
IBA

**Review of the Fiscal Year 2009
Proposed Budget**

Budget Review Committee

April 30, 2008

IBA Report 08-41

Major Sections

- Mayor's FY 2009 Budget Approach and Strategy
- FY 2009 Significant Funding Areas
- FY 2009 Budget Balancing Actions
- Comparison of Budget to Council Priorities Resolution
- Comparing FY 2008 Budget and Five-Year Outlook to FY 2009 Budget
- General Fund Revenues
- City-wide Issues
- Department Reviews
- Options for Revisions to FY 2009 Proposed Budget

Mayor's FY 2009 Budget Approach and Strategy (1)

- Addresses the City's most significant financial obligations
- Five-Year Outlook has been closely adhered to
- IBA continues to support Mayor's overarching goals
- IBA raises several technical and practical issues

Mayor's FY 2009 Budget Approach and Strategy (2)

- Budget balanced largely through position reductions
- Mayor has acknowledged negative impacts on service delivery
- Cumulative effect of past years' reductions needs to be considered

Mayor's FY 2009 Budget Approach and Strategy (3)

- No new or significant ongoing budget balancing strategies
- No new savings resulting from BPR and Managed Competition
- Use of one-time revenues
- New facilities funded through cuts in existing facilities

Mayor's FY 2009 Budget Approach and Strategy (4)

- Performance measures and targets provided for FY 2007, 2008 and 2009
- Adds valuable information to the budget process
- Information for new measures will improve as more data are available
- New “Service Impacts” section valuable, suggest greater specificity in future

Mayor's FY 2009 Budget Approach and Strategy (5)

- Budget documents discuss “The City Strategic Plan”
- Plan led to departmental goals, objectives and performance measurements
- Development of a vision for the future is vital and should include the City Council and the public

Mayor's FY 2009 Budget Approach and Strategy (6)

- Mayor has presented a balanced budget in challenging environment
- State budget deficit could still threaten City's resources
- May not know impacts until after FY 2009 final decisions
- Contingency plans are needed to address this issue

Mayor's FY 2009 Budget Approach and Strategy (7)

- City faces structural budget deficit
- Year-by-year budget balancing actions will not fix a structural deficit
- Structural solutions are needed

IBA Review and Analysis of Mayor's Proposed Budget

- Policy analysis
- Technical budget accuracy
- Best budgeting and financial practices
- Legal requirements
- Clarity and transparency for the public
- Documentation and justification of proposals
- Potential community and employee impacts
- Legislative and community priorities

IBA Review and Analysis (con't.)

- Our report does not rebalance the budget nor make final recommendations
- Report raises issues for discussion and evaluation
- Need to hear from City departments, community, City Council
- IBA Final Report with recommendations will be issued on May 30, 2008

IBA Position on Significant Funding Areas

Pension

- \$161.7M FY 09 funding
- IBA supports
- Supports ARC funding which reflects no negative amortization

IBA Position on Significant Funding Areas

General Fund Reserves

- \$6.0M FY 09 funding
- IBA generally supports
- Support 6.5% goal, question need for additional \$6.0M to achieve it

IBA Position on Significant Funding Areas

Deferred Maintenance

- \$77.5M Financing, \$6.8M Land Sales, \$21.2M Prop 1B, \$3.6M Debt Service
- TOTAL \$101.9M in FY 09 funding
- IBA supports as “bridge funding” until City can access public markets
- Financing approved by Council 4/22/08. We note these are multi-year projects and all won't be completed in FY 09

IBA Position on Significant Funding Areas

Retiree Health

- \$50.0M in FY 09 funding
- IBA supports
- Support Pay Go and trust fund

IBA Position on Significant Funding Areas

Storm Water

- Funding increased from \$48.5M in FY 08 to \$61.0M for FY 09
- IBA generally supports
- Question ability to fully expend available funding
 - \$16.7M expected to be carried over from FY 08 plus \$12.5M in new funds
- Continue to recommend new dedicated funding source

IBA Position on Significant Funding Areas

ADA Compliance

- \$10.0M in FY 09 funding
- IBA supports
- Question capacity to complete projects in FY 09, reliant on achieving land sales

IBA Position on Significant Funding Areas

Workers Compensation Reserves

- \$5.0M in FY 09 funding
- IBA supports 15% goal of outstanding claims
- Budget may provide funding in excess of 15% goal by \$1.25M

IBA Position on Significant Funding Areas

Public Liability Reserves

- \$10.0M in FY 09 funding
- IBA supports
- Consider increase to funding to ensure reserves are allowed to build given recent expenditure activity in FY 2008

IBA Position on Budget Balancing Actions

Position Reductions

- Net \$10.6M FY 09 reduction, 127 positions
- More information needed
- Impacts of service reductions need to be carefully considered
- Council needs to hear from community during hearing process

IBA Position on Budget Balancing Actions

Redevelopment Agency (CCDC) Repayment

- \$5.0M in FY 09 funding
- IBA supports
- IBA proposes two options for increasing repayment level for FY 09
 - \$5.0M to \$7.5M
 - \$5.0M to \$10.0M

IBA Position on Budget Balancing Actions

FEMA Reimbursement

- \$8.0M FY 09 funding

Prop 1B

- \$21.2M assumed in state funding for FY 09 for street-related funding

IBA Position on Budget Balancing Actions

One-time revenue from Real Estate Assets

- \$16.8M in FY 09 funding
- IBA supports
- Tied to one-time deferred maintenance/ADA needs

IBA Position on Budget Balancing Actions

Transfers from Special Promo

- \$5.0M allocated to GF in FY 09 for promotion-related expenses
- IBA supports conceptually
- Would not be needed if Redevelopment Agency Repayment is budgeted directly in the General Fund

Comparison of Budget to Council Priorities Resolution

Police

- Salary increase issue addressed
- Funds to Fill Vacancies addressed
- Equipment/Vehicles/Technology issue addressed
- Maintenance of Civilians – 24 positions reduced

Comparison of Budget to Council Priorities Resolution

Fire

- Second Helicopter Funding issue addressed, FTEs not included
- Salary Increases issue addressed
- Fire Facilities issue not addressed
- Equipment/Vehicles/Technology issue addressed
- Maintenance of civilians issue addressed

Comparison of Budget to Council Priorities Resolution

Brush Management

- Issue addressed
- Positions added to address City properties and private property inspections; grant funding received
- Allows for 1180 total acres over two years, or 590 acres annually

Comparison of Budget to Council Priorities Resolution

Park and Recreation

- **Maintenance of Recreation Center hours**
 - Issue addressed, no hours reduced
- **Maintenance of Programming and Staffing**
 - Reductions proposed
- **Maintenance of Swimming Pool Hours**
 - Three pools to close for 3.5 months, one location open for 12 months

Comparison of Budget to Council Priorities Resolution

Library

- Maintenance of Library Hours
 - Issue addressed, no hours reduced
- Maintenance of Programming and Staffing
 - Reductions proposed

Comparison of Budget to Council Priorities Resolution

Neighborhood Protection

- Maintenance of community cleanups
 - Issue addressed, 70 in 2007, 104 expected in 2008 and 2009
- Maintenance of graffiti funding
 - Position reduced, impact unknown
- Maintenance of code enforcement
 - Issue addressed, no reductions proposed

Comparison of Budget to Council Priorities Resolution

Neighborhood Protection (con't.)

- Maintenance of historic preservation staffing
 - No change and no new resources from FY08
- Inclusion of Winter Shelter funding
 - No funding included, Mayor proposes using grant funds/Housing Commission funds

Comparison of Budget to Council Priorities Resolution

- **Audit Organization addressed, staff increased from 6 to 11 for FY 2009**

General Fund Revenue

- **FY09 Proposed: \$1.19 billion**
 - \$82.3 million increase from FY 2008
- **Major Revenues - \$796.6 million**
 - 67% of total GF, but only 20% of increase
- **Other Non-Dept. Revenue - \$108.6 million**
- **Departmental Revenues - \$283.5 million**

Major GF Revenues

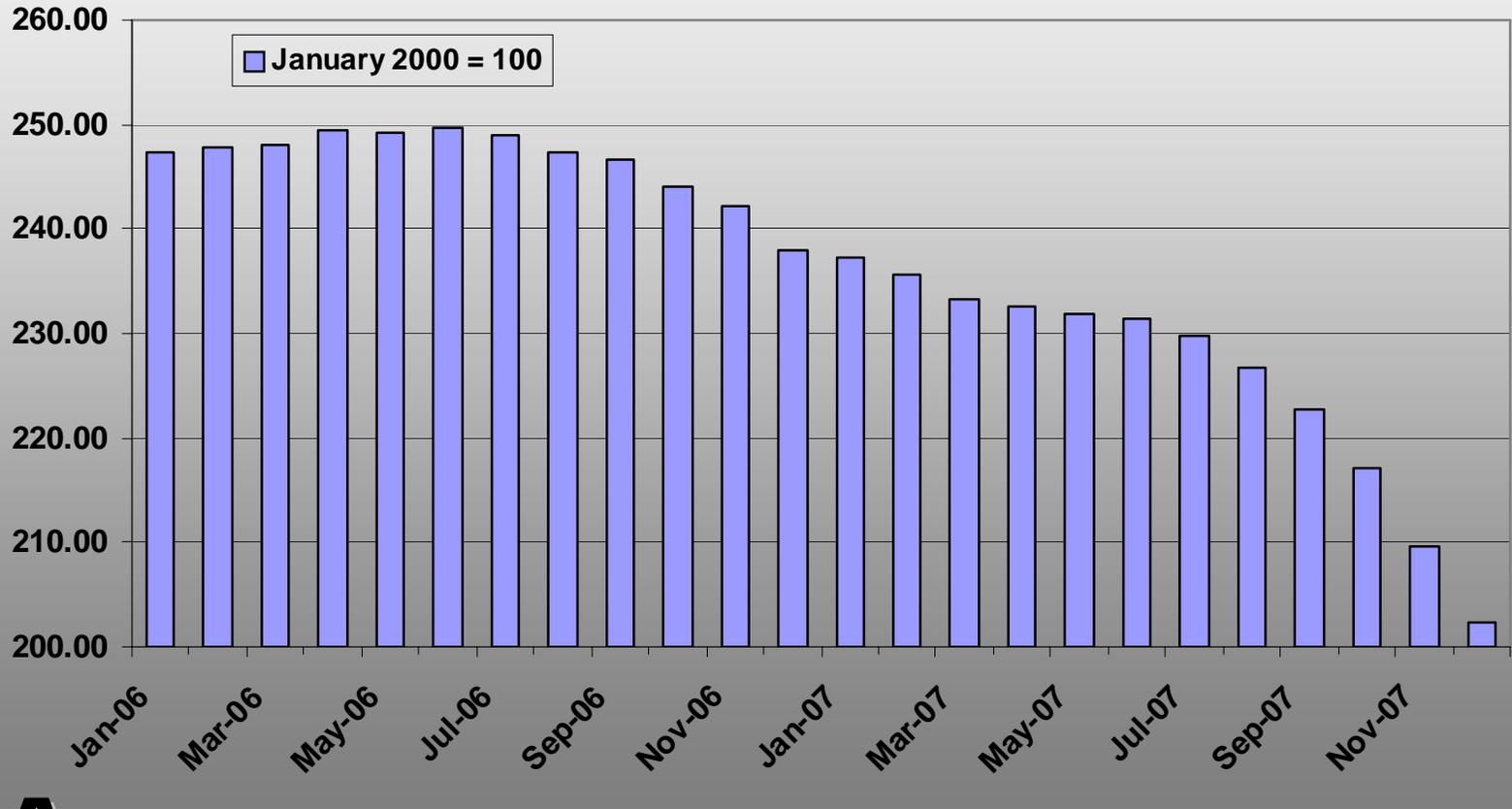
- Property tax, sales tax, TOT, franchise fees
- Growth rates unchanged from Five-Year Outlook, despite weakening economy
- Overall, some revenues do reflect slower growth than in FY 2008
- However, projections may still be too aggressive

Property Tax

- Budgeted at \$411.5 million
 - 6.0% growth
 - FY08 Projected: 8.15%
- DataQuick: Median home price down 4.8%
 - Sales down 22.1%
- Case-Shiller Index: Prices down 8.1%
- 7,349 foreclosures, up from 1,621 in CY 2006

Property Tax

Case-Schiller Home Price Index for San Diego



Property Tax

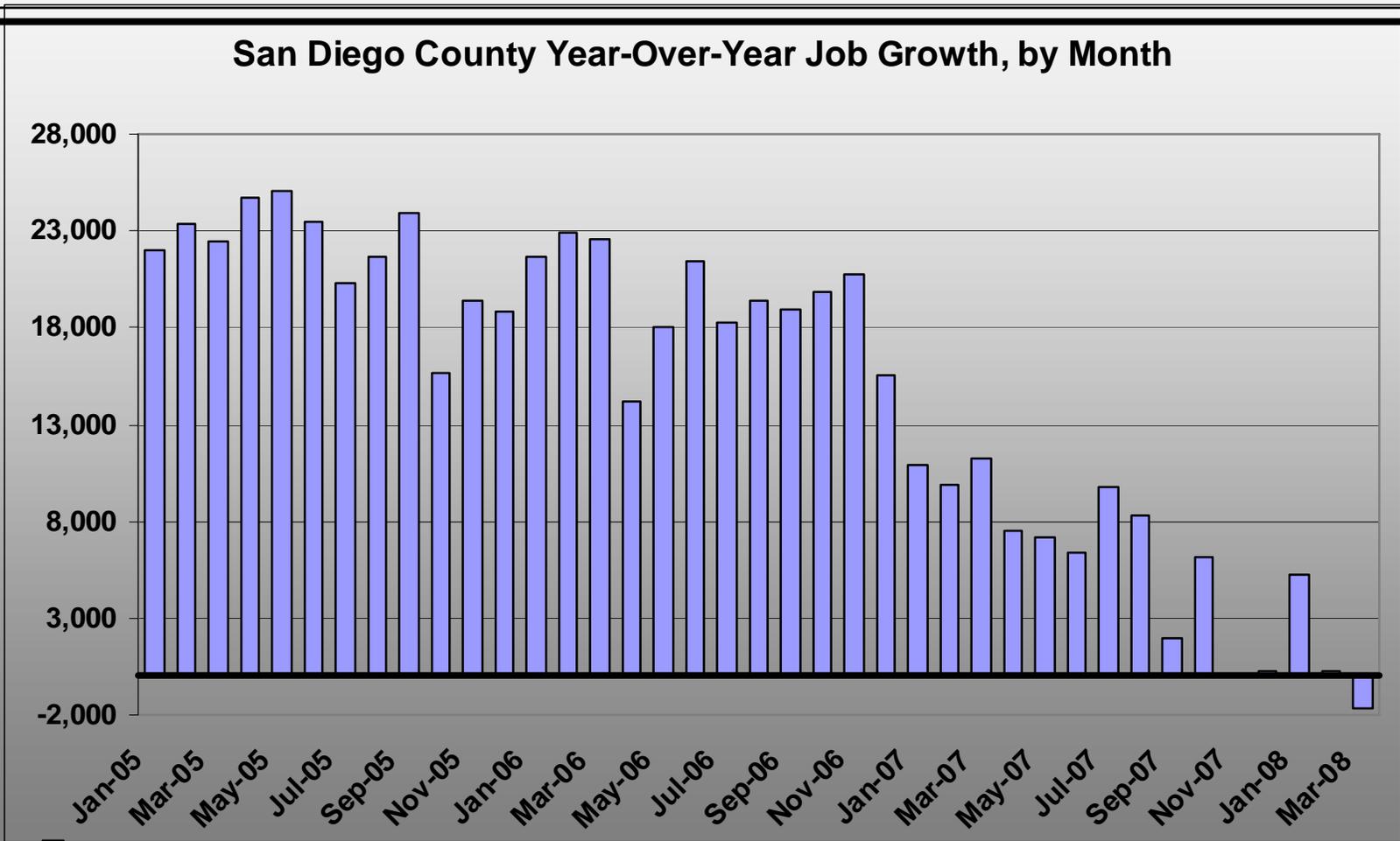
- Steep declines in Assessed Valuation buffered by Proposition 13
- Many homes are still selling for well above previous sale price
- Continued surge in foreclosures could be a concern for FY 2010
- Overall, growth projection reasonably reflects gradual slowdown in AV growth

Sales Tax

- **Proposed Budget - \$223.6 million**
 - FY09 Growth Rate: 1.25%
 - FY08 Projected: 0.35%
- **Driven by consumer spending**
- **2007 Q4 GDP: 0.6% growth**
 - UCLA Anderson: 0.4% in Q1, -0.4% in Q2 2008
- **SD County job growth very weak**
 - Just 6,600 in CY2007, down from 19,500

Sales Tax

San Diego County Year-Over-Year Job Growth, by Month



Sales Tax

- Big concern: continuing job losses
- USD Index down in 22 of last 23 months
 - Fell in March to lowest point since 1995
- Projected growth may be too aggressive if job losses continue
- Must keep close eye on employment picture
 - May 8: UCLA Forecast for San Diego County

Transient Occupancy Tax

- **Proposed Budget - \$92.0 million**
 - FY09 Growth Rate: 7.5%
 - FY08 Projected: 5.7%
- **IBA increasingly bearish on TOT since 5-Year Outlook in January**
- **TOT impacted by regional, national economic conditions**
 - As discretionary income falls, so does demand for travel

Transient Occupancy Tax

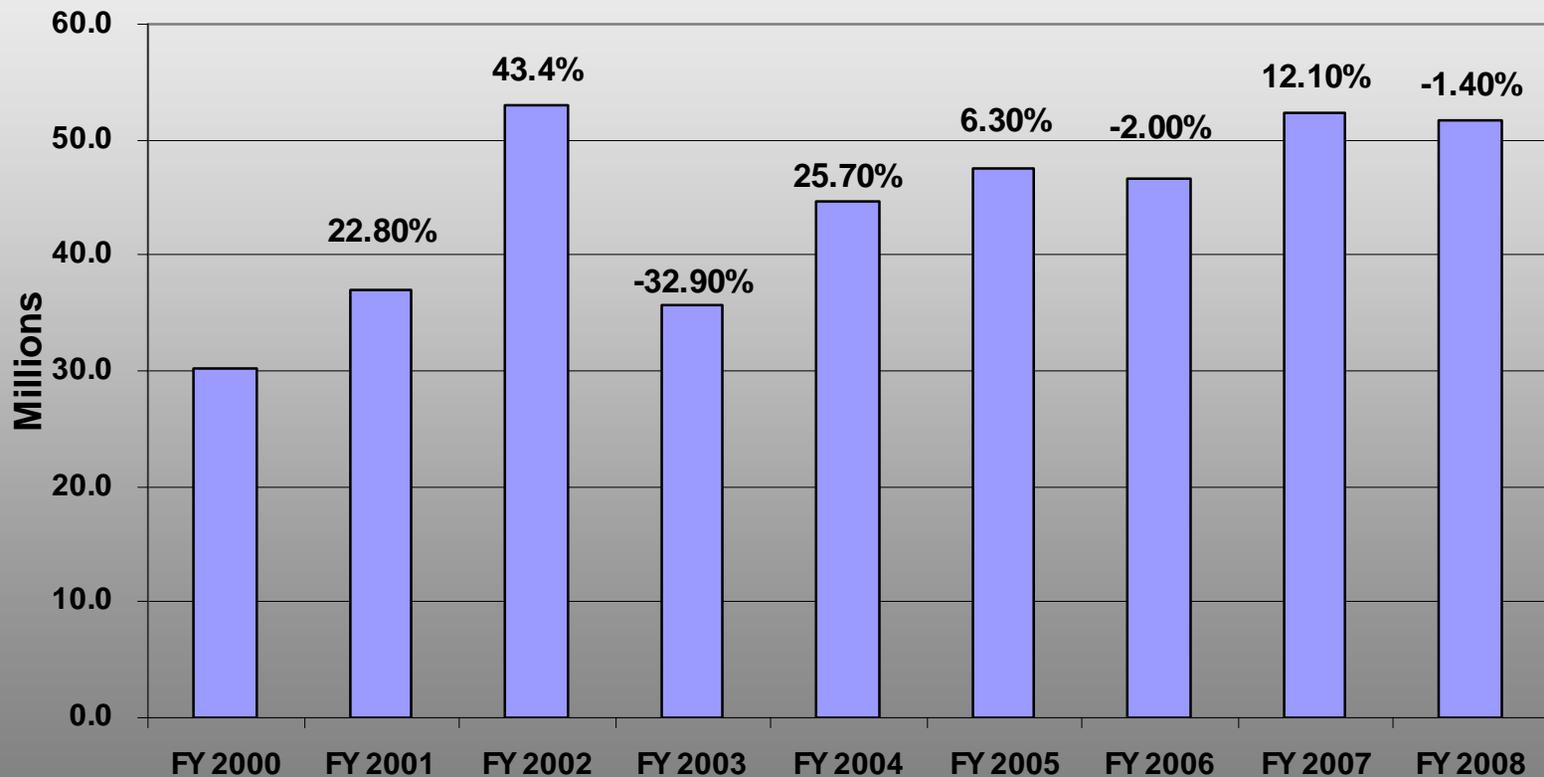
- Cost of travel increasing
 - Gas prices, airline troubles
- ConVis revised 2008 forecast downward
 - Growth in overnight visitors down to 0.9%
 - Growth in ADR down to 3%
- Projected growth rate likely overly optimistic
 - Should still see growth, but assumptions should be examined

Franchise Fees

- Proposed Budget - \$69.4 million (GF)
 - SDG&E - \$42.6 million
 - Cable - \$17.6 million
 - Refuse Hauler - \$9.1 million
- SDG&E Budgeted at 7.5% growth
 - FY 2008 Projected: -1.4% growth
 - Not sure if anomaly or economic trend
 - Trends difficult to determine

Franchise Fees

SGD&E Franchise Fees, Total Revenue and % Growth



Franchise Fees

- Cable budgeted at 6.5%
 - FY 2008 Projected 6.1%
 - Now getting revenue from AT&T (AB 2987)
 - Reasonable projection
- Refuse Hauler reduced \$1 million from FY 2008 Budget
 - Reflects reduced tonnage disposed at Miramar

Franchise Fees

- Concern with SDG&E growth, but history shows 7.5% not unreasonable
- Continued difficulty in getting information, making projections
- City must do more to gain better understanding of this significant revenue source

Other Notable Revenues

- **Booking Fees - \$0**
 - \$5.2 million decrease
- **Transfer from TOT Fund - \$16.5 million**
 - \$5.9 million increase
- **Employee Offset Savings - \$17.7 million**
 - \$3.5 million decrease
- **FEMA Reimbursement - \$8 million**
 - One-time revenue

State Impacts – LAO Proposals

- Parole Realignment
 - Potential loss of \$8.1m in safety sales tax
- Restructure Public Safety Assistance
 - Eliminate booking fees reimbursements, allow counties to charge cities - \$5.2M or higher
 - Eliminate COPS funding - \$1.5M
- Reduce Sales & Use Tax Exemptions
 - Increased sales tax revenue
 - Impact unknown

Citywide Issues

Expenditure Categories

- **IBA reviewed the six expenditure categories for General Fund and total City budget**
 - **Salaries & Wages**
 - **Fringe Benefits**
 - **Supplies & Services**
 - **Information Technology**
 - **Energy & Utilities**
 - **Equipment Outlay**
- **Provided detailed explanations for each category and comparisons to FY 2008 Budget and Five-Year Outlook**

Citywide Issues

Expenditure Categories (con't.)

- **Supplies & Services expenditure category represents 60% of total City budget**
- **IBA provided additional information about types of items that are included in Supplies & Services category, including debt payments, water purchases, funding for reserves, motive equipment usage, insurance, etc.**
- **Funding in this category goes beyond contractual services**

Citywide Issues

BPR/Managed Competition

- Extensive discussions on both processes have taken place
- Concerns about process issues, role of Council, delays in implementation
- Process changes being considered to facilitate timely implementation

Citywide Issues

BPR/Managed Comp. (con't.)

- No new significant BPR savings in FY 2009 budget
- Savings from Managed Competition anticipated FY 2010
- The results of pre-competition assessments for 16 functions expected soon
- \$900,000 requested in FY 2009 Budget for Managed Competition Consultant

Citywide Issues

Anticipated Debt Financing

- CFO estimates financial statements will be current and credit ratings could be restored by July 2008
- Three major financings anticipated:
 - Pension (\$30-50 million – June 2008)
 - Water (approx. \$550 million – late 2008)
 - Wastewater (\$370+ million – late 2008)

Citywide Issues

Anticipated Debt Financing (con't.)

- City debt affordability ratios under Debt Policy limits and rating agency guidelines.
- Long-term interest rates relatively low and stabilizing after recent market volatility

Citywide Issues

User Fees

- No User Fee adjustments included
- IBA Report 08-20, “Need for Comprehensive Annual User Fee Review as Part of the Annual Budget”:
 - Identify full cost of services
 - Determine cost recovery rates
 - Develop “target” cost recovery policies
- Mayor has committed to complete User Fee review by summer of 2008, cost recovery policy by January 2009, incorporation into FY 2010 budget process

Department Reviews

- Reviewed and analyzed all City departments
- Issues will be discussed during each Department's hearing

Options for Revisions to FY 2009 Proposed Budget

- Identified potential changes which could result in new resources/reallocation of existing resources
- More conservative approach in revenue assumptions may be warranted
- Identified unmet needs and service restorations for consideration
- No firm recommendations at this time

Potential Resource Increases/Reallocations

- 1. Increase Redevelopment Agency (CCDC) Repayment**
- 2. Reevaluate Reserves Allocation Required to Achieve 6.5% Goal**
- 3. Review Equipment Outlay Allocations for Possible Reduction**
- 4. Resolution of Booking Fees Issue**

Potential Resource Increases/Reallocations (con't.)

5. Reduction to Worker's Compensation Fund Reserves Allocation
6. Transfer of Environmental Growth Fund Balance to Offset Appropriate General Fund Expenses
7. Discuss Comptroller's Need for Temporary Help
8. Review of Citywide Election Costs

Potential Resource Increases/Reallocations (con't.)

9. Tobacco Settlement Revenues
10. Seized and Forfeited Assets
11. Potential savings attributable to Annual Audits
12. Release of A-List Project Funds
13. Potential Storm Water Savings

Potential Revenue Decrease

1. Results of IBA and CFO Analyses of Revenue Assumptions, could mean revenue reductions in May Revise and/or IBA Final Report

Priority Unmet Needs/ Service Restorations

1. Park and Recreation Service Restorations
2. Library Service Restorations
3. Graffiti Program Restoration
4. Landslide Costs
5. Equal Opportunity Contracting Reforms
6. Homeless Shelter Funding

Priority Unmet Needs/ Service Restorations (con't.)

7. Additional Audit Staff
8. Mills Act Workload
9. Non-Mayoral Departments Not Considered by Mayor (IBA, City Attorney)
10. Preventative Maintenance Staffing Reductions
11. Advanced Water Treatment Demonstration Project

Non-Cost Related Items

- Add 8.80 Fire FTE for Second Helicopter, funding already included in the budget
- Identify Funding Level of Appropriated Reserve for FY 2009 within Total Reserves Allocation

Conclusion

- No firm recommendations at this time
- Further evaluation and discussion needed
- Note of caution:
 - Revenues may need to be adjusted downward in May
 - Any new resources identified may be needed to offset revenue reductions and/or state cuts
 - Services, if restored, likely to be the first to go if City faces state cuts
- IBA Final Report with recommendations will be issued on May 30, 2008

IBA

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