
OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

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IBA Report Number: 10-44

Budget and Finance Committee and City Council Meeting Date: May 26, 2010

Item Number: 3

Update on Council Recommendations for Financial Reform and Elimination of the City's Structural Budget Deficit

OVERVIEW

In June 2009, the Council adopted a list of thirty-one items described as Fiscal Reforms to be pursued for FY 2010.

In December 2009, the City Council adopted budgetary solutions for FY 2010 and FY 2011. At that time, the Council directed that the Mayor, IBA, and Council develop and implement a strategic plan designed to eliminate the structural budget deficit within the next 18 months. The Council also adopted the IBA's recommendations 2 through 24, as outlined in IBA Report No. 09-90.

In response to Council direction, on January 4, 2010 the IBA issued Report No. 10-01, "Developing a Structural Budget Deficit Elimination Plan" which proposed a set of guiding principles and key components deemed necessary to effectively address a structural budget deficit. On January 6, 2010, Budget and Finance Committee Chair Young requested Councilmembers provide memos by January 25, 2010, detailing ideas and suggestions for incorporation in the plan.

On February 22, 2010, the Council adopted the amended Guiding Principles, after considering additional input from the Mayor's Office and the Independent Budget Analyst. In April 2010, the IBA prepared a timetable for the development of the plan, which targets completion of the many areas and issues to be resolved as part of the plan in Fall 2010, and the Mayor has also committed to the development of a plan in the Fall.

FISCAL/POLICY DISCUSSION

The IBA has prepared a revised matrix (attached), combining the various inputs which are described below, and a description of the status of each item has been included.

Council Fiscal Reforms (#1-31)

On July 15, 2009, the IBA distributed a revised FY 2010 Council Fiscal Reforms Matrix. The Council Fiscal Reforms are comprised of Council ideas culled during the FY 2010 budget development process and adopted by the Council on June 8, 2009 by Resolution R-304958. Thirteen of the 31 items in the matrix have been completed and four items are partially completed. Nine items are actively underway. Many of these items are directly related to work that will be helpful as part of a Structural Budget Deficit Elimination Plan.

Structural Reforms Previously Adopted by the Council (#32-38)

In December 2009, the City Council approved the adoption of the IBA's recommendations 2 through 24, as outlined in IBA Report No. 09-90. Recommendations 18 through 24 were categorized as Structural Reforms, and are related to many of the areas that will need to be addressed as part of a Structural Budget Deficit Elimination Plan. Three of these items have been completed and four are currently underway.

Councilmember Memos on Structural Budget Deficit Elimination Plan (#39-88)

On January 6, 2010, Budget and Finance Committee Chair Young requested Councilmembers provide memos detailing ideas and suggestions for incorporation in the plan. The remaining 50 items listed in the attached matrix reflect the items described in these memos. The majority of these items focus on reforms similar to those identified in items #1-38 and reflect the same status as noted for those items.

[SIGNED]

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Independent Budget Analyst

Attachment

#	FY 2010 Fiscal Reforms from Council Ideas (as Adopted by City Council on June 8, 2009-R-304958 -includes Ongoing Items from FY 2009 IBA Policy Matrix)	Completed?	Status
1.	Work with the City Council to establish a Citizens Revenue Review and Economic Competitiveness Commission.	X	Established in December 2010, final report and recommendations expected August 2010.
2.	Complete and implement all Business Process Reengineering studies.	Underway	Update of all BPR's being prepared by ACOO for July 2010 BFC meeting.
3.	Complete comprehensive review of all existing funds including their legal bases, current and planned uses and fund balances.	Underway	Review was started last year as part of FY 2009 close-out. More than 100 funds were closed benefitting the General Fund by \$2.2 million. City Comptroller indicates funds review is ongoing and will be a multi-year process.
4.	Review with City Council any reassessments under consideration for City's reserve goals for the following funds: Public Liability, Worker's Compensation, and General Fund.	X	Goals were reassessed, discussed with Council and incorporated into FY 2011 Proposed Budget. Revisions to Reserves Policy need to be brought to BFC and City Council.
5.	Complete and bring forward to Council the results of the Development Services Department fee study and recommendations.	X	Fee increases were approved by Council in October 2009 and went into effect January 2010.
6.	Implement reforms to strengthen oversight of independent agencies including SEDC, CCDC and SDDPC.	X	New operating agreements were approved by Redevelopment Agency and Council for all entities in
7.	Address fiscal structural problems of the Refuse Disposal and Recycling Funds.	X	Council approved fiscal mitigation package including fee restructuring in April 2009; reserves have been established in FY 2011 budget; five year outlook is in development.
8.	Consider implementation of a zero-base budget review for equipment outlay requests and an expenditure cap for consultant contracts.	Partial X	FM incorporated a zero-basereview into FY 2011 budget process. However, expenditure cap was not implemented for contracts. Reviews ongoing.
9.	Report results of all deferred maintenance assessments to Council upon their completion. Determine causes for delays in completion of deferred maintenance/capital projects and develop recommendations for improvements.	Partial X	Results of assessments were recently reported to BFC. Funding formula to be presented to BFC in June 2010. Engineering audit requested by Councilman Gloria not yet undertaken.
10.	Develop and adopt a "Budget Policy" to provide agreed upon principles and best practices for annual budget monitoring and development.	X	Budget Policy was adopted by the City Council on October 26, 2009.
11.	Develop recommendations for achieving cost recovery for professional sports teams and others who utilize Petco Park and Qualcomm Stadium.	Partial X	The City has taken several actions to increase cost recovery levels, such as adopting a more favorable occupancy agreement with San Diego State and increasing the commercial special events rate for police services. Further increases in cost recovery would likely require re-negotiation of the agreements with the Padres and Chargers.
12.	Complete processes necessary to allow managed competition decisions to move forward.	Underway	Negotiations regarding Managed Competition Guide and Ordinance are in progress.
13.	Work with Council to undertake a citizen survey to gather scientifically random data on citizen prioritization and satisfaction of City services.	X	Results of Citizen Survey on City services and budget solutions were presented to the City Council in April 2010.
14.	Present the results of Real Estate Assets' Portfolio Management Plan to Committee and Council.	X	The Real Estate Assets Management Portfolio Plan was presented to the Land Use and Housing Committee on February 3, 2010.
15.	Explore ways to expand commercial marketing and increase City resources using City facilities, vehicles, and publications.	Underway	Options and legal issues are being explored by the Citizens' Commission as well as Councilmember De Maio.

#	FY 2010 Fiscal Reforms from Council Ideas (continued)	Completed?	Status
16.	Request the IBA and Mayor's Office provide cost information on completed FY 2009 ADA projects. Based on information provided, consider reducing FY 2010 funding for ADA projects consistent with FY 2009 total project costs.	X	FY 2011 ADA funding has been suspended due to reduced land sales. FY 2008-2010 projects are moving forward, most are in planning/design phase.
17.	Undertake study to determine cost neutrality of DROP as required by the Municipal Code.	Underway	DROP neutrality study is underway by Buck Consultants, completion is expected in June 2010. Labor has been involved in planning meetings.
18.	Identify the status and uses of a 2006 \$2.2 million Energy Efficiency Loan and identify any other outstanding grants or loans awarded to the City but not utilized.	X	Generally, grants and loans are multi-year. ESD is not aware of outstanding grants or loans not utilized.
19.	Review and recommend scheduling reforms for trash pick-up and collections by the Environmental Services Department.	X	New 4/10/5 work schedule as recommended by labor will be implemented in July 2010 resulting in significant savings in the FY 2011 budget.
20.	Request the City Auditor to conduct a Revenue Audit of all City revenue sources.	X	Revenue Audit completed and presented to Audit Committee and City Council April 2010. Follow-up is underway.
21.	Request the Mayor and City Auditor to study transferring the Revenue Audit and Appeals Division of the City Treasurer's Office to the Office of the City Auditor, and undertake a performance audit of the tax audit	Underway	Review and analysis of this issue is currently underway. Will be revisited at June 2010 Audit Committee.
22.	Explore the feasibility of establishing a Retired Senior Volunteer Program (RSVP) for the Library Department.	Partial X	Library utilizes volunteers of all ages and backgrounds extensively to augment City services but does not focus specifically on retired seniors.
23.	Identify plan for financing of Public Safety facilities.		On hold due to economy, projected budget deficits, need to develop consensus on financing mechanisms.
24.	Provide updates on the use of Outside Counsel.	Underway	City Attorney has focused on significantly reducing reliance on Outside Counsel. Venue for systematic reporting has not been determined.
25.	Develop plan for Redevelopment Agency loan repayment to City, including terms of the agreement and impacts to the project area budgets, in accordance with HUD audit.	X	It is anticipated that the CDBG Loan Repayment Agreement will be presented to Council for final adoption in June 2010.
26.	Develop plan for QUALCOMM Stadium to become financially self-sufficient.		While the City has taken several measures to improve Qualcomm's financial position, such as adopting a favorable occupancy agreement with SDSU and refunding the Stadium Bonds, Qualcomm Stadium still requires significant TOT revenues for both debt service and operations.
27.	Comprehensively address the issue of homelessness, and explore development of permanent homeless shelter.	Underway	City issued a RFP for the development and operation of a service center for homeless and extremely low income individuals on April 3, 2009. The RFP Selection Committee presented recommendations at the April 21, 2010 Land Use & Housing Committee Meeting and the Committee voted to return in 90 days to allow for additional public outreach.
28.	Consider alternatives to Library Ordinance, which requires 6% of General Fund budget be allocated to library uses.		No alternatives have been proposed or considered. Ordinance has been waived since FY 2004.
29.	Develop a long-term strategic plan for the Environmental Growth Fund.		Environmental Growth Funds currently being used for reimbursement of eligible park maintenance activities. Any change would negatively impact General Fund.
30.	Explore the issue of Workers Compensation reform including a presentation on current and future programs to address this significant liability.		Risk Management may present Workers' Compensation information to the Budget Committee at its meeting in July 2010.

#	FY 2010 Fiscal Reforms from Council Ideas (continued)	Completed?	Status
31.	Track Assembly Bill 32, Greenhouse Gas Emission Reduction.	Underway	AB 32 has multiple components that various state agencies are in the process of implementing. However, it is anticipated that a proposition will be on the November ballot that will slow or suspend implementation of bill. The City is currently working with the State to clarify requirements of the bill.
#	Structural Reforms from IBA Report 09-90 "IBA Review of Mayor's Proposed FY 2010/2011 Budget Solutions"(Issued December 4, 2009):	Completed?	Status
32.	Chief Operating Officer provide date for completion and presentation to City Council on the DROP neutrality study.	Underway	See above.
33.	Mayor provide report to City Council on the work and timeline of the Mayor's Retiree Health Care Study Group which has been meeting since September.	Underway	Study expected to be completed by early summer 2010 with negotiations with labor groups to follow.
34.	The IBA is working with the City Attorney's office to evaluate issues related to pension and retiree health care matters.	X	The CA has status reports and continues to explore options.
35.	Complete managed competition negotiations.	Underway	See above.
36.	Mayor explore opportunities for implementing 4/10/5 work schedule in other work areas in light of the significant efficiencies demonstrated by the Environmental Services.	X	TBD
37.	Mayor initiate cost of service study for storm water operations and/or refuse collection to prepare for a future fee.	Underway	A cost of service study for storm water is underway and is expected to be completed by the end of calendar year.
38.	IBA review and update the Council-Approved Fiscal Reforms Matrix approved during FY 2010 budget process and present to the Budget and Finance Committee.	X	
#	Councilmember Structural Budget Deficit Elimination Plan Memos from December 2009	Complete?	Status
	<u>Council President Hueso</u>		
39.	DROP Neutrality Study and Retiree Health Care Study	Underway	See above.
40.	Complete Managed Competition negotiations	Underway	See above.
41.	SEDC consolidated into Redevelopment Agency		New operating agreements adopted, consolidation with RDA not yet pursued. Councilmember Emerald recently made similar request.
42.	Reduce supplies and Services	Underway	Reductions included in FY 2011 Proposed Budget. Review ongoing.
43.	Enhancing Revenues through Sale of City Properties		Sales of City properties have slowed as a result of the economic climate.
	<u>Councilmember Marti Emerald</u>		
44.	Provide Policy for Sale of Real Estate Assets to Council	X	Revisions to Council Policy 700-10, Disposition of City-Owned Real Property, were adopted by the City Council on September 16, 2008.
45.	Complete Managed Competition negotiations	Underway	See above.
46.	Status of BPRs	Underway	Update to be provided to BFC in July 2010.
47.	Additional Revenues, Sponsorships, Restructure City TV	Underway	See above. Also IBA currently reviewing City TV.
48.	County/State Duplication of Services		
49.	Discussions on City Service Priorities	X	Citizen survey on service prioritization and satisfaction completed and presented to Council.
50.	Address Structural Problems of Refuse Disposal and Recycling Funds	X	See above.
51.	Address City Use of Consultants	Underway	Zero-base review implemented in FY 2011 Budget Process. Review ongoing.
	<u>Councilmember DeMaio</u>		
52.	Replace One-Time Monies with Structural Reform Savings through:		
	-Managed Competition/Outsourcing	Underway	See above.
	-Redevelopment Funds	Underway	See above.

#	Councilmember Structural Budget Deficit Elimination Plan Memos from December 2009	Complete?	Status
	<u>Councilmember DeMaio (continued)</u>		
	-Marketing Partnerships	Underway	See above.
	-Performance Audits	Underway	Audit Committee adopts annual work plan.
53.	Pension Reform and Retiree Health Care Liabilities:	Underway	See above.
	-Address remaining SPSP in 2011 Negotiations	Underway	Pending future negotiations with DCAA and Local 127. MEA, Lifeguards and unrepresented employees have the choice of SPSP waiver or pay deduction.
	-Employee Offsets-Eliminate all by FY 2012	Underway	Offsets are eliminated for all bargaining units, except MEA and Teamsters. Some offsets remain for certain unrepresented employees and elected officials.
	-Retiree Health Care	Underway	See above.
54.	Promote Job Friendly Environment:		
	-Reject Tax and Fee Increases		
	-Commission on Economic Competitiveness	Underway	See above.
55.	Commit to Fiscal Recovery Reserve Account:		
	-Deposit revenues in excess of forecast from First Quarter Report into Reserve Account		No excess revenues available
	<u>Councilmember DeMaio and Councilmember Frye (Joint Memo)</u>		
56.	Finish Pension Reform for New Hires	Underway	FY 2010 items are completed except for imposed DROP changes to eligibility age (POA and Local 127). Ordinance pending Council approval in June/July 2010. Subsequent SDCERS 143.1 membership vote to take place approximately 3 months following Council approval of ordinance.
57.	Substantially Equal Cost Share for Normal Retirement Allowences	Underway	SDCERS alternatives under consideration by Board. Vote scheduled for May 28, 2010. Lawsuit filed against SDCERS May 2010 regarding substantially equal sharing of investment losses.
58.	Amend Charter Section 143.1	Underway	Referred to the City Attorney for further review.
59.	Eliminate Accrual of Pension Credits on Terminal Leave	Underway	Ordinance amending terminal leave for POA, Local 127 and unrepresented employees adopted by Council April 20, 2010. Pending future negotiations for remaining bargaining units.
60.	DROP Cost Neutrality Study	Underway	See above.
61.	Employee Offsets and SPSP	Underway	Offsets - see above. SPSP is eliminated for General Members hired on/after July 1, 2009 and for Lifeguards hired on/after January 1, 2011.
62.	Explore Legal Ruling in Pension	Underway	Vesting for COLA's and other pension benefits - see City Attorney Opinion 2010-1. "Voluntary opt-out model" - similar Orange County pension issues under review by the IRS.
	<u>Councilmember Tony Young</u>		
63.	Timeline with Outcomes for Structural Budget Deficit Plan	X	Timeline of September 2010 agreed to by Mayor and BFC.
64.	Leasing City owned Golf Courses and Airports		
65.	Managed Competition	Underway	See above. Also IBA currently reviewing City TV.
66.	Programs Removed from General Fund and Supported by Franchise Fees and Enterprise Funds		
67.	City Revenue Audit	X	See above.
68.	DROP Neutrality Study/Health Care Reform	Underway	See above.
69.	Consider Increased Revenues such as Beach Parking and Storm Water Fe	Underway	Under consideration by Citizens' Commission.
70.	CRRECC Recommendations on Attracting and Retaining Businesses	Underway	Under consideration by Citizens' Commission.
71.	Volunteerism	Underway	Continuously pursued by City departments.

#	Councilmember Structural Budget Deficit Elimination Plan Memos from December 2009	Complete?	Status
	<u>Councilmember Todd Gloria</u>		
72.	Regular updates to Council on BPRs	Underway	See above.
73.	Monitoring Service Level Impacts	Underway	Mayor to provide updated service level impacts resulting from December 2009 reductions to City Council by January 2011.
74.	Review all Special Funds/Revenue Audit	X	See above.
75.	Outside Contracts Review	Underway	Contract list now posted on website. Zero-based review for FY 2011. Review ongoing.
76.	Ensure Managed Competition Provides Services Economically, Efficiently while Maintaining Service Quality and Protecting Public Interest	Underway	See above.
77.	Pension Reform: Remain Competitive; Employees Fairly Compensated	Underway	See above.
78.	New Revenues	Underway	Under consideration by Citizens' Commission.
	<u>Councilmember Kevin Faulconer</u>		
79.	Outsourcing/Finalize Managed Competition Guide	Underway	See above.
80.	Reform Retiree Healthcare	Underway	See above.
81.	Implement City Auditor Recommendations	Underway	Centralized follow-up and monitoring procedures have been developed by City Comptroller working with City Auditor.
	<u>Councilmember Sherri Lightner</u>		
82.	Aggressive Timeline and Milestones for Structural Budget Deficit Elimination Plan	X	Plan to be issued September 2010
83.	Obtain Wide Variety of Input	Underway	Citizen survey completed, Citizen's Commission is actively meeting, numerous budget hearings and Council community meetings held.
84.	Standardize Contracts and Performance Measures	Underway	Business Office working on contract standardization.
85.	Full Cost Recovery for Appropriate City Services	Partial	Comprehensive user fee study completed and implemented in FY 2009, annual updates are necessary. Some fees have been updated, (i.e. Park and Rec).
86.	Standardize Cost/Benefit Analysis-Incorporate into Budgeting Process		
87.	Expand Use of Volunteers	Underway	See above.
88.	Improve Use of Donations	Underway	Examples include Fire Pits, Docent/Ranger for Seals program.