

IBA Focused List of Budget Menu Options

1/10. Accelerate managed competition for refuse collection

Managed competition processes for Publishing Services and Fleet Maintenance are currently underway and could potentially generate savings in the FY 2012 budget depending on competition results and the timing of implementation. The next phase, as announced by the Mayor, will include Miramar landfill; street sweeping; Public Utilities call center, billing and collections; and sidewalk and street maintenance. Processes for these identified services will be carried out between now and FY 2013 with varying implementation dates.

Refuse collection, which costs the City's General Fund approximately \$30 million annually and has proven to be one of the most viable candidates for managed competition in other large cities such as Charlotte and Phoenix, has not yet been scheduled for managed competition. Both of these cities have experienced between 20-30 percent savings as a result of a managed competition process for trash collection, which in the case of Phoenix has spanned three decades. A 10 % savings for this function in San Diego would result in a \$3 million reduction to General Fund expenditures annually.

The COO has indicated there are no current plans to have trash collection participate in managed competition in the next two fiscal years. The City Charter amendment approved by voters in November 2006, which allowed the City to undertake managed competition processes for most City services, provided the Mayor the authority to determine whether a City service is appropriate for managed competition. In addition, the Mayor is generally responsible for managing the procurement process, while the City Council must ultimately approve or reject the Mayor's recommendation.

The Mayor recently added Miramar Landfill to the current managed competition schedule after a direct outsourcing process was unsuccessful. The managed competition process is understandably labor intensive, and the COO noted that this additional function, together with the six functions noted above, have maximized Business Office staff resources. However, based on the experiences of other cities in the area of trash collection, it may be worthwhile to consider reprioritizing the services and advancing the competition for refuse collection. It is also possible that savings could be realized in FY 2012 from the Publishing Services and Fleet Services managed competition processes.

11. Expand the use of a 4/10/5 work schedule

A 4/10/5 work schedule is a change from the standard five day, eight hour work week to four ten hour work days. The five signifies continuous coverage throughout the work week. This can be accomplished through various work schedules. Currently the Environmental Services Department (ESD) and Police Department employ 4/10/5 work schedules. Savings could be achieved through reduced personnel and vehicle usage. When originally adopted, it was estimated that implementing a 4/10/5 schedule in ESD

would result in General Fund savings of approximately \$2.4 million. The IBA has spoken with ESD and they are still evaluating the impact to the City as a result of the 4/10/5 schedule. If actual savings are determined to be significant, this type of work schedule may be a viable option for other service areas.

A variation of the 4/10/5 work schedule is four ten hour work days with the fifth day off. Known as a straight 4/10 schedule, this variation is better employed where constant staffing is not necessary. Savings could be achieved by reduced energy costs as a result of a facility being closed on a specific day. However, these savings can be negated if the facility is not truly “shut down” for the designated day, thus reducing the expected energy savings. It should be noted that any change to employees work schedule would require meet and confer with the City’s labor organizations.

After the March 14, 2011 City Council meeting, the IBA discussed with the City's Energy Administrator the possible energy savings that could be realized by shutting down the City Administration Building (CAB) one day a week. The Energy Administrator stated that the savings from shutting down CAB would be minimal due to the City Operations Building, Convention & Performing Arts Center, Civic Theatre, and CAB all being on the same power plant and boilers making it difficult to isolate one facility.

14. Implement Recovery Auditing Program

In response to a request from Councilmember DeMaio, the City Auditor prepared a memorandum discussing Revenue Recovery Auditing for the Audit Committee meeting on January 10, 2011. The City Auditor memorandum describes revenue recovery audits as those that focus on missed opportunities to collect revenue, picking up where government revenue collection efforts stop. For example, an audit of accounts payable would look for: overpayments; payments for services not rendered; duplicate payments; or identify unutilized credits from vendors. In reviewing Revenue Recovery Audit programs in other jurisdictions, the City Auditor noted that recoveries had been made in the following other areas: erroneous payments of sales tax; revenue due from other agencies but not transferred to local government; taxes due but not paid; benefit payments to ineligible persons; and property tax related audits.

The City Auditor indicates there are a number of third party firms which specialize in revenue recovery audit services. Compensation is commonly structured on a contingency basis whereby the selected audit contractor only receives a percentage of recoveries made on the City’s behalf. For example, the City has retained Muni Financial to audit sales/use and property taxes owed, and shares 18% of recoveries made for the City with the firm. While it is not possible to accurately estimate the amount of revenue that might be recovered for the City in the first year, there would be no cost to the City and the amount of revenue recovered could be significant. A Revenue Recovery Audit program may also provide the City with opportunities to improve internal controls post recovery.

In order to implement a Revenue Recovery Audit Program, the City would need to issue an RFP for outside revenue recovery audit services. As the selected audit contractor will

need to work cooperatively with various departments under the CFO, it is recommended that the CFO have a lead role in procuring and administering the contract with support from the City Auditor and/or the IBA. If the City were to begin the revenue recovery audit consultant selection process immediately, it is reasonable to expect that revenue recovery audits could be underway early in Fiscal Year 2012.

18. Complete comprehensive review of all existing funds including their legal bases, current and planned uses and fund balances

For the FY 2009 budget, the IBA identified \$22.1 million in existing fund balances from several funds that were established years ago. No current plans existed for the use of these funds and no legal requirements mandated their existence. This provided a significant one-time infusion to the General Fund.

As part of the City Council's FY 2009 budget actions the Council requested the CFO to undertake a thorough review of all other existing funds for their purpose, necessity and fund balance; however, competing priorities have delayed this comprehensive review. A review of other funds could identify additional fund balances that could potentially be transferred to the General Fund for one-time uses.

The IBA has been informed by the COO that fund balances are continuing to be reviewed, and that up to \$4 million in fund balance may be available for the General Fund Budget in FY 2012 Budget. Given the potential for finding additional available funds, the IBA recommends a full review be completed and the results provided to the IBA and City Council.

39. Reduce the use of blanket subpoenas to help reduce police officer overtime

It is the IBA's understanding that the District Attorney issues a blanket subpoena to appear in court for every officer at the scene of an incident, even if the officers are not directly involved with the investigation. As a result, officers are required to appear in court will little chance that they will be called to testify causing the City to incur overtime expenses. In response to this item, the San Diego Police department noted that they have a permanent sergeant assigned as a liaison with the District Attorney's Office regarding this issue. The Police Department also works with the Assistant Chief of the Superior Court to ensure that only officers and detectives that are absolutely needed for court are subpoenaed. For jury trials, officers and detectives are placed on "stand-by" and appear in court when needed. The Chief of Police monitors the use of court overtime on a regular basis and without these measures the department's overtime would be higher.

47a. Implement City Auditor's recommendation with respect to Unclaimed Funds in the City Treasury

In 2009, the City Auditor recommended and the Comptroller agreed to consider transferring unclaimed funds into the General Fund after a period of one year, in accordance with the City Charter section 86. The City Auditor indicated there was

approximately \$780,000 in unclaimed funds that had been held for over a year. Using feedback from the Office of the City Attorney, the Comptroller simply needs to decide whether to change the current practice of a three-year hold. A change in policy would result in a one-time General Fund infusion and acceleration of receipt of unclaimed funds going forward. The Mayor is considering implementing this option in the FY 2012 Proposed Budget.

47b. Implement City Auditor's recommendation for the Fire-Rescue Department to resume and retroactively bill for high-rise inspections

This was a recommendation in the Fire Prevention Audit released in October 2010. The audit estimates that approximately \$545,000 in high rise inspection fees was not recovered in FY 2010. If the same amount is assumed for FY 2011, the General Fund may be missing an opportunity to recover in excess of \$1 million. The Fire-Rescue Department is developing a proposal to present to the Mayor for possible implementation of this option in FY 2012.

61. Eliminate cell phones, PDA's and other communication devices from all non-emergency personnel; review Citywide cell phone expenditures

The City currently has contracts with three wireless carriers for cell phone and data services with an estimated annual impact of \$2.7 million to the City (General Fund and Non-General Fund departments). The current contracts do not require an annual minimum revenue commitment. The issuance, monitoring, and use of wireless telephones are governed by City Administrative Regulation 90.20. The issuance of wireless telephones is determined by each department and per Administrative Regulation 90.20 requires a "Deputy Director or higher approval," to issue a cellular phone.

In theory, savings could be achieved by eliminating cell phones thus reducing the City's annual expenses. A good example of the type of savings that could be achieved through the elimination of cell phones is the Police department. In January 2010, the department proactively eliminated 336 cell phones from service saving the City \$209,272 annually. However, it should be noted that the elimination of cell phones could have a negative impact on City operations thus requiring review of each cell phone user's duties which could take time to complete.

On March 8, 2011 the City Council was asked to extend the current wireless contract with Verizon. At that meeting, the City Council directed staff to come back to council no later than September with a new RFP for wireless services. In addition, the Council requested staff to review various options regarding City wireless services including the reduction or elimination of cell phones where feasible and bring back the results to a Council committee.

After further review of the projected annual expenses for Verizon, AT&T, and Sprint, the City could realize an estimated \$700,000 in annual savings if the funding for Cell phones were eliminated for all General Fund departments with the exception of Police, Fire-

Rescue, Homeland Security and Environmental Services. However, it is important to reiterate that the service level impacts by eliminating funding to other General Fund departments for cell phones are unknown.

102. Reduce/eliminate Management Flex Benefits

The City's benefits package provides for executives, managers and the legislative branch to receive an additional \$3,000 in their annual flexible benefit allotments to help pay for premiums for health care, vision or dental insurance, or for depositing into an IRA account. The management benefits plan was implemented in 1978 as a recruitment incentive for top management positions.

Section 16 of the salary ordinance provides that additional benefit programs may be established upon recommendation of the Mayor, and implemented by Council resolution. Each year, the flexible benefits plan is adopted by separate resolution concurrent with the salary ordinance. This resolution includes the additional \$3,000 in management flexible benefits for eligible unclassified and unrepresented positions, and an attachment that specifies eligible positions. Elimination of this benefit could be implemented through a revision to this resolution, and does not require an amendment to the salary ordinance.

The annual cost of the management benefits plan is approximately \$2.6 million City-wide, including \$1.8 million in General Fund costs. This estimate includes approximately 139 members of the Deputy City Attorney Association (DCAA) at a cost of \$417,000. However, elimination of this benefit for DCAA members would be subject to meet and confer. The estimated General Fund savings not including DCAA is \$1.4 million. Additionally, for FY 2013 the City could propose to eliminate this benefit for all bargaining units as a part of contract negotiations, which would generate additional savings to the General Fund effective FY 2013.

122. Increase voluntary furlough or impose mandatory furlough

A mandatory furlough requires employees to take a specified amount of days off without pay during the fiscal year. A furlough is a common budget saving strategy used by cities and states across the country due to its potential for significant savings. It should be noted that the current labor contracts with MEA, DCAA, and Teamsters include a voluntary furlough as an option for the members to fulfill their 6% salary/benefit reduction. Imposing a mandatory furlough would represent an additional pay cut for employees, and would require meet and confer with the City's labor organizations. A very preliminary estimate of possible savings from a one week furlough for all General Fund Departments is \$9-\$10 million and \$3-\$4 million when excluding Police and Fire.

At the March 14 Council meeting, Councilmember Lightner requested the IBA evaluate the financial impact of a mandatory furlough for unclassified and unrepresented employees. Based on the annual FY 2011 total salary costs for 687 unclassified and unrepresented employees of \$58.4 million, the cost associated with a one week furlough of these employees is estimated at approximately \$1.12 million. It is important to note

that operational impacts would need further evaluation. A one week furlough and closure of administrative offices between the Christmas and New Year's holidays has often been discussed, and has been implemented successfully in other cities and counties and throughout the private sector.

Information from Human Resources has outlined that unclassified and unrepresented furlough must be taken in minimum full work week increments of time, and the salary deductions for the furlough must be taken in full during the same pay period in which the furlough is taken. The furlough may be taken at any time during the year, but only in full work week increments. This would result in impacted employees receiving no pay for the respective furlough week, and these employees are not eligible to spread the impact of the pay reduction over the fiscal year.

123. Expand use of Marketing Partnerships

Since 1999, the City has been generating revenue from marketing partnerships with corporations through its Corporate Partnership Program (CPP). The CPP's goals are to generate unrestricted revenue and in-kind support for City services through business arrangements with the corporate community. For example, sponsorship opportunities in and on City beach area public assets (lifeguard towers, information boards, trash cans, etc.) have the potential to generate significant annual revenue to support General Fund activities.

The City Council approved the continuation of a contract with CPP marketing consultant The Pathfinder Group on March 15, 2011. In a memorandum to the City Council dated March 10, 2011, the CFO indicated that Pathfinder has six potential partnerships in various stages of development (with values estimated to range between \$50,000 and \$5 million) and another five categorical opportunities worth pursuing.

When asked about his plans for developing the Proposed Budget for FY 2012, the COO mentioned they were trying to expand marketing partnerships opportunities. A new Director of Strategic Partnerships, Natasha Collura, was hired and began working on March 21, 2011. On March 17, 2011, the City received five responses to a RFI seeking information relative to CPP ideas, concepts and proposals.

Given the recent actions, developments and possibilities cited above, the IBA recommends the City more aggressively pursue these and other sponsorship opportunities. We understand there is often extra lead time required to develop and execute public-private marketing sponsorships; however, many of the above cited opportunities have been under development for some time and may be close to completion. A better FY 2012 revenue estimate for the CPP program may result from an updated assessment of marketing partnerships in progress or those that might be quickly negotiated. If so, it may be reasonable to budget additional partnership revenue in FY 2012 based on information that the City and/or Pathfinder already has.

138. Enact paid parking at beaches and regional parks

Charging a fee for public parking at City-owned parking lots at the beaches, bays and regional parks could generate significant additional revenue for the City. In 1993, a proposal to implement a \$5 per day fee at beaches and Balboa Park was estimated to generate \$10.7 million annually. A subsequent proposal in 2005 to implement a non-resident fee for seasonal parking at beaches and bays was estimated to generate approximately \$1.15 million per year, based upon a variable rate structure. The lower estimate for this proposal was likely due to parking fees only being charged to non-residents during certain peak times of the year. It should be noted that the City Attorney has since advised that State law precludes the City from charging a fee only to non-residents at areas adjacent to beaches and bays.

Most recently, a 2006 study by Ace Parking estimated that charging for parking at the beaches, Mission Bay, the San Diego Zoo and Balboa Park could generate between \$7.4 million and \$20.4 million annually for the City, depending on the level of the rate charged. Ultimately, the revenue that could be generated depends on the parking rate that is levied, and the number of parking lots to which it would be applied. The three estimates cited above differ largely because they each used different assumptions regarding the parking rate structure and where parking fees would be levied. It will not be possible to calculate precise revenue estimates until a specific proposal is developed.

In conversation with the IBA, the City Attorney's Office has indicated that revenue derived from charging for parking at City-owned lots may not have the same restrictions as parking meter revenues, though further legal analysis would be required. However, there would be a significant restriction on the use of parking revenue generated in Mission Bay as a result of Proposition C, approved by voters in 2008. Proposition C amended the City Charter to restrict the use of Mission Bay Lease Revenues, which are defined to include "any other revenues collected for the use of city owned property within Mission Bay Park." It should also be noted that any proposal to charge for parking at beaches and bays would require approval by the Coastal Commission, which could be a lengthy process.

142. Sale of underutilized real estate assets

In FY 2008, the City began implementing a strategy to sell certain underutilized properties from its real estate portfolio. Section 77 of the City Charter requires that all proceeds from the sale of City-owned property be deposited into the Capital Outlay fund, and used "exclusively for the acquisition, construction and completion of permanent public improvements." In recent years the City has adopted a strategy of using the proceeds from the sale of underutilized real estate assets to fund the backlog of capital improvements required for ADA compliance. However, this is a policy decision; proceeds from the sale of City-owned property may be used for other capital improvements consistent with City Charter section 77.

One option available to the City is to use proceeds from the sale of real estate assets to fund a portion of the annual debt service on capital improvement bonds. The City Attorney has opined that land sale proceeds may be used to pay the principal on such bonds, but not the interest. The IBA has identified approximately \$6.1 million in bond principal for FY 2012 (not including the Convention Center) that will be paid either by the General Fund or the TOT Fund. If proceeds from land sales were used to pay the principle on these bonds, it could result in a one-time savings to the General Fund.

On March 1, 2011 the City Council approved the sale of the World Trade Center building and attached parking garage at 1250 Sixth Avenue to the Redevelopment Agency for \$8.23 million. The World Trade Center building will in turn be sold to Connections Housing, a non-profit organization that will develop and operate a permanent homeless services and housing facility. The proceeds from the sale of this property, as well as other available land sale revenues, could be used to pay for the principal on capital improvement bonds.

145. Implement False Alarm Fee for Fire-Rescue

The Police Department charges a false alarm penalty fee to recover the annual costs of false alarms. The fee schedule discourages repeat offenses with penalties that increase with the number of offenses. The Fire-Rescue Department has no such fee structure to recover the costs associated with false alarms. Over the last three years, Fire-Rescue has responded to approximately 6,300 false alarms a year at an estimated annual cost of \$542,000.

The Department has been working for the past year to develop a fee structure that supports cost-recovery. Fire-Rescue has informed the IBA that they are planning to bring a false alarm penalty fee proposal forward for City Council consideration later in March or April 2011. The Mayor is considering incorporating revenue from this fee in the FY 2012 Proposed Budget.

189. A five percent cut to Supplies and Services

In November 3, 2010 memo to City Council, CFO Mary Lewis presented the results of a recently completed analysis regarding the impact to departments, and the dollar amount to be saved, from a five percent reduction to the FY 2011 budget for contracts and supplies. Based on the analysis, a five percent reduction to the Contracts category for General Fund departments and other departments which affect the General Fund would save \$5.5 million, with an additional \$1.1 million related to a five percent reduction in the Supplies category. The analysis considered and omitted several expenditure accounts that are considered non-discretionary, where reductions could not be implemented. It should be noted that reductions in supplies and services could result in significant service impact, which would need to be evaluated in accordance with any reduction proposal. The Mayor is considering incorporating such a reduction in the FY 2012 Proposed Budget.

200. Redevelopment Agency payment for Phase II Convention Center bond payments

Debt service on the Convention Center Phase II Expansion Bonds is approximately \$13.7 million per year. Under a Support Agreement, the Port District is responsible for making an annual payment of \$4.5 million to City in support of the bonds, resulting in a net City payment of approximately \$9.2 million. In November 2010 the City Attorney released legal opinion 2010-6, which determined that the Redevelopment Agency could pay for the debt service on the Phase II Bonds through a reimbursement agreement with the City, provided that certain findings can be made.

This item will be presented for Council and Agency consideration on March 29. The current proposal is for the City and Agency to enter into a cooperation agreement whereby the Agency would reimburse the City for the full remaining debt obligation of \$226.8 million. However, the payments are proposed to be structured such that the Agency will make a \$2 million payment beginning in FY 2012, which will increase by \$500,000 annually until the annual payment reaches \$9 million. The payments will then continue through 2043, until the full remaining debt obligation of the City is defeased.

The Council and Agency may elect to modify the proposed schedule of payments such that larger payments are made in the near-term, and lower payments are made in the latter years. However, this option may jeopardize the financial viability of the Centre City project area, resulting in significant impacts to future redevelopment and the ability to generate tax increment revenue.

202. Redevelopment Agency repayment of non-CDBG debt

On February 28, the City Council and Redevelopment Agency Board approved a Loan Repayment Agreement for approximately \$188.2 million in long-term debt to the City held by the Agency. While the majority of this debt is composed of CDBG and Section 108 funds, approximately \$12.9 million is from sales tax and other General Fund sources. According to the Loan Repayment Agreement, loan repayment amount will be determined as part of the Agency's and City's respective budget processes.

It has been noted on several occasions that much of the General Fund debt is held by project areas that have the least ability to make payments at this time. However, it may be possible for the Redevelopment Agency to repay \$1-\$2 million of the General Fund debt in FY 2012. It should be noted that any repayment will likely have negative impacts to redevelopment efforts in certain project areas. In addition, while the Loan Repayment Agreement has already been approved, this option may be impacted if the Governor's proposal to eliminate redevelopment agencies is made retroactive, or if the Loan Repayment Agreement is otherwise invalidated.