

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

OCTOBER UPDATE ON  
MODIFICATIONS TO THE  
MAYOR'S PROPOSED  
FISCAL YEAR 2007 BUDGET

Date Issued: October 13, 2006

IBA Report Number: 06-47

General Fund Ongoing  
Revenue/Expenditures  
Modifications Update

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CITYWIDE RECOMMENDATIONS

		<u>FTE</u>	<u>Expense</u>	<u>Revenue</u>
Retiree Health Care and Trust Fund Establishment				
Item # 1	Add funding for Retiree Health Care and the establishment of a Retiree Health Trust Fund. Approve the Mayor's recent proposal to implement necessary reductions in various personnel accounts to accommodate this addition. This represents a net savings to the General Fund after all adjustments. The IBA cautions that these accounts should be carefully monitored to ensure proper funding levels, particularly Workers' Compensation, which will be funded at significantly lower levels than anticipated in the Proposed Budget and is not consistent with commitments to fund short-term liability reserves.	0.00	(\$883,547)	\$0

**Status:**

\$5 million in funds approved by the City Council are currently being invested. The Mayor’s Office is conducting research on trust funds in order to establish an appropriate trust fund and administration program for the City of San Diego. This research is projected to conclude by the beginning of 2007. The plan will ultimately require City Council approval. The IBA recommends that the Budget & Finance Committee request a review of the status of risk management funds such as Worker’s Compensation.

Employee Offset Savings

Item # 2	Based on Council action to securitize the City’s tobacco funding, tobacco settlement revenues (TSRs) were not budgeted in the Proposed Budget. Programs historically supported by the TSRs were budgeted, as appropriate. However, the General Fund was to be backfilled through the Employee Offset Savings, which were not included in the Proposed Budget. The funding reflected here is less than originally anticipated due to Non-Participating Manufacturer’s adjustment made to the April 2006 payment.	0.00	\$0	\$9,334,180
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**Status:**

Per the City’s action to securitize TSRs, the lost TSRs in the General Fund have been backfilled by the Employee Offset Savings. All of the Offset Savings accumulated as of June 2006 were either deposited into the Retirement Fund or were used to backfill the General Fund. As in Fiscal Year 2006, the Employee Offset Savings continues to be set aside by the City on a biweekly basis.

<u>FTE</u>	<u>Expense</u>	<u>Revenue</u>
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Remove Pension Obligation Bond Revenue and Expense

Item # 3	Per the IBA’s recommendation, POBs should be removed due to the uncertainty in implementation and the need for City Council review and approval.	0.00	(\$374 M)	(\$374 M)
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**Status:**

The City Council removed the POBs from the budget. The Mayor's Office is working on pension funding strategies, which may include POBs, that will be presented to the City Council for approval. Pension funding strategies should also be discussed in the context of the multi-year forecast that will be presented in November. The IBA is also researching pension strategies and will release a report in October 2006.

Unallocated Reserve (General Fund Reserve)

Item # 4	The Proposed Budget does not provide for a contribution to the General Reserves. Due to the anticipated growth of the General Fund in FY 2007 and several withdrawals from the reserves in FY 2006, the reserves are expected to be exceptionally low in FY 2007. With this infusion, total General Reserves are estimated to be approximately \$22 million or about 2.15%. This information is very preliminary and is based on the most recent discussions with the CFO regarding the current year status of the reserves. The IBA strongly recommends strengthening the City of San Diego's financial position through the infusion of funding into the reserves.	0.00	\$7,226,121	\$0
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**Status:**

The Fiscal Year 2007 budgeted allocation to the Unappropriated Reserve of \$7.2 million was deposited on October 9, 2006. This contribution, along with the \$31.9 million that was identified in the Fiscal Year 2006 Year-End Summary Report for deposit to the reserve, brings the current balance of the Unappropriated Reserve to approximately \$52.0 million, or 5.1 percent of the FY 2007 General Fund budget.

General Fund Revenue Adjustments

Item # 5	The IBA, in conjunction with Financial Management, is currently in the process of reviewing General Fund revenue projections. This review will be completed before the budget is voted on by the full Council. It is recommended that any adjustments in General Fund revenue projections be reflected in the General Fund reserve contribution.	0.00	\$0	TBD
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**Status:**

The FY 2007 General Fund revenue projections will be revised at the midyear adjustment, currently scheduled for late January.

**DEPARTMENT SPECIFIC MODIFICATIONS**

**Community and Economic Development**

Commission on Gang Prevention

		<u>FTE</u>	<u>Expense</u>	<u>Revenue</u>
Item # 6	This is a technical correction to the funding for the Commission on Gang Prevention, per the Mayor's Recommended Revisions due to an error in the Proposed Budget.	0.00	\$62,194	\$0

**Status:**

The Executive Director of Gang Commission, Lynn Sharpe-Underwood, was hired in July 2006. The Gang Commission will consist of 17 members from various communities and will be approved by City Council in October.

The Commission's first monthly meeting is scheduled for November 2007. The Commission will perform the following:

- Make policy recommendations to the Mayor and City Council on gang prevention, intervention, diversion and suppression methods
- Identify local, state and federal funding sources
- Identify best practices
- Identify gang prevention solutions that are part of a more comprehensive plan, and do not require funding, i.e. truancy sweeps
- Form subcommittees to analyze critical issues of gang involvement
- Network with boards, agencies and community residents on gang related issues

Staffing for Disability Services

Item # 7	As identified in the Mayor's Fiscal Year 2007 Proposed Budget Recommended Revisions, the IBA recommends the addition of 1.00 Administrative Aide II to support the Disability Services Director.	1.00	\$73,212	\$0
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**Status:**

The Personnel Department conducted a position study for the Administrative Aide II position to support the Disability Services Director, and concluded that this position should be classified as an Administrative Aide I. The Department is currently in the process of hiring this position.

## Environmental Services

### Recycling (AB 939) Fees

Item # 8	The FY 2007 Proposed Budget for Environmental Services assumed a \$3/ton increase in recycling fees, resulting in an increased cost of approximately \$1.2 million to the General Fund. It is recommended that the assumed rate increases and corresponding general fund cost be removed from the budget until such time that they are approved by Council. This also results in a revenue reduction to the Recycling Fund, which is shown in the Non-General Fund section. It should be noted that any future increase in recycling fees will have an associated General Fund impact.	0.00	(\$1,162,872)	\$0
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**Status:**

The \$3/ton increase in recycling fees that was originally assumed and reflected in the FY 2007 Proposed Budget has been removed, resulting in an expenditure reduction of approximately \$1.2 million. See the Recycling section under Non-General Fund Recommended Modifications for the commensurate impacts to the Recycling Fund.

### Increase funding for “Take Back the Streets Program”

Item # 9	The “Take Back the Streets Program,” operated by the Alpha Project, employs homeless and formerly homeless men and women to clean up the City’s streets and neighborhoods. Funding for this program previously came from CDBG funds. However, new federal restrictions will no longer allow CDBG funds to be used for this purpose.	0.00	\$300,000	\$0
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**Status:**

The Mayor’s Office, in coordination with the Environmental Services Department, has developed an alternative proposal for providing the desired services. Under the proposal, a portion of the funding will be allocated to the Alpha Project, with the balance remaining in the ESD budget, as certain services are proposed to be provided by City staff. City Council will consider this alternate proposal on October 16, 2006.

**Ethics Commission**

Vacancy Factor/Supplemental Positions

FTE      Expense      Revenue

Item # 10	Restoration of \$137,627 in vacancy savings and the addition of 1.25 supplemental positions not included in the Proposed Budget. The supplemental positions include 1.00 Program Manager and 0.25 Investigator.	1.25	\$273,379	\$0
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**Status:**

This action added filled supplemental positions to the Ethics Commission Budget and restored vacancy savings. Both of these actions have been accomplished.

Additional staffing

Item # 11	Due to a substantial increase in workload the Commission has requested, and the IBA agrees, that the addition of 1.00 Investigator and 1.00 Training Officer is warranted. The addition of a second investigator position will enable the Commission to promptly respond to complaints and to conduct investigations within the one-year time period set forth in the Commission's investigative procedures. The addition of a training officer will facilitate the continued expansion of the Commission's education and outreach programs.	2.00	\$201,359	\$0
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**Status:**

These positions were recently studied by the Personnel Department and have now been officially classified. The Ethics Commission has started to recruit for these positions with the intent of filling Investigator position first and then the Training Officer. Both of these positions should be filled by the end of the year.

## Library

### New Facilities Correction

Item # 12	This is a technical correction to the funding for the College-Rolando Branch Library, per the Mayor's recommendation, due to an error in the Proposed Budget.	0.00	\$15,575	\$0
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**Status:**

These funds were returned to the College-Rolando Branch Library as part of the final Fiscal Year 2007 Budget.

### Temporary Help Correction

Item # 13	This is a technical correction to the funding for the Otay Nestor Branch Library, per the Mayor's recommendation, due to an error in the Proposed Budget.	0.00	\$36,545	\$0
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**Status:**

These funds were returned to the Otay Nestor Branch Library budget as part of the final Fiscal Year 2007 Budget.

### Restoration of Youth-Related Programs (Youth Services Librarian)

Item # 14	The Proposed Budget includes a reduction of \$356,083 to the City's 6 to 6 Program, which has been funded through Tobacco Settlement Receipts. This proposal restores funding for youth-related programs including 1.00 Youth Services Librarian as shown here, as well as 1.00 Assistant Recreation Center Director for Robb Field, and 6.68 Hourly Recreation Leaders for citywide recreation programs in the Park and Recreation Department.	1.00	\$84,137	\$0
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**Status:**

The funding for a Youth Services Librarian II has been restored as part of the final Fiscal Year 2007 Budget. Library staff is in the final stages of a hiring process for the Youth Services Librarian II. The new position will be shared by two branch libraries – North Claremont and Claremont.



## Neighborhood Code Compliance

### Graffiti Control Program

Item # 15	The Mayor's FY 2007 Proposed Budget includes \$230,000 for the Urban Corps Contract for graffiti removal. The IBA recommends a \$378,000 increase to the FY 2007 Budget for Graffiti Control including (1) a \$250,000 increase to the Urban Corps Contract for Graffiti Removal for a total of \$480,000; and (2) the addition of one "crew" of 2.00 Utility Workers for a total of 8.00 Utility Workers to expedite the removal of graffiti.	2.00	\$378,300	\$0
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**Status:**

The contract for the Graffiti Removal is in place. The 2.00 Utility Worker positions are not filled and have not been requested to be filled at this point due to the Department currently undergoing Business Process Reengineering.

**Park and Recreation Department**

FTE      Expense      Revenue

FY 2007 New Facilities

Item # 16	When the City of San Diego builds new facilities, it is important to provide for ongoing operations and maintenance costs in each year's budget. This proposal provides for funding for FY 2007 new facilities as follows: <ul style="list-style-type: none"> <li>-Chollas Creek Enhancement</li> <li>-Edison Elementary School Joint Use</li> <li>-Hilltop Community Park Expansion</li> <li>-Naval Training Center Phase I</li> <li>-Nobel Athletic Area and Recreation Center</li> <li>-Normal Heights Elementary School Joint Use</li> <li>-Open space acres</li> <li>-Otay Valley Regional Park Phase II</li> <li>-Sunshine Berardini Fields</li> </ul>	16.02	\$1,917,940	\$0
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Tweet Street Park will also be opening in FY 2007, but required funding levels are not yet available. This should be provided and added prior to final budget decisions.

Operations and maintenance funding for new facilities in prior years remains unfunded at this time, but should be included in future budgets.

**Status:**

The Park and Recreation Department indicates that they have been working on hiring staff for the various facilities. The department indicates that some of the 16.02 FTEs have been hired and some are in the process of being hired; however, others are awaiting approval to hire from the Mayor’s Business Office. In response to the Business Office’s request for departmental vacancies, the department has submitted some of these positions as part of their larger vacancy list. This vacancy list is under review by the Business Office. The department notes that not all of the above referenced facilities were scheduled to open on July 1, 2006 and therefore did not all require immediate staffing.

Funding for Tweet Street Park was included in the final adopted FY 2007 budget.

The Park and Recreation Department indicates they will request funding in FY 2008 for operations and maintenance of new facilities that were unfunded (or under-funded) in prior years.

Restoration of Youth-Related Programs (Asst. Director Robb Field & Hourly Rec Leaders)

Item # 17	The Proposed Budget includes a reduction of \$356,083 to the City’s 6 to 6 Program, which has been funded through Tobacco Settlement Receipts. This proposal restores funding for youth-related programs including 1.00 Assistant Recreation Center Director for Robb Field and 6.68 Hourly Recreation Leaders for citywide recreation programs as shown here, as well as 1.00 Youth Services Librarian for the Library.	7.68	\$271,925	\$0
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**Status:**

The Assistant Recreation Center Director position for Robb Field is filled and is providing program support. The 6.68 Hourly Recreation Leaders are awaiting approval to hire from the Mayor’s Business Office. In response to the Business Office’s request for departmental vacancies, the department has submitted the currently vacant 6.68 Hourly Recreation Leader positions as part of their vacancy list. These positions

were intended for several high-use recreation centers and centers with security issues. The Department also notes challenges in hiring these positions due to limited hours offered, conflicts between scheduled work time and school hours, job competition, and conflict with other employment outside the City.

FTE      Expense      Revenue

**Planning Department**

Historical Resources/Overtime

Item # 18	Due to the continued reduction in the Planning Department staffing over the past several years combined with current vacancies and the 10% vacancy rate for 2007, the IBA recommends the addition of 1.00 Sr. Planner for Historical Resources and the addition of overtime in an amount equivalent to 1.00 Sr. Planner.	1.00	\$215,996	\$0
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**Status:**

The Planning Department is in the process of hiring 1.00 Sr. Planner. This position will be filled by the end of October 2006. The Department is currently utilizing the budgeted overtime which enables staff to attend community planning meetings.

## QUALCOMM Stadium

Increase General Fund subsidy to QUALCOMM in lieu of parking fee increases

Item # 19	The FY 2007 Proposed Budget for QUALCOMM has a deficit of approximately \$312,000. It was assumed that much of this deficit would be covered by proposed increases in parking fees, which were not approved. It is recommended that the General Fund subsidy be increased to make the Stadium Fund whole. This allocation will be made via the Special Promotional Programs budget. In addition, it is recommended that the proposal to increase parking fees be brought back to Council for reconsideration.	0.00	\$312,204	\$0
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### **Status:**

The Fiscal Year 2007 budget for QUALCOMM Stadium, as originally proposed on April 14, 2006, had a deficit of approximately \$312,000. It was assumed that this deficit would be covered through additional revenue generated by parking fee increases. The parking fee increases were first proposed on May 2, 2006, but were rejected by the City Council. As a result, the IBA recommended that an additional \$312,000 in General Fund support be allocated to QUALCOMM Stadium in order to balance the fund. In an effort to avoid allocating additional General Fund dollars to QUALCOMM, the Council reconsidered and ultimately approved the parking fee increases on May 30, 2006. It was thought that the additional revenue from the parking fee increases would cover the budgeted deficit, while the \$312,000 in additional General Fund support would be redirected to the Unappropriated Reserve, increasing the budgeted contribution to \$7.5 million from \$7.2 million. It was subsequently realized, however, that QUALCOMM's original budget already included the additional revenue from parking fee increases, and that the deficit would remain even after the fee increases were approved. This resulted in a situation where the \$312,000 in additional General Fund support recommended by the IBA could either still be allocated to QUALCOMM Stadium to balance the fund, or allocated to the Unappropriated Reserve, leaving QUALCOMM's budget in a deficit. Ultimately, however, QUALCOMM's budget was not balanced nor was the Unappropriated Reserve increased. It is currently unclear what happened to the \$312,000 in additional General Fund support.

## San Diego Police Department

### Increase to Vacancy Factor

		<u>FTE</u>	<u>Expense</u>	<u>Revenue</u>
Item # 20	The Police Department is experiencing recruitment challenges and the loss of significant experienced officers to other jurisdictions as well as to retirements. Recent projections show that the department is likely to experience continued loss of officers that will result in higher vacancies by this time next year. The vacancy factor included in the Proposed Budget is equivalent to approximately 160 officers. However, with continued attrition, we anticipate that vacancies may be significantly higher, even with academies during FY 2007. The IBA recommends an increase to the vacancy rate to more accurately reflect the likely experience of the department for FY 2007. This vacancy factor may still be conservative, given the challenges for the department, and the IBA recommends again that an aggressive recruitment and retention strategy be developed and provided as soon as possible and that vacancies be regularly monitored. Note that it is anticipated that significant funding will have to be added to the Police Department in FY 2008 and future years to reduce the vacancy factor as the City is able to recruit and retain more officers.	0.00	(\$2,000,000)	\$0

#### **Status:**

The Fiscal Year 07 Police Department vacancy factor was increased by \$2,172,191 for a total vacancy factor of \$19,130,722. The IBA suggests that the department and finance staff provide updates on the status of this vacancy factor, including an analysis on the department's projected year-end vacancy rate as compared to the budgeted rate. Since the Police Department budget is such a significant portion of the General Fund, it will be critical to understand the accuracy of this vacancy rate in order to understand the overall financial position of the General Fund.

New Civilian Positions to Return Officers to Patrol

Item # 21	While the City develops a recruitment and retention plan, the IBA recommends taking this action to put officers back on the streets and increase the amount of public safety work that can be done. This proposal adds funding to hire civilians to take on non-sworn duties currently being provided by officers. Please see Attachment II for a list of positions. The status of hiring for these positions and officers returned to patrol should be reported regularly during FY 2007 to the Public Safety & Neighborhood Services Committee.	30.00	\$2,000,000	\$0
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**Status:**

The increased Fiscal Year 2007 vacancy factor was appropriated to add 30.00 additional civilian positions. Emphasizing a lengthy hiring process and recruitment challenges, the Police Department has not hired any of the 30.00 positions. The Police Department indicates that they are working to fill these positions at their earliest opportunity; however, the department must first seek and receive approval to hire from the Mayor's Business Office.

FTE      Expense      Revenue

**Special Promotional Programs**

Accessible San Diego Funding Correction

Item # 22	Per the Mayor's recommendation, this funding is proposed for Accessible San Diego as a reinstatement to the full Fiscal Year 2006 amount of \$65,039. The \$11,712 allocated in Fiscal Year 2006 to Accessible San Diego's Power Beach Chair Program was inadvertently reduced in the Fiscal Year 2007 Proposed Budget.	0.00	\$11,712	\$0
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**Status:**

The Special Promotional Program allocation to Accessible San Diego has been increased by \$11,712.

# Non-General Fund Recommended Modifications

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The following are descriptions of recommended modifications to the Mayor's Fiscal Year 2007 Proposed Budget.

## CITYWIDE ISSUES

### Proposition 42 – Street Resurfacing/Slurry Seal

Item # 23	The Governor's Proposed FY 2007 Budget includes funding for Proposition 42. The allocation of the funds is to be used only for public street and highway maintenance, rehabilitation, reconstruction and storm damage repairs. This is currently not reflected in the Mayor's FY 2007 Proposed Budget. For FY 2006, the City is projecting to receive approximately \$5.5 million. For FY 2007, the IBA recommends allocating \$5 million to CIP #59-001.0 for Street Resurfacing/Slurry Seal.	0.00	\$5,000,000	\$5,000,000
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**Status:**

The City has received Prop 42 payback of \$5.2 million for 2004-2005 and \$4.3 million for 2003-2004 for a total of \$9.5 million. The Planning Department is in the process of hiring 1.00 Sr. Planner. This position will be filled by the end of October 2006. The Department is currently utilizing the overtime which enables staff to attend community planning meetings. A Request for Council Action is currently in route for Council approval.



FTE      Expense      Revenue

Retiree Health Care and Trust Fund Establishment

Item # 24	Add funding for Retiree Health Care and the establishment of a Retiree Health Trust Fund. Approve the Mayor's recent proposal to implement necessary reductions in various personnel accounts to accommodate this addition. This represents a net savings to various funds after all adjustments. The IBA cautions that these accounts should be carefully monitored to ensure proper funding levels, particularly Workers' Compensation, which will be funded at significantly lower levels than anticipated in the Proposed Budget and is not consistent with commitments to fund short-term liability reserves.	0.00	(\$503,624)	\$0
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**Status:**

\$5 million in funds approved by the City Council are currently being invested. The Mayor's Office is conducting research on trust funds in order to establish an appropriate trust fund and administration program for the City of San Diego. This research is projected to conclude by the beginning of 2007. The plan will ultimately require City Council approval. The IBA recommends that the Budget & Finance Committee request a review of the status of risk management funds such as Worker's Compensation.

**DEPARTMENT SPECIFIC RECOMMENDATIONS**

**Environmental Growth Fund**

Surplus Balance

Item # 25	The Environmental Growth Fund (EGF) 2/3 has been accumulating a large balance since the General Obligation Bonds were partially paid down in FY 2005. The IBA recommends these funds be utilized for deferred maintenance projects that contribute to preserving and enhancing the environment, consistent with the City Charter. It appears that approximately	0.00	\$2,500,000	\$0
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\$2.5 million would be available in this fund for these purposes. The IBA recommends that the Park and Recreation Department provide information to the City Council on a prioritized list of projects that could be carried out in FY 2007. Furthermore, because the bonds will be retired soon, a long-term strategy for EGF should be developed as soon as is practicable.

**Status:**

The adopted Fiscal Year 2007 Environmental Growth Fund budget (EGF) included \$2.5 million for various projects. The list of projects was provided in the IBA memo 06-9. Funds are now available for appropriation and expenditure. Most projects are already in the planning stage.

The IBA made a recommendation that a long-term expenditure strategy be established for the Environmental Growth Fund. This recommendation was made because of the refunding of the San Diego Open Space Park Facilities District No. 1 G.O. Bonds which reduced debt service by approximately \$7M from FY 06 through FY 09. Given the reduced debt service obligation and continued allocation of 25% of annual SDG&E franchise fee revenue flows into EGF, the IBA has recommended a long-term expenditure strategy.

The Park and Recreation Department has indicated that they are contemplating an expenditure policy in consultation with the Mayor's Office; however, a policy has yet to be developed.

## Environmental Services – Recycling Fees

FTE      Expense      Revenue

### Recycling (AB 939) Fees

Item # 26	Removal of revenue associated with the \$3/ton increase in recycling fees assumed in the FY 2007 Proposed Budget (See Item # 8 in the General Fund section). Without the assumed fee increases, the Recycling Fund budget is currently projected to end the fiscal year with a negative fund balance. However, the Division will be proposing an increase in recycling fees later in the year, after going through Business Process Reengineering.	0.00	\$0	(\$2,600,000)
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**Status:**

The \$3/ton increase in recycling fees that were originally assumed and reflected in the Fiscal Year 2007 Proposed Budget has been removed. Since this fee is paid by both General Fund refuse haulers and private haulers, the reduced revenue to the Recycling Fund is greater than the expenditure reduction in the General Fund. See the Environmental Services section under General Fund Recommended Modifications for the commensurate General Fund impact.