budget. Remaining

Citygate Working Group Implementation Plan - Years 1 and 2

Identified Needs	Cost	
	(In Millions)	Status
Year 1		
Adopted revised deployment (response time) measures	\$0.0	Completed
Adopt revised fire station location measures and create revised fire station CIP	\$0.0	In Process
Adopt aggregate population definitions	\$0.0	Completed
Add back (restore) the 8 browned out fire engines	\$11.5	Completed
Adopt Citygate priorities for adding needed resources	\$0.0	Completed
Review and adopt dispatch process improvements	\$0.0	In Process
Fast Response Squad Pilot Program	\$0.6	In FY 2015 Proposed Budget
Replace fire station alerting system (Phase 1)	\$1.7	In Process
Purchase Truck for East Mission Valley Fire Station 45	\$1.1	In Current CIP
Design and planning for Home Ave. Fire Station	\$2.0	DC3 Funds Anticipated in FY 2015
Year 2		
Funding for one Battalion Chief Unit	\$0.5	Not Completed
Replace fire station alerting system (Phase 2)	\$2.6	In Process
Completion of Eastside Mission Valley Fire Station 45	\$11.0	Opening July 2015
Staffing of Eastside Mission Valley Fire Station 45 for second crew	\$2.2	Opening July 2015
Construction of Home Ave. Fire Station	\$8.0	\$2.0M DC3 Funds Anticipated in FY 2015 for Design
Purchase of fire engine for Home Ave Fire Station	\$0.8	Not Completed
Design and planning for Paradise Hills Fire Station	\$0.8	Not Completed
Skyline Temporary Fire Station		
Skyline Temporary Fire Station Site Preparation	\$0.4	Funded in FY 2014 Mid-Year
Skyline Temporary Station Operations	\$1.0	In FY 2015 Proposed Budget
Total Project Costs	\$44.2	
Completed, In Process, and Proposed Project Costs	\$33.9	
Outstanding Costs	\$10.3	

Office of the Independent Budget Analyst

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needs that have not been met include items such as adding three Battalion Chief positions at cost of \$500,000 and one-time funding of \$50,000 to \$100,000 to replace Exhaust Extraction Systems (this item is not in the CWG plan but has been identified as a need by the department). The City Council may wish to consider the remaining priorities of the CWG plan when evaluating the needs of the department in FY 2015.

Lifeguard Division Five-Year Needs Assessment

The City Council approved the Lifeguard Division Five-Year Needs Assessment in March 2014. The table below details the departmental needs identified by the Needs Assessment for the first year of the plan, in priority order. FY 2015 represents “Year 1” of the plan.

Lifeguards Five-Year Needs Assessment FY 2015 Needs			
Description	Requested	Included in	
	in Five-Year Plan	Proposed Budget	Remaining Need
Year 1			
Convert Carpenter Garage at Quivira Basin to Facility for Boating Safety Unit	\$500,000	\$500,000	\$0
Add Lifeguard Positions for Boating Safety Unit	\$462,000*	\$462,000	\$0
Add Lifeguard Positions at Pacific Beach Year-Round on Weekdays	\$277,000	\$0	\$277,000
Add One Senior Management Analyst	\$124,000	\$0	\$124,000
Plan for Presumptive Medical Coverage	\$0	\$0	\$0
Lifeguard Vessel Replacement Plan	\$322,000	\$0	\$322,000
Planning for Jr. Lifeguard Headquarters & Aquatic Safety Education Center	\$0	\$0	\$0
Reclassify Motive Service Technician to Marine Mechanic	\$2,100	\$0	\$2,100
Total	\$1,687,000	\$962,000	\$725,000

*Adjusted from Five-Year Needs Assessment estimate to reflect budgeted costs.

The FY 2015 Proposed Budget provides funding for the first two priorities of the Lifeguard Division Five-Year Needs Assessment. The City Council may wish to consider the remaining priorities of the plan when evaluating the needs of the division in FY 2015.

Key Performance Measures

Based on national performance standards, a multiple-unit response of at least 17 personnel is to arrive on scene within 10:30 minutes/seconds, 90% of the time. These response times are measured from the time of the 911 call receipt in fire dispatch. The Fire-Rescue Department estimates that it will meet its multiple-unit response target 67% of the time and its first-due unit response target 69% of the time in FY 2014. The FY 2015 Proposed Budget’s expenditures for the Skyline Temporary Station and the FRS pilot program could likely increase the department’s ability to meet its performance measure goals.

A ten-year historical perspective of key performance measures for the Fire-Rescue Department is provided below.

Measure	Actual FY 2005*	Actual FY 2010	Target FY 2015
Percent of Time the First-Due Emergency Response Unit Arrives Within Department Standards	-	53%**	90%***
Percent of Time First Responder Response Time Complies With the EMS Contract Standard Citywide	-	92%	90%
Sworn firefighters per 1,000 residents	0.71	0.72	0.71

* The department has indicated that comparable data are not available for all measures for FY 2005.

** In FY 2010 the response time standard was 5:00 minutes/seconds, based on NFPA 1710 guidelines.

*** In FY 2015 the response time standard was 7:30 minutes/seconds from the time of the 911 call receipt in fire dispatch.

Department Review

Human Resources

Mayor's FY 2015 Proposed Adjustments

The Fiscal Year 2015 Proposed Budget for the Human Resources Department totals \$3.1 million in the General Fund, an increase of \$143,000 from the \$3.0 million FY 2014 Adopted Budget. The FY 2015 Proposed Budget includes 19.75 FTEs, up from 18.00 FTEs in FY 2014.

The largest changes to the Human Resources budget include the following adjustments:

- An increase in ongoing expenditures of \$130,000 for consultants to design and conduct the Management and Leadership Academies. These Academies were part of the ACOO's recommended improvements to the City's management structure—see Report to Council 13-076. On October 28, 2013 the recommendations were approved by the Council, including increased funding for the FY 2014 Budget. In FY 2014,
- An increase in funding of \$40,000 for sexual harassment prevention training licenses, as well as training for new Labor Relations staff. This training will cover labor relations and negotiations matters, including compliance with the Meyers-Milias Brown Act and other State and Federal laws.
- An increase of \$22,000 and 0.75 FTE for provisional employees and hourly man-

two Management Academies were held beginning in February and April 2014, with 34 and 35 participants, respectively. For the first Academy, Human Resources reports that impressive results were displayed in team presentations which focused on learning objectives. The second Academy is scheduled to graduate on June 5, 2014. Additionally one Executive Session (nine participants) and one Leadership Team Session including department directors (24 participants) were held in December 2013 and January 2014, respectively.

SUMMARY OF HUMAN RESOURCES BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	18.00	\$ 2,776,328	\$ 214,534	\$ 2,990,862	\$ -
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages	1.00	(10,143)		(10,143)	
Vacancy Savings/Salary Reductions/Voluntary Furlough		10,344		10,344	
Hourly Wages	0.75	21,902		21,902	
Fringe Benefits (Includes Retirement ADC)		(22,828)		(22,828)	
Consultant Services for Management and Leadership Academies			130,000	130,000	
Sexual Harassment Prevention Training Licenses and Training for New Staff			40,000	40,000	
Non-Discretionary and Info Technology Adjustments			2,054	2,054	
Other Adjustments			(28,056)	(28,056)	
<i>Subtotal</i>	1.75	(725)	143,998	143,273	-
Mayor's Fiscal Year 2015 Proposed Budget	19.75	\$ 2,775,603	\$ 358,532	\$ 3,134,135	\$ -
<i>Difference from 2014 to 2015</i>	<i>1.75</i>	<i>\$ (725)</i>	<i>\$ 143,998</i>	<i>\$ 143,273</i>	<i>\$ -</i>

Department Review

agement interns to support the City-wide Volunteer Office and the Citizens' Assistance Program.

Note that 3.00 FTEs related to the Citizens' Assistance Program are being transferred to the Human Resources Department from the dissolved Administration Department. The Citizens' Assistance Program runs the City Information Center within the City Administration Building (CAB) lobby. This program schedules the CAB lobby for displays; maintains the Internet information resource database; administers the Route Slip Tracking System for responses to public inquires, complaints and service requests (requests are routed to departments and City legislative officials as appropriate); and produces bilingual resource documents.

Also, 2.00 FTEs which provide support to the Human Relations Commission and the Citizen's Review Board are being transferred from the Human Resources Department to the Neighborhood Services Department.

Department Review

Infrastructure/Public Works

As part of the organizational restructuring in October 2013, the City established three Deputy Chief Operating Officers (DCOO) to provide a more robust executive structure and ensure maximum operational effectiveness. Our office strongly supports the addition of these positions. Addressing infrastructure issues is one of the highest priorities for the City and includes many complex components, including Asset Management and Deferred Capital. Numerous City departments are involved in infrastructure issues, and this office is vital to identifying a more comprehensive solution for addressing infrastructure.

The DCOO for Infrastructure/Public Works is responsible for overseeing the day to day operations of the Infrastructure/Public Works Branch which includes the following departments and offices:

- Environmental Services

- Office of Americans with Disabilities Act (ADA) Compliance and Accessibility
- Public Utilities
- Public Works
- Transportation & Storm Water

The Department includes 5.00 FTEs for the Office of ADA Compliance and Accessibility which was formerly the Disability Services Department.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for Infrastructure/Public Works Department is about \$1.5 million, an increase of \$918,000 from the \$627,000 budgeted in FY 2014. This is attributable to the additional of 3.00 FTEs, including 1.00 DCOO and 1.00 Executive Secretary, and 1.00 Asset Manager. The 3.00 FTEs are offset by a reduction of 0.02 for non-standard hour personnel fund-

SUMMARY OF INFRASTRUCTURE/PUBLIC WORKS BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
FY 2014 Budget	4.37	\$ 542,505	\$ 84,958	\$ 627,463	\$ 15,116
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Management Reorganization (DCOO and Executive Secretary)	2.00	\$ 424,079	\$ 10,000	\$ 434,079	\$ -
Addition of Asset Manager Position	1.00	155,325	-	\$ 155,325	103,135
General Fund Portion of SAP EAM Project	-	-	371,160	371,160	-
Non-Standard Hour Personnel Adjustment	(0.02)	2,185	-	2,185	-
Non-Discretionary Adjustment	-	-	2,113	2,113	-
Equipment/Support for Information Technology Adjustment	-	-	(5,956)	(5,956)	-
Salary and Benefit Adjustments	-	(40,787)	-	(40,787)	-
One-Time Reduction/Annualization	-	-	-	-	(15,116)
Revenue Adjustment	-	-	-	-	20,000
Mayor's Fiscal Year 2015 Proposed Budget	7.35	\$ 1,083,307	\$ 462,275	\$ 1,545,582	\$ 123,135
Difference from FY 2014 to FY 2015	2.98	\$ 540,802	\$ 377,317	\$ 918,119	\$ 108,019

Department Review

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Asset Manager

The FY 2015 Budget includes \$155,000 in PE and related NPE for 1.00 Asset Manager to support Citywide infrastructure Asset Management initiatives. In November 2013, Council Policy 800-16 on Citywide Asset Management was approved by the City Council. The Asset Manager position is critical to lead the implementation of this policy and coordinate General Fund departments Asset Management efforts, including the future implementation of SAP EAM.

Issues to Consider

General Fund Portion of SAP EAM

The Proposed Budget only provides \$526,000 (\$155,000 for an Asset Manager and \$37,000 in NPE) of the \$2.1 million that was requested for support non-Public Utilities. The Proposed Budget does not include \$1.4 million in General Fund O&M expenditures that were projected in February 2014 by the SAP EAM Project Management Office. This office is currently evaluating and finalizing the FY 2015 project budget and will provide a revised projection of additional funds needed for General Fund departments.

Financial Management anticipates receiving the updated budget information in time for inclusion in the May Revise. In addition, the Department of IT is moving \$1.1 million from the original EAM CIP project into the consolidated EAM CIP Project and this will support the General Fund departments. It is important to ensure that needed General Fund expenditures for SAP EAM in FY 2015 will be fully funded with no negative impacts to General Fund departments.

Office of ADA Compliance & Accessibility

The Office of ADA Compliance & Accessibility is responsible for ADA compliance citywide, including working to ensure that every facility, program, service, and activity operated by the City is fully accessible and usable by people with disabilities in accordance with ADA.

Mayor's FY 2015 Proposed Budget

The FY 2015 Proposed Budget for the Office of ADA Compliance & Accessibility is \$729,000 and includes 5.35 FTEs.

All cities are required to have a Transition Plan documenting noncompliant facilities/infrastructure and plans for continued progress towards retrofitting these projects. The City submitted its Transition Plan in 1997. As shown in the table below, 198 of the total 212 needed ADA projects are completed or in progress. The remaining 14 projects as well as other ADA projects are anticipated to be funded with \$4.7 million from the third deferred capital bond issuance (DC 3) funding in FY 2015.

Prioritizing ADA Projects

The general criteria for project prioritization are highest public use, locations for which the City has received an official ADA complaint from residents, and the severity of the ADA barrier. Depending on the type of asset (building, curb ramp, sidewalk, audible pedestrian signal) more detailed criteria may also be applied to determine the overall priority.

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STATUS OF ADA TRANSITION PLAN	
	Number of Facilities
Original Total Transition Plan Facilities	212
Completed	176
In Progress	22
Remaining Unfunded	14

Issues to Consider

According to staff, the biggest challenges for this Office is identifying funding for the more than \$50 million needed for ADA projects. In addition, there is significant risk and liability for the City related to ADA litigation. Staff indicated that an ongoing dedicated source of funds would allow for improved program management to mitigate ADA complaints in the public right of way as well as execution of the ADA Transition Plan as mandated by the U.S. Department of Justice.

Department Review

Library

The Library System serves the informational, educational, and recreational interests of the City through a Central Library, 35 branch libraries, and the adult literacy program (READ/San Diego). The Library System accommodates approximately 6.4 million visitors annually.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Library Department totals approximately \$45.2 million, an increase of approximately \$1.4 million and 24.59 FTEs over the FY 2014 Adopted Budget.

New Central Library

On September 28, 2013 the Library Department held the grand opening of the new Central Library. The new Central Library

increased the available library space from approximately 144,000 square feet to over 366,000 square feet, added 250 parking spaces, increased the available collection, increased the number of publicly available computers from 84 to approximately 400, co-located a Charter High School (e3 Civic High), added an auditorium, and added multiple meeting rooms including several Special Event rooms.

The Library Foundation has donated \$10.0 million toward the additional operational costs of the new Central Library, with \$2.0 million to be used annually for the first five years of operation. In addition to the funding from the Library Foundation, several new revenue sources and increases in existing revenue sources will be used to address the anticipated additional costs of operating the newer, larger facility. Incorporating

SUMMARY OF LIBRARY BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	410.93	\$ 30,495,346	\$ 13,316,571	\$ 43,811,917	\$ 4,125,753
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Benefit Adjustments		(442,434)		(442,434)	
Non-Discretionary			729,240	729,240	
Equipment/Support for Information Technology			(306,270)	(306,270)	
Addition of Library Hours	16.19	1,324,732	185,375	1,510,107	
After-School Program	6.90	422,116	79,318	501,434	
Reduction of Library Materials			(500,000)	(500,000)	
Reduction of Library Aide positions	(2.50)	(126,258)		(126,258)	
Conversion of custodian contract to City staff	4.00	224,885	(224,885)	-	
Non-Standard Hour Personnel Funding		(954)		(954)	
Mayor's Fiscal Year 2015 Proposed Budget	435.52	\$ 31,897,433	\$ 13,279,349	\$ 45,176,782	\$ 4,125,753
Difference from 2014 to 2015	24.59	\$ 1,402,087	\$ (37,222)	\$ 1,364,865	\$ -

Department Review

porated into the operation of the facility are new technologies such as Radio Frequency Identification (RFID) to assist in checking materials out and inventorying materials, and conveyor belts to assist in book returns and sorting.

The operational efficiencies are intended to mitigate incremental operating costs and allow the Department to continue to match additional operating costs with additional projected revenue. Any additional costs, contractual or personnel, are anticipated to be addressed with the current proposed funding sources. The table below is a snapshot of the additional operating costs for the new Central Library.

Expansion of Library Hours

Restoration of service hours has been a top priority of the City Council. Since FY 2012, eight service hours per week were restored to each branch library's hours of operation, and five hours per week were restored to the service hours of the Central Library. Each branch library currently has a minimum of 44 service hours per week and the Central library is operational 49 hours per

week.

The FY 2015 Proposed Budget includes the addition of 16.19 FTEs and approximately \$1.5 million in expenditures to increase each branch library's service hours by four hour per week from 44 hours per week to 48 total service hours per week; and increase the Central Library's service hours by five hours per week from 49 service hours per week to 54 total service hours per week. With the proposed increases in hours of operation, service levels for both the Central and branches will exceed those available in 2005.

In addition to the increase in core hours for the branch libraries, 12 branch libraries will increase service hours on Saturdays and Sundays (Extended Weekend Service). These branch libraries were selected based on several factors including high material circulation, access to public transportation, proximity to other facilities such as recreation centers, community need for computers, and distance to other libraries.

Currently eight branch libraries are open

New Central Library (NCL)				
	Costs		Revenue	
Position	Personnel Cost		Revenue sources	Revenue
Associate Mgmt Analyst	\$131,062		Adult Library Fines	\$37,000
IS Analyst II	\$112,144		Rents/Concessions	\$38,000
Building Services Supervisor*	\$85,324		Parking Garage Fees	\$600,000
Library Clerk	\$70,721		Meeting Room Rental	\$150,000
Librarian IV (0.50 FTE)	\$56,531		Library Foundation	\$2,000,000
Sub-total	\$455,782		Reim. from Chilled Water service**	\$94,649
			Reim. from utility service**	\$28,500
Contracts/Services	Non-Personnel Costs			\$2,948,149
Chilled Water Service	\$535,247			
Cable upgrade	\$77,250			
Utility contracts	\$454,501			
Supplies	\$321,000			
Contingency	\$325,000			
Misc Service contracts	\$780,720			
	<u>\$2,493,718</u>			
Increase costs related to NCL	\$2,949,500			

*Position will likely be lower position, resulting in lower personnel cost

**Reimbursement from Charter School for portion of service related to charter school.

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for four hours on Sundays. These eight branches will be included in the branches chosen to participate in the Extended Weekend Service. These facilities will add 0.5 hours on Sunday and three hours on Saturday.

In addition to the eight branches that currently have Sunday service hours, four branch libraries have been selected to increase Saturday hours and add Sunday service hours. These facilities currently are not open on Sunday. These facilities will add three hours on Saturday and 4.5 hours on Sunday.

The branches selected for the Extended Weekend Service will be open for 8.5 hours on Saturday and 4.5 hours on Sunday. Each council district will have a minimum of one “flagship” branch library that will incorporate the Extended Weekend Service. The “flagship” or participating branch library from each district was chosen due to the larger size of the facility, number of computers, available parking, and access to public transportation.

The total amount of service hours for the Central and branch libraries, inclusive of the additional core hours and Extended Week-

end Service will be as follows:

<u>Libraries</u>	<u>Total Hours</u>
Central Library	54 hours per week
23 Branch Libraries (no Extended Weekend Service)	48 hours per week
12 Branch Libraries (with Extended Weekend Service)	55.5 hours per week

The actual schedule of operation for all the libraries is currently being developed. Library staff has developed a preliminary schedule of operation based on observational data and surveys; however the final determination on the schedule of operation has yet to be made. The proposed schedule will include the additional hours and may recommend changing current operational hours to better match demand. The table below is based on a preliminary schedule of operation but is subject to change prior to final approval.

After-School Program

The FY 2015 Proposed Budget includes the addition of 6.90 FTEs (2.00 Librarian IIs and 4.90 FTEs non-standard hour positions) and

Proposed Library Hours of Operations						
CENTRAL LIBRARY						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
12 noon - 6:00 6	10:00 - 7:00 9	10:00 - 7:00 9	10:00 - 7:00 9	10:00 - 7:00 9	12 noon - 6:00 6	12 noon - 6:00 6
BRANCH LIBRARIES without Extended Weekend Service (23 branches)						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
closed 0	9:30 - 6:00 8.5	10:30 - 7:00 8.5	10:30 - 7:00 8.5	9:30 - 6:00 8.5	9:30 - 6:00 8.5	9:30-3:00 5.5
BRANCH LIBRARIES with Extended Weekend Service (12 branches)						
SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
12:30 - 5:00 4.5	9:30 - 6:00 8.5	10:30 - 7:00 8.5	10:30 - 7:00 8.5	9:30 - 6:00 8.5	9:30 - 6:00 8.5	9:30-5:30 8.5

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approximately \$500,000 in expenditures for a new after-school pilot program (Do your Homework @ The Library).

The program is intended to utilize library facilities (materials, technology, space) to provide afterschool homework and general learning assistance to children (elementary through middle school). The goal is to supplement current homework programs in place throughout the library system.

Department staff reviewed similar programs in other cities in considering a model for the San Diego program. In developing the Department's pilot program, the Department considered the Academic Performance Index (API) as a factor in considering which schools to include in the initial program. The API is a measurement of academic performance and progress of individual schools in California. It is a main component of the Public Schools Accountability Act passed by the California legislature in 1999. API scores range from a low of 200 to a high of 1000, with the interim statewide API performance target for all schools to be 800.

In review of the API scores for all the San Diego schools, the Department identified 18 libraries in communities where at least one school maintained an API score under the minimum target score of 800 and was in close proximity to multiple other schools. These eighteen libraries were selected to serve as the facilities included in the pilot program.

The eighteen libraries will be divided into two areas (the North area and the South area) and will include the following facilities:

<u>North Area</u>	<u>South Area</u>
College Rolando Branch	Central Library
Kensington-Normal Height Branch	North Park Branch
City Heights/Weingart Branch	Otay Mesa-Nestor Branch
North Clairemont Branch	San Ysidro Branch
Linda Vista Branch	Logan Heights Branch
San Carlos Branch	Mountain View / Beckwourth Branch
Serra Mesa-Kearny Mesa Branch	Oak Park Branch
Pacific Beach/Taylor Branch	Skyline Hills Branch
Scripps Miramar Ranch Branch	Valencia Park / Malcolm X Branch

Each area will have one assigned Learning Supervisor (Youth Services Librarian II) and each facility will be assigned one Learning Coordinator. The Learning Supervisors will oversee program operations; recruit, train and monitor performance of staff; participate in community partnerships; and perform outreach to area schools. The Learning Coordinators, with support from volunteers, will offer afterschool assistance to students with school assigned homework and class projects. It is anticipated that several of the Learning Coordinators will be bilingual at libraries serving large populations of non-English speaking residents. Department staff are developing a schedule of operation which is anticipated to include weekend hours. Preliminary plans anticipate the program to be operational 14 hours per week for 36 weeks (generally following the San Diego Unified School District calendar). During summer months, it is anticipated the Learning Supervisor positions would assist other educational and

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literacy programs.

Department staff anticipates developing the service and marketing plan, and recruiting and training staff from July 2014 through August 2014. The program is anticipated to become operational in September 2014 and the program is to be evaluated throughout the school year. Evaluation of the service delivered will be conducted through developed performance measures, surveys, and interviews with stakeholders. An evaluation of the first year of operation (September 2014—July 2015) will be presented to the appropriate boards and committees following the completion of the first year. Appropriate recommendations related to the program, such as expansion or modifications, will be discussed during the evaluation of the program.

Other Budget Adjustments

The FY2015 Proposed Budget includes the following significant budget adjustments:

- *Conversion of custodian services* - The addition of 4.00 FTEs (Custodian II positions) to convert custodian service at the Central Library from a contractual service to City staff responsibilities. Due to concerns related to maintenance standards the Department has determined it is in the best interest of the City to take over the maintenance responsibilities. The addition of personnel expenditures will be offset by a reduction in contractual services expenditures resulting in a zero impact for the FY 2015 Proposed Budget.
- *Non-discretionary Adjustments* - An increase of approximately \$730,000 in non-personnel expenditures. Primary contributors to the increase include

increases in utility costs.

- *Reduction of Library Aide II positions* - In development of the FY 2015 Proposed Budget, the Department reviewed long-term vacant positions for those that could be reduced without any service level impact. The FY 2015 Proposed Budget reflects the reduction of 2.50 FTEs (Library Aide II) as a result of this review.
- *Reduction of Library Materials budget* - A reduction of \$500,000 from the library materials budget to offset costs of implementing addition of hours citywide and the new after-school homework program. The Department anticipates access to previous stored materials from the expansion of the new Central Library will offset the demand for new materials in FY 2015. It should be noted that San Diego's books/collection budget in 2012 was \$2.48 per capita. In comparison, other benchmarked cities had a books/collection budget of \$5.22 per capita.

Issues to Consider

Citywide RFID

The new Central Library required innovative operational efficiencies in order to mitigate increased operational costs of a larger facility. The Central Library has implemented the RFID program and it has proven to be an effective tool in increasing efficiencies. The RFID technology offers enhances security, increases automation and self service capabilities, expedites inventory tasks, and leads to increased customer service.

The Department is pursuing implementing

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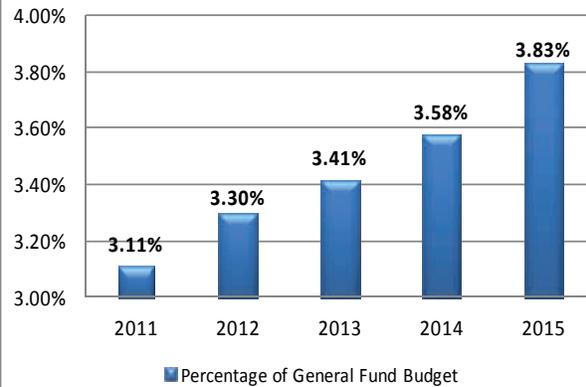
this program at several branch libraries via private donations. The Department's preliminary cost estimate for Citywide implementation of this program is approximately \$1.5 million. No City funding was allocated toward this program in the FY 2015 Proposed Budget. The Department states that phased implementation could also be a consideration.

Library Ordinance

The Library Ordinance requires the Library Department budget to be equal to no less than 6.0% of the total General Fund budget. This requirement has been waived since Fiscal Year 2004.

Based on the Mayor's Proposed Budget for FY 2015, the Library Department Budget of \$45.2 million represents approximately 3.8% of the General Fund budget. Six percent of the Proposed FY 2015 General Fund budget would result in a Library budget of approximately \$70.7 million. The Library budget as a percentage of the General Fund's budget from FY 2011 to FY 2015 is illustrated in the table above.

Library Budget as a Percentage of the General Fund Budget



Key Performance Measures

The table below reflects performance measure targets for FY 2015 in comparison to FY 2010 and FY 2005.

Measure*	Actual FY 2005	Actual FY 2010	Target FY 2015**
Attendance in the Library System	6,435,446	6,143,281	6,400,000
Central	629,671	537,794	900,000
Branches	5,805,775	5,605,487	5,500,000
Number of Hours of Operation	83,884	76,651	94,848**
Central	2,618	2,492	2,808
Branches	81,266	74,159	92,040

* All statistics based on the Annual California State Library Report unless otherwise specified.

** Based on the Mayor's Proposed Budget and availability of additional FY 2014 data.

*** Based on Library annual statistics, prior to reporting this performance measure to the State Library.

Department Review

Office of the Assistant COO

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Office of the Assistant Chief Operating Officer (ACOO) is approximately \$1.1 million, a decrease of approximately \$213,000 from the FY 2014 Budget. The Office has a net reduction of 2.00 FTE positions and \$450,000 of budgeted revenue in FY 2015.

Additions

Corporate Partnership Program

In FY 2015, the Corporate Partnership and Development Program transfers from the Office of the CFO to the Office of the ACOO. This program has a staff of 3.00 FTEs: 1.00 Program Director, 1.00 Grants Program Manager and 1.00 Associate Management Analyst. Associated program expense of approximately \$441,000 (\$380,000

of personnel expense and \$61,000 of non-personnel expense) and budgeted revenue of \$450,000 transfers into the Office of the ACOO.

The \$450,000 budgeted revenue figure is an estimate of funds to be received by the City in FY 2015 attributable to new or pre-existing corporate partnerships. A few examples of current partnerships include Sprint, Canteen and USP. After discussing expectations for the program with the Director, the IBA believes the FY 2015 revenue goal of \$450,000 is reasonable.

Executive Secretary

1.00 Executive Secretary position was added to the Office to support the ACOO.

Add/Reduction of Director Transfer

1.00 Director from the dissolving Administration Department is being transferred into the Office of the COO in FY 2015.

SUMMARY OF OFFICE OF THE ASSISTANT CHIEF OPERATING OFFICER BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	8.00	\$ 1,042,683	\$ 248,356	\$ 1,291,039	\$ -
Mayor's FY 2015 Proposed Budget Changes					
Salary/Wages & Fringe Benefits (Includes Retirement ADC)		(573,082)		(573,082)	
Vacancy Savings/Salary Reductions/Voluntary Furlough		61,489		61,489	
Supplies and Contracts			(166,663)	(166,663)	
Non-Discretionary and IT Adjustments			24,356	24,356	
				0	
Transfer in of Corporate Partnership and Development Program	3.00	380,038	60,609	440,647	450,000
Addition of Executive Secretary to Support ACOO	1.00				
Transfer in of Department Director from the Administration Dept.	1.00				0
Reduction of Department Director transferred from Administration	(1.00)				
Transfer Out of Business Office to Analytics & PM Dept.	(6.00)				0
<i>Subtotal</i>	(2.00)	(131,555)	(81,698)	(213,253)	450,000
Mayor's Fiscal Year 2015 Proposed Budget	6.00	\$ 911,128	\$ 166,658	\$ 1,077,786	\$ 450,000
<i>Difference from 2014 to 2015</i>	(2.00)	\$ (131,555)	\$ (81,698)	\$ (213,253)	\$ 450,000

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Financial Management staff informed the IBA that the Director position was added and subsequently eliminated to result in no net FTE addition.

In addition to 1.00 ACOO, 1.00 Executive Secretary and 3.00 Corporate Partnership Program positions, the Office has 1.00 unclassified Assistant to the Director position for a total of 6.00 FTEs in FY 2015. The Assistant to the Director position had been vacant until March of 2014 when it was used to hire the Mayor's Director of Council Affairs.

Reductions

The Business Office section (6.00 FTEs) is being transferred out to the new Analytics and Performance Management Department. This section works with Mayoral departments to improve the efficiency and effectiveness of the City's service delivery practices and management structures. Approximately \$998,000 of associated personnel (\$828,000) and non-personnel expense (\$170,000) transfers out to the Analytics and Performance Management Department.

Department Review

Office of the Mayor

Mayor's FY 2015 Proposed

Adjustments

The FY 2015 Proposed Budget for the Office of the Mayor is approximately \$4.1 million, an increase of approximately \$396,000 from the FY 2014 Budget. The Office has a net addition of 0.84 FTE positions. Budgeted revenue of \$308,400 remains unchanged in FY 2015.

Additions

There is a transfer in of 1.00 Mayor Representative 2 from the dissolving Administration Department. This addition is partially offset by a 0.16 FTE reduction for hourly management interns resulting in a net addition of 0.84 FTE for the Office in FY 2015.

SUMMARY OF OFFICE OF THE MAYOR BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	26.16	\$ 2,871,457	\$ 799,776	\$ 3,671,233	\$ 308,400
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages	(0.16)	109,094		109,094	
Vacancy Savings/Salary Reductions/Voluntary Furlough		(22,774)		(22,774)	
Fringe Benefits (Includes Retirement ADC)		188,105		188,105	
Supplies			165	165	
Contracts			1,894	1,894	
Non-Discretionary and Info Technology Adjustments			35,723	35,723	
Transfer in of Mayor Representative 2 from the Administration Department	1.00	83,332		83,332	
<i>Subtotal</i>	0.84	357,757	37,782	395,539	0
Mayor's Fiscal Year 2015 Proposed Budget	27.00	\$ 3,229,214	\$ 837,558	\$ 4,066,772	\$ 308,400
<i>Difference from 2014 to 2015</i>	0.84	\$ 357,757	\$ 37,782	\$ 395,539	-

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Park & Recreation

The Park and Recreation Department is responsible for overseeing nearly 41,000 acres of developed and undeveloped open space, more than 340 parks including Balboa Park, Mission Trails Regional Park, and Mission Bay Park; 26 miles of shoreline from Sunset Cliffs to La Jolla; 13 pools; 3 public golf courses; and 55 recreation centers. To address the varying responsibilities, the Department is divided into five divisions: Administrative Services; Community Parks I; Community Parks II; Developed Regional Parks; and Open Space. The Golf Fund was established within the Park and Recreation Department to solely address the golf course responsibilities.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Park and Recreation Department totals approxi-

mately \$95.7 million in the General Fund, an increase of approximately \$5.7 million and 14.24 FTEs over the FY 2014 Adopted Budget. Department General Fund revenues are projected to total \$32.2 million, reflecting a decrease of approximately \$670,000 from the FY 2014 Adopted Budget.

The Department has several other funds including the Golf Course Fund, the Los Penasquitos Reserve Fund, and the Environmental Growth Funds. When all the departmental funds are combined, the Department budget totals \$125.9 million, an increase of approximately \$7.8 million from the FY 2014 Adopted Budget.

During the FY 2012 Mid-Year Budget review, five weekly operational hours were restored for each recreation center, increasing the average weekly hours of operation for each recreation center from

SUMMARY OF PARK AND RECREATION BUDGET				
	FTE	FY 2014 BUDGET	FY 2015 PROPOSED	CHANGE
General Fund				
<i>Administrative Services</i>	17.50	\$ 2,637,403	\$ 2,968,470	\$ 331,067
<i>Community Parks I</i>	165.14	21,211,451	23,407,692	2,196,241
<i>Community Parks II</i>	233.72	21,189,110	22,921,572	1,732,462
<i>Developed Regional Parks</i>	315.65	35,117,576	35,218,870	101,294
<i>Open Space</i>	65.07	9,812,440	11,168,108	1,355,668
<i>Subtotal General Fund</i>	<i>797.08</i>	<i>\$ 89,967,980</i>	<i>\$ 95,684,712</i>	<i>\$ 5,716,732</i>
Non-General Fund				
<i>Environmental Growth Fund 1/3</i>	-	\$ 3,962,339	\$ 4,547,305	\$ 584,966
<i>Environmental Growth Fund 2/3</i>	-	8,229,966	8,869,966	640,000
<i>Golf Course Fund</i>	98.00	15,670,084	16,588,964	918,880
<i>Los Penasquitos Canyon Preserve Fund</i>	2.00	221,253	222,058	805
<i>Subtotal Non-General Fund</i>	<i>100.00</i>	<i>\$ 28,083,642</i>	<i>\$ 30,228,293</i>	<i>\$ 2,144,651</i>
TOTAL PARK AND RECREATION	897.08	\$ 118,051,622	\$ 125,913,005	\$ 7,861,383

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40 hours per week to 45 hours per week. The established 45 core weekly operational hours were continued in the FY 2014 Adopted Budget and are proposed to be maintained in the FY 2015 Proposed Budget.

Park Assets Condition/Needs Assessment

The FY 2014 Adopted Budget included approximately \$300,000 to support a park assets condition and needs assessment to be conducted by an outside consultant. In working with the Public Works Department, a consultant was selected and the study was initiated in FY 2014.

The FY 2015 Proposed Budget includes 1.50 FTEs (1.00 Park Designer and 0.50 Management Intern-hourly) and approximately \$400,000 in expenditures to continue the assessments. The original scope of work has been modified from review of only playgrounds and parking lots to assessing entire parks in order to be more cost effective. Based upon current cost estimates, it is anticipated that 30 community parks will be able to be reviewed. Community parks were chosen due to the highest use and widest variety of assets within the parks. As the assessments of the initial set of parks are completed, based upon available funding, the Department will identify an

SUMMARY OF PARK AND RECREATION BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	782.84	\$ 55,231,855	\$ 34,736,125	\$ 89,967,980	\$ 32,907,371
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Benefit Adjustments		(1,461,202)		(1,461,202)	
Non-Discretionary Adjustments			3,159,435	3,159,435	
Equipment/Support for Information Technology			45,458	45,458	
General Benefit Contribution to the Maintenance Assessment Districts			2,000,000	2,000,000	
Park Assets Condition/Needs Assessment	1.50	156,684	250,000	406,684	
Parking Lot and Park Road Repairs			300,000	300,000	
Support for Additional Open Space Acreage	1.00	78,352	53,920	132,272	
Citywide Maintenance	2.00	142,104	2,500	144,604	
Support for Brush Management			500,000	500,000	
Restoration of Overnight Camping at Kumeyaay campgrounds	1.50	121,353	18,300	139,653	40,000
Additional staff to support the expansion of Memorial Pool	3.00	87,641	40,000	127,641	
Additional staff to support additional parks and Park and Recreation properties	1.37	108,686	214,423	323,109	
Support for the Balboa Park Central Mesa	1.00	63,896	2,200	66,096	
Addition of staff to support online registration system and other IT projects	0.50	60,775		60,775	
Conversion of maintenance of several neighborhood parks to City staff	2.00				
Vacation Pay in Lieu		509,800		509,800	
One-Time Reductions and Annualizations			(783,963)	(783,963)	
Gas Tax Accounting Revision			(375,494)	(375,494)	(556,439)
Antenna Lease Fund Transfer					400,000
Reduction in Transient Occupancy Tax (TOT) Transfer					(1,587,335)
Revenue adjustment				-	1,035,507
Non-Standard Hour Personnel Funding	0.37	421,864		421,864	
Mayor's Fiscal Year 2015 Proposed Budget	797.08	\$ 55,521,808	\$ 40,162,904	\$ 95,684,712	\$ 32,239,104
Difference from 2014 to 2015	14.24	\$ 289,953	\$ 5,426,779	\$ 5,716,732	\$ (668,267)

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additional set of parks for review. The completion of the assessments will support the development of a Park System Master Plan, which was last completed in 1956.

In addition to supporting the condition assessments, the proposed Park Designer position will be responsible for contributing and providing input in the development of the citywide SAP - Enterprise Asset Management (EAM) Project currently being developed. The input provided to the SAP—EAM project will ensure the new system will incorporate the needs of the Department. No funding for non-personnel expenditures related to the SAP - EAM system has been included in the FY 2015 Proposed Budget for the Department.

Parking Lot and Park Road repairs

The FY 2015 Proposed Budget includes \$300,000 for the funding of development and/or maintenance of parking lots and roads specifically within Park and Recreation properties. The proposed funding will support the Department in developing an annual allocation toward these specific projects. Any capital projects developed within this program will be reviewed by the appropriate committee(s) such as the Park and Recreation Board and CIPRAC. The completion of the ongoing condition assessments will assist in identifying these projects and potentially allow for the inclusion of some of these projects in alternative funding opportunities such as future citywide bond financings.

Funding for new parks/facilities coming online in FY 2015

The FY 2015 Proposed Budget includes the addition of 1.37 FTEs and approximately

\$325,000 in expenditures for new park facilities anticipated to open during FY 2015 and maintenance of several properties transferred to the Park and Recreation Department. The new parks anticipated to open in FY 2015 include:

- Ed Cramer Park
- Central Avenue Mini-Park
- Cabrillo Heights Neighborhood Park (NP)
- Solana Ranch NP (formerly named Gonzales Canyon NP)
- Neighborhood park at the site of the former San Ysidro fire station

Expansion of the Memorial Pool

The FY 2015 Proposed Budget includes funding for 3.00 Hourly Pool Guard positions and approximately \$130,000 in expenditures related to expansion and re-opening of the Memorial Pool. The pool has been enlarged by 50% to accommodate more aquatic recreation activities such as high school water polo. Additionally the expansion will include a larger deck area and a children's splash play area. The renovations and additional amenities are anticipated to increase usage initially. The Department will monitor the usage and re-evaluate the necessary personnel as necessary to ensure the safety of the pool patrons. The renovations are anticipated to be completed in June 2014.

Other Budget Adjustments

The FY2015 Proposed Budget includes the following significant budget adjustments:

- *Re-engineering of Maintenance Assessment Districts (MADs)* - An increase of

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\$2.0 million related to the re-engineering of the City's MADs. The Park and Recreation Department and Planning and Economic Development Department are working on updating the Assessment Engineer's Report for all existing MADs to calculate the appropriate amount of general benefit. The increased funding represents the projected increase in the general benefit funding requirement, however the actual amount may vary. Updated information is anticipated to be provided during the annual presentation of the Assessment Engineer's Report and levy requests.

- *Restoration of Overnight Camping at Kumeyaay Campgrounds* - An increase of 1.50 FTEs (1.00 Park Ranger and 0.50 Center Director) and approximately \$140,000 in expenditures related to the year-long restoration of overnight camping at the Kumeyaay Campground within the Mission Trails Regional Park. Funding allocated during the FY 2014 Mid-Year budget actions restored the overnight camping for three months in the current fiscal year.
- *Support for Brush Management* - An increase of \$500,000 in non-personnel expenditures to partially address increased costs related to Brush Management contractual services. Brush management contractual costs have increased from \$2,051 per acre to \$5,720 per acre since the expansion of the program in 2008. The increase in funding of \$500,000 will partially offset the estimated \$924,000 (as presented in the Mayor's FY 2015 - 2019 Five-year Fi-

ancial Outlook) in additional costs related to the increase in cost per acre. Though the increase in funding will enable the Department to continue to conduct brush management, the program may not be able to continue to clear 150 acres bi-annually as performed in current service levels.

- *Staff for implementation of ActiveNet* - An increase of 1.00 FTE (Information System Analyst II) and approximately \$61,000 in expenditures to implement the ActiveNet online registration system department-wide, manage the Department's website, update the Department's Technology Plan (last updated in 2002), and several other IT projects. Currently the ActiveNet online registration system only allows for class registration at two of the City's recreation centers.
- *Support for the Balboa Park Central Mesa* - An increase of 1.00 FTE (Ground Maintenance Worker II) and approximately \$65,000 in expenditures to manage vehicular traffic and address the increased pedestrian-only areas within the Plaza de Panama. Responsibilities due to the increased pedestrian-only space include maintenance of 60 additional planters, securing furniture within the Plaza de Panama space, and trash collection that cannot be absorbed by current staff.
- *Additions for Citywide Park Maintenance* - The FY 2015 Proposed Budget includes 2.00 FTEs (1.00 Tree Trimmer and 1.00 Aquatic Technician) and approximately \$145,000 in expenditures to address park specific maintenance city-

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wide. The Tree Trimmer position will support current efforts to trim trees within park properties and the Aquatic Technician will primarily support maintenance of the Park System's thirteen pools and fountains. A citywide tree trimming contract for tree trimming within the public right of way is being pursued by the Transportation and Storm Water Department.

- *Conversion of park maintenance to City staff* - The addition of 2.00 FTEs (Ground Maintenance Workers IIs) to convert maintenance at several neighborhood parks from a contractual service to City staff responsibilities. Due to concerns related to maintenance standards and the proximity of these parks to established recreation centers (close access to needed equipment), the Department has determined it is in the City's best interest to oversee the maintenance responsibilities. The addition of personnel expenditures will be offset by a reduction in contractual services expenditures resulting in a zero impact for the FY 2015 Proposed Budget.
- *One-time reductions and annualizations* - A reduction of approximately \$780,000 in expenditures related to removal of one-time additions in the FY 2014 Adopted Budget. Primary contributors to the expenditure reduction include removal of the Balboa Park Traffic Management Plan (\$300,000) and Condition Assessment (\$250,000) expenses.
- *Non-discretionary* - An increase of approximately \$3.1 million in non-

personnel expenditures. Primary contributors to the increase include an increase of approximately \$2.0 million in water expenses and approximately \$700,000 in electricity costs.

- *Revenue adjustments* - An increase of approximately \$1.0 million in projected revenue primarily due to an increase in the transfer from the Environmental Growth 2/3 Fund (approximately \$640,000).
- *Reduction in TOT* - A reduction of approximately \$1.6 million. TOT funding serves as an offset for necessary General Fund funding. The reduction in TOT funding does not impact the Department's planned service levels.

Issues to Consider

Recreation Center Hours

The FY 2015 Proposed Budget maintains the core operational hours for each recreation center at 45 hours per week. Increasing recreation center hours has been a priority for City Council in recent years but did not appear in a majority of the City Council's Priority Memos for FY 2015. Per the Department, adding weekly hours to each recreation center would require the rebuilding of the proper organizational structure and would require the addition of specific managerial positions. The Department estimates the addition of five (5) hours to every recreation center would add approximately \$3.6 million in net expenditures.

User Fees

In FY 2013, the Park and Recreation Department engaged a consultant to assist in a

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comprehensive study of all the Department's fees, with the exception of those related to the Golf Division. Initiated in FY 2013, the study was originally intended to be completed and reviewed by the appropriate committees and City Council in FY 2014. However, due to initial delays with the consultant, the complexity of the fees, and the number of fees being reviewed, the expected completion and review for the study has been delayed into FY 2015. The FY 2015 Proposed Budget does not include any proposed fee revisions for the Park and Recreation Department pending the outcome of this study.

Environmental Growth

Environmental Growth Funds (EGFs) are projected to receive approximately \$13.3 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees received by the City, in accordance with Charter Section 103.1a. This is an increase of approximately \$1.5 million from FY 2014. The increase in revenue is attributed to an increase in natural gas prices. Additional information related to the franchise fees can be found in the Franchise Fee portion of the General Revenues Section in Volume I of the FY 2015 Proposed Budget.

The EGFs are allocated into a one-third and two-thirds portion, to reflect Charter provisions that up to two-thirds of revenues can be pledged for bonds for acquisition, improvement and maintenance of park or recreational open space.

In FY 2009 the Environmental Growth

2/3 Fund retired the 1994 San Diego Open Space Facilities District No.1 General Obligation Bonds. To the extent funds exist over and above the requirements for debt service, the Charter provides that they may be used for other purposes so long as they preserve and enhance the environment and are approved by the City Council. Since the time the bonds have been repaid in FY 2009, available revenues have been utilized to reimburse the General Fund for eligible park and open space maintenance activities.

The FY 2015 Proposed Budget for the EGFs reflects \$9.4 million budgeted to reimburse the General Fund for park expenses, with \$3.2 million budgeted for Regional Park and Open Space Maintenance which that would otherwise be funded by the General Fund. Additional funds are budgeted for reimbursement to Maintenance Assessment Districts and for transfer to the Los Penasquitos Canyon Preserve Fund.

Golf Course

The Golf Course Fund was established in 1992 to allow for revenues generated through the usage of the City's golf courses to be used for the operation and maintenance of the golf course and insulate the General Fund from exposure to potential expenses related to the City's golf courses. The Golf Course Fund maintains the three City golf courses operated by the City: Mission Bay, Balboa Park, and Torrey Pines (future site of the 2021 U.S. Open Championship).

The FY 2015 Proposed Budget for the Golf Course Fund totals \$16.6 million, an in-

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crease of approximately \$918,000 over the FY 2014 Adopted Budget. Department revenues are anticipated to decrease by approximately \$830,000 to \$17.5 million from \$18.4 million in FY 2014.

Significant Budget Adjustments

The FY 2015 Proposed Budget includes the following budget adjustments:

Revenue Adjustments

- An increase of approximately \$777,000 in revenue due to improvements in the financial environment and increased rounds at the golf courses. The revenue projections do not anticipate any increase in golf rates to achieve the of the increase in revenue.
- A decrease of approximately \$1.6 million in revenue due an anticipated three-month closure of the North Course at the Torrey Pines Golf Course for renovations.

Key Performance Measures

The table below reflects performance measure targets for FY 2015 in comparison to FY 2010 and FY 2005.

Measure	Actual FY 2005	Actual FY 2010	Target FY 2015
Number of Recreation Center Operating Hours (Excludes Visitor's Centers, Balboa Park Activity Center and Municipal Gymnasium)	113,152	117,087	128,492
Number of Park and Open Space Acres	38,890	39,902	41,656
Swimming Pool Attendance	473,453	303,200	310,000

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Personnel

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Department of Personnel totals approximately \$6.9 million, down from \$7.0 million in the FY 2014 Budget.

The number of Personnel positions increased by 0.95 FTE's, from 60.36 in the FY 2014 Budget to 61.31 in the FY 2015 Proposed Budget. FTE changes are as follows:

- Addition of 1.00 Associate Personnel Analyst to administer the bilingual retest program for the Police and Fire-Rescue Departments and the entire bilingual program for the City; and
- 0.05 FTE reduction in non-standard hourly personnel.

Additionally, there have been two computer kiosks put in place by the Personnel Department at the Employee Information Counter. The purpose of these kiosks is to enable applicants for City jobs to complete

their applications on City premises. Internet access and WiFi costs for these kiosks total \$2,000, which has been funded in the FY 2015 Proposed Budget.

During the budget process, the Personnel Department requested the following positions that were not funded. These positions were included in a memorandum sent on April 17, 2013 from the Personnel Director to Council President Pro Tem Lightner which speaks to hiring process issues and suggestions for ways to enhance the process – including the creation of a Personnel Department unit for processing new hires and reinstatement of Personnel staff support in certain City departments.

- 1.00 Information Systems Analyst II for NEOGOV administration and reporting functions. Personnel considers this position the first priority for the positions that were requested but not funded.
- 1.00 Associate Personnel Analyst for the Exam Management Division to assist with increasing recruitments and with

SUMMARY OF PERSONNEL BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	60.36	\$ 6,261,465	\$ 750,728	\$ 7,012,193	\$ 6,000
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages	0.95	43,559		43,559	
Vacancy Savings/Salary Reductions/Voluntary Furlough		30,167		30,167	
Decrease in Termination Pay - Annual Leave		(29,952)		(29,952)	
Fringe Benefits (Includes Retirement ADC)		(202,110)		(202,110)	
Non-Discretionary and Info Technology Adjustments			35,637	35,637	
Other Adjustments			8,506	8,506	
<i>Subtotal</i>	0.95	(158,336)	44,143	(114,193)	-
Mayor's Fiscal Year 2015 Proposed Budget	61.31	\$ 6,103,129	\$ 794,871	\$ 6,898,000	\$ 6,000
<i>Difference from 2014 to 2015</i>	0.95	\$ (158,336)	\$ 44,143	\$ (114,193)	\$ -

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the increased number of applications received via NEOGOV. This position is the second priority for positions that were not funded.

- 1.00 Administrative Aide II and 1.00 Payroll Audit Specialist II for the Background and Medical Services Section to support a one-stop shop for processing fingerprints, scheduling medical examinations and handling background clearance. These positions are the third priority for positions that were not funded.
- 3.00 Associate Personnel Analysts and 1.00 Supervising Personnel Analyst to reinstate the Outstation Program. These employees would be placed in certain City departments for direct support to department staff. These positions are the fourth priority for positions that were not funded.

The Personnel Department also requested increased funding of \$5,000 for staff training related to NEOGOV, which was not funded in the FY 2015 Proposed Budget.

Issues to Consider

Committee Review of the Personnel Department and the Hiring Process

Over the past year, two City Council Committees have explored issues related to vacancies and the hiring process.

On March 13, 2013 the IBA presented report 13-14 entitled “General Fund Vacancy Status” to the Budget and Finance Committee. In addition to a discussion on vacancy issues for certain General Fund departments, the report speaks to the process of filling classified City vacancies and the Per-

sonnel Department’s role in that process. Following discussion of the issues identified in the report, Council President Pro Tem Lightner agreed to examine the City’s Civil Service recruitment and hiring processes at the Rules and Economic Development (R&ED) Committee.

The IBA produced report 13-30 entitled “City of San Diego Civil Service Hiring” for the July 24, 2013 R&ED Committee’s initial discussion on the hiring process. That report included, among other topics, updated information regarding steps that the Personnel Department had recently undertaken and/or completed in order to reduce the time the Personnel Department takes in the hiring process.

The Personnel Department has indicated that Personnel staffing increases are necessary in order to continue making improvements and keep up with the increased workload, including workload increases resulting from changes in the Department’s workflow systems; an increase in the number of applications requiring review; and increases in hiring and recruitments with the recent economic recovery and the addition of new departmental positions to the City’s budget.

In the April 17, 2013 memorandum to Council President Pro Tem Lightner (which was mentioned on the previous page), the Personnel Director requested nine new positions for this purpose. One of these positions was approved in the FY 2014 budget. The remaining eight positions were requested as part of the FY 2015-2019 Five-Year Outlook process. These eight positions, as well as one additional position for

Department Review

the bilingual program, were requested during the FY 2015 Proposed Budget process. As mentioned on the first page of this section, only the bilingual program position was funded.

Lastly, the IBA released report 14-01 entitled “Civil Service Hiring Process: Vetting Internal City Issues,” which vetted City departments’ suggestions for hiring process improvements. This report was presented to the Economic Development & Intergovernmental Relations (ED&IR) Committee (formerly known as the R&ED Committee) on February 13, 2014.

Outstanding Issues from the Committee Review Process

IBA report 14-01 recommended that the City create a working group of key departments, along with the Personnel Department, for constructive dialogue and collective solutions to citywide hiring challenges.

We also recommended that Personnel staff and the working group of key departments return to the Committee on Budget and Government Efficiency by April 2014 with their initial thoughts on recommendations made in report 14-01, including the identification of any budget impacts for FY 2015.

Other recommendations included considering the following:

- Setting performance targets (Some performance indicators have been added to the budget document as outlined later in this section.)
- Expanding the utilization of NEOGOV technology
- Improving paper-based processes

- Studying the feasibility of more efficient electronic workflow processes (A working group has been created and has started evaluating issues. This working group includes Personnel, the Office of the Comptroller, Financial Management, Enterprise Resource Planning and the IBA.)
- Streamlining other processes
- Expanding resources for hiring departments
- Gathering and utilizing feedback

At the February 13, 2014 meeting, the ED&IR Committee requested that the Personnel Director report back to Committee on the feasibility and potential of the IBA recommendations. Additionally, the Committee suggested that the Personnel Director solicit input from the Civil Service Commission on the IBA recommendations, as appropriate.

The Personnel Department has told us that at this time they have no immediate plans to report back to the Committee.

Key Performance Indicators

The performance measures for the Department were are not incorporated into the FY 2014 Budget. For FY 2015, there are five performance measures:

- Number of days to issue certifications to hiring departments (without recruitment)
- Number of days to issue certifications to hiring departments when recruitment is required

Department Review

- Number of employee Performance Evaluation Training Sessions Conducted
- Number of Appointing Authority Interview Training Sessions Conducted
- Number of days classification and compensation studies conducted and completed by Classification Section

Department Review

Planning, Neighborhoods, & Economic Development

In FY 2012 the City Planning and Community Investments Department was dissolved, and the planning functions, including Facilities Financing, were merged into the Development Services Department. In October 2013, in an attempt to create a proactive environment, encourage greater collaboration between departments, and create opportunities for greater operational efficiencies, the City adopted several organizational changes, including transferring the Planning and Facilities Financing divisions from the Development Services Department to the new Department of Planning, Neighborhoods, and Economic Development.

The new Planning, Neighborhoods, & Economic Development Department is responsible for conducting long-range planning of San Diego's communities and neighborhoods and devising implementation tools so that other City departments, public agencies, and private developers can implement these long-range plans. In addition, the newly created department will plan and implement economic development programs at both the citywide and community level. The Department's work is divided into three divisions—Long-Range Planning, Environmental & Resource Analysis, and Economic Development which includes Facilities Financing. However, the FY 2015 Pro-

SUMMARY OF PLANNING, NEIGHBORHOODS, & ECONOMIC DEVELOPMENT BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
City Planning (General Fund)					
Approved FY 2014 Budget	-	\$ -	\$ -	\$ -	\$ -
Mayor's FY 2015 Proposed Budget	62.08	7,563,804	1,800,933	9,364,737	3,831,968
<i>Difference FY 2014-2015</i>	<i>62.08</i>	<i>\$ 7,563,804</i>	<i>\$ 1,800,933</i>	<i>\$ 9,364,737</i>	<i>\$ 3,831,968</i>
Economic Development (General Fund)					
Approved FY 2014 Budget	46.00	\$ 5,185,404	\$ 7,759,218	\$ 12,944,622	\$ 8,245,963
Mayor's FY 2015 Proposed Budget	48.70	5,158,538	8,244,974	\$ 13,403,512	8,516,363
<i>Difference FY 2014-2015</i>	<i>2.70</i>	<i>\$ (26,866)</i>	<i>\$ 485,756</i>	<i>\$ 458,890</i>	<i>\$ 270,400</i>
Facilities Financing Fund					
Approved FY 2014 Budget	-	\$ -	\$ -	\$ -	\$ -
Mayor's FY 2015 Proposed Budget	16.35	1,891,429	401,483	\$ 2,292,912	292,912
<i>Difference FY 2014-2015</i>	<i>16.35</i>	<i>\$ 1,891,429</i>	<i>\$ 401,483</i>	<i>\$ 2,292,912</i>	<i>\$ 292,912</i>

Department Review

posed Budget presents three budgeted divisions:

- City Planning (Long-Range Planning and Environmental & Resource Analysis)
- Economic Development
- Facilities Financing Program

With the exception of Facilities Financing which is an internal service fund, the Department is funded by the General Fund. The City Planning Division and Facilities Financing are shown as transfers from the Development Services Department.

City Planning

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget includes

\$9.4 million which is a 12% increase from the \$8.4 budgeted for City Planning when it was in Development Services in FY 2014. In addition, the FY 2015 Proposed Budget includes 62.08 FTEs, a 22.0% increase over the 50.75 FTEs included in the FY 2014 Adopted Budget. Major adjustments shown below include the transfer of 45.75 City Planning positions from Development Services. The Proposed Budget also includes a transfer of 7.00 Associate Planners positions, which are currently vacant from Development Services.

2.00 of the 7.00 FTEs will perform Urban Design elements for CPUs and design guidelines for transit-oriented development specific plans. In addition, these positions will provide public and private project review and guidance to City departments, external applicants, and community groups related to urban design principles and practices. This

SUMMARY OF CITY PLANNING BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
FY 2014 Budget	-	\$ -	\$ -	\$ -	\$ -
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Management Reorganization for Planning Department	1.00	\$ 504,883	\$ -	\$ 504,883	
Transfer of City Planning Division from Development Services	45.75	5,651,144	1,557,386	7,208,830	2,971,769
Transfer of CEQA & Urban Design staff from Development Services	7.00	710,668	-	710,668	
Transfer of Civic & Urban Initiatives	6.00	589,730	336,762	926,492	
Base Budget Adjustment	-	11,000	(11,000)	-	
Reduction of Civic and Urban Initiatives	(4.00)	364,635	336,762	(701,397)	
Addition of Staff to Support CPUs	2.00	203,049	1,850	204,899	
Addition of Historic Resources Planner	1.00	101,524	925	102,449	102,449
Addition of Word Processing Operator and Offsetting Reduction	1.00	64,492	(62,075)	2,417	
Non-Standard Hour Personnel Adjustment	2.33	91,649	-	91,649	
Non-Discretionary Adjustment	-	-	142,549	142,549	-
Equipment/Support for Information Technology Adjustment	-	-	171,298	171,298	-
Revenue Adjustment	-	-	-	-	757,750
Mayor's Fiscal Year 2015 Proposed Budget	62.08	\$ 7,563,804	\$ 1,800,933	\$ 9,364,737	\$ 3,831,968
Difference from FY 2014 to FY 2015	62.08	\$ 7,563,804	\$ 1,800,933	\$ 9,364,737	\$ 3,831,968

Department Review

will provide an enhanced urban design capacity for the City which is now either being done by consultants or not done at all.

The remaining 5.00 FTEs transferred from Development Services are California Environmental Quality Act (CEQA) positions dedicated to perform environmental review of CPUs and other projects and plans, all CIP projects, and other City-initiated projects. These positions will also regularly update the City's significance threshold, provide training, and coordinate with other departments and outside entities, and are intended to improve the City's environmental review process for both public and private development. Note that Development Ser-

vices will continue to provide environmental review until Planning has filled the 5.00 CEQA positions.

City Planning is also getting an addition of 2.00 Associate Planners to increase the Department's capacity for CPUs and community group support.

Status of CPUs

The table below shows the status of completed, ongoing, and planned CPUs and major focused amendments for transit-oriented development projects. It is anticipated that all ten updates currently underway will be completed by the first half of FY 2016. Capacity for City Planning to begin additional plan updates will be available in

STATUS OF PLAN UPDATES		
Plan	Council Adoptions Actual/Planned	Fiscal Year
San Diego River Park Master Plan	May 2013	2013
Housing Element Update	March 2013	2013
Barrio Logan CPU	July 2013	2014
Bicycle Master Plan	December 2013	2014
Otay Mesa CPU	March 2014	2014
Ocean Beach	June 2014	2014
General Plan Amendments	September 2014	2015
Grantville Master Plan	September 2014	2015
Chollas Triangle (focused plan amendment)	December 2014	2015
Southeastern CPU	May/June 2015	2015
Encanto (new plan)	May/June 2015	2015
Uptown	Summer/Fall 2015	2016
North Park	Summer/Fall 2015	2016
Golden Hill	Summer/Fall 2015	2016
Old Town	Summer/Fall 2015	2016
Midway - Pacific Highway	Summer/Fall 2015	2016
San Ysidro	Summer/Fall 2015	2016
Clairmont (focused plan amendment is phase I) - Morena Transit-Oriented Development Plan	Phase I now ending Phase II is beginning with completion anticipated in December 2015	2016
Clairmont - Balboa Station Area Plan	Grant submittal pending to fund plan	TBD

Department Review

FY 2016. The prioritization of which CPUs will be updated next will be vetted by the Mayor's office and City Council. City Planning staff indicated that they anticipate beginning the Mission Valley CPU in January 2015 with existing staff. Additionally, there is a great need to update the University City Community Plan due to transportation phasing requirements in the current plan.

Civic and Urban Initiatives

The FY 2015 Proposed Budget also includes a reduction of 4.00 FTEs and approximately \$702,000 of related PE and NPE for Civic and Urban Initiatives. Staff indicated that this program was eliminated so that more resources could be devoted to CPUs. The Lab's civic engagement efforts will be continued by the Long-Range Planning Division. Its efforts at small-scale neighborhood design interventions will most likely be continued by community and other groups outside of the City government. Finally, the Mayor's office is currently assessing how to carry on with the anticipated university partnerships.

Issues to Consider

The Need for a Traffic Engineer

The Department requested 1.00 FTE and approximately \$103,000 to add an Assistant Traffic Engineer to assist with the Mobility section's increased workload and responsibilities. However, this position was not included in the FY2015 Proposed Budget. Technical expertise is needed to conduct travel forecasts and traffic modeling which is critical for plan updates. This has caused a bottleneck for moving forward with grants, such as Chollas Triangle and the North Bay Urban Greening Plan among others, as well as causing delays to CPUs and amendments.

Planning risks losing awarded grant funding if it is unable to meet deadlines.

Lack of Any Administrative Support

Aside from an executive assistant for the Director, City Planning currently lacks administrative support. Staff indicated that a Senior Management Analyst is needed to provide administrative support and fiscal oversight for the CPU and grant programs. Planning is currently managing 10 CPUs and 29 grant projects. The impact of not including this position in the Proposed Budget is that planners must continue to perform fiscal, analytical, and administrative tasks that could be done at a lower cost and with more expertise by a Senior Management Analyst.

Economic Development

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Economic Development Division is approximately \$13.4 million, an increase of approximately \$459,000 from the FY 2014 Budget. The Division has a net addition of 2.70 FTE positions. Budgeted revenue has been increased by approximately \$270,000.

Additions

OSB Program Manager

There is a transfer of 1.00 Program Manager (Small Business Ambassador) from the Development Services Department to the Office of Small Business (OSB) section of Economic Development. Although this employee has worked in OSB for several years,

Department Review

the position has been technically budgeted in DSD. The transfer from DSD correctly budgets the position within the Economic Development Division.

Community Development Coordinator

1.00 Community Development Coordinator (CDC) position is being added to the HUD Programs Administration (HPA). The position will manage the compliance and monitoring section of HPA. Staff notes that compliance staff reduce the City's liability for misappropriation of federal funds and also respond to important requests from elected officials and the public. The position will be entirely reimbursable from CDBG funds allocated to the City. HUD prefers their grant recipients spend approximately 20% of the funding allocation on planning and administrative activities. Staff indicates their FY 2015 budget will keep them close to HUD's preferred 20% level.

CONNECT2Careers Program

CONNECT2Careers San Diego provides meaningful summer work experiences that prepare young adults for in-demand jobs. The FY 2015 Proposed Budget allocates \$200,000 of NPE to this program. The Economic Growth Services (EGS) section of Economic Development will administer the contract with the San Diego Workforce Partnership (SDWP). SDWP manages the CONNECT2Careers program.

Maintenance Assessment Districts

The City has two categories of Maintenance Assessment Districts (MADs). Economic Development oversees and facilitates "self-managed" MADs where assessed property owners select an outside organization to provide/procure services and administer their MAD. The City's other category of MADs are administered by the Park & Recreation Department. Assessment Engineers are currently reviewing all of the City's

SUMMARY OF ECONOMIC DEVELOPMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	46.00	\$ 5,185,404	\$ 7,759,218	\$ 12,944,622	
Mayor's FY 2015 Proposed Budget Changes					
Salary & Wages	0.70	27,826		27,826	39,486
Vacancy Savings/Salary Reductions/Voluntary Furlough		(18,818)		(18,818)	
Fringe Benefits (Includes Retirement ADC)		(313,259)		(313,259)	
Supplies			330		
Contracts			69,900		
Non-Discretionary and IT Adjustments			155,526	155,526	
Transfer of Program Manager from DSD to support OSB	1.00	142,840			
Addition of CDC for HUD Programs compliance and monitoring	1.00	134,545			134,545
Addition of NPE for CONNECT2Careers Program			200,000	200,000	
Transfer of NPE to PD for HOT & Serial Inebriate Programs			(160,000)	(160,000)	
Addition of NPE for increased General Benefits to MADs			220,000	220,000	
One-Time Revenue Adjustments					(121,307)
Other Revenue Adjustments					217,676
<i>Subtotal</i>	2.70	(26,866)	485,756	111,275	270,400
Mayor's Fiscal Year 2015 Proposed Budget	48.70	\$ 5,158,538	\$ 8,244,974	\$ 13,403,512	\$ 270,400
Difference from 2014 to 2015	2.70	\$ (26,866)	\$ 485,756	\$ 458,890	\$ 270,400

Department Review

MADs to determine appropriate assessment allocations—which include “special benefit” assessments to benefitting property owners and “general benefit” expenditures by the City.

The FY 2015 Proposed Budget adds \$220,000 of NPE for projected general benefit increases in the City’s self-managed MADs. Once the Assessment Engineer’s Reports have been finalized and general benefit assessment amounts are known, these funds will be transferred from Economic Development’s operating budget into the various MAD funds.

Issues to Consider

The FY 2014 Budget included \$1.9 million in General Fund funding to extend the operations of the Single Adult Emergency Winter Shelter and the Veterans Shelter. As recommended by then Interim Mayor Todd Gloria in February 2014, the FY 2015 Proposed Budget includes the same level of General Fund funding as FY 2014 however the funds are being redirected towards outcome-focused services and critical program enhancements that are intended to result in the most effective use of resources and a coordinated system. The \$1.9 million allocation remains in the Economic Development Division’s budget as they will continue to have administrative oversight responsibility for the deployment of these funds to the following seven programs (more information can be found on pages 50-52 of Volume I of the FY 2015 Proposed Budget):

1. Enhanced Single Adult Winter Shelter and Veterans Winter Shelter (\$800,000)
2. Coordinated Assessment, Coordinated Entry, and Homeless Management Infor-

mation (\$400,000)

3. Serial Inebriate Program (SIP) Expansion (\$120,000)
4. Neil Good Day Center Service Enhancement (\$80,000)
5. Homeless Outreach Team (HOT) Enhancement (\$40,000)
6. Homeless Transition Storage Facility (\$150,000)
7. Connections Housing Downtown Gap Funding (\$300,000)

Economic Development will transfer \$160,000 of the total funding to the Police Department who already administer the SIP and HOT programs. The HPA section of Economic Development will manage a contract with the Housing Commission for the other five programs. The IBA understands that an updated Memorandum of Understanding (MOU) with the Housing Commission is currently being prepared and anticipated to be ready for Council consideration in June of 2014.

Regarding the sufficiency of the proposed funding to achieve the intended objectives, the homeless shelter allocation of \$800,000 (combined with other funding sources including ESG, CDBG and Housing Commission Funding) is anticipated to be sufficient to operate the shelters from December through March. For the Connections Program, there is an identified budget gap of \$400,000. The \$300,000 allocation is to be used, in part, to pursue private fundraising and public grants to address the gap in operating funds.

As noted above, a proposed MOU with the

Department Review

Housing Commission for five of these programs is currently under development. When the MOU comes before the Council in June, the IBA recommends that the Council ask Housing Commission and Economic Development staff about the sufficiency of the budgeted funds, and other sources of revenue that may be available, to achieve the desired objectives for each of these programs. This will enable the Council to discuss/address fiscal limitations or better manage expectations for each of the identified programs.

Facilities Financing administers the Facilities Benefit Assessment (FBA) and Development Impact Fee (DIF) Programs for the City. A core function of the program is updating the 45 Public Facilities Financing Plans (PFFP) associated with community plans and managing the Capital Improvement Program budget for PFFPs.

Facilities Financing

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget includes \$2.3 million, an increase of \$200,000 over the \$2.1 million budgeted in FY 2014 when the program was located within Development Services. The Proposed Budget includes 16.35 FTEs and \$1.9 million in PE and 401,000 in NPE. Major adjustments to the FY2015 Budget include a transfer of 15.00 FTEs staff from Development Services, including \$1.8 million in expenditures and \$2.1 million in revenue. 1.00 Senior Civil Engineer has been added in the FY 2015

Proposed Budget with associated costs of approximately \$178,000 and equivalent revenue.

Charges for Services

Since Facilities Financing is an internal service fund, budgeted revenue of \$2.3 million equals budgeted expenditures. Facilities Financing generates revenue based on charging PFFP communities for the staff time and NPE spent on maintaining and/or updating the PFFPs. In order to account for staff time, an administrative fee is included in the impact fees that are assessed in each PFFP.

FBA fees are determined based on a cash flow methodology and include a administration line item for FBA administration which varies depending on the complexity of the FBA, development activity, and whether a PFFP is projected to be updated during the year (range \$25,000-150,000). The cash flow also incorporates an inflationary factor tied to the annual CCI-Los Angeles and an interest factor to project interest earnings. Any unexpended administrative funds are used for capital projects within the scope of the PFFP.

The administrative fee that is incorporated in DIF rates is 8%, and is in addition to the calculated rate for infrastructure needs. The DIF is subject to an automatic inflator based on the annual (March to March) increase in the CCI-Los Angeles. Any unexpended administrative funds are used for capital projects within the scope of the PFFP.

Staff charges its time for its reviews of building permit applications and assessing fees. In negotiating reimbursement agreements with developers, the applicant is required to open a deposit account that staff

Department Review

can charge against while preparing the agreement.

PFFP Updates

Nine PFFPs have been completed in FY 2014:

- Carmel Valley
- Barrio Logan
- East Elliott
- Rancho Bernardo
- Otay Mesa Nestor
- Mira Mesa
- Rancho Penasquitos
- College Area
- Otay Mesa

Three PFFPs (Downtown, Mid-City and Ocean Beach) are ongoing, and Facilities Financing plans to conduct about 16 PFFP updates in FY 2015-2016. Nine of these planned updates are related to CPUs.

Issues to Consider

Identifying Funding for Infrastructure

Facilities Financing staff told us that their biggest challenge every year is identifying funding to construct needed infrastructure. In particular, DIF communities (those that are at or near build out) collect impact fees on infill or revitalization efforts which generally provides less than 10% of the funding needed for identified public facilities. DIF is collected upon building permit issuance and can be used to fund community Police, Fire, Library, Park & Recreation, and Transportation facilities. In contrast, FBA communities

that are relatively early in their planned development have an FBA that provides up to 100% of funds for public facilities projects identified in the community's Public Facilities Financing Plan. At the time of building permit issuance, the owner of the parcel being developed is assessed a fee that is determined by the type and size of the development and based on the FBA Fee Schedule. The FBA fee schedule is projected based on anticipated development, among other things. Given the economic downturn over previous years, FBA revenue has been less than anticipated which has resulted in a delay in funding PFFP.

Department Review

Police

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Police Department is \$417.3 million for the General Fund, a decrease of \$1.2 million from the FY 2014 Budget. The FY 2015 Proposed Budget results in a net increase of 58.73 FTE. Budgeted revenue totaling \$44.6 million represents an increase of approximately \$464,000.

The largest changes to the Police budget are in salary and benefit adjustments, with a net reduction of approximately \$1.4 million in total expenditures composed of an approximate increase of \$1.5 million in personnel costs and an approximate decrease of \$2.9 million in fringe benefits.

Significant personnel increases include:

- An total increase of approximately \$1.2

million in salaries and wages, composed of an increase of \$714,000 in salaried wages and a reduction of \$505,000 in budgeted salary savings.

- A \$1.8 million increase in vacation pay-in-lieu, based on a review of prior years' expenditures. This increase brings the total Proposed Budget for this item to approximately \$3.7 million. Actual expenditures for vacation pay-in-lieu in FY 2013 were approximately \$3.9 million.
- An approximate increase of \$300,000 in hourly pay.
- An approximate increase of \$100,000 in specialty pays.

These increases are offset by reductions that include decreases of approximately \$1.2 million in termination pay annual leave and \$700,000 in budgeted overtime. It is worth noting that in the FY 2014 Mid-Year

SUMMARY OF POLICE DEPARTMENT BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	2,528.79	\$ 354,141,318	\$ 64,401,594	\$ 418,542,912	\$ 44,102,071
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries, Wages & Fringe Benefits		(7,091,553)		(7,091,553)	
- Police Academy Recruits	34.33	3,801,581	244,409	4,045,990	
- Addition of Civilian Positions	17.00	1,396,470	35,984	1,432,454	
- Non-Standard Hour Personnel Funding	8.40	336,997		336,997	
- Addition of Assistant Police Chief	1.00	290,455		290,455	
- Reduction of Police Code Compliance Officers	(2.00)	(170,530)		(170,530)	
Police Retention Program			3,200,000	3,200,000	
Body Worn Cameras			1,000,000	1,000,000	
Non-Discretionary and Info Technology Adjustments			(1,983,603)	(1,983,603)	
Other Non-Personnel Expenditures			1,446,413	1,446,413	
Parking Citation Revenue					1,127,409
Safety Sales Tax Revenue					124,889
Revised Revenue					(788,061)
One-Time Reductions and Annualizations			(3,742,505)	(3,742,505)	
Subtotal	58.73	(1,436,580)	200,698	(1,235,882)	464,237
Mayor's Fiscal Year 2015 Proposed Budget	2,587.52	\$ 352,704,738	\$ 64,602,292	\$ 417,307,030	\$ 44,566,308
Difference from 2014 to 2015	58.73	\$ (1,436,580)	\$ 200,698	\$ (1,235,882)	\$ 464,237

Office of the Independent Budget Analyst

April 2014

Department Review

Report, the Police Department was projected to end the year \$4.5 million over budget in overtime expenditures, offset partially by \$4.2 in salary savings.

Budgeted Revenue Adjustments

Budgeted revenue for the department is proposed to increase by \$464,000. The revenue adjustments include the following:

- An approximate \$1.1 million increase in parking citation revenue. In the current fiscal year, the department has experienced a comparable increase in this revenue. The FY 2014 Mid-Year Report included a projected increase of approximately \$1.0 million in parking citation revenue. The department has indicated that the increase is due primarily to two factors. First, the elimination of the mandatory furlough requirement for the Parking Enforcement Officers has allowed them to work more hours and write more citations. Second, the department has experienced an overall increase in the value of citations issued. As discussed later in this Department Review, this increased revenue projection does not assume any increase related to the enforcement of the Neighborhood Parking Protection Ordinance (NPPO).
- A \$125,000 increase in Safety Sales Tax revenue transferred into the department from the Public Safety Needs & Debt Service Fund based on an overall growth projection for sales tax. The transfer is made up of revenue remaining after debt service is paid for the Fire and Lifeguard Facilities Fund, with net revenue being split between the Police

and Fire-Rescue Departments.

Additions

Police Academy Recruits

The FY 2015 Proposed Budget includes approximately \$2.9 million to support the addition of 36 police academy recruits by increasing the size of each of the department's four academies by 9, from 34 to 43 recruits per class. Due to the timing of the academies, the new recruits will have a fiscal impact of 18.00 FTE. The \$2.9 million increase includes both personnel and non-personnel expenditures associated with adding the police academy recruits.

The FY 2014 Proposed Budget also includes the addition of 9.00 FTE and approximately \$1.2 million in additional expenditures associated with the addition of 9 Police Officer 2s to the May 2014 police academy. This increase to the academy size was approved and partially funded in the FY 2014 Mid-Year Budget Adjustments.

The increase in police academy size from 34 to 43 recruits in FY 2015 represents a significant step in meeting the department's sworn staffing goals outlined in the Police Department Five-Year Plan. The most recent update to the department's Five-Year Plan was adopted by the City Council in November 2013.

The table below illustrates the projected impact of increased academy hiring on the department's staffing levels, when counterbalanced by anticipated attrition. The table shows the effect of increased hiring in the context of meeting one of the primary goals of the Five-Year Plan, which is to return the department's sworn staffing to FY 2009

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budgeted levels. The table assumes an ongoing police academy class size of 43 recruits for FY 2015 as presented in the Proposed Budget. This projection also includes an anticipated sworn attrition rate of 9.0 officers per month, which both the Police Department and Financial Management have indicated is an accurate estimate based on recent trends and known future retirement dates.

The table below, based on data provided by the Police Department, indicates that the proposed increases to police academy hiring, if continued each year, could result in the department meeting its sworn staffing goal in July 2018 instead of April 2027.

Effect of Academy Hires on Budgeted Sworn Staffing Goal of 2128 Officers*		
Budgeted Staffing by Date	43 Recruits Per Academy	34 Recruits Per Academy
July 2015	1974	1923
July 2016	2029	1946
July 2017	2081	1968
July 2018	2131	1989
July 2019		2009
July 2020		2027
...		...
April 2027		2128

*Assumes attrition of 9 officers per month.

Although the FY 2015 Proposed Budget includes the addition of \$2.9 million in personnel and non-personnel expenditures to support increased academy hiring, the overall net increase to department salaries and wages is \$1.5 million as described earlier.

While not all of the added positions will be filled at the start of FY 2015, the department will nonetheless grow significantly

during the fiscal year. In addition to adding 36 police recruits in future academies, the department has already added personnel expenses for 9 recruits carried over from the FY 2014 budget for the recruits who started in the May 2014 academy. Additionally, the FY 2015 Proposed Budget includes the addition of 17.00 FTE civilian positions, described in greater detail below.

The IBA has concerns that the increases in sworn and civilian staffing levels in the FY 2015 Proposed Budget may result in the department exceeding budgeted resources for personnel expenditures.

Addition of Civilian Positions

The FY 2015 Proposed Budget includes the addition of 17.00 FTE civilian positions and a related expenditure of approximately \$1.4 million in personnel and non-personnel costs. The 17.00 FTE include 8.00 FTE for Police Investigative Service Officer (PISO) positions. The remaining 9.00 FTE positions include administrative and investigative staff.

The addition of 17.00 FTE civilian positions will assist the department in meeting its civilian staffing goals as outlined in the Police Department Five-Year Plan. While the plan called for adding 20.00 FTE civilian staff per year, and the department requested 24.00 FTE for this purpose in FY 2015, the department has expressed its satisfaction with adding 17.00 FTE civilian positions in FY 2015.

Prior to FY 2010, the Police Department had two civilian position classifications that assisted sworn officers in investigative and lower-priority crime response duties. These included 49 Police Service Officers (PSOs)

Department Review

and 22 Police Investigative Assistants (PIAs). All of these positions were eliminated in the FY 2010 Budget. The table below gives a historical perspective of the changes in budgeted staffing levels for Police Department sworn and civilian personnel in FY 2010 through FY 2014, and proposed for FY 2015.

Police Budgeted Staffing Levels Since FY 2010						
	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015
Sworn	2,124.75	1,991.00	1,969.50	1,969.50	1,977.67	2,013.00
Civilian	630.00	503.00	504.25	504.75	511.75	526.75
Total	2,754.75	2,494.00	2,473.75	2,474.25	2,489.42	2,539.75

In FY 2014, the department created the PISO position classification as a hybrid of the previous PSO and PIA positions. One PIA hired in FY 2014 was reclassified as a PISO and will be carried over into FY 2015. With the addition of 8.00 FTE PISOs in the FY 2015 Proposed Budget, the department will have a total of nine PISO positions. The department will use the PISOs to support investigative work and to respond to lower priority calls, including Priority 3 and 4 calls. The PISOs will also enforce the Neighborhood Parking Protection Ordinance (NPPO). While enforcement of the NPPO may impact parking citation revenue, the department has not assumed any increase in revenue related to this program and it is not a factor in the department's overall projected increase in parking citation revenue.

The department anticipates that the addition of the PISOs will assist sworn officers by responding to lower priority calls and thereby freeing up sworn officers to move on to other calls and also to increase the amount of time available to officers for pro-

active policing. The department has repeatedly expressed in City Council and Committee meetings the importance of proactive policing on reducing crime in neighborhoods.

As part of final FY 2007 budget decisions, the City Council added 30 civilian positions to free up sworn officers for patrol, only to have them eliminated in the FY 2010 Budget. The proposed addition of civilian positions in FY 2015 begins a restoration of these past reductions.

Police Retention Program

\$3.2 million in additional expenditures is included in the FY 2015 Proposed Budget for the purpose of funding the Police Retention Program. While the exact nature of the Police Retention Program in FY 2015 is still subject to meet and confer with labor, it is proposed that the program take the form of increased overtime pay.

The Police Retention Program is intended to counterbalance the effects of above-average attrition that the department has faced in recent years by effectively increasing officers' take-home pay. While surrounding law enforcement agencies have made significant increases to sworn officers' pay, the San Diego Police Department has not matched that trend.

The FY 2014 Budget included a one-time expenditure of \$2.0 million to support the Police Retention Program in the form of an increased uniform allowance. That expenditure is not proposed to continue in the FY 2015 Proposed Budget and is instead replaced by the \$3.2 million expenditure described above.

Department Review

It is worth noting that, at the request of the Public Safety and Livable Neighborhoods Committee, the Mayor's Office is currently conducting a comprehensive compensation study regarding the Police Department. The results of the study are intended to inform future decisions that could be made with regard to sworn officers' pay when the City's labor agreement with the Police Officers' Association (POA) comes due for a re-opener in FY 2016.

Body Worn Cameras

The FY 2014 Mid-Year Budget Adjustments included an expenditure of \$1.0 million for the purchase of 300 body worn cameras for patrol officers. The FY 2015 Proposed Budget includes an additional expenditure of \$1.0 million to continue the program and to purchase an additional 300 body worn cameras.

The cameras are intended to record officers' contacts with the public. The department has expressed that the cameras will assist in monitoring officer conduct, building trust with the community, and reducing liability in claims against the City.

The first 300 cameras are anticipated to be deployed with officers in the Central, Mid-City, and Southern Divisions by the end of the current fiscal year, with a total of 600 cameras in service by the end of FY 2015. The long-term goal of the department is to outfit every filled officer and sergeant position with a body worn camera, which would represent approximately 1,000 to 1,100 cameras.

Addition of Assistant Police Chief

The FY 2015 Proposed Budget includes the

addition of 1.0 FTE and \$290,455 for an additional Assistant Police Chief position. This is in response to a request made by the Chief of Police for this position in FY 2015.

Reductions

Reduction of Police Code Compliance Officers

The FY 2015 Proposed Budget includes the reduction of 2.00 FTE Police Code Compliance Officer positions. Based on an analysis of positions that have remained vacant since FY 2012, the department has determined that eliminating these positions will have no service level impact.

Issues to Consider

Police Helicopter Maintenance and Fuel Expenditures

The FY 2015 Proposed Budget does not include a General Fund allocation to support helicopter maintenance and fuel expenditures related to the Police Department's Air Support Unit.

In FY 2014, the department is projected to use a combination of Seized Assets Funds and one-time SAFE funds for a total of approximately \$3.2 million in helicopter maintenance and fuel expenditures. The FY 2014 Mid-Year Report indicated that both funding sources would be sufficient to cover projected costs in these areas in FY 2014.

However, the department has indicated that no remaining SAFE funds will be available in FY 2015. An additional issue is the volatility of Seized Assets Funds, which the department has stated are extremely difficult to project. The IBA has raised concerns in the past about the long-term ability of Seized

Department Review

Assets Funds to support helicopter maintenance.

With the elimination of SAFE funds and the unreliable nature of Seized Asset Funds in FY 2015, the department runs the risk of incurring significant unbudgeted expenses for the Air Support Unit if no other funding source is identified. Based on the department's FY 2015 budget request, those expenses could reach \$3.3 million.

Financial Management has indicated that it is working with the Police Department to identify a new ongoing funding source for Air Support in FY 2015. This information could potentially be included in the May Revision. If no alternative funding source is identified, we recommend an additional \$3.2 million General Fund expenditure to sup-

port helicopter maintenance and fuel costs.

Police Department Five-Year Plan

The Police Department Five-Year Plan was first presented to the former Public Safety and Neighborhood Services Committee in July 2012. The most recent update to the plan was approved by the City Council in November 2013. The Five-Year Plan outlines the Police Department's funding needs through FY 2018 to address service areas adversely impacted by past budget reductions that began in FY 2009. Outlined are needs relating to sworn and civilian staffing, equipment, facilities maintenance, and the planned replacement of the Computer Aided Dispatch (CAD) system.

The table below illustrates the needs the department has identified for FY 2015 in its

Police Five-Year Plan FY 2015 Needs			
Description	Requested in Five- Year Plan	Included in Proposed Budget	Remaining Need
Staffing			
<i>Sworn</i>			
Number of New Sworn Police Recruits	36	45*	-
Cost of New Sworn Police Recruits	\$6,400,000	\$3,800,000**	-
<i>Civilian</i>			
Number of New Civilian Positions	24	17	7
Cost of New Civilian Positions	\$2,400,000	\$1,400,000	\$1,000,000
Equipment			
New Recruit Equipment	\$135,000	\$244,409	-
New Police Vehicles	\$732,000	\$0	\$732,000
Restore Canine Unit & ABLE Hours	\$397,000	\$0	\$397,000
Replace Outdated Equipment	\$5,300,000	\$0	\$5,300,000
Replace CAD System	\$0	\$0	\$0
Maintain Existing Facilities			
	\$750,000	\$0	\$750,000
Total	\$16,100,000	\$5,400,000	\$8,200,000

*This reflects 36 new police recruits in FY 2015 plus 9 continuing recruits from the May 2014 academy.

**This reflects the annualization of personnel expenditures related to new recruits, due to the fact that these positions are filled at various points in the Fiscal Year.

Department Review

Five-Year Plan, as well as the expenditures associated with those needs that are included in the Proposed Budget. Significant items that are funded in the Proposed Budget include expenditures for additional police recruits and related equipment, and additional civilian personnel.

Remaining needs that have not been met include requests for additional equipment, new vehicles, and other items. The department has indicated it will pursue grant funding for new vehicles in FY 2015. It is worth noting that the department did not request additional funding in FY 2015 for replacing the CAD system. The department has expressed that CIP resources for the CAD replacement project are sufficient for FY 2015. Additional funding for the CAD system, potentially in the form of a lease purchase program, could be needed as early as FY 2016.

The City Council may wish to consider the remaining priorities of the Five-Year Plan when evaluating the needs of the department in FY 2015.

Performance Measures

Targeted average response times in all priority call areas are projected to remain consistent in calendar year 2014 in comparison to calendar year 2013 actual results. Similarly, targeted violent crime rates and clearance rates for violent crimes are projected to remain the same between the two calendar years at 4.50 per 1,000 and 50.0%, re-

spectively.

A ten-year historical perspective of key performance measures for the Police Department is provided below.

Measure	Actual CY 2005	Actual CY 2010	Target CY 2014*
Average Response Time to Priority E Calls (in minutes)	7.2	6.3	7.0
Average Response Time to Priority 1 Calls (in minutes)	14.4	11.1	14.0
Violent Crime Rate per 1,000 Residents	5.1	4.1	4.5
Sworn Officers per 1,000 Residents**	1.7	1.6	1.5

* The Police Department uses calendar year data to track performance measures. CY 2014 is the most current target year available.

** IBA estimate of 1.5 sworn officers per 1,000 residents for FY 2015 assumes expansion of police academies in Proposed Budget.

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Department Review

Public Utilities

Operationally, there are four branches which manage the Public Utilities Department: the Business Support Branch, the Water Branch, the Wastewater Branch (containing the Municipal and Metropolitan Sub-Systems) and the Strategic Branch.

The budgetary structure is slightly different. There are three major funds which support the Public Utilities Department: the Municipal Sewer Revenue Fund, the Metropolitan Sewer Utility Fund, and the Water Utility Operating Fund. Additionally, the Water Branch manages recreational use of the City's Reservoirs via the General Fund.

There are four business areas in which budget and fiscal transactions are segregated: Business Support, Municipal Wastewater, Metropolitan Wastewater and Wastewater. The breakout of the proposed funding and revenues for each fund is shown in the chart below. The FY 2015 proposed CIP will be reviewed separately in the CIP program review portion of this report, though we note here that CIP expenditures in the Sewer Funds are proposed to increase to \$113.8 million, \$41.6 million or 57.6% over those in the FY 2014 Adopted Budget, and CIP expenditures in the Water Fund are proposed to increase to \$99.8 million, which is \$53.2 million or 114.2% above FY 2014 expenditures.

For purposes of analyzing operating departments in the FY 2015 proposed budget, we will consider Metropolitan and Municipal Wastewater together, while the Water Fund will be reviewed separately.

Water Fund

The FY 2015 Proposed Budget for the Water Enterprise Fund operating expenditures totals \$461.9 million, which is an increase of \$22.7 million or 5.2% over the FY 2014 Adopted Budget. The Proposed Budget for departmental revenues in FY 2015 totals \$469.6 million, which is an increase of \$42.0 million or 9.8% over the FY 2014 Adopted Budget. This section will outline the main causes for revenue and expenditure variations from FY 2013 and other issues for consideration in the Water Fund.

Issues for Consideration

Revenue Review

- Projected water sales in the FY 2015 Proposed Budget are \$438.8 million, an increase of \$52.9 million or 13.7% over that in the FY 2014 Adopted Budget. This increase is due to the phasing in of a 15% increase in water rates that was approved by the City Council on November 21, 2013 to help pay for in-

SUMMARY OF PROPOSED PUBLIC UTILITIES FUNDS				
	Municipal Sewer Fund	Metropolitan Sewer Fund	Water Utility Fund	General Fund
Expenditures	\$ 134,872,802	\$ 212,586,023	\$ 461,947,041	\$ 1,715,100
Revenues	\$ 312,789,200	\$ 102,841,900	\$ 469,630,800	\$ 940,000

Department Review

creased water costs to Public Utilities from CWA and the Metropolitan Water District and assure that the Department can continue to meet its debt-service coverage ratio requirements. That increase is designed in two phases, with one 7.25% increase that began in January 2014, with a second 7.5% increase following in January 2015.

The revenue assumed in the FY 2015 Proposed Budget is based on a full 12 months of the initial 7.25% rate increase, and 6 months with the second 7.5% increase. Demand for water was projected to remain flat.

Expenditure Review

- The FY 2015 Proposed Budget includes an increase in the cost of water purchases, and projects a total cost for water purchases (including both commodity costs and fixed charges) of \$226.4 million; this represents a \$17.3 million or 8.3% increase over the FY 2014 Adopted Budget.

We do note that a significant proportion of the increase in water costs is a result of increased water costs charged by the San Diego County Water Authority (CWA), which has passed on water cost increases made by the Metropolitan Water District (MWD). There is currently ongoing litigation against the MWD alleging that the MWD inappropriately increased water costs charged to the San Diego region disproportionate to actual costs of water delivery. While recent rulings in this litigation found fault with MWD's actions (including a Superior Court ruling on April 24, 2014 that found MWD's rates violate Proposition 26, the Wheeling station, and ratemaking common law rules) the litigation and appeals to these rulings remain ongoing, and is not expected to be resolved in FY 2015; should that litigation be resolved favorably to the San Diego region, the full effect on the City, the Water Fund, and

SUMMARY OF BUDGET CHANGES - WATER FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	703.08	\$ 68,107,172	\$ 371,183,374	\$ 439,290,546	\$ 427,607,269
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Increase in Support for PURE Water/Potable Reuse	2.24	330,351	1,815,406	2,145,757	
Increase in Hourly Funding	7.03	239,232		239,232	
Enterprise Asset Management (EAM) and GIS Support	0.49	26,540	578,131	604,671	
Increased Staffing for Conservation Programs	2.00	145,096	117,500	262,596	
Support for Reservoir Maintenance and Operation	2.00	179,298		179,298	
Salary and Benefit Adjustments	0.52	(1,127,340)		(1,127,340)	
Reduction in One-Time Expenditures for FY 2014			(7,527,382)	(7,527,382)	
Facility/Infrastructure Condition Assessments			3,991,508	3,991,508	
Increase in Water Costs			17,284,946	17,284,946	
Sweetwater Settlement			2,000,000		
Decrease in State Revolving Loan Fund Proceeds				-	(7,187,000)
Decrease in Reclaimed Water Sales				-	(2,150,000)
Increased Capacity Charges				-	1,848,000
Increased Revenue from Sale of Water				-	52,913,400
Other Changes	4.36	773,814	3,829,395	4,603,209	(3,400,869)
Mayor's Fiscal Year 2015 Proposed Budget	721.72	68,674,163	393,272,878	461,947,041	469,630,800

Department Review

city ratepayers is unknown.

- Included in the FY 2015 Proposed Budget is the addition of 2.24 FTEs and \$1.8 million in non-personnel expenditures to support the Department's PURE Water program, which proposes creating the infrastructure and programmatic support required for a full-scale potable reuse implementation plan and to identify a permanent solution to the Point Loma Wastewater Treatment Plant Modified Permit. Additional resources are proposed from the Department's Sewer Funds.

Sewer Funds

The FY 2015 Proposed Budget for the combined Metropolitan and Municipal Sewer Utility Funds operating expenditures totals \$347.5 million, which is an increase of \$8.1 million or 2.4% over the FY 2014 Adopted Budget. The proposed Budget for departmental revenues in FY 2015 totals \$415.6 million, which is an increase of \$6.5 million

or 1.6% over the FY 2014 Adopted Budget. This section will outline the main causes for revenue and expenditure variances from FY 2014 and any other issues for consideration in the Sewer Funds.

Issues for Consideration

Revenue Review

- As previously stated, total revenue for the Sewer Funds is comparable to that of the FY 2014 Adopted Budget. Two categories of revenues show significant variation from Adopted Budget figures: capacity charges and State Revolving Fund (SRF) proceeds. Capacity charges increased \$2 million or 22.2% due to an increase in local economic activity. SRF proceeds have increased \$4.8 million or 14.2% over those in the FY 2014 Adopted Budget. SRF loan funds allow the Department to receive more favorable financing terms than traditional bond funding. SRF funds are budgeted only when the City anticipates receipt of funds, and is determined by project schedules. The Department has ex-

SUMMARY OF BUDGET CHANGES - SEWER FUNDS					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	860.51	\$ 86,582,283	\$ 252,787,211	\$ 339,369,494	\$ 409,155,844
Mayor's Fiscal Year 2015 Proposed Budget Changes				-	
Increase in Support for PURE Water/Potable Reuse	4.26	2,633,279	3,906,313	6,539,592	
Public Utilities Restructure	(0.68)	(156,431)		(156,431)	
Core Operations Staffing	3.00	293,346		293,346	
Hourly Personnel	5.31	193,244		193,244	
Salary and Benefit Adjustments	(1.00)	(1,366,010)		(1,366,010)	
Support for Point Loma Waiver Renewal			650,000	650,000	
Facility/Infrastructure Condition Assessments			5,117,470	5,117,470	
Repair and Maintenance Expenditures			7,980,000	7,980,000	
Enterprise Asset Management (EAM) and GIS Support			899,183	899,183	
COMNET Contract Reductions			(950,000)	(950,000)	
Non-Discretionary Adjustments			705,923	705,923	
Reduction in One-Time Expenditures for FY 2014			(12,153,958)	(12,153,958)	
Increase in Capacity Charges				-	2,000,000
Changes to SRF Loan Fund Borrowing/Repayment			2,839,488	2,839,488	4,787,700
Other Changes (Includes Shifting Positions, Revenue Adjustments, etc.)	3.32	(1,572,927)	(929,589)	(2,502,516)	(312,444)
Mayor's Fiscal Year 2015 Proposed Budget	874.72	\$ 86,606,784	\$ 260,852,041	\$ 347,458,825	\$ 415,631,100

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Department Review

cuted multiple agreements with the State for receipt of these SRF funds, though none has been executed since December 2012; the Department has additional applications pending before the State.

Expenditure Review

- Expenditures for the Sewer Funds in the FY 2015 Proposed Budget total \$347.5 million, an increase of \$8.1 million over that of the FY 2014 Adopted Budget. \$2.8 million of this is attributable to increases in SRF expenses, with the remainder being due to increased Department expenditures.
- As we noted in our review of the Water Fund, the Sewer Funds are sharing the costs of the PURE Water Program. The FY 2015 Proposed Budget includes the addition of 4.26 FTEs and \$2.1 million in non-personnel expenses towards the PURE Water program. In addition to providing a local source of potable water in the City, the program is considered part of the City's commitment to reducing the environmental impact of the Point Loma Wastewater Treatment Plant and obtaining modification of the Plant's permit to allow it to continue to provide primary treatment of wastewater and eliminate the need for secondary treatment. Public Utilities staff estimates that providing secondary treatment at the Point Loma plant would cost \$1.8 billion through 2035; implementation of the PURE Water Program may therefore result in long-term savings provided the results of implementation include a permanent modification of

the Point Loma permit. The current waiver for the plant expires in July, 2015; the FY 2015 Proposed Budget includes \$650,000 in expenditures to obtain renewal of the Plant's existing waiver.

- We also note that \$5.1 million in expenditures is included in the FY 2015 Proposed Budget to provide funding for facility and infrastructure condition assessments. This funding is provided on a one-time basis and is based on the actual work expected to be completed over the year. The \$5.1 million in the Proposed Budget represents an increase of \$2.2 million over that of the FY 2014 Adopted Budget.

General Fund

The City offers public recreational use of its reservoirs, collecting various fees from recreational patrons. Revenues and expenses associated with this recreational use of reservoirs are General Fund transactions.

The FY 2015 Proposed Budget expenditure amount for these activities is \$1.8 million, which is \$218,000 or 11% below the FY 2014 Adopted Budget. This decrease is primarily due to a \$254,000 decrease in funding for the San Dieguito Joint Powers Authority. Total revenue in the Proposed Budget of \$940,000 is the same as that assumed in the FY 2014 Adopted Budget.

Based on the Proposed Budget revenue and expenses for the operation of recreation activities on PUD reservoirs, operations are expected to end FY 2015 with an approxi-

Department Review

mately \$725,000 deficit that directly impacts the General Fund.

Issues for Consideration

As noted above, the FY 2015 Proposed Budget includes the elimination of \$254,000 in funding for the San Dieguito River Park JPA. That JPA provides management of approximately 3,400 acres in the San Dieguito River Watershed, maintains over 60 miles of trails, and provides trail patrols, educational programming, and other activities for visitors. The JPA was established in 1989—with membership consisting of the Cities of San Diego, Escondido, Poway, Del Mar, and Solana Beach and the County of San Diego—and was scheduled to last for twenty-five years, after which continuation of the agreement would be decided by members of the JPA. Should the City leave the JPA, it would become responsible for taking on operations and maintenance of the City-owned portion of the acreage.

The City is currently investigating whether it should continue as a member of the JPA or instead assume responsibility for the City-owned land.

Department Review

Public Works

The Public Works Department was created in FY 2012 and consolidated two former departments—Engineering & Capital Projects (E&CP) and General Services. In addition, the Public Works Contracting Group was restructured from the Purchasing & Contracting Department to Public Works in the first quarter of FY 2012. The Contracting Branch is a separate entity reporting directly to the Public Works Director. Public Works - Contracting was presented in the FY 2013 Proposed Budget as part of E&CP, but was appropriately transferred out of E&CP in the FY 2014 Budget to reflect the Contracting Branch as a separate unit. Public Works staff noted that this separation is important to avoid any appearance of collusion, undue influence, or other improprieties with E&CP. Additionally, the Contracting Branch provides support to other departments unrelated to E&CP. For example, Transportation & Storm Water

procures resurfacing services through Public Works Contracting.

While the three branches report to one Director, each maintains separate information technology, payroll, and budget staff. This is primarily because the branches have differing functions and fund sources and it is simpler to retain existing reporting components.

- **Contracting** - Provides services and support specifically for CIP projects.
- **E&CP** - Provides engineering services for implementing the City's Capital Improvement Program (CIP) and quality control and inspection of private work permitted in the public right-of-way.
- **General Services** - Provides Maintenance and Repair (M&R) for the City's facilities and fleet as well as publishing services for City departments.

SUMMARY OF PUBLIC WORKS BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
Contracting Branch					
Approved FY 2014 Budget	19.00	1,946,318	160,916	2,107,234	1,053,393
Mayor's FY 2015 Proposed Budget	19.00	1,943,168	172,137	2,115,305	1,053,393
<i>Difference FY 2014-2015</i>	-	\$ (3,150)	\$ 11,221	\$ 8,071	\$ -
Engineering & Capital Projects (E&CP) Branch					
Approved FY 2014 Budget	470.88	\$ 55,275,611	\$ 6,631,652	\$ 61,907,263	\$ 56,527,343
Mayor's FY 2015 Proposed Budget	488.60	56,277,482	8,263,023	64,540,505	64,540,505
<i>Difference FY 2014-2015</i>	17.72	\$ 1,001,871	\$ 1,631,371	\$ 2,633,242	\$ 8,013,162
General Services' Branch (General Fund)					
Approved FY 2014 Budget	123.00	\$ 10,866,185	\$ 5,963,890	\$ 16,830,075	\$ 3,881,996
Mayor's FY 2015 Proposed Budget	130.00	11,239,016	5,991,350	\$ 17,230,366	3,881,996
<i>Difference FY 2014-2015</i>	7.00	\$ 372,831	\$ 27,460	\$ 400,291	\$ -

Department Review

Public Works - Contracting

Public Works - Contracting was restructured from the Purchasing & Contracting Department to Public Works in the first quarter of FY 2012. The Contracting Branch is a separate entity reporting directly to the Public Works Director. Public Works - Contracting was presented in the FY 2013 Proposed Budget as part of E&CP, but was appropriately transferred out of E&CP in the FY 2014 Budget to reflect the Contracting Branch as a separate unit. Public Works staff noted that this separation is important to avoid any appearance of collusion, undue influence, or other improprieties with E&CP. Additionally, the Contracting Branch provides support to other departments unrelated to E&CP, for example, Transportation & Storm Water procures resurfacing services through Public Works Contracting.

Public Works Contracting is responsible for the procurement and contract management of CIP construction and associated professional consultant services contracts, including managing the bid and award process.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the General Fund allocation of the Contracting Branch is about \$2.1 million, a small increase of about \$8,000 over FY 2014. Budgeted positions of 19.00 FTE's did not change from FY 2014.

Revenue Adjustments

FY 2014 was the first year that Public Works - Contracting started charging for its services and the first effort to estimate and collect revenue. The Division is still learning how to estimate/set revenue goals. Additionally, Contracting's revenue is largely dependent on the implementation of CIP projects and available funding, which are not within their control.

Revenue targets included in the FY 2015 Proposed Budget are the same as budgeted in FY 2014—\$1.1 million or about 50.0% of budgeted expenditures, since the positions are not fully reimbursable. Administrative staff, management analysts, and junior contract specialist positions are about 80% re-

SUMMARY PUBLIC WORKS - CONTRACTING BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
FY 2014 Budget	19.00	\$ 1,946,318	\$ 160,916	\$ 2,107,234	\$ 1,053,393
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Non-Discretionary Adjustment	-	-	13,255	13,255	-
Equipment/Support for Information Technology Adjustment	-	-	(2,034)	(2,034)	-
Salary and Benefit Adjustments	-	(3,150)	-	(3,150)	-
Mayor's Fiscal Year 2015 Proposed Budget	19.00	\$ 1,943,168	\$ 172,137	\$ 2,115,305	\$ 1,053,393
Difference from FY 2014 to FY 2015	-	\$ (3,150)	\$ 11,221	\$ 8,071	\$ -

Department Review

imbursable and senior contract specialist are up to 20% reimbursable. Revenue estimates are based on the contracts projected to be executed in FY 2015. The accuracy of estimates will likely improve in future years once a history of actual revenue has been established to include as a basis for calculations. It is important to note that the Mid-Year Budget Report projects year end revenue for Public Works - Contracting to be \$931,000 or \$122,000 under budget.

Reducing Time for Bid and Award

One of the major accomplishments of Contracting since it was transferred to Public Works in FY 2012 has been reducing the time for contract bid and award for CIP projects from 6-8 months to less than 90 days, which is the industry standard. Staff indicated that the current average award time from receipt of bids/public ranking to award is 76 days. Reducing the time for bid and award contributes to implementation of projects in less time and at a lower cost.

Issues to Consider

The Importance and Status of PlanetBids

The City is replacing its online bid advertising system (Ebidboard) with PlanetBids which has the capability to register vendors, post contracting opportunities, and accept electronic bids online. These are important time saving and progressive modifications to the City's bidding/proposal process.

PlanetBids was launched in February 2014 for Vendor registration, and more than 1,500 vendors have registered in the system thus far. On April 2, 2014, PlanetBids went live to post City's contracting opportunities (bid advertisements). A total of 15 active and 3 closed CIP and CIP-related projects have been posted to date and have been made available for download from PlanetBids.

The final phase of implementation of PlanetBids includes the capability to accept online:

SUMMARY OF CHANGES IN PUBLIC WORKS CONTRACTING				
	FY2014	FY 2015	\$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	\$ 1,125,965	\$ 1,185,868	\$ 59,903	5.3%
Fringe Benefits	820,353	757,300	(63,053)	-7.7%
Personnel Subtotal	\$ 1,946,318	\$ 1,943,168	\$ (3,150)	-0.2%
Non-Personnel				
Supplies	\$ 19,614	\$ 14,100	\$ (5,514)	-28.1%
Contracts	20,300	33,400	13,100	64.5%
Information Technology	88,116	86,082	(2,034)	-2.3%
Energy and Utilities	4,800	500	(4,300)	-89.6%
Other	7,100	1,000	(6,100)	-85.9%
Transfers Out	20,986	37,055	16,069	76.6%
Non-Personnel Subtotal	\$ 160,916	\$ 172,137	\$ 11,221	7.0%
Total Expenditures	\$ 2,107,234	\$ 2,115,305	\$ 8,071	0.4%

Department Review

- Electronic bids, which is targeted for July 2014; and
- Electronic signatures for contracts which is targeted for December 2014.

Staff indicated that meeting these deadline has been a challenge, since these modifications to the City's bidding/proposal process will require changes to San Diego Municipal Code (§22.3003 and §22.3011). A proposal for these changes has been submitted to the City Attorney's office but has been delayed as the result of other priorities required by the Purchasing & Contracting Department , which is the project managing entity for PlanetBids. Public Works - Contracts continues to press on with this issue in order to meet the announced deadlines (July/ December 2014).

Not having the ability to accept electronic bids online and accept electronic contract signatures will reduce the capacity of accepting responsive bids. The benefit of having the ability to accept electronic bids is that it will reduce or eliminate errors in submittals which will enable staff to process successful bids faster than at present. As bids/proposals are processed faster it increases the capacity of Public Works to award more contracts.

In addition, acceptance of electronic signatures will accelerate the current rigid and bureaucratic process of obtaining wet signature for CIP-related documents, including contracts, affidavits, and insurance certificates, among others. Staff estimate that this process for manually receiving documents could be reduced from 2-5 business days to 1-2 business days if accepted electronically.

Public Works - Engineering & Capital Projects

Engineering & Capital Projects (E&CP) provides engineering services for the Capital Improvement Program (CIP)—the City’s program for installing new and replacing deteriorating capital infrastructure. E&CP’s responsibilities include planning, design, project management, and construction management of capital improvement projects for client departments, such as Transportation & Storm Water (TSW) and Park & Recreation. E&CP also conducts quality control and inspection of private work permitted in the public right of way and surveying and materials testing.

E&CP is comprised of four divisions:

- Architectural Engineering & Parks
- Field Engineering
- Project Implementation
- Right-of-Way (ROW) Design

New E&CP Internal Service Fund in FY 2015

From FY 2009 through FY 2014, E&CP was budgeted as a General Fund Department even though it is not reliant on the General Fund for revenue. For example, in FY 2014 about 95.9% of the General Fund allocation was reimbursable due to revenues earned through charges for services to other City departments. Essentially E&CP charged project delivery costs (all department and consultant costs associated with the project,

including overhead) to capital projects, which are not reliant on the General Fund, but are primarily funded by various sources that have specific restrictions on how they can spent. For example, these sources include water and sewer funds, TransNet, and deferred capital bond funds.

Since E&CP is not reliant on the General Fund, the FY 2015 Budget transfers E&CP from the General Fund (including both expenditures and offsetting revenue) to a new E&CP Internal Service Fund. E&CP Staff will continue to charge projects for services and will be reimbursed directly from capital fund sources, as appropriate.

This will make E&CP’s charges for services more transparent and easier to track. It will also help to hold E&CP accountable for charging reasonable project delivery costs that are in line with industry standards. The transparency will also make it easier for E&CP to adjust staffing levels to be appropriate for the size of the CIP which drives the Department’s workload.

E&CP’s Internal Service Fund will be 100% reimbursable from capital projects. However, \$2.0 million from the General Fund has been budgeted in the Citywide Program Expenditures for work performed by E&CP for General Fund departments that is not directly related to a capital project. For example, this includes seed money for potential capital projects. Of the \$2.0 million, the CIP Review and Advisory Committee

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(CIPRAC) will allocate \$1.0 million among General Fund departments. The remaining \$1.0 million will be used as a reserve in case additional funding is needed for engineering services not directly linked to capital projects. This type of fund is important so that E&CP does not have to absorb the cost of these services into its project delivery costs.

Mayor's FY 2015 Proposed Adjustments

The transfer of E&CP from the General Fund to the E&CP Internal Service Fund is shown in the table below. Note that the adjustments that appear to be made twice are a result of restructuring the entire De-

partment from the General Fund. Non-standard hour positions, non-discretionary expenditures, and information technology expenditures are all zero-based. This means they do not carryover from year-to-year in the base. Instead, prior year expenditures are completely removed each year and all requests for continuing expenditures are re-entered and analyzed from zero. Typically only the incremental change for these adjustments would show up in the budget document. However, due to the restructure we see the complete removal of these expenditures from FY 2014 in the General Fund, and the addition of all these expenditures for FY 2015 in the internal service

SUMMARY OF PUBLIC WORKS - E&CP'S MAJOR BUDGET CHANGES					
	FTE	PE	NPE	TOTAL	REVENUE
FY 2014 Budget	470.88	\$ 55,275,611	\$ 6,631,652	\$61,907,263	\$56,527,343
Mayor's Fiscal Year 2015 Proposed Budget Changes					
General Fund					
Transfer of Engineering Aids from E&CP to TSW's Undergrounding Surplus Fund	(2.00)	(197,305)	-	(197,305)	-
Non-Standard Hour Personnel Funding Adjustment	(16.13)	(688,964)		(688,964)	-
Equipment/Support for Information Technology Adjustment	-		(2,982,449)	(2,982,449)	-
Salary and Benefits Adjustment	-	(1,127,571)	-	(1,127,571)	-
Non-Discretionary Adjustment	-	-	(1,497,170)	(1,497,170)	-
One-Time Revenue Reduction/Annualization	-	-	-	-	(100,000)
Transfer of E&CP from the General Fund to E&CP Internal Service Fund	(452.75)	(53,261,771)	(2,152,033)	(55,413,804)	(56,427,343)
E&CP Internal Service Fund					
Transfer of E&CP from the General Fund to E&CP Internal Service Fund	452.75	53,261,771	2,152,033	55,413,804	56,427,343
Addition of Engineering Positions to Support Expansion of the CIP	9.00	938,200	111,600	1,049,800	1,049,800
Addition of Land Survey Positions to Support Increased CIP and Private Development	6.00	595,549	37,200	632,749	632,749
Addition of Assistant Deputy Directors for ROW Administration and Field Divisions	2.00	403,984	12,400	416,384	416,384
Addition of Engineering Positions to Support Golf Capital Improvements Program	2.00	219,999	12,400	232,399	232,399
Additional Engineering and Management Analyst Positions	2.00	223,543	12,400	235,943	235,943
Non-Standard Hour Personnel Funding Adjustment	14.85	634,436	-	634,436	-
Equipment Support for Information Technology Adjustment	-	-	2,700,922	2,700,922	-
Non-Discretionary Adjustment	-	-	2,724,068	2,724,068	-
NPE for Maintenance, Repair, Testing, and Equipment	-	-	500,000	500,000	-
Revised Revenue	-	-	-	-	5,545,887
Mayor's Fiscal Year 2015 Proposed Budget	488.60	\$ 56,277,482	\$ 8,263,023	\$64,540,505	\$64,540,505
<i>Difference from FY 2014 to FY2015</i>	<i>17.72</i>	<i>\$ 1,001,871</i>	<i>\$ 1,631,371</i>	<i>\$ 2,633,242</i>	<i>\$ 8,013,162</i>

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fund.

As discussed earlier in this section, E&CP's budget is based on projected revenue, which is \$64.5 million in the FY 2015 Proposed Budget. The increase of about \$8.2 million from \$56.3 million in FY 2014 is based on the increased revenue that will be generated by 35.85 new positions as well as the \$2.0 million budgeted in Citywide Expenditures for engineering services for General Fund departments that is not related to a specific capital project. Budgeted expenditures of \$64.5 million includes \$56.3 in PE and \$8.3 in NPE. The FY 2015 Proposed Budget adds 35.85 FTEs (a net change of 17.72 FTEs over FY 2014), including:

- 12.00 FTEs - 12 positions are budgeted with full-year funding;
- 9.00 FTEs - 18 positions are budgeted with half year funding;
- 14.98 FTE - In non-standard hourly per-

sonnel; this amount is re-baselined every year and reflects existing staffing levels or positions the Department is actively working to fill.

Staff noted that funding some positions for a full year and others for a half year provides the Department with more flexibility to fill them when needed. For example, the Department can be responsive in adding staff when the first series of DC 3 is issued. Public Works staff also noted that office space needs to be identified for about half of the new positions.

2.00 of the additional budgeted positions are for support of projects funded in previous years and in FY 2015 as part of the Golf Capital Improvements Program. The Golf Five-Year Business Plan, which is updated and reported to Council annually, currently includes \$22.0 million in needed improvements to the City's three municipal golf courses in FY 2014-2019. Public Works staff

SUMMARY OF CHANGES IN E&CP EXPENDITURES BY CATEGORY				
	FY 2014	FY 2015	\$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	\$ 32,856,604	\$ 34,032,910	\$ 1,176,306	3.6%
Fringe Benefits	22,419,007	22,244,572	(174,435)	-0.8%
Personnel Subtotal	55,275,611	56,277,482	1,001,871	1.8%
Non-Personnel				
Supplies	\$ 574,817	\$ 681,843	\$ 107,026	18.6%
Contracts	860,796	2,470,613	1,609,817	187.0%
InformationTechnology	2,917,210	2,602,403	(314,807)	-10.8%
Energy and Utilities	291,949	322,864	30,915	10.6%
Other	608,280	690,751	82,471	13.6%
Transfers Out	1,303,401	1,429,350	125,949	9.7%
Capital Expenditures	74,726	64,726	(10,000)	-13.4%
Debt	473	473	-	0.0%
Non-Personnel Subtotal	\$ 6,631,652	\$ 8,263,023	\$ 1,631,371	24.6%
Total Expenditures	\$ 61,907,263	\$ 64,540,505	\$ 2,633,242	4.3%

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noted that they can reassign these positions to another area of the CIP as workload requirements change.

The FY 2015 Proposed Budget also includes 2.00 FTEs for Assistant Deputy Directors in Field Engineering and the Right-of-Way (ROW) Design Divisions. These divisions are large and currently have only one management-level employee (the deputy director). Public Works staff indicated that the increasing CIP workload and additional positions will require additional management oversight to handle day-to-day operations. This will allow deputy directors to focus on policies, collaboration with stakeholders, and process improvements. The Assistant Deputy Director positions also support improved succession planning and needed management assistance across the department in the event of vacancies and vacations.

- Field Engineering Division has a total of 161.65 FTEs with 13.00 positions reporting directly to the deputy director. Field is responsible for construction management of the entire CIP, inspection of private work, and survey and lab work.
- ROW Design Division has 129.55 FTEs with 8.00 positions reporting directly to the deputy director. ROW Design is responsible for project management of over 500 projects in addition to CIP-related aspects of the Utilities Undergrounding Program.

Issues to Consider

Effectively Delivery of the CIP

E&CP implemented streamlining measures

in the spring of 2012 and currently has an Field Engineering Division Operational Excellence Effort ongoing. In addition, the FY 2015 Proposed Budget reflects several important changes that will increase capacity to support future expansion of the CIP and make E&CP's operations more flexible and transparent, including the addition of 35.85 FTEs and creation of the new E&CP Internal Service Fund. These efforts will help the department be prepared when the City develops a financing strategy for comprehensively addressing its significant infrastructure needs over the long term, such as a General Obligation Bond Program.

It is important to understand that E&CP has primary responsibility for implementing CIP projects, but there are many departments and offices that also have responsibility for the CIP, including asset-owning departments, the Equal Opportunity Contracting Office, Financial Management, and the Office of the Comptroller. As the City develops an infrastructure program, it will be important to assess and support the capacity to deliver projects from a citywide perspective.

Appropriate Project Delivery Costs

The rate that ECP staff charges to a project is the employee's hourly salary plus overhead, labor load and fringe. These "rates" are used to estimate the anticipated cost of ECP staff for a project. As a proportion of the total project cost, project delivery costs (or soft costs) are higher on small projects because many of the costs are fixed regardless of the size of the project. For example, fixed costs include environmental review/permitting, the staff time to put a contract out to bid, and the project close-out proc-

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ess.

these important standards.

The City of San Diego participates in the CIP Multi-Agency Benchmarking Study with six of California's largest cities to assess the appropriateness of E&CP's project delivery costs. In FY 2013, the Statewide Benchmarking average project delivery cost was 43 percent—the same as E&CP. E&CP is also working with other local agencies to develop a regional benchmark. Note that the benchmarks differ by project type and size/cost.

Going forward, it will be important for to monitor E&CP's project delivery costs and hold the Department accountable for being in-line with state and regional benchmarks.

Performance Measures for the CIP

In our Review of the City's Key Performance Indicators (IBA-14-09), we recommended that a measure be added regarding CIP project delivery on time and on budget. Given the pending discussions regarding the need for a larger infrastructure bond program in the near future to address the City's significant infrastructure needs, performance measures on project delivery and completion will be key for developing credibility with the community. In reviewing the City of San Antonio's Quarterly Performance Report, we noted that their key performance measures include "completing projects 100% on time and on budget."

We understand that, although E&CP has primary responsibility for delivering projects, several City departments and offices are involved which are not under E&CP's control. Potentially, establishing citywide measures may be appropriate to ensure that departments are held accountable for

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Public Works - General Services

General Services was consolidated with E&CP into the Public Works Department in FY 2012. The General Services Branch provides direct support to other City departments, including facilities maintenance & repair (M&R), vehicle maintenance, and publishing services. To accomplish its mission, General Services includes four divisions:

- Facilities
- General Services Administration
- Fleet Services
- Publishing

Facilities and Administration are General Fund Divisions, and Fleet and Publishing are internal service funds. Fleet Services is funded by the Fleet Services Operating and Replacement Funds, and Publishing is funded by the Publishing Services Fund.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for General

Services' General Fund divisions is about \$17.2 million, an increase of about \$400,000 or 2.0%. This includes 123.00 FTEs, an addition of 7.00 positions or 6.0% from FY 2014. Increases in General Services' expenditures are also due to the addition of 7.00 positions and \$564,000 in personnel expenses and \$141,000 in related non-personnel expenses for Facilities Division to provide M&R services.

The non-General Fund or internal service funds in General Services Proposed FY 2015 Budget totals \$74.5 million. This is a decrease of \$3.0 million from FY 2014 largely due to two significant reductions:

- \$2.3 million in reduced expenditures from fuel, largely due to other Departments purchasing fuel directly from vendors instead of through Fleet Services
- \$2.2 million in reduced expenditures for fitting out and acquiring vehicles, in concordance with the 5-year debt repayment plan and recognizing the previ-

SUMMARY PUBLIC WORKS - GENERAL SERVICES EXPENDITURES						
	FY 2014 FTE	FY 2015 FTE	CHANGE	FY 2014 \$	FY 2015 \$	CHANGE
General Fund						
Administration	7.00	7.00	-	\$ 1,151,280	\$ 1,032,007	\$ (119,273)
Facilities	116.00	123.00	7.00	15,678,795	16,198,359	\$ 519,564
General Fund Subtotal	123.00	130.00	7.00	16,830,075	17,230,366	\$ 400,291
			-			\$ -
Non-General Fund						
Fleet Services Operating Fund	169.50	177.50	8.00	\$ 51,783,287	\$ 50,635,456	\$ (1,147,831)
Fleet Services Replacement Fund	-	-	-	22,461,956	20,663,453	\$ (1,798,503)
Publishing Services Fund	10.00	10.00	-	3,304,127	3,223,030	\$ (81,097)
Non-General Fund Subtotal	179.50	187.50	8.00	\$ 77,549,370	\$ 74,521,939	\$ (3,027,431)
Total General Services	302.50	317.50	15.00	\$ 94,379,445	\$ 91,752,305	\$ (2,627,140)

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SUMMARY OF CHANGES IN REVENUE				
	FY2014	FY 2015	\$ CHANGE	% CHANGE
General Fund (Facilities)	\$ 3,881,596	\$ 3,881,596	\$ -	0.0%
Fleet Services Operating Fund	51,647,391	50,229,234	(1,418,157)	-2.7%
Fleet Services Replacement Fund	27,545,583	27,296,552	(249,031)	-0.9%
Publishing Services Fund	\$ 3,413,041	\$ 3,223,030	\$ (190,011)	-5.6%
Total Expenditures	\$ 86,487,611	\$ 84,630,412	\$ (1,857,199)	-2.1%

ously approved extension of vehicle life-spans.

Revenue Adjustments

General Services' General Fund and internal service fund revenues included in the FY 2015 Proposed Budget total about \$85.0 million as shown in the table above. This represents a decrease of 2.1% or about \$1.9 million less than FY 2014. The decrease is primarily attributable to reductions of \$1.4 million in Fleet Services Operating Fund revenue, largely due to \$2.3 million in reduced revenues from other Departments for fuel, corresponding to the decrease in fuel expenditures addressed above.

Facilities

The Facilities Division provides day-to-day Maintenance & Repair (M&R) services for all 1,600 City-owned facilities/buildings, including libraries, Park & Recreation facilities, Police and Fire-Rescue facilities, and the City Administration Building complex. Services provided by Facilities staff include building maintenance, custodial service, and emergency repairs when needed on roofs, HVAC systems, and electrical systems.

Although departments such as the Police, Fire and Library have their own maintenance budget, Facilities Division is still re-

CHANGES IN GENERAL SERVICES' GENERAL FUND EXPENDITURES				
	FY2014	FY 2015	\$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	\$ 6,320,654	\$ 6,561,543	\$ 240,889	3.8%
Fringe Benefits	4,545,531	4,677,473	131,942	2.9%
Personnel Subtotal	10,866,185	11,239,016	372,831	3.4%
Non-Personnel				
Supplies	\$ 1,541,163	\$ 1,633,083	\$ 91,920	6.0%
Contracts	2,865,282	2,968,710	103,428	3.6%
Information Technology	327,848	194,051	(133,797)	-40.8%
Energy and Utilities	890,025	893,194	3,169	0.4%
Other	7,500	7,500	-	0.0%
Transfers Out	302,072	264,812	(37,260)	-12.3%
Capital Expenditures	30,000	30,000	-	0.0%
Non-Personnel Subtotal	\$ 5,963,890	\$ 5,991,350	\$ 27,460	0.5%
TOTAL	\$ 16,830,075	\$ 17,230,366	\$ 400,291	2.4%

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sponsible for providing various M&R services to these departments due to the limitations in the scope of work their budgeted trades can provide.

Mayor's FY 2015 Proposed Adjustments

As part of budget balancing measures, Facilities Division experienced a 23.2% reduction in budgeted positions since FY 2004, and FY 2014 was the first year since 2007 that the Division's budget was increased. The FY 2014 Budget included \$15.7 million and 116.00 FTEs. The FY 2015 Proposed Budget represents an increase of about \$520,000 over FY 2014 to \$16.2 million. Budgeted FTEs are increased by 7.00 to 123.00 FTEs in FY 2015.

Additional 7.00 FTEs

The Facilities Division requested a total of 52.00 positions for FY 2015, including 39.00 for achieving the minimum industry standard and 13.00 for the New Central Library. Largely due to tight budgetary constraints, the FY 2015 Proposed Budget includes only 7.00 of the staff requested for the Central Library (which will reach the end of the warranty period over the first half of FY 2015). As a result, the Division plans to re-assess and may reclassify these positions in accordance with citywide priority M&R needs for FY 2015. For example, Facilities has assumed a larger role in M&R for Fire-Rescue and will utilize these positions to support those M&R needs.

Hiring Process

The 7.00 positions are anticipated to be filled in the first and second quarters of FY 2015. According to staff, Facilities recent restructuring, which included adding first-

line supervisors, should help them to speed up the hiring process. Staff indicated that the biggest challenge with the hiring process is the delays with background and medical evaluations.

Revenue Adjustments

Revenues for Facilities Division in the FY 2015 Proposed Budget are about \$3.9 million, consistent with FY 2014. As was the trend in FY 2014, the Division is no longer focused primarily on bringing in revenue., which is highly dependent on as-needed CIP and Enterprise Funds work. The main focus will be to address tasks on a priority level basis. This will help them to reduce the significant backlog of work order requests as well as focus on preventative maintenance.

Issues to Consider

Benefits of Additional M&R Staff and Challenges Funding M&R

The FY 2014 Budget provided 9.00 additional positions and about \$1.2 million for the Facilities Division (including \$873,000 for related personnel and non-personnel costs and a vacancy savings adjustment of \$300,000 which enabled the Division to fill 8.00 vacant positions). The additional staff and funding in FY 2014 helped Facilities to:

- Reduce the backlog of work orders from 1,759 to 1,440; and
- Increase the focus on preventative maintenance from 10% to 27% of total workload.

Even with the 7.00 additional positions in the FY 2015 Proposed Budget, current funding for the Facilities Division continues to be at least \$30 million below the standard recommended by the National Re-

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search Council that annual routine M&R should be between 2-4% of the current replacement value of City General Fund facilities. The City is funding Facilities Division at about 0.7%. Staff have indicated that achieving even the minimum of 2% is a difficult for the City as well as other jurisdictions given tight budgetary constraints.

Funding annual M&R is vital for maintaining the condition of assets. When ongoing M&R is not fully funded, it contributes to deferred maintenance and capital, raises risks to public health and safety, increases the backlog, and ultimately increases the cost of repairs. However, funding M&R continues to be a challenge because it must be cash funded, cannot be paid for with bonds, and many available funding sources have restrictions on how much of the funds can be dedicated to M&R.

Results of Facilities/Buildings Condition Assessments

Results from the first round of conditions assessment for General Fund facilities are anticipated to be presented to the Council Infrastructure Committee in the fall of 2014. The goal of the Facilities Division will be to utilize information from completed condition assessments in the coming year to:

- Update the deferred capital and maintenance backlog;
- Work with the Mayor and Council to establish appropriate target service levels; and
- Determine needed M&R and capital projects to achieve these targets.

Ultimately, the Public Works Department intends to develop an M&R report with this information which will provide transparency and help to establish funding goals. However, given existing budgetary constraints and competing priorities, the City will continue to face challenges funding M&R unless other sources of revenue are identified.

General Services Administration

This Division provides administrative and technical support to the Public Works Director and General Services Division. The FY 2015 Proposed Budget for the Administrative Division totals \$1.0 million, including 7.00 FTEs. This is decrease of \$119,000 from FY 2014. Positions remained constant at 7.00.

Fleet Services

Fleet Services provides City departments with motive equipment and support, including vehicle acquisition, maintenance, repair and provision of fuel. Fleet Services is a non-General Fund division funded by the Fleet Services Operating Fund and Fleet Services Replacement Fund which receive revenue by charging customer departments.

Changes to Budget

The FY 2015 Proposed Budget for Fleet Services in both the Operating and Replacement Fund includes \$71.3 million in expenditures, an decrease of \$2.9 million or 4.0% from the FY 2014 Adopted Budget. Reve-

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nues in the Proposed Budget across the funds total \$77.5 million, a decrease of \$1.7 million or 2.1% below those of FY 2014, for reasons discussed above.

Managed Competition

Fleet Services went through a Managed Competition in FY 2012 and the employee team was successful. Following the meet & confer process, which resulted in an Alternate Employee Proposal related to Automobile Parts Supply, Fleet has made progress in its implementation of the Alternate Proposal, including a reduction in overall workforce size (achieved through attrition to the workforce without backfilling positions) and execution of a contract to provide outside towing services. An RFP for an additional contract that will provide for a single vendor as a source of vehicle parts is currently being prepared.

The FY 2015 Proposed Budget for Fleet Services does include a net increase of 8.00 FTEs, and \$771,000 in related expenditures, that are associated with increased service level needs above those in the Managed Competition bid.

Fleet Focus Software Upgrades

The City recently received reports from the Huron Consulting Group that recommended potential efficiency improvements throughout the City; in its review of the Fleet Services, it highlighted the efficiencies that could be generated by using a task-based chargeback system for tracking work. Upgrades to the Fleet Focus software that are envisioned in Fleet's plan would accomplish this. The FY 2014 Adopted Budget included \$25,000 for an assessment of the Fleet Focus system that is currently used.

This assessment is currently underway; upon its completion, Fleet will need to work with Information Technology to determine the next steps and funding required to implement these updates and upgrades.

Publishing Services

Publishing Services Division provides full service, in-house reproduction and graphics center, and manages the Citywide Photocopier Program for all City departments. The Division is funded by charging customer departments for its service through the Publishing Services Fund.

Changes to Budget

The FY 2015 Proposed Budget for the Publish Services Division is approximately \$3.2 million, an decrease of approximately \$81,000 over the FY 2014 Adopted Budget. Positions have remained at 10.00 FTE—constant from the previous year. Division revenues are projected to total approximately \$3.2 million, reflecting a decrease of approximately \$190,000 from the FY 2014 Adopted Budget.

Significant Budget Adjustments

The FY 2015 Proposed Budget includes the following significant budget adjustments:

- *Contribution to Enterprise Asset Management Project* - The FY 2015 Proposed Budget includes approximately \$45,000 in expenditures to support the development of the citywide Enterprise Asset Management Project. Contributions to the project are based upon asset value of current infrastructure/equipment.

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- *Adjustment for Publishing Services Managed Competition* - The FY 2015 Proposed Budget includes a reduction in expenditures of approximately \$120,000 as an adjustment to expenditures that are not controlled by the department.
- *Revenue Adjustment* - The FY 2015 Proposed Budget shows a revenue reduction of approximately \$190,000. The adjustment is based upon prior trend of actual revenue over last several years. Budget adjustment will bring budgeted figures in line with projected actual figures.

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Purchasing & Contracting

Mayor's FY 2014 Proposed Adjustments

The FY 2015 Proposed Budget for the Purchasing & Contracting Department is approximately \$6.2 million, an increase of approximately \$0.9 million from the FY 2014 Budget. Revenue for the General Fund operations of the Purchasing and Contracting Department is projected at \$1.6 million, which is an increase of approximately \$0.9 million. The department also has a net addition of 12.61 FTEs, from 41.59 FTEs in the FY 2014 Budget to 54.20 FTEs in the FY 2015 Proposed Budget

Additions

Personnel Additions

In the FY 2015 Proposed Budget the Administration Department was eliminated and its remaining functions transferred to other departments. The Living Wage Program was previously under the Administra-

tion Department, but has been transferred to the Purchasing and Contracting Department in FY 2015. This transfer included 2.00 FTEs added to the department, with a total related expense of approximately \$322,000.

The department also received a total of 11.00 new FTEs- 7.00 FTEs for the enforcement of the City's Prevailing Wage Ordinance and 4.00 FTEs for additional procurement positions. The additions for enforcement of the Prevailing Wage Ordinance total approximately \$780,000 in expense, which is offset with \$590,000 in projected revenue. The addition personnel for new procurement positions total approximately \$360,000, which is projected to be fully offset by revenue generated by these positions.

IT Additions for SAP Catalog Functionality

The Information Technology line item for Purchasing and Contracting is increasing

SUMMARY OF PURCHASING & CONTRACTING BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	41.59	\$ 4,204,293	\$ 600,390	\$ 4,804,683	\$ 659,554
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Addition of 7.0 FTE's for Prevailing Wage Enforcement	7.00	781,807		781,807	590,000
Addition of 4.0 Procurement Position FTE's	4.00	358,302		358,302	358,302
Hourly Staff Funding Adjustment	(0.39)	(21,822)		(21,822)	
Transfer of Living Wage Program to Purchasing & Contracting	2.00	236,716		236,716	
Vacancy Savings Adjustment		(58,905)		(58,905)	
Other Salaries, Wages, and Fringe Benefits (Including Retirement ADC)		(273,878)		(273,878)	
Supplies			13,144	13,144	
Information Technology Adjustments - SAP Catalog Functionality			321,611	321,611	
Other			23,124	23,124	
<i>Subtotal</i>	12.61	1,022,220	357,879	1,380,099	948,302
Mayor's Fiscal Year 2015 Proposed Budget	54.20	\$ 5,226,513	\$ 958,269	\$ 6,184,782	\$ 1,607,856
<i>Difference from 2014 to 2015</i>	<i>12.61</i>	<i>\$ 1,022,220</i>	<i>\$ 357,879</i>	<i>\$ 1,380,099</i>	<i>\$ 948,302</i>

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approximately \$322,000 or approximately 110% in the FY 2015 Proposed Budget due primarily to the implementation of the SAP Catalog functionality. One of the long-term implementation recommendations in the Huron Report was to “implement catalog management technology.” The Huron Report noted that the majority of shopping and quoting activities were occurring outside of SAP and other functions were being completed in manual and inefficient ways. However, in the Purchasing and Contracting Department Director’s response to these recommendations, he noted that the expenditure for the implementation of this recommendation would be included in FY 2015.

The Huron Report noted other systems that were being utilized in inefficient ways and other tasks being done in a manual and inefficient way. The Department should continue to update the Council on the implementation of additional SAP and other system functionality to address these inefficient areas.

Staff needed to more effectively administer and enforce the City’s Living Wage Ordinance (LWO)

On February 10, 2014, the City Council adopted amendments to the Living Wage Program intended to clean up, clarify and strengthen enforcement of the LWO. Several Councilmembers had previously requested these amendments to address issues identified during previous years of LWO administration. In making her presentation to Council, the Program Manager indicated the Living Wage Program has not been adequately staffed since its inception and that additional staff would help to bet-

ter administer and enforce LWO provisions.

All aspects of the City’s Living Wage Program are currently performed by 2.00 FTEs (1.00 Supervising Management Analyst and 1.00 Senior Management Analyst). In their budget priority memos for FY 2015, five Councilmembers expressed interest in adding 2.00 FTEs to the Program to enhance administration, monitoring and enforcement of the City’s LWO. Although funding of approximately \$280,000 for additional LWO staff was requested by the department, the FY 2015 Proposed Budget does not include funds for this purpose.

Prevailing Wage Ordinance Enforcement

In the development of the FY 2015 Proposed Budget, the Purchasing and Contracting Department originally requested a total of 12.00 FTEs to enforce the City’s prevailing wage ordinance. This estimate for needed staffing was developed by the department estimating approximately 240 contracts would be subject to prevailing wage enforcement oversight, with each FTE responsible for oversight of approximately 20 contracts each. After submitting this budget request for the Proposed Budget, it is our understanding that the department further reviewed necessary staffing levels and the number of contracts per employee and determined that 9.00 FTEs would be sufficient for enforcement of the prevailing wage ordinance; or approximately 27 per contracts per FTE. The FY 2015 Proposed Budget includes 7.00 FTEs for enforcement, which is approximately 34 contracts per FTE. The 2.00 FTEs not included in the FY 2015 Proposed Budget were clerical staff,

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whose duties the department estimates can be handled by current staff. The total cost for these 7.00 FTEs is approximately \$782,000, with offsetting revenue of \$590,000 from charges to individual projects.

The prevailing wage ordinance was approved at the July 30, 2013 City Council meeting and at that time the Purchasing and Contracting and Public Works Department were directed to return to the Rules and Economic Development Committee (now the Economic Development and Intergovernmental Relations Committee) one year after the effective date of the ordinance to report on the “success and challenges in administering/monitoring for contractor compliance.” We recommend that at the time that the Committee hears this report that Committee Members inquire with the Purchasing and Contracting Department if these 7.00 FTEs are considered sufficient staffing for proper program oversight, monitoring, and compliance.

4.00 FTEs for Procurement Positions

The FY 2015 Proposed Budget includes the addition of 4.00 FTEs at a total cost of approximately \$360,000 (which is fully offset by revenues) for new procurement positions. Based on our discussion with the department, there are currently three vacant procurement positions that are anticipated to be filled prior to the end of the current fiscal year. The Purchasing and Contracting Department anticipates that the eligibility lists generated by the City’s Personnel Department for these three vacant positions will aid in expediting hiring four new additional personnel to fill these positions included in the Proposed Budget.

As previously noted in this report, the Huron Consulting Group (Huron) completed an efficiency study for the Purchasing and Contracting Department and presented their findings to City Council on April 8, 2014. Included in their findings was that departmental staff were not trained properly in SAP and best practices for the department. As part of the Huron phased recommendations, a short term solution was “establishing internal P&C training curriculum.”

Currently, the addition of these 4.00 FTEs for procurement bring the total number of procurement positions to 10.00 FTEs., and as previously mentioned, 7.00 FTEs will be filled with new procurement personnel in coming months. Based on the large number of procurement positions being staffed by new employees and the criticality of these positions to Citywide operations, this is the most opportune time to implement Huron recommendations for proper training and other areas of possible improvement.

SLBE / EOC Enhancement

For the FY 2015 Proposed Budget, the Purchasing and Contracting Department requested an additional 3.00 FTEs for the City’s Small and Local Business Enterprise (SLBE) Program. These positions were requested to assist the department in processing SLBE applications to increase the pool size of certified firms. The department has indicated that there is a backlog of applications that are required to be reviewed and filling a portion or all of the requested FTEs would enhance the program. However, in our discussions the Department also noted that they are currently working with PlanetBids and other technology to

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increase compliance, monitoring, and registration with current resources.

effectiveness of these Municipal Code changes.

Issues to Consider

Performance Measures Based on Municipal Code Change

At the April 14, 2014 City Council meeting, the Purchasing and Contracting Department presented proposed revisions to the Municipal Code of the City of San Diego to modify the approval of purchase requisitions and contract award thresholds. These changes increased the level at which the Purchasing and Contracting Department would be required to initiate a formal solicitation for goods and services. This change, which was approved by City Council at the first reading of the Ordinance on April 14, is anticipated to save time and resources for the department. At the City Council meeting, our Office noted that performance measures should be instituted to capture what these changes have accomplished. Based on the approved City Council motion at this meeting, our Office was directed to work with the department to develop these performance measures.

In our preliminary discussions with the department regarding performance measures, it was determined that additional research and discussion would be needed to develop appropriate measures that are able to be captured and are useful to the public, department, and Council. We are proposing that our Office work with the department in the upcoming months and present performance measures to the Committee on Budget and Government Efficiency when the Purchasing and Contracting Department returns in October 2014 to report on the

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QUALCOMM Stadium

Qualcomm Stadium is a special revenue fund that supports the day-to-day operations at the stadium. Management of Qualcomm Stadium is provided by the Real Estate Assets Department.

year-end and the need for continued investment in repairs, maintenance, and supplies, the General Fund contribution will likely continue to increase in future fiscal years. This is an ongoing issue that continues to be a risk to the General Fund.

Mayor's FY 2015 Proposed Adjustments

The largest variances in the FY 2015 Proposed Budget are an increase in contracts and information technology expenditures, totaling approximately \$0.6 million. These increases are due primarily due to inflation adjustments for current contracts.

FY 2015 Proposed Budget Issues to Consider

Despite the increase in the General Fund transfer of transient occupancy tax of \$1.7 million from FY 2013 to the proposed level in FY 2015, the fund is still projected to operate at a \$1.3 million deficit in FY 2015, which is offset by fund balance, a one-time source of revenue. With the fund balance projected to be fully utilized by FY 2015

SUMMARY OF QUALCOMM STADIUM BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	37.00	\$ 3,436,962	\$ 13,653,475	\$ 17,090,437	\$ 16,477,809
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages		11,138		11,138	
Fringe Benefits (including Retirement ADC)		63		63	
Janitorial, Waste Disposal, Field Maintenance Increases			155,333	155,333	
Contracts			246,257	246,257	
Energy & Utilities			329,708	329,708	
Increase in Transient Occupancy Tax Transfer from General Fund				-	75,000
Other			4,963	4,963	
<i>Subtotal</i>	-	11,201	736,261	747,462	75,000
Mayor's Fiscal Year 2015 Proposed Budget	37.00	\$ 3,448,163	\$ 14,389,736	\$ 17,837,899	\$ 16,552,809
<i>Difference from 2014 to 2015</i>	-	\$ 11,201	\$ 736,261	\$ 747,462	\$ 75,000

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Real Estate Assets

Mayor's FY 2015 Proposed Adjustments

The Real Estate Assets Department manages the City's real estate portfolio, including the administration of over 500 of the City's existing leases, permits, operating agreements, and sub-leases.

The FY 2015 Proposed Budget for the General Fund portion of the Real Estate Assets Department (READ) is \$4.7 million, a decrease of approximately \$155,000 from the FY 2014 Adopted Budget. Revenues are budgeted at approximately \$45.1 million, an increase of approximately \$1.8 million from FY 2014.

Significant Budget Adjustments

The FY 2015 Proposed budget includes an increase of approximately \$1.4 million in revenue related to the Mission Bay Park rents and concessions, bringing total related revenue to just over \$30.0 million. Per City Charter Article V, Section 55.2, revenues received from Mission Bay Park rents and concessions, up to a certain threshold (\$20.0 million for FY 2015) shall be depos-

ited into the General Fund, with any excess revenues above the threshold to be divided between the Regional Park Improvement Fund and the Mission Bay Park Improvement Fund. The excess revenue shall be divided such that 25% of the revenue, or the first \$2.5 million, whichever is greater, of the excess revenue will be deposited with the Regional Park Improvement Fund. The remaining 75% or any remaining funds will be deposited with the Mission Bay Improvement Fund.

The Regional Park Improvement Fund received \$2.5 million in FY 2014, and the same funding amount is continued in the FY 2015 Proposed Budget. The entire increase in revenues from the FY 2015 Proposed Budget (\$1.4 million) is proposed to flow to the Mission Bay Improvement Fund.

For the 2015 Proposed Budget, the Mission Bay Park rents and concessions total approximately \$30.0 million, with \$20.0 million going to the General Fund, \$2.5 million going to the Regional Park Improvement Fund, and \$7.5 million going to the Mission Bay Park Improvement Fund.

SUMMARY OF READ BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	28.00	\$ 3,451,677	\$ 1,400,673	\$ 4,852,350	\$ 43,344,297
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Benefit Adjustments		(164,647)		(164,647)	
Non-Discretionary and Info Technology Adjustments			9,924	9,924	
Increase in Mission Bay Park Rents and Concessions					1,430,733
Increase in Pueblo Lands Revenues					48,167
Revenue Adjustment for FY 2015					306,298
<i>Subtotal</i>	-	(164,647)	9,924	(154,723)	1,785,198
Mayor's Fiscal Year 2015 Proposed Budget	28.00	\$ 3,287,030	\$ 1,410,597	\$ 4,697,627	\$ 45,129,495
<i>Difference from 2014 to 2015</i>	-	\$ (164,647)	\$ 9,924	\$ (154,723)	\$ 1,785,198

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Per the City Charter Article V, Section 55.2, the usage of the funds within the Mission Bay Improvement Fund needs to follow the privatization list identified in Section 55.2 of the City Charter; and the Regional Park Improvement Funds may be expended only for non-commercial public capital improvements for the San Diego Regional Parks and only for park use.

In addition to the adjustment related to the Mission Bay Park rents and concessions, the FY 2014 Proposed Budget includes an increase in other revenues of \$354,000 to reflect scheduled rent increases and adjusted projections, including an increase of \$48,000 in Pueblo Lands Revenue.

Issues to Consider

Mission Bay Park rents

Approximately \$10.0 million of the \$30.0 million total is available to be dedicated to the Mission Bay Park Improvement and San Diego Regional Park Improvement Funds, per the Charter requirements discussed above. The FY 2015 Proposed Budget proposes dedicating \$2.5 million of this towards the Regional Park Improvement Fund, and the remainder towards the Mission Bay Park Improvement Fund. As 25% of the approximately \$10,045,000 is slightly greater than the \$2.5 million, the full 25% should be dedicated to the Regional Park Improvement Fund, with the remainder for the Mission Bay Park Improvement Fund. This represents a difference of approximately \$11,000 that should be added to the Regional Park Improvement Fund and reduced from the Mission Bay Park Improvement Fund.

Huron Report Recommendations

The City recently received reports from the Huron Consulting Group that recommended potential efficiency improvements throughout the City; as part of its review, it examined Real Estate Assets, and made a number of recommendations, including:

- Improving communications with other City Departments;
- Ensuring that READ's portfolio of fixed assets is included in the City's SAP system;
- Consulting with outside experts and/or creating commissions to help READ manage its real estate portfolio; and
- Exploring alternate hybrid methods of funding real estate acquisitions.

Funding for these recommendations is not specifically included in the FY 2015 Proposed Budget, though we note READ is currently recruiting a new Director, who may be able to implement some of the recommendations.

READ provides management of the rental and use of the Community Concourse facility (Concourse) as well as the Evan V. Jones Parkade parking garage.

Concourse & Parking Garage Operating Fund

The FY 2015 Proposed Budget for the Concourse and Parking Garage Operating Fund is approximately \$2.7 million, an increase of \$42,000 from FY 2014. Revenue projections are budgeted at approximately \$2.7 million, an

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Risk Management

Mayor's FY 2015 Proposed Adjustments

The Risk Management Department manages the City's self-insured Workers' Compensation Program; coordinates public liability and loss control measures; and administers employee health and safety programs, employee savings plans, the Long-Term Disability Plan, and the Employee Assistance Program (EAP).

The FY 2015 Proposed Budget for Risk Management Administration Fund expenditures totals \$10.1 million, an increase of \$312,000 from the FY 2014 Budget.

Revenues in the FY 2014 Proposed Budget total \$10.1 million, an increase of \$1.1 million from FY 2014. This increase is partly due to the \$312,000 in increased expenditures. Furthermore, the FY 2014 Adopted Budget expenditures exceeded revenues by \$750,000, with the Risk Management Ad-

ministration Fund Balance (which is an internal service fund) covering the difference.

The number of FTE's in the FY 2015 Proposed Budget has increased by 2.25 FTEs, from 79.88 to 82.13 FTEs, over the FY 2014 Adopted Budget as follows:

- A 1.00 FTE increase for a Claims Representative 2 to support compliance with new state-mandated reporting requirements;
- A 1.00 FTE increase for a Program Manager to oversee and support IT systems. New and existing legislation regarding Federal Medicare and State Workers' Compensation reporting necessitates a comprehensive business and technical approach to ensure the City's compliance. This position will consolidate management of the department's increasing reliance on business-specific IT systems;
- 0.25 FTE increase in non-standard

SUMMARY OF RISK MANAGEMENT FUND					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	79.88	\$ 7,718,629	\$ 2,091,670	\$ 9,810,299	\$ 9,060,699
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Increases in Contributions from City Departments					1,061,955
Salaries & Wages	2.00	168,215		168,215	
Vacancy Savings/Salary Reductions/Voluntary Furlough		(18,968)		(18,968)	
Hourly Wages	0.25	18,120		18,120	
Termination Pay - Annual Leave		(28,267)		(28,267)	
Fringe Benefits (Includes Retirement ADC)		49,569		49,569	
Non-Discretionary and Info Technology Adjustments			114,257	114,257	
Discretionary IT Costs			8,029	8,029	
Office Supplies			1,400	1,400	
<i>Subtotal</i>	2.25	188,669	123,686	312,355	1,061,955
Mayor's Fiscal Year 2015 Proposed Budget	82.13	\$ 7,907,298	\$ 2,215,356	\$ 10,122,654	\$ 10,122,654
Difference from 2014 to 2015	2.25	\$ 188,669	\$ 123,686	\$ 312,355	\$ 1,061,955

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hourly personnel.

During the budget process, Risk Management also requested budget for \$83,000 vacation pay-in-lieu, which was not funded. This amount was based on FY 2013 expenditures and FY 2014 projections.

Issues to Consider

Risk Management Administration oversees the Public Liability, Workers' Compensation, and Long-Term Disability Funds. In this report, information on these three funds is presented in separate sections, as part of Significant Citywide Issues.

Contributions to the Risk Management Administration Fund

City departments contribute to the Risk Management Administration Fund, on a per employee basis, as part of Fringe Benefits. Fringe benefits are non-wage related costs related to personnel, such as Worker' Compensation, Long-Term Disability, the Actuarially Determined Contribution pension payment, Flexible Benefits, and Medicare.

General Fund contributions of \$6.5 million comprise approximately 66% of the contributions to the Risk Management Administration Fund, with Non-General Fund departments contributing \$3.3 million, or approximately 34%. These contributions make up 97% of the revenues to the Risk Management fund.

Risk Management Administration Fund Balance

Risk Management Administration has indicated that available fund balance is currently projected to be \$900,000 at the end of FY

2014. However, there are anticipated adjustments to non-discretionary expenditures in the upcoming May Revision to the Budget, which may impact the Risk Management Administration Fund.

Concurrent with any adjustments to the May Revision, projected surplus should be reevaluated to see if citywide contributions to the Risk Management Fund can be reduced for FY 2015—taking into account whatever the projected surplus is at that point.

Key Performance Indicators

The data in the performance measures related to the Workers' Compensation and Public Liability Reserves will be updated for the Adopted Budget, if necessary. These measures reflect the recent changes in the City's Reserve Policy (adopted in February 2014).

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Special Promotional Programs

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for Special Promotional Programs is \$90.7 million, an increase of approximately \$3.1 million from the FY 2014 Adopted Budget. This increase is due to projected growth in transient occupancy tax revenue (TOT) of 5.5%, in addition to a small increase in the amount of

TOT Fund balance as compared to FY 2014.

Per the San Diego Municipal Code, 5.5 cents of the City's 10.5-cent TOT levy are deposited into the General Fund, while the remaining 5.0 cents are deposited into the TOT Fund and allocated for various purposes via the Special Promotional Programs budget. Of the 5.0 cents deposited into the TOT Fund, the Municipal Code requires that 4.0 cents be used solely for the pur-

SUMMARY OF SPECIAL PROMOTIONAL PROGRAMS BUDGET			
	FY 2014 ADOPTED	FY 2015 PROPOSED	CHANGE
REVENUE			
Transient Occupancy Tax (5.0%)	\$ 79,870,455	\$ 82,841,669	\$ 2,971,214
Special Events Dept. Revenue	150,000	150,000	-
Use of TOT Fund Balance	7,579,899	7,757,844	177,945
TOTAL REVENUE	\$ 87,600,354	\$ 90,749,513	\$ 3,149,159
ALLOCATIONS			
Arts & Culture	\$ 9,552,971	\$ 9,788,441	\$ 235,470
Capital Improvements	15,647,539	20,069,638	4,422,099
<i>Balboa/MB Park Improvements</i>	1,689,234	1,675,700	(13,534)
<i>Convention Center Phase II</i>	8,057,450	12,560,650	4,503,200
<i>Qualcomm</i>	4,748,556	4,774,088	25,532
<i>Trolley Extension</i>	1,152,299	1,059,200	(93,099)
Economic Development	1,965,512	2,095,000	129,488
Major Events-Balboa Park Centennial	150,000	150,000	-
Operating Support	25,867,969	25,153,163	(714,806)
<i>Balboa Park</i>	370,766	284,300	(86,466)
<i>Convention Center</i>	4,722,550	4,600,343	(122,207)
<i>Qualcomm</i>	5,451,444	5,500,912	49,468
<i>Trolley Extension Reserve</i>	18,985	12,528	(6,457)
<i>PETCO Park</i>	14,515,750	13,815,750	(700,000)
<i>Special Events Department</i>	788,474	939,330	150,856
Discretionary TOT to GF	15,554,091	16,168,334	614,243
GF Promotional-Related	18,862,272	17,324,937	(1,537,335)
TOTAL ALLOCATIONS	\$ 87,600,354	\$ 90,749,513	\$ 3,149,159

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pose of promoting the City, while the remaining 1.0 cent can be used for any purpose as directed by the City Council.

PETCO Park Fund

The FY 2015 TOT allocation to the PETCO Park Fund is \$13.8 million, a decrease of \$0.7 million from the FY 2014 Adopted Budget due to the one-time use of remaining balance in the PETCO Park operating fund. Debt service on the PETCO Park Bonds was previously paid by the redevelopment Successor Agency in FY 2013 (pursuant to a Cooperation Agreement with the former Redevelopment Agency) but was later determined to be an unenforceable Successor Agency obligation, and the City was required to pay the full debt service beginning in FY 2014 and this continues in the FY 2015 Proposed Budget, with \$11.3 million of the \$13.8 million going to debt service.

Mission Bay / Balboa Park Improvement Fund

The FY 2014 Proposed TOT allocation for the Mission Bay / Balboa Park Fund is \$2.0 million, a decrease of approximately \$100,000 from the FY 2014 Adopted Budget.

Qualcomm Stadium Operations Fund

The budgeted transfer to the Qualcomm Stadium Operations Fund for debt service and operating support in the FY 2015 Proposed Budget is \$10.3 million, and increase of approximately \$75,000 mainly due to a scheduled increase in required debt service.

Trolley Extension Reserve Fund

The budgeted transfer to the trolley extension reserve fund in the FY 2015 Proposed Budget decreased by approximately \$100,000. This decrease is related to a decline in debt service.

Transfer to Convention Center Administration and New Convention Facilities Funds

The transfer to the convention center expansion and facility funds has increased in the FY 2015 Proposed Budget from the FY 2014 Budget by \$4.4 million or 34.2 percent. This increase is due to the agreement between the City of San Diego and the San Diego Unified Port District expiring in FY 2015 where the Port District would contribute \$4.5 million in debt service annually for the repayment of convention center expansion bonds. Due to the expiration of this agreement, the City of San Diego is required to pay the entire debt service amount beginning in FY 2015 and beyond.

Discretionary TOT to the General Fund

In addition to the 5.5 cent General Fund TOT addressed in the major revenues section of this report, the General Fund receives 1.0 cent of TOT revenue as a discretionary transfer. Due to an increase in the total 10.5 cent TOT projection, the discretionary TOT transfer to the General Fund is \$16.2 million, which is an increase of \$0.6 million from the FY 2014 Adopted Budget. These funds are used to support overall operating expenditures in the General Fund.

Arts & Culture Funding

The FY 2015 Proposed TOT allocation for Arts & Culture is \$9.8 million, which is an

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increase of approximately \$240,000 above the FY 2014 Budget. The Proposed Budget includes \$1.0 million for the Commission for Arts and Culture Department; \$7.1 million in grant funds for arts and cultural programs, activities and festivals; \$1.2 million in funding for the Penny for the Arts Blueprint; and \$425,000 in funding for Mayor/City Council and Public Art allocations. We would note that though funding to the Department has increased by \$240,000 for FY 2015, the total TOT allocation percentage has declined marginally from 5.7% of TOT in FY 2014 to 5.6% of TOT in FY 2015. The reason for this marginal decline, despite the total dollar funding increasing, is due to a \$4.5 million increase in TOT for debt service for the Convention Center based on the end to the City's agreement with the Port District, which increases the TOT percent allocation to capital improvements.

The \$1.2 million allocated in the FY 2015 Proposed Budget for funding the Penny for the Arts Blueprint is an increase of \$200,000 from the FY 2014 Budget. The Penny for the Arts Five-Year Blueprint (Blueprint) was adopted by the City Council on October 22, 2012. Full funding of the Blueprint as adopted would restore Arts, Culture, and Community Festivals allocations within the annual Special Promotional Programs budget to FY 2002 funding levels (though funding per the Blueprint is not mandated). The Blueprint outlined that 0.85 of one cent (\$0.0085) of the 10.5 cent total TOT would be allocated to the Penny for the Arts by FY 2015. Based on the total TOT projection of \$174.0 million in the FY 2015 Proposed Budget, fully implementing the plan would require \$14.1 million to be

devoted to the Penny for the Arts in FY 2015, an increase of approximately \$12.8 million above the FY 2015 Proposed Budget level of funding.

The Commission has not approved a current distribution plan for the \$1.2 million in Penny for the Arts funding; however, it will be in accordance with the Blueprint. The Commission is anticipated to approve a funding plan on April 25, 2014 and the Commission will have a plan in place to present to City Council at their budget hearing on May 7, 2014.

General Fund "Promotion-Related" Expenditures

In FY 2009, the City began allocating TOT revenues for promotion-related expenses within the General Fund, such as maintenance of parks and facilities in frequently visited areas in compliance with the Municipal Code requirement for promotional funding while still benefitting the General Fund.

Over the past several years this practice has been continued and expanded. In FY 2015, TOT allocations for General Fund promotion-related expenditures total \$17.3 million, an decrease of \$1.5 million from FY 2014. The majority of this funding is allocated to the Park and Recreation Department, as reflected in the table on the following page. The \$1.5 million decrease in General Fund tourism and promotions funding is due to a reduction in the allocation to the Parks & Recreation Department.

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Issues to Consider

Use of Transient Occupancy Fund Balance

With the substantial growth in TOT receipts in FY 2011-2013, collections in excess of budgeted disbursements of promotional related expenses occurred, which accumulated into a sizeable fund balance by the beginning of FY 2014. In the FY 2014 Adopted Budget, \$7.6 million of this fund balance was budgeted to be used to support Special Promotional Programs. As of the development of the FY 2015 Proposed Budget, this total fund balance was \$15.3 million. After utilizing \$7.6 million in FY 2014, \$7.8 million remains, which is budgeted to be utilized in FY 2015. This \$7.8 million is anticipated to fully exhaust the TOT fund balance. We would note that this one-time revenue source has been utilized to reduce the negative revenue effects of the City having to increase their debt service contribution for PETCO Park by \$4.5 million. Without this one-time fund balance, the amount of funding going to the Park & Recreation Department under promotional related funding would be dramatically reduced, which is anticipated to occur in FY 2016.

GENERAL FUND PROMOTION RELATED FUNDING			
GENERAL FUND DEPARTMENT	FY 2014 ADOPTED	FY 2015 PROPOSED	CHANGE
Park & Recreation	\$ 16,825,072	\$ 15,237,737	\$ (1,587,335)
Facilities Division	700,000	700,000	-
Street Division	400,000	400,000	-
Development Services	332,200	332,200	-
Community & Legislative Services	180,000	180,000	-
TOT Admin / Various	425,000	475,000	50,000
TOTAL ALLOCATIONS	\$ 18,862,272	\$ 17,324,937	\$ (1,537,335)

Department Review

Transportation & Storm Water

Transportation & Stormwater (TSW) is responsible for the operation and maintenance of streets, sidewalks, and storm drains, and plans and coordinates the City's right-of-way. The Department also performs traffic and transportation engineering and leads efforts to protect and improve water quality of rivers, creeks, bays, and the ocean. To accomplish these missions, TSW has four divisions:

- Right-of-Way (ROW) Management
- Storm Water
- Street
- Transportation Engineering Operations (TEO)

In addition to the General Fund, the Department receives both operating and Capital Improvement Program (CIP) funds from various sources, including the Prop 42 Replacement – Transportation Relief Fund, Underground Surcharge Fund, Gasoline Tax, TransNet, and Storm Drain Fund.

Mayor's FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for TSW is \$166.4 million, an increase of \$7.7 million or 4.9% above the FY 2014 Adopted Budget. The Proposed Budget also includes a net increase of 15.93 General Fund FTEs. Department General Fund revenues are budgeted at \$48.2 million, an increase of

SUMMARY OF TSW BUDGET CHANGES					
	FTE	PE	NPE	Total	Revenue
Fiscal Year 2014 Budget	466.40	\$ 42,867,357	\$ 115,816,464	\$ 158,683,821	\$ 115,450,027
Mayor's Fiscal Year 2015 Proposed Budget Changes					
Salaries & Wages					-
Stormwater Permit Requirement Additions	9.67	820,431	5,515,000	6,335,431	
Addition of Sidewalk Condition/Needs Assessment Personnel	5.00	104,964		104,964	
Addition of Street Resurfacing Engineers	4.00	388,989		388,989	388,989
New Positions for Street/Sidewalk Alternative Proposal	14.00	944,024	(944,024)		-
Addition of Engineers to support Undergrounding	2.00	206,560		206,560	
Transfer of Engineers from Public Works ECP to Undergrounding	2.00	197,305		197,305	
Zero-based adjustment to Hourly Personnel	(9.91)	(280,562)		(280,562)	
Salary and Benefit Adjustments	(5.83)	(1,097,406)		(1,097,406)	-
Major Department Revenues					-
Addition of Parking Meter Revenue	-	-		-	1,158,000
Reduction of Prop 42 Expenditures and Revenues			(5,000,000)	(5,000,000)	(5,092,280)
Revised Revenue Projections	-			-	1,319,413
Other Adjustments					
South Chollas Lnadfill/Stormwater Improvements			2,584,000	2,584,000	
One-Time Sidewalk and Street Light Improvements			1,400,000	1,400,000	
Street Condition Assessment			560,000	560,000	
Increase in Undergrounding Surcharge Expenditures			1,018,433	1,018,433	
Non-Discretionary and Equipment/IT Related Adjustments	-	-	2,020,726	2,020,726	
One-Time Reductions and Annualizations	-	-	(695,279)	(695,279)	
Other Adjustments		207,748	(207,748)		-
<i>Subtotal</i>	20.93	1,284,305	7,154,135	7,743,161	(2,225,878)
Mayor's Fiscal Year 2015 Proposed Budget	487.33	\$ 44,359,410	\$ 122,067,572	\$ 166,426,982	\$ 113,224,149

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SUMMARY OF CHANGES IN TSW GENERAL FUND EXPENDITURES				
	FY 2014	FY 2015	\$ CHANGE	% CHANGE
Personnel				
Salaries and Wages	\$ 24,340,079	\$ 25,034,662	\$ 694,583	2.9%
Fringe Benefits	18,239,470	18,514,178	274,708	1.5%
Personnel Subtotal	\$ 42,579,549	\$ 43,548,840	\$ 969,291	2.3%
Non-Personnel				
Supplies	\$ 5,329,905	\$ 5,411,845	\$ 81,940	1.5%
Contracts	28,158,618	34,347,565	6,188,947	22.0%
Information Technology	970,055	1,730,189	760,134	78.4%
Energy and Utilities	6,177,647	6,600,508	422,861	6.8%
Other	117,492	118,192	700	0.6%
Transfers Out	6,402,154	8,571,745	2,169,591	33.9%
Capital Expenditures	539,668	1,047,977	508,309	94.2%
Debt	1,837,381	1,978,995	141,614	7.7%
Non-Personnel Subtotal	\$ 49,532,920	\$ 59,807,017	\$ 10,274,097	20.7%
TOTAL TSW	\$ 92,112,469	\$ 103,355,857	\$ 10,274,097	11.2%

\$1.4 million over FY 2014. Increases in revenues are largely attributable to a \$1.2 million increase in parking meter revenue, a \$536,000 increase in charges for service and a \$356,000 increase in fines, forfeitures, and penalties.

ROW Management

The FY 2015 Proposed Budget includes a one-time transfer of approximately \$2.1 million to pay for South Chollas Landfill storm water Improvements; of this amount, roughly 55.6% is paid by the Storm Water Division, with the remainder paid by the Streets Division.

The ROW Management Division is responsible for right-of-way planning, control, and coordination between City departments, franchise utilities, developers, and other private entities that perform work in the public right of way. The Division also plans and manages the Utilities Undergrounding Pro-

gram, which is funded through the Underground Surcharge Fund.

Changes to Budget

The FY 2015 Proposed Budget for ROW Management in the General Fund totals approximately \$2.0 million, an increase of approximately \$574,000 or 41% over the FY 2014 Adopted Budget. The Proposed Budget also includes 14.00 FTEs, an increase of 3.00 FTEs from FY 2014, which largely account for the increased expenditures.

The FY 2015 Proposed Budget also includes \$50.6 million in Underground Surcharge Fund expenditures, an increase of \$1.5 million or 3.1% from FY 2014. The budget for the Undergrounding Program also includes 7.00 FTEs, an increase of 5.00 FTEs from the FY 2014 Adopted Budget, to support utilities undergrounding work. These consist of 2.00 new Assistant Engineers, the transfer of 1.00 Principle Engineering Aide and 1.00 Junior Engineering Aid from the

Department Review

Public Works – Engineering & Capital Projects Department to the TSW Department, and 1.00 Associate Engineer from the General Fund portion of TSW to the Underground Surcharge Fund portion.

Storm Water

The Storm Water Division leads the City's efforts to protect and improve the quality of rivers, creeks, bays and the ocean. The Division's efforts are focused on ensuring compliance with the Municipal Storm Water Permit and other surface water quality regulations issued by governing bodies, as well as flood risk management activities.

The FY 2015 budget process is the first budget since the new Municipal Storm Water Permit (permit) was adopted on May 8, 2013. As discussed in the "Storm Water Compliance" section of this report, the new permit mandates more stringent regulations which will require a significant increase in municipal costs to address compliance over the next several years.

With the adoption of the new permit, the City worked during FY 2014 to determine and incorporate costs of both compliance and flood risk management activities into the Watershed Asset Management Plan (WAMP) which was released in July 2013. The WAMP is used by the division as a planning tool to project how much funding may be needed for compliance, including Total Maximum Daily Load (TMDL) and Areas of Special Biological Significance (ASBS) requirements with forthcoming compliance milestones, and also includes estimates to address their deferred capital backlog and operations for all storm water activities.

During the FY 2015 budget process, the Division and the City used the WAMP as a framework for determining the appropriate level of funding allocated for the FY 2015 Proposed Budget. This is a helpful tool in the face of significant compliance costs currently estimated at about \$882.2 million over the next five years (FY 2015 to FY 2019) and \$3.9 billion over the next 17 years¹. Division and City staff are working

SUMMARY OF TSW EXPENDITURES						
	FY2014 FTE	FY 2015 FTE	CHANGE	FY 2014 \$	FY 2015 \$	CHANGE
General Fund						
Administration & Right of Way	11.00	14.00	3.00	\$ 1,398,151	\$ 1,971,955	\$ 573,804
Storm Water	126.56	134.23	7.67	35,100,865	44,795,754	9,694,889
Street	266.84	273.10	6.26	44,519,889	48,495,837	3,975,948
Transportation Engineering Operations	60.00	59.00	(1.00)	11,093,564	8,092,311	(3,001,253)
<i>Subtotal General Fund</i>		480.33	480.33	92,112,469	103,355,857	11,243,388
Non-General Fund						
Prop 42 Replacement - Transportation Relief	-	-	-	17,478,416	12,478,416	(5,000,000)
Underground Surcharge Fund	2.00	7.00	5.00	49,092,936	50,592,739	1,499,803
<i>Subtotal Non-General Fund</i>	2.00	7.00	5.00	66,571,352	63,071,155	(3,500,197)
TOTAL TSW	2.00	487.33	485.33	\$ 158,683,821	\$ 166,427,012	\$ 7,743,191

¹These estimates include full General Fund operation and CIP needs and are derived from the City's WAMP November 2013 estimates.

Department Review

to prioritize compliance needs and continue to balance the risk of deferring compliance and flood risk management activities with limited available funding.

Changes to Budget

As discussed in the “Storm Water Compliance” section, the General Fund is the primary funding source for the Division and its activities. The FY 2015 Proposed Budget illustrates the City’s effort to begin to address compliance costs in the context of limited General Fund resources and competing priorities.

The FY 2015 Proposed Budget for the Storm Water Division totals \$44.8 million, a \$9.7 million or 28.0% over FY 2014. The increase is mostly attributable to an addition of 9.67 FTEs and \$6.3 million for storm water compliance activities, including the maintenance and repair (M&R) of the City’s storm drain system. Additionally, funding increases related to the South Chollas Land-fill storm water improvements and South Chollas facility upgrades were also included within the Division’s budget, in response to a Notice of Violation received from the Regional Board and Local Enforcement Agency as discussed in the Environmental Services Department review of this report.

Significant Additions

Significant budget additions are characterized as follows:

- 4.67 FTEs and \$435,000 in PE and NPE for positions to support compliance activities;
- 2.00 FTEs and \$220,000 in associated PE and NPE to support M&R activities for

the City’s storm drain system and to comply with the permit;

- An addition of about \$4.5 million for a variety of professional and technical services for compliance activities, of which about \$4.1 million is associated with aiding in storm drain and channel M&R;
- 3.00 FTEs and \$1.2 million in associated PE and NPE for increased street sweeping activities, including \$550,000 in one-time costs for two new motor sweepers and a chase truck for median sweeping;
- An approximate \$2.8 million increase in transfers out attributable to the restoration of \$2.9 million in General Fund contribution to the CIP that was reduced in FY 2014;
- \$250,000 addition for Storm Water’s portion of South Chollas Facility upgrades; and
- \$423,000 addition for Storm Water’s funding portion for water quality improvements at the South Chollas Land-fill.

These additions are slightly offset by the transfer of 2.00 FTEs and associated PE of about \$269,000 from the Storm Water Division to the ROW Management Division.

Revenue Adjustments

A revenue adjustment of \$356,000 was made to account for projected increases in parking citation revenue. Additionally, \$269,000 of revenue was added to the Storm Water budget for parking meter revenue that was previously budgeted in the City Treasurer’s office. This is in response to recommendations that parking meter

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revenue collected by the Treasurer should be budgeted in the same division as the expenditures that support its collection.

CIP Budget

Storm Water's CIP includes projects to comply with regulatory requirements such as those mandated by the Municipal Storm Water permit and to replace aged and deteriorating storm drain pipes and other infrastructure.

The FY 2015 Proposed Budget for the storm water CIP includes \$3.3 million and an anticipated \$22.0 million in bond funding from Deferred Capital Bond 3 (DC 3).

The \$3.3 million consists of a \$2.9 million restoration of Storm Water's General Fund contribution that was reduced in FY 2014. Another \$450,000 related to the South Chollas facility upgrade is included in the Watershed CIP for FY 2015.

Although about \$22.0 million is anticipated for various CIP projects in FY 2015, pending litigation has stalled the first issuance of DC 3, which was originally planned to be issued during FY 2014. The status of the \$22 million in anticipated bond funding for storm water CIP projects, as well as for other important City infrastructure, is unknown at the time of the FY 2015 Proposed Budget. As described in the "Infrastructure & Financing Issues" section of this report, it is unclear when the City will receive the full anticipated funding amount, which will significantly impact the storm water infrastructure program and compliance efforts with permit regulations.

²Staff indicate that the request to bring services currently provided by the D-Max contract in-house was directed during the previous administration.

Issues to Consider

Division Budget Requests

As previously described, the Division utilized the WAMP as a guide to determine the bulk of their FY 2015 budget requests. A total of \$11.8 million and about 32.00 FTEs were requested by the Division. It should be noted that original estimates in the WAMP for the FY 2015 General Fund operating budget increase were around \$9.7 million, however, those estimates do not include fringe benefits, the South Chollas Landfill and facility upgrades, or the request to bring in-house some services that are currently conducted through a contract². Although the net increase to Storm Water's budget is about \$9.7 million, increases to the budget related to departmental requests based on the WAMP are about \$6.3 million, which are bolstered by other additions such as the restoration of a \$2.9 million General Fund contribution to the CIP and additions for the South Chollas Landfill and facility upgrades.

The Division acknowledges that although they did not receive the full amount requested for FY 2015, the funding increases that were included are a significant step in beginning to address compliance costs and regulations. As the Division continues to negotiate for more favorable standards which will be easier to attain and more cost effective, long-term estimates in the WAMP may be revised. In the short-term, however, the City remains at risk for non-compliance and associated fines, penalties, and possible mandates to building missing projects.

Department Review

Managed Competition

The street sweeping function performed by the Storm Water Division went through the managed competition process and the Most Efficient Government Organization (MEGO) was implemented in FY 2013. With the adoption of the new permit, increases in street sweeping were needed to help comply with heightened regulations.

The original estimate for managed competition related savings associated with this function was approximately \$500,000. The FY 2015 Proposed Budget adds 3.00 positions and \$1.2 million in associated costs (including \$550,000 of one-time expenditures for two new sweepers and a chase truck), effectively reducing originally expected ongoing savings from managed competition. However, it should be noted that efficiencies achieved as a result of undergoing the managed competition process remain in place. Although a higher service level and associated costs for FY 2015 are expected, the methodology relating to street sweeping cost per mile that was put into place under managed competition is still being utilized.

Storm Water Compliance Challenges

Complying with requirements for the Municipal Storm Water Permit and other surface water quality regulations is challenging for the City in the face of significant cost estimates and limited funding resources. Please refer to the “Storm Water Compliance” section of this report for more information regarding compliance challenges.

Street

The Street division maintains and repairs all streets, alleys, sidewalks, bridges, guardrails, and fences. This includes administering annual resurfacing and slurry seal contracts; performing traffic lane striping; and painting and removing traffic markings and legends. Street Division also maintains and repairs street lights and traffic signals, signs, and street trees.

In addition to the General Fund, Street Division receives funds for operations and maintenance from other sources, including:

- Prop 42 Replacement – Transportation Relief Fund
- TransNet; and
- Gasoline Tax

Changes to Budget

The FY 2015 Proposed Budget for the Street Division totals approximately \$48.5 million, an increase of \$4.0 million or 8.9% from the FY 2014 Adopted Budget. The Proposed Budget includes 273.10 FTEs, a net increase of 6.26 FTEs from the FY 2014 Adopted Budget. Of these FTE increases, 4.00 are for street resurfacing projects, and are funded through Proposition 42. Other significant changes in Street FTEs are addressed below.

TransNet and Gas Tax

TransNet revenues in the FY 2015 Proposed Budget total \$30.0 million, an increase of approximately \$831,000 or 2.8% over the FY 2014 Adopted Budget. This increase is largely offset by a decline in Gas

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Tax revenue, which has declined by \$660,000 or 3.2% to a total of \$20.1 million in the FY 2015 Proposed Budget.

Sidewalk and Street Lights

The FY 2015 Proposed Budget includes the addition of 5.00 FTEs and \$105,000 of related costs to complete the sidewalk assessment program that began in FY 2014. The Proposed Budget also includes a one-time expenditure of \$1.4 million to support improvements to the City's sidewalks and streetlights, though it does not propose a specific expenditure plan for that \$1.4 million. The Department has indicated that it will likely use the funding on the following priorities, though it has not determined how the funding will be distributed:

- Addressing Missing Sidewalks in Community Plans
- Installing Missing Streetlights (costs per street light range from \$2,000 when adding lights to existing poles, to \$15,000 when installing a new pole and light)
- Sidewalk Replacement and Repairs
- Increasing the City's share of the sidewalk cost-share program from 50% to 75%
- Repairing Series Circuits

The FY 2015 Proposed Budget also includes the addition of 14.00 FTEs as part of the Streets/Sidewalk Maintenance Alternate Efficiencies proposal. The Proposed Budget assumes that all personnel expenses associated with these positions will be offset by a reduction in the amount of funding necessary for contracts with outside entities that

provide for street repairs. The actual reduction in contract expenditures and the number and magnitude of street repairs should be monitored throughout the year to determine if these positions are ultimately self-sufficient.

Tree Maintenance and Trimming

Street Division also provides maintenance for trees in the public right of way, including trimming, removal, planting, and stump grinding. The FY 2015 Proposed Budget includes the transfer of 1.00 FTEs in the form of a Horticulturist from ROW to Street to provide for tree-related services. \$40,000 of revenue from the Utilities Undergrounding Fund is also transferred to the Street Division, resulting in no net General Fund Impact.

We do note that a contract for tree trimming services was recently cancelled, and sent back to Department staff to rebid. Staff estimates that the rebidding process will take six months; associated changes to expenditures may be necessary upon receipt of new bids.

Street Resurfacing Program

The Street Division's resurfacing program for asphalt streets includes two primary treatments: slurry seal and asphalt overlay. Slurry seal requires the application of a thin layer of up to one-quarter inch thick seal coat treatment to preserve asphalt in good condition, and is considered to be a form of maintenance. Asphalt overlay is the placement of a new layer of 1-3 inch thick asphalt over a worn out street surface, and is considered a capital project, funded from the CIP budget.

Department Review

TSW staff is currently in the process of developing details of its resurfacing program; the FY 2015 Proposed Budget includes plans to resurface 95 miles of roads, up from 80 in the FY 2014 Adopted Budget.

Issues for Consideration

Street Damage Fee

The FY 2014 Adopted Budget included \$2.0 million in revenue from a Street Damage Fee, which assesses a fee of 25% the cost of street repairs when other entities trench or otherwise damage City streets as part of their operations. While this fee is expected to increase to 50% of full cost recover in FY 2015, actual revenue in FY 2014 was below that projected, and the total amount of revenue expected in the FY 2015 Proposed Budget has remained flat. Given tight budgetary constraints, Council may wish to consider increasing the fee to full cost recover, which could increase the amount of resurfacing performed in FY 2015 and beyond.

Graffiti Abatement Program

In response to a recent audit by the City Auditor on the City's Graffiti Abatement Program, the Street Division is currently preparing a pilot program that will allow it to be the main point of contact for all graffiti complaints in the City; at present graffiti complaints and removal are handled by multiple different departments, creating confusion as to which department should be taking graffiti complaints and handling removal.

Street Division plans on beginning an 8-month pilot during FY 2015. The pilot will occur during the latter half of the fiscal year, and costs necessary to fund the pilot have not yet been determined. Consequently, no funding is included in the budget for the pi-

lot program; addition or reallocation of funds may therefore be necessary during the Mid-Year review. Should the pilot prove successful, funding for full and permanent implementation should be considered during the FY 2016 budget.

Transportation Engineering Operations (TEO)

The TEO Division serves as the asset manager of the City's roadway infrastructure within the public right of way. These responsibilities include performing operational functions for the City's transportation systems and planning and programming CIP projects.

Changes to Budget

The FY 2015 Proposed Budget for TEO is \$8.1 million, a decrease of approximately \$3.0 million or 27% from the FY 2014 Adopted Budget. The Division's FY 2014 Adopted Budget included a one-time expenditure of \$2.4 million from Service Authority for Freeway Emergencies (SAFE) funds; the decrease in the Division's budget is largely due to the reduction of this one-time funding. The Proposed Budget for the Division includes 59.00 FTEs, a decrease of 1.00 FTE from FY 2014.

Key Performance Measures

The table on the following page reflects performance measure targets for FY 2015 in comparison to FY 2010 and FY 2005.

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Measure	Actual FY 2005	Actual FY 2010	Target FY 2015
Streets Repaved/Overlaid (miles)	7	43	95
Streets Slurry Sealed (miles)	20	68	125
Street Sweeping (miles)	117,901	97,000	121,000

* Target - FY 2009 actual was 70.4B

** Total sewer spills

Department Review

Other Departments

Airports

The FY 2015 Proposed Budget for the Airports Division is approximately \$5.1 million, a decrease of approximately \$661,000 from the FY 2014 Adopted Budget. Fund revenues are budgeted at \$4.8 million, an increase of approximately \$89,000 from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- An increase of approximately \$550,000 in one-time expenditures to restore sensitive habitat on a site remote from the Montgomery Field Localizer Antenna.
- A decrease of approximately \$1.4 million of FY 2014 one-time revenues and expenditures, mainly related to the maintenance of facilities, runways, and taxiways for Montgomery Field and Brown Field Airports.

Ethics Commission

The Ethics Commission department funding included in the FY 2015 Proposed Budget increased by approximately \$16,000 from the FY 2014 Adopted Budget, or 1.6 percent. This increase is primarily attributable to increases in salary and wages for all 5.0 FTEs in the department, totaling approximately \$20,000, which is offset by savings in

non personnel expenditures.

As noted in our Office's review of the FY 2014 Proposed Budget, there was a reallocation of personnel budget to contractual expenditures for a net zero impact. This was to fund part-time legal counsel and costs associated with court hearings, including administrative law judges and court reporters, among others. This shift in expenditures remains unchanged in the FY 2015 Proposed Budget.

Internal Operations

Internal Operations is a new oversight department that includes 1.00 Deputy Chief Operating Officer (DCOO) and .50 of an Executive Secretary position included in the Mayor's reorganization plan which was presented to Council on October 28, 2013. The FY 2015 Proposed Budget for Internal Operations is approximately \$389,000, primarily for personnel expense with approximately \$13,000 for NPE. There is no revenue budgeted for Internal Operations.

The DCOO of Internal Operations is responsible for overseeing day-to-day operations for the Internal Operations Branch that includes the following departments:

- Analytics and Performance Management
- Human Resources
- Information Technology
- Purchasing & Contracting

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- Real Estate Assets

The mission statement for the Internal Operations Branch is: “To provide high-quality City business operations and administrative support to achieve an efficient, effective, and customer-service-focused organization.”

Neighborhood Services

In October 2013, the City Council adopted a reorganization of the City’s management structure to better support the City’s functions and its ability to fulfill City objectives. As part of this reorganization, the Neighborhood Services Branch was created. The Neighborhood Services Branch Deputy Chief Operation Officer reports directly to the Assistant Chief Operating Officer. The newly developed Branch is responsible for overseeing the daily operations for the following departments and commissions:

- Citizens’ Review Board on Police Practices
- Commission for Arts& Culture
- Commission on Gang Prevention & Intervention
- Development Services Department
- Human Relations Commission Department
- Library Department
- Park and Recreation Department
- Planning, Neighborhoods, and Economic Development

Mayor’s FY 2015 Proposed Adjustments

The FY 2015 Proposed Budget for the Neighborhood Services Branch totals ap-

proximately \$917,000 with 5.50 FTEs. As this is a newly developed branch, the entire budget and FTEs will be considered adjustments from the FY 2014 Adopted Budget.

Significant Budget Adjustments

The FY 2015 Proposed Budget includes the following significant budget adjustments:

- *Management Reorganization* - The FY 2015 Proposed Budget includes 1.50 FTEs (Deputy Chief Operating Officer and 0.50 Executive Secretary) and approximately \$380,000 in expenditures related to establishing the management structure for the new Branch.
- *Transfer of Boards and Commissions* - The FY 2015 Proposed Budget includes 4.00 FTEs and approximately \$515,000 in expenditures related to the transfer of the following board and commissions to the Neighborhood Services Branch:
 - Human Relations Commission and Citizens’ Review Board from the Human Resources Department; and
 - Gang Commission from the Administration Department

Office of the CFO

The FY 2015 Proposed Budget for the Office of the CFO is approximately \$567,000, a reduction of approximately \$424,000 from the FY 2014 Budget. This budget includes 1.00 CFO and 1.00 Executive Secretary. There is no revenue budgeted for the Office is FY 2015.

The budget reduction reflects the transfer of the Corporate Partnerships and Del-

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opment Program from the Office of the CFO to the Office of the Assistant COO. This transfer includes 3.00 FTEs , approximately \$441,000 of PE/NPE and \$450,000 of budgeted revenue forecasted to be generated by the Corporate Partnership Program in FY 2015.

Office of the COO

The FY 2015 Proposed Budget for the Office of the COO is approximately \$926,000, an increase of approximately \$357,000 from the FY 2014 Budget. The budget includes 1.00 COO, 1.00 Confidential Secretary to the COO, 2.00 FTEs in the Docket Office and 0.35 FTE for hourly personnel. There is no revenue budgeted for the Office of the COO.

The Docket Office function was transferred into the Office of the COO budget from the dissolved Administration Department. This transfer includes 2.00 FTEs (1.00 Program Manager and 1.00 Senior Legislative Recorder) and approximately \$307,000 of

Office of Homeland Security

PE/NPE.

The FY 2015 Proposed Budget for the Office of Homeland Security (OHS) is \$2.0 million, an increase of approximately \$300,000 from the FY 2014 Budget. The FY 2015 Proposed Budget results in an increase of 0.20 FTE, for a total of 13.60 FTEs in the office. The change to FTE reflects an adjustment of approximately \$42,000 in increased expenditures for non-standard hour per-

sonnel funding. A budget addition of \$5,200 will fund the acquisition of ten satellite hot-spot devices. Other additions include a total of \$239,000 in increased expenditures for salary and benefit adjustments, information technology, and non-discretionary cost increases. Budgeted revenue for OHS remains unchanged at \$931,000.

The Office of the IBA funding included in

Office of the IBA

the FY 2015 Proposed Budget is \$1.7 million, which is a decrease of approximately \$39,000 or 2.2% from the FY 2014 Adopted Budget. This change is primarily attributable to a decrease in fringe benefits, specifically the retirement ADC and Worker's Compensation contributions.

PETCO Park

The FY 2015 Proposed Budget for the PETCO Park Fund is approximately \$17.5 million, an increase of approximately \$138,000 from the FY 2014 Adopted Budget. Fund revenue is budgeted at approximately \$15.7 million, a decrease of approximately \$770,000 from FY 2014.

Significant Budget Adjustments

Significant budget adjustments include the following:

- A decrease in transfers in of approximately \$700,000 from the Transient Occupancy Tax (TOT) Fund. PETCO Park's existing fund balance, currently estimated at \$1.4 million, will be used to make up the difference, leaving approxi-

Department Review

mately \$650,000 in the balance at the end of FY 2015.

- An increase of approximately \$101,000 in expenditures for palm tree replacement, as required by the Joint Use and Management Agreement with the Padres.

Special Events

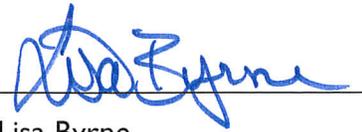
The Special Events Department is responsible for management and coordination of various events that take place on public property and is funded by a General Fund transfer of transient occupancy tax revenue.

The FY 2015 Proposed Budget for Special Events is approximately \$940,000, which is an increase of \$150,000 from the FY 2014 Adopted Budget. The increase is primarily due to the addition of 1.00 FTE (Senior Planner) and approximately \$115,000 in expenditures to support environmental review for all special events and park use permit applications for California Environmental Quality Act compliance. The addition of the position within Special Events is anticipated to expedite the needed review.

Budget Review for City Agencies

The IBA will be releasing a review of the City Retirement System on May 1st, 2014 in anticipation of its budget hearing. Additionally, budget reviews for the San Diego Housing Commission, Civic San Diego, the Successor Agency for the Former Redevelopment Agency, and the Convention Center will be released on May 5th, 2014, in anticipation of their budget hearings on May 8th, 2014.

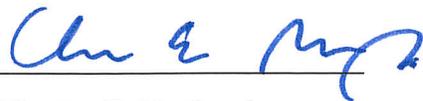
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