



**IBA Review of the
Fiscal Year 2011
Proposed Budget**

Budget Review Committee
Meeting of the City Council

April 30, 2010



Overview

- Final steps in a rigorous process begun last November to close a FY 2011 deficit of \$179 million.
- Implementing actions in January 2010 reduced the amount of reductions that were ultimately necessary.
- Mayor's budget proposal addresses an incremental FY 2011 budget shortfall of \$28.2 million for a total of \$207.2 million.



Overview

- In December, the City Council called for the Mayor and IBA to develop a structural budget deficit elimination plan within 18 months.
- Since then, significant efforts have been underway to build on past fiscal reforms and develop a path to fiscal health.
- Council has adopted a set of Guiding Principles and key elements of a plan have been identified.



Work Underway

- Retiree health care reform study
- DROP neutrality study
- Citizens' Commission to examine economic competitiveness and revenue generation



Work Underway

- City Auditor's comprehensive audit of City's revenues, Collections audit underway.
- Update to FY 2011-2015 Five-Year Outlook.
- Deferred Capital/Maintenance "catch up" funding and "ongoing funding" formula.



Work Underway

- Managed Competition discussions with labor.
- Citizen survey on service priorities and budget solutions.
- Structural Budget Deficit Elimination Plan to be issued in September 2010.



Overview

- A significant “take-away” from the citizen survey: **our citizens do not want to see any further cuts to City service.**
- Elimination of the City’s structural budget deficit is paramount to addressing this clear mandate.
- Adherence to a structural budget deficit elimination plan, with a gradually recovering economy, will put us on a path to fiscal health.



Overview

- IBA has undertaken the same thorough review of the Mayor's Proposed Budget as in prior four years:
 - Examination of FY 2011 revenue projections;
 - Analysis of FY 2011 expenditure categories;



Overview

- Review of numerous City-wide funding issues;
- Analysis of the budgets of City departments and City agencies;
- Also provided supplemental information not available in budget documents.



Overview

- CFO and FM staff faced challenges implementing a new financial system and developing the FY 2011 Proposed Budget at the same time.
- OneSD, together with the mid-year budget reductions, restricted their ability to provide certain data.
- Recommend that “Significant Budget Adjustments” related to December 2009 service reductions be captured in final FY 2011 budget documents.



Overview

- Three year budget trends and service level data will be back in documents for FY 2012.
- Mayor's Office working on update to City's Strategic Plan to reflect impact of service reductions.
- They plan to provide an updated performance report to Council in January 2011.



Overview

- \$11 million shortfall remains for FY 2010.
- Budget Committee will review Year-End Report on May 26.
- An updated Five-Year Outlook shows at least a \$72 million shortfall in FY 2012.
- IBA will be analyzing assumptions in Outlook.



Overview

- Property tax revenue projections assumed in Mayor's Proposed Budget pose a risk to the budget.
- Serious fiscal challenges facing the State continue to pose serious threat to cities throughout California.



Summary of IBA Review

- With the majority of difficult decisions for FY 2011 made in December, we have fewer new issues to highlight, particularly new resources.
- Have identified a \$4.5 million deficit in Mayor's Budget:
 - \$3.5 million funding shortage for Police recruit salaries
 - \$1.0 million error in Council budgets for fringe calculation
- Incremental deficit is \$32.7 million, total deficit for FY 2011 is \$211.7 million.



Summary of IBA Review

- Sales Tax and TOT are appropriately conservative.
- Based on IBA analysis, property tax growth likely to be less than -0.1%.
- Each 1% property tax decline equals \$3.9 million.



Economic Outlook

- Economists speculate that the recession ended in the 3rd quarter of 2009
- Unemployment levels still remain a concern
- Momentum of recovery slower given it that will not be lead by consumer spending
- Economically sensitive revenues such as property tax, sales tax, and TOT will trend with the anticipated moderate recovery in the economy in FY 2011



Major General Fund Revenues

Major General Fund Revenue

Revenue Source	FY 2008 Actual	FY 2009 Actual	FY 2010 Year End	FY 2011 Proposed
Property Tax	\$ 384,273,000	\$ 398,743,287	\$ 390,628,704	\$ 390,060,910
<i>Growth</i>	<i>6.4%</i>	<i>3.8%</i>	<i>-2.0%</i>	<i>-0.1%</i>
Sales Tax	\$ 227,868,689	\$ 206,053,023	\$ 185,048,181	\$ 187,471,361
<i>Growth</i>	<i>1.1%</i>	<i>-9.6%</i>	<i>-10.2%</i>	<i>1.3%</i>
TOT	\$ 83,730,000	\$ 73,765,000	\$ 66,115,157	\$ 66,115,157
<i>Growth</i>	<i>3.8%</i>	<i>-11.9%</i>	<i>-10.4%</i>	<i>0.0%</i>
Franchise Fees	\$ 64,584,000	\$ 67,840,000	\$ 66,081,083	\$ 67,185,135
<i>Growth</i>	<i>-0.3%</i>	<i>5.0%</i>	<i>-2.6%</i>	<i>1.7%</i>



Property Taxes

- Budgeted at \$390.1 million
 - 0.1% decline over FY 2010 projection
- Projection does not reflect full impact of County Assessor negative growth assessments, despite signs of recovery
- Median sales price increase of 17.9% during 2009
 - \$280,000 in January to \$330,000 in December
- Sales were up by approximately 15%



Property Taxes

Factors influencing negative growth

- Foreclosures and short sale activity
- For properties that were previously sold 2003-2007 and sold in 2009, assessed value on property tax roll will be less than in FY 2010
- California CPI adjustment of -0.2% for 70% of properties
- Reassessment activity in 2009
- County Assessor still evaluating FY 2011 AV
 - Actual impacts will not be known until before July 1st



Sales Tax

- Budgeted at \$187.5 million
 - 1.3% growth over FY 2010
- Forecasted improvements in economic factors impacting sales tax receipts
 - Employment levels will remain high with moderate improvements
 - Income growth
- Projection appropriately conservative given risks of occasional setbacks in recovery



TOT

- Budgeted at \$66.1 million
 - 0% growth over FY 2010 projection
- Per SDCVB March 2010 forecast, tourism will moderately improve with economy in FY 2011
- Flat growth projection aligns with industry forecasts of improvement, while maintaining a cautious assessment of impact on TOT receipts



Franchise Fees

- Budgeted at \$67.2 million
 - SDG&E: \$17.5 m
 - Cable: \$9.5 m
 - Refuse Hauler: \$9.5 m
 - Facility Franchise: \$2.6 m
 - Other: \$155,000
- 1.7% increase over FY 2010 projection
- Franchise projection appropriate



Summary of IBA Review

- We are aware of some Council interest in restoring funding to mitigate Fire rolling brown-outs.
- No easy, ongoing solutions identified through IBA review.
- After four tough budget years, solutions used in past are harder to identify.
- We do not advise service restorations at this time based on budget status.



Summary of IBA Review

- If there is strong Council interest in pursuing restorations for FY 2011:
 - Request Mayor to identify reductions proposed but not taken in December 2009
 - Request Mayor to recommend funding options in the May Revise for Council consideration
 - For future, new cost recovery fees could be considered for emergency services



Proposed Corrective Actions

- We have reviewed and confirmed the accuracy of 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 million
 - Retiree Health PAYGO-\$3 million



Proposed Corrective Actions

- We support the corrective actions but note we consider \$14.1 million of these actions to be one-time.
- One-time resources have been treated appropriately in the Five-Year Outlook through their removal as a resource in future years.
- No impact on FY 2010 projected deficit.



General Fund Expenditures

- Expenditure categories of Salaries and Wages, Fringe Benefits, Supplies, Contracts, Information Technology are reviewed.
- Major line items in each category are compared between FY 2010 and FY 2011.
- Information shows impacts of budget changes on departments.



Vacancy Savings

- Previously, City assigned a vacancy factor to departments for normal turnover and attrition.
- Process has changed for FY 2011 due to OneSD system.
- Funding was removed for vacant positions.
- Total vacancy savings for all departments is \$2.4 million less than prior year.
- However, new approach has impacted several departments significantly, including Park and Recreation and Library.



Fleet Rate Reductions

- Significant adjustments to fees charged to departments for fleet services occurred in December.
- Reflects elimination of under-utilized vehicles by 20%, reductions in Police and Fire take-home vehicles, increase in vehicle replacement cycles by two years.
- Also \$4.4M (General Fund portion) of accumulated fund balance used.
- General Services Department may propose lease-purchase financings to purchase vehicles in the future.



Deferred Capital

- Guiding Principles include Council request for 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 formula to:
 1. Identify required “Catch-Up” funding to achieve service levels
 2. Identify “On-going” funding to maintain service levels



Redistricting

- City Charter requires that the City be redistricted at least once every 10 years and a Redistricting Commission be appointed.
- City Charter stipulates hiring a chief of staff for the Commission, plus additional resources.
- Former Redistricting Commission issued recommendations - if implemented, would also have budgetary impacts.
- Significant impact on City Clerk and other departments not addressed in Proposed Budget.



City Auditor

- Recent actions of the Audit Committee 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;
 - Transferring \$100,000 from Public Utilities to the Auditor to conduct audits of the water and wastewater areas.



Community Plans

- In FY 2010, \$3.4 million was added to the City Planning and Community Investment Department's budget for Community Plan updates.
- Funding was subsequently eliminated from FY 2011 Proposed Budget.
- While department requested that funding be restored in the FY 2011 Proposed Budget, it was only partially restored.
- We note the potential impact that this reduction may have on Community Plan updates.



Development Services Department

- Development Services Department proposed budget for FY 2011 does not appear to align with anticipated trends in revenues and expenditures.
- Relatively few adjustments have been made to the budget, no revenue changes were made.
- Recommend that budgeted revenues and expenditures be reanalyzed and revised to reflect anticipated development activity in FY 2011.



Fire Rolling Brown-Outs

- Concerns have been raised about response times resulting from brown-outs.
- Public Safety and Neighborhood Services Committee has heard regular updates, members have expressed a desire to restore some browned-out stations.
- Each engine restored would require \$1.4 million.
- Fire Chief is assessing situation on a daily basis.



Funding for Police Recruits

- IBA identified concerns regarding number of assumed vacancies.
- It appeared salaries for recruits had not been accounted for in proposed budget.
- CFO has confirmed this error, which was attributed to transition to new budget system.
- May Revise will need to address \$3.5 million for this purpose.



Key Budget Dates

- Joint Budget & Finance Committee and Committee of Whole Budget Hearings **April 30-May 7**
- Mayor Issues May Revise **May 14**
- Mayor Presents May Revise to Council **May 18**
- IBA Issues Final Report **May 24**
- Joint Budget & Finance Committee and and Committee of Whole Budget Deliberations **May 26**
- City Council Final Budget Decisions **June 14**