




City of San Diego
Councilmember Scott Sherman
Seventh District

MEMORANDUM

DATE: March 1, 2013

TO: Andrea Tevlin, Independent Budget Analyst

FROM: Councilmember Scott Sherman 

RE: Budget Priorities & Issues to Consider for Fiscal Year 2014 Budget

The last five years of economic recession has hit San Diego hard. There are fewer police officers protecting our neighborhoods, fewer lifeguards standing watch over our beaches, and decreased neighborhood service levels. These hard times, paired with skyrocketing pension costs, have created difficult decisions for city leaders over the last five years and continue to place an enormous burden on city finances.

While our economy is slowly gaining strength, there are still many difficult decisions ahead for this City Council and our Mayor. For example, the state's dissolution of Redevelopment Agencies has provided an additional \$14 million bill. Altogether, the City will likely face a staggering budget deficit of \$40 million for Fiscal Year 2013-2014.

Challenging times call for tough decisions and innovative solutions from city leaders. Never in our city's history has it been more important to find new ways to deliver neighborhood services faster, better, and more efficiently. Fortunately, some innovative solutions have already been established and simply need to be implemented, such as managed competition. The following are my budget priorities for Fiscal Year 2014:

Maintain Reserves at High Levels

The Council and Mayor should continue hold to our established policy of high reserve amounts in order to ensure that emergencies and unanticipated economic circumstances, particularly State and Federal budget impacts, will not pose insurmountable challenges. We must rigorously adhere to our goal to not only provide "rainy day" protection but also to sustain the

City's favorable credit rating. This is particularly important with the city increasing the amount of its total debt service as a percentage of General Fund revenues in FY 2014 (incorporating staff's recommendation of a 2013 \$30M CIP bond) to 4.49%.

Implement managed competition

San Diego voters passed managed competition overwhelmingly in 2006, and after years of delays this cost-saving, common-sense program was beginning to get off the ground last year. Unfortunately, that progress has stalled. In fact, budgeted savings from managed competition may not be realized in this fiscal year. It is my top budget priority to see managed competition move forward without delay, specifically street sweeping, PUD customer support, street and sidewalk maintenance, landfill operations and fleet maintenance.

\$4.1 million in savings to General Fund.

Expand Marketing Partnerships

A common-sense way to generate funds for the city is to expand marketing partnerships between the city and private entities. Official sponsorship, naming rights, advertising, and exclusive rights are just some of the forms of revenue-generating marketing partnerships available to the city. To its credit, the city already has some marketing partnerships - which have generated approximately \$16 million cumulatively in revenues. An example is the successful agreement between Toyota and San Diego Lifeguards. But we can and should do more.

\$500,000 per year in revenue.

Fully Implement and Expand Recovery Auditing

Revenue Recovery Audits focus on identifying missed opportunities to collect revenue. Currently, the City engages outside firms to collect on past-due bills that remain uncollected after the City's best efforts to collect. Additionally, the City engages outside services to perform sales/use tax and property tax audits. However, there are additional areas where the City can benefit by dedicating effort to Revenue Recovery Auditing, particularly by pursuing contract audits.

Up to \$1.5 million in uncollected revenue.

Use property tax refund from County to pay for "Computer Aided Dispatch" (CAD) system upgrade

The City of San Diego has been refunded \$6.9 million in property tax assessments which were previously overcharged by the County. The Mayor and Public Safety Committee have discussed setting those funds aside to replace the outdated computer aided dispatch (CAD) system used by the Police and Fire Departments. In addition, the City is receiving approximately \$3.5 million due to the elimination of the obsolete "SAFE" agency. These funds are available to pay for public safety, which would include replacing the CAD system. Our city's entire public safety system relies on this system, which is why I support setting those funds aside specifically for this purpose until the City can achieve the best pricing and look at innovative ways to utilize a new CAD system for additional departments, such as Park & Recreation.

Budget-neutral if the City can achieve a good price on replacing CAD system. (\$7 million in new funds from property tax refunds. Approximately \$8 million to replace CAD system)

Utilize “Service Authority for Freeway Emergencies” (SAFE) Funds for Public Safety

Assembly Bill 1572, passed by the California legislature last year, dissolved the obsolete public agency “San Diego SAFE.” The bill required that DMV assessments to pay for upkeep on emergency call boxes be managed by SANDAG, rather than the SAFE board. Approximately \$8 million in reserves will be redistributed to cities and the county to pay for transportation and motorist aid based on each city’s population, with approximately \$3.5 million coming to San Diego. These funds are available to make San Diego’s roadways safer and provide emergency services. The City should consider putting these funds toward police and an upgrade to the City’s computer aided dispatch (CAD) system.

\$3.5 million to the City for public safety.

Roll over the FY 2013 budget surplus into FY 2014

The Financial Management Department projects a \$3.6 million budgetary surplus in FY 2013, based on better-than-expected property tax and transient occupancy tax (TOT) revenues. Given the looming \$40 million budget deficit in the upcoming fiscal year, I support rolling all or the majority of that over to address next year’s projected budget deficit.

Up to \$3.6 million additional toward next year’s budget.

Support the Police Department’s plans to put more officers in our neighborhoods

The Police Department released a five-year plan in July which outlines a strategy to restore police service levels in the areas impacted most by past budget reductions. The Police Department has set FY 2009 sworn budgeted staffing levels as a goal which I support and would like to pursue beginning in FY 2014. We should begin that restoration by adding 32 new budgeted positions for sworn police officers.

If the Mayor and City Council push forward on common-sense reforms like managed competition, increased marketing partnerships throughout the city, and additional recovery auditing, this increase in public safety service levels is attainable.

Cost of \$5.7 million.

Restore Mission Trails Regional Park Campground Facilities

Much of San Diego’s identity and culture centers on the outdoors. The City of San Diego operated a campground in Mission Trails Regional Park until budget cuts closed this area to overnight camping. Because it is located relatively close to our urban neighborhoods Kumeyaay Lake provides a unique, affordable and nearby opportunity for San Diego residents to camp overnight. While the cost to restore previous service levels would be \$134,000, Park & Rec. should consider innovative ways to re-open this campground, potentially without a cost to the General Fund by utilizing volunteers and public-private partnerships.

Cost of \$134,000 (without innovative service delivery models).

Consider funding for planned Lifeguard Capital Improvement Project in North Pacific Beach

North Pacific Beach extends from Crystal Pier to Pacific Beach Point. This beach is bordered by cliffs up to 75 feet in height and is heavily used by surfers, kite surfers and sailboarders year round in addition to beachgoers. The lifeguard station there, which is staffed year-round, is little more than a railroad cargo container on the beach. As one of San Diego’s busiest beaches, it would be helpful for the lifeguards to have a proper facility there in the future.

Support the Tourism Marketing District (TMD), ensuring the city does not have to support marketing activities out of Transient Occupancy Tax (TOT) funds

Additionally, the City of San Diego is currently facing a potential additional expense which would worsen the FY 2014 budget deficit which is worth highlighting. The Tourism Marketing District, which was renewed last year by the Mayor and Council, has not been able to move forward on much-needed promotional activities and the concept of disbanding the program has been discussed.

When the TMD was established in 2008 it assumed funding support for tourism and marketing groups previously funded by the City, thereby alleviating the City's funding obligation. This resulted in an annual savings of over \$10 million for the City.

Unfortunately, there is a great deal of uncertainty about the TMDs future, despite overwhelming Council and Mayoral support of the program last year. If the TMD were allowed to disband, the City would once again have to pay for those promotional activities out of TOT funds.

The following chart from IBA Report 13-09 shows the potential cost of the TMD's dissolution:

TMD Supported Organizations/Activities Previously Funded by the City		
	FY 2008	FY 2012 ¹
SD Convention & Visitors Bureau	\$ 8,830,411	\$ 23,761,168
San Diego North ConVis	380,903	2,758,443
SD Film Commission	661,817	-
SD Bowl Game Association /Holiday Bowl	391,137	450,000
SD Sports Commission/SD Intl Sports Council ²	145,800	893,800
SD Sports Commission/SD Hall of Champions ²	75,000	-
Rock N Roll Marathon	19,519	350,000
Accessible San Diego	65,039	-
California State Games	15,427	125,000
San Diego Crew Classic	4,648	213,400
TOTAL	\$ 10,589,701	\$ 28,551,811

¹ FY 2012 totals may not reflect audited amounts.

² The SD International Sports Council and the SD Hall of Champions are now the San Diego Sports Commission.

Additionally, the TMD helps generate increased TOT funds, which support the General Fund. According to the Independent Budget Analyst, since the TMD was created in 2008 a total of \$724 million in TOT revenue was generated. FY 2013 projects \$99 million in TOT going to the General Fund.

Over \$10 million in savings, potentially upwards of \$29 million.

Change the way the City looks at budgeting: Implement zero-based budgeting

Zero-based budgeting is an approach to budgeting which reverses the working process of traditional budgeting. The City of San Diego uses traditional incremental budgeting, whereby department managers justify only variances versus past years, based on the assumption that the "baseline" is automatically approved.

By contrast, in zero-based budgeting, every line item of the budget must be approved, rather than only changes. During the budget process, no reference is made to the previous level of expenditure. Zero-based budgeting requires the budget request be re-evaluated thoroughly, starting from the zero-base. This process is independent of whether the total budget or specific line items are increasing or decreasing. Approaching our budget in this manner would require that the existence of a program or expenditure be justified in each fiscal year, as opposed to simply basing budgeting decisions on a previous year's funding level. Zero-based budgeting has been used in the private and public sectors for decades.

I encourage the Financial Management Department, the Mayor and my colleagues on the City Council to consider this new way of developing our budget in future years.

I appreciate the hard work and time spent by Mayor Jerry Sanders and recent City Councils to get the City's budget under control over the last 8 years. I understand that it has not been an easy period in our city's history and we are fortunate that despite these hard times our city is still on decent financial footing.

Please see the attached chart which displays the sources and expenditures listed above.

Councilmember Scott Sherman

FY 2014 Budget Priorities

Sources and expenditures

ONGOING SOURCES	
Managed Competition Savings	\$4,100,000
Expand Marketing Partnerships	\$500,000
Implement and Expand Recovery Auditing	\$1,500,000
Sub-Total Ongoing Funding Sources	\$6,100,000

ONE-TIME SOURCES	
Property tax refund from County	\$6,900,000
AB 1572 "SAFE" Payment	\$3,500,000
FY13 Budget Surplus	\$3,600,000
Sub-Total One-Time Funding Sources	\$14,000,000
TOTAL FUNDING SOURCES	\$20,100,000

ONGOING EXPENDITURES	
Add 32 new budgeted positions for sworn police officers	(\$5,664,000)
Kumeyaay Lake Campground	(\$134,000)
Sub-Total Ongoing Expenditures	(\$5,798,000)

ONE-TIME EXPENDITURES	
Replace CAD System	(\$8,000,000)
Sub-Total One-Time Expenditures	(\$8,000,000)
TOTAL EXPENDITURES	(\$13,798,000)

* Note: Promotional expenditures to be paid by City if TMD is not approved	(\$10,589,701)
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