

OFFICE OF THE INDEPENDENT BUDGET ANALYST REPORT

# MAYOR'S PROPOSED FISCAL YEAR 2007 BUDGET

Date Issued: April 28, 2006

IBA Report Number: 06-18

## Report Overview

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At the January 30, 2006 City Council meeting, the Independent Budget Analyst (IBA) proposed, and the City Council unanimously endorsed, recommending a “time out” approach to the Mayor for the Fiscal Year 2007 Budget in order to “allow the organization to focus on fixing the (budget) problems of the past; implement improved budget procedures and policies; take the budget apart and rebuild it to as accurate of an expenditure plan as possible; and, for now, set aside expectations for new or enhanced programs, new services or improved service levels or even restoration of cuts made in the past.”

A number of priority issues for Fiscal Year 2007 were also identified at this Council meeting by the City Council and the IBA, and were submitted to the Mayor as guidance in developing the Fiscal Year 2007 Budget. These priorities are reflected in the following public documents: IBA Report Number 06-4 “City Council Budget Priorities for Fiscal Year 2007” (which included the individual memoranda from each Councilmember on budget priorities); Resolution Number R-301212 setting forth Council Budget priorities for Fiscal Year 2007; and IBA remarks on the record from the January 30 City Council meeting. Below is a list of the top priorities that were identified and a discussion of how they have been handled in the Mayor’s Fiscal Year 2007 Proposed Budget.

### “TIME OUT” APPROACH

The Mayor and his staff have used this year to focus on stabilizing the budget and have allocated what little new revenue was available to address the major structural under funding problems of the past, including funding of supplemental positions across the City organization and overtime costs in Police. The Mayor’s budget “stabilization” approach for Fiscal Year 2007 is consistent with the “time out” direction proposed by the IBA and endorsed by the City Council in January.

“The Mayor’s budget ‘stabilization’ approach for Fiscal Year 2007 is consistent with the ‘time out’ direction proposed by the IBA and endorsed by the City Council in January.”

**The IBA encourages the City Council to stay focused on the “time out” approach for the remainder of the Fiscal Year 2007 budget process. Should any new funding be identified or reallocation be proposed, the IBA recommends increasing funds for deferred and ongoing maintenance, reserves or the pension obligation**

### **ADDRESSING PHANTOM (SUPPLEMENTAL) POSITIONS**

Year after year, positions have been filled by valuable City employees, but funding for these positions has not been included in the budget. Past budgets have assumed (or hoped) that either unbudgeted revenue or savings from other vacancies would pay for these positions by the end of the fiscal year. The Mayor was encouraged to identify these positions throughout the City, evaluate and determine their criticality, and based on this determination, to accurately reflect critical positions in the budget. Again, the goal is to develop an accurate and honest budget.

In the General Fund, the Mayor has identified and included in the budget 269 supplemental positions for a total cost of \$33.5 million. They have also identified and included in the budget \$22 million in revenue (e.g. grant funding), that is associated with many of these positions, and has not been included in the budget in the past. \$11.2 million in new general funds were required in this budget to fund the remaining costs of these positions.

In the Non-General Fund departments, an additional 160 supplemental positions were funded in the 2007 budget for a total of 429 supplemental positions.

Time constraints in this year’s budget process likely provided little opportunity to fully evaluate the ongoing need of all of the supplemental positions. If the positions carry their own revenue source, this is not a major issue. However, for the positions that required \$11.2 million in new general funds, evaluating their criticality compared to other funding needs is important. **Future budget processes need to incorporate a more thorough evaluation of their need. In our report, we highlight supplemental positions for selected departments that have been funded in the Fiscal Year 2007 Budget for Council awareness.**

269 General Fund Supplemental Positions	
Total Cost	\$33.5M
<u>Associated Revenue</u>	<u>\$22.3M</u>
New General Funds Required	\$11.2M

Additionally, as we have noted on several occasions, the City needs a clear policy on position control and authorization to avoid this situation in the future. **New positions regardless of their funding source should require City Council authorization either through the budget process or, if “off budget,” a formal action request should be docketed for City Council consideration.** We have asked the City Attorney’s Office to identify current policies with regard to this matter, so that we can assess the current situation and determine if stronger policies are needed.

## CORRECTING PAST UNDER FUNDING OF POLICE AND FIRE

In recent years, a pattern developed of significantly under funding the Police Department budget by millions of dollars, even though historical spending levels demonstrated these expenditures were necessary to meet critical public safety service levels. The department faced exceeding their budget by millions or making service level decisions mid-year, such as not filling sworn positions. Categories of significant under funding included overtime, special pay, “pay in lieu” and data processing. The Mayor was encouraged to examine this issue, analyze the Police budget, and fix this under funding problem in the Fiscal Year 2007 Budget to the extent possible.

The Mayor’s Budget indicates that \$24.2 million in new funding has been included to fix the Police budget’s structural under funding problems, so that the department will no longer feel pressure to keep sworn positions vacant as a budget balancing measure. However, these additions have been offset by \$16.8 million in salary savings. **We are raising a note of caution regarding the Police Department budget for next year relative to their vacancy factor. While they have received some new funding, the department’s “budgeted” vacancy factor of \$16.8 million is equivalent to 150-200 sworn positions.**

Currently, the Police Department is experiencing unprecedented and significant salary savings as a result of recruitment challenges and turnover. Their budgeted vacancy factor assumes the same degree of challenges with recruitment throughout Fiscal Year 2007. However, the department needs to be able to pursue intensive recruitment efforts to fill these critical positions as well as utilize overtime funds without consideration of their vacancy factor. Should this become a budget constraint during the year, the Police budget may need to be adjusted mid-year and funds would need to be identified. The impact of fully funding positions in the Fiscal Year 2008 budget, if recruitment efforts are successful, will be significant.

### “What is a vacancy factor?”

The vacancy factor is a planned line item deduction in a department’s budget to reflect the reality of turnover, time required for recruitment and differences in salary levels between tenured, departing employees and new hires. It is typically based on past experience taking into consideration position freezes or other unique circumstances. While it is new to this City’s budget process, it is a common budgeting tool. The vacancy factor is never intended to impose a position freeze. If the vacancy factor is too high, a department may have to freeze hiring in order to stay within budget or reduce expenditures elsewhere.”

The chart on the right presents some reasonable tests which indicate that the vacancy factor is on the high side:

	<u>Positions</u>	<u>Budget</u>	<u>Vacancy Factor</u>
Police	2788	\$360.6M	\$16.8M
General Fund	7465	\$1.013 B*	\$35.9M
Police % of			
General Fund	37%	35%	47%

\* Excludes pension obligation bond receipts

This budget also proposes an increase in overtime funding for Fire-Rescue, however, the increase in overtime of approximately \$8 million is offset by a vacancy factor of over \$11 million. Compared to Fiscal Year 2006, total personnel funding has been reduced for 2007. **Fire’s vacancy factor will also need to be closely monitored during 2007. However, it may be more achievable than Police’s given Fire’s preferred management approach to utilize overtime (constant staffing) in lieu of filling vacancies. When the next Academy class graduates in May, though, they will be down to 36 vacancies according to the Fire Department.**

	<u>Positions</u>	<u>Budget</u>	<u>Vacancy</u>
<u>Factor</u>			
Fire	1191	\$169.7M	\$11M
General Fund	7465	\$1.015 B*	\$35.5M
Fire % of			
General Fund	16%	17%	31%
* Excludes pension obligation bond receipts			

**The issue of the cost/benefit of utilizing overtime versus permanent positions in the Fire Department is also addressed in our report.**

**We discuss the vacancy factor in our report as it relates to other selected departments as well.**

## **FUNDING OF THE PENSION OBLIGATION**

- **Pension Obligation Bonds**

The Mayor has included \$162.5 million in the budget to accomplish a plan to cash fund the “normal cost” of \$81 million and leverage \$30 million in the budget to generate \$300 million in pension obligation bond proceeds to pay down the UAAL as necessary. This strategy would in turn free up \$25 million in additional funding to increase the City’s reserves and an additional \$9.4 million for deferred maintenance.

\$7.4 million in remaining employee pick-up savings would also be leveraged in 2007 to yield an additional \$74 million through pension obligation bonds for a total system funding in 2007 of \$455 million. The Mayor’s Budget estimates that a funding ratio of 79% will be achieved in 2007 through this approach.

In the Mayor’s April 19 memorandum to the City Council, “My Fiscal Year 2007 Budget Proposal,” the Mayor notes that “Pension obligation bonds are not before you for your consideration.” However, inclusion of the pension obligation bond proceeds of \$374 million as a line item in the Mayor’s budget requires the Council to fully consider this proposal now. It would not be responsible for the City Council to approve a Fiscal Year 2007 budget that includes \$374 million of bond proceeds without full consideration and due diligence relative to the Mayor’s Pension Obligation Bond proposal.

There are considerable hurdles relative to this proposal and a full discussion is warranted whether it is prudent to include these pension obligation bond proceeds in the 2007 budget. These challenges include completion of the Kroll investigation; release of the City’s financial audits; regaining our access to the public markets; and rising interest rates.

The following should also be considered:

For financial reporting purposes, bond proceeds are recognized after the **closing date** (which is the final step in the process). Based on experience, it could take several months from when you start on a financing to work with advisors, underwriters, bond counsel, rating agencies, develop the preliminary offering statement, go to the market, and then finally close. Therefore, it is uncertain that the closing date would occur within the Fiscal Year 2007.

In terms of the budget and budget estimates, the **probability** of an outcome should govern its budget treatment. If there is a high probability that bond proceeds will not be received within the fiscal year, then it is more appropriate to present the most likely scenario in the budget. If there is a high probability that the proceeds will be received within the fiscal year, then it is appropriate to include them in the budget.

Another guide is **Council authorization**. Generally, the City Council should fully consider and authorize a proposal of this magnitude prior to its inclusion in the budget. This typically should be done in advance of budget deliberations.

Finally, the underlying accounting concept of **conservatism** should guide this City's approach to its budget.

**This issue is discussed in greater detail in our report.**

**The IBA proposes that the City Council discuss/consider an Alternative Budget A for Fiscal Year 2007. Alternative Budget A would propose including the \$162.5 million for the retirement contributions in next year's budget, while holding off on including the \$374 million in pension obligation bonds proceeds in the budget for reasons discussed above. This approach would not limit the City's ability to pursue the pension obligation bonds during the course of the year.**

IBA recommendation: "Alternative Budget A proposes including only the \$162.5 million for the retirement contributions in next year's budget, while holding off on including the \$374 million in pension obligation bonds proceeds in the budget. This approach would not limit the City's ability to pursue the pension obligation bonds during the course of the year."

- **Tobacco Securitization**

On April 24, 2006, the City Council approved the Mayor's plan to securitize the City's stream of Tobacco Settlement Revenues (TSRs) and make a lump sum deposit into the retirement system. The TSRs are primarily General Fund revenues that support various enforcement and health-related programs throughout the City and other General Fund programs. In order to keep the General Fund whole and continue all the services provided within the fund, the loss of that revenue is to be backfilled using a portion of the "employee offset savings."

The IBA has confirmed that those programs historically funded through these revenues are reflected in the Fiscal Year 2007 Proposed Budget, as in past years. In addition, no TSRs are budgeted as revenue to be received, as is appropriate. However, the IBA could not identify in the budget the final step in the process, which is to make the General Fund revenues whole through the receipt of the employee offset savings.

- **Other Pension Issues**

The following pension issues are also discussed in our report:

Fiscal Year 2007 Payment Calculation

When Board approved rates are applied to the payroll in the proposed budget, the contribution is calculated at between \$168 million and \$174 million, depending upon the timing of the payment.

Timing of Payment

Timing of the payment should be clarified per the Gleason settlement.

Waterfall

“The Waterfall,” the mechanism by which retirement fund assets are diverted to other “contingent” uses, is still codified in the City’s Municipal Code. This will continue to occur in Fiscal Year 2007 without additional infusions outside of the required contribution.

## **ADDRESSING DEFERRED MAINTENANCE**

The Mayor was encouraged to begin to address the significant deferred maintenance and infrastructure needs of the City in the Fiscal Year 2007 Budget as well as prepare a multi-year funding plan. Deferred maintenance needs have been ignored in the budget for many years. Critical deferred maintenance needs are believed to be in the neighborhood of several hundred million dollars, although a complete needs assessment has not been undertaken for several years. With the limited funds available for 2007, the Mayor has identified \$10.6 million in assured funding for deferred maintenance. The remainder of this plan for deferred maintenance relies on the issuance of the pension obligation bonds discussed above. Success with the plan for issuing pension obligation bonds for the retirement contributions would free up an additional \$9.4 million for a total of \$20 million for deferred maintenance in 2007. Without the pension obligation bonds, however, the funding reverts to \$10.6 million for 2007.

**This issue is discussed in greater detail in our report. It will be critical to stay focused on the issue of deferred maintenance needs as funds become available in the future, and strong competition exists to fund services as well.**

## INCREASING THE CITY'S RESERVES

The Mayor has been encouraged to increase the City's Unappropriated Reserves to more quickly achieve the goals of Council Policy 100-20, which is to bring the General Fund Reserve to five percent of the annual General Fund revenues by Fiscal Year 2014. It is the Mayor's goal to "go above and beyond this policy and increase reserves to eight percent by Fiscal Year 2010." The Mayor proposes increasing reserves funding by \$22.4 million for a total reserve amount of \$55.3 million in Fiscal Year 2007. Similar to deferred maintenance, this infusion of funds into the reserve is dependent upon the success of issuing the pension obligation bonds, which would free up funding in the budget for the reserves. This is the Mayor's plan, but these actions are not reflected in the budget.

The Budget document indicates that this would achieve a 5.72% funding ratio for the reserves for 2007. This is achieved by assuming the inclusion of pension obligation bond revenue to boost the reserves, then backing out this one-time revenue for purposes of calculating reserves as a percentage of total General Fund Revenue.

Without the pension bond funding and the ability to increase the reserves by \$22.4 million (Alternative Budget A), the reserves would revert to \$32.9 million, which would be a 3.3% funding level.

Impact of POBs on Reserves			
	<u>2007 Total GF Budget</u>	<u>Reserves</u>	<u>% to GF</u>
Budget w/POBs	\$1.013 B*	\$55.3M	5.5%
Budget w/o POBs	\$1.013 B	\$32.9M	3.3%
	<u>2006 Total GF Budget</u>	<u>Reserves</u>	<u>% to GF</u>
	\$864M	\$35.9M*	4.1%

\* Pension obligation bond proceeds are backed out of the total GF reserves calculation since it is a one-time revenue/expenditure.

## FUNDING OF RETIREE HEALTH CARE BENEFITS

The Mayor was encouraged to begin to address the growing unfunded retiree health care benefits costs which are estimated at \$978 million. Under new GASB rules, municipalities will soon be required to begin reporting this liability. The Mayor's Budget states that \$21 million has been included in the budget for this purpose. However, only \$17.2 million could be identified in the 2007 budget detail.

The Mayor's Budget also states that \$5 million has been included in the budget to begin funding a reserve to cover the future cost of these benefits should the City not make changes to the current benefit. However, this \$5 million funding could not be identified or confirmed in the Mayor's Budget. **This issue is discussed in greater detail in our report.**

**[SIGNED]**

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Tom Haynes  
Fiscal & Policy Analyst

**[SIGNED]**

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Angela Means  
Fiscal & Policy Analyst

**[SIGNED]**

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Penni Takade  
Fiscal & Policy Analyst

**[SIGNED]**

---

Jeff Sturak  
Deputy Director

**[SIGNED]**

---

Judy Stone  
Executive Assistant

**[SIGNED]**

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Andrea Tevlin  
Independent Budget Analyst



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# INTRODUCTION

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# About Our Report

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One of the key responsibilities of the Office of the Independent Budget Analyst (IBA) is to review and comment on the Mayor's proposed annual budget, conduct analyses of the budget and recommend modifications to the City Council. This first report, which is our Preliminary Report, focuses primarily on the first two tasks. Our Final Report, to be issued on May 19, will focus on recommended changes to the Mayor's budget for City Council consideration after we have had an opportunity to carefully consider input from the public; comments from Council members; Mayor's Office responses to various issues; and further IBA review and analysis.

**The primary goals of our Preliminary Report are twofold:**

**To ensure that the residents of our community have the information they need to understand the proposed budget, and be in a position to form opinions and express those opinions, if they so desire.**

**To ensure that the members of the City Council, as the Legislative branch of this community, have the information they need to make fully informed and responsible decisions relative to the proposed budget.**

It is not our intent to duplicate existing information or to recreate information provided by the CFO. Rather, it was our goal to add value to the budget process by providing new information; clarifying existing information; identifying issues for further discussion; and, in some cases, proposing alternative approaches to the budget. Most importantly, it was our goal to provide an independent voice in the development of the 2007 budget. On that note, it is important to clarify that our office was included in information sharing meetings, but did not participate in the development or decision making of the Mayor's Proposed Budget.

This report is composed of the following sections: Report Overview; Citywide Issues (such as Supplemental Positions and Deferred Maintenance); Departments and Program Overviews; and Budget Process Improvements.

While we included all City departments and programs in our review, we felt it was not necessary to include them all in our report. Also, please note our review was based on the Fiscal Year 2007 Proposed Budget document and budget numbers that were released by the Mayor on April 14, 2006. A "Budget Supplement" was distributed on April 26, 2006, which provided greater budget detail by department along with 2006 to 2007 comparison information. It also reflected some further reorganization that was not reflected in the initial document.

Throughout our report we identify departmental needs for which funding has not been included in the Fiscal Year 2007 budget. We are not pointing this out to criticize or to advocate for inclusion in the budget. Rather it is discussed to let the Council know the current status of certain issues and to note it as a future funding need.

Due to timing, we have not yet reviewed the budget for the City Agencies including Centre City Development Corporation, Redevelopment Agency, San Diego Data Processing Corporation, San Diego Housing Commission and the Southeastern Economic Development Corporation. We will do so as these budgets come forward to Council.

# CITYWIDE ISSUES

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# General Fund Revenue

## Fiscal Year 2007 Budget

The Fiscal Year 2007 proposed budget includes approximately \$1.39 billion in General Fund revenue, a \$522.2 million increase over Fiscal Year 2006. The majority of this increase is due to \$374 million in pension obligation bond proceeds, which are budgeted in the General Fund. In addition, transfer of the Street Division to the General Fund accounts for approximately \$36.5 million of the total General Fund increase, while other restructuring accounts for \$1.2 million. General Fund revenue net of these factors is \$975.4 million, representing a \$110.5 million increase over Fiscal Year 2006. This “adjusted” Fiscal Year 2007 General Fund revenue provides for a more accurate comparison to Fiscal Year 2006. The table below provides another way of looking at Fiscal Year 2007 General Fund revenue growth.

<b>General Fund Revenue – FY06 to FY07</b>	
<b>FY 2006 General Fund Revenue</b>	<b>\$ 864,919,912</b>
<i>Restructuring<sup>1</sup></i>	37,718,800
<i>Supplemental Revenue<sup>2</sup></i>	22,303,222
FY 2007 Base General Fund Revenue	<u>\$ 924,941,934</u>
FY 2007 Revenue Adjustments	
<i>POB Proceeds</i>	374,000,000
<i>Major Revenue Growth<sup>3</sup></i>	151,150,368
<i>Other Non-Departmental Adj.<sup>4</sup></i>	(65,136,447)
<i>Departmental Revenue Adj.</i>	2,151,033
<b>FY 2007 Proposed Budget</b>	<b><u>\$ 1,387,106,888</u></b>
<p><i>1. Reflects Street Division, Diversity, Special Training, and the Benefits and Safety activities of Risk Management moving to the General Fund.</i></p> <p><i>2. Associated with supplemental positions.</i></p> <p><i>3. Includes property tax, sales tax, TOT and franchise fees.</i></p> <p><i>4. Primarily reflects removal of FY06 one-time revenue (\$12.4m) and elimination of TOT transfer (\$39.1m) and budgeted carryover (\$9.9m).</i></p>	

The major General Fund revenues – property tax, sales tax, TOT and franchise fees – comprise \$716.6 million of the total General Fund revenue budget, an increase of \$151.2 million from Fiscal Year 2006. While the growth rate for these revenues is projected to remain fairly strong, there are a few irregular elements that help to explain this substantial increase from Fiscal Year 2006. First, over the past two years, the State of California has been diverting approximately \$16.9 million per year of the City’s property tax to the school districts. A two-year deal that was agreed upon as part of the negotiations over Proposition 1A that passed in November 2004, these shifts terminate in Fiscal Year 2007, giving the City a one-time property tax increase of \$16.9 million. Second, in previous years, sales tax revenue was allocated to several non-General Funds before being budgeted in the General Fund. As a result, the General Fund sales tax budget reflected only the

residual amount that was left after all allocations were made. In Fiscal Year 2007, this budgetary practice was changed to reflect the total projected sales tax in the General Fund, with General Fund transfers then being made to all the funds that previously received sales tax.

## Major Revenue Growth Rates

The Fiscal Year 2007 proposed budget employs reasonable growth rate estimates for the major General Fund revenues. Growth rate projections must take into account several factors, including relevant economic indicators, annual growth rate trends, and state legislative impacts. The growth rates proposed for Fiscal Year 2007 appear to have taken these factors into account, and no major inconsistencies are present. The projected growth rates for Fiscal Year 2007 are shown in the box below.

Of more concern is that the Fiscal Year 2007 proposed budget document does not provide detail on the assumptions that were used in developing these growth rates. The document does have a section on the economy, highlighting a few significant economic indicators, but there is no linkage between this section and the major General Fund revenue projections. That being said, the projected growth rates for Fiscal Year 2007 appear to be based on sound assumptions, but more detail is needed.

<b>Major Revenue Growth Rates</b>			
	<b>FY 2006 Budget</b>	<b>FY 2006 Estimated</b>	<b>FY 2007 Budget</b>
<b>Property Tax<sup>1</sup></b>	7.5%	11.2%	7.25%
<i>In-Lieu VLF</i>	7.5%	13.0%	8.00%
<b>Sales Tax</b>	4.5%	7.3%	4.75%
<b>TOT</b>	5.0%	8.1%	6.00%
<b>Franchise Fees</b>			
<i>SDG&amp;E</i>	7.5%	0.7%	7.00%
<i>Cable</i>	7.5%	6.0%	7.50%

1. FY06 Estimated growth reflects Current Secured property taxes.

### Property Tax

The Fiscal Year 2007 projected property tax growth rate indicates a sharply slowing housing market. Property tax revenue received in Fiscal Year 2007 is based on assessed valuation as of January 1, 2006, meaning that the market activity in *calendar* year (CY) 2005 will impact property tax revenue in *fiscal* year 2007. To that end, activity in the housing market cooled significantly in CY 2005. According to local real estate research firm DataQuick, the total number of homes sold in 2005 declined by over 5,500 units from 2004, a reduction of 9.1 percent. While monthly price appreciation was well over 10 percent on a year-over-year basis for the first few months of CY 2005, price increases dropped dramatically over the rest of the year, hitting a low of 2.1 percent in August 2005. The big question is how this slowdown in market activity will impact assessed valuation. While there is certain to be an increase in assessed valuation, we should expect a substantial slowdown from the previous year, when the housing market was at its peak. The challenge is in predicting the magnitude of this decline. Given that there is little precedent to rely upon, estimating property tax growth for Fiscal Year 2007 is especially difficult, and the Fiscal Year 2007 proposed budget provides a reasonable projection.



### Sales Tax

Sales tax revenue is projected to increase 4.75 percent, reflecting some moderation in consumer spending. While the Fiscal Year 2007 projected growth rate is an increase from the Fiscal Year 2006 budget, it represents a reduction from the Fiscal Year 2006 projected sales tax growth rate of 7.3 percent. The Fiscal Year 2007 growth rate is consistent with projections made by the California Department of Finance, which projected statewide taxable sales to grow by 4.7 percent. The biggest concern regarding sales tax revenue is that consumer spending has been strong...too strong. In CY 2005 the rate of personal savings in the United States fell into negative territory for the first time since the Great Depression, likely fueled by cheap consumer debt. Furthermore, many homebuyers of late have accessed the burgeoning market by using riskier financing instruments, such as interest-only loans. Should interest rates continue to rise, particularly at a sharper rate, many homeowners could find themselves living with a tighter budget. Nonetheless, taxable sales have stayed strong in San Diego as evidenced by the projected sales tax growth in Fiscal Year 2006, and there is no incontrovertible evidence that suggests the Fiscal Year 2007 projection should be lowered.

### Transient Occupancy Tax

The Fiscal Year 2007 projected growth rate for TOT is 6.0 percent, reflecting a tourism market that should remain strong in CY 2006 and 2007. While the Fiscal Year 2006 budgeted growth rate was 5.0 percent, current year-end projections put the growth rate closer to 8.1 percent. Both the average daily room rate and the number of room nights sold are projected to increase in 2006, according to the San Diego Convention and Visitors Bureau, which will continue to drive growth in TOT revenue. Even as the San Diego region continues to contend with other tourist destinations for market share, the biggest concern for the City in terms of TOT revenue would be a national recession, a terrorist attack or some other national calamity, or a marked strengthening of the dollar, which would make international travel affordable to US citizens while at the same time making travel to the US more expensive for international residents.

### Franchise Fees

Franchise fees, while portrayed as a single number for the purpose of being a major revenue source, is actually the sum of several different budgeted franchise revenues. The two largest contributors of franchise revenues are SDG&E and the two cable providers, Cox and Time-Warner. The Fiscal Year 2006 projected growth rate for SDG&E franchise revenue (see table on previous page) appears to be an anomaly based on an unusually low February cleanup payment. To date, the company has not provided an adequate explanation of why the cleanup payment was so low, and the Fiscal Year 2007 growth rate has been held relatively constant while this matter is investigated. Once resolved, it is possible that SDG&E franchise revenues may be revised higher for Fiscal Year 2007, as high energy demand continues to put upward pressure on electricity and natural gas prices. The Fiscal Year 2007 proposed growth rate for the cable franchises reflects continued high demand for cable television and related products, such as sports packages and on-demand programming.

## Property Tax Revenue Increase

For the past two years, the total property tax budget has had three components, the base property tax projection, the in-lieu VLF projection, and the diversion of

revenue by the state (ERAF III). In Fiscal Year 2007, the ERAF III shift was eliminated, as described above, while the other two components remain intact. The table below shows the breakdown of the Fiscal Year 2006 and Fiscal Year 2007 property tax budgets.

	<u>FY 2006</u>	<u>FY 2007</u>
Base Property Tax	\$249.9 million	\$254.5 million
In-lieu VLF	\$57.4 million	\$89.7 million
ERAF III	(\$16.9 million)	-
<b>Property Tax Budget</b>	<b>\$290.4 million</b>	<b>\$344.2 million</b>

The first component, base property tax, is the standard property tax revenue based on the 1% tax levy. It is comparable to the property tax budget prior to Fiscal Year 2005. The second component, the in-lieu VLF, is property tax revenue shifted to local governments from the school districts to compensate them for the elimination of the VLF backfill in Fiscal Year 2005. More detail on this subject can be found in the Fiscal Year 2005 and Fiscal Year 2006 Annual Budget Documents (Fiscal Year 2006 online only). The considerable increase in the in-lieu VLF component is due to the Fiscal Year 2006 actual in-lieu VLF coming in substantially higher than what was budgeted. The third component is the property tax diversion by the state that was described in the beginning of this section.

## Sales Tax Allocations

As described in the opening paragraphs of this section, the budgeting practice in past years has been to allocate sales tax revenue “off the top,” meaning that sales tax revenue was budgeted directly in the various recipient funds without ever touching the General Fund. While it is not known for sure why this practice had commenced, there is some speculation that it was used in recent years as a way of keeping the General Fund budget lower so as to reduce the requirement associated with the Library Ordinance. Regardless, the Fiscal Year 2007 proposed budget discontinues this practice by budgeting the total projected sales tax in the General Fund. The recipient non-General Funds that formerly received a sales tax allocation are either enveloped into the General Fund (such as Street Division and Police Decentralization), or are given a transfer from the General Fund to support their operations (such as Special Promotional Programs).

While this new budgeting policy is commendable, it does make comparison between Fiscal Year 2006 and Fiscal Year 2007 difficult. Essentially, the new benefit to the General Fund resulting from sales tax growth can be simply shown by comparing the total sales tax budgets, as shown in the table below. By comparing the Fiscal Year 2007 General Fund sales tax budget directly to the

FY 2006 Total Sales Tax	\$218.4 million
FY 2007 Proposed Budget	\$234.9 million
<b>Difference</b>	<b>\$16.5 million</b>

Fiscal Year 2006 General Fund sales tax budget, it would seem as though the General Fund was going to receive approximately \$90.1 million in new sales tax revenue, when in fact, the actual net benefit to the General Fund is only \$16.5 million. It should still be noted, however, that policy

decisions regarding Special Promotional allocations will still have a General Fund impact, as the program is still subsidized by the General Fund.

### **Fiscal Year 2007 State Impacts**

The Governor's Proposed 2006-2007 California State Budget, released in January 2006, restored funding for booking fee reimbursements that were eliminated the year before. In previous years, the City of San Diego received approximately \$5.2 million from the state in booking fee reimbursements. In Fiscal Year 2006, booking fee revenue was retained in the General Fund budget because it was thought that a deal would be worked out at the state level. No deal was worked out, however, and the reimbursements were eliminated. Based on the Governor's proposed 2006-2007 budget, the Fiscal Year 2007 budget once again includes \$5.2 million in booking fees.

Despite the Governor's apparent intention to fund booking fee reimbursements, it should be viewed as a highly unsecured revenue source. For years there have been attempts at the state level to eliminate this funding to local governments, and it is highly likely that booking fees will be eliminated again in the near future, and quite possibly may not ultimately be funded in Fiscal Year 2007. More information will be available when the Governor releases a revised version of the Proposed State Budget next month, known as the May Revise.

### **Earmarking of General Revenues**

In Fiscal Year 1998, the Rules Committee endorsed six principles of budgeting and finance proposed by the City Manager. In 2002, the Blue Ribbon Committee Report on City of San Diego Finances issued support for these budget principles. Budget principle number six states, *"Discretionary General Fund revenue should not be earmarked, thereby allowing maximum flexibility in funding decisions on an annual basis."*

Earmarking general revenues is not a prudent financial practice. In this context, earmarking should be interpreted to mean any policy that sets aside a portion of the budget to be used exclusively for a specific program. Such practices should be discouraged since they reduce flexibility in making budgetary decisions and do not allow the merits of such programs to be considered along with all other competing priorities. The City currently has several policies that do earmark general funds for specific purposes, primarily the Library Ordinance and the Mission Bay Ordinance. Consideration should be given to revising these policies in light of the existing budget policies and prudent financial practices. In addition, instituting a new policy to govern the earmarking of general revenues warrants careful consideration.

# Pension

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## **Fiscal Year 2007 Budgeted Pension Contribution**

The proposed budget includes a contribution of approximately \$162.5 million to SDCERS for the employer contribution. Note that this does not include the City-paid employee contribution or other post-employment benefits such as retiree health.

It's also important to be clear that, while the Mayor has proposed a plan to use part of the \$162.5 million to leverage a larger infusion into the system, begin some deferred maintenance and contribute to the City's reserves, these items are not budgeted, or assumed in the budget. The budget strictly assumes that the contribution will be made in its entirety to SDCERS in cash.

However, the proposed budget does include the proceeds of this leveraging plan: \$374 million in POBs. This is shown as a transaction received and expended by the General Fund. The IBA recommends removing the POBs from the budget for several reasons:

1. The assumption of POBs is not consistent in this case with the exclusion of that assumption in the proposed budget as mentioned above.
2. The IBA recommends taking a conservative approach to budgeting for this transaction. Given the requirements inherent in executing POBs, we do not advocate the inclusion of the POBs in the budget at this time.
3. The plan as a whole, including the POBs, has not yet been approved by the City Council. Where possible, items in the budget should have City Council approval.
4. The budget as proposed is showing a contribution of \$374 million on top of the required contribution of \$162.5, which is not consistent with the Mayor's stated plans.

Given these factors, and that the Mayor's is an ambitious and comprehensive plan, we recommend that the City Council take up consideration of the plan as a stand-alone item.

The table below highlights how various aspects of the budget are impacted with the removal of the POBs from the budget:

	<b>Budget as Proposed</b>	<b>Mayor's Plan</b>	<b>Alternative Budget A</b>
Total General Fund	\$1,387,106,888	\$1,387,106,888	\$1,013,106,888
SDCERS total cash contribution	\$162,500,000	\$81,000,000	\$162,500,000 <sup>(1)</sup>
Reserves contribution	\$0	\$22,400,000	\$0
Reserves as a percentage of General Fund <sup>(2)</sup>	2.37%	3.99%	3.25%
Deferred maintenance budget	\$10,600,000	\$20,000,000	\$10,600,000
POB debt payment	\$0	\$30,000,000	\$0
Retirement System infusion	\$374,000,000	\$374,000,000	\$0
Retirement System funded ratio June 30, 2006 (estimate)	79.15%	79.15%	70.4% <sup>(3)</sup>

<sup>(1)</sup> However, see *FY 2007 Payment Calculation* section below regarding appropriate level of payment.

<sup>(2)</sup> See General Fund Reserves section for more details.

<sup>(3)</sup> As estimated by the CFO's Office based on the City Council-approved tobacco securitization

**Fiscal Year 2007 Payment Calculation:** For the Fiscal Year 2007 pension contribution we recommend that the City Council allocate an amount as approved by SDCERS and consistent with our City Charter. The City Charter states that "Funding obligations of the City shall be determined by the [Retirement] Board..." (Article IX, Section 143). On March 17, 2006, the Retirement Board approved the rates the actuary reported to them. These citywide rates are 28.06 percent of payroll or 27.00 percent of payroll for a beginning of the year contribution (rates are also broken down by retirement group, i.e., police or legislative, etc.). When applied to the payroll in the proposed budget, the contribution calculated is between approximately \$168 million and \$174 million, depending on the timing of the payment. The actuary stated at that meeting that \$162 million should be sufficient, however we note that the actions of the board show that the board approved the rates that are to be applied to payroll, not the dollar amount. We encourage the City Council to obtain clarification on whether the proposed budget contribution complies with the Charter, or if modifications as described above may be necessary.

We note also that there has been significant discussion about whether the pension obligation as approved by the Retirement Board is sufficient to improve the funding status of the City's trust. While discussions like those can be very valuable, we believe that, from the City's perspective, the obligation for this budget is to make the payment as approved by the Retirement Board. Further cash infusions would be beneficial, but the City Council should first and foremost ensure that the City will be complying with the Charter. Similarly, hiring new actuaries to provide additional analysis can be beneficial to the understanding of the pension system, but we believe that, as stated in the Charter, only the SDCERS actuary can provide official rates that comprise our pension obligation.

**Timing of Payment:** Furthermore, timing of the payment should be clarified, as the Gleason settlement would appear to require payment of the City's "Contribution Amount" by July 3, 2006 for Fiscal Year 2007, in order to secure the return of the City's collateral. The contribution amount is defined as "an amount derived from the rates calculated by the actuary for SDCERS in its annual valuation and approved by the SDCERS Board of Administration" (Settlement Agreement and Release, p. 5). Clarification should be provided on the details of the Mayor's plan in light of these requirements. However, the CFO has provided assurances that the Fiscal Year 2007 payment will be made in compliance with all applicable legal requirements.

**The Waterfall:** Additionally, we would point out that "The Waterfall", the mechanism by which retirement fund assets are diverted to other "contingent" uses, is still codified in the City's municipal code. In Fiscal Year 2007, absent additional infusions outside of the required contribution, these contingent uses will be made, if necessary, using retirement system assets once again.

### **Future Pension Plans**

Notwithstanding our budget recommendations, a review of the Mayor's plan for the pension is in order, pending a more comprehensive review when the plan officially comes under consideration by the City Council.

The Mayor's plan includes the issuance of Pension Obligation Bonds (POBs) to infuse the pension system with significant assets in the near-term, reduce the UAAL, and return the trust to a stabilized financial position. The UAAL is an obligation, or debt, of the City's, although pension obligations are sometimes referred to as "soft debt" due to the flexibility the sponsor has in managing or modifying that debt. Issuing POBs is therefore akin to refinancing debt. ***It must be emphasized that POBs neither create new debt, nor do they pay off debt that already exists.*** As such, a primary reason to issue POBs is for interest rate savings and/or arbitrage. In other words, because of the generally lower bond interest rates, the City may experience savings over time on the debt, and in the budget in the near-term, by paying this debt through POBs as opposed to directly to the pension system. Per GASB requirements, issuing POBs would also recognize this debt as an outstanding liability on the City's financial statements, whereas the UAAL is a footnote on the statements.

**POB Guidance:** The Government Finance Officers Association (GFOA) has recommended practices with respect to the use of POBs. GFOA generally recommends caution and states that "...bonds should not become a substitute for prudent funding of pension plans" (GFOA's Recommended Practice: *Evaluating the Use of Pension Obligation Bonds (1997 and 2005)* (*Debt & CORBA*). A comprehensive financial analysis that confirms that the use of POBs is the most economical alternative is not the only consideration for governments, GFOA suggests. Other considerations include loss of flexibility with bonds, impact on labor relations, and "potential misunderstanding by policy makers regarding the possibility that an unfunded liability may reappear in the future." An article from the June 2003 issue of *Government Finance Review* ("Risky Business? Evaluating the Use of Pension Obligation Bonds") recommends conditions such as: above average financial strength on the part of the borrower, the size of the issuance should not

exceed 20 percent of total retirement system assets, and ensuring that the issue is callable to take advantage of future possible low interest rate environments.

***Timeline for POB issuance:*** The Mayor and his team have expressed confidence that the City will be able to issue these POBs during Fiscal Year 2007, completing a host of requirements to finalize the financing. At a high level, the steps the City must take or accomplish include: the finalization of the current investigations and release of audited financial statements, followed quickly by the restoration of the City's good credit ratings to enable the City to access the public markets at advantageous rates. Alternately, the City may pursue a private financing or interim placement if finalized financial statements are not forthcoming. These may be easier to issue, but will also come with an additional premium on the cost of issuance. Staff should then be prepared to finalize the bond documents with the Disclosure Practices Working Group (DPWG) and then present the package to the City Council for approval, after which a validation process through the courts is required. This process validates the City's debt thereby allowing the refinancing of that debt through POBs. This will take approximately 2 months, not including an appeal period. The appeal period is an additional 30 days, although there may be some precedent for proceeding with the sale of the bonds before the entire appeal period has been exhausted. Proceeding with the sale should also require an additional month or two. Therefore, it is not unreasonable to assume that the POBs may be issued in Fiscal Year 2007, but it will require the issuance of the financial statements and restoration of the City's credit early in the year, in the case of a public offering, and the smooth execution of the disclosure process and court validation, among other actions, to complete the package. As mentioned above, these are reasons not to include the POBs in the Fiscal Year 2007 budget. The benefit to the Mayor's plan, however, is not wholly contingent upon being completed by June 30, 2007. When the plan does come to the City Council, scenarios should be included that show the status of the budget and the retirement system if the POBs are issued before or after June 30, 2007.

***Debt Service Payments:*** With regard to the allocation that would be made to debt service under the Mayor's plan, we encourage clarification of actual debt service requirements when the official plan comes forward. It is our understanding that no debt service principal or interest payments would be made during Fiscal Year 2007 unless the POBs were issued prior to January 2007, a scenario that does not appear probable given the above requirements. If the first payments are due six months after the POBs are issued, and that date falls after July 1, 2007, the funding in the Mayor's plan for debt service should be reallocated to other purposes, and debt service should be budgeted in the year in which it is due.

***Implementation of Default Plan:*** If the Mayor and the CFO find indications that the City may not be able to issue POBs, on a public or private basis, during Fiscal Year 2007 or that the market is such that issuing POBs is no longer economical, the Mayor has stated that he will make the full contribution in cash to the pension system, consistent with the by-then-approved City Council's budget, as recommended by the IBA, and all applicable legal requirements. When the Mayor's plan to issue POBs is presented to the City Council, the IBA recommends that goal dates be set to inform the City Council and the public about the timeline and "drop dead" dates to achieve the goals of the plan. Notwithstanding the requirements of the Gleason settlement as noted above, we provide this reminder that the level of contribution to the pension system is also dependent on when that payment is made. If the City does resort to the budgeted employer contribution late in

the year, it may be necessary to identify \$1 million to several million in additional funds to supplement the payment to account for lost interest over time. This is a potential cost of pursuing the plan, and when the plan returns to the City Council for consideration, these additional funds should be identified in advance, in the case the City must utilize them.

***Looking forward to Fiscal Year 2009:*** While the use of available funds freed up due to this leverage mechanism for important priorities such as deferred maintenance and reserve contributions could be a valid decision, it is important to keep in mind that these special allocations will most likely have to be discontinued in whole after Fiscal Year 2008. The Mayor's plan as proposed thus far does not include the leveraging of a portion of the employer contribution for further POBs in Fiscal Year 2009. At that time, the leveraged portion will no longer be available for special allocations, as the City will find it necessary to use this portion again to meet the contribution requirements approved by SDCERS. In fact, as discussed in more detail in the Long-term Planning section, the City may find that the contribution jumps significantly in Fiscal Year 2009 due to the transition to a 15 year amortization. In order to continue the growth of the reserves to meet the Mayor's 8% goal, and in order to continue funding some deferred maintenance in the City, new funds will have to be identified at that time.

***Evaluating Other Options:*** Finally, we encourage the Mayor, when he returns to the City Council, to discuss whether his long-term proposals for pension solutions will include possible land sales, evaluation of a transfer to CalPERS, or other reforms that might enhance the financial or operational status of the pension system.



# Tobacco Securitization

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On April 24, 2006, the City Council approved the Mayor's plan to securitize the City's stream of Tobacco Settlement Revenues (TSRs) and make a lump sum deposit into the retirement system. The TSRs are primarily General Fund revenues that support various enforcement and health-related programs throughout the City and other General Fund programs. In order to keep the General Fund whole and continue all the services provided within the fund, the loss of that revenue is to be backfilled using a portion of the "employee offset savings." The employee offset savings are funds that are earmarked to be leveraged into the retirement system. Through this plan, the City will achieve an economical infusion into the system as well as eliminate potential budgetary reductions that could have service impacts.

Mechanically, the General Fund budget should be reduced by approximately \$10 million, since the City will no longer be receiving the TSRs. That revenue will now be directed to the purchaser of the revenue stream. However, the budget should also reflect a corresponding amount as a new revenue. This revenue will be the money that flows back to the General Fund from the special fund that holds the employee offset savings, to keep the General Fund whole as mentioned above. In addition, the budget should continue to reflect the expense of the programs that have been funded through the TSRs.

The IBA has confirmed that those programs historically funded through these revenues are reflected in the Fiscal Year 2007 Proposed Budget, as in past years. In addition, no TSRs are budgeted as revenue to be received, as is appropriate. However, the IBA could not identify the final step in the process, which is to make the General Fund revenues whole through the receipt of the employee offset savings.

If this is true, other General Fund revenues are supporting the TSR-funded programs. It is appropriate to budget these replacement revenues that support those programs, and utilize the true General Fund revenues for other necessities. The IBA recommends that the City Council first ensure that the Fiscal Year 2007 retirement contribution is fully budgeted consistent with the City Charter. If excess true General Fund revenues are still available, we recommend they be deposited in the Unappropriated Reserve.

# Retiree Health

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## Definitions

- OPEB: Other Post-Employment Benefits, such as retiree healthcare.
- Pay-as-you-go: Allotments of funding to pay for current health premiums of retirees.
- Pre-funding or Actuarial funding: The establishment of a trust that will accumulate and invest funds as the corresponding liability is incurred.

## Fiscal Year 2007 Funding

The Mayor's Proposed Budget states that funding in Fiscal Year 2007 to pay for current retiree healthcare premiums is provided at nearly \$21 million (p. 12). This number is based on estimates of eligible retirees and health care costs in the coming year provided by Risk Management. However, we have been unable to confirm that this level of funding is provided in the budget. Our research shows that approximately \$17.2 million is provided Citywide (of which over \$11 million is attributable to the General Fund), but have

not been able to identify the additional \$4 million that would support the \$21 million funding level as stated in the Proposed Budget.

## Establishment of Trust

The Proposed Budget also states that an additional \$5 million is included in the budget to establish a trust to pre-fund the City's retiree healthcare obligation (p. 12). Due to new requirements of the Governmental Accounting Standards Board (Statement 45) which will go into effect in Fiscal Year 2008, municipalities will have to quantify and recognize the full value of this liability. Although there is no requirement for complete pre-funding, the City must make some effort to address the funding of this liability in order to achieve or maintain strong credit. As stated in a Fitch Ratings report of June 2005:

"Fitch does not expect OPEB plan funding ratios to reach the generally high levels of pension systems for many years, but steady progress toward reaching the actuarially determined annual contribution level will be critical to sound credit quality."

The Mayor's Plan thus anticipates this future need and proposes to set a foundation for the City of San Diego. However, we have been unable to confirm that this \$5 million allotment is provided in the budget. Our research does not show any funding allocated for the establishment of this trust.

# Deferred Maintenance

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## **Fiscal Year 2007 Proposed Budget**

The Mayor's Fiscal Year 2007 Proposed Budget states that one of the key issues paramount to the City of San Diego's success of regaining strong fiscal health is to fund deferred maintenance. One of the Mayor's initiatives is to fund a portion of the City's deferred maintenance needs.

The Mayor has stated that the City will allocate approximately \$20 million to the backlog of deferred maintenance. The Fiscal Year 2007 Proposed Budget includes funding a portion of the City's backlog of deferred maintenance of \$10.6 million. The remaining \$9.4 million of the \$20 million for deferred maintenance is contingent upon the issuance of pension obligation bonds (POBs) and is not included in the Mayor's Fiscal Year 2007 Proposed Budget. If the City is successful with the POB issuance, the Mayor's proposal is to deposit approximately half or \$81 million into the City Pension System, and use the other half of the payment to fund deferred maintenance and increase the Reserves. If the POBs are not issued, the Mayor's budget does not have a contingency plan to increase funds for the City's deferred maintenance in Fiscal Year 2007.

## **Deferred Maintenance Backlog**

One of the Mayor's goals is to complete an inventory of all deferred maintenance needs. It is important to identify, evaluate and prioritize all needs to assist with sound funding decisions in the future.

The City of San Diego retained Non-Profit Management Solutions in Fiscal Year 2003, to conduct a study on the City's deferred maintenance. The Non-Profit Management Solutions report dated June 18, 2003, categorized deferred maintenance as follows:

- Streets, alleys, bridge, street lights and sidewalks
- Coastal Infrastructure
- Facilities
- Motive Equipment
- Hillside/slopes

The Mayor has indicated the need to update the deferred maintenance information and has assigned Richard Haas, Deputy Chief for Public Works, to lead this project. According to Mr. Haas, as of Fiscal Year 2002, the City had a deferred maintenance backlog of approximately \$370 million. This is the only compiled deferred maintenance information that exists.

## Fiscal Year 2007 Funded Deferred Maintenance Projects

On April 13, 2006, the Mayor released his Deferred Maintenance Backlog fact sheet indicating the following proposed deferred maintenance categories:

<b>Category</b>	<b>Amount</b>
<b>Replace Roofs</b> -Museum of Man -San Ysidro Rec. Center -San Ysidro Comm. Center -Bud Kearns Memorial Pool -Main Library -Malcolm X Library -Old Globe Theatre	\$1.5 million
<b>Streets</b> -Resurfacing 12 miles -Slurry Seal 41 miles	\$7.6 million
<b>Storm drains</b> -Alta La Jolla	\$5 million
<b>Slope Failures</b> -Talbot Street -46 <sup>th</sup> Street	\$1.3 million
Tijuana River Valley Dredging (Pilot Channel)	\$4.6 million
<b>Total</b>	<b>\$20 million</b>

### Goal to Eliminate Deferred Maintenance

The Mayor's goal is to establish a ten-year completion plan for the current backlog of deferred maintenance. In addition to establishing a multi-year plan that addresses all deferred maintenance needs in the City, it is also important to address current maintenance needs. City departments lack the necessary funding to adequately maintain City assets. This issue continues to be a critical funding need for the City.

# General Fund Reserve

The Fiscal Year 2007 proposed budget does not currently provide for a contribution to the General Fund reserve. While the Mayor's plan is to contribute \$22.4 million to the reserve in Fiscal Year 2007, this plan is contingent upon issuing pension obligation bonds. Should the City be unable to issue POBs in Fiscal Year 2007, no alternate or additional contribution to the reserve is budgeted.

In Fiscal Year 2006, approximately \$2.4 million was contribution to the General Fund reserve, bringing the balance to \$36.3 million or approximately 4.2 percent of the General Fund. However, Fiscal Year 2006 marks the first time in recent history that the City has accessed the reserve to pay for over-budget expenditures. Approximately \$1.9 million was used to pay for legal fees, while \$1.5 million was accessed to pay for Stormwater expenditures. Taking these reductions into account, the General Fund reserve is currently at \$32.9 million. At present it is unknown whether additional funds available at the end of Fiscal Year 2006 to contribute to the reserve.

As mentioned above, the Mayor's plan to make a contribution to the General Fund reserve in Fiscal Year 2007 is predicated on being able to issue pension obligation bonds. If this City is not able to issue POBs in Fiscal Year 2007, then the reserve percentage will fall noticeably. Even adjusting for the \$374 million in POB proceeds, a reserve balance of \$32.9 million will constitute just 3.25 percent of the General Fund. In order to maintain the 4.2 percent achieved in the Fiscal Year 2006 budget, a \$9.6 million contribution would be required.

<b>General Fund Reserve Balance</b>	
FY 2005 Balance	\$33.9 million
FY 2006 Contribution	\$2.4 million
Over-budget Expenditures	<u>(\$3.4 million)</u>
<b>FY 2006 Current Balance</b>	<b>\$32.9 million</b>

will be

<b>FY 2007 General Fund Reserve</b>			
	<b>Budget as Proposed</b>	<b>Mayor's Plan</b>	<b>Alternative Budget A</b>
<b>Total General Fund Revenue</b>	<b>1,387,106,888</b>	<b>1,387,106,888</b>	<b>1,013,106,888</b>
FY 2006 Current Reserve Balance	32,935,840	32,935,840	32,935,840
FY 2007 Budgeted Contribution	-	22,400,000	-
<b>FY07 Projected Balance</b>	<b>32,935,840</b>	<b>55,335,840</b>	<b>32,935,840</b>
Reserve %	2.37%	3.99%	3.25%

Aside from making an additional contribution to the General Fund reserve, it is recommended that the city consolidate all of its General Reserves into the General Fund. The General Fund reserve is just one component of the city's overall General Reserves. Current policy is to maintain a rate stabilization reserve in many debt service funds equal to one-half of the annual debt service obligation. There is no legal requirement to hold these reserves in the debt service funds, and they all may be consolidated into the General Fund reserve. While this would neither increase nor decrease the overall level of city reserves, it would increase the General Fund reserve percentage. In addition, rating agencies have expressed a desire to see city's General Reserves consolidated, indicating that there may even be an impact on the city's credit rating if this is not done.

Finally, Council Policy 100-20 currently governs how the General Fund reserve is to be used, what the target percentage is, and the methodology by which it is to be built up over time. The Mayor and the IBA have expressed interest in re-examining the Council Policy during Fiscal Year 2007 to look at different uses and funding methods.

# Supplemental Positions

## Fiscal Year 2007 Proposed Budget

At the Council meeting on January 30, 2006, the IBA stated the importance of transparency in budgeting and requested that all supplemental positions be identified and analyzed for inclusion into the City's Fiscal Year 2007 Budget. In an effort to be more transparent in budgeting, the Mayor is proposing to account for all of the supplemental positions, personnel and non-personnel expenditures and revenues in the Fiscal Year 2007 Proposed Budget. The Mayor's Fiscal Year 2007 Proposed Budget includes 269.26 supplemental positions in the General Fund. This resulted in a personnel expense of \$29 million and a non-personnel expense of \$4.5 million, for a total of \$33.5 million.

## Fiscal Impact of Supplemental Positions

The impact of the addition of the supplemental positions to the Fiscal Year 2007 Proposed Budget is indicated in the following chart:

Fiscal Year 2007 Proposed Budget Supplemental Positions						
	FTE	PE	NPE	Total Expenditures	Revenue	Revenue vs. Exp. Impact
General Fund	269.26	\$29 mill	\$4.6 mill	\$33.5 mill	\$22.3 mill	(\$11.2 mill)
Non-General Fund	159.80	\$17.5 mill	\$1.9 mill	\$19.5 mill	\$6.4 mill	(\$13.1 mill)
Total	429.06	\$46.5 mill	\$6.5 mill	\$53 mill	\$28.7 mill	(\$24.3 mill)

The total fiscal impact of \$24.3 million includes \$11.2 million for the General Fund and \$13.1 million for the Non-General Fund.

## Supplemental Positions Funded by Vacancy Savings and Past Unbudgeted Revenue

In the Mayor's Fiscal Year 2007 Proposed Budget it states:

*“Supplemental Information: Adjustments to include expenditures and revenues that have not been included in the budget over the past years. Information includes all supplemental positions, personnel expenses (PE), non-personnel expenses (NPE) and revenues that existed in Fiscal Year 2006 and are expected to continue in Fiscal Year 2007.”*

According to the Mayor's Fiscal Year 2007 Proposed Budget, City departments were asked to submit a comprehensive list of all supplemental positions and justify the need for the positions to their management and identify a manner in which they could pay for the position. The directions from the Mayor's staff to the departments were as follows:

*“If a department’s supplemental expenses exceed the supplemental revenues provided and vacancy savings to be applied, departments are required to reduce additional expenses or identify additional revenues to offset the increase due to supplemental expenses.”*

A review of information provided by Financial Management shows that the fiscal impact of \$24.3 million was effectively offset by the vacancy factor. The vacancy factor is not intended to be an imposed savings requirement, but a personnel savings from normal attrition. It is good fiscal policy to budget supplemental positions, and the revenue associated with the position.

However, if departments were unable to offset supplemental position expenses with vacancy savings or new revenue, the supplemental positions may not have been added into the budget. This would result in supplemental positions that are not accounted for in the Mayor’s Fiscal Year 2007 Proposed Budget. All supplemental positions should be evaluated for inclusion into the Fiscal Year 2007 Proposed Budget regardless of the vacancy savings from the applied vacancy factor.

**Citywide Fiscal Year 2007 Proposed Budget Positions**

<b>Fiscal Year 2007 Proposed Budget Positions</b>			
	<b>General Fund</b>	<b>Non-General Fund</b>	<b>Total</b>
FY 2006 Budget	6,765.36	4,092.41	10,857.77
Supplemental Positions	269.26	159.80	429.06
Restructure/Transparency/Other Department adjustments	431.30	(354.98)	76.32
<b>FY 2007 Proposed Budget</b>	<b>7,465.92</b>	<b>3,897.23</b>	<b>11,363.15</b>

The Fiscal Year 2007 proposed budgeted FTE (Full Time Equivalent) positions is 11,363.15. 7,465.92 positions are for the General Fund Departments, and 3,897.23 positions are for the Non-General Fund Departments. This information is reflected in the pie chart on the first page of the Mayor’s Fiscal Year 2007 Proposed Budget. The total is inconsistent with page 25 of the Mayor’s Fiscal Year 2007 Proposed Budget by 25.09 FTE, due to the Maintenance Assessment Districts positions.



# Vacancies & Salary Savings

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## **Fiscal Year 2007 Proposed Budget**

In the Mayor's Fiscal Year 2007 Proposed Budget, a vacancy factor or vacancy savings was applied to all City departments. The vacancy factor applied to the General Fund departments totaled \$35.9 million and \$18.5 million for the Non-General Fund departments for a total of \$54.5 million.

## **Vacancy Savings**

According to the Mayor's Fiscal Year 2007 Proposed Budget the vacancy savings is as follows:

*“Adjustments that reduce the funding of personnel expenses due to vacant and/or under filled positions, salary step savings, and any other circumstances that might contribute to personnel expense savings. The vacancy savings adjustments **do not reduce positions.**”*

All organizations experience normal attrition in personnel. When departments are able to hire replacement personnel, the lengthy hiring process creates a personnel savings. These new staff members are oftentimes hired at a lower salary than their predecessors generating additional savings.

In all, the vacancy savings should result from natural turnover in an organization. The vacancy factor should be applied by reviewing a department's actual annual attrition over a period of time, and applying a vacancy rate to yield a personnel savings. City departments should be able to hire their entire budgeted staff even with an applied vacancy savings.

## **Applied Vacancy Factor**

In the Mayor's Fiscal Year 2007 Proposed Budget, the average for the applied vacancy factor is approximately 5%. Although this seems reasonable, there are some departments where large vacancy factors are applied. The chart on the following page shows the General Fund departments applied vacancy factor.

## **Hiring Freeze**

In the past, the City Manager would impose a hiring freeze to City departments to generate personnel savings throughout the fiscal year. A hiring freeze is when departments are not permitted to hire personnel into their departments and is a deliberate action separate from the incorporation of a vacancy factor.

If the departments are unable to fully staff their departments with the vacancy factor, then it becomes an imposed hiring freeze, and may lead to departments' inability to operate at full capacity that may affect service level impact.

<b>Fiscal Year 2007 General Fund Vacancy Savings</b>		
<b>Department</b>	<b>Vacancy Savings</b>	<b>Vacancy Percentage</b>
City Clerk	(22,264)	-0.65%
<b>Equal Opportunity Contracting</b>	<b>(178,605)</b>	<b>-7.88%</b>
<b>Community/Economic Development</b>	<b>(375,517)</b>	<b>-8.02%</b>
City Attorney	(1,257,519)	-3.48%
City Auditor and Comptroller	(689,817)	-6.21%
City Treasurer	(43,822)	-0.65%
<b>Budget and Management Services</b>	<b>(325,520)</b>	<b>-9.95%</b>
Financing Services	(10,832)	-0.65%
Purchasing	(128,341)	-6.80%
Personnel Department	(40,046)	-0.65%
Human Resources	(19,236)	-0.65%
Planning	(621,170)	-9.93%
Real Estate Assets	(23,860)	-0.65%
Mt. Hope Cemetery	(7,079)	-0.78%
Reservoir Concessions	(7,079)	-0.65%
Neighborhood Code Compliance	(327,906)	-5.40%
<b>Ethics Commission</b>	<b>(137,627)</b>	<b>-22.20%</b>
Purchasing & Contracting	(9,306)	-1.03%
Police Department	(16,777,644)	-5.07%
<b>San Diego Fire-Rescue</b>	<b>(11,231,800)</b>	<b>-6.92%</b>
Office of Homeland Security	(7,503)	-0.65%
Community & Legislative Services	(17,191)	-0.65%
Library	(443,740)	-1.52%
<b>Park &amp; Rec - Administrative Svcs</b>	<b>(190,708)</b>	<b>-19.16%</b>
Community Parks I	(55,396)	-0.65%
Developed Regional Parks	(741,074)	-3.17%
Community Parks II	(81,067)	-0.65%
Park Planning and Development	(165,469)	-3.98%
<b>Open Space Division</b>	<b>(324,475)</b>	<b>-10.52%</b>
Collection Services	(313,224)	-2.93%
Facilities	(484,412)	-4.60%
Storm Water Pollution Prevention	(10,307)	-0.46%
Parking Management	(183,263)	-2.38%
Field Engineering	(82,276)	-0.65%
Architectural Engineering and Contracts	(26,026)	-0.57%
Transportation Engineering - Design	(44,393)	-0.65%
Transportation Engineering - Ops	(34,018)	-0.65%
Street Division	(456,086)	-1.88%
Customer Services	(6,769)	-0.50%
<b>TOTAL GENERAL FUND</b>	<b>(35,902,387)</b>	<b>-4.58%</b>

### **Adjustments to Vacancy Factor**

The Mayor's staff has stated that the applied vacancy factor will be monitored closely over the next year, and will be modified quarterly if needed. While the application of the vacancy factor reduces costs in the original budget, it could potentially result in needing to identify additional resources mid-year if adjustments are necessary.

# Long-term Planning

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## **City Must Utilize Multi-Year Strategy for Budgeting**

The Fiscal Year 2007 Proposed Budget is a one-year budget that does not allow policymakers to understand the long-term impact of today's decisions. The absence of the Multi-Year Financial Forecast in this proposed budget prevents policymakers from seeing an analysis of this budget's impact over a period of years, or the context of the City's total financial picture. Understanding the total financial picture is critical in evaluating whether the funding priorities in the proposed budget are consistent with the City's long-term priorities and obligations. The IBA recommends that the Mayor renew efforts to develop and utilize a multi-year planning tool and return to the City Council by Fall 2006.

## **Putting Fiscal Year 2007 in Context**

Fiscal Year 2007 is a unique year in the City's recent financial history as it enjoys an unusual confluence of events that are beneficial to the City's bottom line, compared to recent years. With regard to personnel costs, which represent the largest chunk of the City's budget, no significant salary or wage increases were required in Fiscal Year 2007. This stems from back-loaded labor contracts with MEA and Local 127, as well as proposed freezes for the other three unions. In the past three years, General Fund salary and benefit increases combined have required anywhere from \$21 million to \$73 million per year, sometimes exceeding all combined General Fund revenue growth, leaving little flexibility in the budget.

In addition, the required contribution to SDCERS is not a significant increase over Fiscal Year 2006. In the past two years, this increase has required anywhere from \$30-50 million in new funding. Combined with salary increases, service reductions were necessary to maintain a balanced budget.

The revenue picture is brighter in Fiscal Year 2007 than in past years. While major revenues remain strong, the City also received a \$17 million boost in property tax revenues due to the discontinuation of diverted revenues to the State of California. This budget also anticipates that the state will fund booking fees at \$5.2 million, which the City lost last year and continued funding is not secure.

The City is fortunate to have experienced these events this year, as a new Mayor and CFO and the City Council and IBA committed to improved budget practices. In many ways, these circumstances provided the flexibility for the "fixes" that were implemented without resorting to significant and painful service reductions. It is critical that the City take this opportunity to correct past budgeting practices as opposed to utilizing what may be onetime benefits for restoring services or implementing new programs. As stated by this office in January, an accurate budget must be developed before the City can evaluate its capacity to increase services.

## **A Brief Look into the Future**

The unprecedented flexibility experienced in the Fiscal Year 2007 budget may not be repeated in the future. In Fiscal Year 2008, the City will have to fund significant salary increases for at least two of its labor unions. Agreements for 2008 for the remaining three unions will be developed next year, but if all employees experience salary increases as granted to MEA and Local 127, the budget may have to accommodate \$25-30 million or more for salary increases alone. The IBA strongly recommends that the City discontinue the use of back-loaded labor agreements.

Negotiating these types of agreements may be attractive in that the City hopes that future years will yield more flexibility. However, as we have seen, that has not been the case. Employees and taxpayers deserve the benefit of having salary increases spread appropriately over the years. Use of a multi-year financial planning tool will also enable the City to recognize its flexibility with respect to labor agreements and enhance decision-making. In addition, it could allow the City to utilize the flexibility of years like Fiscal Year 2007 to put funding in reserves for salary increases in future years, as some municipalities do.

Based on current assumptions used by SDCERS, the City budget may also need to accommodate an increase in retirement contributions, even if \$100 million is successfully infused into the system prior to June 30. In a pension report presented to the City Council in September 2005, actuarial estimates showed that the City contribution might grow slightly even if the then-proposed \$150 million was infused prior to June 30, 2006. In Fiscal Year 2009, the assumption of a transition to a 15 year amortization of the UAAL is an even bigger challenge for the budget. The aforementioned report shows an increase in retirement contributions of approximately \$20 million, *even if* \$450 million is infused into the system prior to June 30, 2007.

In addition, it must be noted that if the Mayor's pension plan is implemented, which finances part of the ARC in Fiscal Year 2007 and 2008, funding used in those years for other priorities may have to be completely discontinued in Fiscal Year 2009 as the City returns to paying the complete ARC out of its own budget. Specifically, the funding for deferred maintenance will have to be reduced by half unless funding is freed up in other areas. And additional large infusions into the City's reserves may not be possible if no new revenues are identified.

Retiree health premiums are also projected to increase by approximately \$3 million, as shown in the Towers Perrin valuation report of March 2006. This does not consider the initiation or continuation of some effort toward pre-funding the City's retiree healthcare liability, as is necessary (see Retiree Health section).

In the meantime, the revenue picture is less clear. There is certainly no indication that San Diego's economy will experience a serious downturn, but we also know that this year's brighter picture, including the \$17 million bump from the state, may not be assumed into perpetuity.

This is why it is critical to develop and implement a budget with some idea of the City's long-term financial picture. Today's decisions may be different with the full knowledge of the City's future obligations and long-term planning may allow for the City to better prepare for those future obligations. The IBA strongly recommends the use of a multi-year financial planning tool to be implemented as soon as possible.

# Financial Policies

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## **GFOA's recommended policies:**

- Policy on Stabilization Funds
- Policy on Fees and Charges
- Policy on Debt Issuance and Management
- Policy on Debt Level and Capacity
- Policy on Use of One-time Revenues
- Policy on Use of Unpredictable Revenues
- Policy on Balancing the Operating Budget
- Policy on Revenue Diversification
- Policy on Contingency planning

Source: *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting*, GFOA's National Advisory Council on State and Local Budgeting, 1998

## **GFOA recommends adoption of financial policies**

The Government Finance Officers Association (GFOA) recommends that cities adopt financial policies that are consistent with the organization's goals and that will guide the development of each budget, as well as the development of service, capital and financial plans. Establishing financial policies will provide a structure for decision-making and accountability, while adhering to them will provide credibility with the citizens, public at large, and the rating agencies. GFOA recommends the adoption of nine financial policies, as listed in the box at left.

## **City of San Diego lacks comprehensive financial policies**

The City of San Diego does not have a discrete set of financial policies and does not have policies covering all the areas recommended by GFOA. In some cases, the City has written or informal policies on some topics, but these cannot be easily catalogued. The City should develop a comprehensive set of financial policies that will both guide the Mayor in developing his proposed budget as well as other strategic plans, and guide the City Council in approving those plans based on consistent criteria. The IBA recommends that the Finance Department develop proposals for the Budget & Finance Committee for consideration and, ultimately, adoption by the City Council during Fiscal Year 2007 and prior to the approval of future budgets or financial plans.

## **Evaluate City of San Diego budget process**

Adoption of financial policies by the City Council is but one component of a sound budgeting process. The Finance Department should review the City of San Diego's budgeting process against nationwide best practices and ensure that annual budgeting processes incorporate a long-term perspective.

A comprehensive resource for best practices in municipal budgeting that can be used to evaluate and redevelop the City of San Diego's own process is *Recommended Budget Practices: A Framework for Improved State and Local Government Budgeting* published by GFOA through its National Advisory Council on State and Local Budgeting. This document "advocates a goal-driven approach to budgeting that spans the planning, development, adoption, and execution phases of the budget" (page vii). The IBA recommends that the Finance Department report to the Budget & Finance Committee on budgeting practices prior to the presentation of the Fiscal Year 2008 Proposed Budget. This will enhance the City's credibility and help decision-makers, the

public, and the financial community to understand the high standards that are adhered to in the development of the City's financial plans.

# Prior Year General Fund Encumbrances

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Recently the City Auditor and Comptroller identified approximately \$3 million of outstanding General Fund encumbrances that have had no payment activity against them for the last 19 months. Encumbrances are expected payments for goods or services that have been carried over from previous fiscal years. The IBA recommends a staff review of these encumbrances to ascertain if they are still necessary. If it is determined that they are not necessary then release them as soon as possible for use for onetime expenditures in Fiscal Year 2007 including public safety equipment, deferred maintenance, or reserves. Additionally, the IBA recommends developing a policy that would limit the time allowed for encumbrances. If the time limit is exceeded, then the funds would be reviewed for need and if necessary re-budgeted the following fiscal year.

# Public Liability Fund/ Legal Expenses

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The Public Liability fund was established to provide funding for the city’s self-insurance program for General Fund public liability claims, including claims for bodily injury, property damage, inverse condemnation, false arrest and errors and omissions, as well as other General Fund non-claim related expenses.

The Fiscal Year 2007 proposed budget allocates an additional \$3.1 million to the Public Liability fund, bringing the total budgeted allocation to \$10 million. In past years, the General Fund allocation to the Public Liability fund was not sufficient to cover total expenditures, and additional mid-year transfers were needed in order

to fund required expenses. While total claim and non-claim related expenses vary from year to year, the average requirement is typically between \$7 million and \$9 million, which does not include expenses associated with legal fees, audits or financial investigations, which have been expended from the Public Liability fund over the past two years. The increase in Public Liability Fund expenditures in Fiscal Year 2005 reflects the significant costs associated with legal expenses and financial investigations, costs which were once again incurred in Fiscal Year 2006. It is anticipated that additional legal and investigative costs will impact Fiscal Year 2007 as well, although it is unknown what the impact will be. While the increased General Fund transfer in Fiscal Year 2007 will likely be sufficient to cover regular Public Liability Fund expenses, it may still prove to be insufficient if significant legal and investigative costs are incurred, as no additional funds have been budgeted to pay for such costs.

<b>Public Liability Fund</b>		
	<b>Budgeted Transfer</b>	<b>Actual Expense</b>
FY 2002	5,853,600	9,427,261
FY 2003	5,853,600	6,452,950
FY 2004	5,853,600	8,961,092
FY 2005	5,853,600	18,193,302
FY 2006 *	6,853,600	20,361,707

*\* Actual Expense is year-to-date as of 4/19/06.*



# The City's Structural Budget Deficit

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In April 2005, the Center for Policy Initiatives (CPI) released a report titled “The Bottom Line – Solutions for San Diego’s Budget Crisis.” The report examined General Fund revenues and expenditures in the City of San Diego, and provided a comparative analysis among the ten largest cities in California. In addition, the report made three general recommendations for how to close the gap between the expectation for local services and the funds available to pay for them.

The conclusions of the report were clear: the City of San Diego generates lower revenue per capita than the average of the ten largest cities in California, due in large part to tax rates that fall below average. This inability to raise revenue significantly impacts the City’s ability to provide general services, evidenced by indicators such as police officers per 1,000 residents, per capita firefighting expenditures, and expenditures per acre of parkland, all of which are below average.

The report makes three notable recommendations to address the discrepancy between available revenues and expected services:

- Create a public awareness campaign to inform residents and businesses on the role of City services and the need to raise funds for providing them;
- Introduce ballot measures to raise taxes and fees at least to the average California level; and
- Raise revenues through fees that can be implemented through Council ordinances.

The CPI report clearly illustrates San Diego’s general revenue and expenditure position relative to other large California cities. The report’s analysis exposes one of the most difficult issues facing the City today: the growing disparity between the desired levels of services by our residents and the ability to pay for them.

Now may not be the appropriate time to consider ballot measures to raise taxes and fees, but this will be an important issue to address in the years to come. Before such measures can realistically be considered, the City must first work diligently to restore its financial credibility with the public through such means as fixing its budget, getting a handle on its pension requirements, returning to the bond market, and creating internal efficiencies through restructuring and reorganization. However, consideration of tax and fee increases is warranted once many of the City’s current financial challenges have been met and credibility is restored. The first area that should be reviewed thoroughly in early Fiscal Year 2007 is cost recovery levels for all existing fee supported services. This is discussed in the “Fees for Services” section.

# Fees for Services

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- A comprehensive, cost-based annual user fee review does not exist.
- Fees are not based on service cost models.
- It is unknown if fees are supporting program costs.
- No Council - established cost recovery policies exist.

In the Mayor's press release in early March regarding his first 90 days in office, the Mayor noted that he would be including in the Fiscal Year 2007 budget "a requirement that where fees are imposed, they need to be cost-based and support the programs for which they are charged." However, there is no discussion of fees for services in the Fiscal Year 2007 budget. Time constraints likely made a thorough user fee review difficult in this year's budget process.

This issue needs to be addressed in the near future. No comprehensive, cost-based annual user fee review exists in the City organization. Fees are currently not based on service cost models and it is unknown whether fees are supporting total program costs. There are no Council established policies regarding cost recovery levels. Fee analysis is not incorporated into the annual budget process or embedded in any financial arm of the City. Rather, Special Events staff has led this effort for the entire organization in recent years. For 2006, due to workload constraints, this activity has not taken place. The Council should discuss this issue during budget deliberations and provide direction to the Mayor on this matter for the Fiscal Year 2008 Budget Process.

# Core City Services

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On p. 10 of the Fiscal Year 2007 Proposed Budget the Mayor identifies core General Fund services categories which include:

- Public Safety Services
- Park & Recreation Services
- Transportation Services
- Library Services
- Facility Maintenance Services

The Mayor should be commended for starting the discussion on what are considered Core Services. The IBA recommends that the Mayor and the City Council engage in joint discussions to fully identify core services from the policy perspective. The discussion should include identifying minimum levels of service for areas such as Public Safety, Park & Recreation facilities, and Libraries. Additionally, some core services that are not included in the Mayor's service categories but may be considered core include Refuse Collection and unfunded state mandates such as Storm Water pollution prevention. This discussion should occur early in the fall of Fiscal Year 2007 so that the Fiscal Year 2008 budget would reflect the Mayor's and City Council's common core services.

# New Facilities

A number of new facilities will be completed in Fiscal Year 2007 across the City. This section provides an overview of these facilities and their funded status.

## Police

The Northwestern Area Station will be completed in the Fall of 2006, but no funding is identified in the Mayor's Proposed Budget to support the facility. The department's original request was nearly \$12 million, to include 59.00 positions and non-personnel expense. Given the absence of funding, it is not known whether the department will be able to open this facility in Fiscal Year 2007, as expected by the community. Current patrols in the northwestern area may be continued, but no command staff or administrative support is available to staff the facility itself. The IBA recommends that the Mayor and staff report to the City Council on operational plans for the Northwestern Area Station.

## Library

Three new branch libraries have opened or will open during Fiscal Year 2006 and 2007. In Fiscal Year 2006, no funding was provided for the College-Rolando branch or the Otay-Nestor branch. The budget proposes adding funding for these facilities, as well as the Serra Mesa-Kearny Mesa branch, which will open in Fiscal Year 2007. Total funding proposed is \$1,205,551. However, we would note that there may be under funding of almost \$41,000, as no funding for water or sewer utilities was included in the budget, and some funding for telephone and motive equipment is not provided.

## Park and Recreation

Although no new service reductions are proposed in this budget, a number of new facilities will be completed in Fiscal Year 2007 for which no funding is provided. The facilities and their corresponding funding requirements are as follows:

Chollas Creek Enhancement	\$50,000
Edison Elementary School Joint Use	\$14,000
Florence Griffith Joyner Elementary School/ Fairmount & Thorn Joint Use	\$14,000
Hilltop Community Park Expansion	\$14,000
Naval Training Center Phase I	\$181,000
Nobel Athletic Area and Recreation Center	\$468,000
Normal Heights Elementary School Joint Use	\$5,000
Open space acres	\$51,000
Otay Valley Regional Park Phase II	\$211,000
Rancho Encantada Neighborhood Park	\$36,000
Sunshine Berardini Fields	\$23,000
Torrey Del Mar Neighborhood Park	\$41,000
<b>TOTAL</b>	<b>\$1,108,000</b>

This lack of funding will result in service reductions citywide, as the department uses current resources to service increased acreage and recreation hours. New or improved acreage that must be maintained is estimated at nearly 1,200 acres. The new Nobel Athletic Area and Recreation Center is slated for over 2,000 operating hours that the department must use existing staff to manage. The department is identifying plans to absorb these facilities into current operational requirements. Reduction in services to facilities citywide may or may not be transparent to citizens. The IBA recommends that the department brief the City Council on the plans to accommodate these new facilities and the impact to service levels at current facilities.

It should be noted that the department did not receive funding to accommodate new facilities in Fiscal Year 2006 either. This has created a backlog of unfunded and under funded facilities that has also resulted in reduced service levels citywide. In total, the department indicates that it lacks over \$6 million to adequately operate its newest facilities. In total, these facilities represent nearly 4,000 new or improved acres to be maintained and over 6,000 facility operating hours to be managed by existing staff. Proposals for long-term financial plans should include the allocation of funding for these facilities to provide for basic service levels and prevent increased deferred maintenance and the deterioration of City infrastructure.

To put these reductions in context, the department reports that, as of two years ago, each Grounds Maintenance Worker (GMW) was responsible for supporting an average of 21.09 acres, while a previous City study indicated that the appropriate level of responsibility per GMW is 12.50 acres. The department has not calculated the average acres supported per GMW since the addition of facilities over the past several years, but it is certain that it has increased. Additional acreage as cited above has increased the City’s park system by approximately 10% with no new funding.

**Net Unfunded Facility Expense**

Although older facilities throughout the City may be under funded, the following list is the unfunded expenditures in the newest facilities citywide, as reported by the department (numbers are estimates):

Police	\$11,890,762
Library	\$40,575
Park and Recreation	\$6,013,536
<b>Total</b>	<b>\$17,944,873</b>

# Business Process Reengineering

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“It is critical that the positions proposed for reduction are tied to efficiency enhancements, and their elimination will not impact service levels to the community.”

The City Council, as well as the IBA, has been very supportive of the Mayor’s Business Process Reengineering, as well as of Rick Reynolds, who is leading this effort. We look forward to learning about the proposed process improvements and realizing the results of this work. This is a critical step toward financial recovery and will help the organization become more efficient, effective and competitive as we move toward the potential of a Managed Competition environment. While the Mayor’s Budget does not assume anticipated savings as a result of these processes, the Budget does indicate that the Mayor expects to eliminate 500 positions in Fiscal Year 2007 as a result of Business Process Reengineering.

We need to express concern relative to backing into a specific number of position reductions. The Mayor has stressed that reductions will come only as a result of the thorough analysis undertaken during Business Process Reengineering. However, declaring a targeted number upfront creates an environment of expectation that typically results in pressure to fulfill the goal regardless of the analysis. It will be critical to ensure that the positions that are proposed for reduction are a clear result of efficiency enhancements and will not impact service levels to the community.

**Additionally, projected savings associated with the BPR process should be clearly identified and reported to Council, as well as be audited. Eliminating 500 budget positions could result in savings upward of \$30 million on an annual basis. A systematic and timely process needs to be established whereby the Council is apprised of the savings and is involved in deciding how these savings will be utilized in the budget.**

# Appropriation Ordinance

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The CFO, City Auditor and IBA concur that the Appropriation Ordinance needs to be reviewed and, in all likelihood, revised to put into place greater expenditure oversight and control processes following budget adoption. While some flexibility is necessary since the budget is a future spending plan, the existing Appropriation Ordinance provides the Mayor with a great deal of latitude to transfer funds and expend new revenues throughout the course of the year without City Council authorization.

This authority, combined with lax position control in the past, likely created an environment for supplemental positions to grow to 429 without Council authorization or funding in the annual budget.

IBA recommends that a review of the Appropriation Ordinance take place in the next several weeks and that revisions be proposed to the Budget and Finance Committee prior to budget adoption and formal action on the Fiscal Year 2007 Appropriation Ordinance. The CFO has indicated that he is already working on this issue and plans to bring a proposal forward soon. We would ask that he work with the City Auditor and the IBA on this matter.

Appropriation Ordinance Section 1K:  
*“The City Auditor and Comptroller is authorized, upon approval of the Financial Management Director, (1) to increase a department’s appropriation for revenues received in excess of budgeted services provided to other departments, other fund, other jurisdictions, or when the City Auditor and Comptroller is satisfied that additional revenues will exceed the increased appropriations for existing programs, and (2) to transfer appropriations for costs avoided in one budget unit by agreement to incur them in another budget unit.”*

This issue should be a priority for the City Council given that, under the new form of government, the CFO, City Auditor and Financial Management Director report to the Mayor.

# DEPARTMENTS & PROGRAMS OVERVIEW

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# Business and Grant Administration

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## Fiscal Year 2007 Budget

The Department of Business and Grant Administration's Fiscal Year 2007 budget is 10.25 positions, \$1,008,591 in expenditures, and \$41,516 in revenue. This department is new for Fiscal Year 2007 and is composed of positions previously budgeted in other General Fund Departments in Fiscal Year 2006 and new positions.

## What are the 10.25 positions (p. 36) and where did they come from?

The Department of Business and Grant Administration's Fiscal Year 2007 budget contains 10.25 positions. The Chart below reflects the positions budgeted in the Department of Business and Grant Administration and where they were transferred from:

Position Title	FTE	Salary & Fringe	Transfer from
Council Rep II	4.00	\$368,851	Mayor's Office
Grants Coordinator	0.25	\$32,369	Community & Economic Development
Director of Administration	1.00	\$191,365	Neighborhood Code Compliance
Council Rep II	2.00	\$121,517	New add
Clerical Assistant II	1.00	\$54,961	New add
Admin Aide II	1.00	\$73,621	New add
Payroll Specialist II	1.00	\$62,291	New add
<b>Total</b>	<b>10.25</b>	<b>\$904,975</b>	



# Business and Support Services

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## Fiscal Year 2007 Budget

The Department of Business and Support Services' Fiscal Year 2007 budget is 8.00 positions, \$1,069,800 in expenditures, and \$0 in revenue. This department is new for Fiscal Year 2007 and is composed of positions previously budgeted in other General Fund and Non-General Fund Departments in Fiscal Year 2006 and new positions.

## What are the 8.00 positions (p. 36) and where did they come from?

The Department of Business and Support Services' Fiscal Year 2007 budget contains 8.00 positions. The Chart below reflects the positions budgeted in the Department of Support Services and where they were transferred from:

Position Title	FTE	Salary & Fringe	Transfer from
Program Manager	1.00	\$133,419	New add
Org Effectiveness Specialist II	3.00	\$628,779	Organization Effectiveness Program
Org Effectiveness Supervisor	1.00		
Org Effectiveness Program Mgr	1.00		
Word Processing Operator	1.00		
Sr Management Analyst	1.00	\$100,751	Diversity
<b>Total</b>	<b>8.00</b>	<b>\$862,949</b>	

# Chief Operating Office

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## Key Budget Points/Stats:

- The Chief Operating Office was previously budgeted as the City Manager's department in FY 2006.

## Fiscal Year 2007 Budget

The Chief Operating Office's (COO) Fiscal Year 2007 budget is 17.50 positions, \$2,992,178 in expenditures, and \$80,000 in revenue. This office was previously budgeted as the City Manager's Department in Fiscal

Year 2006. Budgeted in this office are the Deputy Chiefs and their Executive Secretaries. In previous fiscal years Deputy City Managers were budgeted in various General Fund and Non-General Fund departments making it difficult to ascertain the true costs of the City Manager's administrative team. By consolidating his Deputy Chiefs in one office the Mayor has taken a positive step forward in transparency.

## What are the 17.50 positions (p. 24) budgeted in the Chief Operating Office?

The Chief Operating Office's Fiscal Year 2007 budget contains 17.50 positions. The Chart below reflects the positions budgeted in the Chief Operating Office:

Position Title	FTE	Salary & Fringe
Chief Operating Officer	1.00	\$271,975
Conf Secretary to COO	2.00	\$209,536
Deputy Chief	8.00	\$1,850,109
Executive Secretary	6.50	\$504,205
<b>Total:</b>	<b>17.50</b>	<b>\$2,835,825</b>

# City Attorney

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## **Key Budget Points/Stats**

### **Fiscal Year 2007 Supplemental**

**Position increases include:** 1.00 Auto Messenger, 1.00 Victim Services Coordinator, 1.00 Payroll Specialist, 1.00 Government and Public Affairs Official, 1.00 Communications Director, .37 Administrative Intern, 1.00 Legal Intern, 2.00 Assistant City Attorneys, .74 Deputy City Attorney.

## **Fiscal Year 2007 Budget**

\$2,109,333 net increase from Fiscal Year 2006 budget includes \$1,009,428 for 9.11 supplemental positions. In addition, the Fiscal Year 2007 budget includes \$1,607,659 for the restoral of salary reductions taken in-lieu of position reductions in Fiscal Year 2006 and \$760,840 in salary and benefit adjustments. Revenue projections of \$8,014,550 remain unchanged from Fiscal Year 2006.

## **Fiscal Year 2007 Vacancy Savings**

The City Attorney's Fiscal Year 2007 budget contains a savings of (\$1,257,519) or 3.48% vacancy rate. This vacancy rate is lower then the projected vacancies reflected in the City Attorney's Period 7 Current Year Monitoring submitted to Financial Management in February. The Period 7 Current Year Monitoring reflects a 9% salary and fringe savings projection through the end of Fiscal Year 2006.

## **Fiscal Year 2006 Agreement between City Attorney and City Manager on Plaintiff Litigation Unit**

In June 2005 an agreement was reached between the City Attorney and the City Manager and approved by the City Council to include 6.00 positions and \$758,636 in expenditures to focus on Plaintiff Litigation in Fiscal Year 2006. By including these positions the City Attorney committed to achieving a minimum of \$900,000 in new/additional General Fund revenue to ensure that the additional expense would be offset. Additionally, in a June 17, 2005 memorandum from the City Attorney and the City Manager to the Mayor and City Council the City Attorney states that providing legal services primarily with existing in-house personnel and resources could lower overall City legal expenses by approximately \$5 million.

On April 12, 2006 the City Attorney released a report to the Mayor and City Council on the state of Plaintiff Litigation and revenue matter recoveries by the Civil Division. In the report the City Attorney stated that Plaintiff's litigation recoveries from July 2005 through March 2006 were \$1,892,530 of which \$663,468 went directly to the General Fund. In addition, the City Attorney reported that the Civil Division was currently prosecuting 13 matters, each with a potential recovery in excess of \$1 million, and at least four of which have a potential recovery in the tens of millions.

With the strong possibility of multi-million dollar settlements to the City the IBA finds it odd that revenue projections for Fiscal Year 2007 remain at Fiscal Year 2006 levels. Although any recovery by the City Attorney's Office would be a one-time revenue source for Fiscal Year 2007, the IBA recommends discussion during the budget hearing on the possibility of including a portion of these judgments as part of the final Fiscal Year 2007 budget. The IBA also recommends that the City Attorney report on the status of the use of outside legal counsel in comparison to previous

fiscal years to ensure that the estimated savings to the City outlined in the June 17, 2005 memorandum from the City Attorney and City Manager to the Mayor and City Council is occurring.

# City Auditor & Comptroller

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## **Fiscal Year 2007 Supplemental & Restructuring Position**

**Increases:** 1.00 Chief Accountant, 1.00 Financial Operations Manager, 4.00 Principal Accountants, 2.50 Accountant IV, 1.00 Account Audit Clerk, 1.00 Admin Aide II, 1.00 Information Systems Analyst II, 1.00 Information Systems Analyst I,  
**Decreases:** (1.25) Accountant III, (1.07) Accountant II, (1.00) Payroll Specialist II, (1.00) Executive Secretary

## **Fiscal Year 2007 Budget**

\$3,116,420 net increase from Fiscal Year 2006 budget includes \$1,204,262 for 8.18 positions. Additional changes include a \$2,430,335 transfer from the Citywide department.

## **Fiscal Year 2007 Vacancy Rate**

The City Auditor's Fiscal Year 2007 budget contains a 6.21% vacancy rate. This vacancy rate is higher than the projected vacancies reflected in the City Auditor's Period 7 Current Year Monitoring submitted to Financial Management in February. The Period 7 Current Year Monitoring reflects a 4.30% salary and fringe savings projection through the end of Fiscal Year 2006.

## **What comprises "Restructure/Transparency"?**

The \$2,430,335 reflected in the Restructure/Transparency column (p. 36) is comprised of items previously budgeted in the Citywide department. These items include:

- \$1,827,643 for payment to the County of San Diego for the cost of administering the property tax collection process.
- \$497,062 and 1.00 Information Systems Analyst IV for technology charges and support for the City's financial accounting systems including the Accounting and Management Resources Information System (AMRIS).
- \$105,630 for an independent certified public accounting firm to conduct annual audits of the City's financial operations.

# City Clerk

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## **What is the \$165,896 increase for IT expenses for?**

- The \$165,896 in additional IT expenses includes funding for records management scanning & imaging, and docket automation.

## **Fiscal Year 2007 Budget**

\$361,304 net increase from Fiscal Year 2006 budget includes \$183,809 in salary restorals for positions left vacant in Fiscal Year 2006 and \$165,896 for IT upgrades.

## **Fiscal Year 2007 Vacancy Rate**

Historically the City Clerk's office has held positions vacant in-lieu of reductions. This includes salary reductions of (\$178,183) in Fiscal Years 2004 & 2005, and (\$178,387) in Fiscal Year 2006. These salary reductions are not cumulative but a continuation of the previous year's salary reduction. The City Clerk's Fiscal Year 2007 budget contains a less than 1% vacancy rate (\$22,264). This net difference between the Fiscal Year 2006 and Fiscal Year 2007 vacancy savings is \$156,123 enabling the City Clerk to fully staff her office in Fiscal Year 2007.

## **Mayor/Council form of government transition**

The change in the City of San Diego's form of government has required the City Clerk's Office to take on additional duties. In many cases these duties are driven by legal requirements. The new duties include:

- Docket Coordinator duties that once resided in the City Manager's Office.
- The development of a tracking and follow-up system for resolutions and ordinances that must be delivered to the Mayor's Office within 48 hours of the passage of an item by the City Council.
- Coordination of the veto process.

The City Clerk's Office has taken on these additional tasks without requesting additional staff. The reduction of the City Clerk's vacancy rate from previous years is a positive step over previous year's budgets and acknowledges workload increases associated with the transition to the new form of government.

# City Council

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## Key Budget Points/Stats:

- The Office of Independent Budget Analyst was created via ordinance O-19454 on December 6, 2005 and has been included in the FY 2007 Budget.

## Fiscal Year 2007 Budget

The City Council Budget is comprised of the eight City Council Districts and the Council Administration budget. The Office of Independent Budget Analyst resides within the Council Administration budget. The net \$3,016,412 million increase/transfers in expenditures and 12.00 in

positions from Fiscal Year 2006 is attributed to the following changes:

Description	FTE	Expenditures
Creation of the Independent Budget Analyst Office	9.00	\$1,364,952
Transfer of Rules Committee Consultant from the Mayor's Office	1.00	\$112,105 (Net zero change to General Fund)
Transfer of Docket Coordinator Position from the Citywide Department	1.00	\$114,964 (Net zero change to General Fund)
Public Information Officer for Council President Office	1.00	\$114,964
Transfer of IT & Non-Personnel Expenses from the Citywide Department	0.00	\$559,694 (Net Zero change to General Fund)
Non-Discretionary Expenses	0.00	\$57,318
Salary & Benefit Adjustments	0.00	\$692,415
<b>Total:</b>	<b>12.00</b>	<b>\$3,016,412</b>

### What is the Change by Council District from Fiscal Year 2006:

The following chart details the changes by Council District from Fiscal Year 2006:

District	FY 2006 FTE	FY 2007 FTE	Change	FY 2006 Expenditures	FY 2006 Expenditures	Expenditure Change
Council District 1	9.00	9.00	0.00	\$850,000	\$990,000	\$140,000
Council District 2	11.00	11.00	0.00	\$850,000	\$990,000	\$140,000
Council District 3	10.00	10.00	0.00	\$850,000	\$990,000	\$140,000
Council District 4	10.00	10.00	0.00	\$850,000	\$990,000	\$140,000
Council District 5	9.00	9.00	0.00	\$850,000	\$990,000	\$140,000
Council District 6	10.00	10.00	0.00	\$850,000	\$990,000	\$140,000
Council District 7	10.00	10.00	0.00	\$850,000	\$990,000	\$140,000
Council District 8	10.00	10.00	0.00	\$850,000	\$990,000	\$140,000
Council Administration (Includes Office of Independent Budget Analyst)	7.00	19.00	12.00	\$946,328	\$2,842,740	\$1,896,412
<b>Total:</b>	<b>86.00</b>	<b>98.00</b>	<b>12.00</b>	<b>\$7,746,328</b>	<b>\$10,762,740</b>	<b>\$3,016,412</b>



# City Treasurer

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## Budget Facts & Figures:

- **8.00 Supplemental Positions added to the City Treasurer Department.**
- **No supplemental/new positions added to the Financing Services Division.**
- **Financing Services Division has lost over 50% of their staff to attrition over the last eighteen months.**

## Fiscal Year 2007 Budget

The City Treasurer department includes a \$427,067 net increase from the Fiscal Year 2006 budget. This includes \$829,127 for 8.00 supplemental positions, a (\$54,654) vacancy factor, and a net reduction of (5.00) positions and (\$612,133) in expenditures.

## What is the reduction of (6.00) positions and (\$681,914) in expenditures? (p. 39)

On October 11, 2004 the City Council adopted Ordinance Number 0-19320 which has been commonly referred to as the Disclosure Ordinance. This ordinance amended the San Diego Municipal Code by accepting recommendations

made by Vinson & Elkins to improve the City of San Diego's financial disclosures. Included in the ordinance was the creation of a Financial Reporting Oversight Board and a Disclosure Practices Working Group (DPWG). The DPWG is responsible for ensuring the compliance of the City (and the City Council, City Officers, and staffing the exercise of their official duties) with federal and state securities laws and to promote the highest standards of accuracy in disclosures relating to securities issued by the City. The DPWG is chaired by the City Attorney and consists of staff from the City Auditor and Comptroller's office, the City Treasurer, the Deputy City Manager responsible for the financial management functions, and the City's outside disclosure counsel. In Fiscal Year 2006 the following department additions were made to begin to fund the requirements set forth in the Disclosure Ordinance:

Department	Amount	FTE
City Attorney's Office	\$250,000	1.00
City Auditor & Comptroller	\$500,000	4.00
City Treasurer's Office	\$750,000	6.00
Financial Management	\$143,000	1.40

In Fiscal Year 2007 the Mayor has proposed to reduce the (6.00) positions and (\$681,914) of the \$750,000 added in Fiscal Year 2006 to the City Treasurer – Financing Services Division. Additionally, the Financing Services Division, the division responsible for coordinating the process of structuring and issuing bond financings, has lost over 50% of their staff to attrition in the last 18 months. Although no major bond offerings have occurred in Fiscal Year 2006, the loss of the technical knowledge in the division and the reduction of (6.00) positions in Fiscal Year 2007 causes the IBA concern. With the expectation that the City will be able to bond in the next 6-12 months and the Mayor's Fiscal Year 2007 budget centered on pension obligation bonds it is essential that the City has the necessary staff to complete these transactions and provide staff support to the DPWG. City Treasurer staff has indicated that they should be able to handle the work load in Fiscal Year 2007 if they are able to hire qualified candidates to replace those that

have left. However, depending on the number of bond offerings, Fiscal Year 2007 could be a challenge for this division. The IBA recommends that Mayor's office and the City Council closely monitor this department and their staffing needs in Fiscal Year 2007 and future fiscal years.

# Citywide - Department 601

## Significant Budget Adjustments

- POBs – \$374 million increase
- Deferred Maintenance – \$10.6 million increase
- Transfer to Special Promo – \$4.7 million increase
- IT Budget Adjustment – \$3.2 million increase
- Public Liability - \$3.1 million increase
- Citywide Reorganization – \$30.3 million reduction

## Fiscal Year 2007 Budget

The Fiscal Year 2007 proposed budget for Department 601 – Citywide Program Expenditures (Citywide) is \$413.2 million, an increase of nearly \$365 million over the Fiscal Year 2006 budget. This increase reflects \$374 million in pension obligation bond (POB) proceeds, budgeted to be received and expensed out of Citywide. The increase also reflects a \$4.7 million transfer to Special Promotional Programs, and \$10.6 million for deferred maintenance. Funding is also allocated to the Public Liability Fund.

## Citywide Reorganization

When the \$374 million in pension expenses and the \$10.6 million in deferred maintenance are excluded, the Citywide budget represents nearly a \$20 million decrease from Fiscal Year 2006. This decrease is due to the restructuring of many Citywide programs out of Department 601 into other departments determined to be more appropriate. For example, emergency medical service administration, formerly budgeted in Citywide, was moved to the new Public Safety Department. Another example is telephone and data processing funding for City Council Districts, which is now budgeted in the individual Council budgets. Altogether, \$30.3 million and 11.0 positions were moved out of the Citywide budget into other departments. The box to the right shows the various departments to which Citywide programs were transferred. The net increase of \$20,075 appears to be due to personnel expense adjustments.

### Citywide (601) Restructuring

<b>DEPARTMENT</b>	<b>FTE</b>	<b>EXPENSE</b>
Citywide	(11.00)	\$ (30,263,419)
City Auditor	1.00	2,430,335
City Council Districts	0.00	489,412
Comm. & Econ. Develop.	0.00	3,551,850
Comm. & Legis. Services	2.00	174,803
Council Administration	1.00	185,246
Ethics & Integrity	4.00	519,502
Financial Management	0.00	856,601
Human Resources	0.00	160,374
IT&C - Communication	0.00	12,594,392
Mayor	0.00	477,389
Personnel	1.00	200,116
Police Department	0.00	5,856,231
Public Safety	2.00	2,478,310
Purchasing & Contracting	0.00	308,933
<b>TOTAL</b>	<b>0.00</b>	<b>\$ 20,075</b>

# Community and Economic Development

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## Key Budget Points/Stats

- FY 07 Budget includes 30.95 supplemental positions.
- FY 07 Budget includes an 8.02% vacancy rate
- Community Service Centers transferred to Department of Neighborhood and Customer Services.

## Fiscal Year 2007 Proposed Budget

The net increase from Fiscal Year 2006 budget of \$7 million includes the net addition of personnel expense for the supplemental positions and the reduction to the Department's budget due to the Mayor's reorganization.

## Reorganization

The Community and Economic Development Department was reorganized as part of the Mayors' reorganization. The Community Service Centers were transferred to the Department of Neighborhood and Customer Services. The Grant Management section was moved to the Department of Business and Support Services

## "6 to 6" Program

The City's "6 to 6" Extended School Day Program, in cooperation with the San Diego Unified School District, opens elementary and middle schools before and after normal school hours. This program is funded by State and federal grants and City funds. In Fiscal Year 2007, the "6 to 6" program will be transitioned from the City of San Diego to the San Diego Unified School District by December 31, 2006. The fiscal impact to the City's General Fund is a savings of \$356,083. The lease agreement runs through 2014 and the rent obligation of \$56,000 will remain with the City until that time. The Fiscal Year 2006 General Fund budget for this program was \$500,000. The remaining \$143,900 is to offset costs related to the transition and lease obligation.

## Winter Shelter

The Homeless Service Program in the Community and Economic Development Department, plans, organizes and coordinates activities to assist the homeless community, including the Winter Shelter Program. The San Diego Housing Commission has indicated that their funding of the homeless winter shelter for Fiscal Year 2007 is not currently included in their Fiscal Year 2007 Budget due to a smaller allocation of funding in Fiscal Year 2007. The San Diego Housing Commission has provided \$445,000 annually for this purpose for several years. The San Diego Housing Commission has identified a possible funding solution for Fiscal Year 2007 and Fiscal Year 2008, but the Commission has not finalized it at this time. If the Housing Commission is unable to identify funding for the Winter Shelter Program prior to June 30<sup>th</sup>, then the Mayor will need to identify other revenue to fund this program given the Housing Commission's position on this matter.

# Community & Legislative Services

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## Fiscal Year 2007 Budget

The Community & Legislative Service's Fiscal Year 2007 budget is 22.00 positions, \$3,643,533 in expenditures, and \$909,391 in revenue. This office is new for Fiscal Year 2007 and is composed of positions previously budgeted in other General Fund and Non-General Fund Departments in Fiscal Year 2006.

## What are the 22.00 positions (p. 24) and where did they come from?

The Community & Legislative Services Fiscal Year 2007 budget contains 22.00 positions. The chart below reflects the positions budgeted in Community & Legislative Services and from where they were transferred:

Position Title	FTE	Salary & Fringe	Transfer from
Assistant to the Director	1.00	\$98,283	Governmental Relations (General Fund)
Asst. Governmental Relations Director	1.00	\$131,655	Governmental Relations (General Fund)
Clerical Assistant II	1.00	\$54,961	New Position
Council Representative II	13.00	\$1,745,296	Various General Fund Departments including the Mayor's Office and the Citywide Department. The IBA was unable to confirm the total FTE's and expenditures transferred from each of these departments.
Governmental Relations Director	1.00	\$191,365	Governmental Relations (General Fund)
Multimedia Production Coordinator	3.00	\$247,545	Office of the CIO (Non-General Fund)
Sr. Legislative Recorder	1.00	\$81,932	Citywide Department (General Fund)
Sr. Public Information Officer	1.00	\$91,266	Office of the CIO (Non-General Fund)
<b>Total:</b>	<b>22.00</b>	<b>\$2,642,303</b>	

The Deputy Chief for Community & Legislative Services is budgeted in the Chief Operating Office.

# Customer Services

## Fiscal Year 2007 Budget

The Department of Customer Services' Fiscal Year 2007 budget is 18.00 positions, \$1,866,888 in expenditures, and \$212,037 in revenue. This department is new for Fiscal Year 2007 and is composed of positions previously budgeted in other General Fund Departments in Fiscal Year 2006 and new positions.

## What are the 18.00 positions (p. 36) and where did they come from?

The Department of Customer Services' Fiscal Year 2007 budget contains 18.00 positions. The Chart below reflects the positions budgeted in the Department of Customer Services and where they were transferred from:

Position Title	FTE	Salary & Fringe	Transfer from
Public Info Specialist	2.00	\$127,230	Citizen's Assistance Department
Admin. Aide I	1.00	\$192,534	Citizen's Assistance Department
Program Manager	1.00		
Public Info Specialist	1.00	\$60,095	Economic Development Department/Community Service Center D5
Public Info Specialist	2.00	\$120,192	Economic Development Department/Community Service Center D6
Public Info Specialist	2.00	\$120,192	Economic Development Department/Community Service Center D7
Public Info Specialist	1.00	\$60,095	Economic Development Department/Community Service Center D8
Neighborhood Serv. Coord.	2.00	\$372,808	Economic Development Department/Community Service Center Administration
Program Manager	1.00		
Public Info Specialist	1.00	\$60,095	Economic Development Department/Community Service Center D2
Council Rep II	2.00	\$236,732	Mayor's Office
Council Rep II	2.00		New add
<b>Total</b>	<b>18.00</b>	<b>\$1,349,973</b>	

# Engineering & Capital Projects

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## Key Budget Points/Stats

- FY 2007 Budget includes 57.50 supplemental positions.
- The “Restructure/Transparency” transfer of 11.00 positions to new Purchasing and Contracting Department.
- FY 2007 Budget includes a 0.6% vacancy rate

## Fiscal Year 2007 Proposed Budget

The net decrease of \$297,527 from the Fiscal Year 2006 budget includes the addition of personnel expense for the supplemental positions offset by the reduction of personnel and non-personnel expense as a result of the transfer of 11.00 positions from the Engineering and Capital Projects Department to the Purchasing and Contracting Department. These positions were transferred to the Purchasing and Contracting Department.

## Red Light Photo Safety Program

The purpose of the Red Light Photo Safety Program is to prevent red light violations and reduce the possibility of collisions that may result from running red lights. The funds associated with this program are required to pay the capital costs and on-going maintenance cost to keep the current eight sites operating. The Mayor’s Fiscal Year 2007 Proposed Budget has funding for the current eight sites of \$1.5 million offset by \$993,809 in revenue. The funding for the seven additional sites of approximately \$205,408 was not included in the Proposed Budget. The current Red Light Photo locations are as follows:

- 10<sup>th</sup> Ave @ A St
- 32<sup>nd</sup> St @ Harbor Dr
- Black Mtn Rd @ Mira Mesa Blvd
- La Jolla Village Dr @ Towne Centre Dr
- 54<sup>th</sup> St @ Montezuma Rd
- 60<sup>th</sup> St @ Imperial Ave
- Garnet Ave @ Mission Bay Dr
- Grape St @ Harbor Dr

The challenge is the current policy includes a grace period of 0.5 seconds. Citizens that violate the red light within this grace period do not receive a violation notice. According to Engineering and Capital Projects, 65% of the violations are not issued due to the grace period. Although the national average reductions in violations for red light photo programs is 40%, the average number of red light running violations in San Diego has not changed. Eight cities with Red Light Photo Programs in San Diego County have no added grace period.

The chart below shows the difference between the project cost and revenue with or without the grace period delay.

		<b>With or w/o delay</b>	<b>Cost</b>	<b>Revenue</b>
2007	8 sites	With delay	\$1.5 million	\$994k
2007	15 sites	With delay	\$1.7 million	\$927k
2007	15 sites	w/o delay	\$1.7 million	\$1.4 million
2008	15 sites	With delay	\$1.5 million	\$1.1 million
2008	15 sites	w/o delay	\$1.5 million	\$1.8 million

The estimated cost with the grace period for the full 15 sites for Fiscal Year 2007 is \$1.7 million, with projected revenue of \$927k. For Fiscal Year 2008 the projected cost with the grace period for the 15 sites is estimated at \$1.5 million, with projected revenue of \$1.1 million.

The estimated cost with no grace period for the full 15 sites for Fiscal Year 2007 is \$1.7 million, with projected revenue of \$1.4 million. For Fiscal Year 2008 the projected cost without the grace period for the 15 sites is estimated at \$1.5 million, with projected revenue of \$1.8 million. The Red Light Photo Program is cost recoverable operating the 15 sites without the 0.5 second grace period.

The grace period impacts the effectiveness of the program. In order to reduce violations, prevent accidents and change behaviors, Engineering and Capital Projects staff recommends either eliminating the grace period and constructing the seven additional sites, or eliminating the Red Light Photo Safety Program.

In 2002, the City Council reinstated the Red Light Photo Safety Program. If the full 15 sites do not receive funding and the grace period is not lifted, the program is less effective and is not cost recoverable. A policy decision is needed regarding the continuance of this Program.

The Police Department has indicated that while it is an effective program with the grace period, it would be substantially more effective with seven additional sites and no grace period.



# Environmental Services

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## FY 2007 Supplemental Positions

3.00	Management Analysts
2.20	Public Works Dispatchers
2.00	Asbestos & Lead Program Insp.
1.00	Junior Civil Engineer
1.00	Equipment Mechanic
1.00	Code Compliance Officer
1.00	Information Systems Analyst II
1.00	Senior Account Clerk
3.00	Managemetn Interns
1.15	Administrative Aide
<b>16.35</b>	<b>TOTAL</b>

## Fiscal Year 2007 Budget

The proposed budget for the Environmental Services Department (ESD) increased by \$5.98 million, and includes a net increase of 17.30 positions. ESD is comprised of six separate divisions encompassing four different fund types, as shown in the box below. In the General Fund, the proposed budget increased by \$2.7 million, with a net increase of 2.18 positions. The increase in the budget reflects \$500,000 for refuse container replacement, and nearly \$2.0 million in non-discretionary expenditures, primarily related to refuse disposal fees and motive equipment usage.

## Long-Term Automated Container Replacement Plan

As mentioned above, the proposed Fiscal Year 2007 General Fund budget for ESD includes \$500,000 for refuse container replacement. Given that no funding was allocated for container replacement in Fiscal Year 2006, this is certainly a positive step. However, it is only a temporary “fix” to a long-term problem. The City’s refuse containers have a 10-year warranty, and many of the containers are approaching the end of their useful life. It is estimated that the cost of replacing all automated refuse containers Citywide is upward of \$60 million. One possible solution to this funding problem would be to charge a fee for refuse container replacement.

## Recycling (AB 939) Fee Increases

The City’s recycling program is primarily funded with recycling fees, otherwise known as AB 939 fees. These are fees paid by refuse haulers, including the City of San Diego, who dump refuse at the Miramar landfill, and by franchise haulers who dump refuse at other facilities such as the Sycamore Landfill. The recycling fee is currently \$7 per ton of refuse, the same fee that was originally implemented. For several years the revenues derived from this fee have been insufficient to fully cover the costs of the recycling program, forcing the Recycling Fund to rely on fund balance to cover the cost of its operations.

## Environmental Services

### Divisions

Collections Services  
 Energy Conservation & Management  
 Environmental Protection  
 Refuse Disposal  
 Resource Management  
 Waste Reductions & Enforcement

### Funds

General Fund  
 Energy Conservation Program Fund  
 Recycling Enterprise Fund  
 Refuse Disposal Enterprise Fund

In Fiscal Year 2007, after undergoing business process reengineering, ESD will be proposing a \$3/ton increase to the AB 939 fees. The Fiscal Year 2007 proposed budget assumes a January

implementation of this fee increase, estimated to generate approximately \$3.1 million in Fiscal Year 2007. If this fee increase is implemented, the Recycling Fund will be fully cost recoverable by Fiscal Year 2008.

# Ethics Commission

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## Key Budget Points/Stats:

- The Ethics Commission was established by the City Council on June 5, 2001 (Ordinance O-18945)
- The ethics Commission is responsible for the enforcement of governmental ethics laws to persons within the Commission's jurisdiction. (Adopted by the City Council on June 5, 2001)
- The Ethics Commission shall appoint an Executive Director who will serve at the direction and pleasure of the Commission (Approved by the voters on March 5, 2002)
- Ethics Commission has the power to subpoena witnesses and documents. (Approved by the voters on March 5, 2002.)
- Ethics Commission shall retain its own legal counsel independent of the City Attorney. (Approved by the voters on November 2, 2004).

## Fiscal Year 2007 Budget

The Ethics Commission Fiscal Year 2007 budget reflects a net (\$135,218) decrease from Fiscal Year 2006. A substantial component of this decrease is attributable to the Fiscal Year 2007 vacancy savings.

## Fiscal Year 2007 Vacancy Savings

The Ethics Commission's Fiscal Year 2007 budget contains a 22.2% vacancy rate. At the April 19, 2006 Budget Committee meeting the Mayor's Chief Financial Officer stated that the inclusion of a vacancy savings in the Ethics Commission budget was a mistake and would be restored in the Fiscal Year 2007 Final Budget. However, the IBA requests that the Mayor clearly identify where the additional funds will be coming from to correct this over site.

## Fiscal Year 2007 Supplemental Positions

Currently the Ethics Commissions budgeted positions include .75 City Attorney Investigator, 1.00 Executive Secretary, 1.00 Sr. Attorney Investigator, 1.00 Associate Counsel, 1.00 Executive Director. In a February 13, 2006 memorandum to the Financial Management

Department the Executive Director of the Ethics Commission identified 1.25 positions that were supplemental. These supplemental positions included 1.00 Program Manager and .25 City Attorney Investigator. These supplemental positions were not included in the Mayor's Fiscal Year 2007 Proposed Budget. This is not consistent with the Mayor's or the Independent Budget Analyst's goal of creating an accurate budget by including supplemental positions. The IBA recommends that the City Council discuss these positions and possible inclusion in the Fiscal Year 2007 Final budget during budget deliberations.

# Financial Management

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**What comprises  
“Restructure/Transparency” category?**

- Removal of old City Manager structure (.19 positions) (\$31,984).
- Transfer of Financial Management Director to Department of Finance (1.00 position) and (\$206,600).
- Transfer of \$800,000 from the Citywide Department for support of the Financial Management Information System (FMIS).
- Transfer of \$56,601 from the Citywide Department support of the City’s Administrative Regulations.

**Fiscal Year 2007 Budget**

The Financial Management is comprised of the Budget and Management Services Division and the Purchasing Division. The \$1,679,487 net increase from the Fiscal Year 2006 budget includes \$1,265,228 for 12.60 supplemental positions.

**Fiscal Year 2007 Vacancy Rate**

The Financial Management’s Fiscal Year 2007 budget contains a 9.95% vacancy rate. This vacancy rate is lower than the projected vacancies reflected in Financial Management’s Period 7 Current Year Monitoring submitted in February. The Period 7 Current Year Monitoring reflects a 16.8% salary and fringe savings projection through the end of Fiscal Year 2006.

**Fiscal Year 2007 Supplemental Positions**

**Budget and Management Services Division**

Supplemental positions added to the Budget and Management Services Division include 1.00 Supervising Management Analyst, 1.60 Senior Management Analyst, 6.00 Associate Management Analyst, 1.00 Information Systems Analyst II, and 2.00 Information System Analysts IV. These positions provide analysis of the City’s special funds (TransNet, Gas Tax), support for the Financial Management Information System (FMIS), pension analysis, and analysis and budgeting of the City’s Capital Improvement Projects.

**Purchasing Division**

1.00 Supervising Management Analyst was added to the Purchasing Division to administer the City’s Living Wage Ordinance.

# General Services – Equipment

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The Fiscal Year 2007 proposed budget for the Equipment Division increased by approximately \$2.4 million from the Fiscal Year 2006 budget. While the majority of this increase is related to higher fuel costs, the Division also added 7.50 supplemental positions and 2.00 stock clerks in a transfer from the Central Stores Internal Service Fund.

Over the past several years, the Equipment Division has taken strides to increase efficiency and productivity, such as undergoing a Zero-Based Management Review and setting key performance standards. As numerous performance measures would indicate, these efforts appear to have paid off. For example, in Fiscal Year 1999, approximately 44 percent of the City’s non-public safety fleet were over age, meaning that they were still in use beyond their productive life cycle. By Fiscal Year 2005, the Division has reduced the over-age percentage to just seven percent. Given the efficiency and effectiveness that the Division has demonstrated, strong consideration should be given to having the Equipment Division assume the responsibility for replacing and maintaining the City’s Public Safety fleet.

# General Services – Facilities

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## Facilities – Budgeted Positions

<u>FY</u>	<u>FTE</u>	<u>Change</u>
2002	141.27	3.02
2003	139.27	(2.00)
2004	139.27	0.00
2005	131.76	(7.51)
2006	119.76	(12.00)

## Fiscal Year 2007 Budget

The Fiscal Year 2007 proposed budget for the Facilities Division is \$15.15 million, an increase of approximately \$1.3 million over Fiscal Year 2006. This increase partially reflects the addition of 10.75 supplemental positions. Funding is allocated for replacement of the domestic water line at the City Administration Building, and for replacement of the control system at the World Trade Center building.

## Supplemental Positions and Vacancy Savings

The proposed budget includes 10.75 supplemental positions and approximately \$1.0 million in associated personnel expense. Records indicate that the Division currently has 17.75 supplemental positions, and it is unclear why the remaining seven positions are not included in the proposed budget. In addition, Facilities has around \$1 million recurrent unbudgeted expenditures for items such as overtime, building materials and plumbing supplies that are also not included in the proposed budget. The Division’s budgeted vacancy savings total just over \$484,000, slightly less than five percent of the personnel expense budget. While this vacancy savings is around the average, it could be problematic for the Division, since positions currently vacant will need to be filled and maintained throughout the fiscal year.

### **No Funding For Ongoing Maintenance of City Facilities**

Since Fiscal Year 1992, the City of San Diego has acquired or built a myriad of new facilities at a cost of over \$123 million. It is estimated that approximately \$2.0 million per year is required for the ongoing maintenance of these facilities, corresponding with approximately 25 new positions. Over the same timeframe, the Division's budget was reduced by 18.00 positions. For Fiscal Year 2007, the Facilities Division requested 25.37 new positions, but none were included in the proposed budget. Without funding for ongoing maintenance of City facilities, the backlog of deferred maintenance will continue to grow.

### **Facilities Division as an Internal Service Fund**

One of the reasons for the backlog of deferred maintenance is that when new facilities are built or acquired, routine maintenance costs are not taken into account. As a result, substantially greater funding has been allocated for the acquisition of facilities than for routine maintenance and upkeep. One possible way to address this problem would be to create a Facilities Maintenance Internal Service Fund, thereby allowing the Facilities Division to charge maintenance rates on all facilities Citywide. Furthermore, this would allow maintenance rates to be established before new facilities are acquired, making the true cost of each new facility more transparent.

## **General Services – Parking Management**

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The Fiscal Year 2007 proposed budget for the Parking Management Division increased by more than \$1.5 million over the Fiscal Year 2006 budget. New funding was allocated for scooter replacement and scooter pay increases, while supplemental additions included 9.0 positions, \$300,000 in overtime costs, and \$410,000 in non-personnel expense related to uniform purchases, meter repairs, equipment and support costs, and miscellaneous contractual services. Budget requests for 2.0 parking meter technicians and communications equipment were not funded. Parking Management is slated to be restructured out of General Services in Fiscal Year 2007, with parking enforcement moving to the Police Department and collection services moving to the City Treasurer.

# General Services – Publishing Services

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The Fiscal Year 2007 proposed budget for the Publishing Services Division decreased by approximately \$400,000, primarily as a result of the substantial vacancy factor applied, nearly 17 percent of the Division's personnel expense budget. There were no supplemental additions in the proposed budget.

For several years, the Publishing Services Internal Services Fund has been operating in a deficit status, primarily due to a reduced workload resulting from recent budget reductions to customer departments, and publishing service rates that are not cost recoverable. There have been no significant rate increases in many years, while the cost of doing business continues to increase. Publishing Services is scheduled to undergo Business Process Re-engineering in Fiscal Year 2007 to achieve internal efficiencies; once this process is complete, it is essential that service rates be increased to a cost-recoverable level.

# General Services – Streets

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## Key Budget Adjustments

- Street light conversion - \$360,000
- Circuit replacement - \$300,000
- Street sweeping pkg. enforcement – 3 FTE, \$302,000
- Supplementals - 8.0 FTE, \$549,000
- Vacancy Factor – (\$456,000)

## Fiscal Year 2007 Budget

The Fiscal Year 2007 proposed budget for the Street Division is \$50.7 million, an increase of approximately \$1.8 million over Fiscal Year 2006. New funding was allocated for street light conversions and the replacement of electrical circuits, as well as the addition of 3.0 new positions for street sweeping parking enforcement. Supplemental additions included 8.0 positions and \$592,000 in revenue. A vacancy factor of \$456,000 was

applied, slightly less than 2.0 percent of the Division's personnel expense budget.

## Transfer to the General Fund

In Fiscal Year 2007, the Mayor has proposed restructuring the Street Division to become a General Fund department. Historically, the Division was treated as a Special Revenue Fund, since the majority of its funding comes from TransNet and Gas Tax. In years past, the Division also received a transfer from the General Fund to support the Maintenance of Effort requirements on TransNet funding. In recent years, this transfer was replaced by a sales tax allocation, which never touched the General Fund. However, since the sales tax allocation to the General Fund was

impacted by this allocation, policy decisions regarding the Street Division indirectly impacted the General Fund. The Mayor's proposed budget alleviates this problem by moving the Division into the General Fund, where it will more directly compete with other General Fund priorities. An alternative option would be to simply budget a General Fund transfer to the Street Division as was the practice in prior years. This would achieve the same effect without bloating the General Fund or causing administrative difficulties associated with moving to the General Fund.

### **Street and Storm Drain Deferred Maintenance**

The Street Division is responsible for the maintenance and repair of all streets, sidewalks, bridges, alleys, guardrails and fences in the City. In addition, the Division is responsible for cleaning, maintaining and repairing the City's storm drain infrastructure, including inlets, pipes and channels. As funding for on-going maintenance of the City's right-of-way infrastructure has declined, the backlog of deferred maintenance has grown. The Mayor's plan includes \$12.6 million in deferred maintenance funding for street and storm drain repairs, an admiral first step. However, the amount of funding that is budgeted for this purpose is little more than a drop in the bucket when compared with the amount of money it will likely take to make a sizable dent in the deferred maintenance backlog.

The standard employed by the California Department of Transportation and other major cities is to keep 75 percent of the roadway system in "acceptable" condition, as measured by an Overall Condition Index. A 2003 study estimated that the 49 percent of the City's streets were in acceptable condition, a figure that is likely to be even lower now. In

addition, a full inventory of the City's storm drain system has not been done in many years, so the deferred maintenance backlog in that area is unknown. Before efforts can be made to begin fixing this problem, the full scope of the problem must first be identified. The mayor has indicated his intention to undertake a full assessment of the City's deferred maintenance backlog, a step in the right direction. The next step is to commit funding to on-going maintenance, so that the backlog of deferred maintenance stops growing.

#### **Storm Drain Infrastructure Needs**

- Corrugated metal pipe replacement
- Drainage channel & ditch maintenance
- Drainage repair & improvement
- Pump station repair & maintenance
- Watershed maintenance plans & drainage studies
- Undersized pipe replacement
- Street sweeping
- Street Underdrain Replacement
- Low flow storm drain diversion system
- Stormwater treatment systems maintenance



# Library

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**What comprises  
“Restructure/Transparency”?**  
Elimination of the old City Manager  
structure: Removal of Deputy City  
Manager and Executive Secretary.

## **Fiscal Year 2007 Budget Overview**

The Library Proposed Budget includes adjustments for bilingual pay and MLS certification, non-discretionary expenses, and a onetime expense for the move of the Library Technical Services Center. Supplemental positions are now recognized in the budget and, as discussed below,

facilities are nearly 100% funded.

## **Library Ordinance**

The Municipal Code §22.0228 requires the City Manager (Mayor) to propose an appropriation for the Library that is equivalent to 6% of the total General Fund proposed budget. The Municipal Code also allows the City Manager (Mayor) to request that the City Council temporarily suspend compliance with these requirements if revenues are determined to be insufficient to both comply with this provision and provide for City services necessary to preserve the health, safety, and welfare of the citizens. The Fiscal Year 2007 Proposed Budget states that the Mayor recommends waiving this requirement. Since this recommendation entails a suspension of compliance with the Municipal Code, clarification is necessary on whether an ordinance must be explicitly adopted by the City Council prior to or in conjunction with the adoption of the annual budget.

The proposed level of funding for the Library in this budget is equivalent to approximately 2.8% of the total General Fund budget, or approximately 3.8% of the budget if the POBs are removed per the IBA’s recommendation. An appropriation of 6% of the General Fund (absent the POBs) is equivalent to approximately \$60.8 million, which would require an additional \$22.2 million in funds for the Library. This would be a 58% increase to the proposed level of funding for the department.

While it is clear that the Library does not have enough funding to provide for service levels desired by the community (see “Other Areas of Challenge” below), it is also apparent that the City cannot accommodate a 6% level of funding for the Library at this time. In fact, this ordinance has been waived for the previous three years, and every year since funding at the 6% level has

been required. Because this ordinance has been suspended for three of the five years since its implementation, the IBA recommends that the City Council bring the item back for consideration in the context of Library requirements as documented in the department’s strategic plan, benchmarking with other cities, and policies on earmarking of funds. See discussion of earmarking under the Revenue section of this report for more.

### **Total Library Hours Per Week**

FY 2003	1,904
FY 2004	1,764
FY 2005	1,752
FY 2006	1,518

The following table provides some benchmarking data amongst comparable cities:

Cities	Library Budget as Percent of General Fund
Denver (City and County)	14%
Seattle	5.3%
San Diego	3.8%
Houston	1.9%
Los Angeles	1.8%
San Francisco (City and County)	1.4%
Oakland	0.6%

### Three Library Facilities Proposed for Funding

Three new branch libraries have opened or will open during Fiscal Year 2006 and 2007. In Fiscal Year 2006, no funding was provided for the College-Rolando branch or the Otay-Nestor branch.

The budget proposes adding funding for these facilities, as well as the Serra Mesa-Kearny Mesa branch, which will open in Fiscal Year 2007. Total funding proposed is \$1,205,551. However, we would note that there may be under funding of almost \$41,000, as no funding for water or sewer utilities was included in the budget, and some funding for telephone and motive equipment is not provided.

#### Areas of challenge as presented by the department:

- Deferred maintenance at various facilities.
- Book collections funds are under funded as compared to use and needs of the community.
- Technology funds are not sufficient to provide the level of services desired by the community.
- Department lacks adequate staff to supervise growing branch library system.

# Neighborhood Code Compliance

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## **Key Budget Points/Stats**

- FY 2007 Budget includes 15.00 supplemental positions.
- FY 2007 Budget includes \$1,171,488 of CDBG, SEDC, and CCDC funding
- FY 2007 Budget includes a 5.4% vacancy rate

## **Fiscal Year 2007 Proposed Budget**

The net increase from Fiscal Year 2006 budget of \$1,211,593 includes the addition of personnel expense for 15.00 supplemental positions and the increase of non-personnel expense for graffiti removal.

## **Supplemental Positions/"Transparency" Funding**

15.00 supplemental positions were added to the

Neighborhood Code Compliance Department. 13 positions are funded by Community Development Block Grant (CDBG), one is funded by the Southeastern Economic Development Corporation (SEDC), and one is funded by the Centre City Development Corporation (CCDC). The positions provide pro-active code enforcement. The 15 supplemental positions added \$1,277,007 of additional personnel expense and \$1,171,488 of additional revenues to the Department. Although the positions are funded by CDBG, SEDC, and CCDC, the General Fund will have to fund the difference of \$105,519 since the personnel expenses exceed the revenue.

## **Community Development Block Grants (CDBG) Funding**

In accordance with Council Policy 700-02, 60% of the City's annual funding will be allocated to individual Council Districts and 40% will be allocated on a Citywide basis. The Department is projecting \$200,000 of the 40% Citywide allocation, and \$971,488 from the 60% Council Districts' allocation. The Mayor's office will be reviewing this process and the allocations for Fiscal Year 2008.

The Mayor's "transparency" category in the budget includes the supplemental positions along with their previously unbudgeted revenues. Every year the Council Districts can choose which area to allocate CDBG funding. Theoretically, the Council Districts can reallocate CDBG funding from the Neighborhood Code Compliance Department. In the event that this occurs, a policy decision will be necessary regarding other funding or possibly eliminating the positions.

The President's Fiscal Year 2007 Federal Budget Proposal threatens major HUD cutbacks, which will have an impact not only on the Neighborhood Code Compliance Department, but the City. If the City's annual funding is decreased, or eliminated, the Department's CDBG funding for the 15 positions could be in jeopardy.

## **Graffiti Removal**

The Mayor's Fiscal Year 2007 Proposed Budget includes a General Fund addition of \$213,110 for graffiti removal. Included in the \$213,110 is \$80,615 to adequately fund the transportation allowance for staff where a car is required as a condition of employment.

A two year history of some of the services provided by the Neighborhood Code Compliance Department is as follows:

<b>Description</b>	<b>FY 2005</b>	<b>FY 2006</b>
Noise complaints investigated	1,852	1,721
Vacant properties rehabilitated or demolished	94	132
Properties brought into compliance	7,184	7,718

# Office of Ethics & Integrity

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## Key Budget Points/Stats:

- The Office of Ethics & Integrity opened its “doors” the week of January 20, 2006 and is headed by the new Deputy Chief for Ethics and Integrity.
- The Deputy Chief for Ethics is appointed by the Mayor and serves at his pleasure.

## Fiscal Year 2007 Budget

The Office of Ethics & Integrity’s Fiscal Year 2007 budget is 7.00 positions, \$1,170,872 in expenditures, and \$484,101 in revenue. This office is new for Fiscal Year 2007 and is composed of positions (except for 1.00 Assistant Deputy Chief position) previously budgeted in other General Fund and Non-General Fund Departments in Fiscal Year 2006. In addition, the Citizen’s Police Review Board and the Human Relations Commission have been moved into the Office of Ethics & Integrity.

## What are the 7.00 positions (p. 37) and where did they come from?

The Office of Ethics & Integrity’s Fiscal Year 2007 budget contains 7.00 positions. The Chart below reflects the positions budgeted in the Office of Ethics and Integrity and from where they were transferred:

Position Title	FTE	Salary & Fringe	Transfer from
Assistant Deputy Chief	1.00	\$104,754	New Position reclassified from 2.00 position transferred from Diversity Program
Executive Director (Human Relations)	1.00	\$144,546	Citywide Department (General Fund)
Executive Director (Citizen’s Review Board)	1.00	\$144,546	Citywide Department (General Fund)
Executive Secretary (Human Relations)	1.00	\$77,570	Citywide Department (General Fund)
Executive Secretary (Citizen’s Review Board)	1.00	\$77,570	Citywide Department (General Fund)
Accountant III	1.00	\$99,833	City Auditor and Comptroller (General Fund)
Org. Effectiveness Specialist III	1.00	\$105,402	Diversity Program (Non-General Fund)
<b>Total:</b>	<b>7.00</b>	<b>\$754,221</b>	

The Deputy Chief for Ethics and Integrity is budgeted in the Chief Operating Office.

## **Who's doing Ethics?**

Currently three different programs in the City are involved with Ethics. These three programs include the Ethics Commission, the Office of Ethics and Integrity (Mayor's Office), and the Public Integrity Unit (City Attorney). In light of the City's recent history, it is obvious that ethics is one of the highest priorities for the City today and in the future. Each of these three programs has varying degrees of authority vested in them by state and local laws, the citizens of San Diego, the Mayor, the City Council, and the City Attorney. Each of these offices brings different levels of training and enforcement authority to the City and each program can make a case for their existence and importance. The IBA recommends that during budget deliberations or in the near future a clear picture of each program's responsibilities is laid out to the City Council and the public. Some of the questions that need to be answered included:

- Who is responsible for what and what authority does each have?
- Is there redundancy?
- How do/will these three programs work together?
- Is any City consolidation desirable?

Ethics education and enforcement is essential. However, it is also important that the programs and their responsibilities are clearly outlined and justified for the citizens of San Diego and their elected officials.

# Office of the CIO

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## **What comprises “Restructure/Transparency”?**

The \$12,594,392 reflected in the Restructure/Transparency column (p. 37) is comprised of items previously budgeted in the Citywide department and includes some increases. These items include:

- \$638,921 for the administration and support of the San Diego Geographic Information Source (SanGIS). This includes a \$41,091 increase over Fiscal Year 2006.
- \$3,708,666 for the General Fund contribution to the Information Technology and Communications Division of the Office of the CIO (Non-General Fund portion). This includes a \$724,328 increase over Fiscal Year 2006.
- \$3,147,100 for the General Fund contribution to the Communications Division of the Office of the CIO. This includes a \$177,425 increase over Fiscal Year 2006.
- \$5,099,705 for General Fund recurring maintenance and PC replacement. This includes a \$2,936,759 increase over Fiscal Year 2006. This increase for the PC Replacement Fund will enable the Office of the CIO to replace approximately ¼ of the City’s General Fund computers and printers in Fiscal Year 2007.

# Park and Recreation

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## What comprises “Restructure/Transparency”?

- Elimination of the old City Manager structure: Removal of Deputy City Manager and Executive Secretary, and
- Transfer of Centre City Maintenance Coordination program into the General Fund (as mentioned in the Proposed Budget, p. 6) and
- Elimination of the Assistant to the Park and Recreation Director position with transfer of staff to Community and Legislative Services.

## Fiscal Year 2007 Budget Overview

The Park and Recreation Proposed Budget includes increases for contractual services and other minor mandated requirements, as well as some funding for overtime that has not been included in past budgets. 13.68 supplemental positions are recognized in this budget, while a reasonable vacancy factor is applied. This increases the accuracy of the department budget since the supplemental positions have largely been funded using vacancy savings in the past.

## Lack of Funding for Fiscal Year 2007 New Facilities Will Result in Service Reductions Citywide

Although no new service reductions are proposed in this budget, 11 new facilities will be completed and open space acres will be added in Fiscal Year 2007 for which no funding is provided (See New Facilities section for a list of facilities). Total funding necessary to open and operate these facilities is approximately \$1.1 million. This lack of funding will result in some service reductions Citywide, as the department uses current resources to service increased acreage and recreation hours. The department is identifying plans to absorb these facilities into current operational requirements. Reduction in services to facilities Citywide may or may not be transparent to citizens. The IBA recommends that the department brief the City Council on the plans to accommodate these new facilities and the impact to service levels at current facilities.

It should be noted that the department did not receive funding to accommodate new facilities in Fiscal Year 2006 either. This has created a backlog of unfunded and under funded facilities that has also resulted in reduced service levels Citywide. In total, to support approximately 6,000 more operating hours and 4,000 new or improved acres, the department indicates that it lacks over \$6 million to adequately operate its newest facilities. Proposals for long-term financial plans should include the allocation of funding for these facilities to provide for basic service levels and prevent increased deferred maintenance and the deterioration of City infrastructure.

FY 2004	36,300
FY 2005	38,290
FY 2006	38,980
FY 2007	40,180

To put these reductions in context, the department reports that, as of two years ago, each Grounds Maintenance Worker (GMW) was responsible for supporting an average of 21.09 acres, while a previous City study indicated that the appropriate level of responsibility per GMW is 12.50 acres.



The department has not calculated the average acres supported per GMW since the addition of facilities over the past several years, but it is certain that it has increased.

On a more global level, the City does not adequately provide for operations and maintenance funding for the capital projects it invests in. Capital projects are typically paid for with restricted funding such as FBA or DIF, but, as a low revenue base City, it is more challenging to identify funding for ongoing operations and maintenance. Nevertheless, the City must evaluate its ability to fund ongoing needs when choosing to build new facilities and commit to future ongoing funding at that time. The IBA recommends consideration of a financial policy with respect to operations and maintenance costs of capital assets (see Financial Policies section).

### **Environmental Growth Fund**

In 2005, the City of San Diego used the proceeds of a securitization of Vehicle License Fees (VLF) revenues to pay down the General Obligation Bonds for open space acquisition. To return the savings to the General Fund, where the loss of VLF revenue was originally incurred, the City Council waived Municipal Code §63.30 upon the City Manager’s recommendation to allow those funds to be used for purposes other than preserving and enhancing the environment. The budget states that the Mayor recommends waiving this requirement for Fiscal Year 2007 as well (p. 3). This amounts to \$6.6 million in funding in the General Fund. Since this recommendation entails a suspension of compliance with the Municipal Code, clarification is necessary on whether an ordinance must be explicitly adopted by the City Council prior to or in conjunction with the adoption of the annual budget.

**Other areas of challenge as presented by the department:**

- Lack of funding for Brush Management Program to comply with the City’s Municipal Code, based on revisions adopted after the 2003 Cedar Fire.
- Removal of Assistant to Director position has significant impacts for department management.

### **Deferred Maintenance**

The department lacks funding to adequately maintain City assets. This has created what is likely to be a significant backlog in maintenance for trees, turf, irrigation, gym floors, sidewalks, parking lots and roads, among others. City assets and the equipment to maintain them have thus fallen below the levels that are appropriate to the City’s investment and the standards of maintenance desired by the community. This backlog should be quantified and strategies for funding should be developed as long-term planning is initiated. Please see the section on Deferred Maintenance for more details.

# PETCO Park

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The Fiscal Year 2007 proposed budget for PETCO Park is \$21.2 million, an increase of \$1.85 million over the Fiscal Year 2006 budget. The majority of the increase is due to contractual obligations regarding operations and maintenance costs, and increased funding for public safety services. The debt service and interest payment in Fiscal Year 2007 is \$15.0 million, a slight reduction from Fiscal Year 2006.

The operating and debt service costs for PETCO Park are primarily funded with TOT revenue. In Fiscal Year 2006, a policy decision was made to reduce the TOT allocation to PETCO Park by approximately \$2.3 million in order to reallocate funding for General Fund priorities. The TOT allocation proposed for Fiscal Year 2007 is \$19.3 million, a \$3.64 million increase over Fiscal Year 2006. This increase covers the \$1.85 million increase in contractual and administrative costs, as identified above, as well as a portion of the Fiscal Year 2006 under funding. While the proposed TOT allocation in Fiscal Year 2007 is still not sufficient to cover all expenses (a \$525,000 deficit still remains), there should be sufficient fund balance to make up for any revenue shortfalls. In addition, refunding of the ballpark bonds is likely to be a high priority once the City regains access to the public markets, reducing debt service obligations.

# Planning

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## Key Budget Points/Stats

- FY 2007 Budget includes 7.75 supplemental positions.
- FY 2007 Budget includes a 10% vacancy rate

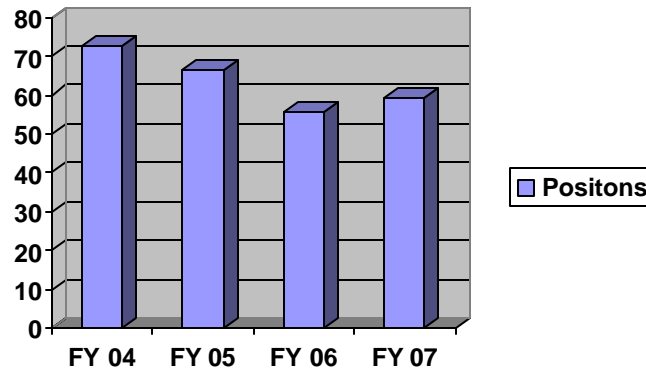
## Fiscal Year 2007 Proposed Budget

The Planning Department's Fiscal Year 2007 Proposed Budget has a net increase of \$7,232 from the Fiscal Year 2006 budget. The net increase is comprised of an increase of \$200,103 in the Facilities Financing Fund, and a decrease of \$192,871 in the General Fund.

## Vacancy Factor/Supplementals

The Mayor's Fiscal Year 2007 Proposed Budget includes a 10% vacancy factor. This resulted in a personnel expense decrease of \$621,170. The 10% vacancy rate is one of the largest vacancy rates applied to the General Fund departments. This is a significant impact to the Planning Department due to the fact that the Department's staffing levels have decreased over the last several years as indicated below:

*(Planning Department Budgeted Positions – General Fund)*



In Fiscal Year 2004, the Planning Department's General Fund staffing level was 72.60. In Fiscal Year 2006, the Department's General Fund staffing level decreased to 55.68. The Mayor included 7.75 supplemental positions in the Planning Department's Fiscal Year 2007 Proposed Budget. Of the 7.75 supplemental positions, 6.25 are funded by the General Fund. The Planning Department also has 9.50 positions vacant. Although supplemental positions have been added to the budget, the reduction of staffing in prior years combined with current vacancies and the 10% vacancy rate for 2007 creates a serious challenge for meeting workload expectations.

# Police

## What comprises “Restructure/Transparency”?

- A transfer of General Fund revenues from the Police Department budget to support the Police Decentralization Fund
- Transfer of funding for animal regulation services and administration of massage proficiency test to the Police Department from Citywide Expenditures

## Fiscal Year 2007 Budget Overview

The Police Department Proposed Budget includes increases to correct under funding in the department budget for personnel expenses as well as additional new or modified funding as discussed below. The budget document states that the Police Department Proposed Budget is \$360,674,344, an increase of approximately \$24.2 million over the Fiscal Year 2006 budget of \$336,477,474. However, the IBA has found that true “additions” to the department’s budget are closer to \$9.2 million. The IBA believes an accurate picture of the budget additions for the department does

not count the transfer of \$16 million in funding as outlined in the “Restructure/Transparency” category (see box above), which is already allocated for other existing fixed expenses. Correspondingly, a Mayoral press release dated April 11, 2006 itemizes \$24.2 million in new funding for the Police Department, but does not recognize the (\$16.8) million reduction for Vacancy Savings. The box below delineates all proposed additions to the department budget:

Description of Budget Adjustment	FTE	Budget Impact
Corrections to historical under funding (Overtime, Special Pays, Vacation Pay-in-lieu and Information Technology)	--	\$16.4 million
Supplemental positions and non-personnel expense	46.00	\$6.4 million
Restoration of funding for 80.00 civilian positions	--	\$4.0 million
New Police Service Officers (formerly CSOs)	30.00	\$2.1 million
New equipment funding	--	\$0.7 million
Salary & benefit adjustments and non-discretionary account adjustments	--	(\$3.6 million)
Vacancy Factor	--	(\$16.8 million)
<b>SUBTOTAL</b>	<b>76.00</b>	<b>9.2 million</b>
<b>Existing Fixed Expenses Transferred from Other Funds</b>		
General Fund transfer to Police Decentralization Fund*	--	\$9.1 million
Funding for existing animal regulation services & massage proficiency test	--	\$5.9 million
<b>TOTAL</b>	<b>76.00</b>	<b>\$24.2 million</b>

\*The Police Decentralization Fund provides support for site acquisition, planning and construction of new permanent Police facilities and supports payments for jail services per a negotiated contract with the County of San Diego.

## **Budget “Fixes” and the Vacancy Factor**

The Mayor’s Proposed Budget includes a number of “fixes” to historical budget problems for the Police Department. These corrections rectify historical under funding, recognize supplemental positions, and restore funding for other positions that already exist in the budget but were unfunded. In the past, the Police Department used savings from vacancies and exceeded appropriations regularly because the budget did not accurately reflect these expenses. These structural corrections enhance the clarity and transparency of the Police Department’s budget.

While additional funding should provide flexibility to the department to reduce dependence on their vacancies for savings, the large vacancy factor of nearly \$17 million that has been included in their budget for Fiscal Year 2007 eliminates their ability to fully staff up to 2,100 officers. This vacancy factor is equivalent to 150-200 sworn officers, or more vacancies than the department is currently experiencing. In fact, the vacancy factor applied to the Police Department is nearly 50% of the entire General Fund’s vacancy, while the department’s budget is only 26% of the General Fund, or 36% if the POBs are removed. For these reasons, the vacancy factor does not appear to be consistent with the press release that stated that the department is now able to staff up to 2,100 officers.

Therefore, the IBA is raising a note of caution with respect to the Police Department budget. Regular monitoring will be required to see if the budget is structurally sound and to ensure that this does not create a hiring freeze for the department.

## **No Funding Proposed for New Northwestern Facility**

The Northwestern Area Station will be completed in Fall 2006, but no funding is identified in the Mayor’s Proposed Budget to support the facility. The department’s original request was nearly \$12 million, to include 59.00 positions and non-personnel expense. Given the absence of funding, it is not known whether the department will be able to open this facility in Fiscal Year 2007, as expected by the community. Current patrols in the northwestern area may be continued, but no command staff or administrative support is available to staff the facility itself. The IBA recommends that the Mayor and staff report to the City Council on operational plans for the Northwestern Area Station.

### **New Canine/SWAT Facility Permit**

When the city’s previous Canine and SWAT units were displaced by the relocation of the Central Police Garage, the City Council directed the City Manager to fund a new permanent facility in FY 2007 to be built by September 23, 2009.

The FY 2007 Proposed Budget does not identify funding for this facility, therefore it is likely that the deadlines set for 2009 and the expectations of the community will not be met.

## Sworn Officer Recruitment and Retention

The San Diego Police Department has reported significant challenges in the areas of recruitment and retention of officers. The department has been experiencing diminished pools of applicants and eligibility among applicants, which is a nationwide phenomenon. Additionally, current officers are leaving the City to pursue opportunities with other municipalities that offer better benefits, higher pay, more buying power and/or better quality of life.

In addition to recruitment challenges to replace attrition, loss of civilian positions in past years leaves the department filling some administrative or support functions with sworn officers. This reduces the availability of officers to address public safety needs throughout the City.

FY 2004	680,700
FY 2005	666,841
FY 2006	682,788

Reduced recruitment and retention of officers is a challenge which may have a long term effect on the Police Department's ability to provide high levels of services to the citizens. The IBA recommends that the Mayor and the Police Department collaborate with the Public Safety & Neighborhood Services Committee to identify a package of recommendations for the City Council to strategically address officer recruitment and retention.

## Equipment Enhancements - Vehicles

Although the Press Release dated April 11 states that \$1.5 million in equipment enhancements is provided for the Police Department, we have been unable to confirm this level of funding in the budget. We have confirmed that \$691,643 is provided for "equipment outlay" for the purchase of new vehicles. This funding is a replacement for funds diverted to pay for Police Service Officers (formerly Community Service Officers) in Fiscal Year 2006 and is a critical need for the department to ramp up the vehicle replacement schedule. This brings total funding to \$5.2 million

### **Other areas of challenge as presented by the department:**

- 36.75 civilian positions were eliminated in FY 2004. Restoration of these positions would free sworn officers from administrative and support duties.
- Various equipment needs including bullet-proof vests, canines, bicycles, and horses.
- Data processing/information technology funding (as reflected in Press Release of April 11).

for vehicles in Fiscal Year 2007. As stated in the department's five year plan, the department has an annual need of \$6.2 million for vehicle replacement. Lower levels of funding require vehicles to be utilized far beyond the 80,000 mile standard for patrol vehicles. As long-term planning is conducted, these replacement schedules, and associated funding, should be incorporated into funding plans.

## Red Light Photo Enforcement

For several years, the City's red light photo enforcement program has incorporated an unusual flexibility for red light violators that is not seen in other cities. At photo enforced intersections, drivers that proceed in the first half-second after the light has turned red are not cited or fined. Only drivers that exceed the half-second grace period are cited and fined. However, any driver in violation is a public safety risk and reduction of this unusual half second delay could decrease unsafe behavior and, ultimately, traffic accidents.

Data collected on violations show that a considerable number of drivers are in violation but are not cited due to the half-second grace period. Given that this policy was developed a number of years ago, the IBA recommends that the Public Safety & Neighborhood Services Committee take this item up for reconsideration in the context of public safety improvements, benchmarking with other cities, and information, if available, on the success of this deterrent. See the Engineering & Capital Projects Department section for more information.

# Purchasing and Contracting

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## Key Budget Points/Stats:

- FY 2007 Proposed Budget includes 12.00 positions
- FY 2007 Budget includes a 1% vacancy rate

## Fiscal Year 2007 Budget

The Department of Purchasing and Contracting's Fiscal Year 2007 budget is 12.00 positions, \$1,271,425 in expenditures, and \$0 in revenue. This department is new for Fiscal Year 2007 and is composed of positions previously budgeted in other General Fund Departments in Fiscal Year 2006 and a new position.

## What are the 12.00 positions (p. 38) and where did they come from?

The Department of Purchasing and Contracting's Fiscal Year 2007 budget contains 12.00 positions. The Chart below reflects the positions budgeted in the Department of Purchasing and Contracting and where they were transferred from:

Position Title	FTE	Salary & Fringe	Transfer from
Contracts Processing Clerk	4.00	\$299,854	Engineering Department/ Construction & Architectural Engineering and Contracts
Sr. Clerk/Typist	1.00		
Department Director	1.00	\$192,371	New add
Clerical Assistant II	3.00	\$164,883	Engineering Department/ Construction & Architectural Engineering and Contracts
Admin. Aide I	1.00	\$247,841	Engineering Department/ Construction & Architectural Engineering and Contracts
Assoc. Mgmt. Analyst	2.00		
<b>Total:</b>	<b>12.00</b>	<b>\$904,949</b>	



# QUALCOMM

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The Fiscal Year 2007 proposed budget for QUALCOMM is \$16.0 million, a \$1.1 million increase from Fiscal Year 2006, reflecting the addition of supplemental hourly wages and non-personnel expense, and funding for maintenance of the Chargers' training facility. The debt service and interest payment for Fiscal Year 2007 is \$5.77 million, a slight decrease from Fiscal Year 2006.

While QUALCOMM brings in substantial revenue from other sources, General Fund revenues are still needed to balance the fund. Much like PETCO Park, a policy decision was made in Fiscal Year 2006 to reduce the TOT allocation to QUALCOMM by \$3 million in order to fund other General Fund priorities. As a result, budgeted expenditures exceeded budgeted revenues by approximately \$2.3 million, thereby drawing down the substantial fund balance in order to make the fund whole. The Fiscal Year 2007 proposed TOT allocation of \$5.5 million, along with additional revenue from other sources, makes up for this \$2.3 million gap, and mitigates a substantial portion of the \$1.1 million in new expenditures. While budgeted expenditures still exceed budgeted revenues by approximately \$312,000, much of this deficit could be mitigated with revenue from the proposed parking fee increases, should they be approved by the Council on May 2.

# San Diego Fire-Rescue

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## What comprises

### “Restructure/Transparency”?

A transfer of General Fund revenues from the Fire-Rescue budget to support the Fire & Lifeguard Facilities Fund

## Fiscal Year 2007 Budget Overview

The San Diego Fire-Rescue Proposed Budget includes funding for many equipment and other expenses that the department has identified as critical ongoing funding needs. In addition, staffing is provided for the temporary Mission Valley Fire Station 45. Note also

that funding is provided to complete lifeguard boat dock repairs within the Mission Bay Improvements Fund.

## Fiscal Year 2007 Overtime and Vacancy Factor

This budget proposes an increase in overtime funding for Fire-Rescue while, “An equivalent amount is offset by salary and fringe savings.” (p. 41). This reflects the current practice of the department, as savings from personnel vacancies have historically been used to partially cover overtime to maintain a minimum staffing level and other overtime needs. However, the increase in overtime of approximately \$8 million is offset by a vacancy factor of over \$11 million. This is not actually an equivalent offset, and provides \$3 million less funding as compared to Fiscal Year 2006 for personnel costs. Additionally, the department’s reported vacancies currently stand at just 36 sworn firefighters, counting the academy graduating in May. Staffing will fluctuate over the fiscal year due to retirements and terminations as well as two additional academies. However, the vacancy factor proposed appears high, representing approximately 100 positions. Given that Fire-Rescue has historically exceeded appropriations in the personnel categories in past fiscal years, the IBA is not convinced that this budget reflects a structural correction to past under funding practices and cautions that the department may exceed appropriations again in the coming fiscal year.

## Constant Staffing and Overtime Issues

Constant staffing is the process of hiring off-duty “constant staffing” personnel to ensure minimum required staffing levels on emergency response vehicles. When firefighters take leave, such as vacation or sick days, their positions must be filled or “constant staffed” to bring the crew back to the required number of personnel per apparatus.

Firefighters volunteer for this assignment beyond their regular shift and are paid at a rate of 1.5 times their regular salary while on constant staffing assignment.

Constant staffing, while paid at overtime rates, is a fundamental operational issue and should be differentiated from overtime costs associated with training, support services, etc. In some cities constant staffing funds are a separate budget line item from regular overtime dollars in order to make this distinction between a basic operational cost and true overtime costs.

### Total Emergency Responses Annually

FY 2004	91,000
FY 2005	91,000
FY 2006	96,292

Constant staffing is a common Fire Department practice utilized in many cities including Houston, Austin, Dallas, Ft. Worth, Long Beach, San Antonio, San Jose, Phoenix, Tucson, Las Vegas, and Miami Dade. Four of these cities including Phoenix, Ft Worth, San Jose and Tucson utilize the concept of “rovers” in combination with constant staffing. “Rovers” are full time firefighter positions who are not permanently assigned to a fire station and can be sent to any station depending on where coverage is needed. In these cities, constant staffing is utilized only after “rover” firefighters are fully utilized.

For organizations that utilize the rover concept, after a certain threshold of constant staffing utilization is reached, they find it advantageous to convert “constant staffing” dollars to fund the permanent rovers. This reduces the need to pay overtime for firefighters to constant staff and also provides needed work relief for existing firefighters. In San Diego there has been an ongoing discussion relative to the cost and benefit of over time utilization versus that of permanent staffing. In Phoenix a recent audit showed the following:

<b>Constant Staffing vs. Rovers</b>	
Salary costs incurred by adding two rovers per shift	\$458,343
Constant staffing overtime costs avoided by adding two rovers per shift	\$468,569
Net savings in personnel costs from converting c/s \$ to rovers	(\$10,225)

A similar analysis would have to be undertaken for San Diego utilizing this City’s salary and fringes. While the number does not appear significant, in Phoenix, which utilizes 326 rovers, this represents an annual savings of \$1,680,000. Even if the savings are negligible, this issue is worth exploring in terms of work relief as well as health and safety issues for firefighters and possibly increased productivity.

The issue of overtime costs for firefighters versus permanent staffing has surfaced on numerous occasions. This information is presented to initiate the discussion only as many operational issues specific to San Diego need to be addressed and a full cost/benefit comparison would need to be undertaken as well. This is an issue that the Public Safety and Neighborhood Services Committee may want to take up in the near future.

Number of Sworn Firefighters Per 1,000 Residents	
San Francisco	2.37
Houston	2.04
Dallas	1.42
San Antonio	1.21
Phoenix	1.00
Los Angeles City	0.89
Los Angeles County	0.88
San Jose	0.79
San Diego	0.68

For now, it is recommended that the City budget the funding for constant staffing under a line item separate from that of regular overtime. This would allow for better tracking and evaluation of the constant staffing issue.

## **Fire Truck Replacement**

Based on national standards, the Fire-Rescue Department should replace three fire trucks at this time. The three fire trucks are front-line trucks that exceed the national standard of 12 years old. Without replacement, the trucks will experience decreasing reliability and the department will incur additional costs for increased maintenance requirements. Funding required is approximately \$850,000 per truck, which amounts to over \$2.5 million in required funding. Funding is not proposed in the Fiscal Year 2007 Proposed Budget. Each fire truck is a significant investment for the City, so long-term planning efforts should incorporate strategies for adequate fire truck replacement funding.

### **Other areas of challenge as presented by the department:**

- Personnel expenses: Special pays, hourly wages and terminal annual leave payouts are under funded.
- Fuel is under funded due to significant cost increases over the last several years.
- IT needs are under funded.

# Special Promotional Programs

## Fiscal Year 2007 Budget

Special Promotional Programs currently allocates funding for four purposes: arts & culture, capital improvements, economic development and safety and maintenance of visitor-related facilities. The Fiscal Year 2007 proposed budget for Special Promotional Programs is \$71.7 million, a \$33 million decrease from Fiscal Year 2006. The sizeable decrease is due to the elimination of the TOT transfer to the General Fund, which was discontinued in Fiscal Year 2007. Not counting this transfer in Fiscal Year 2006, the proposed allocations in Fiscal Year 2007 represent a \$6.1 million increase, reflecting increased allocations to PETCO Park and QUALCOMM.

<b>Special Promotional Programs</b>			
	<b>FY 2006</b>	<b>FY 2007</b>	<b>CHANGE</b>
<b>REVENUE</b>			
TOT	61,215,789	66,238,724	5,022,935
Sales Tax	42,851,052	-	(42,851,052)
Transfer from GF	-	4,719,712	4,719,712
Other	-	113,658	113,658
<b>TOTAL REVENUE</b>	<b>104,066,841</b>	<b>71,072,094</b>	<b>(32,994,747)</b>
<b>ALLOCATIONS</b>			
Arts & Culture	7,742,966	7,846,163	103,197
Capital Improvements	40,739,871	44,178,511	3,438,640
Economic Development	12,986,637	12,672,397	(314,240)
Safety & Maintenance	3,488,004	6,375,023	2,887,019
<b>TOTAL ALLOCATIONS</b>	<b>64,957,478</b>	<b>71,072,094</b>	<b>6,114,616</b>
<b>TRANSFER TO GF</b>	<b>39,109,363</b>	<b>-</b>	<b>(39,109,363)</b>

## Municipal Code Requirements

The Special Promotional Programs budget is primarily funded by TOT revenue. The Municipal Code requires that four cents of the 10.5-cent TOT rate be allocated to the TOT fund for the purpose of promoting the City, while 5.5-cents are allocated directly to the General Fund and one cent is available for use at the discretion of the City Council. Currently, 5.0 cents of TOT are allocated to Special Promotional Programs. Based on Fiscal Year 2007 revenue projections, one cent of TOT is equivalent to approximately \$13.25 million. So according to the municipal code, \$53.0 million of the projected \$139.1 million in TOT is required to be spent on promoting the City via the Special Promotional Programs budget. This review does not address the obvious question of what constitutes a promotional activity.

## General Fund Subsidy

In recent years, sales tax revenue has been allocated to the TOT fund in order to support commitments to various programs. Sales tax was allocated in an amount equivalent to 3.5-cents of TOT. This allocation formula usually “over-funded” the TOT fund, resulting in a sizeable transfer back to the General Fund (see table above). In Fiscal Year 2007, the sales tax allocation has been eliminated, and with it, the transfer back to the General Fund. However, TOT revenue alone is still insufficient to fully fund the Program’s commitments, so a direct General Fund transfer is made to support the Program’s activities. This change in the allocation policy is commendable, as it provides a more transparent look at how the Special Promotional Programs budget is funded. Indeed, it clearly shows how the General Fund is subsidizing the commitments made by the Special Promotional Programs.

The following table shows the proposed Fiscal Year 2007 Special Promotional Programs allocations.

<b>FY 2007 Special Promotional Programs Allocations</b>	
<b><u>Arts, Culture &amp; Community Festivals</u></b>	
<i>Arts, Culture &amp; Community Festivals Allocations</i>	6,894,644
<i>Arts &amp; Culture Commission Administration</i>	878,619
<i>Festivals &amp; Celebrations</i>	72,900
<b>Total Arts, Culture &amp; Community Festivals</b>	<b>\$ 7,846,163</b>
<b><u>Capital Improvements</u></b>	
<i>Balboa Park/Mission Bay Improvements</i>	6,948,990
<i>Convention Center Complex</i>	9,541,886
<i>New Convention Facility</i>	4,339,198
<i>PETCO Park</i>	19,269,265
<i>Trolley Extension Reserve</i>	4,079,172
<b>Total Capital Improvements</b>	<b>\$ 44,178,511</b>
<b><u>Economic Development Programs</u></b>	
<i>Citywide Economic Development</i>	12,081,855
<i>Economic Development &amp; Tourism Support</i>	590,542
<b>Total Economic Development Programs</b>	<b>\$ 12,672,397</b>
<b><u>Safety &amp; Maintenance of Visitor-Related Facilities</u></b>	
<i>Maint. &amp; Security of Visitor-Related Facilities</i>	295,691
<i>Mission Trails Regional Park Foundation</i>	36,450
<i>QUALCOMM Stadium</i>	5,500,000
<i>Regional Park Safety</i>	88,773
<i>TOT Payment Audit</i>	69,109
<i>Horton Plaza Theatres Foundation</i>	385,000
<b>Total Safety &amp; Maint. of Visitor-Related Facilities</b>	<b>\$ 6,375,023</b>
<b>Total Special Promotional Programs Allocations</b>	<b>\$ 71,072,094</b>

# Storm Water Pollution Prevention Program

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The **National Pollutant Discharge Elimination System (NPDES)** permit system was created by the 1972 Clean Water Act to regulate the discharge of pollutants into the waters of the U.S. It is enforced by the State of California through the State Water Resources Control Board.

## Fiscal Year 2007 Budget

The Fiscal Year 2007 proposed budget for the Storm Water Pollution Prevention Program increased by a net total of \$10.8 million, including the addition of 7.00 new positions. Significant new funding has been allocated to the Storm Water Program in an effort to meet the requirements enforced by the San Diego Regional Water Quality Control Board.

## Funding for Public Education and Outreach

The Municipal Storm Water Permit for the San Diego region, issued by the San Diego Regional Water Quality Control Board, imposes numerous regulations and requirements that all regional co-permittees, including the City of San Diego, must be in compliance with. One of the Permit's requirements involves public advocacy and education to increase awareness in the causes of storm water pollution, and to decrease polluting behaviors. In Fiscal Year 2000, the City launched the "Think Blue" public advocacy and media campaign to address this requirement. Over the past few years, funding for public education has been reduced.

The Fiscal Year 2007 budget allocates slightly over \$2 million for public education and outreach, including the addition of 2.00 Senior Public Information Officers. This funding will not only bring the City in compliance with the public advocacy and education requirement of the Municipal Permit, and also educate the public about the necessity of a storm drain fee.

## Storm Drain Fee

The Urban Runoff Management Plan (URMP) was developed as a blueprint for improving regional water quality in oceans, bays, creeks and rivers, and achieving compliance with the Municipal Permit. Effective implementation of the URMP was estimated to require significant financial resources, which thus far have not been available.

### Estimated Cost of URMP

FY 2002	\$27.3 million
FY 2003	\$55.8 million
FY 2004	\$49.9 million
FY 2005	\$50.7 million
FY 2006	\$52.9 million

The main problem is that state law does not currently provide for a dedicated funding source. While the City currently levies a storm water fee on residential and commercial water users, the revenues collected are not sufficient to adequately fund the URMP, and voter approval is required to increase the rate. Under Proposition 218, fees for water, sewer and refuse collection are exempt from the voter approval requirement. Recent state legislation aimed to exempt fees for flood control and storm water management in the same

manner as water, sewer and refuse fees. The City of San Diego should take efforts to actively support this measure, as well as consider alternate ways of securing funding for storm water management, such as bond financing. Without an adequate revenue source, infrastructure needs and permit compliance will continue to be significantly underfunded.



# Water and Sewer

	CIP Budget	
	WATER	SEWER
FY 2001	132,319,278	126,595,467
FY 2002	105,998,813	113,712,803
FY 2003	63,606,782	137,326,082
FY 2004	68,026,994	118,762,099
FY 2005	57,563,517	153,356,199
FY 2006	11,440,376	36,645,866

*Note: Does not include phase-funded or continuing appropriation CIP expenditures*

## Fiscal Year 2007 Budget

The Fiscal Year 2007 proposed operating budget for the Water Department is \$328.6 million, a net increase of \$17.5 million over Fiscal Year 2006, reflecting an increase in water purchases and debt service, and acquisition of automated meter reading system. In addition, 25.0 supplemental positions were added at a cost of \$2.5 million, while \$3.9 million in vacancy savings was factored in. The Fiscal Year 2007 proposed Capital Improvement Projects (CIP) budget is \$31.1 million, a \$19.6 million increase over Fiscal Year 2006.

The Fiscal Year 2007 proposed operating budget for the Metropolitan Wastewater Department (MWWD) is \$374.4 million, a \$12.4 million net decrease from Fiscal Year 2006 due primarily to a substantial reduction in debt service costs. The proposed Fiscal Year 2007 Capital Improvement Projects (CIP) budget for MWWD is \$39.5 million, a \$2.9 million increase over Fiscal Year 2006.

## Capital Funding

The main issue confronting both the Water and Sewer Departments over the past few years has been the inability to enter the public markets to secure financing. As a result, capital improvement expenditures have steadily dropped for several years. Despite the lack of funding, state and federal regulations continue to drive the need for capital improvements. In Fiscal Year 2007, the need for additional capital funding has reached the critical point. Since it is likely that the City will not be able to return to the public markets in time for needed capital improvements, both Departments will be pursuing alternative means, including private financing. Private financing, however, is largely dependent on rate increases, which both the Water and Sewer Departments will be proposing later in the fiscal year. One notable difference between the two departments: the CIP budget for MWWD does not assume that financing will be secured in Fiscal Year 2007 while the Water Department's Fiscal Year 2007 CIP budget assumes that funding will be secured. Should the assumptions of either of these departments not be met, they will return to the City Council to request an amendment to their appropriation.

## Upcoming Issues

Both the Water and Sewer Enterprise Funds are currently undergoing audits to determine the appropriateness of how and to what extent funds have been used to pay for General Fund services. City departments often use Service Level Agreements, or SLAs, to obtain certain services from other departments instead of contracting out. Allegations have been made that water and sewer funds, through SLAs, have been subsidizing the General Fund. A report released April 25, 2006 by the San Diego County Grand Jury, which investigated the use of SLAs by the Water and Sewer Departments, indicated that some funds may have been used inappropriately. California Penal

Code §933.05 requires the Mayor, City Council and City Attorney to respond to the Presiding Judge of the Superior Court regarding the Grand Jury's findings and recommendations by July 24, 2006. Ultimately, however, the audits must be completed before a full accounting of water and sewer funds can be issued. The IBA will review the audits upon completion.

In addition to the audits, both departments are slated to undergo Business Process Reengineering later in the fiscal year. While BPR may identify additional efficiencies, these departments have taken the initiative upon themselves to become more efficient in recent years. Bid-to-Goal programs, Zero-Based Management Review, and the Competition Program have increased efficiency and productivity. Continuation of these endeavors is encouraged.

# BUDGET PROCESS IMPROVEMENTS

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# Comments on the Mayor's Budget Document

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A goal of the Mayor's Office for Fiscal Year 2007 was to eliminate the voluminous budget documents of the past and reduce them to a single, user-friendly document. The CFO has indicated on numerous occasions that time constraints in this year's process resulted in a budget document with less information than is probably desirable moving forward, and that you will likely see a more complete, yet user-friendly document for Fiscal Year 2008. We strongly support this, and would like to see the final budget document for Fiscal Year 2007 be revamped as well.

A Citizens' Budget, Summary Budget or Volume I Executive Summary, as it was referred to in San Diego, is a very important budget document as it is intended primarily for community education and information-sharing. Therefore, it must contain sufficient information about expenditures, revenues, service level trends, explanation of changes and financial trends for citizens to get a clear understanding of City services and their associated costs without relying on detailed documents that reside in the system. Budgets are very complex containing tens of thousands of details, numbers and percentages. It is critical to be able to roll this information into a user-friendly yet complete budget document that tells the full story. The IBA recommends that the following information be added to future single-volume budgets, including the final 2007 Budget Document. This can probably be accomplished in 150+ pages, yet remain user-friendly and informative.

Discussion of Key Policy Initiatives and Relationships to Budget

Reconciliation of Fiscal Year 2006 to Fiscal Year 2007: Expenditures to Revenues

City Council Organization Chart to Reflect the Entire Organization

Glossary of Key Budget Terms (e.g. Annual Fund, Special Revenue Funds)

Discussion of Future Revenue and Expenditure Challenges

City's Vision and Values Statement/Business Plan/ Overview of Reorganization

Discussion of Significant Innovations and Productivity Improvements/Documented Savings

Community Profiles and Trends

- Demographic

- Economic

- Financial

- Infrastructure

Fiscal Year 2007 Budget Compared to Fiscal Year 2006 Budget and Fiscal Year 2005 Actual

Fiscal Year 2007 Revenues Compared to Fiscal Year 2006 Budget and Fiscal Year 2005 Actual

Service Level Profiles (e.g. Fiscal Year 2000 Baseline/Fiscal Year 2006 Changes/Fiscal Year 2007 Changes)

Discussion of Budget Process and Budget Calendar

Budget Legal Requirements and Financial Policies

Revenue Estimates, Key Assumptions and Historical Data

- Fiscal Year 2005 Actual

-Fiscal Year 2006 Estimates

-Fiscal Year 2007 Budget

Department By Department Summary Overview

-Fiscal Year 2007 Budget \$/% Increase over 2006 and Key Reasons

-Department Program Goal

-Expenditure/Position Summary Fiscal Year 2005/2006/2007

-Key Performance Measures and Service Level Trends Fiscal Year 2005/2006/2007

Discussion of Fund Balances

Discussion of New Facilities Opening in Fiscal Year 2007

Section with Relevant Schedules (Personnel, Expenditures, Resources)

List of TOT Allocations

Deferred Maintenance Project Proposals

# Moving Forward for Fiscal Year 2008

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Fiscal Year 2007 was the inaugural budget process under the City's new form of government and, it brought with it, a unique set of challenges. Not only did the budget process begin much later in the year due to the changeover in January 2006, but new Charter requirements associated with the new form of government placed additional time constraints on this year's budget development process. The Mayor's Office had 13 weeks to put together a \$3 billion budget, and the IBA had two weeks to review it. For Fiscal Year 2008, the budget process can begin much earlier allowing for more substantial budget development and review time.

New steps should be added to next year's process beginning in the Fall of 2007. The IBA recommends the following be added to next year's schedule.

## First Quarter End (October 2006)

First Quarter Fiscal Year 2007 Budget Status Report  
Presentation of Multi-year Financial Plan  
Adoption of Financial Policies and Budgetary Practices  
Council Visioning and Communication to the Mayor and Organization  
Development of Budget Process and Schedule for Fiscal Year 2008

## Second Quarter End (January 2007)

Results of User Fee Review for Incorporation in Budget Process  
Second Quarter Fiscal Year 2007 Budget Status Report  
Council Budget Priorities and Resolution  
Incorporation of Agencies' Budgets into Budget Process

It should be noted that this would be in addition to the Auditor's monthly reports and the regular budget development process. The specific schedule for this process will be determined at a later date.