

## **Fiscal Year 2012 Budget Solutions Status**

### **Increase in Sales Tax Revenue**

*FY 2012 Budgeted Revenue: \$2.1 million*

*Actual Projected Revenue: \$11.2 million*

As part of the IBA's revisions to the Mayor's Proposed Budget, our office recommended increasing the Sales Tax projections by 1.0 percent which was estimated to result in an additional \$2.1 million in revenue. Based on information included in the Mayor's Fiscal Year 2012 Mid-Year Budget Monitoring Report, Sales tax revenue has increased significantly from budgeted levels (\$9.1 million above budgeted levels, and \$11.2 million above the originally proposed revenue level in the proposed budget) due to an increase in consumer spending. Actual receipts during FY 2012 have increased the projection in addition to an increase in the final two fiscal year quarters growth rate from 4.0 percent to 4.5 percent.

### **Expansion of Corporate Partnership Program**

*FY 2012 Budgeted Revenue: \$0.8 million*

*Actual Projected Revenue: \$0.8 million*

The Corporate Partnership Program (CPP) seeks opportunities for the City to generate cash and in-kind resources from partnerships with the corporate community in order to enhance municipal services and facilities within the City. In FY 2012, \$800,000 of revenue was budgeted for CPP which was an increase of \$300,000 from FY 2011. Counting guaranteed revenue received this fiscal year from the previous agreement with Pepsi, approximately \$695,000 of new revenue or reduced General Fund expenditures (reduced assignment fees for lifeguard trucks) is projected for FY 2012. As the CPP continues to endeavor to develop other partnerships, it is reasonable to assume the \$800,000 budgeted can be realized by fiscal year end.

### **Reduction in Long Term Disability Contribution**

*FY 2012 Budgeted Savings: (\$1.2 million)*

*Actual Projected Savings: (\$1.2 million)*

After reviewing previous years' expenditure activity and funding levels, the IBA recommended reducing the City's FY 2012 General Fund contribution to the Long Term Disability fund by \$1.2 million (to \$2.5 million). The long term disability contribution is made periodically and appears to be on target for the reduced FY 2012 amount.

### **Reduction in Non-Personnel Expenditures**

*FY 2012 Budgeted Savings: (\$9.5 million)*

*Actual Projected Savings: (\$9.5 million)*

The FY 2012 Adopted Budget includes \$9.5 million of reductions in Non-Personnel Expenditures (NPE). Those reductions include \$8.6 million for contracts and supplies, \$400,000 for discretionary IT costs, and \$500,000 for travel and training. Contracts are projected to be under-budget by \$5.4 million, whereas supplies are over-budget by \$3.8 million. However, the

aggregated NPE budget is projected to be under-budget by \$1.1 million which is beyond the reductions incorporated into the FY 2012 budget.

**Reduction in Public Liability Transfer**

***FY 2012 Budgeted Savings: (\$0.6 million)***

***Actual Projected Savings: (\$0.6 million)***

After reviewing previous years' expenditure activity and funding levels, the IBA recommended reducing the City's General Fund contribution for FY 2012 by \$0.6 million (to \$14.5 million). The FY 2012 public liability transfer was made in October 2011 and was \$0.6 million less than the FY 2011 amount.

**Termination Pay (Annual Leave)**

***FY 2012 Budgeted Savings: (\$0.4 million)***

***Actual Projected Cost Increase: \$1.6 million***

During the FY 2012 budget process, the IBA recommended a decrease of \$400,000 to the proposed termination pay budget for the General Fund. The identification of the \$400,000 decrease was based on a comparison of the FY 2012 proposed budget to the most recent Five-Year Outlook at the time (issued in February 2011). The February 2011 Outlook included a FY 2012 General Fund termination pay amount of \$2.1 million, which was \$400,000 less than the proposed budget of \$2.5 million.

The termination pay estimate has increased since the FY 2012 Budget was adopted. The FY 2012 Adopted Budget is based on an estimated 87 General Fund retirements. We were unable to obtain the current projected General Fund retirements for the entirety of FY 2012 in time for this report, because the actual General Fund retirements through December 2012 are not readily available. However, there are 94 projected General Fund retirements for the second half of FY 2012, which exceeds the full-year estimate of 87 in the Adopted Budget. Although retirees are not required to reveal the reason for their retirement, the retiree health benefit restructure, which will take effect April 1, 2012, is a potential contributing factor for the increase in estimated retirements.

The effect of the new retirement estimate is that the projected termination pay expenditures in the Mid-Year Budget Monitoring Report total \$3.7 million for the General Fund, which is \$1.6 million higher than the FY 2012 budget amount of \$2.1 million.

**Revenue Recovery Auditing**

***FY 2012 Budgeted Revenue: \$0.5 million***

***Actual Projected Revenue: \$0.0 million***

The FY 2012 budget included \$500,000 of one-time revenue attributable to Revenue Recovery Auditing. An audit of City revenue from the Superior Court was cited under this item in the FY 2012 budget; however, the CFO indicated that City Treasurer staff would not be able to begin this audit until June of 2012 making it unlikely that any resulting revenue would be received in FY 2012. In adopting the FY 2012 budget, the Council requested an outside auditor be retained

to conduct an accounts payable audit in FY 12. Following the receipt of input from the City's Audit Committee, a RFP was issued late in 2011. The resulting consultant recommendation is expected to go to Council in April 2012 for approval. Once the consultant agreement is approved, the accounts payable audit will require approximately three months to complete. It is difficult to predict the amount and timing of revenue that may be recovered prior to the conclusion of a revenue recovery audit. Given these circumstances, it is unlikely that much, if any, of the \$500,000 budgeted will be realized in FY 2012.

**Retroactive High-Rise Inspection Fee**

***FY 2012 Budgeted Revenue: \$0.6 million***

***Actual Projected Revenue: \$0.6 million***

A Fire Prevention Audit released in October 2010 recommended the Fire-Rescue Department resume and retroactively bill for inspections performed on high-rise buildings. Per the Fire-Rescue Department, the retroactive billings for fees uncollected in FY 2010 and FY 2011 will meet projected revenues. The billings are taking place in two installments. The first installment was billed in the month of December, with the second billing taking place in February. Payees have 30 days to pay the retroactive fees. Invoices unpaid within 30 days are forwarded to collections. The department has reported no issues relating to the collection rate for the December billings.

**Parking Meter Utilization Plan**

***FY 2012 Budgeted Revenue: \$1.1 million***

***Actual Projected Revenue: TBD***

The Parking Meter Utilization Plan (PMUP) was developed to provide tools for improved parking management by flexibly setting parking meter rates, time limits and hours of operation. Net of PMUP staff/operating expenses, \$1.1 million of additional parking citation revenue was budgeted in FY 2012. A relatively small number of parking meter adjustments have been made to date and staff has not been able to track the resulting revenue impacts, if any. Given that few meters have been adjusted to date and uncertainty about any resulting additional revenues, the IBA and Treasurer staff do not believe any of the \$1.1 million budgeted in FY 2012 will be realized. Considering the expected shortfall in PMUP revenue, total parking meter revenue is tracking to be under budget in FY 2012.

**Delinquent Parking Citation Revenue**

***FY 2012 Budgeted Revenue: \$1.3 million***

***Actual Projected Revenue: \$0.45 million***

On May 3, 2011, the Office of the City Auditor released a performance audit of the City Treasurer's Parking Administration Program. The audit found that \$2.9 million in delinquent citations had not been referred to Treasurer's Delinquent Accounts Program in a timely manner. In a memorandum to Councilmembers dated May 5, 2011, the City Treasurer estimated that \$1.5 million of the \$2.9 million could be recovered. The Treasurer further estimated that approximately \$200,000 of the \$1.5 million would be recovered in FY 2011 with the remaining \$1.3 million to be realized in FY 2012. The \$1.3 million of delinquent parking citation revenue

was budgeted in FY 2012. Treasurer staff estimates that approximately \$370,000 of the \$1.3 million has been collected to date and approximately \$450,000 will have been collected by the end of FY 2012. Given this feedback, it appears this projected \$850,000 shortfall is contributing to total Citywide parking citation revenue being projected to be under budget by \$2.8 million in FY 2012.

**Renegotiate San Diego Airport Contract**

***FY 2012 Budgeted Revenue: \$1.0 million***

***Actual Projected Revenue: \$1.0 million***

The Mayor's May Revise included a \$1.0 million increase in revenue relating to a renegotiation of the contract between the Fire-Rescue Department and the San Diego Lindbergh Field Airport. With this increase, the revenue budgeted for the contract totals \$5.0 million in FY 2012. The new contract negotiations are still ongoing. Aside from the ongoing contract negotiations, Fire-Rescue modified its invoicing methodology to more appropriately recover costs associated with Fire-Rescue service to the airport. With the new invoicing methodology, budgeted expectations will be met.

**San Diego Medical Services Contract**

***FY 2012 Budgeted Revenue: \$9.1 million***

***Actual Projected Revenue: \$9.1 million***

The City formerly provided emergency medical response through San Diego Medical Services (SDMS) as a public/private partnership between the City and Rural/Metro Ambulance. \$9.1 million in revenue included in the FY 2012 Fire-Rescue budget pertains to the City's new contractual arrangement with Rural Metro for providing emergency medical services. With the new contract, Rural Metro will pay a city operational fee of \$9.1 million for the first year of the contract. The operational fee is comprised of: 1) a \$4.1 million payment for the transfer of FY 2011 EMS Fund balance to the General Fund for the City's share of residual monies from FY 2011 after covering ambulance related expenses, 2) a \$4.0 million reimbursement to Fire-Rescue for the partial recovery of the costs associated with medical emergency response in FY 2012, and 3) a \$1.0 million profit sharing allocation between Rural Metro and the City transferred from the EMS Fund for the current fiscal year. The \$4.1 million fund balance transfer will be received before the end of this quarter, with the remaining \$4.0 million fund balance transfer, and \$1.0 million profit sharing allocation to take place by the end of the fiscal year.

**Fire-Rescue Alarm Permit Fees**

***FY 2012 Budgeted Revenue: \$0.9 million***

***Actual Projected Revenue: TBD***

The implementation of the False Alarm Fee program, allowing for the Fire-Rescue Department to recoup the costs associated with permitting and regulating the use of fire alarms, was included in the City Council's Budget resolution and incorporated in the Mayor's FY 2012 Adopted Budget. The program began implementation in November 2011. It is anticipated that it will not meet budgeted expectations due to a lower number of permits issued than originally estimated, by between 52-64 percent, and a delay in penalty billings. Before the implementation of the

program, the number of existing fire-alarm systems was unknown. Based on actual permit issuance, the number of alarm systems is estimated at 15,000-20,000, as compared to the 42,000 originally assumed. Earlier in the year, the budgeted revenue projection of \$910,000 was revised upward by \$174,008 to \$1,084,008 to reflect an earlier start date for the program at the beginning of November, versus the start date assumed in the budget of the beginning of December. The revised projection for the new alarm permit revenue was comprised of two components: \$236,960 in actual permit fee collections and \$837,048 related to revenue generated from revocation and cost recovery penalties. The permit component of the revenue is now projected at approximately \$180,000 for FY 2012, with the new projection for the penalty component of the fees to be determined. There have been delays associated with the imposition of false alarm penalty fees. This is due to a technicality involving the Council approved names for the penalty fees that are inconsistent with those used in the City Clerk's Rate Book and during the City Council presentation. Once the penalty fee title revision is approved by Council, the department will move forward with billings. This item will be heard at the City Council on February 28, 2011. Penalty activity will not be truly known until the latter half of the year due to the allowance of two false alarms before penalties are imposed.

**Air Medical Transport Fee**

*FY 2012 Budgeted Revenue: \$53,625*

*Actual Projected Revenue: \$0*

In FY 2007, the City Council approved a request from the Fire-Rescue Department to bill patients and/or insurance companies for emergency air medical transportation provided by the department's Air Operations Division helicopter (Copter I). The FY 2012 Budget incorporates \$53,625 in revenue associated with implementing the proposed fee. After budget adoption, the FAA ruled that the City cannot charge patients an air medical transport fee unless the City complies with the FAA requirements for commercial operators, which is associated with additional costs. In operating under a Public Agency provision, the City avoids the additional costs associated with specific staffing and equipment requirements for commercial operators. Complying with the commercial operator requirements are cost prohibitive. Due to this, this fee will not be imposed by the City.

**Increase in Transient Occupancy Tax Revenue Projection**

*FY 2012 Budgeted Revenue: \$3.4 million (\$1.8 million GF / \$1.6 million Special Promo TOT)*

*Actual Projected Revenue: \$10.8 million (\$5.7 million GF / \$5.1 million Special Promo TOT)*

Included in the Mayor's May 19, 2011 May Revision was a \$3.4 million increase to the Transient Occupancy Tax (TOT) revenues was proposed and included in the final budget. This reflects a growth rate modification from 3.0 to 4.0 percent. Based on information included in the Mayor's Fiscal Year 2012 Mid-Year Budget Monitoring Report, TOT revenue has increased significantly from budgeted levels (\$7.4 million above budgeted levels, and \$10.8 million above the originally proposed revenue level in the proposed budget) due to an increase in business and leisure travel in San Diego. Actual receipts during FY 2012 have increased the projection in addition to an increase in the final two fiscal year quarters growth rate from 4.0 percent to 5.0 percent.

**Publishing Services Managed Competition*****FY 2012 Budgeted Savings: (\$0.2 million)******Actual Projected Savings: (\$0.4 million)***

The managed competition process for publishing services yielded a contract bid from City employees that created a \$0.4 million in savings, which was budgeted at the contract level and is expected to fulfill the entire budgeted amount.

**Reduction in Cell Phone Costs*****FY 2012 Budgeted Savings: (\$0.2 million)******Actual Projected Savings: \$0***

The FY 2012 Annual Budget included \$200,000 in savings related to the reduction of Cell Phone expenditures that was spread across multiple departments. Cell phone costs incurred through the first six periods of FY 2012 are currently on pace to exceed the budgeted amount included in the Adopted Budget thus resulting in an increase in expenditures above budgeted amounts. A significant factor attributable to the projected cost overage is a communication issues which resulted from the citywide blackout in September 2011. The Office of Homeland Security created an assessment of weaknesses exposed during this blackout, which included a lack of communication for continuity of critical services when traditional methods of communication were eliminated. Based on this noted weakness, increased wireless communication abilities were given to critical function employees which increased cell phone costs.

**Reduction in Hold Harmless/Small Business Trash Collection*****FY 2012 Budgeted Revenue: \$0.3 million, FY 2012 Projected Revenue: TBD******FY 2012 Budgeted Savings: (\$1.2 million), Actual Projected Savings: (\$1.2 million)***

For the FY 2012 Annual Budget, the Mayor terminated residential and small business hold harmless refuse collection services. The termination of these agreements affected approximately 14,200 residential units on private streets and approximately 4,620 small businesses. The anticipated reduction of approximately \$1.2 million in expenses will be realized in FY 2012 as the elimination of specific staffing and vehicles has occurred. However, the anticipated increased revenue of approximately \$300,000 related to franchise fees from private haulers is not expected to be realized.

**Comprehensive Review of Fund Balances*****FY 2012 Budgeted Revenue: \$9.9 million******Actual Projected Revenue: \$9.9 million***

As part of the FY 2012 Adopted Budget, \$9.9 million in excess fund balances were identified in four separate City funds to be transferred to the General Fund as a one-time revenue source. The \$9.9 million in excess fund balance is comprised of: \$4.0 million from the Police Decentralization Fund; \$0.7 million in unused sick leave; \$1.0 million from the Qualcomm Stadium Fund; and \$4.1 million from Emergency Medical Services. Financial Management has

requested the Office of the City Comptroller to complete all four of these transfers. The Office of the City Comptroller will wait until the end of the fiscal year to make these transfers to ensure that these funds have sufficient resources.

**Unclaimed Money Transfer to General Fund**

*FY 2012 Budgeted Revenue: \$1.0 million*

*Actual Projected Revenue: \$0.5 million*

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 as specified in City Charter Section 86. Based on a Memorandum of Law from the City Attorney concerning a conflict between Charter Section 86 and California Government Code 50050 regarding the disposition of unclaimed public monies, the City Comptroller opted to shorten the hold on unclaimed public monies from three years to one year in accordance with Charter Section 86. Based on this accounting policy change, \$1 million of one-time revenue was budgeted in FY 2012. Citing an unanticipated need to reprogram the SAP system to facilitate a one-year escheatment (as opposed to the prior three-year escheatment), the Comptroller estimates that only \$500,000 of the budgeted \$1 million will be realized in FY 2012 with the remainder to be realized in the annual escheatment process for FY 2013 once the SAP system has been reprogrammed.

**Redevelopment Agency Payment for Convention Center Debt**

*FY 2012 Budgeted Revenue: \$2.0 million*

*Actual Projected Revenue: \$2.0 million*

The full FY 2012 payment was made to the City in August 2011 as part of a reimbursement agreement between the City and the Redevelopment Agency (R-04661, dated April 1, 2011) to pay costs for debt service payments on the financing of construction of the Phase II expansion of the San Diego Convention Center.

**Redevelopment Agency Payment for General Fund Debt**

*FY 2012 Budgeted Revenue: \$0.8 million*

*Actual Projected Revenue: \$0.8 million*

The full payment was made to the City in August 2011 as part of the Loan Agreement between the Redevelopment Agency and the City for repayment of long-term debt (O-04638/R-04638, dated March 1, 2011).

**Sale of the World Trade Center**

*FY 2012 Budgeted Revenue: \$2.5 million*

*Actual Projected Revenue: \$2.5 million (\$5.5 million in additional revenue from sale deposited in separate account from the General Fund to be used for future debt service payments)*

The FY 2012 Annual Budget included the use of \$2.5 million in proceeds from the sale of the World Trade Center. According to the Adopted Budget, \$2.5 million of this amount will be used for Convention Center debt service. The remaining \$5.5 million will be held in a separate account from the General Fund and will be used to pay continued debt service according to

Council policy (reducing \$0.5 million per year until funds are exhausted). The City's Real Estate Asset Department confirmed that the sale of World Trade Center has been completed, with \$8.0 million already paid to the City.

**Fire Alert System/SAFE Grant Funding for Fire Alert System**

***FY 2012 Possible SAFE Revenue: \$1.7***

***Actual Projected SAFE Revenue: \$0.0***

The Fire-Rescue Department uses an In-Station Alerting System to alert fire station crews of what and where to respond. The Citygate Report recommended prioritizing the replacement of the system to ensure timely incident notification and response. The Mayor's May Revise included one-time budget of \$1.7 million to fund half of the then estimated cost of \$3.4 million to replace the Fire Alert System, with the plan to appropriate the remaining costs in FY 2013. The IBA recommended a revision of the May Revise to include one-time funding for the remaining \$1.7 million necessary to complete the system upgrade in FY 2012. The Council Budget Adoption Resolution did not include the additional \$1.7 million of one-time General Fund monies to complete the project, but recommended that San Diego Service Authority for Freeway Emergencies (SAFE) grant funding be requested to cover the expense. At a July 14, 2011 SAFE Board meeting, the Board heard a proposal to approve \$1.7 million in funding to support the completion of the Alerting System project. The motion failed with a vote of 5-2, with those opposing citing that funding granted would have to be proportional to the demonstrated motorist aid supported by the funding, disallowing a grant for the full funding of the \$1.7 million.

The full cost of the replacement of the Fire Alert System is now projected at \$4.4 million. The additional funding for the project (\$2.7 million) is being recommended as a one-time use of the projected FY 2012 General Fund surplus.

The RFP for the Fire Alert System project is currently being finalized. Council approval for the RFP will be sought in March, giving the Mayor the authority to award the contract to the lowest bidder. Per Public Works Department staff, the contract will most likely not be awarded until the beginning of FY 2013.

**Parking Ticket Surcharge Pass-Through**

***FY 2012 Budgeted Revenue: \$3.2 million***

***Actual Projected Revenue: TBD***

In November 2010, the City Council authorized an increase in parking citation fees to cover the cost of parking citation surcharges imposed by the State. State parking citation surcharges had previously been paid with City parking citation revenue. An additional \$3.2 million in parking citation revenue was budgeted in FY 2012 to reflect this fee increase. The approved parking citation fee increases were implemented and the cost of State imposed parking surcharges has been covered in FY 2012. However, total parking citation revenue is down from budgeted amounts due to an apparent decline in the collection rate, which will affect projections reaching budgeted levels.