Review of the Fiscal Year 2011 Proposed Budget

Analysis by the Office of the Independent Budget Analyst

IBA Report 10-37
April 29, 2010

Table of Contents

Date: **April 29, 2010**

To: **Council President Ben Hueso and Members of the City Council**

From: **Office of the Independent Budget Analyst**

Subject: **IBA Preliminary Review of the Mayor's Proposed FY 2011 Budget**

Background

Submission of the Mayor's Proposed FY 2011 Budget to City Council, and subsequent Council review and adoption, are the final steps in a rigorous process that began last November to close a FY 2011 deficit estimated at the time at $179.0 million. The budget proposal before you addresses an estimated incremental budget gap of $28.2 million which would bring the total actions necessary to balance the FY 2011 budget to $207.2 million. Facing the situation head-on in December, and implementing the actions early, resulted in generating up to 18 months of savings, thereby reducing the amount of reductions that were ultimately necessary.

While the service reductions implemented to close the gap for FY 2011 were undesirable and difficult to make, the IBA supported the package of budget adjustments proposed by the Mayor "recognizing it as another critical step toward immediate financial survival and ultimately long-term financial stability." We further noted at the time in IBA Report 09-90:

> "*The Mayor's proposal provides an 18-month bridge so the City can work to achieve further structural reforms.*"

In approving the Mayor's plan for addressing the FY 2011 budget deficit, the City Council called for the Mayor and the IBA to work with the Council to develop and implement a strategic plan within the next 18 months designed to eliminate the structural budget deficit.

Since December, significant efforts have been underway by the IBA, the Mayor's Office, the Budget and Finance Committee and the City Council as a whole to build on the fiscal reforms of the past four years and to develop a pathway to fiscal health. Key elements that must be addressed in order to eliminate the City's structural budget deficit have been identified by the IBA and the Budget and Finance Committee; and the City Council has adopted a set of Guiding Principles recommended by our office to serve as a foundation for the development of the Structural Budget Deficit Elimination Plan. Work has been underway on a number of fronts including:

- Retiree health care reform study is expected to be completed in May 2010.
- DROP neutrality study is expected to be completed in June 2010.

- Results of a citizen survey on service priorities and budget solutions were recently released.
- Citizens' Commission to examine economic competitiveness and revenue generation was created by Council in December; their work is expected to be completed in August 2010.
- City Auditor has recently completed a comprehensive audit of the City's revenues and a Collections audit is currently underway.
- An update to the FY 2011-2015 Five-Year Outlook was recently issued by the Mayor's Office.
- Deferred Capital/Maintenance annual funding level has been formulated to address "catch up" funding as well as "ongoing funding" and will be presented to the Budget and Finance Committee in June 2010.
- Mayor and Council have agreed on September 2010 as the timetable for issuance of the Structural Budget Deficit Elimination Plan.
- Efforts to move forward on a Managed Competition Program are in progress.

One of the most significant "take-aways" from the recently published results of the citizen survey-"Residents' Opinions on City Services" (IBA Report 10-34)-is that **our citizens do not want to see any further cuts to City services.** Elimination of the City's structural budget deficit is paramount to addressing this clear mandate. Over time, adherence to all of the elements of a sound structural budget deficit elimination plan, together with a gradually recovering economy, could put the City in a position to consider restoring reductions in priority service areas that were necessary to balance the City's budgets of the past.

While the Mayor's estimated incremental shortfall of $28.2 million for FY 2011 was relatively small as compared to the magnitude of the budget decisions that the City faced in December, the IBA has undertaken the same thorough review of the Mayor's Proposed Budget as in the prior four years, including:

- Examination of FY 2011 revenue projections;
- Analysis of all FY 2011 expenditure categories;
- Review of numerous City-wide funding issues;
- Analysis of the budgets of City departments and City agencies as proposed for FY 2011.

We have also supplemented the Mayor's budget documents by providing information that we felt was important to document as part of FY 2011 budget adoption- most notably a record of the service reductions by department that have occurred from the FY 2010 Adopted Budget to the FY 2011 Proposed Budget.

We acknowledge the very difficult task and time constraints the CFO and her staff faced in simultaneously implementing a new financial system and developing and publishing the FY 2011 Proposed Budget. We are also aware that the new system, together with the mid-year budget reductions process, restricted their ability to provide certain data in the documents including year-to-year comparisons, service level data and additional information on "Significant Budget Adjustments." We recommend that the "Significant Budget Adjustments" related to the December 2009 service reductions be captured in some format in the final FY 2011 budget documents.

We expect that other information, including three year budget trends and service level data, will be back in the documents for the FY 2012 budget cycle. During the December 2009 reduction process, the Assistant COO noted they would be working on an update to the Strategic Plan to reflect the impact of the service level reductions, and planned to provide an updated performance status report to Council in January 2011 in advance of FY 2012 budget deliberations.

We would note that an $11.0 million shortfall remains for FY 2010. The CFO has indicated preliminarily that various departmental expenditure savings, expected in the last quarter of the current fiscal year, are expected to resolve this deficit and will be reported to Council in the FY 2010 Year-End Report. This item is scheduled for Budget and Finance Committee review on May 26, 2010 . Additionally, with the release of the Mayor's Update of the Five-Year Outlook we already know we are facing at least a $72.0 million shortfall in FY 2012.

Our office still needs to examine the Mayor's assumptions, particularly on the revenue side, before accepting this number as the FY 2012 deficit. We plan to do this analysis following conclusion of the FY 2011 budget hearings. In this report, we discuss our concerns relative to the property tax revenue projections assumed in the Mayor's FY 2011 Proposed Budget that we believe pose a risk to the budget. This concern may hold true for the Outlook as well.

It should also not be forgotten that the ongoing and serious fiscal challenges facing the State continue to pose a serious threat to all cities throughout California should the State once again look to solve their problems on the back of local governments. On February 16, 2010, the City Council unanimously approved a resolution in support of the Local Taxpayer, Public Safety and Transportation Protection Act of 2010. This ballot initiative is intended to close loopholes and change the California Constitution to further prevent the State government from seizing, diverting, shifting, borrowing, transferring, suspending or otherwise taking or interfering with tax revenues dedicated to funding local government services.

Introduction

Summary of IBA Review

With the majority of the difficult decisions having been made in December with respect to FY 2011, we have fewer new issues to highlight as a result of our review at this stage of the process compared to past years, particularly in terms of new, recurring savings or revenues. We have identified, however, a possible $4.5 million additional deficit in the Mayor's FY 2011 Budget Proposal for a revised incremental shortfall of $32.7 million and a total revised deficit of $211.7 million. This additional shortfall is attributable to the following:

- A $3.5 million funding shortage in the Police Department budget for Police Recruit salaries, attributable to an error associated with transition to the new budget system. The CFO has indicated that $3.5 million will need to be added to Police Department salaries in the Mayor's May Revise.
- A $1.0 million error in the application of fringe costs to City Council budgets which, according to the CFO, will also be corrected in the May Revise.

At this point the Mayor's Budget proposal is at least $4.5 million out of balance based on current estimates.

In our review of the FY 2011 General Fund revenue projections, we have also noted concerns with respect to assumed property tax projections. While we conclude that sales tax and TOT are appropriately conservative, we further discuss that it is highly likely based on our analysis that property tax growth will be less than the –0.1% assumed in the budget. Each 1% decline in property tax receipts growth equates to a loss of an estimated $3.9 million.

We are aware of some Council interest in restoring some funding to mitigate the Fire rolling brown-outs. Based on where we are today– with a $72.0 million deficit projected in FY 2012; the need to close a $4.5 million funding gap for FY 2011 in the May Revise; and concerns regarding the FY 2011 property tax projections, we do not advise restoring past reductions at this time.

There are no easy, ongoing solutions of any magnitude that we have been able to identify in this review. In past years we were able to identify tens of millions of dollars annually in savings and/or resources which helped to keep branch libraries open and avoid other undesirable service reductions as well. After four difficult budget years, such solutions are much more difficult to come by.

If there is strong interest in considering possible restorations during the FY 2011 budget process, the City Council may want to ask the Mayor to bring forward a list of reductions that were considered by the departments in December but were not taken. Also, since the May Revise needs to address $4.5 million in additional funding needs, the Council could ask the Mayor to explore and propose funding options for restoration of Fire brown-outs as part of his May Revise.

Introduction

The Mayor plans to issue his May Revise on May 14, 2010. This will give the IBA and Council time to consider any additional information in advance of issuing our final report on May 21, 2010 and in advance of final Council deliberations on May 26, 2010 and final decisions on June 14, 2010.

For the future, new cost recovery fees could also be explored to support the restoral of emergency response services within the City. IBA Report 10-29, "Revenue Options for the City of San Diego", identified a range of revenue options as requested by the Revenue Review and Economic Competitiveness Commission. Among the options reviewed in the emergency services area were the first responder fee, accident negligence fee, false alarm fees and 9-1-1 phone fees. Other cities have implemented such fees to generate revenue for critical public safety services.

Below we briefly review several other sections from our report that we would like to bring to your attention:

Proposed Corrective Actions **(See p. 10)**

We have reviewed and confirmed the viability and accuracy of each of the Mayor's proposed corrective actions totaling $28.2 million:

- McGuigan Settlement Financing- $6.7 million
- Reduction to Contracts and Equipment Outlay-$7.5 million
- Adjustment to Fleet Rates- $11.0 million
- Retiree Health PAYGO-$3.0 million

We support each of the corrective actions but note that we consider $14.1 million of these actions to be one-time rather than recurring. This is made up of a one year deferral of a $6.7 million payment for the McGuigan financing; use of the $4.4 million accumulated fund balance in the Fleet Operations Fund (General Fund portion); and a $3.0 million one-time Retiree Health PAYGO correction. These one-time resources have been treated appropriately in the Five-Year Outlook through their removal as a resource in future years. Therefore, these actions do not exacerbate the deficit projections in the Outlook.

General Fund Expenditures **(See p. 21)**

This section reviews the major expenditure categories of Salaries and Wages, Fringe Benefits, Supplies, Contracts, Information Technology and some miscellaneous categories. For all categories, charts are provided which compare the major line items within each category from the FY 2011 Proposed Budget to the FY 2010 Budget- in dollars and percentage, year-over-year. Charts are also provided which show the impacts on departments of budget changes within these categories.

<u>Vacancy Savings </u>(See p. 22)

In previous years, the City has assigned a vacancy factor to departments to reduce budgeted personnel expenditures in order to account for normal turnover and attrition. This is a common budget practice to avoid over-budgeting for salaries. The methodology for this process has changed for FY 2011 due to features of the OneSD system. The basis for the new vacancy factor was removing funding for any positions vacant in December 2009 (large departments) or March 2010 (small departments). While the total vacancy savings for all General Fund departments for FY 2011 is $2.4 million less than the prior year ($33.6 million as compared to $36.0 million), several departments have been impacted more heavily- including Park and Recreation and Library, whose vacancy savings have doubled and tripled, respectively. A common theme our office has heard from City departments is that many positions determined to be vacant during the budgetary review, and thus unfunded, have since been filled, which may hamper the ability of departments to achieve these budgeted saving in the coming year.

<u>Fleet Rate Reductions </u> (See p. 24 and p. 79)

Significant adjustments to fees charged to departments for fleet services occurred in December of 2009, and further adjustments are included in the Mayor's Proposed Budget. The December adjustments included elimination of under-utilized vehicles by 20% and reductions in Police and Fire take-home vehicles. More significantly, budgetary savings City-wide will now be derived by increasing vehicle replacement cycles by two years, thereby delaying the purchase of scheduled equipment and vehicles. $4.4 million of accumulated fund balance in the Fleet Operations Fund (General Fund portion) has also been used to balance the remaining FY 2011 deficit. The General Services Department may propose the use of lease-purchase financings to continue the purchase of vehicles if shorter replacement schedules turn out to be necessary.

<u>Deferred Capital </u>(See p. 29)

This section discusses a critical funding issue that has been an ongoing challenge for the City. Funding of deferred capital has been an issue of high priority for the City Council. As part of the Guiding Principles for eliminating the structural budget deficit, the Council requested the development of a "plan to fund deferred capital infrastructure to reduce the current backlog and identify the level of funding necessary to prevent the problem from growing larger." In June 2010 Public Works staff will bring to Budget and Finance Committee a funding plan that includes two components: 1) identification of required funding related to "Catch-Up" (the funding required to reach a targeted service level) and 2) identification of "On-going" funding required to maintain assets at the targeted level.

<u>Redistricting</u> (See p. 43)

This section addresses potential budgetary impacts of the City Charter requirement that the

City be redistricted at least once every 10 years and a Redistricting Commission be appointed as part of this undertaking. The City Charter stipulates the hiring of a chief of staff for the Commission and notes the need for technical consultants and other services including utilizing City staff, where feasible. Additionally, upon completion of their work in 2000, the former Redistricting Commission issued recommendations which if implemented would also have budgetary impacts. This work is expected to have a significant impact on the City Clerk as well as other areas of the City.

City Auditor (See p. 49)

We discuss in this section the recent actions of the Audit Committee that were taken after the Mayor's budget was developed, and therefore, are not reflected in his proposal. They include adding a Principal Auditor mid-year; restoring the City Auditor's 6% reduction in compensation; examining moving the Revenue Audit Program from the City Treasurer to the City Auditor; and transferring $100,000 from Public Utilities to the Auditor to conduct financial and performance audits of the water and wastewater areas. With these proposed staffing changes, the Auditor's Office will increase from five staff when first created in FY 2008 to 25 staff members in FY 2011.

Community Plans (See p. 54)

In FY 2010 approximately $3.4 million was added to the City Planning and Community Investment Department's budget for Community Plan updates. This funding was subsequently eliminated from the FY 2011 Proposed Budget as part of the zero-based review of contracts budget. Due to the length of time required to get contracts in place, as well as ongoing concerns about potential budget reductions, this funding was not fully expended as anticipated in FY 2010. While the department requested that this funding be restored in the FY 2011 Proposed Budget, funding was only partially restored. We are concerned about the impact that this reduction may have on the Community Plan Update program.

Development Services Department (See p. 63)

In this section we discuss our concern that the Development Services Department proposed budget for FY 2011 does not appear to appropriately align with anticipated trends in revenues and expenditures. Despite significant downturns in revenues and expenditures, relatively few adjustments have been made to the budget– in fact budgeted revenue did not change at all. We recommend that budgeted revenues and expenditures be reanalyzed by Financial Management working with the department and revised to reflect anticipated development activity in FY 2011.

Fire Rolling Brown-Outs (See p. 72)

In the Fire-Rescue section we discuss concerns with respect to the February 2010 implementation of rolling brown-outs at thirteen stations as part of the December 2009 budget balancing solutions. Concerns have been raised, most notably, about the response times of several fire stations. The Public Safety and Neighborhood Services Committee has heard regular updates on this matter and some members have expressed a desire to restore service at the stations of highest concern. Each engine restored would require the identification of $1.4 million in funding. The Fire Chief continues to assess this situation on a daily basis. As noted before, we do not advise restorations of past reductions at this time.

Funding for Police Recruits (see p. 94)

In our review of the Police Department budget, the IBA identified concerns regarding the number of assumed vacant positions. From our analysis, it appeared that salaries associated with Police Recruit positions were not accounted for. An April 28, 2010 memorandum from the CFO to City Council confirmed that Police Recruits have not been accounted for in the Proposed Budget. As previously noted, $3.5 million will need to be added in the Mayor's May Revise for this purpose.

Next Steps

We look forward to working with the City Council and the Mayor and his staff throughout the final steps of the FY 2011 budget process. We are available to assist you as needed throughout the hearing process, Council deliberations and final budget adoption. The next key dates in the process for City Council and the public include the following:

- Committee of the Whole Budget Hearings — April 30-May 7
- City Council Deliberations/First Public Hearing — May 10
- IBA Final Report and Recommendations — May 21
- Budget and Finance Committee: Final Decisions — May 26
- City Council: Final Decisions — June 14

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Additional Corrective Actions in the FY 2011 General Fund Proposed Budget

The FY 2011 Proposed Budget includes an additional $28.2 million in corrective actions that are needed to address changes to revenue estimates and other assumptions since the reductions taken in December 2009. The following sections discuss the corrective actions.

McGuigan Settlement Financing

Pursuant to a court-approved class action settlement known as the McGuigan Settlement, the City is obligated to pay the remaining settlement amount of approximately $39.5 million to the pension system on or before June 8, 2011. In developing the Proposed Budget in December 2009, the City planned to finance the McGuigan Settlement over five years with the first General Fund payment of $6.7 million being paid in FY 2011.

Subsequent to the development of the Proposed Budget in December 2009, management proposed to instead finance the McGuigan Settlement over four years with the first payment due in FY 2012. On March 9, 2010, the City Council adopted a resolution in furtherance of the four-year plan of finance. Under this plan, the first General Fund payment of approximately $8.0 million would be made early in FY 2012.

If the settlement modification is approved by the Superior Court and the settlement class, the General Fund will not make the previously planned payment of $6.7 million in FY 2011 resulting in a one-time savings. In order to avoid financing a portion of the outstanding settlement, there will be an upfront payment of approximately $5.5 million on June 30, 2010. This payment will consist of $4.5 million from the City's enterprise and non-general funds, and $1.0 million from the General Fund.

Remaining Actions to Implement Settlement Financing

Following the City Council's action on March 9, 2010, the City has secured a date in Superior Court on April 30, 2010. The Court will be asked to approve the City sending notice of the proposed settlement modification to all members of the settlement class. The City does not expect opposition from the settlement class as the proposed financing plan would hasten payment of the outstanding settlement.

The City will then return to Superior Court on June 4, 2010 to request modification of the judgment. The Court will also be asked to approve plaintiff class assignment of the judgment from the City to Bank of America (the lender). Once the judgment has been assigned, Bank of America will be obligated to pay the remaining settlement balance to SDCERS on June 30, 2010. Upon receipt of the settlement payment, SDCERS will reconvey deeds of trust for property held as collateral back to the City.

Reduction to Contracts and Equipment Outlay Budgets

The budget development process included a zero-based budget review of twenty specific accounts within the Contracts category (comprised of over ninety distinct accounts) and also the Capital Expenditures category. The Additional Corrective Actions include $7.5 million as a result of this review process.

The review of the twenty Contracts' accounts resulted in a reduction to the General Fund of $7.5 million, compared to FY 2010, including a reduction of $1.2 million in the Administration Department related to changes to the EMS contract, reductions in City Planning and Community Investment of $1.6 million related to Community Plan Updates, and $1.4 million reduced in Park and Recreation. A portion of these reductions appear to have been included in the December 2009 adjustments.

The Capital Expenditure zero-base review resulted in the removal of FY 2010 funding for the Fire-Rescue Fire Station Alerting project in the amount of $1.6 million and the elimination of funding of $700,000 in the Park and Recreation Department, for a total reduction of $2.6 million.

Combined these efforts led to reductions of over $10.0 million, compared to the FY 2010 budget. The IBA has previously recommended a zero-based review of equipment outlay funding, as these purchases are typically one-time in nature, and annual funding levels should require justification each year.

Adjustments to Fleet Rates

Since the December adjustments, additional changes to the Fleet Services Division of General Services have been included in the Mayor's Proposed Budget to utilize accumulated fund balance of $5.8 million in the Fleet Operations Fund, and reducing replacement rates for City departments to align motive equipment purchases with available funding, saving $9.4 million Citywide. Together these actions will generate General Fund savings of $11.0 million. Of that, the use of the fund balance ($4.4 million to the General Fund) is considered a one-time use of resources that will not be available in future budget years.

This is in addition to the budgetary savings planned by increasing vehicle replacement lifecycles by two years, and delaying the purchase of scheduled equipment and vehicles. Savings from this proposal is derived by reducing the annual assignment fees charged to customer departments. Changes are reflected both in the budget of the Fleet Services Division, and also in each customer City department that provides the funding. In the December solutions, this was estimated to save $6.7 million Citywide, and $4.5 million for the General Fund.

The General Services Department has indicated that it may propose the use of lease-purchase financings to continue the purchase of vehicles in cases where accumulated cash is not sufficient, and department needs and priorities may justify purchases as previously planned. It is important to note that City Council review and approval of actions for lease-purchases will be necessary.

Retiree Health PAYGO

The FY 2011 retiree health pay-as-you-go (PAYGO) budget has been decreased by $4.4 million (from $37.2 million to $32.8 million). The General Fund portion of the reduction is $3.0 million.

The FY 2011 PAYGO budget is based on the FY 2010 PAYGO projection, which has been revised to $29.2 million. Additionally, the PAYGO growth rate has been reduced from 15.7% to 12.6%. Applying the growth rate of 12.6% to the FY 2010 PAYGO projection of $29.2 million yields the FY 2011 PAYGO budget of $32.8 million. This corrective action is a revision of an estimate and is a one-time reduction.

General Fund Revenue

The FY 2011 Proposed Budget includes $1.09 billion in General Fund revenue, a decrease of $37.4 million from the FY 2010 Adopted Budget of $1.13 billion. The General Fund revenue budget includes $710.9 million in revenue from the City's four major revenues, property tax, sales tax, transient occupancy tax (TOT), and franchise fees, which comprise 64.1% of the FY 2011 Proposed Budget. Declines for these major revenues are projected at $32.8 million within the budget. Other revenue categories are projected to decline by $4.6 million. The total revenue decrease over the FY 2010 Adopted Budget is off-set by the inclusion of $41.7 million in one-time transfers that were a part of the December 2009 Approved Adjustments, including $24.6 million in prior year Property Tax, $4.3 million from the Mission Bay Improvement Fund, $7.5 million from the De Anza Operating Fund, and $2.0 million from the Library System Improvement Fund. An additional transfer of $3.3 million in Proposi-

FY 2011 Proposed Budget - General Fund Revenue

GENERAL FUND REVENUE	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE
Major General Fund Revenues			
Property Tax	$ 382,627,884	$ 390,060,910	$ 7,433,026
Sales Tax	210,141,169	187,471,361	(22,669,808)
TOT	75,907,285	66,115,157	(9,792,128)
Franchise Fees	73,716,929	67,065,135	(6,651,794)
Other Local Taxes			
Property Transfer	4,511,178	4,685,604	174,426
Safety Sales Tax	7,057,580	6,286,820	(770,760)
Vehicle License Fees	3,900,000	3,142,922	(757,078)
Other Non-Departmental			
Interest Earnings	4,091,471	1,655,994	(2,435,477)
Transfer from TOT Fund	13,581,324	11,800,938	(1,780,386)
Charges for Current Services	22,802,633	21,185,748	(1,616,885)
Transfers from Other Funds	45,298,076	51,234,511	5,936,435
Other	1,596,761	1,730,253	133,492
Departmental Revenues	284,474,085	279,858,865	(4,615,220)
TOTAL GENERAL FUND	**$ 1,129,706,375**	**$ 1,092,294,218**	**$ (37,412,157)**

tion 1B Funds was added as part of the Mayor's Proposed Adjustments. Without these one-time revenues, the FY 2011 Proposed Budget would demonstrate a $79.1 million reduction from the FY 2010 Adopted Budget. $7.4 million in on-going solutions in the FY 2011 Proposed Budget include $2.6 million in revenue related to the adoption of the parking utilization study's parking meter pricing, $1.1 million from an ADA/ Deferred Maintenance Crew Transfer, $1.4 million from a Tenant Improvement/ Deferred Maintenance Crew Transfer, and $2.3 million in other solutions.

Major General Fund Revenue Growth Rates

Revenue Source	FY 2008 Actual	FY 2009 Actual	FY 2010 Year End	FY 2011 Proposed
Property Tax	6.4%	3.8%	-2.0%	-0.1%
Sales Tax	4.5%	-12.5%	-10.2%	1.3%
TOT	3.8%	-11.9%	-10.4%	0.0%
Franchise Fees	-0.3%	5.0%	3.5%	-4.5%
SDG&E	*-1.4%*	*4.1%*	*-7.4%*	*0.0%*
Cable	*4.3%*	*3.6%*	*1.0%*	*2.5%*

The FY 2011 Proposed Budget reflects a decrease of $15.9 million over the December 2009 Approved Adjustments. This reduction is related to revisions in revenue projections to reflect the negative impact of the recession on General Fund revenues.

Overall, the General Fund revenue projections in the FY 2011 Proposed Budget are consistent with current economic trends and forecasts. Projections for major general fund revenue such as sales tax and TOT, are appropriately conservative to reflect the potential volatility of the moderate economic recovery that is expected in FY 2011. The projections for property tax revenue are of concern, in not reflecting risks of further declines.

In the sections that follow, each of the major General Fund revenue projections will be discussed in greater detail as well as other revenue categories of note.

Departmental revenues are discussed in the respective Department Review Sections.

Economic Outlook

Economists speculate that the recession ended in the 3rd quarter of 2009. In the 3rd quarter of 2009, national Gross Domestic Product (GDP) grew by 2.2% after 4 sequential quarters of negative growth. In the 4th quarter, GDP grew by 5.9%.

Despite indications of a recovery, unemployment levels remain a concern, with continued high levels of unemployment. The San Diego County unemployment rate is 11% as of March 2010. According to the Beacon Economic San Diego Regional Outlook March forecast, the unemployment rate will not return to pre-recession levels until after the 2015 calendar year. At his April Congressional Joint Economic Committee meeting, the Federal Reserve Chairman Ben Bernanke assessed that a moderate economic recovery will ensue, but will not have the momentum necessary to bring immediate relief to unemployment levels. Given this, economists anticipate a business and foreign spending led recovery from the recession with consumer spending being dampened by unemployment levels, low income growth, and hard-to-get credit.

Tentative recovery in the real estate market and local and state fiscal conditions remain risks to economic recovery. Economically sensitive revenues such as property tax, sales tax, and TOT will trend with the anticipated moderate recovery in the economy.

Property Tax

The FY 2011 Proposed Budget projects General Fund property tax at $390.1 million. This reflects 2.0% growth over the Adopted FY 2010 Budget of $382.6 million. The budget represents a slight decline of 0.1% over expected FY 2010 year-end receipts of $390.6 million (including the $24.6 million redirected to a special reserve fund in FY 2010). This slight decline is reflective of a gradual recovery in the residential housing market offset by declines in the commercial real estate market . As raised in IBA reports 09-75 and 09-90, the projections for property tax revenue are of concern, in not reflecting the full impact of County Assessor negative reassessments on FY 2011 property tax revenue.

Property tax revenue in FY 2011 is based on assessed valuation on or around January 1, 2010, which reflects the market activity that occurred in the 2009 calendar year. During 2009, the residential housing market showed growth with signs of stabilization in the later part of the year. According to MDA DataQuick housing data, the median sales price of homes within San Diego County increased from $280,000 in January of 2009 to $330,000 in December, growth of 17.9%. Within that time frame, from August to November of 2009, the price remained at $325,000. The Case-Shiller Home Price Index, that tracks sales price activity for the same homes over a period of time, showed 5.9% growth in home prices from January 2009 to January 2010. Home sales have also seen a steady increase. Sales were up by approximately 15% in 2009 over 2008 per data from MDA Dataquick.

Though the housing market showed definite signs of improvement with price and sales growth, foreclosures and short sale activity continue to signal distress in the housing market and apply downward pricing pressure, impacting property value growth. Foreclosure activity decreased by 20.9% in 2009 over 2008, though levels remain relatively high as compared to pre-recession activity. The decrease in foreclosure levels is in part reflective of lenders working with borrowers longer to avoid foreclosure and a strategic shift to pursue short sales rather than foreclosure procedures. Therefore, the decline of foreclosure activity is not necessarily a sign of a reduction of overall distress in the market.

With properties currently being valued at levels less than those seen at the peak of the San Diego real estate market, those properties that were sold in 2009 for less than its pre-recession value—which is likely the case for homes previously sold between 2003 and 2007—the new assessed value for the home will be less than it was in FY 2010. These value declines will negatively impact the total assessed valuation growth for FY 2011, and negatively impact property tax receipts.

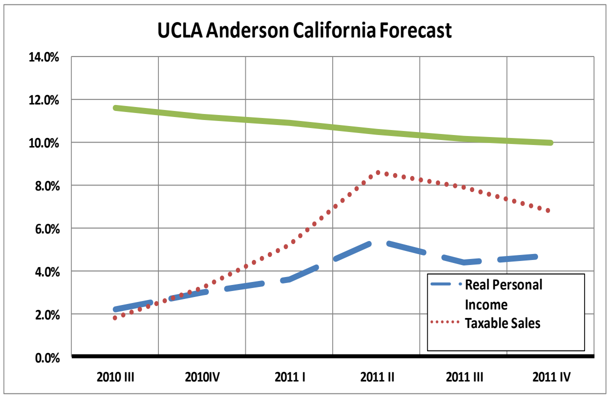
Compounding these assessment declines relating to 2009 sales activity, the California Consumer Price Index (CPI) adjustment that is applied as assessed valuation growth for properties that have not changed ownership or had structural improvements in the past year is –0.2%. In past years, the County Assessor's application of a CPI increase of up to 2%, as allowed by Proposition 13, buffered the property tax roll against substantial declines. The application of this negative CPI value will lower the value of properties on the roll. This reduction is in addition to approved reassessments of property whose current market value is less than that previously assessed. The negative CPI growth will impact approximately 70% of properties within the City.

The County Assessor is still in the process of evaluating the FY 2011 Assessed Valuation and will not close this process until before July 1st of 2010. Although the actual valuation for the City of San Diego will not be known until then, it is highly likely that property tax growth will be less than the -0.1% growth over FY 2010 that is projected for FY 2011, given the aforementioned factors. Each additional 1% decline in property tax receipts growth could equate to a loss of approximately $3.9 million. The FY 2011 property tax forecast is a risk to the FY 2011 budget assumptions.

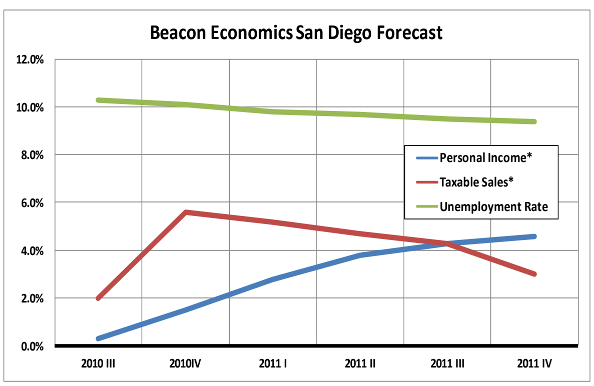
Sales Tax

The FY 2010 Proposed Budget for sales tax is $187.5 million, representing a 10.8% decline over the FY 2010 Adopted Budget of $210.1 million. After the adoption of the FY 2010 Budget, sales tax revenues continued to decline in performance, as some economic conditions worsened over the course of the year. The projection reflects 1.3% growth over the FY 2010 year-end estimate for sales tax of $185.0 million, which is appropriate given current performance data and economic forecasts.

With sales tax receipts largely being reflective of consumer spending activity, its growth is dependent on improvements in the economy, particularly as related to employment, income growth, and credit availability. According to the UCLA Anderson Forecast as of March 2010, national GDP will grow at a moderate pace averaging 2.2% growth on a quarterly basis during FY 2011. But, while the economy moves toward a recovery, high unemployment rates are expected to remain. Anderson economists forecast that employment rates at the state level will remain high in FY 2011, with gradual improvements from 9.8% in the 1st quarter of the fiscal year, to 9.4% by the 4th quarter of the year. California personal income is forecasted to demonstrate growth of 2.2% in the 1st quarter, ending the year at 5.4% growth in the 4th quarter. The chart below details the UCLA Anderson California forecast for an increase in taxable sales as unemployment levels improve and personal income increases in the state.



According to the March 2010 Beacon Regional Outlook for San Diego County, unemployment levels will remain high in FY 2011, at 10.3% in the 1st quarter of the fiscal year, but improve incrementally to 9.7%, by the 4th quarter of the fiscal year. Personal income is forecast to improve by 2.1% over FY 2010. The chart below shows Beacon's San Diego County forecast for growth in personal income and taxable sales, with improvements in the unemployment rate.



*Rate of change for personal income and taxable sales reflects growth over the same period in the previous year. The data does not reflect annualized seasonally adjusted growth.

Overall, both the Anderson and Beacon forecasts show similar optimism for a gradual economic recovery and increase in taxable sales. In comparison with these forecasts, the FY 2011 sales tax projection is relatively conservative. The table below shows the growth in taxable sales forecast by Anderson and Beacon compared with the quarterly sales tax growth rates used in developing the FY 2011Proposed Budget.

Forecast/ Projection	2010 III	2010 IV	2011 I	2011 II
Anderson	2.2%	3.0%	3.6%	5.4%
Beacon	2.0%	5.6%	5.2%	4.7%
FY 11 Proposed	-0.9%	-0.8%	-0.8%	-0.9%

Although the Anderson and Beacon forecasts are relatively optimistic regarding an economic recovery and related improvements in taxable sales, in general, economists still remain cautious regarding the likelihood of a steady pace for this recovery. In the University of San Diego's Index of Leading Economic Indicator's report for San Diego County for the month of February 2010, the outlook is for "slow growth for the local economy for the year ahead. The growth may be uneven, with occasional setbacks." State and local budgetary issues, foreclosure increases due to job losses, and commercial real estate weakness are all factors cited as risks to a recovery within San Diego County.

Overall, the IBA assesses that the proposed sales tax budget, while being conservative, is appropriate given current economic risks. Sales tax receipts and economic trends must be monitored to ensure that projections are in line with trends as they develop.

Transient Occupancy Tax

The FY 2011 Proposed Budget for General Fund Transient Occupancy Tax (TOT) is

$66.1 million. This represents a decline of 12.9% over the $75.9 million FY 2010 budget, and flat growth over the FY 2010 year-end projection. TOT receipts have continued to decline over the past years as businesses and consumers have reduced their discretionary spending on travel with the recession.

As the national economy moderately improves in FY 2011, tourism is expected to follow suit. Per the San Diego Convention and Visitors Bureau March 2010 Quarterly Travel Forecast, San Diego tourism is forecasted to begin to grow after declines since 2007. Overnight visits to San Diego are expected to increase by 2.8% and 1.5% in calendar years 2010 and 2011, respectively. Growth is anticipated for both occupancy and room average daily rate (ADR) in FY 2011 as well. The average daily rate is expected to see relatively flat growth in the 1st quarter over the previous year with the remaining quarters to experience growth of gradually increasing magnitude. Similarly ,the hotel occupancy rate is forecast to see a boost of 4.6% in the first two quarters of FY 2011, with continued growth thereafter. The table below summarizes several key measures from the SDCVB Quarterly Travel Forecast for FY 2011.

Market Indicator	2010 III	2010 IV	2011 CY
Room-Nights	5.0%	5.1%	4.8%
Occupancy	4.6%	4.6%	4.0%
ADR	-0.1%	1.0%	4.9%

In the IBA Review of the Mayor's Five-Year Financial Outlook, FY 2011-2015 (Report 09-75), the IBA raised concerns regarding the TOT projection for FY 2011 given that it was inconsistent with then developing declines in TOT performance and forecasted economic trends. The FY 2011 Proposed Budget addresses the IBA's past concerns regarding the projection. The projection of flat growth over FY 2010 performance aligns with industry forecasts of improvement, while maintaining a cautious assessment of the impact of the economic recovery on TOT collections. As more data is available regarding TOT performance, TOT projections will have to be revised to be more reflective of observed trends.

Franchise Fees

The FY 2011 Proposed Budget for General Fund franchise fees is $67.1 million. This projection includes $37.3 million from San Diego Gas & Electric (SDG&E), $17.5 million from cable franchises, $9.5 million from refuse hauler franchise fees, $2.6 million from facility fees, and $155,000 related to other franchises. Overall, franchise fees are projected to decline by 10.4% over the FY 2010 Adopted Budget, and increase by 1.7% over current FY 2010 year-end projections.

In FY 2010, SDG&E franchise fees have experienced an unexpected decline over budgeted expectations. Year-end projected performance of $37.3 million is 7.4% less than the budget of $41.4 million. Since SDG&E franchise fees are based on company gross receipts, they vary with fluctuations in gas and electricity price and consumption. The FY 2011 projection assumes that the current price and consumption activities will remain constant in the next year. Though this projection differs from growth trends in previous years that range from 3.41% to 9.16% going back to FY 2007, the inability for the City to access better data regarding proprietary gross receipt forecasts from SDG&E makes a conservative assumption of zero growth over FY 2010 projected year-end performance appropriate.

The $17.4 million FY 2011 Proposed Budget for cable franchise fees assumes a 5.9% decline from the $18.1 million FY 2010 Adopted Budget, and projects 2.5% growth over the year-end forecast of $17.0 million. The current year-end projection is 1.0% above FY 2009 collections. The slowed growth in cable franchise revenue in FY 2010 is conceivably related to pricing competition in the market and service reductions as customers cut their services to save money. The assumed reversal of this trend in FY 2011with 2.5% growth over expected FY 2010 receipts is not consistent with current performance data.

At $9.5 million, refuse hauler franchise fees are projected to increase by 8.0% over the FY 2010 year-end projection of $8.8 million. This $700,000 budgeted increase over FY 2010 performance is due to a full year of collections related to the FY 2010 refuse hauler fee increase of $4 per ton for Class I and Class II refuse haulers. The current year-end projection for the refuse hauler franchise fee only includes an estimate for collections for three quarters, given that refuse hauler franchise fees are collected in arrears. Financial Management has advised that the year-end projection will be adjusted to accrue an additional quarter of revenue related to activity in FY 2010. With this, the FY 2011 Budget is reflective of a continuance of current year performance.

The table below summarizes all of the General Fund City franchise fee FY 2011 Proposed Budgets and their growth over FY 2010 projections.

City Franchise	FY 2011 Proposed
SDG&E	$ 37,330,029
Cable Franchises	17,450,106
Refuse Hauler	9,500,000
Facilities	2,630,000
Other	155,000
TOTAL	**$ 67,065,135**

The IBA acknowledges the difficulty inherent in projecting franchise fees given the proprietary nature of company gross receipt and performance forecasts. In the absence of this data, the franchise fee projection for FY 2011is appropriate.

Other GF Revenues

TOT Fund Transfer

Per the Municipal Code, five cents of the City's 10.5-cent TOT levy is required to be deposited in the TOT Fund. Of these five cents, four cents must be used solely for the purposes of promotion while one cent is discretionary. The FY 2011 Budget includes a transfer of approximately $21.6 million from the TOT Fund to the General

Fund, including $11.8 million in discretionary funds and $9.8 million in TOT allocated for "promotion-related" expenditures within the General Fund. The total budgeted transfer is $1.8 million less than the FY 2010 budgeted transfers of $23.4 million. This reduction and its impacts are discussed in detail in the Special Promotion Program, PETCO Park, and Qualcomm Stadium sections.

Expenditure Overview

For the FY 2011 Proposed Budget, the City has transitioned to a new budgeting system, Public Budget Formulation (PBF), as part of the OneSD SAP integrated system for the City's core Financial, Procurement, Human Resources, and Payroll processes.

Previously, the City has shown its expenditures among six categories, which intends to group like expenditures. While the categories provide high-level summary information for the City's General Fund and total budget, some lack transparency combining differing expenditure areas together, which has led to confusion. Specifically in the case of Supplies and Services, varied items are summed, including debt service payments, motive equipment costs, transfers to reserves, in addition to contractual services. For FY 2011, PBF now expands the previous six expenditure categories to nine. New categories have been created which isolate Supplies, Contracts, and Debt.

The addition of new categories is a benefit to the budget process. Unfortunately, upon deeper review, the Contracts category includes unlike expenses some of which are not for outside consultant or contractor work, such as costs for motive equipment usage and replacement, refuse disposal fees, SAP support costs and travel and training. It is hoped that the assignment of accounts to categories can be further refined in future budgets.

The table below shows the General Fund Budget for FY 2010 compared to the FY 2011 Proposed Budget, by expenditure category. This section provides a description of major changes for each cate-

SUMMARY OF GENERAL FUND BUDGET CHANGES
(in millions)

Expenditure Category	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Salaries and Wages	$ 516.1	$ 473.5	$ (42.6)	-8.3%
Fringe Benefits	269.4	314.8	$ 45.4	16.9%
Supplies	24.1	22.4	$ (1.7)	-7.1%
Contracts	182.6	161.4	$ (21.2)	-11.6%
Information Technology	30.9	25.6	$ (5.3)	-17.2%
Energy and Utilities	32.4	32.7	$ 0.3	0.9%
Other Expenditures	64.3	54.6	$ (9.7)	-15.1%
Capital Expenditures	5.6	3.0	$ (2.6)	-46.4%
Debt	4.3	4.3	$ -	0.0%
TOTAL GENERAL FUND	**$ 1,129.7**	**$ 1,092.3**	**$ (37.4)**	**-3.3%**

gory. As changes to Energy and Utilities, and Debt were not significant, additional descriptions of these categories are not provided.

Salaries and Wages

The Fiscal Year 2011 Proposed Budget reflects a reduction of $42.6 million in salaries and wages in the General Fund, or a 8.3% decrease. This is primarily the result of the December 2009 Adjustments, which eliminated 485.16 FTEs, and reduced personnel expenses by over $42.0 million for FY 2011 for the General Fund.

Salary/Vacancy Savings

In previous years, as part of the annual budget process, the City has assigned a vacancy factor to departments (with eleven positions or more) in order to reduce budgeted personnel expenditures in anticipation of normal turnover and attrition.

The methodology for this process has changed for FY 2011, capitalizing on the benefits of the integrated OneSD system by relying on payroll data, including actual employee salaries, and the current vacancy status of each department.

Based on the status at points in December 2009 and March 2010, department budgets for FY 2011 do not include funding for positions determined to be vacant.

Information provided by Financial Management shows that 507.96 FTEs have been unfunded in the General Fund in the FY 2011 Proposed Budget, creating budgetary salary savings of $27.9 million. For the FY 2010 budget, vacancy savings for the General Fund totaled $36.0 million.

Departments have also received adjustments to salary and fringe benefits funding to accurately reflect the six percent compensation reduction and SPSP waiver options, agreed to this past fiscal year, which required employees to individually choose how those impacts would be implemented.

In total, FY 2011 Salary Savings for the General Fund is $33.6 million. In other words, department budgets have been reduced by $33.6 million. While less

Comparison of General Fund Vacancy/Salary Savings
(in millions)

Departments	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Engineering and Capital Projects	$ (1.3)	$ (3.0)	$ (1.7)	130.8%
General Services	(0.6)	(2.0)	(1.4)	233.3%
Library	(0.6)	(1.8)	(1.2)	200.0%
Park and Recreation	(1.1)	(2.2)	(1.1)	100.0%
Fire-Rescue	(8.8)	(3.5)	5.3	-60.2%
Police	(20.6)	(14.8)	5.8	-28.2%
Remaining Departments	(3.0)	(6.3)	(3.3)	110.0%
TOTAL GENERAL FUND	**$ (36.0)**	**$ (33.6)**	**$ 2.4**	**-6.7%**

than the FY 2010 vacancy savings of $36.0 million, the application of the savings to departments by unfunding actual vacant positions may disproportionally affect certain departments, and result in the inability to fill positions and adequately provide services during the upcoming fiscal year.

Fringe Benefits

In the FY 2011 Proposed Budget, total Fringe Benefits have increased by $45.4 million in the General Fund, due most significantly to the increase in the Retirement ARC of $55.2 million compared to FY 2010.

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.

Funding for Workers' Compensation has been reduced due to the December budget solution to suspend contributions to the City's reserves.

Funding for OPEB (or retiree health care) remains consistent with prior year levels, as funding for pay-as-you-go costs were

SUMMARY OF FRINGE BENEFITS BUDGET CHANGES
General Fund Changes by Benefit
(in millions)

Fringe Benefits	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Retirement ARC	$ 124.9	$ 180.1	$ 55.2	44.2%
Flexible Benefits	39.0	37.3	(1.7)	-4.4%
OPEB	39.7	40.0	0.3	0.8%
Worker's Compensation	20.4	16.8	(3.6)	-17.6%
Retirement Offset	5.2	4.8	(0.4)	-7.7%
SPSP	13.5	9.0	(4.5)	-33.3%
Employee Offset	10.0	8.9	(1.1)	-11.0%
Medicare	6.9	5.2	(1.7)	-24.6%
Risk Management Admin	5.5	6.2	0.7	12.7%
Long Term Disability	3.0	3.8	0.8	26.7%
Remaining Fringe Accounts	1.3	2.7	1.4	107.7%
TOTAL GF FRINGE BENEFITS	**$ 269.4**	**$ 314.8**	**$ 45.4**	**16.9%**

reduced from the previous estimates as reflected in the Five-Year Financial Outlook, and the reduction was identified as a recent solution to bring the budget into balance.

The following chart shows the General Fund departments most significantly impacted from the increase to fringe benefits.

SUMMARY OF FRINGE BENEFITS BUDGET CHANGES
General Fund Departments with Major Impacts
(in millions)

General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Fire	$ 51.9	$ 64.6	$ 12.7	24.5%
Police	118.4	129.8	11.4	9.6%
Engineering and Capital Proje	17.0	22.0	5.0	29.4%
City Attorney	11.6	14.9	3.3	28.4%
Park and Recreation	16.8	19.9	3.1	18.5%
General Services	10.2	11.7	1.5	14.7%
Library	9.8	10.6	0.8	8.2%
City Comptroller	3.0	3.7	0.7	23.3%
City Treasurer	3.5	4.1	0.6	17.1%
Remaining Departments	27.2	33.5	6.3	23.2%
TOTAL GF FRINGE BENEFITS	**$ 269.4**	**$ 314.8**	**$ 45.4**	**16.9%**

Supplies

The Supplies category is budgeted at $22.4 million for the General Fund, and reflects a decrease of $1.7 million or 7.2% compared to FY 2010.

SUMMARY OF SUPPLIES BUDGET CHANGES
General Fund Departments with Major Impacts
(in millions)

General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Police	$ 5.2	$ 4.3	$ (0.9)	-17.3%
Engineering and Capital Proj	1.4	1.1	(0.3)	-21.4%
General Services	5.6	5.4	(0.2)	-3.6%
Library	2.4	2.2	(0.2)	-8.3%
Park and Recreation	4.4	4.3	(0.1)	-2.3%
Remaining Departments	5.1	5.1	-	0.0%
TOTAL GF SUPPLIES	**$ 24.1**	**$ 22.4**	**$ (1.7)**	**-7.1%**

As discussed in our previous budget reviews, this category had previously included a diverse and broad range of expenditure accounts and types, and the budget document did not provide transparency as to what comprised those expenditures. The isolation of the Supplies category is an improvement.

In our review, we determined the most significant changes to specific accounts within the Supplies category, mostly caused by the December 2009 Adjustments, including reductions to the Library's book budget, and reductions in funding for chemicals and fertilizers, as well as office supplies and postage.

SUMMARY OF SUPPLIES BUDGET CHANGES				
General Fund Changes by Account				
(in millions)				
Supplies Account	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Books	$ 2.1	$ 1.9	$ (0.2)	-9.5%
Chemical/Organic Fertilizer	0.2	0.0	(0.1)	-70.0%
Dry Goods/Uniforms	3.1	2.7	(0.4)	-12.9%
Office Supplies	2.8	2.6	(0.2)	-7.1%
Other Safety Supplies	1.3	1.1	(0.2)	-15.4%
Postage/Mailing	1.0	0.8	(0.2)	-17.5%
Street Materials	1.3	1.2	(0.1)	-4.8%
Remaining Supplies Accounts	12.5	12.1	(0.4)	-3.2%
TOTAL GF SUPPLIES	**$ 24.2**	**$ 22.4**	**$ (1.7)**	**-7.2%**

Contracts

The Contracts category totals $161.4 million for the General Fund, and reflects a reduction of $21.2 million, or 11.6%.

The budget development process included a zero-based budget review of twenty specific items within the Contracts category, which is comprised of over ninety distinct accounts. The zero-based review of the twenty accounts studied reflect a reduction to the General Fund of $7.5 million, compared to FY 2010, though a portion of these reductions were already considered as part of the December adjustments.

SUMMARY OF CONTRACTS BUDGET CHANGES				
General Fund Departments with Major Impacts				
(in millions)				
General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Fire-Rescue	$ 18.1	$ 13.1	$ (4.9)	-27.3%
Police	31.2	26.6	(4.6)	-14.8%
Environmental Services	23.1	18.8	(4.3)	-18.5%
Park and Recreation	18.8	16.3	(2.5)	-13.3%
Storm Water	24.8	22.5	(2.3)	-9.3%
City Planning and Community	5.2	3.5	(1.7)	-33.3%
Citywide Program Expenditures	19.6	18.3	(1.3)	-6.6%
Administration	1.6	0.4	(1.2)	-76.9%
Department of IT	7.6	10.2	2.6	34.4%
Remaining Departments	32.7	31.8	(0.9)	-2.8%
TOTAL GF CONTRACTS	**$ 182.6**	**$ 161.4**	**$ (21.2)**	**-11.6%**

The Contracts 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. The FY 2010 General Fund budget for these two motive equipment items totaled $58.2 million. The inclusion of these items in this category may appear

SUMMARY OF CONTRACTS BUDGET CHANGES				
General Fund Changes by Account*				
(in millions)				
Contracts Account	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Motive Equipment/Fleet - Assign	$ 25.8	$ 13.1	$ (12.7)	-49.3%
Misc Prof/Tech Svcs	38.6	30.4	(8.2)	-21.2%
Maint - Bldgs, Rds,	7.6	4.7	(2.9)	-38.2%
Motive Equipment/Fleet - Usage	32.4	30.2	(2.2)	-6.7%
Rent Expense	12.8	11.2	(1.6)	-12.5%
Promotional Advertising	1.9	1.4	(0.5)	-26.3%
Refuse Disposal Fees	11.4	11.1	(0.3)	-2.6%
Motive Equipment/Fleet - Pool	1.1	1.1	-	0.0%
Fire Insurance	1.3	1.3	-	0.0%
Contract Svc - Agency	7.2	7.3	0.1	1.4%
Landscaping Services	3.5	3.6	0.1	2.9%
Contract Svcs Ops	6.1	6.2	0.1	1.6%
Security Services	0.3	1.6	1.3	433.3%
City Services Billed	4.5	5.9	1.4	31.1%
Repair/Maint Svcs	0.3	2.3	2.0	666.7%
SAP Support Allocation	7.6	10.2	2.6	34.2%
Construction Contracts	-	3.3	3.3	n/a
Remaining Contracts Accounts	20.2	16.6	(3.6)	-17.8%
TOTAL GF CONTRACTS	**$ 182.6**	**$ 161.4**	**$ (21.2)**	**-11.6%**

* Some changes may reflect redistribution of existing budget amounts to new accounts due to implementation of new budget and accounting systems and zero-based review

SUMMARY OF MOTIVE EQUIPMENT/FLEET BUDGET CHANGES General Fund Departments with Major Impacts (in millions)				
General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Fire-Rescue	$ 13.2	$ 8.2	$ (5.0)	-37.9%
Police	19.0	15.4	(3.6)	-18.9%
Environmental Services	9.9	6.9	(3.0)	-30.3%
General Services	5.8	4.5	(1.3)	-22.4%
Park and Recreation	6.3	4.8	(1.5)	-23.8%
Storm Water	3.5	3.0	(0.5)	-14.3%
Remaining Departments	0.5	0.5	-	0.0%
Total	**$ 58.2**	**$ 43.3**	**$ (14.9)**	**-25.6%**

to overstate the amount of potential funding for work to be accomplished by outside contractors or consultants.

As part of the December 2009 Adjustments and additional corrective actions to balance the budget, vehicle replacement schedules were extended by two years, and rates charged to departments were correspondingly reduced. Reductions to the number of vehicles in the fleet were also made by identifying underutilized vehicles in the fleet. As an additional budgetary solution, further changes in the fleet operations were made to utilize accumulated fund balance from past departmental charges, vehicle purchases were reviewed and aligned with available funding, both of which further reduce rates, providing additional General Fund savings of $4.4 million.

In total, motive equipment charges have been reduced to $43.3 million for FY 2011, a decrease of $14.9 million.

The departments most significantly impacted by the vehicle replacement and operations changes include Fire-Rescue, Police and Environmental Services, as shown in the above table.

Information Technology

For the most part, Information Technology services are currently provided to the City by San Diego Data Processing Corporation (SDDPC). The City's Department of Information Technology works closely and coordinates efforts with SDDPC. The SDDPC Budget is also discussed in the City Agencies section of this report.

The City has begun efforts to seek competitive bids for the services currently provided by SDDPC, and City Council approval was recently obtained for the award of the Help Desk & Desktop Support functions to En Pointe Technologies, Inc. for FY 2011. These competitive efforts are expected to reduce City IT costs, and were contemplated as part of the FY 2011 budget development.

In total, the costs budgeted for FY 2011 for Information Technology needs across all General Fund Departments is $5.3 million less than amounts budgeted for FY 2010, exceeding the December 2009 Adjustment estimated at $3.0 million.

SUMMARY OF INFORMATION TECHNOLOGY BUDGET CHANGES General Fund Changes by Account (in millions)				
INFO TECHNOLOGY ACCOUNTS	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Application Support	$ 4.9	$ 4.6	$ (0.3)	-6.1%
Central Support - Fixed	5.1	2.0	(3.1)	-60.0%
Comp Maint/Contracts	5.7	5.6	(0.1)	-1.8%
Equip Support - Discr	2.3	1.2	(1.2)	-50.0%
Network Access - Fixed	5.4	4.3	(1.1)	-20.4%
Serv Billed	2.6	1.2	(1.4)	-53.8%
Telephone Service	2.6	2.4	(0.2)	-7.7%
Remaining Accounts	2.3	4.3	2.0	87.0%
TOTAL GF INFO TECH	$ 30.9	$ 25.6	$ (5.3)	-17.2%

All City department budgets are impacted by the reduction in IT costs. The General Fund department most significantly impacted by the IT reductions, in terms of dollar value, is the Police Department, with a reduction of $2.2 million. In contrast, the City Treasurer budget reflects an increase of $500,000, or 24% compared to FY 2010.

SUMMARY OF INFORMATION TECHNOLOGY BUDGET CHANGES General Fund Departments with Major Impacts (in millions)				
General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Police	$ 10.9	$ 8.7	$ (2.2)	-20.2%
City Comptroller	1.0	0.5	(0.5)	-50.0%
City Attorney	1.7	1.3	(0.4)	-23.5%
Engineering and Capital Projects	4.1	3.6	(0.5)	-12.2%
Library	1.8	1.4	(0.4)	-23.0%
Fire-Rescue	2.1	1.8	(0.3)	-14.3%
Park and Recreation	1.2	0.9	(0.3)	-25.0%
Department of IT	0.5	0.3	(0.3)	-50.0%
City Treasurer	2.1	2.6	0.5	23.8%
Remaining Departments	5.5	4.6	(0.9)	-16.4%
TOTAL GF INFO TECHNOLOGY	$ 30.9	$ 25.6	$ (5.3)	-17.0%

Other Expenditures

The Other Expenditures category includes transfers of funding between City funds, including the allocation of funds to City reserves, matching funds for donation purposes, and transfers of funding for annual debt service payments for outstanding bonds.

SUMMARY OF OTHER BUDGET CHANGES General Fund Changes by Account (in millions)				
Other Accounts	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Transfer Out	$ 53.8	$ 41.8	$ (12.0)	-22.3%
Transfer Cash - Bond Payment	4.9	7.8	2.9	60.2%
Transportation Allowance	1.7	1.6	(0.2)	-8.8%
Transfer Matching Donation	1.3	0.9	(0.3)	-26.0%
Info Tech Service Transfer	1.8	1.7	(0.1)	-5.6%
Remaining Other Accounts	0.9	0.8	(0.1)	-11.1%
TOTAL OTHER ACCOUNTS	$ 64.3	$ 54.6	$ (9.7)	-15.2%

In the past, these types of expenditures were included in the Supplies & Services category, and the creation of the Other Expenditure category is an improvement. This category reflects a significant decline in the Proposed FY 2011 budget due to the suspension of the contributions to the City's reserves, including the General Fund and Public Liability Reserves, and elimination of funding for the City's Appropriated Reserve. These contributions would typically be budgeted within the Citywide Program Expenditures budget, which reflects a significant decline from FY 2010.

SUMMARY OF OTHER BUDGET CHANGES General Fund Departments with Major Impacts (in millions)				
General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Citywide Program Expenditures	$ 33.3	$ 24.6	$ (8.7)	-26.1%
General Fund Appropriated Reserve	1.7	-	(1.7)	-100.0%
Storm Water	1.6	1.1	(0.6)	-34.8%
Library	1.4	1.1	(0.4)	-24.6%
General Services	4.2	6.7	2.4	57.3%
Remaining Departments	22.0	21.2	(0.8)	-3.8%
TOTAL GF OTHER	$ 64.3	$ 54.6	$ (9.7)	-15.1%

The Library Department's reduction to its donation matching fund is reflected here, as well as increases to the Storm Water and General Services Department for contributions to the annual debt service payment for the Deferred Capital financing. Storm Water also reflects an offsetting decrease due to CIP contributions last year, which are discontinued in FY 2011.

Capital Expenditures

Capital Expenditures, previously called Equipment Outlay, include funding for vehicle and equipment purchases not handled by the City's Fleet Services. These accounts were also subject to a zero-based review as part of the FY 2011 budget development process.

SUMMARY OF CAPITAL BUDGET CHANGES General Fund Departments with Major Impacts (in millions)				
General Fund Department	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE	%
Fire-Rescue	2.6	1.0	(1.6)	-61.5%
Park and Recreation	$ 1.8	$ 1.1	$ (0.7)	-39.6%
Remaining Departments	1.2	0.9	(0.3)	-25.0%
TOTAL GF CAPITAL	**$ 5.6**	**$ 3.0**	**$ (2.6)**	**-46.6%**

The removal of FY 2010 funding for the Fire-Rescue Fire Station Alerting project in the amount of $1.6 million is reflected in this category, as well as the elimination of funding of $700,000 in the Park and Recreation Department, for a total reduction of $2.6 million.

The IBA has previously recommended a zero-based review of equipment outlay funding, as these purchases are typically one-time in nature, and annual funding levels should require justification each year.

ADA Compliance

Americans with Disabilities Act of 1990 (ADA)

ADA addresses the right of people with disabilities to obtain equal access to services, programs, buildings, facilities and employment. The Mayor and City Council began budgeting $10.0 million annually for ADA projects in FY 2008 using proceeds from City land sales. A lesser amount of Community Development Block Grant (CDBG) funds, ranging from $300,000 to $2.3 million, has also been budgeted each year in addition to the $10.0 million from land sales.

Significant Reduction in ADA Funding Attributable to Lower than Expected Land Sales

The Mayor is proposing to suspend the $10.0 million annual appropriation for ADA projects until the real estate market improves. It should also be noted the ADA Program has yet to receive the $10.0 million budgeted for ADA projects in FY 2010 due to lower than expected land sales. The IBA has been informed there may not be sufficient additional land sales to meet the $10.0 million land sale contingent ADA budget appropriation in FY 2010. Although approximately $1.1 million of CDBG funds was allocated to ADA projects in FY 2010, CDBG is not expected for ADA projects in FY 2011.

Planned Bond Financing for ADA Projects in FY 2012 and FY 2014

The Mayor's Revised Five-Year Outlook assumes $120.0 million in additional bonds will be issued mid-year in FY 2012 and FY 2014 to address significant deferred capital improvement project needs. The Revised Outlook further indicates $20.0 million of each bond issuance will be used to fund ADA projects.

ADA Projects Planned for FY 2008 through FY 2010 Moving Forward

In last year's report on the FY 2010 Proposed Budget (09-37), the IBA commented on the time required to complete ADA projects. In reviewing current ADA project status, the IBA finds that projects planned to begin in FY 2008 are moving towards final completion. With the exception of sidewalk and curb ramp projects, most of the ADA projects planned for FY 2009 are in the planning/design phase. ADA projects planned to begin in FY 2010 are either in the planning/design phase or on hold awaiting funding from land sales.

The IBA recommends that the Disability Services Program Manager: 1) provide the City Council with an update on the status of planned ADA projects/funding, and 2) present the results of the Facility Survey Needs Assessment to the Land Use And Housing Committee upon expected completion in July 2010.

Status of ADA Construction Projects

	FY 2008 BUDGET	FY 2009 BUDGET	FY 2010 BUDGET
ADA Project Phases			
Design/Bid/Award	13 (29%)	29 (76%)	10 (36%)
In Construction	10 (22%)	0 (0%)	0 (0%)
Completed	22 (49%)	9 (24%)	0 (0%)
TOTAL PROJECTS:	45 (100%)	38 (100%)	28 (100%)

Deferred Capital (Deferred Maintenance)

The Structural Budget Deficit Elimination Guiding Principles requires the development of a plan to fund deferred capital infrastructure and maintenance needs to reduce the current backlog and identify the level of funding necessary to prevent the problem from growing larger (Principle #11).

In June 2010, Public Works staff plans on bringing forward a Deferred Capital (Deferred maintenance) funding plan to the Budget and Finance Committee that would address the Guiding Principle. The components of the plan will include the identification of required funding related to "Catch-Up" (the funding required to reach a targeted service level) and also "On-going" funding required to maintain assets at the targeted level.

In June, the Budget and Finance Committee meeting will focus on the City's three significant asset classes—streets, buildings/ facilities, storm drains and will also start the discussion on what level of service (High, medium, or low) the City wants to achieve for these asset classes. As an example, a high level of service for streets would be 75% in "Good" condition, 20% in "Fair" condition, and 5% in "Poor" condition. The service levels for buildings/facilities and storm drains would be similar. It is important to note that the level of service that is ultimately approved by the City Council could significantly impact future General Fund budgets.

Staff is currently refining the estimated costs associated with the service levels for each asset class and will have this information available at the June Budget and Finance Committee Meeting. However, Public Works staff has provided the IBA with the estimated costs associated with a High level service for the three significant asset classes.

"Catch-Up" Funding

Based on Condition Assessments of the three significant asset classes, Public Works staff has estimated that to achieve a High level of service the following funding would need to be identified to "Catch-Up":

"Catch-Up" Funding Required for High Service Level	
Asset Class	Funding Amounts (Millions)
Streets	$250.8
Facilities	$93.0
Storm Drains	$219.6
Total:	*$563.4*

It is important to note that the $563.4 million in estimated "Catch-Up" funding requirements does not include expenses related to:

- Sidewalks
- Alleys
- Bridges
- Drainage channels
- Convention Center

- Qualcomm Stadium
- Petco Park
- Water and Sewer Infrastructure
- Civic Center Plaza

For sidewalks, the City has not commissioned a formal condition assessment but addresses damaged sidewalks when notified.

Public Works staff has stated that they are in the process of performing a Condition Assessment for alleys and when completed will include the required funding in the "Catch-Up" total. Staff has also stated that the Deferred Capital expenses for bridges, drainage channels, Convention Center, Qualcomm Stadium, Petco Park, and the water and sewer Infrastructure are covered by funding sources other than the City's General Fund. However, some of these facilities such as Petco Park and Qualcomm Stadium share common funding sources with the City's General Fund. An example is the Transient Occupancy Tax. If one of these facilities were to experience a failure due to a lack of deferred maintenance the General Fund could be impacted.

Civic Center Plaza

Currently the City of San Diego is in negotiations with Gerding Edlen for the redevelopment of the Civic Center Plaza. If the City is unsuccessful in redeveloping the current Civic Center Plaza, an estimated $40.0 million in minimum expenditures would be required to keep the current facilities operational. This need has not been included in staff's "Catch-Up" funding requirements.

FY 2011 Proposed Budget

The FY 2011 Proposed Budget does not include new funding to address "Catch-Up" needs for the significant asset classes and sidewalks. However $80.0 million is available from the $102.0 million in Deferred Capital Project Bonds approved in FY 2009 and $11.4 million in miscellaneous grants is available to address "Catch-Up" needs in FY 2011. In addition, the Mayor's Revised Five -Year Financial Outlook anticipates future bond issuances in mid-FY 2012 and FY 2014 for Deferred Capital needs.

Deferred Capital Project Bonds Debt Service

On April 27, 2010, the City Council approved the Preliminary Official Statement for the Series 2010A Refunding Bonds. These Master Refunding bonds, which are expected to be priced in mid-May 2010, will in part restructure outstanding deferred capital improvement financing into long-term debt through FY 2040. Based on recent interest rates, annual debt service payments in FY 2011 are estimated to be approximately $6.2 million and these funds have been budgeted in the General Services and Storm Water departments.

"On-Going" Funding

In the future, once the City has achieved a required service level, it will be important that the "On-Going" expenditures are funded at a level to ensure that the City does not fall behind on maintenance. Public Works staff is currently working on identifying the required "On-Going" funding level to maintain each service level. This information will be available for the June Budget & Finance Committee meeting.

The following table identifies current funding available for "On-Going" expenses for the significant asset classes. It is important to note that this table does not reflect the required funding, only the funding that is in the FY 2010 Annual Budget and proposed for FY 2011. Staff estimates that the required amount for "On-Going" expenses could be more than the funding that is currently available.

"On-Going" Funding (Millions)		
Asset Class	**FY 2010**	**FY 2011**
Streets	$60.0	$62.0
Facilities	$15.8	$14.6
Storm Drains	$10.7	$10.3
Total:	*$86.5*	*$86.9*

Significant funding sources for "On-Going" expenditures include the General Fund, Proposition 42, Proposition 1B, TransNet, and Transient Occupancy Tax Funds. The majority of "On-Going" expenses are budgeted in the General Services and Storm Water departments.

General Fund Reserve

The City's Reserve Policy calls for General Fund reserves to be funded at 7% of the General Fund in FY 2010, increasing to 8% by FY 2012. The reserve calculation includes the Emergency Reserve, the Appropriated Reserve, and the Unappropriated (or Unallocated) Reserve.

The December 2009 Budget Solutions included the suspension of contributions to the City's reserves, which is estimated to save the General Fund a total of $27.5 million. Of that, $4.2 million had been estimated to be needed for contribution to the General Fund Reserve.

Consistent with the December budget adjustments, the Revised Five-Year Outlook describes postponing achieving the current reserve policy targets of 7.5% for FY 2011 for the General Fund, and instead maintaining the 7% level, and increasing to 7.5% in FY 2012 and then 8% in FY 2013 and thereafter.

Revisions to the City's Reserve Policy are needed to codify these changes, and are expected to come forward to the Budget and Finance Committee and the City Council for approval prior to the end of the fiscal year.

The Mayor's Proposed Budget reflects a General Fund Reserve of $77,116,178. Based on the Proposed Budget of $1,092.3 million, the General Fund reserve slightly exceeds the 7% policy goal, and no additional contribution will be needed for FY 2011.

Information provided by the City Comptroller as of April 1, 2010 reported the total reserve as $78.8 million., including the $1,666,935 authorized as the current amount of the Appropriated Reserve, which was to have been funded from FY 2010 revenues. The FY 2010 Appropriated Reserve has not yet been utilized for any unmet, unbudgeted needs.

General Fund Reserve
Revised Five-Year Outlook
(in milllions)

Fiscal Year	Revenues	Revised Policy Target	Reserve Amount	Needed Contribution
2011	$1,092.3	7.0%	$77.1	$ -
2012	$1,073.8	7.5%	$80.5	$3.4
2013	$1,101.7	8.0%	$88.1	$7.6
2014	$1,134.4	8.0%	$90.8	$2.6
2015	$1,169.9	8.0%	$93.6	$2.8

Issues to Consider

FY 2010 Reserve Level

In the City's Mid-Year Financial Monitoring Report, it was reported that based on current projections of FY 2010 revenues and expenditures, $11.5 million from the General Fund reserve would be needed to achieve a balanced budget at year-end, if no other mitigation measures are implemented. As a result, the City's General Fund reserve could be short of reaching the 7% funding level, by $9.5 million. The City intends to control expenses so as to not require the use of the City's reserve funds, however, the possibility of reduced reserve levels exists until the year concludes, and could impact the ability of the City to maintain the 7% reserve goal, especially with no new contribution scheduled in FY 2011.

Appropriated Reserve

There are no minimum or maximum funding levels for the Appropriated Reserve for a given year. The Reserve Policy states that the Mayor will include an amount each year in the operating budget to fund the Appropriated Reserve. The Mayor's FY 2011 Proposed Budget includes no allocation of funding for an Appropriated Reserve. If new additional funding can be identified prior to the adoption of the budget, the Council may wish to consider the funding of an Appropriated Reserve, consistent with the adopted Reserve Policy.

Public Liability Reserve

The City's Reserve Policy established a goal of increasing funding for the Public Liability Reserve to reach 50% of outstanding claims by FY 2014.

The December 2009 Budget Solutions included the suspension of contributions to the City's reserves, which is estimated to save the General Fund a total of $27.5 million. Of that, $15.2 million had been estimated to be needed for contribution to the Public Liability Reserve.

The Public Liability Fund is projected to reach 15% in reserves in FY 2010, which will be maintained in FY 2011 instead of increasing to 25%, as original planned.

Consistent with the December budget adjustments, the Revised Five-Year Outlook describes postponing achieving the 50% reserve policy from FY 2014 to FY 2016, and basing the 50% of claims on a three-year average of annual claims, currently $114.5 million.

The Preliminary Official Statement for the Lease Revenue Bonds, Series 2010 approved by the City Council on Tuesday, April 27, 2010, describes that the City intends to achieve the reserve level of 50% of claims by FY 2018 (instead of 2016), and the amount of claims to determine the reserve level will be smoothed utilizing an average over seven years.

Revisions to the City's Reserve Policy are needed to incorporate these changes, and are expected to come forward to the Budget and Finance Committee and the City Council for approval prior to the end of the fiscal year.

Information provided by the Risk Management Department as of April 22, 2010 reported the total Public Liability Reserve at $17.1 million. The Revised Five-Year Outlook states future annual contributions of $5.7 million will bring the FY 2018 reserve to the intended 50% of claims.

Public Liability Reserve

Revised Five-Year Outlook

Current Outstanding PL Claims:		$114.5	(in millions)	
Fiscal Year	**Annual GF Contribution**	**Balance**	**Reserve: % of claims**	**Policy Target**
2010	$7.1	$17.1	14.9%	15%
2011	-	$17.1	14.9%	15%
2012	$5.7	$22.8	19.9%	unknown
2013	$5.7	$28.5	24.9%	unknown
2014	$5.7	$34.2	29.9%	unknown
2015	$5.7	$39.9	34.8%	unknown
2016	$5.7	$45.6	39.8%	unknown

The contribution to the Public Liability Reserve is budgeted in Citywide Program Expenditures, and the suspension of the FY 2011 contribution reduced the Citywide budget by $7.1 million compared to the FY 2010 budget.

Workers' Compensation Reserve

The City's Reserve Policy established a goal of increasing funding for the Workers' Compensation Reserve to reach 50% of outstanding claims by FY 2014. This funding is in addition to funds needed to pay annual claims and administrative costs.

The December 2009 Budget Solutions included the suspension of contributions to the City's reserves, which is estimated to save the General Fund a total of $27.5 million. Of that, $8.1 million had been estimated to be needed for contribution to the Workers' Compensation Reserve in FY 2011.

The Workers' Compensation Fund is projected to reach a 22% reserve level in FY 2010, which is proposed to be maintained for FY 2011.

Consistent with the December budget adjustments, the Revised Five-Year Outlook describes postponing achieving the 50% reserve policy from FY 2014 to FY 2016, and basing the 50% of claims on a three-year average of annual actuarial liability, currently $155.0 million.

The Preliminary Official Statement for the Lease Revenue Bonds, Series 2010 approved by the City Council on Tuesday, April 27, 2010, describes that the City intends to achieve the reserve level of 50% of claims by FY 2018 (instead of 2016), and the amount of claims to determine the reserve level will be smoothed utilizing an average over seven years.

Revisions to the City's Reserve Policy are needed to incorporate these changes, and are expected to come forward to the Budget and Finance Committee and the City Council for approval prior to the end of the fiscal year.

Worker's Compensation Reserve
Revised Five-Year Outlook

Current Outstanding WC Claims:		$155.0	(in millions)	
Fiscal Year	**Annual GF Contribution**	**Balance**	**Reserve: % of claims**	**Policy Target**
2010	$4.0	$35.0	22.6%	15%
2011	-	$35.0	22.6%	22%
2012	$5.1	$41.2	26.6%	unknown
2013	$5.1	$47.4	30.6%	unknown
2014	$5.1	$53.6	34.6%	unknown
2015	$5.1	$59.8	38.6%	unknown
2016	$5.1	$66.0	42.6%	unknown

Information provided by the Risk Management Department as of April 15, 2010 reported the total Workers' Compensation reserve at $29.3 million, and it is intended that it reach $35.0 million by year-end.

FY 2011 Workers' Compensation contributions, part of each department's fringe benefits, have decreased by $3.6 million in the General Fund from FY 2010, due to the elimination of the reserve contribution.

Other Post-Employment Benefits

Retiree health obligations, or Other Post-Employment Benefits (OPEB), total $57.8 million ($40.0 million for the General Fund) in the FY 2011 Proposed Budget. The pay-as-you-go (PAYGO) portion of the OPEB budget (for employees already retired) is $32.8 million. The remaining $25.0 million will prefund the future payment of benefits that are currently being earned.

The Annual Required Contribution (ARC) for OPEB in FY 2011 is $120.3 million, of which the City will be paying $57.8 million, or 48%. The City is not required to pay the ARC, but beginning FY 2008 an accumulated liability based on unpaid ARC amounts must be booked on the financial statements. The total Unfunded Actuarial Liability (UAL) is approximately $1.3 billion as of June 30, 2009. Information regarding the ARC and UAL is available in the June 30, 2009 valuation, which was performed by Buck Consultants and provided to the City in September 2009.

Effects of Labor Negotiations

Currently, the City provides a defined benefit plan (DB) for employees hired before July 1, 2005. This date is in dispute with SDCERS, which is using February 16, 2007. In the City's DB medical benefit plan, vested employees are provided a specific health benefit at the time of their retirement.

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.

Due to the magnitude of the ARC and UAL, a change to OPEB is contemplated in the most recently approved terms and agreements with the City's six labor unions. The Retiree Medical Study Committee, consisting of DCAA, MEA, IAFF Local 145 and City representatives, is currently evaluating alternatives relating to retiree medical benefits. The Committee's work is expected to be completed in May 2010, and a report laying out the Committee's findings will be presented to Council. The report is expected to include a history of the retiree medical benefit, its current status, legal constraints and concerns, major options studied (benefit changes and alternate funding mechanisms), and articulated interests of the parties — both the City's and the unions' primary interests and motivations.

Retiree medical benefit negotiations with the City's unions is anticipated to take place beginning July 1, 2010 — subsequent to completion of the Retiree Medical Study Committee's report. A modified retiree medical benefits plan is anticipated to be effective July 1, 2011 for all unions — DCAA, MEA, IAFF Local 145 , AFSCME Local 127, POA and Teamsters (Lifeguards).

As this issue is being studied, the City has frozen the automatic escalator on the retiree medical benefit for eligible employees who are not retired as of July 1, 2009. Currently, the benefit is frozen at $8,880 per year. In addition, effective July 1, 2009 the vesting time period for benefits has doubled.

Final impacts of changes to OPEB will be identified through actuarial analysis and an updated actuarial valuation.

Pension

The FY 2011 Proposed Budget includes $231.7 million for the Annual Required Contribution (ARC) for the City's pension. This is an increase of $77.5 million over the FY 2010 budget of $154.2 million. The General Fund portion of this payment is $180.1 million — an increase of $55.2 million over the FY 2010 budget of $124.9 million.

As is the case for cities across the country, market downturns during FY 2009 exacerbated the City's pension system Unfunded Actuarial Liability (UAL) — which totals $2.1 billion as of June 30, 2009. The City's pension system liabilities as of June 30, 2009 are funded at a rate of 66.5% — down from 78.1% at June 30, 2008. The ARC for the City has reached approximately 36% of budgeted salaries and wages and 42% of membership payroll (pensionable salaries) for FY 2011.

The City's new budgeting system provides a more accurate allocation of the ARC, and other fringe benefits, among employees. The ARC budget distribution is now based on actual filled positions and is calculated as a percent of payroll, as indicated in the pension system's actuarial valuation.

The City also makes partial retirement contributions to the system on behalf of eligible employees — referred to as the Retirement Offset Contribution. In effect, the City is paying a portion of employees' retirement system contributions, according to various rates negotiated with the City's six labor unions. However, for FY 2010, these retirement offsets were eliminated for DCAA, IAFF Local 145, AFSCME Local 127 and POA. Because of the offset eliminations and reductions, the City's retirement offset expense has decreased by approximately 61% (68% for the General Fund) between FY 2009 actual expenses and the FY 2011 budget. The FY 2009 unaudited actual offsets totaled $20.4 million, of which $15.2 million was in the General Fund. This compares to the FY 2011 budgeted amount of $7.9 million Citywide, of which $4.8 million is in the General Fund.

Effects of Labor Negotiations

The agreed to and imposed salary freezes have the effect of reducing the ARC and UAL. This is because salary increases are assumed in the pension system's projections. Salary increases result in a higher liability due to higher expected pension payouts. When salary increases do not occur, a lower ARC and UAL will result.

This does not necessarily mean that the net ARC payment and UAL will be less than the previous year. The ARC and UAL reductions that are related to a salary freeze are one result of the many pension system assumptions that can vary from expectations.

For FY 2011, the pension system actuary has estimated the ARC reduction due to a one-year salary freeze to be approximately $8.6 million. This is less than the FY 2010 estimation of $12.0 million. The reason for the difference is that the City is only freezing general salary increases, and not the step increases that are received by classified personnel. The estimated ARC reduction of $8.6 million is incorporated into the FY 2011 ARC of $231.7 million. The corresponding UAL reduction attributable to the salary freeze is estimated at $94.0 million.

A new defined benefit pension plan tier went into effect for employees hired on or after July 1, 2009. The estimated ARC reduction of $500,000 is incorporated into the FY 2011 ARC. Savings are expected to increase over time, as the proportion of employees in the second tier grows.

Other Issues

DROP Interest Rate

The San Diego City Employees' Retirement System Board of Administration sets the rates for crediting interest to DROP accounts. Effective July 1, 2009, the DROP interest rate for active member accounts was reduced from 7.75% to 3.54%. The interest rate was also reduced from 7.75% to 5% for DROP retirees' accounts (for participants retiring after June 30, 2009). The pension system actuary's estimate of the FY 2011 ARC reduction due to these changes is $1.4 million, which is incorporated into the FY 2011 ARC of $231.7 million. The rate for active DROP members has been subsequently reduced to 2.9%, effective January 1, 2010.

DROP Neutrality

The City has retained the services of an actuary to study whether DROP is cost neutral. DROP is intended to be cost neutral, per the San Diego Municipal Code. The cost neutrality study is anticipated to be completed by June 2010.

McGuigan Settlement

Lastly, the City is currently working to restructure the William J. McGuigan v. City of San Diego settlement agreement. The City previously paid approximately $144.0 million of the $173.0 million settlement amount and is required to pay the entire settlement amount and interest by June 8, 2011.

If paid on June 8, 2011, the residual amount owed to the pension system is estimated to be $39.5 million, including interest – of which $30.8 million is the General Fund portion. The restructuring would include a $5.5 million upfront payment (including $1.0 million from the General Fund) on June 30, 2010. Thereafter, $9.0 million (including $8.0 million from the General Fund) would be paid each year from FY 2012 through FY 2015. If the City is unsuccessful in restructuring the settlement, the entire $39.5 million would be due June 8, 2011.

Storm Water

The Storm Water Department leads the City's efforts to protect and improve our waterways and also ensures compliance with the Municipal Storm Water Permit.

The Mayor has made "Maintaining Compliance with the Municipal Storm Water Permit" a priority funding area since 2007. Funding in this area was preserved to the extent possible, however reductions were not avoided.

The table below displays the change in department funding from FY 2010 to FY 2011. The FY 2011 operating budget totals $35.4 million, which reflects a reduction of $2.3 million from FY 2010. A majority of these reductions include what was adopted as part of the December 2009 budget adjustments. Despite these reductions, the department is expected to meet all permit requirements in FY 2011.

Funding available in the Capital Improvement Program (CIP) is $1.7 million, which will include improvements to the storm drain system. There is also $10.9 million from deferred maintenance bonds available as well as $19.1 million of FY 2011 anticipated funding from financing and grants. These project improvements ensure continual compliance with the Permit.

The Municipal Storm Water Permit is updated every five years. Since the program was established, storm water regulations under the permit continue to be significantly revised and expanded.

The current permit is set to expire in 2013. The Storm Water Department has indicated that costs of complying with current and future storm water regulations set forth in the Municipal Storm Water Permit could increase, which could place greater strains on the General Fund. While it is expected that all permit requirements will be met in FY 2011, it is important to continue monitoring whether any additional permit requirements are mandated in the future.

The Citizens' Revenue Review and Economic Competitiveness Commission was created by the City Council to research strategies and provide recommendations to help address the City's fiscal situation. The commission is reviewing various revenue options to implement in the future, and increasing the storm drain fee, which could supplement Storm Water activities currently funded by the General Fund, is one option being explored.

Storm Water Funding

	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE
Operating Budget	$ 37,651,248	$ 35,364,885	$ (2,286,363)
CIP Budget	$ 1,739,149	1,700,000	(39,149)
Total	**$ 39,390,397**	**$ 37,064,885 ***	**$ (2,325,512)**

*Total does not include anticipated CIP funding in FY 2011 or continuing appropriations

Redistricting

The City Charter requires that the City be redistricted at least once every 10 years, and no later than nine months following the receipts of final Federal Decennial Census information.

On January 22, 2010, the City Clerk issued a memorandum to apprise the Mayor and the City Council of preparation that will be needed to form and operate the 2010 Redistricting Commission.

Per the City Charter, the Redistricting Commission shall be composed of seven members, who shall be appointed by the Presiding Judge of the Municipal (Superior) Court, or other appointing authority as provided for in Charter Section 5.1. The City Clerk will solicit nominations for appointment to the Redistricting Commission beginning July 1.

It is anticipated that there will be certain costs in FY 2011 associated with the redistricting process. The City Charter stipulates that the Commission shall hire a chief of staff, who shall serve at the Commission's pleasure and contract for needed staff, technical consultants and services, utilizing City staff to the extent possible.

In addition, the Charter requires a minimum of four preliminary pre-districting public meetings and a minimum of three final plan public meetings in various geographic areas of the City. The Commission "shall make every reasonable effort to afford maximum public access."

Following the completion of its work in 2000, the former Redistricting Commission issued additional recommendations to consider that may have budgetary impact. These include:

- In addition to the chief of staff, hiring a full-time Technical Specialist and Secretary;
- Hiring a Community Outreach/Public Information Specialist position;
- Appointing a liaison prior to the hiring of the chief of staff to assist with early operating decisions;
- Contracting for private recorder/transcription services;
- Hiring outside expert redistricting counsel;
- Securing office space, furniture, equipment and supplies for the sole use of the Commission.

The FY 2011 Proposed Budget does not include funding to support the redistricting process. While the total cost of redistricting is currently unknown, it may be in the range of several hundred thousand dollars depending on the level of support required. Per the City Charter, the Commission shall adopt a budget within 60 days of being appointed, and forward it to Council for consideration. Additional funding will need to be identified for this purpose.

Administration

The Administration Department manages the Equal Opportunity Contracting Program, Living Wage Program, Citizens' Assistance, the Emergency Medical Services Program, the Commission on Gang Prevention, and the Senior Affairs Advisory Board. The Mayor's FY 2011 Proposed Budget for the Administration Department is $2.2 million, a $1.7 million, or 44%, decrease from FY 2010. In addition, the Administration Department's proposed budget reflects a reduction of 3.00 positions.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget continues the reductions taken in December 2009. These reductions include:

- 1.00 Executive Director position from the Citizens' Review Board on Police Practices program (CRB). These duties have been assumed half time by the Executive Director of the Human Relations Commission. It should be noted that the Chair of the CRB continues to express concerns related to the loss of the full-time Executive Director regarding diminished outreach to the community and an increase in the time to close cases.
- 1.00 Administrative Aide II from the Emergency Medical Services Program. Staff has stated that the duties of this position were absorbed by Fire-Rescue Department Administration staff.
- 1.00 Supervising Management Analyst from the Equal Opportunity Contracting (EOC) Program.

Mayor's FY 2011 Proposed Adjustments

The following changes have been incorporated into the proposed budget :

- Reduction of $1.4 million related to the Emergency Medical Services' contract amount. The reduction is related to San Diego Medical Services Enterprise (SDMSE) assuming the costs for two dedicated ambulances located in Tierrasanta and Paradise Hills. Previously the costs associated with the two ambulances were funded by the City's General Fund. This change was approved as part of the contract with SDMSE approved by the City Council on July 28, 2009.
- The FY 2011 Proposed Budget includes a $169,218 in salary savings related to 1.00 Program Manager and 1.00 Senior Management Analyst in the EOC program. These positions are currently vacant and this reduction is in lieu of a vacancy factor that was included in prior years' budgets. Staff has stated that with the reduction in funding for the Program Manager the Administration Department Director will assume the day-to-day supervisorial duties for the program. In addition, the implementation of the Contract Compliance Software program in July will help to miti-

gate the service level impacts from the loss of funding for the Senior Management Analyst.

Issues to Consider

The IBA has concerns regarding the permanent reduction in EOCP of the Supervising Management Analyst as well as the funding for the Program Manager and Senior Management Analyst for at least a year. In July 2010, the City's new Small Local Business Enhancement Program will commence. Staff indicated in a January 2010 report to the City Council that they would be using existing personnel to administer the program. At that time, the reduction in funding for the Program Manager and the Senior Management Analyst was not anticipated. This could impact the successful implementation of the program.

Business Office

The Proposed FY 2011 Budget for the Business Office is $1.16 million, which is a $300,000 decrease from the Adopted FY 2010 Budget.

December 2009 Approved Adjustments

December adjustments for the FY 2011 budget includes a decrease of 2.00 FTE which brings the total department FTE to 7.25.

Managed Competition

Positions eliminated include 1.00 Program Manager and 1.00 Department Director from the Managed Competition program. This included personnel expenditure reductions of $203,981 and non-personnel expense reductions of $116,256.

Included in the Business Office's contract budget is $220,000 for consulting support for the Managed Competition program. A new Request for Proposal (RFP) for Managed Competition support services will be conducted at the appropriate time.

Residents' Opinions on City Services Survey

A community attitude survey was recently completed in March 2010 and the findings presented to the City Council and the public in April. The survey gauged citizen opinions on the priority of and satisfaction with services being provided by the City and willingness to pay more to maintain City service levels. This survey is an important component for gathering citizen input to inform the development of the Structural Budget Deficit Elimination Plan. A similar survey has not been conducted by the City since 2004. The Business Office provided current year funding of $24,000 for this undertaking. FY 2011 funding for this purpose has been deleted since the survey has been completed in the current year. However, the IBA has recommended that the survey be conducted every two years to track progress and possible shifts in residents priorities and satisfaction levels with regard to City services.

City Attorney

The FY 2011 Proposed Budget for the City Attorney totals $40.3 million, a net increase of $2.5 million, or 6.6% over FY 2010, primarily caused by the increase in the City's FY 2011 Retirement payment.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget continues the reductions taken in December 2009, which for the City Attorney include an increase of $1.5 million to its vacancy savings.

Mayor's FY 2011 Proposed Adjustments

As discussed in the City Attorney's March 8 memo to the Mayor and City Council, the FY 2011 budget includes the addition of 3.00 Deputy City Attorney positions for the expansion of the Domestic Violence Unit, at a cost of $297,000.

In addition, 1.00 Program Manager has been added to support two new case management systems for the office. In an effort to offset the costs for these needs, 2.00 vacant Assistant City Attorney positions have been eliminated. The resulting net budgetary change from these actions is a slight reduction of $21,500.

The FY 2011 budget also includes $1.5 million in salary savings based on removing

SUMMARY OF CITY ATTORNEY BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	341.22	$34,628,874	$3,161,757	$37,790,631	$6,183,020
Mayor's FY2011 Proposed Budget Changes					
Salaries & Wages (inc. hourly conversion)	5.21	847,382		847,382	
- FY 2010 Vacancy Factor Restoration		849,636		849,636	
- Positions Unfunded due to Vacancies (30.37 FTEs)		(1,493,911)		(1,493,911)	
- Salary Reductions/Savings/Furlough		(519,999)		(519,999)	
Fringe Benefits (inc. ARC payment)		3,341,785		3,341,785	
Supplies			41,279	41,279	
Contracts			(145,624)	(145,624)	
Information Technology			(416,992)	(416,992)	
Energy & Utilities			18,400	18,400	
Capital Outlay			(7,000)	(7,000)	
Domestic Violence Unit	3.00	296,616		296,616	
Case Management Support	1.00	130,826		130,826	
Reduction of 2.00 Assistant City Attorneys	(2.00)	(448,931)		(448,931)	
Revised Revenue					(1,948,300)
Subtotal	7.21	3,003,404	(509,937)	2,493,467	(1,948,300)
Mayor's Fiscal Year 2011 Proposed Budget	348.43	37,632,278	2,651,820	40,284,098	4,234,720
Difference from 2010 to 2011	**7.21**	**$ 3,003,404**	**$ (509,937)**	**$ 2,493,467**	**$ (1,948,300)**

salaries for positions that were vacant as of December 2009, amounting to 30.37 FTEs for the City Attorney's Office. If departments identify the need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

Significant revenue reductions of $1.95 million have been incorporated in the FY 2011 Proposed Budget, related to changed service level agreements and estimates for civil litigation awards.

Items to Consider

The City Attorney committed to generating savings of $1.5 million over the next 18-month period as part of the December 2009 Adjustments.

The City Attorney has indicated that his office has achieved significant savings of approximately $750,000 already this fiscal year, and intends to generate the balance next year to meet his commitment. In addition, as several positions have been filled since the vacancy review was undertaken, the City Attorney is concerned that the FY 2011 budget is not sufficient to meet current staffing and operational needs.

City Auditor

The FY 2011 Proposed Budget for the Office of the City Auditor is approximately $3.6 million, an increase of $1,021,472 from the FY 2010 Budget. The FY 2011 Proposed Budget results in the net addition of 1.50 FTE positions from FY 2010 to FY 2011.

Mayor's FY 2011 Proposed Adjustments

In FY 2010, 4.00 Principal Auditors were added for the full year. Additionally, 3.00 more Principal Auditors were added mid-year for total increase of 5.50 FTEs.

In FY 2011, the Mayor is proposing to annualize the 3.00 Principal Auditor positions added mid-year in FY 2010 for a total addition of 1.50 FTEs.

A $682,957 increase in contract expense is attributable to budgeting for the remainder of the independent financial statement audit for FY 2010 and the initial portion of the audit expense for FY 2011.

The FY 2011 Proposed Budget includes $104,771 in salary savings for the Office of the City Auditor based on removing salaries for positions that were vacant as of December 2009. Given that the vacant positions were subsequently filled, the City Auditor has discussed the possibility of restoring the salary savings with the Financial Management Department and been advised to make a request for the additional personnel funding prior to the May Revise.

SUMMARY OF CITY AUDITOR BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	16.50	$ 2,118,468	$ 412,949	$ 2,531,417	$ 122,323
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages	1.50	106,443		106,443	
- FY 2010 Vacancy Factor Restoration		44,948		44,948	
- Positions Unfunded due to Vacancies		-		-	
- Salary Reductions/Savings/Furlough		(104,771)		(104,771)	
Fringe Benefits (incl. Retirement ARC)		270,258		270,258	
Supplies			13,825	13,825	
Contracts			682,957	682,957	
- Motive Equipment/Fleet			-	-	
Information Technology			3,938	3,938	
Energy & Utilities			3,600	3,600	
Other			650	650	
Debt			-	-	
Capital Expenditures			(376)	(376)	
Revised Revenue Projections				-	
Subtotal	1.50	316,878	704,594	1,021,472	-
Mayor's Fiscal Year 2011 Proposed Budget	**18.00**	**2,435,346**	**1,117,543**	**3,552,889**	**122,323**
Difference from 2010 to 2011	*1.50*	*$ 316,878*	*$ 704,594*	*$ 1,021,472*	*$ -*

Issues to Consider

Recommendations from the Audit Committee

On April 12, 2010, the Audit Committee reviewed the budget of the City Auditor and unanimously made the following budget recommendation:

- Annualize the 3.00 Principal Auditor positions added mid-year in FY 2010 for a total addition on 1.50 FTEs. (This has been incorporated into the Mayor's FY 2011 Proposed Budget)
- Add another Principal Auditor FTE to begin mid-year in FY 2011 at a fully loaded cost of $76,583. Recommend that discretion be given to the City Auditor to ultimately determine whether to hire an additional Principal Auditor or support staff for the office. (This position has not been incorporated into the Mayor's FY 2011 Proposed Budget)

Additionally, the Committee requested that the City Auditor provide the City Council with the following information in considering the budget for the Office of the City Auditor:

- A breakdown of the City Auditor budget revenue sources, comparing the enterprise funds and the General Fund to show the sources of revenue for the City Auditor's audits and positions.
- Analysis related to a proposal to transfer the Revenue Audit Program from the Office of the City Treasurer to the Office of the City Auditor mid-year in FY 2011 and a determination as to whether there would be associated cost savings or efficiencies. (The Audit Committee previously requested the IBA to survey the organizational placement of revenue audits in comparable cities. This information will be available for the May 10, 2010 Audit Committee meeting.)
- A proposal to transfer $100,000 from the Dedicated Reserve from Efficiency and Savings fund of the Public Utilities Department to the Office of the City Auditor for the purpose of performing annual financial and performance audits for the Water and Wastewater departments.

In a final motion, supported by a 3-2 vote, the Audit Committee recommended that the City Council consider restoring the City Auditor's 6% reduction in compensation (taken by eliminating 6% of the City Auditor's SPSP mandatory and voluntary match). A 6% reduction in compensation or benefits was taken by most City employees in FY 2010.

City Clerk

The FY 2011 Proposed Budget for the Office of the City Clerk totals approximately $4.8 million, an increase of $364,458 from the FY 2010 Budget of approximately $4.4 million. The Proposed Budget includes an increase of 0.43 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments for the Office of the City Clerk included a one-time reduction of $25,000 in Non-Personnel Expenses. Initially, the Mayor also proposed a reduction of a 1.00 FTE Clerical Assistant II position at a savings of $38,395, however the Council reinstated this position and approved a transfer of revenue from Council District 6 Infrastructure Fund as funding for FY 2011.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Proposed Budget includes the following significant adjustments for the Clerk:

- Decrease in NPE includes adjustments to Energy and Utilities charges based on usage.

- Net reduction in Contracts includes a 3.9% living wage increase in a security services contract, offset by a decrease in Interfund Environmental Services, and adjustments due to the zero-based budget review process.

- An increase of approximately $352,000 due to the an increase in the Retirement ARC payment.

- The addition of 0.43 FTE due to the conversion of hourly positions.

- A net increase of $26,395 in revenue is the result of the transfer in of $38,395 in revenue from District 6 Infrastructure Fund, offset by a reduction of $12,000 in revenue that is the result of expected expiration of a service level agreement for document services.

Issues to Consider

Per the City Charter and Municipal Code, the Clerk will have additional responsibilities as a result of the 2010 Redistricting Commission, which will be established in FY 2011. No funding has been included in the FY 2011 budget for this work. This is discussed further in the section on "Redistricting Commission" on page 43.

City Comptroller

The FY 2011 Proposed Budget for the City Comptroller Department is approximately $9.9 million, a decrease of $698,388 from the FY 2010 Budget. The FY 2011 Proposed Budget results in a reduction of 12.00 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The City Comptroller Department had a total reduction of 11.00 FTEs which included 4.00 FTE reductions in FY 2010 and 7.00 FTE reductions in FY 2011.

The FY 2010 reductions included 3.00 vacant Accountant II positions and 1.00 Information System Analyst II. Management indicated these reductions might result in service level impacts in the support of reporting, fund maintenance and customer service.

The 7.00 FTE reductions to begin in FY 2011 included 5.00 Account Audit Clerk positions and 2.00 Accountant II positions. It is expected that at least 2.00 of the 7.00 FTE positions will be vacant at the end of FY 2010. These planned reductions were due to efficiencies gained with the implementation of the OneSD system.

Department funding for hourly personnel totaling $62,674 was eliminated in FY 2011.

Due to a reduction in support to the City's legacy systems given the transition to the OneSD system, reductions in Department NPE ($682,445) and budgeted revenue ($182,064) are included in the FY 2011 Proposed Budget.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Proposed Budget has a net reduction of 1.00 FTE . The Department added 1.00 Principal Accountant and 1.00 Word Processing Officer; however, there are also 3.00 FTE position reductions including 1.00 Accountant 2, 1.00 Clerical Assistant 2 and 1.00 Micrographic Clerk.

The above net reduction of 1.00 FTE position coupled with the 11.00 FTE position reductions from the December 2009 Approved Adjustments results in a total reduction of 12.00 FTE positions from FY 2010 to FY 2011. Although ongoing adjustments related to the implementation of OneSD continue to require assistance from Comptroller staff, management has been able to address department responsibilities despite the FTE position reductions.

The FY 2011 Proposed Budget includes $182,822 in salary savings for the City Comptroller Department based on removing salaries for positions that were vacant as of December 2009. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

City Council

Council Offices

Effects of Budget Proposal

The FY 2011 Proposed Budget continues each Council Office at the same funding level as FY 2010. However, the FY 2011 Proposed Budget includes a $1.2 million increase in fringe accounts. $983,000 of the $1.2 million increase is related to retirement contributions attributable to increases in the City's Annual Required Contribution (ARC). The result of this is a $1.9 million reduction, or 21%, to the City Council Districts' Salaries & Wages to maintain FY 2010 levels.

Although the City Council has worked to keep the funding level for their budgets consistent from year-to-year by reducing expenses in other areas, the magnitude of the fringe increases for FY 2011 will make that extremely difficult to continue. If not revised, the Council Districts could see a reduction in each of their budgets ranging from $147,000 to $370,000 for FY 2011. The impacts of this could be the possible reductions to staff support thus diminishing the effectiveness of the offices and the services provided to their constituents.

At the April 21, 2010 Budget & Finance Committee meeting, the City's Chief Financial Officer stated that errors were made when fringe amounts were applied to the City Council Districts' budgets and will be corrected in the May revise.

Council Administration

The FY 2011 Proposed Budget for Council Administration Budget is $1.8 million, a 3% increase from FY 2010. The FY 2011 Proposed Budget includes the reduction of $25,000 in Non-Personnel Expenses as approved as part of the December 2009 reductions.

City Planning and Community Investment

The Fiscal Year 2011 Proposed General Fund Budget for CP&CI is $13.1 million, reflecting a net reduction of $1.7 million from the FY 2010 Adopted Budget. Department staffing has been reduced by a net 3.70 positions, while revenues have declined by nearly $260,000.

The CP&CI Department also consists of several non-General Fund components, including the City Redevelopment Division, the HUD Programs Administration Fund, and the Facilities Financing Program. The FY 2011 Proposed Budget for the Redevelopment Division is discussed in the Redevelopment Agency sections of this report.

December 2009 Approved Adjustments

In December 2009, the City Council approved the reduction of $1.2 million from CP&CI's FY 2011 Budget. Significant reductions included:

- Elimination of 7.20 positions and $566,000 in personnel expense;
- Elimination of an annual Redevelopment lease agreement payment ($257,000);
- Reduction in GF rent obligation by consolidating staff into CAB ($139,000);
- Elimination of overtime budget ($73,000).

These reductions have been implemented in the FY 2011 Proposed Budget.

Mayor's FY 2011 Proposed Adjustments

Beyond the December 2009 reductions that have been implemented in the FY 2011 Proposed Budget, other significant adjustments to CP&CI's General Fund budget include the following:

- A $1.7 million reduction in contracts for professional services as a result of the zero-based budget process;
- Addition of 1.00 Program Manager to serve as the City's Small Business Ambassador;
- A $343,000 reduction in revenue due to reduced reimbursable planning services to other funds;
- A $50,000 increase in revenue due to an inflationary increase in the General Plan Maintenance Fee.

In addition to these adjustments, 2.50 FTE have been added as part of the conversion of temporary and hourly funding.

Facilities Financing Program

Significant adjustments in FY 2011 Proposed Budget for the Facilities Financing program include the following:

- A reduction of 1.00 vacant Senior Management Analyst;
- A reduction of $76,000 in non-personnel expenditures;
- A reduction of $150,000 in DIF revenue due to reduced development activity and facility financing plan updates.

The Facilities Financing Fund has struggled with declining revenues during the recent economic downturn. Despite the reduction of one position and non-personnel expenditures, the Fund is still at risk of ending the fiscal year with a negative fund balance.

Issues to Consider

In FY 2010, approximately $3.4 million was added to the CP&CI budget for Community Plan Updates. This funding was subsequently removed from the FY 2011 Proposed Budget as part of the zero-based review of the contracts budget. However, due to the length of time required to get consultant contracts in place, as well as ongoing concerns about possible budget reductions, this funding was not fully expended as anticipated in FY 2010.

While the department requested that this funding be restored in the FY 2011 Proposed Budget to allow for these Community Plan Updates to proceed, funding was only partially restored. The IBA is concerned about the impact that this reduction will have on the Community Plan Update program. We recommend that the department provide further information on the status of Community Plan Updates, and how the reduction in funding may impact the program in FY 2011.

Another significant initiative facing the CP&CI Department is updating the City's Economic Development Strategy. The previous Economic Development Strategy was updated in FY 2002, and is significantly outdated. The department has indicated that they will begin updating the Economic Development Strategic Plan in FY 2011. On May 19, 2010, the Rules Committee will be holding a workshop to provide input on the Economic Development Strategy.

City Retirement System

SDCERS' proposed budget was presented as a non-action item to its Business and Governance Committee and full Board of Administration in mid-April 2010. The Committee and full Board will consider the budget in May 2010. Upon approval by the Committee on May 27, 2010, the full Board of Administration will consider the budget on May 28, 2010.

The City's budget document does not reflect the amounts in the SDCERS proposed budget, as it was not available at the time of publication.

The SDCERS proposed budget is scheduled to be presented as an informational item at the May 5, 2010 hearing of the Budget Review Committee.

SDCERS maintains that its budget is approved by its Board of Administration and does not require approval of City Council. Article XVI, Section 17 of the California Constitution conveys to the Board "plenary authority and fiduciary responsibility for investment of moneys and administration of the [pension] system." However, per City Attorney's Report to Council 2005-18, the City maintains the authority to examine and audit the Board's accounts and records.

FY 2011 Budget Adjustments

The table below presents a summary of the SDCERS proposed budget, by major category.

The $42.0 million proposed budget presented to the SDCERS Business and Governance Committee and full Board shows an increase of $3.3 million, or 8.6%, from the $38.7 million FY 2010 budget.

Investment Management Expenses increased by $3.8 million. Fees are projected to in-

SUMMARY OF BUDGET CHANGES

	FY 10 Budget	FY 11 Budget	Increase/ (Decrease)	Percent Change
Salaries and Personnel	$6,763,000	$6,456,000	($307,000)	-4.5%
Data Processing and Special Projects	2,767,000	2,476,000	(291,000)	-10.5%
Legal/External	1,460,000	1,420,000	(40,000)	-2.7%
General Operations	2,847,000	3,005,000	158,000	5.5%
Subtotal Administration	$13,837,000	$13,357,000	($480,000)	-3.5%
Investment Management Expenses	24,872,000	28,667,000	3,795,000	15.3%
Subtotal Investment Management Expenses	$24,872,000	$28,667,000	$3,795,000	15.3%
TOTAL	**$38,709,000**	**$42,024,000**	**$3,315,000**	**8.6%**

crease due to the projected growth in investments. Additionally, there is a planned shift, for a portion of the investment portfolio, from equities and bonds to real estate and private equity investments, which are associated with higher fee structures. Investment Management Expenses represent 68% of the total SDCERS budget, at $28.7 million.

The Salaries and Personnel category reflects a decrease of $307,000. A few positions that became vacant during FY 2010 are expected to remain unfilled for FY 2011. There will also be reduced costs from position restructuring. The City manages the payment of SDCERS employees' salaries and fringe, and invoices SDCERS for those costs.

In the Data Processing and Special Projects category, spending is projected to decline by $291,000, in part due to the completion of the new pension administration system RFP process in FY 2010.

In addition to the operating budget being presented to the SDCERS Business and Governance Committee and full Board of Administration in mid-April 2010, the capital budget was also presented. The capital budget is increasing from approximately $400,000 in FY 2010 to approximately $1.4 million in FY 2011, with $1.0 million budgeted for the pension administration system replacement project.

SDCERS Staff has indicated to the IBA that it is their intention to undertake a benchmarking effort, comparing SDCERS' budget with budgets of other similar California systems.

City Treasurer

The FY 2011 Proposed Budget for the Office of the City Treasurer is approximately $17.6 million, a decrease of $264,657 from the FY 2010 Budget. The FY 2011 Proposed Budget results in a reduction of 12.37 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The City Treasurer's Department had a reduction of 14.00 FTE positions in three Divisions as follows:

The Revenue Collections Division had a reduction of 8.00 FTE positions; 5.00 of the 8.00 FTE positions were vacant. FTE position reductions included 4.00 Collection Investigators, 3.00 Clerical Assistant 2 and 1.00 Senior Account Clerk. Management indicated these reductions could delay collection efforts.

The Treasury Operations Division had a reduction of 5.00 FTE positions; 3.00 of the 5.00 FTE positions were vacant. FTE position reductions included 1.00 Clerical Assistant 2, 1.00 Public Information Clerk, 1.00 Senior Cashier, 1.00 Field Representative and 1.00 Account Clerk. Management indicated these could result in longer customer wait times and Treasury project/research delays.

The Treasury Administration Division had a reduction of 1.00 Information Systems Analyst 4. Management indicated there would be a decrease in Treasury systems/applications oversight.

Additionally, Department NPE was reduced by $213,700 and budgeted revenue declined by $124,000.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Proposed Budget for the Office of the City Treasurer adds 1.63 FTE positions. The Department added 1.00 Accountant 2 and .63 FTEs to reflect hourly personnel funding.

The above addition of 1.63 FTE positions coupled with the 14.00 FTE position reductions from the December 2009 Approved Adjustments results in a total reduction of 12.37 FTE positions from FY 2010 to FY 2011.

The FY 2011 Proposed Budget includes $269,567 in salary savings for the Office of the City Treasurer based on removing salaries for positions that were vacant as of December 2009. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

A $560,967 reduction in NPE for contracts is largely explained by a failure to budget for the banking services contracts by approximately $441,000. The Department is working with Financial Management to resolve the budgeting error.

Budgeted revenue has been reduced by

$1,136,532 based on several known and estimated revenue changes for FY 2011. Significant components of the estimated budgeted revenue reduction in FY 2011 include: the rescinding of the business and rental unit tax processing fee; expected changes in parking meter pricing resulting in an additional $2.6 million; a reduction in Business Tax Compliance Program revenues; and an expected increase in collection referral fees from other City departments.

Issues to Consider

In reviewing the budget of the City Auditor on April 12, 2010, the Audit Committee asked if it made sense to consolidate the 6.00 FTE positions in the City Treasurer's Revenue Audit Program into the Office of the City Auditor.

The Audit Committee asked the IBA to provide analysis related to a proposal to transfer the Revenue Audit Program from the Office of the City Treasurer to the Office of the City Auditor mid-year in FY 2011. The Audit Committee previously requested the IBA to survey the organizational placement of revenue audits in comparable cities.

Additionally, the City Auditor was asked provide a determination as to whether there would be associated cost savings or efficiencies associated with the contemplated consolidation.

This information will be presented and discussed at the May 10, 2010 Audit Committee meeting.

Citywide Program Expenditures

The Citywide Program Expenditures budget is comprised of various programs and activities that provide benefits and services Citywide. General Fund portions of programs or activities whose funding is divided among the General Fund and the Non-General funds, and/or programs or activities that are generally not attributable to any one City department are allocated in this budget.

The FY 2011 Proposed Budget totals $43.0 million, a decrease of $10.0 million from the FY 2010 budget of $52.9 million.

December 2009 Approved Adjustments

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

The Mayor's Five-Year Outlook released in October included an additional $8.1 million Public Liability reserve contribution which would have brought the FY 2011 reserve contribution for Public Liability to $15.2 million. In addition, the General Fund Reserve contribution for FY 2011 was estimated at $4.2 million.

As part of the December 2009 Budget Solutions, contributions to the City's reserves were suspended, creating budgetary savings totaling $27.5 million; $15.2 million comes as a result of eliminating the Public Liability reserve funding, and $4.2 million by suspending the General Fund Reserve contribution. The remaining $8.1 million in savings comes as a result of reduced Workers' Compensation rates within departmental fringe benefits.

The suspended reserve contributions result in no budgeted contributions in Citywide Program Expenditures, and result in a reduction of $7.1 million from FY 2010 budgeted levels.

Mayor's FY 2011 Proposed Adjustments

Costs for Citywide Elections were reduced by $1.8 million to $200,000, which was maintained for projected ballot costs in the November 2010 election. However, costs in this area could increase depending upon the number of races that occur or an increase in the amount of ballot proposals that come forth.

Also included in the proposed budget is a reduction in the Mission Bay and Regional Park Transfer of $1.7 million. This is due to a projected decrease in Mission Bay rent and concession revenues.

The Special Consulting Services budget increased by $400,000. The chart below provides a breakdown:

	FY 2010 Budget	FY 2011 Proposed	CHANGE
Special Consulting Services			
Actuary Services	$ 200,000	$ 150,000	$ (50,000)
Disclosure Counsel	$ 100,000	$ 200,000	$ 100,000
Labor Related Contracts	$ 400,000	$ 350,000	$ (50,000)
Muni Services-Sales Tax Consultants	$ 400,000	$ 650,000	$ 250,000
Contingency	$ -	$ 150,000	$ 150,000
Actuarial DROP Study	$ -	$ 250,000	$ -
Other Consultants	$ 250,000	$ -	$ -
Total	$ 1,350,000	$ 1,750,000	$ 400,000

Community and Legislative Services

The FY 2011 Proposed Budget for the Community and Legislative Services Department totals approximately $6.0 million, an increase of $109,953 from the FY 2010 Budget of approximately $5.9 million. The Proposed Budget includes a net increase of 0.19 FTE positions, for a total of 37.19 FTE positions for FY 2011.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments for Community and Legislative Services totaled a savings of $323,652 and included:

- Reduction of 2.50 FTE positions at a savings of $210,852
- Addition of $112,800 in City TV Grant Fund Revenue

The 2.00 FTE positions reduced were vacant in December 2009 and other staff has assumed responsibility for performing associated duties.

Mayor's FY 2011 Proposed Adjustments

The Department's FY 2011 Proposed Budget includes the transfer of 0.50 FTE Mayor Representative II position and associated PE from the Water Department to the General Fund consistent with current duties. Conversions from hourly to FTE positions account for an increase of 2.19 FTE positions.

The FY 2011 Proposed Budget continues $50,000 in funding for closed captioning for CityTV.

A reduction of $231,544 in revenues includes a reduction of $194,000 in reimbursement associated with the Government Incentives Program in Economic Growth Services (EGS) for services provided to the Port of San Diego, National City and Chula Vista.

The EGS staff has been working on a number of new economic development initiatives including the CleanTech Initiative, business attraction and retention, and job growth. At the March 24, 2010 Meeting of the Rules, Open Government and Intergovernmental Relations (Rules) Committee the Mayor's staff presented a report on the City's Economic Development Strategy. The Committee requested EGS staff to begin a process to update the City's Economic Development Strategy-last updated in 2002- and include the City Council in the process. On May 19, 2010, the Rules Committee will be holding a workshop to begin a discussion on the City's economic development priorities and potential strategies.

Special Events

The FY 2011 Proposed Budget for the Special Events Office continues the December 2009 reductions of $68,000 in Non-personnel Expenses.

Debt Management

The FY 2011 Proposed Budget for the Debt Management Department is approximately $2.1 million, a decrease of $500,593 from the FY 2010 Budget. The FY 2011 Proposed Budget results in a net reduction of 3.00 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The Debt Management Department had a reduction of 4.00 Program Coordinators and 1.00 Executive Secretary. The Department added 2.00 Senior Management Analysts for a net reduction of 3.00 FTEs. Management indicates that the associated workload has been absorbed by existing staff.

Mayor's FY 2011 Proposed Adjustments

The December 2009 Approved Adjustments carried forward into the FY 2011 Proposed Budget. It should be noted that the 2.00 added Senior Management Analyst positions are incorrectly shown as Program Coordinators on page 316 of Volume II of the FY 2011 Proposed Budget. Rather than 8.00 Program Coordinators, the Department currently has 6.00 Program Coordinators and 2.00 Senior Management Analysts.

The FY 2011 Proposed Budget includes $160,908 in salary savings for the Debt Management Department based on removing salaries for positions that were vacant as of March 2010. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

A $201,111 decrease in NPE for contracts is based on the Department's expectation that they will require a lesser level of support from financial consultants in FY 2011.

Development Services Department

Development Services Enterprise Fund

The FY 2011 Proposed Budget for the Development Services Department (DSD) Enterprise Fund is $41.1 million, a reduction of approximately $2.9 million from the FY 2010 Budget. Enterprise Fund revenues are budgeted at $45.9 million remain unchanged from FY 2010.

Mayor's FY 2011 Proposed Adjustments

Significant adjustment to the DSD Enterprise Fund in the FY 2011 Proposed Budget include the following:

- A $1.8 million reduction in Fringe Benefit expenses;
- A reduction of $775,000 in Information Technology expenses; and
- A $628,000 reduction in the budget for General Government Services Billing.

In addition to these adjustments, approximately 155 of the Department's 410 positions are vacant, or nearly 40% of the budgeted workforce. Savings of approximately $8.2 million associated with these vacant positions have been incorporated into the FY 2011 Proposed Budget. This compares with a budgeted vacancy factor of $9.2 million in FY 2010.

Issues to Consider

Over the past several years, DSD revenues have decreased markedly due to the economic downturn and the sharp decline in development activity. As a result, the Department has been forced to make significant staffing reductions and identify other cost savings and efficiencies. Additionally, in October 2009 the City Council adopted a fee increase proposal, estimated to generate an additional $2.7 million per year.

While these measures have helped to balance revenues and expenditures within the fund, current year estimates are still well under budget. Based on the FY 2010 Midyear Report, DSD revenues were projected to end the year at $37.2 million, compared to a budget of $45.9 million, while expenditures were projected at $31.7 million, compared with a budget of $44.5 million.

Despite these significant downturns in revenues and expenditures, relatively few adjustments have been made to the FY 2011 Proposed Budget (in fact, budgeted revenue did not change at all). While the Department has indicated that development activity may begin to pick up in FY 2011, it does not appear that the FY 2011 Proposed Budget is appropriately aligned with anticipated trends in revenues and expenditures. We recommend that budgeted revenues and expenditures be revised to reflect anticipated development activity in FY 2011.

Neighborhood Code Compliance

The FY 2011 Proposed Budget for the Neighborhood Code Compliance (NCC) Division, which is funded by the General Fund, reflects an expenditure reduction of approximately $290,000 in the FY 2011 Proposed Budget, including the elimination of 6.00 positions. Budgeted revenues reflect a net decrease of $95,000 from FY 2010.

December 2009 Approved Adjustments

As part of the December 2009 Adjustment, the City Council approved the reduction of 6.00 positions for a total savings of $289,000 in the FY 2011 Budget. These reductions have been reflected in the FY 2011 Proposed Budget.

Mayor's FY 2011 Proposed Adjustments

In addition to the position reductions approved as part of December 2009 Adjustments, the FY 2011 Proposed Budget for NCC reflects the following significant adjustments:

- A reduction of $108,000 in annual leave termination pay;
- A net increase of $117,000 in Fringe expenditures;
- An $87,000 reduction in various non-personnel expenditures; and
- A revenue reduction of $100,000 related to reimbursable code enforcement activities to SEDC.

In addition to these adjustments, the FY 2011 budget includes $368,000 in salary savings associated with 8.00 positions that were vacant as of March 2010. However, the Department has indicated that several of these vacant positions have been filled, and that only 5.00 positions are currently vacant. As a result, actual expenditures are likely to exceed budget allotments unless other positions become vacant, or other savings is identified.

Engineering and Capital Projects

The Mayor's FY 2011 Proposed Budget for the General Fund allocation for the Engineering & Capital Projects (E&CP) Department is $66.6 million, a $3.2 million, or 5% increase from FY 2010.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget continues the reductions taken in December 2009. These reductions include:

- .50 Payroll Specialist II, .50 Student Engineer, and 1.00 Senior Department Human Resources Analyst for a total of $115,000. Staff has stated that the duties of these positions have been absorbed by other personnel in the department.
- $1.2 million to contracts and supplies and services. Examples of reductions include funding for professional services contracts, training, outside copying services, and advertising.

Mayor's FY 2011 Proposed Adjustments

The following changes have been incorporated into the proposed budget subsequent to the changes made in December 2009:

- Reduction of 1.50 Junior Engineer-Civil and .50 Student Engineer for total of $117,937. Staff has stated that these positions have historically been filled with students. It should be noted that these reductions have been offset by the addition of 7.66 hourly position.
- The addition of $55,860 related to user fees. These revenue increases are related to Pedicab Permits, Valet Permits, and fees charged to residents who request the installation of blue handicapped curbs.

Project Capacity

The FY 2011 Proposed Budget includes $2.0 million in salary savings for 28.50 engineering positions, the City's Geologist, and 6.50 administrative positions. These positions are currently vacant and this reduction is in lieu of a vacancy factor that was included in prior years budgets. Department management has stated that they will be able to hire these positions if funding can be found through savings in other areas of the department. Department management has also stated that even with these vacancies, they will be able to handle the current workload.

Environmental Services

The FY 2011 Proposed Budget for the Environmental Services Department (ESD) reflects $87.7 million in total expenditures, $51.0 million in revenue and 422.19 full-time equivalent positions. The Department consists of four primary divisions spread across five different funds, as shown in the table below.

December 2009 Approved Adjustments

4/10/5 Collection Schedule/Route Reorganization

Efficiencies via route reorganization and work schedule adjustment are planned for FY 2011. Work shifts will be changed from 8 hours per day, 5 days a week, to 10 hours per day, 4 days a week. Trucks will be utilized 10 hours per day, 5 days a week. Less "ramp-up/ramp-down" time will be expended by workers, as one day's worth of such activities per week will be eliminated. Additionally, consolidated routes, incorporated into longer shifts, will result in savings.

A decrease in truck utilization and related vehicle maintenance costs (Fleet Services costs), combined with the elimination of 12.35 positions was estimated to result in $2.4 million General Fund savings. Related savings of $191,000 were estimated for the Refuse Disposal Enterprise Fund, and a similar initiative in the Recycling Enterprise Fund was anticipated to garner approximately $2.0 million in savings. The number of positions to be eliminated in the Refuse Disposal and Recycling Funds is 3.31 and 24.92, respectively.

There will be no service reductions associated with this change. The implementation date is estimated for July 12, 2010, which allowed meet and confer to take place. Additionally, a Municipal Code change allowing a 6:00 a.m. collections start time was approved by the Natural Resources and Culture Committee on April 14, 2010.

Extension of Repayment for Miramar Place Operations Station

The General Fund makes annual lease payments for the use of the Miramar Place Op-

Environmental Services Department - FY 2011 Proposed Budget Expenditures

	General Fund	Energy Conservation Fund	Refuse Disposal Fund	Recycling Fund	Automated Container Replacemnt	TOTAL
Collection Services	$29.4		$1.5	$13.7	0.5	**$45.1**
Waste Reduc. & Disposal	0.1		27.6	1.6		**29.3**
Energy Sust. & Env. Prot.	1.6	1.9	1.1	1.7		**6.3**
Office of the Director	1.3		3.5	2.2		**7.0**
TOTAL	**$32.4**	**$1.9**	**$33.7**	**$19.2**	**$0.5**	**$87.7**

erations Station, effectively reimbursing the Refuse Disposal Fund for its share of acquisition and improvement expenditures.

The existing lease agreement for the General Fund repayment to the Refuse Disposal Fund will be extended from FY 2013 to FY 2016. The annual payment will be reduced from $1.8 million to $900,000. This General Fund expenditure reduction will begin in FY 2011. It has been noted that the corresponding reduction to the Refuse Disposal Fund's revenues has not been made in the FY 2011 Proposed Budget.

Issues to Consider

Financial Health of the Recycling Fund and Refuse Disposal Fund

The Recycling and Refuse Disposal Enterprise Funds are mainly supported by fees — AB 939 recycling fees and tipping fees, respectively — that are collected on waste disposed at Miramar Landfill. Over the years, waste has been diverted from the landfill, with increased recycling, composting and source reduction efforts. As a result, the Recycling and Refuse Disposal Funds were collecting less in revenues.

Until 2009, the AB 939 fee, the Recycling Fund's largest source of revenue, had not been increased since originally instituted in 1998, while the number of households receiving recycling service had more than tripled over the same time period. The fiscal imbalance in the Recycling Fund was exacerbated by a decline in trash tonnage upon which AB 939 fees are assessed, a decline in recyclable commodity revenue, and the transfer of the Sycamore Canyon Landfill Facility Franchise Fee to the General Fund. This led to a situation where expenditures were outpacing revenues.

In April 2009, the City Council approved a fiscal mitigation package designed to protect the financial health of the Recycling Fund for FY 2010. Absent corrective action, the Recycling Fund was projected to have an operating deficit at the end of FY 2010.

The fiscal mitigation package approved by City Council in April 2009 included the following elements:

- A $3 per ton increase in the AB 939 fee;
- Transfer of certain programs from the Recycling Fund to the Refuse Disposal Fund;
- A $2 per ton increase in the Tipping fee;
- A $5 per ton discount on the Tipping fee for City forces.

Despite these efforts, the financial health of both the Recycling and Refuse Disposal Funds will need to be closely monitored. The fee increases approved in April 2009 and the anticipated 4/10/5 Collection Schedule/Route Reorganization were designed to support the Recycling Fund, while the program transfers and tipping fee discount for City forces place additional strains on the Refuse Disposal Fund.

Additionally, due to the challenges with the current funding structure for the Recycling and Refuse Disposal Funds, any future fiscal mitigation efforts are likely to have a General Fund impact. Since the General Fund pays tipping fees and AB 939 fees related to residential refuse collection, any increases in these fees that may be necessary to support the financial health of the Recycling and Refuse Disposal Funds will adversely impact the General Fund, as the City is prohibited by the People's Ordinance from passing on the costs of refuse collection to its customers.

The financial health of the Refuse Disposal and Recycling Enterprise Funds has been examined in the past and will need further examination. An analysis of the Refuse Disposal and Recycling Fund reserve policies in relation to liabilities, available fund balance amounts, and future budget forecasts will determine the appropriate disposal fee levels for the operations, long-term maintenance and sustainability of the Refuse Disposal and Recycling Funds.

The IBA has previously recommended, in Report 10-16, that ESD develop and present five-year forecasts for the Recycling and Refuse Disposal Funds and that the reserve policies for these Funds be incorporated into the City Reserve Policy.

Budget Issues

The following funds are discussed in the sections below: General Fund, Recycling Fund and Refuse Disposal Fund.

General Fund

The FY 2011 Proposed Budget for the Environmental Services (ESD) portion of the General Fund reflects an expenditure reduction from FY 2010 of approximately $4.9 million, and a reduction in revenue of just under $150.000.

The decline in expenditures is largely due to the implementation of the Mayor's FY 2011 Proposed Adjustments, including the 4/10/5 Collection Schedule/Route Reorganization initiative and the Extension of Repayment for Miramar Place Operations Station. These efforts were estimated to reduce expenditures by approximately $3.3 million. Additional reductions include approximately $1.4 million in vehicle maintenance accounts related to Fleet Services.

SUMMARY OF BUDGET CHANGES - GENERAL FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	**151.76**	**$ 12,779,976**	**$ 24,490,616**	**$ 37,270,592**	**$ 1,144,105**
Fringe Benefit Increase	-	491,353	-	491,353	-
FY 2010 Vacancy Factor	-	293,548	-	293,548	-
Other Salary Adjustments (incl. hourly conversion)	(1.61)	(577,985)	-	(577,985)	-
4/10/5 Collection Schedule/Route Reorganization	(12.35)	(716,084)	(1,683,107)	(2,399,191)	-
Extend Repayment of Miramar Place Operations Station	-	-	(900,000)	(900,000)	-
Other Reductions to Contracts	-	-	(1,651,363)	(1,651,363)	-
Other Reductions	-	-	(166,989)	(166,989)	(149,278)
Mayor's FY 2011 Proposed Budget	**137.80**	**$ 12,270,808**	**$ 20,089,157**	**$ 32,359,965**	**$ 994,827**
Difference from 2010 to 2011	**(13.96)**	**$ (509,168)**	**$ (4,401,459)**	**$ (4,910,627)**	**$ (149,278)**

Recycling Fund

The FY 2011 Proposed Budget for the Recycling Fund reflects an expenditure reduction from FY 2010 of approximately $2.5 million, and an increase in revenue of $2.5 million. Large changes in revenues include an increase to Charges for Services: $1.9 million to align AB 939 Recycling Fee revenues with current trends; and $1.6 million to reflect the improving market for recyclable commodity revenues. An offsetting decrease in revenues from the CA Department of Conservation, which supports beverage container recycling and litter abatements efforts totals $870,000.

The decline in expenditures is largely due to the implementation of the Mayor's FY 2011 Proposed Adjustments — the 4/10/5 Collection Schedule/Route Reorganization initiative. This effort was estimated to reduce expenditures by approximately $2.0 million. Additional reductions include approximately $1.0 million in vehicle maintenance accounts related to Fleet Services. Offsetting increases to expenditures include $535,000 for replacement costs for nine vehicles and $425,000 for expansion of the automated recycling container program to Mission Beach residents.

Per the FY 2010 Mid-Year Budget Monitoring Report, the current projected FY 2010 deficit is $55,000. The FY 2009 available fund balance, as indicated by the Comptroller's Office, is $4.1million, which is enough to absorb the projected deficit.

SUMMARY OF BUDGET CHANGES - RECYCLING FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	**131.53**	**$ 10,662,377**	**$ 11,032,896**	**$ 21,695,273**	**$ 15,866,794**
Fringe Benefit Increase	-	(31,220)	-	(31,220)	-
FY 2010 Vacancy Factor	-	194,071	-	194,071	-
Other Salary Adjustments (incl. hourly conversion)	1.06	(614,760)	-	(614,760)	-
Replacement of Vehicles	-	-	535,000	535,000	-
Expansion of Automated Recycling Container Program	-	-	425,000	425,000	-
AB 939 Recycling Fees	-	-	-	-	1,890,000
Curbside Recycling Commodity Revenues	-	-	-	-	1,600,000
4/10/5 Collection Schedule/Route Reorganization	(24.92)	(1,282,377)	(705,516)	(1,987,893)	-
Other Reductions to Contracts	-	-	(1,131,648)	(1,131,648)	-
Beverage Container Recycling - State Revenues	-	-	-	-	(870,000)
Other Adjustments	-	-	132,027	132,027	(83,700)
Mayor's FY 2011 Proposed Budget	**107.67**	**$ 8,928,091**	**$ 10,287,759**	**$ 19,215,850**	**$ 18,403,094**
Difference from 2010 to 2011	**(23.86)**	**$ (1,734,286)**	**$ (745,137)**	**$ (2,479,423)**	**$ 2,536,300**

Refuse Disposal Fund

The FY 2011 Proposed Budget for the Refuse Disposal Fund reflects a $3.1 million decrease in expenditures, and a $383,000 reduction in revenues. The decline in revenue is due primarily to reduced disposal fees of $312,000, reduced reimbursements from other departments of $357,000, and an offsetting increase in pooled investment earnings of $320,000.

The decline in expenditures is largely due to a projected reduction in State fees of $2.5 million due to less tonnage being disposed at Miramar Landfill.

Per the FY 2010 Mid-Year Budget Monitoring Report, the current projected FY 2010 deficit is $3.3 million. The FY 2009 available fund balance, as indicated by the Comptroller's Office, is $25.9 million, which is enough to absorb the projected deficit. Additionally, any Capital Improvement Program (CIP) amounts would be absorbed by the available fund balance. The FY 2010 CIP budget is $7.2 million.

SUMMARY OF BUDGET CHANGES - REFUSE DISPOSAL FUND (ESD)

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	**167.94**	**$ 13,931,034**	**$ 22,834,789**	**$ 36,765,823**	**$ 30,594,511**
Fringe Benefit Increase	-	918,494	-	918,494	-
FY 2010 Vacancy Factor	-	264,415	-	264,415	-
Other Salary Adjustments (incl. hourly conversion)	1.89	(889,441)	-	(889,441)	-
4/10/5 Collection Schedule/Route Reorganization	(3.31)	(141,770)	(48,832)	(190,602)	-
Reduced State Fees on Miramar Landfill Waste	-	-	(2,500,000)	(2,500,000)	-
Other Reductions to Contracts	-	-	(366,527)	(366,527)	-
Interest on Pooled Investments	-	-	-	-	320,000
Reduced Disposal Fees	-	-	-	-	(311,524)
Reduced Reimbursements from Other Departments	-	-	-	-	(357,000)
Other Reductions	-	-	(324,707)	(324,707)	(34,140)
Mayor's FY 2011 Proposed Budget	**166.52**	**$ 14,082,732**	**$ 19,594,723**	**$ 33,677,455**	**$ 30,211,847**
Difference from 2010 to 2011	**(1.42)**	**$ 151,698**	**$ (3,240,066)**	**$ (3,088,368)**	**$ (382,664)**

Financial Management

The FY 2011 Proposed Budget for the Financial Management Department is approximately $4.2 million, an increase of $429,431 from the FY 2010 Budget. The FY 2011 Proposed Budget results in the net addition of .12 FTE position from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The Financial Management Department had an approved reduction of 1.00 FTE beginning in FY 2011. The reduction pertained to 1.00 limited and reimbursable Budget Development Analyst position created to support the Public Budget Formulation system.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Proposed Budget adds 1.12 FTEs to reflect hourly personnel funding.

The FY 2011 Proposed Budget includes $59,467 in salary savings for the Financial Management Department based on removing salaries for positions that were vacant as of March 2010. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

A budgeted reduction in Department revenue of $304,515 is attributable to a decline in reimbursable services provided to other departments because support for the Public Budget Formulation system has moved to the OneSD Support Department.

Fire-Rescue

The FY 2011 Proposed Budget for the Fire-Rescue Department totals $183.7 million, a reduction of $7.4 million from the FY 2010 Budget of $191.1 million. A total of 39.54 FTEs are eliminated in the budget.

December 2009 Approved Adjustments

The December 2009 Adjustments for Fire-Rescue totaled $17.8 million. The net savings from the reductions was only $14.1 million given that $3.7 million of the reductions was accounted for in the department's assumed vacancy factor for FY 2011. Fire service reductions included the implementation of rolling "brown-outs", the elimination of 50.00 FTE vacant firefighter positions, the cancellation of fire academies, the elimination of 1.00 FTE Fire Dispatch Administrator, the elimination of night detail inspections, and the suspension of an increase in the department's reserve fleet. Lifeguard service cuts totaled $973,439, comprising of a reduction in service at the Torrey Pines and Windansea beaches, a two-thirds re-

SUMMARY OF FIRE BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	1,187.63	$ 156,570,670	$ 34,521,901	$ 191,092,571	$ 16,155,140
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages (incl. hourly conversion of 52.00 FTEs)	(39.54)	(18,039,814)		(18,039,814)	
- FY 2010 Vacancy Factor Restoration		8,788,159		8,788,159	
- Salary Unfunded due to Vacancies		(3,184,994)		(3,184,994)	
- Salary Reductions/Savings/Furlough		(368,533)		(368,533)	
Fringe Benefits (incl. Retirement ARC)		12,657,583		12,657,583	
Supplies			(26,984)	(26,984)	
Contracts			30,692	30,692	
- Motive Equipment/Fleet			(4,950,957)	(4,950,957)	
Information Technology			(356,478)	(356,478)	
Energy & Utilities			(323,353)	(323,353)	
Other			(35,312)	(35,312)	
Debt			-	-	
Capital Expenditures			(1,600,000)	(1,600,000)	
Revised Revenue Projections				-	(1,111,010)
Subtotal	(39.54)	(147,599)	(7,262,392)	(7,409,991)	(1,111,010)
Mayor's Fiscal Year 2011 Proposed Budget	**1,148.09**	**156,423,071**	**27,259,509**	**183,682,580**	**15,044,130**
Difference from 2010 to 2011	*(39.54)*	$ *(147,599)*	$ *(7,262,392)*	$ *(7,409,991)*	$ *(1,111,010)*

duction in lifeguard training, and the elimination of 1.00 FTE Lifeguard Sergeant and 1.00 FTE Marine Safety Lieutenant. Other cuts were related to reductions to uniform allowance, company evaluations, the New Construction/Plan Check Program, and the elimination of the extended warranty for Zoll monitors due to equipment replacement.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Proposed Adjustments resulted in a net decrease of $338,552 from the December 2009 Approved Budget Adjustments. The net change was primarily the result of an increase in the department's fringe benefits, offset by reductions relating to fleet costs, and the removal of a $1.6 million one-time capital expenditure. Fringe benefits increased by $12.7 million over FY 2010 due to the department's increased ARC allocation. Departmental fleet costs were reduced by an additional $4.4 million beyond that approved as part of the December Adjustments.

Fire Alerting System

A $1.6 million one-time was budgeted in FY 2010 for the full implementation of a Fire Station Alerting System upgrade. At this time, the $1.6 million budget for the system upgrade has not been fully expended. The systems upgrade has been put on hold while various implementation issues are addressed. Although the FY 2010 appropriation has not been fully expended, the $1.6 million budget has been removed given the anticipated delay in the project. This project will need to be funded in the future.

FTE Adjustments

An additional 52.00 FTEs were added to the budget as the result of a zero-based review of the department's hourly employee budget. Beyond this, another 24.54 FTEs were removed from the budget. The Fire Department is working with Financial Management to reconcile this reduction.

Revenue Adjustments

A total of $1.7 million of one-time revenues are removed from the FY 2011 Proposed Budget. $1.1 million of this amount is related to the elimination of the FY 2010 one-time support for the Copter 2 15-year lease payment with donation and grants. The lease payment will be a General Fund obligation in FY 2011. $490,000 of the one-time removals is related to a FEMA reimbursement for Fire-Rescue hurricane Ike and Gustav deployments in FY 2009 received in FY 2010.

The reduction in the Fire-Rescue revenue budget associated with one-times is off-set by a transfer of $512,990 to the General Fund from the Fire/Emergency Medical Services Transport Program Fund to support paramedic special pays in the Fire-Rescue Department as a part of the new service contract with San Diego Medical Services Enterprise (SDMSE).

Issues to Consider

Rolling Brown-Outs

Rolling brown-outs were approved as an $11.5 million cost savings measure for FY 2011 as a part of the December 2009 Adjustments. The Fire-Rescue Department began the implementation of rolling brown-outs February 6, 2010. As executed, the rolling brown-outs impact the 13 stations within the City of San Diego with more than one fire company, usually housing one fire engine and one truck. Up to eight fire engines are temporarily closed on an alternating month to month schedule. Those displaced firefighters from browned-out companies are then available as relief staff as a part of their regular shift. This use of displaced staff mitigates the use of overtime staff, thereby reducing overtime costs, resulting in projected savings of $11.5 million for FY 2011 with full execution of the rolling brown-out plan.

Since the implementation of rolling brown-outs, the Fire-Rescue Department has regularly updated the Public Safety & Neighborhood Services (PS&NS) Committee regarding the service impacts. The department has reported that the brown-outs have further compromised compliance with national response standards for first on scene units and assembly of an effective fire force.

These updates have raised concerns regarding the response times for those stations whose already low compliance with national response standards have worsened with the rolling brown-outs. At the April 7, 2010 PS&NS meeting, the Fire Chief expressed particular concern regarding the services at Station 21 (Pacific Beach), Station 35 (University City), Station 40 (Rancho Penasquitos), and Station 44 (Mira Mesa). At the meeting, Committee members voiced a desire to restore service at three of these stations of concern. It is estimated that each engine restored would require $1.4 million in funding from the budget. The Fire Chief has the authority to re-staff browned-out engines as conditions necessitate and is working with his staff to fully assess the situation to determine the best course of action.

In regular operations, factors such as weather conditions, special events, and incident demands will require that browned-out engines are re-staffed temporarily. The $11.5 million projection for overtime savings is based on the assumed brown-out of 8 engines per day, without exceptions. Though it is unknown how many re-staffing incidents will occur over the course of FY 2011, it is anticipated that they will impact projected cost savings. Where the rolling brown-outs do not achieve budgeted expectations, other budgetary savings will have to be identified to off-set the short-fall.

Office of Homeland Security

The FY 2011 Proposed Budget for the Office of Homeland Security totals $1.5 million, a net decrease of $126,369 over FY 2010. FTEs increase by 0.81 FTE in the budget.

The decrease in the budget is related to the identification of savings in salary, supplies, contracts, and information technology. The addition of 0.81 FTE is for a Provisional Lifeguard Chief to support a National Oceanic and Atmospheric Administration grant project for tsunami and storm water preparation.

Grant Funded Position Reductions

The zeroing out of salary relating to positions vacant as of March 2009 effectively removed General Fund support for salaries that are supported by FEMA and UASI grant funding. Salary budgets relating to 1.00 FTE Senior Management Analyst and 1.00 FTE Administrative Aide 2 were impacted. In addition to this, the approved addition of 1.00 FTE Senior Management Analyst is not reflected in the FY 2011 Proposed Budget. The absence of budgeted salary for these grant supported positions can jeopardize the receipt of these grants since they require matching funds from the General Fund. Given that the Office has received approval to fill these positions, this issue will need to be addressed in the May Revise.

Emergency Medical Services

The FY 2011 Proposed Budget for the Emergency Medical Services (EMS) Fund totals $3.8 million, for a decrease of $3.4 million over FY 2010. The majority of this decrease is from a $3.7 million personnel expense reduction. Per the new Emergency Medical Services Contract between the City and SDMSE, position reallocations were requested. A requested reduction of 19.00 FTEs in the budget was supposed to accompany a partnering request for the addition of FTEs, for a small net reduction. Although the additions have been approved, they were not included in the FY 2011 Budget. This issue should be addressed in the May Revise.

A $512,990 increase in EMS expenditures is related to a transfer to the General Fund to support Fire-Rescue Department paramedic specialty pay, per the new EMS contract between the City and SDMSE.

The EMS FY 2011 proposed revenue is projected to decline by $2.2 million, $1.5 million of which is related to the removal of Charges for Current Services revenue. The IBA was unable to get more data from Fire-Rescue concerning the reason for this decline.

It is important to note that although the EMS contract was approved by City Council on July 28, 2009, various aspects of the contract, that could possibly have budgetary impacts, are still being negotiated between Rural Metro, SDMSE, and the City.

General Services

The Fiscal Year 2011 Proposed Budget for the General Services Department totals $64 million in the General Fund, an increase of $2.6 million from FY 2010. Revenues received by the General Fund related to General Services total $38.6 million, and reflect an increase of $2.8 million from the prior year.

The Department is comprised of multiple funding sources, including the Wireless Communications Fund, the Publishing Services Fund, the Fleet Operations and Replacement Funds, and Proposition 42 Fund. When combined, the General Services Department budget totals $157.9 million, a decrease of $20.7 million from FY 2010.

The FY 2011 Proposed Budget for the Facilities Division totals $14.6 million, and includes 108.00 FTEs. This represents a reduction of $1.4 million and 3.00 FTEs from FY 2010. For Streets Division, the Proposed Budget totals $48.8 million with 261.92 FTEs, reflecting no change in the number of positions, and an increase of $4.1 million.

General Fund revenue received by the General Services Department is estimated to increase by $2.8 million. Funding for Streets Division activities from Gas Tax and TransNet funds are reduced by $3.3 million due to reduced revenue receipts for both sources.

However additional reimbursements for work related to ADA/Deferred Capital projects, funded by the issuance of long-term debt and land sales will result in additional

SUMMARY OF GENERAL SERVICES BUDGET				
	FTE	**FY 2010**	**FY 2011**	**Change**
General Fund				
Administration Division	5.00	$ 646,192	$ 601,252	$ (44,940)
Street Division	261.92	44,739,398	48,806,729	4,067,331
Facilities Division	108.00	$ 16,007,718	14,569,705	(1,438,013)
Subtotal General Fund	374.92	$ 61,393,308	$ 63,977,686	$ 2,584,378
Non-General Funds				
Wireless Communications	49.99	10,055,665	9,703,707	(351,958)
Publishing Services	25.00	5,475,862	5,843,953	368,091
Fleet Operations	249.00	51,362,815	50,253,252	(1,109,563)
Fleet Replacement	-	34,757,700	14,799,955	(19,957,745)
Proposition 42 Fund	-	15,535,558	13,312,980	(2,222,578)
Subtotal Non-General Funds	323.99	$ 117,187,600	$ 93,913,847	$ (23,273,753)
TOTAL GENERAL SERVICES	**698.91**	**$ 178,580,908**	**$ 157,891,533**	**$ (20,689,375)**

revenue of $3.4 million. Inclusion of Proposition 1B funds in the amount of $3.3 million has increased both revenues and expenditures for Streets Division.

The FY 2011 budget includes $2.0 million in salary savings (in the General Fund) based on the removal of salaries for 48.34 FTEs that were vacant as of December 2009. This represents almost 13% of the total number of budgeted positions for the Facilities and Streets Divisions.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget reflects the General Fund reductions approved in December 2009, which for the Facilities Division total 4.00 FTEs to achieve estimated cost savings of $466,644 and additional revenue of $2.46 million. These budgetary changes specifically included reductions and/or modifications to:

- Contractual Services
- Tenant Improvements/Deferred Capital Crew Transfer
- ADA/Deferred Capital Crew Transfer
- HVAC Supervisor
- Project Officer II & Construction Estimator Substitution
- Carpenter Supervisor
- Plumber Supervisor
- Reclassification of an Associate Mechanical Engineer

The crew transfers represent the reprioritization of work of existing staff to focus on reimbursable activities related to ADA/Deferred Capital projects to the financial benefit of the General Fund.

The December 2009 Adjustments for Streets Division include changes to achieve cost savings of $596,089.

SUMMARY OF GENERAL SERVICES BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	377.92	$ 28,971,992	$ 32,421,316	$ 61,393,308	$ 35,865,128
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages	(3.00)	(554,704)		(554,704)	
- FY 2010 Vacancy Factor Restoration		636,707		636,707	
- Positions Unfunded due to Vacancies (48.34 FTEs)		(1,997,106)		(1,997,106)	
- Salary Reductions/Savings/Furlough				-	
Fringe Benefits (incl. Retirement ARC)		1,521,756		1,521,756	
Supplies			(188,665)	(188,665)	
Contracts			2,055,693	2,055,693	
- Motive Equipment/Fleet			(1,348,769)	(1,348,769)	
Information Technology			81,016	81,016	
Energy & Utilities			(136,039)	(136,039)	
Other			2,526,189	2,526,189	
Debt			-	-	
Capital Expenditures			(11,700)	(11,700)	
Revised Revenue Projections				-	2,783,137
Subtotal	(3.00)	(393,347)	2,977,725	2,584,378	2,783,137
Mayor's Fiscal Year 2011 Proposed Budget	**374.92**	**28,578,645**	**35,399,041**	**63,977,686**	**38,648,265**
Difference from 2010 to 2011	*(3.00)*	*$ (393,347)*	*$ 2,977,725*	*$ 2,584,378*	*$ 2,783,137*

These reductions specifically included reductions and/or modifications to:

- Reassign Concrete Crew
- Palm Tree Trimming
- Root Pruning
- Broadleaf Tree Trimming

Mayor's FY 2011 Proposed Adjustments

The Facilities and Streets Division budgets include an increase of $708,000 and $1.8 million, respectively, in the Other Expenditures category related to the transfer of funding for debt service for the deferred capital bonds. Streets Division includes an increase of $3.25 million related to construction contracts, with some offsetting contracts reductions in Facilities Division.

Reductions related to Motive Equipment/ Fleet maintenance and replacement schedules total $1.3 million for the Facilities and Streets Divisions.

Communications

The Communications Division FY 2011 Proposed Budget totals $9.7 million, with approximately 50 positions. This reflects a reduction of $352,000 from FY 2010. This non-general fund department receives funding from other City funds. Approximately 78% of this funding comes from the General Fund, with those amounts budgeted in the Department of IT.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget reflects the reductions approved in December 2009, which for the Non-General Fund Communications Division includes two positions, and other non-personnel changes to achieve cost savings of $284,458.

Mayor's FY 2011 Proposed Adjustments

In prior years, allocations to other City funds for the Communications Division had been reduced to utilize the accumulated fund balance. For FY 2011, increases are necessary to these allocations to collect sufficient funding for Communications needs. The Motive Equipment/Fleet changes result in a reduction of $58,000 for the Communications Division.

Publishing Services

The Publishing Services Division provides full service, in-house reproduction and graphics center, and manages the Citywide Photocopier Program for all City departments.

For FY 2011, the Proposed Budget for Publishing Services totals $5.8 million, and includes 25.00 FTE. The FY 2011 budget represents a slight increase of $368,000 from FY 2010. This non-general fund department receives funding from benefitting City departments.

No changes were proposed as part of the

December 2009 Adjustments. The FY 2011 budget includes $207,000 in salary savings based on removing salaries for 6.00 FTEs that were vacant as of December 2009. This represents 24% of the total number of budgeted positions. Most significantly for FY 2011, costs related to the Photocopier Program have been increased by $257,000 to reflect current activity levels for copier use by departments. Information Technology costs are reduced by $217,000.

Fleet Services

The Fleet Services Division provides maintenance and coordinates the replacement of City vehicles for all City departments. For FY 2011, the Proposed Budget for Fleet Services totals $50.3 million for operations and maintenance activities, and $14.8 million for replacement purposes. The division includes 249 positions. The FY 2011 budget represents a significant decrease of $21.0 million from FY 2010. This non-general fund department receives funding from benefitting City departments, with approximately 72% of this funding coming from the General Fund.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget reflects the reductions approved in December 2009, which for the Fleet Services Division is estimated to achieve cost savings of $10.2 million, resulting in $7.0 million in savings to the General Fund.

These budgetary changes specifically include identification and elimination of underutilized vehicles in the fleet by 20%. Underutilized vehicles are categorized as less than 5,000 miles per year or 500 operational hours per year. Savings would be derived by reducing the size of the fleet and elimination of associated usage fees, and are estimated to generate savings of $3.38 million, with $2.4 million in savings to the General Fund.

In addition, reductions to the number of Police and Fire take-home vehicles of 10% to provide annual savings of $5,000 per vehicle are planned.

More significantly, budgetary savings Citywide are planned by the increase of vehicle replacement lifecycles by two years, delaying the purchase of scheduled equipment and vehicles. Savings from this proposal is derived by reducing the annual assignment fees charged to customer departments,. Changes are reflected both in the budget of the Fleet Services Division, and also in each customer City department that provides the funding. In the December solutions, this is estimated to save $6.7 million Citywide, and $4.5 million for the General Fund. Future impacts of an overall aged fleets are potentially increased repair and maintenance costs.

Mayor's FY 2011 Proposed Adjustments

Since the December adjustments, additional changes to the Fleet Services Division have been included in the Mayor's Proposed Budget to utilize accumulated fund balance of $5.8 million in the Fleet Operations purchases with available funding, saving $9.4 million Citywide ($6.6 million for the General Fund). Together these actions will generate General Fund savings of $11.0 million. Of that, the use of the fund balance ($4.4 million to the General Fund) is considered a one-time use of resources that will not be available in future budget years.

The fund balance of the Fleet Operations Fund of $5.8 million includes a recently established $2.9 million Fuel Reserve, which the IBA had previously recommended be created to mitigate impacts of increased fuel costs. The existence of the Fuel Reserve helps to explain the size of the accumulated fund balance. While it is desirous for the City to strive to create and maintain a Fuel Reserve, its elimination as an alternative to other service reductions minimizes the impact to the City's residents.

Issues to Consider

Future Vehicle and Equipment Purchases

The Corrective Actions include the further reduction to rates charged to customer departments to align purchases of motive equipment with available funding.

The General Services Department has indicated that it may propose the use of lease-purchase financings to continue the purchase of vehicles in cases where accumulated cash is not sufficient, and department needs and priorities may justify purchases as previously planned. It is important to note that City Council review and approval of actions for lease-purchases will be necessary.

Fuel Reserve

The fund balance of the Fleet Operations Fund includes a recently established $2.9 million Fuel Reserve, which the IBA had previously recommended be created to mitigate impacts of increased fuel costs. The IBA continues to recommend that a Fuel Reserve for the Fleet Operations Fund is a worthy goal as funding becomes available. Given the current fiscal environment, the elimination of the Fuel Reserve provides a source of funding for higher priority needs.

Human Resources

The Fiscal Year 2011 Proposed Budget for the Human Resources Department totals $2.47 million in the General Fund, relatively unchanged from FY 2010.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget continues the reductions taken in December 2009, which include the reduction of two positions and cost savings of $348,000, specifically for:

- 1.00 Organizational Effectiveness Specialist III position and the entire Diversity program will require diversity training be conducted by Labor Relations staff
- 1.00 Word Processing Operator position and related expenses for Employee Training and Development
- Reduction in non-personnel expenses for the Human Relations Commission, and Executive Performance Pay

Mayor's FY 2011 Proposed Adjustments

The most significant increase includes $198,000 in the area of fringe benefits, with reductions in copying, training and contractual services.

The Human Resources Department indicates that items requested as part of the zero-based budget review of contracts were not all granted; $138,875 was submitted, and only $60K was authorized. One item not fully funded was the remaining contract costs for the ADA Survey Needs Assessment. While this work will be completed, other reductions will be needed for the department to stay within budget.

In addition, a request for the transfer of 1.00 Senior Management Analyst for OneSD training was not included in the Proposed FY 2011 Budget, and will be requested as part of the May Revise process.

Information Technology

The Department of Information Technology (IT) is comprised of both General Fund and non-general fund components.

The General Fund portion of the budget reflects the General Fund share of costs for Citywide Information Technology efforts, and includes no budgeted positions.

For the most part, Information Technology services are provided by San Diego Data Processing Corporation (SDDPC). The IT Department works closely and coordinates efforts with SDDPC. The SDDPC Budget is also discussed in the City Agencies section of this report.

The City has begun efforts to seek competitive bids for the services provided by SDDPC, and City Council approval was recently received for the award of the Help Desk & Desktop Supports functions to En Pointe Technologies, Inc. for FY 2011.

The General Fund Department of IT totals $18.9 million, and includes the General Fund share of funding for the OneSD Support Department of $10.16 million, which has increased by $2.6 million from FY 2010.

This Department budget also includes a $1.7 million transfer to the IT Special Fund component (described later), and $6.9 million for Wireless Communications, now in General Services. An additional $250,000 has been included in FY 2011 for General Fund PC Replacements, reduced from $500,000 in FY 2010, as part of the December 2009 Adjustments.

In total, the costs budgeted for FY 2011 for Information Technology needs across all General Fund Departments are $5.3 million less than amounts budgeted for FY 2010, exceeding the December 2009 Adjustment of $3.0 million.

Information Technology Special Fund

The Proposed FY 2011 Budget for the IT Special Fund totals $3.5 million, and includes 17 positions, a decrease of $794,000 and a reduction of 4.00 FTEs.

December 2009 Approved Adjustments

The December 2009 Adjustments included reductions estimated to save $591,000, benefiting the General Fund by over $352,000, in the following areas:

- Web services budget
- Citywide Technologies and Applications
- Department Management Expenses
- Project Management Office
- Financial and Support Services
- Enterprise Architecture and Standards
- Computing Infrastructure Support including 4.00 FTEs

Mayor's FY 2011 Proposed Adjustments

The FY 2011 budget also includes $110,000 in salary savings based on removing salaries for positions that were vacant as of December 2009. For the Department of IT, this includes the position of Deputy Director.

Expenditures in the area of Information Technology are reduced by $358,000 for FY 2011, when compared to the prior year.

Library

The FY 2011 Proposed Budget for the Library Department totals $34.1 million, a decrease of approximately $3.0 million, or 8.1%, from the FY 2010 Budget of $37.1 million.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments for the Library Department included a reduction of approximately $2.7 million in personnel expenses and a reduction of approximately $1.0 million in non-personnel expenses, for a total reduction of approximately $3.7 million, and a reduction of 48.68 FTE positions.

This adjustment included the reduction of Branch Library service hours to 36 hours a week at a savings of approximately $1.3 million. Additionally, all branch libraries are now closed on Sundays and Mondays, effective March 20, 2010. The Central Library and three branches receiving private funding remain open on Sundays. Non-Personnel savings were realized due to reductions in hours and largely reflect decreases in janitorial and security contracts.

Additional December 2009 Adjustments included a consolidation of public service desks and a reduction of hours to 44 hours a week at the Central Library for a savings of approximately $1.1 million, and a reduc-

SUMMARY OF LIBRARY BUDGET CHANGES					
	FTE	**PE**	**NPE**	**Total**	**Revenue**
Fiscal Year 2010 Budget	378.46	$ 26,824,549	$ 10,243,708	$ 37,068,257	$ 1,539,418
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages (incl. hourly conversion 42.24 FTEs)	(19.56)	(1,313,903)		(1,313,903)	
- FY 2010 Vacancy Factor Restoration		594,768		594,768	
- Positions Unfunded due to Vacancies (39.39 FTEs)		(1,363,745)		(1,363,745)	
- Salary Reductions/Savings/Furlough		(467,406)		(467,406)	
Fringe Benefits (incl. Retirement ARC)		913,044		913,044	
Supplies			(179,379)	(179,379)	
Contracts			(459,770)	(459,770)	
- Motive Equipment/Fleet			(53,217)	(53,217)	
Information Technology			(413,980)	(413,980)	
Energy & Utilities			93,925	93,925	
Other			(347,575)	(347,575)	
Debt			-	-	
Capital Expenditures			-	-	
Revised Revenue Projections				-	(219,711)
Subtotal	(19.56)	(1,637,242)	(1,359,996)	(2,997,238)	(219,711)
Mayor's Fiscal Year 2011 Proposed Budget	**358.90**	**25,187,307**	**8,883,712**	**34,071,019**	**1,319,707**
Difference from 2010 to 2011	*(19.56)*	*$ (1,637,242)*	*$ (1,359,996)*	*$ (2,997,238)*	*$ (219,711)*

tion of 8.00 FTE in Technical Services for a savings of approximately $419,000. The IBA has confirmed that following a reduction of approximately $326,000, the Library Matching Fund budget totals approximately $925,000 for FY 2011.

A December 2009 reduction of $200,945 related to less funding for electronic information database leases, was taken from the library book materials budget. As a result, the Library's FY 2011 Proposed Budget includes approximately $1.6 million for the book materials.

Finally, the Mayor's December 2009 Adjustments included a transfer of $2.0 million of the remaining balance of the Library System Improvement Program Fund to the General Fund.

Mayor's FY 2011 Proposed Adjustments

The Department's FY 2011 Proposed Budget shows a net decrease of 19.56 FTE positions from FY 2010, for a total of 358.90 FTE positions in FY 2011 as a result of the conversion of hourly and temporary positions to FTE positions and a December 2009 Adjustment reduction of 48.68 FTE largely related to reduced library hours and the consolidation of Central Library service desks.

The FY 2011 Proposed Budget includes $1.4 million in salary savings based on removing salaries for 39.39 FTE positions, or approximately 10 percent of the Library's total FTE positions, that were vacant as of December 2009. This salary savings amount is significantly higher than that assumed for FY 2010. This issue is discussed further in the section on "Salary Savings" on page 22. If the Department identifies the need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

Approximately $440,000 of "Contracts" expenditures has been reduced as a result of the zero-based budget review process, including changed needs due to reduced hours as a result of the December 2009 Adjustments.

The FY 2011 Proposed Budget includes a reduction of $219,711 in revenue due to less expected revenue in fines and fees. According to Library staff, fines have decreased in recent years due to the implementation of a new system that notifies patrons prior to the accrual of overdue fines and fees.

The Library Department will continue to receive funding to support the State Library Grants Fund. This Fund was budgeted to receive $455,000 in FY 2010 and a similar level of funding is expected to be received in FY 2011. It is not currently reflected in the budget document.

Issues to Consider

Library Ordinance

The Library Ordinance, which requires the Library Department budget to be equal to no less than 6% of the total GF budget, has been waived since FY 2004 and waiver is requested again for FY 2011.

Technological Efficiencies

The FY 2011 Proposed Budget "Service Efforts and Accomplishments" section of the Library Department's section notes that in FY 2010 the Department completed the installation of Express Check machines—for a total of 51 machines throughout the Library system which is expected to help reduce the need for additional staff in the future.

The Department is one of the first in the nation to participate in a new eBooks pilot project. Sony has donated 17 eReaders that may be checked out at select libraries throughout the system.

New Central Library

On April 19, 2010, the Council voted 5-3 in favor of approving a lease agreement between the City and San Diego Unified School District that will allow for a charter school to occupy office space in the proposed New Central Library. Per the terms of the agreement, the School District will pre-pay the City $20.0 million for a 40-year lease. This agreement was a pre-condition for the release of a $20.0 million grant for the State of California Librarian. At the April 19, 2010, City Council Meeting, City staff noted that Turner Construction, the project developer, is in the final stages of evaluating responses to bids for the construction of the project. On June 16, 2010, the Rules Committee is expected to consider the authorization to begin construction on the project, followed by City Council consideration on June 29, 2010.

Other Capital Improvement Program Budget Projects

The Library CIP Budget includes 11 projects with unfunded needs totaling over $103 million, of which approximately 90% remains unfunded.

OneSD Support

The Fiscal Year 2011 Proposed Budget for the OneSD Support Department totals $17.2 million, an increase of $4.6 million from FY 2010.

Revenues received by OneSD Support come from other City funds and have increased by $4.3 million. Approximately 59% of total funding comes from the General Fund, budgeted in the Department of IT.

OneSD Support includes 21 positions, an increase of 2.00 FTEs from the FY 2010 Budget.

No December 2009 Budget Adjustments were implemented for OneSD Support.

Mayor's FY 2011 Proposed Adjustments

Significant budget changes include:

- Increase in Information Technology costs of $2.65 million
- Lease financing costs have increased by $1.5 million to $6.0 million
- Rent reduction of $187,000 due to the move of staff to the City Administration Building

SUMMARY OF ONESD SUPPORT BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	19.00	$ 1,907,611	$ 10,685,250	$ 12,592,861	$ 12,898,704
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages	2.00	309,112		309,112	
- FY 2010 Vacancy Factor Restoration		-		-	
- Positions Unfunded due to Vacancies		-		-	
- Salary Reductions/Savings/Furlough		(8,333)		(8,333)	
Fringe Benefits (incl. Retirement ARC)		315,775		315,775	
Supplies			-	-	
Contracts			(204,259)	(204,259)	
- Motive Equipment/Fleet			-	-	
Information Technology			2,652,033	2,652,033	
Energy & Utilities			(4,131)	(4,131)	
Other			57,292	57,292	
Debt			1,508,058	1,508,058	
Capital Expenditures			-	-	
Revised Revenue Projections				-	4,319,704
Subtotal	2.00	616,554	4,008,993	4,625,547	4,319,704
Mayor's Fiscal Year 2011 Proposed Budget	**21.00**	**2,524,165**	**14,694,243**	**17,218,408**	**17,218,408**
Difference from 2010 to 2011	*2.00*	*$ 616,554*	*$ 4,008,993*	*$ 4,625,547*	*$ 4,319,704*

Park & Recreation

The Fiscal Year 2011 Proposed Budget for the Park and Recreation Department totals $83.2 million in the General Fund, a decrease of $2.7 million from FY 2010. Revenues received by the General Fund related to Park and Recreation total $26.8 million, and reflect a decrease of $3.1 million from the prior year.

The Department is comprised of multiple funding sources, including the Golf Course Enterprise Fund, Los Penasquitos Reserve, and the Environmental Growth Funds. When combined, the Department budget totals $110.1 million, a decrease of $4.1 million from FY 2010.

December 2009 Approved Adjustments

The FY 2011 Proposed Budget reflects the General Fund reductions approved in December 2009, which for Park & Recreation total 31.68 FTEs to achieve cost savings of $3.78 million and additional revenue of $174,000. These reductions specifically included reductions and/or modifications to:

- San Dieguito JPA Payment
- Park Maintenance Reorganization and initiation of mobile crew concept
- Kumeyaay Lake Maintenance
- Rancho Encantada Ranger Position
- Brush Management Program
- Street Median Maintenance Program
- Mission Bay Maintenance Staff and Contractor Supervision
- Citywide Park Maintenance Services Supervision
- Park Turf Fertilization Program
- Citywide Facility Repair
- Aquatic Features Safety Inspection and Maintenance Program Schedule
- Sports Turf Maintenance
- Balboa Park Parking Lots and Road Sweeping Services

FY 2011 Proposed Budget - Park and Recreation

Division by Fund	FTE	PE	NPE	Total	Revenue
Park and Rec - Administration	17.00	2,120,109	230,172	2,350,281	686,000
Community Parks I	154.27	9,331,556	10,045,836	19,377,392	2,851,360
Developed Regional Parks	310.02	20,522,851	12,204,923	32,727,774	18,712,391
Community Parks II	218.84	12,543,920	7,774,809	20,318,729	2,198,408
Open Space Division	53.94	4,350,534	4,109,155	8,459,689	2,319,767
TOTAL GENERAL FUND	**754.07**	**$ 48,868,970**	**$ 34,364,895**	**$ 83,233,865**	**$ 26,767,926**
Los Penasquitos Reserve	2.00	187,568	33,634	221,202	121,000
Golf Course Enterprise Fund	97.49	6,452,291	7,819,004	14,271,295	17,046,500
Environmental Growth Fund(1/3)	-	-	4,168,806	4,168,806	4,201,281
Environmental Growth Fund(2/3)	-	-	8,246,882	8,246,882	8,349,062
TOTAL DEPARTMENT	**853.56**	**$ 55,508,829**	**$ 54,633,221**	**$110,142,050**	**$ 56,485,769**

- Mission Bay Maintenance
- Mechanized Beach Refuse Removal Support
- Cessation of Fire Ring Program
- Winter Restroom Closures
- Shoreline Beach and Mission Bay Beach Maintenance
- Park Ranger Program Support in Balboa Park
- Department Grant Resource Development Support

Mayor's FY 2011 Proposed Adjustments

The Proposed Budget includes the addition of 3.76 FTEs at a cost of $285,000 for the annualization of new facilities which opened in FY 2010 at the Naval Training Center/ Liberty Station, the Ocean Air Recreation Center, joint use school facilities, and for added open space and Citywide park acreage.

The FY 2011 budget includes $1.77 million in salary savings based on removing salaries for 48.06 FTEs that were vacant as of December 2009; this represents a significant increase over the FY 2010 vacancy factor of $1.1 million. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

The most significant increases include $3.08 million in the area of fringe benefits, and non-discretionary increases of $231,000 related to gas, water, and electrical services.

Motive Equipment/Fleet costs were reduced by $1.45 million, with a $269,000 reduction in the area of information technology. Capital outlay expenditures were reduced by $813,000, with an additional reduction of $1.06 million in the contracts category.

SUMMARY OF PARK AND RECREATION BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	765.28	$ 48,227,344	$ 37,725,515	$ 85,952,859	$ 29,893,493
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages (incl. hourly conversion of 139.65 FTEs)	(11.21)	(1,387,432)		(1,387,432)	
- FY 2010 Vacancy Factor Restoration		1,133,781		1,133,781	
- Positions Unfunded due to Vacancies (48.06 FTEs)		(1,766,811)		(1,766,811)	
- Salary Reductions/Savings/Furlough		(413,382)		(413,382)	
Fringe Benefits (incl. Retirement ARC)		3,075,470		3,075,470	
Supplies			(89,201)	(89,201)	
Contracts			(1,059,044)	(1,059,044)	
- Motive Equipment/Fleet			(1,449,063)	(1,449,063)	
Information Technology			(269,321)	(269,321)	
Energy & Utilities			230,945	230,945	
Other			(21,000)	(21,000)	
Debt			-	-	
Capital Expenditures			(703,936)	(703,936)	
Revised Revenue Projections				-	(3,125,567)
Subtotal	(11.21)	641,626	(3,360,620)	(2,718,994)	(3,125,567)
Mayor's Fiscal Year 2011 Proposed Budget	**754.07**	**48,868,970**	**34,364,895**	**83,233,865**	**26,767,926**
Difference from 2010 to 2011	*(11.21)*	*$ 641,626*	*$ (3,360,620)*	*$ (2,718,994)*	*$ (3,125,567)*

Golf Course Enterprise

The FY 2011 Proposed Budget for the Golf Course Enterprise Fund totals $14.3 million, and has increased $586,000 from FY 2010. In addition, CIP expenses of $3.6 million are budgeted for FY 2011, similar to FY 2010. Revenue estimates remain consistent with the prior year, at $17.0 million.

Included in the FY 2011 budget is salary savings of $390,000 for 11.00 FTEs determined to be vacant as of December 2009; this amounts to over 10% of the positions in the Golf Course Enterprise Fund.

The most significant increases include $519,000 in the area of fringe benefits, the Golf Course land payment to the General Fund which grew by $292,000, and non-discretionary increases of $85,000 related to gas, water, and electrical services. Motive Equipment/Fleet costs were reduced by $100,000, with a $50,000 reduction in the area of information technology.

Environmental Growth

The Environmental Growth Funds (EGFs) are projected to receive a total of $12.4 million in franchise fees from San Diego Gas & Electric, representing one-quarter of the total SDG&E franchise fees to be received by the City, in accordance with Charter Section 103.1a. 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 the acquisition, improvement and maintenance of park or recreational open space. This is a decrease from FY 2010 revenue estimates of $13.8 million.

In FY 2009, the EGF (two-thirds portion) retired the 1994 San Diego Open Space Facilities District No. 1 General Obligation Bonds through a final payment of $434,600. 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 it preserves and enhances the environment and is approved by the City Council.

Since the time the bonds have been repaid, available revenues have been utilized to reimburse the General Fund for eligible park and open space maintenance activities. For FY 2011, $10.42 million is budgeted to reimburse the General Fund, which reflects a decline from the FY 2010 budget of $12.38 million, due to reduced revenues.

Issues to Consider

Park Maintenance Reorganization

Negotiations with the City's labor organizations regarding the Park Maintenance Reorganization are still ongoing. Budgetary changes to implement the reorganization were included in the December 2009 Adjustments. Additional changes may be needed depending on the outcome of negotiations, once concluded.

Community Development Block Grant (CDBG) Funded Programs

In prior fiscal years, a significant funding source for the Power Beach Wheelchair Program, Senior Citizen Services, and the

Therapeutic Recreation Services program has been CDBG funds. In FY 2011, the Park and Recreation Department requested $886,353 in CDBG funding for these programs but only $131,482 for the Therapeutic Recreation Services Program was approved. The Park and Recreation Department has indicated they are considering the identification of possible reductions in other areas to provide funding for these programs.

Personnel

The FY 2011 Proposed Budget for the Personnel Department totals approximately $6.5 million, an increase of $324,067, or 5.2%, from the FY 2010 Budget of approximately $6.2 million. The Proposed Budget includes a net increase of 1.73 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments for the Personnel Department totaled $270,953. Adjustments included a reduction of 1.00 FTE Information Systems Analyst IV position and $185,000 in NPE reductions:

- Reduction of medical background and random drug testing ($160,000)
- Reduction in exam location rentals ($3,000)
- Reduction of fingerprinting /background checks ($20,000)
- Reduction in employee recognition program ($2,000)

With the exception of the employee recognition program, the above reductions were made with the assumption that a City-wide hiring freeze would generate savings based on lower demand for these services. Department staff confirms that these reductions can be absorbed without service impacts, however they also note that the contracts for medical background testing and fingerprinting/background checks can be a cost-effective way to prevent additional future City liabilities.

Mayor's FY 2011 Proposed Adjustments

The Department's FY 2011 Proposed Budget includes an increase of 2.73 FTE positions due to hourly conversions of part-time clerical positions.

The FY 2011 Budget includes a decrease of $73,500 in revenue, which is a reduction of reimbursement previously received for work related to the OneSD project.

PETCO Park

The Fiscal Year 2011 Proposed Budget for PETCO Park is $17.1 million, reflecting a $6.3 million reduction from the FY 2010 Budget. This significant reduction primarily reflects removal of the one-time transfer of the Internal Stabilization Reserve to the General Fund in FY 2010. PETCO Park Fund revenues are budgeted at $15.9 million, a reduction of $1.8 million from FY 2010.

Mayor's Proposed FY 2011 Adjustments

The most significant adjustment to PETCO Park in the FY 2011 Proposed Budget is the reduction of one-time transfer of the $5.6 million Internal Stabilization Reserve to the General Fund as part of the budget balancing solutions for FY 2010. Other significant adjustments include:

- A $663,000 reduction in police services due to a projected decrease in attendance at Padre games;
- A reduction of $750,000 in Special Event revenue due to no special events being booked at this time for FY 2011; and
- A reduction of $187,000 in reimbursement from Padres for police costs.

Issues to Consider

In Fiscal Year 2009, the Centre City Development Corporation (CCDC) began paying for a portion of the annual debt service payment on the PETCO Park Bonds. This payment was budgeted at $7.5 million in FY 2009, and increased to $11.3 million in FY 2010, covering the full debt service payment. Under an agreement between the City and the Redevelopment Agency, CCDC will make the annual debt service payment on the PETCO Park Bonds for five years, from FY 2009 to FY 2013.

In previous years, the CCDC payment was budgeted in the Transient Occupancy Tax Fund, and then funding was allocated from the TOT Fund to the PETCO Park Fund to cover the debt service payment and other operating costs. In FY 2011, the $11.3 million CCDC payment is budgeted directly in the PETCO Park Fund, thereby reducing the allocation from the TOT Fund by a commensurate amount. A $2.5 million transfer from the TOT Fund is still required to cover operating costs.

Police

The FY 2011 Proposed Budget for the Police Department is $385.3 million, a decrease of $13.0 million over the FY 2010 Adopted Budget, with a total reduction of 215.15 FTEs.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments reduced the Police Department budget by $11.9 million and eliminated 261.75 FTEs. Civilian position reductions comprised $6.6 million of the total reductions, with the elimination of 42.00 FTE vacancies and 82.00 FTE filled positions. 133.75 FTE vacant sworn positions were eliminated from the budget, equating to $11.4 million. The eliminated vacant sworn positions had no new budgetary impact given that their elimination was already accounted for in the Five-Year Outlook for FY 2011. Reductions also impacted spe-

SUMMARY OF POLICE BUDGET CHANGES

		FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget		2,754.75	$ 338,666,372	$ 59,592,196	$ 398,258,568	$ 38,956,001
Mayor's Fiscal Year 2011 Proposed Budget Changes						
Salaries & Wages (incl. hourly conversion of 45.20 FTEs)		(215.55)	(22,473,677)		(22,473,677)	
- FY 2010 Vacancy Factor Restoration			20,684,611		20,684,611	
- Salary Unfunded due to Vacancies			(13,396,111)		(13,396,111)	
- Salary Reductions/Savings/Furlough			(1,457,215)		(1,457,215)	
Fringe Benefits (incl. Retirement ARC)			11,446,382		11,446,382	
Supplies				(868,094)	(868,094)	
Contracts				(1,098,156)	(1,098,156)	
Motive Equipment/Fleet				(3,536,012)	(3,536,012)	
Information Technology				(2,216,063)	(2,216,063)	
Energy & Utilities				(39,204)	(39,204)	
Other				-	-	
Debt				(4)	(4)	
Capital Expenditures				(3)	(3)	
Revised Revenue Projections					-	116,149
	Subtotal	(215.55)	(5,196,010)	(7,757,536)	(12,953,546)	116,149
Mayor's Fiscal Year 2011 Proposed Budget		**2,539.20**	**333,470,362**	**51,834,660**	**385,305,022**	**39,072,150**
Difference from 2010 to 2011		*(215.55)*	*$ (5,196,010)*	*$ (7,757,536)*	*$ (12,953,546)*	*$ 116,149*

cialty police units with the elimination of the Mounted Enforcement Program, the Harbor Patrol Unit, and a reduction in Canine Operations. Other reductions impacted vacation and industrial leave budgets, data services, janitorial and landscaping services, non-personnel expenses, public information and videography services, and motor cleaning pay. Reductions were also adopted for department youth programs, with the elimination of the School Safety Camp and Police staff for Star/PAL. While the December Adjustments reduced the department budget by $11.9 million, this reduction was accompanied by an increase in the budget related to the allocation of an increased ARC payment, and a reduction in the assumed vacancy factor. The net impact to the budget was an increase of $7.7 million, increasing the budget from $398.3 million to $406.0 million.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Proposed Adjustments resulted in a net decrease of $20.7 million from the December 2009 Approved Budget Adjustments. The net change was primarily the result of an increase in identified salary savings, and reductions in contractual costs primarily relating to fleet. The 1.00 FTE Program Manager position for the STAR/PAL Program that was cut as part of the December actions is restored with donated revenue.

Vacancies & Salary Savings

The FY 2011 Budget includes $14.9 million in salary savings. $13.4 million of this amount reflects the removal of salary for those positions vacant as of December 2009. This salary savings is based on the assumption of 204.25 FTE vacancies. This number is not consistent with December 2009 Adjustments that removed 133.75 FTE sworn and 42.00 FTE civilian positions from the FY 2011 Budget. At the time, the adjustments resulted in a total of 114.00 FTE budgeted vacancies, of which, 100.00 FTE are sworn and 14.00 FTE are civilian positions for FY 2011. The salaries relating to these vacancies is what should be captured in the salary savings total.

Police Department Vacancy Changes

Position Type	Mid-December Vacancies	December Budget Adjustments	FY 2011 Budgeted Vacancies
Sworn	233.75	(133.75)	100.00
Civilian	56.00	(42.00)	14.00
TOTAL	**289.75**	**(175.75)**	**114.00**

In our review of the FY 2011 Proposed Budget, the IBA indentified concerns regarding the assumed vacant positions within the budget. From our analysis, it appeared that police recruit positions were not accounted for. Recruit positions are typically not budgeted, but underfill sworn officer vacancies. In not accounting for this activity, sworn officer positions currently underfilled with recruits are being counted as vacant in the budget, thereby inflating the assumed salary savings.

An April 28, 2010 memorandum from the Chief Financial Officer confirmed these concerns. Police recruits have not been accounted for in the FY 2011 Proposed Budget. Budgeting appropriately for these positions will require an additional $3.5 million in funding. Funding for the recruit positions will be included in the May Revision.

Recruit Academies

As adopted in December 2009, the FY 2011 Police Department Budget assumes the vacancy of 100.00 FTE sworn officer positions. To maintain department salary savings associated with these held vacancies, the department's policy is to recruit no more officers above the number that depart over the course of the fiscal year.

Termination Pay Annual Leave

The FY 2011 Proposed Adjustments include a $1.3 million reduction in Termination Pay Annual Leave based on an expected low number of eligible retirees in FY 2011.

At the end of FY 2009, a significant number of sworn police officers (263) retired in response to changes in salary and benefits primarily related to a change in the interest rate for the DROP program. In the current fiscal year, retirement numbers are lower (54 as of mid-April) given the large exodus of retirees in the last fiscal year. This lower retirement activity is expected to continue in FY 2011.

Issues to Consider

Civilian Position Eliminations

The December 2009 Adjustments eliminated 82.00 FTE filled civilian support positions, for a total reduction of $4.3 million. 49.00 FTE Police Services Officers, 21.00 FTE Police Investigative Aides, and 12.00 FTE Police Code Compliance Officers were removed from the budget. This action reduced the budgeted FTEs to 7.00 FTE Police Code Compliance Officers, 8.00 FTE Police Service Officers, and effectively eliminated all Police Investigative Aides from the budget. IBA Report 09-90 highlighted concerns regarding the potential negative impacts of these eliminations on police administrative and case back-log, response times, operational efficiencies (with increased staff costs for tasks once done at a lower cost with civilian personnel), over-time costs, and in the case of Police Code Compliance Officer position eliminations, revenue collection.

Since the adoption of the December 2009 adjustments, the Police Department has made operational changes to adjust to the civilian support staff eliminations. As appropriate, the Department has reassigned sworn patrol officers to those duties once performed by civilian employees. The Department is currently making every effort to mitigate the service impacts relating to reduced patrol assignments through the continued prioritization of higher priority level calls. To control a potential increase in overtime costs with reduced staff resources, the department's current policy is to not authorize additional overtime for low priority calls.

In regard to revenue collection impacts, the Department is evaluating better automation and efficiencies for licensing and permit collections with the Treasury Office through the Business Tax Program efficiency study to improve revenue collection.

Given that only a few months have transpired since the implementation of the civilian personnel reductions, little data is available regarding the actual impacts. This area will need to be monitored over the coming fiscal year. Any significant issues should be brought to the attention of the Public Safety & Neighborhood Services Committee. It is also recommended that the Department conduct a comprehensive fee study relating to the licensing and permit area to document cost savings or potential cost increases after the implementation of the Business Tax Program efficiency study plans. Licensing and permit fee levels could then be modified to accurately recover costs with the new operational changes.

Parking Enforcement Revenue

The FY 2010 Adopted budget for Police Department parking citation revenue was reduced by $3.98 million from the previous year in light of unrealized revenues historically. Despite a reduction in the FY 2010 budget, year-end parking citation revenues are still expected to fall short of budget by $2.4 million.

In mid-FY 2010, the parking enforcement staff was enhanced with the filling of Parking Enforcement Officer (PEO) vacancies. The expectation is that more PEO resources will improve parking citation performance in FY 2011. Even so, declines in revenue below budget are still possible due to payee economic hardships.

Also, while the implementation of the Parking Meter Utilization Plan is expected to enhance parking meter revenue collections in FY 2011, it may reduce the number of citations issued. A staff report at a March 3, 2010 Public Safety & Neighborhood Services Committee meeting highlighted that the pilot use of new technology single space parking meters led to a 9.8% decrease in issued parking citations in the pilot area.

It is anticipated that parking citation revenue will not meet budgeted expectations in FY 2011 due to the aforementioned factors. However, the Mayor's 2011 Proposed Adjustments do not include a reduction for this revenue.

Seized & Forfeited Assets Fund

One component of the department's budget is the special revenue fund that has been established for the expenditure of proceeds from seized and forfeited assets. Under the Federal Comprehensive Crime Control Act of 1984, local law enforcement agencies may receive seized and forfeited assets from the federal government related to operations in which the local agencies participated. Federal law requires that assets received go toward enhanced enforcement activity and not be used to supplant normal City revenues. The fund is currently primarily used to support the maintenance and operation of Police helicopters.

The FY 2011 Revenue and Expense Statement in the budget shows a projected ending fund balance of $917,802. When validated, this fund balance can be used to support eligible department expenses that are not currently funded by the General Fund.

Public Utilities

On July 1, 2009 the Metropolitan Wastewater Department and the Water Department were merged as one department, the Public Utilities Department.

Operationally, there are four branches which manage the 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 Water.

FY 2011 is the first year in which this new budgetary structure is being presented. In order to create efficiencies and enhanced services and productivity, certain financial and other administrative functions from the former Water and Wastewater Departments have been consolidated. In the initial stages of this consolidation, 31.0 positions were eliminated from the Water and Wastewater Funds prior to FY 2011.

The table below presents the budgetary structure of the Public Utilities Department: funds appear in columns and business areas are shown in rows. The table only shows operating expenditures, and not Capital Improvement Program (CIP) expenditures.

Issues for Consideration

Budget Considerations

The FY 2011 Proposed Budget for the Public Utilities Department is divided among the General Fund and three enterprise funds it manages: the Municipal Sewer Revenue Fund, the Metropolitan Sewer Utility Fund and the Water Utility Operating

Public Utilities Department - FY 2011 Proposed Budget Expenditures (in millions)

Branch	Municipal Sewer Fund	Metropolitan Sewer Fund	Water Fund	General Fund	TOTAL
Business Support	$66.5	$141.8	$143.2		**$351.5**
Municipal Wastewater	59.7				**59.7**
Metropolitan Wastewater		108.5			**108.5**
Water			281.7	$2.0	**283.7**
TOTAL	**$126.2**	**$250.3**	**$424.9**	**$2.0**	**$803.4**

Fund.

Due to the complexity of the budget transfers among the Municipal Sewer Revenue Fund, Metropolitan Sewer Utility Fund, and Water Utility Operating Fund during the budgetary reorganization process, the Public Utilities Department budget is presented in in total within this report.

Water Sales and Purchases

One of the most significant adjustments to the Department's revenue budget is a $25.6 million increase in revenue from water sales. This increase reflects the planned 6.5% rate increase for infrastructure improvements that will go into effect on July 1, 2010. Additionally, the Water Branch's January 1, 2010 rate increase due to the County Water Authority (CWA) pass-through — approximately 7.75% for a typical single-family residential customer — is incorporated. The temporary 3.26% rate increase for the Indirect Potable Reuse (IPR) Demonstration Project, effective January 1, 2009, is discontinued for FY 2011. Furthermore, a 15% conservation level is factored into the projected revenue from water sales.

The CWA pass-through will impact the Water Branch's expenditures as well. The FY 2011 budget for water purchases reflects a $34.7 million increase over FY 2010, primarily due to the higher rates charged by CWA for wholesale water supplies. The increase for water purchase costs also reflects a 15% reduction in water demand as a result of conservation. It is anticipated that CWA and the Metropolitan Water District will be raising the price of wholesale water

SUMMARY OF BUDGET CHANGES - PUBLIC UTILITIES DEPARTMENT

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	**1,613.00**	**$ 141,038,805**	**$ 604,768,021**	**$ 745,806,826**	**$ 964,798,341**
Fringe Benefit Increase	-	14,291,527	-	14,291,527	-
FY 2010 Vacancy Factor	-	3,037,512	-	3,037,512	-
Other Salary Adjustments (incl. hourly conversion)	38.49	(4,452,144)	-	(4,452,144)	-
Water Purchases	-	-	34,648,785	34,648,785	-
Chemical Purchases	-	-	3,359,969	3,359,969	-
Contracts	-	-	2,778,223	2,778,223	-
Information Technology	-	-	4,168,556	4,168,556	-
Energy and Utilities	-	-	2,647,308	2,647,308	-
Capital Expenditures	-	-	1,966,034	1,966,034	-
Debt Service	-	-	(4,131,291)	(4,131,291)	-
Water Sales and Sewer Service Charges	-	-	-	-	45,685,094
Water and Sewer Bond Proceeds	-	-	-	-	36,914,000
Net Other Decreases to Water and Sewer Revenues	-	-	-	-	(22,163,955)
Other Reductions	-	-	(689,244)	(689,244)	-
Mayor's FY 2011 Proposed Budget	**1,651.49**	**$ 153,915,700**	**$ 649,516,361**	**$ 803,432,061**	**$ 1,025,233,480**
Difference from 2010 to 2011	**38.49**	**$ 12,876,895**	**$ 44,748,340**	**$ 57,625,235**	**$ 60,435,139**

in January 2011.

The Water Branch anticipates a subsequent pass-through to customers in January in response to these rate increases. This future pass-through increase is not reflected in the FY 2011 budget for water revenues and expenses.

Wastewater Sales

The Wastewater Branch is increasing it's sewer service charges by $20.1 million. This increase reflects the planned 7% rate increase for infrastructure improvements that will go into effect on July 1, 2010.

Additional Budget Considerations

Other Water revenue adjustments: alignment of capacity charges due to the decline in building permits — decrease of $5.2 million for Water and $2.8 million for Wastewater; an alignment to current revenue trends for sewage treatment plant services to participating regional agencies — decrease of $7.0 million for Wastewater; a decrease in bond proceeds of $6.5 million based on decreased capital projects for Water; an increase of bond proceeds of $43.4 million based on increased capital projects for Wastewater; and a decrease in federal grant revenue of $6.9 million for Water.

Capital Projects

Proposed Budget (in millions)

Project Type	FY 2011
Water	
Pipelines	$77.7
Water Pump Stations	7.7
Reclaimed Water Projects	5.4
Other	18.6
Subtotal Water	*$109.4*
Wastewater	
Pipelines	$92.8
Trunk Sewers	42.8
Treatment Plants	19.2
Municipal Pump Stations	9.5
Other	6.0
Subtotal Wastewater	*$170.3*
TOTAL CIP BUDGET	**$279.7**

On the expenditures side, there are increased chemical purchases of $3.4 million, largely related to the treatment and disposal of wastewater. Additionally, $2.0 million is planned for pipe repair and the purchase of flow meters for Wastewater.

During the budget process, approximately $8.6 million in intended expenditure reductions, mainly in contracts and information technology, were not reduced. The Department plans a submission for these cuts for the May revision to the FY 2011 Proposed Budget.

FTE's in the FY 2011 Proposed Budget increased by 38.49 — from 1,613 to 1,651.49 — which appear to be all hourly employees. The Department intended to add 10 temporary positions related to the development of its new Customer Information System, as well as remove 34.5 FTE's due to the Department consolidation. The Department needs to verify that these positions are adequately addressed in the FY 2011 budget.

Capital Improvement Program (CIP)

This Public Utilities capital budget is reflected both in the CIP document (Volume III) and the Department's Revenue and Expense statement.

The FY 2011 CIP Budget

for the Water Branch is $109.4 million, a $40.4 million decrease from FY 2010. In FY 2011, the Water's capital program will continue to focus on replacement of pipelines. The Department anticipates that 35 miles of cast iron water mains will be replaced in FY 2011 — up from 20 miles in FY 2010.

The FY 2011 CIP Budget for the Wastewater Branch is $170.3 million, a $36.2 million increase from FY 2010. The Wastewater Branch will continue to focus on replacement and rehabilitation of pipelines. The Department anticipates that 60 miles of sewer mains will be addressed in FY 2011 — up from 45 miles in FY 2010.

Other Issues

On April 23, 2009 the County Water Authority announced that water deliveries to member agencies would be reduced by 8% beginning July 1, 2009. At that time, the City was given a water allocation that would meet the 8% reduction. Subsequently, the City moved to Drought Response Level 2, which imposes certain mandatory behavior restrictions on the use of water within the City. San Diegans have been able to stay below the CWA allocation to-date. The CWA is expected to release the City's water allocation for FY 2011 in May 2010.

In addition, the Public Utilities Department has been exploring various rate models and customer pricing structures. This work is being done in anticipation of the potential need to supplement the City's mandatory water restrictions — in the event that customer conservation is not sufficient for the City to stay within its water allocation from the CWA.

Purchasing & Contracting

The FY 2011 Proposed Budget for the Purchasing & Contracting Department is approximately $3.7 million, a decrease of $598,850 from the FY 2010 Budget. The FY 2011 Proposed Budget results in a reduction of 3.00 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The Purchasing & Contracting Department had a reduction of 3.00 FTEs. The reductions included 1.00 Program Coordinator, 1.00 Principal Procurement Specialist and 1.00 Word Processing Operator.

Mayor's FY 2011 Proposed Adjustments

The December 2009 Approved Adjustments carried forward into the FY 2011 Proposed Budget.

The FY 2011 Proposed Budget includes $255,601 in salary savings for the City Comptroller Department based on removing salaries for positions that were vacant as of December 2009. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

A $90,356 reduction in budgeted revenue and a $343,327 decrease in NPE is largely explained by a reduction in IT related costs.

Issues to Consider

On March 30, 2010, the City Auditor released a Performance Audit of the Purchasing & Contracting Department. One of the resulting audit recommendations was that management analyze the Central Stores administrative revolving fund balance to determine how much of this balance represents a surplus that should be transferred back to General Fund and Enterprise Fund departments.

The audit determined that for a three-year period through FY 2009 the revolving fund surplus exceeded Central Stores expenses by $527,535. Surplus funds may represent an excessive surcharge to participating departments.

Given the amount of the current cumulative surplus, the IBA echoes the City Auditor's recommendation that management expeditiously analyze the surplus in order to return funds to the contributing departments and/or reduce the surcharge percentage that is the basis for collecting the funds annually. This may represent a one-time source of revenue and/or a reduction in annual Central Stores expense for participating departments.

QUALCOMM Stadium

The Fiscal Year 2011 Proposed Budget for Qualcomm Stadium includes $15.0 million in expenditures and $14.9 million in revenues, reflecting reductions from the FY 2010 Budget of $3.1 million and $3.8 million, respectively.

December 2009 Approved Adjustments

As part of the December 2009 Adjustments, the City Council approved expenditure reductions of $651,000 and a revenue enhancement of $138,000 for the Qualcomm Stadium's FY 2011 Budget. These adjustments included:

- $320,000 in various non-personnel expenditures reductions;
- $180,000 reduction in contractual services related to 24/7 security personnel;
- $100,000 in non-personnel expenditure reductions related to a decreased asphalt projects;
- $48,000 in non-personnel expenditure reductions related to equipment outlay, landscaping, cement & aggregates and promotional advertising; and
- A revenue increase of $138,000 related to a Service Level Agreement with Airports Division for a Program Manager.

These approved adjustments are reflected in the FY 2011 Proposed Budget. The reduction in security services and the SLA with the Airports Division are still in the process of being implemented, so it is unclear if the full benefit of these adjustments will be realized in FY 2011.

Mayor's FY 2011 Proposed Adjustments

In addition to the budgetary adjustments approved in December 2009, the FY 2011 Proposed Budget reflects the following significant adjustments to the Qualcomm Stadium budget:

- A $2.4 million reduction in debt service payment due to the refunding of the Qualcomm Stadium Bonds as part of the Master Refunding adopted by Council on April 27;
- A $3.3 million reduction in the transfer from the Transient Occupancy Tax Fund as a result of the December 2009 Adjustment and the bond refunding;
- A $578,000 reduction in revenue from concessions and parking lot events due to a reduction in the number of events at Qualcomm Stadium.

Real Estate Assets

The Fiscal Year 2011 Proposed Budget for the Real Estate Assets Department (READ) is $4.5 million, an increase of approximately $716,000 from the FY 2010 Budget. Revenues are budgeted at $43.8 million, reflecting a $2.0 million increase from FY 2010.

December 2009 Approved Adjustments

As part of the December 2009 Adjustments, the City Council approved the reduction of 4.00 positions from the READ budget, and a total expenditure reduction of $273,000. These reductions are reflected in the FY 2011 Proposed Budget

In addition, the Council also approved the one-time transfer of $4.3 million from the Mission Bay Improvement Fund. Since revenue from Mission Bay rents and concessions is budgeted in READ, this transfer of funding is reflected in FY 2011 Proposed Budget.

Mayor's FY 2011 Proposed Adjustments

In addition to the position reductions approved as part of the December 2009 Adjustments, the FY 2011 Proposed Budget reflects the following significant adjustments:

- A $755,000 increase in expenditures related to transfer of the contract for repair and maintenance of the San Diego Theatres from the Facility Maintenance Division;
- A $2.5 million reduction in percentage – based lease revenue from Mission Bay and Pueblo Lands due to continued weakness in hotel and tourism industry;
- A $289,000 reduction in Midway/ Frontier and Crabtree Building rents.

Concourse & Parking Garage

The FY 2011 Proposed Budget for the Concourse and Parking Garage Fund is $3.5 million, a reduction of approximately $452,000 from the FY 2010 Budget. Fund revenues are budgeted at $3.6 million, a $228,000 increase from FY 2010.

December 2009 Approved Adjustments

As part of the December 2009 Adjustment, several budgetary adjustments were adopted by City Council related to the installation of a new 24-hour automated parking system in the Concourse Parking Garage:

- An expenditure reduction of $187,000 due to contract savings with Ace Parking and Wackenhut Security;
- A revenue increase of $100,000.

These budgetary adjustments have been reflected in the FY 2011 Proposed Budget.

Issues to Consider

The December 2009 Adjustments to the Concourse & Parking Garage Fund were predicated on the installation of a new 24-hour automated parking system in the Concourse Parking Garage, which is anticipated to reduce costs and increase revenues, thereby freeing up additional funding that could be transferred to the General Fund.

While the automated parking system has not yet been installed, the Department has indicated that they are working through the procurement process, and that the system should be installed in FY 2011. We encourage the new parking system to be installed as quickly as possible to maximize the potential benefit to the General Fund.

Risk Management

The FY 2011 Proposed Budget for the Risk Management Department totals approximately $9.7 million, an increase of $567,670 from the FY 2010 Budget of approximately $9.1 million. The Proposed Budget includes a decrease of 2.09 FTE positions from FY 2010 to FY 2011.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments for the Risk Management Department totaled $295,986, and included:

- Reduction of 4.40 FTE positions, at a savings of $245,986 in Personnel Expense. This reduction included a decrease of 1.40 FTE positions in the Employee Assistance Program, resulting in a current staff level of 1.60 FTE in this function.
- Reduction in investment consulting contract for a savings of $50,000 in NPE. The intended use of these funds was the retention of an outside consultant for the management and selection of the City's investment vehicles related to the City Employee 457 Deferred Compensation Plan administered by Valic.

Mayor's FY 2011 Proposed Adjustments

The FY 2011 Budget includes the conversion of hourly positions to FTE positions, resulting in an increase of 2.31 FTE positions.

The Department's FY 2011 Proposed Budget Adjustments include the increase of approximately $1.0 million in revenue, for total FY 2011 revenue of $8.9 million. This adjustment in revenue is attributable to an increase in rates charged to departments which is needed to offset a reduction in fund balance. The accumulated fund balance was used in FY 2010 as a one-time budget balancing solution. The IBA had recommended the use of fund balance when appropriate. We will continue to monitor this balance to keep rates in check.

Special Promotional Programs

The FY 2011 Proposed Budget for Special Promotional Programs (TOT Fund) reflects a $20.2 million reduction in both revenues and expenditures, with no change in FTEs. Per the San Diego Municipal Code, 5-cents of the City's 10.5-cent TOT levy are deposited into the TOT Fund, and allocated for various purposes via the Special Promotional Programs budget. The Municipal Code further requires that 4 of the 5 cents deposited into the TOT Fund must be used solely for the purposes of promotion, while the remaining 1-cent may be used for discretionary purposes.

In FY 2011, Citywide TOT revenue is projected to decline by 12.9%, from the FY 2010 Budget. As a result, TOT revenue for the TOT Fund has been revised downward. Approximately $6.0 million of the decline in the FY 2011 Proposed Budget is related to the reduction in TOT revenue, while $2.5 million relates to a Qualcomm Stadium debt service payment reduction, and $11.3 million is related to the transfer of the revenue and expense budget for the Centre City Development Corporation (CCDC)

FY 2011 Proposed Budget - Special Promotional Programs Fund Allocations Summary (in thousands)

	FY 2010 BUDGET	FY 2011 PROPOSED	CHANGE
REVENUE			
TOT - Promotional	55,205	48,084	(7,121)
TOT - Discretionary	13,801	12,021	(1,780)
CCDC Debt Svc. Pymt.	11,321	-	(11,321)
Other Revenue	150	150	-
TOTAL REVENUE	**80,477**	**60,255**	**(20,222)**
ALLOCATIONS			
Arts & Culture*	7,991	7,253	(738)
Capital Improvements	32,583	17,567	(15,016)
Balboa/MB Park	*5,076*	*4,750*	*(326)*
*Convention Center***	*9,474*	*8,750*	*(724)*
PETCO Park	*11,321*	*-*	*(11,321)*
Qualcomm	*5,770*	*3,335*	*(2,435)*
Trolley Extension	*942*	*732*	*(210)*
Economic Development***	1,781	1,706	(75)
Major Events	30	-	(30)
Operating Support	14,767	12,161	(2,606)
Balboa Park Centennial	*150*	*150*	*-*
Balboa/MB Improv.	*392*	*380*	*(12)*
Convention Center	*4,153*	*3,400*	*(753)*
PETCO Park	*3,422*	*2,500*	*(922)*
Qualcomm	*6,052*	*5,191*	*(861)*
Special Events	*598*	*540*	*(58)*
Discretionary TOT to GF	13,581	11,800	(1,781)
GF Promotional-Related	9,744	9,762	18
TOTAL ALLOCATIONS	**80,477**	**60,251**	**(20,226)**

** Includes $220,000 in Mayor/Council TOT allocations*

*** Includes dewatering expenses*

**** Includes Horton Plaza Theatre Foundation & Mission Trails Regional Park Foundation* payment of the PETCO Park Bonds from the TOT Fund to the PETCO Park Fund. The chart below details the change in the various funding categories in the FY 2011 Proposed Budget from the FY 2010 Budget.

December 2009 Approved Adjustments

The December 2009 Approved Adjustments resulted in a $2.1 million reduction to the TOT Fund. The budget reductions included the following:

- Reduction of $789,000 to the Qualcomm Stadium budget. This impacted equipment purchases, landscaping, cement and asphalt projects, and security personnel.
- Reduction of $81,700 to Arts & Culture administration, resulting in the elimination of the allocation to the Public Art Fund, a reduction in Funding for the EMBARK art collection management program, and a reduction in other non-personnel expenses.
- A $700,000 (10%) reduction in TOT funding for arts and cultural organizations.
- A $500,000 reduction in annual allocation to the San Diego Convention Center Corporation (SDCCC).
- A $70,702 reduction to the Special Events budget primarily impacting non-personnel expense.

Mayor's FY 2011 Proposed Adjustments

The Mayor's FY 2011 Proposed Adjustments reduce the TOT Fund budget by an additional $18.1 million. $11.3 million of this reduction is related to the transfer of the budget related to the payment of the PETCO Park Bond debt service from the TOT Fund to the PETCO Park Fund. Another $2.4 million reduction is related to the Qualcomm Stadium Bond refunding. Beyond this, an additional $4.4 million in reductions to TOT allocations were identified in the adjustments, the majority of which are directly related to the overall decline in TOT revenue.

PETCO Park Bond Payment

In previous years, the CCDC payment was budgeted in the TOT Fund, and then funding was allocated from the TOT Fund to the PETCO Park Fund to cover the debt service payment and other operating costs. In FY 2011, the $11.3 million CCDC payment is budgeted directly in the PETCO Park Fund, thereby reducing the allocation from the TOT Fund by a commensurate amount. A $2.5 million transfer from the TOT Fund is still required to cover operating costs.

Qualcomm Stadium & Park Improvements Bonds Refunding

The FY 2011 Proposed Budget for the Qualcomm debt service payment is $3.3 million, approximately a $2.4 million decline from the FY 2010 Budget of $5.8 million. The reduction in the Qualcomm Stadium debt is part of the Series 2010A Refunding Bonds Preliminary Official Statement that was approved by the City Council on April 27, 2010. These Master Refunding bonds, which are expected to be priced in mid-May 2010, will in part restructure outstanding deferred capital improvement financing into long–term debt through FY 2040. The Balboa/Mission Bay Park Improvements bond debt service was also reduced by $326,167 as a part of the bonds refunding.

Discretionary TOT Transfer to General Fund

Beginning in FY 2009, the City began transferring the full 1-cent of discretionary TOT back to the General Fund. In FY 2010, this transfer was budgeted at $13.6 million. Due to the projected decline in TOT revenue in FY 2011, the 1-cent of discretionary funding has declined by $1.8 million to $11.8 million in the FY 2011 Proposed Budget.

General Fund "Promotion-Related" Expenditures

The Proposed FY 2011 TOT allocations for General Fund promotion-related budget remains relatively unchanged from the FY 2010 level at $9.8 million, with a decrease of $42,976. These General Fund reimbursements are part of the 4-cents of TOT that must be used for the purpose of promotion. The following chart shows the departmental allocations proposed for FY 2011.

GF Promotion-Related Funding

City Franchise	FY 2010 Proposed	FY 2011 Proposed	Change
Park & Recreation	$ 7,144,478	$ 7,919,765	$ 775,287
Storm Water	959,149	-	(959,149)
Facilities Division	650,000	700,000	50,000
Street Division	332,758	400,000	67,242
City Planning/Comm. Investi.	133,200	133,200	-
Comm & Legislative Service	149,000	149,000	-
TOT Fund Administration	436,356	460,000	23,644
TOTAL	**$ 9,804,941**	**$ 9,761,965**	**$ (42,976)**

Storm Water Department

The Mayor's FY 2011 Proposed Storm Water Department Budget totals $35.4 million, which is a decrease of $2.3 million from the FY 2010 budget of $37.7 million. The proposed revenue budget totals $9.1 million.

December 2009 Approved Adjustments

The adjustments taken in December 2009 for FY 2011 include $2.5 million in the contracts category. Despite these reductions the Storm Water Department indicated they would remain in compliance with the current Municipal Storm Water Permit.

Mayor's FY 2011 Proposed Adjustments

While reductions were made in contract accounts consistent with the December adjustments, there were areas within the contracts category that increased in the proposed budget. One included $2.2 million in "City Services Billed." This account is used for certain Service Level Agreements (SLAs). In the past, amounts budgeted for SLA amounts for low flow diversion and convention center dewatering with the Public Utilities Department were not sufficient based on actual activity. The current amount is a more accurate projection of FY 2011 expenses under the SLA.

There was also a decrease of approximately $600,000 in the "Other Expenditures" category. This includes a reduction for a one-time expense of $959,000 that was used for a Capital Improvement Project in FY 2010. Also, $395,000 was added to the transfer to provide funding for the Deferred

SUMMARY OF STORM WATER BUDGET CHANGES

	FTE	PE	NPE	Total	Revenue
Fiscal Year 2010 Budget	120.00	$ 10,111,383	$ 27,539,865	$ 37,651,248	$ 9,109,240
Mayor's Fiscal Year 2011 Proposed Budget Changes					
Salaries & Wages (incl. hourly conversion)	1.82	16,617		16,617	
- FY 2010 Vacancy Factor Restoration		234,355		234,355	
- Positions Unfunded due to Vacancies (11.00 FTEs)		(545,460)		(545,460)	
- Salary Reductions/Savings/Furlough		(122,204)		(122,204)	
Fringe Benefits (incl. Retirement ARC)		735,832		735,832	
Supplies				-	
Contracts			(1,890,935)	(1,890,935)	
- Motive Equipment/Fleet			(431,145)	(431,145)	
Information Technology			52,199	52,199	
Energy & Utilities			250,893	250,893	
Other			(563,992)	(563,992)	
Capital Expenditures			(22,523)	(22,523)	
Revenue for safety/maintenance of visitor-related facilities				-	(959,149)
Revised Revenue Projections				-	966,767
Subtotal	1.82	319,140	(2,605,503)	(2,286,363)	7,618
Mayor's Fiscal Year 2011 Proposed Budget	**121.82**	**10,430,523**	**24,934,362**	**35,364,885**	**9,116,858**
Difference from 2010 to 2011	*1.82*	*$ 319,140*	*$ (2,605,503)*	*$ (2,286,363)*	*$ 7,618*

Capital bond payment, related to the recent bond financing.

An addition of $250,000 is included in the electricity account located in the Energy and Utilities category. When the Storm Water Department was formed at the beginning of FY 2009, an energy account was not established for the storm water pump stations until after the Energy Division projected the budget for FY 2010. Previously, Storm Water reimbursed General Services for the pump station energy expenses.

The FY 2011 budget includes $545,460 in salary savings based on removing salaries for 11.00 positions that were vacant as of December 2009. If departments identify a need to fill one of these "held" vacancies they will need to identify savings elsewhere in their department budget to do so.

The proposed budget also includes an increase of 1.82 FTE. This is attributable to the adjustment of hourly and temporary wage personnel to full-time equivalent positions.

This department is also discussed in the Significant Funding area section on page 42.

Other Departments

Airports

The FY 2011 Proposed Budget for the Airports Division is $3.3 million, an increase of $244,000 from the FY 2010 Budget. Revenues are budgeted at $4.4 million, reflecting a $1.0 million decline from FY 2010. This reduction is primarily due to the anticipated termination of a commercial lease in July 2010.

Ethics Commission

The FY 2011 Proposed Budget for the Ethics Commission is $897,465, a less than 1% increase from FY 2010. In addition, the Ethics Commission's proposed budget reflects a reduction of 1.00 City Attorney Investigator position. This position was taken as part of the December 2009 reductions.

Ethics Commission staff has stated that they have generally been able to maintain delivery of its core services despite the loss of the Investigator position. However, due to the reduction of the Investigator position and the reduction of an Associate Management Analyst in FY 2010, the Commission is seeing some impacts to services including investigations taking a longer period of time to complete.

Office of the Assistant COO

The FY 2011 Proposed Budget for the Office of the Assistant COO is $311,955, a $214,287, or 41% decrease from FY 2010. The FY 2011 Proposed Budget continues the December 2009 reductions of 1.00 Program Manager and 1.00 Executive Secretary and Non-Personnel Expenses for a total of $194,105.

Office of the Chief Financial Officer

The FY 2011 Proposed Budget for the Office of the Chief Financial Officer (CFO) is $913,894, an increase of $34,421 or 3.9% over FY 2010. The budget for the Office of the CFO is comprised of three positions, including the CFO, an Executive Secretary, and a Resource Development Officer.

The FY 2011 Proposed Budget continues the December 2009 reductions reducing equipment outlay by $1,000, and further reductions have been made in contracts ($7,100) and travel/training ($15,000).

Revenue to be received by the General Fund has been reduced by $150,000 to $350,000.

Office of the IBA

The FY 2011 Proposed Budget for the IBA is $1.6 million, a $166,335, or 11% increase from FY 2010. The FY 2011 Proposed Budget does not include any significant modifications from FY 2010.

Office of the Mayor and COO

The FY 2011 Proposed Budget for the Office of the Mayor and COO is $754,628, a $112,394, or 18% increase from FY 2010. The FY 2011 Proposed Budget does not include any significant modifications from FY 2010.

Public Works

The FY 2011 Proposed Budget for Public Works is $336,689, an increase of $22,282 or 7% over FY 2010. The budget for Public Works is comprised of 1.50 FTEs, including the Deputy Chief and 0.50 Executive Secretary.

The FY 2011 Proposed Budget continues the December 2009 reductions reducing non-personnel expenses by $10,000.

Redevelopment Agency

The Redevelopment Agency of the City of San Diego was created by the City Council in 1958 to alleviate conditions of urban blight in designated areas of the City.

The Redevelopment Agency is a separate, legal entity, with the City Council serving as the legislative body. Redevelopment activities in 17 different project areas are carried out by the City Redevelopment Division, and two public, nonprofit corporations, Centre City Development Corporation (CCDC) and Southeastern Economic Development Corp. (SEDC).

The City Redevelopment Division manages 11 project areas throughout San Diego. The Redevelopment Division of the City Planning and Community Investment Department serves as staff to the Agency with duties that include coordinating budget and reporting requirements.

CCDC administers two project areas centered in Downtown San Diego, and SEDC administers four project areas and one study area that covers several neighborhoods in the southeastern portion of the City.

FY 2011 RDA Budget (in millions)	City	CCDC	SEDC	TOTAL
REVENUES				
Tax Increment - Non-Housing (80%)	$ 35.9	$ 100.2	$ 4.5	**$ 140.6**
Tax Increment - Housing (20%)	9.0	25.1	1.1	**35.2**
Bond Proceeds/Lines of Credit	0.0	0.0	1.7	**1.7**
Developer Proceeds/Advances	0.4	1.8	0.0	**2.2**
Interest, Lease, Notes, Other	0.4	11.6	0.0	**12.0**
Prior Year Revenues	0.8	15.9	3.4	**20.1**
TOTAL REVENUES	**$ 46.5**	**$ 154.6**	**$ 10.7**	**$ 211.8**
EXPENDITURES				
Capital Projects	$ 12.7	$ 45.5	$ 1.7	**$ 59.9**
Low/Mod Project Activities	6.4	15.6	2.4	**24.4**
Tax Sharing Payments	13.1	25.1	1.0	**39.2**
FY 2011 ERAF Payments	*2.8*	*8.2*	*0.5*	**11.5**
Administration/City Services	5.2	10.8	2.0	**18.0**
Payments to City	1.0	13.3	0.3	**14.6**
*CDBG Repayment**	*1.0*	*2.0*	*0.3*	**3.3**
PETCO Park Debt Service	*0.0*	*11.3*	*0.0*	**11.3**
Debt Service	8.1	44.3	3.3	**55.7**
TOTAL EXPENDITURES	**$ 46.5**	**$ 154.6**	**$ 10.7**	**$ 211.8**

** The FY 2011 Proposed Budget for the City Redevelopment Division project areas reflects the CDBG payment in the Debt Service category.*

The Fiscal Year 2011 Proposed Budget for the Redevelopment Agency is $211.8 million, and includes $59.9 million for non-housing capital projects, $24.3 million for affordable housing project, and $18.1 million in administrative expenditures and payments for City services.

The Proposed Redevelopment Agency Budget also includes funding for the FY 2011 ERAF payments, as well as anticipated CDBG loan repayments amounts. Citywide, these payments in FY 2011 are anticipated to be $11.5 million and $3.3 million, respectively. It should be noted that the Council and Redevelopment Agency have yet to formally approve the CDBG Loan Repayment agreement, as required by the Office of Inspector General's audit of the City's CDBG program. It is anticipated that this agreement will be coming forward for Council and Agency approval in May 2010.

The budget reviews in the sections that follow are based on the most recent budgetary information, which may have been amended from the budget data reflected in Volume I of the FY 2011 Proposed Budget Document.

City Redevelopment Division

The Fiscal Year 2011 Proposed Budget for the City Redevelopment Division is $54.7 million, reflecting a net reduction of $8.2 million from the FY 2010 Adopted Budget. This reduction is driven primarily by a $1.6 million decline in tax increment revenues and a $5.0 million reduction in revenue drawn from lines of credit.

Due to the reduction in revenues, the budget for capital projects and affordable housing projects have been reduced as well. The proposed budget for non-housing capital projects is $12.7 million, a reduction of $5.6 million from FY 2010. Affordable housing projects are budgeted at $6.4 million, a $2.3 million reduction from FY 2010.

The administration budget for the City Redevelopment Division is $5.4 million, including $1.3 million for payments for City services. The proposed budget for administration reflects an increase of approximately $400,000 from the FY 2010 Budget, primarily due to increases in fringe benefit expenditures.

The FY 2011 Proposed Budget also includes the City Redevelopment Division's share of the FY 2011 ERAF payment, and anticipated CDBG loan repayment amounts, at $2.8 million and $1.0 million, respectively.

Issues to Consider

In FY 2010, 1.00 Financial Operations Manager was added to the Redevelopment Division's budget in order to support budget and fiscal monitoring of Agency-related activities, continuing bond disclosures, internal control oversight, and bond proceeds monitoring. However, the position was never filled and remains vacant.

Per the new budget procedure regarding vacant positions, no funding has been included in the City's FY 2011 Proposed

Budget for this position. However, Agency staff have confirmed that funding is available and included in the Agency's budget, and that this position is anticipated to be filled in FY 2011.

Centre City Development Corporation

The FY 2011 Proposed Budget for the CCDC is $154.6 million, a decrease of $4.9 million from the FY 2010 Adopted Budget. Tax increment revenues are budgeted at $125.3 million, an $8.2 million reduction from FY 2010, while revenues from interest earnings reflect a reduction of $6.1 million from FY 2010. These declines in revenue are partially offset by a $13.6 million increase in prior year revenue.

The proposed budget for non-housing capital projects is $45.5 million, a $10.6 million decrease from FY 2010. Affordable housing projects are budgeted at $15.6 million, a $1.9 million reduction. Tax sharing payments are budgeted at $25.2 million, a $6.1 million increase from FY 2010. This increase primarily reflects CCDC's share of the FY 2011 ERAF payment of $8.2 million.

The FY 2011proposed administrative budget for CCDC is $10.8 million, including $2.2 million for payments for City services and $1.4 million for other administrative expenses, such as insurance, audit expenses and county administration fees. The budget for administration reflects a decline of approximately $532,000, primarily related to the elimination of 5.75 positions in the current year. One new position, a Contract Administrator, was added to the FY 2011 Proposed Budget, resulting in a net reduction of 4.75 positions.

Other payments to the City, including the $11.3 million for the PETCO Park Bonds and $2 million for the estimated CDBG repayment, are also reflected in FY 2011 Proposed Budget.

Issues to Consider

The FY 2011 Proposed Capital Projects Budget for project areas managed by CCDC includes approximately $2.5 million for economic development programs, including $1.5 million in FY 2011 funding. CCDC's FY 2011 work program for economic development includes acquiring or leasing a building for a small business incubator program, and developing a comprehensive Economic Development and Business Attraction program. We encourage CCDC to align the development of such a comprehensive Economic Development program with the City's effort to update the Economic Development Strategy to ensure consistency and coordination of economic development programs and goals.

Southeastern Economic Development Corpora-

The FY 2011 Proposed Budget for SEDC is $10.7 million, a reduction of nearly $4.5 million from the FY 2010 Adopted Budget. Total tax increment revenues are budgeted at $5.6 million, a reduction of approximately

$1.2 million from the FY 2010 Adopted Budget. It should be noted that the FY 2010 Budget was amended in September 2009 to reduce projected tax increment revenues as a result of continued weakness in the real estate markets. Compared to the FY 2010 Amended Budget, tax increment revenue in the FY 2011 Proposed Budget reflects a reduction of approximately $490,000.

The proposed budget for non-housing capital projects is $1.7 million, a reduction of $3.1 million from the FY 2010 Adopted Budget. Affordable housing projects are budgeted at $2.4 million, a reduction of $1.7 million from FY 2010. The budget for tax sharing payments reflects a $57,000 reduction to $566,000.

SEDC administrative costs, including payments for City services, is budgeted at $2.0 million, a reduction of approximately $536,000 from the FY 2010 Budget. This reduction is primarily due to the elimination of 5.50 positions in the current year as a result of declining revenues.

The FY 2011 Proposed Budget also includes SEDC's share of the FY 2011 ERAF payments and estimated CDBG loan repayment to the City. These amounts are budgeted at $476,000 and $312,000, respectively.

It should be noted that the time of this writing, the SEDC Board had not yet approved the FY 2011 Proposed Budget. However, the Board is scheduled to take action on the Proposed Budget at the April 28 meeting.

Issues to Consider

On January 12, 2010, SEDC presented their Preliminary Strategic Plan to the Redevelopment Agency. The development of a Strategic Plan was a key recommendation of the performance audit conducted in 2008 by the Macias Consulting Group. The Strategic Plan is being developed to shift the direction and focus of SEDC redevelopment and economic development activities, and to plan and execute the best strategy for the use of assets and strengths.

Some of the key recommendations of the Strategic Plan include:

- Merging the project areas and expanding the territory;
- Creating one consolidated Project Area Committee; and
- Focusing on market-rate projects in order to stimulate tax increment growth.

Many of the strategies and recommendations in the Strategic Plan are likely to have a positive impact on SEDC's financial outlook, and we encourage that it be presented to the Agency Board as soon as possible. The Strategic Plan is currently scheduled to be presented to the SEDC Board on April 28.

San Diego Data Processing

The Fiscal Year 2011 Budget of the San Diego Data Processing Corporation (SDDPC) was approved by its Board of Directors on March 25, 2010. The SDDPC Budget is developed based on the Information Technology needs and requirements of all City Departments, and to a lesser degree, other non-City customers.

The FY 2011 Budget for SDDPC totals $39.6 million, a decrease of $5.6 million or 12.4%, and a reduction of 47 positions, compared to FY 2010. City funding to SDDPC (including OneSD and SDCERS) represents approximately 91%.

The City has begun efforts to seek competitive bids for the services currently provided by SDDPC, and City Council approval was recently obtained for the award of the Help Desk & Desktop Support functions to En Pointe Technologies, Inc. for FY 2011. These competitive efforts are expected to reduce City IT costs, and were contemplated as part of the FY 2011 budget development.

The FY 2011 SDDPC Budget is based on SDDPC no longer providing Help Desk & Desktop Support Services to the City.

In total, the costs budgeted for FY 2011 for Information Technology needs across all General Fund Departments are $5.3 million less than amounts budgeted for FY 2010, exceeding the December 2009 Adjustment of $3 million.

SUMMARY OF SDDPC BUDGET CHANGES

	FY 2010	FY 2010 PROJECTED	FY 2011 PROPOSED	Budget Change
Personnel (FTEs)	280	272	233	(47)
Salaries & Wages	20,230,000	20,631,000	17,608,000	(2,622,000)
Overtime	166,000	207,000	131,000	(35,000)
Fringe Benefits	6,604,000	6,255,000	6,120,000	(484,000)
Subtotal	*$ 27,000,000*	*$ 27,093,000*	*$ 23,859,000*	*$ (3,141,000)*
Non-Personnel				
Data/Voice Ciruits & Lines	4,556,000	4,424,000	4,002,000	(554,000)
Professional Services	1,457,000	2,236,000	1,079,000	(378,000)
Equipment & Software Maintenance	5,367,000	5,040,000	4,921,000	(446,000)
Depreciation	4,985,000	4,538,000	3,996,000	(989,000)
Facilities	1,092,000	1,021,000	1,135,000	43,000
Supplies & Others	770,000	716,000	632,000	(138,000)
Subtotal	*$ 18,227,000*	*$ 17,975,000*	*$ 15,765,000*	*$ (2,462,000)*
TOTAL	**$ 45,227,000**	**$ 45,068,000**	**$ 39,624,000**	**$ (5,603,000)**

San Diego Housing Commission

The FY 2011 Proposed Budget is $291.7 million, a decrease of $28.3 million, or 8.9%, from the current FY 2010 budget. It includes the addition of 4.00 FTE positions for a total of 261.40 FTE positions in FY 2011. The Housing Commission recommended adoption of the Fiscal Year 2011 Budget on March 19, 2010. It is expected that as in the past, recommendations for the approval of additional revenues and expenditures will be brought forward to the Housing Authority and the budget will be amended throughout the upcoming fiscal year as necessary.

The Housing Commission budget is organized into four activity groups - Housing Services and Special Initiatives, Real Estate, Operations, and Reserves - supported by a variety of restricted and unrestricted revenues. Expenditures within these activity groups are allocated within the categories of Salaries and Benefits, Services and Supplies, Housing Programs, and Reserves.

The table below provides comparison between the FY 2011 Proposed Budget and previously approved FY 2009 and FY 2010 Budgets and illustrates changes in revenue and expenditures from year to year.

Significant Budget Adjustments

Following is a review of major changes in expenditures and revenue, followed by a description of these changes by activity group from FY 2010 to FY 2011.

Expenditure Changes

The FY 2011 Proposed budget includes the following significant expenditure changes:

- $806,998, or 4%, increase in Salaries and Benefits, includes:
  - An increase of $892,246 in salaries resulting from the addition of 4.00 FTE positions totaling $265,886, the reclassification of 18 positions at an increase

FISCAL YEAR 2011 PROPOSED BUDGET SUMMARY

	FY09*	% of Total	FY10 Current	% of Total	FY11 Proposed	% of Total	Change from FY10 to FY11	% Change from FY10 to FY11
Revenue								
Restricted	**$240.3**	80%	**$268.4**	84%	**$254.1**	87%	($14.3)	-5.3%
Unrestricted	**$60.6**	20%	**$51.7**	16%	**$37.6**	13%	($14.0)	-27.2%
TOTAL REVENUE	**$300.9**	**100%**	**$320.1**	**100%**	**$291.7**	**100%**	**($28.3)**	**-8.9%**
Expenditures								
Salaries and Benefits	**$18.7**	6%	**$20.1**	6%	**$20.9**	7%	$0.8	4.0%
Services and Supplies	**$10.2**	3%	**$13.8**	4%	**$13.1**	5%	($0.6)	-4.5%
Housing Programs	**$236.5**	79%	**$249.3**	78%	**$228.0**	78%	($21.4)	-8.6%
Reserves	**$35.5**	12%	**$37.0**	12%	**$29.8**	10%	($7.2)	-19.4%
TOTAL EXPENDITURES	**$300.9**	**100%**	**$320.1**	**100%**	**$291.7**	**100%**	**($28.3)**	**-8.9%**

* FY 2009 Current Budget at time of FY 2010 Adoption

of $62,847, annualization of salaries at an increase of $186,963, and a recalculation of salaries based on movement along the step plan at an increase of $376,550. These increases are offset by a reduction of a reserve previously budgeted for increases or bonuses at $351,183, a reduction of $2,112 for overtime, and a reduction of $6,482 for vacancy factor. In all, the salary expenditures have increased by $532,469.

  - An increase of $274,529 in benefits includes an increase of $204,561 in flexible plan benefits and includes benefits budgeted for new positions.

- $620,524, or 4.5%, decrease in Services and Supplies includes:
  - An increase of $123,000 in legal services
  - A decrease of approximately $1.6 million in contracts/consultants
  - An increase of $929,334 in management fees associated with the management of SDHC-owned properties
- $21.4 million, or 8.6%, decrease in Housing Programs includes:
  - An increase of $4.9 million to provide debt service and replacement reserves
  - An increase of $4.3 million in rent to owners
  - A decrease of $18.5 million in loans and grants
  - A decrease of $11.8 million in site acquisition and housing development
- $7.2 million, or 19.4%, decrease in Reserves includes:
  - A decrease of $859,626 in program reserves
  - An increase of $1.1 million in contingency reserves
  - A decrease of $7.4 million in unobligated reserves

Revenue Changes

The Housing Commission budget has over 80 different sources of revenue. Approximately 75%, or $219 million, of revenues are federal, 24%, or approximately $70.6 million of revenues are local San Diego revenues and the remaining 1%, or $2.2 million, are State revenues.

The net decrease of $28.3 million in revenues includes:

- A decrease of $926,965 in Community Development Block Grant funds
- An addition of $662,000 in Emergency Shelter Grant funds
- A decrease of approximately $9.7 million in HOME federal grant funding
- A decrease of approximately $1.1 million in Housing Trust Funds
- A decrease of approximately $5.5 million in HUD Lead Hazard Control Grant
- A decrease of approximately $8.0 million in Neighborhood Stabilization Program (NSP) funds
- A decrease of approximately $4.1 million in Public Housing funds
- An increase of $4.2 million in Section 8 Programs revenues

The City Commercial Linkage Fee is a source of revenue for the Housing Trust Fund. The Housing Commission is currently in the process of issuing two RFPs for the completion of an updated Linkage Fee nexus study and a study of alternative ways to pursue funding for affordable housing in San Diego. Most recently, Housing Commission staff presented an update on the Linkage Fee nexus study RFP process at the April 22, 2010 meeting of the Citizens' Revenue Review and Economic Competitiveness Commission.

I. Housing Services and Special Initiatives Activity Group

Previously titled Housing Services, this activity group was revised in FY 2010 to include Special Initiatives, to enhance the administration of U.S. Department of Housing and Urban Development (HUD) programs. In FY 2011, this activity group will include the administration of the City's annual winter shelter program. Overall, the Housing Services and Special Initiatives Activity Group is proposed to increase by approximately $6.1 million, or 3.4%, in FY 2011.

The Rental Assistance Activity is proposed to increase by $3.9 million in Housing Programs expenditures due to an increase in federal rent to owners funds.

The Workforce and Economic Development Activity is proposed to decrease by approximately $346,000 due to a reduction to commitments for office rent, equipment expenditures and other costs associated with the Economic Development Academy incurred in FY 2010.

The Special Housing Initiatives Activity is set to increase by approximately $2.6 million in housing programs expenditures – the result of an increase of $268,000 in rent to owners revenue and an increase of $2.3 million in loans and grants. Two positions will be transferred from the Special Housing Initiatives Activity to the Board and Executive Functions Activity within the Operations Activity Group and 1.00 FTE Senior Program Analyst position will be added at a cost of approximately $91,000 to assist with the administration of the City's winter shelter program and the Cortez Hill Family center.

II. Real Estate Activity Group

This activity group, previously titled Housing Development and Finance, was restructured to improve the focus on developing affordable housing. As a result, all development functions have been reorganized into the Real Estate Activity Group.

The Real Estate Activity Group is slated to decrease by $24.7 million, or 28.3%, in FY 2010 – largely due to significant reductions in Housing Programs expenditures.

Within the Rental Housing Development Activity, major changes for FY 2011 include the addition of 2.00 FTE Assistant Real Estate Manager positions, resulting in an increase of $218,504 in salaries and benefits. This addition is associated with the new finance plan for the acquisition and development of additional housing units approved by the Housing Authority in October 2009.

Rental Housing Finance Activity is budgeted at a reduction of approximately $7.6 million, largely due to a reduction of $7.3 million in HOME funds.

The Homeownership Activity is budgeted to decrease by approximately $1.4 million, largely the result of a decrease of approximately $1.4 million in housing programs revenue.

A reduction of $7.6 million in Rental Housing Rehabilitation Activity is largely the result of a decrease of $2.2 million of federal Lead Grant funds from FY 2010, $3.0 million less in HOME funds and $2.4 million less in Community Development Block Grant funds.

A decrease of $4.6 million in the Owner Occupied Rehabilitation Activity is the result of a decrease of $2.1 million due to loan and grants funds commitment of Redevelopment Agency funds, a decrease of $1.9 in NSP funds, and a decrease of $600,000 in Lead Grants funds.

An increase of approximately $619,000 in the Management Subactivity of the Property Management Activity is largely the result of an increase of $890,000 in supplies and services due to the addition of management fees for the operation of SDHC-owned properties.

III. Operations Activity Group

The Operations Activity Group is budgeted to decrease by $2.5 million, or 15.8%, in FY 2011.

The Board and Executive Functions Activity will be expanded in FY 2011 with the addition of a new policy unit, charged with policy development of new initiatives such as Transportation Oriented Development and workforce housing. This policy unit will be supported by the transfer in of 2.00 FTE positions from Special Initiatives Activity.

The Business Services Activity includes the addition of 1.00 FTE Contract Analyst position at a cost of approximately $79,900. This position will be tasked with responsibilities associated with the administration of homeless shelter contracts.

IV. Reserves Activity Group

In FY 2011, the Reserves Activity Group totals $29.8 million, or 10% of the total agency budget – an overall decrease of $7.2 million, or 19.4%, from FY 2010.

Unobligated Reserves are budgeted at $9.4 million, or 3.22%, of the FY 2011 Proposed Budget. A decrease of $7.4 million in Unobligated Reserves is the result of:

- An increase of $4.6 in carryover and new funds
- A decrease of $5.7 million due to a transfer to support various administrative expenses due to less HOME, HTF Linkage Fees and Inclusionary fund revenue previously used to support these functions.
- A decrease of $4.9 million due to a transfer to Rental Housing Development for the annualization of debt service related to the new finance plan.
- A decrease of $1.1 million due to a transfer to contingency reserves.
- A decrease of $380,000 as a result of a transfer to support winter homeless shelter and other homeless activities within Special Housing Initiatives.

As in our past reviews of the Housing Commission budget, the IBA continues to recommend the budgetary best practice of maintaining an Unobligated Reserve level of at least 5% of the total budget. We recommend that the Unobligated Reserves be replenished to the 5% level if additional funding is realized throughout the year.

Winter Shelter Program and Comprehensive Homeless Facility

As in previous years, FY 2011 budget includes approximately $400,000 in funding for the operation of the City's annual winter shelter facility within the Special Housing

Initiatives Activity. Moreover, as detailed above, the Housing Commission is taking steps to assume responsibility for administering both the winter shelter and the Cortez Hill Family Center program. Details regarding this administrative transition were presented at the April 21, 2010, Meeting of the Land Use and Housing Committee, at which time the Committee voted to forward to Council the proposal to enter into a two-year Memorandum of Understanding between the City and the Housing Commission authorizing the Housing Commission to administer City contracts related to homeless services. This agreement would allow for the Housing Commission to directly receive Emergency Shelter Grant funds, as noted above to be budgeted at $662,000 for FY 2011.

On April 3, 2009, the City issued a Request for Proposals (RFP) for the development and operation of a service center serving homeless and extremely low income individuals. On April 21, 2010, at the Meeting of the Land Use and Housing Committee, the RFP Selection Committee, headed by Housing Commission staff, presented its recommendation to enter into an exclusive negotiation agreement with PATH/Affirmed as the developer and operator. The Committee voted to direct the proposed developer, PATH/Affirmed, to return to Land Use and Housing after 90 days to allow for the conduct of additional public outreach.

Finance Plan and Capital Improvement Budget

On October 13, 2009, the Housing Authority approved the SDHC Finance Plan for the Acquisition of New Affordable Housing Units. At that time, our office suggested adding a Capital Improvement Program (CIP) budget to the Housing Commission annual budget and it has been included as an addendum to the FY 2011 Proposed Budget.

The proposed CIP Budget for FY 2011 totals approximately $57.2 million in Total Uses of Funds for the acquisition/development of 538 housing units. This includes $10.8 million of funds budgeted for anticipated public/private partnerships and $46.0 million budgeted for yet to be identified projects to be owned solely by SDHC or in partnership with other public agencies such as CCDC or SEDC. Additionally, $350,000 is budgeted for closing/legal costs.

An annual update on the status of the Finance Plan is expected at the July 20, 2010 meeting of the Housing Authority.

Housing Authority Budget Consideration Process

The Housing Commission is scheduled to present the SDHC FY 2011 Proposed Budget for Housing Authority consideration on May 18, 2010.