

DATE ISSUED: June 10, 2004

REPORT NO. 04-132

ATTENTION: Honorable Mayor and City Council
Docket of June 3 14, 2004

SUBJECT: Fiscal Year 2005 Proposed San Diego Data Processing Corporation
Budget

SUMMARY :

Issue - Should the City Council approve the \$59,925,000 Fiscal Year 2005 Proposed San Diego Data Processing Corporation (SDDPC) Budget?

Manager's Recommendation – Approve the \$59,925,000 Fiscal Year 2005 Proposed SDDPC Budget.

Fiscal Impact – SDDPC rates were adjusted for Fiscal Year 2005 to provide the City with upfront cost avoidance and Information Technology (IT) savings. Therefore, the Proposed Fiscal Year 2005 SDDPC Budget does not include a budgetary surplus to be returned to the City of San Diego.

BACKGROUND

During the development of City agency budgets, City Manager staff works with City agencies in an effort to ensure that the budget requests conform to City policies. The review of the Fiscal Year 2005 SDDPC Proposed Budget was conducted by City staff with regard to proposed adjustments from Fiscal Year 2004 budgeted levels. This budget represents the anticipated level of funding for SDDPC operations in Fiscal Year 2005 and reflects the request for IT services by the City of San Diego. Actual services provided are billed directly to City departments based on negotiated rates. Under terms of the City's Operating Agreement with SDDPC, the Corporation may incur expenses in excess of its approved budget dependent upon available revenues with approval by City departments.

The Operating Agreement also specifies that SDDPC’s Proposed Annual Budget shall include a “Budgetary Transfer to City” line item. For Fiscal Year 2005, the City Manager has agreed that in lieu of a budget surplus, SDDPC could reduce its rates for service as required to achieve cost savings. The specifics are described in the following sections.

DISCUSSION

Revenue

SDDPC’s total budgeted operating revenue is proposed to decrease by \$5,966,000 or 10.6% in Fiscal Year 2005 from \$55,987,000 in Fiscal Year 2004 to \$50,021,000 in Fiscal Year 2005. Revenues from Network Access and Telecommunications are proposed to decrease by a combined \$5,507,000 or 28.7% in Fiscal Year 2005. The proposed \$59,925,000 Fiscal Year 2005 total budgeted gross revenue represents a 13.4% decrease over the Fiscal Year 2004 budget.

The Fiscal Year 2005 Proposed Budget includes additional budget reductions totaling \$4,000,000 as requested by the City Manager. SDDPC has agreed to produce these reductions subject to approval by its Board of Directors at their June 24, 2004 meeting and City staff review and mitigation of service level impact. The additional \$4.0 million reduction was requested after the printing of the SDDPC Budget in Volume VI of the Fiscal Year 2005 Proposed Budget. The \$4.0 million reduction in revenue by the City is primarily due to the State of California proposing to reduce the General Fund’s revenue base.

The following table exhibits a breakdown of Fiscal Year 2005 Proposed Revenue:

| Description | Fiscal Year 2004 Budgeted Revenue | Fiscal Year 2004 Estimated Actual | Fiscal Year 2005 Proposed Revenue |
|--------------------------------|--|--|--|
| Labor | \$29,383,000 | \$26,250,000 | \$28,117,000 |
| Network Access | \$13,485,000 | \$13,016,000 | \$10,624,000 |
| Telecommunications | \$5,651,000 | \$5,579,000 | \$3,005,000 |
| Data Center | \$6,603,000 | \$7,080,000 | \$7,165,000 |
| Procured Services Fees | \$852,000 | \$991,000 | \$1,098,000 ¹ |
| Interest/Gain on Fixed Assets | \$12,000 | \$41,000 | \$12,000 |
| Total Operating Revenue | \$55,987,000 | \$52,958,000 | \$50,021,000 |
| Procured Services ¹ | \$13,195,000 | \$15,196,000 | \$13,904,000 |
| Additional Reduction | | | (\$4,000,000) |
| Gross Revenues | \$69,182,000 | \$68,154,000 | \$59,925,000 |

¹ Procured Services Fees represents an increased administrative charge (7.9% in Fiscal Year 2005) for handling of customer purchases and is used to pay for the costs of providing this service to customers.

The following table exhibits a comparative breakdown of revenue by customer category:

| Customer | FY 2004 Budgeted Revenue | FY 2005 Proposed Revenue |
|-----------------------------------|---|-------------------------------------|
| City - General Fund | \$22,568,000 | \$20,706,000 |
| City - Non-General Fund | \$43,224,000 | \$40,167,000 |
| City – Additional Reduction | | (\$4,000,000) |
| Total City (Non-ARJIS) | \$65,792,000 | \$56,873,000 |
| County & Other | \$571,000 | \$570,000 |
| Interest Income | \$12,000 | \$12,000 |
| Total Non-City (Non-ARJIS) | \$583,000 | \$582,000 |
| ARJIS ¹ | \$2,807,000 | \$2,470,000 |
| TOTAL | \$69,182,000 | \$59,925,000 |

¹ Automated Regional Justice Information System (ARJIS) is the Joint Powers Agency that provides the regional criminal justice information system used by 38 local, State and federal agencies in the San Diego region. The City of San Diego funds 41% of ARJIS.

Expense

Personnel Expenses

The \$29,676,000 Fiscal Year 2005 Proposed Budget for personnel expenses represents a 6.8% decrease from the Fiscal Year 2004 Budget. Relative to the Fiscal Year 2004 Budget, which included 338.00 positions, the total budgeted staffing adjustment of -7.1% is a result of the decrease in anticipated labor revenues and equates to a total reduction of 24.00 positions.

Non-Personnel Expenses

SDDPC’s Non-Personnel Expense budget of \$20,345,000 has decreased by \$1,989,000 or 8.9% in Fiscal Year 2005. Combined budgeted expenses from the cost of Data Network and Telecommunications and Depreciation costs have decreased by a total of 13.4% to \$9,461,000 in Fiscal Year 2005 due partly to a reduction in SDDPC rates.

Additional cost reductions totaling \$4,000,000 requested by the City Manager are targeted to be

achieved through (1) lower payroll expenses expected through staffing attrition and organizational flattening, (2) reduced depreciation expense through delayed capital spending, (3) facility expense reduction resulting from consolidation of the workforce into the Rose Canyon facility, and (4) trimming of discretionary spending.

The following table exhibits a comparative breakdown of Fiscal Year 2005 Proposed Expenses:

| Personnel and Non-Personnel Expense Breakdown | | | |
|--|--------------------------------|----------------------------------|--------------------------|
| Expense Category | Fiscal Year 2004 Budget | Fiscal Year 2005 Proposed | Increase/Decrease |
| Professional Services | \$2,706,000 | \$2,630,000 | (\$76,000) |
| Equipment | \$2,084,000 | \$2,158,000 | \$74,000 |
| Software | \$2,907,000 | \$3,005,000 | \$98,000 |
| Depreciation | \$5,913,000 | \$5,157,000 | (\$756,000) |
| Interest | \$100,000 | \$35,000 | (\$65,000) |
| Facility Expenses | \$2,159,000 | \$1,848,000 | (\$311,000) |
| Supplies | \$155,000 | \$138,000 | (\$17,000) |
| Data Network / Telecommunications | \$5,011,000 | \$4,304,000 | (\$707,000) |
| Other | \$1,299,000 | \$1,070,000 | (\$229,000) |
| Total Non-Personnel Expenses | \$22,333,000 | \$20,345,000 | (\$1,989,000) |
| Cost of Procured Services | \$13,195,000 | \$13,904,000 | \$709,000 |
| Return of Budgetary Surplus | \$1,800,000 | \$0 | (\$1,800,000) |
| Personnel Expenses | \$31,856,000 | \$29,676,000 | (\$2,180,000) |
| Additional Expense Reduction | | (\$4,000,000) | (\$4,000,000) |
| Total Expenses | \$69,184,000 | \$59,925,000 | (\$9,259,000) |

CONCLUSION

The Fiscal Year 2005 Proposed San Diego Data Processing Corporation Budget has been reduced due to savings in the rates charged to the City of San Diego as well as the \$4.0 million savings requested primarily due to the State budget reductions. The Fiscal Year 2005 proposed budget for SDDPC is \$59,925,000, a reduction of \$9,259,000 or 13.4% from the Fiscal Year 2004 budget. We will continue to work with SDDPC to detail the impact of the \$4.0 million additional reduction by the City.

Respectfully submitted,

Rey Arellano
Deputy City Manager & Chief Information Officer

Lisa Irvine
Financial Management Director